

# Nonprofit Health Care Organizations and the Public Trust

A ROUNDTABLE DISCUSSION

REPRINT OF *INQUIRY* ARTICLE  
VOLUME 4, FALL 2006

ALLIANCE FOR  
ADVANCING  
NONPROFIT HEALTH CARE

WWW.NONPROFITHEALTHCARE.ORG



Trust is at the heart of any good, lasting relationship. This applies to organizations as well as individuals. Trust is usually hard to gain and easy to lose.

In days past, nonprofit health care organizations generally didn't have to worry much about being trusted. Economic times were easier for most everyone, competition was moderate, and organizations were smaller and more user-friendly. Good performance, along such dimensions as safety, quality, ethics, and community service, was assumed—a given.

The world has changed dramatically over the past few decades. Questions increasingly are being raised at the national, state, and local levels by legislators, regulators, consumer advocacy groups, the media, and others about the motives and behaviors of nonprofit health care organizations, both individually and collectively.

The focus of these questions varies and includes level of profits and reserves, the amount of executive or board compensation, conflicts of interest, patient safety, fraud, assistance to the poor and uninsured, joint ventures with for-profit firms, and the potential impacts of proposed conversions to for-profit status. Underlying all of these is a basic concern over the trustworthiness of the individual organization and, more generally, the nonprofit health sector.

The following discussion, held in March 2006, is one of a continuing series in *Inquiry* called *Dialogue*, a collaboration with the Alliance for Advancing Nonprofit Health Care offering a variety of voices on current, major issues in the nonprofit health sector. This discussion explored:

- The importance of public trust and its dimensions;
- How nonprofit health care organizations as a whole have been performing in this regard;
- Whether they should somehow be held to higher or different standards than others; and
- What individual organizations can do—and avoid doing—to improve the reality, as well as the perception, of public trustworthiness.

The participants for this *Dialogue* were:

- **William T. Foley, M.H.A.**, president and chief executive officer of Provena Health, a nonprofit multi-hospital system headquartered in Mokena, Ill.
- **David H. Klein, M.B.A.**, president and chief executive officer of The Lifetime Healthcare Companies, a nonprofit health insurer headquartered in Rochester, N.Y.
- **Mark Schlesinger, Ph.D.**, professor of public health and a fellow at the Institution for Social and Policy Studies at Yale University in New Haven, Conn.
- **Bruce McPherson, M.H.A.**, executive director of the Alliance for Advancing Nonprofit Health Care in Washington, D.C., who moderated the session.

**Bruce McPherson:** *Why is public trustworthiness important to nonprofit health care organizations?*

**Mark Schlesinger:** Public trustworthiness is a key element in the legitimacy of the nonprofit sector. When nonprofits lose it, they come under attack—and special tax treatment is one of the things that is most likely to come under attack. Interestingly, however, when you talk to public officials, either at the national or state level, about the rationale they explicitly use for determining tax treatment, trustworthiness never enters into it. And I think the fact it doesn't is a major problem. A nonprofit health care organization can't somehow quantify the value of trustworthiness in a financial statement that allows it to say, "... and look at the trust we produced that merits these tax benefits."

Consequently, while public trustworthiness in relationships with customers and other stakeholders may be at the core of successful performance by nonprofit health care providers and insurers, policymakers simply don't explicitly take that into account in the calculus they go through to determine whether nonprofits are earning their way.

There is a way, however, in which public trust subtly enters into the perceived legitimacy of nonprofit health care organizations. When my research colleague, Brad Gray, and I were in Washington last year meeting with staff from various House and Senate committees that were interested in the whole nonprofit question, it became clear that one of the reasons they were thinking about more closely scrutinizing nonprofit health care, and in particular nonprofit hospitals, was that they saw it as a natural progression. They had been looking at other nonprofits like the Nature Conservancy and the Red Cross, where public trust had eroded and the need for more openness and transparency was identified.

**William Foley:** Provena Health's mission, to create a community of healing and hope for our patients, always comes first. Nonprofit health care providers like Provena Health are stewards of the communities they serve and have an obligation to care for the health care needs of everyone who walks through their doors.

Maintaining the public's trust is critical to our ability to continue fulfilling our mission, and continuing to fulfill our mission is critical to maintaining the public's trust. The two are inseparable and interrelated.

**David Klein:** Building on Bill's point, nonprofit health care organizations have what could be called a sacred trust to take care of individuals and their communities in times of need, and as a result often have emotional connections with them. For example, we can all probably recite the name of the hospital we were born in and remember fondly the hospital where our children were born. We want to be able to trust the health care providers and insurers who serve us, and public trust is equally important to the financial well-being of those organizations.

For nonprofit health care organizations, one could consider this trustworthiness to be a quid pro quo for special tax treatment, but whether they are subject to certain taxes or exempt, as

nonprofit organizations they still have a duty to do what they can within their available resources to meet the needs of vulnerable population groups as well as the broader community.

**McPherson:** *What do you think are the most important dimensions of public trustworthiness?*

**Schlesinger:** The general academic literature identifies three dimensions of trust in relationships. First, the trusted party acts in a competent manner: it does what it promises to do. Secondly, it behaves as a good agent: it puts the other party's interest in front of its own self-interest. And thirdly—and this is the part that's somewhat more controversial—there is a kind of emotional bonding or connectedness. This dimension, alluded to by David, has been largely ignored in past research on the health care field. Yet, it is important, as it relates to the humaneness of health care delivery and financing, or the caring aspect. Brad Gray and I believe that this third dimension provides distinctive legitimacy to nonprofit health care organizations, as our research has shown that they are perceived as being more humane in their practices.

Unfortunately, I think many people, including many patients and subscribers, see a fundamental trade-off between trustworthiness in the humane caring dimension and trustworthiness in a more technical capability sense. They see those two dimensions often at war with one another, such as the good caregiver versus the sharp-edged technocrat.

You see it played out in the metaphorical images we have for medical care: the surgeon who can't talk to anyone but is very competent versus the open and caring Marcus Welby-like general practitioner. Or the friendly local community hospital versus the cold academic medical center.

**Foley:** That is why it is absolutely essential that nonprofit hospitals and other nonprofit health care organizations ensure that their patients or subscribers know that they come first, regardless of who they are, what they are seeking, and how they will pay for it. For example, while many people now understand that there is a business involved in running our nonprofit hospitals, it is critical that patients know they are just that—patients—not our clients and not numbers. Nonprofit

health care executives and other managers must balance many concerns in their operations, but the bottom line must always be the well-being of those served.

**Klein:** Exactly. The most important aspect of trust is patients or subscribers being able to expect, and rightfully so, that decisions are made with their best interests in mind, not to save money, increase earnings, or make things easier for the organization or its employees.

I also consider it important for nonprofit health care organizations to make decisions on new or expanded services based on community health needs. With health care costs rising much faster than other parts of our economy, managing capacity on a communitywide basis becomes particularly important. We need to ensure that we are not paying for excess capacity or, worse yet, creating higher than necessary utilization just because it is available.

**McPherson:** *Mark, you alluded earlier to research on public expectations and trust with respect to nonprofit versus for-profit health care organizations. Can you please elaborate on this?*

**Schlesinger:** There have been two important substantive findings, as well as two paradoxes emerging from them. The first important substantive finding which Brad Gray and I have found in our research was that nonprofit health care organizations, whether they are hospitals, nursing homes, health plans, or whatever, were generally perceived as being more trustworthy than comparable for-profit organizations in most dimensions of performance. This was particularly true in terms of their financial dealings with people and, as I noted earlier, the humaneness in their caring. But the first paradox in our research was that they typically saw for-profit health care organizations as being stronger on what we'll call the competence or quality dimension.

That finding was puzzling, as other research has demonstrated superior quality in many different types of nonprofit health care organizations, not simply academic medical centers and the like.

**Klein:** On that quality finding, the Alliance for Advancing Nonprofit Health Care commissioned a study comparing the performance on several dimensions of nonprofit and for-profit health plans in New York State. New York is an interesting market to study, since the upstate area is almost exclusively nonprofit and the downstate area is largely for-profit. Obviously, the plans studied operate in the same legal and regulatory environment.

The study showed that upstate nonprofits outperformed their downstate counterparts on almost every dimension: lower premiums, lower administrative costs, higher percentage of the premium dollar spent on medical benefits, greater participation in safety-net programs for individuals and small groups, and a lower uninsured rate. Yet these findings seem to come as a surprise to most people I encounter.

**McPherson:** *Do both of these studies underscore the need for the nonprofit health care sector to do much more public education in this area?*

**Schlesinger:** Yes. But it's complicated. While many people believe that ownership matters in terms of trustworthiness, and feel that nonprofits are likely to be trustworthy in multiple dimensions, there are two important gaps in that understanding that can affect their trust in and commitments to nonprofit health care.

The first gap is that most people have no clue about the ownership form of the organization that actually provides them with their care or other services. So even though they say that it matters, they don't seem to know very much about it at the point of service. The second gap, which also was a major surprise to us, was that minority respondents—Asian American, Latinos, and African Americans—had decidedly more pessimistic views of nonprofit health care organizations, viewing them as less trustworthy. This was the case even controlling for income level, education level, knowledge of health care, and health status. With a rapidly growing minority population in this country, that doesn't bode well for the legitimacy of nonprofit health care. A partial explanation might be that these minorities have traditionally tended to experience a different health care system than other people, such as more care in crowded emergency rooms and hospital outpatient clinics.

There is a final point about our research that relates to public education. Because about one-third of the public we surveyed were completely ignorant about the terms "nonprofit" and "for-profit," we incorporated an experiment to educate this group. We randomly exposed different subsets to four different explanations of "nonprofitness," with one subset not receiving any additional explanation. What we found was again surprising to us and somewhat ironic. This one-third of the population that had no clue going in still had no clue coming out, even after we tried to explain it to them. They were not only somewhat resistant to learning, but also the best of our explanations actually seemed to confuse them and make them more negative. In contrast, the other two-thirds of the people who came into it with some sense of what nonprofit ownership was, but not necessarily a terribly well-defined one, became more positive and trusting about nonprofits once we explained the terms to them. So we again had an interesting and somewhat paradoxical finding. In trying to educate people about the sector, you can actually drive a wedge between those who know something about it going in and those who don't. The former get more positive, but the latter actually get more negative. The good news for nonprofit health care organizations is that they have the two-thirds to work with on the positive side.

**McPherson:** *Do these research findings summarized by Mark and David jibe with your experiences and observations, Bill?*

**Foley:** The fact that nonprofit health care organizations are generally viewed as more trustworthy is not surprising. Given our charitable mission, our patients rightly believe that profit is not our first priority in delivering care.

The indication that some patients or subscribers question the quality of care they receive from a nonprofit health care organization is troubling. Clearly, we all have to do a better job of telling and proving to them that they are our first priority.

**McPherson:** Do you think there is, or should there be, a higher standard of trustworthy behavior for nonprofit health care organizations?

**Foley:** I think all health care organizations, whether nonprofit, for-profit, or public, should be held to very high standards of trustworthy behavior. Recent corporate crimes in the news, and scandals at all levels of government, have rightly caused public scrutiny of all sectors to increase.

As a nonprofit health care provider, Provena Health is committed to maintaining the public's trust, and we do that by continually increasing our commitments to charity care and other benefits to the community's health.

**Klein:** This is an interesting question. With respect to quality, service, and costs, all forms of ownership should be held to the same standards. Expectations should differ, however, in terms of profits versus community service. If nonprofits are held to a higher standard of performance in terms of caring for all segments of the community, their for-profit competition should enjoy higher profit margins for their stockholders.

The challenge lies in markets where competition is fierce. If nonprofits are to be held to a higher standard in terms of community benefits so that they don't just adopt for-profit behaviors, there needs to be a system of incentives in place that motivates as well as rewards them for achieving that higher standard.

**McPherson:** *Are there certain types of practices of nonprofit health care organizations that can add to, or detract from, trust by key "publics"?*

**Foley:** Our number one public will always be the patients and families that come to us in need of care. Attending to their individual needs as well as we can, each and every day, is fundamental.

An emerging critical public with whom we need to build trust is our elected officials. Many are questioning nonprofit contributions to the communities we serve. Nonprofit health care organizations need to stop being defensive in response to challenges from the public about the value they provide to patients and communities. If we do a better job of communicating our nonprofit status and mission, and all of the things that we are doing to invest in our patients, employees, and communities, we'll effectively ward off

legislation that challenges our tax-exempt status and leaves us with fewer resources to provide charity care and other benefits to our communities.

A third key public is the community partners we work with to provide care, such as social service agencies and free care clinics, which often rely on local nonprofit hospitals and others for funding and other support. This third public should naturally understand the value of nonprofit health care organizations, but a constant dialogue must be built into the relationship, just like any other.

**Schlesinger:** The most important public is, of course, the individual customers who interact with their nonprofit health plans, hospitals, or other health care providers. Often they are never told whether that organization is nonprofit or for-profit, so they don't really have a clue what their own experience is with one form of ownership or the other. Yet they could learn more if when they walked in the door they read or were told, "We are proud to be a nonprofit organization, and here is what that means."

**Klein:** Without question, nonprofit health care organizations must focus first and foremost on the individuals they are trying to insure or care for. Legislators and regulators are also important stakeholders, as they can have an important impact, for better or for worse, on how well nonprofit health care organizations meet the needs of the communities they serve.

High levels of transparency are essential to nurture the public trust. I also believe that effective governance is a critical element of success for nonprofits.

If we are to keep this thing called nonprofit health care and continue to enjoy the benefits it provides, it is important for the public to understand exactly what they have—in reality and in potential. That gets back to our earlier discussion of public education. The public should be made aware of the differences in the two forms of ownership. Acting in exactly the same manner as for-profits in competitive markets should be avoided, as that translates to avoiding the provision of needed community services that are unprofitable. Competition in communities should be based on dimensions that are useful, such as improved quality. Competition based on who has the nicest parking garage, or on price unrelated to quality, will lead to erosion of trust.