



Public Value: rethinking value creation

Managers might refute public criticism of their business as an attitude of taking everything for granted in a saturated society, but ignoring Public Value aspects can threaten the success of new products and even the survival of entire firms.

Timo Meynhardt, Peter Gomez, Pepe Strathoff and Carolin Hermann report

ILLUSTRATION: SIMON BRADER

A young manager of a multinational company strolls around the bookshop at Zurich Airport. The table with "airport literature" for managers is stacked with guidebooks that promise the silver bullet to tackling general management issues. Books on how to make your customers happy and thereby make your business, as a whole, successful are on offer alongside literature telling the manager that he has to abide by ethical rules and should engage in corporate social responsibility activities. In the end, he does not buy any book but gets a newspaper instead. Sitting in a coffee shop he reads his newspaper. When reading the "business" section, he shakes his head and wonders about the complexity of the demands that are asked of today's businesses.

Firms are supposed to earn returns for the shareholder and contribute to economic growth. At the same time, they should behave in an ethical manner and provide solutions to society's most pressing problems. The manager sips his coffee and thinks about a conversation he had with his father, the owner of a medium-sized company, a week ago. His father told him that in the past, doing business was easier and without question producing goods which people need is basically a good and thing that creates value for society. The young manager is lost in these thoughts when he hears his name in an announcement: Last call!

The short story above shows that there is quite a bit of confusion about which management paradigms to follow and, accordingly, the focus managers should assume when thinking about value creation. Today, the very notion of creating value needs a revision or at least an extension.

The idea of Public Value, as developed at the University of St Gallen, has been designed to help leaders find a way to value creation.

Public Value differs from conventional management paradigms, how it can be made transparent for society and how it helps you as a manager.

Public Value eats management paradigms for breakfast

Public Value describes the contribution organizations make to society – as perceived by the wider public. It is different from the concept of a public good in economics, which is defined as a good to which access cannot be restricted efficiently (non-excludable) and where the consumption by one individual does not reduce the good's availability to others (non-rivalrous). Public Value transcends these categorizations. Both private goods (such as a car) and public goods (such as national security) can have a Public Value if they are positively evaluated by the wider public. If not, even a public good has no a Public Value. If an organization cannot answer

Public Value is important not only for risk management, but can be instrumental for achieving innovation and growth

why and how its activities contribute to society as a whole, its very licence to operate is at risk. It is no longer sufficient to legitimize free enterprise by its capacity to create jobs and pay taxes. In a world, where economic growth is no longer seen as an uncontested idea of capitalism, an explicit Public Value proposition becomes a driver for resilience, innovation and, last but not least, for the purpose the public and employees are looking for.

With Public Value there are, however, two different elements – first, being valuable in the eye of the beholder and,

second, relying on an idea of the wider public, which represents an individual's mental image of community and society. In this sense, the public is defined as individuals' concept of the social collective of which they are part. In this view, the public is not a social aggregation, but an image and state of mind that is influenced by organizations and their activities. The interaction of media, politics, customers, citizen, NGOs and so on provides a melting pot, in which public opinion is enacted.

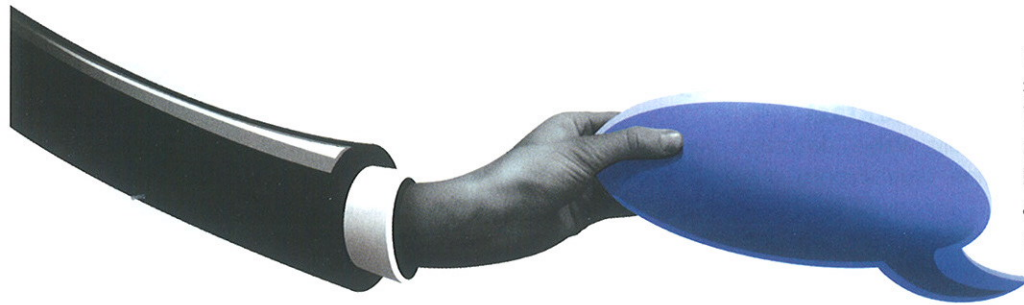
Such collective viewpoints in turn help people to make sense of their environment and also inform people's decision-making not only at the cashier in a supermarket but also – and even more importantly – at the ballot box.

From a societal viewpoint, organizations contribute in four

basic dimensions to Public Value:

1. Does it do well in its core business? (Instrumental-utilitarian)
2. Does it strengthen group relations? (Political-social)
3. Does it allow for positive experience and quality of life? (Hedonistic-aesthetical)
4. Does it comply with accepted standards of morality? (Moral-ethical)

The answers to these questions form the basic pillars of a Public Value proposition as an offer to society, which it may accept or not. Organizations, like human beings, want to be respected. Often, they even want to be loved for what they do. In any case, they care about how they are perceived and appreciated. Even if this is exaggerated, they do



not want to be blamed and shamed or outright ignored (which is even worse) by a public that withdraws its trust and positive attitude.

Marketing experts and politicians alike take for granted that any value ("image") is subjective and relative to peoples' needs and wants. Public Value takes this idea to corporate performance and the value that organizations contribute to society. Even if managers are "right" in bringing about societal wellbeing and progress, they cannot simply assume that it is acknowledged.

Any of the existing management paradigms somehow address the social impact of business, but none of them takes into account that this impact depends on a deeper level of cultural acceptance. But each paradigm articulates important human needs. As table 1 shows, any one-sided view runs the risk of focusing too strongly on a certain

aspect, crowding out other perspectives. Public Value, however, is a multi-dimensional concept that integrates one-sided approaches that favour one motive over others.

In terms of stakeholder value, for example, Public Value argues that it is

Leaders cannot ignore the public debate which might jeopardize their entire business model

not enough to just come to terms with stakeholders and to fulfil their specific interests. There are concerns that are relevant to all stakeholders and go far beyond particular interests, e.g. the acceptance of the market economy as a country's economic system.

These matters touch common interests or systemic ones, to which everyone contributes, but nobody alone can change.

Public Value explicitly calls not only for integrating the many dimensions of value creation, but also relates them to the idea that "society" is not a meta-physical concept, but a deeply-felt sense of being part of and belonging to a social collective. Not every tiny organization is a "society maker", but at the same time, many firms, public administrations and non-governmental organizations not only provide goods and services, but also shape our experiences of what it means to live in a certain society.

Such an extended understanding of value creation does not suspend, but integrates financial-economic value creation into a bigger picture, where hard and soft factors have to stand the test of society. Along those lines Public Value also unveils the impacts on society as value creation and not as

Table 1: Public Value integrates management paradigms

	FOCUS OF ORGANISATIONS			
Paradigm	Shareholder Value	Stakeholder Value	Customer Value	Corporate Social Responsibility
Justified focus	Value for owners	Claims of interest	Customer orientation	Side effects
Risk	Dominance of financial performance	Unmanageable integration of heterogeneous expectations	Too much focus on "satisfaction"	No relevance for core business
Consequences	Single-minded quantitative approach	Paralysis by conflicting expectations	Unbalanced view of societal consequences	Loss of credibility
Primary value orientation	Instrumental-utitarian	Political-social	Hedonistic-aesthetical	Moral-ethical
	PUBLIC VALUE			

Public Value of Nestlé

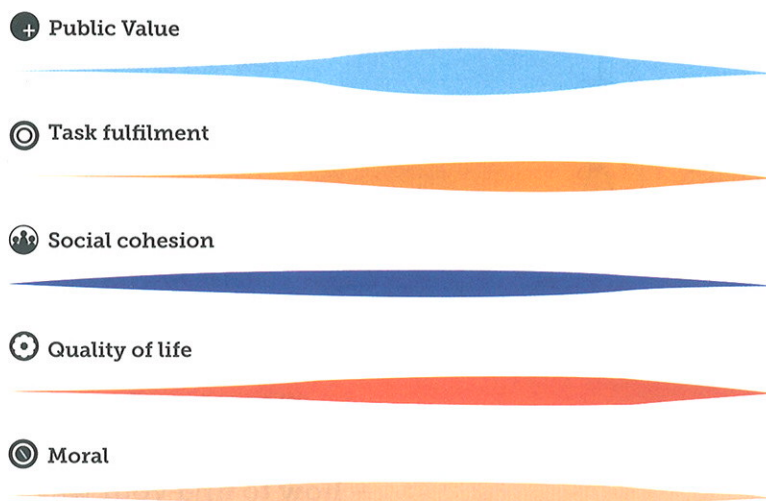


Figure 1: The Public Value profile of Nestlé

by-products, externalities or nice-to-haves. What we do have to put aside, however, is the old notion of value creation. In doing so, for organizations, a new perspective opens up if they become aware of their Public Value and start to manage it.

The Public Value Atlas – Society is calling

In the attempt to find out how organizations are actually perceived by the public in terms of Public Value, the University of St Gallen's Center for Leadership and Values in Society conducted a large-scale online study. Between February and March 2014, a representative sample of 4,500 people were asked to evaluate the value organizations from different sectors create for Swiss society. Public Value was measured against the four Public Value dimensions.

The Swiss study contributes to the ongoing debate about how organizations impact society and provides a database to enable a fact-based dialogue. The inquiry comprised 60 organizations from various sectors including multinational corporations such as GlencoreXstrata, UBS and Nestlé. To ensure respondents knew what they were evaluating, only respondents who reported to know the firms well or very well, gave their assessments. The results led to the world's first

Public Value Atlas, which ranks organizations according to their Public Value and records transparently, how they contribute to society – at least in the eye of the beholder.

As always in a contest, some perform better, some worse and for some firms, the results were difficult to absorb and digest. The Public Value score is calculated from the unweighted mean of all four Public Value dimensions. Depending on whether the Public Value score of an organization differed statistically significant from the overall mean value across all organizations, it was assigned to the top, middle or bottom group. Questions concerning the underlying reasons for the different Public Value assessments of the respondents were not part of the survey and will be subject to further research. Often, the public takes corporate activities for granted and companies fail to make their contribution to society transparent or simply do not deliver. It is up to every organization to pick up and listen when society is calling.

In May 2014, the first *Public Value Atlas* was published on the online platform www.gemeinwohl.ch. The *Public Value Atlas* was released at a public event in St Gallen with more than 150 international guests and broad media coverage. As figure 1 shows, the website

comes with an unusual yet intuitive data visualization by employing violin plots, which show mean values and the distribution of responses. The online platform invites the user to analyze the data and play with it by changing weights of the Public Value dimensions, selecting sectors and segmenting by industries.

Interestingly, one of the key findings of the survey was that sometimes it is hard to escape one's industry. The study revealed that belonging to a certain industry pre-determines an organization's Public Value. Some firms are more closely identified with their industry than others. The banking sector is a case in point. In this example, the only bank that stands out from the rest is the cooperative bank Raiffeisen (see figure 2). This might be caused by the legal form and how big and international a firm is.

With the *Public Value Atlas*, the university called a public into existence – because who is better to judge Public Value than the public? The first *Public Value Atlas* can be seen as a starting point. In the long-term, yearly replications of the study are planned, which will allow observations of Public Value over time. Also, an extension of the *Public Value Atlas* covering more organizations and countries is considered.

Public Value helps the manager

How is this relevant for you as a manager? Why should you care about your firm's Public Value and engage with a ranking, looking like a collection of violins or fish? The answer is simple: because you have to. Managers might write off public criticism as an expression of ingratitude and attitude of taking everything for granted in a saturated society and point to a general lack of knowledge in society about "what we do for them". But this seems to miss the point. Ignoring Public Value aspects can threaten the success of new products and even the survival of entire firms. Also, it is increasingly important to customers, how organizations influence society and how firms contribute to social wellbeing – for example, by engaging in sustainability measures. The chemical industry is a case in point: a lot of plastic products rely for their production on the ingredient

bisphenol-A (BPA). The industry claims that scientific studies prove its harmless-ness, whereas consumer rights activists argue that BPA is a dangerous carcinogenic substance. This has led to decreasing sales of BPA-containing plastics for food packaging and calls from the chemical industry to stick to supposedly scientific facts have remained unheard. This example underscores the importance of Public Value considerations for risk management. Various firms rely on Public Value assessments when analyzing the risks associated with M&A decisions, choosing new suppliers and introducing new products.

But Public Value is not only about risk management and constraints of business opportunities due to public criticism. It is quite the contrary: Public Value potentials are growth potentials. Take the example of FC Bayern Munich, Germany's most successful football team. That organization has

systematically investigated what makes it valuable to society. It is not only the beauty of the game, but includes Public Values such as giving people a sense of belonging, serving as an emotional anchor and being a role model for

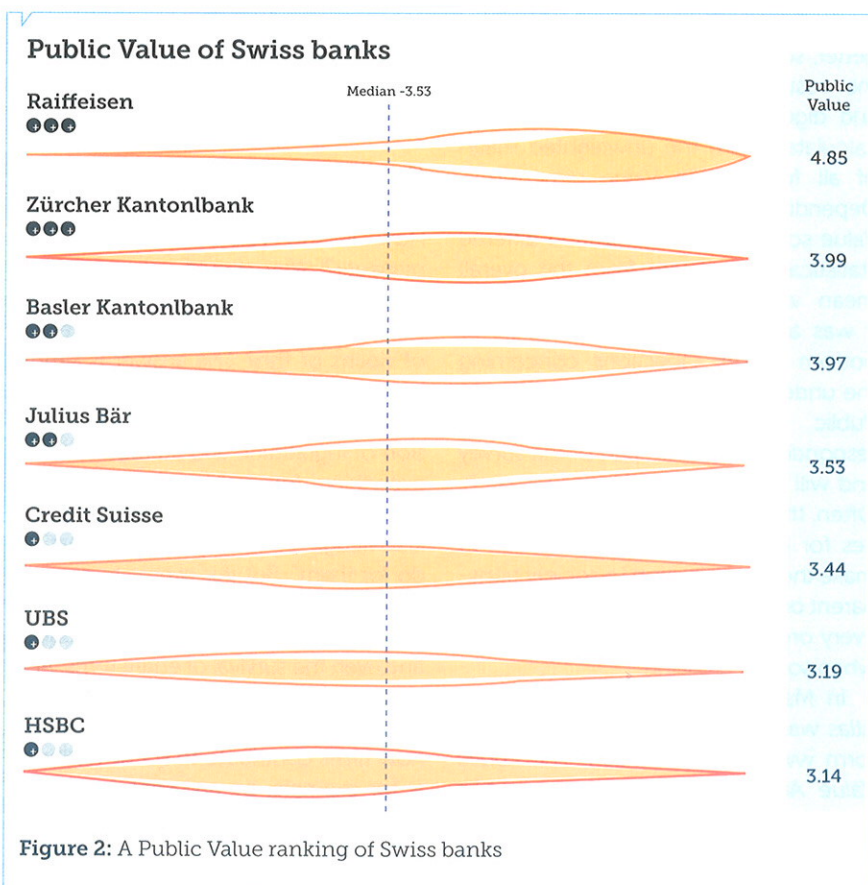
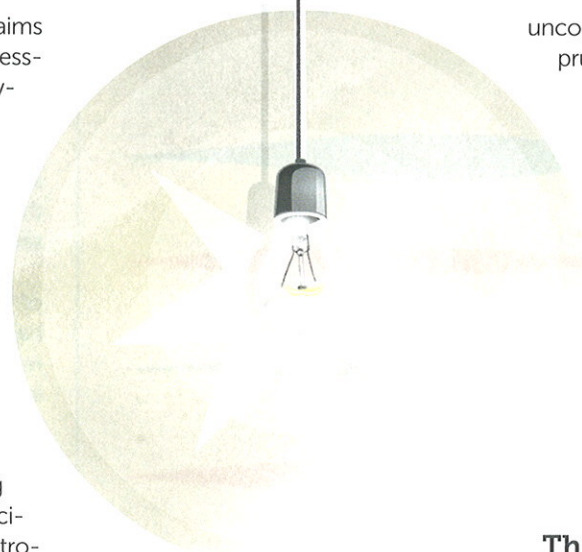
uncompromising drive for success and prudent financial dealings. The club has entered a phase of international expansion and wants to reach new fans all around the world.

In order to tap into these groups, the club needs to know what it stands for in the eyes of the public. In other words, its global expansion is rooted in its Public Value. This shows how Public Value is important not only for risk management, but can be instrumental for achieving innovation and growth.

The Public Value Scorecard – how to find your way

Public Value management requires good measures. While the *Public Value Atlas* brings transparency about Public Value creation to the public debate, the Public Value Scorecard (PVSC) is a tool to help managers assess Public Value consequences of management decisions. The PVSC maps the Public Value of any project, management decision or transaction along five dimensions. Due to the importance of financial-economic considerations for management decisions, the PVSC "splits" the instrumental-utilitarian dimension into an indicator focused on utility and an indicator emphasizing the "pure" financial-economic side. The result is a pentagon ("spider web") that shows opportunities and risks associated with a given object of evaluation.

Figure 3 shows the results of a Public Value Scorecard for a management decision about reconfiguring a purchasing process. A German firm that sells office furniture and other business equipment has evaluated the Public Value consequences of purchasing directly from Chinese suppliers. The green line represents opportunities and the red line shows risks in the five scorecard dimensions. As can be seen, from the perspective of usefulness it would make sense to take the respective decision. Also, there seems to be a strong business case for purchasing directly from China, as the opportunities clearly outweigh the risks. But when it comes to the hedonistic-aesthetical



dimension, the decision is seen to actually lead to a negative experience. Similarly, the decision is seen as having a low political-social acceptance. Also, in the moral-ethical dimension, there seem to exist more risks than opportunities, but with a narrower gap. In this example, the management would have to consider, whether the dimensions are equally important to them or if they should set priorities and take a decision.

The PVSC can be used to assess Public Value implications of different things. The object of evaluation can be a product or service, the impact of an initiative, a supply-chain reconfiguration or an entire institution. Depending on the issue, the aims of the investigation and the public to be called into existence, different methods can be employed to paint a five-dimensional picture of Public Value performance. Let's get back to our manager at Zurich Airport. What could he take away from Public Value?

In these turbulent times, organizations have to legitimize their operations time and again, as they cannot ignore the public debate that might jeopardize their entire business model. Public Value allows for a broader and new understanding of value creation,

which organizations just start to see and to harness. Questions like "Why should organizations care?" seem outdated given that we have developed to a world in which firms want to find out what makes them valuable for society and what they can do to increase their Public Value. Our manager starts to sense that Public Value may help him to better navigate through daily challenges and to find a yardstick for the big questions in search of purpose and meaning of doing business.

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Figure 3: The Public Value Scorecard assessment of purchasing from Chinese suppliers

