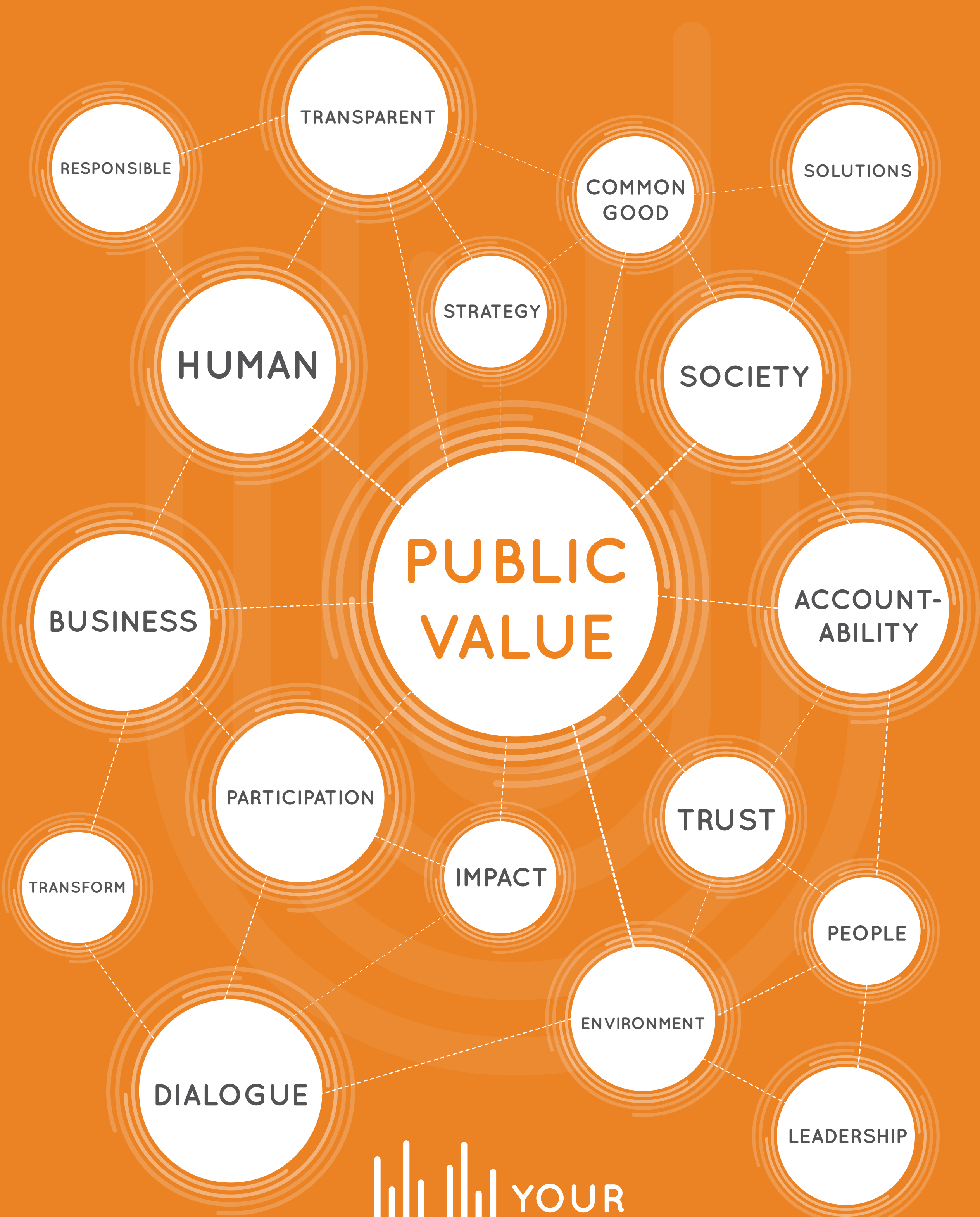
CREATE PUBLIC VALUE
TO (RE-)ESTABLISH TRUST

Position Paper and Call to Action **no. 2/20**

By Virginie Coulloudon and Anne Bailey



YOUR PUBLIC VALUE

CREATE PUBLIC VALUE
TO (RE-)ESTABLISH TRUST

Position Paper and Call to Action **no. 2/20**

By Virginie Coulloudon and Anne Bailey[1]

"How dare you?" – Greta Thunberg's rage at the UN General Assembly in September 2019 still resonates worldwide as the ultimate illustration of the global distrust people have towards the public and private sectors. When world leaders agreed on the Sustainable Development Goals (SDGs) in September 2015 they acknowledged de facto that the current way of governing states and businesses was no longer suited to our contemporary challenges. Since then many experts have discussed worldwide how inconsistent our societies are in contributing to citizens' overall well-being, highlighting the exception of New Zealand, which has improved its performance by embracing a well-being framework[2].

During the COVID-19 lockdowns sociologists and experts in sustainability highlighted how poorly health and education workers were paid despite being on the front lines of the pandemic, and reaffirmed the need for inclusive and sustainable growth. They also mentioned that New Zealand was among the countries that treated its health workers with respect and additional support, including housing, mental health counselling, and supplementary funding. As the death toll rose it became glaringly clear that systemic change was needed in global capitalism[3].

Trust in governmental and corporate stewardship of the earth was already fractured before the pandemic. The year 2019 marked a turning point in the global understanding of our challenges. In Davos there was widespread consensus that companies need a different type of leadership if they want to refresh the trust paradigm and be part of the solution. In his annual letter to CEOs, BlackRock Chairman Larry Fink had mentioned the Deloitte Millennial Survey 2018, in which 63% of millennial workers said they considered the primary purpose of business to be "improving society"[4]. The endemic lack of trust towards governments, business and the media already negatively impacted society and the global economy.

Today climate change is arguably society's most pressing issue, causing fear for future survival and triggering migration. With global uncertainty at an all-time high, industries are continually disrupted, negatively impacting millions of workers. Global poverty is one of the worst problems that the world faces today, and the divide between the 1% and 99% continues to deepen[5]. Investigative journalists help raise awareness about financial illicit flows, but pub-

---

1 A first version of this Position Paper was distributed in conferences in October 2019 for feedback. We updated it in June 2020. virginie.coulloudon@yourpublicvalue.org - @coulloudonv annebailey0108@gmail.com -@a_kneeT

2 https://www2.deloitte.com/content/dam/Deloitte/nz/Documents/public-sector/Deloitte-NZ-SotS-2018-Article-2.pdf and https://www.oecd-6wf.go.kr/speaker/suzymorrissey1.pdf

3 https://www.wbcsd.org/Overview/News-Insights/General/News/WBCSD-releases-exploration-into-systems-transformation-in-support-of-inclusive-and-sustainable-growth-for-business

4 https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html

5 https://ourworldindata.org/extreme-poverty

lication is very seldom followed by official investigations. Year after year our planet's resources are over-consumed at a rapidly increasing rate. Resources are becoming scarce, and a projected world population of 9 billion people by 2050 aggravates this challenge[6]. In addition the United Nations already cautioned that the Global Goals might not be reached by 2030.

Despite the global NGO Oxfam's annual reminder of global inequality[7], and other civil society organisations stating that economic growth cannot be sustainable without restoring a social contract, leaders continue to focus on symptoms instead of concentrating their efforts on transforming our economic system[8].

The magnitude of today's challenges leaves business leaders no other choice than to think differently and to profoundly reinvent themselves. Their very survival is at stake. Instead of a linear and competitive business model, the solution lies in systemic change.

This position paper is an opportunity for Your Public Value to make the case for systemic change driven by public value creation – a social and environmental compass to help (re-) establish trust.

SYSTEMIC CHANGE RELYING ON PUBLIC VALUE

Public value is value created for all through positive action:
For all and each of us, including for society and the environment.

Profit and quality product are inherent to a company's value offer, but not public value. The public relations scandals of the past 20 years – from Nike and child labor to Volkswagen and greenhouse gas emissions[9] – have played a significant role in giving force and momentum to public demand for more ethical operations.

---

6 https://www.terrafiniti.com/towards-9-billion/
7 https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it
8 In July 2018, the World Business Council for Sustainable Development (WBCSD) showed that over 40% of the 250 surveyed global companies had integrated the SDGs into their strategic thinking.
9 https://www.cleanenergywire.org/factsheets/dieselgate-timeline-car-emissions-fraud-scandal-germany

Corporate Social Responsibility (CSR) programmes were established as a response to public demand for higher human rights standards. CSR programmes have become widespread, showing the popular demand and rising expectation for ethical standards. They are a step in the right direction to address the dire environmental and social issues that the globe is facing, but most of them leave room for improvement.

Often these programmes consider a surface level change that at best neutralizes the negative impacts of the business' normal operations without effecting any strategic change that could eliminate those negative impacts. Suffice it to say that the current discussion on incorporating the "do no harm" principle in most CSR strategies is more of a hindrance than a help. Although such a "do no harm" approach often means taking a step back to consider the broader context and mitigate potential negative effects on society and the environment, it also limits the range of CSR activities[10]. In that sense any "regeneration policy" goes beyond simply "neutralizing" any negative impact.

Companies that strategically focus on generating public value have often decided to do so following a reputation scandal. This is certainly the case for Nike that for years focussed on combatting child labour and eventually embraced a long-term strategy to "enable a fair or growing supply chain[11]."

Systemic change means changing paradigms. It goes beyond treating symptoms by relying on CSR programmes. It is a strategic choice often decided at the top and backed by the Board to consider a long-term perspective. It is often a painful process that leads to reducing exponential growth in order to deliver positive value.

10 https://www.alnap.org/system/files/content/resource/files/main/donoharm_pe07_synthesis.pdf
11 https://purpose.nike.com/labor-conditions-supply-chain

There have been several attempts to define this new paradigm. One of the first, of course, was John Elkington, who produced the concept of Triple Bottom Line (TBL) in 1994. In 2006, Michael Porter insisted on the need to develop value-chain analysis[12]. More recently, in 2019 in Davos, the Founder and Executive Chairman of the World Economic Forum Klaus Schwab suggested creating "new global norms, standards, policies, and conventions" to increase value creation and safeguard the public trust: "We need to move from a narrative of production and consumption toward one of sharing and caring," Schwab argued, calling this process "globalization 4.0[13]." He repeated this motto in 2020[14].

"Society is increasingly looking to companies, both public and private, to address pressing social and economic issues," wrote BlackRock CEO Larry Fink, addressing the CEOs of the multinational companies he invests in[15]. He added: "One thing is certain: the world needs your leadership. As divisions continue to deepen, companies must demonstrate their commitment to the countries, regions, and communities where they operate, particularly on issues central to the world's future prosperity." The 2020 pandemic refreshed the debate on value-based capitalism and saw a renewal of Michael Porter's value-chain analysis[16].

Public value is a 25-year old concept that redefines modern accountability by addressing the needs of society and the environment. It is also an approach that allows risks to be transformed into growth opportunities.

Developing the TBL concept, Elkington also considered it was time to implement systemic change. He later complained that the concept had been "highjacked" by accountants and reporting consultants, without any systemic change being launched[17]. However, public value creation requires measuring wealth and well-being differently[18]. The UN Global Compact (UNGC) actively advocates global companies to map the SDGs against their value chain and offers tools to find high impact business opportunities and further engage stakeholders[19]. At Your Public Value we believe that systemic-positive change can be launched after companies and corporations reform three essential pillars:

- Any stakeholder approach should lead to an increased collaborative attitude;
- Any accountability system should address the needs of society and the environment;
- Measurement standards should consider well-being and SDG reporting.

We explain below how these pillars can articulate public value creation and (re-)establish trust.

---

12 See a description of the value chain in Porter, M.E. & Kramer, M.R. (2006);Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility;, Harvard Business Review, December 2009 or Porter, M.E. & Kramer, M.R. (2011) Creating Shared Value;, Harvard Business Review, Jan/Feb 2011, Vol. 89 Issue 1/
13 https://www.weforum.org/agenda/2018/11/globalization-4-what-does-it-mean-how-it-will-benefit-everyone/
14 https://time.com/collection/davos-2020/5764096/youth-anger-klaus-schwab/
15 See BlackRock CEO Larry Fink's annual corporate governance letter
16 See for example https://www.ft.com/content/4ee0817a-809f-11ea-b0fb-13524ae1056b or https://www.nytimes.com/2020/06/18/business/coronavirus-minimum-wage-increase.html
17 https://hbr.org//2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it
18 Idem
19 https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Fdevelopment%2FSDGCompass.pdf p.12

STAKEHOLDERS' PARTICIPATION & COLLABORATION

When the UNGC came up with concrete figures representing the market opportunities linked to the SDGs, they called on the private sector to articulate new solutions and transform the existing challenges into growth opportunities. The SDGs clearly led to a growing market for business innovation, and the figures spoke for themselves.

Overall the SDGs represented a field of investments of USD 12 trillion between 2015 and 2030. The UNGC gave even more specific evaluations:

- Field of food & agriculture/nutrition = USD 2.3 trillion
- Field of health & well-being = USD 1.8 trillion
- Field of urban architecture and mobility = USD 3.7 trillion
- Field of energy & mining = USD 4.3 trillion

Such market opportunities are still open. But if they remain untapped after so many decades of prosperous capitalism, it also means that the biggest companies did not ask the right questions when shaping their corporate strategies. To understand how the private sector can address the current challenges, one key question needs to be asked: "Who do we negatively impact?"

This question is a first step in inviting those who have been negatively impacted by an organisation's operations – and sometimes even excluded – to become active stakeholders of its ecosystems even if this may seem counter-intuitive. Letting the "collateral damage" decide on a firm's next strategic action will likely achieve exactly the opposite of their corporate goals. In order for there to be any alignment between the corporate level and those negatively impacted by operations, a paradigm shift is necessary with trust placed at its heart.

Radical (re-)establishment of trust often requires rebuilding a foundation. A company's collateral damage has the potential to become a participant. Participants empowered to interact positively in that company's ecosystem engage more fully in their local economy, thereby increasing their health, wealth, and well-being. This is an inclusion-based view that has the potential to unlock the still untapped 12 trillion USD in SDG market opportunities.

Changing paradigm with regard to stakeholders can start with the following common-sense questions:

- Are there any communities or groups who could be negatively impacted by us?
- What would the impact be in 3, 5, or 10 years?
- What is our environmental impact? How does it affect communities/stakeholders?
- What is our societal impact? How does it affect communities/stakeholders?
- Are all our strategic documents easily accessible by the public? If not, why do we need to keep them confidential?

Current marketing strategies search for consumer needs, but not for needs linked to decent work and life, the environmental challenges, and even less for the basic requirements related to survival. Recent scandals have shown that the risk of not caring for people outside the traditional companies' ecosystem could even develop into crises and reputational damage.

"How can we enlarge the numbers of beneficiaries from our corporate strategy? How can we invest to transform our previous negative impact into a net positive one and a growth opportunity?" These questions should be central to any modern social contract between business and societies. This is not altruism. These are key questions that could lead to finding new growth opportunities while addressing the needs of all.

To have a net positive social and environmental impact, the private sector needs:

- To embrace a new understanding of who the companies' stakeholders are, and consider the invisible ones and those who suffer most as beneficiaries;
- To implement a new type of stakeholders' relations by showing meaningful values and purpose, and demonstrating care.

The massive demonstrations that have taken place on all continents show how frustrated people are at not being heard and considered seriously. A collaborative attitude is key to any modern stakeholder approach. Co-creation should become the norm in multi-stakeholder and inter-generational dialogue, including dialogue initiated and led by the private sector.

MODERN ACCOUNTABILITY

Last year Your Public Value launched a survey among ESG experts, responsible investors, and executives working in responsible companies to find out how they perceived public value and modern accountability. We wanted to refine our understanding of this specific target group that we considered well aware of the benefits of public value creation. Although experts agreed that business should be a force for good, they still answered very differently when we asked who should be accountable to various stakeholders in their own company.

Answering the question "Who in your organisation should be accountable to the following stakeholders?", over 65% of respondents considered that ALL departments should be accountable to employees and customers, including to the environment and society. This is a fairly high rate even if we keep in mind the targeted audience of public value supporters. But answering to more specific questions about the current situation, respondents said that today only specific departments and/or the executive were held accountable to society and the environment. This result tends to show that current corporate governance remains behind employees' aspirations, even in the most advanced companies.

To be accountable to the whole of society and the environment would mean that ALL employees in any given company would understand perfectly the organisation's purpose and what makes it valuable to society. They would also know whether their company has harmonized investments across different areas; whether it fosters innovation and in what area; and whether their code of conduct is adjusted to local communities throughout their supply chain. They would feel comfortable with the ethical standards of their organisation and the

way they are monitored as they would have co-created these standards and would be regularly asked to reflect on them.

Our research has highlighted two patterns leading to companies embracing a triple bottom line and reporting on their contribution to the SDGs:

- Their leaders have a strong background from the Global South and have a personal awareness of one or more of the SDGs;
- Following a publicity scandal, companies had to focus their strategic priorities on public value creation as a way to re-establish trust.

It is understandable that context should inform any transformation, and that a company's backstory is a vital clue to why it underwent the changes it did. But it remains sad to notice that our global economy is still driven by personal interest, rather than collective interest. For our economy to be driven by public value creation and trust to be (re-)established, the private sector needs to think in terms of collective needs and accountability to the whole of society and the environment. In other words, modern accountability should embrace a well-being framework and drive our economy away from our current profit-driven models.

MEASURING PROGRESS

In the current times of environmental, health and social crises, it is crucial that all public and private actors, as well as international institutions, focus on how they can join forces for the common good.

Until now, all developed economies have embraced a growth model that saw trade exchanges, investment flows, and even GDP per capita as an end in themselves instead of a means to shape the best possible economy. As OECD Chief-of-Staff Gabriela Ramos told Your Public Value, the "grow first, and distribute later" mantra is also part of the current problem: *"We know that this growth model doesn't properly deliver for the people and that it does not deliver for the planet either. We need to avoid silos and focus on what is important to people - health, education, and social connection[20]."*

We are bound to an economic model that focuses on efficiency and productivity, but too often forgets about equality and fair distribution. The global wealth distribution is currently dividing our planet between rich and poor. Today the top 10% of the income distribution retain 40% of wealth; the top 5% retain 20%; the top 1% retain 10%; and the 40% at the bottom of the income distribution retain 3%. It takes particular courage for a politician to disrupt this current economic state and so far only New Zealand's Prime Minister Jacinda Ardern has embraced a different vision: "I am going to build a budget that will tell me not only where I'm going to spend the money, but also how the benefits are going to be distributed," Ardern said[21].

New Zealand is the first country to adopt the OECD "well-being framework" and accept to measure progress with metrics that go beyond GDP and include data on health and education. We may need a few years to measure the country's the social and environmental

20 https://yourpublicvalue.org/summit/shaping-a-new-world/
21 https://www.interest.co.nz/news/104686/jacinda-ardern-keeps-door-open-possibility-cash-payments-households-post-lockdown or https://theconversation.com/new-zealand-outstrips-australia-uk-and-us-with-12-billion-coronavirus-package- for-business-and-people-in-isolation-133789

progress, but we already know that a different understanding of profitability and costs is beneficial to a circular economy.

The global challenges that the SDGs define – ranging from climate, water and food crises, to poverty, conflicts, corruption, and inequality – are in need of solutions that the private sector can deliver if it believes they are worth the investment. The usual institutional trifecta of public, private, and nonprofit organisations is no longer enough to deliver well-being; instead of it being a balanced partnership, nonprofits are expected to provide what the private sector will not and what the public sector cannot. This allows governments and corporates to retreat from their environmental and societal responsibility. To lead to systemic change, companies need to measure success differently, so that society and the environment can fully benefit from their public value creation.

This position paper is based on the research Your Public Value started a year ago. Over 100 sustainability experts answered our accountability survey and 25 world experts and leaders gave us direct feedback via video interviews. Over 120 sustainability and governance experts participated in our Public Value Labs and co-created nine Public Value Principles. Your Public Value is now discussing these principles with corporations to understand which boundaries could be lifted to enable society's wellbeing.

We'd love to hear from you: Please give us feedback via email at:

contact@yourpublicvalue.org
on twitter @yourpublicvalue
or on our LinkedIn page

YOUR PUBLIC VALUE

YOUR
PUBLIC
VALUE