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

doy 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?
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 AQUIRING 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

Source: McClellan and Staiger, NBER #7324
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

Source: Silverman and Skinner, NBER #8133
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-PROFTS: 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
<table>
<thead>
<tr>
<th>MUTUAL</th>
<th>ENTREPRENEURIAL</th>
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<tbody>
<tr>
<td>SIERRA CLUB</td>
<td>CARE</td>
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<tr>
<td>AUDOBON</td>
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<tr>
<td>AAA</td>
<td>UNIVERSITY</td>
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<tr>
<td>COUNTRY CLUB</td>
<td>HOSPITAL</td>
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**Donative**

**Commercial**
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

Source: Oster
## NON-PROFIT ORGANIZATIONS

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>SOCIAL SERVICE</td>
<td>9.4%</td>
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<tr>
<td>COMMUNITY/CIVIC</td>
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<tr>
<td>EDUCATION/RESEARCH</td>
<td>17.9%</td>
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<tr>
<td>HEALTH CARE</td>
<td>49.9%</td>
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<td>ARTS/CULTURE</td>
<td>1.9%</td>
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<tr>
<td>RELIGION</td>
<td>17.0%</td>
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</table>

Source: Oster
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