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Elevating Philanthropy: a Board Primer

Philanthropic efforts should be part of the strategic agenda

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Not-for-profit health care organizations are grappling with a prolonged and unprecedented period of financial vulnerability. One indicator of financial health, Kaufman Hall's National Hospital Flash Report, reveals median hospital operating margins hovered around 1% throughout 2023. Credit rating agencies also predict hospital margins will remain tight for the foreseeable future. This can hamper hospitals' ability to strategically and sustainably reinvest in continuing priorities like capital and clinical services, as well as in emerging priorities such as addressing social determinants of health and health equity. Consequently, forward-thinking organizations are actively exploring alternative revenue sources, with many recognizing philanthropy — voluntary, charitable contributions from individuals, corporations and foundations — as a pivotal opportunity. This has prompted health organization boards to elevate philanthropy on the leadership agenda and to pursue opportunities to better align, integrate and position efforts to seek charitable investment.

Charitable giving is a robust and sustainable source of revenue in the United States. In 2022, U.S. charitable giving reached $499.33 billion, according to the Annual Report on Philanthropy. Contributions to health causes, encompassing hospitals, health systems, health research and advocacy organizations represented 10% of total U.S. giving, equivalent to $51.8 billion. Health organizations also have a growing opportunity to secure a larger share of philanthropic support as they extend their reach beyond hospital walls to address health equity. This opens avenues to tap into contributions for human services ($71.98 billion) and public-society benefit ($46.86 billion).

In assessing the potential of philanthropy for hospitals and health systems, the Association for Healthcare Philanthropy's Report on Giving for FY2022 USA shows annual median production revenue across all health care organization types increased to $11.3 million. However, substantial performance variations exist based on hospital type, with standalone community hospitals raising a median of $3.3 million, while health systems ($20.0 million), children's hospitals ($40.2 million) and academic medical centers ($73.0 million) raise significantly more.

Health philanthropy achieves an exceptional Return on Investment

(ROI), with a median of $4.96 secured for each dollar invested in fund development. This means a health philanthropy organization performing at the median must raise only $1.2 million in contributions to generate $1.0 million for reinvestment in the health organization's mission. In contrast, a hospital achieving a 1.1% net median hospital operating margin must earn $90.9 million to put the same $1 million to work for the organization. This underscores the fact that philanthropy delivers revenue at a rate of return that far exceeds what is possible from any clinical service line. Clearly, hospital boards are well-advised to leverage philanthropy. Beyond providing revenue, philanthropy is also a factor in strengthening hospital credit worthiness; bond rating agencies such as Moody's Investors Service and Fitch Ratings indicate the strength of philanthropy as a revenue-generating strategy is a key consideration in their credit assessments.

The rationale for hospitals to proactively pursue philanthropy as a low-risk, high-ROI alternative revenue resource is clear. Establishing a smart, integrated and aligned approach to philanthropy as part of the health organization's overall financial management plan not only provides access to critical revenue for strategic and sustainable reinvestment but also enhances bond ratings that will enable hospitals to access debt for driving future progress. Thus, it is essential for health organization boards to place a keen focus on leveraging the potential of philanthropy, and there are clear levers to elevate performance that are indifferent to organization type.

Lean In Around Project Selection

Health care organization strategy and high-impact philanthropy efforts are intrinsically linked. To harness philanthropy's impact, it is crucial to exclusively direct charitable dollars toward high-value initiatives closely aligned with the organization's most important strategic aspirations. Without proactive and thoughtful selection of initiatives for philanthropy to fund, organizations can inadvertently diminish the potential impact of charitable dollars by asking donors to support low-value projects. This often occurs when the hospital funds strategic projects during capital or budget planning but diverts "marginal" items to the foundation to fund. Recognizing all organizational dollars operate in a closed system is key to leveraging philanthropy. Both health care organizations and philanthropic dollars should be viewed as sources to fund various uses within the organization. Thus, philanthropic dollars, like any other organizational revenue source, should provide a "budget offset" to advance priorities outlined in existing plans rather "budget expansion" to fund "nice to have" endeavors outside existing organizational plans.

Optimizing project selection not only ensures dollars are directed toward the highest and best use but also supports the engagement and investment of significant donors. Today's major donors see themselves as social impact investors and aim for significant investments to support high-impact, high-visibility projects that will genuinely advance the hospital's strategic plan and core mission. Thus, donors should be asked to fund crucial and impactful work rather than extras or non-essential endeavors. Ensuring alignment between strategy and philanthropy is also crucial because many major donors also prefer to restrict their gifts to a specific purpose, and donor restrictions on use of funds are both ethically and legally binding.

Ultimately, strategic project selection for philanthropy is a critical competency, so the board must ensure funds are raised only for efforts reflected in the organization's strategic plans to provide a clear and compelling case for charitable investment, to increase total dollars raised and to maximize organizational impact.

Focus on Investment-Level Gifts

Investment-level gifts from individuals — typically in the range of $10,000 or more — play a pivotal role in both the total amount of funds raised and the efficiency of health care fundraising, as reflected by ROI. Prioritizing efforts to foster investment-level gifts from individuals is essential for organizations to maximize performance. The Association for Healthcare Philanthropy's 2023 Report on Giving shows major gifts from individuals represent 42% of total giving to hospitals, with 25% coming from individuals' discretionary income through major gifts and the other 17% coming through planned gifts of assets. Gifts from individuals are typically rooted in relationships and closely tied to a donor's values, interests and experiences. Moreover, there is a significant correlation between individual giving and having a patient or family clinical care experience at the facility, so it's important to foster strong lines of communication with clinicians, who are often the first to hear about patient or family gratitude for care received. With all this in mind, successful organizations prioritize the allocation of time, budget and leadership influence toward these efforts.

Relationship-based giving involves personal relationship building and management, and both hospital and foundation board members also have outsized influence in this process. Board members are seen as credible and trusted advocates when they speak on behalf of the health care organization and its plans. Board members have the social capital and relationship equity to make connections and to secure meetings that might otherwise be elusive for the organization. Board members may also have firsthand understanding of a potential donor's values and intentions around their giving.

In short, not only can the board provide valuable strategic support for focusing on the pursuit of investment-level gifts from individuals as part of their governance role, but each individual board member can also engage as a knowledgeable and committed volunteer ally in initiating or deepening trust-based relationships.

Harness the Power of Campaigns

Campaigns serve as catalysts, create urgency and rally a constituency around significant philanthropic efforts. Campaigns typically generate a substantial increase in total dollars raised compared to an organization's normal run rate and are often instrumental in launching initiatives that require substantial investment. While campaigns traditionally supported capital projects, campaigns now support a range of priorities such as clinical programs, community health, patient experience and more. Campaigns are also now comprehensive in nature, with most aggregating proceeds from all development programs — annual, major and planned giving — toward the overarching campaign goal. While modern campaigns have evolved, campaigns remain a valuable tool to accelerate investment in organizational progress.

Successful campaigns usually advance large-scale, transformative goals with a significant financial target. Strong campaigns articulate both the community need to be addressed and the health care organization's proposed solution. Organizations embarking on successful campaigns often begin with a planning study to assess the community's interest and capacity to invest in plans to determine a potential goal size–rather than determining the goal based solely on the difference between the initiative's cost and the health care organization's desired level of investment.

Health care organization board members can support the ability to campaign by ensuring the organization has a well-formulated, multi-year strategic vision that includes well-defined and specific initiatives with clear, measurable outcomes and with a sense of urgency for implementation. Boards can ensure campaign readiness by holding the organization accountable for building and refining key success factors for the campaign, including data infrastructure. Finally, both hospital and foundation boards can simply raise the question about when a campaign would be appropriate. Many organizations squander the opportunity for transformational giving simply because it never came up.

Leverage the Potential of Systemization

Health care systems frequently leverage their resources and footprint to enhance the efficiency and effectiveness of fund development. Systemization of the philanthropy function can offer various advantages, including:

- Strengthening alignment with the system vision.
- Decreasing the number of legal, corporate entities to be maintained.
- Streamlining foundation board governance structures.
- Reducing overhead operating costs.
- Creating an enterprise view of budgeting, staffing and other resource decisions.
- Achieving standardization of policies, processes and back-office work.

The primary focus of systemization in health philanthropy has been on non-donor-facing programs and activities that are often invisible to donors. Development programs such as donor acquisition and grantsmanship as well as infrastructure and support services like donor data management, analytics, gift acknowledgment, prospect research, donor communications and performance management can be launched from almost any location without diminishing local connectivity. Standardizing non-donor-facing services can also improve staff utilization, harness expertise and provide financial efficiencies. When the system brings together non-donor-facing services, it also allows local philanthropy leaders to focus on their highest and best work: building local relationships with donors, board members, health care executives and other key stakeholders.

Given the performance advantages systemization can offer, health system boards must weigh the potential benefits of systemizing the philanthropy function. However, there is not a single roadmap for moving forward; each system must tailor the design of the future state based upon factors such as geographic dispersion, maturity of local fund development efforts, existing legal structures and community characteristics. The overarching goal is to create an operating model that maximizes value in terms of raising more money, achieves a better return on investment and elevates overall impact while retaining the goodwill, interest and ownership of local stakeholders.

Make Philanthropy a Leadership Expectation

The health care CEO is uniquely positioned to convey the organization's vision, to provide assurances around the organization's commitment to execute plans and to rally internal support within the organization. Yet, the role of philanthropy as a strategic revenue driver is often overlooked in the CEO's job description and is not commonly seen as a lever for securing at-risk or incentive compensation.

Realizing the full potential of philanthropy depends on the CEO's ability to proactively engage in areas where the leader can convey unique value. This involves cultivating, deepening and stewarding relationships with donors. However, while the CEO's external roles are most likely to receive attention, the CEO's greatest potential value lies within the health care organization. The symbolic and tactical importance of the CEO in prioritizing philanthropy within the organization cannot be overstated. No other leader has the stature and relationships to single-handedly propel the organization to advance philanthropy — or not. The CEO uses verbal support, physical presence and active modeling to signal philanthropy's importance, elevate it on the agenda, set expectations, unleash resources and build momentum with key advocates including board members and clinicians. The CEO can support the Chief Philanthropy Officer by providing information, facilitating access to allies and imbuing the role with the credibility to represent the organization. CEOs can also weave philanthropy into the culture and heart of the organization by showing how philanthropy is a mission-aligned endeavor, connecting giving to daily work and sharing stories to illuminate its impact. Through the efforts of the CEO, a culture of and commitment to philanthropy can permeate the organization, adding purpose to work and ensuring everyone is prepared to express its value.

Given the CEO's role as an agent of the board, the board should set expectations for the CEO's engagement in advancing philanthropy and tie those expectations to performance evaluation criteria.

Ensure Adequate Investment in Fund Development

Research indicates there is no point of diminishing return for investing in the philanthropy function. Often, fund development efforts are throttled by having too few relationship managers to engage the number of qualified available donor prospects. Advancing philanthropy also generally becomes more successful as the specialization and expertise of the philanthropy team increases.

The health care organization typically allocates funds to cover the salaries and operational expenses of its associated foundation or development office. In times of constrained budgets when hospital departments effectively compete for limited funding, fund development may face challenges in securing staff or operational budgets as organizations prioritize directing financial resources to clinical operations. Yet, it is not a zero-sum game: funding efforts to advance philanthropy will multiply the organization's ability to support clinical operations.

The board can help safeguard that adequate allocations of staff and budget are made to advance philanthropy by emphasizing philanthropy as a revenue center rather than a cost center. Recognizing it as such can enhance its potential to amplify the funds invested in its operations, thereby assuring sufficient financial support.

Conclusion

In a time of financial austerity in health care, organizations must reinvest in strategic efforts both to fulfill an expanding and evolving mission and to secure competitive advantage. Philanthropy has emerged as a low-risk, sustainable, alternative revenue source with an almost 500% return on investment in a mature program. However, achieving philanthropy's potential means moving away from programs characterized largely by special events and leaning in around opportunities demonstrated to elevate performance — such as improved project selection, a focus on gifts from individuals, campaigns, clinician engagement and more. Organizations can also demonstrate a commitment to elevating philanthropy through access to information, budgetary support and leadership attention.

The governing board of the health care organization, as well as the foundation board, must take the lead and seize these opportunities to advocate for pursuing best practices and to connect people to the meaningful and impactful work of philanthropy.

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