

# Trustee Workbook **1**

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## Rediscovering Philanthropy: A Fresh Look at a Traditional Revenue Source

**A**s stewards of their hospital or health care system's advancement, board members should be both highly invested in the organization's work as well as invested in its mission. Trustees not only should contribute financially to their institution, they also should set the tone for an organizationwide culture to support philanthropy, says Betsy Chapin Taylor, president of health care philanthropy consulting firm Accordant Philanthropy.

Most organizations have separate philanthropic foundations led by their own boards. Yet, members of the foundation and governing boards often don't understand their roles in maximizing philanthropy's benefits to the organization and the communities served. Governing boards can take several steps to drive their organizations' philanthropic success — not only through giving or getting funds themselves, but through influencing organizational culture, priorities and resource allocation in ways that position philanthropy as a significant, valued revenue source for their hospitals.

"We've seen such a perfect storm in health care finance over the past few years," Taylor says. "With significant cuts in Medicare and Medicaid payments and the shift from volume- to value-based care, organizations increasingly need access to revenue that can power their plans. Philanthropy is a key lever in strengthening the organization to secure competitive advantage, spur growth or sometimes keep the doors open. Operations are not

necessarily the lion's share of net revenue anymore. Philanthropy is one of the greatest diversification opportunities out there, and we have to chase it.

"High performance is rooted in building a culture for philanthropy," she adds. "It's about building a platform for performance based on alignment between the health care organization and its charitable foundation to achieve shared objectives." That alignment ensures that all stakeholders are advancing the same strategic causes to support the organization in their decision-making, actions and resource allocation.

### ENGAGING STAKEHOLDERS

"High-performance philanthropy cannot be achieved by the development staff alone," Taylor says. "Just as quality is not left solely to the quality officer, and compliance does not rest entirely with the compliance officer, vibrant development is also a broad organizational endeavor that requires alignment and shared focus."

Key groups that have a stake in the success of philanthropic efforts include the C-suite, the governing board, physicians and the foundation board (or development council), and each group brings its own expertise, or lens, to philanthropic goals, she says. Executives bring the business rationale lens, while the governing board brings the community stewardship perspective.

Hospital physicians are crucial philanthropic stakeholders because "the largest donors are grateful patients, and no one has more influence on grateful patients than doctors," she says. Physicians don't need to solicit funds; instead, they can share clinical outcome stories with leadership and explain the clinical impact of proposed projects to potential donors or introduce grateful patients to development leaders.

Finally, the foundation considers which projects and organizational needs are appropriate for charitable support and identifies and connects the organization to those individuals and businesses with the interest and ability to help fund those initiatives.

"The charitable foundation exists to

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BY MARY K. TOTTEN

support the organization, so it should collaborate with the hospital to maximize its impact on the organization's mission," she says. Surprisingly, Taylor says many foundations don't know what capital and programmatic priorities their hospitals are pursuing, which is the fundamental reason the philanthropy function exists.

An opportunity to repair that disconnect lies with the governing board. "No other body within the organization is better positioned to put this on the leadership agenda," she says. "If the board embraces philanthropy first, it allows the CEO and other stakeholders to do the same." [See 25 Ways Health Care Leaders Can Advance Philanthropy, Page 20.]

## BOARD ROLES AND RESPONSIBILITIES

"The governing board needs to set the expectation that fund development

will be run with the same level of diligence as any other part of the hospital's business," Taylor says. "It should use best practices, key performance indicators and performance improvement tools to focus the work and to direct resources to the organization's best opportunities."

A change in semantics often is required. Boards can help to prompt important shifts by consciously discussing "philanthropy" rather than "fundraising," since the latter infers one-time requests for small projects, while the former evokes an ongoing, important organizational function. Additionally, Taylor advises boards to treat philanthropic funds as a core revenue source, not as leftover money or additive value.

Governing boards also should ensure that the right resources are in place to foster high-impact performance. Leadership should take into

account such factors as population density (that is, how many people in the area have the capacity to make annual, major or planned gifts to the hospital); the performance and brand strength of the hospital; the general philanthropic climate of the service area; and the adequacy of development staffing support.

Whether the hospital has a 501(c)3 nonprofit charitable foundation or an internal development department, the parent institution typically pays its operating expenses. Therefore, investment in staff and support translates into that group's ability to do its work and the hospital's return on investment. The Association for Healthcare Philanthropy reports that it costs hospital foundations 31 cents to raise a dollar, while Moody's Investors Service officials say it costs hospitals themselves 97 cents to raise a dollar. "Given the significant difference in return on investment and net revenue, don't be shortsighted about committing financial resources or when hiring employees for the development function. Someone [to whom] you might pay \$50,000 a year may raise \$350,000 for the organization," Taylor says.

"Philanthropy's impact on the organization is huge," she notes. "Investments in development need to be considered as thoughtfully as an investment in a new clinical service line, where most hospitals would follow best practices, hire the most knowledgeable staff, and invest in infrastructure and needed tools as well as strategic growth. We should invest in fostering philanthropy in the same way." She adds, "The single biggest determinant of how much money you raise is your [development] expense budget." In other words, the more the organization invests in its philanthropy, the more it will pay off. "There is no diminishing point of return in funding development," Taylor says.

## HARDWIRING ALIGNMENT

Alignment between the organization's strategic priorities and charitable funding priorities is essential to



## Fundraising 1-2-3

The hospital's charitable foundation or development council should establish and maintain three types of fundraising programs: annual giving programs, major gifts and planned giving, advises Betsy Chapin Taylor, leader of Accordant Philanthropy. Although the first program is the most common, the other two have longer-term and greater financial value. "Annual giving serves to attract new donors and to provide predictable, low-level support from donors who renew," Taylor says. "It's also the 'least threatening,' in that you often have limited engagement with donors as individuals, but it also has a small return on investment and will never help you do really amazing things."

### MORE ABOUT THESE PROGRAMS:

**1 Annual giving.** New and previous donors are solicited by direct mail, special events, telephone requests, online giving and other "mass" efforts to give to the hospital on an annual basis.

**2 Major gifts.** These are investment-level, relationship-driven contributions made by individuals or corporations for important, strategic projects, such as a new hospital wing, technology acquisition or program expansion. They are generally given as a one-time check or as a pledge to be paid over time.

**3 Planned giving.** This involves making contributions by using noncash assets or financial planning tools, with the most common forms being through a bequest under will, life insurance or retirement plan assets. — M.K.T.

maximize the impact of donor dollars. However, many organizations fail to secure a shared vision, so philanthropy is used to advance low-value priorities, or development officers are left to set hospital strategy. Organizations must commit to building a solid and consistent process to choose the best donor initiatives.

“Build project selection for philanthropy on the back of processes in the organization that are already working, such as the capital or strategic planning functions,” Taylor says. “Tee up your most valuable strategic project or add another layer to the capital budget planning” to consider how philanthropy could support those efforts. As an example, if the hospital wants to build a heart center, all stakeholders should discuss raising money relative to that specific strategic goal as analyzed through their discrete lens. [See Fundraising 1-2-3, Page 18.]

“Leaders must understand that just because something is a burning platform for the health care organization doesn’t mean it will light the fire of a potential donor,” she notes. Some things the hospital sees as essential are not relatable to or meaningful for donors. Some projects also are poorly positioned to go forward as potential donor investment opportunities because of timing issues, goal size or other reasons.

## FOUNDATION BOARD OR DEVELOPMENT COUNCIL?

Nonprofit hospitals generally use one of two structures to raise money: a separately incorporated 501(c)3 nonprofit charitable foundation with its own independent board of directors to provide community leadership and governance; or an internal department of the hospital with a development council with limited authority over fund development to provide community leadership, and over which the governing board maintains ultimate authority. Both structures perform fundamentally the same work in providing advocacy, access, legitimacy and leadership to the fund development function.

As such, foundation board or development council members should be chosen as carefully as their counterparts on the governing board. Qualities to look for include: community stature and influence; strong local knowledge; willingness and ability to connect others in his or her network to the organization; and a genuine passion for the health care mission. The foundation board is typically self-perpetuating, but is sometimes appointed by the governing board. Both structures’ members must be committed to the hospital’s mission and, most importantly, they should be well-connected. Additionally, “they should be affluent enough to participate [in giving] and able to open doors with prospective donors,” Taylor says.

Because the CEO is the most important symbol and representative of the hospital, the board also must do all it can to support his or her effectiveness in advancing philanthropy. AHP and the American College of Healthcare Executives both offer relevant classes.

“It’s critical to educate executives on the financial rationale for philanthropy and identify the key levers for them to support giving, whether through engaging allies or unleashing access to information,” Taylor says. “Boards need to make philanthropy a valued task for which the CEO is recognized. It should be in the job description, and there should be metrics to measure performance and credit for it included in bonuses. Make it one of the recognized roles of the CEO, and make it clear that it matters to the board.” [See *When the CEO Avoids Philanthropy*, right.]

By far, the CEO’s most important task is to meet personally with current and potential major donors. “Top donors expect an authentic relationship with the CEO,” Taylor says.

## METRICS THAT MATTER

As most trustees are well-aware, strategic goals of any kind must not only be met, they must be measured. Philanthropy is no exception. However, “the amount of money the foundation board or development council raises



## When the CEO Avoids Philanthropy

CEOs who appear reluctant to participate in philanthropy may offer one of the following reasons:

1. My plate is more than full; I don't have time.
2. That's why I hired foundation staff.
3. The board has other priorities for my time.
4. I don't feel I have the skills to be successful.
5. I would be embarrassed to ask for contributions.
6. I don't see the financial potential in philanthropy.
7. I'm not comfortable with the social interaction involved.
8. I'm worried about HIPAA privacy rules.
9. I don't socialize with "rich people."
10. I'm not sure how to help.

**How to respond:** If your board would like to see the organization place a greater emphasis on philanthropy, have a candid conversation with the CEO to see what issues might be at play. Boards should emphasize that everyone at the table is working for a charitable organization that is worthy of their support. They should underscore the importance of remembering that the hospital is dependent on its stakeholders to achieve its mission.

Trustees also should encourage their CEO to play to his or her strengths in expressing a vision and enthusiasm for the hospital. Help the CEO understand his or her power as an advocate for the organization by virtue of the chief executive title, as well as the meaning he or she finds in the role.

Finally, start small. If the CEO currently spends no time on philanthropy, encourage him or her to spend an hour a week. If the CEO already spends an hour, ask him or her to add another hour, carving out time by degrees as he or she finds or develops a philanthropic style. Consider adding a performance goal around philanthropy to demonstrate the board's belief that it is a priority worthy of incentives.

— M.K.T.

is important, but it's a lagging indicator," Taylor warns. "It has no predictive value."

To effectively measure and monitor philanthropic success, the board and leadership must select metrics that highlight areas the organization can control, that make a difference and that capture cause-and-effect relationships. For example, the board might track face-to-face visits with donor prospects, or how many proposals have been made. "Select metrics that allow you to focus on the most valued tasks that you know will help you raise more money," Taylor says. "Focus on outcomes versus inputs — all metrics should be about how gift producers use their time. For example, the number of face-to-face meetings is the biggest predictor of major gifts. You have to get a meeting before you can get money." Metrics should be viewed regularly and addressed quickly when standards or benchmarks fall below targeted goals.

Ensuring performance against the metrics should be a job of the development council or the foundation board, Taylor says, and it need not involve a massive dashboard. "Track three to five things that will affect your fund development performance and know that what's meaningful to measure can change over time," she advises.

### Questions For Discussion

1. What is the unique role of philanthropy in our organization?
2. For what purposes do we want to raise philanthropy's profile and efforts?
3. How can we ensure that philanthropy is directed to its highest purpose?
4. Is our development council or foundation board positioned to succeed in meeting our financial goals?
5. What can our governing board do to support our organization's philanthropic efforts to make them even more successful?
6. How do we integrate philanthropy into our organizational financial planning?

## 25 Ways Health Care Leaders Can Advance Philanthropy

Trustees and their CEOs may want to devote board education or retreat time to a discussion of the following high-value activities, considering what pursuits might be equally appropriate for board members and leadership, and how governance and the C-suite can team up to achieve these goals.

### DRIVE CULTURE

- Communicate the importance of philanthropy.
- Establish giving as an organizational goal.
- Ensure strategic alignment of funding priorities.
- Be a donor role model.
- Mobilize all levels of leadership and staff.
- Include giving metrics on scorecards and goals.
- Ensure adequate investment in development.
- Celebrate and communicate significant donor gifts with all staff, raising awareness about their long-term positive impact on the organization's mission.

### FOSTER RELATIONSHIPS

- Meet with donors and prospects.
- Cultivate and steward philanthropic relationships.
- Participate in solicitation.
- Attend functions and meetings.
- Communicate that the hospital is a nonprofit organization.

- Prioritize donor meetings over routine meetings when your presence elevates donor confidence and commitment.

### LEVERAGE ALLIES

- Set expectations for individual and collective participation.
- Publicly affirm volunteer participation.
- Help recruit allies for specific endeavors.
- Hold executives accountable.

### SUPPORT THE FOUNDATION/DEVELOPMENT COUNCIL

- Make time for development.
- Come to board meetings on time and put away your phone.
- Position the development function for credibility.
- Ensure the foundation or development council's access to organizational strategy.
- Foster collaboration with operations.
- Meet one-on-one regularly with the chief development officer.
- Make gifts commensurate with personal financial ability.

Source: "CEOs Provide Critical Leverage," *Redefining Healthcare Philanthropy* by Betsy Chapin Taylor, Association for Healthcare Philanthropy, 2014

7. How will we measure and monitor our performance?

### TAP INTO COMMUNITY GOODWILL

In turbulent times, philanthropy ultimately may offer surprising and much-needed financial stability for many health care organizations. "There is a genuine possibility to get money that can surpass operational cash flow," Taylor says. "There is so much financial power in philanthropy, and there's lots of energy in the community to invest in the advancement of the hospital. Like wind turbines in

a field, hospitals just have to harness the opportunity that already exists." **T**

To learn more about the board's role in philanthropy, read the AHA Center for Healthcare Governance monograph, "Boards and Philanthropy: Developing the Next-Curve Revenue Source for Health Care," at [www.americangovernance.org](http://www.americangovernance.org). For an exercise in vetting philanthropy opportunities, go to [www.greatboards.org](http://www.greatboards.org).

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