The Re-emerging Role of Philanthropy in the Boardroom

From the time the first hospital board was established by Benjamin Franklin in 1752, boards have existed primarily to support their hospitals financially, and trustees were chosen on the basis of their personal wealth and community connections.

Over the years, initiatives such as the Hill-Burton Act, employer-sponsored health care insurance, and Medicare and Medicaid all contributed to two important changes: a shift in hospital funding from philanthropic support toward payment from third-party payers; and for hospital boards, a shift away from fund raising and toward active oversight of hospital performance and strategic leadership.

To maintain a focus on fund raising while avoiding potential liability, the Association for Healthcare Philanthropy says about 70 percent of hospitals today have incorporated foundations within their own boards charged exclusively with fund raising.

Health care organizations are returning to fund raising as an important strategy for the future—not only to boost sagging bottom lines, but also to improve their overall credit ratings and gain better access to the debt funding needed for facility upgrades and expansion.

According to an article by Jane Haderlein, vice president of philanthropy at Huntington Hospital, Pasadena, Calif., in the March/April 2006 issue of Health Affairs, research shows that philanthropy has moved up on the agendas of hospital chief executives and chief financial officers. This renewed emphasis on philanthropy means greater involvement for both hospital and foundation board members. (See “Philanthropy Is Critical for Critical Access Hospital,” page 22.)

Questions for Discussion
1. Does our organization consider philanthropy a core business strategy?
2. Is philanthropy a topic at board education sessions or retreats?
3. Do board members participate in philanthropic support of the hospital? If so, how?
4. If our organization has a separate foundation, how do the hospital and foundation boards work together and could they do so even more effectively?

THINKING DIFFERENTLY: THE POWER OF PHILANTHROPY

Despite hospitals’ need for philanthropic support, issues such as operating margins, overall financial performance, bond financing, capital, quality, physician relations, community benefit, competition, information technology and consumerism, make it easy for boards to ignore philanthropy, but it’s important for boards to appreciate its value. Consider this scenario: A hospital has gross revenues of $100 million, with an operating margin of 5 percent, or $5 million. What would be the value to this hospital of $5 million in philanthropic gifts? For this hospital, $5 million in philanthropic gifts is the equivalent of an additional $100 million in gross revenues because philanthropic contributions go straight to the bottom line. And for most hospitals, it’s a lot easier to raise $5 million in philanthropic funds than to increase their gross revenues by $100 million.

Looking at the untapped power of philanthropy in this way can facilitate a new respect and a new way of thinking among boards.

Questions for Discussion
1. What are the annual gross revenues of our organization?
2. What is our operating margin?
3. How much money in philanthropic funds did our organization raise last year?
4. What operating margin would those philanthropic dollars represent?
5. What would be the operating margin equivalent if we were able to double our philanthropic dollars?
Tips for Effective Board Involvement in Philanthropy

Both governing boards and foundation boards can boost their effectiveness by considering the following suggestions:

1. Ensure that the role of philanthropy in supporting the hospital is emphasized by the board’s governance and/or education committee as part of new-member recruitment efforts and orientation programs.
2. If the governing board is responsible for both governance and philanthropy, pay careful attention to balancing these different roles appropriately.
3. If your organization does not have a separate foundation with its own board, consider creating one.
4. Consider the importance of philanthropy to the hospital’s strategic planning process and assess whether philanthropy should be part of the organization’s core business strategies.
5. Take time at a board educational session or leadership retreat to update board members about the role of philanthropy in supporting the hospital. Make sure board members understand the total amount of philanthropic funds raised, the operating margin and gross revenue equivalent of this figure, and the impact of philanthropy on the viability of the organization. Share information on the hospital’s current needs and challenges and how board members can effectively share the hospital’s story with the community.
6. Make certain that all governing board members are familiar with the “philanthropic case”—that is, their ability to easily articulate the value of philanthropy, the uses of funds and the benefits of the charitable mission to members of the community.
7. Ask the organization’s chief development officer to update the hospital board periodically on the status of fund-raising efforts and how board members can help.
8. If your organization has both a governing board and a foundation board, make certain that there is a written expectation for governing board member participation in the organization’s philanthropic and fund-raising activities.
9. As a demonstration of governing board commitment to the organization’s philanthropy program, adopt an annual goal of 100-percent board member participation in a particular philanthropic activity (such as an annual fund, or a building fund).
10. Once 100-percent governing board member philanthropic participation has been attained, communicate this achievement to your community. Governing board support of the organization’s philanthropic activities inspires philanthropic giving from the community.
11. If your organization has a hospital board and a foundation board, evaluate existing linkages between these boards, such as crossover membership, methods of communication between the boards, and opportunities for joint board education or planning activities, and determine how these linkages might be improved or strengthened.
12. If your hospital does not have a foundation, consider adding to the hospital board a member with fund-raising expertise, perhaps in a sector or industry outside of health care.
13. Consider establishing a minimum annual philanthropic contribution or donation amount that is required of each governing board member. Use this as a criterion for individual board member performance evaluation prior to term renewal. Further, communicate this requirement to prospective board members prior to formalizing their board membership.
14. Include in both full board and individual board member self-evaluations an opportunity for board members to reflect on their commitment to, and their participation in, the organization’s fund-raising efforts.
15. Set a personal goal to give or get a significant donation for your hospital or health system this year.
years,” Martin says.

According to Jon Fitzgerald, president of Columbus Children’s Hospital Foundation, Columbus, Ohio, his organization’s success at fund raising is due to a strong culture of philanthropy that involves all hospital and foundation boards, organizational leaders and employees.

“Our expectation is that it’s everybody’s role to raise money for the organization,” he says. “When new members are invited to serve on the hospital or foundation boards, they are made aware that they will be expected to either give or get a gift for the organization. While we don’t have a minimum giving requirement for board members, we invite them to participate and work with them individually on their own commitments.”

Having a cohesive and collaborative relationship among all of the organization’s leaders and boards, with joint participation in key activities, such as board committee work, education and strategic planning, helps make the culture of philanthropy a reality, Fitzgerald adds.

“We have four boards, including the hospital and foundation boards, and all of them share a common committee structure with members from each board serving on all committees,” he says. “I am on the agenda to provide a fund-raising update at every hospital board meeting. At each foundation board meeting, the hospital CEO gives a presentation, and the board gets an update on our programs and research from one of our organization’s physician scientists [i.e., researchers] as well.” Twice each year, Fitzgerald explains, a joint meeting of all boards is held to provide education and information updates on important initiatives. The joint conference committee, which meets quarterly, also includes members from all the boards and gives them an opportunity to interact with physicians and better understand their work and its impact on the community.

“Our organization is pursuing a $740-million, eight-year strategic plan,” Fitzgerald adds, “and philanthropy is one of our core business strategies. The hospital and foundation boards each participate heavily in achieving the goals of both the foundation and the hospital.

This breaks down barriers and opens up both boards to work together for a common purpose.”

Fitzgerald says that a culture of philanthropy is established from the top down and that it’s important for all boards to take ownership of fund-raising goals.

“Hospitals will never be successful at fund raising if the attitude of leaders and board members is, ‘That’s the foundation’s role,’” he concludes.

### THE OUTLOOK FOR HOSPITAL FUND RAISING

**WHILE HOSPITAL FUND RAISING** is expected to increase overall, the rate of growth in contributions is likely to be slow for organizations that are just getting started. Both newcomers to fund raising and veterans can benefit from becoming familiar with trends in fund raising (see “Fund-Raising Trends,” this page), and from comparing their organizations with hospitals and other organizations that have successful fund-raising programs.

Moody’s maintains that successful hospital fund-raising programs have these common characteristics:

- The hospital provides critical or “niche” health care services, such as cancer, women’s health or heart services and has a strong and visible “brand name” that fosters solid community support.
- Board members participate heavily as donors or in attracting potential donors.
- Donations vary in their amount and come from a diverse mix of individuals, corporations and foundations at the local, regional and national level, avoiding reliance on a few large donors.
- The organization is able to attract large gifts to help support major projects and build endowment.
- A large, loyal base of annual donors is sustained over time, providing a measure of stability and predictability in the ongoing flow of gifts.
- Marketing strategies for attracting gifts use a variety of methods to reach donors, such as direct mail, the Internet, personal visits to potential donors of large gifts and other approaches.
- The organization employs a full-time, professional fund-raising staff and consultants with expertise from sectors other than health care.
- The organization has adequate information systems and databases to stay

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**Fund-Raising Trends**

Organizations monitoring fund-raising trends can expect to see:

- An increased focus on campaigns for specific capital initiatives because donors want to restrict their gifts to a specific purpose
- More hospitals building specific expectations of fund raising into their strategic and financial planning
- Longer fund-raising campaigns because stock market volatility has slowed giving for some hospitals and made it harder to collect pledges
- Greater investment in fund-raising expertise, with more involvement of hospital CEOs, trustees and consultants augmenting volunteer efforts, and the establishment of a fund-raising department with a full-time director
- Ongoing campaigns—when one ends, planning and execution of the next one quickly follows to maintain momentum
- More competition for philanthropic support from other not-for-profits because of the overall growth in giving and the large capital needs of organizations, such as universities and other cultural organizations
- An expanded focus on increasing planned giving to hospitals and health systems to create a pipeline for future donations and to smooth out the variability in support from other sources
- Greater use of philanthropic dollars, beyond the funding needed for facility upgrades and operating expenses, to support innovation and new business opportunities for hospitals.

Sources: March 2006 Special Comment, Moody’s Investors Service; and “Unleashing the Untapped Potential of Hospital Philanthropy,” Health Affairs, March/April 2006
Philanthropy Is Critical for Critical Access Hospital

As a 24-bed critical access hospital, with an 84-bed nursing home, that experiences strong seasonal swings in its service area population and receives 77 percent of its reimbursement from Medicare, Highlands-Cashiers Hospital in Highlands, N.C., relies heavily on philanthropy—which accounts for almost 18 percent of the hospital’s net revenue—for its survival.

According to President and CEO Ken Shull, the hospital can offer a broad array of services, such as plastic surgery, orthopedics, ophthalmology, cardiology, internal medicine, family practice and general surgery; maintain its facilities; and invest in equipment, such as a new MRI, because philanthropic support is an integral part of the hospital’s operating budget.

Although the hospital has a separate foundation, there is a strong connection between the hospital and foundation boards.

“Right now the chair of the foundation board serves as a voting member of the hospital board,” Shull says. “And we are beginning to involve the hospital board chair in foundation fund-raising efforts by having the chair visit donors along with foundation representatives. I also give regular reports about the hospital’s activities to the foundation board because that board needs to understand and articulate the hospital’s story to potential donors. Having both boards also engages more community members and expands the pool of trustees who might serve on either board over time.”

Shull adds, “It is key for both boards to accept the importance of philanthropy and to understand that neither board is more important than the other. Each board plays a different role, but the goal of both is to support the hospital and community effectively.

“We also begin work on the capital and operating budgets at the hospital level and then share these preliminary budgets with the foundation to determine how it can best support us,” Shull continues. “This fosters collaboration between both organizations and provides a reality check. For example, the hospital may need a new roof, but the foundation will remind us that a new roof is not as glamorous or easy to sell as a new piece of high-profile medical technology.”

Shull also encourages boards to look beyond the obvious financial benefits of philanthropy.

“Philanthropy provides a way for the hospital to be more visible in the community and for donors to feel a sense of ownership and connection to the hospital,” he says. “While the hospital board is responsible for setting the direction for the institution, both hospital and foundation board members should consider themselves ambassadors to the community, responsible for telling the hospital’s story and opening doors for fund raising.”

in touch with donors and monitor fund-raising efforts.

• The organization establishes and achieves reasonable fund-raising goals.

According to Martin, if the organization meets certain criteria, fund-raising can also have a positive impact on a hospital’s creditworthiness.

“The consistency and dependability of funding is key,” she says. “Hospitals need to demonstrate a well-established program of annual, unrestricted gifts that can be relied on as a steady source of revenue. It is also important for hospitals to show that they can raise restricted gifts that can be applied to specific capital initiatives. Raising funds for endowment can turn into an important source of investment income year after year as well. We also look at the size, type and variety of both donors and gifts. The more diverse they are, the better.”

In the case of hospitals with separate fund-raising foundations, Moody’s looks at whether the foundation is part of the obligated group that is securing or guaranteeing bonds and whether it is “closely related” to the hospital in determining how to incorporate foundation assets into the hospital’s credit assessment. If the foundation is part of the obligated group, then its unrestricted investments are included in the evaluation of the hospital’s liquidity position. If the foundation is not part of the obligated group but is closely related to the hospital, then Moody’s may include the foundation’s unrestricted investments in its evaluation. Restricted investments would be assessed according to these characteristics of closely-related foundations:

• The bylaws say that the foundation’s only purpose is to support the hospital.

• The foundation and the hospital have the same parent corporation, or the hospital is the foundation’s parent.

• The hospital and foundation have significant overlap of board members or management personnel.

• The foundation can demonstrate a history of supporting the hospital.

• The hospital can quickly and easily gain access to foundation assets to support hospital operations or capital projects.

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CONCLUSION Philanthropy can play a critical part in providing ongoing financial support to hospitals and, even more importantly, in building awareness of the valuable work hospitals do and the needs and challenges they face. Perhaps the most important message for hospital and health system boards is that they are at the forefront of a proud tradition of community support for hospitals and that a commitment to expanding philanthropy for their organizations is still part of what it means to be a trustee.