

# The Pursuit of Purpose: The Journey of Business to Advance Society

Professor Michael E. Porter  
Harvard Business School  
2019 Shared Value Summit APAC  
*June 18<sup>th</sup>, 2019*

---

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](http://www.isc.hbs.edu), and FSG website, [www.fsg.org](http://www.fsg.org).

---

# The Role of Business in Society

- Societies everywhere are facing significant **social, environmental and economic development** challenges
- Government and NGOs **lack sufficient resources and capabilities** themselves to fully meet these challenges
- Business is the only institution that can actually **meet needs at scale, while simultaneously creating income, wealth and prosperity**
- Company engagement in societal issues continues to grow, but the **legitimacy of business and of capitalism itself is declining**
- Many now believe that **profit** is taking away from social impact, not **enabling the ability to meet societal needs**



We need a **new approach**

# The Evolution of Corporate Social Impact

## Philanthropy

- **Donations** to worthy social causes
- **Volunteering**



- Powerful philanthropy focuses on a **few areas** where the company can make a difference
- Contribute **more than just money**

# The Evolution of Corporate Social Impact

## Philanthropy

- **Donations** to worthy social causes
- **Volunteering**



- Powerful philanthropy focuses on a **few areas** where the company can make a difference
- Contribute **more than just money**

## Corporate Social Responsibility (CSR)

- **Compliance** with ethical and community standards
- **Corporate citizenship**
- **“Sustainability”** initiatives
- **Certifications**
  - e.g. codes of conduct



- Reducing **risk** and **harm**
- Building **trust**
- Enhancing **reputation**
- **License to operate**

# The Evolution of Corporate Social Impact

## Philanthropy

- **Donations** to worthy social causes
- **Volunteering**



- Powerful philanthropy focuses on a **few areas** where the company can make a difference
- Contribute **more than just money**

## Corporate Social Responsibility (CSR)

- **Compliance** with ethical and community standards
- **Corporate citizenship**
- **“Sustainability”** initiatives
- **Certifications**  
– e.g. codes of conduct



- Reducing **risk** and **harm**
- Building **trust**
- Enhancing **reputation**
- **License to operate**

## Investor Driven Social Impact Measurement

- Achieve good scores on **environmental, social, and governance (ESG)** standards, as well as Global Reporting Initiative (**GRI**) measures
- Focus on **material social impact areas** that mattered for the business vs. checking all the boxes

# The Evolution of Corporate Social Impact

## Philanthropy

- **Donations** to worthy social causes
- **Volunteering**



- Powerful philanthropy focuses on a **few areas** where the company can make a difference
- Contribute **more than just money**

## Corporate Social Responsibility (CSR)

- **Compliance** with ethical and community standards
- **Corporate citizenship**
- **“Sustainability”** initiatives
- **Certifications**  
– e.g. codes of conduct



- Reducing **risk** and **harm**
- Building **trust**
- Enhancing **reputation**
- **License to operate**

## Investor Driven Social Impact Measurement

- Achieve good scores on **environmental, social, and governance (ESG)** standards, as well as Global Reporting Initiative (**GRI**) measures



- Focus on **material social impact areas** that mattered for the business vs. checking all the boxes

## A Corporate Social Purpose

- **Fundamental reason for being?**
- How does the company create value for **all stakeholders?**



- Link social purpose to **business actions**

# The Evolution of Corporate Social Impact

## Philanthropy

- **Donations** to worthy social causes
- **Volunteering**



- Powerful philanthropy focuses on a **few areas** where the company can make a difference
- Contribute **more than just money**

## Corporate Social Responsibility (CSR)

- **Compliance** with ethical and community standards
- **Corporate citizenship**
- **“Sustainability”** initiatives
- **Certifications**  
– e.g. codes of conduct



- Reducing **risk** and **harm**
- Building **trust**
- Enhancing **reputation**
- **License to operate**

## Investor Driven Social Impact Measurement

- Achieve good scores on **environmental, social, and governance (ESG)** standards, as well as Global Reporting Initiative (**GRI**) measures



- Focus on **material social impact areas** that mattered for the business vs. checking all the boxes

## A Corporate Social Purpose

- **Fundamental reason for being?**
- How does the company create value for **all stakeholders?**

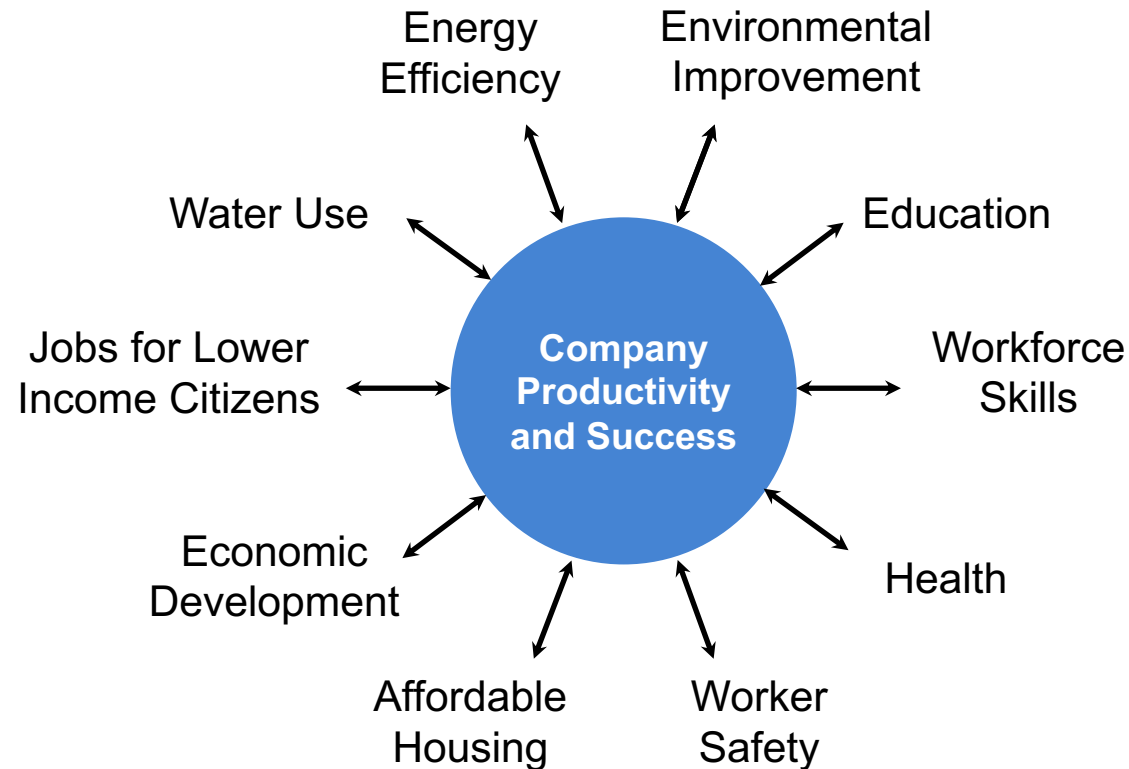


- Link social purpose to **business actions**

## Creating Shared Value (CSV)

- Social impact is integrated into **core strategy**
  - Address societal needs and challenges **through the business itself**
- 
- With a **business model**

# The Opportunities for Shared Value



- There has been a common view that there is a **tradeoff** between business success and social success
- ↓
- Societal challenges and environmental impacts create **economic costs for companies**
  - Weaknesses in the local business environment affect **company productivity and profitability**



# Levels of Shared Value

1

## Reconceiving Needs, Products, and Customers

- Products and services that meet **societal needs**
- Open new markets by 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**

- Pursuing a shared value strategy starts with asking **two key questions**:
  - What social issues does my business **touch**?
  - What social conditions does my business **depend on**?

# Shared Value in Products and Markets

## National Australia Bank



- NAB transformed its debt collections process in 2013, creating **NAB Assist to address underlying social issues that lead to customer financial hardship** (e.g., domestic violence, health, gambling), and integrated it into **core banking operations**
- NAB engaged a **mental health nonprofit** to train employees to **recognize and manage customer financial hardship**. Employee performance evaluations were modified to **incentivize proactive management of customer financial health**



- The program has helped 97% of hardship customers **restore good financial health** (up to date with payments) within 90 days
- It has **reduced NAB's administrative and other costs** by an estimated \$1M/year
- The program **avoided \$88M of collections costs** in 2018, up from \$60M in 2016

# Shared Value Through Products

AIA Australia

**AIA Vitality**

- Since 2014, leading Australian **life insurer**, AIA, has partnered with Discovery Health to bring the “**Vitality**” insurance model to the Asia-Pacific region
- AIA Vitality pairs its life and health insurance plans with **wellness incentives** that reward plan members for making healthy choices
  - Participants complete a **Vitality Health Review**, and earn **AIA Vitality Status points** for making healthy choices that can be redeemed for rewards, such as premium reductions and discounts at health care partners



- The Vitality model **improves customer health** while simultaneously **lowering AIA's cost** of providing insurance
- Active program participants have **lower hospital admission rates, shorter hospital stays**, and **15% lower treatment costs**



# Shared Value in the Value Chain

## Uncle Tobys, Australia



- Uncle Tobys, a popular Australian **cereal brand now owned by Nestle**, recognized a **growing sourcing risk** in the 1990s as local farmers struggled to profitably produce oats
- To help **increase local oat production**, Uncle Tobys:
  - **Partnered with researchers and agronomists** to develop healthier, higher yielding, disease and drought resistant varieties of oats
  - Provided farmers with **training on growing best practices**
  - Introduced a **new type of contract** that **reduced the risk of crop failure for farmers**



- The program has helped to **increase the volume of oats grown locally by 500%**
- Local oats now contribute **more than 50% of procurement** for Uncle Tobys cereals, **securing supply, stabilizing price, and reducing transportation costs**
- New higher quality oat varieties have **increased yield by 40-100%** and command a **30% price premium** to growers

# Building a Tourism Ecosystem

## Carnival Australia



- Launched in 2017, Carnival Australia partnered with the Department of Foreign Affairs and Trade (DFAT) and others on the **Yumi Tourism Partners** program to **build local tourism attractions** in the South Pacific islands where its cruise ships travel
- The program works as a **business accelerator for indigenous entrepreneurs** looking to start **sustainable local tour operators**. The program provides **training and support** on enhancing **core business skills**, such as product development and testing



- So far, the project has resulted in **3 new local tour operators**, with **2-3 more in the pipeline**
- These new businesses will **expand opportunities for Carnival clients** to participate in meaningful local experiences. It is expected to generate **\$500K in additional annual revenue**

# Defining a Purpose-Based Shared Value Strategy

## Insurance Australia Group



**WHY DO WE  
EXIST?**  
“We make your world  
a safer place”





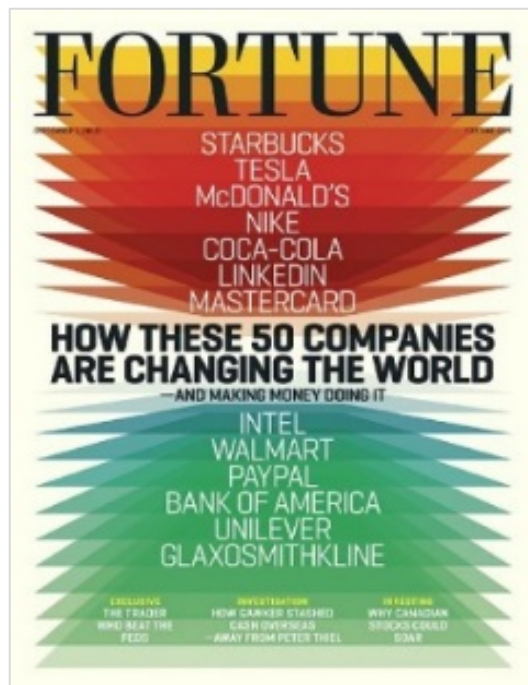
# Fortune Change the World List: SVP Members

2015



5. Enel  
40. Arup

2016



20. NAB  
29. Accenture

2017



13. Bendigo & Adelaide Bank  
20. Enel  
24. Accenture  
29. IAG

2018



13. Wesfarmer  
28. Enel

Note: Includes members of both SVP Australia and SVP Hong Kong

# 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 creating shared value**
- Shared value creates a **synergistic connection** between excellence in company performance and social impact
- A powerful purpose statement should include the **specific ways a company creates social impact**, and how this creates **self-reinforcing opportunities** for both society and business growth and performance