

# Trustee Workbook 1

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## Getting the Most Out of Philanthropy: How to Reinvent the Foundation Board

**H**ealth care is in a period of transformation as reimbursement and delivery systems make the leap from payment based on volume to payment based on value. Philanthropy is playing a role in this transformation.

Progressive health care organizations are turning to philanthropy — no longer looked upon simply as a way to fund the “nice to haves” — to secure sustainability, enable excellence and achieve market objectives. To maximize the financial potential of philanthropy, organizations must re-examine and reconsider the leadership responsibilities of their foundation board of directors.

Roles, responsibilities and expectations of foundation board members have remained relatively constant over the past four decades. These days, the growing need for philanthropic resources to respond to sweeping changes in the field demands innovation in the way the board’s work is considered and advanced. Foundation board roles must reflect health care’s emerging fiscal reality and better position the board to create value.

To maximize the impact and effectiveness of the foundation board there needs to be clarity about the role of the foundation itself, tighter alignment with the supported health care organization, a focus on leveraged roles and responsibilities of individual board members, and other elements of diligence to elevate board performance and philanthropy’s impact.

### DIFFERENT FORMS, ONE FUNCTION

Health care fund development is organized under multiple models:

- A separate **501(c)(3) charitable foundation** can be organized as either a **public charity** or a **supporting organization**. While there are nuances to the foundation’s structure and function under both of these models, work is guided and advanced by a board with legal governance responsibilities in either model.

- A **development department** of the health care organization uses the supported health care organization’s 501(c)(3) nonprofit status to raise money. In this case, the “board” is not a legal governing board but a body to provide leadership for philanthropic

efforts. While the board does not have the responsibilities of a legal board, it typically functions similarly by having board meetings, providing counsel on the direction of the organization and fulfilling allocated responsibilities.

While understanding whether the board is a legal board or an advisory body is important for appropriate oversight of the organization, differences in day-to-day involvement, function and focus of these leadership groups are often minimal. The principles discussed here are thus applicable to most volunteer structures — including boards of directors, advisory boards and development councils — that support development work.

### NOT YOUR TYPICAL NONPROFIT

Discussions about refining and elevating the foundation board’s role are often rooted in a general understanding of the basic tenets of nonprofit governance. A board ensures the organization fulfills its mission. It stewards

### TRUSTEE TALKING POINTS

- Philanthropy is growing in importance as health care transforms toward new models. As it does, health care organizations need to re-examine the role of their foundation board.
- Health care foundations have a singular purpose: raising money for their supported health care organization.
- To do this, foundation board members need to be keyed in to their organization’s strategy and willing to engage in the work of development.
- To bolster development efforts, board members should back a targeted use of charitable funds, create an environment to support high performance and connect others in the community to the organization.

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organizational assets. It ensures the nonprofit is well-run, guided by appropriate policy, advanced through sound strategy and sustained with adequate financial resources.

But a health care foundation is not a typical nonprofit organization: It is a nonprofit that exists solely to support and advance the mission of another nonprofit with its own legal governing board. For example, most nonprofit boards guide an entity that stands wholly alone; in these cases, the board's governance role involves a broad range of organizational issues including legal, accounting, budgeting, investment management, human resources and risk management concerns. Organizational issues in most health care foundations, however, are handled by the supported health care organization.

Further, the foundation executive — typically the chief development officer, vice president of philanthropy or foundation president — is often an employee “loaned” from the health care organization to the foundation. This executive is hired, managed, evaluated (and fired when necessary) by the hospital CEO rather than the foundation board.

All this has implications for the governance role of the foundation board. And, as with health care system subsidiary boards that may retain independent decision-making authority in some areas of governance but only advise the system board in others, this “shared governance model” reduces some of the complexity, breadth and depth of the foundation board's role.

The shared governance model may cause foundation boards and health care organizations to neglect or struggle to delineate the specific powers and decision rights of the foundation board relative to the health care organization governing board. Blurred lines between authority and influence can be a cause of inertia.

On top of this, high-profile, respected community leaders the foundation hopes to recruit as board members may not sign up just to raise money. Leaders expect decision-making power or significant influence over strategic choices, including those swept up by the health care organiza-

tion, something that must be factored in to decisions about foundation board authority. Simply put, significant people won't sign up to do an insignificant job.

### EYE ON THE GOAL

The fundamental purpose of the foundation is clear: It exists to cultivate, secure and steward charitable funds to advance the supported health care organization. So, the foundation board's highest calling is to maximize charitable dollars raised to achieve the greatest effect on furthering the mission of its associated hospital or health system.

While there is simplicity in the single purpose for which foundations are created, this straightforward mandate often becomes lost when it comes to the prioritization of work and use of board member time. With this in mind, several principles should be followed:

- Every member of the board must be personally able and willing to participate in fund development activities. The number of seats at the table is simply too scarce for anyone to opt out of participation in the spectrum of activities that comprise development work.

- Connecting community partners to this work and securing charitable investment are activities that require proactive engagement by the full foundation board — not the job of a “development committee” or other subgroup within the foundation board.

- The defining measure of the foundation board's ultimate success or failure is the amount of money raised and the resulting mission impact achieved.

Even when this fundamental purpose of fostering charitable giving is established, there are still critical caveats to note. While the highest-value task of the foundation board is to actively develop giving, this does not mean its role is simply to solicit. In fact, many board members will not be inclined toward or be successful in that task. But the board must create an environment conducive to development as well as proactively advance a range of activities to deepen relationships between the health care organization and those who might support it.

Three ways for the board to create

## Typical Foundation Board Roles

### OUTSIDE ROLES

- Connect others to the organization's mission.
- Make introductions and open doors.
- Advocate for the organization; share the case for support.
- Provide information to guide effective outreach.
- Invite others to participate through giving.
- Thank and steward donors.
- Give personally at a level commensurate with ability and interest.

### INSIDE ROLES

- Set financial and programmatic goals for development.
- Ensure strategically aligned project selection.
- Foster an environment to support physician and patient engagement.
- Vet which projects have community appeal.
- Evaluate progress toward development goals.
- Set or shape organizational strategy.
- Shape the case for support.
- Make allocation decisions.
- Ensure financial stewardship.
- Support the development executive.

an environment for excellent development work are to champion the appropriate use of charitable funds, support high performance and connect others to the work of the organization.

### APPROPRIATE USE OF FUNDS

To capture the power of philanthropy, charitable dollars must be directed toward high-value initiatives. Significant donors want their giving to enable high-impact, high-visibility, high-priority projects that advance the health care organization's strategic plans; directing gifts to strategically aligned projects provides the greatest benefit to the supported organization.

But while it seems intuitive that charitable giving would only be sought and deployed for strategic initiatives,

this does not always happen. Therefore, the foundation board has a key role in insisting upon and enabling this alignment. There are several instances in which the board can carry this out:

- **The foundation board ensures money is proactively raised only for initiatives within the health care organization's plan.** While there can be a tendency for boards to identify or advocate for projects outside the plan that could offer added value to the mission, it is exceedingly rare for health care organizations to have all the resources needed to invest in all projects deemed to have strategic importance. Raising money for anything outside the plan's list comes at an opportunity cost and is likely to be inconsistent with most donor wishes to enable the most important and transformational projects the health care organization can envision.

- **Too often, the foundation is not made aware of the health care organization's plans until they are formalized by governing board action or are in motion.** Failing to keep the foundation apprised of or involved in the hospital or health system's plans strips away valuable opportunities to identify projects with donor appeal early in the process, often truncating or eliminating the time needed for larger campaigns to secure support. This practice often is justified internally by talking about the need for secrecy around strategy, frequently for valid reasons. If the health care organization and foundation truly are strategic partners, though, they must find ways to share and consider opportunities to collaborate.

- **The foundation board has an obligation to ensure charitable monies held in designated funds are used to their maximum benefit.** The board

must ensure deliberate and defensible decisions are made about the use of all funds.

- **The foundation board must advocate for the chief development executive to have access to strategy.** If the development executive is expected to lead and add significant value to achieving health care organization goals, a lack of ability to articulate the health care organization's vision or plans is a considerable disadvantage when it comes to being a credible advocate.

In each of the above instances, foundation boards have an opportunity to exercise their role as the ultimate steward of foundation assets to ensure charitable dollars are used for their highest and best purpose in the health care organization. This increases the impact of philanthropy and upholds the essential trust the organization must have with its donors.

## SUPPORTING HIGH PERFORMANCE

The foundation board sets or shapes strategy. Thus, the board must ensure the development program focuses on the most promising methods and opportunities for raising money, and is structured, funded and staffed to leverage these opportunities.

High-performing development programs derive the largest percentage of total dollars from donors who give at a significant, investment level. While the amount of what is considered a significant gift varies by organization based on a variety of variables including the median gift size at the organization, community wealth, population density, brand reputation and other factors, a significant gift is generally considered to be about 10 times what a median, annual gift to the organization

would be — with the minimum threshold generally ranging from \$1,000 to \$100,000, based on the organization — or to be the median giving level of the top 5 percent of donors.

Regardless of the gift size that would be significant or transformational for your organization, efforts to advance these top relationships are key to maximizing total dollars raised and doing so efficiently. Foundation boards, therefore, must raise their aspirations beyond transactional, entry-level “annual giving” programs such as events and direct mail.

While there is a place for annual giving programs to initiate relationships, these programs by themselves fail to achieve the potential of philanthropy. Instead, boards must practice strategic opportunity management by ensuring a strong focus on building partnerships with donors who could give at a more significant level either through current income (major gifts) or through assets accumulated over a lifetime (planned gifts).

In pursuing investment-level giving, it is valuable to realize that the vast majority of top gifts to health care organizations come from grateful patients and families. Further, patients note that physicians have more influence over their decision to give than anyone else — including the CEO or board members. Two-thirds of top hospital foundation leaders rank physician engagement as the most important factor in their ability to raise significant funds, according to The Advisory Board Co. Thus, it is incumbent on health care organizations to ensure they harness physician involvement. Foundation boards have several ways to exert their influence:

- Ensure the foundation has access to information approved under the Health Insurance Portability and Accountability Act and the Health Information Technology for Economic and Clinical Health Act for fund development purposes.

- Collaborate with the health care organization governing board and CEO to foster an organizational culture that supports physician engagement in philanthropy and grateful-patient giving.

Boards also can make sure other elements of a platform for performance

## Corral Those Sacred Cows

Many foundation boards just can't stop themselves from pursuing special events as a core strategy. While special events have a place in raising an organization's profile, in sharing its story and in providing “social glue” with donors, board members must take an objective look at these sacred cows. Boards must ask:

- Does this strategy best advance our goal to secure charitable investment?
- Is net revenue adequate if we allocate the cost of staff time to the event?
- Could limited staff and time be better invested in another strategy?

are in place. For example:

- Twenty-nine years of longitudinal research from the Association for Healthcare Philanthropy shows a powerful relationship between total dollars raised and total dollars invested in fund development. Yet, many development programs are underfunded in relation to their opportunities. When setting expectations for investment in development staff and programs, it is important to factor in current donor engagement, organizational plans, community wealth, brand strength and so forth. (See Kathy Renzetti and Bill McGinly, "Critical Success Factors," in *Redefining Healthcare Philanthropy*, Association for Healthcare Philanthropy, 2014.)

- The health care fund development field is rich with best-practice research and national benchmarking data that provide comparisons of performance, staffing and more. Foundation boards, therefore, also can drive an expectation that the foundation conduct work with a keen sense of business diligence.

### CONNECTING OTHERS TO THE MISSION

Board engagement in development is highly correlated with success in raising charitable dollars, because board members are uniquely positioned to initiate or cement relationships to create an expanding circle of partners for the health care foundation. Board members bring several sources of competitive advantage:

- Access and influence unmatched

*It is important to understand that "development" is not just about "asking."*

elsewhere in the organization.

- Deep credibility as trusted and impartial facilitators who derive no direct personal or professional benefit from charitable gifts.

- Status as true peers of potential donors with commensurate social, business and financial status and giving potential.

Despite their outsized success at the task, many board members struggle with development. In fact, a national study of nonprofit boards found that 65 percent of nonprofit executives and board chairs give the board a grade of C or worse in fund development work — and 59 percent identify development as the board competency most in need of improvement (*Leading With Intent: A National Index of Nonprofit Board Practices*, BoardSource, January 2015).

At the same time, according to the *Nonprofit Governance Index 2012* (BoardSource, September 2012), board members say development is their most dreaded board activity. Because raising money is the health care foundation's purpose, these contradictions must be reconciled for the board to fulfill its purpose.

It is important to understand that "development" is not just about "asking." Development includes a spec-

trum of activities to deepen a donor or prospective donor's understanding of or involvement in the organization. In short, it is about being a willing advocate for the health care mission.

Board members set an example as advocates in both word and deed by:

- Utilizing personal stature, credibility and networks to be effective and credible advocates for the health care organization.

- Advancing relationships with prospects and donors by making introductions, establishing affinity, cultivating relationships, sharing the case for support, soliciting gifts and providing stewardship.

- Assisting in the engagement of physicians and other key allies in advancing the organization's work.

- Making an annual personal financial gift commensurate with their ability.

### LEADING THE WAY

The foundation board has an incredible opportunity to nurture meaningful, values-based partnerships with community donors to grow a source of revenue that will be essential to sustaining, strengthening and transforming health care in this new era.

Just as health care is undergoing transformational change, health care foundation boards also must undergo a sea change to ensure their efforts, experience and human capital are wisely and effectively used to help secure and enhance community investment in their hospitals. Boards willing to refine and redefine their role with deliberate intentionality have the opportunity to be pioneers on this new frontier for philanthropy. **T**

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### TRUSTEE TAKEAWAYS

Foundation board members can explore their collective and individual development roles by asking a number of questions:

- How can our board move beyond incremental change and improvement to become a leader in this new era for health care philanthropy?
- How can we increase the impact of philanthropy on the organization?
- Is our foundation appropriately structured, positioned and supported?
- How will we become more intentional about fund development efforts?
- How will we better align the health care organization and foundation?
- How can the governing board and foundation board better collaborate?
- What expectations do we have for board participation in philanthropy?
- What is absolutely non-negotiable for board members to do, have or be?
- What training, skills and resources does the board need to be successful?
- How will we motivate and monitor group and individual accountability?
- How can we help foster physician engagement in philanthropy?
- How can we create better ways for grateful families to become involved?