

Vietnam's Competitiveness and the Role of the Private Sector

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Harvard Business School

*Ho Chi Minh, Vietnam
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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); "Strategy and the Internet" (*Harvard Business Review*, March 2001); and a forthcoming book. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu. Version: November 18, 2008, 3pm

The Need For An Economic Strategy

- Vietnam has experienced an **impressive growth** over the last two decades
- However, **reforms so far are insufficient** to move Vietnam to a middle income economy
- The **next several years** will determine whether Vietnam will follow the experience of Korea, or the Philippines
- Vietnam's reform have been **piecemeal and reactive**
- Improving Vietnam's standard of living will require a **long term economic strategy**
 - A set of interrelated **policy changes, institutional structures**, and rigorous **implementation mechanisms**

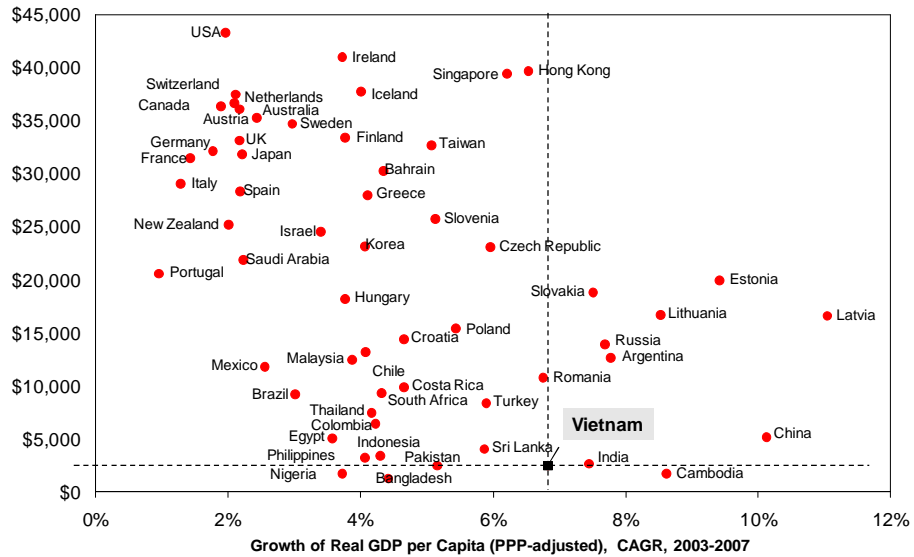
Agenda

- **Understanding Vietnam's Economic Performance**

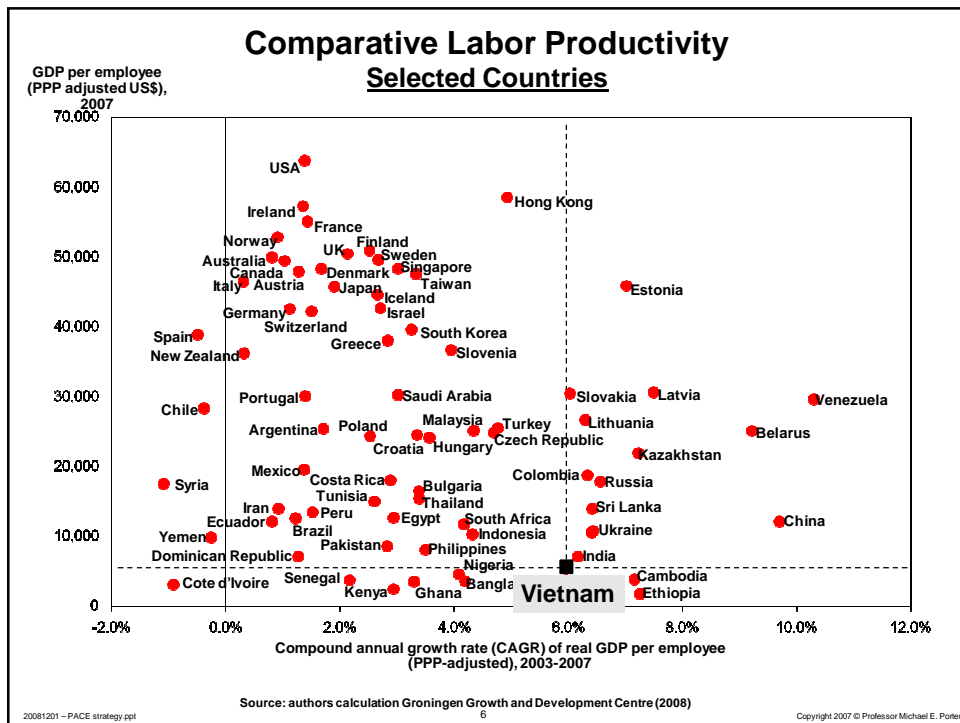
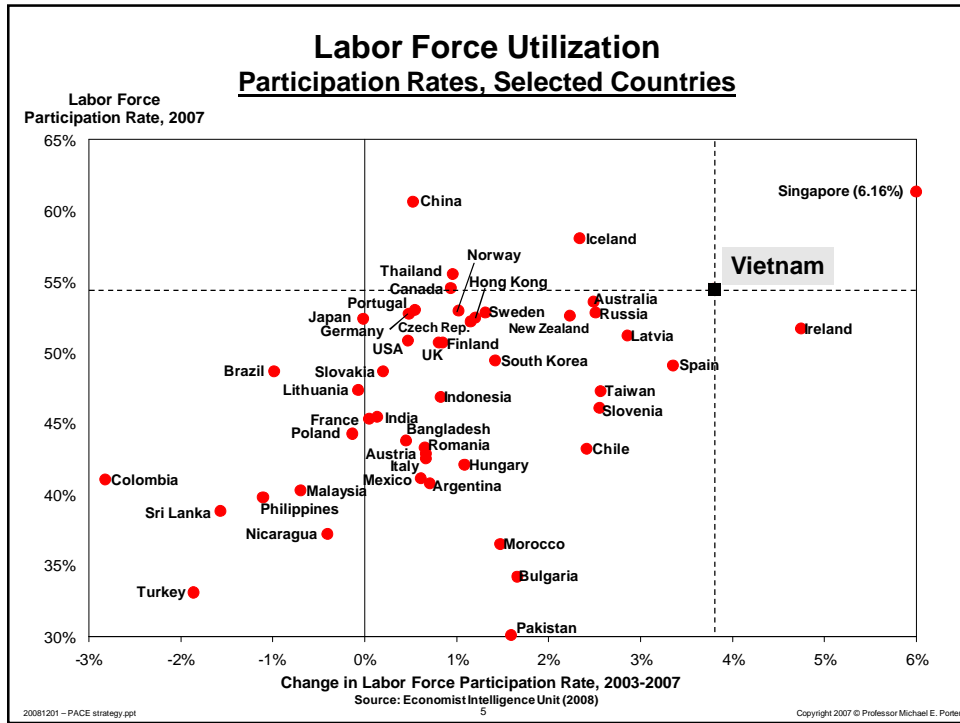
- **Assessing Vietnamese Competitiveness**
- **Identifying Action Priorities**
- **Organizing for Competitiveness**
- **Creating an Economic Strategy**
- **Integrating Corporate Social Responsibility**

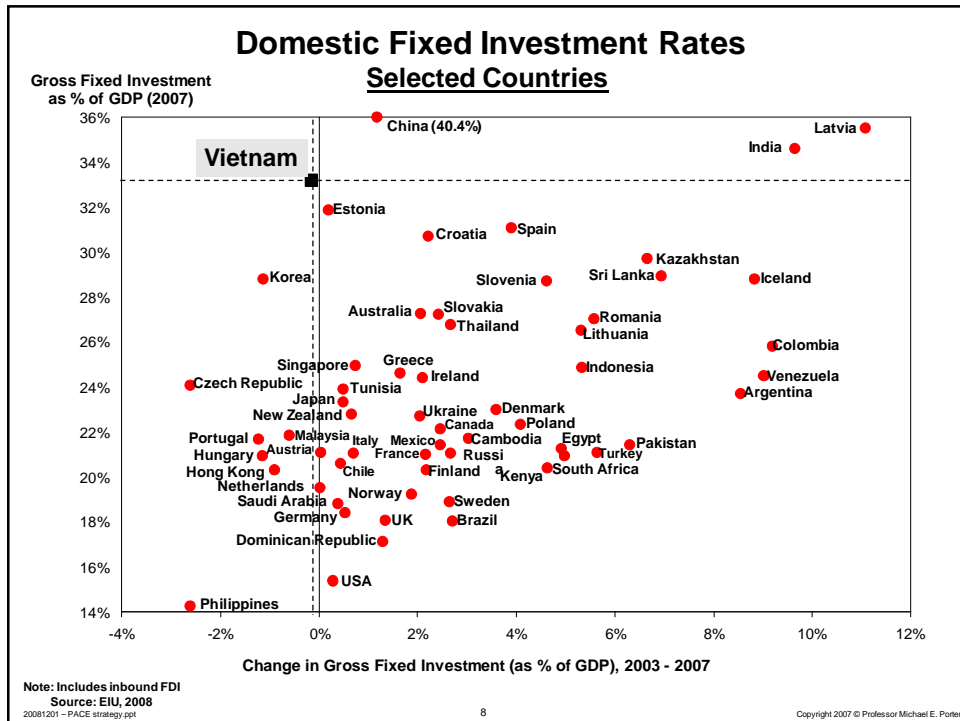
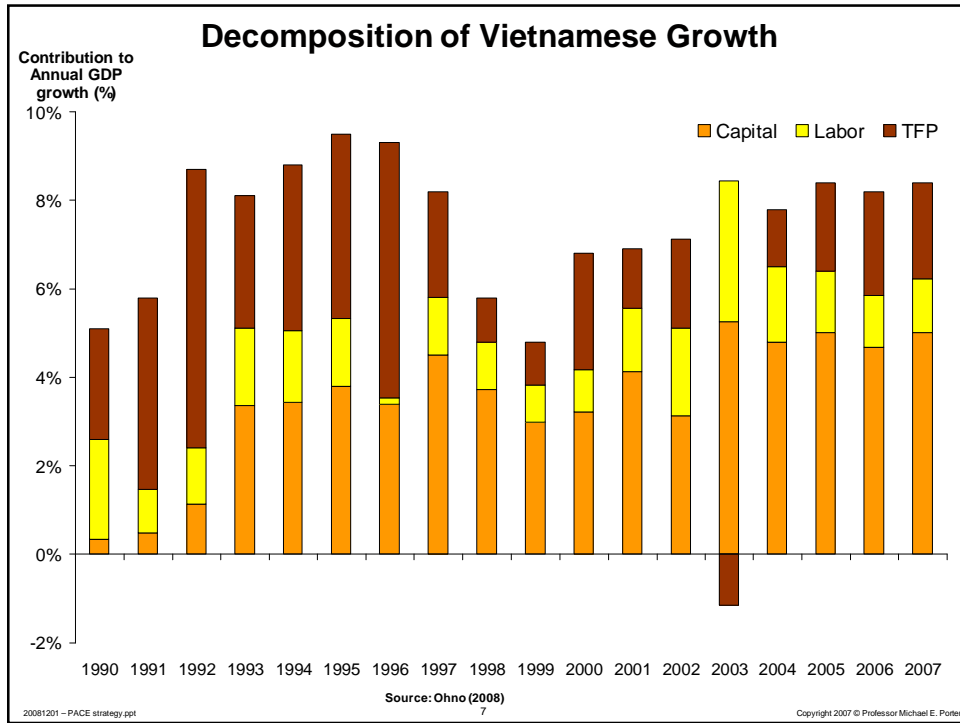
Prosperity Performance Selected Countries

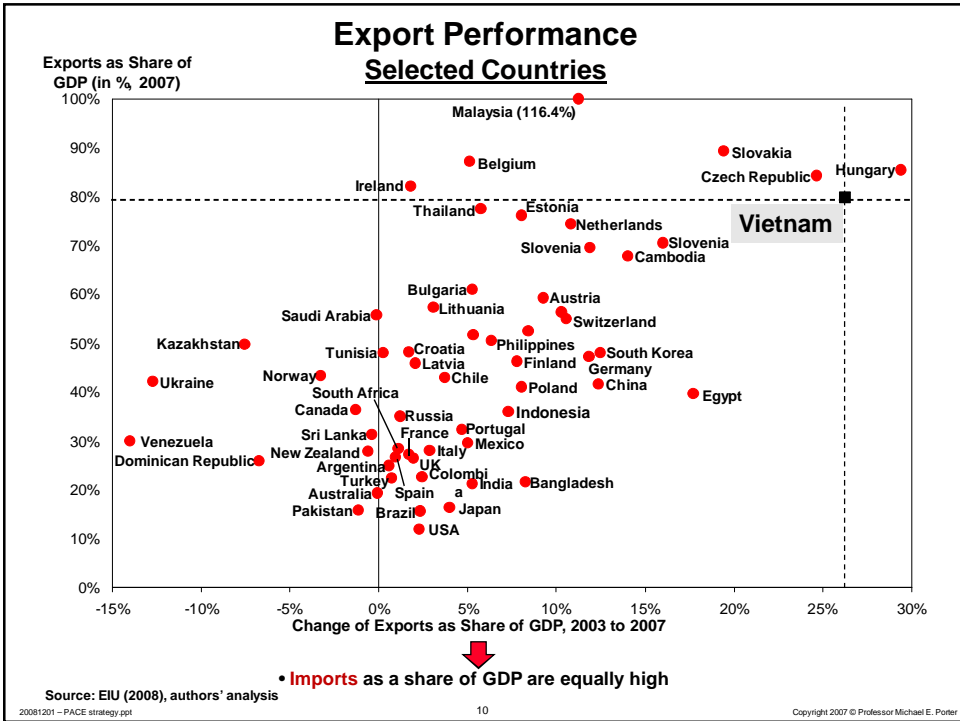
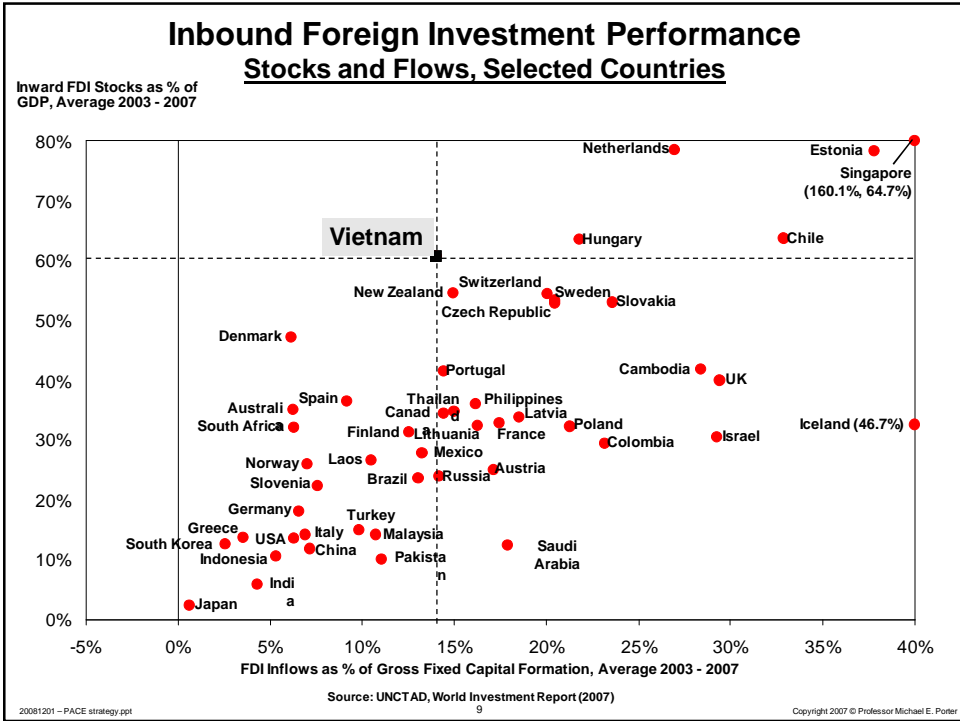
PPP-adjusted GDP
per Capita, 2007

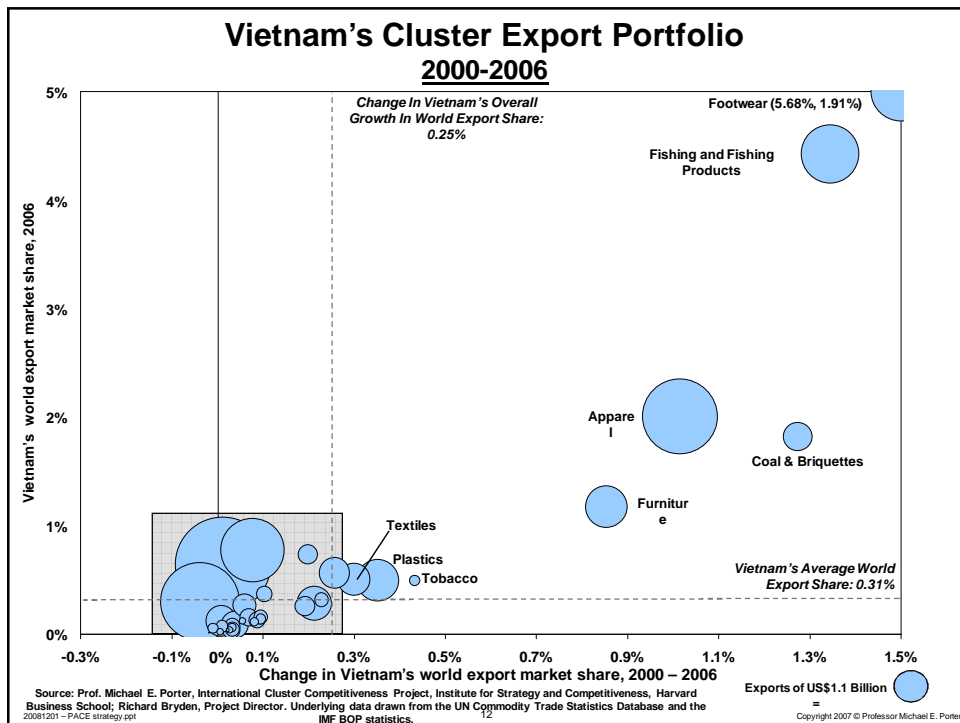
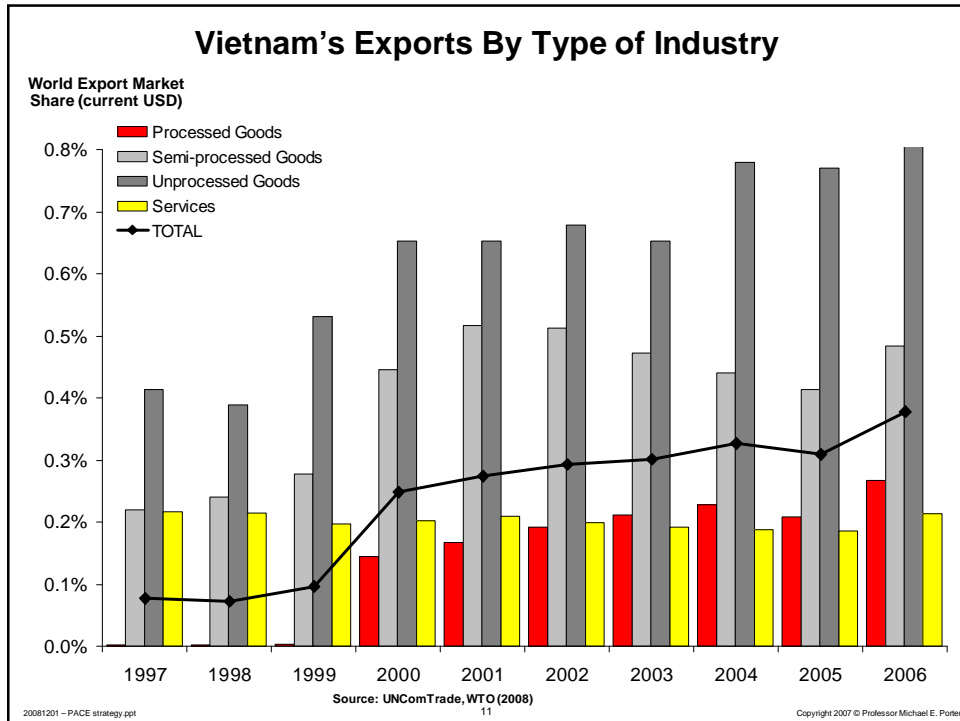


Source: EIU (2008), authors calculations









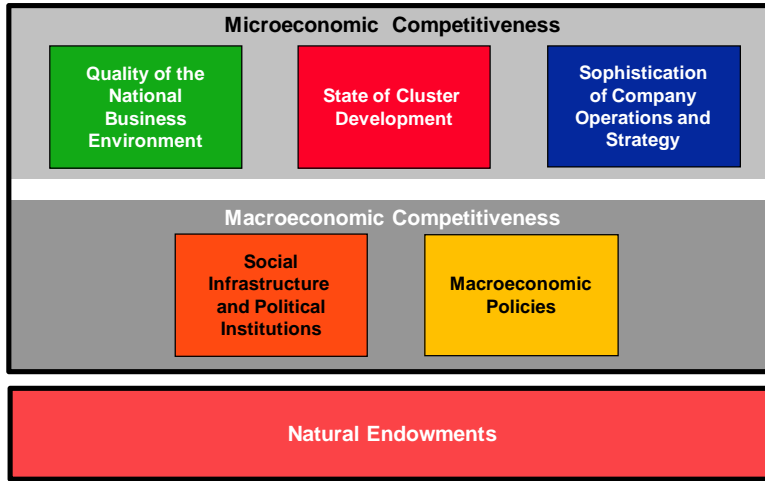
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What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
 - Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources)
 - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
 - Productivity in a national economy arises from a **combination of domestic and foreign firms**
 - The productivity of **“local” or domestic industries** is fundamental to competitiveness, not just that of export industries
- 
- Nations compete to offer the **most productive environment for business**
 - The public and private sectors play **different but interrelated roles** in creating a productive economy

Determinants of Competitiveness



- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**

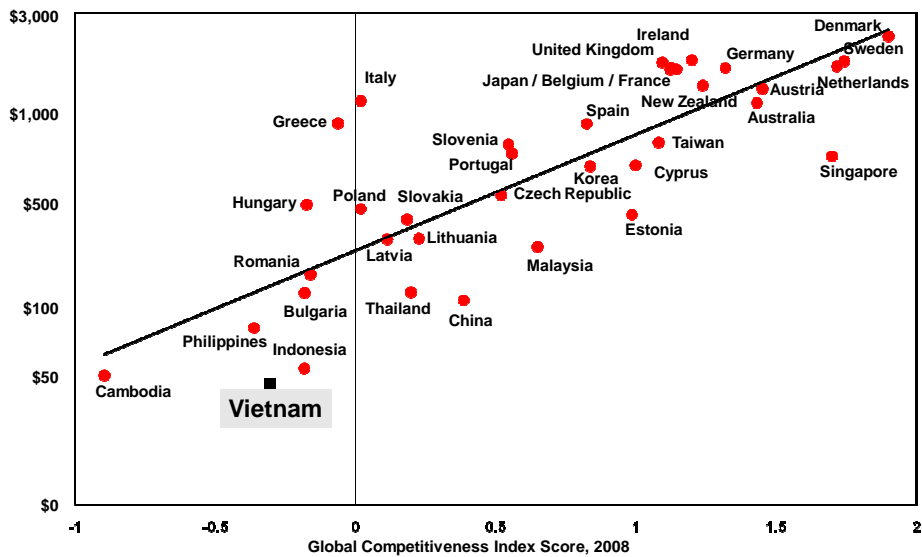
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15

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Wage Level Comparison Selected Countries

Monthly Minimum Wage
USD, log scale, 2008



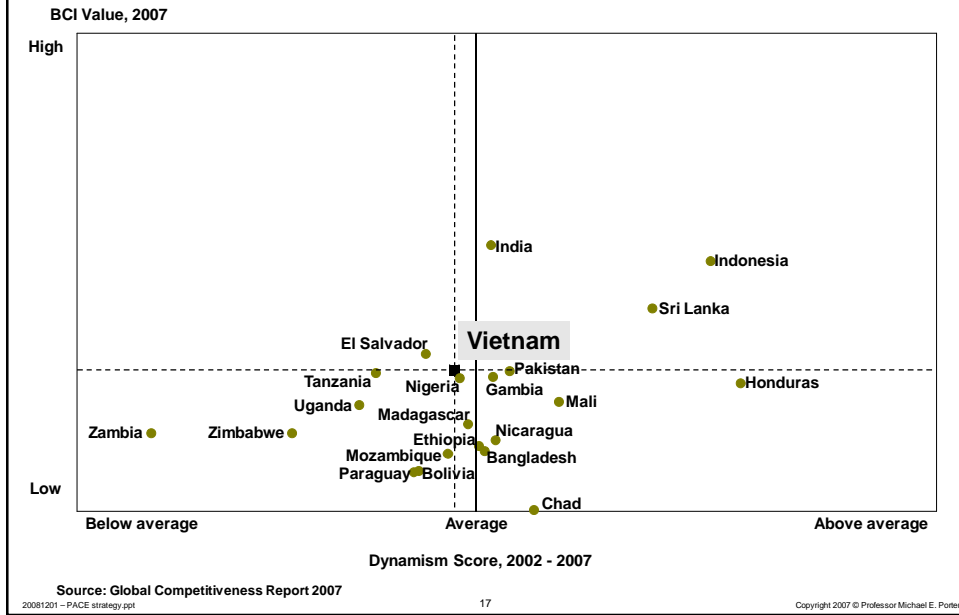
Source: Global Competitiveness Report, 2008; EuroStat, 2008; Philippines Department of Labor and Employment, 2008

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16

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Rate of Competitiveness Improvement Low Income Countries, 2002 - 2007



Macroeconomic Competitiveness

Social Infrastructure and Political Institutions	Macroeconomic Policies
<ul style="list-style-type: none"> • Basic human capacity <ul style="list-style-type: none"> - Basic education - Health system • Political institutions <ul style="list-style-type: none"> - Political freedom - Voice and accountability - Political stability - Centralization of economic policymaking - Government effectiveness • Rule of law <ul style="list-style-type: none"> - Judicial independence - Efficiency of legal framework - Civil rights - Business costs of corruption - Reliability of police - Prevalence and costs of crime 	<ul style="list-style-type: none"> • Fiscal policy <ul style="list-style-type: none"> - Government surplus/deficit - Government debt - Savings / Investment rates • Monetary policy <ul style="list-style-type: none"> - Inflation - Interest rate spread

Macroeconomic Competitiveness Vietnam's Position

Social Infrastructure and Political Institutions

Basic health and education

- + **Solid provision** of basic services
- Increasing concerns about the **quality** of these public services

Political institutions

- + High levels of **political stability**
- + Increasing **decentralization** of economic policy responsibilities
- Little effective **policy dialogue**
- **Corruption** remains a significant challenge

Rule of law

- + **Quality of laws** tends to be good
- Effectiveness of **implementation** remains weak

Macroeconomic Policies

Fiscal policy

- + Government **budget** and **debt** at acceptable levels
- Government budget still reliant on **foreign aid**

Monetary Policy

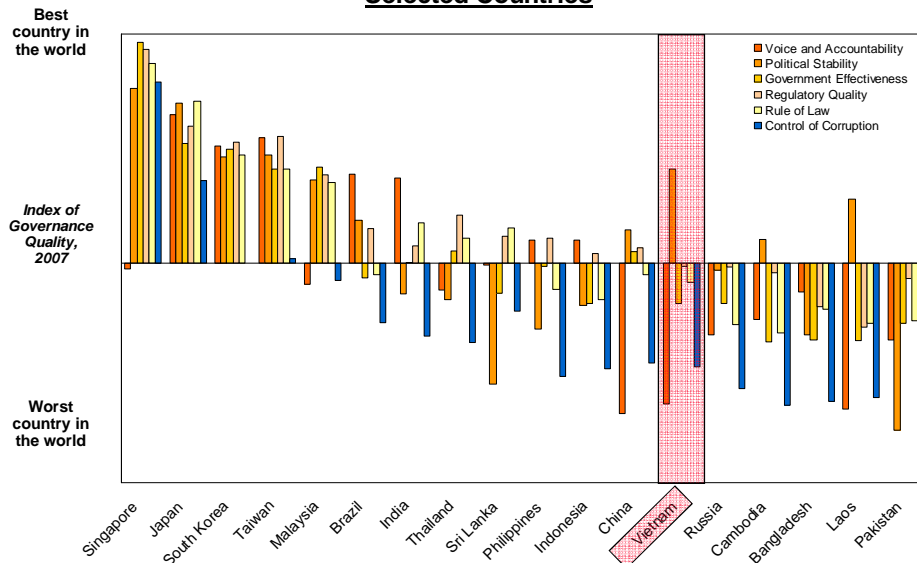
- High levels of **inflation**

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Governance Indicators Selected Countries

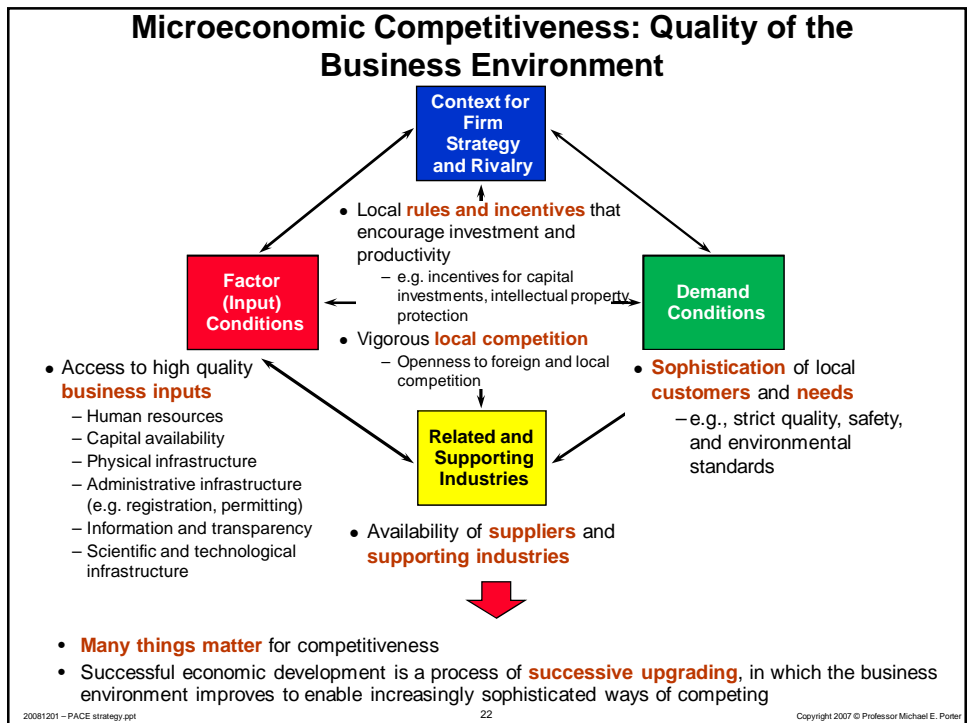
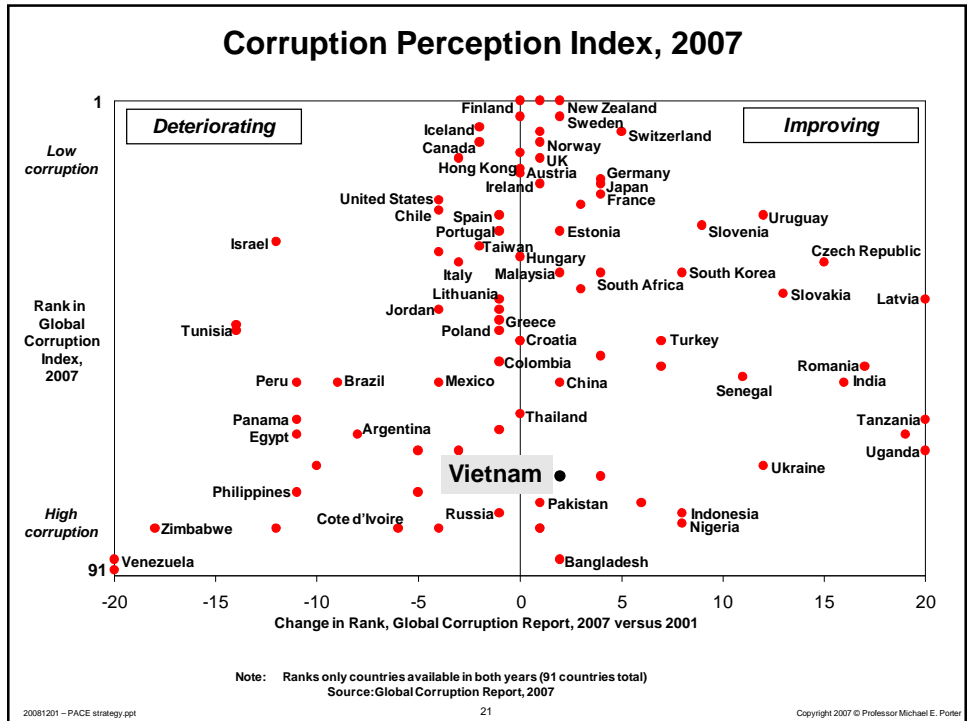


Note: Sorted left to right by decreasing average value across all indicators. The 'zero' horizontal line corresponds to the median country's average value across all indicators.

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Source: World Bank (2008)

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Vietnamese Business Environment Vietnam's Relative Position 2008

Competitive Advantages

- **Communications infrastructure (rank 72)**
 - E.g., quality of the telephone infrastructure
- **Local competition (rank 75)**
 - E.g., intensity of local competition

Competitive Disadvantages

- **Government intervention (rank 119)**
 - E.g., SOE market dominance
- **Trade barriers (rank 113)**
 - E.g., level of import tariffs

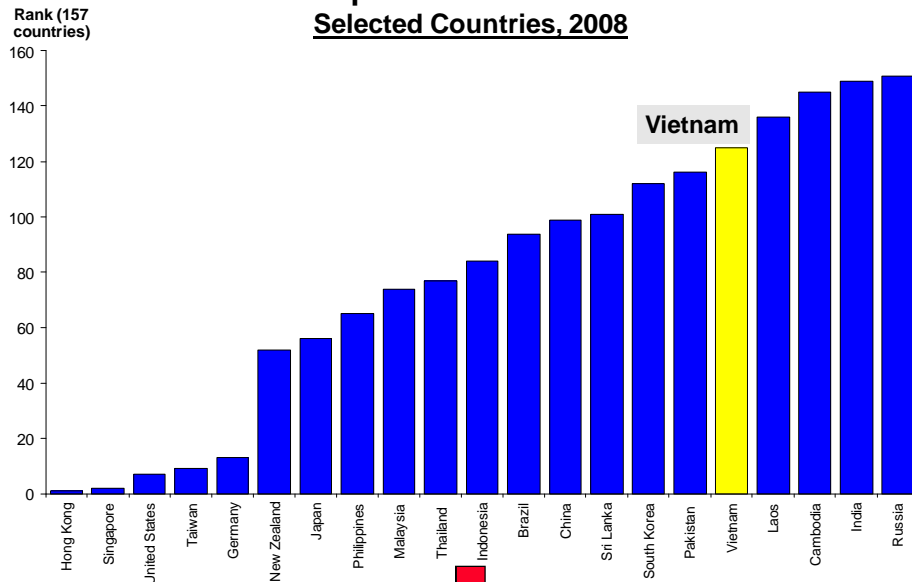
Note: Rank versus 130 countries; overall, Vietnam ranks 102nd in 2008 PPP adjusted GDP per capita and 76th in New Global Competitiveness
Source: Institute for Strategy and Competitiveness, Harvard University (2008)

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Openness to Trade Selected Countries, 2008



- Vietnam's **lack of openness** will retard further competitiveness upgrading

Source: Index of Economic Freedom (2008), Heritage Foundation

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Vietnamese Business Environment Vietnam's Relative Position 2008

Competitive Advantages

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 - E.g., quality of the telephone infrastructure
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 - E.g., intensity of local competition

Competitive Disadvantages

- **Government intervention (rank 119)**
 - E.g., SOE market dominance
- **Trade barriers (rank 113)**
 - E.g., level of import tariffs
- **Energy infrastructure (rank 109)**
 - E.g., quality of electricity supply
- **Access to finance (rank 109)**
 - E.g., financial market sophistication
- **Innovation infrastructure (rank 99)**
 - E.g., patents per capita
- **Logistical infrastructure (rank 96)**
 - E.g., quality of roads

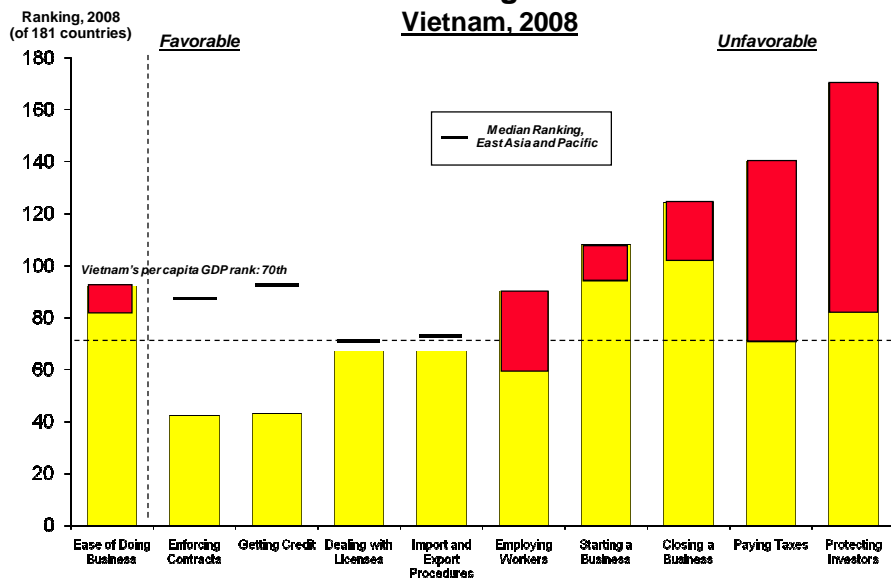
Note: Rank versus 130 countries; overall, Vietnam ranks 102nd in 2008 PPP adjusted GDP per capita and 76th in New Global Competitiveness
Source: Institute for Strategy and Competitiveness, Harvard University (2008)

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Cost of Doing Business Vietnam, 2008



- Especially in **land ownership** in rural areas significant problems remain

Source: World Bank Report, Doing Business (2008)

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State-Owned Enterprises (SOEs) in Vietnam

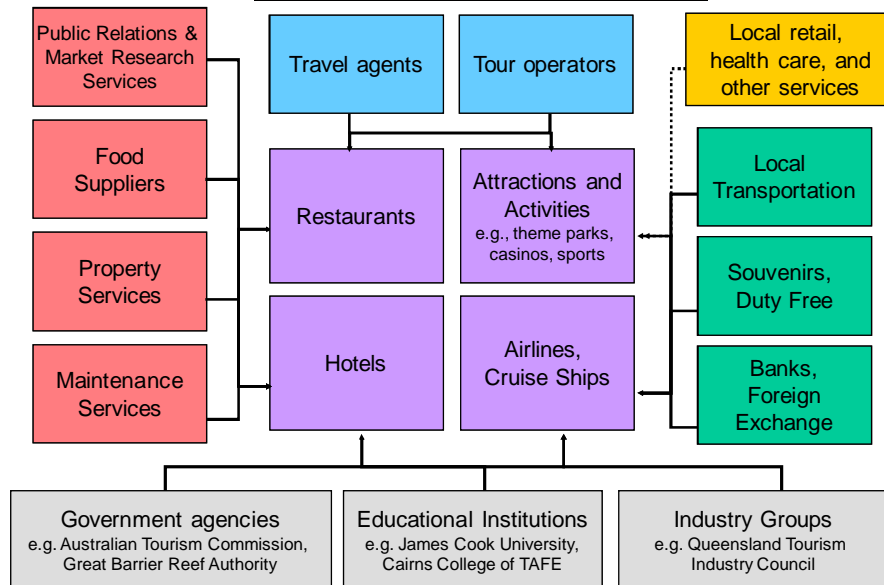
- SOEs continue to play a **dominant role** in the Vietnamese economy, despite the commitment to privatization
- Government oversight of these companies and their spending is **limited** and largely **reactive**
- The **costs of slow progress** on privatization are high for Vietnam's competitiveness
 - **Retards entry** of new private companies
 - Creates risks of **corruption**
 - Can exacerbate **economic volatility** through excessive investment financed through soft credit
- An effective privatization program strategy for Vietnam must **shift economic structure**, not just change ownership
 - Privatization must go hand-in-hand with **market opening** and policies to **curtail anti-competitive practices**
 - Owners are needed that contribute **new capital and skills**
 - Minority stakes can distribute ownership more widely

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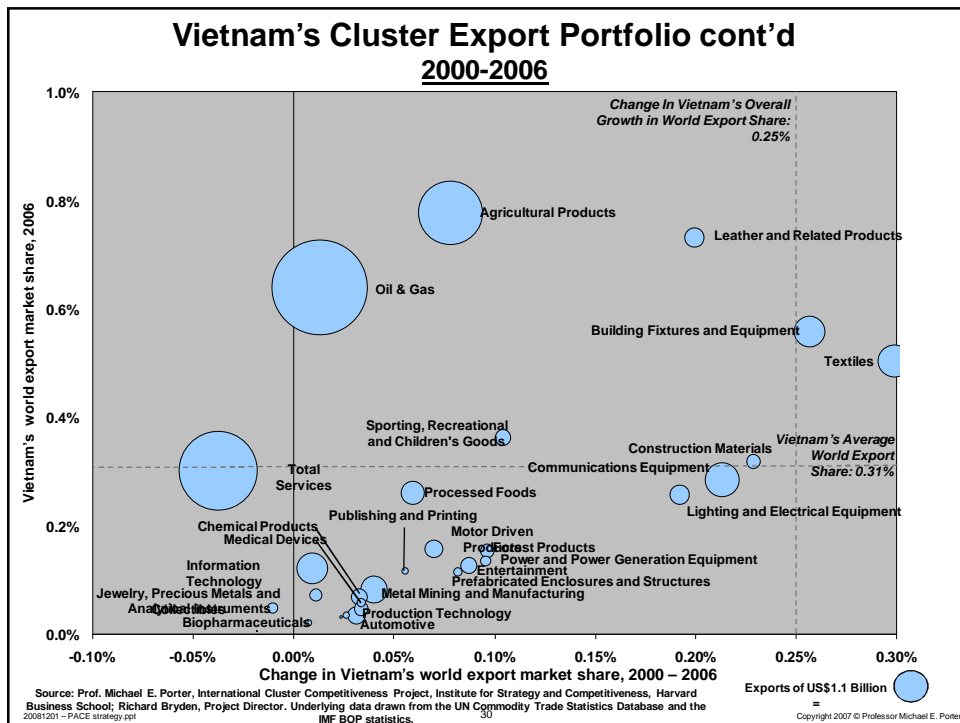
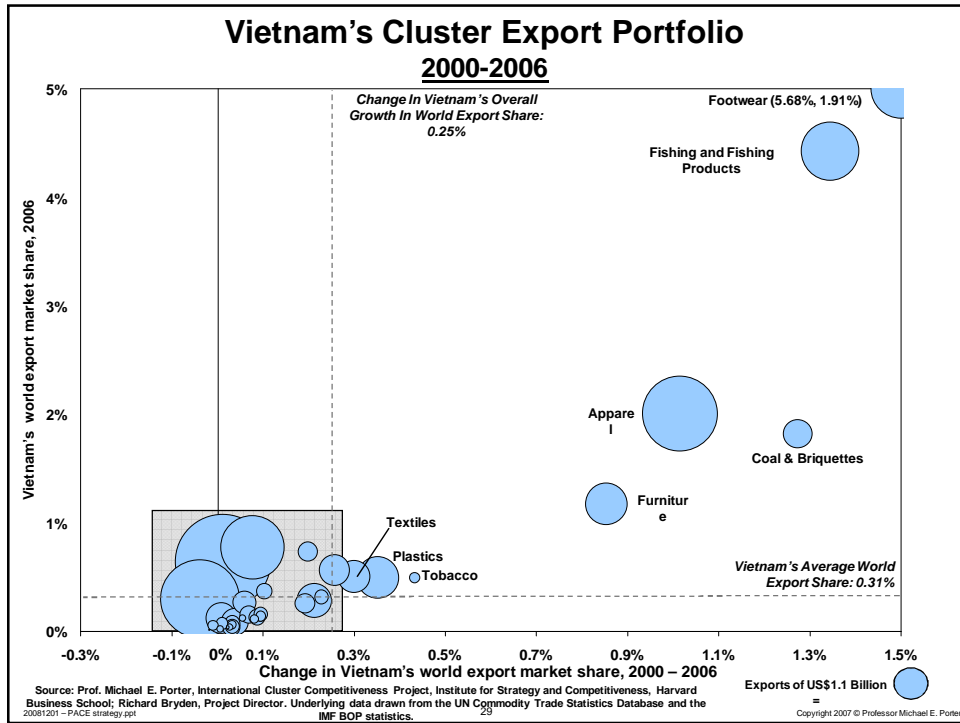
State of Cluster Development Tourism Cluster in Cairns, Australia



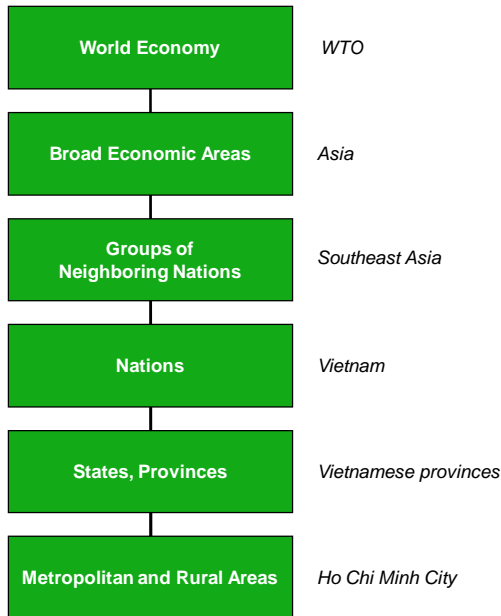
Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
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28

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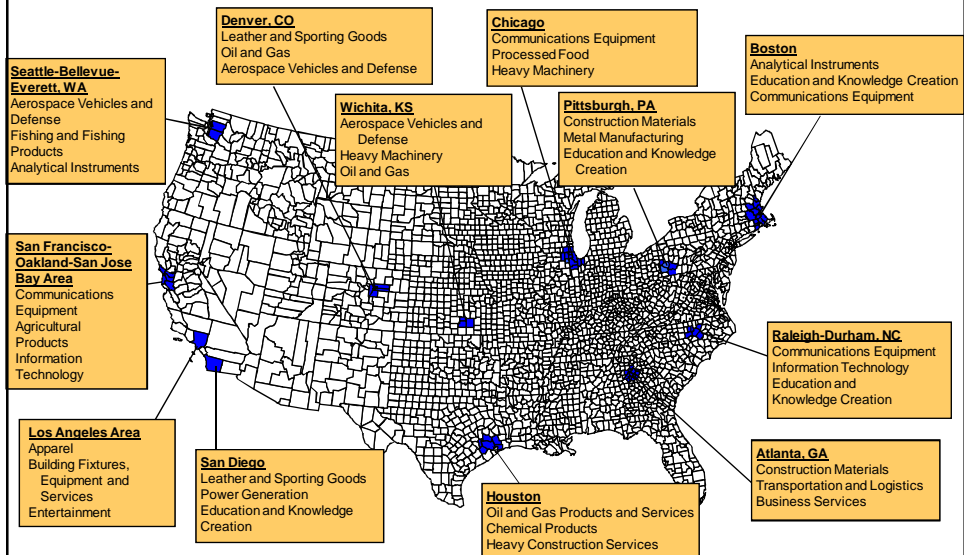


Geographic Levels and Competitiveness



- The business environment at a given location is the cumulative outcome of policy at **all geographic levels**
- Many competitiveness drivers occur at **the regional and local level**
- The **allocation of competitiveness responsibilities** across geographic levels is a crucial policy challenge

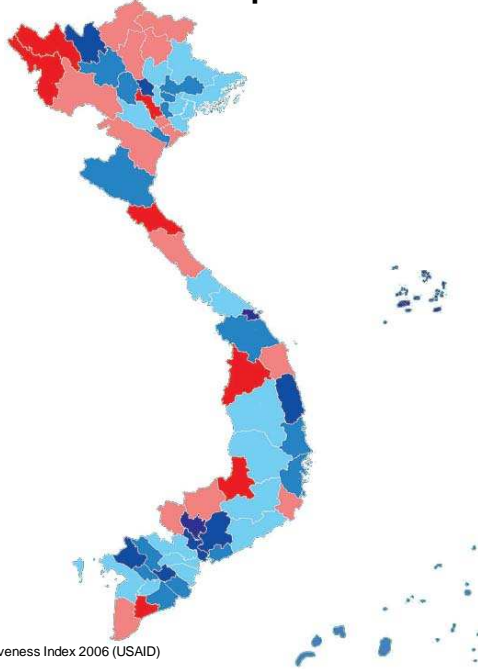
Specialization of Regional Economies Selected U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment.
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School, 11/2006.

Vietnam Provincial Competitiveness Index, 2006

- Excellent
- High Performing
- Mid-high
- Average
- Mid-low
- Low Performing



Source: Vietnam Provincial Competitiveness Index 2006 (USAID)
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The Neighborhood Southeast Asia



• Vietnam has a central position between ASEAN and China

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Economic Coordination Among Neighbors Enhancing Productivity

Factor (Input) Conditions	Context for Strategy and Rivalry	Demand Conditions	Related and Supporting Industries	Macroeconomic Competitiveness	Regional Strategy & Governance
<ul style="list-style-type: none"> Improving regional transportation infrastructure Creating an efficient energy network Enhancing regional communications and connectivity Linking financial markets Opening the movement of students for higher education Harmonizing administrative requirements for businesses 	<ul style="list-style-type: none"> Eliminating trade and investment barriers within the region Simplifying and harmonizing cross-border regulations and paperwork Coordinating anti-monopoly and fair competition policies 	<ul style="list-style-type: none"> Harmonizing environmental standards Harmonizing product safety standards Establishing reciprocal consumer protection laws Opening government procurement within the region 	<ul style="list-style-type: none"> Facilitating cross-border cluster upgrading, e.g. <ul style="list-style-type: none"> – Tourism – Agribusiness – Transport & Logistics – Business services 	<ul style="list-style-type: none"> Coordinating programs to improve public safety Coordinating macro-economic policies 	<ul style="list-style-type: none"> Creating a regional marketing program Sharing best practices in government operations Creating regional institutions <ul style="list-style-type: none"> – Dispute resolution mechanisms – Regional development bank Developing a regional negotiating position with international organizations

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37

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38

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Stages of National Competitive Development Shifting Policy Imperatives



Low Cost Inputs

- Macro, political, and legal stability
- Efficient basic infrastructure
- Lowering regulatory costs of doing business

Productivity

- Increasing local competition
- Market openness
- Advanced infrastructure
- Incentives and rules encouraging productivity
- Cluster formation and activation

Unique Value

- Advanced skills
- Scientific and technological institutions
- Incentives and rules encouraging innovation
- Cluster upgrading

Source: Porter, Michael E., *The Competitive Advantage of Nations*, Macmillan Press, 1990
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Competitiveness Action Agenda: Key Priorities

Continue Existing Efforts

- Reduce corruption
- Improve infrastructure
- Deepen financial market reforms
- Impose regulatory attractiveness

Fundamental Reform

- Human resource development at all levels
- Reform of SOEs
- Cluster development

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Reducing Corruption

- The government has repeatedly committed itself towards **reducing corruption**; and some action has been taken
- Evidence reveals **little progress**



- Vietnam needs to target corruption as a crucial barrier for growth and design an **integrated strategy** to tackle its occurrence

Action priorities

- Reduce the potential for corruption through simplified **regulations**, use of modern **information technology**, and improved **SOE governance/ privatization**
- Set clear **guidelines** and **reporting requirements** for management of SOEs
- Demonstrate a **commitment for transparency**, including support for a strong press

Improving Infrastructure

- Significant **infrastructure investments** have been made in recent years
- Evidence on their **impact** is mixed as best. There is significant duplication of efforts and companies complain about serious bottlenecks



- Vietnam needs to better **target infrastructure investments** to meet the needs of its growing economy

Action priorities

- Establish a **national fund** for key infrastructure projects to be implemented under the supervision of the Prime Minister's office
- Utilize **matching funds incentives** to improve effectiveness of investments by provincial governments
- Create a **public-private council** to advise on spending priorities

Deepening Financial Markets

- Vietnam has made **clear progress** on opening up financial markets, more recently also to foreign companies as part of the WTO agreement
- But the weakness of Vietnam's **financial markets** even before the global crisis, and the **financing constraints** faced by private companies, indicate that serious challenges remain



- Vietnam needs to develop a **modern regulatory and institutional structure** to enable an effective financial system

Action priorities

- Continue opening **financial markets** in line with WTO commitments
- Create an effective, independent **financial regulator**, using outside help as needed
- Establish a **development bank** to develop financing tools for private SMEs

Regulatory Reform

- Regulatory reform has been on the Vietnamese **policy agenda** for some time, especially over the last five years
- Despite some progress, the overall **regulatory burden** on businesses and citizens remains high with no clear societal benefits



- Vietnam needs a **fundamentally new approach** to regulatory reform and assessment of new regulations

Action priorities

- Aggressively pursue the work on **regulatory reform** initiated with foreign donors
- Improve **institutional capacity** to evaluate and administer regulations, not just the rules themselves
- Include an obligatory assessment of the **administrative burden on business** in the process of introducing new laws and regulations

Human Resource Development

Basic education

- Enrolment rates have increased significantly but **quality is low** and skills fail to meet **company needs**
- Vietnam needs to dramatically improve educational quality, through setting **standards**, **improving curricula**, and **involving the private sector** in governance

Vocational training

- Vietnam lacks a **skills training system**
- Companies have launched own **training efforts** to address skill bottlenecks
- Vietnam needs a clear program for **cluster-based workforce development**

Higher education

- The number of universities has increased but **quality is low** and **skills do not match** company needs
- Higher university education **standards** must be set and enforced, drawing on international experts
- Vietnam needs to develop a plan and enabling institutions for **assimilation of global technology**

Restructuring of State Owned Enterprises

- The government has an explicit policy to promote private enterprise but there is deep-seated **ambivalence towards privatization**
- Without a thorough reform of the SOE sector, there is little hope for Vietnam to reach the **next level of economic development**

SOE governance

- Create independent **boards of directors**
- Implement **transparent financial reporting**
- Define clear **financial objectives**
 - Set corporate charters

Competition in markets with SOEs

- Remove existing trade, investment, and artificial entry **barriers protecting SOEs**
- Establish strong, independent **regulatory bodies**
- Support start-ups and spin-offs from SOEs

Privatization

- Create clear **legal conditions** for privatization
- Define **explicit objectives** for privatization process
- Create a **dedicated structure** for implementing privatization

- The creation of SOE groups is **not a solution** and can exacerbate problems if no other reforms are being implemented

Cluster Development in Vietnam

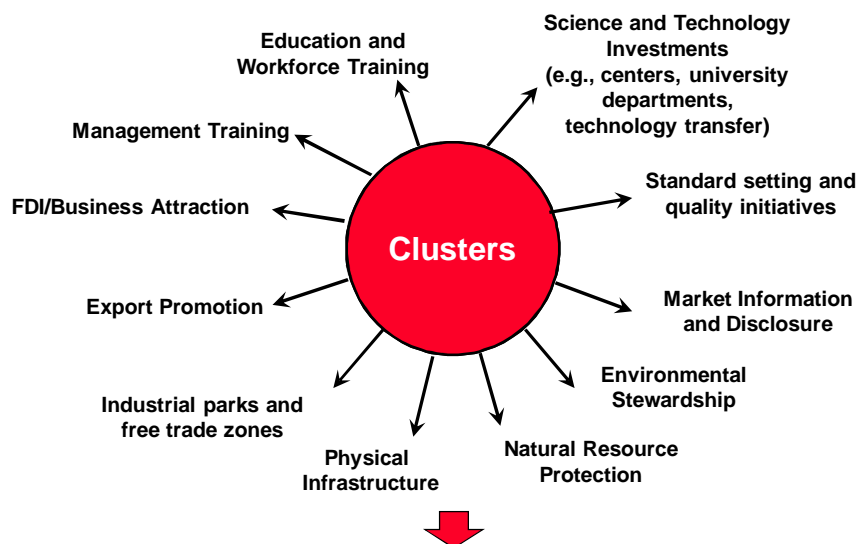
- Vietnam's clusters currently tend to be **narrowly focused** on individual products
- There is **limited collaboration** among companies, suppliers and other institutions
 - Some clusters, like coffee, have the potential to significantly increase their performance if they adopt a **collaboration approach**
- Cluster-based development thinking is crucial in improving the **delivery of other economic policies**
 - Workforce skill development around clusters
 - FDI attraction/industrial zones around clusters
 - Cluster-based regional development initiatives
 - Quality and technology transfer organization for each cluster
- Policy should upgrade **all** existing and emerging clusters, not choose among them

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47

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Clusters and Economic Policy



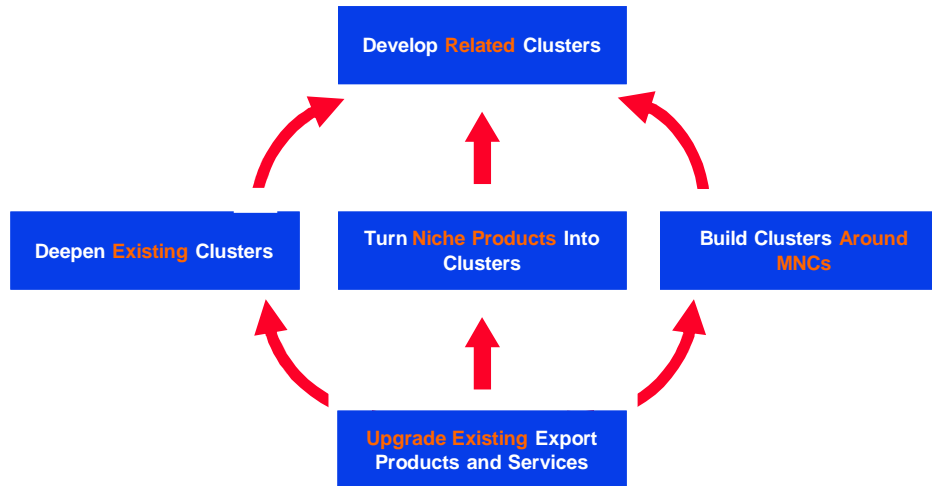
- Clusters provide a framework for **implementing public policy** and **organizing public-private collaboration** to enhance competitiveness

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Clusters and Economic Diversification



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Upgrading Vietnamese Niche Positions, 2006

Cluster	Cluster World Export Share	Subcluster	Industry	Industry Share of World Exports	Change in Share (1997-2006)	Export Value (in \$thousands)
Plastics	0.490%	Rubber	Natural rubber, balata and similar natural gums	7.82%	3.40%	\$ 1,137,205
		Plastic Waste	Reclaimed unhardened rubber; waste	1.88%	1.87%	\$ 6,084
		Plastic Products	Plastic sacks, bags	1.55%	0.65%	\$ 150,234
		Rubber	Synthetic rubber	1.13%	1.13%	\$ 143,316
Sporting, Recreational and Children's Goods	0.361%	Motorcycles and Bicycles	Parts of other motorcycles	1.42%	1.22%	\$ 60,962
		Motorcycles and Bicycles	Bicycles and other cycles, non-motorized	1.27%	-1.56%	\$ 49,628
Communications Equipment	0.284%	Specialty Office Machines	Parts for calculating, accounting machines	23.04%	23.04%	\$ 444,384
		Electrical and Electronic Components	Insulated wire, cable and conductors	1.07%	0.72%	\$ 705,725
Processed Food	0.260%	Specialty Foods and Ingredients	Starches, inulin and gluten	7.93%	6.23%	\$ 148,445
		Food Products Machinery	Distilling, rectifying plant	2.64%	2.64%	\$ 19,449
		Specialty Foods and Ingredients	Vegetable saps, extracts	0.90%	0.50%	\$ 9,193
		Dairy and Related Products	Milk, concentrated or sweetened	0.84%	-0.22%	\$ 89,315
		Specialty Foods and Ingredients	Yeasts	0.81%	0.27%	\$ 7,962
Lighting and Electrical Equipment	0.256%	Glass	Drawn, float, cast glass, worked	6.39%	6.37%	\$ 78,185
		Electrical Parts	Other inductors	3.20%	2.86%	\$ 137,477
		Electrical Parts	Other electric transformers	1.17%	0.68%	\$ 63,386
Motor Driven Products	0.156%	Motors and Generators	Electric motors<=37.5w	1.88%	1.15%	\$ 150,425
		Appliances	Sewing machines and parts	1.21%	0.26%	\$ 45,749
Entertainment and Reproduction Equipment	0.125%	Audio Equipment	Loudspeakers, unmounted	1.41%	1.40%	\$ 39,964
Information Technology	0.121%	Audio Equipment	Electric sound amplifiers	1.07%	1.07%	\$ 8,745
		Peripherals	Input or output units	1.01%	1.01%	\$ 653,740
Analytical Instruments	0.047%	Electronic Components and Assemblies	Printed circuits	0.36%	-0.43%	\$ 85,738
		Electronic Components	TV picture tubes, CRTs	1.26%	1.23%	\$ 53,690
		Electronic Components	Other electronic valves, tubes	0.35%	-0.50%	\$ 12,186
Production Technology	0.046%	Process Instruments	Gas meters	0.34%	0.34%	\$ 1,415
		Fabricated Plate Work	Steam generating boilers, super-heated water boilers; a	1.35%	1.35%	\$ 53,010
		Process Equipment Components	Articulated link chain and parts	0.45%	0.31%	\$ 7,292
		Machine Tools and Accessories	Cutting blades for machines	0.42%	0.38%	\$ 7,501

Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database.

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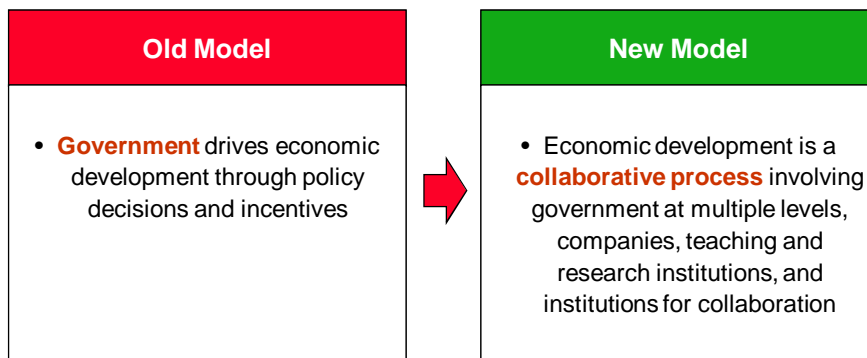
50

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The Process of Economic Development Shifting Roles and Responsibilities



- Competitiveness must become a **bottoms-up process** in which many individuals, companies, and institutions take responsibility
- **Every** community and cluster can take steps to enhance competitiveness

Government and the Process of Economic Development

- Competitiveness is affected by a **myriad of government entities**
 - Multiple agencies and departments (e.g. finance, trade, education, science and technology, commerce, regional policy, energy, agriculture)
 - Multiple **levels** of government (nations, states, cities, etc.)
 - Intergovernmental relations with **neighboring countries** affect competitiveness
- Competitiveness is **rarely the sole agenda** of any government agency



- **Coordinating structures** are needed that brings together the ministries and departments necessary to formulate and implement an economic strategy
- Explicit mechanisms are needed to **engage the private sector** in dialog about policy priorities and implementation progress

Organizing for Competitiveness in Vietnam Recommendations

- Create effective, independent **regulatory organizations**
- Improve **economic policy** at the provincial level
- Improve mechanisms for **public-private** discussion and collaboration
- Enhance **strategic planning and program management capacity** in the central and provincial governments
- Develop a **national economic strategy process** to guide priorities in improving the business environment

Regional Development in Vietnam

- Vietnam's provinces are developing at **different rates**; prosperity levels between the richest and poorest regions differs greatly
- Political power and responsibility for economic development has been **decentralized** to the provinces, who apply to the national government for funds
- Provinces have adopted **unfocused growth strategies** with much duplication and little specialization across provinces
- Provinces have **insufficient technical capacity** for policy design and implementation



- Each province should be charged with developing an economic plan based on its **unique strengths and potential**
- Each province should be expected to **publicly report** on implementation

Competitiveness Institutions

- **Economic strategy unit** in the Prime Minister's office
 - Regularly updating on progress
 - Lead a formal planning and program management process involving all agencies
- Public-private **competitiveness council**
- Vietnam **Competitiveness Institute**
 - To conduct analyses, benchmark vs. other countries, and train government leaders
 - Joint national and provincial
- Enhanced role of **business associations**

Agenda

- Understanding Vietnam's Economic Performance
- Assessing Vietnamese Competitiveness
- Identifying Action Priorities
- Organizing for Competitiveness
- **Creating an Economic Strategy**
- Integrating Corporate Social Responsibility

Defining an Economic Strategy

National Value Proposition

- What is the **unique competitive position of the** nation or region given its location, legacy, and existing and potential strengths?
 - What roles with neighbors, the region, and the broader world?
 - What unique value as a business location?
 - For what types of activities and clusters?

Developing Unique Strengths

- What **elements of context** and the **business environment** are crucial priorities?
- What **existing** and **emerging clusters** should be developed first?

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to achieve parity with peer countries?

- **Priorities** and **sequencing** are a necessity in economic development

The Need for an Economic Strategy

- The Vietnamese government follows largely an **evolutionary and reactive approach** in response to crises and specific problems
- **Foreign aid inflows** are fragmented and driven by donor-priorities
- This approach has been successful in achieving success in factor-based economic development, but will be **insufficient to move to a new stage**



- Government needs leads in a broad-based discussion on a **new economic strategy** that sets priorities for improvements in the business environment and institutions
 - Internally, the government needs to increase its technical capacity to support such a strategic dialogue, for example through a **strategy unit in the Prime Minister's office**

Agenda

- Understanding Vietnam's Economic Performance
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- **Integrating Corporate Social Responsibility**

Implications for Companies

- A company's competitive advantage depends partly on the **quality of the business environment**
- A company gains advantages from being part of a **cluster**
- Companies have a strong **role to play** in upgrading their business environment



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract foreign suppliers
- Work closely with local **educational and research institutions**, to upgrade their **quality and create specialized programs addressing the cluster's needs**
- Inform government on **regulatory issues and constraints** bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
 - Greater influence if many companies are united
 - Cost sharing between members

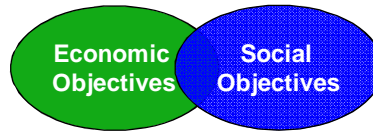
Corporate Social Responsibility A Growing Agenda


- External pressures for CSR continue to grow
- Numerous organizations **monitor, rank, and report** social performance
- The **legal and business risks** are great for companies engaging in practices deemed unacceptable




- CSR is **increasingly important** to business leaders, yet the concept and its justifications remain unclear
- Few companies have **integrated society into strategy** in a way that reinforces competitive advantage for the business

Integrating Strategy and Society

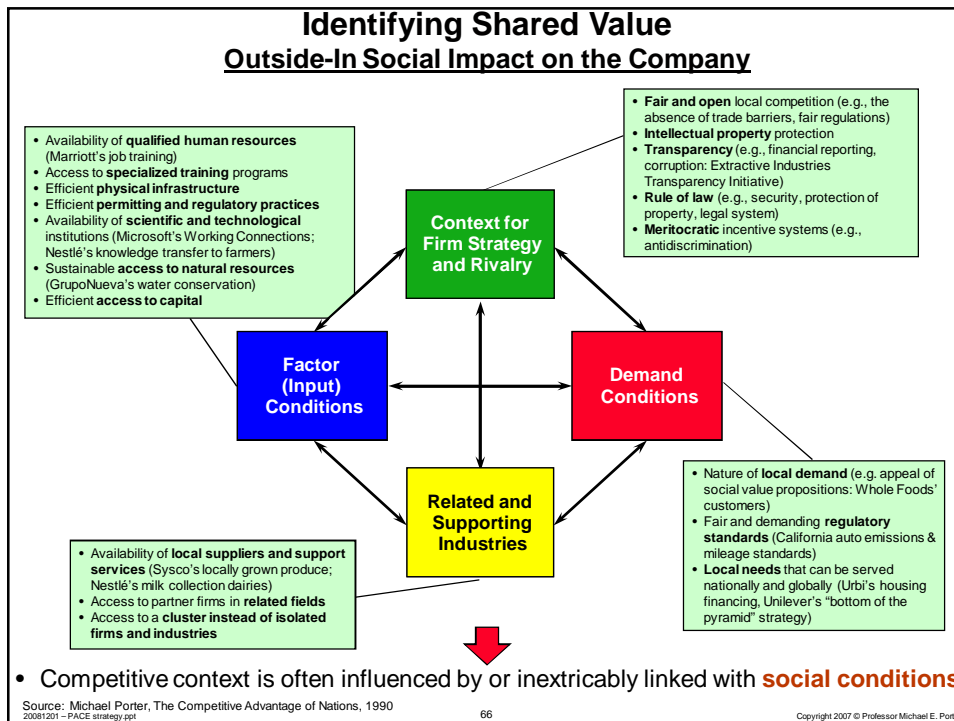
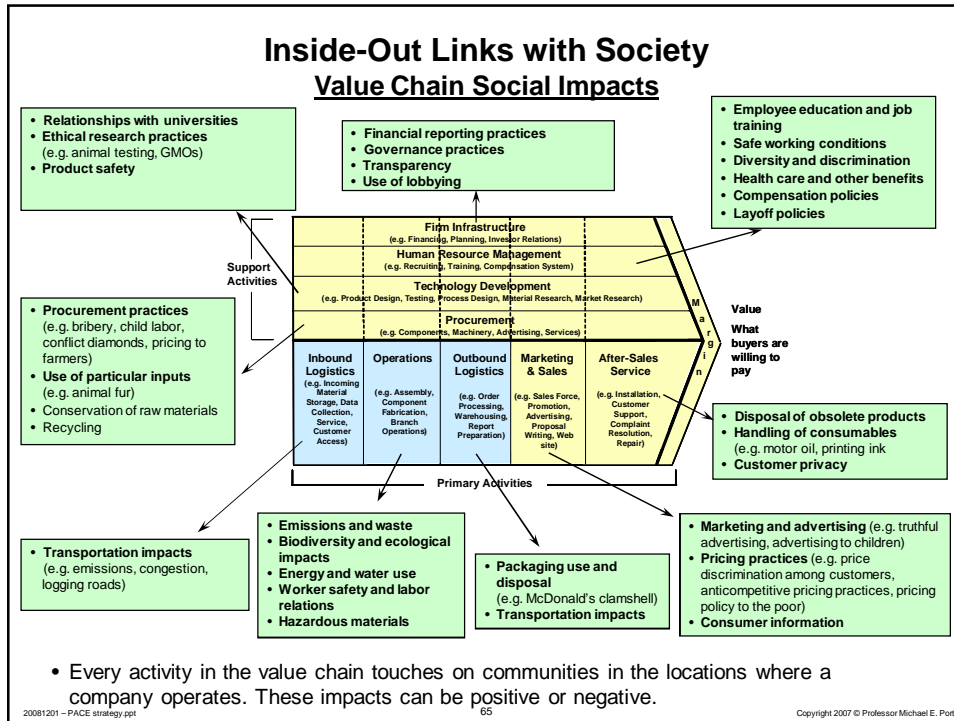


- There is an **inevitable link** between a business and society
 - The **health of a society** depends on having competitive companies that can create wealth and support high wages
 - The **competitiveness of companies** depends on the surrounding community
 - E.g., educated and skilled employees
 - Safe working conditions
 - A transparent, corruption-free business environment
 - A sense of equal opportunity
 - Low levels of environmental degradation (productive use of physical resources)
 - Companies can positively affect many **social** issues
- 
- There is a long-term **synergy** between economic and social objectives
 - To maximize this synergy, business decisions and social policies must follow the principle of **shared value**
 - Company competitiveness and social conditions must benefit simultaneously

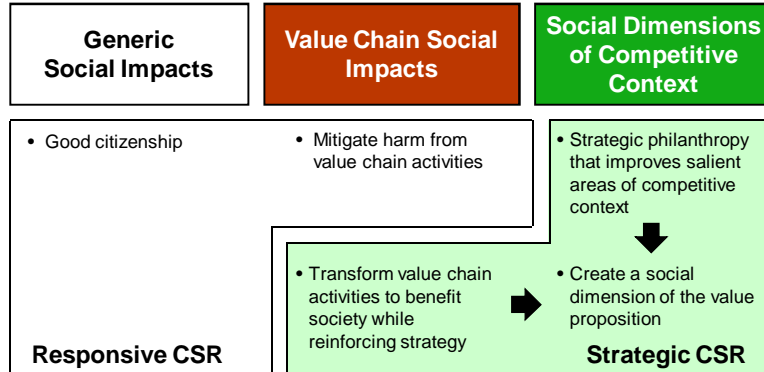
The Role of Business in Social Issues

- Business **cannot solve** all of society's problems, nor bear the cost of doing so
 - There are **many** worthy causes
 - Business must approach its social agenda **proactively** and **strategically**
 - Business must address society and social issues where it can **add the most value**
- 
- Where is a company able to have the greatest **impact** on social issues versus other institutions?

$$\text{Social Value} = \frac{\text{Social Benefits}}{\text{Resources Expended}}$$



Creating a Corporate Social Agenda



- The impact of CSR is greatest when responsive CSR, value chain social impacts, and investments in competitive context are **integrated**

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67

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Strategic CSR: ChoicePoint

- ChoicePoint's core business is providing **personal identification, screening, and credit verification**
 - e.g., employment background screening, credit verification, DNA identification, drug testing
- The company's CSR program focuses on providing identification and verification services and advice to **social organizations**:
 - e.g., background checks of volunteers working with children
 - Identity verification for disaster victims
 - Assisting NGOs to find missing children and prevent identity theft



- ChoicePoint's CSR is **aligned with its founding principle**: creating a safer and more secure society through responsible use of information
- ChoicePoint leverages its **skills, data, technological knowledge, and staff** to maximize social benefit
- CSR activities are not just charity but **improve the company's capabilities** around identity issues

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68

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Strategic CSR: Nestlé in India

- Nestlé's entered the poor Moga region of India in 1962
- Local milk supply was hampered by small parcels of land, poor soil, periodic droughts, animal disease, and lack of a commercial market
- Nestlé established local milk purchasing organizations in each town
- Nestlé invested in **improving competitive context**
 - Collection infrastructure such as refrigerated dairies was accompanied by veterinarians, nutritionists, agronomists, and quality assurance experts to assist small farmers
 - Medicines and nutritional supplements were provided to improve animal health
 - Monthly training sessions were held for local farmers
 - Wells to secure water supply for animals were dug with financing and technical assistance from Nestlé
- Nestlé has built a productive **milk cluster** in Moga, buying milk from more than 75,000 farmers through 650 local dairies



- Moga has dramatically improved social conditions
- Nestlé has developed a **long-term competitive advantage** in the milk cluster

The Moral Purpose of Business

- The most important thing a corporation can do for society is to contribute to a **prosperous economy**
- Only business can **create wealth**; other institutions in society are principally involved in redistributing wealth or investing it to meet human needs
- Business has the tools, capabilities, and resources to make a **far greater positive impact on social issues** than most other institutions
- Corporations depend on a **healthy society** to sustain competitiveness
- Business is **more transparent** and **more accountable** than most foundations and NGOs
- Corporations are not responsible for **all the world's problems**, nor do they have the resources to solve them all
 - Business has **no need to be defensive** about its role in society
- Each company can and should identify the **particular set of societal problems** that it is best equipped to help resolve, and from which it can gain the greatest competitive benefit
- Addressing social issues through **shared value strategies** will lead to self-sustaining solutions



- Using these principles, businesses can have a **greater impact** on social good than any other institution or philanthropic organization