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PUBLIC VALUE AS THE FOCUS OF STRATEGY

Management, for those who practise it, is a purposeful enterprise. It is aimed at producing something. An important question is: what?

In the private sector, we think we know the answer to that question: the goal of private sector managers is to maximise long-term shareholder wealth. Managers achieve this goal by building organisations that can: (1) conceive and produce products to be sold to customers at prices that fully cover the costs of production; and (2) that can keep doing this again and again as tastes and technologies change. Their ability to achieve this goal is measured in the short run by the profits they earn. Their long-term prospects are (somewhat imperfectly) measured by the stock price of the companies they lead.

But what is the goal of public sector managers? What are they supposed to produce? And how will their performance be measured? These are the questions I would like to address. To get to these questions, one must go at them both philosophically and practically.

The aim of public managers is to create public value

Let me start with a simple, bold assertion: the task of a public sector manager is to create public value. This may not sound particularly startling here in Australia where you have all gotten used to talking about "value for money" in public sector operations, but it sounds more shocking in the United States.

I think there are two reasons for this. The first is that, in the United States at least, government is rarely seen as an institution that can "create value". At best government is viewed as a necessary evil: a referee that sets out the rules within which a civil society and a private economy can operate smoothly; or an institution that fills in some of the gaps, or smooths out some of the rough edges of free market capitalism. While such activities may be viewed as necessary, they could hardly be viewed as value creating. If there are opportunities to create value, they should be left to private entrepreneurs to exploit.

The second reason is that this concept seems too open-ended -- too wide an invitation to public managers to use their imaginations. The notion that managers should create public value encourages a kind of leadership, entrepreneurialism, and opportunism that should be reserved for those who run for office, not those who run public organisations. It gives public managers too much encouragement to lose the constraints of principle and effective democratic oversight and pursue their own self-serving or idiosyncratic notions of the public's interest.

Yet, upon reflection, most public executives find the idea that they should be responsible for creating public value quite obvious. Their daily experience teaches them that it is government, acting through the efforts of public managers, that shields the country from foreign enemies, keeps the streets safe and clean, educates the children, and insulates citizens form many man-made and natural disasters that have impoverished the lives of previous generations. To them, it seems obvious that governmental activities create value. That is the whole point of their work.

Moreover, they know full well that there is no escape from the powerful mechanisms of political oversight -- they are as tightly bound to the demands and expectations of their political masters as private sector managers are to their customers. Yet they also know that their political overseers want many different things from them, and that the conflicts among these purposes will not always be resolved coherently. The incoherence, in turn, makes it difficult for them to produce what was intended. They also know that the political demands of today may well change tomorrow. Therefore, they know it will often be left to them to use their imaginations to work out a particular conception of what their organisations should produce today that seems to be consistent with today's conflicting aspirations, and to build organisations that are flexible enough to respond to tomorrow's changed desires. In short, just as private sector managers must imagine ways to meet the heterogenous and changeable demands of the economic marketplace, so public managers must find ways to accommodate the varied and changing tastes of the political marketplace.

So, although citizens and their elected representatives may find it shocking to think that the aim of public managers is to produce public value, it hardly comes as news to practising managers. Like Moliere's "bourgeois gentil-homme" they learn that they have been speaking prose all their lives. They know that citizens and their representatives are counting on them to find ways of expressing their collective aspirations through the operations of governmental organisations.

Different concepts and ways of measuring public value

To be useful, however, the concept of public value must go beyond the rhetorical advantages it gives to public sector managers who seek to give meaning to their efforts, and to find an outlet for their creative energies. It must point to more specific, concrete methods that managers can use to understand what their proper purposes are, where the value they create registers, and how best to measure their accomplishments.

Here the interest in defining public value proves useful because it creates an occasion to reflect on four more particular ideas that have served to guide managerial work in the public sector, and to define and measure public value over the last several decades:

- the idea that managers should achieve their mandated purposes as efficiently and effectively as possible;
- the idea that professional standards can set benchmarks for public sector production;
- the idea that public value can be captured through analytic techniques such as program evaluation, cost-effectiveness analysis; and
- the idea that public value can be measured in the satisfaction of stakeholders and customers of governmental enterprises.

Public value as the achievement of political mandates

Perhaps the most commonly held conception of the point of managerial work in the public sector is that public managers should "achieve their mandated goals and objectives as efficiently and effectively as possible". This is the idea that emerged from the Wilsonian tradition that separated policy from administration. In this view, elected representatives of the people were responsible for setting goals and objectives; dutiful and technically proficient civil servants were relied upon to devise the most efficient means for achieving the desired result.

Note that in this conception, it was elected representatives of citizens who defined public value. If they could agree that a public enterprise was worth undertaking, that was enough to establish its normative claim over the resources of the society. It was also enough to establish their right to focus the work and attention of public managers. What was left to public managers was to find ways of achieving the politically mandated purposes with the least use of public resources.

Over time, this view has remained strong. Yet, it has been supplemented by other views to deal with the fact that the idea of achieving mandated objectives was often as vague as the concept of public value itself. Although there were often statutes that one could refer to to find what purposes had been endorsed and what general means sanctioned, the legislation was often so general as to admit many different interpretations.

Public value as the achievement of professional standards

To fill this gap, public sector managers often relied on the knowledge and experience of substantive experts and professionals in the fields for which they were responsible. Thus, if managers wanted to define public value in the domain of defence policy, they consulted the generals to find out what was needed; to learn what was most important to accomplish in the field of health, physicians and public health epidemiologists were consulted; to learn what constituted a quality education, experienced educators were asked; and so on. In effect, professional judgments about what was required in particular public enterprises were used to define what constituted value in somewhat more detail (and with the benefit of somewhat more expertise) than legislative mandates.

Note that the professionals in these various fields often liked to claim that their judgments were important only as to means, not to ends. In a spirit of democratic governance, they, like the dutiful officials who were achieving mandated missions as efficiently and effectively as possible, left the crucially important normative activity of defining the proper ends of government to elected representatives and overseers.

On close inspection, however, it often became clear that the professionals were defining ends as well as means. Thus, in the domain of defence policy, elected representatives knew "how much was enough" by asking generals about the likely threats from the enemy and what was needed to meet them; in the domain of public health, they learned what sorts of health threats should be confronted by asking the experts in public health: and so on. In short, professional judgments, ratified through decisions by elected representatives, began to define what constituted public value in many public enterprises.

Eventually, many became dissatisfied with both the political definition of public value associated with the concept of achieving mandated purposes, and the use of professional judgments to determine what was desirable to produce. In the first conception, they saw too much room for political corruption; and in the second too much room for the self-seeking oridiosyncratic views of professional groups to become enshrined as public value. They longed for some more powerful, objective means for determining whether public enterprises were producing public value.

Reckoning public value through analytic techniques

To meet these demands, new forms of analysis were created by new kinds of experts. Specifically, statisticians developed the techniques of program evaluation; engineers and operations researchers the techniques of cost-effectiveness analysis; and economists the techniques of benefit-cost analysis. Starting in the late 1960s in the United States, these methods began to be deployed to generate relatively objective information about the performance of government, and the value of governmental enterprises for the political process to consider.

In practice, these techniques have proven difficult to use. They are expensive. They produce results relatively late in the cycle of decision-making. And they have proven less convincing in political discussions about the value of public programs than their advocates initially hoped. As measures of value, they are no match for the information contained in the volume of revenues earned by a private sector firm.

Indeed, it is useful to pause for a moment to consider just how valuable "revenues" earned by selling products and services are in measuring the value of what an organisation produces. First, a revenue is a direct, undisputed measure of the value that an individual consumer attaches to the product or service an organisation produces. If the consumer did not value the product or service at least as much as the selling price, he would not buy it.

Second, revenues can be directly compared to costs. When the costs of producing a good or service are subtracted from the revenues earned by selling it, one can calculate the profit that the enterprise earns. If there is a profit, one can reasonably claim that some value was produced by the organisation: it produced something that was valued more by consumers than it cost to produce. It is this observation that furnishes much of the normative justification for market mechanisms.

Third, revenues can be used as the basis for comparing many different kinds of products. Once one knows that apples cost $2.39 a dozen and oranges cost $2.59, it becomes possible to compare the value of producing apples with the value of producing oranges.

Fourth, information about revenues is collected immediately and inexpensively right at the boundary of the organisation. One doesn't have to wait for an effect to occur sometime in the future, or to develop a separate mechanism for measuring whether an effect occurred. All one has to do is count the money in the till at the end of the day.

Fifth, there is a long tradition established centuries ago of accounting for revenues with accuracy and precision. Accounting techniques were originally created to prevent employees from stealing in the middle ages. They survive not only to perform that function, but also to give managers useful guidance about what products and product lines are particularly valuable for their firms. The net result is that accuracy in the estimation of revenue is virtually assured, and no one thinks it inappropriate to spend time and effort to make these measurements accurately.

The power of revenues as a source of information about value becomes even more clear if one imagines what private sector managers would do if for some reason they were denied the basic financial data. I think one can immediately see that the job of measuring the performance of their organisations becomes much more difficult. Further, one can easily imagine that they would immediately begin trying to develop some measures of output or value, and that those efforts would resemble the efforts undertaken by public sector managers. They would begin monitoring quantities of outputs, or begin surveying those who used their products or services to learn what they thought of them. Valuable as this information would be, it would be far less valuable than the revenue information they had once had.

It is no wonder that the public sector would work hard at trying to find a substitute for revenues earned from sales to gauge the value of efforts. Such information is very valuable indeed. And it is this kind of information, and this kind of function that the techniques of program evaluation, cost-effectiveness analysis, and benefit-cost analysis have sought to provide.

Unfortunately, these techniques have fallen well short of expectations. Perhaps because the technical problems have dominated discussion about them, an important conceptual distinction among them has gone unnoticed, but is worth observing here.

For the most part, practitioners of the art of evaluating governmental expenditures have viewed both program evaluation and cost-effectiveness evaluation as a poor second cousin to benefit-cost analysis. In this view, the conceptually correct way to define the value of government programs is to identify their impact on individuals in the society; to value those effects in the ways that the individuals affected would value them; and to add up valuations of the individual valuations. The aggregate social utility of government programs consists only of the individual valuations of the program by those who are directly affected.

Unfortunately, it is difficult to make accurate determinations of these effects and the individual evaluations. Consequently, for practical reasons, evaluators are often forced to rely on the cruder techniques of program evaluation and cost-effectiveness analysis. These techniques proceed by assuming the value and utility of some public purpose -- the legislation that defined the purposes of a program that become the dimensions along which a public program will be evaluated, or the professional standards that were used to operationally define appropriate standards of effectiveness. Thus, the evaluators can escape the awesome task of measuring the impact of the programs on individuals, and valuing them in terms of individual utility functions; they can, instead, simply look at the question of whether the programs achieved what they were supposed to achieve. That is a far simpler empirical task.

However, there is a different way of looking at this difference in the techniques. In this view, the shift from valuing government programs in terms of individual satisfactions on the one hand, to success in achieving mandated goals or professional standards on the other, can be viewed not simply as a practical adaptation to the difficulty of measuring individual valuations, but instead as the conceptually appropriate way of measuring public value. The argument is that when public resources are used to sustain some enterprise, the proper way to evaluate that enterprise is against the goals that were collectively established for that enterprise -- not the valuations of individual citizens.

Importantly, the techniques of program evaluation and cost-effectiveness analysis both assume the existence of some kind of social utility function that is to be maximised. The techniques of program evaluation call for the evaluation to be done in terms of the legislated goals and objectives of the program. It is assumed that the achievement of these would be valuable. The only question is whether the government was able to do so.

Similarly, the techniques of cost-effectiveness analysis assume some particular goal or objective against which governments' efforts are assessed. These often come from engineering or professional standards rather than politics. But the point is that the value of achieving the objectives is taken for granted. The only question is what the cost is of achieving them, and what alternatives are particularly inexpensive.

Benefit-cost analysis, in contrast, is based on an entirely different conception. In this method, there is no collectively or professionally established maximum. The value of a public enterprise is to be gauged, instead, by seeing how individuals in the society value its consequences for themselves. This reflects the origins of these techniques in economics rather than political science. Economics often seems to assume that there can be no real collective will or aspiration. Consequently, the only proper way to measure value is in terms of what individuals want, and principally in what they want for themselves.

Arguably, that view denies the reality of what happens every day in government: namely, that the elected representatives of citizens join together to decide what a collectivity will do together to advance their common goals. Those common goals are expressed in legislative mandates and professional standards -- not in the valuations of individuals who are affected by the program. In this sense, program evaluation and cost-effectiveness analysis may be superior to benefit-cost analysis, conceptually as well as practically.

Value as stakeholder and customer satisfaction

Most recently, we have witnessed the arrival of a new conception of the goals of public sector management -- the idea that public managers should seek to satisfy stakeholders or customers of their programs. There is much that is extremely useful in this idea. Insofar as the idea of "stakeholders" focuses managers' attention on all those who might have interest in how government programs operate, and thus alerts them to parties who need to be consulted if changes are to be made, the concept can be extremely useful. Moreover, insofar as the concept of customer focuses the attention of government mangers on facilitating the transactions that occur between citizens and governmental enterprises, it usefully focuses the attention of government managers on areas that have been real trouble spots. As clients of governmental services. So I do not want to diminish the enormous managerial utility of these concepts.

Yet I do want to raise some questions about these concepts as a reliable guide to where public value lies. Let me start with the concept of stakeholders, and the implicit assumption that the aim of public managers is to satisfy them, or at least win their assent. The practical utility of the concept of "stakeholders" is that it is a general concept focusing managerial attention on anyone who has a stake in how their enterprise operates. This includes clients of the program; also the staff; also those political representatives and advocates who take an interest in the program; also taxpayers and citizens who must pay for it.

What is not useful about the concept, however, is that it seems to assign equal significance to the claims that the different sorts of stakeholders can make on the enterprise. The employees' interests are considered equal to the clients', which are in turn seen as equal to the citizens', taxpayers', and overseers'.

In my view, these different kinds of stakeholders have very different statuses in terms of their moral right to make claims on governmental enterprises. In general, I would assign the desires of citizens and elected overseers a higher status than the claims of either employees or clients. When the public pays for an enterprise, and gives up some of their freedom for it to succeed, they have the first claim on being able to say what should be valued and what interests should be satisfied in the operation. They may, of course, judge it important that clients be well served, and that employees be treated decently. But the point is that it is their values that should run through the operation and guide its activities, not the clients' or employees'. It may be prudentially important to consider all the stakeholders' interests, and morally desirable to accommodate them when possible. But the overall purpose of the enterprise can only be established by citizens and their representatives. Their goals are the only things that justify the expenditure of public resources.

This leads me to my observations about the concept of customer service. Again, I want to emphasise that the concept of customer service is managerially very useful. There may be no more important focus of government managers than to improve the quality of the encounters between bureaucracies and citizens, and yet I also want to raise some questions about the idea of customer service as the best way to define public value.

Generally speaking, when people think about the customers of government programs, they have in mind the individuals that government organisations meet at their business end: the individuals who show up to get flu shots, or the students who come to school. This imagery of government having customers also fits nicely with the conception of government as predominantly a service enterprise. And viewing government in this way seems to make available to government managers much of what the private sector has recently learned about the management of service organisations. Thus, it becomes tempting to conclude that the goal of public managers is to make government more service oriented, and to think that public value lies in the satisfaction of those whom government programs serve or otherwise encounter.

Yet this view leaves out an important fact about government: government is often in the business of imposing obligations as well as providing services. When government seeks to clean the environment, or produce safety on the roads and in workplaces, or to promote security in residential neighbourhoods, it often acts by using its authority to command people to contribute to the public welfare rather than by serving individual clients.

Of course, it may be terribly important to learn how to treat those who are obligated by government to contribute to the general public welfare reasonably decently (and through that device, induce greater degrees of compliance at lower cost). Yet I still think it is hard to view "obligatees" as "customers". What is particularly absurd is to imagine that the public welfare is contained only in the satisfaction those individuals receive from their encounter with government. For instance, I think it would be absurd to think that the value of a police department's operations accumulated primarily in the satisfaction that criminals take from being arrested.

I hasten to re-emphasise that this does not mean that there is not a great deal to learn about imposing obligations by taking a customer perspective. Nor is it to say that the satisfactions of obligatees are not important to judging the overall value of a public sector enterprise. Indeed, even the police are beginning to think that the value of their efforts would be enhanced if the people they arrested were calmly reconciled to their fate rather than indignant.

It is to say, however, that the value that is produced by a public sector operation accumulates in places other than the satisfaction of clients who meet the organisation. It occurs in the satisfactions of remote beneficiaries, as well as those directly encountered and, as importantly, it occurs in the satisfaction that citizens and their representatives take in the overall performance of the organisation.

Indeed, one of the most interesting and important aspects of recalling that the government is in the business of obliging clients as well as serving then is that it reminds us that the government uses authority as well as money to accomplish its objectives. Authority is a special kind of resource. In principle, its use in a free society can only be justified if it benefits everyone. Moreover, when it is used, it is supposed to be used economically (i.e. non-intrusively) and fairly (i.e. only where appropriate, and only when citizens have rights to protest).

Whether a public sector enterprise displays these characteristics in general or in individual cases is often an important part of the social valuation of whether it is a good (i.e. value-creating) or bad organisation. This is as true when we are looking at the performance of child protection, environmental regulation, and tax collecting agencies as when we are looking at the police. Moreover, this quality of a public operation -- its fairness -- is an overall quality of the organisation as well as part of the experience of individuals who are exposed to it. And the organisation's overall fairness registers in the public mind as well as the experiences of individual citizens who are exposed to it. Thus, in an important sense, much of the value of some governmental organisations lies not in the satisfaction of the clients they meet at the business end of their operations, but in the satisfaction that citizens and political and judicial overseers take in the overall fairness of the organisation's operations.

This may seem like an exotic observation or an unimportant footnote that refers only to regulatory, enforcement, and tax collecting agencies. Yet the point assumes larger significance when one recalls that the money that is used to support governmental service activities is raised with the use of authority as well. Indeed, the fact that the coercive power of the state was used to raise the money that provides the services is what makes these enterprises truly public rather than private.

The use of state power to raise money, or to compel people to contribute to public purposes is the defining quality of public sector enterprises. And if authority is used to raise money to support service organisations, perhaps the same principles apply to them as well as to enforcement organisations. They, too, must find their justification not only in the satisfaction of clients but also in the extent to which they are perceived to embody the aspirations of citizens and their political representatives. Their value, too, registers at least partly in the satisfaction that citizens and overseers take in the way that the enterprise performs as a whole.

Citizens and their representatives as customers

Each of these concepts contributes something important to our evolving notions of how best to define public value. Professional standards play an important role in setting benchmarks for performance in the public sector. Techniques of program evaluation and benefit-cost analysis are extremely helpful in helping managers become accountable, and in informing politicians about what is both possible and worth doing. Thinking about stakeholders gives managers clues about who values what in their operations, and how they might react to changes. Focusing on customers may be an important way of improving the quality and effectiveness of government services -- even when government is imposing obligations as well as providing services.

In the end, though, I think the most important point that emerges from this exploration of the idea of public value is that primacy in defining public value must be reserved to citizens and their representatives acting through the collective processes of government. What public managers must seek to satisfy is the collective aspirations expressed through the political process -- not the aims of professionals, not the wishes of clients. They must become agents of collective rather than individually defined purposes.

Perhaps I can make this point most vividly by exploring with you the question I like to ask the public managers whom I meet in our executive programs. We find it helpful to push analogies between private and public sector management partly to find the similarities and exploit what business schools have learned about managing large, complex organisations; but also to identify the differences so that we can understand and learn how to cope with what is distinctive about public sector management -both as a philosophy and as a set of techniques and practices. I ask them whether public managers should view their legislative overseers as the functional equivalent of (1) the "board of directors", (2) the "bank", or (3) the "customers" in the world of private sector managers. What is interesting is that, at the outset, they all seem plausible; but on reflection, the one that initially seems least plausible turns out to be the most appropriate.

Legislative overseers resemble a board of directors in that they have the recognised authority to establish the overall direction of the enterprise. They are also a collective body like the board of directors. What seems different, however, is that there are often many more legislators than directors, and that they are often more widely divided on what the purposes of the enterprise should be than a board of directors.

Legislative overseers also resemble a bank. Like a bank, they "front" the resources that managers need to accomplish their planned purposes. They do so on the basis of a story that managers tell about something that would be valuable to produce for the public. The legislators, like bank lending officers, "buy" this story, and then wait to see if it will come true. If the organisation seems to keep performing -that is, to produce the public value it promised to produce -- they keep the resources flowing. If the enterprise begins to falter, they first subject it to closer scrutiny, and eventually begin withdrawing their support. In this view, an organisation's story about the value it is creating serves as a kind of prospectus justifying the flow of resources.

Initially, the idea that legislators might be seen as customers seems like the least plausible notion. After all, they are a long way from the business end of the organisation. They are positioned as the reporting end instead. Yet, on reflection, this may be the most apt analogy of all.

What makes customers functionally important to private sector organisations is two things. First, it is customers' decisions to spend money on a firm's products and services that determine whether the enterprise will be able to stay in business. They provide the wherewithal to continue.

Second, it is these very same decisions to put down hard earned money for specific products that give the normative justification for private sector enterprises to continue. Because customers put their money where their mouth is,and in doing so reveal their valuation of the private firms' efforts and cover the costs of production, private managers may plausibly claim that they have produced value.

Consider who performs these important functions for public sector enterprises. It is the legislature whose decisions to pay for a public enterprise give managers the practical wherewithal to continue. If the legislators stopped paying for the enterprise, it would cease operations. Similarly, it is the legislators whose decisions to spend public money create the presumption that something of public value is being created.

Of course, one can have doubts about the wisdom of those decisions just as one can have doubts about the wisdom of private consumption decisions. But the point is that we do not have any better way of deciding what it is that we all should be trying to do together. In the end, it is the aspirations of citizens, as reflected in the decisions of legislators, that establish the public value of public enterprises, and it is in this crucially important sense that the elected representatives of the people must be seen as a public organisation's most important customers.

Conclusion

In the end, politics cannot and should not be excluded from the definition of public value. We cannot banish it by importing professional standards, or relying on analytical techniques, nor shifting our attention to the satisfaction of clients or government programs. Politics is the only way that liberal, democratic societies know how to create a "we" that has more or less articulate and coherent purposes; and it is only that "we" whose purposes must be served by public managers. Responding to politics and accepting its demands and expectations is as fundamental to public managers as responding to the market is to private managers. Without politics, public managers could not know what was worth doing, for, in the end, it is politics that authoritatively defines what is publicly valuable. Thus, it is in learning to read, respond to, and help to shape political aspirations that managers can learn to create public value.

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