

# Nonprofit Health Care

## Making a Distinctive Contribution to Patients, Families and Communities

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### Rooted in the American Experience

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The late Daniel Patrick Moynihan once observed: "A distinguishing feature of American society is the singular degree to which we maintain an independent sector – private institutions in the public service. This is no longer so in most of the democratic world; it never was so in the rest. It is a treasure..."

This distinctive feature of the American experience was documented by Alexis De Toqueville in the early 19<sup>th</sup> century when he observed:

*Americans of all ages, all conditions, and all dispositions constantly form associations. The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches, to send missionaries to the antipodes; in this manner they found hospitals, prisons and schools.*

The civic impulse that led our forebears to band together to hire a teacher for their one-room schoolhouses, to participate in barn raisings with their neighbors, and to establish volunteer fire departments and hospitals, continues today in myriad ways. The emergence and persistence over more than two and a half centuries of a strong voluntary sphere reflects a societal judgment that there are limits to what the commercial and government sectors can or should do. It is within this voluntary sphere that not-for-profit health care organizations have developed.

Nonprofit health care has its roots deep in this unique American experience. Our earliest hospitals were founded by religious and civic communities, such as the Pennsylvania Hospital, founded in 1751 through the philanthropic efforts of Benjamin Franklin and other Philadelphians. Today, there are almost 3,000 voluntary nonprofit community hospitals in the United States.

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### The Essential Character of Nonprofit Organizations

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The late management expert, Peter F. Drucker, noted that the distinguishing feature of nonprofit organizations is not that they are nonprofit, but that they do something very different from either commercial enterprises or government. He emphasized that a business has discharged its task when the customer selects the product, pays for it and is satisfied with it, and that government has done so when its policies are effective. On the other hand, he wrote,

*"The nonprofit institution neither supplies goods or services nor controls (through regulation). Its 'product' is neither a pair of shoes nor an effective regulation. Its product is a changed human being. Nonprofit institutions are human change agents. Their 'product' is a cured patient, a child that learns, a young man or woman grown into a self-respecting adult; a changed human life altogether."*

(Managing the Non-Profit Organization: Practices and Principles, Peter F. Drucker, 1990)

In other words, the purpose of nonprofit organizations is to improve the human condition; that is, to advance important non-economic, non-regulatory functions that cannot be as well served by either commercial interests or government.

In defining its mission, a properly focused nonprofit always begins with a fundamental set of questions:

- ◆ What is best for the person who is served?
- ◆ What is best for the community?
- ◆ How can the organization ensure a prudent use of resources for the whole community, as well as for its immediate clients?

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## Nonprofit Organizations and Health Care

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The profound understanding of the role and mission of the nonprofit organization as a “human change agent” makes its form especially well-suited to the delivery of health care for the following reasons:

### **Health Care is Distinctive**

Health care is fundamentally different from other goods and services. It is about the most human and intimate needs of people, their families and communities, and it is essential to human dignity. Its availability should not be dependent mainly on economic self-interest. The nonprofit setting is particularly well-suited to preserving this moral commitment.

### **Medicine’s Patient-First Ethic**

Hospitals are expected to be economically viable and physicians are expected to earn a good living, but when it comes to necessary health care they should be motivated primarily by a professional commitment to patient and community need, not shareholder interest. There is no comparable expectation of Wal-Mart or General Motors, nor should there be. Nonprofit health care organizations help preserve the patient-first ethic in medicine.

### **Attention to Community-Wide Needs**

There is a wide range of community-wide needs in health care that are often unprofitable. These include trauma units, burn units, neonatal intensive care, outreach to rural communities and immunization programs for economically deprived populations. Because the primary purpose of nonprofits is to serve patients and communities, they frequently offer such services, despite their negative financial

impact. In addition, nonprofit health care institutions assume the primary responsibility for the teaching and research needed to renew and advance health care, including efforts to translate basic research into clinical practice. Nonprofits also tend to be deeply rooted in the fabric of their communities and are likely to remain during periods of economic stagnation and loss.

### **Strengthening Community**

Nonprofit health care organizations strengthen a sense of civic responsibility by engendering volunteerism and philanthropy. From boards of trustees to the delivery of quality health care in a supportive environment, volunteers and philanthropy make a difference in peoples’ lives and forge new bonds to community, a commitment to active citizenship, to social responsibility, to values.

### **Mediating Role**

Mediating institutions stand between the individual and the state, and mediate against the rougher edges of the free market economy’s tendency to foster excessive individualism. Mediating institutions such as family, church, education and nonprofit health care are often closer and more responsive to the needs of people than are government or commercial institutions.

**Access**

Nonprofit health care institutions are an essential part of the nation's safety net for the uninsured and underinsured, and for other vulnerable and hard-to-serve

populations, in urban areas and many low-density rural areas. Nonprofits are leaders in efforts to expand access to health care in rural areas and the use of new technologies such as telemedicine, to provide care.

Like our society as a whole, our health care system is pluralistic, involving government, investor-owned and nonprofit institutions. Nonprofit institutions are not alone in their efforts to address communities' health needs, but as three-fifths of the nation's community hospitals, they form the bedrock of our nation's health care delivery system.

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**Constant Mission, Changing Structures**

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While the essential mission of nonprofit health care remains constant, the structures and organizations that support its delivery have undergone significant change. From their origins as individual, stand-alone institutions, many nonprofit hospitals have banded together into multi-hospital systems that range from as few as two to more than 70 hospitals. Today, there are about 140 nonprofit hospital systems with some 1,200 members, representing nearly 60 percent of all hospitals.

This development is a direct response by hospitals to the dramatic changes that have been occurring in health care markets since the mid-1990s. These changes are being driven by a combination of rapidly rising health care costs, the consolidation of the health insurance industry, downward pressure on government payments, competition from physicians for the control of "profitable" procedures, the introduction of expensive health care technologies, limited access to capital, a growing uninsured population and the simultaneous expectation that hospitals systematically improve quality and patient safety.

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**Nonprofit Systems Emerge**

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Meeting these challenges has required increased resources, often beyond what single hospitals acting alone in single communities can muster. To preserve and advance their mission in this demanding environment, nonprofit hospitals began associating in systems that enable them to accomplish together what individual

hospitals struggle to achieve on their own. Joining together has produced many benefits for patients and communities. It has allowed for financially weaker institutions to continue providing essential services to their communities. It has made it possible for hospitals to make the critical investments to provide current state of the art care, and to improve quality and patient safety. And, by spreading the unmet costs of serving the uninsured and inadequate payments by government programs over multiple hospitals, systems have made it possible for their hospitals to meet the needs of many who lack government or employer-based insurance.

As members of systems, nonprofit hospitals have been able to buy supplies as a group rather than singly, develop joint ventures with large physician groups and other providers and achieve other economies of scale and efficiencies. They have also created a more level playing field in negotiations with insurers. Systems have strengthened the potential for nonprofit hospitals to earn sufficient income to remain in their communities and meet their critical, often unique, needs. Thus, nonprofit systems help maintain the nation's fragile health care safety net.

As hospitals and hospital systems have grown into more complex organizations to meet the demands of increasingly commercialized health care markets, their roots in their communities have become less apparent to the general public and many policymakers. What originally was a

natural and intimate relationship through local boards, volunteers and donors, has become a multifaceted set of interrelationships that can extend over large geographic regions and cross state lines. The community base of such systems remains the core, but has become part of the larger, less transparent undertaking as well.

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### **Developing Policy Concerns**

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The scale and complexity of today's nonprofit hospital systems are causing

some policymakers to raise concerns as to how decisions are made by systems, how local interests are reflected and how accountability to their charitable mission is maintained. These concerns could result in the imposition of a variety of new laws and regulations on the nonprofit health care sector. While some new rules may be necessary, if they are not written with a clear understanding of how nonprofit systems further the charitable mission in health, they could have the unintended affect of undermining that mission.

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## **Sustaining the Nonprofit Mission in Health Care**

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Health care is fundamentally different from most other goods and services. It is about the most human and intimate needs of people, their families and communities. It is because of this critical difference that it is incumbent on health care leaders and policymakers to work together in today's changing environment to preserve and strengthen the nonprofit sector in health care.

How can this be done? First, nonprofit health care leaders need to develop and implement strong, voluntary governance standards for their institutions, standards that recognize the evolution in structure and organization, assure public accountability and help preserve the special character of nonprofit health care in increasingly

competitive markets. Second, policymakers and nonprofit health care leaders need to collaborate to determine if there are areas where new legislation and regulation are required beyond current rules and voluntary standards. Any new laws must then be designed to further the nonprofit mission in health care and ensure public accountability without imposing rigid, inflexible and expensive burdens on nonprofit institutions.

Patients, families and communities alike have much to lose if the valuable and necessary presence of nonprofit health care is diminished. Working together, nonprofit health care leaders and policymakers can ensure that it is protected, strengthened and remains a vibrant feature of American health care in the 21<sup>st</sup> century.