

Value Based Management Applied to the Third Sector

Track: Non-Market Environment (Social, Political, Cultural and Ethical Issues)

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Abstract

The last years has seen the growing of concern about social issues and assistance. People get together to create organizations with the only goal of trying to make these social problems more merciful. The so-called Third Sector appears and is in expansion, making it possible to fulfill the needs generated by deficiencies within the government role. Nevertheless, a lot of such organizations present management problems. This work deals with the adequacy of value based management for those organizations, the tool used by for-profit companies, and presents an EVATM calculation for not-for-profit organizations.

1. Introduction

Several changes have occurred in the business world in the last two decades. The big competitiveness induces the companies to differentiate themselves and create advantages for the customers. In addition, the concentration of resources in few social groups generates difficulties to attract investments. The challenge highlights the importance of accounts information in management.

The advent of information technology has made knowledge one of the most important actives of the organization. Nevertheless, it was difficult for the accounts to calculate this unattainable active to fit the organization income. Despite the great evolution in the area, this is the biggest challenge faced by its professionals and academics up to now.

Value based Management was one of the theories developed for that. More than calculating the profit, sometimes biased by accounts rules, it was necessary to measure the stockholder's wealth and show it to the capital owners. Then, instead of traditional performance measures, the concept of added economic value for stockholders appears and they become the company's central figure.

The main goal of every company should be the maximization of profit for capital holders, i.e., to pay the money owners. The financial performance is the assessment which, more than any other shows the actual economic profit of a company. (OLIVEIRA et al, 2002:184).

Nowadays, if on one hand the focus of several companies is to increase the stockholder wealth, on the other, it is to promote the society wealth. To explain: as a consequence of the growth of the investor's importance, and sometimes at any cost, concerns about social and ecological issues appear. HART & MILSTEIN (2004) defend the creation of sustained value, as a way to conciliate value for the stockholder and sustained development.

With the fall of communism in the last decade, capitalism has emerged as the prevalent economic ideology in the world. Unfortunately, the results of ten years of global capitalism have not been uniformly positive. The saturation of developed markets, the expansion of the gap between rich and pauper's income, the growth of environment decay and the thought that the developed world may be losing control of its own population density, have blended, thus creating barriers for the global economy. (HART & MILSTEIN, 2004: 65).

It explains the appearance of several organizations without the stockholder figure, with the only aim of defending such issues. The growth of non-governmental organizations connected to environmental concern and social inequality was taken to the mass media, with a large number of adepts.

The companies started to realize that investing in not-for-profit projects could improve their image in the market, adding some value for the stockholder. FISCHER et al, (2003: 5) analyze the partnership between for-profit companies and the so-called Third Sector organizations and says that *"the engagement of the companies to community and social causes can not be simply seen as altruism, but also as an important factor in the company's strategy"*.

The Third Sector consists of not-for-profit 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.

Their activities are typically public, in spite of being juridical private entities. What happens is that the Government is unable to play its social role in a satisfactory way. That is why the society organizes itself in associations and foundations, aiming at decreasing the Government ineffectiveness. There is still much more to be done, but the organized society has performed a role of the most social importance (CONSELHO FEDERAL DE CONTABILIDADE, 2003: 37).

That is why the partnership with for-profit enterprises is extremely valuable for the not-for profit organizations, as they not only bring financial resources to them, but also they spread even more in Brazil, the culture of worrying with social problems of the country. Presently, several schools have already taught their children the importance of protecting the environment and encouraged them to do voluntary work to help people.

Nevertheless, several Third Sector organizations have been created by people with no experience in management, presenting thus a lot of difficulties in the area. Being not-for-profit does not imply being a not-for-profit enterprise. The expression is related to the distribution of results. Every profit should be reinvested; there is no distribution of dividends (MELO et al, 2003). That is, it is not true that those organizations cannot be for profit. They not only can, but should be, generating resources to be invested in new social projects.

Because of the scarcity of resources, as these organizations depend on others' solidarity, they demand efficient management even more. The main goal of them should be to maximize the benefit generated by any coin collected. Profit here indicates dealing efficiently with resources, that is, the possibility of replacing expenses and still having resources to be reinvested. Surplus at the end of the exercise is not only legal, but allows spreading the help given to the society.

But in practical terms such efficient management rarely occurs. TEIXEIRA (2004) states that the deficiency in management is one of the factors that restricts the development of the Third Sector.

The deficiency in the organizational management of these entities, the pressure to reach financial self-support, the scarcity of technical support and the great diversity of members in their structure, are restrictions to the Third Sector better development. To revert that, great part of the topic researchers emphasize the need of using professionals in these organizations management. Knowledge and principles of the Administration Science can give significant contribution to the development of the social sector (TEIXEIRA, 2004: 7).

Thus, that is the importance of studying better this sector, and of adjusting administrative science theories to it. One of the difficulties of these organizations is performance assessment. FISCHER et al (2003) pointed out the lack of performance indicators as is one of the problems found in inter-sector partnerships involving the Third Sector.

That is the purpose of this work. In face of the need of improving management in not-for-profit 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 the investor. Then the questions: would it be possible to use of the value based management to accomplish that? To use the added economic value, but this time not to the stockholder, but to the community? Being the organizations' reason to try to do good to the community, would it be possible to say that their purpose is to maximize the economic value for the community?

With that, the specific aim of this work is to confirm 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 not-for-profit organizations, and at last, we will show a case of measurement of added economic value to a foundation for the treatment of oncological patients.

2. Value Based Management

That is the concept of value based management (VBM), as defined by COPELAND *et al* (2000):

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).

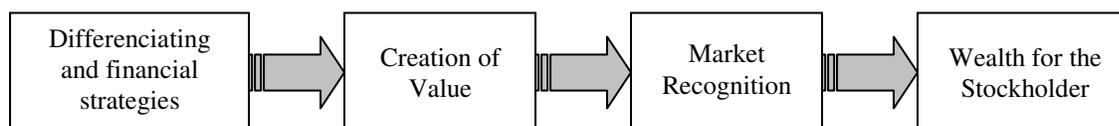
VBM pleads that the highest objective of a company is to maximize value for the stockholder, or to increase as much as possible, the added economic value to the investor. For that, receipts should surpass all the company expenditures (cost and expenses), including the capital opportunity cost. Creating value for a company surpasses the objective of covering explicit costs identified in the sales. It incorporates the knowledge and calculation of implicit remuneration costs (opportunity cost of the invested capital), not confronted by the traditional accounts, in the examination of demonstratives of results, and as a consequence, in the quantification of stockholders' wealth.

The concept of opportunity cost is related to the best investment alternative rejected, under a similar risk level, or, "costs linked to the opportunities which will be rejected, in case the company do not use its resources in its higher value utilization" (PINDYCK & RUBINFELD, 1994: 257). Therefore, the enterprise must represent the best option of resources application.

To attain that objective, all the opportunities that add more economic value to the business, than its operational activity, must be employed, in order to attract the investor. That's the importance of the value based management. More than covering costs, it is important to identify and make good use of the company's external setting, besides creating wealth generators' projects.

For that, this system indicates the use of financial strategies and differentiating capacities, which add economic value. And also the selection of value directories to measure the company's performance in reaching the objectives designed for each strategy and for each capacity (Figure 1).

COPELAND; KOLLER; MURRIN (2000) define value directories as elements with more impact over the company's value. And they state that the selection of these directories may be good to the company in three ways: they help the managers and collaborators to understand how to create the value and how to maximize it; they indicate the best way of allocating resources in order to maximize the value; and they congregate all the members of the business unit around the same priorities.



*Figure 1 – Summarized View of a Value Based Management
Source: ASSAF, 2003, p.169 (adapted)*

It works as follows: the company defines differentiating strategies to add competitive advantage to the business, and financial strategies to create value for the stockholder. Then, objectives will be defined for each strategy and for each objective, value directories to guide the company towards the wealth generation.

The defined strategies must be combined with the managers' operational, investment and financing decisions. RAPPAPORT (2001: 98) defends the necessity of analyzing the attractiveness of the business market location. And more, he believes that the strategies related to clients are directly related to financial strategies. *“Without creating value for the consumer, there is no value for the stockholder (...). There are costs related to the creation of value for the consumer. The value for the stockholder will only appear if the clients agree to pay for the costs”*.

One of the more employed value directories is EVA^{TM1} (Economic Value Added). Economic value added is known as a measure of economic performance. It was developed by economists and appeared over two hundred years ago, with the initial objective of measuring the performance and as a management system. In the present emphasis, EVATM is the structure for a complete system of financial management and variable remuneration that can help the making decision process of the company.

As the declared objective of any company is to generate return that remunerates the capital owners' expectations of income, 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.

A way of calculating EVATM 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; and INV is the company's investment of capital, given by the active total minus the functioning liability (not onerous liability).

That means that the added economic value is under the influence of any fact that affects the operational profit (examples: variation in the profit margin, changes in the employees' remuneration, occurrence of stock costs, clients' payment omission etc), the capital cost (variation in discount rates or opportunity costs, variation in the capital structure) or in the investment amount (both their own or others' capital).

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Nevertheless, EVA^{TM} represents the added economic value just from the period (past or projected) of the occurrence of operating income. In order to calculate the company's added value, MVA^{TM2} (Market Value Added), it is necessary to apply the perpetuity concept to EVA^{TM} , discounting it by the capital cost:

$$MVA^{TM} = EVA^{TM} / WACC$$

This index represents the company's value deducted from the amount needed to replace all of its assets. Here is reflected the company's future value, or even, a market expectation for returns to be offered by the company, concept defended by the accounts principle of continuity, that is, it is inferred that the enterprise will be functioning the next years. "MVATM is equivalent to the estimate of the net present value of the capital market or NPV (method of discounted cash flow to evaluate investments)" (ARAÚJO & ASSAF, 2003: 26).

However, these values cannot be calculated with figures extracted directly from the traditional accounts. Adjustments are needed to avoid distortion of the added economic value. Two adjustments fit any company. The first one consists of excluding the financial expenses from the operating profit calculation. It is like that because financial expense is a consequence of financial decisions and the objective is to reach a result from managers' investment decisions. The second adjustment implies in having the income tax already deducted from the operating profit, i.e., the income tax must be calculated over the total result of operations. As a consequence, another correction is necessary: the tax deductions conceded must be deducted from the financial expenses.

It is possible to estimate the added value for each decision of the company's investment or financial affairs. Other authors (MARTIN & PETTY, 2004; RAPPAPORT, 2001) assert that the relationship between the performance presented and the company's reward system is the critical factor of success in the implantation of a value based system of management. To be involved with value creation, the company must develop incentives associated to value directories of the activities related to each company's position or function.

VBM changes the assessment perspective of the business performance. The stockholder becomes the main character of the management. However, there is already research (HART & MILSTEIN, 2004) discussing the issue of sustained value, i.e., the creation of value related to sustained growth. These authors show specifically that to add value to employees, environment and social projects, end by carrying added value to the stockholder. There are still some questions: is it possible to have VBM without focus in the stockholder? Is it possible to establish another main management character, the society for example, using still such tool? There are a lot of topics to be researched in this matter.

² idem

3. Third Sector

In the introduction of this article, we discussed the Third Sector participation growth in the activities of Brazilian companies, the problem generated by the inexperience in management, and the interest of for-profit companies in financing this sector's projects. Nevertheless, we still have not seen the Third Sector's concept deeply.

Actually, there is a big problem in the definition of a Third Sector concept. Due to tax deduction, several companies assume the structure and legal name of foundation, without really showing the intention of being a not-for-profit organization. FISCHER & FALCONER (1998) also discuss the difficulty of consensus in this definition, inclusive because of this problem.

FERNANDES (1997) defines Third Sector:

...it is made up of not-for-profit organizations, created and mainly kept up by voluntary participation, in a non-governmental ambit, giving continuity to the traditional charity, philanthropy and Mecena's practices, and expanding its goal to other boundaries, chiefly thanks to the incorporation of the citizenship concept and its multiple manifestations in the civil society (FERNANDES, 1997: 27).

HUDSON (1999, *apud* COSTA & ROSA, 2003) define this sector as a group of private not-for-profit public aimed activities, constituted of civil institutions from any origins – religious, community's, workers', institutes and foundations' enterprises, and non-governmental organizations and others – being different from the strict notion of government (public with public aims) and of market (private with private aims).

SALAMON & ANHEIER (1992, *apud* MELO et al, 2003) consider the need of making international comparisons among such organizations and propose a more extensive definition. They selected five characteristics, shared by those organizations: (a) formality, not in a legal sense, but in the sense of regular sessions, rules or some organizational level: (b) private characteristics, not belonging to or being ruled by the government; (c) no distribution of profits, and in case of existing, being invested in the organization intent; (d) autonomy – they should not be controlled by external entities: (e) volunteering – they should involve some degree of voluntary participation.

Even if it is not possible an absolute consensus in the definitions, we realize that the Third Sector is more related to the organizations' intentions than to their regulation. COSTA & ROSA (2003: 2) corroborate that, saying that *“the appearance of the Third Sector is appraised by a lot of people with optimism, because such not-for-profit organizations are an efficient way to assure social participation, to eliminate the inefficacy of the government bureaucracy and to assure the efficacy of public services”*.

There are about two hundred and fifty thousand civil society organizations (CSOs) in Brazil, employing approximately a million and half people in various activity areas: social assistance, education, health, sports and recreation,

environment, job and income generation, arts and culture, science and technology, communication, public safety, etc. The most recent kinds of CSOs are the NGOs (Non-Governmental Organizations), whose number multiplied in the 80's, in favor of human rights and in projects of social development. Most of them are related to education and health, emphasizing again the discussion on the boundaries between being really not-for-profit and being already confounded with for-profit enterprises (www.rits.com.br).

In most of the cases, these companies perform where there is a governmental “weak spot”, i.e. they compensate for deficiencies in services offered by the government. *“The Third Sector acts as an extension of the traditional government action, and spreads the government own space, covering gaps in social participation”* (COSTA & ROSA, 2003: 2).

Even though they have peculiar characteristics, they are private enterprises that must be administered to be autonomous and are subject to all the uncertainties of the environment they are insert in. *“At last, the third sector organizations are not islands, separated from the other dimensions of the social life; on the contrary, they are intimately related to them, suffering all kinds of influence and pressure of the external environment”* (TEIXEIRA, 2004: 5). This author stresses that the Third Sector organization, besides being exposed to ordinary problems such as the for-profit organizations, are still subjects to problems *“inherent to its peculiar and distinctive ways of action”* (IDEM), among which the society distrust about their social intentions.

In such context, an efficient management is essential. These institutions must be administered by professionals. Because they have been improving social indexes, they should not disappear. They at least have human resources to keep them going on. It is up to the academic medium to try to improve the situation developing or adapting management theories for the Third Sector. *“It is still small the concern for shaping the management studies for the singularities inherent to this kind of organization”* (TEIXEIRA, 2004: 11).

TEIXEIRA (2004) also talks about the necessity of field research to make these third sector organizations better known, allowing the elaboration of organizational studies and theories focused on their particularities, i.e., a management model more suitable to the characteristics of this sector.

FRANCO et al, (2003) and MELO et al (2003) made research with sector organizations and found out the main problems they face: to obtain financial resources; to get permanent donation folks; 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.

After knowing some threats to this environment and its peculiar characteristics, VBM applicability to Third Sector organizations will be analyzed.

4. Application of VBM to Third Sector organizations.

After evaluating some theories about VBM and Third Sector, the objective now is to try to answer questions stated in the introduction of this article, concerning the applicability of this tool to the not-for-profit companies inserted in the sector. For that, we will analyze the issue under two focuses: the theory compatibility with the not-for-profit organizations and the feasibility of calculating the added value.

4.1. Compatibility of VBM with the Third Sector

More than simply looking for the value maximization for the stockholder, VBM intends *“to improve the process of making strategic and operational decisions in the organization as a whole”*. Besides, the priority of this management model should be in the cultural change of the enterprise. As it was already said that, *“a manager with value as a principle is as interested in the subtleties of the organizational behavior, as in using the evaluation as a measure of performance and as a decision tool”* (COPELAND; KOLLER; MURRIN, 2000: 87).

This focus on VBM, related to the need of improving management techniques in Third Sector companies, brings the first perspective about the compatibility analyzed in this topic. Improvement in the process of making strategic decisions contributes to more efficient management of organization resources (scarce as shown in the previous item). Besides, the fact of both companies having a common goal, i.e., to aggregate value to the community, facilitates the implantation of changes possibly necessary for the organizational culture. From this perspective, it can be seen that the questioned compatibility exists, that is, VBM as a management tool aimed at *“improving the process of making strategic and operational decisions”* may be used to improve the process of making decision in the Third Sector companies, which lack better management.

Another perspective is related to the company’s main objective of maximizing the added economic value to the stockholder. There is no stockholder in the third sector organizations. Capital owners investing in these firms do not expect financial return. However, they expect that the investment reverts to the community. So, even without the stockholder, there sure exists the maximization objective of added economical value, but to the community (seen here as a group of people with the same characteristics/problems, such as, the community of homeless children in São Paulo city). That is, the value that should remunerate the capital applied in this institution must be invested in the production of benefits for a certain community. And considering that as bigger the benefit generated (and reported), as bigger the resources enticed for the project, the maximization of benefits generated by the capital, should be a quest.

It is worth recalling that though the Third Sector companies are not for profit, they should present positive results, allowing reinvestment in social issues. Nevertheless there is some prejudice toward profit generation by those organizations. As discussed before, an explanation for that is the existence of the so-called not-for-profit foundations, which in fact, do not have social purposes (TEIXEIRA, 2004). Even though, companies with better resources management, which can inclusive,

invest in the institution marketing, end by attracting more capital donors because they spread the benefits generated for the community (an example of that is the *Projeto Criança Esperança* by Globo TV channel). It confirms the need of maximization of added value for restricted amounts of capital invested.

Finally, the last perspective to be analyzed in this topic is the process shown in figure 1 of item 2 (VBM) of this article. It shows the management process suggested by VBM, perfectly applicable to the Third Sector companies. Differentiating strategies (for instance, a hospital aimed at offering cancer treatment to deprived people that offers also dental treatment to the patients) to aggregate competitive advantage to the business, and financial strategies (for instance, to look for partnerships in the “for-profit” private sector to finance the new social projects) to create value to the community (not to the stockholder as proposed in the theory). Strategic objectives will be defined and for each objective, value directories aimed at generating wealth (for instance, amount of resources obtained in partnership with the private sector).

The differences in the process are the focus of the generation of value, the community instead of the stockholder, and the value recognition, not by the market, but by the society (figure 3). That is, the institution creates value for the community, the society (seen here as a group of communities, deprived or not, as for the in the example quoted before, all the deprived children in São Paulo city) recognizes the value and creates wealth, i.e., donors and voluntary workers eager to help the institution. Analogously to what the theory proposes to the for-profit companies, wealth represents the capital that the market is willing to pay for the company’s acquisition there, and here in the Third Sector, they represent the capital (and the work) that the society is willing to invest in the institution.

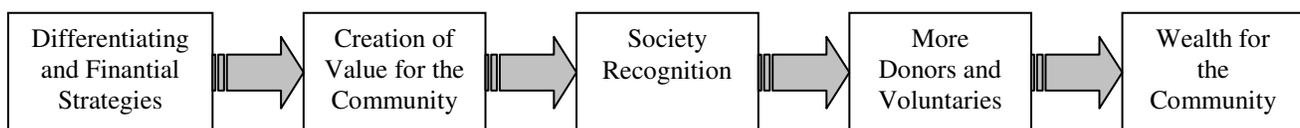


Figure 1 – Summarized view of some VBM
Source: ASSAF, 2003, p.169 (adapted to the Third Sector)

Concerning the usefulness of the information generated by VBM for the Third Sector organizations, it should be considered the lack of management control in most of them (TEIXEIRA, 2004). Then, VBM will at least be a way of measuring efficiency. But it can be much more than that.

The application of value directories may help the company to avoid waste of resources that are very scarce, with activities, which do not aggregate value to the community. Or else, it can verify whether the effort to obtain resources present satisfactory results. More than that, in face of the difficulty to obtain resources, the companies that can show its efficacy mainly through structural projects increase their possibilities of attracting resources from companies willing to behave with social responsibility.

It can be concluded that there is compatibility between the theory proposed by VBM and the Third Sector. The two major concerns in the analysis of this topic were to verify the feasibility of applying VBM, developed for for-profit companies to not-for-profit companies, and also the possibility of fulfilling the needs of this sector companies, i.e., of improving their management process. The answer to the first one was to change the focus, from the stockholder to the community, what is still in accord with the proposed theory. The second was solved by the same COPELAND; KOLLER & MURRIN (2000), when they mention the usefulness of VBM as a tool to improve making decisions, the biggest need of enterprises in this sector. Under such focus, it is possible to make use of this management tool in not-for-profit organizations.

4.2. Possibility of Value Added Calculation

To analyze this point, EVATM was selected as an indicator of performance related to the added value. The choice was based in the three premises. One of them is that among the most studied models, this one seems to answer with higher degree of efficacy, the question about relevance and confidentiality of the accounts information. Another premise is related to the objectivity of the information, which structures the model. A third premise is the covering of financial basic principles, such as the stockholder's wealth maximization and the company's value delineation, considering the future return expected by the investors, excluded the capital cost.

According to the formula proposed in item 2 (VBM), it is necessary to know three values in order to calculate EVATM value: ROI, WACC and INV.

It is necessary to know the organization revenues, costs, expenses and taxes, besides the investment (INV), to calculate ROI. The companies formalized as not-for-profit organizations must show such information (Balance Sheet and Surplus or Deficit Statement) to the society, such as the corporations. It implies being possible to obtain values to calculate the institutions' ROI and INV.

However, the revenue presented in the statements refer chiefly to values received as donations, which cannot be directly related to costs of services performed (there is no relation of proportion between them) and so it is not possible to say that the company that presents higher results is the one which contributed more to the community. For example imagine two institutions which helped the same number of people, spending for that the same amount of money, but one collected more donations than the other; it is not possible to say that the institution that collected more, added bigger value to the community, even if it presents a better result.

This way, EVATM will not reflect the added value to the community. It happens because the revenue presented in the income statement is not generated by the sacrifice exposed in the cost of performed services. Then, the suggestion is to utilize a revenue value compatible to such costs, i.e., to adopt a market value for the service performed. It can be explained:

if the Third Sector organization is a free day-care center, the unitary revenue would be the monthly payment charged by a payable day-care center; or if the Third Sector organization is a hospital, the revenue is the price it would ask for the service.

In any of such cases, here is a dilemma: which market value should be used? To start with, there are three options. One of them would be to adopt a standard based price index, i.e., to calculate regularly the average price of a “group of institutions”, as it happens with the Index of Prices to the Consumer (IPC exhibited by FIPE – *Fundação Instituto de Pesquisas Econômicas* of FEA/USP). According to this foundation methodology, the inflation index is calculated as a weighted geometrical average of price variation of goods or services offered to the consumer. In health services for example, the market or reference value for the Third Sector companies would be the geometrical average of prices practiced by the government, by the health plans and the doctors (private) themselves weighted by their participation in the general use by the population. That is, the percentage of the total population of patients attended by the SUS (the Brazilian public health service) would be the weight for the price paid by the government to the health professionals for their service, in the calculation of the referential value. The same reasoning is valid for other ways of health services payment.

The second option would be to make use of referential values suggested by the regulating organs of the health professional classes. So, for medical services referential values offered by the Brazilian Medical Association (AMB – *Associação Médica Brasileira*), for physiotherapy, values offered by the *Conselho Regional de Fisioterapia e Terapia Ocupacional (CREFITO)*, etc.

Finally, the third option, adopted in this work, is to use as a basis, values paid by the government to services offered to SUS. Those values are arranged in a table with the procedure and its due value (available at www.saude.gov.br). The main reason to adopt this table as market values or reference values is the fact that the Third Sector organizations attend deprived people. That is, as the patients cannot pay directly by the service or by a health plan, they are attended by the government, or in other words, they are treated by SUS. Moreover, it is worth remembering that “*the Third Sector acts as an extension of the traditional government action*” (COSTA & ROSA, 2003: 2), i.e. it tries to accomplish the duties, the government is unable to.

The substitution of donation revenue by the revenue which would occur in case the organization got paid by the services performed, in referential government values is justified in the context of VBM applied to the Third Sector, as it represents a value reverted to the community because of the institution. That is, as the organization is “accomplishing” a government duty, resources from the public budget are free to be redirected to another basic need, increasing though the beneficial results generated for the society.

With that, it may be calculated a ROI that fits the reality and the added economical value theory. So, now we have to discuss the WACC (weighted average cost of capital). The company’s capital structure, the cost of others’ capital and the

opportunity cost of its own capital must be known, to calculate this tax. There is no real difficulty about the two first values, as there are loan agreements (whenever others' onerous capital appears), but the opportunity cost of its own capital generates discussion.

First of all, it is important to analyze the issue "own" in this case. The net equity of these not-for-profit institutions is called social patrimony and is composed by two main accounts: Patrimonial Fund and Accumulated Surplus or Deficit. The first one refers to social capital, but represents resources obtained by donations and invested in fixed assets (the donations used to keep the organization activity are considered as non-operational revenues). The second refers to accumulated Profits and Losses, i.e., it accumulates the results obtained in the enterprise operation (*CONSELHO FEDERAL DE CONTABILIDADE, 2004*).

Consequently the company's own capital comes from donations or as a result of its own operation. It is possible to affirm that there is an opportunity cost of the company's own capital, even if there is not results distribution, as there is need to attract investment to the organization. That is, there is a cost for the apprehension of resources offered in donation.

So, the question is how to calculate this tax. Based in the concept of opportunity cost, two alternatives are proposed. The first one is to make use of cost of liabilities, as the company will have to use capital on loan to maintain its operations, in case there are no donations. The second one is to use the larger ROI from the companies "competing" for this kind of investment, i.e., to use the best profitability of the Third Sector organizations, which are disputing the donations. In this case, beneficial results offered to resource donors should be considered, as well as fiscal deductions, as the income tax allows expenses deduction, only in specific cases and for specific institutions.

Finally, although there is some divergence about values to be used, it is possible to calculate added value for Third Sector companies. The analyses of a practical case of the calculation of added value to the community will show it better. Therefore, under this focus it is also possible to apply VBM to companies of this sector.

It is worth remembering that all this does not exhaust all the possible applicability of this model. But they show that, under these circumstances, it is perfectly possible the use of this tool in not-for-profit companies, with inclusive several beneficial results for the development of the Third Factor.

ARAÚJO (2003: 129-130) describes two "*requirements all the companies should fulfill in order to be successfully implanted*" the use of EVATM as a performance measurement, "*independent of its size*". The first one is the existence of "*a good accounts and information system, which adequately reflects the economical and financial situation of the company*", propitiating the necessary data for the EVATM calculation. The second consists of a good understanding of the conceptual structure of EVATM and VBM by the managers, partners and employees.

So, a limitation to be mentioned for the application of VBM in the Third Sector companies is the lack of a good information system. However, it does not mean we should not make use of a preliminary system in order to apply the tool and then improve it. The basic necessary information is generated because there is for sure, an accounts control. What is lacking is elaborated information.

5. Estimation of the Added Economical Value to Community by SOBECCan Foundation

The object of study in this topic is a private, not-for-profit foundation, originated in 1994, with headquarters in Ribeirão Preto (SP). SOBECCan Foundation (Sociedade Benemérita de Combate ao Cancer), was classified as the 215th biggest beneficent entity in Brazil, according to analyses carried by Kanitz & Associates.

The entity's aim is "to promote the best to the community in the fight against cancer" and is well disseminated among its members. It has 28 workers, including autonomous, not-autonomous and trainees. Besides, it is served by a group of voluntaries (GVAI) with more than sixty active people in the foundation activities.

The hospital makes, whenever possible, partnerships with the private sector (for-profit entities) to carry on its projects. Recently, one of its projects in favor of breast cancer was chosen for an Avon campaign, a cosmetic company. The project called "*Mamamóvel*" rendered another service to the community. It is a movable ambulatory, which every fortnight goes to the poor city boroughs, attending the women with preventive exams.

The hospital attends through medical health plans with private institutions, or free of charge for patients who cannot pay for the treatment. Almost 500 attendance procedures are carried out there a month, 70% of which for deprived patients. Besides the oncological doctors and the chemotherapy, dental treatment, physiotherapy, psychology attendance and social service are offered the patients. In more severe cases, it is also offered treatment at the patient's house (CSO – *clínica de suporte oncológico*).

At the moment, the organization revenue comes from health plan agencies and from donations and events. The first one is called operational revenue, because it is the price paid by the client for the services received, and is responsible for approximately 40% of the total revenue (see income statements attached). The rest comes from non-operational revenues, such as: donations, dinner parties, bingos, *Bazar da Pechincha* income and other events, most of them collected by the GVAI.

Therefore, to calculate EVATM in this institution, the non-operational revenues should be replaced by the market value of all the free services performed to the community. As seen in the previous item, the price table of health procedures from SUS will be used as the market value. Table 1 shows the revenue calculation of the services performed to the community.

Composition of the Free Services Offered to the Community in 2003			
<i>Services Performed</i>	<i>Attendances (units)</i>	<i>Public health service value(SUS) (R\$)</i>	<i>Revenue Generated (R\$)</i>
Appointments	1,805	7.55	13,627.75
Hormonotherapy	353	147.10	51,926.30
Chemotherapy	208	1,062.65	221,031.20
Sample collection	374	0.50	187.00
Hydration	10	0.51	5.10
Wound Dressings	69	0.51	35.9
Biopsy	52	14.66	762.32
CSO	32	16.63	532.16
Dentistry	86	1.74	149.64
Psychology	92	2.55	234.60
Social Service	77	2.28	175.56
Physiotherapy	945	2.55	2,409.75
TOTAL	4,103		291,076.57

*Table 1 – Composition of Free Services Performed to the Community
Fonte: Fundação SOBECCan*

To compose this table, the data were collected from the Foundation and SUS. The Foundation data came from an interview with the institution accountant and from analyses of documents provided by her, and the referential values from SUS were obtained from documental research. The values in the table used rarely are changed. It is worth mentioning that the total revenue obtained with such information does not correspond to the exact value that would be paid by the government for the services performed to the community. Due to lack of precise information, Hormonotherapy, Chemotherapy, Biopsy and Dentistry are approximate reality values. It can be explained: there is a large variety of services related to these concepts (for example, at the SUS referential table, there are more than 120 kinds of chemotherapy treatment with values from R\$42.10 to R\$8,064.50) and they are not set apart in the institution internal controls; therefore, the most frequent kind of service for each category was the one used. The correct thing to do would be to categorize each service performed by the referential table (topic for the next article), so that the “virtual” revenue would be a reliable picture of reality.

Nonetheless, as the objective of this topic is to illustrate the way of calculating the added economical value to the community, these approximations do not undermine the example, as the revenue of free services has already been thoroughly discussed.

There is no need to adjust the operational income, as the company does not present loan, only a functioning liability, without financial expenses representing loan costs. So, table 2 shows the operational results calculation, considering the substitution of donation revenues by the revenue exposed on table 1. The other values were not changed, that is why only the lines with totals are presented (the original statement is attached).

Table 2 also shows the calculation of EVATM and of the adjusted EVATM. For the calculation of both, it was adopted as the capital cost (WACC), the Selic tax (interest tax, free of risk in Brazil), as it was discussed in the item about the possibility of calculating this indicator for the Third Sector companies.

EVATM presents a negative value of about 280 thousand *reais*. It means that the Foundation is destroying economical value, i.e., its operating income is not able to remunerate the invested capital, even if the government remunerated the institution for the service it performed to the community. A factor should be highlighted: in the administrative expenses of the hospital Income Statement there is an extraordinary expense of R\$141,609, related to credit loss (from administrative problems with an institution it rendered services). It comes from a problem starting years ago, being thus an abnormal administrative expense of the organization. That is why an adjusted EVATM was calculated, i.e., not considering this loss value that greatly distorted the company's performance.

Calculation of Operating Income in 2003 (in R\$)		CALCULATION OF EVATM 2003	
	2.003		
REVENUES		ROI	-80.90%
Operating Revenues of Services Performance:	633,600	Operating Income	(232,561)
Public Health Plans	156,452	Investment	287,467
Private Health Plans	186,071	WACC (Selic)	16.50%
Free Services Performed to the Community	291,077	EVATM [= (ROI-WACC)xINV]	(279,993)
Revenue Deductions	(2,084)	EVATM 2003 ADJUSTED	
Non Operating Revenues:	3,291	Adjusted ROI	-31.64%
Revenue with Brand Use	-	Adjusted Operating Income	(90,952)
Expenses Reversion	3,291	Investment	287,467
Financial Revenues:	13,011	WACC (Selic)	16.50%
Total Revenues	647,818	EVATM [= (ROI-WACC)xINV]	(138,384)
EXPENSES			
Costs of Services Performed	374,975		
Administrative Expenses	433,765		
Non Operating Expenses	30,261		
Other Expenses	41,378		
Total Expenses	880.379		
Operating Income	(232,561)		

Table 2 – Calculation of the Operational Result of EVATM and Adjusted EVATM

Even though, the added economical value is negative, showing the need of changes in the company's management. It must be taken into consideration that the referential SUS values are so little (it is difficult to accept that the government pay about two dollars for an appointment with the doctor), but in case it was a public hospital, it would have to make ends

meet. It must be also said that the revenues are not actual reflexes of reality, as it was not possible to categorize the different treatments (for instance, a change in the chemotherapy kind may add up to seven thousand *reais* to the revenue).

However, it was possible to illustrate that it is perfectly possible to calculate the added economical value of a non-for-profit institution focused on the community, as aimed by this work.

6. Conclusions

DAMODARAN (www.damodaran.com) says that every organization needs a goal and in case of non-for-profit organizations, it must be declared in terms of services or benefits to be performed. And such objectives will be the basis for making decisions concerned to resources allocation and choice among alternatives.

So, it is not only possible but necessary to implant a system of strategic control in the organization. And VBM not only does it perfectly, but also 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 directory of added value to the community than EVATM, but 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.

This work has not settled all the issues about the subject, far from that. A lot of questions can still be discussed, such: how to assess the company's efficacy in getting resources? Can the donors (of work or capital) be considered goodwill of those organizations? How can the government entice companies and people to contribute more to this sector (as the incentive is very restrict nowadays)? And several others, which this work looks forward to raising.

In this article, some questions were awakened and it was shown the feasibility of using a management tool so important in a fundamental sector for the economical and social development of the country. The Third Sector bears the signs of be extremely important to Brazil be better recognized and classified before international community.

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ATTACHED

Financial Statements from SOBECCan Foundation (available in www.sobeccan.org.br)

FUNDAÇÃO SOBECCan - PESQUISA, PREVENÇÃO E ASSISTÊNCIA DO CÂNCER
 CNPJ nº 02.681.523/0001-76
 Rua Altino Arantes, nº925 - Ribeirão Preto - SP.

1) BALANÇOS PATRIMONIAIS EM 31 DE DEZEMBRO (Em reais R\$)

ATIVO	2.003	2.002	PASSIVO	2.003	2.002
<i>CIRCULANTE</i>	<u>171.185</u>	<u>340.949</u>	<i>CIRCULANTE</i>	<u>49.293</u>	<u>119.197</u>
Caixa	1.937	1.339	Fornecedores	12.978	45.462
Bancos c/ Movimento	12.668	22.514	Salários a Pagar	7.848	9.841
Contas a Receber (nota 3)	129.449	267.377	INSS a Recolher	14.200	4.705
Adiantamentos a Fornecedores	82	665	FGTS a Recolher	1.251	1.372
Impostos a Recuperar	-	796	Encargos Municipais	928	424
Estoques (nota 2.2)	27.049	48.259	IRRF a Recolher	244	54
			PIS a Recolher	182	210
			Cheques a Compensar	-	540
<i>PERMANENTE (nota 2.3)</i>	<u>165.576</u>	<u>179.243</u>	Aluguel - Santa Casa	-	36.398
Equipamentos Hospitalares	124.103	116.833	Contas a Pagar	1.044	-
Equip. e Componentes Informática	37.825	35.604	Provisões de Férias e Encargos	10.618	20.190
Móveis e Utensílios	43.206	43.206			
Veículos	15.550	15.550	<i>PATRIMÔNIO SOCIAL</i>	<u>287.467</u>	<u>400.995</u>
Equipamentos de Escritório	4.417	329	Patrimônio Social Estatutário	89.692	80.422
Equipamentos Odontológicos	8.765	6.765	Fundo Patrimonial	436.526	436.526
Instalações	17.156	17.156	Reserva de Reavaliação	44.630	44.630
Benfeitorias em Propriedade de Terceiros	20.336	13.805	Déficits Acumulados	(283.381)	(160.583)
Marcas e Patentes	6.972	6.775			
Direito de Uso de Software	17.424	17.424			
Depreciações / Amortizações Acumuladas	(130.178)	(94.203)			
TOTAL ATIVO	<u>336.761</u>	<u>520.192</u>	TOTAL PASSIVO	<u>336.761</u>	<u>520.192</u>

FUNDAÇÃO SOBECCan - PESQUISA, PREVENÇÃO E ASSISTÊNCIA DO CÂNCER
CNPJ nº 02.681.523/0001-76

2) DEMONSTRAÇÕES DO SUPERÁVIT OU DÉFICIT EM 31 DE DEZEMBRO
(Em Reais R\$)

CRÉDITOS	2.003	2.002
RECEITAS		
Receitas Operacionais de Prest. Serviços:	<u>342.523</u>	<u>687.124</u>
Convênios de Saúde Públicos	156.452	649.585
Convênios de Saúde Privados	186.071	37.540
Deduções das Receitas	<u>(2.084)</u>	<u>(6.799)</u>
Glosas de Faturamento	(2.084)	(6.799)
Receitas Não Operacionais:	<u>404.131</u>	<u>301.399</u>
Promoções, Eventos e Projetos	205.302	154.178
Doações Diversas	195.538	143.030
Receita c/ Utilização da Marca	-	1.800
Reversão de Despesas	3.291	2.391
Receitas Financeiras:	<u>13.011</u>	<u>7.435</u>
Rendimentos de Aplicações	-	1.065
Descontos Obtidos / Ressarc. Despesas	13.011	6.370
Total dos Créditos	<u>757.581</u>	<u>989.159</u>
DÉBITOS		
DESPESAS		
Custos dos Serviços Prestados:	<u>374.975</u>	<u>622.380</u>
Medicamentos	149.450	279.359
Mão-de-Obra e Encargos	111.590	200.977
Serviços de Assistência Médica	47.161	77.907
Encargos de Depreciações	20.326	26.536
Materiais Diversos / Outros Custos	46.447	37.601
Despesas Administrativas:	<u>433.765</u>	<u>335.652</u>
Aluguéis	-	92.914
Pessoal, Terceiros e Encargos	130.289	133.688
Conserv. E Reparação de Instalações	11.934	9.327
Impressos e Materiais de Consumo	27.337	43.273
Impostos e Taxas	5.609	-
Anuidades/Assinaturas/Congressos	8.070	9.715
Locações / Fretes e Carretos	54.583	11.100
Força / Luz / Água e Esgoto	11.253	-
Telefones	15.854	14.941
Depreciação	15.649	-
Despesas Viagens, Estadias e Refeições	4.859	6.708
Perdas no Recebimento de Créditos	141.609	-
Demais Despesas	6.719	13.986
Despesas Não Operacionais:	<u>30.261</u>	<u>26.237</u>
Despesas com Promoções e Eventos	23.321	26.237
Despesas com Reforma	6.940	-
Outras Despesas:	<u>41.378</u>	<u>60.046</u>
Gratuidades (nota 5)	28.846	50.713
Desp. Bancárias, Juros, Multas, etc.	12.532	9.333
Total das Despesas	<u>880.379</u>	<u>1.044.315</u>
DÉFICITS DOS EXERCÍCIOS	<u>(122.798)</u>	<u>(55.156)</u>
Total dos Débitos	<u>757.581</u>	<u>989.159</u>

As notas explicativas fazem parte integrante destas Demonstrações