

**New Directions/New Donors for the Arts**



WHAT WE'RE LEARNING:

# Cultivating Vibrant, Sustainable Arts Organizations

**FORD FOUNDATION**

# Cultivating Vibrant, Sustainable Arts Organizations

## OVERVIEW

### Working to Help Diverse and Daring Arts Institutions Build Stronger Financial Foundations

Young and established cultural organizations developing new, creative work face a common set of challenges when trying to stabilize finances and build a sturdy donor base. To help address these challenges, the Ford Foundation supported a group of 28 arts organizations with a \$40 million development program called New Directions/New Donors for the Arts.

Carried out between 2000 and 2003, the goal of the program was to support and stabilize arts institutions whose new artistic creativity and diverse audience appeal were not yet matched by firm financial foundations. The 28 organizations were selected from communities throughout the United States and drawn from a wide range of artistic disciplines.

#### *New Directions/New Donors was designed to:*

- Strengthen the organizations' permanent financial resources and capital bases by expanding and diversifying their individual donor pools, especially among the new generation of philanthropists
- Enhance governance and board leadership around fundraising
- Develop and share learning among similar organizations across the United States

The symbiotic relationship between fiscal strength and artistic risk-taking was at the core of the initiative. Each grant was structured to address the particular needs of the individual organization, and all were designed to build financial strength and sustainability. Grants created or expanded working capital; established general operating endowments and endowed funds for artistic activities; enhanced fundraising capacity; and supplemented artistic programming budgets, especially to offset the temporary impact of major fundraising efforts.

The program required the selected organizations to match the Ford Foundation grants, ranging from \$1 million to \$2.5 million, and to manage the funds effectively.

## How We Got Started

### Extending a Long Tradition of Arts Funding

The Ford Foundation has been a major funder of the arts since the 1940s. Between the late 1950s and 2000, the foundation committed more than \$600 million to the arts. Ford played a major role in the growth of regional theaters, symphony orchestras, ballet and modern dance companies. We also support the field as a whole by investing in professional associations and support groups that build the business and managerial acumen of the arts community.

In the late 1990s, Ford Foundation staff recognized the profound economic, demographic and technological changes in U.S. society that were reshaping the landscape for arts organizations. The organizations Ford selected

for the New Donors/New Directions initiative were already adopting strategies to respond to these changes by fostering creative new work and engaging diverse audiences.

The program hoped to spotlight the achievements of these organizations and catalyze interest from new donors, especially the new philanthropists emerging from the high-tech boom. The program also highlighted the foundation's continuing support for the field by reinforcing leading arts and cultural organizations.

### Designed to Test Approaches to Change

The program was built around two approaches to change. The first was an arts stabilization approach developed initially by the Ford Foundation in the 1970s and later adopted by the National Arts Stabilization Fund. It was launched in 1983 with support from the Ford, Mellon and Rockefeller foundations. Arts stabilization is based on the model of providing capital assets to arts organizations in a disciplined process of achieving a series of financial goals.

The second approach, practiced by the Nonprofit Finance Fund (NFF), engages with the organizations in a process of ongoing strategic planning. NFF, founded in 1980, provides loans and advisory services to nonprofit organizations. NFF views most arts organizations as hybrids of several business models, depending on their staff and board leadership; fundraising and marketing approaches; financial management; and program delivery. As such, their capitalization structures need to be customized and adjusted over time through ongoing strategic planning. Ford engaged the NFF to implement its grants and provide technical assistance to the grantees.

### What We Have Learned

#### There Is Both Science and Art in Building Arts Organizations

New Directions/New Donors encountered several challenges and delivered many positive results. Over the program's three years, the financial profiles of most of the 28 organizations improved, spurred by the grants themselves and the leverage they provided in attracting new donors. Individual giving increased, especially from the institutions' boards of trustees. The level of artistic activity also remained steady or rose during the grant period; among the achievements were world premieres, innovative artist-in-residence programs and major art exhibitions. The grantees met as a group four times to participate in peer learning and workshops on financial and governance issues.

To deepen and share lessons learned, NFF produced a series of six monographs, "Business of the Arts," addressing general issues of nonprofit capitalization and specific case studies. These well-received monographs constitute a solid legacy of expert analysis for the field.

#### Board Leadership Is Key to Increasing Donations

*On a range of artistic, financial and governance issues, the program had a measurable positive impact:*

- **Financial Improvement:** From 2000 to 2003, overall growth for 26 of the 28 grantees was substantial: \$82.7 million, increasing more than 87 percent of expectations.
- **Endowment Growth:** The 28 grantees raised a total of \$48.6 million in new endowment funds, at an average rate of 16 percent a year. As a group, the grantees reached 67 percent of the target for endowment growth.
- **Matching Grants:** Five of the 28 organizations achieved their matches. Thirteen raised 85 percent of the required match. The remaining organizations raised, on average, 53.5 percent of the required funds.

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- **Board Involvement:** For 20 of the organizations, trustee giving rose by 76.1 percent over the three-year period. Trustee giving as a percentage of overall support rose from 21.6 percent to 30.7 percent.
- **Individual Donations:** Annual contributions, including trustee giving, grew by 24.7 percent over the three years, against comparative growth in total operating expense of 15.7 percent over the same period. Annual non-trustee giving grew by 9.4 percent.
- **Artistic Investment:** The grantee organizations expanded their investment in artists, including guest artists and salary growth. As a percentage of operating budgets, artist salaries rose from an average of 22.5 percent to 24.4 percent.

### Building an Endowment Depends on Readiness to Grow

Throughout the program, organizational capacity became a central issue. The grantees' readiness for endowment building and grant matching varied considerably. Organizations in well developed fields—dance, theater and media—that started out with higher budgets achieved greater success because they were more experienced in planning major campaigns. Smaller organizations in less developed fields—literary arts, for example—and having not as much experience with individual giving found it more challenging to achieve grant-matching and endowment goals.

New Directions/New Donors did not insulate grantees from volatile trends in the economy from 2000 to 2003. Larger organizations were able to weather the harsh economic winds, but some organizations found it difficult to raise endowment funds while maintaining artistic activity and annual operating budgets. In May 2003, Ford acknowledged the difficult economic climate and modified the grant requirements so that all individual donations could be counted toward the match.

### Unique Institutions Need Tailored Approaches

The foundation expected that all grantees, despite their diversity, would benefit from the arts stabilization approach, relying on permanent endowment and working capital to achieve artistic and organizational goals. But this assumption was not appropriate for several organizations, especially for community-based, ethnically specific or new organizations that were still in the early stages of development.

In NFF's view, infusion of capital funds does not ensure organizational vitality or permanence. In fact, major funding from a single source can overwhelm organizational capacity, skew priorities and bypass the internal decision-making process needed to manage capital assets. Singling out organizations in local communities for large-scale, one-time funding at the national level also can hurt that organization's effectiveness in local fundraising.

In retrospect, more thinking about the evolution of varied nonprofits—specifically emerging theories around “learning organizations” that began to influence the nonprofit sector—could have been integrated into the New Directions/New Donors design phase. In this more entrepreneurial approach, organizational resilience is seen as the capacity to develop and implement strategies continuously, in response to actual changes in the external environment, while staying true to core values.

### Diversity Among Grantees Can Limit Shared Learning

The participating grantees were recognized innovators in their disciplines. But as a group they never developed into a true cohort. This lack of cohesion presented challenges in designing the joint grantee meetings and delivering technical assistance. Four such meetings were held, attended by artistic/executive staff and trustees. By all accounts, the grantees appreciated presentations by guest speakers on relevant subjects and opportunities to meet with foundation staff. What the meetings lacked was a more dynamic system of learning, tailored to individual organizations and reinforced by a strong culture built by the participants.

### How This Evaluation Was Conducted

This retrospective evaluation of New Directions/New Donors, conducted in the winter of 2003 and spring 2004, was intended to provide background about how the program originated, how it played out and how it performed relative to its objectives. Ford engaged a New York-based consulting firm with broad expertise in the arts and cultural sector, to conduct the evaluation. The firm used annual reports and other grantee documentation; financial data collected by NFF; additional data requested from grantees; site visits to 10 of the 28 grantee organizations; and interviews with 15 leaders in the cultural field, including current and former Ford Foundation staff, program officers at other national foundations and directors of service organizations.

### Organizations Supported

#### Dance

Alvin Ailey American Dance Theater  
Ballet Memphis  
Hubbard Street Dance Chicago  
San Francisco Ballet

#### Literature

The Academy of American Poets  
The Loft  
Western Folklife Center

#### Media

Appalshop  
Film Forum  
The Sundance Institute

#### Music

Jazz at Lincoln Center  
Kalamazoo Symphony Orchestra  
Saint Louis Symphony Orchestra

#### Opera/Musical Theater

Houston Grand Opera Association  
Opera Theatre of Saint Louis  
Prince Music Theater

#### Performing Arts

Brooklyn Academy of Music  
Flynn Center for the Performing Arts  
Guadalupe Cultural Arts Center  
New Jersey Performing Arts Center

#### Theater

Alabama Shakespeare Festival  
Center for Puppetry Arts  
Steppenwolf Theatre Company

#### Visual Arts

Isabella Stewart Gardner Museum  
Japanese American National Museum  
Mint Museum of Art  
SITE Santa Fe  
National Museum of the American Indian