

Changing the Mind of a Nation: Elements in a Process for Creating Prosperity

By Michael Fairbanks

INTRODUCTION: BLAME THE COW FOR NO PROSPERITY

The Monitor Company worked for the government and private sector leaders of Colombia to study and provide recommendations on how the leather producers in that Andean nation could become more prosperous by exporting to the United States. We began in New York City to find the buyers of leather handbags from around the world, and we interviewed the representatives of 2,000 retail establishments across the United States. The data were complex but boiled down to one clear message: The prices of Colombian handbags were too high and the quality was too low.

We returned to Colombia to ask the manufacturers what lowered their quality and forced them to charge high prices. They told us, "No es nuestra culpa." It is not our fault. They said it was the fault of the local tanneries that supplied them with the hides. The tanneries had a 15 percent tariff protection from the Colombian government, which made the price of competing hides from Argentina too expensive.

We traveled to the rural areas to find the tannery owners. The tanneries pollute the nearby ground and water with harsh chemicals. The owners answered our questions happily. "It is not our fault," they explained, "It is the fault of the *mataderos*, the slaughterhouses. They provide a low-quality hide to the tanneries because they can sell the meat from the cow for more money with less effort. They have little concern for damaging the hides."

We went into the *campo* and found slaughterhouses with cowhands, butchers, and managers wielding stopwatches. We asked them the same questions and they explained that it was not their fault; it was the ranchers' fault. "You see," they said, "the ranchers over brand their cows in an effort to keep the guerrillas, some of whom protect the drug lords, from stealing them." The large number of brands destroys the hides.

We finally reached the ranches, far away from the regional capital. We had reached the end of our search because there was no one left to interview. The ranchers spoke in a rapid local accent. They told us that the problems were not their fault. "No es nuestra culpa," they told us. "Es la culpa de la vaca." It's the cow's fault. The cows are stupid, they explained. They rub their hides against the barbed wire to scratch themselves and to deflect the biting flies of the region.

We had come a long way, banging our laptop computers over washboard-surfaced roads and exposing our shoes to destruction from the chemicals in the tanneries and mud. We had learned that Colombian handbag makers cannot compete for the attractive U.S. market because their cows are dumb.

Many Interpretations of the Problem

There are many different ways to consider the issues faced by our friends in Colombia. Imagine a macroeconomist's interpretation of the "blame the cow" story: He might remove the tariff and "let the market find anew equilibrium." The nongovernmental organizations (NGOs) might work to upgrade the barbed wire fence, and a business strategist might study and segment the consumer market. A sociologist might say that "the level of interpersonal trust" in the community is too low. An anthropologist might say that they are simply at "a different stage in their economic development" and should be left alone to progress naturally.

The different interpretations of our experience in Colombia shed light on the different interpretations of the impediments to creating prosperity. Prosperity, after all, is hard to define. Just as many people would view the cow story in a different light, there are many different views on what prosperity is and how to create it. To examine this further, I will break prosperity down into its broad constituents, explain why prosperity is important, and offer elements in a change process for creating prosperity.

What Is Prosperity?

Prosperity is the ability of an individual, group, or nation to provide shelter, nutrition, and other material goods that enable people to live a good life, according to their own definition. Prosperity helps create space in people's hearts and minds so that they may develop a healthy emotional and spiritual life, according to their preferences, unfettered by the everyday concern of the material goods they require to survive.

We can think of prosperity as both a flow and a stock. Many economists view it as a flow of income: the ability of a person to purchase a set of goods, or capture value created by someone else. We use an upgraded notion of income called "purchasing power." For example, the per capita income of Romania is about \$1,350, but the purchasing power is almost \$3,500 because the cost of many things is lower than the world market.

Prosperity is also the enabling environment that improves productivity. We can therefore look at prosperity as a set of stocks. I list here seven kinds of stock, or capital, the last four of which constitute social capital:

1. Natural endowments such as location, subsoil assets, forests, beaches, and climate
2. Financial resources of a nation, such as savings and international reserves
3. Humanly made capital, such as buildings, bridges, roads, and telecommunications assets
4. Institutional capital, such as legal protections of tangible and intangible property, efficient government departments, and firms that maximize value to shareholders and compensate and train workers
5. Knowledge resources, such as international patents, and university and think tank capacities
6. Human capital, which represents skills, insights, capabilities
7. Culture capital, which means not only the explicit articulations of culture like music, language, and ritualistic tradition but also attitudes and values that are linked to innovation

Moving away from a conceptualization of prosperity as simply a flow of per capita income enables us to consider a broader system and the decisions for investment in an enriched and enabling "high-productive" environment. Nobel laureate Amartya Sen suggests that "the advantage of a stock view would be to give us a better idea of a nation's ability to produce things in the future."

Why Does Prosperity Matter?

We know that individuals around the world have vastly different purchasing power, and countries possess stocks of wealth in different proportions. According to Thomas Sowell, "We need to confront the most blatant fact that has persisted across centuries of social history-vast differences in productivity among peoples, and the economic and other consequences of such differences." Recent reports by the World Bank indicate that the standard of living in many regions in Africa, Latin America, and Asia is threatened by declining productivity.

There are intimate connections between poverty and malnutrition: muscle wastage, stunting of growth, increased susceptibility to infections, and the destruction of cognitive capacity in children. Eighty-four percent of all the children in the world live in poverty, measured as less than two dollars a day in income per capita. The vast majority of all the babies in the world are born into poverty. Life expectancy, literacy, potable water, and infant mortality are correlated with the productivity and prosperity of a nation. In low income countries, 607 women out of 100,000 died in childbirth in 1990, whereas in advanced economies only 11 out of 100,000 died.

But poverty is more insidious than statistics indicate. Poverty destroys aspirations, hope, and happiness. This is the poverty you can't measure but can feel. There is a rich literature on correlation between

higher incomes and productive attitudes toward authority, tolerance of others and support of civil liberties, openness toward foreigners, positive relationships with subordinates, self-esteem, sense of personal competence, the disposition to participate in community and national affairs, interpersonal trust, and satisfaction with one's own life. As an example, symposium participant Ronald Inglehart writes that higher rates of self-reporting of both objective and subjective well-being correlate with higher levels of national prosperity.

How Should We Speak About Beliefs and Prosperity?

There are segments of each society that hold different beliefs about what prosperity is and how it is created. Acknowledging and understanding this is the basis for creating change. In *Plowing the Sea-Nurturing the Hidden Sources of Growth in the Developing World*, Stace Lindsay and I developed several principles related to mental models:

- A mental model consists of beliefs, inferences, and goals that are first-person, concrete, and specific. It is a mental map of how the world works.
- There are sets of beliefs and attitudes that are either pro-innovation and create the conditions for prosperity, or anti-innovation." These beliefs form a mental model.
- A mental model can be defined, informed, and tested around a specific, well-defined objective. Nobel laureate Douglass North writes that human beings use "both ... mental models ... and institutions" to "shape the performance of economics."
- Finally, mental models can be changed. Although culture involves the transmission of meaning from one generation to another, it is unlikely that it is a genetic process.

Alex Inkeles suggests that across the world there is a general convergence of actions and beliefs. He states that "there is evidence of a strong tendency for all nations to move toward increasing utilization of modes of production based on inanimate power, resting in turn on modern technology and applied science." He suggests that these "new productive arrangements" create new institutional patterns and new roles for the individual and also "*induce ... new attitudes and values.*"

Joseph Stiglitz, former chief economist for the World Bank, writes that "development represents a transformation of society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of productions, to modern ways."

If such prominent people are making the case, why is the action agenda of governments and international institutions so bereft of mental models research?

Why are there so few formal national or regional change processes in place to change mind-sets? What positions do the world's foremost development institutions take on this? Are they constrained by lack of awareness, underdeveloped tools, poor internal consensus, political correctness with shareholders and the press, governance issues, or their own mind-set? Even Paul Krugman, one of the most influential economists in the world today, acknowledges that "economics is marked by a startling crudeness in the way it thinks about individuals and their motivations.... Economists are notoriously uninterested in how people actually think or feel."

After five decades of, in most cases, frustratingly slow development, mental models may offer the best way to understand and attack the problem of poverty. Symposium organizer Lawrence Harrison suggests that this type of change will be hard "because it requires the capacity for objective introspection and attribution to internal factors that touch on the most sensitive questions of self-image and respect." Inkeles agrees that introspection is important: "It is the mark of a modern nation that it stresses a continuous process of self-analysis. ...[A modern nation] is self-correcting."

We as practitioners constantly speculate whether prospective client nations -nations that ask for help in improving their economies-can develop a greater capacity to be self-correcting. To respond to them, we must make the first of many steps in a change process and ask, What is the nation's model for creating prosperity?

ELEMENTS OF A CHANGE PROCESS

Change is a sloppy process and will never occur in an easily described sequence. Despite this, people who want to construct their own change will have to have a schema that is shared and some sense of the components that are necessary to promote change, as well as a broad scope of skills and insights across many domains.

Leaders of nations from both private and public sectors invite us to help them improve their economies, specifically their export competitiveness. We have learned over the last decade that macroeconomic prescriptions designed in the political and intellectual capitals of North America and Europe are insufficient. Although the methodologies are complex and draw inspiration across a variety of intellectual domains, I will reduce them to ten critical elements and use illustrations from our work in several countries. I will focus more in this chapter on the first five steps, since they create the conditions for understanding steps six through ten.

Decode the Current Strategy for Prosperity

Most nations that are not creating wealth at a high rate share much in common. Our evidence suggests that they are over-reliant on natural resources,

including cheap labor, and that they believe in the simple advantages of climate, location, and government favor. Because of this, they often do not build the capacity to produce differentiated goods and services that create greater value for demanding consumers who are willing to pay more money for these goods.

By focusing on these easily imitated advantages, on these lower forms of capital, they compete solely on the basis of price, which tends to suppress wages. Keeping wages low is competing to see which country can stay the poorest the longest. These are exports based on poverty, not on wealth creation. A nation's ability to create both price and non-price value for consumers inside and outside the country is what determines its productivity, and therefore its prosperity.

Countries that are thought to be rich in natural resources are often really not rich. Venezuela is a country the size of Texas with vast forests, oil reserves, beautiful beaches, and a mix of indigenous groups and peoples from Spain, Germany, Italy, and the Middle East. Many people believe Venezuela to be potentially the richest nation in Latin America. However, the purchasing power of its average citizens has declined since the early 1970s. If you take the 1997 oil-based profits of \$14 billion and divide them by its population of 21 million people, you will find that the oil income represents less than two dollars a day in income per citizen. Moreover, these profits are never distributed equitably: Venezuela possesses the highest rate of poverty increase on the continent. More than 90 percent of the country's exports consist of unprocessed natural resources. Our research suggests that the more a nation exports in natural resources, the less prosperity it creates for its average citizens.

A look at the seven forms of capital mentioned above points to the fact that Venezuela is rich in natural endowments, and when commodity prices are high, the country is temporarily cash rich. However, the country has decaying transportation and communications infrastructures that peaked in quality in the late 1970s, government institutions that are inefficient and corrupt, and university-private sector relationships that do not create knowledge capital. With respect to human capital, Venezuela suffers from some of the lowest standards for primary and secondary education on the continent. Finally, some Venezuelan values and attitudes are anti-innovation and progress resistant. For example, trust and respect for national leaders is the lowest that we have ever tested. Venezuela has been victimized by its spurious success, its overabundance of natural resources, and its failure to learn how to make tough choices and innovate.

Create a Sense of Urgency

Some nations are ready for change and others are not. What would create enormous urgency for some

people does not create enough urgency for others. A sense of urgency is created when there is a gap between expectation and reality. The expectation is informed and placed in perspective by knowledge of outside events and a sense of purpose.

One African country I know is less open to change than it should be. This nation is one of the highest per capita debtors in the world. It has been given or has borrowed \$8 billion since 1991, and the per capita standard of living has declined 4 percent a year over the same time span. Three out of every ten people test positive for the HIV virus. The traditional export industry lies in ruins, a victim of under-investment, declining consumer demand, and competition. Seven out of ten people live on less than one dollar a day.

When I discussed their under-funded AIDS prevention program with them and asked what they need to do about the spread of HIV, one cabinet member said, "We are telling the people to stop having sex." When I suggested that we look at some of the things that Uganda is accomplishing, they told me that they were not interested in Uganda for they, "not Uganda, had possessed the third highest standard of living in Africa" twenty-five years ago. They suggested that their cabinet had lawyers and accountants in it, and they did not have to "go back to school to learn" what other nations were doing. They criticize the World Bank and IMF in the press, blame their problems on outside events like legacy of apartheid in the region and the war in Angola. Their plan is to move into exporting maize, in which they "would have a natural advantage," and to continue borrowing from the World Bank. This year they have to use more than half their allotment of almost \$400 million to repay old loans.

One might attribute their behavior to fatalism, a reverence for the past when things were better, blind pride, and an accompanying lack of openness that stands in the way of learning and innovation. One thing is certain: This country is doomed to more failure until the human crisis grows and forces them to reflect on the deep-rooted impediments to their productivity.

Understand the Range of Strategic Choices and Inform Them with Analyses

Many of the choices available to firms and governments can be reduced to the following categories:

Micro Choices. Business strategy is based on an integrated set of choices designed to achieve a specific set of objectives in an informed and timely manner. In developing nations we see few company strategies that are informed by good research, made explicit, and shared by corporate leaders. We have found seven patterns of uncompetitive behavior at the microeconomic level: over-dependence on natural resources and cheap labor; poor

understanding of foreign customers' buying preferences; lack of knowledge of competitor activities; poor inter-firm cooperation; lack of forward integration into global markets; a paternalistic relationship between government and the private sector; and defensiveness in government, the private sector, the unions, and the media.

These seven patterns are the norm for companies in countries where the average citizen does not have a high and rising standard of living. The results of these seven patterns are simple exports that compete on price and low wages in an increasingly demanding marketplace that provides fewer returns.

To mitigate patterns of uncompetitive behavior requires a set of firm-level choices around structuring new learning and decision making. Inside such patterns lies a hidden opportunity for creating prosperity.

Macro Choices. The second choice is the extent to which government supports the private sector. Some say that government needs to do more for the private sector, and some say government needs to get out of the way. If we characterize government choices around the level of intervention in the economy, we find a broad range of choices between classic socialism and monetarism. In Cuba, the government has become over-responsible for the welfare of the average citizen, supplying housing, health care, education, jobs, food, and even entertainment and news. Ownership is by the state through collectives and is accompanied by centralized planning that uses quantitative targets and administrative prices. Income distribution tends to be even, and growth tends to be low. The monetarist approach is a sparse but rigid social contract between government and the private sector, which in effect says that government will create a stable macroeconomic environment, and the private sector entrepreneurs will create growth. This strategy emphasizes stabilizing markets, freeing wages and currency exchange rates, and allowing markets to develop. This strategy appears to create more poverty and greater gaps in income, especially in the near term. It fails to acknowledge that the government has a role in the innovation process. It is, we believe, an overreaction to the failed policies of government intervention (e.g., the import substitution that was so popular in Africa and Latin America in the 1970s and 1980s).

Our view differs from both these national strategies. We believe that government needs to do everything it can to help the private sector succeed, except to impede competition. This means investing, or helping the private sector to invest, in the higher forms of capital. In poorer countries, government will have to do more than in richer countries. The relationship has to be specially designed, based on a nation's stage of growth and the capacities of each sector.

Create a Compelling Vision

A vision serves to create a sense of purpose that encourages people to change their actions. The following eight core elements of a good mental model emerged from our work with the leaders of Uganda.

1. A high and rising standard of living for all Ugandans.
2. An understanding that the world has changed dramatically: the costs of communications, transportation, and learning are declining rapidly.
3. An acknowledgment that Uganda is over-dependent on the basic, highly imitable advantages of subsoil assets, climate, government favors, and cheap labor.
4. An understanding that wealth is based on insight, sophisticated human capital, and attitudes focused on competition as a force that spurs innovation and fosters human initiative, learning, interpersonal trust, and cooperation.
5. An understanding that Uganda's strategies are not a choice between economic growth and social equity, but that economic growth facilitates social equity and vice versa. The more we invest in people the better the chances for growth for a company and the nation.
6. An understanding that productivity is not just competing on the things with which Uganda is naturally endowed. Competitiveness is productivity, and productivity involves what product segments we want to compete in, where we choose to compete, and how we choose to compete.
7. An acknowledgment that the government of Uganda must do everything it can to assist the private sector, except to impede competition. It must invest in people, specialized infrastructure, learning organizations, and a non-defensive dialogue with the private sector, political opposition, unions, and other nations.
8. An understanding that the private sector in Uganda needs to invest more in learning about customer preferences, knowledge of competitor activities, new distribution channels, and investing in the improvement of its people and products.

These core elements of a vision need to be embraced by developing nations as they seek to upgrade their economies and create more prosperity for more people.

Create New Networks of Relationships

After twelve years of civil war, Salvadorans are boldly dedicating themselves to building new networks as part of a national change process between the producers and foreign consumers within the country, and between themselves and their emigrant cousins in the United States. Ornamental-plant producers have traveled to Florida and the Netherlands to meet

with and learn about their distribution channels. Honey producers have undertaken surveys to learn about their German customers. Even some of the coffee growers, the oldest exporters and those most entrenched in the old ways of doing things, show signs of trying new things. They are beginning to work in eco-friendly coffee and, with other Salvadoran industries, are testing the market for such innovative products as coffee tourism.

The government has institutionalized the National Competitiveness Program and has trained facilitators to teach small and medium-sized exporters to develop business strategies. The government is investing in education networks, building an Internet program in rural areas, and providing some of their best university students with software training in India. The government and private sector are reaching out with conferences and through the Internet to the prosperous emigrant community network in the United States, inviting them to be business partners who will bring access to markets, knowledge, technology, and capital.

The leaders of El Salvador understand that communication-between rural areas and the capital, between their companies and foreign consumers, and between the nation and the emigrant community-creates more rapid flows of insight and forms the basis of their competitiveness and prosperity.

Communicate the Vision

Nations have to use all available means to change minds: electronic and print media, billboards, speeches by leaders, conferences, workshops, databases, and Web sites. The diffusion and adoption of new ways of thinking will take a predictable course.

We are mindful that the innovators are often not the principal agents of change. In fact, the early adopters often serve as role models for most of the rest of the nation. In our work, we look to champions who are highly receptive to doing things in new ways and can articulate and embody the new ideas of competitiveness, productivity, and prosperity. We have found that the people who are most effective in this part of the diffusion process are not the typical leaders with high status, but those who have internalized the ideas of competitiveness and innovation and can transmit them to domestic networks. We met and trained a coffee grower in El Salvador, who spoke to the entrenched elites in that sector. We found an imaginative taxi driver in Bermuda to work within the highly fragmented taxi community to create a new taxi-touring product. Their main objective was to demonstrate "innovativeness."

Build Productive Coalitions

Many social scientists believe that practicing change stimulates the development of a new mental model. We therefore have promoted weekly meetings to

stimulate strategic thinking within clusters of related industries. We worked with the group that "blamed the cow" in workshops designed to improve interpersonal trust and seek a common strategic vision. By practicing "productive reasoning" techniques, we have created some of the conditions for group problem solving when difficult and contentious issues arose?

We have encouraged hotel managers and unionized employees in a hotel industry to focus on new segments of customers to serve. We have encouraged the purchasers of state-owned enterprises and small vendors to streamline and share the former's strategy plan. And we have worked with government ministries and agricultural producers who had fought aggressively over the nation's macroeconomic agenda. These experiments in productive reasoning have led to pilot programs with specific objectives and well-thought-out metrics of success.

Develop and Communicate Short- Term Wins

People are more likely to change their attitudes and behavior when they see demonstrations of success. Politicians understand this well and are particularly attracted to this part of the process. In any change effort, we need to find examples in which good things happened because of the new vision. Some examples of success might include anew product development, a large overseas sale to new customers, or an agreement between union and management for new investment in training or improvement in working conditions. Although short-term wins do not need to be large, they need to be communicated in the context of a new way of doing things.

Institutionalize the Changes

Douglass North writes that institutions are norms. Change needs to create new norms of behavior. We look not to creating new institutions but to upgrading existing institutions that have reached their functional limits due to globalization, changes in how prosperity is created, and worldwide shifts in values and attitudes. This means everything from improving the rule of law and building democracy to upgrading schools, private firms, and civic organizations.

For example, we helped an industry association change itself from a lobbying group that fights the government to an organization that does management education, fosters research and development, informs small enterprises, and supports market studies of foreign customers.

Evaluate and Affirm the Changes

Finally, we need to create the space for nations to be introspective and to selfcorrect. We need to create national summits and other venues with leaders of the public, private, civic, and academic sectors. These venues could allow leaders to discuss the economic and social results that the nation is experiencing, as well as the strategies, institutional mechanisms, and

mental models that caused these results. Specific questions could include, What quantitative metrics can we use? What are our non-quantifiable objectives? What tools can we improve to evaluate ourselves? What kind of change can happen soon, and which kinds will be intergenerational?

Our strategy for change and creating prosperity in nations should meet the tests of actionable strategy: It should balance the past with the future, be explicit and shared, be informed with analyses, be based on an integrated set of choices, and help the people become who they want to be.

CONCLUSION

Most people believe that prosperity is a good thing. They also know that it is hard to achieve. Only a handful of the world's two hundred nations have discovered how to do it for the majority of their citizens. Even if the messages on how to create prosperity were simple and clear, it would not be for any outsider to tell nations and peoples to change. Questions of the competence, moral authority, and intentions of outsiders can justly be raised. However, those of us who are interested and informed on these issues have an obligation to demonstrate to the leaders of nations that "prosperity is a choice" and to clarify what those choices and trade-offs might be.

After a half century of focus on economic development, now is the time to move away from simple normative frameworks, top-down recommendations, a narrow conceptualization of prosperity, and metrics of performance based almost solely on national quantitative aggregates. Now is the time for concerted national and regional initiatives that change mental models. Now is the time to focus on the microeconomic foundations of prosperity and to diffuse "innovativeness."

Howard Gardner makes a distinction in his writing between the direct leaders of organizations and people and the indirect leaders who create learning and shape opinion. In the Cultural Values and Human Progress Symposium we had a board member and a country director from the World Bank and the deputy administrator of USAID. These are leaders who allocate major resources to the problem of development. We also have among us some of the most eminent thinkers from the domains of economics, anthropology, political science, and public policy, who have opined on such diverse and relevant topics as trust, firm-level competitiveness, gender equality, and early childhood development.

We see poverty in the endless stream of social and economic indicators and other abstractions that come across our desks and pop onto our computer screens every day. Then there is the poverty that moves you when you meet a bright Indian boy from a low caste who will not attend school. There is the poverty that physically threatens you with a machete against your throat on the streets of Nairobi. And

there is the poverty that sickens you when you meet an adolescent living on the streets of Bogotá who lost her fingers and toes to hungry rats when she was abandoned as an infant in the ancient dank system of sewers.

Haunted by these images and inspired by the contributors to this volume, we wonder if some of the social and political problems in the Great Lakes region of East and Central Africa, or the Balkans, are linked to issues of prosperity. Instead, we must consider how the current political and military solutions in those regions can be supplemented, or even substituted, with a holistic change process.

Although every contributor shares a commitment to make lives better around the world, most of us are commenting from a point of view that is strongly guided by our professional specialty and our job description, as well as our own mental model. Our challenge is not unlike that of the experts who would attempt to fix the "blame the cow story": How to merge one set of insights with another, to begin to create a locally owned process for change in developing nations that is so thoughtfully integrated, well guided, and productively discussed that it begins to put nations and peoples on the path to high and rising prosperity. So far, the world has not seen anything like it.