CAMPBELL & COMPANY

Incentive Compensation in Healthcare Philanthropy

A Nationwide Study Conducted by Campbell & Company

TABLE OF CONTENTS

INTRODUCTION

Nonprofit organizations are always looking for ways to attract and retain the best fundraising talent, especially today when the average tenure of development officers is only two to three years. In order to better reward and retain fundraising talent, some organizations, particularly in healthcare, have performance incentive programs as part of their compensation packages. These programs are financial incentives beyond annual base salary that reward fundraising staff for meeting certain individual, team, or organizational goals.

Performance incentives in philanthropy have historically been considered controversial because they are often mistaken for receiving a "commission" based on the amount of money raised. Additionally, some argue that fundraising leaders should be motivated by mission, not money. Because of the stigma and sensitivity surrounding performance incentives, many people are unaware of just how common they are, how they work, and how they are effective.

Within the nonprofit sector, performance incentive programs appear to be most prevalent in healthcare. According to the Association of Fundraising Professionals 2014 Compensation and Benefits Report, only 22% of respondents received a performance incentive in the past year. However, in the *Association of Healthcare Philanthropy (AHP) 2014 Salary Report*, 44% of respondents received one. This greater prevalence of incentives in healthcare philanthropy, along with the lack of studies that assess specific programs and strategies, motivated Campbell & Company to design a survey for healthcare fundraising leaders about performance incentives. Our survey aimed to achieve the following objectives:

- Understand specifically what healthcare institutions are doing to attract, retain, and reward fundraising leaders.
- Learn the norms for compensation and performance incentives in healthcare philanthropy.
- Examine the beliefs and perceptions of healthcare fundraising leaders surrounding performance incentive programs.

We hope the results of this study will further motivate the evolving conversation about incentive compensation in fundraising. Performance incentive programs are common in healthcare, with 44% of AHP's study participants receiving them and 62% of Campbell & Company's survey respondents' institutions having them. This report provides an overview of existing incentive structures and perceptions surrounding them, and it hopes to bring greater visibility to incentive compensation for organizations dealing with fundraising officer recruitment and retention.

Our central discoveries are the following:

1. **Healthcare fundraising officers look favorably upon performance incentive programs.** Most respondents with incentive programs in place reported that their programs are effective, and three-fourths of respondents said they believe that nonprofit organizations should have performance incentives in place for fundraising staff. Additionally, 64% of respondents said that they would be more likely to stay in their positions if they received incentives. These evolving attitudes and beliefs surrounding performance incentives suggest the potential to strengthen fundraising officer retention through these programs.

2. **Organizational goals and performance are the most important factor in determining individual incentives.** Respondents most often reported that organizational performance was more important than individual or team performance when determining incentive amount. Additionally, 96% of respondents with performance incentive programs reported attainment of organizational goals as influential to their incentives. Respondents also said that aligning individual incentives with organizational goals promotes an ethical incentive program and motivates greater organizational collaboration and performance.

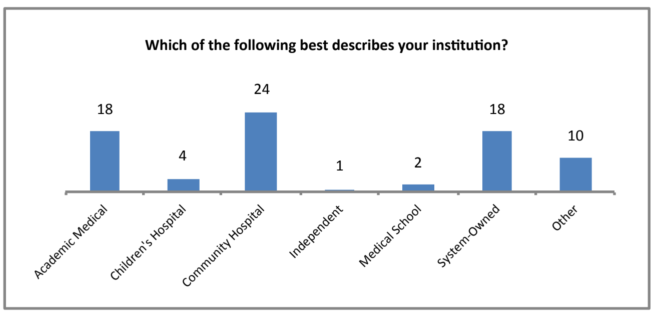
3. **There is no clear standard for performance incentive structures.** While performance incentives shared certain basic characteristics, such as the importance of organizational performance and who is eligible, they also varied greatly in a number of ways. One example of this variability is how much of respondents' professional income came from performance incentives in the past year. Responses ranged from as low as 3% to as high as 70%.

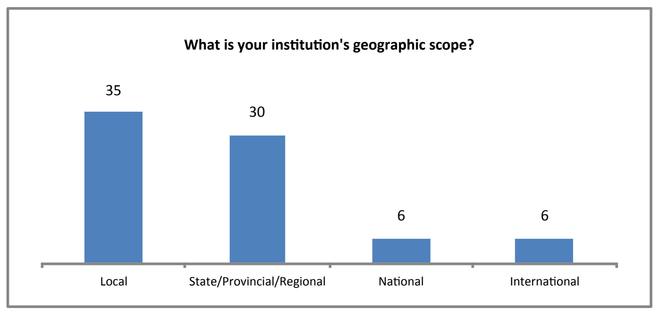
METHODOLOGY

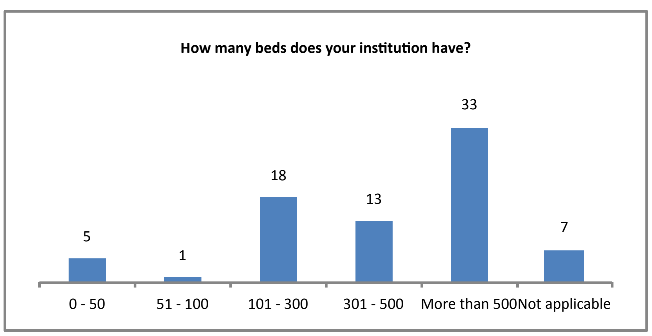
Campbell & Company emailed a 55-question survey to healthcare fundraising leaders in 500 different institutions across the United States between April and May 2015. The survey yielded 82 responses from 81 different institutions. The sample was created through targeted research as well as the database that Campbell & Company's Executive Search team uses for officer searches. The response rate was 16%.

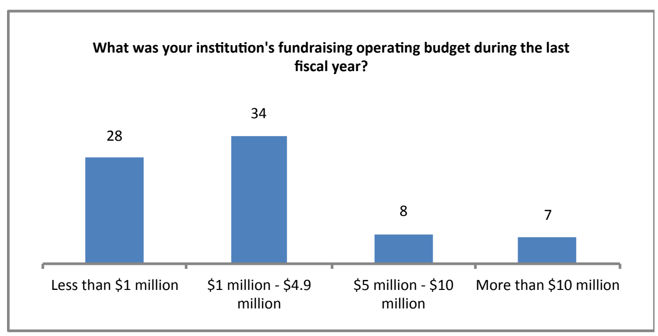
Those invited to participate in the survey were either the CEO, President, or Executive Director of their foundation or the Chief Development Officer, Vice President of Development, or Vice President for Advancement of their institution. We did not focus on other staff in an institution to ensure the data reflected a common perspective (that of senior-level fundraisers) across multiple institutions. Sixty-eight percent (68%) of respondents had at least 10 years of experience in healthcare fundraising, and the vast majority had held at least four fundraising positions in their careers.

Sixty of our respondents worked in community hospitals, academic medical centers, and system-owned hospitals. Their institutions most frequently had more than 500 beds, and 65 institutions were local or regional/statewide in service area.





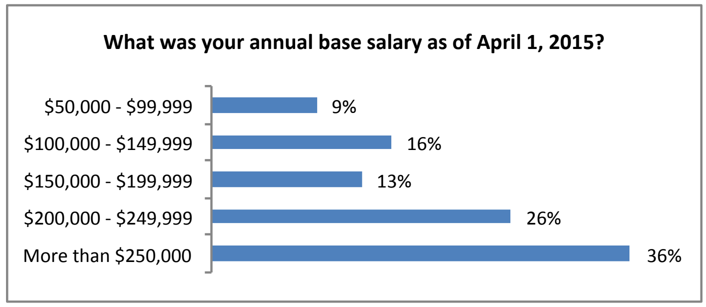




While our sample size is admittedly small, our findings are an important jumping-off point for the dialogue surrounding incentive compensation, as they hold important implications for development officer retention and compensation in both healthcare and other nonprofit markets.

SALARY AND BENEFITS

When asked about their attitudes and expectations regarding their overall compensation excluding performance incentives, 75% of respondents believed they were adequately compensated. The vast majority (86%) were either satisfied or very satisfied with their salary and benefits package. Additionally, 68% of respondents said that they expect a salary increase in the next year, most likely a merit-based raise but possibly an automatic or a cost of living increase. The following illustrate the base salary and the range of benefits received by all survey respondents:



Which of the following benefits does your institution provide to you?	Percentage of Respondents
Health insurance	100%
Group life insurance	86%
Professional dues	84%
Short-term or long-term disability insurance	84%
Computer	81%
Tuition reimbursement	68%
Cell phone	65%
Parking	57%
Service on external volunteer boards/committees	53%
Long-term insurance	51%
Financial planning services	43%
Relocation expenses	39%
Accident insurance	38%
Car or car allowance	32%
Club memberships	22%
Professional liability insurance	18%
Local transportation subsidy	10%
Personal liability insurance	10%
Childcare	8%
Personal legal expenses	5%
Low/no interest loan program	3%
Personal tax services	3%
Other	1%

CAMPBELL & COMPANY

PERFORMANCE INCENTIVE PROGRAMS: HOW DO THEY WORK?

Our study found that 62% of respondents have performance incentive programs in place in their institutions. Of those who have incentive programs in their institutions, 83% received a performance incentive in the past year. This finding illustrates the prevalence of performance incentives in healthcare philanthropy, although it is possible that potential respondents without incentive programs were less motivated to take the survey.

At this point, there is no clear standard of performance incentive programs across institutions in our survey. However, we identified a number of characteristics where programs were consistent across institutions, and a number of characteristics where programs varied greatly, in order to create an overview of current practices.

Performance incentive programs shared the following characteristics:

1. **Definition.** Performance incentives were defined as annual incentives among almost all respondents (94%), with some respondents (21%) reporting that long-term incentives also exist. Long-term incentives refer to multi-year incentives that reward retention.

2. **Eligibility.** The CEO/President of the healthcare foundation is eligible for performance incentives in 90% of respondents' institutions. This is followed by the Chief Development Officer (79%), VP-level employees (79%), and Director-level employees (75%).

3. **Specific revenue categories that influence incentives.** *New business* and *new pledges* very commonly influence performance incentives, with 75% of respondents reporting new business as one of the metrics factoring into their incentives, and 67% reporting new pledges.

4. **General factors that determine incentives.** *Organizational goals* are the most important factors that influence performance incentives, with 96% of respondents reporting them. After that, *individual performance goals* (81%) and *overall development revenue* (75%) were also extremely common.

What factors affect your incentive?	Percentage
Attainment of overall organizational goals	96%
Attainment of individual performance goals	81%
Attainment of overall development revenue	75%
Meeting / exceeding revenue targets	60%
Attainment of team performance goals	56%
Meeting / exceeding non-revenue targets	56%
New planned gift commitments	21%
New business (cash received in 2014 not previously pledged)	19%
Other	17%
New realized planned gifts	13%

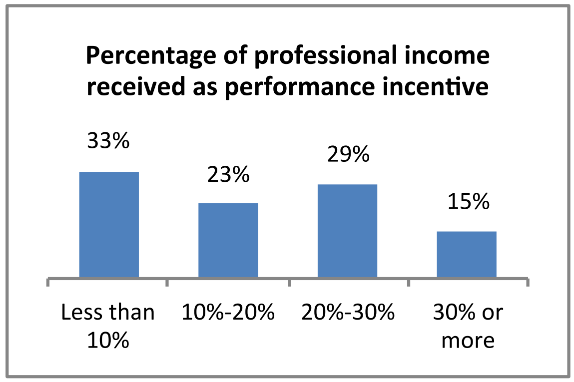
5. **Organizational performance matters more than individual and team performance.** We asked respondents to determine what percentage of individual, team, and organizational performance factored into their incentives. The average amounts reported are the following:

- Organizational performance: 41%
- Individual performance: 34%
- Team performance: 25%

Beyond very basic characteristics, it is clear that attainment of organizational goals and overall organizational performance are the most common themes across incentive programs. This is likely because rewarding individuals for organizational performance promotes cohesion and collaboration rather than over-valuing individual contributions.

Performance incentive programs varied in the following ways:

1. **Percentage of professional income that comes from performance incentives.** Respondents reported amounts from as low as 3% to as high as 70% for how much of their income is incentive. This wide range demonstrates the great variability in terms of how salary and performance incentives are distributed, even among senior-level development leaders.



2. **Non-revenue categories that factor into determining incentives.** While the most common non-revenue categories of individual performance incentives were *management/leadership* and *number of gifts secured*, these applied to just over half of respondents (54%), not frequent enough to demonstrate consistency across programs. Interestingly, many core fundraising practices such as donor retention or prospect cultivation were often reported by only one-fourth or less of respondents.

What non-revenue categories does your individual incentive include?	Percentage of respondents
Management / leadership	54%
Total gifts secured	54%
Number of proposals / solicitations made	33%
Stewardship	31%
Visits / contacts	31%
Prospect solicitation	29%
Donor retention	25%
Other	21%
Close rate of proposals / solicitations	19%
Professional development	19%
Prospect cultivation	19%
New qualification visits	17%
Prospect identification	17%
Staff recruitment	17%
Event attendance	8%
Recognition	8%

CAMPBELL & COMPANY

3. **Signing and retention incentives.** Forty-two percent (42%) of respondents with performance incentive programs in place said that their institutions used *signing incentives* to recruit new leaders. Specific policies varied, but some examples include:

   a. Approximately 10% of the annual salary upon hire.

   b. Enough to cover the incentive payout from a previous organization that was forfeited to accept the new position.

   c. $20,000 over four years that must be refunded if the recipient leaves before the four-year mark. This is an example of both a signing incentive and a retention incentive.

   A *retention incentive* rewards long tenure in a position, and 27% of respondents reported them in place in their institutions. These policies also varied, but some examples include:

   a. Deferred compensation set aside at the beginning of a multi-year campaign and given if the employee is still employed at the end of the campaign.

   b. Deferred compensation that is 6% of the annual salary with a three-year vesting period for employees at the Vice President level or higher.

   c. Five-year long-term incentives for lengthy service.

   Signing incentives attract fundraising talent and retention incentives reward long tenure. Both incentives were less common and varied greatly, but they can be used as reward-based instruments of recruiting and retaining fundraising leaders.

The differences across incentive programs demonstrate the lack of a clear standard for performance incentive programs. The reasons for such variability are beyond the scope of this study, but it is most likely that the lack of widespread knowledge and understanding about incentives caused individual institutions to develop their own specific programs. However, this study demonstrates the significance of the similarities across institutions. Almost all institutions taking part in the study reward organizational performance, exemplifying again that aligning individual and organizational goals is an important component of performance incentives.

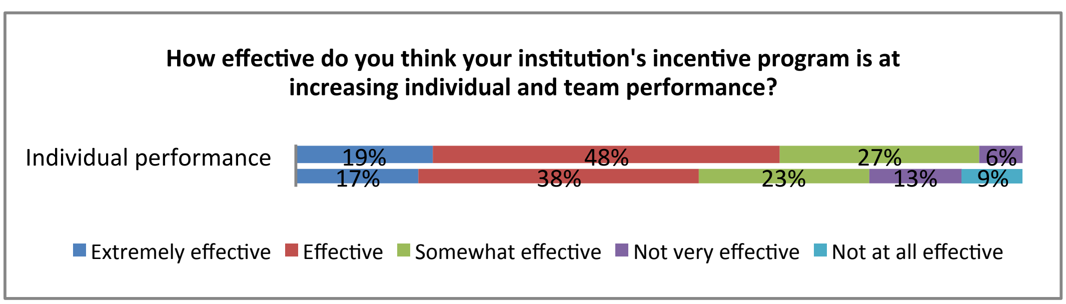
PERFORMANCE INCENTIVE PROGRAMS: WHAT DO PEOPLE THINK?

We asked healthcare fundraising leaders about their attitudes and beliefs surrounding incentive compensation. Almost everyone, regardless of whether their institution had an incentive program in place, reported positive attitudes about the programs. The following are key takeaways from our respondents:

1. **Most respondents believe there is no ethical conflict in incentive compensation.** Seventy-five percent (75%) of all respondents said that there is no ethical conflict in receiving performance incentives. Of the 17% who said they do believe there is an ethical conflict, many noted that it depends on whether or not the incentive is directly related ***only*** to the amount of money raised. Respondents wrote that the main motivation to raise funds should be a connection to the donors or to the cause—not a desire to earn more money, especially since a transactional incentive could harm relationships and trust with donors. Others said that incentives must be more comprehensive in structure and aligned with organizational goals if they are to remain ethical.

2. **People are more likely to stay in their positions if they receive performance incentives.** Sixty-four percent (64%) of respondents said they are more likely to stay in their current positions if they receive performance incentives. This is an important finding for institutions struggling with development officer retention.

3. **Respondents in institutions with incentive programs largely believe that their programs are effective.** The majority of respondents (67%) believe that their institutions' incentive programs are effective or extremely effective at motivating stronger individual performance. More than half of respondents (52%) believe that these programs are effective or extremely effective at increasing team performance. Additionally, 77% of respondents who receive performance incentives believe they are appropriately rewarded through their incentive program.



4. **Respondents believe that nonprofit organizations that fundraise should have performance incentives in place.** Seventy-four percent (74%) of all respondents reported that nonprofits across different sectors—not just in healthcare—should have performance incentive programs in place for staff with fundraising responsibilities. This is almost the same amount who said there is no ethical conflict.

Performance incentive programs may vary, but the attitudes surrounding them are much more consistent. Healthcare fundraising leaders want to be rewarded and motivated for their work, and they believe that this can be done ethically and effectively through properly structured performance incentive programs. Additionally, they believe that all nonprofit organizations—not just healthcare institutions—should have performance incentive programs in place for their fundraising staff. It is important to note that incentives are typically widespread throughout a healthcare institution beyond development, so it makes sense that healthcare philanthropy is on the leading edge of adopting incentive compensation. And while our results suggest that implementing an incentive program may improve fundraising officer retention, it may not be the best fit for every organization.

Our respondents' beliefs hold important implications surrounding development officer retention. Participants in this study believe that incentives motivate stronger performance and would likely increase how long they stayed in their position. While our limited scope prevents us from concluding that incentives always lead to better performance and longer tenure, these findings imply that performance incentives have the potential to strengthen development officer retention and job satisfaction, as well as impact the market for talented senior development officers.

CHARACTERISTICS OF EFFECTIVE PROGRAMS

By looking at the responses of those who reported highly effective incentive programs and comparing them to the responses of those who reported ineffective programs, we developed a potential list of effective characteristics that organizations can consider. It is important to note that measures of effectiveness were self-reported, but this should serve as the starting point for more analysis of effective incentive practices. The characteristics of reported effective programs are the following:

1. *They are more likely to use a signing incentive for attracting and recruiting officers.*

2. *They include fewer non-revenue categories that factor into performance incentives.* Programs that respondents characterized as effective tended to include fewer non-revenue categories (e.g., leadership, total gifts secured, stewardship) that factored into incentive amount than did other incentive programs.

3. *They prioritize organizational performance and goals over individual performance when determining incentive amount.* This was common among all organizations with incentive programs in place, and it was especially common among respondents who rated their programs as highly effective. This strategy promotes cohesion and collaboration rather than individual contributions, and maintains that supporting the institution is the main motivation to raise funds.

Further research could be done to expand and improve upon this list, determining what incentive practices are most effective and why those practices work best. Deeper explanations of best practices will provide the fundraising community with a more holistic understanding of incentive compensation, and encourage more informed decisions regarding compensation in the future.

CONCLUSION

If you have an incentive compensation program in place or feel that one would be beneficial to your institution, here are some next steps that your institution can take:

- **Evaluate the incentive program in your institution if you have one.** Ask fundraising officers how they feel about their compensation and whether they believe they are appropriately motivated with the program in place. Use our study as a launching pad to initiate a discussion on how performance incentives influence your organization and its employees. If your institution does not have a performance incentive program and is struggling with development officer tenure, start discussing whether or not an incentive program is right for you.
- **Do not immediately assume that performance incentive programs are unnecessary or impractical.** Realize that fundraising leaders look favorably on performance incentive programs, and that they can be an effective strategy for recruiting and retaining fundraising leaders when done ethically.
- **Align individual incentives with broader organizational goals.** This promotes an ethical incentive program and motivates greater organizational collaboration and performance.

This study sparks many possibilities for further research, especially a more in-depth look at which incentive practices and structures are highly effective across institutions. It is our goal that this report adds to the evolving conversation surrounding fundraising officer incentive compensation.

ABOUT THE CAMPBELL & COMPANY HEALTHCARE PRACTICE

The Campbell & Company Healthcare Team are experts in healthcare philanthropy, staff management, and executive search. We understand the context in which healthcare organizations operate, and create a structure and process within that context, tailored to your community, that allows philanthropy to grow. For 38 years, we have helped hundreds of healthcare institutions succeed in growing and sustaining their programs.

Campbell & Company maintains offices in Chicago, Los Angeles, Portland, the San Francisco Bay Area, Seattle, and Washington, DC. For more information, visit www.campbellcompany.com.

QUESTIONS?

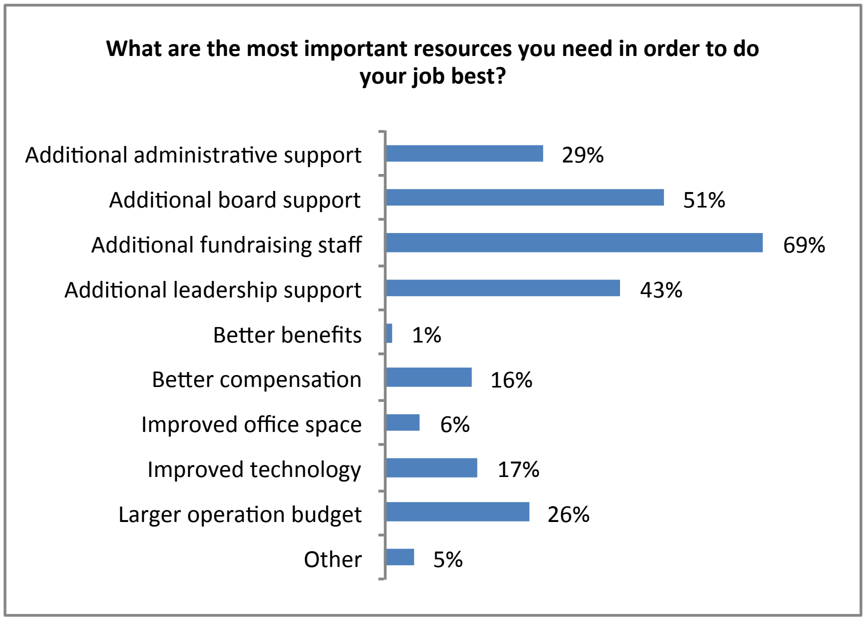
Feel free to contact Dan Nevez, Senior Consultant, Executive Search, *Dan.Nevez@campbellcompany.com*

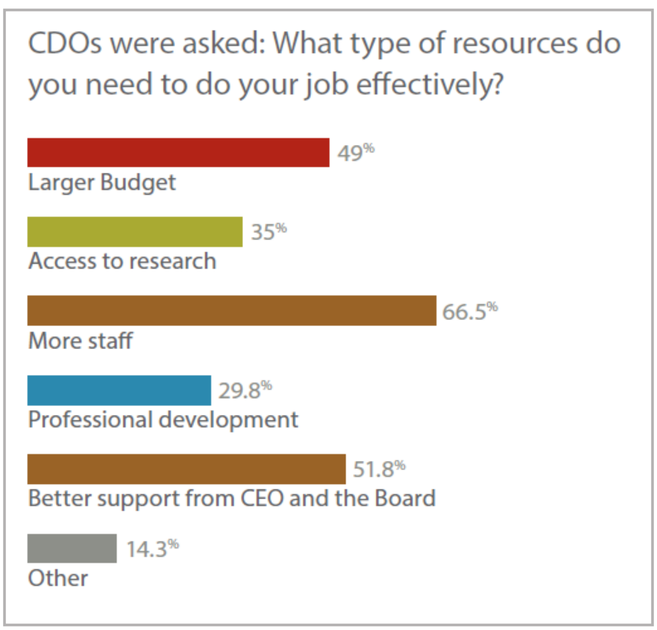
APPENDIX

Comparison of responses between this report and Campbell & Company's 2013 *CDO Confidential*.

Campbell & Company asked the question "What resources do you need to do your job best?" in this survey and in our 2013 *CDO Confidential* survey. It is worth noting the similar responses in both reports. Both fundraising professionals in healthcare and our general sample of Chief Development Officers reported more staff as the most important resource in doing their job best. Leadership and board support closely follow in both sets of survey responses too.

Incentive Compensation in Healthcare Fundraising: *CDO Confidential:*





CAMPBELL & COMPANY

CAMPBELL
& COMPANY

FOR MORE INFORMATION, PLEASE CALL US, SEND US AN EMAIL, OR VISIT OUR WEBSITE:

(877) 957-0000 toll-free

info@campbellcompany.com

www.campbellcompany.com