



Michael E Porter

A change in mindset

OBG talks to Michael E Porter, Bishop William Lawrence University Professor, Harvard Business School

How can one measure the effectiveness of events such as the Global Competitiveness Forum?

PORTER: If an event like this took place in the US today, it would have limited impact. However, having it in a place such as Saudi Arabia is a sign that something interesting and important is happening. Saudi Arabia is reaching out to the rest of the world. This has not been a country that has been outward-looking or that has benchmarked itself in the past. This is the first time it has participated in the Global Competitiveness Report. The fact that the event has even taken place, and the number of senior people who have attended, makes its symbolic importance substantial. The important thing in this case is the change in mindset. Every minister I have met at this event has talked about how Saudi Arabia must make more efforts to improve.

What do you see is the area of focus now? What are the biggest challenges to be addressed?

PORTER: The biggest issue is how to get the large Saudi population prepared to take part in the productive work force; that is a hard issue. The oil industry creates enormous wealth, but it already employs too many people for its needs. In fact, the sector employs at least twice the amount of workers that is necessary, reducing its productivity. The major issue today in this country is how to create a productive work culture – how to develop a work ethic. It is about trying to get all the citizens who are not part of the economy into the work force.

What specific steps has the Kingdom taken to make the country more competitive?

PORTER: The steps that have been taken so far have been modest. However, we should mark the WTO accession in 2005 as the most meaningful step, as it essentially obligated the Kingdom to an entire agenda of reforms. For example, I was speaking to a private sector leader who was talking about an inter-

nal subsidy in the country's economy. He said he was going to take the matter to the WTO. Now there is a way for people who are unsatisfied with the pace of change in the Kingdom to move ahead. There is an outside force to stimulate change.

So far, progress has been made in regulatory clean up, the creation of a competitiveness council, and the Saudi Arabia General Investment Authority's drive for measuring and benchmarking.

What is the best approach to tackle this issue?

PORTER: Saudi Arabia needs a multi-faceted economic strategy. It has to deal with basics like education and skills, but it also needs to address culture and attitudes. Saudis in the younger generation, people in their twenties and even their thirties, are looking at these issues in a different way. I believe that a change in mindset in Saudi is taking place now. The interesting thing about this nascent reform is that it is not taking place as a result of a crisis, which is very often the case in other countries.

What affect does domestic competition have on international trade and what consequences will it have on the Kingdom's economic well-being?

PORTER: One of the main challenges is that there has been little to no domestic competition in Saudi Arabia up to this point. Basically, one or two companies have the franchise for most goods and services in the form of a distributorship.

Beyond that, there has been relatively little manufacturing taking place in the country except in the oil and gas sector. As things change, we are finally seeing more manufacturing being done in Saudi Arabia and the beginnings of competition.

I have talked about the importance of developing a policy to address this and for the elimination of internal subsidies and favours. This effort is underway but it will take a long time and we will not see it fully implemented here for many years to come.