

Medical Industry Leadership Institute, 2008 interdisciplinary grant awards Does Ownership Matter in the Selection of Nursing Homes? Evidence from Consumer Surveys

Final Executive Summary

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How do consumers make their buying decisions in a market with asymmetric information? It has been well-documented in the marketing literature that during the buying process, consumers will conduct various pre-purchase information searches on merchandise or services before they make the buying decision (Beatty and Smith, 1987; Murali, Laroche and Pons, 2005) to mitigate the effects of asymmetric information. The marketing literature has also recognized that due to the constraints of time, effort, preferences and information availability, consumers tend to rely on limited sources and can be influenced by socially symbolic factors, such as fashion (Midgley, 1983), or organizational ownership.

Organizations that are not motivated by profit, such as nonprofit or local government-owned organizations, are less likely to exploit asymmetric information than their for-profit counterparts, and thus provide higher levels of less observable quality (Ben-Ner & Ren, 2008; Hirth, Chernew & Orzol, 2000). However, little is known about the degree of influence organizational ownership has on consumers' choice of sellers, and the few empirical studies present an incomplete picture. While Ballou (2005) found consumers' expressed preference for nonprofit over for-profit nursing homes in Wisconsin, in a different cultural context, Noguchi and Shimizutani (2005) found no evidence of consumers' preference of nonprofit at-home care providers over their for-profit counterparts in Japan. Further

exploring the use of ownership as a selection criterion, Malani and David (2008) argue that nonprofit status is not used as a signal of quality because most of the nonprofit child care centers, nursing homes and hospitals in their study did not advertise their nonprofit status in their marketing literature or website; they assumed that if consumers used nonprofit status as a selection criteria, nonprofits would advertise their status. However, Schlesinger, Mitchell and Gray's (2004a) results that the majority of consumers believe that nonprofit hospitals are of higher quality and are more trustworthy than their for-profit counterparts and Holtmann and Ulmann's (1991) results that individuals more vulnerable to exploitation (i.e., those without a spouse, those expecting long stay) choose nonprofit nursing homes over for-profit homes suggest that nonprofit status may be used by consumers in the selection of sellers.

In this project we surveyed hundreds of families concerning the choice of nursing home for their loved ones. Our preliminary analysis suggests several interesting findings. Nearly half of the family members chose a home without searching; they either visited no homes or they visited only the home they chose. These family members could have been constrained by location, the need for particular services not widely offered, religion, time, or they may have had prior knowledge about a particular nursing home. It is also possible that they were unaware of the asymmetric information problem.

Some of the key results are summarized below. Family members who used ownership as a selection criterion were more likely to choose for-profit than nonprofit nursing homes. This finding is concentrated among the non-searching subset of family members. Family members who visited more homes before making their decision were more likely to choose nonprofit over for-profit homes. Family members who searched the homes they visited more carefully (e.g., observed and attached importance to the cleanliness and decoration of the resident areas, generally located in the back of the home and less visible on a quick inspection) choose nonprofit over for-profit homes. The college educated family members in our sample, however, were not more likely to use ownership as a search criterion, but searched more and were more likely to choose nonprofit nursing homes.