Advancing the Role of Nonprofit Health Care

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This article comes out of a series of discussions among a diverse group of chief executive officers (CEOs) and other leaders of nonprofit hospitals, long-term care facilities, health maintenance organizations, and other insurance providers, including several nonprofit Blue Cross Blue Shield (BCBS) plans. The group was convened as part of Howard Berman's Walter J. McNerney Fellowship project. (Berman is CEO of Excellus, Inc., a nonprofit Blue Cross Blue Shield affiliate that insures the health of more than 2.15 million people in upstate New York. He was awarded the McNerney Fellowship in April 2001 by the Health Research and Educational Trust, an American Hospital Association affiliate. The Fellowship goes annually to at least one fellow to highlight or pursue work that will provide new insights into how different sectors of the health care system can better work together for improved outcomes.) The group has met several times over the past year around a shared concern: the current challenges to nonprofit health care organizations and the future role for nonprofits in the re-visioning and creation of an American health care system that is characterized by universal access, patient-centered quality, and national affordability. Members have supported the public relations campaign of the “Alliance for Advancing Nonprofit Health Care,” an effort initiated by the Caucus, an independent group of nonprofit BCBS plans. The group continues to explore the need for a broad-based coalition of providers, insurers, and other organizations to effectively protect and enhance the role of nonprofit health care.

Historically, nonprofit organizations have played a central and dominant role in the financing and delivery of health care services in the United States. Nonprofit health care organizations are part of the U.S. economy’s “third sector,” which is distinct, yet highly interdependent of the other two sectors—government and the commercial, for-profit sectors. The country’s first hospital, the Pennsylvania Hospital, was founded in 1751 as a nonprofit facility and continues to operate as such today. About a century-and-a-half later, the first health care prepayment/insurance plan—Blue Cross—was founded as a nonprofit organization by a group of nonprofit hospitals in Texas.

The nonprofit health care sector grew dramatically in the post-World War II era. Federal and state government policies and programs supported nonprofit health care delivery. Business and industry provided health insurance to workers, and local business leaders played key roles in the founding and governance of community, nonprofit health care organizations. During the 1970s, federal funding encouraged the development and start-up of dozens of nonprofit health maintenance organizations (HMOs). Many of these
later converted to for-profit, publicly held companies, fueling the rapid growth and influence of investors in the health care sector during the late 1980s and 1990s.

In the hospital industry today, despite an increased role for investor-owned hospitals, nonprofits continue to dominate, representing nearly 85% of community hospitals.\(^2\) The increased role and influence of investor-owned organizations have been more significant in the insurance and managed care sector. Between 1981 and 1999, the proportion of enrollees in for-profit HMOs grew from 12% to 65% of total HMO enrollees, and from 18% to 75% of plans (Srinvasan 1998; Interstudy 2000). Blue Cross and Blue Shield plans also have either consolidated or converted to for-profit corporations. In 1975, there were 128 separate plans; currently there are 44. Of these, 25 are nonprofit, 13 are mutual insurers, and six are for-profit (Jacob 2002). Other proposed Blue Cross Blue Shield conversions are awaiting the necessary approvals and/or appeals of state regulator decisions in Maryland, New York, Kansas, New Jersey, and North Carolina.

All health care organizations, regardless of whether they are nonprofit or for-profit, have a responsibility to finance and/or deliver compassionate, safe, high-quality care in an ethical and efficient manner. In recent years, numerous studies have been published examining how significant a role tax status and ownership play in the performance of health care organizations with respect to quality, safety, cost efficiency, medical outcomes, health status improvement, and patient satisfaction (Needleman 2001; Gray 1999). The findings of much of this work do not easily support conclusions about the distinct advantages of one model over another.

In many respects, nonprofits and for-profits perform in ways that are indistinguishable from one another. However, this does not diminish the importance of the fundamental difference in their overall purposes. For-profits are legally and ethically responsible to their owners and/or stockholders, and are obligated to do well for the benefit of these owners; where markets function well, financial success will follow. Performance of for-profits can be measured most simply by profitability and return on equity for shareholders. Nonprofits, on the other hand, are directly responsible and accountable to the communities and populations they serve, and are legally and ethically bound to do “good” for the benefit of their communities. Therefore, nonprofits must measure their performance in terms of their quantifiable contributions to the public good of the communities they serve.

Within the constraints of doing well enough financially to generate and access capital for current and future community needs, nonprofit health care organizations have been obligated to do as much as possible to meet society's needs for medical care and the improvement of health. Well-performing nonprofits do this by operating in ways that are measurable and consistent with the following set of values that support this special purpose and mission of improving health.

**Community Accountability** [Return to TOC]
Nonprofit health care organizations have a long-term commitment to meet the needs of the communities and populations they serve, especially the vulnerable and underserved. Nonprofits must act as responsible advocates for community interests in legislative and policy arenas, and work collaboratively with other organizations to achieve meaningful change and improvement in their populations' quality of life. Nonprofits are committed to building communities where the needs of people are primary to the business objectives of individual institutions.

A nonprofit's performance should be assessed by looking at several factors:

1. Whether the organization's strategic and operating plans are based on valid data and community-based input regarding access to care, and health and functional status of the community and population served;
2. Whether its strategies for health improvement are based on a holistic approach to health and address a range of issues that affect health status, function, and quality of life;
3. The community's representation on the organization's governing body and the organization's efforts to reach out to the community or population served to assure that its concerns and needs are addressed;
4. The extent to which the organization collaborates with others and builds effective relationships to conserve, share, or reallocate resources as appropriate to ensure that community interest comes before self-interest to improve access and health, and to create a more equitable, rational, and effective system of care;
5. The organization's history of continuing to provide services or products in a geographic location, community, or population segment to meet a need where others have exited; and
6. The nonprofit's role in providing leadership and other resources to support evidence-based public advocacy to improve care and funding for the vulnerable and underserved.

Effective Stewardship of Community Resources

Nonprofits must operate efficiently to provide cost-effective and affordable health care services, and to ensure their continued ability to reinvest in the improvement of the community's care and access. To that end, nonprofits should be held to the highest standards and practices for financial management and planning so fiscal resources are managed responsibly for the public good.

How well a nonprofit protects and uses resources for public benefit can be determined by looking at its operational efficiency and effectiveness, and its level of reinvestment and contribution to the community and population served. This can be done by comparing the nonprofit's performance with appropriate and comparable industry and regional benchmarks for operational efficiency and its use of total assets applied to its
mission and purpose (e.g., administrative expense or loss ratio; operating margins, reserve levels, FTEs/bed, efficient use of capital).

Defining, planning, and measuring community benefit have become increasingly important quantifiable indicators of how well a nonprofit health care organization accomplishes its purpose and mission (Catholic Health Association 2002). Examples of measurable community benefits include: 1) the cost of uncompensated care and services such as charity care; 2) the investment of resources in community health promotion and in effective initiatives for prevention and the improved access, health status, and functioning of vulnerable populations; and 3) the net loss from operating unprofitable but central, efficacious services such as trauma, burn, and mental health units, and insurance products to improve access for the underinsured and uninsured.

**Improving Access to Care and Health Status** [Return to TOC]

Nonprofits are responsible for mainstreaming access to culturally competent and appropriate health care services to improve the health and functional status of the most vulnerable members of their communities, especially the uninsured, the underinsured, children, the frail elderly, ethnic or linguistic minorities, and others who are disabled or economically disadvantaged.

Improved access and health status can and should be targeted to achieve two goals. The first should be to ensure that the organization serves a significant portion of the community's vulnerable population. As a benchmark, the proportion of vulnerable populations served should be no less than 90% of the percentage that this group represents in the community's total population. The second should be improvement in health status indicators and disease outcomes for the most vulnerable as measured through: Health Plan Employer Data and Information Set (HEDIS) scores; appropriateness of care such as averted ER admissions; reduction of medical errors; decreased rates of preventable illness; and reductions in the number and severity of acute conditions as a result of effective prevention programs.

**Innovation and Education** [Return to TOC]

Another way that nonprofits distinguish themselves is through their active support for medical education and the training of new health professionals. Nonprofits must continue to engage in, and support, health care research, demonstrations, and pilot projects that advance the science of medicine and prevent disease and improve outcomes. Nonprofits must take leadership in creating new models of organization, care delivery, and financing to improve access and care, and to reduce costs.
The effectiveness of nonprofits' role in this arena can be evaluated by their visibility as advocates, supporters, and participants in research and innovation. Nonprofits that support medical education and research should be recognized for the unreimbursed cost associated with those efforts, important benefits that often extend beyond the primary community and population group.

**Nonprofits' Growing Importance**

Nonprofits' historic role of serving the needs of the vulnerable and underserved and of providing other community benefits is perhaps more important today than ever. Estimates show that 39 million Americans lack health insurance and that millions more are underinsured and at risk should serious illness or injury occur. Contributing to this growing problem of access are double-digit cost increases for services and insurance premiums, which most experts predict will continue unabated through 2002. The ongoing increase in total costs has led individual states to look for ways to reduce their roles in financing and delivering health care by reducing eligibility and/or benefit coverage under Medicaid, and by reducing or eliminating state provision of direct care. More cities and counties are downsizing or closing public facilities—a move that has been underway for several years but has taken on new concern as the country addresses issues relating to national public health response and protection capabilities.

There has never been a greater need for organizations whose purpose is to improve health, and to protect and enhance the quality of life. However, the ability of these organizations to continue to make decisions and operate in ways consistent with the aforementioned values is seriously threatened. The growing commercialization of health care, the intense competitive pressures, and the reduced support from government and, to some extent, business are stretching the will and ability of many nonprofits to serve as society's “safety net.”

Advantages such as tax exemption that historically have been provided to nonprofit health care organizations are being challenged increasingly and in some cases reduced or eliminated. The need for capital to expand and improve competitive positions has been the rationale for many nonprofits, particularly on the insurer side, to convert to investor-owned organizations. While such conversions usually have been accompanied by the creation of separate charities and foundations to help sustain community benefit programs, legitimate questions have been raised about whether this is the most effective way to provide resources for community benefit. Additionally, the public and many leaders in government, business, the investment community, and health care itself, are not fully aware of nonprofits' unique role and importance. Many health care leaders find that even within their own trade associations there no longer is a strong voice for the objectives and interests of nonprofit organizations.

Meeting these challenges requires a new, broad coalition dedicated to advancing the values, performance, and role of nonprofit health care. Nonprofit organizations need to
work with people in government, business, and local communities who understand the major problems in our health care system and what is at stake if our society does not continue to support a strong and vital third sector within health care. These allies for nonprofit health care must create a new agenda for nonprofits to ensure access and health for all through the creation of an equitable, rational, and sustainable American health care system.

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Appendix
An Invitation for Submissions to the McNerney Forum

The McNerney Forum is a new, quarterly feature dedicated to exploring ideas concerning the role and opportunities facing the nation's nonprofit sector, including health care delivery and financing.

Inquiry established the new column in honor of Walter J. McNerney's leadership in founding this journal, and in recognition of the Walter J. McNerney Fellowship for Health System Improvement, which the Health Research and Educational Trust (HRET) created in 2000. The fellowship's purpose is to increase understanding, unity, and collaboration among all segments of the health care field.

Mr. McNerney, the Herman Smith Professor Emeritus of Health Policy at Northwestern University's Kellogg Graduate School of Management and a past president of the national Blue Cross Blue Shield Association, has had a major impact on the health care system. He was one of the first to point out that the nation's health care delivery and financing organizations were part of a larger nonprofit economic sector, and that this third (nonprofit) sector—the first two being government and business—played a critical part in assuring the overall vitality of society. Moreover, he recognized that society has looked increasingly to the third sector to address its most intractable social and educational problems.

Reflecting on this greater understanding, the McNerney Forum takes this broad view, inviting papers and dialogue that focus on continual improvement in performance of the third sector, including health care delivery and financing entities.

In addition to being published in the journal, McNerney Forum papers will be available on the Inquiry web site (www.inquiryjournal.org). Authors are invited to submit papers to:

Inquiry
The McNerney Forum
Box 25399
Rochester, NY 14625-0399

Authors should send two copies of their submission. Only original manuscripts, presentations or letters addressing third-sector public policy issues, innovative management or organizational concepts, or original research or demonstrations will be considered for publication. Articles published, accepted, or submitted for publication elsewhere will not be considered. If the submitted paper has been presented at a meeting, this fact should be noted. Inquiry reserves the right to reject or accept any manuscripts.
The term nonprofit as used in this article refers to organizations variously referred to as nonprofit, voluntary, not-for-profit, and tax-exempt, and also includes other noninvestor-owned organizations regardless of tax status, which are generally organized to serve other nonprofits or public purposes.

Hospital Statistics – 2002, American Hospital Association. For 2000, nongovernment not-for-profits and state and local government hospitals accounted for 84.8% of U.S. community hospitals.