Philanthropy as a Strategic Revenue Source

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Healthcare organizations across the country now seek alternative and expanded sources of revenue to enable capital plans, population health programs, innovation initiatives, and a range of other strategic imperatives. As organizations consider ways to finance their futures, many now seek to strengthen a revenue source that has often been under-optimized or poorly utilized in hospitals and health systems: philanthropy.

Key Board Takeaways

Philanthropy can be a valuable, alternative revenue source in healthcare. As boards are exploring the financial potential of philanthropy, they should consider the following:

- More than $10.1 billion is given to U.S. not-for-profit hospitals and health systems annually.
- Philanthropy has a robust return on investment of $4.00 for every $1.00 invested.
- Philanthropy supports capital plans, population health programs, innovation initiatives, and more.
- More than 90 percent of charitable dollars contributed in the United States come from *individuals*.
- The largest gifts to healthcare organizations generally come from grateful patients and family members.

The Financial Potential of Philanthropy

Philanthropy—voluntary charitable giving from individuals, corporations, or foundations—can be a vibrant and sustainable source of revenue with a return on investment (ROI) that often surpasses all clinical service lines. To place the opportunity in context, $390 billion was given in charitable contributions to U.S. not-for-profit organizations in 2016 with $33 billion of that benefitting health causes.[1] Of money directed to health causes, $10.1 billion went to U.S. not-for-profit hospitals and health systems, and the amount given to healthcare organizations has been on a consistent, upward trendline.[2]

When considering ROI philanthropy becomes compelling for hospitals and health systems. The median hospital operating margin for 2016 was 3.4 percent.[3] However, the median operating margin for the typical healthcare foundation or development office is 75 percent.[4] Thus, an organization must earn approximately $29 million from clinical operations to put $1 million on the bottom line, or it could raise just $1.3 million in charitable contributions to achieve the same financial impact. Healthcare organizations must also consider whether potential exists to earn another $29 million each year by adding clinical services, growing market share, etc.—for many, it does not. Further, earning additional revenue through clinical services can also require substantial investment in capital and other infrastructure—while building a fund development organization relies mostly on annual operating dollars after an initial capital investment in donor data management software.

While median financial performance provides insight into opportunities, performance in philanthropy is sensitive to a range of controllable and uncontrollable variables. For example, financial opportunity for philanthropy is reliant upon the healthcare organization's own brand strength, payer mix, market share, patient satisfaction scores, and more. Opportunity is also sensitive to community wealth, population density, and propensity for charitable behavior. However, there are performance levers the healthcare organization can control, including the focus of fund development efforts.

More than 90 percent of charitable dollars contributed in the United States come from *individuals* through outright gifts, bequests, family foundations, and donor advised funds.[5] Organizations that maximize charitable income focus on relationship-based giving (i.e., "major" and "planned" gifts) rather than tactics such as special events and direct mail. A mature development program must focus the majority of its resources to cultivate relationships with individual donors with affinity for the healthcare mission and the desire to affect positive change by investing in the healthcare organization's most-compelling priorities. Developing authentic relationships with donor investors unleashes the potential of philanthropy to transform healthcare.

The largest gifts to healthcare organizations generally come from grateful patients and family members. As a result, progressive organizations place a keen focus on engaging physicians and clinicians as partners in recognizing those who are grateful and who feel inspired to develop a relationship with the healthcare organization through philanthropy. Nurturing grateful engagement is an area of significant opportunity that must be advanced with not only deep integrity but also a well-defined strategy, knowledge of HIPAA privacy rules, tailored staff training, agile use of data, and other infrastructure.

As healthcare organizations confront the rising road ahead, philanthropy can be harnessed as a sustainable, growing, high-ROI revenue source. For many, the relative impact of philanthropy when considering net operating dollars to net charitable dollars is considerable. Beyond direct revenue, a vibrant philanthropy program has a range of financial halo effects including strengthening bond ratings.[6] There is also growing awareness of the link between philanthropy, employee engagement, patient satisfaction, and patient loyalty; while additional research needs to be done in these areas, early information shows promise that creating an organizational culture conducive to philanthropy can elevate financial health, employee engagement, and patient experience.

The Board's Role in Advancing Philanthropy

As governing boards consider how to leverage the potential of philanthropy as a strategic revenue source, here are six steps they can take now to advance philanthropy:

- Relationship-based giving is the greatest driver of total dollars, so support

1 *Giving USA 2017: Annual Report on Philanthropy for the Year 2016* (available at https://givingusa.org).
2 Association for Healthcare Philanthropy, *2017 Report on Giving for FY2016 USA* (available at www.ahp.org).
3 Ron Shinkman, "Moody's: Non-Profit Hospital Medians Extremely Healthy," *Fierce Healthcare*, April 28, 2016.
4 *Giving USA 2017*.
5 *Ibid.*
6 "Fundraising at Not-for-Profit Hospitals Largely Untapped but Increasing," Moody's Investors Service Special Comment, March 2006.

minimizing special events and increasing relationship-based giving.
- Significant donors expect to have a relationship with the CEO, so recognize the CEO's participation in philanthropy as a valuable activity in his or her goals.
- Donors wish to achieve a social impact through giving, so help drive the selection of significant, strategic priorities for philanthropy to support.
- The largest gifts to healthcare come from grateful patients, so support development having access to HIPAA-approved data and to clinicians.
- Most foundations are under-resourced relative to the opportunity, so support boosting budgetary investment in experienced staff and program infrastructure.
- Healthcare fund development has changed significantly in the last 10 years, so ensure a new—rather than incremental—strategic plan to guide efforts to optimize philanthropy.

The Governance Institute thanks Betsy Chapin Taylor, FAHP, President of Accordant Philanthropy, for contributing this article. She can be reached at betsy@accordantphilanthropy.com.