



D O R I S D U K E
C H A R I T A B L E F O U N D A T I O N

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BACKGROUND & OVERVIEW

DDCF's Partnership with the Nonprofit Finance Fund to Develop the *Leading for the Future: Innovative Support for Artistic Excellence* Initiative

BACKGROUND & RATIONALE

Even while celebrating new artistic energy and the emergence of new arts forms, participants in the 2006 DDCF-funded series of national conversations in contemporary dance, presenting and theatre offered a frequently dispiriting picture of the performing arts today, which increasingly grapples with mounting financial pressures and dwindling and aging audiences. Many participants viewed these trends as the result of a failure to adapt to larger changes in the external environment, most notably shifting demographics and the complex impact of technology (as a form of competition for leisure time, as a shaper of consumer expectation and behavior and as a new expense category).

Many organizations want to adapt and respond to these changes, but their ability to do so is limited. As former AEA Consulting CEO Adrian Ellis noted, nonprofit arts organizations “are over-extended and under-capitalized, trying to do more things than they can possibly do well, with both human and financial resources too thinly spread. Lacking liquidity of reserves, cash-strapped and thinly spread between ever more diverse, fragmented pools of funding...[arts groups operate in a] scenario that, whilst allowing survival, offers very little scope for fundamental transformation into more responsive, adaptive, sustainable mission-led businesses, delivering cultural excellence to an even wider general public.”

Such fundamental transformation is now essential for many leading arts organizations if they wish to survive in the long term. The key purpose of the Nonprofit Finance Fund's new initiative is to support arts organizations committed to re-imagining their organizations and re-aligning their business models in light of changing external conditions, and to provide significant funds to propel planning and change. If the initiative is successful, grantees will establish new

operating structures and practices that will serve artists more effectively, elevate artistic achievement, bolster organizational capacity to address shifting external realities, and provide instructive examples and models to the larger performing arts fields.

In May, DDCF awarded the Nonprofit Finance Fund (NFF) a \$50,000 President's Planning Fund grant to develop an initiative designed to facilitate such transformation. In partnership with AEA Consulting, NFF conducted conversations with more than 20 different arts grantmakers around the country, assessing their interest in organizational transformation, their current funding practice in this area, their interest in future funding partnerships and their insights into both best practice and also "lessons learned" from past initiatives.

Researchers discovered that the number of foundations interested in supporting this work is growing quickly and that several initiatives have already been launched over the last 5-10 years (including most notably initiatives for orchestras at both the Knight Foundation and the Andrew W. Mellon Foundation, and an initiative for California arts groups at the James Irvine Foundation). To date, no national initiative has been launched that would benefit the contemporary dance, jazz, presenting and theatre fields.

Much of the other work in arts philanthropy has emphasized incremental responses, such as the creation of new programs or activities (e.g. the addition of arts education or audience outreach programs). For all of their merit, many initiatives have frequently failed to produce significant, sustainable results in part because of short grant periods, a tangential connection to core organizational mission, a fragmented approach and/or the limited impact of under-sized grants. Additionally, they have often failed to explore the full range of programmatic, financial and organizational dynamics that must be addressed if transformation is to occur:

- **Programs:** As project funding has replaced operating support as the primary form of arts subsidy, many arts groups have undertaken and created new programs at behest of funders—a situation that has promoted "mission creep" and inadvertently compounded organizational fragility. Simply adding programs—if not central to core mission and not fully funded—is likely to promote greater organizational disarray. With an eye to changing external conditions, arts organizations now must be prepared to refocus, realign and re-imagine all programs (including administrative, development and marketing programs) with respect to core mission, and approach the addition of any new programs in line with core strengths. This new initiative promotes a rigorous examination of the total spectrum of programs, with priority given to strategic refocusing, restructuring and, only as appropriate, expanding.

- **Capital structure and capitalization:** Existing financial structures at many organizations now also require realignment. Many organizational structures are still based on old assumptions about subscription income (which has been eclipsed by single-ticket income in the last five years) and technological expenses, for example. Decisions about marketing costs, investments in technology, facilities, development expenses and ticket prices are too rarely informed by a comprehensive review of the entire financial structure, rigorous cost benefit analysis, long-range planning and a guiding awareness of the force of emerging external trends. With so much changing on both the income and expense sides of the equation, organizations need clarification of capital structure and subsequent access to “transformational capital”—monies that can be directly, aggressively and intentionally used to reposition the organization.
- **Organizational culture:** At many organizations, the drive for change is driven by a small circle of leaders, often comprised of the managing and/or artistic director, a small subset of the board and a few key senior staff members. Any attempt to fundamentally change the organization, unless owned by a far broader group of staff and board, is unlikely to succeed. Success depends upon a broad group of stakeholders invested in change and committed to professional development for both staff and board. Organizations engaged in successful change are well informed but not risk-averse; they generally emphasize broad participation in decision-making, internal transparency, strong board-staff relations and a commitment to professional development/skill enhancement opportunities for leaders and staff alike.

While many arts organizations are realigning their programmatic, capital and organizational structures to varying degrees, this work tends to occur on an ad hoc basis. The new DDCF-funded initiative tries to counter this ad hoc nature and grows directly out of the lessons learned from other efforts in the field. The initiative is multi-year in nature, awards grants of significant size, embraces both planning and implementation phases of activity and takes a holistic approach in examining programs, finances and organizational culture. The desired impact of this initiative is to move leading arts organizations from a reactive to a proactive position by supporting re-focused missions, re-imagined programs, re-aligned business models in light of changing external conditions, and purposefully re-oriented organizational cultures.

The initiative will offer focused diagnostic analysis, technical assistance and “transformational capital”—grants of significant size that enable organizations to implement bold strategic change—over a total of four or five years. Successful grantees will move towards new operating structures and practices that will serve artists more effectively, elevate artistic achievement, bolster organizational capacity to respond to shifting external realities, and provide instructive examples and models to the larger performing arts fields of contemporary dance, jazz, presenting and theatre.

STRATEGIES & IMPLEMENTATION

The initiative will be administered by Nonprofit Finance Fund, which will be responsible for identifying and selecting re-grant recipients through the following process:

1. NFF will solicit nominations from the larger performing arts fields and will ultimately identify approximately 50-75 of the most important artistic organizations in contemporary dance, jazz, presenting and theatre from across the country. Nominated organizations will be notable for the quality of their artistic work and its impact on the larger field: the final roster of nominated groups is expected to embrace a wide range of organizational sizes, aesthetics, histories, cultures and points of view. This group will be invited to submit pre-proposals outlining their challenges, preliminary thinking and plans to reposition themselves for the future and responding to key questions around community citizenship, financial health and leadership history.
2. Pre-proposals will be evaluated by a peer panel. Based on the strength of the pre-proposals and the potential of a project to stimulate new practices in the larger performing arts field, up to 20 organizations will be invited to submit full proposals.
3. After conducting a detailed financial capacity and organizational cultural analysis of each of these 20 applicants, NFF will determine a final roster of an expected eight to 10 grant recipients. Grant recipients will consciously be chosen to embrace a range of budget sizes, disciplines, cultures and structures.

NFF will tailor individual grant amounts and grant periods based on each organization's unique capacity, goals and needs—an approach that reflects lessons learned from past DDCF initiatives. Grant amounts will reflect an organization's budget size and will range in total per organization between \$800,000 (for the smallest groups) and \$1.8 million (for the largest). Allowable use of DDCF grant funds will include (but not be limited to) creation of new programmatic initiatives, purchase of technology and software, expansion of existing staff, artist fees to support increased artist-audience interaction, creation of cash reserves to support relevant activities beyond DDCF's direct grant involvement, ongoing research and professional development. DDCF grant funds can not be used for "bricks and mortar" or facility-related capital expenses, endowments or ongoing support for existing programs.

As the foundation expects different grantees to be at different points of readiness to undertake new activities, NFF will award grants in two phases:

- As needed, organizations will receive up to one year of planning funds and technical assistance to define specific innovative activities, identify goals, establish benchmarks and create plans.
- Organizations will then receive funds and ongoing technical assistance (including but not limited to technical assistance provided directly by NFF) for implementing their plans in years two through five of the initiative, with annual measurement, re-projection and (if

necessary) re-definition of activities. Any organization that fails to meet its annual goals for two consecutive years will be retired from the program.

In addition, NFF will convene grantees annually for seminars, exploration of mutual areas of concern and peer-to-peer learning.

An outside evaluation team of consultants will gather baseline data, conduct annual progress assessments, compile multi-year data comparisons measuring participants against others in their fields, and submit a comprehensive assessment of the initiative to DDCF. At the conclusion of the initiative, NFF will create two to four case studies for publication and distribution to the larger performing arts community.

EXPECTED RESULTS

- ◆ Individually tailored technical assistance and re-grants to an anticipated eight to 10 organizations to support organizational repositioning.
- ◆ Two to four case studies produced and distributed to the larger performing arts field.
- ◆ Greater organizational effectiveness for initiative grantees, resulting from a deeper understanding of financial dynamics, new financial strategies, refinement and realignment of programs to mission, greater awareness of the external environment and increased emphasis on professional development for staff and board.

CHALLENGES AND RISKS

The arts community is experiencing seismic change, and the road to future success is not clearly defined. This initiative is designed to promote exploration, learning and change, rather than perpetuate old behaviors, replicate existing strategies or alleviate simple financial strain. DDCF believes that awarding multi-year, individually tailored, large grants builds on the lessons the foundation has learned to date, and that the proposed selection process will identify those leading organizations best positioned for success. However, the approach is designed to encourage bold responses by organizations looking to reposition themselves, not all of which may be successful. Additionally, unanticipated changes in leadership or in the external environment may complicate a group's participation in ways that cannot be anticipated.

For more information on this initiative, please visit www.nonprofitfinancefund.org.