Shared Value in Ecuador: Corporación Favorita

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Abstract

Companies that practice shared value earn a profit in ways that benefit society. This report defines the emerging concept and practice of shared value and explores the utility of applying shared value strategies to business in Ecuador. It does so from the perspective of Corporación Favorita, a grocery retailer and the country’s largest company. This report analyzes the advantages and limitations shared value offers Favorita in concurrently advancing broad social objectives alongside its own economic and regulatory interests. It recommends Favorita adopt shared value through three initiatives, each of which draws on the core principles of the firm—responsibility, client service, and respect. These initiatives connect Favorita’s business challenges with social and political priorities in Ecuador.

- Promote healthy eating
- Build a resilient supply chain
- Lead an industry coalition to accelerate a transition to natural refrigeration systems
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Shared Value in Ecuador: Corporación Favorita

Executive summary

Ecuador’s President Rafael Correa has challenged the established power of the country’s private sector since his first successful campaign in 2006, insisting throughout that ‘people must prevail over capital and society must prevail over the market.’ Eight years into his presidency and three re-elections later, Correa has succeeded in mobilizing public opinion to support regulation of big businesses, foreign and domestic, that would have been almost unthinkable a decade earlier.

One such regulation is the Manual of Supermarkets, produced in 2014 by the Superintendent of Control of Market Power (SCPM, for its initials in Spanish). The Manual of Supermarkets prescribes pricing, marketing, and sourcing practices for large grocery retail chains in Ecuador, including Corporación Favorita. According to regulations in the manual, by 2016, 33% of the value of products sold in Ecuador’s grocery retail stores must be produced by domestic firms with annual revenues of less than USD $1 million. Favorita’s analysis suggests Ecuador has too few qualifying firms to make meeting the requirement even a possibility.

Despite concerns about restrictive regulations such as the manual, business is booming. Under Correa, Ecuador’s economy has grown more than 20%. Poverty has fallen 33% and per capita GNI (PPP) has grown to over $14,000—enough for the World Bank to classify the country as upper-middle-income. Years of high oil prices and a tripling of public expenditures have buoyed the country’s newfound relative prosperity, and Favorita has capitalized on it. Since 2009 Favorita’s revenues and profits have grown 60% and 74%, respectively. Through strong brand recognition, complementary services, and a commitment to product quality, Favorita has expanded its share of the retail grocery market to 43%, according to industry data from Euromonitor International. Today Favorita sells 23% of the value of food Ecuadorians consume.

But in the context of a powerful government antagonistic to big business, as market share grows, so too does political risk. When a short video showing Favorita workers removing items from a shelf went viral in March of 2015, state officials heaped opprobrium on the company, intimating the company was engaging in speculation. Favorita was forced to immediately defend itself.

This report argues that shared value is a powerful mechanism by which Favorita can recalibrate its role in society and its relationship with regulators. Shared value allows business and government to coalesce around shared objectives, and offers the potential to rejuvenate strained relationships.

Shared value is ‘a set of business policies and norms that enhance the competitiveness of a company while simultaneously improving the economic and social conditions of the communities in which it operates.’ Shared value identifies win-win situations that are good for business and good for society. Properly applying shared value offers Favorita an opportunity to retain its competitive advantage, enunciate its moral purpose, and, by addressing social problems that vex the government, garner political capital. Most importantly, through shared value, Favorita recasts its role in society to accentuate symbiosis between the company’s financial and political sustainability and prosperity in Ecuador.

Favorita’s core business model and extensive market penetration leave the firm well-positioned to address three key social problems: Ecuador’s growing obesity problem, lagging rural economic development, and rising greenhouse gas (GHG) pollution from unsafe synthetic refrigerant chemicals. This report suggests way for Favorita to align its business model with market-based solutions to these problems. Through shared value strategies such as the ones outlined in this report, Favorita has an opportunity to improve its prospects for long-term political and financial viability.
I. Methodology

The METHODOLOGY for this paper consists of desk-based research, remote interviews, and field-based primary research conducted in Quito and Sangolquí, Ecuador in January 2015.

The author analyzed shared value literature from a variety of sources including the Harvard Business Review and FSG Consultancy. The report incorporates a review of literature and news sources on the following topics: Ecuador’s political economy and human development; health trends in Latin America; the role of supermarkets in influencing eating habits; public policy and private-sector interventions to promote healthy eating; supply chain management; the technical challenges posed by natural refrigerants; and organizational change. The author studied the cases of grocery retailers Walmart, Whole Foods Market, Pick n Pay, and Woolworths, and British-Dutch consumer goods company Unilever, drawing best practices and lessons learned from their examples.

In Boston, the author conducted ten informational interviews—six with senior and mid-level management at Favorita, three with Harvard faculty and researchers, and one with an Ecuadorian business leader. Through correspondence with a natural refrigeration advocacy group based in Germany, the author gained access to leading research on the transition to low-emission refrigeration systems.

Over six days at Favorita’s offices in Ecuador, the author conducted 21 formal interviews with 24 Favorita executives and employees and 3 civil society and community stakeholders (see Appendix). With Favorita representatives, the author toured Supermaxi, Megamaxi, and Gran Akí stores in Quito and the firm’s distribution center in Sangolquí. The author met some three dozen Favorita employees while in Ecuador.

The author analyzed Favorita’s public financial data from 2009 through 2013 and shareholder reports from 2010 to 2014. Parts of the proprietary information Favorita furnished on its finances, engagement with suppliers, and use of refrigerants were incorporated into the report.
Background and Context

Mark Kramer, a senior fellow at the Corporate Social Responsibility Initiative, and Harvard Business School Professor Michael Porter proposed shared value in a 2011 Harvard Business Review article as the next step in the evolution of the corporate role in society. They define shared values as ‘a set of policies, norms, and strategies that enhance a firm’s competitiveness while simultaneously improving the economic and social conditions of the community in which the firm operates.’ Through shared value, they say, a firm moves beyond philanthropy and beyond corporate social responsibility (CSR)–both of which may remain integral to the overall strategy of a business–to place social value at the center of the business model.

Figure 1, adapted from the work of Jane Nelson, Director of the Corporate Social Responsibility Initiative and advisor to this report, places shared value in relation with traditional corporate social responsibility (CSR) practices of compliance, philanthropy, and risk management. All are a combination of different levels of social and economic value creation. Favorita, for example, has donated to charities for decades, two of which it founded in the 1990s, and has retained a legal compliance team for as long as anyone remembers. Favorita’s long-standing policies of paying above-market wages and of internal promotion mitigate its exposure to the economic risks of labor unrest. Shared value, however, demands that a company create economic and social value simultaneously. It does not replace existing philanthropy, compliance, and risk-management work, but rather incorporates the most desirable components of each of these segments. It is good for business and good for society.

‘Businesses,’ Kramer and Porter write, ‘must reconnect company success with social progress.’ In the framework of shared value, the long-term success of the company is inextricably bound to the success of the community.

The impetus behind shared value, according to Kramer and Porter, is new pressure on business leaders, through an increasingly competitive marketplace, well-organized grassroots campaigns, and political pressure from governments reacting to large firms with increasing political and economic influence. Corporate strategies that rely solely on philanthropy and compliance are insufficient to meet these challenges.

Amidst a rapidly changing political economy in Ecuador, Favorita faces pressures similar to the ones Kramer and Porter describe. A populist government under Correa has surfaced a dormant anti-capitalism bent in the Ecuadorian electorate, and provided cover
for stronger and more frequent regulations against businesses. Favorita is forced to develop new competitive strategies to keep up with evolving tastes of an emerging middle class. Thus far, Favorita has been very successful in making this adaptation.

From the perspective of shared value, nascent demands of a socially conscious rising middle class are a business opportunity. Firms distinguish themselves from the competition by embracing their role as an integral part of the local community or national economy. In promoting their connection with stakeholders, not stockholders, businesses have an opportunity to appease political challengers, to garner goodwill with communities otherwise suspicious of the corporate role, and to strengthen their brand with established or occasional customers.

The development of shared value coincides with a wave of intellectual, business, and grassroot initiatives that reexamine how business and society interact. Social enterprise, conscious capitalism, the new economy, Occupy Wall Street, and impact investing all question the status quo of how business and society interact, and suggest reforms. Governments, to varying degrees, comprise part of this shift. Leftist governments in South and Central America, including Rafael Correa’s, are among the most assertive in demanding that big business forfeit a portion of its political and economic power in society. President Correa is eager to increase the standards by which companies are evaluated in Ecuador. On his radio show in 2014, in one of his more accommodating public statements on the role of big business in Ecuador, Correa said that while he would prefer children in Ecuador to drink natural juice, he welcomed Coca-Cola’s planned $1 billion investment in Ecuador on the condition they comply with four standards: fair treatment of workers, fair treatment for customers, full payment of taxes, and care for the environment. Correa evaluates the success of a large private investments against criteria much broader than profit and loss. His insistence on examining such investments in social as well as economic terms has much in common with Kramer and Porter’s call for shared value, and invites an exploration of shared value in Ecuador.

**Shared Value - Methodology**

Shared value strategies, including the ones in this report, fall into three categories: new markets and products; supply chain productivity; and clusters. Figure 2 distinguishes between the different ways firms can practice shared value.

**Implementing Shared Value**

In a September 2013 Harvard Business Review article, ‘Innovating for Shared Value,’ Mark Pfitzer and coauthors, all of FSG, a leading shared value consultancy, distill the best practices of successful shared value companies into five key elements. These steps are in-

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Figure 1 - Source: Adapted from Nelson, Jane. Building Competitiveness and Communities: How World Class Companies are creating shareholder value and societal value. IBLF in collaboration with the World Bank and UNDP, 1998; and Nelson, Jane. The Business of Peace: The private sector as a partner in conflict prevention and resolution. International Alert, Council on Economic Priorities and IBLF, 2000.
shared value strategies.

1) **Embed a social purpose.** For shared value companies, addressing social problem through their business model is central to their existence. A strong sense of calling motivates activities and initiatives that promote social value creation. Leaders who want to embed a social purpose, Pfitzer et al. say, should ‘relentlessly describe and quantify the business threats and opportunities’ present in social problems.

2) **Define the social need.** A deep understanding of social problems allows shared value businesses to pursue effective strategies for creating social value.

3) **Measure shared value.** Through measurement, shared value companies understand what’s working and what is not. In success and in failure, transparency garners trust from stakeholders.

4) **Create the optimal innovation structure.** Pfitzer et al. list three relevant structures through which a company can launch shared value initiatives: integrate in a legacy business, create a semi-autonomous unit, or partner with a philanthropy or government agency.

5) **Co-create with external stakeholders.** Enlisting support from outside the company broadens the supporting coalition, and deepens the expertise that will guide shared value projects.

**Limitations to Shared Value**

For many companies, shared value is a radical idea. Kramer and Porter’s insistence that companies should incorporate social challenges into their core business model contravenes shareholder-first business ideologies, in which externalities are to be exploited and profit maximized and social impact measured through profit and loss. Companies that equate profit with success are likely to reject shared value out of hand.

But within the context of movements to reform business, the scope and ambition of shared value is circumscribed. Shared value leaves profit as the central organizing principle of the economy. It empowers business leaders to decide whether or not to address social problems. And it envisions a larger role for businesses and their leaders in solving social problems through, for example, voluntary standards, which lack the weight of law and the legitimacy of regulations set by democratic governments, and may even impinge upon the jurisdiction of government authority.

Far from threatening traditional ideas about business, shared value, according to critics, does not go far enough in curbing corporate excess. These critics hold that shared value is little more than media spin, and may in fact grant companies social license to adopt practices even more pernicious than what they had before. This debate continues.

To governments intent on realigning power relations between corporations and the state, as is the case in Ecuador, authentic shared value signals an attempt to align business models with social objectives. On many broad issues, business’ attempt to modify the relationships between business, government, and society through shared value may not satisfy the political and economic preferences of a socialist administration. Where interests align, however, shared value may catalyze an effective partnership.
III. National and Business Context

1. Ecuador

1.1 Politics

During the tumultuous decade in Ecuador before President Rafael Correa won a runoff election in 2006, seven Presidents rotated through the office, inflation and devaluation flared, and after a major financial meltdown, the country abandoned its currency in favor of the US dollar, which it has used since 2000. During the same period, indigenous people living in Ecuador, 25% of the population, mobilized to engage with national politics, shifting the political landscape in favor of issues of importance to many members of indigenous communities, including environmental protection, poverty, anti corporate power, and plurinationalism, or limited autonomy to distinct ethnic communities within the state of Ecuador.\(^{13}\)

Correa adopted these concern in his 2006 campaign, nesting them within a promise to take on the traditional elites, who for centuries, according to Correa, held undue clout in economic and political institutions in Ecuador. Correa’s promised, in other words, to bring democracy to Ecuador. To take office, fittingly, Correa defeated Álvaro Noboa, the country’s wealthiest man.

With approval ratings near 75%, Correa set as his first legislative agenda to rewrite the constitution, which he accomplished through two methods: A 2008 referendum backed by 64% of voters, and legal maneuverings his critics claimed were of dubious legality, fodder for claims of despotism that have persisted throughout his presidency. In addition to expanding legal rights of citizens and enhancing the power of the state and executive branch in particular, the constitution enshrines the rights of nature, recognizes gender identity as a legal construct, and recognizes food sovereignty as fundamental to citizens’ right to food. Critics question whether ensuing executive interference in the judicial branch has impinged upon the validity of the rights enshrined in the Constitution.\(^{14}\)

High approval ratings have helped Correa neutralize political pressure from the right. Recently, however, pressure on Correa has mounted from youth, environmental, and indigenous groups who object to his 2014 approval of drilling in the Yasuní province of the Amazon, an area home to indigenous tribes and immense biodiversity.

1.2 Economy

Since Correa took office in 2007, the Ecuadorian economy has been among the fastest growing in the world.
Ecuador’s GDP has averaged annual growth of 4%.\textsuperscript{15} Between 2007 and 2013, the percentage of people living in poverty fell 11 percentage points, from 36.7% to 25.6%\textsuperscript{16}, while per capita GNI (Atlas method) rose 74%, from $3310 to $5760.\textsuperscript{17} In 2014 unemployment in Ecuador was 4.5%, and annual inflation less than 3%.\textsuperscript{18}

Ecuador’s economy and public finances are mainly driven by oil revenue, which accounted for 55% of the country’s exports and 40% of government revenue in 2014.\textsuperscript{19} Correa converted his campaign rhetoric about the power imbalance between private companies and the state into action in 2008, when he forced most foreign oil companies to renegotiate concessionary contracts. PetroEcuador, the country’s public oil company, has since produced the majority of crude oil in Ecuador and kept oil production steady. When a mid-2014 slump in oil prices dramatically reduced the state’s tax revenue, Ecuador bartered promises of future oil outputs to China for loans of $7.5 billion.

Foreign direct investment (FDI) in Ecuador has remained relatively stable since 2011, with between $600-700 million invested annually\textsuperscript{20}, down from a high of $1 billion in 2008. Compared with other countries in Latin America, Ecuador’s FDI as a percentage of GDP is low.\textsuperscript{21}

The grocery retail sector has prospered under Correa: sales have risen 89% since 2009.\textsuperscript{22} Import restrictions have further advantaged the major modern supermarket chains—Favorita, and Corporación Rosado, and Tía—over traditional grocers—small, local shops that source a majority of their products from multinational food companies like Nestle and Unilever. Together, Favorita, Rosado, and Tía sell 40% of the value of food in Ecuador; traditional grocers sell 33%.\textsuperscript{23}

1.3 Human Development

Under Correa, life has improved for many Ecuadorians. The UN ranked Ecuador 89th out of 187 countries in its 2013 Human Development Report; Ecuador’s index score rose to 0.72 from 0.68 in 2005. Extreme poverty has fallen to 8.6% in 2013, down from 16.9% in 2007.\textsuperscript{24} Inequality (GINI coefficient) fell to 0.48 in 2012 from 0.55 in 2007, the largest drop in Latin America.\textsuperscript{25}

Social spending as a percentage of GDP rose to 11.4% in 2013 from 4.8% in 2006; spending on health and education has more than quadrupled. Public school enrollment rose to 3.5 million students in 2014 from 2.6, and enrollment rates in primary education rose to 96%, up from 92% 8 years earlier. After huge increases in spending on public health, hospitals in 2014 completed over 43 million doctor visits, nearly 3 times more than the number of visits completed in 2006.\textsuperscript{26}

1.4 Relationship with Business

One of President Correa’s first attempts to fundamentally change the relationship between government and businesses in Ecuador was through negotiations with foreign oil companies.\textsuperscript{27} Seven of sixteen foreign oil companies left the country in 2010 after Correa renegotiated their contracts with the state, ensuring that 87% of gross oil revenues go to the state—seven times the amount that state previously collected.\textsuperscript{28}

In 2009 Correa announced the annulation of 13 bilateral trade agreements, precipitating a sharp drop in FDI.\textsuperscript{29} FDI has not yet returned to pre-Correa levels.\textsuperscript{30}

Correa’s relationship with private media outlets has been particularly fraught. In 2007 Correa sued the Quioto newspaper La Hora for an editorial he considered libelous. National and international press freedom groups such as the Committee to Protect Journalists denounced the lawsuit, and issued warnings about what they saw as Correa’s aggression towards the media.\textsuperscript{31} In 2008 Correa expropriated two private media outlets, Gammavision and TC Television, which were owned by a family implicated in the 2000 financial crisis.

Interviews with business leaders not connected with Favorita revealed that Correa’s antipathy towards powerful businesses has diminished the access and influence of businesses have in the regulatory process. Under previous administrations, large businesses lobbied the government through trade organizations, or chambers of commerce (cámaras de comercio). Under Correa, cámaras have much more limited access to lawmakers and state officials, and businesses and trade groups have relied on informal channels of communication to express their opinions on pending legislation. Often, those efforts have been frustrated.

During his campaign and once in office, Correa laid out an alternative strategy for economic growth in Ecuador. It envisions an increased role for the state and more participation by local, cooperatively owned small businesses. Nationalizing the oil industry was the first step towards realizing this vision, and public spending has risen three fold during his administration. To support local economic associations, Correa established
the Economía Popular y Solidaria (EPS), a public agency that promotes, regulates, and lends to community associations and cooperatively owned enterprises.

Correa’s stance towards big business has softened in recent years. In early 2015 his administration made overtures to foreign extractive companies, declaring a goal of attracting $5 billion in foreign direct investments in the mining sector by 2020.\textsuperscript{32} Correa held a much-publicized open forum with high-level business leaders in March 2015, the first meeting of its kind in two and half years, according to Richard Martinez, President of the Federation of Chambers of Commerce of Industry.\textsuperscript{33} After Ecuador floated $2 billion in bonds on international finance markets, its first return to capital market after its 2008 default of its international debt, LatinFinance.com named Correa 2014 Man of the Year for ‘striking a balance between prioritizing social improvements while re-engaging pragmatically with international finance markets’.\textsuperscript{34}

2. Corporación Favorita

2.1 History

In 1952 Mr. and Mrs. Wright - Durán Ballen opened a small store in a white stucco building on busy Sucre street in Quito, Ecuador. Their customers walked to the store, or drove chrome-heavy cars on the cobblestone street, to buy candles and soap the couple had imported from Europe. Mr. and Mrs. Wright - Durán Ballen called their shop Bodega la Favorita.

Bodega la Favorita soon outgrew its location, and in 1957, Mr. and Mrs. Wright - Durán Ballen founded Ecuador’s first self-service supermarket on Amazonas street, called Supermercados la Favorita.

In 1970, under the leadership of the next generation of Wrights, Favorita took two actions that would prove pivotal to its future. First, it opened Supermaxi, the largest grocery retail store Quito had ever seen. Today Supermaxi is Favorita’s most well-known brand, with 33 locations around Ecuador. Second, the new Wright leadership took a bold step that challenged conventional wisdom in the retail industry. According to company lore, they convinced the board that to remain true to Favorita’s founding mission, the company must stop selling tobacco products. Some five years after the release of the first definitive recommendation against smoking from the US surgeon general, and at the front end of a 5-decade public health struggle to combat the dangers of smoking, Favoritas’s position was avant-garde and risky. Selling cigarettes and other tobacco products at bodegas was standard practice in Quito in the 1950s and 60s—and today. The Wrights, however, were not simply expanding their parent’s small supermarket. They were creating something new, something Ecuador had never seen before, a store that changed how people shopped and that brimmed with convenience, cleanliness, quality products at competitive prices—a store that improved people’s quality of life. Cigarettes were outside of Favorita’s grand vision.

With new information about the dangers of tobacco, Favorita’s new leadership now believed, so the story goes, that the short-term benefits of selling cigarettes at Favorita were not worth the long-term risks doing so would pose to Favorita clients. This new generation of leaders adopted the vision of the Wright - Durán Ballen’s, updated it to include new information, and enlarged it to encompass a broader definition of Favorita’s sense of responsibility for the well-being of its shoppers. Like the Wright - Durán Ballens, this new generation of leaders saw the company as more than profit and loss. They saw it as an integral part of the advancement of his country, and set policies to maximize the long-term potential for both.

Nearly 45 years since Favorita launched Supermaxi—without tobacco products—Corporación Favorita is Ecuador’s largest company, with revenue of nearly USD $2 billion. Favorita operates four supermarket chains in addition to Supermaxi. Each of the firm’s 101 retail grocery stores offers a product line that rivals that of Walmart, including packaged and perishable foods, home appliances, clothing, and furniture. None of the stores sell tobacco. Current company executives, when pressed to explain why Favorita has declined to sell tobacco in a country of 1.5 million smokers,\textsuperscript{35} hold that ‘Tobacco is not consistent with our mission of improving the quality of life of our clients.’ The vision of Mr. and Mrs. Wright - Durán Ballen and ensuring generations of the Wright family continues to guide the company.

2.2 Overview of Favorita’s Current Business

Corporación Favorita operates 18 chains of retail stores, which it groups into two categories, ‘supermarket’ and ‘non-supermarket.’ Favorita’s non-supermarket chains include stores specialized in books, hardware supplies, and home furnishings, among other products. Favorita’s core business remains its supermarkets division, which consists of five grocery chains—
Supermaxi, Megamaxi, Akí, Gran Akí, and Super Akí—plus Jugueton, a chain of toy stores. The supermarkets division registered sales of USD $1.89 billion in 2014, 70% of Corporación Favorita’s total revenue. This report focuses solely on Favorita’s supermarkets division.

2.5 million Ecuadorians are registered cardholders at Favorita’s grocery stores, whose value of sales, according to industry data from Euromonitor International, represents 23% of Ecuador’s overall retail food sales, and 43% of the value of food sold at in Ecuador’s big-box retail grocery stores (‘commercial retail’).36 Sales at local grocery stores, such as bodegas, account for most of the food sold outside the commercial retail sector. In 2014 each of Favorita’s stores generated an average of $18.9m in sales.

2.3 Favorita’s Structure

Favorita is led by a 14-person Board of Directors. The Wright family owns approximately 40% of shares, a controlling stake. Ecuador’s social security fund, IESS, is the second largest shareholder. Of Favorita’s 8,000 employees, 3,000 own stock in the company; employees comprise 24% of Favorita’s shareholders.

Favorita’s President of Supermarkets and five Vice Presidents of Supermarkets (Human Resource, Finance, Operations, Merchandise, and Grocery Supplies) lead a team of 21 corporate managers. Based in corporate headquarters in Sangolquí, Favorita’s team of corporate executives determines strategy and tasks team managers with implementation. Six regional managers around the country provide localized support to 101 locations.

Favorita’s distribution center in Sangolquí is the largest retail supply center in Ecuador. It was built in 2002 and measures 250,000 square meters. At the center, 850 employees ship out 225,000 crates per day, six days a week. Favorita owns and operates 400 semi-trailer trucks, half of which are refrigerated.

Each store is run by two to four local managers who coordinate teams of between 30 and 65 employees. Local managers track inventory and request new supplies from the warehouses in Sangolquí. Decisions around product offering, product placement, store layout, and hiring are made from the central office, with limited input from store managers.

2.4 Financial Overview

In 2014 Favorita earned a profit of $142 million, or 7.64% of revenue of $1.87 billion. Favorita’s return on equity of $961 million in 2014 was 14.9%, down slightly from a five-year high of 15.4% the year before. Favorita’s financial indicators compare favorably with those of US grocery stores, though given the wide range of products Favorita sells, a one-to-one comparison is hard to make.

Favorita has seen tremendous growth in the past five years. Since 2009, when Ecuador’s economy was in the middle of rapid expansion, Favorita’s revenues are up 60% and profits are up 74%. Revenue per transaction has grown 19% over the same period. Tax receipts grew 54% to $225 million during the same period, making Favorita one of the largest single contributors to government coffers.

Figure 3: Favorita’s organizational chart. Source: Author
2.5 Social Values at Favorita

The decision to exclude cigarettes from the product mix in 1970 revealed a proclivity for social consciousness that is still part of firm identity. Favorita’s mission is to ‘improve the quality of life...of our clients...and the community in general.’ Its 2013 annual report lists the firm’s values as honesty, ethical behavior, loyalty, responsibility, client focus, efficiency and productivity, teamwork, and respect.

Internal and public documents acknowledge but downplay these values. The chairman of the board, for example, declined to cite specific guiding principles in his 2013 letter to shareholders. He instead emphasized financial success and challenges, and described the firm’s strategy for confronting structural economic obstacles, such as slowing economic growth and declining oil prices. He cites with pride the government certification that the firm won, ‘Hace Bien,’ for ‘full compliance in four required area: workers, tax payments, environment, and the community in general.’ He does not offer an explanation for why those standards matter to him or to the board or why they should matter to employees.

The author received an advance copy of the chairman’s 2014 letter to shareholders days before this report went to press. In it, the chairman again praises the firm’s accomplishments on social indicators, such as developing local producers and the professional development of employees, but does not explain why progress on these initiatives matters. He labels progress on recycling and obtaining Hace Mejor certification as ‘shared value.’ ‘Shared value’ is also the title of a section of Favorita’s 2014 company publication. This section includes updates on company initiatives related to philanthropy, compliance, employee productivity projects, and even shared value initiatives—or projects that combine some elements of each of these—Favorita expresses in action what it is reticent to say in words.

Despite relatively few explicit public appeals to the firm’s ethical values from company leaders, workers seem attuned to and motivated by said values. In interviews, workers stressed a strong affinity for the company and its role in the community. One corporate manager cited Favorita’s record on providing ‘safe, tested products with accurate marketing,’ and the company’s efforts to pull milk and bottled water of questionable status. Another corporate manager said that providing health foods was a driving factor in marketing products through Favorita’s exclusive brand. ‘We are giving priority to healthier products,’ he said. For example, he continued, Favorita recently began to offer to sell marmalade with no sugar added, and pulled a product on account of synthetic food coloring. In a recent internal survey, 89% of workers described themselves as ‘very committed’ to Favorita.

2.6 Favorita’s Social Impact

Although leadership and employees speak infrequently about explicit social values, ethical principles inform many business and community initiatives at Favorita. Through traditional CSR and risk-management initiatives, compliance, employee productivity projects, and even shared value initiatives—or projects that combine some elements of each of these—Favorita expresses in action what it is reticent to say in words.

QUALITY OF LIFE INDEX (INDICE DE CALIDAD DE VIDA)

In 2013 senior leadership created the Quality of Life Index to quantify the firm’s progress on a wide range of indicators that affect stakeholders such as clients, employees, and stockholders (see table). The index consolidates these indicators into a single number that is intended to capture the firm’s year-on-year impact on society and on the lives of its employees and providers. The final number produced by the Index (132.14 in 2014) is a compilation of seemingly disparate factors, but that number takes on meaning in a significant way: it is a composite reflection of the priorities of senior leadership. The weights given to various factors within the index demonstrate what aspects of Favorita’s work are seen as most valuable and most worthy of pursuit. In this sense, the Index is a visible extension of the role in society senior leadership envisions for Favorita. Clients, employees, and community are weighted most heavily in the index. Stockholders have less weight, and Favorita allots just 5% of the weight of the Index to suppliers.

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>WEIGHT AS PERCENTAGE OF INDEX</th>
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<tbody>
<tr>
<td>Clients</td>
<td>28</td>
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<td>Employees</td>
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<td>Stockholders</td>
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<td>Suppliers</td>
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FOUNDATIONS (PHILANTHROPY)
Of the more than 200 organizations Favorita has supported, two were founded by Favorita in the 1990s. We Leave Footprints (Dejamos Huellas) is a foundation whose principal support comes from Favorita. 350 women, youth, and children are enrolled in Footprints’ education programs and its tailoring workshop. Favorita launched Make Some Change with Your Change (Cambio por su Cambio) in 1997 to support Kids with a Future (Ninos con Future), an education charity in Guayaquil. Make Some Change has benefited 6,000 youth through various education initiatives.

CERES (PHILANTHROPY)
Ceres is a research institution and convening body that promotes corporate social responsibility in Ecuador. Ceres has 38 member organization from the private, public and non-profit sector.

Favorita joined Ceres as a paying member in 2011 because firm leaders saw a need for Favorita to engage more with CSR issues. Favorita is considering adopting reporting standards from the Global Reporting Initiative as part of its expanded CSR portfolio. Ceres is a potential ally in moving towards the GRI standards.

Favorita occupies a seat on Ceres’ board, and is working alongside the organization as it undergoes a mission realignment in 2015.

ALLIANCE FOR ENTREPRENEURSHIP AND INNOVATION (ALIANZA DE EMPRENDIMIENTO E INNOVACIÓN, OR AEI) (PHILANTHROPY)
Favorita is among the largest supports of AEI, a non-profit organization based in Quito that promotes entrepreneurship and technical innovation through education, policy advocacy, and financing. AEI brings together private and government agencies as well as academic institutions in pursuit of its mission of ‘creating a business ecosystem’ that grants entrepreneurs and innovators ‘access to market information, education, risk capital, and public-private dialogue.’

39 member organizations form the alliance. Participants include organizations as diverse as the Ecuadorian Institute for Intellectual Property, the Chamber of Commerce of Guayaquil, and Banco del Pacífico, and Conquito, the metropolitan economic development agency of the capital city, Quito.

AEI has six areas of work related to entrepreneurship and innovation:
1. Research
2. Public-Private Dialogue
3. Finance
4. Innovation Challenge
5. Education
6. Support for Entrepreneurs and Innovators

In 2013 Favorita donated $2 million to launch AEI’s The Trust for Entrepreneurship and Innovation (Fideicomisión para el Emprendimiento e Innovación). The trust is a targeted investment fund that will invest in growth-oriented small businesses that align with AEI’s goals of bolstering businesses in agriculture and tourism, create new jobs, and advancing technological development.

Favorita partnered with AEI and the Ministry of Industry and Productivity to launch in 2014 an online marketplace that matches small domestic producers with the sourcing needs of large retailers. On Encadena en Linea (Online Chain Store), domestic producers browse sourcing requests from over 100 retailers and, based on their capacity to produce, bid on providing what is needed. Encadena was motivated by President Correa’s consistent call to transform the production matrix of Ecuador through new domestic industry. See Appendix for a screen shot of Encadena’s website.

HACE BIEN AND HACE MEJOR (COMPLIANCE AND RISK MANAGEMENT)
Hace Bien (Doing Well) and Hace Mejor (Doing Great) are two levels of a CSR certification program run by the Ecuadorian government. Launched in 2010, Hace Bien and Hace Mejor are seals of approval the Ministry of Industry and Productivity awards to companies that meet standards of environmental stewardship, labor rights, community engagement, and tax and compliance.

Favorita received Hace Bien certification for its progress on meeting environmental, social, and governance standards. Favorita is working towards the Hace Mejor certification by improving their sustainability management systems and their reporting practices, two areas recommended to them by an external auditor.

INTERNAL PROMOTION OF EMPLOYEES (PRODUCTIVITY)
Favorita prides itself on promoting from within the ranks of its employees. Favorita estimates that 90-95% of senior leadership began their careers in Favorita stores. In the eyes of senior leadership, Favorita’s policy of internal promotion demonstrates the firm’s commitment to the professional development of its employees. Favorita has abided by the policy of internal promotion for as long as anyone interviewed can recall.
IT’S EASY TO BECOME A SHAREHOLDER (FÁCIL DE SER ACCIONISTA) (PRODUCTIVITY)
3,000 of Favorita’s 8,000 employees hold Favorita stock. Senior leadership wants to expand this number. They believe employees who own stock align their interests with those of the company—and that worker satisfaction and productivity will rise as a result. In 2015 Favorita expanded ‘Fácil de Ser Accionista’, an internal communications campaign designed to encourage employees to purchase company stock.

SHARED VALUE
Though Favorita has not yet employed Kramer and Porter’s shared value vocabulary, the firm has launched several business initiatives that are good for business and good for society—shared value in its finest.

1. Calope Hydroelectric Plant - Favorita founded the Calope Hydroelectric Plant in 2004. Today Calope generates 16 megawatts of carbon-free energy on the Calope River in the Andes of Ecuador, enough to cover over 40% of the firm’s electricity needs. Compared with purchasing power from the state grid, Calope saves Favorita 8% per KW/hour on energy generate at Calope. Favorita earns $1.6m annually by selling surplus energy from the plant to the state power grid, and, before 2012 earned $700,000 each year through the sale of carbon certificates. Favorita is planning to launch two new hydroelectric plants in 2015.

Favorita’s Calope hydroelectric plant, operated by Enermax, was the subject of a 2013 case study by Quito consulting firm Prófitas, a sponsoring partner of this report.

2. Pagar la Renta (Compliance and Shared Value) - The Work Code of 2000 requires companies to pay 15% of their profit to employees in equal share. Research suggests that linking company success with employee remuneration raises productivity. And since distributing profits to wage earner ensures money winds up in working class communities, Favorita’s practice of distributing 15% of profits to employees is a form of share value—albeit government-mandated. In 2013 each Favorita employee received profit-sharing checks of $3,800, plus $405 per dependent.

3. Products - Favorita sells products under three exclusive, in-house brands: Supermaxi, Akí, and La Original, collectively referred to as exclusive brands (marcas propias). Launched in 2001, Favorita’s exclusive brands generate 8.4% of grocery revenue and have operating margins of around 26%. Favorita’s exclusive brands market 200 products sold in 1800 SKUs. The manager of Favorita’s exclusive brands indicated he and his team set prices that are mid-market in comparison with other products Favorita sells. ‘We don’t want to be the cheapest, and we don’t want to be the most expensive,’ he said. ‘Product quality is most important.’

Favorita’s profitable exclusive brands offer additional benefits for consumers: a low-price option for high-quality products. The exclusive brands team assesses the strategic advantage each new product line would offer customers. On one occasion the exclusive brands team created a new product in a market previously dominated by just one producer, offering clients choice where there was none before.

GOVERNMENT RELATIONS
A major regulatory challenge to Favorita from the government came in November of 2014 though the Manual of Commercial Best Practices for Supermarkets and/or Related Businesses and their Suppliers (Manual de buenas prácticas comerciales para el sector de los supermercados y/o similares y sus proveedores) by the Superintendent of the Control of Market Power (Superintendente del Control del Poder del Mercado, or SCPM). The SCPM, formed through the 2011 Law of Regulation and Control of Market Power, is tasked with promoting competitive and efficient markets, and ‘preventing the abuse of market power by foreign or domestic actors and all other anti-competitive behavior harmful to the consumer.’ SCPM is led by Pedro Páez, an economist who previously served as Minister of Political Economy and as President of the Council on Foreign Trade and who is described as ‘ideological’ by the President of the Federation of the Chamber of Industry. The SCPM is proactive. In February of 2015 they fined ten banana exporters for failing to report data about the ‘market concentration’ of the sector. A month earlier, the SCPM alleged that five main competitors that control the pharmaceutical retail industry engaged in anticompetitive behavior, and committed to publishing a best-practice manual to promote transparency and equal access in the industry.

Consistent with President Correa’s call to transform the country’s production matrix, the SCPM manual for supermarkets requires that supermarkets spend 11%
of COGs on products made by domestic firms with annual revenue of less than $50,000; 11% of COGs on products made by domestic firms with revenue greater than $50,000 but less than $250,000; and 11% of COGs on products made by domestic firms with revenue greater than $250,000 but less than $1,000,000. Favorita estimates that it spends no more than 2% of COGs on the first category, and that scaling up its sourcing from small domestic firms to meet the 33% threshold is infeasible.

In February 2015, just a few months after the SCPM released the manual, other sections of the administration realized the vagaries and stringency of SCPM’s supermarkets regulations and other regulations as well, and added an additional layer of approval necessary for SPCM proposals to become official regulation. One more step in the approval of new regulations acts to insulate Favorita from further unwieldy regulation. The fate of the SCPM’s 11% rule is uncertain.

In 2014 Correa’s administration brought online a set of regulations meant to empower consumers to make more informed decisions about their eating habits. Favorita and other grocery retailers were required to label all processed foods with what is referred to as a ‘stoplight.’ The stoplight is a red, yellow, or green label that indicates high, medium, or low levels of salt, sugar, and fat in the food product (see Figure 4).

In the original regulation, Favorita was required to attach a stoplight to every product by a certain date. Favorita, however, appealed this decision, owing to the fact that a significant percentage of products in a store had been produced before the regulation was passed and the labeling had begun. Favorita reached a compromise with regulators. They were allowed to phase in labeling as new food arrived, instead of retroactively applying labels to older food products. Despite this accommodation, it’s hard to imagine a regulation as far-reaching as the stoplight regulation before Correa took office.

Another government relations challenge facing Favorita in the Correa era is limited input during the formation of regulations. The waning influence of the cámaras has reduced Favorita access to weigh in on the political process.

In March 2015 Favorita faced one of its fiercest challenges yet. With little deliberation the Correa administration imposed a new set of taxes on 2,800 imported items, creating uncertainty in the markets and runs on products such as televisions, car tires, and electronics. Shortly after the taxes were announced, the video of employee removing items from a shelf in a Favorita store went viral. PR challenges compound the financial burden such a tax places on Favorita and other retailers.

2.7 Long-term Threat to Favorita’s Business Model

The cumulative effect of these adverse regulations poses a systemic threat to Favorita’s business model. Time and again, government leaders and their supporters, backed by high approval ratings and consolidated legislative power, have shown that they doubt powerful companies are a net benefit to society. A 2015 proposal to remove terms limits seems likely to become law, and would further expand the opportunity for regulators to launch a fundamental challenge to Favorita.

So far Favorita has been able to deal with the regulatory burdens, complying on time or negotiating an extended deadline, such as the case of the stoplight label. The regulatory burdens of the state may in fact protect Favorita’s market dominance by erecting substantial barriers to entry.

But as the government’s power expands, and as Favorita’s market share continues to grow, the threats to Favorita’s core business model flourish. Decisive action on shared value—a fundamental realignment of Favorita’s interests with those of society and the

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But as the government’s power expands, and as Favorita’s market share continues to grow, the threats to Favorita’s core business model flourish. Decisive action on shared value—a fundamental realignment of Favorita’s interests with those of society and the
government—is a proactive response to such threats, a powerful lever with which to mitigate risk, and a strong signal to the government that Favorita is an ally, not an adversary.

2.8 Motivation for Implementing Shared Value

Favorita successfully employed shared value when it launched Calope and its exclusive brands—and, arguably, as it sought to raise productivity and domestic levels of professional development through its policies of internal promotion and employee shareholding. But with strong revenue and market share growth, what incentives does Favorita have to scale its shared value initiatives?

First, Shared value is an opportunity for Favorita to augment its positive effect on society. The recommendations in this report suggest Favorita leverage its role as a respected industry leader to address significant national problems in Ecuador. This report argues that these interventions can have positive impacts on society far greater than those already accomplished through current shared value and CSR initiatives listed above.

Second, adopting shared value is an opportunity for Favorita to move to the foreground the values that truly drive the people at Favorita and guide many investment decisions. It requires Favorita to voice what its employees know but do not have the language to describe: Favorita works because Ecuador benefits from it. Just as profit alone did not drive the decision to open the first Supermaxi without cigarettes, profit alone does not motivate 89% of Favorita employees to feel very committed to the firm. Through shared value, Favorita surfaces a deep well of passion for making Ecuador a better country. An explicit statement of values argument can fire up employees, and remind workers why their role at Favorita is valuable not only to the firm but also to their country. Research suggests an authentic and compelling values-based argument motivates workers, raising productivity, and catalyzes creative problem solving.

External publicity of such projects will strengthen Favorita’s brand and reputation as a fundamental part of the Ecuadorian identity. Shared value is an opportunity to demonstrate Favorita’s commitment to its mission of ‘improving the quality of life of consumers’. It can show consumers as well as employees that it carries that mission much further afield that in the clean aisles of a Supermaxi.

The most compelling potential benefit from shared value is the opportunity to mitigate political risk. Dominant in its industry, Favorita is in the crosshairs of an activist government. Authentic shared value initiatives may allow regulators to see Favorita in a new light, more partner than threat. Favorita can use shared value to pivot: to present itself as an efficient, capable partner with the government on key issues, with the reach and scope to reach millions of consumers through new shared value projects. Such a partnership may bolster Favorita’s sway with regulators, opening for the firm a seat at the table when the government sets regulations such as those in the manual or the recent temporary import tax.

However, Favorita’s ability to leverage its redefined relationship with the government into more favorable regulations is unclear. When it comes to passing laws and regulations for the retail sector, the government can be unpredictable. For example, Favorita and other businesses in the food industry have for 5 years petitioned the National Agency of Regulation, Control, and Sanitary Vigilance (ARCSA) and the National Institute for Public Health Research (INSPI), the agencies in charge of health registration for food products, to reform the cumbersome process of obtaining a health certification, which often took as many as six month. According to Favorita and other food industry businesses, the costly process prevented qualified food producers from entering the market. In February 2015, with no warning or explanation, the ARCSA finally agreed to amend the health registration process.

Shared value is not a panacea. Successful implementation of the recommendations that follow does not oblige consumers, employees, or government officials to respond as expected or as desired. Shared value does not absolve Favorita from the pressure of earning high returns, or the inevitable tension between doing so and respecting the wishes or best interests of all stakeholders. Retail industry leadership, citing regulation that has passed quickly with little debate, have expressed doubt about the hypothesis that shared value will be able to curry favor with regulators in a productive way. But shared value smooths out the roughest edges of such quandaries, and where possible, creates an alignment between the interests of the company and Ecuadorian society.
Given the political and economic context in which Favorita operates, and the company’s history and capabilities, the three recommendations that follow offer Favorita the best opportunities to create shared value (See Table 1).

**Recommendation 1: Promote Healthy Eating**

**1.1 Summary**

Favorita feeds a nation. One in five households in Ecuador bought food from a Favorita grocery store in December 2014. As the largest company in the country, and the source of nutrition for such a large proportion of its compatriots, Favorita has a responsibility to confront the pressing public health problem of rising rates of obesity. Regulators, who seem keen on curbing Favorita’s market power, agree.

Fortunately, through the lens of shared value, Favorita’s addressing obesity is not only an expression of the firm’s values, it is also a business opportunity. As it combats the rise of obesity, Favorita can earn political capital through a partnership with the Ministry of Public Health. A multi-level marketing campaign aligned with the firm’s history and values and the Ministry’s priorities will enable Favorita to tap into, accelerate, and profit from consumer preferences for organic and nutrient-dense food. Finally, Favorita can promote healthy shopping by applying lessons from behavioral science to nudge consumers to make healthier decisions.

**1.2 Obesity in Ecuador**

Nearly 2 in 3 adults in Ecuadorians are obese or overweight. Among children age 12 to 19, some 26% are overweight and obese, according to the Ministry of Public Health in Ecuador. Obesity rates have been rising quickly, growing more than 10 percentage points per decade since 1980.

Obesity in Ecuador disproportionately affects women and minorities. The prevalence of obesity among women 19 and older as compared to men of the same age is greater by more than 10 percentage points, a trend consistent with those in Venezuela and other countries. Obesity among women has grown faster in Latin America than in any other region in the world. The children most likely to be obese are indigenous: 30% of indigenous children were obese in 2012. Afroecuatorians had higher rates of overweightness and obesity (64.4%) than other ethnic groups. Across income brackets, obesity levels remained remarkably consistent for children, while
among adults, obesity and income were positively correlated. 66.4% of adults in the top income quintile were obese or overweight, compared with 54.1% of adults in the lowest quintile.\textsuperscript{54}

Obesity contributes to a host of diseases associated with sedentary lifestyles common among urban dwellers, such as heart disease, type 2 diabetes, and some types of cancer.\textsuperscript{55} A 2014 study by the McKinsey Global Institute (MGI) estimates that 5% of deaths worldwide are caused by obesity.\textsuperscript{56}

This array of non-communicable illnesses, often lumped with obesity and called metabolic syndrome, drive anywhere from 2-9% of global health care spending according to the same study.

The indirect financial costs of obesity are high as well. Increased sick time, low productivity, fewer healthy workers and other indirect costs of obesity reduce global economic output by $2 trillion, roughly the same cost as smoking or terrorism.\textsuperscript{57} According to MGI, Mexico and Brazil incur costs related to obesity and similar conditions of 2.5% and 2.4% of GDP, respectively.

1.3 Drivers of Rising Obesity

Health experts agree that behind rising obesity is a complex combination of scores of factors that include cultural shifts, changes in marketing, food production, biology, social norms, individual psychology, and activity environment.

Supermarkets influence some of the factors that drive obesity, such as access. When Favorita opens a new Supermaxi, it places within reach of the local community tens of thousands of products that may have previously been unavailable. (In this sense, Favorita’s fundamental business model is a form of shared value: opening new markets and expanding choices for consumers.) The net impact of the arrival of a Favorita supermarket on a community’s health, however, is complicated. It rests on a confluence of factors such as product mix, consumer decisions, and diet modifications that lead to health outcomes ranging from stable, improved, or deleterious.

New access to unhealthy (low-nutrient-dense) food may be one of the reasons people in countries formerly considered poor are becoming overweight. They are consuming more ultra-processed foods high in the holy trinity of unhealthy nutrients of sugar, salt and fat, and are seen as replacing traditional meals that include few ultra-processed food.\textsuperscript{58} In Brazil consumption of ultra-processed foods such as sodas, snacks, and frozen foods as a proportion of an average family food basket rose from 18% to 26% between 1987 and 2003.\textsuperscript{59} Surveys since then suggest an average annual growth in the consumption of ultra-processed foods of 2.1%, almost twice the pace of consumption growth of high-income countries.\textsuperscript{60}

Grocery stores have an impact on eating habits that extend beyond simply granting access to new foods. Behavioral science literature strongly suggests that grocery shoppers make decisions in ways that are more reactionary than rational, responding to contextual clues and circumstances in which they are shopping.\textsuperscript{61} People who shop, in other words, are ripe for manipulation. And many grocery stores exploit this vulnerability to sell their most profitable products. Placing beverage products at the end of aisles, for example, increased sales of alcoholic and nonalcoholic beverages such as carbonated drinks, coffee, and tea by 25 - 114%.\textsuperscript{62} The same study estimates that in UK

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<th>RECOMMENDATION</th>
<th>HOW IT CREATES VALUE FOR FAVORITA</th>
<th>HOW IT CREATES VALUE FOR SOCIETY</th>
<th>TYPE OF SHARED VALUE</th>
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<tbody>
<tr>
<td>Promote healthy eating</td>
<td>Prepare for growing demand for healthier, organic foods; build political capital</td>
<td>Combat obesity by encouraging healthy eating</td>
<td>Type 1: Create new markets</td>
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<tr>
<td>Build a resilient supply chain</td>
<td>Raise producer productivity and mitigate risk</td>
<td>Promote market access for marginalized communities, raise labor and environmental compliance</td>
<td>Type 2: Redefine productivity in the supply chain</td>
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<tr>
<td>Lead coalition to voluntarily transition to natural refrigerants</td>
<td>Reduce regulatory uncertainty; build brand and political capital</td>
<td>Reduce polluting GHG emissions and incentivize other LatAm countries to do the same</td>
<td>Type 3: Clusters</td>
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stores up to 30% of sales are generated by products placed in end-of-aisle displays, evidence that supermarkets leverage consumers’ decision fatigue to sell profitable products.63

On the other hand, supermarkets can have an important role to play in mitigating the obesity epidemic. In 2010, President Obama’s White House Taskforce on Childhood Obesity identified limited physical access to healthy food as a major driver of the childhood obesity epidemic in the US.64 The report also identified food pricing and responsible marketing to children as other ways for supermarkets to combat childhood obesity.

1.4 Potential Solutions to Rising Obesity

Treating a complex challenge such as obesity requires a multi-faceted approach that combines elements of personal responsibility, education, and environmental factors such as access to food, price points, and fiscal policy. These interventions look to influence behavior at a conscious level (taxes raise prices to discourage consumption), and also at a subconscious level (placing nutrient-dense food in prominent locations).

Though an effective overall strategy will leverage multiple interventions simultaneously, the MGI study on obesity argues that a lack of an overarching strategy should not deter individual actors who can offer part of a solution. Everyone needs to contribute to solving obesity.

The Ecuadorian government is fighting obesity through two sets of policies. The first set of policies is designed to address asymmetries of information between consumers and producers. The stoplight label, mandatory since 2014, is intended to help informed consumers make healthy choices about the foods they purchase. The Ministry of Health simultaneously launched dozens of public health awareness campaigns with events and publications to educate consumers on nutrition.65

The government is attacking obesity on the supply side as well. In September 2014 Correa called for a ‘fast-food’ tax on foreign restaurants such as Burger King and KFC. Correa argued that such a tax would protect domestic producers by incentivizing consumers to buy from them rather than processed, nutrient-light food at foreign chains.66

In a presentation on the 2013 National Health and Nutrition Survey, Ecuador’s Ministry of Health and The National Institute of Statistics and Surveys suggested that to fight obesity, the government should encourage families to prepare healthy traditional meals such as soup, and dishes with rice and meat or fish.67

These recommendations mirror those of Brazil, a country with similar health challenges. Brazil’s national nutritional guidelines are considered by many health professionals as the most sensible and efficacious national health guidelines in the world.68 Brazil’s guidelines deliberately avoid debates around specific nutrients and calorie counts. Instead, Brazil, similar to Ecuador, recommends healthy meals, cooked at home and often shared with loved ones. Home-cooked meals are more likely to include healthy, natural foods, and balanced nutrients and calories. Other countries seem likely to adopt recommendations similar to the ones in Brazil’s guidelines. See insert for more information on Brazil’s nutritional guidelines.

The Ministry of Public Health in Ecuador also pressed the private sector to adopt responsible practices around the sale of food high in saturated fat, trans fat, sugar and salt, especially if it involves marketing to children.69 By calling on consumers, businesses, health officials, and policy makers to contribute to solutions to obesity, the Ministry of Health acknowledges that a multi-sector response is the best hope for combating obesity in Ecuador.

1.5 Favorita’s Shared Value Opportunity

Favorita is integral to the way Ecuadorians eat. But the way many Ecuadorians eat today is unhealthy. In this dissonance exists an opportunity for Favorita to create shared value—to make money and address obesity.

Taking on obesity is a powerful approbation of Favorita’s ethical values. It declares that today, just as in the era that followed the Wright - Durán Ballens, when Favorita chose not to profit off harmful products, the firm’s values of responsibility, client service, and respect guide company behavior. It exalts the firm’s motto of ‘improving the quality of life’ of Favorita shoppers. It offers employees an even deeper motivation for their commitment to Favorita, one that moves beyond profit and loss and into the company’s role in society. This new motivation may help employees to be more productive.

By addressing obesity, Favorita can lock down a segment of the market poised for growth—organic and natural foods. A 2014 report by BBC Research predicted the market for organic products to grow 15% annually in every region of the world, and over 18%
Brazil’s 2014 ‘Dietary Guidelines for the Brazilian Population’

Carlos Monteiro, a professor in Brazil and lead author of Brazil’s dietary guidelines, offers one ‘golden rule’ for Brazilians to follow when deciding what to eat: ‘Always prefer a variety of minimally processed foods and freshly prepared dishes and meals to ultra-processed products.’

The guidelines encourage people to limit processed foods, and to avoid ultra-processed foods. They provide examples of healthy meals chosen by Brazilians.

Monteiro and co-authors would like Brazilians to think that ‘eating is a natural part of social life.’ They suggest eating ‘regularly and carefully, in appropriate environments, and in company.’

The guidelines recommend people shop in stores that sell ‘natural or minimally processed foods.’ They advise shoppers to be wary of food advertising and marketing.

Brazil’s conception of nutrition as social and integral to a balance life pushes back against a school of thought in dietary nutrition that recommends people seek out or avoid particular nutrients. Monteiro summed up his opinion of the food pyramid in this graphic he included in a 2014 presentation in Washington, DC.
annually in markets with low current levels of organic demand, such as Ecuador. In Mexico the market for organic foods is projected to grow to $3.3 billion in 2018, up from $1.2 billion in 2011. One study predicted the market for organics in Brazil to grow 25% per year. In South Africa organic food consumption grew nearly 30% in 2012 alone.

The US market for organics foods has grown to $35 billion in 2013, a seven-fold increase from just over $5 billion in 2000. 70% of organic food sales are food and beverages; fruit and vegetables make up 43% of total organic food sales. 73 74

Whole Foods Market, a US grocery retailer specializing in unprocessed and organic foods, has capitalized on growing US demand for organics. Whole Foods revenue has grown to over $14 billion, up nearly 50% since 2009. 75

Economic and demographic trends in Latin America suggest consumers in the region will be increasingly likely to make purchasing decisions based on value, rather than cost. Americas Market Intelligence predicts that in 2020 Latin America consumers will ‘change diet and lifestyle habits, creating new market for fresh foods.’ 77 Investing today in organic and whole foods is an opportunity to move ahead of the market.

Addressing obesity is a chance for Favorita to accrue political capital. The Ministry of Public Health is actively campaigning against obesity. President Correa makes headlines when he highlights the problem of obesity and his efforts to combat it. A partnership between Favorita and the Ministry of Public Health, explored in more detail below, would convey a strong sense of commitment to these goals. A stronger relationship with the government may insure against future regulations that impede Favorita’s business, or may bolster the company’s efforts to demonstrate fallacies in past laws or regulations. In addition to new lobbying clout, a partnership with the government is a way to achieve desirable relationships with government agencies previously denied the firm, such as a contract to supply food to the armed forces kitchens.

1.6 Strategy for Promoting Healthy Eating

A strategy to promote healthy eating at Favorita has five parts: values identification, research, partnerships with the government, marketing, and behavior change.

In 2013, 2 out of every 10 dollars Ecuadorians spent on food was spent in a Favorita grocery store. 78 In the modern grocery retail sector, Favorita controlled 43% of total sales in 2014. Some 6% of adults representing 17% of households in Ecuador purchased food from a Favorita store in December 2014. 79 For many Ecuadorians, shopping at Favorita is an intimate part of their lives, and, for two generations of Quiteños, an integral part of their health, palate, and identity as Ecuadorians.

These factors make Favorita unique. It is the unquestioned leader of an industry in which the customer experience often transcends the transactional, and infilters the personal. Given its clout in the hearts and minds—and wallets—of its compatriots, Favorita has a unique responsibility to consider the best interest, to look beyond the profit and loss of its business and to examine the company’s role in building and sustaining life in Ecuador.

STEP ONE: IDENTIFY AND STATE VALUES

To launch an authentic marketing campaign that connects Favorita’s values to a new focus on healthy eating, Favorita must first name and announce those ethical values. Additional research would allow the firm to identify the values that today drive high levels of commitment and productivity from employees. Those values may be ones explicitly championed by the company—honesty, ethical behavior, loyalty, responsibility, client focus, efficiency and productivity, teamwork, and respect—or others unwritten but acted upon.

To build momentum for an authentic push to address obesity, or any other shared value initiative, firm leaders need to surface these values in writing and in deed. Internal communications should tie values into...
ongoing policy—explicitly tying efforts in sustainability and philanthropy to the core and public values of the firm.

Firm leaders also will need to tie these values to Favorita’s decision to combat obesity. Employees will feel most motivated to help Favorita tackle obesity when they see the problem first hand. Favorita should create opportunities for Favorita employees to meet and volunteer alongside people working to address the problem of obesity. Staff who visit health centers, clinics, or schools will have a clear idea of why obesity is an important problem for Favorita to address, and may be motivated to get on board.

STEP TWO: RESEARCH
Further research is also needed around what types of interventions would produce desirable health outcomes and how those changes would impact Favorita’s revenue and profitability in the short- and long-term. Through such research, Favorita would be able to establish a framework and set quantitative targets by which to track progress. The marketing plan described in step four proposes several interventions.

STEP THREE: COORDINATE WITH THE MINISTRY OF PUBLIC HEALTH
While gathering research on company values and potential interventions, Favorita should build a medium-term partnership with the Ministry of Health, the agency leading efforts to stymie the rise of obesity. An effective partnership with the Ministry will require extensive coordination on goals, strategy, and implementation. While Favorita should arrive with proposals for interventions that suit the firm’s capacities and needs, it will also need to be flexible to find common ground with a large state agency.

STEP FOUR: LAUNCH A MULTI-LEVEL MARKETING CAMPAIGN
Independent research and a partnership with the Ministry of Health will guide the best direction for the marketing campaign, but a what follows is a preliminary multi-level marketing plan based on best practices from throughout Latin America.

1. A publicity campaign that promotes Favorita as an affordable family-friendly neighborhood store to buy meals meant to be shared with family around a dinner table.
   a. This campaign promotes meals rather than specific products. It envisions a rich dining experience at home with loved ones, made possible by high-quality food at Favorita.
   b. In 2011 Ecuador’s Ministry of Public Health called on consumers to eat more home-cooked traditional Ecuadorian meals. Food prepared at home is more nutrient-dense and contains fewer processed food products than prepared food consumed outside of the house.
   c. On this point, Favorita and the Ministry of Public Health have remarkable alignment. Favorita’s publicity campaign to promote healthy home-cooked meals directly advances the Ministry’s objectives and has the potential to anchor a partnership between the two institutions.
   d. A key component of Favorita’s marketing campaign is employee buy-in. Visits to health clinics, hospital, recreational centers, etc., will serve a dual purpose. First they will move the problem of obesity from the abstract to the real, and demonstrate for employees the urgency behind Favorita’s marketing campaign. Second, these visits will produce good material for the publicity campaign.

2. Modify Favorita’s product mix to favor nutrient-dense and unprocessed food.
   a. The business case of changing product mix rests on changing consumer preferences.
      i. Detailed research on consumer trends should inform strategies from this perspective.
      ii. The objective is to anticipate growth in healthy foods, and establish Favorita as the clear leader in this segment.
      iii. Favorita may also have an opportunity to shape tastes for perishable foods through initiatives such as the ‘Action Plan for Perishables.’
   b. In January 2015 a commercial manager in charge of perishable foods activated the ‘Action Plan for Perishables.’ The action plan listed challenges to selling more perishable foods, such as ‘perception of high price, display options, and product ripeness,’ and proposed interventions to address each area concern.
      i. Investing in the Action Plan is a way for Favorita to expand its produce offerings and promote healthy eating, removing barriers that prevent consumers from purchasing high-quality produce. It should investigate how best to advance the objectives of the Action Plan.
   c. Modifying Favorita’s product mix may require Favorita to reassess its policy of allocating shelf space by profitability.
STEP FIVE: MAKE IT EASIER FOR CONSUMER TO CHOOSE HEALTHY FOODS

After a partnership with the Ministry of Public Health and a marketing campaign, Favorita’s third opportunity to promote healthy eating is through modifications to consumer behavior. Favorita should adopt interventions that encourage, or ‘nudge,’ consumers to purchase healthier foods. Such interventions reset the default options consumers face when they shop, increasing the likelihood they buy healthy food.

In a 2014 report, The United States Department of Agriculture (USDA) proposed a set of interventions for grocery retailers to promote healthy food purchases by US consumers. These insights draw heavily on merchandizing strategies well-known in the supermarket industry and used to draw consumers’ attention to high-margin items. The report’s suggestions provide a useful framework for potential nudges to promote healthy food choices in Favorita grocery stores.

USDA research indicates that through ‘signage, lighting, and placement,’ grocery vendor can make healthier foods more appealing to customers. One simple step is to place healthier food at eye level. Shelf labeling systems, already common in Favorita stores (‘rompe tráficos’), are an effective way to draw attention to increase consumption of nutrient-dense products. Favorita would need to incorporate these strategies into its merchandizing cycle, just as they would any new display strategy, to ensure they remain fresh and relevant for consumers.

Another way to nudge consumers to choose healthy food is to locate complementary foods—the elements of a healthy meal, for example—nearby one another. Here too is an opportunity for a partnership with the Ministry of Public Health to pay off. The Ministry may consider incentivizing the types of nudges that promote their goal of encouraging families to prepare and share meals together at home.

Another area to explore is in store design, which is likely linked with consumer choices. Given Favorita’s commitment to maintaining clean and comfortable shopping spaces through periodic renovations, additional research on the impact of store design on consumption decisions may advance Favorita’s goal of encouraging healthy consumption habits.

The USDA encourages grocery retailers to reinforce these efforts with direct in-store marketing efforts, such as nutritional programs and product sampling. Favorita’s cooking classes is a good place to start developing strategies connected to this idea.

Finally, the USDA suggests that stores that adopt these behavioral nudges do so with products that are profitable or revenue neutral, a recommendation Favorita’s CFO will likely second.

Recommendation 2: Build a Resilient Supply Chain

2.1 Summary

Favorita’s history of successfully procuring supplies belies the vulnerabilities of its long and intricate supply chain. With minimal data collection and oversight of its supply chain, Favorita has only a limited idea of the risks inherent in a supply chain worth $1.3 billion in 2013. As companies such as Walmart and Unilever have demonstrated, effective supply chain engagement strategies can raise productivity, increase the supply of hard-to-procure items, and have profound impacts on the social and environmental conditions of the communities touched by the supply chain.

Building a resilient supply chain is a multi-year shared value opportunity well-aligned with government priorities for economic and social development. Favorita can begin to add resiliency to its supply chain in two ways: First, by writing and articulating a vision for its supply chain; and second, by developing a supplier code of conduct that includes oversight and technical assistance in the areas of productivity, environmental preservation, and labor rights.

2.2 Supply Chain Vulnerabilities

In 2010 Walmart decided that its current sustainability efforts were not enough. Though its goals of cutting carbon emissions at stores 20% by 2012 and doubling fleet efficiency by 2020 would reduce the firm’s direct carbon emissions, Walmart acknowledged that the ecological impact was much larger than the direct emissions of its operations. The firm set a target of reducing by 10% the net energy consumption and emissions of its supply chain—which, Walmart noted, likely consumed many dozen times more than the firm’s direct operations.

The impact of supply chains for large retailers like Walmart and Favorita extends far beyond greenhouse
gas emissions. Favorita purchases produce from thousands of domestic and international suppliers. It indirectly supports tens of thousands of jobs in agriculture, food processing, transportation, management, and manufacturing. Favorita’s sourcing investments sustain employees and businesses and even entire communities in which Favorita is the major buyer. In 2013 Favorita spent $1.3 billion to supply its stores (cost of goods sold), more than the budget of Ecuador’s Ministry of Transportation and Public Works. Of the $1.3 billion Favorita spent on sourcing, 85%, or $1.05 billion, went to domestic producers. According to one rough estimate, based on a multiplier used by South African grocery Pick n Pay, the total direct and indirect economic impact of Favorita's supply chain in Ecuador is closer to $3.5 billion. Producing for Favorita, then, is essentially an industry unto itself.

Expansive supply chains are vulnerable to a multitude of risks, among them erratic climate events and environmental degradation, social unrest, and political uncertainty. Ecuador’s March 2015 emergency tax on imports, and the ensuing store runs and vitriol, reveals part of Favorita’s vulnerability to supply shocks.

As businesses have come to better understand these vulnerabilities, the practice of supply chain management has expanded rapidly. Many multinational corporations, driven by altruism or shareholder pressure or both, report on the status of their supply chain. An industry of business professionals supports hundred of companies looking to add transparency to their supply chain. Firms such as Unilever and Ikea benefit from brand recognition and positive brand associations due to their thorough supply chain engagement.

2.3 Favorita’s Supply Chain Today

Favorita has a well-established supply chain, with strong relationships with suppliers, stable price and production agreements, and consistent, on-time delivery of high-quality products. Aside from standards on price and product quality, however, Favorita’s current engagement with suppliers is limited.

In its Manual for General Suppliers, Favorita lists business standards and expectations for food providers. Nearly all of the standards pertain to price, product quality, and product delivery. The manual twice mentions the labor and environmental standards to which Favorita holds its suppliers. Suppliers must ‘respect all the labor rights of their workers; not discriminate in any way; and must not tolerate child labor.’ The manual does not suggest ways for either the supplier or Favorita to verify the supplier is meeting these standards.

Environmental expectations for Favorita suppliers are similarly vague. The manual promises that one of the criterion by which products will be evaluated, in addition to good price and high quality, is ‘environmentally friendly characteristics.’ Another standard is that suppliers use ‘best practices with its workforce, its suppliers, the environment, the government, and the community in general.’ Again, Favorita does not define what it means by such standards or how it will assess whether they are being met.

The two corporate teams in Sangolquí that source products for Favorita often do so through well-established and long-held relationships with buyers who purchase products and produce from groups of small or mid-sized producers. The sourcing teams meet with suppliers once per year, and with large suppliers more than once per year.

When Favorita considers a contract with a new provider, representatives first visit the potential supplier to ascertain the standards of hygiene. Field representatives complete the Control Guide (Guía de Control), a list of 50 criteria Favorita uses to evaluate on-site sanitation and safety measures. The criteria are phrased as yes or no questions, such as whether or not surfaces in the working area are clean or drains are free of debris. Labor, environmental, and community-based standards are not included in the Control Guide, and do not seem to form part of Favorita’s criteria for evaluation. The passing references to labor and environmental standards in the manual seem to be used as retrospective assessment measures, not as practical vetting standards.

For established providers, field representatives made an annual visit. They document their findings in informal text documents that loosely track the provider’s status on meeting the criteria in the Control Guide. Records from these visits vary in quality and depth. The reports include several pictures of the sites, and general observations the representatives deem of interest. A report from October 2012 said that at the Jamil Fruit Farm there are ‘no bad smells’ and that all workers were well-equipped with gloves and uniforms in the food processing area. In interviews, one member of senior management
noted that Favorita’s supplier engagement consisted of supervision, but did not include technical support. He suggested that Favorita has a lot more to do in connecting providers with professional training that will help them increase productivity and improve their environmental, social, and governance performance.

2.4 Favorita’s Opportunity for Shared Value Through a Resilient Supply Chain

In building a resilient supply chain, Favorita has an opportunity to raise agricultural productivity, reduce its exposure to external risks, and earn political capital as it increases the social and economic impact its supply chain has on Ecuador. Building a resilient supply chain is an example of the second form of shared value, redefining productivity in the supply chain.

In a resilient agricultural supply chain, farmers are productive. As yields rise and inputs decrease, farmers are better prepared to absorb shocks from climate events or social unrest. More efficient output may decrease the costs of production, creating value for Favorita through lower prices and for the producer through higher output and larger margins. Literature suggests that the opportunities for such intervention are expansive.

Through investments in its coffee supply chain, Nestle was able to increase the productivity of third-party smallholder coffee producers in Colombia. Unilever is training farmers in its tea supply chain in Kenya as a way to raise productivity, raise incomes, and add resiliency to its supply chain.

Deeper supply chain engagement may also open opportunities for Favorita to meet growing demand for organic products—something the company has struggled to do at times. Or it may allow the company to continue to increase the percentage of products it sources domestically, which in 2014 rose to 91% from 86% in 2007.

One way for Favorita to add resiliency to the supply chain is to make purchases that have the largest possible positive impact on local economic development. Favorita’s high percentage of purchases from domestic suppliers is an expression of this idea (and a reflection of the economics of importing goods into Ecuador). The SPCM’s Manual of Supermarket requires retailers to purchase from small domestic suppliers, an intervention that assumes buying from small suppliers will have a large multiplier effect and increase the positive economic impact large retail chains have on communities in their supply chain.

Walmart embraced the idea of targeted sourcing priorities in 2011 when it launched the Global Women’s Economic Empowerment Initiative (see box). In addition to good press, by training women and supporting the businesses they own, the initiative generates more competition to join Walmart’s supply chain. Walmart expects its initiative to add resiliency to its supply chain. Oxfam and Unilever also provide evidence to support the idea that sourcing from small and women-owned businesses has an outsized impact on local economic development.

WALMART’S GLOBAL WOMEN’S ECONOMIC EMPOWERMENT INITIATIVE

Walmart’s Global Women’s Economic Empowerment Initiative aims to increase sourcing from women-owned businesses and to promote diversity and inclusion opportunities among suppliers. As part of the Initiative, Walmart has committed to source $20 billion from women-owned companies between 2011 and 2016 and to double sourcing from women at international stores. The initiative includes a plan to train and mentor nearly 1,000,000 women in accessing the agriculture value chain and preparing for jobs in retail and manufacturing.

By 2013 Walmart had developed a database to track current and potential women-owned businesses, and a site on Walmart.com that links small women-owned businesses with customers.

Through its support of the Alliance for Entrepreneurship and Innovation (AEI), Favorita has already embraced a philosophy similar to the one that guides SPCM’s 33% rule. First-time entrepreneurs that AEI cultivates produce new or higher-quality products for Favorita to buy, diverting money from larger agro-processors to startup domestic companies. Buying from AEI-sponsored startups ensures the money Favorita spends on products ends up with local entrepreneurs, not large agroprocessors. Favorita’s support for small entrepreneurs increases their opportunity to acquire new knowledge and skills. The same is true of Favorita’s efforts to connect with small producers through producer expos (ferias) sponsored by the state or the company. Each of these benefits is in line with the goal of the Ecuadorian government to change the country’s production matrix.

Favorita can carry this idea one step further through an explicit commitment to support business ventures that form part of the Popular and Solidarity Economy (EPS). The premise of EPS is that shared ventures bring shared prosperity. EPS is an avenue for marginalized
A resilient supply chain aligns also with the government’s goal of eradicating child labor. Rigorous data collection from suppliers will allow Favorita to identify and pursue child labor in the supply chain; transparent data sharing will provide concrete validation that the company is taking decisive action to eliminate what child labor exists.

2.5 Strategy for Building a Resilient Supply Chain

Adding resiliency to a supply chain as large and complex as Favorita’s will likely take several years and a concerted effort from stakeholders internal and external. The initial steps are described below.

STEP ONE: IDENTIFY VALUES
A robust supply chain engagement strategy begins when committed internal stakeholders locate and name the values within Favorita that motivate the firm to launch such an initiative. Favorita’s core values drive policies such as internal promotion and active philanthropic participation—and contribute to high levels of employee commitment to the firm. Building a resilient supply chain and other two recommendations in this report are more opportunities for Favorita to express its values.

STEP TWO: COMMUNICATE VALUES
Next, firm leaders build a convincing case for action by enunciating the core values and demonstrating consistency between values and actions. As they communicate those values to internal stakeholders, Favorita’s leaders help internal and external stakeholders prepare for a shift in policy and responsibility. Of special importance is buy-in from middle management at Favorita and senior leaders at large suppliers, who may see the largest changes in their day-to-day responsibilities.

One way for Favorita to build buy-in from internal stakeholders is to show them the need to build a resilient supply chain. Executives and staff will better appreciate Favorita’s efforts to help suppliers raise productivity, protect the environment, and promote community development when they have met farmers, seen farms, and walked through communities.

STEP THREE: CREATE GOVERNANCE STRUCTURE
Favorita may benefit from establishing a formal internal governance structure that will oversee efforts to deepen supply chain engagement and promote other sustainability initiatives. An effective committee will likely include internal and external stakeholders that represent a wide range of viewpoint (See below.)

Pick n Pay, a grocery chain in Southern Africa with annual revenue of $4.5 billion, institutionalized its overall sustainability efforts when it added three executive bodies to its corporate governance structure along with one implementation team. A Social and Ethics Committee provides governance and oversight to all of Pick n Pay’s sustainability initiatives. Two sustainability steering committees, one focused on strategy and one on implementation, meet regularly. And a Sustainability Team implements Pick n Pay’s supply chain resiliency programs and other initiatives day-to-day.

STEP FOUR: CREATE A VISION STATEMENT
Favorita’s next step to begin a deeper engagement with its supply chain is to compose a formal set of guiding principles that will instruct its revised relationship with suppliers. Favorita’s vision for a resilient supply chain should reflect the values of the company, and the goal of its supplier engagement initiative, which may include higher productivity, mitigated environmental impact, and targeted purchasing strategies that amplify the positive social impact of Favorita’s supply chain.

Pick n Pay describes such a vision in its 2013 Sustain-
able Living Report. In engaging with suppliers, Pick n Pay hopes to ‘[enter] fair and efficient business relationships, develop new products, [encourage] continuous development of small businesses and suppliers, and contribute to job creation in Africa.’

A values-laden vision for a resilient supply chain will inform Favorita’s policies for deciding from whom the company purchases. Walmart’s explicit commitment to doubling purchases from women-owned businesses is a good example of a new policy to fit new goals for supplier engagement. Favorita’s vision statement may reflect its level of commitment to support supply chain development initiatives such as those sponsored by AEI and EPS.

**STEP FIVE: CREATE A SUPPLIER CODE**

Favorita’s vision for supply chain resiliency will also guide Favorita’s revised supplier code of conduct. A supplier code of conduct sets specific standards to which Favorita will hold its suppliers. Here Unilever provides an instructive example.

In 2010 Unilever launched its Sustainable Agriculture Code, a set of standards and recommendations the company applies to suppliers with respect to environmental, labor, and local economic development. Unilever’s code requires suppliers to document their use of pesticides, for example, and also prohibits them from allowing pregnant women to apply agrochemicals. It recommends suppliers check the quality of bodies of water that could be affected by agrochemical runoff. It requires suppliers to have and maintain an irrigation system suitable to local conditions, and to document employee trainings. The code recommends suppliers prioritize the employment of people living nearby the site of operations, and make accommodations for local holidays and festivals. Unilever holds suppliers responsible for meeting these standards, though it is farmers who must apply them. Marks & Spencer, a UK grocery retailer, has a similarly expansive set of expectations for its suppliers.

Unilever’s code is akin to Favorita’s Control Guide (Guia de Control), the standards by which Favorita assesses the hygiene of producers. Expanding the scope of Favorita’s Control to include environmental, labor, and community engagement strategies, as Unilever has undertaken through its code, is a natural extension of Favorita’s vision statement for its supplier engagement.

Building a resilient supply chain begins with values, buy-in, a vision, and a code of conduct. What follows is no less important: communication with suppliers, metrics, technical support, and monitoring and evaluation. Each step adds resiliency to an extended supply chain, and has the potential to create economic and social value for Favorita and Ecuador.

**Recommendation 3: Lead a Coalition to Transition to Natural Refrigeration Systems**

**3.1 Summary**

In 2012 Ecuador proudly declared that it had eliminated the use of CFC, an ozone-depleting gas used in refrigerators and air conditioners. Ecuador had agreed to eliminate CFCs when it signed in 1990 the Montreal Protocols, a global pact that regulates harmful atmospheric gases such as F-gases like CFCs. A year later the

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**PICK N PAY: VISION AND ACTION TO BUILD RESILIENT SUPPLY CHAIN**

**Vision:**
- Fair, efficient and mutually beneficial business relationships
- Develop new products and meet evolving customer needs and environmental requirements
- Give “new product innovation” the best chance of success on our shelves
- Committed to continuous development of small business and suppliers
- Contribute to job creation in Africa

**Action:**
- Conduct annual food safety audits at supplier factories and production facilities
- Store visits
- Joint business planning sessions
- New store opening programs
- Technical support
- Compliance training
- Supplier conferences
- Dedicated enterprise development program

**Key issues:**
- Resource efficiency
- Opportunities for cost reduction
- Transformation and enterprise development
- Fair pricing, research and development support, contracts and agreements, certification, infrastructure and logistical support
Ministry of Industry and Productivity announced its plan to meet the next step in the Montreal Protocol: to reduce the use of HCFC by 97.5% by 2030. HCFC is another type of F-gas; its negative environmental impact are less severe than those caused by CFCs.

Favorita can help the government meet its goal ahead of schedule. It can also play a leading role in helping Ecuador move away entirely from contaminating F-gases. Favorita should utilize its industry clout and immense purchasing power to lead a retail coalition in Ecuador that will voluntarily transition away from HCFCs ahead of schedule, leapfrog other damaging F-gases, and prepare Ecuador to adopt refrigerants that pose minimal pollution risk, such as CO₂ and ammonia.

3.2 Context and Challenges with F-gas Refrigeration Systems

In 1989 companies and governments came together to preserve the earth’s rapidly depleting ozone layer by confirming a global ban on CFCs. Every country in the world signed onto the Montreal Protocols, and CFC use dropped precipitously. The Montreal Protocols is among the most successful demonstrations of the potential power and effectiveness of global solutions to large-scale collective problems.

While the Montreal Protocols averted a crisis, it has not solved the problem of pollution from refrigerants. Manufacturers replaced CFCs with two others types of F-gases, HCFCs and HFCs. HCFC gases deplete the ozone layer much more slowly than CFCs; HFC gases do not deplete the ozone. Both are effective refrigerants because they trap heat—a property the gases maintain inside the back of a refrigerator or, if released during shipping, maintenance, or disposal, while floating in the atmosphere.

Due to their exponential capacity to trap heat, HCFCs and HFCs and other synthetic refrigerants released into the atmosphere trap and retain heat with an efficiency several thousand times that of CO₂. And as much as 61% of F-gases ever produced has been released into the atmosphere. By 2005 scientists estimated that F-gases accounted for 17% of climate change impacts.

Used F-gases are difficult to dispose of. Recycling requires specialized machinery and is often available only for pure, unadulterated forms of F-gases. Another disposal technique is to incinerate F-gases at very high temperatures, and to collect decomposition products, such as hydrogen fluoride and hydrogen chloride.

Companies that use HCFCs or HFCs—and especially companies like grocery retailers with high demand for air conditioning, refrigerators, and freezers—can see a significant percentage of total greenhouse gas emissions attributable to such chemicals. In 2014 Walmart reported that refrigerants account of 12% of its GHG emissions. Favorita is no exception. A 2015 study by Carbon Masters, a British carbon emissions consulting firm, found that refrigerants at Favorita accounted for 7,000 tons of CO₂ emitted, 13% of the firm’s total GHG emissions in a one-year period.

Governments and business groups have noticed the disproportionate climate impact of F-gas refrigerants, and, as an alternative, have begun to encourage retailers to use natural refrigerants. The Consumer Goods Forum (CGF), a retail association, advocated for its members to transition away from HFC-based cooling systems to cooling systems powered by natural coolants with much lower emissions, such as CO₂ and ammonia. In 2010 Walmart signed an agreement with the CGF to begin to phase out HFCs and to transition to natural refrigerants by 2015. Retail giants Ahold and Tesco have similar commitments. Thanks to efforts by the CGF and pioneering retailers, the Environmental Investigation Agency reported that in 2015, 330 stores in the UK and Ireland used natural refrigerants.

In 2015 the EU passed a law meant to phase out the use of F-gases, citing what they see as an inevitable ‘global phase-down of F-gases.’ Honeywell described the regulation as ‘a game-changer for the whole refrigeration industry.’ The legislation prohibits the use of HCFCs, and will restrict sales of HFC and other F-gases to reduce consumption to just 20% of its current quantity. The legislation also bans the use of all F-gases where natural alternatives are cost-effective.

Though high ambient temperatures have proved an obstacle for implementing CO₂ and ammonia refrigeration systems in the past, new technologies are changing that. In 2012 Carrefour trialed parallel compression technology in Spain, Italy, and other locations with high summer temperatures. They declared the program successful in 2014 when they announced plans to expand the program to 10 other cities in Europe. In South Africa, retail chain Makro employs reclaimed condensate to ensure CO₂ refrigerators operate effec-
tively even in high temperatures. And Woolworths reported no operational challenges with its CO2 systems in cities with ambient temperatures as high as 50 degree Celsius.

NATURAL REFRIGERANTS IN SOUTH AFRICA

South African retailers Makro, Pick n Pay, and Woolworths are leading the way on using refrigerator systems with natural refrigerants in the developing world. Half of Makro’s stores use CO2 refrigerator systems; Pick n Pay and Woolworths have CO2 systems or CO2/HFC hybrid systems in 70 stores. Pick n Pay cools four of six distribution centers with ammonia. Makro reports that compared with conventional refrigeration systems, CO2 systems that utilize recycled refrigerant condensate require 35% less energy.

3.3 Refrigerants at Favorita Today

One of the reasons the share of Favorita’s carbon emissions coming from refrigerants is so high is that 70% of its refrigerators and freezers run on HCFC-22, an HCFC gas with a 12-year global warming potential (GWP) of 1,810. (HCFC-22 is 1,810 times more powerful than CO2 as a GHG over a 12-year period.)

Favorita is required to phase out its use of HCFCs, and is set to do so by 2018, 12 years before the final deadline set by the Montreal Protocol. Favorita plans to replace HCFCs with three HFC gases: R-507, R-404, and R-134.

Unfortunately, R-507, R-404, and R-134 are powerful greenhouse gases. With GWPs of 4,000, 4,000, and 1,000, respectively, two of the three are have more potential to contribute to global warming than Favorita’s current refrigerant of choice, HCFC-22. (See Table 4)

Favorita’s maintenance department, tasked with keeping the company’s refrigerators in good condition, is unsure of how to properly dispose of HCFC-22. Improper disposal will release HCFC-22 into the Ecuadorian air. Other F-gases, including the HFCs with which Favorita plans to replace HCFC-22, require the same care during disposal.

By investing in new refrigeration systems that run on HFC gases, Favorita exposes itself to considerable risk. Europe’s new law has launched the global refrigeration industry down a path that ends at natural refrigerants. In the name of environmental preservation, governments are prone to pushing industry ahead of cost curves, just as they did through the Montreal Protocol. Sometime during the 20-30 year lifespan of a new refrigeration unit, new regulation that bans the use of synthetic F-gases in refrigeration is not only possible, it’s likely.

Instead of buying new HFC refrigeration systems, Favorita may be better off by adopting a shared value strategy based on natural refrigeration systems.

3.4 Favorita’s Shared Value Opportunity

Favorita should lead a multi-sector coalition to prepare Ecuador to switch from synthetic F-gas refrigeration to natural refrigeration. This strategy, outlined in Section 3.5, creates economic and social value for Favorita and Ecuador.

Favorita will create social value when it eliminates a portion of the 7,000 tons of carbon emissions it produced through refrigeration in 2014. Tackling the high emissions from refrigeration can lead to significant reductions in Favorita’s total emissions—a win for the environment and progress towards Favorita’s future carbon reduction targets.

Favorita’s public role at the head a coalition for change will attract positive press, solidifying the brand’s reputation among consumers as a force for good in Ecuador.

After five years of robust business growth and rising profitability, Favorita’s financial situation makes now as good a time as any to make the upfront investments required to launch a coalition and upgrade its refrigeration systems to natural refrigerants. Favorita is likely more financial stable than its competitors. So while Favorita may be able to afford a systems upgrade, competitors swept up in a coalition may have a harder time make the same investments. Conversely, if the coalition is successful and creates a domestic market for natural refrigeration systems, competitors who did not participate in the coalition would benefit from the lower costs of converting to natural refrigeration.

<table>
<thead>
<tr>
<th>TYPE OF GAS</th>
<th>ATMOSPHERIC LIFE (YEARS)</th>
<th>NET GLOBAL WARMING POTENTIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-22</td>
<td>12</td>
<td>1,810</td>
</tr>
<tr>
<td>R-507</td>
<td>40</td>
<td>3,985</td>
</tr>
<tr>
<td>R-404</td>
<td>40</td>
<td>3,922</td>
</tr>
<tr>
<td>R-134</td>
<td>25-Oct</td>
<td>1,000</td>
</tr>
<tr>
<td>CO2</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Table 4: Net global warming potential of various types of greenhouse gases.
systems. These competitors would not, however, reap the benefits of political capital Favorita may acquire as coalition leader.

Upgrading to natural refrigeration systems reduces the regulatory risk that the Ecuadorian government will mandate natural refrigeration systems, as the EU has done. Also, if Favorita adopts natural refrigeration systems before regulators impose them, it will likely accelerate such regulation, which would apply financial pressure and direct regulatory attention towards laggard competitors, and away from Favorita.

Part of the business case for leading a coalition to catalyze the adoption of natural refrigerants in Ecuador is that long-term variable costs of natural refrigerators are lower than those of HCFC and HFC refrigerators because natural refrigerants can be produced locally and off patent. Ecuadorian companies can produce CO₂ and ammonia inexpensively.

This financial win for Favorita doubles as an opportunity for import substitution and a revised production matrix in Ecuador. Import substitution and a modified production matrix will appeal to regulators, who for years have called for both. Phasing out HCFC is an explicit goal of The Ministry of Industry and Productivity; an offer to partner with the Ministry would likely be well received. Several Ministries monitor Ecuador’s carbon emissions and would likely welcome a voluntary emissions reduction from Favorita and its private sector allies. A successful industry-led initiative will bolster the case that voluntary private sector coalitions can be efficacious.

Most importantly, Favorita’s role in cutting F-gases would signal to the government that Favorita is committed to creating social value in Ecuador, that the company is willing to invest in ways to do so. It reveals the fundamental alignment between the long-term well being of Ecuador and commercial success of Favorita. It may help rejuvenate a symbiotic, stable relationship between the company and the administration.

3.5 Strategy for Transitioning to Natural Refrigeration Systems in Ecuador

In tackling the challenge of F-gas pollution throughout Ecuador, Favorita should draw on the third form of shared value, the formation of clusters. A cluster is a collective solution to a collective problem. Fortunately, many public and private sector actors have strong incentives to collaborate with Favorita in resolving the collective problem F-gas pollution poses to Ecuador.

The goal of Favorita’s coalition would be to develop a business ecosystem in Ecuador to support a transition to natural refrigerants. A market-based transition to natural refrigerants requires access to cost-effective supplies, services, and technical expertise, as well as regulatory support from the government.

STEP ONE: IDENTIFY VALUES
Before Favorita builds a coalition with external partners, it must first create internal support for the initiative. The process for doing so would likely mirror the processes described in Recommendations 1 and 2: articulating the firm’s values and explaining that Favorita’s role in society will impact its long-term profitability and perhaps even its survival as a large corporation in a country with an active socialist President.

STEP TWO: FIND A THIRD-PARTY ADMINISTRATOR
Favorita would benefit from contracting out the administrative responsibility of leading a future coalition to a third party. Ceres, the CSR organization in Quito, may be a good candidate, once it has solidified its mission and leadership. Ceres or the administrative partner would coordinate the logistics of creating literature and convene the meetings Favorita will use to build a coalition. At this point, Favorita could appeal to domestic and international donors that fund natural refrigeration, such as the German Development Organization GIZ, or the UN.

STEP THREE: RECRUIT PARTNERS
With values, objectives, logistics, and funding in place, Favorita is ready to connect with partner institutions. The government is a leading potential ally. The Minis-

<table>
<thead>
<tr>
<th>Identify values and build internal support</th>
<th>Partner with third-party administrator; seek funding</th>
<th>Recruit public and private sector partners</th>
<th>Strengthen Ecuador’s capacity to sustain a market for natural refrigeration systems</th>
</tr>
</thead>
</table>

Table 5: Shared value strategy for transitioning natural refrigeration systems in Ecuador
try of Industry and Productivity is actively campaigning to phase out HCFCs from use in Ecuador. Its most visible supporters in Ecuador so far have been international organizations such as the UN’s Industrial Development Organization and Environments Program. It would likely welcome a commitment from the country’s largest company. UN agencies are also potential early partners.

In addition to helping the Ministry of Industry and Productivity meet its specific goal of phasing out 97.5% of HCFCs by 2030, a push for natural refrigerants would align well with President Correa’s concern for environmental stewardship.

Next, PepsiCo, Coca-Cola, and Unilever have made strong and public commitments to eliminating HFCs from point-of-sale cooling devices. They are members of Refrigerants, Naturally!, a German-based nonprofit that lobbies for natural refrigerants. Each company has a large presence in Ecuador, and, given their vocal position in favor of natural refrigerants, are likely inclined—or even compelled—to join Favorita’s leadership.

Other domestic retailers are also candidates to join the partnership. These include Corporación Rosado, Favorita’s main competitor.

STEP FOUR: CATALYZE A MARKET FOR NATURAL REFRIGERATION SYSTEMS

With support from government and corporate partners, Favorita’s cluster will have the political and economic momentum it needs to construct a market for natural refrigeration systems. As Favorita and other partners make specific commitments to switch to natural refrigeration systems, refrigeration service providers in Ecuador will have large incentives to acquire the skills and capacity they need to compete in a changing market. The coalition may also need to seek out gaps in service provision and fill them with technical training, an investment in cluster development that will generate further momentum. A large coalition will help members and other large purchasers of refrigeration systems feel confident that they are entering a sustainable industry, in which technical support and supplies will be accessible. The coalition, in other words, will drive a transformation of the refrigeration industry in Ecuador.
Kramer and Porter’s Shared Value Framework proposes to redefine the relationship between business and society. It encourages businesses like Favorita to create economic value alongside social value, and to broaden the definition of business success to include net impact on society, not just the bottom line.

In light of Porter and Kramer’s work and contributions from other authors, this report recommends that Favorita expand and formalize its shared value work through three initiatives: healthy eating, a resilient supply chain, and a coalition to promote natural refrigeration systems.

These shared value programs, well-implemented, are new tools Favorita can use to increase its competitiveness. As it promotes healthy eating, Favorita will be able to take a strong position in the market for organic and natural foods in Ecuador, a sector poised for rapid growth. By building a resilient supply chain, Favorita will mitigate risk, and potentially raise productivity and compliance among suppliers. Targeted purchasing practices, such as those adopted by Walmart and Pick n Pay, may increase the economic benefits communities derive from being part of Favorita’s supply chain. And Favorita has an opportunity to build its brand and cut pollution as it leads a multi-sector coalition to transition Ecuador to natural refrigerants. Each shared value proposal signals Favorita’s authentic intention to advance priorities it shares with the government, and may garner Favorita significant political capital with regulators and lawmakers.

To truly embrace shared value, and for these proposals to succeed, Favorita must make a moral case to support its transformation. It must string together the firm’s ethical principles, the theory of shared value, and the business and social case for these specific shared value projects. Buy-in from internal and external stakeholder hinges on the strength of Favorita’s argument, which, according to Pfitzer, must be ‘relentless.’ Long-term shared value also depends on an integrated governance structure and robust metrics analysis. With all three safeguards in place—a moral case, governance, measurement—Favorita will maximize the benefits of shared value.

Authentic implementation of shared value is a platform for Favorita’s next stage of leadership. Shared value allows Favorita to leverage its position as Ecuador’s retail leader to pioneer new ways to run profitable and purposeful businesses Latin America. It can serve as a model for other retailers and large domestic businesses in the region that, like Favorita, want to use business to unlock social value.

V. Conclusions
Supportive colleagues, instructors, friends, and family members enabled me to write this report. Jane Nelson, my advisor, graciously agreed to fit meetings and written feedback on my thesis around a busy schedule of teaching, writing, and traveling. Though this report fails to do justice to the depth of her insights, it’s guided by them.

Prófitas is a political risk consultancy in Quito and sponsor of this research. In preparing this report, I relied heavily on Sebastián Hurtado, a shared value practitioner and CEO of Prófitas. Sebastián was generous in his introduction to friends and colleagues in Ecuador, and was a pleasure to work with. This report would not have happened without him.

In Quito, the people I met at Favorita’s offices and stores more than welcoming. Rubén Salazar, Andrés Gómez de la Torres, and other members of Favorita’s senior leadership team opened doors and offered excellent feedback. Thanks also to Andrea López Cruz and Julián Aylwin Salvador.

Many thanks to the following people for their assistance in preparing this report (though all errors, I’ll confess, are mine): Phil Hanser, Beth Pollack, Felipe Hurtado, Daniela Chiriboga, Marli Porth, David Garfunkel, Caitlin Hartman, Nick Kang, David Welle, Patricia Welle, and Elissa Welle. Finally, thanks to the Mossavar-Rahmani Center for Business and Government for their support.
Appendices

Appendix A - Images

Photo of Encadena en Linea, an online marketplace to connect small domestic suppliers with large retailers.

Appendix B - Other Potential Areas for Shared Value

<table>
<thead>
<tr>
<th>Potential Areas for Shared Value</th>
<th>How It Creates Value for Favorita</th>
<th>How It Creates Value for Society</th>
<th>Type of Shared Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote efficient use of resources</td>
<td>Lower costs and demonstrates environmental stewardship for consumers and regulators</td>
<td>Mitigate environmental impact of operations</td>
<td>Type 2: Redefine productivity</td>
</tr>
<tr>
<td>Raise employee productivity</td>
<td>Increase productivity and loyalty</td>
<td>Accelerate professional development, raise incomes of workers</td>
<td>Type 2: Redefine productivity</td>
</tr>
<tr>
<td>Measure Favorita’s current social impact</td>
<td>Build the Favorita brand and identify areas for operational improvement and risk mitigation</td>
<td>Promote transparency</td>
<td>Type 2: Redefine productivity</td>
</tr>
</tbody>
</table>
## Appendix C - Favorita 2014 CO₂ Emissions

<table>
<thead>
<tr>
<th>SCOPE</th>
<th>SOURCE OF EMISSIONS</th>
<th>TONS OF CARBON (TCO₂E)</th>
<th>% OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>Buildings</td>
<td>873.4</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>Vehicles</td>
<td>697</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>Refrigeration</td>
<td>6928.6</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>8499</td>
<td>16%</td>
</tr>
<tr>
<td>Scope 2</td>
<td>Electricity</td>
<td>27995</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>27995</td>
<td>53%</td>
</tr>
<tr>
<td>Scope 3</td>
<td>Shipping</td>
<td>12875</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td>Receiving</td>
<td>1783</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>Trash</td>
<td>1290</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>Water</td>
<td>61</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Staff travel</td>
<td>9</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Business Trips</td>
<td>187</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>16205</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>52699</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2015 Carbon Master’s Report, prepared for Favorita
Appendix D – Notes of Interest from additional Case Studies

**Pick n Pay**

A company-wide commitment to promoting small-scale, black- and women-empowered businesses, and the promotion of sustainable practices throughout our supply network. Spent R 40 billion on procurement in 2012. Of that, R20 billion on BBBEE businesses, 432 million on black-owned businesses, R187 million on women-owned businesses, and R255 million on small and medium enterprises. ‘Out buying power makes a significant difference.’

Building a resilient supply network ‘enables us to help suppliers address social and environmental risks, deepen relationships within our supplier network.’ Invest R 40 million in direct procurement—which has an economic impact of nearly R 160 million.

In supply chain, measures people Impact (360,000 employees), economic impact (R 160 million), and environmental impact (land use, water consumption, carbon emissions). Conducted supply chain impact analysis with third-party external auditor to assess sustainability risk profile of main suppliers.

**Walmart**

**US Jobs**

In 2013 Walmart committed to buying an additional $250 billion of products between 2013 and 2023 that support jobs in the US. Walmart is explicit about its goal of using its purchasing power to promote good jobs in the communities in which it operates: ‘Increasing domestic manufacturing will help create additional jobs in the US - and that’s good for American businesses [like ours].’ The company stated that over two-thirds of what Walmart spends on products for sale in US stores 2013 are ‘made here, sourced here, or grown here.’ Walmart says it would like to do more.

**Greenhouse Gas Emissions**

In 2010, Walmart committed eliminating 20 million metric tons of GHG emissions from its supply chain by 2015. Walmar revised that estimate at an undisclosed date sometime after 2010 and said they had eliminated 7.5 MMTs and were on pace to eliminate 18 MMT by 2015.

In 2013 Walmart reported that in 2011 it had met its 2005 goal to reduce emissions from existig stores, clubs, and distribution centers by 20%. It’s overall GHG emissions from 2005 to 2011 grew 12%, one-quarter of the rate of growth for sales and in square footage (around 50% and 45%, respectively). Perhaps not surprisingly, outside sources dispute these numbers. Walmart’s GHG emissions per sale fell 20% between 2005 and 2011.

In 2013 Walmart reported an improvement in transportation fleet efficiency from 2005 of 80%.

**Whole Foods**

**Local Producer Loan Program**

From its inception in 2007 through 2013, WFM’s Local Producer Loan Program has made loans totaling $10 million to 147 local producers. In 2013, WFM increased the budget of the LPLP to $25 million.

66% of WFM’s sales are of perishables, while 33% of sales are of non-perishables.

**Healthy Starts Here**

Healthy Starts Here label WFM applies to products that meet nutritional and ingredient standards according to principles of nutrient density, healthy fats, etc.

Four Principles of Healthy Starts Here:

1. Whole Food: Food in its purest state
2. Plant - Strong: A majority of your plate should be plant-based
3. Healthy Fats: Get healthy fats from whole plant sources. Work to eliminate extracted oils and processed fats.
4. Nutrient Dense: Choose foods that are rich in micronutrients when compared to total caloric content.

**Local Food**

In 2013 approximately 25% of produce sold at WFM came from local producers.
Appendix E - List of Interviewees

Favorita - Executives
1. Oliver Wright, Vice President of Supermarkets, Commerce
2. Rubén Salazar, Corporate Manager
3. Andrés Gómez de la Torre, Sustainability Manager
4. Carlos Troncoso, Corporate Manager, Non-Perishables
5. Jorge Hernández, Corporate Manager, Perishables
6. Juan Andrés Almeida, Corporate Manager, Exclusive Brand

Favorita - Staff
7. Freddy Barreiro Rodríguez, Manager, Internal Communications Team
8. María José Toro, Internal Communications Team
9. Mónica Romo, Internal Communications Team
10. Marisol Torres, Human Resources
11. Myhail Galarza, Human Resources
12. Tatiana Ledesma, Human Resources
13. Cristian Robalino, Maintenance

External Stakeholders
14. Natalia Almeida Suárez, Alianza para el Emprendimiento e Innovación
15. Andrés Zurita Durán, Alianza para el Emprendimiento e Innovación
16. Evangelina Gómez - Durañona, Executive Director, Ceres, Ecuadorian Consortium of Corporate Social Responsibility
17. David Ruales, Intendente de Economía Popular y Solidaria
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7. Favorita said that workers were removing the products from the shelves because they were upgrading that shelving unit.


37. Corporación Favorita 2013 Shareholder’s Report

38. Company sources

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