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Upfront

A Healthy Advantage **Nonprofit providers are more cost-effective**

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HEALTHCARE

A Healthy Advantage

Nonprofit providers are more cost-effective

As healthcare costs mount, a new study indicates that nonprofit healthcare providers are more cost-effective and provide better care than their for-profit competitors.

Pauline Vaillancourt Rosenau and Stephen Linder, both of the University of Texas-Houston's School of Public Health, published their findings, "Two Decades of Research Comparing For-Profit and Nonprofit Health Provider Performance in the United States," last June in *Social Science Quarterly* (vol. 84, no. 2).

Rosenau and Linder looked back at 22 years of research and reviewed 149 previous studies that compared differences in for-profit and nonprofit healthcare providers' performance on at least one of the following measurement scales: cost, quality, access, and charity care. The reviewed studies took place between 1980 and 2002, and the sample only included providers in the United States.

What they found may surprise some free market capitalists. Nonprofits, according to the study, were more cost-effective than for-profit providers. Only 23 percent of studies reported for-profits to be more cost-effective. Seventy-seven percent of the studies indicated that nonprofits were superior, or that there was no observed difference between for-profits and nonprofits. Nonprofit healthcare providers typically operate with lower administrative costs than for-profit healthcare providers do. Not only do they pay lower staff salaries, but they also have certain tax advantages and often benefit

from donations of money and volunteer services.

If nonprofits provide services at lower cost, how much is sacrificed on quality of care? Free market economists have argued that for-profits can respond to competition more quickly than nonprofits, thus providing higher quality of care. Among the 41 studies that measured quality of care,

Nonprofits provide lower-cost, higher-quality health services. The mission and goals of nonprofits motivates them to try harder to offer access for all patients. For-profits are more attentive to financial risks.

59 percent of those studies concluded that nonprofits provided superior quality of care and 29 percent found no difference. Only in 12 percent of studies were for-profit providers found to be superior. Nursing homes were the one consistent exception; for-profit nursing homes tended to provide a much higher standard of care – though at a much higher cost – than nonprofit ones.

Another measure in which nonprofits excelled was access to care. The mission and goals of nonprofits would presumably motivate them to try harder to offer access for all patients than their for-profit counterparts, who must be attentive to the financial risks of certain patients. Indeed, out of 39 studies measuring access to care, 67 percent found nonprofits to be superior and 30 percent found no difference between the two.

The last of the performance criteria analyzed by the researchers was that of charity care. When medical bills go unpaid, whether because the patient refused to pay or was unable, they become "uncompensated care," or "charity care." A certain amount of charity care is expected of nonprofits, whose mission focuses on larger social good and who benefit from tax advantages and volunteers. Although for-profit healthcare providers do bear some share of charity care, no single study since 1980 found that for-profits provided more charity care than nonprofits. On the contrary, out of 24 studies on this measurement, 67 percent found that nonprofits provided more charity care and 33 percent found no difference. Public hospitals were excluded from this comparison because they receive taxpayer support to provide care to the uninsured.

That nonprofit healthcare providers perform better than for-profits may be an unwelcome finding at this time of increased privatization of the healthcare industry.

–Kimberly Solheim