

Trustee Insights

FOUNDATION BOARD RESOURCES



Systemization of Health Care Philanthropy 2.0

Though challenging, realigning foundation governance can enhance mission fulfillment

BY BETSY CHAPIN TAYLOR

Not-for-profit hospitals receive almost \$11 billion in charitable contributions annually from individuals, corporations and foundations, and philanthropy enjoys an exceptionally strong return on investment, with organizations raising on average [about \\$4 for each dollar invested in fund development activities](#). Many progressive, not-for-profit health systems seek to optimize the efficiency and effectiveness of philanthropy as a low-risk, alternative revenue source.

At a time when mergers and integration are hallmarks of the

evolving health care landscape, many health care organizations pursue systemization of fund development efforts, leveraging organizational scope and strengths to increase total dollars raised and improve return on investment. Early systemization efforts may involve knowledge-sharing between sites, integrated donor data management, standardization of processes, common accountability systems and more. The next curve of systemization is leveraging additional opportunities to achieve greater synergy across the enterprise, including:

- **Alignment with system vision and strategy.** Systemization has enabled most philanthropy executives to secure a seat at the executive leadership table, so philanthropy is exposed to and occasionally influences evolving system-level vision and strategy. Being able to translate top-level strategic priorities into charitable funding priorities across all sites creates cohesion and focus across philanthropy organizations to maximize impact. Philanthropy and health care leaders mention the value of access to “enterprise thinking” to advance a shared vision and engage donors in supporting top-level priorities.

- **Strategic budget allocations.** Strategic use of operational and staffing resources is a mandate for all hospitals in a financially constrained environment. Moving resource allocation decisions for all philanthropy organizations to a central hub harnesses better business intelligence to direct, reallocate or reconsider resource allocations to optimize charitable returns. Being able to make strategic choices from the vantage point of optimizing the whole, rather than making independent choices at each organization, supports enhanced performance and better stewardship.

- **Boundary-spanning funding priorities.** Today’s donors expect their giving to achieve measurable social impact. Health organizations will continue to successfully raise

money to support local capital investments, clinical service lines and other programs. It's important to note that rising expectations around the "case for support" can provide a distinct advantage to health systems with the ability to present boundary-spanning, multisite funding opportunities for care transformation, community health impact, innovation and more.

Reframing Governance

While systemization offers a range of synergies and performance advantages, it also has its challenges—with the reframing of foundation board governance being one of the most difficult. Systemization may impact board structures, roles, decision rights and more. Systemization also can spark concerns—generally unwarranted—that integration will diminish local ownership or engagement or will reduce the benefit of philanthropy on the local community. Thus, realigning foundation governance is an issue to approach with considerable sensitivity and thought.

As system philanthropy structures are formed, health care organizations must confront if or how they will reconcile having separate legal entities and differing legal structures, including independent foundations, closely related foundations and internal philanthropy departments. Some health systems dissolve legal entities and board structures to consolidate into regional or system-level structures, while other systems leave all existing legal entities and board structures intact. The methods to raising money effectively are largely

indifferent to the legal structure that is chosen. Therefore, structures are generally designed to prioritize agility and decrease administrative burden while preserving local leadership engagement in discussion, deliberation and decision-making.

Randy Varju, president of Advocate Aurora Health Foundations and chief development officer for Advocate Aurora Health shares, "We have done all we can to maintain the local presence and relationship from a volunteer perspective across the entire landscape, but we have to start thinking about how we structure those resources to fulfill intent of the volunteer and to align with what we need to do today. We need to work together to think through the tough issues and to decide the best way for valuable leaders to extend their influence."

Whatever the structure, the health care foundation always has had a singular reason for being: to cultivate, secure and steward charitable funds to advance the supported health care organization. Board members also bring a distinct competitive advantage to initiating, deepening and stewarding relationships with key donors and prospects and sharing the case for charitable support. Therefore, systemization has often provided a platform to articulate a clear and consistent set of impactful board roles across all sites and, at times, refocus board roles on higher impact activities. As Fred Najjar, executive vice president and chief philanthropy officer of CommonSpirit Health, says, "Board members bring valuable influence and connections, so we prioritize positioning boards to use their unique value to focus on

philanthropy rather than to focus on administrative issues that can be a distraction. We want to use centralized services to free up board and staff resources to add efficiencies and enable everyone to practice at the top of their license. It's about making the best use of great talent."

Ultimately, most philanthropy executives and board leaders who have navigated redefining or realigning governance will tell you the strife of change and uncertainty was short-lived and was replaced by a new sense of purpose within the larger organization. David L. Flood, senior vice president and chief development officer, Intermountain Healthcare, reflected on the future state achieved following the consolidation of all Intermountain's legal entities into a single foundation and the creation of new community development organizations in their place: "Now, growing impact and stature have brought vibrance that has attracted leaders who are more open to invest their finite and precious volunteer time into our work."

A Framework for Deliberation

As health care organizations consider systemization of philanthropy, it has spawned new challenges in fulfilling the governance role. To fulfill their fiduciary duty, nonprofit boards are legally and ethically charged to act in the best interests of the nonprofit organization to advance the mission. This includes being a steward of organizational assets—such as financial assets—as well as intangible assets—such as organizational reputation and relationship with the community.

These commitments are articulated in a three-prong litmus test as the duty of care, duty of loyalty and duty of obedience.

The *duty of care* calls board members to use the reasonable care of a prudent agent when making decisions. Fulfilling this standard may be the most clear-cut in the systemization journey as board members seek adequate information to ensure the board collectively understands relevant issues, intended outcomes and potential unintended consequences in order to participate in informed and responsible decision-making.

The *duty of loyalty* calls for faithfulness in acting in the best interests of the organization and placing organizational interest above personal interest. This standard may present a challenge for boards considering systemization, since lines between organizational interest and self-interest can get blurred. For example, there is a delicate balance as board members legitimately seek to protect the interests, culture, fulfillment of donor intent and local leadership influence of the philanthropy organization; however, debate can easily drift into areas of potential conflicts of interest as efforts simultaneously preserve board influence, control, stature and power that could provide benefit to those serving on the board. Thus, there is value to the board ensuring the debate is consistently pulled back to the question: "How can we ensure the best interests of the organization as a vehicle for mission fulfillment remain the singular focus of the dialogue and debate?"

The *duty of obedience* calls board members to faithfully fulfill

BOARD DISCUSSION GUIDE

Questions to support the objective evaluation of systemization include:

- How specifically could systemization support or impede mission fulfillment?
- How could systemization provide broader opportunities or synergies?
- What negative or unintended consequences could result?
- Will this strategy support success today or sustainability in the future or both?
- How could integration honor or detract from our relationships with donors?
- How could integration drive innovation or advancement?
- How could integration address current organizational needs and challenges?
- How could systemization offer access to knowledge, resources or tools that may otherwise be outside our organization's reach?
- How could systemization add to or detract from our ability to pursue promising methods and opportunities to raise money?
- How could systemization enable scope or scale to allow our organization to achieve outcomes that would otherwise be impossible?
- How could systemization drive true organizational and mission transformation?

the mission and uphold public trust in achieving core intentions of the organization. While this standard can seem straightforward, the challenge many boards face is defining the scope and scale of the mission in the context of the evolving health care environment. For example, is the board's objective around mission fulfillment about enabling one philanthropy organization in one community to achieve its best? Or is it about making the best decisions to maximize the total pie and to increase overall organizational impact? In other words, should the board's scope of vision be about optimizing the opportunity for the part or for the whole?

If the board believes the highest and best form of mission fulfillment is maximizing total value to improve the health status of the most lives possible, does it matter whether the local organization is among those

that benefit most or whether others benefit more? Another perspective on mission fulfillment is determining the appropriate balance of achieving impact today or positioning the organization to steward assets for long-term sustainability. Adding more muddiness to the water is the fact that many organizational documents were created without anticipating today's integrated health care environment, so foundation articles of incorporation may refer to a geographically bound area that constrains the organization's potential for influence. As the board considers how it will fulfill the duty of obedience, it is determining what impact it will leave behind.

Foundation boards ultimately must uncover how integration could offer meaningful opportunities to add value to enhance mission fulfillment. The board's ability to openly confront and objectively

work through issues is a hallmark of effective leadership. By using the fiduciary duties as a framework, the board can ask questions and engage in meaningful debate to strengthen and safeguard the organization. If the board believes systemization will serve as a lever to a stronger future with enhanced mission fulfillment, the board can bring valuable influence to articulate how mission will be elevated through systemization.

Looking Ahead

As merger deals continue at a steady clip, systemization of philanthropy will remain an issue—

especially as health systems increasingly rely upon philanthropy to deliver upon its promise as a sustainable, high-ROI, low-risk, alternative revenue source. Already, some systems have completed systemization once and are now merging with another system and starting the process of integration again. Other systems are increasingly becoming geographically dispersed.

As Randy Varju from Advocate Aurora Health reflects, “We may all face the dispersion question at some point. How many mergers, partnerships and consolidations will there be? As health care organizations continue to evolve in the way

they are structured, we must maintain proactive diligence to ensure we are positioned to be responsive and to continue to support the mission.”

Today’s complex environment provides significant opportunities for health care organizations to reimagine how they are structured, how they work and how they can deliver more value. Systemization of philanthropy likely will remain one of those ready tools to increase impact and to improve lives.

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