



THE FINANCIAL RATIONALE FOR PHILANTHROPY AS A CORE REVENUE SOURCE

In the past, capturing new market share, introducing new programs and services and cost cutting, were principal tools for improving a hospital's finances. Today, progressive health care organizations are also pursuing another option to achieve financial stability and growth: philanthropy. Once considered a useful way to fund secondary projects that were not included in the capital budget, philanthropy is now recognized by leading organizations as a critically important source of sustainable revenue that can play an integral role in the hospital's future.

Governing boards are responsible for ensuring the financial strength and stability of their organizations. Given the outside opportunity philanthropy presents, it needs to take its rightful place on the governing board's agenda.

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Philanthropy can bring much more to the table than just funds raised from an annual golf tournament or annual giving campaign. It is time for your organization to realize the true power of philanthropy as a strategic revenue source.

Philanthropy is already an enormous revenue resource for non-profit organizations and causes. In 2016, more than \$363 billion dollars was contributed to philanthropic causes, representing a nearly one hundred percent increase in the last twenty years ⁽¹⁾. Of that amount, charitable giving to hospitals amounted to nearly \$10 billion ⁽²⁾.

Some of the top reasons to value philanthropy at your organization include:

- **Outstanding Return on Investment.** ROI for health care

philanthropy is very strong; in fact, the return is higher than most clinical programs and services. According to the Association for Healthcare Philanthropy's 2016 Report on Giving, the median ROI realized by

health care organizations in FY 2015 was \$4.29 for each dollar invested in fund development activities; performers at the 75th percentile return \$6.59 for each dollar invested.

- **Improved bond ratings.** Moody's Investors Service recognizes the value of philanthropy to successful organizations. According to Moody's, "A strong fundraising

program, as a complementary strategy to a hospital's patient care operations, is an important consideration in our credit assessments and can positively impact bond ratings...'⁽³⁾. Since higher bond ratings can mean millions in savings to many organizations, a strong philanthropy program means more to a hospital than just the charitable dollars raised.

- **Strength in Diversification.** Based on many factors – community need, organizational mission, program strength and reputation, competitive advantage, and so on – each organization builds and evolves its own core clinical programs and services. Sometimes, however, a hospital that is too financially dependent on one product line can be jeopardized by events beyond its control. A strong philanthropy program can provide opportunities for a hospital to diversify its income streams to provide valuable flexibility to the organization.

- **Downstream Financial Benefits.** A healthy, active philanthropy program can provide more than direct financial support to your organization. Philanthropy engages patients, families, physicians, business leaders, civic leaders and more. These ongoing interactions and relationships help develop community advocates, increase loyalty to the organization, influence choice of facilities and strengthen likelihood to return.

- **Relatively Modest Investment.** While most health care clinical service lines require significant up-front investment in terms of physical space, technology and more, advancing philanthropy requires minimal investment. About half the cost of most programs is represented by engaging experienced staff with the rest concentrated in data management and program costs. However, low barriers to entry means this strategy is accessible to facilities of any size.

The programs and activities of a healthy and vibrant development department or foundation – including major gifts, planned giving, corporate and foundation giving and other activities – can grow to become a significant revenue

source for your hospital. Governing and foundation board members should recognize the opportunity philanthropy provides to support the most important hospital goals and objectives and should encourage hospital leadership to focus appropriate attention and resources on cultivating this often-undervalued source of funds.

For Board Discussion ≡

How much does it cost our organization to earn a dollar from core clinical operations or to secure a dollar through philanthropy? What implications does this have?

Is our organization currently harnessing the opportunity philanthropy presents as a high-ROI, alternative revenue resource?

Does the amount we raise now seem robust relative to our market position, community wealth, population density, investment in development and case for support?

Does our development organization focus on high-ROI efforts to secure charitably-motivated, investment-level gifts from individuals or on low-ROI events?

Is our current organizational investment in philanthropy commensurate with the financial opportunity philanthropy represents?

About the Author:

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⁽¹⁾ *Giving USA Foundation, 2016*

⁽²⁾ *2016 Report on Giving, Association for Healthcare Philanthropy*

⁽³⁾ *Moody's Investors Service, 2006.*
