

Crisis and Competition

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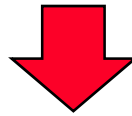
NHO
Oslo, Norway (via video link)
7 January 2009

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 2006](#) (World Economic Forum, 2006), "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

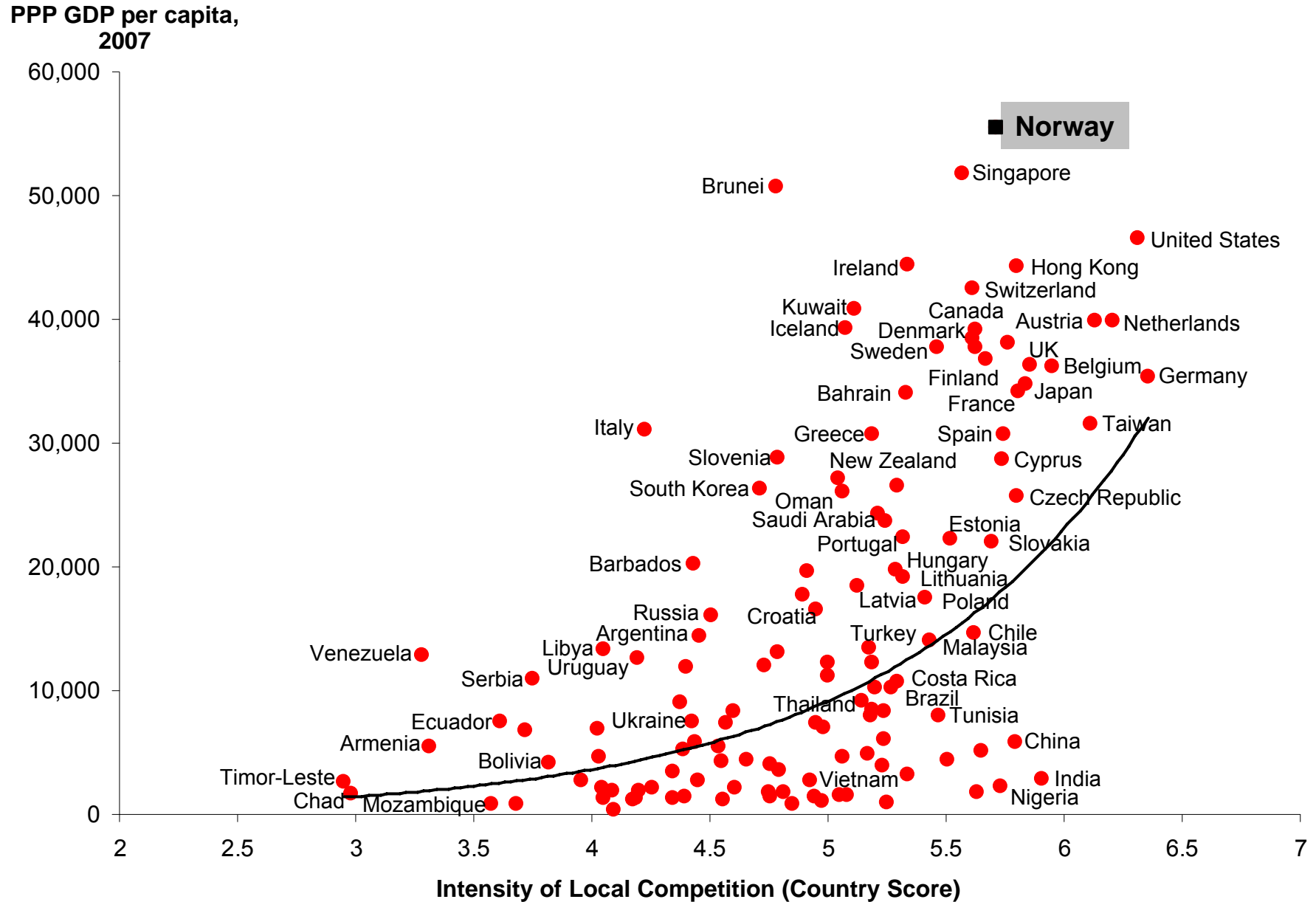
Competition and Prosperity

- Prosperity 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)
- **Competition** is the driving force for productivity

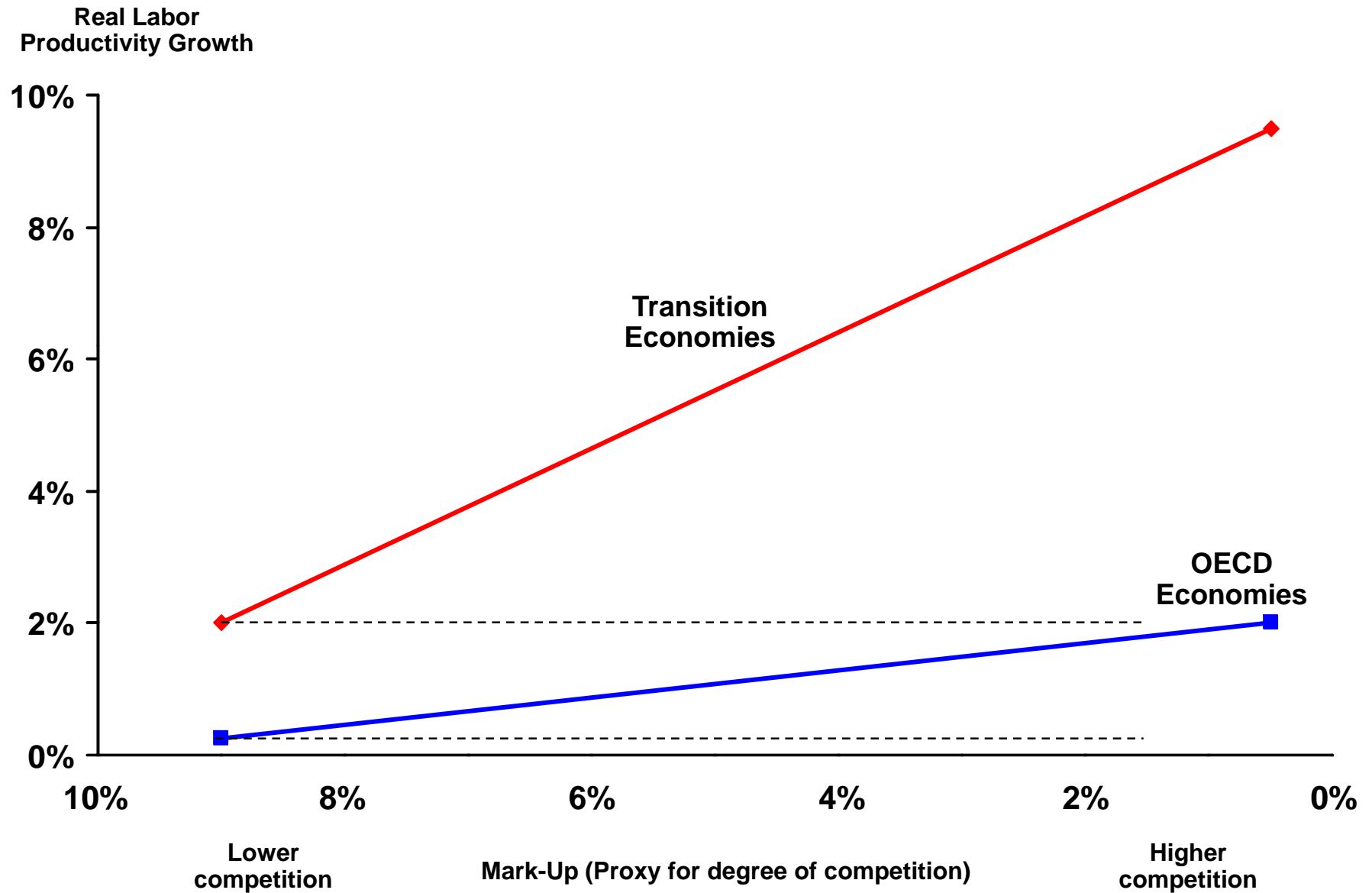


- Efficiency
- Dissemination of best practices
- Creating new products and processes
- Innovation

Intensity of Competition and Prosperity

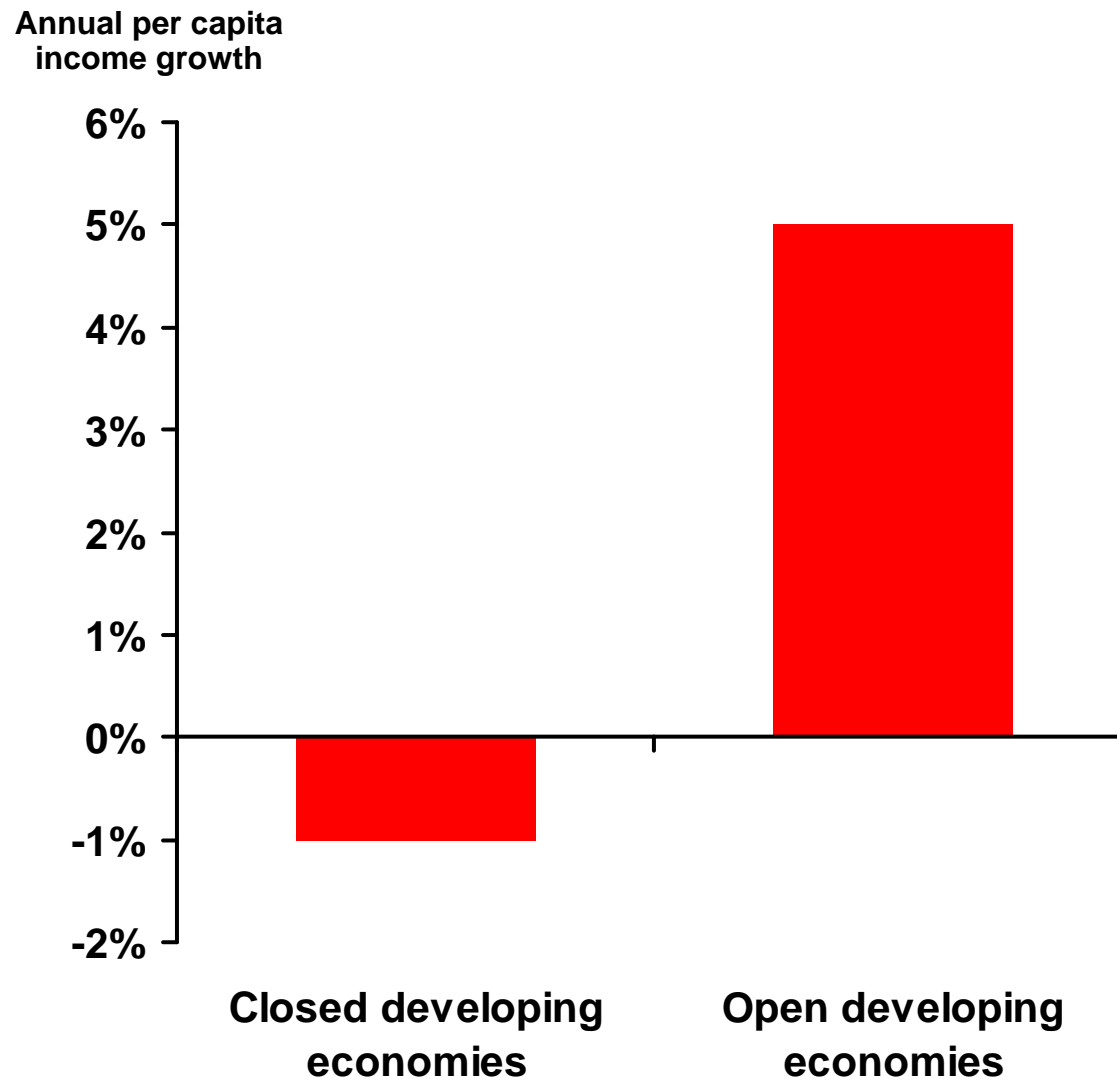


Competition and Productivity Growth



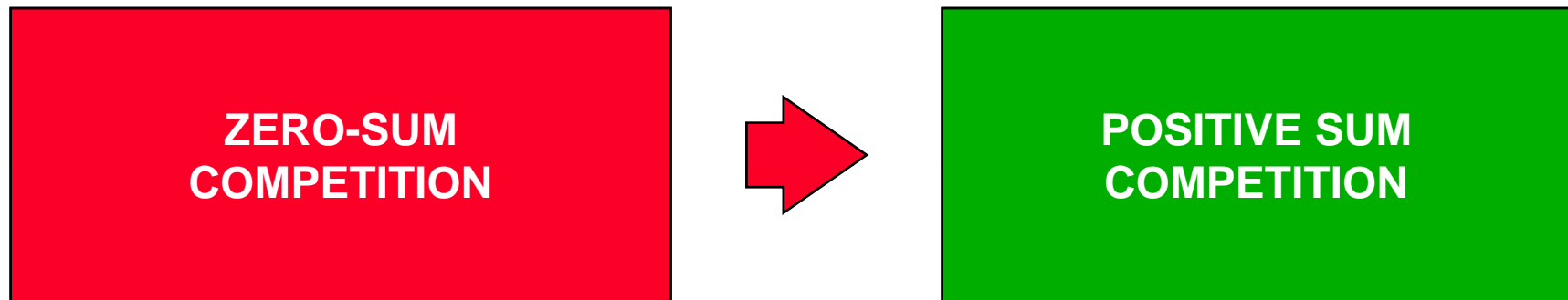
Source: EBRD (2008)

Competition and Development



Source: Masson (2001), Dollar/Kraay (2001), Srinivasan/Bhagwati (1999)

Why Competition Fails



Competition Gone Awry: U.S. Healthcare

- Today's competition in health care **is not aligned with value**

Financial success of
system participants



Patient
success

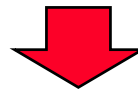
Competition in U.S. Health Care

Bad Competition

- Competition to **shift costs** or capture a **bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to contain costs or maximize revenue per visit

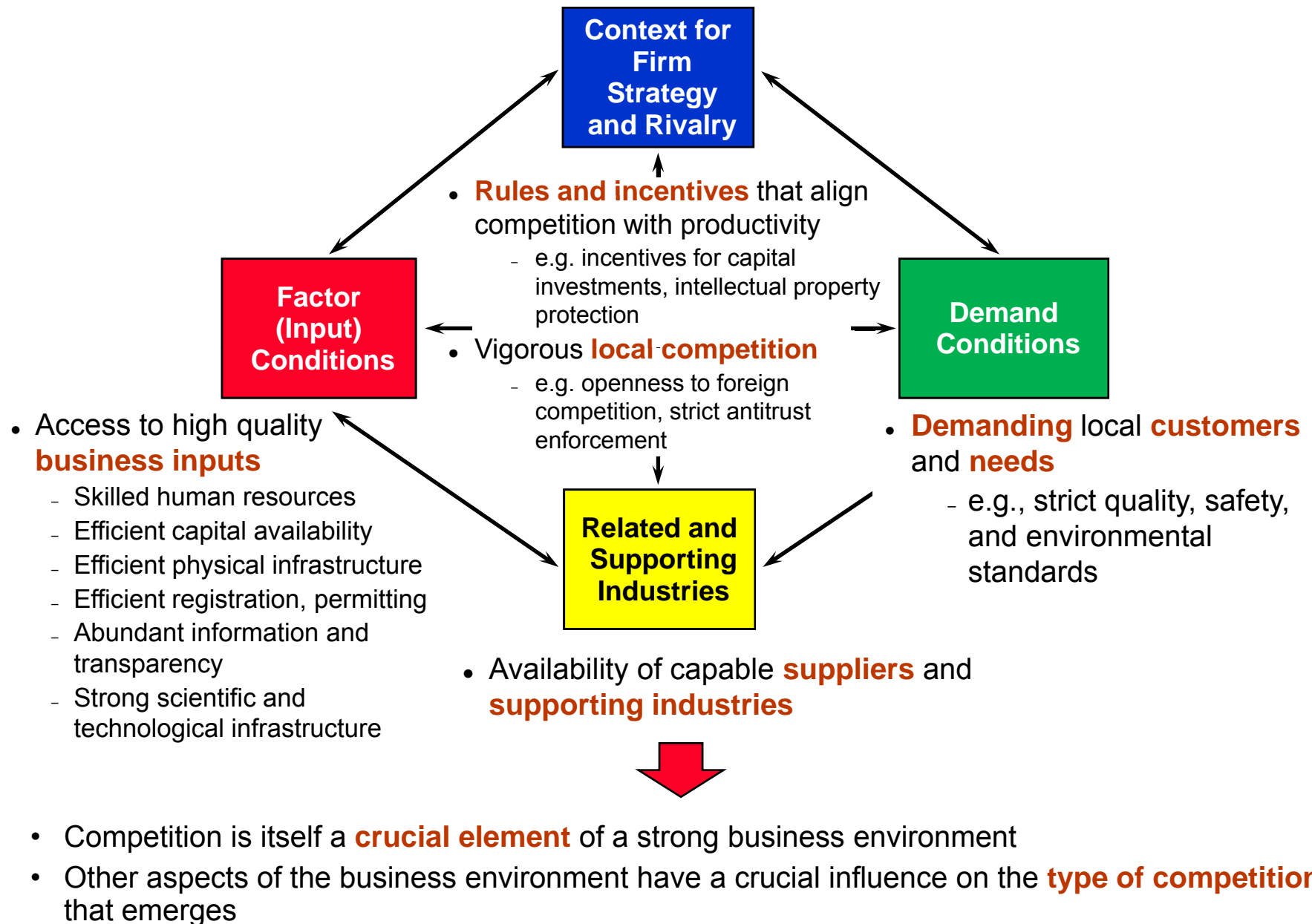
Good Competition

- Competition to **increase value for patients**

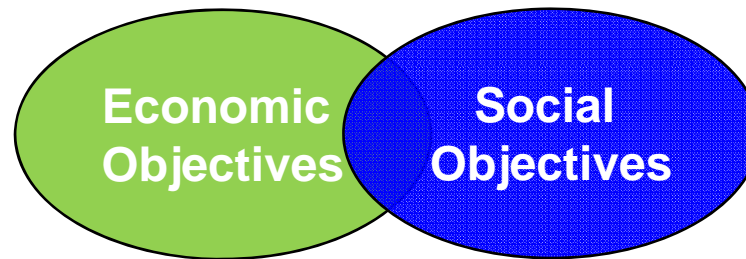


- Creating **competition on value** is the central challenge in health care reform

Healthy Competition Depends On A Sound Business Environment



Healthy Competition Depends on Good Social Conditions



- True **competitiveness** depends heavily on:
 - Improving skill levels
 - Safe working conditions
 - Absence of discrimination
 - Low levels of pollution (pollution is a sign of unproductive use of physical resources)
 - Lack of corruption



- Economic and social objectives are **not contradictory**, but **not complementary** in building competitiveness

Competition and the Financial Crisis

- Innovation in financial products **outpaced regulation**
- The resulting credit problems reduced **consumer spending**
- The losses at financial institutions have **frozen markets, dried up liquidity**, and **reduced lending**
- The resulting **recessionary spiral** spread to many other parts of the economy that were otherwise healthy

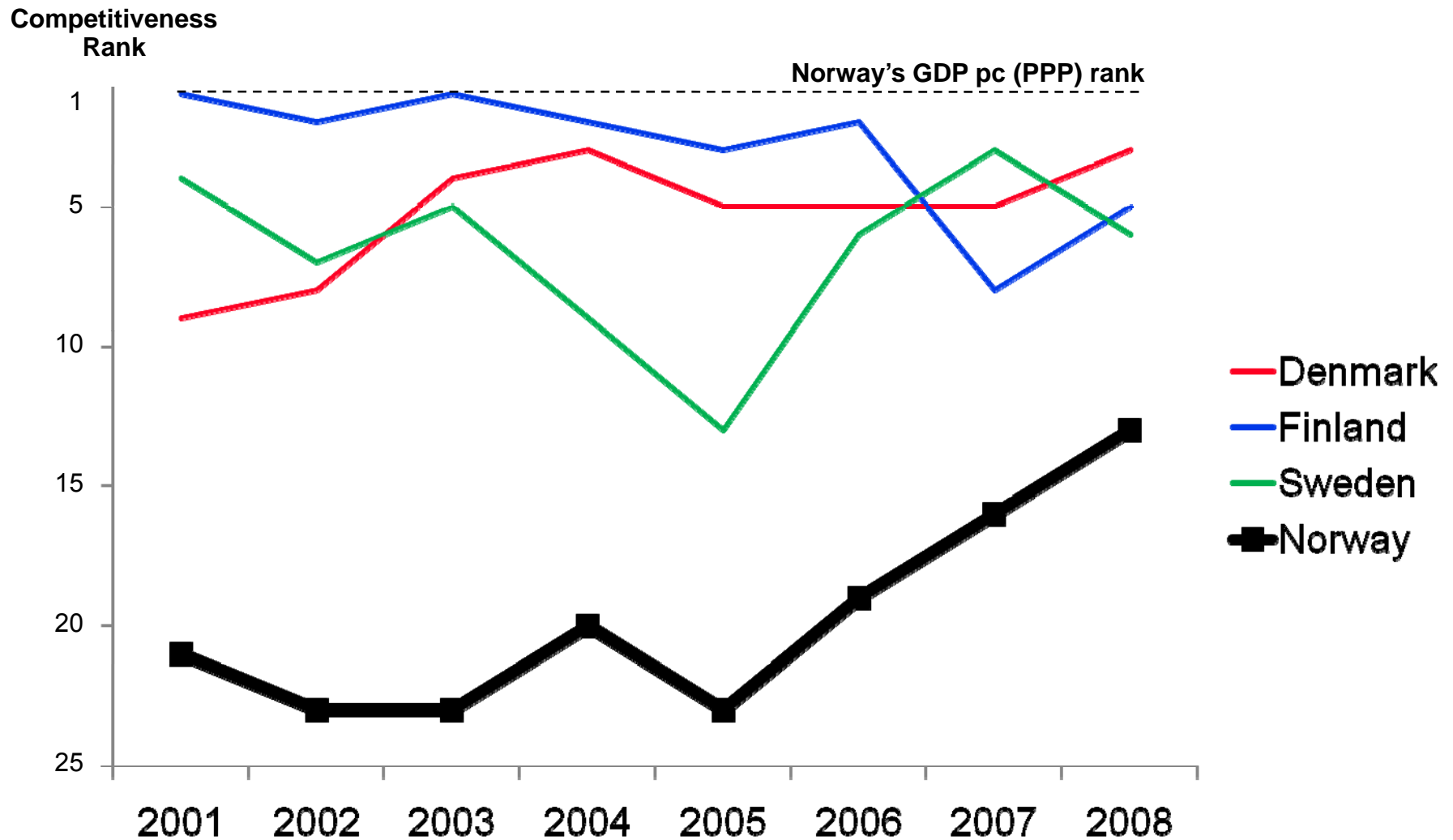


- **Lack of regulation** caused the crisis, not too much competition
 - The high levels of competition in the U.S. financial markets created more pressure to **exploit the regulatory laxity**

Implications for Norway

- Curbing competition in response to the crisis is not the solution; it will only make things **worse**, especially in the long term
- Norway has made some **progress** on improving its competitiveness in recent years

Competitiveness Ranking Nordic Countries over Time

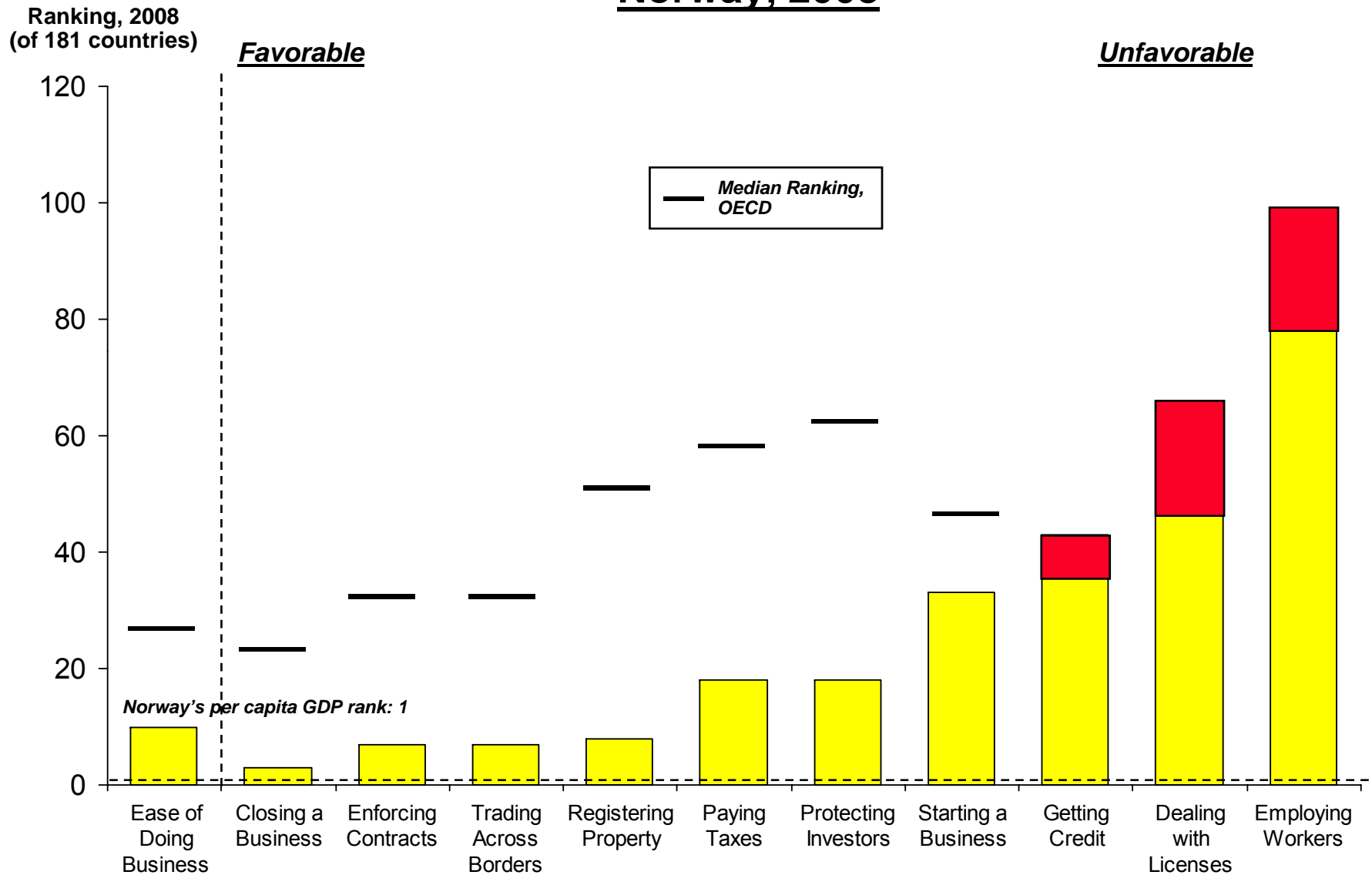


Note: Norway ranked 1st on GDP pc (PPP adjusted in all years)
Source: Institute for Strategy and Competitiveness, Harvard University (2008)

Implications for Norway

- Curbing competition in response to the crisis is not the solution; it will only make things **worse**, especially in the long term
- Norway has made some **progress** on improving its competitiveness in recent years
- Yet Norway still lags many of its global peers, especially in **intensity of competition**

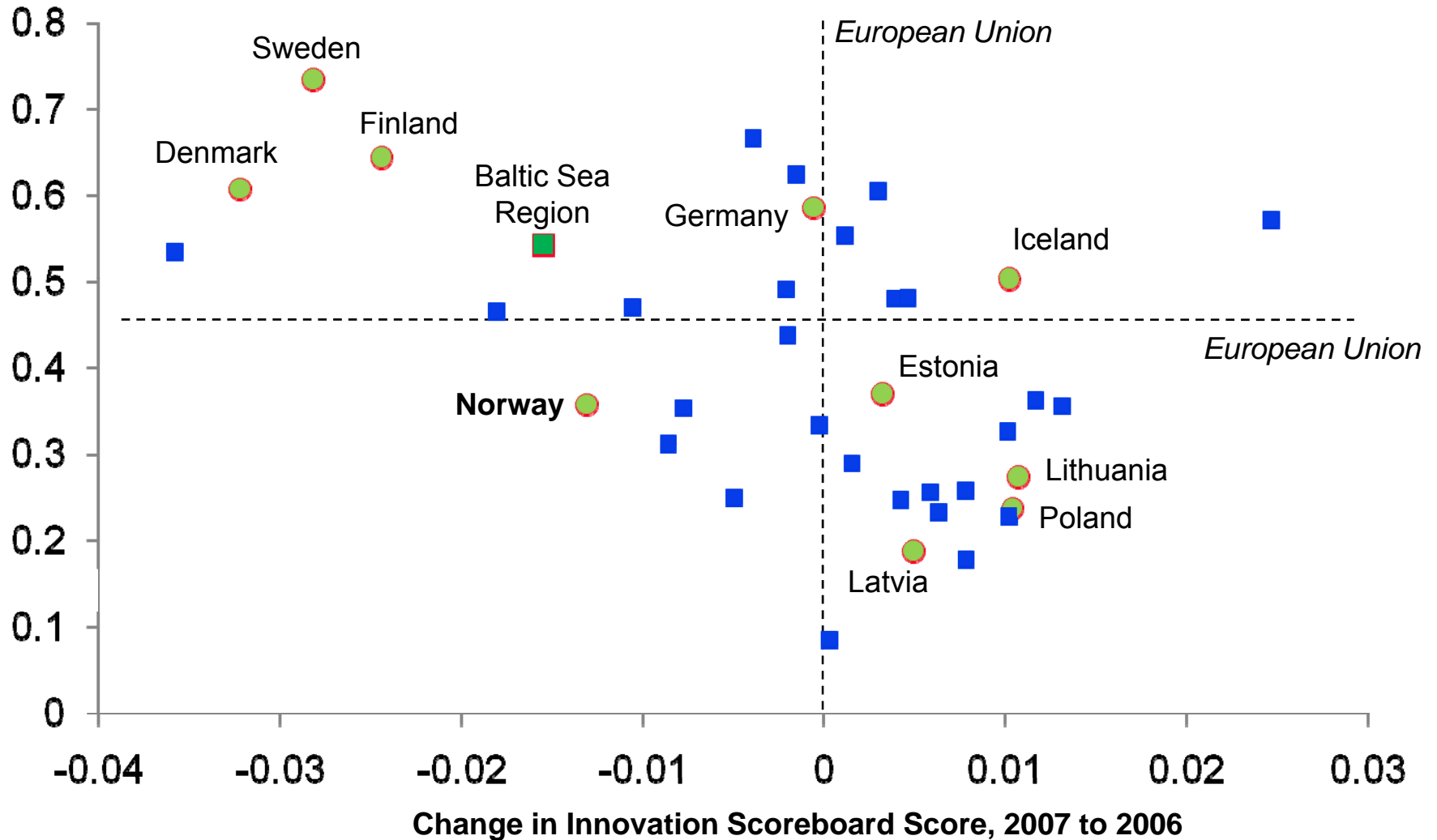
Ease of Doing Business Norway, 2008



Source: World Bank Report, Doing Business (2008)

European Innovation Scoreboard

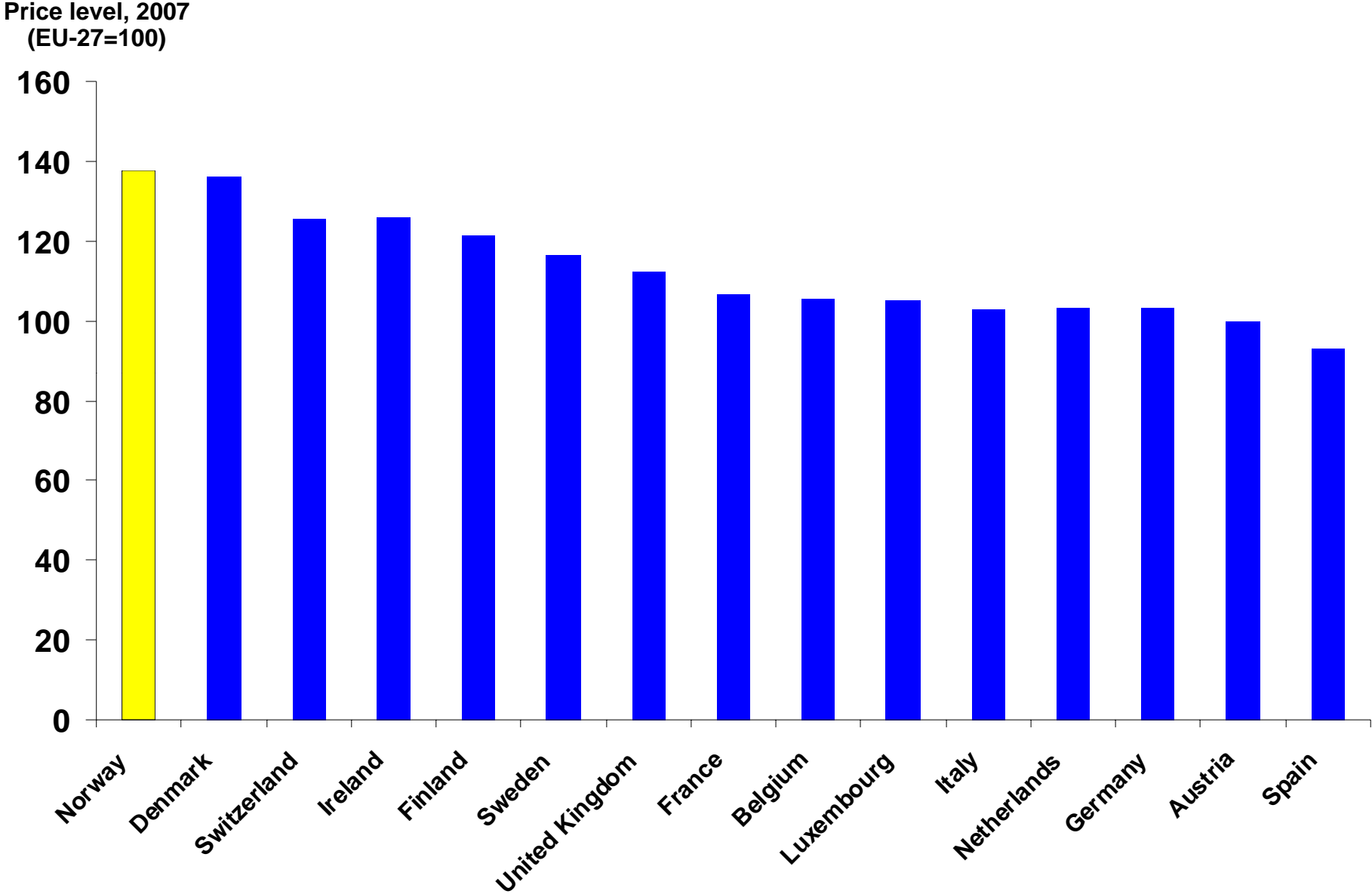
Innovation Scoreboard
Score, 2007



Source: European Innovation Scoreboard (2008), author's analysis.

State of the Region-Report 2008

Domestic Price Levels



Source: Eurostat (2008)
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Norway's Relative Position on Competition Indicators

Global Competitiveness Report, 2008

Prevalence of trade barriers	68	
Restrictions on capital flows	46	GDP per capita Rank: 1
Extent of market dominance	18	
Intensity of local competition	16	

Note: Rank versus 74 countries; overall, Norway ranks 1st in 2008 PPP adjusted GDP per capita and 7th in Global Competitiveness

Source: Institute for Strategy and Competitiveness, Harvard University (2008)

Implications for Norway

- Curbing competition in response to the crisis is not the solution; it will only make things **worse**, especially in the long term
- Norway has made some **progress** on improving its competitiveness in recent years
- Yet Norway still lags many of its global peers, especially in **intensity of competition**
- Norway has been successful where **vigorous competition is present** (e.g., maritime, offshore oil & gas equipment)



- Norway needs to **use the current crisis** to make progress on its fundamental competitive weaknesses

Strategy in Economic Downturns

- Create a **positive** agenda
- Make investments to deal with the downturn **based on a strategy**, not “stimulus” per se
- Address the crisis only with strategic investments that **need to be made** anyway, just accelerate them