
Part IV

Introduction: Strategic Differentiation – Creating Competitive Advantage

Gilbert G. Lensen

According to Michael Porter and Mark Kramer, there are three pathways to creating shared value; i.e., developing sustainable value propositions to stakeholders for the purpose of gaining competitive advantage:

1. Reconceiving products and services to better meet social and environmental needs in a profitable way;
2. Redefining productivity in the value chain to generate more efficient and more sustainable use of human and material resources, both in the supply and distribution chain;
3. Local cluster development among producers and suppliers and also between profit and non-profit sectors, including NGOs, who can become partners in the business model instead of adversaries.

This reflects the core idea of Porter and Kramer's Creating Shared Value (CSV): that business can create economic value AND value for society in mutually beneficial ways. This can create competitive advantage for the business and, as a result, the value for stakeholders and society is more sustainable because it is underpinned by economic incentives. A growing number of companies (Nestle, Coca-Cola, Johnson & Johnson, Umicore, Illy Café, General Electric, Unilever, GSK and others) have already embraced the shared value concept.

However, while stakeholder pressure can force companies to become more sustainable, it does not necessarily follow that competitors in the sector will follow. An example is Hydro Polymers Limited, a division of Norsk Hydro ASA (Hydro Polymers later became INEOS ChlorVinyls), which dramatically changed its strategy to become a more sustainable producer of PVC. Some investments in sustainability paid back handsomely, but overall the European PVC producers were left at a considerable cost disadvantage relative to cheap Chinese imports, in part due to the costs associated with sustainability improvements.

A deliberate strategy ahead of NGO pressures has to consider first mover disadvantages and make sure that upfront investments can be remunerated over the

medium term. There are no guarantees, especially when sustainability driven strategies can be subject to uncertain regulatory conditions.

Key Questions to Ask (Applicable to All Part IV Cases)

How can a sustainability-related value proposition enhance strategic advantage?

How is this achieved: by new innovative products and services, redefining productivity in the value chain, partnerships and clusters?

How can business models lower disadvantaged exposure to macro trends?

How can differentiation be achieved? Can it be sustained?

How is this strategy informed by first mover advantage/ disadvantage analysis?

Is the strategy backed up with critical resources such as preferential external relationships with stakeholders, internal organisational capabilities, knowledge management processes and systems?

Are these resources unique or difficult to imitate by competitors?

Which normative framework needs to support the sustainability business proposition?

Chapter 16: Creating Shared Value by Michael E. Porter and Mark R. Kramer

We include this popular article from the *Harvard Business Review* on the concept of “shared value”. The concept is not new, but the article is crafted with the language of industry competitiveness for which Porter gained fame. Porter differentiates his concept clearly from philanthropy, which he earlier theorised and advocated as a way for business to discharge social responsibilities (as a way of “giving back” to enhance legitimacy) during the second (E)ABIS colloquium in 2003 in Copenhagen. The response from the audience was so unfavourable that perhaps it contributed to his later writing where he articulates a much deeper sense of social responsibility. In 2006, he published with Mark Kramer “Strategy and Society: The Links Between Competitive Advantage and Corporate Social Responsibility” in the *Harvard Business Review* in which he distances himself from the views expressed in his 2003 lecture. But he also distances himself from CSR in the later paper which we publish here and claims that his concept of shared value is about a new capitalist way of creating sustainable value in a strategic way, whilst CSR is more about tactical responses to pressures for social responsibility from NGO activists.

Chapter 17: Response to Porter: Responsibility for Realising the Promise of Shared Value by Gastón de los Reyes, Jr. and Markus Scholz

Porter may have been applauded by the corporate world for his pro-market, pro-business stance, his emphasis on the role of business in creating value, and for coining the term shared value, which speaks clearly to managers. However, in academic circles, he was heavily criticised. His apparent departure from a normative ethical stance at the outset created much antagonism. To an outsider to the community of CSR scholars, this critique might at first have appeared to be driven by envy of

Porter's success, but it became well substantiated as further research emerged. Indeed, a purely instrumental strategy of shared value might backfire with stakeholders viewing it as insincere or even cynical. As is demonstrated in Chap. 22, a laudable CSV inspired business initiative like micro finance needs a normative framework for managers to keep the business model credible and sustainable. Moreover, there are sometimes negative impacts of business that can only be remediated at the cost of business since there is no shared value to be gained (though action can potentially protect against loss of value from issues driven campaigns and subsequent loss of legitimacy and trust). Often, this can only be achieved by industry sector wide action, inspired by normative concerns.

Chapter 18: Illycaffè: Value Creation Through Sustainable Supplier Relationships by Francesco Perrini and Angeloantonio Russo

This case is an excellent example of creating shared value through redefining productivity in the value chain, while also including due attention to the normative ethical motivations of Illy's management. The *Fair Trade* initiative asks consumers to pay a fair price for coffee to remunerate the work of the farmers in a decent way. Porter portrays this as a CSR initiative which is not at the heart of the business model of the coffee industry and therefore likely to remain an ethical niche trade. Illy started from a different motivation. The company succeeded in securing quality of coffee in the face of a crisis in the global coffee market by creating direct partnerships with coffee farmers, training and supporting them, and paying a higher price for higher quality. The shared value between the company and the farmers is embedded in the transformed business model and is more stable and sustainable. Andrea Illy, the family firm's CEO, believes passionately in caring for "his" farmers as part of a successful business and, to this day, Illy does not seek publicity for "doing good". It just claims to make the best coffee in the world.

Chapter 19: Microfinance as a Shakespearean Tragedy: The Creation of Shared Value, While Acting Responsibly by Harry Hummels

Microfinance—providing financial products to poor entrepreneurs—was hailed as the panacea for unlocking business potential at the "bottom of the pyramid" in emerging and developing societies for potentially more than 100 million entrepreneurs. Microfinance is a classic illustration of creating shared value: by attracting capital from around the world (not in the least from big institutional investors) with above average returns and risks spread widely over many lenders, and providing much-needed finance to poor entrepreneurs with great potential to their enhance business opportunities, business acumen and business skills. Microfinance promised to make dreams come true the world over, but it became a victim of its own success. By attracting massive capital inflows, the unethical practices of loan officers and debt collectors proved to be fatal to the business. Sudden external changes in the social environment did the rest. The case focuses on the microfinance business of Actiam, a Dutch asset manager and how it sailed through the ensuing crisis.

The article shows that managers need to incorporate normative ethical elements in their CSV framework as well as be “streetwise” in an ever-changing environment. Gaston de los Reyes and Markus Scholz were proven right, at least with this story, that realising the promise of CSV requires a normative framework of responsibility and ethical conduct which Porter and Kramer (at least in Chapter 17) choose to ignore.

Chapter 20: “Ecomagination” at Work: GE’s Sustainability Initiative by S. George and S. Regani

This case is a good example of a company creating shared value by improving energy efficiency in its own operations and by reconceiving products and services to better meet social and environmental needs in a profitable way. Lately GE has also been creating partnerships for sustainable development solutions. Ecomagination was conceived as a business strategy for GE’s B2B customers to use innovative and intelligent resource efficiency solutions to help them grow and compete in a sustainable way. Innovation, partnerships, new business models and engaging stakeholders all form part of the strategy. In 2015, GE formed the *Ecomagination 2020 Partnerships for Sustainability and Innovation*, with large companies like Walmart, Total, Intel, Statoil, Masdar, MWH Global and Goldman Sachs, to address global resource challenges. Collaborative partnerships have been created in energy efficiency, water reuse, energy neutral wastewater, and new hybrid renewable solutions. ‘Current, Powered by GE’ is a new start-up which focuses on combining innovative technology solutions for sustainability with digital and financial capabilities. In 2015 alone, GE invested \$2.3 billion in clean technology R&D and generated \$36 billion in revenues from its Ecomagination business.

Chapter 21: Sustainability as Opportunity: Unilever’s Sustainable Living Plan by Joanne Lawrence, Andreas Rasche and Kevina Kenny

Shareholder value has been the prevailing orthodoxy in business since the eighties. The focus on delivering short-term shareholder value has led, says Paul Polman, CEO of Unilever in an interview in *Management Today* in 2011, “to widespread addiction to quick artificial highs – rather like a junkie hooked on heroin or a financial trader on cocaine”. The ultimate cost of short-termism, he says, was the financial crisis of 2008–2009. He elaborates: “Too many investors have become short-term gamblers: the more fluctuations in share price they can engineer, the better it is for them. It is not good for the companies or for society, nor for long term shareholders, but it is influencing the way firms are being run, all the same. To drag the world back to sanity, we need to know why we are here. The answer is: for consumers, not short term investors. If we are in synch with consumer needs and the environment in which we operate, and take responsibility for society as well as for our employees, then the shareholder will also be rewarded.” Clearly the CEO of Unilever is a man with a mission and a strong belief in shared value. When Polman announced his Sustainable Living Plan (SLP) strategy in 2010 and his intention to abandon quarterly earnings forecasts, Unilever’s shares dropped 10 % at a stroke. At Davos in 2011, he announced that he would no longer make financial presentations

to hedge fund managers. “I do not wish to be political, but my decisions are made in the long-term interests of the company,” he said. It seems he was rather happy that the hedge fund investors left.

The essence of the SLP strategy is to decouple growth from environmental impact in the areas of greenhouse gases, water use, waste and packaging, and sustainable sourcing. Unilever wants to double its sales by 2020, but halve its effects on the environment. Meanwhile, social objectives have been added to the plan in the areas of health, well being and nutrition, and in relation to fairness in the workplace, opportunities for women, and “inclusive business”. All areas have detailed performance targets. Regular reporting on these targets is provided in the Annual Report (e.g., 2015 report) as well as in the online Sustainable Living Report (e.g. May 2016 report). These reports are verified by independent external auditors.