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Philanthropy as a Strategic Imperative

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For many years, philanthropic support of hospitals was seen as a "nice to have." Margins were tight by corporate standards, between 5 and 8 percent between 1995 and 2016,[1] but our institutions were surviving. Not so any longer. The pandemic brought about unsustainable changes to the hospital financial model on both the revenue and the expense sides. According to a January 2023 Kaufman Hall report, the only month in 2022 when hospitals saw a median positive margin was December—and that was only 0.2 percent.[2] And, while the federal government provided financial assistance through the CARES Act in the first two years of the pandemic, the mood in Washington has changed, making additional government assistance unlikely.

As a board member, you know the statistics. Procedures that would have been inpatient before the pandemic are moving to outpatient, and volumes for many of the more lucrative inpatient cases are never expected to return to their pre-pandemic levels. Expenses have also increased substantially: the cost of supplies and prescription medications is up by more than 15 percent, and wages for clinical staff have risen 10 percent. Additionally, staffing levels are woefully low, increasing retention costs, reducing the number of available beds, and leading to delays in post-acute placement.[3]

The most progressive hospitals and health systems recognize that they must adapt and identify every possible opportunity to increase revenue from all sources. The most strategic have diversified, investing in everything from generic drug producers to health plans. One alternative viable revenue stream for all the country's healthcare organizations, from smaller rural standalone hospitals to multi-state health systems, is philanthropy.

1 See Trendwatch Chartbook 2018, Table 4.1
2 Kaufman Hall, "National Hospital Flash Report: January 2023."
3 Kaufman Hall, "2022 State of Healthcare Performance Improvement: Mounting Pressures Pose New Challenges," October 2022.

When we look back at the history of healthcare in this country, most of our institutions' founding stories are ones of charitable giving. People came together to ensure that everyone in the community had the very best healthcare possible, regardless of ability to pay. That same thing happens every day today. In AHP's *2022 Report on Giving*, healthcare delivery organizations from across the United States reported more than $7 billion in total funds raised through philanthropy in FY2021 alone.[4]

Even with that backdrop, some organizations worry that asking for help from the community will be seen as a sign of weakness. In reality, the opposite is true. The strongest of our health systems have professional fundraising teams who, in partnership with clinicians and administrators, identify and accept an average of over $100 million per year in charitable gifts from individuals, foundations, and grants. They invite people to further their missions, they ask people to invest in the future of healthcare in their communities, and, as a result, they weather storms like this latest financial crisis with more resilience than organizations that do not invest in philanthropy.

Redefining Philanthropy

So how do we redefine the conversation? First, we need to talk about philanthropy as an investment—as one of the critical levers that sustains a healthcare institution. We need to understand charitable giving as an expression of partnership from individuals in our communities. We need to accept the community's support as a mark of their confidence in our ability to consistently deliver a critical service to our community: the best healthcare—and health—possible.

Specifically, as a healthcare board member or senior leader, you can:

- Identify the return on investment of philanthropy in your organization. For the average hospital in AHP's annual survey, every dollar invested in the work of the philanthropy team returns $4 in charitable giving.[5] That is a 75 percent margin.
- Familiarize yourself with the concept of "revenue equivalency"—the amount of revenue required from different revenue streams to generate the same amount of profit. For example, $100 in charitable investment generates an average of $75 in profit for a typical hospital. A hospital with the current median margin of 0.2 percent would need to generate an additional $3,600 in patient revenue to yield the same $75 profit as that $100 in charitable contributions.

4 AHP, *2022 Report on Giving*.
5 *Ibid.*

- Ensure that management is investing in the fundraising team. The relative profitability of philanthropy means that, at a time when we are looking for places to cut costs, it makes sense to invest in the fundraising team. AHP's 2022 Salary Report shows that while the median salary for a philanthropy FTE is $97,000, the median funds raised annually by that FTE are nearly $713,000.[6]
- Make giving by every fiduciary and fundraising board member mandatory to signal the confidence leadership has in the direction of the institution. This expression of strength gives donors confidence in investing in the organization, which leads to both more and larger gifts.
- Review your social network and identify people who may want to invest in the hospital or health system and thus the future of great healthcare for your community. Share those names with the hospital's fundraising team and develop a strategy to invite those individuals into the work of the organization.
- Invite the chief philanthropy executive to join board meetings and share results, and also share ways that you as a board member can help.
- Offer to make calls to thank donors, write thank-you notes, or host thank-you events.

→ Key Board Takeaways

- Ensure the board is educated on the significant revenue returns that can come from philanthropy.
- Invite the chief philanthropy executive to join board meetings to share the impact of current philanthropy efforts, as well as ways that board members can help boost donor giving and engagement.
- Review your social network and identify people who may want to invest in the hospital or health system. Share those names with the fundraising team and help develop a strategy for inviting those individuals into the work of the organization.
- Be supportive. For example, offer to help engage donors, communicate the impactful work of the organization, and thank donors for their contributions.

6 *2022 AHP Salary Report U.S.*

Conclusion

Philanthropic support of hospitals takes many forms. For some grateful patients, giving to support the service line that healed them is a way to say thank you and to ensure that other people benefit from the same clinical excellence. Others wish to donate to naming a building to honor a loved one. Increasingly, we are seeing individuals and corporations give to support community health efforts. These gifts transform communities, reduce the impact of negative social determinants of health, and ensure that people have as many healthy days, outside of the acute care setting, as possible. Regardless of the form they take, all these gifts, and the donor intent behind them, are remarkable investments in our work and the ultimate compliment of our role in the community. It is high time we recognize philanthropy as a mark of stature and the strategic imperative that it is.

The Governance Institute thanks Alice Ayres, President and CEO, Association for Healthcare Philanthropy, for contributing this article. She can be reached at alice@ahp.org.