Why We Want To Remain A Nonprofit Health Care Organization

Nonprofit health plans can serve community health needs more effectively, says Kaiser Foundation Health Plan’s CEO.

by David Lawrence

Financial arrangements for the organization and delivery of medical care are undergoing rapid and profound changes. The need for capital to support these changes is great. Looking to the investment community for capital has led a number of nonprofit health plans to convert to investor-owned organizations.

Kaiser Permanente also is undergoing substantial change as it reduces costs, improves access and satisfaction, and enhances the quality of its clinical care. It too needs capital for its quality and cost containment strategies.

Kaiser Permanente recently considered the possibility of converting to for-profit status and rejected it. We rejected conversion in part because Kaiser Permanente has adequate capital and sufficient discipline to compete effectively without converting. However, the primary reason the organization chose to remain nonprofit is that we believe the marketplace and public policy needs that will emerge in health care over the next several years will best be met by nonprofit organizations. I believe that nonprofit health care organizations will be able to differentially manage and earn consumers’, providers’, and the public’s trust in health care.

Ethical Challenges

Managed care organizations must address three ethical challenges. They are interrelated, and they embrace the patients, its consumer membership, and the communities of which the organization is a part. We would not need to consider these challenges if we lived in a world of unlimited resources, but we do not and, indeed, never have.

- **Hippocratic oath.** The first ethical challenge is to manage the Hippocratic oath, which states that the caregiver will act in the best interests of the patient and will do no harm. This is an intensely personal ethic, and it is most consequential for persons who have or believe that they might have a serious or life-threatening illness. The challenge is to ensure that the caregiver has all of the resources needed to honor the Hippocratic oath.

- **Distribution of services.** The second ethical challenge is to fairly and appropriately manage decisions about the distribution of services. Who is going to get what share of the available health care resources, given that all health care organizations must work with finite resources?

- **Public health.** The third ethical challenge involves the obligation to contribute broadly to the public’s health. Public and community-based hospitals, along with public health departments, have long shouldered the responsibility of serving the public good. As managed care organizations take on greater responsibility for greater numbers of people and develop relationships with hospitals and other elements of the health care delivery system, they too will begin to assume the mantle of public responsibility for what gets delivered to whom. How will the uninsured get...
care? How will research be conducted? How will education and training of health professionals be carried out? Managed care organizations will be obligated to participate in developing solutions to these problems.

**Balancing The Challenges**

How will managed care organizations address these three important ethical challenges? One approach is to manage the marketplace by prescribing how much care will be given. Organizations use protocols, guidelines, utilization management tools, and physician incentive arrangements to determine who is going to get care and under what circumstances. These mechanisms are used primarily to address the problem of distribution. However, they also may affect the organization’s ability to meet its Hippocratic obligation. In fact, there is growing public concern that some of these management approaches may detract from providers’ ability to ensure that patients receive the care they need. If this concern rises high enough, it could undermine the public confidence and trust that is essential to a well-functioning health care system.

**In the nonprofit organization.** Why does a nonprofit organization have the potential to deal with these ethical challenges more effectively? The primary reason is that, unlike a for-profit, the nonprofit is not obligated to balance fiduciary responsibility to shareholders with responsibility to patients. It is able to take a longer-term perspective on resource allocation issues. And it is able to address the needs and concerns of its providers more effectively. To the extent that nonprofits demonstrate and communicate these strengths, they have the potential to establish a higher degree of trust with consumers and providers. The data are by no means conclusive, but results are beginning to emerge in satisfaction and disenrollment surveys that positively distinguish nonprofit plans from for-profit plans.

Another approach to managing these two ethical challenges is to incorporate consumers into the governance of the organizations. We are very excited at Kaiser Permanente about our affiliation with Group Health Cooperative of Puget Sound, in part because of Group Health’s long history of involving consumers in governance. Group Health is not immune from concern about how it manages these two ethical challenges—all managed care gets questioned. However, as a result of consumer governance at Group Health, there is, we believe, a strong sense of confidence among consumers that their interests are being considered in the decision making of the cooperative, both in terms of how care is delivered and in terms of how resources are managed.

Nonprofit organizations also may have opportunities that for-profit organizations lack to address the third ethical challenge—serv-
ing the broader community. As purchaser coalitions and other sophisticated sponsors become more involved in the interface between the financing and provision of care and individual consumers, they will increasingly focus on maintaining the health of the population enrolled in these nonprofit organizations. The boundaries of the traditional health care organization will be too narrow to influence the health of populations. Organizations will need to interact directly with the public health and public services sectors. The issues involved in improving the health of communities are dynamic and will not be resolved simply by pouring money into covering the uninsured. Improvements will be needed in the organization and delivery of services as well.

Some have argued that conversion to for-profit status and the creation of foundations to distribute the value of nonprofit assets result in a superior public benefit. We at Kaiser Permanente disagree. We maintain a close link between health care financing, organization, delivery, and communities. We believe that a nonprofit managed care organization can be more effective at working with community health issues on an ongoing basis. We can be far more effective at producing information and research in the public domain that can have a positive influence on the health status of communities everywhere.

- **In the conversion foundation.** Conversion foundations can play an important role as catalysts and funders, but they do not organize or deliver care or directly engage in the ongoing search for higher-quality services and care. They are not linked to that reality. Progress in the science of organizing and delivering care will depend on the availability of sites and sponsors for innovation and improvement. The organizations that continue to organize, finance, and deliver services to their own populations and to the broader community, while participating in health services and clinical research and teaching, are the ones that we believe will add the most value to society.

**Over The Long Haul**

Making commitments to teaching, research, and direct community benefit is not necessarily a function of being a nonprofit organization. For-profit organizations can initiate these activities also. But what we have discovered at Kaiser Permanente, and in similar organizations, is that it takes an enormous commitment and investment of resources to provide care to members and to substantially affect the health of the broader community.

We doubt that for-profit health care organizations are going to be willing to make these investments over the long term. We do not believe that the profit margins in health care will be sufficient to sustain investment in direct community benefit and still meet shareholders’ expectations. While the taxes that for-profit organizations pay have value, nonprofit integrated systems have a unique ability to perform clinical and health services research and to provide training opportunities.

When we made our decision to remain nonprofit, we had not articulated to ourselves the ethical dilemmas that will likely drive the evolution of this sector over time. We had not articulated that an organization like ours could manage those ethical dilemmas more effectively as a nonprofit organization than as a for-profit. Nor had we articulated why we believe that nonprofit status will make a difference to the market and to policymakers. However, we do believe that as a nonprofit organization we have the opportunity to manage these ethical dilemmas far more effectively than we could as a for-profit organization. We also believe that the management of these ethical dilemmas will have a major impact on the future success of managed care organizations and on our nation’s health care system.