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Implementing a Holistic Model of Organizational Life: A Case Study From the Australian Healthcare Industry

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“Few trends could so thoroughly undermine the foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for the stockholders as possible.”¹

This chapter is based on the author’s experiences on the board of Catholic Health Care Services Limited, a company established as a commercial operator in the Australian healthcare industry. It operates a major public-private hospital in Sydney’s outer north-western suburbs, several small hospitals in country towns and a growing number of nursing homes throughout the state of New South Wales. The company has adopted an organizational model that is essentially the same as the threefold model of organizational life outlined in chapter 5, and by so doing is competing effectively in an arena where some stock-exchange listed operators have failed.

The Assumptions Driving Contemporary Views of Effective Business Operations

The contemporary management academic view of the factors that lead to corporate business success draws heavily on transaction cost economics, capital market theory and agency theory. These theories view successful companies as those with effective contracting arrangements that keep the various parties transacting.² Such arrangements, it is argued, keep markets efficient and lead to the most efficient use of resources.

Transaction Cost Economics - According to transaction cost economics, transactions between separate entities are entered into to achieve administrative efficiency by managing the costs of negotiating and enforcing contracts.³ People transacting are assumed to operate with less than perfect knowledge about factors that might affect transaction contracts in the future and thus will incur costs to obtain additional information.

Also, transactors are expected to exploit transaction terms when the opportunity arises, so that they can maximize their own interests at the expense of other transactors. According to the theory, if transacting parties cannot trust each other implicitly, they are likely to incur transaction costs to limit the potential for exploitation by other contracting parties. Companies will try to construct transactions so that they reduce future opportunistic behavior by self-interested transactors.

Capital market theory - Investors are assumed to be economically rational wealth maximizers. They are also assumed to be risk-averse: in choosing between equivalent future cash flows from several investments, they will always choose the one providing the lowest risk. The role of information in such a market is to provide the kind of evidence that will confirm or refute the expectations of investors about future share prices. Thus, only unexpected or disconfirming evidence from companies will cause share prices to change.

Managers in corporations traded on stock exchanges are assumed to be motivated to keep transaction costs at a minimum, to maximize profits and so to enable investors to maximize their wealth by holding this corporation's stock in their respective portfolios. When managers' sole focus is on increasing the wealth of the owners, they constantly look for ways to add value to shareholder wealth. Consequently, they will be motivated to reduce transaction costs and operate as efficiently as their resources allow in order to meet or exceed investors' expectations with regard to corporate profits.

Agency Theory - Completing our trio of necessary theories is agency theory. Corporate managers (including directors) are viewed as agents of the owners (shareholders) whose primary interest is also self-interest. The task for managers is to engage in contracts that are acceptable to investors and lenders by setting limits to the capacity of managers to rob shareholders and lenders and waste their resources. Investors are naturally reluctant to invest in firms where management acts in self-interest. Thus managers will accept extensive financial reporting requirements, audit costs and loan monitoring costs as the price, or “agency cost” for keeping fund providers involved with the firm. The role of these “agency costs” is to align the interests of managers with those of shareholders and lenders.

Successful companies will be those with efficient agency contracts and manageable agency costs. The widespread use of management contracts that contain bonuses based on the attainment of profit, revenue or share price targets is one indication of the pervasiveness of the contractual perspective as the basis of an efficient market-based economy.

Contracts make the role of financial reporting information central to the application of these theories in commercial practice. Investors and lenders will be more likely to provide funds to firms if they believe that the information supplied by management can be relied upon for making economic decisions. Accounting information and auditing play key roles, and the accounting and auditing policies adopted in practice must be those necessary to attract and keep investors and lenders interacting with the companies; that is, they must represent efficient contracts.⁴

Note that there is no aspect of these theories of corporate and capital market behavior that deals with the optimal quality or quantity of information that should be available to investors and lenders. It is possible that the information actually provided is quite useless for rational decision-making as its major function is to confirm prior expectations for investors and lenders, and so reduce agency costs for managers. These theories are silent about the ethical nature of the behavior of the various agents involved. Self-interest and opportunism are not seen as being at odds with personal morality or social norms that may challenge such assumed behaviors.

Corporate managers and many business schools, in their MBA programs, push these theories as self-evident truths. Consequently, a large part of the corporate world accepts uncritically the ideologies underlying these theories. However, these ethics-free theories contain the seeds of their own destruction. Transaction cost economics and agency theory focus mostly on ex-ante contracts, transacted in unfettered markets, and

work on assumptions that limit their generalizability, such as the assumption that there are no costs to consider when transacting in markets. In practice, the flow of information to shareholders and lenders about a corporation's profits and revenues is controlled by management, and the latter has been observed to engage regularly in opportunistic ex-post contractual arrangements for personal benefit.⁵

By entering into personal contracts that utilize accounting information in the determination of personal rewards, management can take advantage of information asymmetry by managing earnings to make the financial results meet or exceed market expectations. The narrow focus on market-performance in the next reporting period—irrespective of how short this may be—creates a situation for managers where meeting market expectations becomes more important than long-term strategies for business sustainability. Moreover, the increasingly short tenure of senior managers also creates a management mindset that focuses on short-term gains in order to maximize personal returns.

Recent evidence of managerial malfeasance—often on a massive scale—indicates that share markets do not automatically adjust and provide resources only to the most efficient firms, but also to those that can lie convincingly. The experience in the USA with the sudden shrinkage of Enron and WorldCom through financial reporting fraud reveals just how easy it is for unscrupulous managers to fleece unsuspecting shareholders, banks, suppliers and employees for their own benefit. Recent experience also indicates that agency theory and transaction cost economics provide no lasting solutions to such activities.

The untested major assumption of these theories is the notion of self-interest as the dominant motivator. Within finance and management circles the most often stated goal of business is to maximize shareholder value. Yet companies around the world increasingly seek to provide evidence that they are committed to values other than shareholder value maximization, hence the plethora of mission statements, codes of ethics and statements demonstrating corporate social responsibility. What rests uneasily in the minds of many corporate observers is that the former is accepted fact, while the latter may be seen as a cloak of respectability and acceptability possibly grudgingly worn by corporate management in the interests of being seen to do the “right thing”.

Time and again corporate failures, in the wake of the investigations that have followed, indicate that corporate management and their chief advisors pay lip service to mission statements and codes of conduct while apparently sniggering behind their hands at their own duplicity and at the naivety of the communities in which they operate. Such

attitudes lead to distrust both in the corporate form of organization and in those professional bodies that purport to have some supervisory or regulatory role. This inevitably leads to a long-term sense of malaise in the corporate sector as management seeks to recover the lost trust.

Despite the mantra that self-interest and profit are the only philosophies of action in the business arena, the evidence is increasing that such philosophies do not lead to sustainable organizations. The average life of a corporation listed on the S & P 500 has decreased from 50 years to 25 years and it is likely that only one third of today's listed companies will survive intact over the next 25 years.⁶ However, some companies do survive over the long term. These tend to be companies that do not put shareholder wealth or profit maximization as the core driver, but tend to be guided by a sense of purpose and core values that affect the way the organization does business.⁷

Investors, employees, suppliers or customers are more likely to be interested in doing business with corporations with sustainable business practices that operate for the long-term benefit of society as a whole, and not just the short-term gain of a few individuals who take advantage of a short-term opportunity. So how does a corporation manage for the future benefit of all those groups that interact with it, and for the benefit of society as a whole? A first step is to have corporations run along moral lines, that is, have them take into account the concerns and needs of other parties.⁸ This requires management to understand the tensions between self-interest and the concern for others that exists within each of us, between individuals, between groups of individuals and between present generations and future generations.⁹ Managers need to be aware of their essential task of holding and delivering in trust the "good" intended by the corporation's stakeholders: stockholders, employees, suppliers, customers, government and the communities on whom they have an impact. This "good" is at the heart of a corporation's activities, and understanding it, holding on to it and operating from it is a core task of management.

How then can managers attend to their essential task? If we rely on the findings of Argyris, we might conclude that this is an impossible task, as most of the observable remedies adopted by companies to meet the challenges of change are based on flawed, non-actionable advice leading to defensive actions.¹⁰ His solution is to get managers to make choices on the basis of solid data, logical reasoning and core values. The problem is to put these elements into a consistent framework. The theological framework based on the life and ministry of Jesus outlined in this volume by Specht and Broholm provides a compelling argument for the utilization of the threefold model of organization life that can

be developed by integrating the purpose, identity and stewardship dimensions of organizational activity.

Managers are often unsure about the concept of a moral obligation as it relates to the corporation and consequently just as unsure about how to deal with it. It is unlikely that moral issues have been addressed in any of the business education courses that managers have taken, despite the fact that moral questions surface constantly in business dealings.¹¹ There is much anecdotal evidence that managers can compartmentalize their corporate lives and their personal lives and live in two morally distinct worlds. Bridging these two worlds is necessary for corporations to take their responsibilities seriously. The application of the threefold model of organization life that takes a holistic approach to organizational life and activity hold promise for bringing corporations to face their responsibilities head on. Such an approach may help managers find meaning in their work and experience it as a genuine calling.

Where, then, can corporate managers look for some guidance in the development of an authentic business calling within the organizations in which they work? One possible source of inspiration is to be found in case studies of corporations that use the holistic model of organizational life. The case study used here describes the commercial activities of an Australian healthcare corporation, Catholic Health Care Services Limited. The entity has a specific ministry in health; it takes a holistic view of its role in society and is highly successful in competing with commercial operators in its industry. The developmental path of this organization provides some indicators for strategies that corporations might implement to achieve sustainability and satisfy its stakeholders that it has a genuine calling.

Catholic Health Care Services

Catholic Health Care Services (CHCS) was established in July 1994 as a new Catholic organization that would “share the mission of the Church through the ministry of Catholic health care.”¹² The organization consists of a company established under the Australian Corporations Act operating as Catholic Health Care Services Limited and also a board of trustees established as a Public Juridic Person (PJP) established under Canon Law operating as Catholic Health Care Services (NSW & ACT). The trustees are the representatives of seven religious orders and three dioceses that have operated or are operating health care services in New South Wales (NSW). The mission of the board of trustees is “to give expression to the commitment of its Members to collaborative renewal,

refounding and growth of Catholic health, community and aged care ministries.” The company is based in Sydney and currently all its facilities are in NSW.

The catalyst for developing CHCS was the sale, in 1991, of a Catholic hospital in Melbourne to a commercial group with the subsequent loss of health care mission. A survey focusing on the threats and opportunities facing Catholic private hospitals commissioned by the council of the Australian Catholic Health Care Association (ACHCA) in 1992 brought into the open the high levels of concern among congregations running health facilities regarding the financial threats to continuation of the Catholic health care mission in Australia. A taskforce was established to develop a new structure of collaboration within Catholic health care in Australia.

The idea of a new legal entity, a public juridic person, was developed. Matters came to head in early 1994. The Newcastle Mater Misericordiae Hospital was desperately seeking help to cope with a funding and services crisis. At the same time, the NSW government was calling for tenders to develop a new hospital to service the communities in the north-west of Sydney. These two issues fragmented the consensus of views in ACHCA with regard to the establishment of a PJP to facilitate collaboration in Australian Catholic health care. Worries about the financial exposure of such a project and concerns about who could be attracted to manage the projects also caused concern. As a result, the council of ACHCA resolved to remove ACHCA from further involvement in the development of a PJP.

The Bishops of NSW and ACT were approached regarding the establishment of a new PJP and a management company. The bishops unanimously decided to establish Catholic Health Care Services (NSW & ACT) as a public juridic person with six religious institutes willing to act as founding members. The management company Catholic Health Care Services Limited was established to undertake responsibilities for Newcastle Mater Misericordiae Hospital and to submit a tender for the new hospital.

The legal structure of Catholic Health Care Services (CHCS) needs to be viewed from both canon law and civil law perspectives. Under canon law CHCS shares the mission of the Church through its ministries. It can operate in any diocese with the consent of the bishop, and is open to membership from any congregation, diocese, province, parish, public or private association. From a civil law perspective it carries out its mission essentially through two bodies corporate: the trustees of Catholic Health Care Services (NSW & ACT) set up under the Roman Catholic Church Communities Land Act 1942 and

Catholic Health Care Services Limited, a company limited by guarantee, set up under the Corporations Act 2001.

The hospital tender was awarded to CHCS in 1995 and the Newcastle Mater Misericordiae Hospital was managed effectively until a change of congregational leader led to the contract with CHCS being terminated in 1997. Since its foundation CHCS has grown from an entity with no assets and one staff member, the founding chief executive officer (CEO), Chris Rigby, to being an organization with 1400 staff, and \$120 million in funds under management. During its time of growth, it used debt finance for all its activities, and until 2004 its balance sheet reported no equity (the founding members having acted as guarantors for all loans raised).

How has the organization achieved this and how has it managed to develop a culture and a management structure in under ten years that is the envy of both for-profit providers and not-for profit providers in the industry? The answer lies in its commitment the threefold model of organizational life that guides organizational decision-making.

CHCS and the Holistic Threefold Model of Organizational Life

Central to the establishment of CHCS was the need to maintain and develop the Church's mission in health care. The organization has sought to achieve this within an environment of trust. Its initial goals were to develop regional health services, an efficient and effective corporate services structure and effective communication with the health and aged care sectors.

In their chapter on the threefold model of organizational life, Specht and Broholm outline the Prophet (Purpose), Priest (Identity) and King (Stewardship) as three essential dimensions of the life and ministry of Jesus. They appropriate these for use in an organizational context to provide guidance to managers and owners in running their organizations in a way that positively reflects the theological tradition and allows them to understand their organizations from a holistic perspective. From the perspective of practical theology, the task for management is to integrate the three elements of model—purpose (customers), identity (employees) and stewardship (resources) in a redemptive manner. It can be asserted that all organizational effectiveness results from successful integration of these elements.

In the formation of CHCS, the holistic threefold model was adopted and expressed in the organization's mission (see figure 1), to provide a guide to management.

Figure 1 : The CHCS Mission Statement

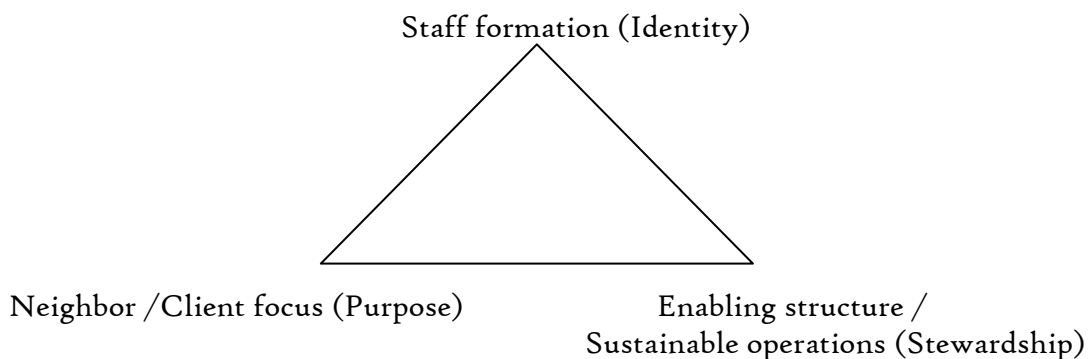
To bring hope to those we serve,
To share the meaning of our work,
To be good stewards of our mission,
To promote life,
Collaboratively.

The trustees of CHCS indicated their adoption of the threefold model for effective management of the organization in their promotion of the organization, stating that:

“In our use of resources, a sense of stewardship and effectiveness will be our guiding values. We will seek the area of service where we can have the greatest impact and use our resources wisely for the need identified. We will seek not just to sustain but to increase the value of the resources in our care.”¹⁴

The CHCS executive modeled the organization structure as shown in Figure 2.

Figure 2: Elements of organizational mission



The mission of the organization was regarded as such a critical guide to organizational development that the position of General Manager–Mission Support and Development was created. The view of the founding trustees and the executive of CHCS was that there was no such thing as mission in management, that is, the subject of management itself provided no guidance as to mission. Nor could you integrate a pre-existing health care mission into a management philosophy. The role of management was to support the identified mission of the organization. The aim should be to integrate the three dimensions of the mission—the meaningful involvement of staff in their work, patient care and healing, and proper stewardship of resources. The Christian reality of mission demands clear goals for organization leadership, to:

- provide personal meaning in work, with well-resourced and holistic staff formation programs being at the forefront of all organizational development strategies;
- be client-focused and responsive to needs as they arise;
- address the development of client-focused organizations, services and staff;
- ensure business planning is customer-focused in service design and delivery;
- show sensitivity to the care of each individual person, rather than deal in general categories of illness or disability;
- act, not in a paternalistic or authoritarian manner, but in a collaborative and communitarian style;
- exercise stewardship by making the best use of resources to enhance the effectiveness of the institution and its staff;
- work to increase the value of the human, intellectual, social, and financial capital placed in its care.

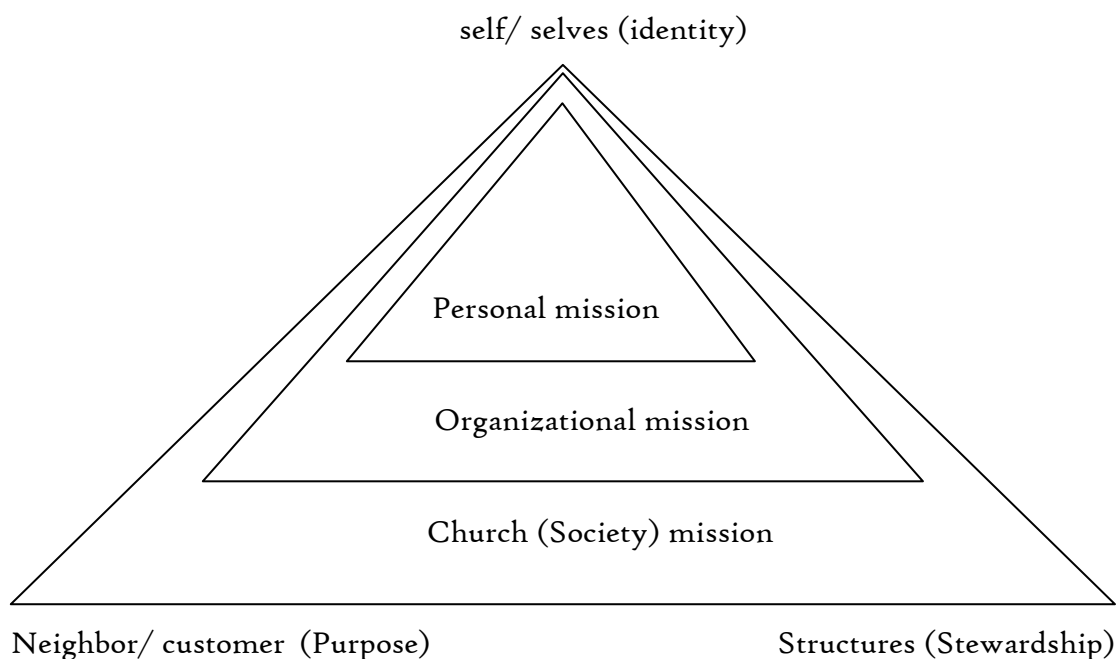
Applying a contemporary finance idiom, an organization should concentrate on value adding. However, whereas in finance, value adding is all about shareholder economic wealth, managers should be mainly concerned about adding value to the holistic threefold model made explicit in the mission. Only then will they see the fallacy of any business versus mission dualism. They would see opportunity cost and profit margin as ethics and mission issues.

Opportunity cost is a mission issue because every unnecessary resource allocation and every inefficient use of resources means an inability to sustain and develop the organization mission, whether this is to provide services to the poor, build better cars or make more nutritious fast food. A holistic mission is supported and expanded through value creation. Profit margin is central to this mission in the biblical sense that we need to be good stewards of our resources. Profit margin can be seen as a critical element of stewardship when it leads to value creation that helps the organization provide more services to the sick or make more reliable pollution-reducing cars.

Focus on the holistic threefold model will not be just about policy, structures and resources. It extends to the ways leadership can assist organizations to nurture a culture in which most staff experience personal growth. It is clear that organizational “texts” such as mission statements, values statements and codes of ethics are secondary compared to what managers actually do with those values animating the holistic threefold model.

There are, of course, other levels of integration, where the micro, macro and meta dimensions interweave in the holistic threefold model hologram. Personal vocation, the mission of the Church and the “mission” or expectations of society are all at work (figure 3). The alignment of these different levels of mission need to be constantly monitored and realigned where necessary. This requires the involvement of operational values auditing, organizational re-engineering and staff development through an informed response to the needs of those concerned.

Figure 3: Meta, macro and micro level of an integrated mission



The Factors affecting an organization’s capacity to take a holistic view

CHCS is blessed with a key leader. The chief executive officer appointed from the outset, Chris Rigby, has driven the development of CHCS. It cannot be said that Chris had much prior understanding of running a corporation, as his previous positions as a university philosophy professor, and an advocate for the Australian Catholic Health Care Association would not have qualified him for most CEO positions. Yet it has been his vision and his ability to attract, retain and inspire the loyalty of key executives who also live the mission of the organization that has enabled the company to flourish.

From the outset the organization focused on the holistic threefold understanding of the life of the organization. Having being set up under the auspices of the Bishops of NSW and ACT, the need to focus on client welfare, guide employee formation and use resources effectively were fundamental guiding principles. This probably came easier to a CEO not educated in the business school model for running organizations, and for whom theology and philosophy provided long-established guiding principles in his life.

With the development of a mission that was acceptable to all the company's trustees as well as its own board being regarded as a key starting point, the values that are at the core of the organization are constantly being addressed. Part of this is recorded in the ongoing story of the company that is explained to all new staff and members of the company. At annual retreats over the last ten years of the company's existence, these values have been addressed by all trustees, directors and senior executives.

Chris has ensured that his executive team does not become complacent because they constantly require the organization to reflect on where it has been, where it is now and where it should go in the future. This has seen a change in the focus from one based on the operation of hospitals of various sizes to one where nursing home and retirement village construction and management are becoming the key activities. Hospital management, whilst important, does not dominate as it once did. This ongoing reflection has also enabled the company to cease activities that it started that were unsuccessful (such as a purchasing division that was designed to serve all hospitals) and to reject a suggested lucrative financing arrangement that would have seen the company grow by 400 per cent very quickly, but make it divert its attention from its core mission and reduce the control it has over its activities.

Evaluating the Effectiveness of the Holistic Threefold Model

Having established a threefold model, we ask now how its effectiveness might be evaluated. Without such evaluation, questions of whether or where and to what degree it has succeeded, or of whether it is failing or needs improvement, cannot be answered.

In any organization there are many basic performance criteria and outcome data available. A hospital or nursing home can measure the incidence of service, whether patients actually get better, the length of stay of residents and whether patients and residents are satisfied with the services provided. It can monitor employee sick leave, workers compensation claims, turnover and disputation. It can determine financial performance, cash flow, debt ratios and return on investment.

However, there is also a need to develop modes of assessment with regard to whether patients and residents experience hope as a result of their interaction with the organization. There is a need to monitor whether staff experience meaning in their work, and whether there is ‘value adding’ occurring, in terms of employee skill, physical capital employed and reputational capital created.

Economic value added is only one of several mission elements for CHCS—but just as important as the others. True, the Church has, in the past, regarded profit-making as somehow sinful; but when it is couched in terms of an integral aspect of mission management, it is possible to see clearly what profit making is all about—that is mission achievement and value adding. All organizations must use all their resources as efficiently as possible so as to waste as little as possible and use the maximum resources to support the mission that can be applied

The second area relates to the extent to which we really understand the complex task of developing organizational mission-aries in our organizations. This is much more than about leadership development which should be seen as a sub-program within missionary development. There is a need for staff formation programs that tackle not only workplace skills but also staff beliefs, awareness, attitudes and sensibilities, which constitute the domain of real and enduring change in organizations.¹⁵

Developing a series of measurable outcomes that could be used to evaluate whether the organization was meeting its mission was a major task undertaken by CHCS executive. Only by generating some measurable outcomes could the management be held accountable for the organization’s mission.

Measurable outcomes were developed for the three elements of the model: the patients and residents, the employees and stewardship of resources. It has been a challenge to all concerned to develop a series of reliable, measurable outcomes of patient/resident satisfaction and staff satisfaction, to augment the established financial metrics and to enable management to monitor the extent to which the organization was being faithful to its calling. To effect necessary change there was a need to constantly audit what the current situation with a facility was before moving towards a more desirable situation.

Being a small, developing organization with limited resources, it was considered too difficult a job initially to develop measures internally, when there could be cheaper, more effective solutions already in the market place. Likely candidates for utilization were sought. Also, as this was an experimental development, one of CHCS’s smaller facilities, a hospital

in the New South Wales country town of Forbes, was chosen to trail the measures chosen before applying them across the company.

An early set of metrics considered by CHCS was the balanced scorecard approach to strategic planning and assessment developed by Kaplan and Norton.¹⁶ Their approach suggests four elements of organizational focus and integration—the customer, internal business processes, human resources, organizational learning competencies and finances. A modified version of this model is now run in the Aged Care facilities of CHCS. This focuses on the following seven factors that provide a monthly snapshot of each facility's operations:

- innovation, marketing and communication (focusing on resident/patient information and satisfaction),
- spirit and action (relating to staff development),
- financial viability (focusing on cash flows and margin),
- quality improvement and risk management (focusing on resident/patient clinical and care standards, case mix and internal processes),
- collaboration (focusing on partnerships) and
- growth.

Trend data is compiled and benchmarked against similar facilities operated by other groups.

a. *Innovation, marketing and communication (focusing on resident/patient information and satisfaction)* - As the mission of CHCS is to bring hope to people cared for, it is critical that patient/resident satisfaction be regularly monitored. This is achieved through regular surveys of nursing home residents, hospital patients and relatives of residents and patients. Each facility holds an annual “mission and business review” day to generate feedback with regard to how effectively the organization and its management are meeting the organization's mission.

b. *Spirit and action (relating to staff development)* - Again to ensure that the organization is committed to the holistic formation of staff, staff satisfaction must also be monitored. To meet the mission has required many staff to change their management styles of behavior. Several models of staff performance were trialed, and eventually the Human Synergistics (HS) model offered the most potential because it provided valid results, with large populations in several countries already tested using the model, and it was considered to be

an objective measure of human behavior, having demonstrated its robustness and resistance to manipulation. It was also one of the most affordable models and provided a low cost of operation, as CHCS staff could be trained as facilitators of the model.

The model is run in all facilities every two years as a form of external survey of organizational culture. The basic element in the HS model is a quantitative measure of human behavior and how this fits with the CHCS mission. The HS model focuses on styles of thinking and behaving, clustering them into three general orientations: constructive, passive/defensive, and aggressive/defensive. All managers are assessed every two years using the HS model. The effects of using this instrument have been dramatic. There has been a sharp reduction in staff turnover and a consequential saving in recruitment and training costs. After consultation and negotiation with managers, passive and aggressive styles of behavior have been modified to enable them to balance their people and task management skills better. Where managers' behavior was found to be at odds with the culture of the organization, they often chose to leave.

CHCS has grown by taking control of existing health care facilities from congregational and other owners or developing new ones. Where existing facilities were taken over there was often a disjunction between staff and the residents. Some staff in the facilities acquired saw their position as a job for life with bonus entitlements (such as helping themselves to the cleaning and medical materials for personal use). The major hospital operated by CHCS at Windsor took over 300 staff from an old state government-run hospital. Their views of the mission of a hospital were often at odds with the executive's. The responses to staff surveys were less than complementary from these staff in the early days of the new hospital's operation. By the eighth year of operation (2004), the survey results were uniformly positive.

To meet the mission of the organization, the executive spends a minimum of one per cent of gross salaries annually on staff training. This is seen as central to organizational effectiveness.

c. Financial viability (focusing on cash flows and margin) - All organizations need to manage their cash flow effectively. There is a tendency to focus on accounting profits as the arbiter of success. In the commercial world there is also a tendency to regard annual announced profits as somehow "real". However, profit was only ever designed to be a guidepost to performance. Accountants themselves still do not have a clearly understood definition of profit. The calculation of profit relies on so many assumptions that may be unrealistic, that profit, at best, is a tentative measure of performance. More useful measures

of performance are provided by cash flow measures, or near cash flow measures that are not subject to the myriad assumptions that profit calculations bear.

Too many organizations in the not-for-profit sector confuse their sources of funds. It is imperative to distinguish funds coming from government sources, provided usually on a cost-recovery basis, from funds generated from the private sector that can generate a margin. It is the margin activities that provide the funds that enable the not-for-profit organizations to thrive. Profit margin is thus integral to organizational effectiveness. All organizations need to cover not only their immediate costs, but generate a sufficient surplus to replenish the assets that wear out, replace obsolete equipment and stock with more effective models and continuously update the education of their staff.

In the commercial sector, the focus is on profit calculation for the next period, be it a quarter or a year. This short-term focus prevents many organizations from developing strategies that are designed to benefit the organization over the long term. CHCS in its management of financial resources focuses on cash generation, return on assets calculated on an EBITDA (earnings before interest, tax, depreciation and amortisation) basis, and looks several years ahead with its cash projections. EBITDA is used as the basic calculation for performance evaluation, as it is the closest accounting measure to cash generation, and it allows CHCS to make benchmark comparisons with other commercial organizations when used as a component of return on assets. The actual time line for projections is a function of the life of projects on hand. At present the organization is looking ahead 17 years, because one major facility, a public hospital, has to recover its full cost over the next 17 years, at which stage the facility reverts to the state government.

Benchmarking CHCS and other organizations is difficult. CHCS is growing fast and has several projects in various phases of development, and its accounts are replete with one-off payments on building projects. However, it is critical to undertake this benchmarking activity to ensure that complacency with the current level of activity is not allowed to be the guiding principle.

To provide some comparison with commercial operators, a comparison is provided below (table 1) between CHCS's major facility, Hawkesbury District Health Services (HDHS), which is operated through a separate company structure, and three stock exchange-listed commercial hospital operators. In 2004 HDHS represented around one third of the consolidated assets and revenues of CHCS. Significantly the hospital is the only facility that has been owned and operated for more than three years (eight years in total).

**Table 1 : Performance comparison of HDHS
with commercial organizations in the healthcare industry**

	CHCS (HDHS)	Ramsay Health Care Limited	Mayne Group Limited	Healthscope Limited
	\$000	\$000	\$000	\$000
2000				
Assets	45,136	467,440	2,378,171	113,865
Liabilities	51,622	306,125	1,485,351	53,360
Equity	(6,485)	161,315	892,820	60,505
EBITDA	5,095	50,146	34,202	11,658
ROA (EBITDA)	11.29%	10.73%	1.4%	10.24%
ROE	negative	4.1%	(19.4%)	9.82%
2001				
Assets	42,813	510,660	3,213,795	118,782
Liabilities	50,388	309,454	1,804,120	54,017
Equity	(7,575)	201,206	1,409,675	64,765
EBITDA	5,087	60,057	441,081	13,333
ROA (EBITDA)	11.88%	11.76%	13.72%	12.99%
ROE	negative	7.95%	11.5%	10.07%
2002				
Assets	41,698	545,206	5,391,235	195,043
Liabilities	49,887	322,130	1,773,411	112,029
Equity	(8,189)	223,076	3,614,664	83,014
EBITDA	6,059	83,881	456,445	20,804
ROA (EBITDA)	14.53%	15.39%	8.47%	10.67%
ROE	negative	13.93%	4.8%	12.71%
2003				
Assets	41,470	654,052	4,658,555	238,155
Liabilities	49,626	400,923	1,670,763	63,298
Equity	(8,156)	253,129	2,987,792	123,989
EBITDA	6,404	91,944	(132,998)	27,027
ROA (EBITDA)	15.44%	14.05%	negative	11.3%
ROE	negative	14.6%	negative	15.2%

CHCS (incorporating HDHS) has survived by managing its cash flow effectively to ensure that it can service its debt on time and by constantly looking for margin business to grow the mission. Its return on assets (ROA) compares well with the best publicly operated hospital operator, Ramsay Health Care Limited, and is superior to the other public-owned players, one of whom, Mayne Nickless, sold its hospitals business in 2004.

At CHCS all support services are centralized, using a matrix management model. This allows for the efficient management of all facilities, with the smallest having access to the same level of services as the largest. It also enables the company to develop specialist expertise that can generate future cost savings.

Note that the HDHS assets are falling in value. This is a result of the contract with the NSW State government whereby HDHS was contracted to build and operate the hospital for 25 years. At the end of the contract period, the state government can repossess and run the hospital itself. Management of the facility must include full depreciation over the life of the contract, hence in the early years of the project the facility depreciation charges exceeded its cash flow from operational activities, as projected. A small profit was generated in 2004, and profits are forecast for the remainder of the contract.

The need for equity has been a thorny issue for many years, and there has been much thought put into how to grow the equity in the business. Equity will appear in the balance sheet as a result of projects in the pipeline, whereby facilities to be acquired or developed will include land parcels that CHCS can develop and on which it can generate a financial return.

c. Quality improvement and risk management (focusing on resident/patient clinical and care standards, case mix and internal processes)

Risk management has been a key focus of the board and executive since CHCS began, and it is an area that is well-understood by them. A key area of risk for hospital activities arises from the possibility of law suits for misdiagnosis of symptoms or from failed surgical or other procedures. To minimize the impact of such activities, an interactive risk management system has been put in place, whereby hospital staff are trained to record in the system any adverse procedures or incidents. This system has been so successful that the hospital's insurers have reduced premiums substantially. The system is to be expanded to other areas of the company's operations and is being designed to track 120 key risk factors.

Where there are three groups with separate roles, trustees, board of directors and executive management, there needs to be clarity on their respective roles to ensure that key responsibilities are carried out by the appropriate group. All three groups need to be clear with regard to whose interests the organization is run. The holistic threefold mission model is a cornerstone of effective governance. This has proved to be a sensitive aspect to manage. Initially the respective duties and responsibilities of all three bodies were confused. The company board and executive sometimes felt that the trustees were undermining their activities. The trustees were worried that the board and executive might squander the resources under management. The board sometimes felt that the executive were making decisions without effective board input. The situation has taken several years to resolve with three-day annual retreat workshops organized for all groups to reconcile their positions. There is still some dispute with regard to who is responsible for certain aspects of the organization's activity. Much of the dispute boils down to lack of understanding about the extent of responsibility of a particular group. At this stage reports to the board and the trustees have undergone several revolutions and are undergoing further change as the need for detail on every activity at every level of management recedes in importance, and reports on strategic developments surface as the key issue.

The executive of CHCS has noticed a change in the attitude of government, lenders and builders with whom it is in partnership. The business model employed looks for projects that are cash flow positive, then opportunities for margin are sought to grow the business. So successful has this approach been that financiers now seek out CHCS and major builders want to partner in projects with it.

Lessons for Business from CHCS

The Church's view, that work has a moral priority over capital, depends on how "capital" is defined. CHCS started life with no financial capital, a small resource of human capital and a vision. In modern finance, capital is the value created by future economic development, measured in cash flow terms. This narrow approach is the source of the statement that economists know the price of everything and the value of nothing. In CHCS, "capital" is the maintenance and development of the Church's health care ministry in Australia, the capacity to provide ongoing meaningful healthcare for thousands of Australians, the provision of meaningful, well-rewarded work for a growing number of people who share the CHCS mission, plus the stewardship of the resources under the control of CHCS critical to its future wellbeing.

All business leaders need to find meaning in their work if that work is to be seen as a meaningful service to society, have dignity and be measurable in terms other than the salaries and other benefits paid. What can the experience of CHCS provide to managers of other corporations who want to add meaning to the life of their organizations?

The first major lesson that business can learn from CHCS is that if there is a genuine calling at the core of all activities, then this needs to be articulated into a meaningful holistic threefold organizational model that incorporates customers, employees and resource management. This should become the constant bedrock of the organization's purpose. Looking at any business in this light places profit in its proper perspective as just one element contributing to the mission through the effective stewardship of physical and financial resources. It also demonstrates how opportunity cost and profit margin are genuine mission elements.

Secondly, the organization must have a customer, service focus. As Peter Drucker has said, the purpose of a business is to create and keep a customer.¹⁷ The satisfaction of the patients, residents or clients will dictate ongoing success. At CHCS this is elaborated as a continuum of care, where preventative care and community health education are regarded as being just as significant as in-hospital care.

Thirdly, all businesses need to place holistic staff development at the core of their activities, rather than have them as an optional add-on that can be jettisoned when times are tough and resources scarce. Expenditure on staff formation becomes a key budget activity.

Fourthly, the organization must develop enabling structures to efficiently manage its activities. At CHCS all support services are centralized, using a matrix management model, to develop expertise that can be used to leverage future cost savings and efficiencies. The aim is to deliver more and better services for the resource expenditure.

Fifthly, profit is a result, not a goal. If profit margin and cash flow are managed effectively, profit will follow. One major limitation of the CHCS model is that you do not get instant success in the traditional profit-focused sense. The CHCS holistic threefold model of mission generates profits in the long-run, but provides for effective ongoing cash surpluses. Ongoing cash management has been an absolute necessity and focused management minds on those activities that meet the mission and can generate margins, measured on an EBITDA basis. Cash flow and EBITDA are not popular performance indicators in the financial markets, despite the finance theory view that value is a function of future cash flows. CHCS only now is convincing lenders and other bodies to change

their views on performance measurement and accept the validity of the CHCS model of performance.

Finally, it is useful to know that economic factors can be incorporated into moral principles. Far too many corporate managers become blasé about the vast sums of money and other resources under their control and become sloppy and wasteful in their management. In this sense the Protestants were right: moderation, discipline and thrift are valuable characteristics for managers to adopt if they want to add value to their organizations, but then to genuinely do this, the calling of business must outweigh the temptation to personally take advantage of the economic circumstances in which many senior managers find themselves.

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