

Making Purpose Matter: The Journey of Business to Advance Society

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Harvard Business School
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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); *On Competition* (*Harvard Business Review*, 2008); and "Creating Shared Value" (*Harvard Business Review*, Jan 2011). 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. For further materials, see the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu, and FSG website, www.fsg.org.

The Role of Business in Society

- Societies everywhere are facing significant **social, environmental, community and economic development** challenges
- Government and NGOs **lack sufficient resources and capabilities** to fully meet these challenges themselves
- Business is the only institution that can **meet needs while simultaneously creating wealth and prosperity**
- Company **attention and engagement** in societal issues has grown substantially in recent years
- However, **legitimacy with citizens and the impact** of business on society remains limited

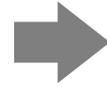


We need to **raise the bar** in business practice

Evolution of Corporate Thinking About Social Impact

Philanthropy

- Donations to worthy social causes
- Volunteering



Corporate Social Responsibility (CSR)

- Compliance with ethical and community standards
- Good corporate citizenship
- “Sustainability” initiatives



- Mitigating risk and harm
- Improving trust and reputation

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Beyond CSR

- Broadening corporate social impact

Redefining Corporate Accountability

- B-Corporations (2006)
- Triple Bottom Line (2007)

Building on Sustainability

- Green Capitalism (2009)
- Circular Economy (2012)

Benefit Broader Stakeholders

- Inclusive Capitalism (2002)
- Conscious Capitalism (2013)

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Measuring Social Impact

- Achieve high scores on environmental, social, and governance (ESG) standards, as well as Global Reporting Initiative (GRI) measures
 - ESG standards
 - “Material” ESG
 - GRI
 - “Material” GRI

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A Corporate Purpose

- Answers the question “why do we exist?” as a company

Perspectives on Purpose vs. Profit Are Evolving

BlackRock Annual Letter to CEOs

2018

A Sense of Purpose

- “Without a sense of purpose, no company, either public or private, can **achieve its full potential**.”
- “It will ultimately **lose the license to operate** from key stakeholders”.
- “It will **succumb to short-term pressures** to distribute earnings and sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth.”
- “The company will remain **exposed to activist campaigns** that articulate a clearer goal, even if that goal serves only the shortest and narrowest of objectives.”

The Majority of Purpose Statements Lack Clarity and Focus



“We are equally dedicated to strengthening our business and improving the world around us - an approach we call Purpose-led Performance (PLP). It exemplifies our commitment to deliver industry-leading financial performance **while doing what’s right**, with **responsibility** to the long-term vitality of people, communities, and the planet we share.”



“Our Call For Well-being focuses on four areas where we believe we can make the greatest difference: Mindful Snacking, Sustainability, Safety, and Community. In each of these areas, we outlined specific goals to which we hold ourselves accountable. We continue to make progress toward these goals and scale our efforts with our partners and suppliers to achieve our commitments to make impactful change.”



“We are a mobility provider. We give equal importance to economic performance, employment and ecology.”

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2019

Purpose and Profit

- “Purpose is not a mere tagline or marketing campaign; it is a **company’s fundamental reason for being** – what it does every day to create value for its stakeholders.”
- “Purpose is not the sole pursuit of profits but the **animating force for achieving them.**”
- “Profits are in no way inconsistent with purpose - in fact, **profits and purpose are inextricably linked.**”
- “When a company truly understands and expresses its purpose, it functions with the **focus and strategic discipline** that drive long-term profitability.”
- “Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, **helps sustain long-term financial returns** for the shareholders of your company.”

More Purpose Statements Are Beginning to Link Purpose to Business Performance



BANK OF AMERICA

"We have a clear purpose to help make financial lives better through the power of every connection. We fulfill this purpose through a strategy of responsible growth, which includes a focus on environmental, social and governance leadership."



"Our purpose is to deliver the promise of the digital world by enabling people, businesses and society to innovate and drive positive change. We create business value by earning customers' trust, minimizing our environmental impact, and maximizing customer growth while creating social benefit through our products and services. One example: Verizon is far and away the established leader in 4G LTE wireless networks. But "established leadership" isn't enough. So we're surging ahead to build game-changing 5G networks more powerful than anything that has come before."



"Our purpose is to use the power of sport to move the world forward. We believe in a fair, sustainable future – one where everyone thrives on a healthy planet and a level playing field. We're advocating and investing in bringing sport back into kids' lives. We're innovating a new business model for the 21st century, in which supply chains are lean, green, equitable, and fair, and our materials and products are sustainable....We aim to be a brand with purpose that moves the world forward. To achieve that, we need all parts of the business to understand and deliver on our goals – from our leaders to product designers, to the employees in our stores, to the workers in the contract factories who make our products.."

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Social
Responsibility
(CSR)

Beyond CSR

Measuring
Social Impact

A Corporate
Purpose



**Creating Shared Value
(CSV)**

- Addressing societal needs and challenges through the business itself, with a **business model**

Defining a Corporate Purpose That Matters

Discovery



WHY DO WE EXIST?

To make people healthier and enhance and protect their lives



HOW DO WE DO THIS?

Our core purpose has manifested in our globally relevant Shared Value Insurance model, with Vitality at the center, which creates value for the business, clients and society.



Shared Value Through Products

Discovery Health



- Discovery pioneered the concept of pairing a **health plan** with a wellness incentive program, called **Vitality**
 - Combining health coverage with Vitality membership allowed Discovery customers to achieve **better health results**, which enabled health coverage at **lower premiums**
- 
- Discovery is one of the world's **fastest growing** and **most profitable** health insurance companies globally
 - It has applied the shared value concept to **other kinds** of insurance and financial services (life insurance, automotive)

Levels of Shared Value

1

Reconceiving Needs, Products, and Customers

- Products and services that meet **societal needs**
- Providing products to **unserved** or **underserved** customers and communities

2

Redefining Productivity in the Value Chain

- Accessing and utilizing resources, energy, suppliers, logistics, and employees **differently and more productively**

3

Improving the Local Business Environment/Ecosystem

- E.g., improving **skills**, local **suppliers**, and **supporting institutions** in the areas where the company operates
- Enhancing **cluster development**

The Shared Value Journey

Walmart



1

Reconceiving Needs, Products, and Customers

- A leader in organic, fresh and **healthy foods** at lower prices
- Located 240 smaller **“neighborhood markets”** in food deserts
- **Low cost financial services** for unbanked and underbanked families
- Low cost **in-store health clinics, drugs and other services** for lower income and uninsured families

2

Redefining Productivity in the Value Chain

- Comprehensive programs to reduce **energy usage**, expand renewable sources, **reduce water, packaging**, and other resources, and **minimize waste**. Billions in **savings**
- A new approach to starting wages and creating a path to **higher wages** and **benefits** for lower income associates, as well as **training** and clear **career pathways**
- A leader in employee **health** and **wellness programs**, including innovation
- Programs to expand **sourcing from women-owned businesses**

3

Improving the Local Business Environment/ Ecosystem

- Prioritize **local sourcing** which improves the local economy
- Created **Sustainable Value Networks** to collaborate with suppliers to improve **product quality** and **sustainability of sourcing**
- Led collaboration in the retail sector to enhance sector **workforce development**, and **access to skilled employees**, and **employee retention**

Building the Ecosystem

The Southern Agricultural Growth Corridor of Tanzania (SAGCOT)



- Yara is a **world leading fertilizer company** which serves smallholder farmers through custom product offerings and educational programs
- In 2009, Yara along with the Norwegian government, led a **\$3 billion initiative to establish an agricultural cluster in Tanzania (SAGCOT)** that brought together more than 60 different organizations from government, development organizations, and the private sector (e.g., Unilever, Syngenta, Monsanto)
- The SAGCOT effort engaged **partners in multiple parts of the business environment**
 - World Bank and USAID funded infrastructure
 - Local government upgraded infrastructure, and also changed policies, tariffs and tax structures
 - Corporate partners invested capital and expertise in key suppliers, channels, processing, and infrastructure
 - Yara trained farmers and agro-dealers, and also expanded its operations in the area with a new fertilizer plant and additional distribution warehouses



- Within 3 years, this raised productivity for hundreds of thousands of farmers, **doubling yields** for participating farmers and **increasing net profit per hectare by 90%**
- Yara **increased fertilizer sales volume by 50%** and **grew its market share in Tanzania from 35% to 52%**

The Purpose of Business

- The purpose of business is to create economic value in a way that **also creates shared value for society**
- Businesses **acting as businesses**, not as charitable givers, are the **most powerful force** for addressing many of society's pressing issues



- **Purpose is shared value**, which must become the central aspect of any powerful purpose statement
- Shared value creates a **synergistic connection** between social impact and excellence in company performance
- A powerful purpose statement should include the **specific ways a company creates social impact**, its **sequencing**, and how this creates **self-reinforcing opportunities** for both society and business growth and performance