

# The Public Value Scorecard: what makes an organization valuable to society?

What value are large organizations bringing to society? And, when they are getting it right, how can and should corporations build trust and gain legitimacy within society? The University of St. Gallen in Switzerland has developed a "Public Value Scorecard" (PVSC) to help organizations understand and increase their value to society.





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**T**he first decade of the 21st century witnessed a tremendous challenge for our capitalist system. Its basic pillar of a healthy balance between freedom and responsibility was contested in a way that has not been seen since the fall of the iron curtain. Not only management scandals at large corporations, but also a sovereign debt crisis followed by a global economic downturn put fundamental premises of the market economy at stake. It is, no longer, a matter of some non-governmental organizations (NGOs) capitalizing on the negative side effects of globalization. Rather, it is a deeper alienation between the world of corporations and the wider public. Business takes place in a society that no longer trusts its economic leadership cadre. Issues of corporate reputation are clearly on the CEO's desk.

**No single paradigm will do the trick**

Everywhere, we are seeing a societal discourse about normative premises for business. Neither the notion of shareholder value nor customer value, nor any other existing paradigm for business, enjoys automatic acceptance. Each paradigm faces attack and controversy. Typical solutions calling for more sustainability or for more corporate social responsibility also fall short for two reasons. First, they are viewed as being "nice-to-have" – isolated from the value chain and arbitrary in the way they are measured. Second, any one-sided approach misses the point of the full roundedness of human nature. Figure 1 illustrates the merits and risks of established paradigms about the things business is there to do.

From a CEO's perspective, shareholder value is clearly key. The other paradigms might even be considered as lever or boundary conditions for increasing profits. This is, however, probably a risky view in today's contested business world. In reality,

Figure 1. Merits and risks of established business paradigms

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

Public value redefines the entire idea of value creation by taking into account moral and political, as well as utilitarian and hedonistic, aspects of value creation.

it is much more complex: similar to an iceberg, you only see a small proportion of the value creation on the surface, a major part remains below the surface – unseen. In other words: a corporation's profit-seeking builds on a much bigger commitment to society. As long as things run smoothly, a corporation is directed toward achieving sustainable profits based on useful products and services. The CEO is only confronted with more fundamental questions if things go wrong or are challenged. Then they are forced to engage with deeper questions, such as political issues and moral conflicts. It is about basic legitimacy.

The only way to foster legitimacy in a modern democratic society is to engage in dialogue with societal actors and groups over and over again. Such a quest is not arbitrary, but a call for a systematic outside-in perspective. In particular, the many different varieties of capitalism call for a context-sensitive model, which is adaptive to local conditions – be it new forms of state capitalism in emerging countries or social market economies in Central Europe.

### It's public value

Legitimacy is a matter of cultural acceptance. Very early on, Peter Drucker, the father of modern management, saw management as a "social function" in society, since managers essentially coordinate how people are integrated into a larger system of labor division. By doing so, the individual becomes a member of society and acquires status and function. Here, we believe, lies an attractive answer to how corporations can and should build trust and gain legitimacy, contingent on the

societal order. "Free enterprise cannot be justified as being good for business. It can be justified only as being good for society."<sup>1</sup>

On a managerial level, the idea of "being good for society" has recently been discussed as value creation directed at public value. Originally developed by Harvard Professor Mark Moore for public administration,<sup>2</sup> the idea of public value has also been redefined and operationalized for the private sector. In its most general form, public value is defined as a contribution to society and its functioning. Public value represents impacts on wider society including, but not limited to, economic results or financial gains. It redefines the entire idea of value creation by taking into account moral and political, as well as utilitarian and hedonistic, aspects of value creation. In other words, value is not just about money, it is about a change in peoples' perception of living in a community and society. Can corporations, let's say, create moral values? Yes, they can, and they do so on a daily basis, externally, in customer interaction as well as, internally, in their corporate culture.

This perspective is at the very heart of Drucker's notion of a "social function." The modern corporation is a major coordination mechanism of society. There is no such thing as a super control power for the

"right" value. It is neither the market nor the state, but a process of joint activity. A viable society is the result of interaction, where corporations play an increasingly important role.

It is a core premise of public value to rediscover this function, exploit and develop it. Such a perspective turns the entire discussion about business in society upside down. It takes away false attributions of responsibility, on the one hand, and, on the other hand, it draws attention to corporations as engines to maintain and drive societal progress. Why? First, public value is always created or destroyed. Corporations contribute to public value more than they know and, often, more than anybody else knows. Second, public value is not created or delivered – it is perceived. Actually, no value can simply be "created," it always needs an audience to appreciate it. It is in the sphere of mind-set and behaviors where we need to look for sources of legitimacy. As such, they are closely associated with intangibles, with public opinion, embracing the full roundedness of human nature. But how do we capture these contributions?

### A Public Value Scorecard for management

Corporations need a better sense of society's expectations. They need management tools to treasure public value and constantly monitor how things evolve over time. In particular, a common framework is needed that allows for a language that is robust enough to systematically give different world views and value systems.

1. P. Drucker, *Management tasks, responsibilities, practices*, Routledge, 1973.
2. M.H. Moore, *Creating public value: strategic management in government*, Harvard University Press, 1995.
3. P. Gomez and T. Meynhardt, "More foxes in the boardroom: systems thinking in action," *Systemic Management for Intelligent Organizations: Concepts, Models-Based Approaches and Applications*, Springer, 2012.

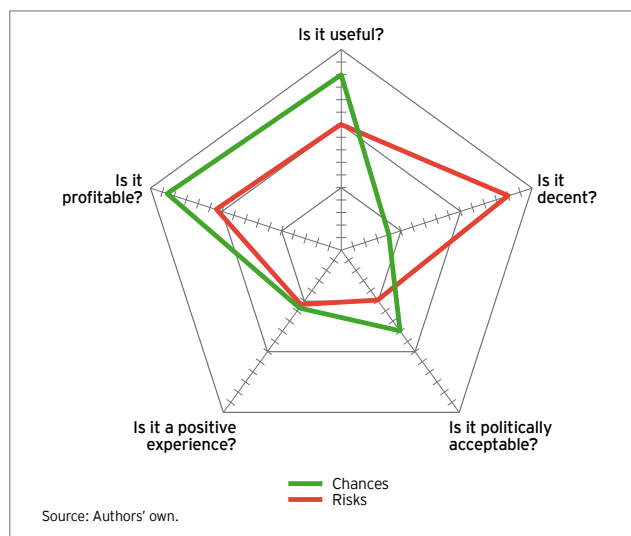
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Research shows that executives vary considerably in how they construct their world view and how they deal with complexity.<sup>3</sup> One way of framing this differing perspective has been provided by the ancient Greek poet Archilochus, who, famously, wrote: "The fox knows many things, but the hedgehog knows one big thing." In a Swiss-German study, two out of three C-level managers assumed their company was totally "in sync" with the wider public. These executives viewed the world from a true or false perspective that can be likened to the "hedgehog" in Archilochus' metaphor. The other third of managers in the study were more inclined to allow for plurality, multiple realities and conflict. Following the same line of thinking, they can be regarded as "foxes."

Needless to say, each type of value consciousness has its strengths and weaknesses. If we continue to use Archilochus' metaphor, then it is about helping hedgehogs to see plurality and supporting foxes not to be paralyzed by complexity. A number of measures have already been developed, such as the triple bottom line (TBL) or the Global Reporting Initiative (GRI). While these approaches opened the door toward a more holistic perspective of a corporation's social impact, they do not focus on value creation for society as a positive force. Besides, on the instrumental level, they are not constructed as dialogue tools to inspire the strategy process. Other management tools, such as an integrated risk assessment, are "strategic." They, however, lack a rigorous assessment of public value issues.

Figure 2. Public Value Scorecard



At the University of St. Gallen in Switzerland, a Public Value Scorecard (PVSC) has been developed that exactly fills this gap and helps organizations to understand and increase their value to society. This scorecard is based on psychological needs theory and allows for tailor-made indicators in five dimensions (see Figure 2).<sup>4</sup>

Let's assume the PVSC is employed for a new car development. Clearly, in addition to the core business case drivers of usefulness and profitability, other factors will play a role in the development's success, such as the moral consequences and the political implications, as well as the potential for a positive experience. No

single positive element can outperform or simply substitute failure in another area. Conversely, one single failure can threaten the entire concept. For example, even if it is politically acceptable to search for better ecological measures, it may not lead to a positive experience for the customer. It may even be morally doubtful to call for alternative mobility concepts, if nobody can really assess the new, associated side effects. The car development example serves as a useful case in point, but a

4. T. Meynhardt, "Public Value – Turning a conceptual framework into a scorecard," to be found in: J. M. Bryson, B. C. Crosby and L. Bloomberg (Eds.), *Valuing public value*, Georgetown University Press, in press.



similar analysis can be applied to any product, service or project that is subject to public opinion. An integrated public value assessment is currently not part of a due diligence exercise or a compliance effort. And, even if it is done, standards are missing that could systematically investigate the trade-offs and trigger a productive dialogue.

The PVSC is applied both for internal or external groups, stakeholders, investors or customers. It systematically generates management information on what it means to contribute to society at large. Following current insights in academic psychology, it measures impacts against people's basic needs that cannot otherwise be captured. In this way, public value is created when a firm's action (e.g., via its products or services) leads to a positive evaluation of needs fulfilment.

### Organizations discover their public value

The scorecard does not only identify "blind spots," it also contextualizes value creation in the societal sphere. Thereby, it fosters new forms of internal and external dialogue that can strengthen the ties between a corporation and its environment. A corporation might, for example, discover that customers are not prepared to pay a premium for sustainable products. They may also learn about the opportunities and risks of strategic moves.

For example, a major Swiss insurance company recently used the PVSC to better understand the societal implications of a specific M&A transaction; information that was, otherwise, not available. Fresenius Medical Care, a leading provider of dialysis products and services, used the scorecard to analyze the public value of its clinics, as

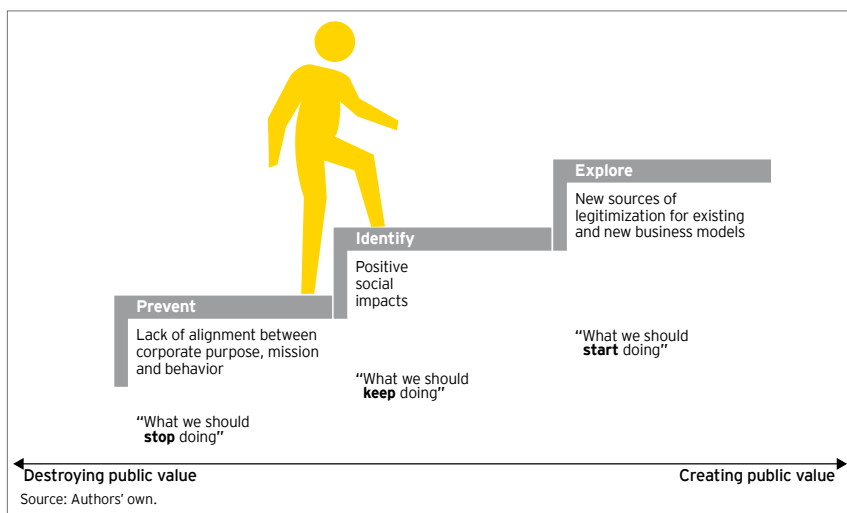
perceived by major stakeholders (please refer to the case study at the end of this article). As a consequence, the PVSC is seen as the next improvement for the existing balanced scorecard. The soccer club FC Bayern Munich employed the PVSC to identify public values that may both foster and hinder growth in the next few years. As a Champions League winner, the club aspires to grow substantially, while maintaining its roots in the region.

It is easy to understand how an insurance company, a provider of medical products or a soccer club contribute to public value. The results in all cases are highly relevant for strategic decision-making. Other examples include the Federal Employment Agency in Germany, one of the largest public administrations in Europe, which discovered a discrepancy between customer satisfaction and public value creation, as



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Figure 3. Three stages to better manage a corporations's public value



and ORF, the Austrian public service broadcaster, which uses the notion of public value to justify its business model.

All efforts to implement public value ideas in a corporate context are driven by an organization's need to better legitimize its actions. It concerns almost any business process up to human resource management and tax policies. Public value also challenges existing ideas of corporate social responsibility and sustainability, because it bluntly asks whether those activities add public value or not.

Managing public value is, first of all, about preventing it from being destroyed. Then it's about identifying it and, ultimately, exploring new ways to create it. Figure 3 highlights the different stages and imperatives.

The many areas where a PVSC can be applied point to a straightforward call: business should not simply ask whether something is sustainably profitable or whether it is tainted. It should concern itself with bold questions about its contribution to society by its core business, even though answers are in areas where business is often silent today. There is really no need to remain defensive or passive!

**Public value as a positive force for society**

Let's be clear: public value is not about redistribution of wealth. It is also not another version of Michael Porter's idea of shared value, which is primarily concerned with economic value creation. Also, the

opposite of public value is not private value in the sense of individual gain. Rather, public value points to impacts on the perception of community and society. If we think, again, in terms of metaphor: so long as a product or service stays on the kitchen table without leaving the house, it has no impact on the broader public's perception. It is isolated from the social context, as the wider society is never invited to the immediate family's kitchen table. Think of highly gifted inventors, who never get market access – they fail to create any value, including public value. Since a corporation is essentially an invention of culture and civilization, it cannot but create or destroy public value. It interacts in many ways with society and, by doing so,

## Case study

### Evaluating how the public value of an insurance company could be impacted by a potential acquisition

By using the PVSC, we recently helped a Swiss insurance company to evaluate and anticipate the opportunities and risks of a potential acquisition. The board's question was whether such a move could impact the company's public value. Given the confidential context of an acquisition during the due diligence phase, we first discussed questions and indicators only with internal experts. Then, we selected a number of national opinion leaders, ranging from high-ranking politicians, scientists, journalists, industry experts and managers. During 30 personal interviews, we applied the PVSC without disclosing our actual customer. To our interviewees, we circumscribed the context by strictly keeping to confidentiality rules.

The result of our inquiry was an individual and case-specific PVSC, which was then presented to the board. It turned out that our analysis substantially changed the board's viewpoint. Hot topics included ambivalent expectations about cost synergies and layoffs, the fear of extended market power and the risk of jeopardizing the company's reputation of embodying Swiss values. As one member commented, "If we really go ahead, we will have to carefully take into consideration potential reputational risks." Another one was surprised how closely linked opportunities and risks seem to be: "We have a lot to lose but not much to win concerning our public value."

The exercise clearly raised awareness about issues on which everyone had an opinion. But, only the PVSC provided a fact-based starting point to make the top management reflect on these issues. Over time, the company has successfully integrated the insights and is now driving the process forward based on a managerial notion of public value. ■



it also stabilizes or destabilizes a societal order. To come back to our metaphor: for a corporation, society is always at the kitchen table and, because of this, a corporation brings something to the table of society.

High-performing organizations are ahead in treasuring their public value. They not only use it for their risk management, but also link it to their value proposition. In summary, public value is a major chance to improve resilience and to grow and develop. On a personal leadership level, public value offers a solid compass for managers who wish to develop the competencies that will enable them to fulfill Drucker's assignment of management's social function. What could be more attractive for leaders than to make a difference to society? ■