Management of Hospital Foundations: Does Compensation Matter?

Mary E. Malliaris
Loyola University Chicago, School of Business Administration, Chicago, IL, USA

Maria Pappas
President, Thorek Memorial Hospital Foundation, Chicago, IL, USA

[Abstract] Hospital foundations are run by boards and staff that may work as volunteers, or may be compensated. In addition to spending money on these, foundations often hire external fundraisers to oversee some major event such as a gala party or high-profile athletic event. This paper looks at these types of compensation, plus overall expenses and net assets, to build a regression model to forecast revenue of foundations. We find that expenses, assets, fundraising compensation and board compensation account for 80 percent of the variation in the amount of revenue generated by a foundation.

[Keywords] Hospital foundations; board compensation; foundation revenue

Introduction

All hospital foundations are concerned about raising money to support their missions. But, in order to raise money, foundations usually spend money. Some foundations spend money on high-profile events such as gala parties or community 10-K runs. Some fundraise for a specific cause such as a new wing for their associated hospital. The occurrence of any of these events happens only with the support and hard work of people in the background: the foundation board, the staff, and special events fundraisers. Some foundations rely exclusively on volunteer support and some foundations choose to compensate those involved. In addition to money spent on people, foundation expenses might also include mailings, advertising, event spending, lawyers, accountants, investment managers and web-site specialists, to name a few. Income for a foundation is limited to a few sources: investments and contributions.

Foundation support has long been a mainstay of a hospital's search for funds (Morgan and Cohen, 1993). And as hospital costs soar, foundation support may become even more important in the future. Raymond (2005) found that even though health-related philanthropic contributions have doubled the last four decades, health care costs still exceed the rate of increase in giving related to health care. Aggarwal (2008) outlines the enormous projected increases in medical costs in the near-term, from 14.1% of GDP in 2003 to 17.7% by 2012. Given these projected future costs, foundations that support associated hospitals and their communities need to consider how to increase revenue. A study by Pink and Leatt (2006) looks at 80 foundations throughout Canada and found that one of the factors associated with increased foundation revenue was a higher level of foundation expenses. This paper looks at 178 foundations in the U.S. and analyzes areas where money is spent to see what has the greatest impact on revenue.

More specifically, this study focuses on two variables common to all foundations, net assets and expenses, and three variables that occur in some, but not all, foundations in various combinations, compensation for board members, for staff, and for fundraising specialists. For these five variables, we investigate which are important for a good regression model to predict foundation revenue, and of those useful for the regression model, which give the most return in revenue when increased.

For the purposes of this research, the terms "foundation" and "hospital foundation" describe a non-profit organization which devotes its efforts and resources to the support of a single hospital. All foundations researched are non-profit organizations, classified as 501(c)(3) and thus considered tax-exempt by the federal government. These organizations are required to file a Form 990 annually to report their finances and revenue generating operations. These 990 filings were the basis for much of the data in this study.

Data Set and Model

Foundations with revenue less than 30 million were the focus of this study. There were 178 foundations in the sample representing hospitals of varying sizes (as measured by the number of beds) and throughout the United States. Initial listings of hospitals and foundations were located by using internet searches. Guidestar.org (a non-profit reporting website) was then used to access the public records of each organization's tax reporting Form 990 for financial data for 2005, the last year available for all foundations. In addition, the associated hospital's website (or the foundation's where available) yielded data regarding the hospital size, the foundation's board of directors, foundation staff members, fundraising campaigns and foundation events. Data not available on the internet was retrieved through direct phone contact with hospital foundations. Guidestar.org was used to review Form 990 of all not-for-profit hospitals for financial information. Table 1 shows the count of foundations per region in the U.S. used in this study.

Table 1. Number of Foundations per Region

Region	Count
Midwest	47
Northeast	49
South	41
West	41

Foundations are run by a board of directors that oversees the organization's assets and distributions to recipients. The role of the board is to decide how and where to allocate available funds from the foundation. This can be a straightforward directive, such as supporting charity care or the hospital's greatest need. It can also become complex, such as debating fund allocation between new equipment, community health programs and employee education/training. In cases where no board is set up, foundation staff assumes the responsibility for these functions. Foundation boards are sometimes compensated, but often donate their time.

The purpose of the foundation staff is to provide support for the board. Not all foundations have employed support staff. Foundations with no staff are concentrated among those supporting smaller hospital sizes. They are more likely to rely on hospital employees or volunteers to accomplish foundation tasks. Typical staff positions include Executive Director, Director of Development, Events Manager, Director of Major or Planned Gifts (bequests), Office Manager, Fund Development/Manager and various assistants. The amount spent yearly on staff compensation is reported on Form 990.

Some foundations employ certified professional fundraisers to help in their drives for funds. If a foundation does not have an internal Events Manager, they may rely on volunteers to help plan and execute fundraising events, or they may hire external help. Foundations serving large hospitals reported fundraising compensation over two-thirds of the time. Foundations supporting large hospitals tend to hold large, extravagant events that raise higher levels of donations but require more spending and outsourcing of labor. In contrast, foundations serving smaller hospitals might rely on their own foundation and hospital staff, and valuable volunteers, to orchestrate and execute fundraising activities and events. Fundraising events can fall into four types: parties, athletic, memorial, and giving for a cause. Some foundations participate in all types and some in none. The total number of fundraising area types in which the foundations in this study participated is shown in Table 2. Only 36 of the 178 foundations held events in more than 2 categories. Notice also that 50 of the foundations hold no events at all, instead relying on investment income from assets to generate revenue.

Table 2. Number of Foundations and Types of Events in Which They Participate

Number of Types of Fundraising	Number of Foundations
0	50
1	46
2	46
3	32
4	4

The purpose of these events is to raise money that can then be spent on causes the foundation supports. Thus, of importance to all foundations should be the question of what basic foundation structure yields the greatest revenue. Using data from the 990 forms, the following variables were used to build a regression model to forecast revenue: expenses, assets, board compensation, staff compensation, and fundraising compensation.

Table 3. Correlation of Regression Variables with Revenue

Expenses	0.79
Fundraising Compensation	0.76
Assets	0.71
Board Compensation	0.57
Staff Compensation	0.41

The regression output will not only indicate which variables should be in the equation, but, using the standardized coefficients, the output will tell us the impact of each on revenue. The correlation of each of these input variables with revenue is shown in Table 3. As can be seen, the lowest correlation is between the amount spent on staff compensation and revenue. An initial run of the regression model indicated a high p-value for staff compensation. The staff compensation variable was therefore removed and the regression was re-run with the remaining four variables.

Model Results

The regression model, using four variables, had an R-square of .81, an indication of a nice linear fit. A graph with actual revenue versus predicted revenue and a trend line is shown in Figure 1. Table 4 shows the standardized weights along with their level of significance. The significance shows all variables are important to the equation. But which one makes the most change in the value of foundation revenue? To answer this, we need some calculations.

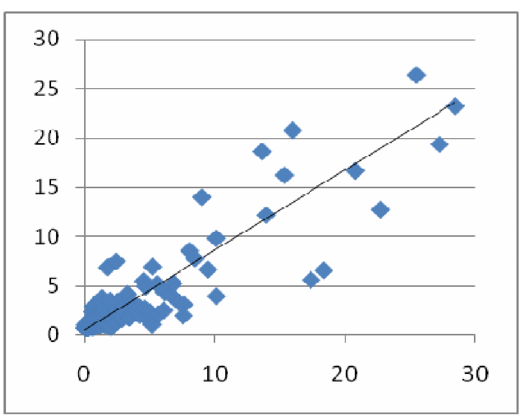

Figure 1. Predicted vs. Actual Revenue

Table 4 . Standardized Reg. Weights with Significance Level

Variable	Beta	t-stat	Sig.
Revenue			
Expenses	0.254	4.35	.000
Board Compensation	0.185	4.79	.000
Fundraising Compensation	0.309	5.80	.000
Assets	0.375	9.46	.000

One way to compare the relative importance of different variables is to use the values of the standardized regression coefficients. A one-standard-deviation change in an independent variable results in a standard deviation change in the dependent variable by an amount equal to the standardized coefficient of the independent variable, with all other variables held constant. The standardized coefficients are comparable because they all use a one standard deviation change in their respective independent variables rather than a one unit change. Looking at the standardized coefficients, for example, we see that changing fundraising compensation by one standard deviation would result in an increase in revenue of .309 times the standard deviation of revenue. Table 5 contains the standard deviation, and calculations for each variable. That is, increasing spending on fundraising by $273,599 would mean in increase in foundation revenue of .309*5,354,825 or, $1,654,641. The last column of this table shows the relative amount that increases in a specific variable give to the revenue. For example, a one standard deviation increase in board compensation results in a 10-fold increase in revenue. That is, for every additional dollar spent on the board compensation, revenue increases by 10 dollars.

Table 5. Impact of Each Variable on Revenue

Variable	Standard Deviation	Change in Revenue with one SD increase in variable	Change Divided by Std Dev
Revenue	5,354,825		
Expenses	6,159,326	1,360,126	0.22
Board Compensation	98,092	990,643	10.10
Fundraising Compensation	273,599	1,654,641	6.05
Assets	39,159,729	2,008,059	0.05

The least immediate effect on revenue comes by adding money to the assets of the foundation. Here we see that one dollar added to assets will cause revenue to increase by five cents. That is, putting the money into assets yields a five percent return on your investment. The second smallest value is expenses. An additional dollar toward general expenses yields an increase in revenue of 22 cents. This is actually less than what we gain from a dollar added to assets since the dollar in assets remains there, while a dollar toward additional expenses is spent. The two remaining variables, fundraising compensation and board compensation, each return more than the value of the additional dollar. One more dollar spent on fundraising compensation yields an additional six dollars in revenue, while this dollar toward board compensation yields ten dollars in revenue. Thus, these last two variables hold the promise of significantly increasing foundation revenue.

At this point, we can only speculate as to why these two variables increase revenue so dramatically. But we can hypothesize that professional fundraisers know they will not be re-hired if they do not perform well. We can also suppose that a compensated board is more involved in and committed to the well-being of the foundation. The results of this study suggest a need for more investigation into the causes of the result.

Conclusion

Foundations supporting hospitals follow a variety of methodologies in order to raise revenue. To attract donations effectively and efficiently, some foundations compensate staff members, board members or employ professional fundraisers. These trained professional fundraisers are proficient in many aspects of donations, especially in identifying potential donors and cultivating foundation/donor relationships. To further acquire funds, many foundations hold events such as an annual campaign or a gala evening. While these gain visibility for the foundation and the hospital it serves, they also require extensive time and expense to conduct. This often means the employment of staff. Foundations with staff may increase operating costs due to fixed salaries. Overhead is further increased by the costs of fundraising efforts. However, these costs may be worthwhile for the foundation if the expenditures yield a positive return.

This study examined a sample of 178 hospital foundations in different regions of the U.S., each with yearly revenue below 30 million dollars. A regression model was used to pattern the amount of revenue and the regression results provided the basis for the analysis of the input variables. Of the four variables considered, assets, expenses, fundraising compensation, and board compensation, the two which prove the most promising for a foundation wishing to increase revenue were fundraising compensation and board compensation. For a one dollar increase in each of these, the increase in revenue was six dollars and ten dollars, respectively.

Thus, foundations that rely on volunteers to run them and their events should re-think this decision. By compensating the board that runs the foundation and the people in charge of their fundraising events, the foundation has a good chance of greatly increasing their revenue.

Acknowledgement

We would like to acknowledge a grant from the Thorek Memorial Hospital Foundation that supported the collection of the data for this study. We also thank Thomas Whittaker, graduate assistant, for his excellent work in the collection and organization of the data.

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