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Welcome to The Governance Institute's E-Briefings!

This newsletter is designed to inform you about new research and expert opinions in the area of hospital and health system governance, as well as to update you on services and events at The Governance Institute.

What It Takes to Really Grow Healthcare Philanthropy

By William C. McGinly, Ph.D., CAE, PA, Association for Healthcare Philanthropy

Healthcare and its philanthropy are changing quickly in the U.S. as healthcare organizations face an unprecedented array of challenges. The Affordable Care Act is reducing payment by the federal government to hospitals and health systems by more than \$200 billion over 10 years, as the fee-for-service model is shifting to an outcome-based reimbursement structure. Additionally, we see costs going up as reimbursement rates decline. There is increased competition for high-end, expensive services and increased competition from non-traditional providers. Many healthcare executives are facing the potential of 15–20 percent reduction in government and commercial reimbursements over the next five years—some have experienced this already.

Hospitals and health systems everywhere are looking for ways to cut costs, and a significant number of layoffs have happened throughout the industry in the last few years. Healthcare executives have been developing their own initiatives to deal with change, such as instituting Lean management programs to raise productivity and increase morale among staff. Hospital mergers and consolidations are also on the rise, and new levels of expectation are being placed on foundation executives to bring in more philanthropy for hospital programs.

Strategies for Growing Philanthropy

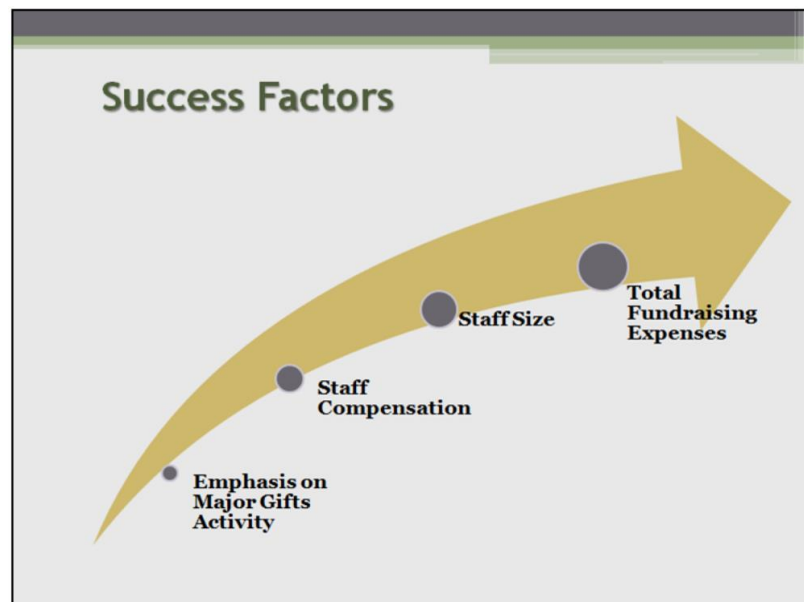
As hospital and health system leaders seek to use philanthropy to help the bottom line, this environment can lead to a more robust integration of philanthropy into hospital operations. This reality requires a more integrated position for philanthropy

and a growing specialty for development executives in healthcare, along with the need to demonstrate greater executive-level philanthropy skills. In building an effective, results-oriented fundraising program while taking advantage of the drive for more philanthropic dollars, there is an increasing need to invest in the structures necessary to dramatically increase philanthropy.

There are many proven key strategies for significant growth in healthcare philanthropy. Results from the Association for Healthcare Philanthropy's (AHP) benchmarking program have shown consistently that having the right programs and the right people in the right places and positions is essential. High performers in the program raised nearly 11 times more in net philanthropic production revenue compared to their counterparts.¹ Their direct fundraising staff outnumbered all others by three to one. These healthcare organizations also compensated their staff at higher levels indicative of more experienced professionals working for the foundation. On average, professionals employed by high performers earned nearly \$160,000 compared to \$100,000 by all other peers. The salary gap contributes to major differences in the average amount raised per professional. For high performers, the average individual return was \$11.46 for each direct compensation dollar spent, while the return for all others was \$6.45.

¹ Every year AHP analyzes data submitted by those participating in the benchmarking program and defines high performers as those organizations that are in the 75th percentile for net production.

Exhibit 1: Important Factors in Philanthropy Growth



Data from this program has shown that a significant investment in philanthropy can really pay off. AHP reported that those organizations spending the most on total fundraising expenses (\$2 million–\$4.8 million) had median net fundraising of \$9 million—substantially higher than the median fundraising revenue of those that spent the least on total fundraising expenses. The AHP data showed a break point of approximately \$600,000 in expenses among the high performers where philanthropy began to take a large growth jump. Important factors in philanthropy growth are illustrated in **Exhibit 1**.

The emphasis on major gifts requires shifting resources to major gift/planned giving programs to address increased philanthropic needs thus changing how campaigns are managed and evaluated. This shift also is creating longer fundraising cycles with the CEO's involvement to reach major donors. These factors are essential as the focus on major gifts is increased in all program operation.

Additionally, high performers had at least one full-time equivalent (FTE) in each category of fundraising programs: annual giving, major giving, planned giving, public support, and special events (see **Exhibit 2** on the following page). Healthcare organizations that were not considered high performers (seen in Exhibit 2 as "All Others") were at varying stages of staffing for these programs where they existed. The organizations not yet at

this capacity generally start expanding growth by focusing on the programs that are most successful in terms of return on investment (ROI)—usually with an emphasis on major gifts/planned giving. Fluctuations in the economy and localized factors (such as whether or not a capital campaign is underway) can influence the impact of annual giving or revenue raised from corporate grants and special events. However, and most importantly, the AHP benchmarking data consistently indicate the overarching effectiveness of major gifts and planned giving.

The patient perspective in the philanthropic program is essential as is patients' knowledge that philanthropy has a unique ability to unlock the power of gratitude to help patients heal. Clearly, when a patient or their family member is grateful for the care received, they are more motivated to give. Creating this culture of gratitude is key to growth in philanthropy and stresses major gifts development. Launching and maintaining meaningful patient philanthropy programs are a way for patients to express their appreciation through philanthropy. Everyone in the hospital whose work touches the patient has the potential to create gratitude for them and family members. Expressing this gratitude through their physicians, nurses, and other caregivers is important for healing among patients and to increase the focus and results from major gifts and patient/family and community support in philanthropy.

Exhibit 2: High Performers: Direct Staff Comparison

Annual Giving	Major Giving / Corp Fdn	Planned Giving	Public Support	Special Events	
1 (1–2)	5 (1–12)	1 (1–2)	2 (1–4)	2 (1–5)	High Performers
1 (0.5–3)	1 (0–6)	0 (0–1)	0	1 (0.5–2)	All Others

Note: The top number in each row represents the median number of full-time employees allocated to each fundraising activity; the bottom numbers (in parentheses) represent the range of full-time employees in each category, as reported to the AHP Performance Benchmarking Service in FY 2014.

Increasing these gifts requires recognition, acceptance, and welcoming the gratitude being expressed. When a patient shows interest in giving back, knowing how to refer that patient to the philanthropy office is often the beginning of a long and meaningful relationship. A partnership for the future requires identifying your grateful patients, introducing patients to the philanthropy team, and involving physicians, nurses, and other caregivers in the philanthropy process in a way that is comfortable to them and meaningful.

Through the years, AHP's research has proven that the following principles lead to the greatest success:

1. Begin with a renewed focus on major gift fundraising.
2. Work toward integrating philanthropy as a core strategy at your healthcare organization at all levels.
3. Execute a plan to embrace physician/nurse/caregiver patient referrals.
4. Adopt philanthropy reporting standards (benchmarking) to identify the factors that influence fundraising performance and maximize overall returns.²
5. Focus on ROI to measure fundraising effectiveness and look for areas of opportunity. Development professionals agree that ROI is the most important metric in measuring fundraising performance, more so than the cost to raise a dollar (CTRD), which is a measure of efficiency only.
6. Lead with your organization's mission.

² See *AHP Standards Manual for Reporting and Communicating Effectiveness in Health Care Philanthropy*, 2012.

The hospital board and foundation board need to be engaged in advancing philanthropy. Each board opens critical networks, provides leadership, and impresses upon the public, executives, and clinicians the crucial roles they play for philanthropic growth. Hospital boards play a specifically critical role by communicating the organizational importance of philanthropy, ensuring significant investment in development to enable planned and consistent growth, and by insisting on a major giving focus to ensure high-performance results.

For true success, philanthropy must be viewed as a governance role—one squarely in the realm of the hospital board. While much attention is directed to the foundation board and the role it assumes in fund development, healthcare organizations must engage the hospital board with, among other things, inclusion of philanthropy on the board agenda and in its current and future planning. Several key elements of hospital board roles are essential in philanthropy, such as requiring CEO participation in measurable ways; securing the organization's commitment for growing philanthropy; accepting and demanding that philanthropy is acknowledged as a strategic revenue source for the hospital; devoting budget resources to building capacity and continued philanthropic growth; developing connections to donors, grateful patients, and families; and being donors at levels commensurate with the capacity to give. Board members should be leaders in these efforts and help ensure that philanthropy goals always align with the organization's mission and vision.

The Governance Institute thanks William C. McGinly, Ph.D., CAE, PA, President Emeritus, Association for Healthcare Philanthropy, for contributing this article. He can be reached at billmcginly@gmail.com.