1 Public value

Value creation in the eyes of society

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Introduction

Businesses form and transform social conditions. Like all other institutions, corporations are both drivers and results of the environment in which they operate. Therefore, leaders are highly instrumental not only in making markets, but in doing so also building societies. In modern times, such value creation for society has had an indispensable impact, improving the quality of life on our planet in many respects. It has clearly been a success story, even though not all contributions are necessarily positive. In any case, business activities require societal acceptance, which is not a given. In fact, we now enter an era in which top executives are under pressure to defend or revise the notion of *value creation* itself to remain in sync with customers' needs, citizens' expectations, and societal changes at large. We return to Peter Drucker's reminder that "free enterprise cannot be justified as being good for business. It can be justified only as being good for society" (1973, 41).

Only recently, BlackRock CEO Larry Fink echoed this statement in his annual letter to CEOs of public companies. His call is quite powerful, considering that BlackRock manages more than $6 trillion in investment around the world. Fink argued: "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society" (Fink, 2018).

Take Nestlé, the Switzerland-based giant in nutrition, health and wellness. For decades, this corporation has pursued an approach of simultaneously addressing societal challenges and generating profits - the so-called shared value approach (Porter & Kramer, 2011). However, our research shows time and again that in the Swiss population's judgement, this corporation still ranks low in terms of its public value, i.e. in its contribution to the common good (www.gemeinwohl.ch). Although it is a multinational firm operating in diverse cultures, not to be respected in their home country, is embarrassing. What's wrong here? As complex as it may be, it boils down to one basic factor: Nestlé has not succeeded in touching people's hearts and minds in a positive way.

Nestlé is a case in point, but it represents many companies who are realizing that their actual "good" behaviour does not automatically translate into societal acceptance and a renewed license to operate. To be clear, we are not suggesting that the public simply "does not get it" or that citizens are not interested in properly grasping the business facts. A far more complex bundle of causes is at work.

Obviously, a further, bigger step than just doing good is required to cross the divide between what companies do and what society at large recognizes as truly valuable.

The *public value* concept attempts to bridge this divide: Public value reflects a contribution to the common good as experienced by society. In our era of transparency, any business behavior and any traditional "value" must be challenged to check whether it reflects such a contribution. This goes far beyond political marketing, reputation or brand management. It is about a deeper *why*, which is positively linked to the functioning and betterment of society.

For many leaders, thinking in public value terms comes naturally; for others, seeing themselves as creating or destroying public value requires considerably more effort. In the following section, the notion of *public value*[1] will be introduced and outlined. It is meant as an invitation to reflect further on fundamental questions about means and ends in corporate life that do not have easy answers. In the process, readers should remain prepared to develop a positive mindset on leading for public value.

Taking society seriously

Former Nestlé CEO Paul Bulcke (2014) clearly addressed the new challenge, saying that those who fail to create public value "will end up alienating themselves from society, and that is a risk we should not take. It's important not to forget that it is society that grants us the permission to be in business and allows us to succeed" (*own translation*).

Managing a corporation's public value is a big challenge, since it is not simply delivered but needs to be perceived in order to be realized. Actually, the noun *value* disguises that value comes into being only as a result of relationship. Therefore, the only viable solution to assuring public value development is credible dialogue, and discerning short-term public opinion as well as long-term value change. Since profit *per se* has become a contested idea, Pandora's box has been opened. Consider the ripples following former General Electric CEO Jack Welch's statement that pursuing shareholder value as a strategy was "the dumbest idea in the world" (2009). The idea of shareholder value now requires much broader justification that is deeply grounded in society.

We have to acknowledge that in a world of distributed power, volatility, co-creation and disruptive changes there can be no single, uncontested management paradigm. More than ever, value is in the eye of the beholder as a web of meaning, purpose and emotion. Paradoxical as it may sound, in a world of hard-nosed material conflict, more than ever we need to come to terms with soft issues. Thereby, we might even need to move from a chief *executive* officer to a chief *experience* officer, who is primarily concerned with managing value as a matter of interpretation and sense making. In other words, real value is what the beholder considers to be truly valuable. We are reminded that the world we live in is one of perceived reality.

We need to accept in a fundamentally new way that the rise of subjectivity is not a temporary phenomenon, but a profound top management challenge. The reason is simple: The more complex business activities in a global marketplace become, the less you can fight complexity with complexity. The contrary is true, namely that the less customers, citizens and politicians understand value chains and economic facts, the more they need to simplify their perceptions and rely on their emotional responses. As natural response, humans feel positive about something if there is a direct personal gain or a positive impact on the community or society they live in. This is what *public value* refers to. It is a measure for assessing how, in a bigger picture, value is created to the benefit of society. It points to an organization's contributions to both social stability and progress as perceived by the people. Although this perception should be fact-driven, it is primarily a matter of attitude. "Facts" need to be interpreted and made sense of based on concrete experience.

In its original definition, public value creation "is situated in relationships between the individual and 'society', founded in individuals, constituted by subjective evaluations against basic needs, activated by and realized in emotional-motivational states, and produced and reproduced in experience-intense practices" (Meynhardt 2009, 212).

It is not only at the level of corporate action but also at the products and services level where we see this challenge of creating a sense of belonging, identity, and of avoiding social conflict. Take a seemingly simple example. The pervasive WhatsApp messenger service has provided people with a most convenient communication platform. Adults and youngsters alike often send more than a hundred messages a day. Its global success story is one of superior functionality, comfort and ease in low-cost communication. At the same time, WhatsApp provides a social infrastructure with its own set of rules and codes of conduct. The most important qualifier here is whether to be in or out. Even primary school children have set up class communities, which have an in-group and an out-group. As with any developing trend, the social pressure on parents to allow their children to join – socially, educationally and in considering their monthly internet budget – can become significant. Besides the question whether or not to join such a community, a number of possible side effects such as constant availability, chain letters or mobbing, need to be taken into account. WhatsApp enables new forms of social interaction, creates new 'publics' with their own behavioural rules. This illustrates how technology can drive social relationships. Here, value creation is not limited to individual customer value or shareholder value, but gains a public dimension. Appealing to customers' choices, market forces or regulation procedures would provide too easy an explanation for how WhatsApp has changed communication and societal structure. Importantly, we have to acknowledge the role businesses play in the making of society. The WhatsApp example points to a fundamental mechanism available to businesses in creating or destroying public value, often even unknowingly.

The quest to open Pandora's Box

The notion of *public value* foregrounds the societal dimension of value creation. Other attempts at focusing on societal values, such as in responses to the sustainability challenge, corporate social responsibility, and shared value point in the same direction. Although we acknowledge the merit of the latter kinds of ideas, they can only serve as door openers – but not more than that! Further, they could soon be outdated if other critical issues come knocking at the door, as history has shown often happens.

For instance, who would have predicted 20 years ago how digitization would enter our lives and profoundly change our daily infrastructures? Customers are currently more informed than ever. And even though there is mixed evidence on the *ethical customer*, there is a clear power shift towards the customer as having significant influence on a corporation's public value via the social media.

As companies need to stay agile in turbulent times, we need to confront the complexity of the much-cited notion of *value*. It is not enough for top management to discuss whether sustainability programs should be better managed or corporate social responsibility (CSR) should be better integrated into business strategies. The larger task at hand is one of coming to terms with current business realities, to manage *public value*, i.e. value in a much broader sense (Meynhardt & Gomez, 2016). The appeal of *public value* stems from its plurality of perspectives, since it also helps us address the widening gap between the "facts of business life" and the public perception of what the economy is good for.

A classic example of this, is the launch of New Coke in 1985 when Coca-Cola changed its tried and trusted formula. The company experienced a disaster even after marketing attempted to re-energise the brand. Customers and the wider public complained, so that the new product was eventually withdrawn. It was not because the product did not taste good; nor was it because of pricing or placement. In fact, market research in the laboratory revealed broad acceptance. A couple of months after release, at the height of criticism, the Cuban leader Fidel Castro who had been a long-time Coke drinker, in an ironic comment interpreted the change as a "sign of American capitalist decadence". The rest is history: Coca-Cola went back to the "real thing", and they exceeded all previous sales. One plausible explanation for the 1985 disaster is that the company did not anticipate the strong emotional attachment to its product, based also on cultural sentiments, like the American way of life and liberty. In 2014, Coca-Cola again offended certain societal groups when its Super Bowl commercial using "America the Beautiful" as theme song provoked angry protest. This time, Coca-Cola had explicit good intentions of relating its product to the societal value of diversity in the many US identities. Even if "only" a specific section in the political spectrum reacted negatively, it led to heated public debate.

Stories such as this one, demonstrate a new quality symptomatic of how businesses not only touch on and exploit societal norms, but also actively shape society in ways that make businesses more vulnerable than ever to public debate and media coverage. The interaction of media, politics, customers, citizens, NGOs and so on, provides a melting pot in which public opinion is constructed. Of course, such negative press ("shit-storms") always comes to an end. However, the fundamental challenge of finding customers' "sweet spots" without being drawn into moral or political conflict, remains and, if achieved, is likely to last longer. The Coke examples indicate the tricky relationship between customer value and public value in an ecosystem of co-creation (Meynhardt, Chandler & Strathoff, 2016). Obviously, there is no sustained customer value without public value, but without the former, the latter would not be attractive for business.

The scale and scope of (geo)political conflict, technological progress and cultural conflict requires that capitalism in its different shapes around the globe will learn a new set of skills. Like it or not, in responding to financial crises, political upheavals or simply the brutal transparency in the internet world, corporations cannot bypass societal expectations and argue that profit *per se* is social. Ignoring social expectations can be valid in some places, but not in others. Society is no longer a stable boundary condition for markets, which business respects by obeying the law. Actions can be legal, but still not necessarily legitimate. To address this gap, we suggest viewing corporations as public value-producing institutions and rediscovering their social function.

As powerful actors, corporations can infuse their environments with value which goes far beyond their technical task at hand. Willingly or not, they feed back systemic properties, such as social peace, ideas of justice or trust in capitalism. These effects can be factually limited to a specific social context, but are almost immediately amplified owing to media and social media coverage. The images and symbols corporations produce are accessible in almost every customer's living room, far beyond the place of initial action. For instance, although the nuclear power plant disaster of 2011 in Fukushima was limited to a specific geographic area, it had global societal consequences. Similarly, the number of suicides at the Chinese company Foxconn since 2009 has sparked debate worldwide.

The bad news is that, given current circumstances, a corporation's license to operate can come under attack more swiftly than ever. In the foreseeable future shareholders are likely to ask for their companies' public value to avoid the risk of economic underperformance. At the same time, concerning broader ideas of societal progress and stability, some corporations can be prepared to reinterpret and reconfigure their value chain more easily than others. The good news then is that corporations necessarily develop awareness of how they create public value and, in doing so, how they contribute to the common good. The concept of *public value* provides a solution to the difficulty of systematically absorbing and managing expectations in society. It also helps to establish a perspective that views corporations as positive forces in society.

Interestingly, boardroom executives rediscover a basic truth, namely that corporations depend on society for their business performance as much as society depends on corporations. Frankly, society has always been a virtual board member and part of the so-called C-suite. CEOs now have to find a new and explicit language and new ways of addressing "society". For whichever reason, the general public does not study balance sheets before acting, buying elsewhere or voting for tighter regulations. The challenge to CEOs is not as much to better explain strategy, to share profits or to consider stakeholders' claims and needs, as it is to cope with the unpredictability of how society attributes meaning and purpose to business.

While a number of narratives has been developed to explain the purpose of business, none of the management paradigms given in Table 1.1 is completely uncontested. Each one of these paradigms has a justified focus and has found societal acceptance. For instance, only recently, CSR and sustainability were introduced into societal discourse about corporations. These themes articulate both a value change and increased sensitivity concerning corporations' social impact. In the 1970s, when Milton Friedman's famous argument that a corporation's first social responsibility is to increase its profit was coined, it found far greater acceptance than it does today. While *value for owners* is a legitimate and even legally enforced claim in capitalist society, it can easily promote financial performance at the cost of other goals. Similarly, *value for customers* is an obvious corporate goal, but one that, given undue emphasis, can easily underrepresent its potential detrimental impacts on society. As with every other paradigm, it is dangerous to claim its supremacy, because it can soon be overtaken by a new one.

The idea of public value

The concept of *public value* enables us to answer the question whether a company adds value to society and, relatedly, what makes an organization valuable to society – not just in economic-financial terms. It takes a society's viewpoint by looking at corporations from the outside and giving voice to the general public. This means that

Table 1.1 Different management paradigms

	Shareholder value	*Stake-holder value*	*Corporate social responsibility*	*Customer value*	*Sustainability*	*Shared value*
Justified focus	Value for owners	Claims of interest	Side effects	Customer orientation	Long-term perspective	Societal needs as growth opportunities
Risk	Dominance of financial performance	Unmanageable integration of heterogeneous expectations	No relevance to core business	Too much focus on *satisfaction*	*Green washing*	Short-sighted economic view
Consequences	Single-minded quantitative approach	Paralysis by conflicting expectations	Loss of credibility: *alibi*	Unbalanced view of societal consequences	Lack of societal acceptance	Lack of cultural sensitivity

public value breaks with the existing notion of value creation as one that functions purely in financial terms. It includes understanding and harnessing moral, political or aesthetic value. Such an influence on values that contributes to the functioning of society is termed *public value creation*.

The creation of public value relies on an idea of the broader public, and represents mental images of community and society. This concept constructs what is *public* as the collectively shared valuation of the social collective. In this view, *the public* is not a social aggregation, but a state of mind that is influenced by organizations and their activities. This broader perspective is based on state-of-the-art ideas in psychology on basic human needs.

In this sense, value creation is based on more than a cost-benefit ratio. While seeing shareholder value as a valid measure of how efficiently capital is allocated, the new understanding of value creation assumes that every measure, of which most are essentially social, needs legitimation. As noted above, public value is "produced and reproduced in experience-intense practices" (Meynhardt, 2009, 212), and it needs some degree of affective approval to come into existence. To be clear, it does not suspend any fact-based or material properties of value creation. However, it shifts the ground towards a systematic consideration of psychological realities. In some cases it could be sufficient to develop a firm's marketing strategy, needing merely the right type of public value propositions and thereby connecting to the emotions and values of the public. In other cases, it might not be about communication only, but on a much deeper level, it could be about a need to reconfigure the product or value chain to make a more credible public value case. In either case it is perception that matters.

The idea that perception-is-reality is familiar to marketing executives, who know that value is not delivered, but only perceived. In contrast to customer value creation, public value creation focuses on contributions to what people view as "society" and its wellbeing. It relies on images and relationships which have a strong impact on corporations. In the words of the second century philosopher, Epictetus: "People are not disturbed by things, but by the view they take of them".

Even if corporations do not view responsibility for, say, social peace in a country or any political context as their core business, they evidently contribute to it. Large corporations most likely have a bigger public value footprint than small ones, but the latter play such a role as well. A societal perspective is not a nice-to-have for good times; it can be sensed and felt as an essential component. How sure are you that your customers are primarily price sensitive? How do you know which new stakeholders will emerge and claim some stake in the near future? A business needs to know this, before others force it to such awareness. In today's corporate world, there is still a long way to go before we will fully understand how management contributes as "an organ of society" (Drucker, 1973). Public value is about enquiring, anticipating and evaluating how businesses impact on attitudes people have of society. Consumers have the power to vote by keeping their wallets closed, and companies do not need to give in to customers' every whim. Also, sensitivity to the general public does not give that public primacy, but at least it shows consideration of the environment which ultimately grants the license to operate.

Public value calls for a robust value proposition that builds on a societal contribution that is boisterous even if new stakeholders appear or state regulations change. A public value proposition can be compelling enough to help a company attract and retain employees, which increasingly seek purpose and meaning in the workplace. Consider, for example, Bayer's public value proposition "Science for a better life", Whole Food's "Feed your better nature", or Nestlé's "Good food. Good life", which all go well beyond a narrow customer value perspective in actually providing public value propositions. The question is whether companies can turn their intended public value into realized public value.

Public value starts with the human condition. It is not abstract society, but concrete individuals and groups who decide what is or is not legitimate. Therefore, human needs stipulate benchmarks for corporate action. Like individuals, societies develop needs which have to be addressed if we are to survive and prosper as a social collective. However, addressing societal needs is one thing, and achieving societal impact another. Figure 1.1 represents this challenge, which holds true for every management paradigm.

Any of the paradigms mentioned above can provide a frame of reference, which could – legitimate as it may be – become an end in itself. Public value helps in overcoming the tendency to look at society through only one lens. It always involves an amalgam of utilitarian, financial, moral, political and hedonistic aspects. Whether the corporate world becomes too alienated from the main stream is a question of public value. Testing a new product or service against public value means listening to people's views on how this product or service is likely to affect social conditions and the broader society, not only the customer. A CEO addressing public value is one that actively begins to take responsibility for avoiding harm to society, and earnestly tries to build legitimacy for seeking profit. In capitalism, it is not a good idea to simply damn a shareholder value orientation, nor is it a good idea to stick to a purely financial bottom line with some sort of CSR add-on. Also not suitable would be to package value creation in some sustainability chic, or to rely only on the shared value idea of win-win situations.

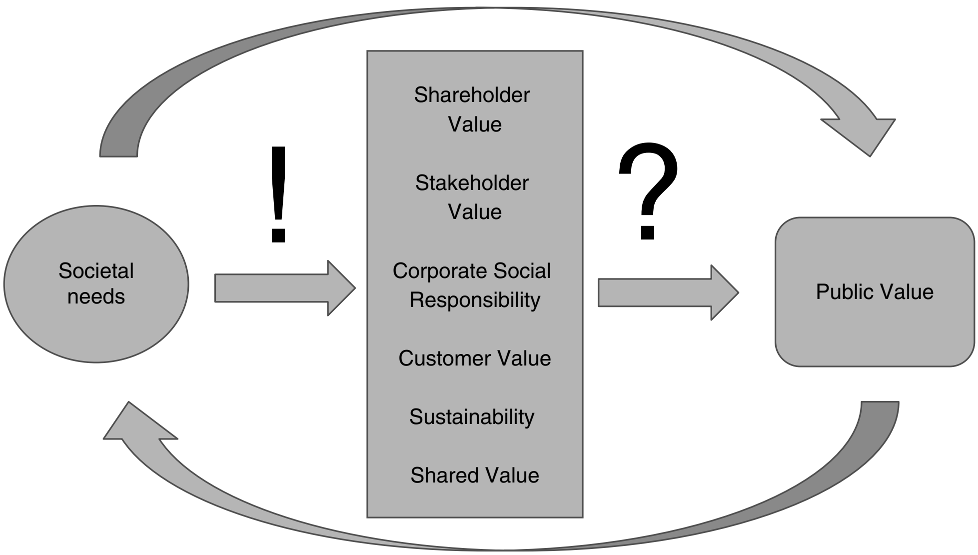

Figure 1.1 Management paradigms as the means of creating public value

At first glance, public value thinking introduces "society" as another stakeholder. It is true that for companies engaged in stakeholder dialogue, it sounds easy to extend the list of stakeholders. Public value, however concerns more; it involves all features that either affect all existing stakeholders or that cannot be deduced from a specific stakeholder interest, but concern the societal context as a whole and the external effects. The latter cannot fully be captured within a stakeholders' perspective, because it concerns the whole system.

To illustrate such a system perspective, consider a corporation intending to build new headquarters. They have to focus on the building's function and architectural structure as well as how it is embedded in a certain street and district. Attention to the neighbours' claims requires a perspective that will look at the wider impact, to answer questions such as: How will this project affect the traffic, including public transport, in the area? What are the implications for the quality of living in the neighbourhood and its attractiveness? What does this investment signal to citizens and how does it influence their trust in the business? This public dimension is complex, and almost always entails compromise and trade-offs. However, without a public value perspective, it would be almost impossible to articulate the impact of the project on society at large. Public value addresses this by calling for explicit consideration of impact that can form and transform a societal context. Such sensitivity is necessary to remain in dialogue with society, since otherwise large projects would risk being rejection despite the corporation's best intentions.

The example of building a new headquarters is similar to other significant company investments such as changing technology, or just relocating the business from one place to another. One finds simple win-win situations only very rarely. Public value helps us uncover potential pitfalls but also important societal gains.

This becomes of particular importance in today's less homogenous and more conflict-ridden societies. Public value inquiries, more than ever, concern the common ground people feel they share or accept as a matter of what they call "society at large".

You see what you measure: introducing the public value scorecard (PVSC)

Public value is what the public values. Critics often fear a "tyranny of the majority", also because the majority can change its mind from one moment to the next. The main point is that whether or not corporations listen to society, they actively build and change it. The challenge to management is one requiring awareness, measurement, and managing value in the eye of the beholder.

Recently, a range of different new measures have been developed to better understand and manage a corporation's value to society. There is no doubt about a new quest for a broader notion of *performance* in a complex world; however, how best to measure value and performance is less obvious. Whether sustainability indicators, corporate responsibility rankings, or shared value measures are the right instruments, remains unclear. All reveal an increased need to legitimate doing business in a capitalist system. Every instrument offers some narrative for doing things differently. While all these measures have good intentions, their normative premises are questionable and they share the risk of underestimating the role of the general public or "society".

Public value encompasses a complex bundle of different cultural expectations. Take banks that must adjust their credit policies or tax behaviour, to avoid heavy penalties. This could be constructed as a naïve call for banks to adhere to Western values, such as human rights. However, we call for a tailored approach that takes the cultural context seriously, by accepting that public value can be different in different parts of the world, where there is also variation in common good ideas.

How should we sustain and innovate businesses in an increasingly complex world of shared power where the voice of public opinion is becoming louder? Given current volatility, with a number of "unknown unknowns", it is not enough to rely on stakeholder dialogue to find out how best to satisfy society. There are simply too many very divergent interests at work. Besides, business needs to take risks to innovate, which naturally requires trade-off decisions from stakeholders. There is a simple and yet most challenging answer, namely: Improve how you manage your public value; listen to society and build your public value proposition.

Corporations have an impact on public value by influencing the collectively shared values related to society, the public or the community. Therefore, corporations can and should look for broader and other measures than the limited set used before. Current measures do not capture the decline of trust in corporations, nor the growing awareness that corporations create value. Where these are covered, reference is mainly to negative social and environmental impacts or externalities, or to job creation or tax payments. The public value principle allows us to analyse holistically where a corporation has added value to society and where it has destroyed it.

Following here, before describing the public value scorecard (PVSC) we briefly look at the conceptual background which guides the measurement methodology. It rests on the assumption of public value theory that public value is created if people see corporations contributing to basic need fulfilment and thereby co-creating society with its societal orders, its social cohesion and individual autonomy. This micro-macro link guides the measurement approach: *Public value* describes the value created from a societal viewpoint, while *human needs* address the fundamental psychological level in which all evaluation is rooted.

Public value reflects basic needs, and basic needs provide the psychological basis for public value. From individuals' viewpoint, corporations impact their lives in many ways, thus influencing their basic needs fulfilment. Following needs theory, four equally important dimensions can be distinguished: First, the basic need for a stable and coherent conceptual system, and for the predictability of cause and effect relationships in one's environment translate into an instrumental–utilitarian value dimension which focuses on efficiency, and on balancing effort and use. Within the PVSC logic this use value will be subdivided according to technical and financial aspects, resulting in two instrumental–utilitarian sub-dimensions. Second, the basic need for a positive self-evaluation translates into a moral–ethical value dimension, which focuses on personhood, dignity and respect. Third, the basic need for positive relationships with significant others forms the individual-level basis of a political–social value dimension which focuses on group identity, belonging and attachment. Fourth, the basic need to avoid pain and experience pleasure is reflected in a hedonistic–aesthetical value dimension which focuses on flow, fun and positive emotion (Meynhardt, 2009; 2015).

Against this background, public value has five primary drivers that make up a public value profile. Public value takes shape within the borders defined by basic needs which provide the building blocks for whatever actual public value. The following five leading questions are formulated to guide any public value inquiry regarding products or services:

1. *Is it useful? (Instrumental-utilitarian)* If a product or service really solves a problem or fulfils a customer's need, *use value* is generated in that a basic utilitarian human need is addressed. More than ever, it is a challenge to identify whether a solution solves a relevant problem from a societal perspective. The very idea of what is or is not useful has become a theme in public discourse. While products and services might efficiently solve a "problem", society could view this as decadent or a waste of resources. Even worse, imagine the consequences if society does not accept what technological progress could have discovered or engineers have developed.
2. *Is it profitable? (Instrumental-utilitarian)*: A critical contribution to society has been efficiently allocating capital. Without minimal profitability to cover future costs, a major reason for corporate survival is lost. Even so, this basic insight is not given; it needs solid legitimization from society. General mistrust of shareholder value concerns not only the amplitude of shareholder value or the balance between the short term and long term, but the very notion of shareholder value. Although a profit motif is socially constructed, people are motivated to achieve efficient cost-benefit ratios, with money to some extent signalling this.
3. *Is it decent? (Moral-ethical):* Ethical leadership has become a critical challenge to managers. The moral dimension of management has been addressed by the CSR movement, fostering activities in line with moral standards of doing business. The decency dimension is deeply rooted in a basic human need for respect and dignity. From a public value perspective, a corporation's behaviour is decent if the general public morally accepts and appreciates such a behaviour. A sense of justice, fairness or equity is prone to be at the centre of public debate. The challenge is not only to find a balance between local requirements and global standards, but also to develop a credible and robust proposition that is aligned with society.
4. *Is it politically acceptable? (Political-social)*: Corporations know that moral standards can conflict with political boundary conditions or group interests. Power relations could favour indecent behaviour. The basic need for belonging to a social group can be even stronger than the need to adhere to moral values of justice or fairness. In a globalized economy with very different cultures and values it is increasingly important to balance own moral standards with political and social issues. Take the Swiss commodity trader GlencoreXstrata, which operates globally to efficiently meet the basic material demand for their manufacturing. The corporation is constantly challenged to interact efficiently with very different national cultures, while adhering to values and norms of its headquarter country, Switzerland.
5. *Is it a positive experience? (Hedonistic-aesthetical)*: Finding a customer's sweet spot, to know how to please him or her, to make him or her buy one's product and return, is daily business. Addressing the basic need for pleasure and fun is always a good idea to attract customers. However, to recognise the consequences and impact on values in society which relate more generally to societal values of joy, hedonism and aesthetics is a new and explicit public value challenge. Consider how Apple products can create a positive experience in terms of design, elegant simplicity and comfort. Again, it is not just an individual experience, but an active contribution to social relations in a given society, since it enables a set of collectively shared values.

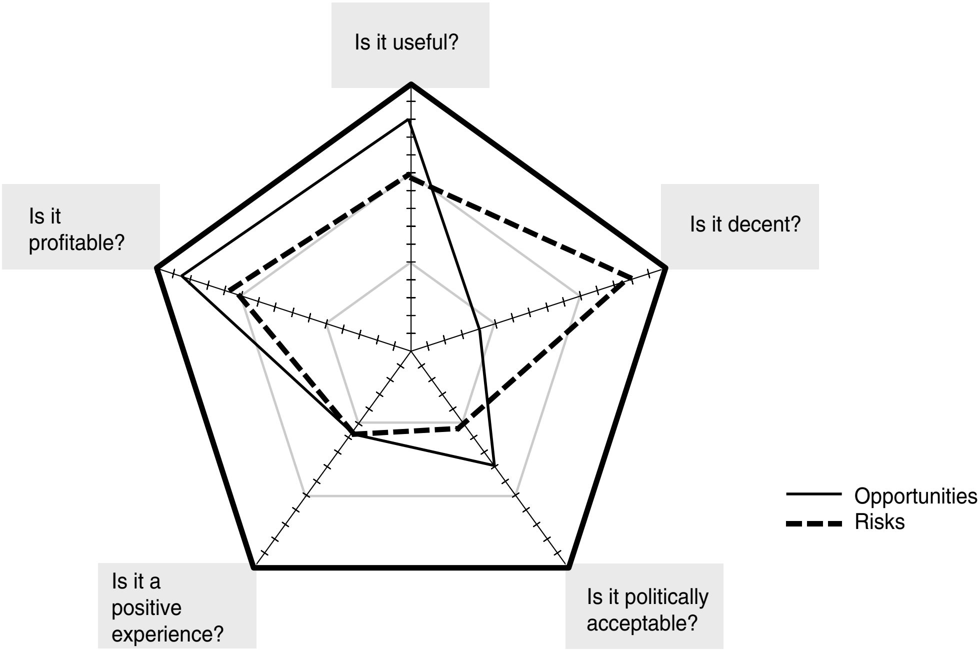

Figure 1.2 The public value scorecard

Taken together, a specific public value profile is plotted into a scorecard (Figure 1.3): The higher the opportunities compared to the risks, the higher the public value.

Figure 1.2 shows a real example of a leadership team's application of a specific scorecard version to self-assess the public value of its divestment decision (cf. Meynhardt, 2015). From a business perspective (usefulness and profitability), the opportunities (the solid line) clearly outweighed the risks (the dotted line). However, a conflict emerged between the moral-ethical dimension and the political-social one. Whereas the project was seen as bearing a moral risk, the political dimension appeared to be less risky.

There are a number of ways for coming up with a specific profile (e.g. interviews, surveys or social media listening techniques).[2] In each corporation the profile, and measures to deliver it, have to be tailored to time and circumstances. For example, the PVSC unit of analysis can be other than just a new project; it can also be a product, practice or service, or even an organization. Almost any object of evaluation can be analysed using this method. As a management tool, it supplements existing feedback mechanisms such as customer satisfaction or stakeholder dialogue. The new management information should give the public (or selected publics, or groups representing a public) an explicit voice to articulate how a corporation infuses society with value beyond its products and services.

A growing number of corporations explicitly embark on a public value proposition, and hence are exposed to society in a way that requires management attention. For instance, Google's claim "Do no evil" or Samsung's "Making a better world" signal impact well beyond an isolated customer value. Such strategic propositions require systematic measurement to prove whether or not (or to what extent) a company fulfils its commitments.

The PVSC can be used to organize societal feedback for the very first time. We do not pretend that corporations are uninformed about their stakeholders. However, time and again, we see that corporations do not explicitly engage in dialogue about their social function, unaware of their public value, and thus often surprised by it. Companies are even often unsure whether they overestimate or underestimate their public value, and try to legitimize their actions with add-on activities of CSR projects or social investments. Instead, they should first fathom their societal value and critically reflect on their business model.

If one were trying to set up a public value measure in a company, as with every new measure, one would need to ask who benefits from it (Meynhardt & Bäro, 2019). Similar to the emergence of customer satisfaction, public value measures require internal partners who use the results to improve their own daily operations. In practice, we see a number of different rationales companies offer for wanting to increase their public value.

Prevent – what we should stop doing

If a corporation performs legal practices that are widely perceived as illegitimate, it should stop these. Consider the recent vigorous public debate in the chemical industry about the ingredient bisphenol-A (BPA). In some parts of the world, it has been banned for use in baby bottles, but not in others. While scientific studies suggest it is innocuous, consumer rights activists propose that BPA is a dangerous carcinogenic substance. This has led to decreasing sales of BPA-containing plastics for food packaging. Calls from the chemical industry to stick to scientific findings have gone unheeded. In the long run, public value cannot be sustained or developed against societal norms or a stable public opinion.

Identify – what we should keep doing

It is often easier to say what is wrong and to stop bad practices than to come to terms with what characterises a company positively. To understand oneself as an “organ of society” (Drucker, 1973) is a rewarding exercise. Currently, many corporations are unaware of their public value. In this respect, they undervalue their societal contribution. For example, FC Bayern Munich, Germany’s most successful football club, engaged in a project to determine its public value (Meynhardt, Strathoff, Beringer & Bernard, 2015). Winning the Champions League and two other national titles in 2013 clearly marked the beginning of a new era for the club. The management team’s aspiration became to establish this club as a global player in the football industry. Research made it clear that the club could not sustainably grow against its public value. The management had to unite the seemingly paradoxical goals of strengthening the club’s Bavarian roots and achieving global growth.

Explore – what we should start doing

In public value measurement exploration is the area of innovation and growth. A new business model built on a public value proposition would be most attractive. At least from an economic perspective, the shared value approach gives some hints. However, public value orientation is far more than seeking economic growth by combining business interests and societal needs. Exploring public value opportunities also involves dialogue with relevant groups, evaluation of other than economic opportunities, and – above all – it is about carefully managing trade-offs.

Consumer industries obviously gain advantage as they can combine customer value with public value, e.g. in terms of morally conscientious products. However, bearing different moralities in different places in mind, it isn't easy. The best way is to generate profit by solving a social problem, for instance providing low-cost housing or access to medicine in developing countries. However, for established industries to re-design the value chain in complex ecosystems of myriads of interactions and interdependencies, is often much more challenging. Notably, young entrepreneurs now, from the start, are founding their business models on a public value proposition which goes much further than traditional social entrepreneurship approaches. They do not necessarily start with a social challenge, but are dedicated to finding new ways of actively shaping society, e.g. by directing technological advancement directly to public value. Such start-ups intend to make a difference in providing goods and services which change our way of living together. Recently, together with the consultancy arm of Ernst & Young Ltd., we started to evaluate and award those business models by using the PVSC.[3]

In sum, in each area of approaching public value creation, a PVSC could be used to chart the risks and opportunities ahead. This methodology can then be customized to a particular management challenge. Very similar to a balanced scorecard approach, each corporation develops its own specific PVSC. Such value relativism is the only normative element of public value as it both enables and limits public value measurement.

Public value leadership

Public value does not exist automatically; it has to be created jointly, since it is a collective experience. This is an opportunity to lead.

The Leipzig Leadership Model (Kirchgeorg, Meynhardt, Pinkwart, Suchanek & Zülch, 2017) provides a major example of how public value thinking can be integrated into leadership practice. This new model makes the case that companies are better off if they build their strategy explicitly and justify activities according to a logic of value contribution which consistently connects different levels of impact from helping individuals to develop and grow, companies to perform, through to creating public value (Figure 1.3).

Given the extent of ever-changing challenges, the model puts the quest for purpose at the core of leadership. This is not an idealistic or naïve response to disruption nor an esoteric exercise to fight complexity. Rather, it calls for deeper reflection on means-ends-relationships, justifying causes and compelling ideas. In this way, it is an answer to overwhelming uncertainty, volatility or ambiguity. The model states: If complexity is the challenge, purpose is the answer. Consequently, it is a primary order leadership task to credibly attach meaning to products and services which are regarded as ones that contribute in a broader sense.

Without an attractive and compelling *why* it becomes ever more difficult to attract and retain talent. However, leaders have to answer by consistently justifying and

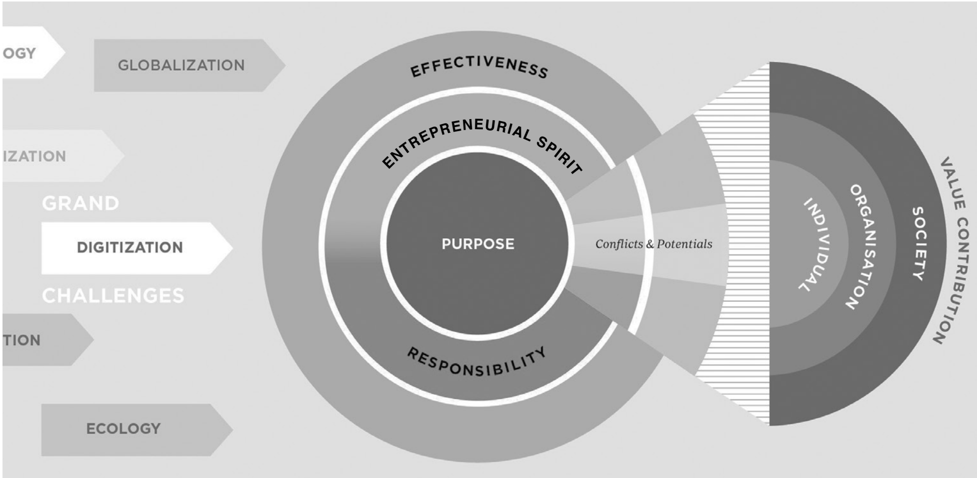

Figure 1.3 The Leipzig Leadership Model

connecting the *how* (entrepreneurial spirit, responsibility) and the *what* (effectivity) to a higher cause. In particular, in times of disruption and change systematic reflection on why we do what we do requires awareness of the multitude of values and mindsets.

It includes a profound value proposition directed at a purpose which transcends individual gain and makes itself a means to the common good. This new type of value creation is called *public value creation*. There are other sources of common good experience, but public value is defined as the one source fuelled by organizations.

Within the Leipzig Leadership Model, the notion of *public value* is used as a mechanism to legitimize what organizations do and how they do it. Public value thinking is attractive to leaders, because it provides a guiding principle, a kind of polar star, in times of increasing complexity and desperate need for orientation. This very function of providing a deeper "why", going beyond individual gains, helps people to (re)connect with their world, whether in small communities or on a global scale.

This is not merely a new version of enlightened self-interest; rather it is a call to face the complex trade-offs as well as the potential of seeing the bigger picture. On the one hand, this type of meaning is often a scarce resource, because it implies making an organization's activities instrumental to the common good. On the other hand, any public value-driven purpose comes at the price of taking responsibility and accepting limited direct influence on actual outcomes, as public value is perceived and not simply delivered.

Public value – where it takes us

Public value redefines the notion of *value creation* by taking moral, political, utilitarian and hedonistic aspects into account as equally valid components of value creation. It does not suspend the profit motif, but enquires about its legitimate cause in society and how it interacts with other values. If a corporation complains that the broader public might not be able to recognise the "real value" a business brings to the table, it should be aware that "you can only see what you know". Often a business can create or destroy public value without even knowing it. Public value management is a way of relating better to society and being open to adaptation and change. Simply put: In an open society, we need open organizations to keep the promise of liberty.

Public value is more than reputation management, CSR or sustainability management. It is also not a zeitgeist-driven management paradigm. It helps us to recognise precisely the existing social functions of a business with all its paradoxes and potential contradictions. Public value is about common good contributions or failures that are rightly or wrongly associated with a company.

Further, public value orientation is not a choice. The more the idea of purpose in the workplace enters a company's discourse, the more the public value principle becomes a lens for recognizing a corporation not just as a tradable bundle of resources, but also as a productive social system that is nurtured by society. Primarily, the increasing complexity of doing business without it being moralization in society, which makes public value thinking attractive to leaders. It remains to be seen whether the next generation of leaders will be prepared to harness the power of public value in an entrepreneurial and responsible way. We now also have first evidence that higher public value leads to higher financial performance (Bilolo, 2018). The other way around, not leading for public value, can in turn harm shareholders' interests.

Interestingly, the general public is already prepared to provide feedback. In Switzerland, for instance, we established the abovementioned orientation via a public value atlas which ranks 106 corporations, NGOs and public institutions based on responses from 14,500 people (www.gemeinwohl.ch).[4] This public value information is a new feedback currency that signals a company's standing in society, as described in the Nestlé example elaborated above.

The important question is whether a company's business model is robust enough to withstand a public value assessment. Is there a defence line for a deeper *why*? Public value is an investment in a joint future that contrasts with simply looking for interest on investment. It represents a kind of true value, while a stock price represents only a part of it. However, such "truth" is established only through people appreciating it. At least in the long run, every corporate action will have to gain legitimacy based on public value. The PVSC helps us to determine and fulfil a corporation's creative social function.

Ultimately, public value provides deeper answers to *why* questions. It allows one to operationalize the gap between what companies do and what they are actually valued for from a societal perspective. Applying the public value principle to strategy is a starting point to benefit from well-intended activities or to readjust where necessary. Opening the strategic focus to a broader understanding of value creation provides not only a bigger picture of what a company contributes to a functioning society, it also taps into personal potential to realize an individual's contribution to the common good and to grow and find purpose and meaning as an executive.

It is imperative that leaders multiply their capacity to respond to the external world they deal with, not because they want to become management philosophers, but because they want either to reduce the pain of negative public opinion or to improve their company's market position in a multi-stakeholder world with a massive gap between formal power and actual authority.

Public value challenges leaders to engage in processes of weighting, balancing or trading off different public values and inherent conflicts. In that public value is grounded in interpretation, purpose and meaning, it takes a leadership mindset to address this challenge. It transforms a leader's role towards a broader engagement in anticipating, formulating and managing their company's societal license to operate. This is not a mechanistic process; rather it is a journey in which leaders need to be aware of opportunities and limits. Although there are property rights of shareholders, we have to realize that, like a country, a social system cannot be owned. Therefore, public value leadership requires vision and passion, but also humility.

Such a public value awareness (Meynhardt & Fröhlich, 2019) probably seems obvious to many, even if odd or unfamiliar to others. Listening to society involves mindfulness, among other things, first listening to oneself and one's personal values. Sensing attractive possible futures while acknowledging actual or potential value conflicts is bound to become a critical competence for responsible leaders. It approximates the idea of an "idealistic pragmatist" (Nonaka & Takeuchi, 2011). Or, in Scott Fitzgerald's words: "The test of a first-rate intelligence is the ability to hold two opposing ideas in mind at the same time and still retain the ability to function" (1956, 69).

Notes

1 The term *public value* was coined by Mark Moore (1995) to be relevant in public administration. In my work I started to define it more widely and to transfer the concept to any type of organization (cf. Meynhardt, 2009; 2015; Meynhardt et al. 2017) and even to individuals (Meynhardt, Brieger & Hermann, 2018; Meynhardt & Fröhlich, 2019).
2 The methodological background as well the more technical part of the PVSC is outlined in Meynhardt, 2015.
3 See www.eypva.com
4 The public value atlas follows the same theoretical considerations like the PVSC. It is also available for Germany (www.gemeinwohlatlas.de).

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