

For LOVE ^{or} MONEY

The Rise of For-Profit Social Services

By Rick Skwiot

THE TYPICAL SOCIAL WORK PRO OF THE FUTURE may likely succeed not so much by the ability to nurture individual clients as by the skill to manage sophisticated information systems and write airtight service contracts.

For better or worse, for-profit social-service providers—in mental health, welfare, and medical care—are driving fundamental change in an industry previously driven largely by humanitarian concerns.

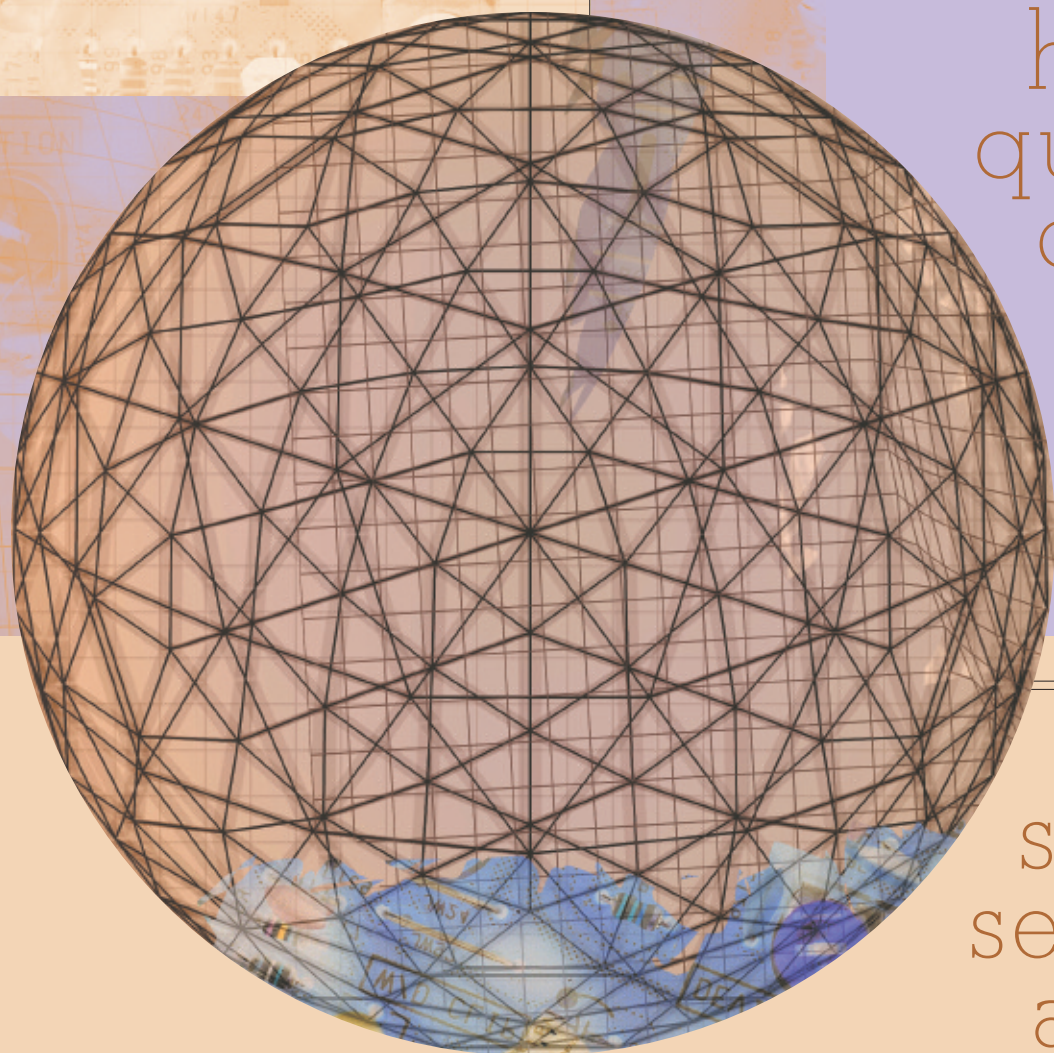
For-profit managers claim a bottom line of better services for more people through for-profit/not-for-profit partnerships that employ economies of scale and money-saving new technology. Not-for-profit providers worry about technology, standards, and economics diminishing the hands-on care that keeps clients from failing or falling through bureaucratic cracks.

community
connections

high
quality
care

social
services
as an
industry

more efficient
in delivering
services



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But most interviewed here agree that the growing presence of for-profit social-service managers and providers—fueled in large part by advancing computer technology, the welfare reform act of 1996, and a drive to control health-care costs—is changing what many social workers do and what social work schools will be teaching and researching.

Higher Quality, Lower Costs

The reason for a growing dependence on for-profits to manage the increasingly complex social-service apparatus appears obvious to Michael F. Niedorff:

"Not-for-profits historically have been unable to demonstrate the ability to operate at the level of efficiency that constituents, especially external constituents, are demanding for services provided for an invested dollar," he says.

Niedorff—chairman and CEO of Centene Corp., a leading health-care services provider to individuals receiving benefits under Medicaid, Supplemental Security Income, and the State Children's Health Insurance Programs—says that for-profit efficiency pays off both in quality and economy.

"For-profits can provide access to and continuously monitor and deliver higher quality care," says Niedorff, "which means lower long-term costs for the states, taxpayers, and for the patients themselves."

That higher quality comes in large part thanks to greater scrutiny, he says.

"There are more checks and balances and oversight on the performance and delivery of services with for-profits," Niedorff says.

That oversight comes from government entities such as the Securities and Exchange Commission; the media; states, which hold the contracts with the for-profits; and investors.

"Our shareholder base—large funds, generally—looks for, expects, and demands social responsibility," Niedorff says.

Further, being in a competitive arena, for-profits pay more for failure, he contends, than do not-for-profits.

"While no one likes to operate in the red, there is no degree of forgiveness for a for-profit entity. If for-profits screw-up," Niedorff says, "it exacts a high toll"—not only in dollars and cents, but also in the competitiveness that keeps innovation and improvements progressing, in jobs, and ultimately in whether or not for-profits keep their doors open.

Nonetheless, Niedorff sees room for both for-profits and not-for-profits in the evolving social work world: "Not-for-profits are very valuable. They provide a safety net that for-profits cannot and help round out the health service community in its totality."

Size Matters

Marsha Marsh, MSW '73, who has worked on both sides of the not-for-profit/for-profit fence more than 30 years, sees their coexistence as a neighborly, symbiotic relationship whose time has come.

"I don't see the two in competition at all but rather working in parallel universes," says Marsh, vice president, Call Center Operations for Magellan Health Services, the nation's largest managed behavioral health-care and employee-assistance company, with some 40 million members.

"In serving Medicaid business contracted out to health plans, we use a network of local providers and private practitioners that doesn't look dramatically different from what the state used," says Marsh, who previously worked at the not-for-profit Jewish Family and Children's Service and St. Louis County Government.

"The key is that managed behavioral health is what we do as a business, and Magellan has an expertise that the state doesn't have," she says. "Everyone wins—there's better access and quality of care for recipients, while the provider gets referrals and reduced administrative costs, though providers may have to accept a lower pay rate."

For Marsh, as with others on the for-profit side, bigger is better.

"It's a question of size. Magellan is investing in information technology," Marsh says, "to make us more efficient in delivering services. It's one of our goals."



Similarly, Jack Ginsburg, vice president, Business Development and Marketing for Virginia-based Maximus, Inc., sees for-profits' greater financial and technological resources delivering better social service than state bureaucracies can.

"For states, the job is so vast and complicated, it's sometimes more cost-effective to outsource to for-profits," says Ginsburg, citing the complexities of eligibility systems. "If we can modernize the collection of information and relieve caseworkers of paperwork, they can devote more attention to managing their caseload, to help get people back on their feet."

But to successfully run a welfare program you have to know the territory, says Ginsburg, whose company—with some 5,500 employees and 280 offices nationwide—recently won a very large contract from the State of Israel to pilot welfare-to-work services in regions south of Tel Aviv.

"Success in this environment depends on understanding the dynamics of the local market," Ginsburg says. "Responding to an RFP [request for proposal] without specific program knowledge and understanding leads to failure."

Cherry-Picking or Getting the Job Done?

That local grounding includes tapping into the expertise of community not-for-profit social-service providers.

"We rely on nonprofits to help administer the program and see their role increasing dramatically," says Ginsburg, pointing to Texas. When that state made Web registration

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mandatory for welfare recipients, it drove applicants into faith-based and community organizations to gain access to the Internet and get application assistance, he says.

But some see that use of local not-for-profits as "cherry-picking," or "creaming," where for-profits skim off the lucrative aspects of social-service provision and leave the unprofitable portions to not-for-profit organizations.

"It's a concern," says Gary Dollar, president and CEO of the United Way of Greater St. Louis, "that for-profits might come to not-for-profits, who are mission-driven, to pick up an unprofitable portion of a contract. The not-for-profit would feel compelled to do so, to stay in business and because compassion would drive them to accept."

That willingness to operate at a loss, says Dollar, constitutes a fundamental difference between not-for-profits and for-profits.

"We're willing to do a loss leader, to raise money to underwrite services, which for-profits can't do. They are purchase-for-service and can't do it if they lose money. My concern," Dollar says, "is with not-for-profits possibly contracting with for-profits to underwrite unprofitable services and thus subsidize the for-profits. I don't think that would be good in the long term."

Maximus' Ginsburg, however, sees it as not-for-profits and for-profits working in tandem to meet critical needs.

"The question is, 'Who is most capable to do what needs to be done?'" Ginsburg says. "As both not-for-profits and for-profits increasingly understand the market environment,



they'll know which recipients they are most comfortable and successful interacting with."

The overarching concern—getting the job done—seems to be something Ginsburg and Dollar can agree on.

"It's about getting people served," Dollar says. "At some level [the growth of for-profits] is good. They look at it with a bottom-line perspective that brings efficiencies, new technologies, and more innovation into our work—which in turn can spur not-for-profits to action with innovations."

The Nonprofits' Role in a Market Environment

That process—for-profit incursion in social service changing the way not-for-profits do business—has been under way for some time, says Peter Frumkin, professor of public affairs at the University of Texas' LBJ School of Public Affairs.

"It changes not-for-profits' incentives and motives, changes the types of people you employ, changes the nature of intervention, changes your client base. Which," Frumkin says, "is not necessarily a bad thing."

To succeed, says Frumkin, not-for-profits need to think, in part, like for-profits: to know their market and find their niche.

"Not-for-profits can't undercut price—that's not a winning strategy. And they shouldn't try to compete directly with for-profits—that's not wise," he says. "What they

need is a differentiation strategy that capitalizes on their smallness and community connections, so they can move forward on the basis of quality of service."

The growth of for-profits since the 1996 Personal Responsibility and Work Opportunity Reconciliation Act—welfare reform—has made them a dominant and powerful feature on the human services landscape, says Frumkin, presenting emerging challenges to not-for-profit organizations. Those include:

- lack of financial and human resources, limiting their ability to offer cheap, large-scale programs;
- inability to absorb risk and raise capital;
- limited ability to compete financially for high-profile welfare expertise;
- lack of lobbying clout and knowledge; and
- lack of financial incentives to move clients off their caseload.

Squaring Efficiency with Humanity

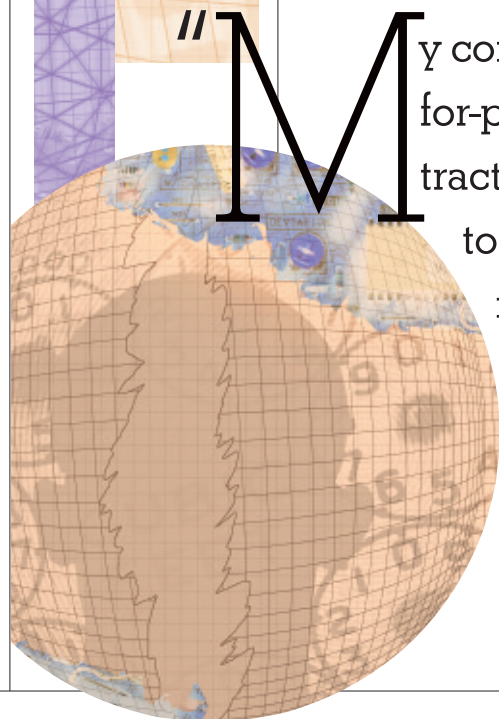
His final point about aggregate bottom-line accountability suggests the crux, for some, of the for-profit/not-for-profit debate: For-profits focus on numbers that please their customers—which generally are governments, not individuals.

"Nothing in [Maximus'] philosophy suggests that it places a high priority on serving the needs of the disadvantaged," Frumkin says. "By contrast, the mission statements of non-profit social-service organizations are usually focused squarely on meeting the needs of clients."

So how do you successfully square the efficiencies and bottom-line accountability of for-profits with meeting client needs? By writing good contracts, Frumkin says.

"The contractual arrangement and reimbursement set-up with for-profits is vitally important," he says.

high quality care



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One way to get for-profits to successfully address client needs is through "milestone" contracting, says Frumkin, which he discusses in his article "Managing for Outcomes: Milestone Contracting in Oklahoma." There he reports that the Oklahoma Department of Rehabilitation Services, in contracting for therapies to prepare people with mental and developmental disabilities to live and work independently, paid suppliers—not for hourly services rendered or via traditional outcome funding—but for meeting a specified series of distinct and critical achievements.

Edward Lawlor, dean of the George Warren Brown School of Social Work, agrees with Frumkin that good performance contracts and accountability for outcomes are essential—for both not-for-profits and for-profits. Which points toward his ultimate concern: quality of service.

"The things we should be concerned about are not the villainous for-profits and the saintly not-for-profits but, 'Are we going to set up standards to elicit good care from both?'" Lawlor says. "We haven't really thought out our expectations, which means we are not necessarily exacting the performance or behavior we want from either organization."

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"Perhaps we should be looking more carefully at the experience of the health sector where for-profits and not-for-profits have co-existed and competed for a long time."

The Social Work "Full-Employment Bill"

"It's accelerating the need and demand for knowledge about services—'Are they working or not?'" says Lawlor. "We need to test to see if services improve the quality of well-being for clients—something that's never been systematically done."

Frumkin, too, acknowledges the need for new research.

"There's not been really good research studying the differences in service between that of for-profits and not-for-profits. We have good anecdotal evidence, but we need to try to find differences empirically," Frumkin says. "It's a great topic for a dissertation."

Lawlor goes even further. He says that, for social work pros, this new environment "ups the ante to be knowledgeable."

"This is tantamount to our full-employment bill. It exposes the limitations of current research," Lawlor says. New research, he says, could help bring about a consensus on the goals and outcomes of social services—something that has been elusive up till now.

social services as an industry

He acknowledges the criticism and frustration of social workers who sense that their clients are "different and complicated" and can't be pigeonholed to conform to guidelines or interventions that result from standardizing and rationalizing social service. But he sees that as just growing-pains.

"I'm probably less worried about this from a pure quality perspective than most of my colleagues," Lawlor says. "We just don't know yet what the result will be. It's going to create some complication and will be imperfect. But overall the movement for more accountability of services and outcomes is a good thing."

Implications for Education

That accountability, the reporting of services and outcomes, means tracking and data—which, for large programs, requires sophisticated information systems.

"With the advent of information systems, both for-profits and not-for profits have to account for costs," says Magellan's Marsh. "You need to be computer literate and able to manage by data."

Lawlor sees the for-profit trend fundamentally changing some aspects of social work education.

"We feel more and more the need to give our students the tools to assess what works and what doesn't, to be smart about information and the state of knowledge," Lawlor says. "Also, social work professors and students tend to be naïve about the phenomenon that's going on, the movement from not-for-profits to for-profits. This will force everyone to be more serious about social services as an industry."

Marsh also sees a fundamental shift since her days as a social work grad student.

"Social work students at George Warren Brown in 1973 had an adversarial relationship with any for-profit provider," Marsh says. "But the social service delivery system has evolved, and social work education needs to embrace the full range of services, recognizing you can work for or partner with for-profits." ❧