Trustee Insights

FOUNDATION BOARD RESOURCES

Aligning Strategy and Philanthropy

Hospital leaders on how philanthropy shapes the future

BY BETSY CHAPIN TAYLOR

Health care organizations face an inflection point. With operating margins hovering at historically low levels, organizations urgently require funds not only to invest in core needs like physical plants, technology and clinical programs but also to fuel growth, to drive care transformation and to address expanding priorities around social drivers of health, access, equity and well-being. This makes it critical for all of the health care organization's financial resources to be deployed to their most effective and best use; yet many organizations still diminish the potential impact of philanthropy by using charitable dollars for initiatives outside their strategy. Given how philanthropy deployment can significantly influence a health care organization's ability to invest in future opportunities and outcomes, organizations should pursue alignment between strategy and philanthropy.

Illuminating the Opportunity

Not-for-profit health care organizations have a unique opportunity to harness the power of philanthropy — voluntary, charitable giving from individuals, corporations and foundations — as an alternative revenue source. Charitable giving provides a low-risk source of revenue with an exceptional return on investment (ROI), with a median of $4.96 secured for each dollar invested in fund development, according to the Association for Healthcare Philanthropy. This rate of return generally exceeds what is possible from clinical operations. Further, while most organizations do not have significant opportunities to earn new market share or to build new clinical services to boost revenue, there is almost always untapped capacity for philanthropy. Thus, progressive organizations are integrating and aligning philanthropy as part of their overall financial management plan not only to secure access to critical revenue for strategic and sustainable reinvestment but also to enhance bond ratings. For organizations that perceive, position and pursue the opportunity, the rewards are clear.

Michael Dwyer, executive vice president of strategy and community health for PeaceHealth, a nine-hospital system serving Alaska, Oregon and Washington, observes, "Philanthropy at PeaceHealth has evolved into a strategic powerhouse, steering resources toward the most vital patient and community-centric priorities. It's no longer about the extras, the 'nice to haves' or covering budget shortfalls but about driving strategic transformation. By investing in our fundraising efforts, guided and informed by our foundation boards, donors and grateful patients, we've unlocked unparalleled potential, raising $192 million and growing over the past four years."

Repositioning for Impact

Health care organizations diminish the impact of charitable dollars when giving supports low-value efforts. Therefore, organizations should position philanthropy to provide "budget offset," respond to donor preferences and motivations, consider the implications of all dollars moving in a closed system and abandon outdated allocation processes.

Health care organizations should consider not funding initiatives outside the organization's vetted and approved strategic priorities. With validated priorities articulated in the capital budget plan, master facility plan, community health needs assessment and other documents of record, there is no need to create additional funding opportunities. This means it's not appropriate for projects to come through the "back door" of the foundation because an effort was declined in the budget process, because a leader has the moxie to approach the foundation or because someone feels they have a great idea. Philanthropy should offset investments in vetted and approved strategic priorities best positioned to fulfill mission and to meet stakeholder needs.

Chris Bergman, CPA, is vice president and chief financial officer at Dayton Children's in Dayton, Ohio. "At Dayton Children's, we factor in a level of philanthropy throughout all our financial planning processes. So, philanthropy is considered one of three sources of funds for our planning purposes — the other two being operational results and debt. Further, financial management and foundation leadership meet regularly to plan how philanthropic efforts are focused to achieve the highest amount of philanthropic giving that also yields the best operational results. Our objective from philanthropy is not to buy things we wouldn't normally buy but to enhance what we already do and maybe speed up projects from a timing perspective."

Health care organizations should stop charging philanthropy with funding what's left on the budget chopping block. Some hospitals direct health care organization resources from revenue, reserves and investments toward the fulfillment of high consequence projects while diverting "marginal" items that remain unfunded to the foundation to fund. While this may feel like a form of priority setting or risk reduction, this runs counter to positioning the organization to receive significant gifts. Directing philanthropy to the highest and best use supports the engagement and investment of significant donors. Most donors who give investment-level gifts aim to support high-impact, high-visibility projects that will genuinely advance the hospital's strategic plan and core mission. Further, most significant donors restrict the use of their gifts to a specific purpose, and donor restrictions on use of funds are both ethically and legally binding; this creates an impetus for the organization to invite donors to fund specific crucial and impactful work.

Health leaders should consider all organizational dollars are effectively in a closed system. Whether money comes from operational revenues, reserves, investments or philanthropy — all are sources of money to be deployed toward 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 than budget expansion to fund nice to have endeavors outside existing organizational plans. This means there is also a degree of fungibility; while an organization is both legally and ethically bound to use charitable money in alignment with a donor's stated restriction, organizations must consider the bigger picture of how money moves in this closed system. For example, when a donor is invited to invest in a compelling project that would likely motivate a donor to consider a larger contribution to a strategic initiative, the organization can then reduce its own allocation toward that strategic initiative and divert its own money toward those initiatives with less donor appeal.

Finally, repositioning to leverage philanthropy as a strategic revenue resource often begins with dismantling legacy processes for distributing charitable funds, and health foundations commonly suffer from two ingrained practices that impede impact: playing Santa Claus and giving away the check book.

In the first scenario, health foundations collect money across the year and then assemble the foundation board to allocate proceeds to various projects through a discretionary or competitive process. Projects are often surfaced by clinical departments, hospital leaders or clinicians and include a potpourri of initiatives — many of which have been declined during the traditional budget process or are pet projects. While board members often find this decision-making role enjoyable, it reduces impact by most often directing charitable money to projects outside core hospital strategy.

In the second scenario, service line leaders, department leaders and similar principals have discretionary access to donor-restricted funds that benefit their clinical area of service and can utilize those funds to purchase items outside the current capital and operating budget. Once again, this means proceeds are often directed to projects that circumvent vetting processes and benefit lower value initiatives. Instead, all distributions of charitable funds should be done by a select panel of leaders and with a keen eye on alignment with strategy. Once these poor practices are discarded, it creates the opportunity to utilize charitable dollars to maximize mission impact.

Optimizing Project Selection

While addressing the fundamental block-and-tackle issues above will provide lift, true acceleration comes from flipping the allocation process on its head: progressive organizations should adopt a proactive rather than reactive posture in determining how philanthropy will be utilized. This means rather than allocating dollars after the fact, organizations decide in advance what philanthropy would ideally fund to seek donor investment.

Ideal projects exist at a clear intersection. First and foremost, an optimal project lives within the vetted and approved strategy of the supported health care organization. Thus, selecting strategically aligned projects for philanthropic support starts with the supported health care entity. The health care entity's true north clearly is fulfillment of its own mission. Fulfillment of this mission guides the development of the health care organization's strategic plans that enable it to meet its stakeholder needs. This strategic plan is then further expressed in organizational documents of record that include specific investment opportunities such as the capital budget, master facility plan, community health needs assessment and more. These vetted, high-priority investment opportunities yield an initial list of potential philanthropic funding opportunities that can include capital, clinical programs, community health initiatives, medical education, research and more. Once the health care organization has developed an initial list of strategic hospital priorities, the philanthropy organization further qualifies the list of potential funding priorities by considering other issues.

Once the hospital has identified a short list of potential funding opportunities, the philanthropy organization runs each potential initiative through a range of additional filters to prioritize which initiatives should be positioned for philanthropic support. The first set of filters seeks to understand if the project would hold donor appeal; simply, if a donor would not care about, be moved by, be motivated by or see the meaningful impact of a project, then it is not worthy of further consideration as a philanthropic funding priority. So, organizations must consider issues such as relatability, human impact, demonstrated outcomes and more. Next, a project must demonstrate functional fitness by meeting business diligence, sustainability and compliance standards as well as considerations around timing, goal size and more. A project at the intersection of strategic alignment, donor appeal and functional fitness will provide the direction and rationale for the support needed to focus most ongoing philanthropic efforts.

When the organization has plans to advance a significant or multiyear campaign, many organizations go through additional stages of project evaluation and due diligence depending on the potential goal size of the philanthropic campaign. For example, many organizations utilize a campaign planning study — sometimes called a campaign feasibility study — to determine donor interest in the stated priorities as well as donor availability, project affinity, financial ability and inclination to provide significant financial support of the proposed initiatives. A planning study provides a deeper understanding of the ability to meet an outsized goal and the various levers that will have to be pulled to successfully achieve that goal. This additional level of diligence can clarify the philanthropic focus, accelerate results and reduce risk when an organization wants to significantly elevate total dollars raised.

Gerard Colman serves as chief executive officer of Baptist Health, a nine-hospital system in Kentucky and southern Indiana, which went through a comprehensive vetting process and planning study in advance of launching a successful, multi-year $100 million campaign. He notes, "Philanthropy has always been part of advancing the mission at Baptist Health. However, going through a very deliberate and strategic process to identify projects and to consider the synergy between efforts in multiple markets was a game-changer for us. All of a sudden, philanthropy was well positioned to support Baptist in advancing our most important work and in articulating to our community how they could most effectively drive positive change. Ensuring tight alignment between strategy and philanthropy means philanthropy is now core to achieving our vision of potential."

Given the importance of project selection followed by a commitment to execute, there is value to ensuring project selection for philanthropy includes leaders who can make binding decisions. Strategic project selection for philanthropy is a critical competency, so executive and board leaders should ensure charitable funds are only raised 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. Additionally, once intentions are determined, the organization should demonstrate stick-to-it-ive-ness in advancing those endeavors; there is great risk of losing credibility and trust with donors when organizations appear mercurial about their plans by surfacing projects and then changing their minds — so projects should only be pulled back when there is genuinely a good reason.

Ultimately, a consistently utilized process will help the organization to create stronger alignment between philanthropy and strategy as well as a more compelling case for donor investment. Organizations that hardwire a strategic, timely process to surface, pressure-test and prioritize projects for philanthropic support also harness the true power of philanthropy as a low-risk, high-ROI, sustainable, alternative revenue source.

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Advancing New Priorities

Philanthropy is also well positioned to fund health care's emerging and expanding strategic priorities. While the acute care facility has been the traditional center of gravity, attention is increasingly shifting outside the walls of the health care organization and into the community. Elevating priorities such as access, equity, community well-being and prevention as well as addressing social drivers of health is increasingly important. Yet, pathways to fund infrastructure and programs in these areas are not always clear-cut, since many do not come with a direct form of reimbursement. However, this is another place philanthropy is well-suited to step forward. The majority of investment-level donors today see themselves as social impact investors who wish to achieve measurable, beneficial social outcomes. Many donors are also comfortable assuming the risk associated with piloting promising new solutions that could elevate health status. Therefore, there is value to organizations considering strategic community priorities, such as those identified within the organization's community health needs assessment, for potential charitable funding.

Lisa E. Harris, M.D., an internal medicine physician, serves as CEO of Eskenazi Health in Indianapolis. She shares, "At Eskenazi Health, we believe the greatest opportunity to improve the health and vitality of our community is to promote health in the first place. That's why we're focused on making the opportunities of good health available to everyone in our community as we create innovative approaches to driving real generational change in health status. This work, however, falls outside what many of our payors are prepared to reimburse. We know, though, that there are visionary donors in our community who believe in and are willing to invest in our vision to advance smart and sustainable solutions to advancing health equity and improving life expectancy. That's why philanthropy has been a linchpin in advancing our strategy to elevate the health and well-being of those we serve in Central Indiana."

Conclusion

The impetus has never been greater for health care organizations to ensure tight alignment between philanthropy and hospital strategy. Thoughtfully identifying areas for funding that are not only aligned with the organization's strategy, but also consistent with what donors want to fund enables them to harness the power of philanthropy as a core, alternative, high-ROI revenue source to sustain, strengthen and expand the health care mission.

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