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There is a quiet revolution taking place in an un-assuming place in central Romania, but it is an experiment that could have ramifications for the next few generations of international leaders in business, healthcare, and philanthropy. This case study documents the story of the Doctor Luca Medical Center and explores timeless lessons about how societies change, one organization at a time.

Introduction

The fall of communism in Eastern Europe ushered in a new era of hope and prosperity for millions who suffered under oppressive regimes. In Romania, the change could not have been more dramatic. The megalomaniac dictatorship of Nicolae Ceaucescu came to an end at the hands of his own people on Christmas Day, 1989. As the Iron Curtain lifted, the devastation left behind shocked the world. An estimated 100,000 children were abandoned in state-run orphanages, victims of population-building policies in the face of economic and moral decay. Poverty and corruption permeated every segment of society, leaving business, education, and government institutions in shambles. One out of every four people was a paid informant, resulting in a culture where no one could be trusted.

Healthcare delivery systems were also in shambles. Physicians were paid less than factory workers under Communism. State-run hospitals and clinics were plentiful but poorly run. Many children were found to have contracted AIDS because they received injections with unclean syringes. Impoverished healthcare workers, including physicians, sought bribes with every transaction as a means of supplementing their meager incomes, and often withheld care unless they received something of value. Even the humanitarian medical profession had lost much of its dignity and compassion.

A New Model

Drs. Augustin and Mihaela Batis were products of the Communist system, but they kept their skepticism private until after the revolution. An introduction to Christianity and the principles of integrity came just ten days after the execution of the dictator, changing their lives dramatically. They began to explore how they could integrate their newfound faith with their profession in a newly freed society, and immediately established a church-based clinic for the poor in their hometown of Pitesti, a city of 300,000 about 100 km (60 miles) northwest of the capital, Bucharest. They provided care under published fees at levels lower than most patients expected to pay in bribes at state-run clinics, and they modeled compassion, respect and competence not found elsewhere. Their transparency in business and medicine became a refreshing demonstration of trust and honesty in a society lacking in models.

As word of this new way of receiving medical care spread, so did the scope of services. They attracted other physicians who were relieved to have a sustainable model for providing quality care, and the business grew. Word of this unique service also reached the Luke Society, a Christian non-governmental organization (NGO) in the United States, resulting in a developmental relationship to expand the

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program The Luke Society links physicians in developing countries with American physicians and business people to develop clinics and services for the poor. The Batises were introduced in 1991 to Dr. Steve Sartori, a family physician, and Steve Evans, a CPA and entrepreneur, both from Kentucky. They were later joined by Ken Hekman, a consultant with expertise in clinic management. Annual visits deepened the mutual friendships, and the Americans provided much-needed education and encouragement to the Romanian medical couple.

Expanding Vision

By 1995, the pastor's vision for the small church-based clinic was changing at about the same time that the Batises were gaining a much larger vision for their work. They began to see the potential for a large multi-specialty practice complete with diagnostic lab, ultrasound, and other ancillary services, and discerned that a fresh start would be best. They envisioned a breadth of services to meet the growing needs of employers and to attract an emerging middle class with high-quality medical services at affordable rates.

The vision called for capital investments far beyond the scope of projects undertaken by the Luke Society in other developing countries and far beyond the potential of local donors. It would take a combination of American donor support and venture capital to build a new 3,000 square meter (15,000 square-foot) facility with sufficient capacity to serve up to 80,000 patients per year. The Luke Society board began to see the Romanian project as a potential beachhead for other Eastern European medical ministry efforts, and committed to making a major investment of initial capital. As discussions at the Luke Society continued, one particular board member caught a personal vision for the project, pledging additional capital in the form of loans to bring the project to light. The project broke ground in early 1996.

Construction in Romania was (and still is) typically done in a labor-intensive manner, proceeding at the pace cash becomes available. Inflation in the country during the late 90s was rampant, causing interest rates to hover around 60%, further slowing progress. Dr. Batis' faced constant pressure to acquiesce to bribes by construction companies and government officials, but maintained a policy of integrity, even when it resulted in further delays. Despite the difficulties, the building was ready for occupancy by January, 2000. Physicians were engaged as employees and subcontractors, support staff employed and trained in accordance with world-class service principles, and the Doctor Luca Medical Center opened for business at the dawn of the new millennium.

Slow Beginning

People had watched with anticipation as the new facility rose on a prominent hill near the center the city, but approached it cautiously once the doors were opened. Early visitors noted that the facility was exceptionally clean, that the staff members were friendly, and that they could receive lab tests which formerly were only available by making a day-long journey to Bucharest. They also were pleased to learn that every patient would be given an appointment, allowing for the undivided attention and respect of the physician in contrast to the long lines and rushed pace that characterized medical visits at government clinics. The fees for service were clearly posted, and patients were informed that the clinic did not allow the giving or receiving of bribes in any form.

Consumer confidence grew as the word-of-mouth reputation spread, and the clinic quickly became known for its quality and value. The volume grew from a modest 600 visits in the first month to over 1,600 visits per month by the end of the first year of operation. Prominent visitors lavished praise on the clinic. One of the most encouraging statements came from the mayor of Pitesti, who declared, "The Doctor Luca Medical Center is changing the way we do business and the way we do medicine in Romania."

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The volume was encouraging but insufficient to produce a positive cash flow in the first year. Additional capital was required to meet the operational requirements and to increase the diagnostic capabilities that patients expected to find in a modern Western-style multi-specialty clinic. But as the capabilities grew, so did the volume and receptivity by the community. By the end of the second year, the volume had grown by 20%, bringing cash flow on operations to nearly the break-even level. Repayments of principal and interest on the loans were deferred, with the blessing of the generous lender, until profitability could be secured.

Growth

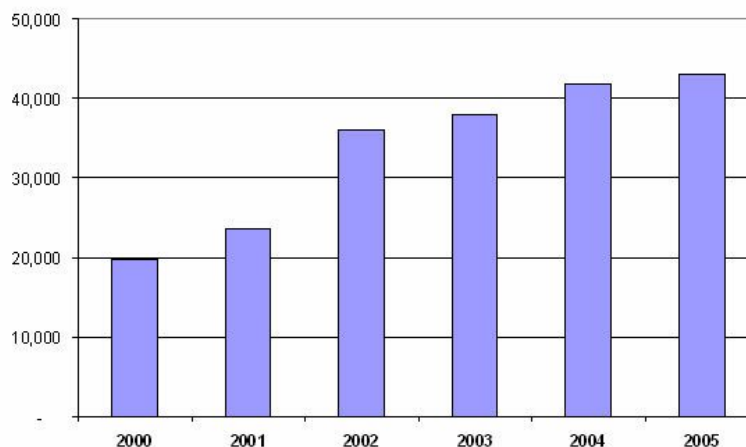
The third year of operations saw a marked improvement in volume, adding about 50% to the prior year, and achieving positive cash flow on operations for the first time. The clinic secured a government contract to provide a limited amount of lab services for those who could not afford private clinic fees, and negotiated their first agreement to provide annual physicals and diagnostic work-ups to employees at a local manufacturing company.

The NGO that provided initial support deferred to the American support team and the venture capitalist to provide the governance and additional capital for the project. The team began to meet annually in Pitesti and saw firsthand the emerging potential for expanding services, refining operations, and developing the management team. The governing group made additional investments well beyond the initial projections in the confidence that profits would grow in subsequent years.

The quality of services has also continued to grow. The laboratory is the first of its kind in the country to have achieved both North American and European international certifications for quality, and has the capacity to grow extensively as the clinic develops a network of referral sources. A state-of-the-art information system provides automated lab results, ready to be conveyed electronically to referring physicians. With high fixed costs and low variable expenses, the lab is projected to become the major contributor to the profitability of the clinic.

The economic development in Romania, and in the city of Pitesti in particular, also contributed to the growth of the medical clinic. Inflation had begun to stabilize by 2002, and growth in the gross domestic product began to rival that of the healthier economies. Romanian leaders expressed their aspirations to join the European Union and set their sites on meeting the stringent requirements. Pitesti was home to the nation's only automaker, Dacia, which was acquired by Renault. The French management team had initially decreased the workforce at the plant dramatically, but were investing in modern equipment and beginning to grow once again. Several suppliers were also benefiting from the growth, and the city saw a surge in restaurants, car sales, and real estate values as the ripple spread through the community.

Visit Volumes by Year



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By the end of the sixth year of operations in 2005, the full range of services initially envisioned by Dr. Batis had been put in service, bringing the clinic to its strongest market potential just as the local and national economic indicators were also beginning to thrive. Debt repayments began in 2006 as the volume of visits and new contracts surged to record levels.

Continuing Challenges

The business has overcome significant challenges through the initial development stages, and expects to face more in the years ahead. The business culture is still marred by corruption, although transparency is a requirement for joining the European Union and having access to the trade benefits associated with membership. A recently-elected president is setting a tone of integrity that has been lacking in prior administrations. Many political leaders are still reminiscent of the power mongers of the communist era, and fundamental change may take another generation to gain a firm footing in the nation's political and economic life.

The complexities of running a western-style business in a former eastern block country cannot be underestimated. Dr. Batis has demonstrated extraordinary wisdom and insight as he works to meet the expectations of both cultures. He is gradually developing a team of trusted colleagues in various departments, but their collective management skills are still limited, and the opportunities to recruit managers with relevant education and experience within the country are almost non-existent.

Currency fluctuations between the U.S. dollar, the Romanian leu, and the euro have caused special challenges for the business. Initially the USD provided stable purchasing power, but as the Romania leu was devalued and the euro grew stronger, the dollar has begun to lose its luster. The currency fluctuations may become an issue for better or for worse as the clinic begins to repay its American loans.

Private healthcare institutions are beginning to emerge throughout the country, often with venture capital from Western European entrepreneurs. The legislature is developing and refining legal structures that allow privatization to co-exist with the government health system. The potential for competition is likely to grow, and with it may come pressure to lower professional fees. A local competitor lab openly bribes to build its referral base, but its quality does not match the Doctor Luca standard. Competition will increasingly raise awareness of the value of quality, requiring the Doctor Luca Medical Center to continually challenge itself to be the standard-setter.

The clinic began with a broad array of specialty physicians with the best reputations, but with limited schedules. Some specialists were only available as little as two hours per week. As the volume has grown, the clinic has sought to employ full-time physicians in the most vital specialties, and to build loyalty with the part-time physicians who still prefer to retain their government job or who have multiple private practice settings. In the long term, the clinic hopes to recruit and retain physicians who are like-minded both in terms of their commitment to quality and in terms of their deepest life-defining values.

Despite these challenges, the future continues to look positive for the Doctor Luca Medical Center. Romania hopes to enter the European Union in 2007, which will raise its economic opportunities substantially. Medical clinics like the facility in Pitesti could serve as a lower-cost destination for elective medical services for Western Europeans as has already been demonstrated in countries like Hungary. The initial investments have secured a low-fixed-cost position in a market that will become increasingly competitive. Real estate values have already grown to levels that more than cover the venture capital, validating the wisdom of the investment.

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Lessons Learned

The Doctor Luca Medical Center is a remarkable demonstration of tenacity and faith in the face of extraordinary adversity. It is emerging as a model for business integrity and medical excellence in a country that has suffered from corruption and mediocrity. It may also serve as a model for business development in other developing countries, if the following lessons are taken to heart:

1. It is important to create a realistic business plan that allows for construction delays, initial operational losses, inflation and currency fluctuations, and cautious markets when introducing a new concept of service in a developing country. The initial estimates for the Doctor Luca Medical Center proved to be far too conservative to fulfill the vision. Once the project was started, the integrity of the founders depended on additional capital to bring the clinic to full capacity. If the business plan had provided capital requirement estimates based on realistic conditions and contingencies, the clinic may have been able to reach its full capacity sooner, and may have achieved the ability to repay loans sooner as well. The main lesson: plan for more capital, and a longer repayment schedule, than you think you'll need.
2. Quality and integrity may be costly principles to hold in the short run, but they offer sustainable value in the long run. The clinic faced delays and complications by resisting bribes throughout the construction and early development phases. The lost time also resulted in greater interest expenses and higher costs due to inflation. But the sustainability of every business depends, in part, on providing both quality *and* value, as the Doctor Luca Medical Center is demonstrating.
3. This project is demonstrating a new model of philanthropy that could serve as a model to accelerate social change in developing countries. The bulk of the capital was provided in the form of loans. The repayment terms have had to be re-negotiated mainly because of the two factors cited above, but it is becoming more likely with each passing year that the loans will ultimately be repaid in full. If philanthropists can consistently receive returns on their investments in social experiments like the Doctor Luca Medical Center, they may be more likely to re-invest in similar ventures, and the potential for societal change could accelerate.

Conclusion

The Doctor Luca Medical Center is a symbol of hope for a troubled society, a model of the value of business integrity and transparency, and an example for the next generation of philanthropists. Its young history is a demonstration of the value of timeless business principles, and an inspiration for healthcare leaders everywhere.