

# Strategic Orchestration as a driver to create new shared value

## Maite Ibarretxe

Chief Operating Officer at International Water Association. Associate Professor in Business Planning at UIBS (United International Business Schools), Amsterdam. Netherlands. Guest lecturer at Centrum (Pontificia Universidad Católica del Perú). Perú. ORCID: [0000-0002-1465-7893](https://orcid.org/0000-0002-1465-7893)

[maite@ibarretxe.nl](mailto:maite@ibarretxe.nl)

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## Abstract

The purpose of this article is to provide an enhanced approach on how organizations and individuals can create shared value through strategic orchestration or collaborative innovation, to help create system change. The world's most vital resources and systems are facing unprecedented challenges that will require a new level of thinking and doing to solve them. How to apply it to our own system in practice? Studies show that after having identified the need for innovation, orchestration enhanced with a shared value approach aims to be a strategy for organizations to provide new value propositions to the market that cannot be delivered in isolation while addressing a societal need. Social needs still represent the largest unserved opportunities. Some nowadays examples are Smart Mobility solutions and Microfinance institutions, where technology plays an important role. It is fascinating to see new innovations increasingly addressing a societal need while bringing a new offering to the market.

## Key words

Collaborative innovation, smart cities, societal need, microfinance, system change.

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The current trend is to make business a force for good by creating economic wealth while addressing a social need

## 1. Introduction

Have you ever experienced the emotion when a professional or personal project that you started alone undergoes a unique transformation by inviting new partners on board? ... This is the essence of Strategic Orchestration (Ruelas-Gossi & Sull, 2006). The aim of this article study is to provide organizations and individuals with an enhanced approach on how to fuel growth and profitability through new orchestrated solutions (Ruelas-Gossi, 2012). Orchestrated solutions go beyond the typical incremental concepts like: cost reduction, customer satisfaction or competitive advantage. In some cases the network creation process is enhanced when a social need gets addressed as part of the solution. Societal needs still represent the most unserved market opportunities (Porter, 2016). In that case we say that we are not only bringing a new solution to the market but also creating shared value (Porter, 2016).

It is not so easy to have innovation and creativity emerging naturally in organizations or in individuals. A linear, logic-analytic thinking is still very much imprinted in our mindsets. A circular or systemic thinking seems to be a much more suitable approach to succeed in nowadays business arena. System innovation is a relatively complex form of innovation and can only be successful with the cooperation of all stakeholders. It stresses that the flow of technology and information among people, enterprises and institutions is key to an innovative process. It contains the interactions between the actors needed in order to turn an idea into a concept, product or service on the market (The Guardian, 2014). It often tackles problems that are systemic in nature, such as the world's big sustainability challenges, urban mobility, fair access to finance or healthcare. It involves many actors of all kind from businesses to NGOs and governments and often takes a long term view (OECD, 2013).

In this study we will analyze collaborative or system innovation, as a major lever for new value creation and to implement change. Strategic orchestration would be the tool to be used by organizations and individuals to assemble and lead a network of partners to deliver together a new value proposition to the market that cannot be delivered in isolation by the partners of the network. In the cases where a social need is addressed as part of the value proposition, we will also create shared value.

## 2. Strategic Orchestration to create shared value

### 2.1. Strategic Orchestration

Strategy is not about being efficient or improving the current game. Strategy is about making choices (Porter, 2016) and changing the game (Ruelas-Gossi, 2012), a common denominator of successful firms (Ruelas-Gossi, 2012). Strategic Orchestration is said to be a new paradigm of strategy (Ruelas-Gossi & Sull, 2006). It means to coordinate resources, e.g. typically partner organizations or departments, but also can be clients, competitors or end users, in order together to provide a unique and novel value proposition to the market, that would not be possible to delivered by an organization alone.

It is an allocentric approach (Sull & Ruelas-Gossi, 2010), which means that it incorporates the various resources in the network. Most existing strategy theories are egocentric. Its starting point is an egocentric approach, where the power is the individual firm that exists to create and capture economic value, often at the expense of other players in the value chain. The firm focuses solely on opportunities it can seize alone. The allocentric orientation allows managers to seize a whole range of opportunities that can only be pursued by a network. As such, unlimited opportunities are there for nowadays leaders to create new value, as long as there is

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collaboration between the players in the network and the value proposition is orchestrated in a manner that makes it worthwhile for everyone to participate.

The power needs to be exercised through influence and diplomacy (Sull & Ruelas-Gossi, 2010). All players have to give and receive. If they do not receive, they will leave the network.

The orchestration approach begins with a different set of assumptions. Firms create value by assembling novel combinations of resources that fulfill an unmet customer need. The nodes of a network are the individuals, business units or companies that control relevant resources and make them available for use to fill an unserved need in the market. The network has to be easy to use for the end user, but as complex and difficult as possible to replicate for the competition.

Strategy Orchestration provides the strategic direction to nowadays' leaders on how to create and coordinate a network and on how to lead the partners in a novel way in order to seize opportunities that others do not see (Ruelas-Gossi & Sull, 2006). This is a crucial component when the goal is agility rather than efficiency (Ruelas-Gossi & Sull, 2006). Every network is unique and is there to expand value. The expansion of value, by adding nodes or partners to the network, is created in the context of the business model innovation, different to the product innovation more in alignment with the value chain theory, where the referral is to create value through efficiency often removing elements from the chain in order to make it more profitable (Ruelas-Gossi & Sull, 2006).

## **2.2. Creating shared value**

As an additional and distinctive attribute to the creation of a network is the shared value concept, where a societal need is addressed in the value proposition.

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 alone. Only businesses can create the necessary economic prosperity, through meeting needs at a profit (Porter, 2016).

Philanthropy and Corporate Social Responsibility (CSR) have evolved the concept towards Creating Shared Value (CSV), where societal needs and challenges are being addressed through businesses in partnership with different stakeholder with a new business model that requires the orchestration of nodes and with the ultimate goal of making a profit. The objective is to expand opportunities for the business at the time of meeting a societal need (Porter, 2016) without forgetting that social needs represent the largest unserved market opportunities (Porter, 2016).

Companies are more and more going towards a collaborative environment, that help them rethink the business around unsolved customer and societal problems and needs and to identify customer groups that have been poorly served or overlooked by the industry. This re-thinking has to start with no preconceived constraints about product attributes, channel configuration or the economic model of the business. And the interaction between people from different industries or departments has to enhance the creation of an environment where new ideas can emerge (Porter, 2016). To incorporate the shared value concept and increase their profit, organizations have to think in terms of improving lives, not just meeting conventional business goals or social needs (Porter, 2016).

NGOs leverage the private sector to dramatically increase scale and impact. Often businesses need to partner with NGOs to implement shared value solutions. They combine

### The biggest gains are often the hardest to unlock

complementary strengths. The NGO funding concept also is shifting from grants and donations to fees for services provided to a business (Kramer, 2016a). The Role of Government is to regulate and operate in ways that enable and motivate shared value solutions (e.g. tax policies that support market solutions, business incentives, co-financing, etc.); and to create the essential supporting infrastructure to help this shared value initiatives to emerge (Porter, 2016). The new purpose in 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 society's pressing issues. The innovation departments of the organizations will be the platform that enables the environment for new ideas to emerge, breaking traditional boundaries and serving as the accelerator to bring those ideas into action.

Strategy is the set of long term choices that an organization makes to distinguish itself from competitors (Kramer & Porter, 2016). Strategy defines a company's distinctive approach to competing, and the competitive advantages on which it will be based. Realigning companies around shared value opens up major strategic opportunities to create competitive advantage and expand value, while giving greater purpose to the corporation and to capitalism itself (Porter, 2016). The biggest gains are often the hardest to unlock. Many market failures are caused by default in the operating environment. Orchestrating a whole network of partners while improving the societal conditions in the operating environment is the aim of the creating shared value strategy (Kramer, 2016b). To have collective impact involves orchestrating different elements of all stakeholders in the system or network (Kramer, 2016b). It follows the same steps as strategic orchestration, enhanced by addressing a societal need (Kramer, 2016a).

## 3. Orchestrated examples that create shared value

The need to find new responses to old questions has led organizations to look for new ways of generating value. Since then, every time more examples of orchestrated solutions solving a social need can be found. We will analyze in this paper a transportation solution for Smart Cities and the role of microcredit institutions as orchestrated examples to create shared value.

### 3.1. SmartMobility for Smart Cities

A SmartCity is said to be an urban area that creates sustainable economic development and high quality of life by excelling in multiple areas: economy, mobility, environment, people, living and government (IEEE Smart Cities, 2015). Excelling in these key areas can be done through strong human and social capital, often helped by the use of ICT –Information and Communication Technologies– and IoT –Internet of Things– (Libelium, 2017) infrastructures (IEEE Smart Cities, 2015).

Urban Mobility (US Department of Transportation) is one of the intractable challenges faced by city governments, presenting economic, social and environmental implications. Before the Smart City time, the municipalities did not have suitable solutions to provide a coordinated incident response in case of a traffic event (IEEE Smart Cities, 2015). Someone's commute is always seen as the worst part of their day and a negative experience. So, if a SmartMobility solution would help them turn this negative into a positive experience, people normally are willing to pay (Schneider Electric, 2015). In addition, municipalities need a solution that will gather the information of all traffic and transportation agencies in the city, that will enable them to make a global and efficient management of the whole transportation network with coordinated incident response procedures to reach out to all transportation providers in case of an event (Schneider Electric, 2015).

**System  
innovation can  
only succeed  
with the  
cooperation of  
all stakeholders**

Before, municipalities were also able to see the transport information of the different transportation agencies, but separately. That transport information was not coordinated. It happened frequently that when an event took place in one part of the city, the agency in charge of it managed the incident correctly, but the rest of the transportation agencies were not aware, resulting in massive traffic congestions. The municipality did not have coordinated response plans available to act upon at global level. Out of necessity, the different transportation stakeholders understood the need of coming together and create a network to serve the new needs of the municipality.

The governance of the network required a light touched guidance of the stakeholders (Schneider Electric, 2014) and shows another fascinating facade of the fact that only an orchestrated solution is viable to bring all the partners on board and to make it profitable for all. As we said before, in any network every node has to give and receive, otherwise they will leave the network (Sull & Ruelas-Gossi, 2010).

The example we are going to analyze is about the transportation solution orchestrated by a multinational company guiding a network of partners to help the municipality of one big city in South Brazil to improve their urban mobility and livelihood while enhancing the lives of some of their citizens. Before this, the traffic in the city was completely disorganized and big traffic congestions were daily there. The main nodes that were part of the SmartMobility solution of this example were as follows:

- Traffic and Transportation Providers: city transportation agencies in charge of the metro, bus, road, train, etc. (competitors among each other, but nodes of the network);
- Generic Information Providers on travel times or parking occupancy estimates (suppliers);
- Hardware/Software Cots Providers for basic components to support applications and services (common supplier);
- Collaborative users give row data provisioning in exchange for limited free services (Uber taxi);
- Electric Cars to cover the first mile-last mile and to complete the transportation cycle (partner); this car was produced in the suburbs of the city by disadvantaged groups.
- Academia through the design of the Electric Car in the Media Lab of a reputed University (partner)
- Electric GPS and Sensor providers (Internet of things) to measure and get analytics on the uses (suppliers).

Strategic Orchestration was used to bring all these stakeholders together, in order to provide the Municipality with the right tool to solve the urban mobility challenge. The SmartMobility solution also included decision support system plans to provide the municipality with a multiple choice of coordinated incident response plans to solve the event. One relevant aspect of the SmartMobility solutions, like the one we are analyzing in this example, is the fact of bringing not only conventional partners, but also competitors into the network in order together to provide a solution to the market that could not be provided individually. The main transportation agencies in the city in charge bus, metro, road and train are individual suppliers to the Municipality. Even more, they are most times competitors to each other bidding to provide the same service. These services normally are granted for a certain number of years until a new call for proposals is open. The higher need of the Municipality to not only liaise with each of the individual transportation suppliers, but to have a coordinated response mechanism to act upon at global level in case of an event, made all these agencies to come together in an orchestration in order to serve the higher goal of the Municipality, that any of them could provide on its own. As nodes of the network they contributed to it adapting their

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day

IT systems for them to be synchronized for the Municipality to have coordinated information. They have also benefited from the network by being the first in serving the Municipality in its global response need. This has made them powerful partners of the Municipality, making it difficult for other organizations outside the network to replicate a similar service and subsequently eliminating competition. As a result of that, a longer relationship with the Municipality is envisaged.

Technology has been key for this SmartMobility solution, going from the gathering of information through sensors and data analytics to the set-up of the right information technology structure to disseminate and reach out to all stakeholders in the network, from the Municipality to the end user. In this network we can also find a shared value component. The first mile-last mile electric cars included in the network were produced in the suburbs of the smartcity by local disadvantaged groups. Through training and employment of those people they were able to build the cars locally. Given the lower labor costs in Brazil compare to Europe, where the electric car company was headquartered, it was possible to make a higher profit by not having to relocate technical staff to the region. As a result of this, the image of the whole network got significantly enhanced by having addressed a societal need. And overall, the lives of those group of people were significantly improved.

### 3.2. Microfinance institutions

Poverty is the main cause of concern in improving the economic status of developing countries. Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. A microfinance institution is an organization that offers financial services to low income populations (Microfinance and Microcredit, 2017). A great scale of organizations is regarded as microfinance institutes and increasingly various types of institutions, ranging from commercial banks to NGOs or sectors of development banks, offer microfinance (International Finance Corporation, 2015).

Impact investment is an increasing activity and is seen as the next stage in development aid. Therefore, many non-profit organizations are incorporating an investment institution within their structure in order to address the unserved need of providing financing to disadvantage groups in fragile and conflict areas (Cordaid, 2016a). These investment branches sit in a different legal entity than the non-profit organization. There is a change in status from an unregulated non-profit or non-governmental organization into a regulated, for-profit institution. This regulated organization differs from the non-profit organization in that they are held to performance and capital adequacy standards and are supervised by the national authority for financial markets, typically the central bank of the country where they are registered. These microfinance institutions also attract equity investors, who want to ensure that the value of their investment is maintained or enhanced.

These institutions are a powerful arm to the non-profit organizations they serve, helping them manage their social impact investment portfolio. Instead of providing grants, as the non-profits would do, these institutions provide support and access to inclusive finance to small entrepreneurs, impoverished women, people with not adequate working conditions and poor individuals in fragile and conflict-affected areas, that have limited or no alternative investment possibilities in the commercial banking system. They provide the finance in the form of loans, guarantees or taking over equity of social entrepreneurship initiatives (Microfinance and Microcredit, 2017), being a revenue line for the non-profit organization.

The example we are going to analyze in this case is a funding initiative to small entrepreneurs in rural areas of Nicaragua, orchestrated by the investment branch of a non-profit

## Microfinance helps bridge the gap between financial institutions and the rural poor

organization. The whole lending process on field is facilitated by the use of a technology App (Cordaid, 2016b). The App was installed in the tablets the credit officers carry to the field. It enabled the local microfinance institution to register credit applications and manage client relationships digitally. Thanks to this App, the rural entrepreneurs do not need to travel and be bothered with extensive paperwork, making the whole process of credit application, authorization and renewal much more efficient and effective. Before this, the financial intermediary institution in Nicaragua had to do the whole lending process manually on paper, from the application to authorization and renewal, requiring often the borrower to go to the offices of the lender in town, making it more difficult for the farmer to have access to finance and taking long time until the money was deposited.

The main nodes that are part of the microfinance network of this example are as follows:

- Non-profit organization: mother company with the ultimate goal of improving the lives of low income population;
- Investment branches of the non-profit organization: the operational vehicle to legally exploit the financial business for the non for profit to invest in fragile and conflict areas;
- Local financial intermediaries or field partners: every country has its own lending regulations to protect the end user. Therefore, microfinance institutions need to partner with them in the countries they want to operate to reach the end user.
- Technology suppliers: a special app designed to facilitate the lending process;
- Credit Officers: last part of the chain and in direct contact with the enterprising borrower. For them the app has eased significantly the lending process, doing the application, authorization and renewal digitally directly on the tablet on field, and receiving the funds shortly after in their bank accounts;
- Small entrepreneurs in rural areas (client): end receivers of the money

Microfinance helps bridge the gap between the formal financial institutions and the rural poor. It has become a relevant revenue stream for many non-profit organizations and a tool to generate income to serve their goals. It requires the orchestration of different stakeholders to achieve the money to reach their end destination.

Every country has its own lending regulations to protect the end user. The investment branch of the non-profit organization only has the license to operate as a lender in the country where it is registered. Therefore, they need to partner on the field with locally registered financial intermediaries, who will be their operating arm in those countries to give out loans. This way the funds can reach their target audience while ensuring the end user rights are secured and the financial standards of the country met.

The orchestration in this case comes mainly from the need of the non-profit organizations, their investment branches and the field intermediaries to come together in order to make a business that would not be possible to be done by any of them alone. In the network they also count with apps and technology means that ease and ensure a sound and agile lending process with real time credit information and replacing papers approvals by digital ones.

There is also shared value component in this network. Microfinance grants disadvantaged groups a fair access to finance, whilst helping build financial and entrepreneurial capacity in the borrowers. They have to repay the loan. It is no longer a grant. So, they have to manage their business initiative with care, in order to be able to return the money. The non-profit organizations have seen this business potential of having an additional revenue stream by lending money through their investment branches to the bottom of the pyramid, whilst

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aid**

continue serving their ultimate goal of improving the lives of the disadvantaged groups. They mobilize resources to the poor for viable income generation micro enterprises enabling them dignified access to funding to reduce their poverty and this way they are creating shared value.

#### **4. Conclusion**

In a world that is rapidly changing, where relationships are no longer linear but circular, orchestration, collaboration and system innovation (The Guardian, 2014) seem to be key for the growth of any organization. Often this growth potential can be found while addressing a societal need, subsequently creating shared value for the organization and the society as a whole.

Often, innovation is associated with blue-sky thinking or extraordinary outrageous ideas (e.g. Facebook, Google). Everything starts with seizing an idea to address an unserved customer need. Sometimes there are incremental innovations, layer by layer, by implementing sequential and layered designs that connect to deliver a better whole (LaRusso, Spurrier & Farrugia, 2014).

As analyzed in this research study, orchestration or collaborative innovation seems to be a rather suitable strategy for today's environment to manage innovation. In most cases, except when an exceptional idea creates a totally disruptive new concept, innovations in the business model, bring a much greater differentiation to the offering than any incremental product innovation. And strategic orchestration is about innovation in the business model. Strategic Orchestration, partnering or collaborative innovation teaches us that there is not always money, new technological features, or awesome radical ideas available to boost a great project, but there are always nodes ready to be orchestrated around a new challenge in order to create a unique and novel value proposition to the market that cannot be provided in isolation (Sull & Ruelas-Gossi, 2010).

As we can see in the SmartMobility and the Microfinance institutions examples, the main driver for both to enter into an orchestration was the ultimate need to partner in order to make the new business proposition happen. New value propositions require new business models, that cannot be delivered by an organization alone. The value proposition is orchestrated in a manner that makes it worthwhile for everyone to participate. The egoistic need to make business brings these organization to join a network, where they have to give in order to also receive.

Every time that a social need can be addressed as part of the orchestrated solution, we say we create shared value. Social needs are still one of the most unserved opportunities and often require an orchestration of the whole ecosystem (Porter, 2016). Fair access to finance and urban mobility are social needs that are world sustainability challenges at the same time. Therefore, the examples on SmartMobility solutions and microfinance institutions are good orchestrated references of new revenue streams associated to solving a social need, that at the same time represents a world challenge. Therefore, we can also say they are contributing to a whole system's change.

New technologies, data analytics and big data are very present in many today's innovations. In the examples on SmartMobility or Microfinances, definitely technology plays an important role to make them happen and the technology providers are key partners of those networks.

All these examples and strategies show the circular or network relation that new initiatives require to succeed in current times. Isn't it fascinating that new innovations will increasingly address a societal need while bringing a new offering to the market? Isn't it great that the creation of a new business model can bring new profit to an organization whilst raising the level of disadvantaged groups and addressing big world's sustainability challenges? Are they

Technology and information among people and institutions is key to an innovative process

aware of the huge business potential of creating shared value as a lever to make progress on solving the world system challenges and create large scale change beyond the business world?

Orchestration will bring the best out of all stakeholders, and like in an orchestra, where the individual instruments already have a beautiful sound by themselves, by bringing them together in an orchestration you get the magnificent effect of the orchestra.

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