

Regional Competitiveness in a Global Economy: A Small Business Led Economic Strategy for America

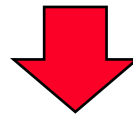
Professor Michael E. Porter
Harvard Business School

Small Business Administration
Washington, D.C
May 18, 2009

This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report 2007/08](#) (World Economic Forum, 2007), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 1998), and ongoing research on clusters and competitiveness. 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. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at www.isc.hbs.edu. Version: May 17, 2009 - 3pm

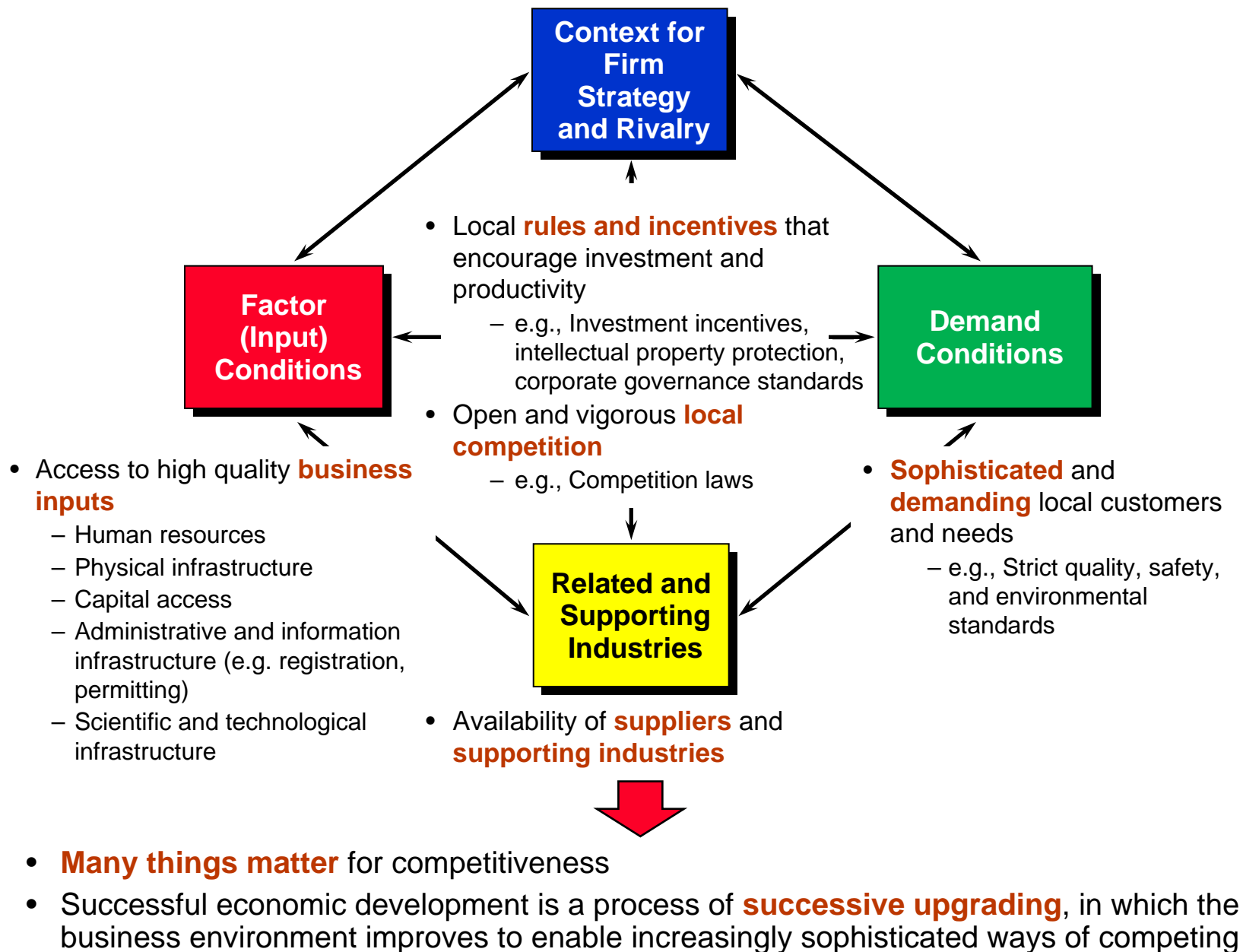
What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
 - Productivity **sets the 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** it competes in those industries



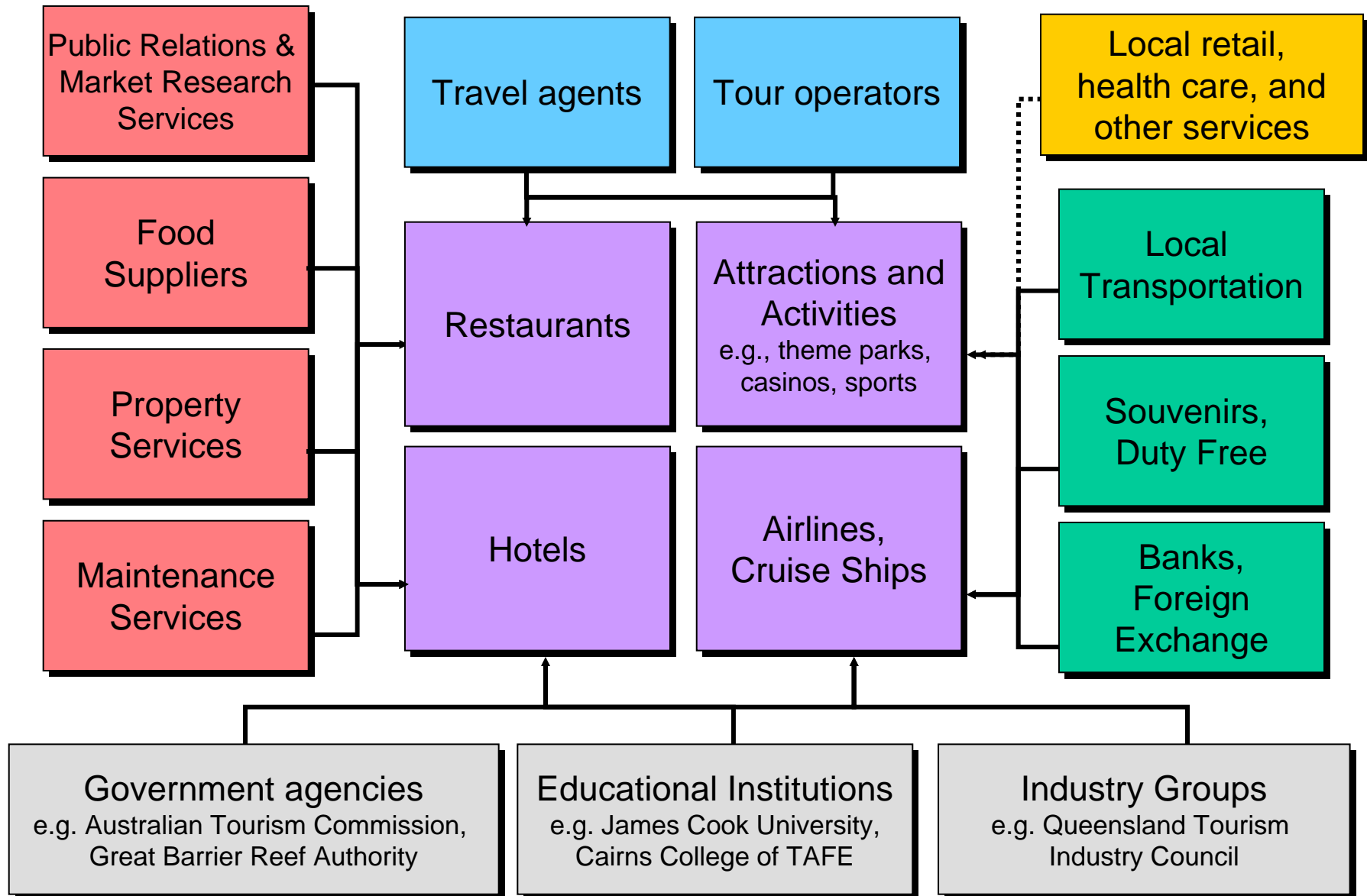
- Only business can create **wealth**
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

Competitiveness and the Business Environment



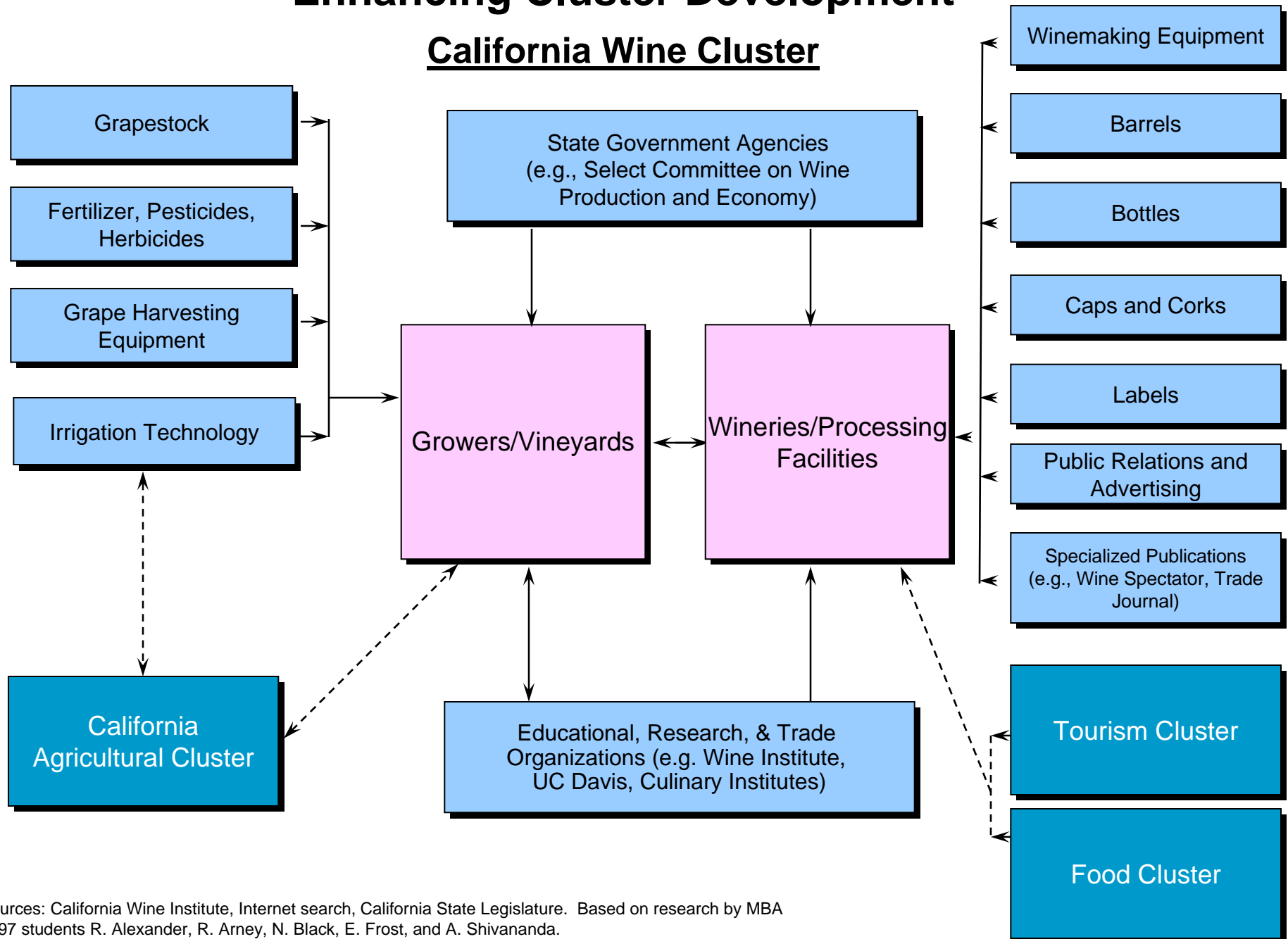
Competitiveness and Cluster Development

Tourism Cluster in Cairns, Australia



Enhancing Cluster Development

California Wine Cluster



Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.

Globalization and U.S. Economic Performance

- The U.S. economy **performed well** over the last two decades
- **Productivity growth** was remarkably high for such a wealthy economy
- The U.S. accounted for **one-third** of all global economic growth

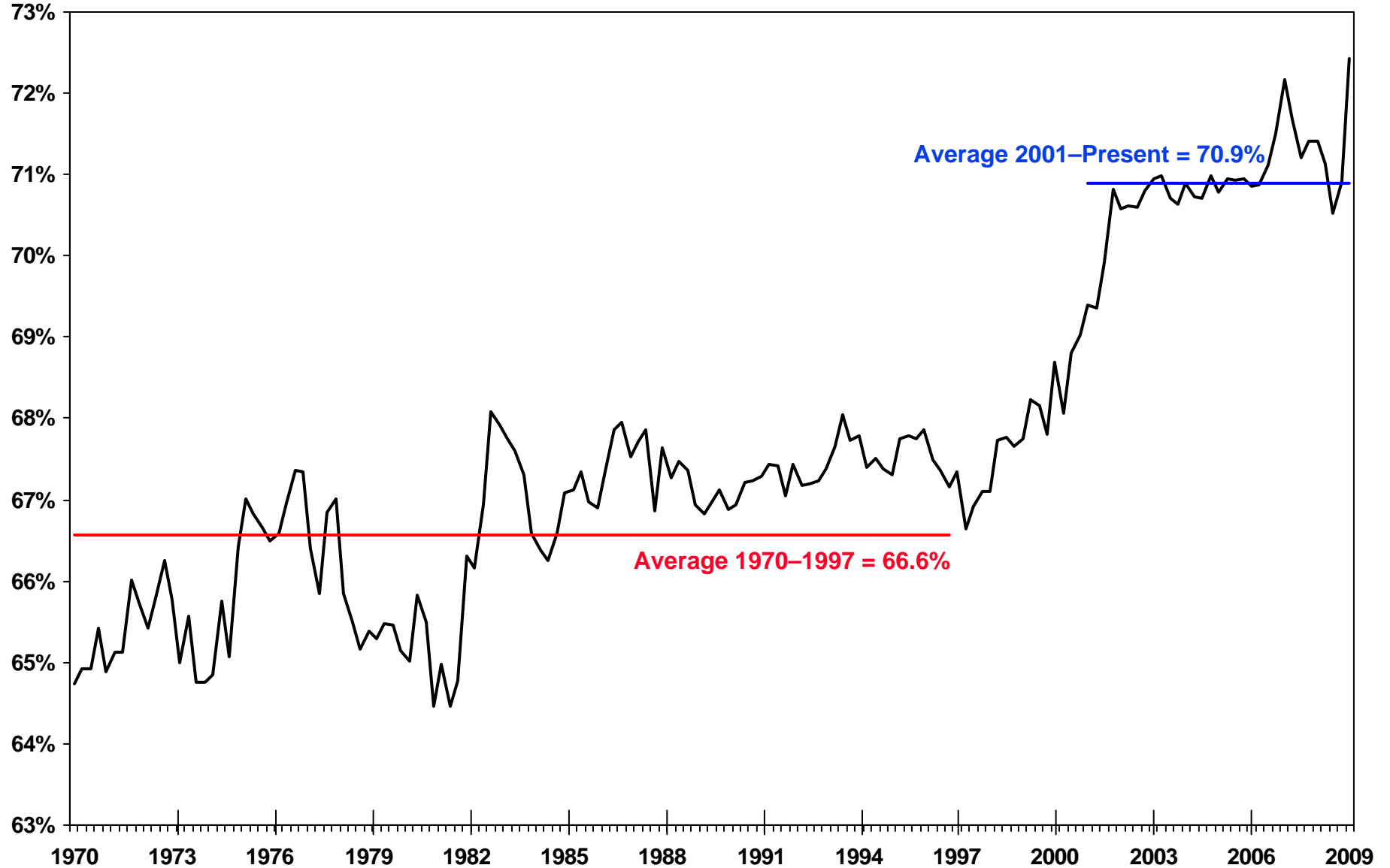
BUT

- U.S. growth since 2000 was based heavily on consumption and borrowing that was **unsustainable**, and the economy faces a period of painful readjustment

Rising Personal Consumption in the United States

1970 to Present

US Personal Consumption
Expenditure as % of GDP




Source: Bureau of Economic Analysis (2009), analysis by Morgan Stanley
20090518 - SBA presentation.ppt

Globalization and U.S. Economic Performance

- The U.S. economy **performed well** over the last two decades
- **Productivity growth** was remarkably high for such a wealthy economy
- The U.S. accounted for **one-third** of all global economic growth

BUT

- U.S. growth since 2000 was based heavily on consumption and borrowing that was **unsustainable**, and the economy faces a period of painful readjustment
 - The value of education and skills have **risen dramatically**
 - Less skilled Americans face **more competition for work** and **restraint on wages**
 - Exacerbated by low skilled immigration
 - There is a high rate of **job churn**
 - High job creation but high job loss
- 
- Future U.S. economic performance is **at risk**

Strategic Position of the United States

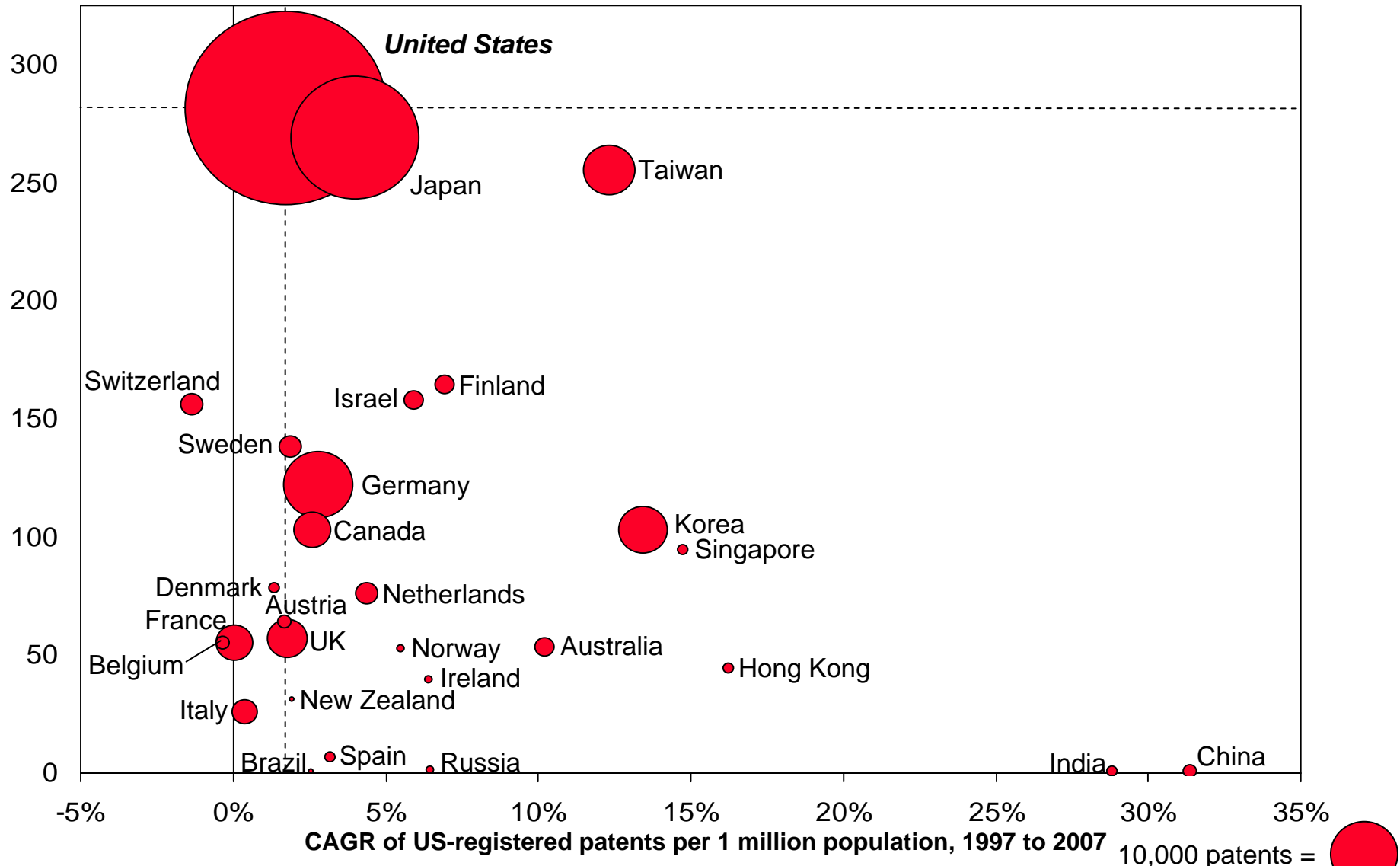
Core Strengths

- Entrepreneurship
- Innovation

Innovative Capacity

Innovation Output of Top 25 Patent Producing Countries

Average U.S. patents per 1 million population, 2003-2007



Source: USPTO (2009), EIU (2009)
20090518 - SBA presentation.ppt

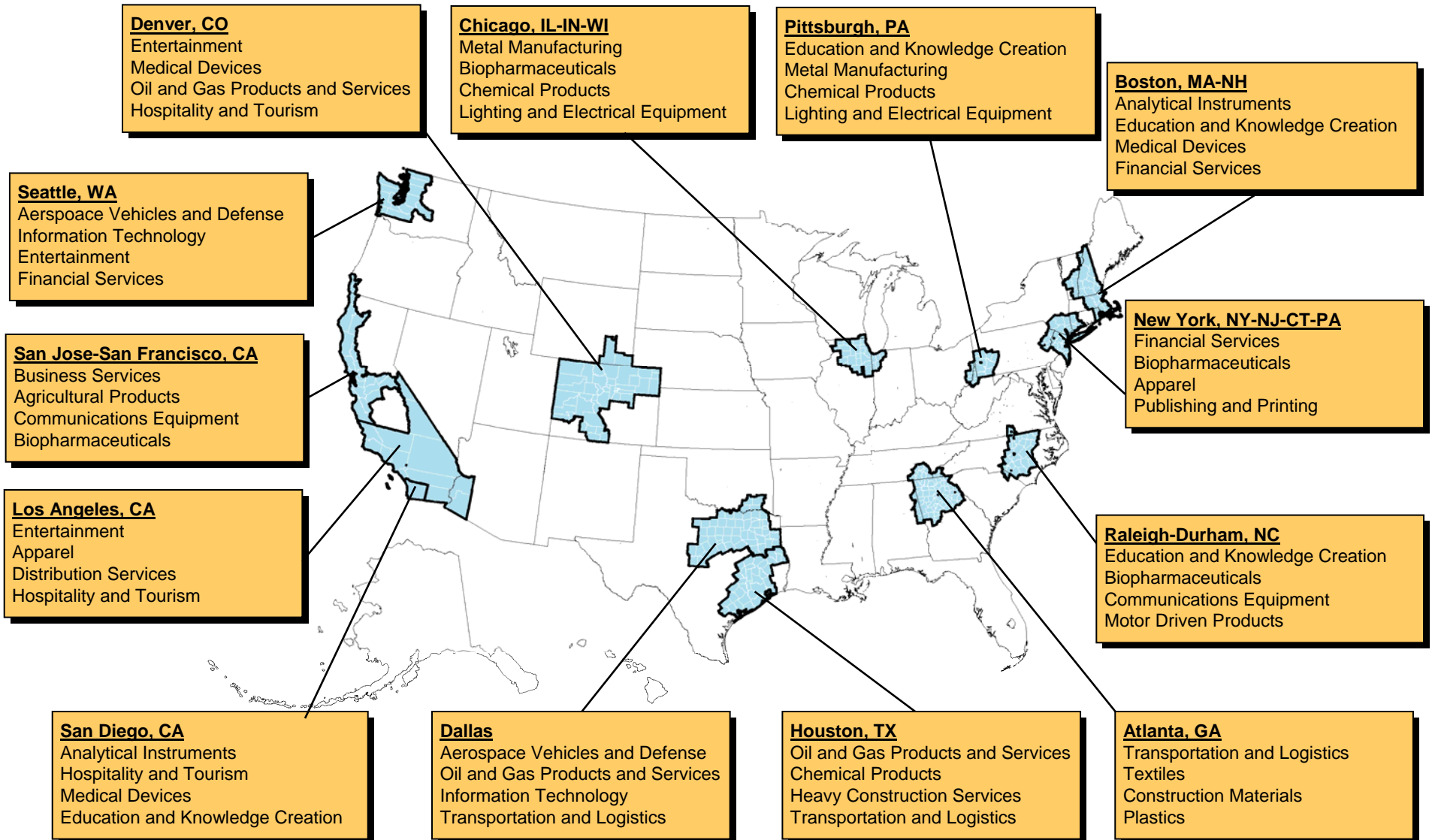
Strategic Position of the United States

Core Strengths

- Entrepreneurship
- Innovation
- Institutions for higher learning
- Deep and efficient capital markets
- Free and open competition
- Economic decentralization

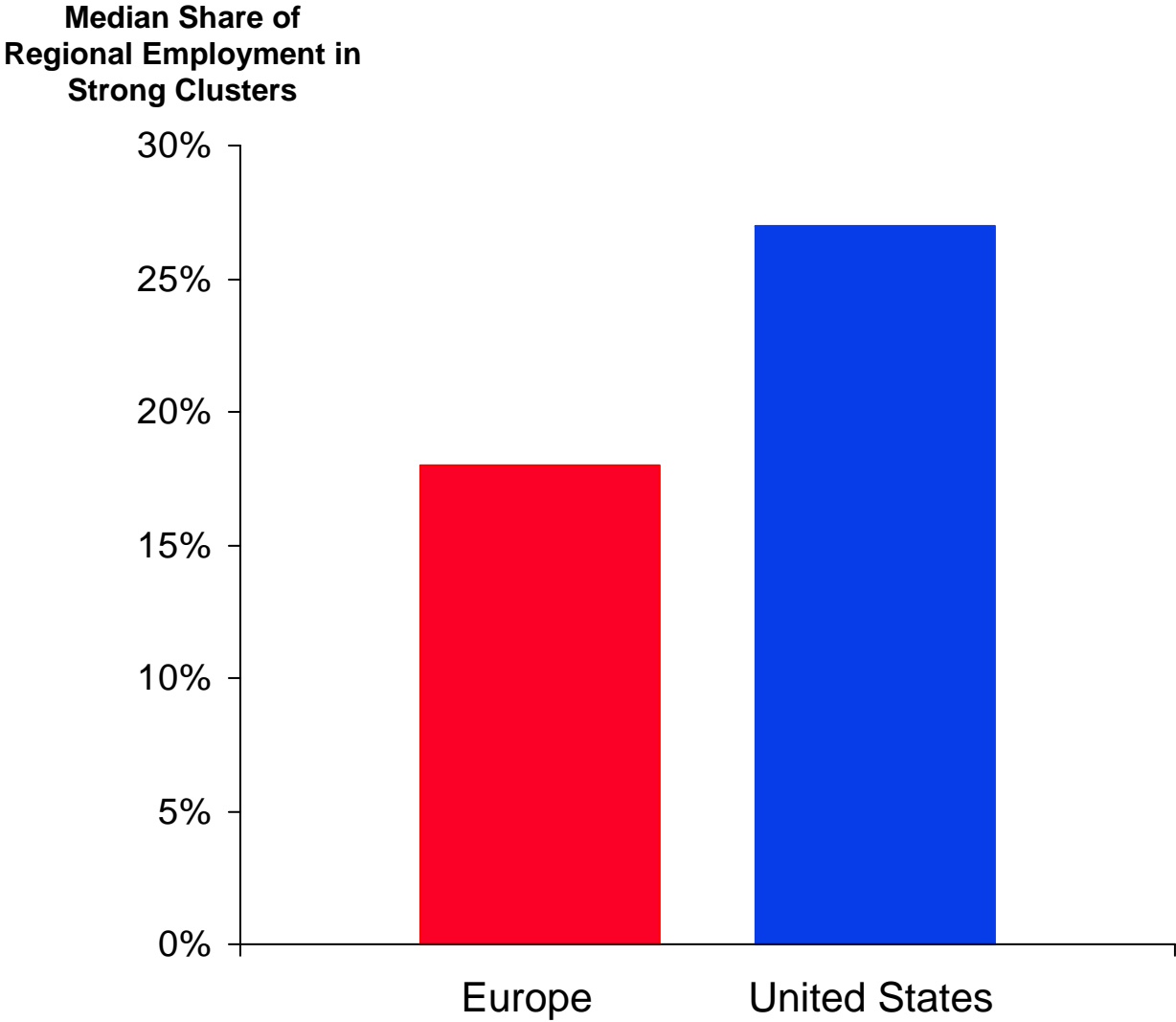
Specialization by Traded Clusters

Selected U.S. Economic Areas, 2006



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

Cluster Strength in the United States versus Europe



Source: European Cluster Observatory
20090518 – SBA presentation.ppt

Strategic Position of the United States

Core Strengths

- Entrepreneurship
 - Innovation
 - Institutions for higher learning
 - Deep and efficient capital markets
 - Free and open competition
 - Economic decentralization
- 
- The U.S. needs to **preserve, renew** and **reinvest** in these strengths

Strategic Position of the United States

Core Strengths

- Entrepreneurship
- Innovation
- Institutions for higher learning
- Deep and efficient capital markets
- Free and open competition
- Economic decentralization

Weaknesses

- Distortions in the international trading system
 - Weak IP protection
 - Restricted access to markets for services in other countries
 - Subsidies and non-tariff barriers
- Unnecessary costs of doing business
 - Regulation, litigation, and tax complexity
 - Infrastructure bottlenecks
 - Energy and environmental inefficiency
- Weak transitional security blanket
 - Ineffective retraining system
 - Health insurance access and mobility
 - Pension security
- Human resource challenges
 - K-12 weaknesses
 - Access to higher education

Agenda for the United States

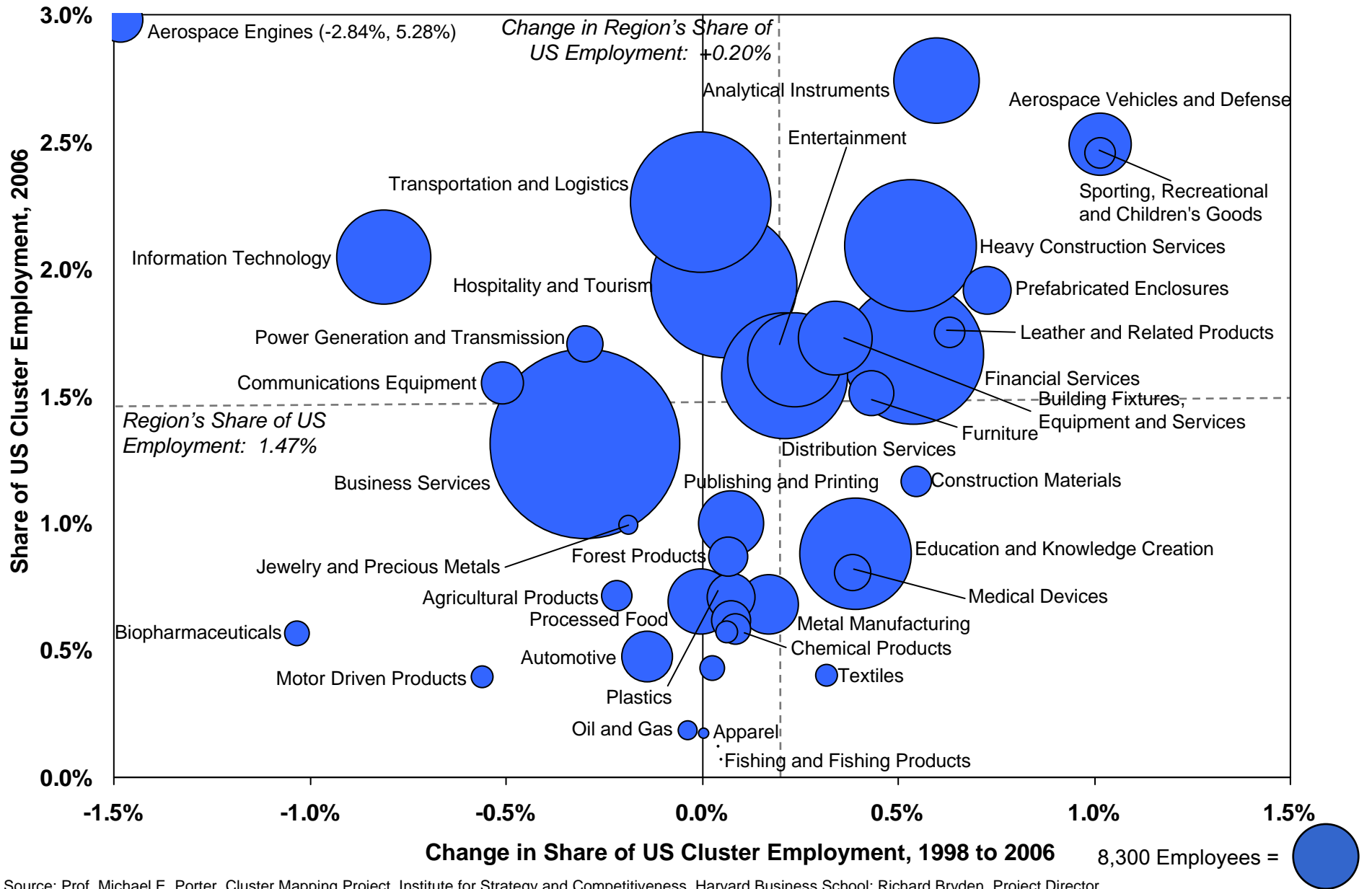
- Create an **economic strategy** for U.S. in collaboration with business, including small- and medium-sized businesses
- Renew America's **innovation infrastructure**
- Tackle America's **human resource weaknesses**
- Restructure the **safety net**
- Drive down other **costs of doing business**



- Realign federal economic programs around **regions and cluster development**

Phoenix Economic Area

Specialization by Traded Cluster, 1998 to 2006



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

The Process of Economic Development

Shifting Roles and Responsibilities

Old Model

- **Government** drives economic development through policy decisions and incentives



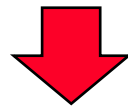
New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

- Competitiveness must become a **bottom-up process** in which many individuals, companies, and institutions take responsibility
- **Private sector** engagement is necessary for rapid competitiveness improvement
- **Every** community and cluster can take steps to enhance competitiveness

Cluster Initiatives

- Cluster initiatives are **collaborative programs** involving companies, public sector entities, and other related institutions to improve competitiveness



- Upgrade **company operations and strategies**
 - e.g., environmental practices, quality management
- Enhance the **cluster-specific business environment** conditions
 - e.g., supplier attraction, regulatory environment
- Strengthen **collaboration to improve collective advantages** in the business environment
 - e.g., joint procurement, training programs

Private Sector Collaboration: MassMEDIC

- MassMEDIC **facilitates collaboration** among companies, universities, medical centers, and government
- Created to address **common challenges** facing companies in the cluster
- Activities include:
 - Fund **cluster analyses** to facilitate continual upgrading and improvement
 - Engage state and federal **public policy makers** on behalf of the cluster (e.g. FDAMA, negotiating lower FDA fees for smaller businesses)
 - Work with Massachusetts Office of Business Development to **attract new firms and investment**
 - Manage a **job bank** linking employers with qualified applicants
 - **Bring cluster actors together** in monthly seminars to facilitate supplier agreements, business alliances, joint ventures, and employment searches
 - Foster specialized **education** programs
 - Support for medical technology **entrepreneurs**
 - Maintain a **directory** and other tools to link cluster members to each other and to opportunities

Strategy in Economic Downturns

- Create a **positive** agenda
 - Refocus on **strategy**
 - Return to **economic fundamentals**
 - Downsize **to a strategy**, not across the board
 - **Do not overreact** to distressed industry conditions
 - Use the downturn to **get things done** that would be more difficult in normal times
 - Position for **long term economic performance**, not near term stock price
 - Seize opportunities for **discontinuities** which are more likely to emerge
- 
- Strategy is **more important** in downturns, not less