

PLAN FOR TODAY

- INTRODUCE OURSELVES
- DESCRIBE COURSE
- OVER-VIEW OF NON-PROFITS
- HABITAT CASE
- DESCRIBE TEAM ASSIGNMENT
- ASK FOR QC VOLUNTEERS

WHY ARE THERE NON-PROFITS

SOME EXPLANATIONS

WHEN QUALITY IS HARD TO JUDGE OR
DELIVERY IS HARD TO ACERTAIN

do your contributions really end
up in the hands of those you
intend?

SO, REDUCE PROFIT MOTIVE (NON-
DISTRIBUTION) AND RELY ON TRUST

WHEN SOME “CUSTOMERS” OF THE
GOVERNMENT WANT MORE OF SOME
GOOD OR SERVICE THAN PUBLIC
DECISION MAKING WILL DELIVER

Private Schools

More redistribution (charity)

WHEN BENEFICIARIES WANT MORE CONTROL THAN OTHER FORMS OF GOVERNANCE CAN DELIVER

country clubs

mutual benefit societies

political parties

WHEN A GOOD OR SERVICE IS DESIRED
THAT IS TOO CONTROVERSIAL FOR
THE GOVERNMENT TO PROVIDE

planned parenthood
advocacy groups
religion

WHAT DIFFERENCE DOES NON-PROFIT STATUS REALLY MAKE?

18% OF U.S. HOSPITALS ARE FOR-PROFIT

WOULD YOU RATHER GO TO A NON-PROFIT OR FOR-PROFIT HOSPITAL IF YOU CARED ABOUT QUALITY?

WHICH FORM IS MORE EFFICIENT?

WHICH FORM IS MORE TRUSTWORTHY?

PEOPLE DO HAVE OPINIONS

33% OF AMERICANS DON'T UNDERSTAND
THE DIFFERENCE

OF THOSE WHO DO

twice as many think quality is
higher in for-profits

three times as many think non-
profits are more trustworthy

Source: Health Affairs, 2004

REGULATORS HAVE OPINIONS TOO

THE JUSTICE DEPARTMENT IS SUING
ON ANTI-TRUST GROUNDS TO BLOCK
NORTHWESTERN UNIVERSITY'S NON-
PROFIT TEACHING HOSPITAL FROM
ACQUIRING A LOCAL HOSPITAL ON THE
GROUNDS THAT PRICES WILL RISE

The theory: the non-distribution constraint
does not preclude revenue maximization

QUALITY

Controlling for illness and age (elderly heart patients), size, teaching status, government status, urban status:

Mortality lower in non-profits on average

Huge variation within each category

Teaching hospitals the best, government the worst

**But in three case study cities the difference disappears
--perhaps for-profits locate in low
quality markets where they can look
good and also take over weak
institutions**

TRUSTWORTHINESS

UP-CODING: DO YOU CLASSIFY AN ILLNESS AS A RESPIRATORY INFECTION OR PNEUMONIA (WHICH PAYS \$2000 MORE FROM MEDICARE)?

INCREASE IN UP-CODING, 1986-1996

NON-PROFITS	+ 10%
FOR PROFITS	+23%
CONVERSIONS	+37%

AND IN AREAS WITH MORE FOR-PROFITS THEN NON-PROFITS DO MORE UP-CODING

■ QUESTION: JSI HAS BOTH A PROFIT AND A NON-PROFIT SIDE. WHY?

WHAT IS A NON-PROFIT?

- CAN make a surplus (excess of revenue over costs)
- CANNOT distribute the surplus to “owners” or managers
- Is exempt from Federal and State taxes

DISTINCTIONS AMONG NON-PROFITS: TAX TREATMENT

- DEDUCTIONS TO SOME ARE NOT TAX EXEMPT

501C(4) ORGANIZATIONS: UNIONS, VETERAN GROUPS, POLITICAL ORGANIZATIONS, CHAMBERS OF COMMERCE ETC.

THESE OPERATE IN THE INTERESTS OF THEIR MEMBERS, ARE “MUTUAL BENEFIT” ORGANIZATIONS

OTHERS CAN RECEIVE TAX DEDUCTABLE DONATIONS

- THESE ARE 501C(3) ORGANIZATIONS
- ARE FURTHER DISTINCTIONS:
 - SCHOOLS, CHURCHES, HOSPITALS
 - GRANT MAKING FOUNDATIONS
 - OPERATING FOUNDATIONS

ADDITIONAL DISTINCTIONS

■ REVENUE:

DONATIVE: MONEY FROM DONORS

COMMERCIAL: MONEY FROM
RECEIPIENT

■ CONTROL

MUTUAL: PATRONS CONTROL

ENTREPRENURIAL: SELF-
PERPETUATING BOARD

MUTUAL

ENTREPRENURIAL

DONATIVE

SIERRA CLUB
AUDOBON

CARE
MUSEUM

COMMERICAL

AAA
COUNTRY CLUB

UNIVERSITY
HOSPITAL

SOME FACTS

■ U.S. WORKFORCE

FOR-PROFIT 75%

GOVERNMENT 17%

NON-PROFIT 17%

Source: Oster

SOURCES OF REVENUE

PRIVATE CONTRIBUTIONS	12%
GOVERNMENT GRANTS	8%
PROGRAM REVENUE	68%
OTHER	12%

...but big variation across different organizations

NON-PROFIT ORGANIZATIONS

SOCIAL SERVICE	9.4%
COMMUNITY/CIVIC	3.9%
EDUCATION/RESEARCH	17.9%
HEALTH CARE	49.9%
ARTS/CULTURE	1.9%
RELIGION	17.0%

SOME NON-PROFIT DILEMMAS

- CLASH OF CULTURES
- MOTIVATING WORKFORCE WHEN CANNOT PAY MARKET WAGES
- MULTIPLE CONSTITUENCIES
- MISSION AND CULTURE V. GOOD MANAGEMENT
- EVALUATION WHEN NO MARKET TEST
- MULTIPLE REVENUE STREAMS WITH DIFFERENT DEMANDS:
GOVERNMENT, FOUNDATION, RECIPIENTS, DONORS

AND NON-PROFITS ALSO FACE STANDARD WORRIES

BRANDING

COMPETITION

GROWTH

OBTAINING CAPITAL

ORGANIZATIONS AVAILABLE FOR TEAM PROJECTS

- AIDS ACTION COMMITTEE
- BOSTON PARTNERS FOR EDUCATION
- CHILDRENS MUSEUM
- INSTITUTE FOR CONTEMPORARY ART
- INTERNATIONAL INSTITUTE
- JOBS FOR THE FUTURE
- LAWRENCE COMMUNITY WORKS
- PUPPET SHOWPLACE
- WORLD EDUCATION