Creating Stakeholder Alignment and Ownership Culture in Healthcare

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ABSTRACT

In diplomatic circles and consensus-building business meetings, experts recommend bringing divergent sides together by finding and starting from a place of mutual agreement. More often than you might think, industries, corporate rivals, and even competing internal departments must sit at the same table to solve problems and devise solutions to serve their constituents. This article explains how this same advice applies to bringing divergent stakeholder groups together to increase a company or organization's value.

How Do You Define Value?

In health care, value can be defined in many ways for different stakeholders. For shareholders of publicly traded systems, the benefits of increased "value" are well known – share price and dividends. For internal audiences, including employees (unionized or not), value improvements signal company growth, which leads to higher wages, security, and more jobs. And some companies share the benefits of stock price increases more widely, producing greater opportunity for everyone. Thus, when embarking on conversations, negotiations, or other potentially challenging circumstances, make it clear that the outcomes of the meeting and ensuing actions taken together will improve company value, which can be good for everyone.

Unfortunately, within the health care industry, adopting a "good for everyone" mentality when it comes to maximizing value has generally been underappreciated. The perception is that shareholder value is compromised where stakeholder value is concerned. But in August 2019, the Business Roundtable issued a new Statement on the Purpose of a Corporation declaring that "companies should serve not only their shareholders, but also deliver value to their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate."

Corporations' view of who is fiscally important to serve has evolved to include the welfare of a much broader group of stakeholders, including employees, patients, vendors & suppliers, and society at large. It can be viewed both ways. Increasing the share price benefits all stakeholders, not just shareholders. And being concerned with employment levels, wages,

patient satisfaction, and broad societal benefits like environmental protection and a sense of social purpose also benefits shareholders.

Although all healthcare systems can improve on these types of stakeholder goals, many successful management teams have already realized that organizations that take care of their staff and patients tend to deliver better results for shareholders, too. Fortuna Advisors demonstrated this principle in research published in 2020, in an article titled "Companies that Do Well Also Do Good," on *CFO.com*.

What's more, our research takes these findings further. Our 2021 study, conducted in collaboration with Chief Executives for Corporate Purpose, showed that "High Purpose" companies delivered significant outperformance across a broad range of financial, valuation, and value creation metrics; and that the performance gap expanded materially as both consumers and investors flocked to purpose-led companies during the COVID-19 crisis.

The implication of these results is that businesses should cease to view staff members as adversaries and instead see them as partners in their business endeavors. In this article, I present a framework for aligning the interests of those who own and those who operate in the health care sector. Beyond this, we show how healthcare systems can realize their growth and value creation ambitions and thus enhance the benefits to all stakeholders including shareholders, all while maintaining strong accountability for investor capital.

Now that we've established why it's important for everyone to have a stake in an organization's success, here are the most significant ways Fortuna Advisors have helped health care organizations demonstrate superior value while creating alignment among internal audiences.

Setting Effective Incentives and Selecting the Right Measures

Effective incentives align the interests of staff members with shareholders focused on growth of the organization. This makes what's good for the investors of a business also good for those running and operating the business.

The key is to focus on a comprehensive measure that reliably proxies value creation. Most financial performance measures don't provide a clear directional signal on value creation, which can lead to sub-optimal outcomes. At the other end, companies that focus on efficiency, through return-on-capital measures, can end up stymying their long-term growth potential by overcutting costs and underinvesting in valuable projects.

Because of this, among other reasons, we recommend the use of economic profit (EP), a measure that balances all key financial inputs, including growth, profitability, and capital efficiency. One example is Residual Cash Earnings (RCE), which differs from traditional EP metrics in that it creates more incentive to replace old assets, while maintaining strong accountability for earning a return over time. And this means more investment in stakeholders, and more prosperity for all over time. I wrote *Curing Corporate Short-Termism: Future Growth vs Current Earnings* to address

the lack of growth investment in corporate America in part due to the infatuation with return measures and profitability over growth. With RCE, there is blueprint to motivate valuable growth investments, but with accountability to ensure there is an adequate return on that investment over time. Essentially it is a formula for investing more in stakeholders, but in a disciplined way that also creates more value for the owners of the business–truly a win-win situation.

EP measures like RCE also have another benefit: they help clarify where, among various business segments, products, geographies, etc., a company creates the most value. And this makes it a much simpler process to reallocate capital strategically and nimbly. In uncertain times, with highly volatile price inputs, including labor, EP can help decision-makers easily cut through the fog of options and understand how to optimize decision-making with agility.

Instilling An Ownership Culture

When health care organizations use better measures to achieve alignment between staff members and shareholders, this forges an "ownership culture," which has five unique traits that help propel the value of the company:

1. **Spend like the money is yours**: People tend to spend differently when using others' money. Whether it's a dinner at a nicer restaurant, more inventory than needed, or services that could be more efficiently outsourced, managers and employees often don't treat the system's money as their own. In an Ownership culture, people aren't shy about spending—but they tend to invest less in activities that don't deliver a significant return and more in those that do. For more on this trait, see: Encouraging Good Stewardship: Act Like Your Company's Money Is Yours.

2. **Extreme prioritization**: When leaders have too many projects on their plates, prioritization is likely to suffer. The most successful participants in an Ownership Culture recognize the Pareto Principle—that 80 percent of value typically comes from 20 percent of activities—and spend the bulk of their time on high-value initiatives. For more on this trait, see: The Benefits Of Practicing 'Extreme Prioritization' In Your Business.

3. **Willingness to fail**: A willingness to experiment is necessary to innovate and create the differentiated solutions that fuel long-term value creation. Innovation can also help improve your facilities' environment, and make it more efficient and productive. But corporate leaders are often more concerned about avoiding failure than achieving their potential, which limits long-term growth. In an Ownership Culture, leaders must be motivated to make attractive investments of resources, even with uncertainty, and they must have a willingness to fail. For more on this trait, see: The Unsung Benefit Of Failure.

4. **Less Talking and More Doing**: These days, far too many health care organizations have become indecisive, with endless meetings fraught with over-thinking and analysis paralysis. In contrast, those with an Ownership Culture carefully evaluate decisions but are decisive once they have sufficient information. For more on this trait, see: Less Talking And More Doing From Businesses In The New Year.

5. **It's about the short term *and* the long term**: Many are too focused on short-term results,

but some are also too focused on the long-term. The reality is it's always about both. In an Ownership Culture, team members are very driven to achieve as much success as possible each year, but they would never achieve it by cutting investments in R&D, advertising, and employee training. They are very willing to invest in the good of the future, but they know they will be absolutely accountable for the results. For more on this trait, see: Why Business Is About Both The Short-Term And The Long-Term.

Every health care organization today can make strides in these five areas, and many organizations find that it is easier than they think to adopt new practices to evolve, rather than transform existing frameworks. Making strides toward an ownership culture can align divergent sides and result in prosperous times for both employees and shareholders.