For-profit and Nonprofit Health Care Organizations

Are for-profit hospitals more efficient or more effective than their nonprofit counterparts? The decision is in on this question, and the verdict does certainly seem unanimous. The IRS (Internal Revenue Service) status of a health care organization certainly does seem to have a rather significant influence regarding the costs and the outcomes of the medical treatment that it dispenses. This meaningful difference is fairly applicable to a wide range of services. Judging by most any variables chosen (for example, cost, quality of services, outcomes, and accessibility), nonprofit health care organizations are doing a much better job of meeting the needs of patients when compared to their for-profit competitors. It appears that for-profit health care organizations are more costly and spend more money on management, administration, and marketing, and they spend less on patient care. This situation is compounded by the fact that the strong trend in the United States is the move from nonprofit to for-profit status. This movement is very quickly increasing in all areas of the health care sector from pediatrics to hospice care.

What does the research show?

A review of the published empirical research in this area overwhelmingly shows that nonprofit organizations have lower mortality rates and are better at keeping down the costs of operation. For-profits are more likely to mark up prices to increase their revenue and tend to have more patient complaints filed against them. Their administrative costs are much higher. For-profits have 19% higher charges than nonprofit hospitals and have 6% to 7% percent higher death rates (Devereaux, 2004).

Dr. Steffie Woolhandler of Harvard Medical School is a very outspoken researcher on this matter. She notes, “investor-owned hospitals charge outrageous prices for inferior care. That’s not just an opinion; it’s now a proven fact. The for-profits skimp on nurses, but spend lavishly on their executives and paper-pushers” (For-Profit Hospitals Are Costlier, 2004, para. 3). It would then seem that top management could expect a higher salary in for-profit organizations. Should other employees of for-profit organizations expect higher pay? Research published found that the average rate for all employees in for-profit health care organizations (besides management) was lower than their nonprofit contemporaries (Shahpoori & Smith, 2005).

The High Cost of For-Profit Health Care

These differences in costs can add up to a very substantial amount of money, considering the large health care programs funded by the Federal Government. It is estimated that this difference of cost (for-profit versus nonprofit) causes the
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Medicare and Medicaid programs to spend well over $5 billion extra each year (For-Profit Hospitals Deliver, 1999).

What are the implications?

What do these facts and figures mean for health care professionals and for the United States in general? It would seem that it is becoming harder and harder to get a handle on the problem of spiraling costs of health care. It is obvious that the movement to the for-profit mode is a move in the wrong direction. Perhaps the United States can look to its neighbors to the north to see what it has done in the quest for a stabilized health care system. Canada has one payment system, which has no profit incentive, no need for advertising, no competition, and a decreased cost of administration. The country has slowed the cost spiral by fee bargaining and by a regulatory framework, which does not permit physicians to have direct access to the patient’s wallet.

It is obvious that what is successful in one nation may not be successful in another. In the long run, health care cost control is not compatible with the clinical discretion of the practitioner although the solution of this situation is not evident and may be quite different from one culture to another.

References


