

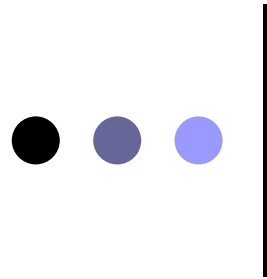


**Value Based**  
**Management Applied**  
**to the Third Sector**

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# Context

- Lots of new tools for managing business
  - Focus on increasing the stockholder wealth
- The results of this have not been uniformly positive
- Appearance of non-governmental organizations
- Several Third Sector organizations have been presenting not much experience in management
- The lack of performance indicators is one of the problems found in inter-sector partnerships involving the Third Sector (FISCHER *et al*, 2003)
- Obtaining financial resources is one of the main problems these organizations face (FRANCO *et al*, 2003, and MELO *et al*, 2003)



# Research Objective

- In face of the need of improving management in nonprofit organizations, associated to the need to assess performance to raise resources for it, it must be found a management tool, apt to improve the development of such organizations and also to show it to investors
- So the specific aim of this work is:
  - **verify the applicability of value based management to Third Sector organizations**
- For that, we will firstly discuss the concept of Value based Management, and some research on the Third Factor. Then, we will study a possibility of applying this concept to nonprofit organizations, and at last, we will show a case of measurement of economic value added to a foundation for the treatment of oncological patients.



# Third Sector

- The Third Sector consists of nonprofit organizations with a very clear aim, i.e., companies with the main goal of promoting beneficial results for the society. In general they depend on resources from donations, fund transference without onus and voluntary work.
- Five characteristics, shared by those organizations
  - Formality
  - private characteristics
  - no distribution of profits
  - Autonomy
  - Volunteering

(SALAMON & ANHEIER, 1992)



# Third Sector

- In such context, an efficient management is essential
- The main problems they face in Brazil:
  - to obtain financial resources;
  - to get permanent donators;
  - to acquire permanent voluntary staff;
  - to acquire specialized professional staff;
  - to make contracts and partnerships with both the government and the business sector;
  - material and/or infra-structural difficulties;
  - management difficulties and incidental difficulties, external to the organization.

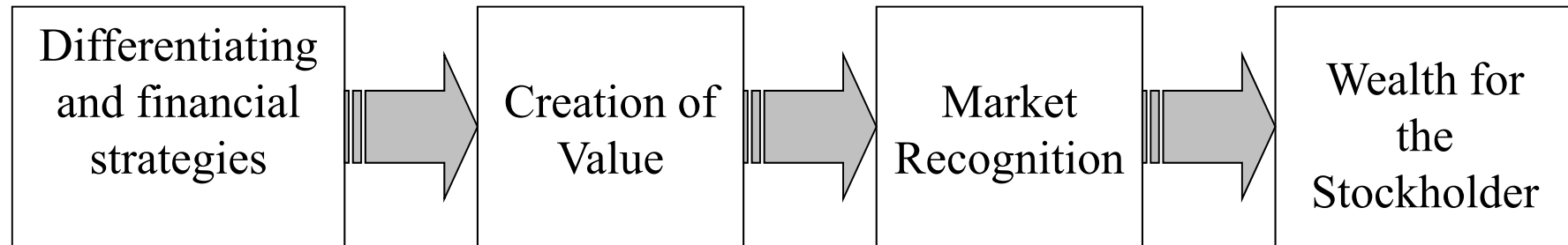
(FRANCO *et al*, 2003, and MELO *et al*, 2003)
- The nonprofit issue



# Value Based Management

- *VBM is an integrating process, aiming at improving the process of making strategic and operational decisions in the organization as a whole, out of the emphasis on main value drivers from the company. Methodology should not be the VBM priority, but the change in the company's culture. A manager with value as a principle, is as interested in the subtleties of the organization behavior, as in using evaluation to measure the performance and as a decision tool (COPELAND; KOLLER; MURRIN, 2000: 87).*

# ● ● ● | Value Based Management



- Value Drivers are defined as elements with more impact over the company's value
- One of the most employed value drivers is EVA™
  - the comparison of the revenue over investment (ROI) with the weighted average cost of the capital (WACC) allows identifying whether the company is aggregating or destroying the economic value



# Value Based Management

- A way of calculating EVA<sup>TM</sup> is:

$$EVA^{TM} = (ROI - WACC) \times INV,$$

- Where

- ROI is the index of return on investment, calculated by the division of the operational profit by the investment (INV)
  - WACC is the weighted average cost of capital, which as the name says is the weighted average of the owner's equity and liabilities
  - INV is the company's investment of capital, given by the active total minus the functioning liability (not onerous liability).
- EVA<sup>TM</sup> is the economic added value from only one period. In order to calculate the economic added value from the company, it's necessary to calculate the MVA<sup>TM</sup>
    - $MVA^{TM} = EVA^{TM} / WACC$



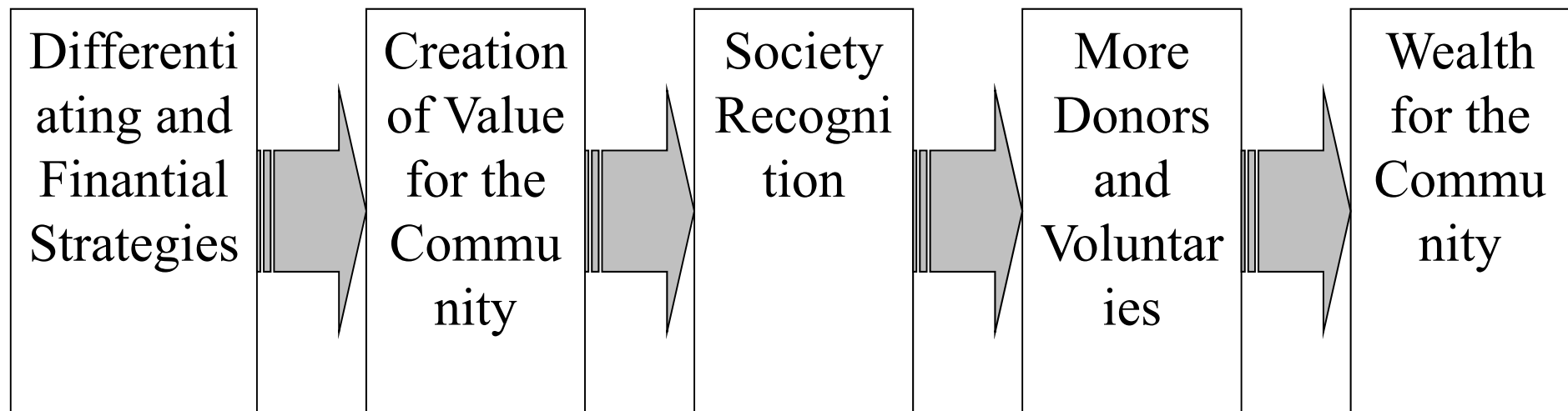


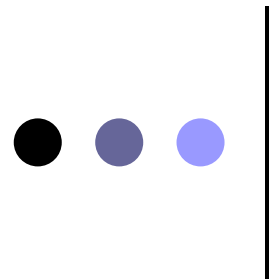
# Value Based Management



# ● ● ● | VBM applied to the Third Sector

- Compatibility of the theory with the third sector
  - Changing the focus from the stockholder to the community





# VBM applied to the Third Sector

- Possibility of Value Added Calculation
  - Changing donations revenues by market revenues
  - About WACC
- SOBECCan
  - Oncological treatment
  - Market revenue used was the SUS value



## Estimation of the Economic Value Added in a Third Sector Enterprise

### **EVA<sup>TM</sup> 2003 ADJUSTED CALCULATION**

Adjusted ROI	-31.64%
Adjusted Operating Income	(90,952)
Investment	287,467
WACC (Selic)	16.50%
<b><i>EVA<sup>TM</sup> [= (ROI - WACC) x INV]</i></b>	<b><i>(138,384)</i></b>



# Conclusions

- it is necessary to implant a system of strategic control in the organization
- VBM gives support when operational decisions are taken
- A shift in the focus (from the stockholder to the community) does not spoil the tool, but allows its adequacy to the Third Sector
- Maybe in the future, it could be developed a better driver of value added to the community than EVA™
- nevertheless, it is possible to improve significantly the management of these companies, which do so much for the community
- In Brazil, a country with so many social problems, an improvement in the added value to the community by the Third Sector is really a must.



# Thank You

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