



# SOUNDING BOARD

PERSPECTIVES ON NONPROFIT STRATEGIES FROM WOLFBROWN

v. 30

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## Is Sustainability Sustainable?

*By the principal consultants of WolfBrown, with Joanna Woronkovicz*

Historically, sustaining an arts organization meant generating enough earned and contributed revenue to fund current operations. With so much continued change and turmoil in the arts industry, WolfBrown set out to reconsider what sustainability means in 2011.

Why are some arts groups able to persevere – and even thrive – when they are chronically “under-capitalized” and perpetually on the brink of extinction? On the other hand, why are well-established, large institutions with sizable endowments filing for bankruptcy? What, besides strong finances, does sustainability require? Is it possible that financial security actually deters sustainability?

Reflecting back on several decades of work with funders and arts organizations, we propose a more nuanced and multi-dimensional view of sustainability – one that encompasses and transcends the current dialogue on capitalization, adaptive capacity and other elements of good management. In our view, sustainability requires a balancing act with three interdependent but sometimes competing priorities:

- **COMMUNITY RELEVANCE**
- **ARTISTIC VIBRANCY**
- **CAPITALIZATION**

Together, these elements give organizations the ability to excel in a permanent state of flux, uncertainty and creative tension.

*Is it possible that financial security actually deters sustainability?*



## Is Sustainability an Illusion?

On December 16th, 2002, the **San Jose Symphony** – having played to audiences for over 120 years – declared bankruptcy. Its assets were sold and an institution that had once been the pride of a growing city suddenly ceased to exist. Many were shocked; how could an arts organization with such a long history and sizeable endowment fail? Throughout the late 1990s, the orchestra's ticket sales had increased by fifty percent and government support remained stable. In the first fiscal year of the new millennium, however, ticket sales declined twelve percent. More significantly, private support for the orchestra decreased by half over a span of four years. While revenues decreased, expenses increased. At the opening of its 2002 season, the orchestra found itself in dire straits. Reluctantly, a weary board of directors, unable to reorganize and remain solvent, declared Chapter 7 bankruptcy.

Contrast this story to that of another nonprofit arts organization, the **Center for Puppetry Arts in Atlanta**, which opened 30 years ago when Kermit the Frog and his creator, the late Jim Henson, cut the ceremonial ribbon. Now a \$3.5 million organization, the Center's live performances, exhibits and distance learning programs generate roughly half a million visits annually. Demand for the Center's programs has remained

stable and expenses have been carefully controlled, producing consistent operating results. In response to a major donation to the Center from Jim Henson's family of puppets and other objects from their personal collection, a capital campaign is underway to renovate and expand the Center's facilities, including a commitment to raise additional endowment to cover increased operating expenses. While other organizations in Atlanta have struggled to raise sufficient capital for new facilities, the Center for Puppetry Arts sees great community demand for its expansion, which will enable it to double the number of unique visitors and increase operating revenues by seventy-five percent.

Seemingly sustainable in a financial sense, the San Jose Symphony was not able to rebound after a few difficult years. With its structural deficit exposed, the orchestra's value proposition to San Jose's diverse community was not sufficient to generate the level of support required to reorganize, nor was it able to rescale its operations to align with demand. In contrast, the Center for Puppetry Arts – consistently operating on shoestring budgets – continues to grow in relevance to its community and to be recognized for its managerial and artistic excellence by national as well as local funders.

## Towards a New Understanding of Sustainability

Side-by-side, these two short case studies illustrate why a new model of sustainability is required. Accumulation of capital alone is not sufficient to achieve sustainability and may in fact lead to a false sense of security. Nor is artistic excellence sufficient. Rather, three elements must work together to achieve a level of stability or "equilibrium" known as sustainability:

- **COMMUNITY RELEVANCE**
- **ARTISTIC VIBRANCY**
- **CAPITALIZATION**

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*The ability of an arts organization to focus simultaneously on all three will largely determine its success.*

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## The First Element

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### COMMUNITY RELEVANCE

Community relevance should be the first and foremost element of sustainability. It draws on a generosity of spirit and an authentic desire to serve one's community, allowing for a range of partnerships both inside and outside of the arts. Achieving relevance in the eyes of the community enables an arts organization to demonstrate its public value regularly. This goes far beyond conventional notions of education and outreach work or convenient strategies such as reduced-price tickets. In order to be relevant, an arts organization must first develop a diagnostic capacity to understand what its community needs and then refract that knowledge through its artistic vision and core capacities. This is not to ask the community what it wants, but to inform programming decisions with a sense of community need.

An indicator of community relevance is an organization's ability to achieve "collateral impact" through partnerships. In doing so, it demonstrates the essential role it plays in community development and civic dialogue. When times get tough, an arts group with high community relevance is seen as a community asset rather than an isolated, self-interested nonprofit with a financial problem.

Take for example, Big Thought, the Dallas-based nonprofit devoted to creative learning for children and youth. Since its founding in 1987, Big Thought's investments in financial, human and cultural capital have slowly paid off, garnering the attention of community leaders. Now, through its partnerships with numerous cultural programs and community service providers such as the Dallas County Juvenile Department, the Dallas Public Library, the city's Department of Cultural Affairs and the Dallas Independent School District, Big Thought has

reached an impressive scale of impact. While its programs and partners are not immune to shifting economic and political conditions, Big Thought is deeply embedded in the community. It provides an instructive example of the power of community relevance as a source of strength during challenging times.

Often, there is a natural tension between the needs of the community, which can be endless, and an organization's artistic vision and capacity. Balancing these two value systems is a constant give and take. Community relevance takes the form of:

- A philosophy of community engagement that transcends departments and programs;
- A diagnostic capacity through which information about the community is gathered and considered;
- A board-level accountability process that balances community outcomes with artistic aspirations;
- Programming collaborations and partnerships that extend impact and position the organization as a player in the larger community dialogue;
- Marketing partnerships that build awareness and extend the reach of programs to a range of audiences; and
- Programs that take place in venues and settings that engage the community.

Arts organizations that embed themselves in a larger dialogue about the challenges, hopes and aspirations of their community will be seen as indispensable. Those who do not will grow increasingly irrelevant and unsustainable.

## The Second Element

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### ARTISTIC VIBRANCY

Artistic vibrancy is the fuel of sustainability. A steady flow of creative programming is the lifeblood of an arts organization and the inspiration that motivates donors and engages the community. Yet, the creativity and robustness of an arts organization's programming process is often a taboo subject. Artistic vibrancy should not be conflated with "artistic excellence," which refers more narrowly to quality of artistry. Rather, artistic vibrancy stands for the whole of an organization's artistic health, including the quality of its programming processes.

Pam Tatge, director of the Center for the Arts at Wesleyan University, ensures the artistic vibrancy of her program through an inclusive process that integrates the needs of students, faculty and community members into every aspect of the Center's programs. Tatge collaborates with students and faculty on artist selection, invites non-arts faculty to collaborate with artists on new curricula, and positions art as a springboard for campus-wide discussion of current issues such as climate change. A participatory artistic event planned by an

interdisciplinary team has become the focal point of each year's Common Experience orientation for freshmen. By surrendering partial control of the programming process to key stakeholders, Tatge succeeds in attaining a high level of community relevance without compromising artistic standards. In fact, she is curating to a higher standard of accountability.

Artistic vibrancy is attainable regardless of budget size or the adventurousness of programs. Some of the most artistically vibrant arts groups we know are community theatres and music schools. Like Wesleyan, they choose to apply their artistic talents to engage a specific community in a two-way process of self-discovery. Artistic vibrancy is indicated by:

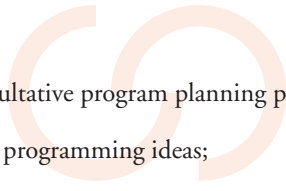
- Clarity on the desired outcomes of artistic work and open debate as to the right balance between artistic ideals and community needs;

### **The Third Element**

## **CAPITALIZATION**

The third element of sustainability – and servant of the other two – is that of capitalization and sound fiscal policy. The need for nonprofit arts groups to gain a more secure financial footing has been a recurring theme since the 1960s. The current industry dialogue on capitalization, led by The Kresge Foundation, Nonprofit Finance Fund (NFF) and others, once again brings into focus a helpful set of principles first advanced several decades ago. NFF identifies three purposes for capital: 1) liquidity (i.e., enough cash to meet operating needs); 2) adaptability (i.e., funds that offer flexibility in adjusting to changing circumstances); and 3) durability (i.e., funds to address the range of needs in future years). Like their counterparts in the commercial sector, nonprofit businesses require periodic infusions of capital to remain healthy. For some reason, however, the basic principle of capitalization – that return requires investment – has not yet taken root in the nonprofit arts sector.

Without good fiscal policy, capital disappears quickly. The A-B-C's of good financial management are as necessary today as they have ever been: containing costs, isolating financial risk, planning for surpluses, building reserves and depleting them strategically, and tracking against key metrics. For example, one prominent arts organization we know is re-stating its financial activity on a consolidated three-year basis, to shift focus away from short-term operating results.

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- An inclusive and consultative program planning process;
  - A full pipeline of new programming ideas;
  - A willingness to experiment with programming and the financial policies and capital for managing artistic risk;
  - Quality of artistry;
  - A commitment to artist development at all skill levels; and
  - Smart use of technologies in engaging audiences and communities in the artistic work

At the core of every arts organization is a creative process. Some of these processes are healthier than others. Artistically vibrant organizations are sustainable because they continually reimagine their programs and refresh their constituency. They open new doorways before old ones slam shut.

An example of an organization that has embraced the principles of capitalization is the Opera Company of Philadelphia (OCP). In 2008, OCP had an operating deficit of \$1.5 million, an \$850,000 working capital deficit and no reserves or endowment. Just three years later, OCP has \$1 million in positive working capital and a \$750,000 working capital reserve. Special funding commitments will enable the company to create a \$500,000 operating reserve and a \$1 million risk capital fund by the end of its 2012 fiscal year. Through careful attention to managing its finances while simultaneously articulating its capital needs, OCP transformed its financial position and laid the groundwork for raising additional capital.

Based on our work with a wide range of arts organizations, and learning from the work of others in this area, we distinguish between five categories of sustainable fiscal policy:

- A strong base of reliable, recurring revenue, and a cost structure that adapts to it;
- Sufficient funds, including unrestricted working capital to cover unanticipated shortfalls and other capital that allows for periodic investments in artistic opportunities and business model improvements;
- A compelling articulation of capital needs, and a long-term, board-activated plan for raising them;

- A culture of fundraising that permeates the board and every staff department within the organization and focuses everyone on renewing a broad base of support; and
- A disciplined, multi-year financial planning process driven by key performance measures, which can be adjusted regularly as conditions warrant.

Smart capitalization and good fiscal policy are tools of sustainability. But they are hammers, not nails. In most cases, financial distress is a symptom, not a cause, of

the problems arts groups face in becoming sustainable. Organizations that focus solely on finances in trying to achieve sustainability can lose their sense of vitality and purpose. This leads us to question the presumption of durability as a goal, when adaptability provides a sufficient platform for renewal.

## Embracing the Paradox of Sustainability

Other models of sustainability from years past include elements of “strong leadership,” “clarity of mission,” “adaptive capacity,” “willingness to innovate” and being “brand-driven.” These are baseline indicators of effective management. The road to sustainability, though, involves higher order constructs that go beyond the A-B-C’s of competent oversight.

Sustainability still matters in 2011, but not in the simplistic sense of financial security. It is not a business strategy. Nor should it be the focus of strategic planning. Rather, sustainability is a byproduct of high levels of community relevance, artistic vibrancy and proper capitalization.

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*...with a more nuanced understanding of what it takes to flourish in a permanently volatile business environment, arts groups may build a legacy of creative invention and gain the enduring support of their communities.*

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In looking across the arts ecosystem in a community, sustainability in the institutional sense becomes more compelling – and more problematic. The health of the ecology requires constant regeneration and renewal, which sometimes conflicts with institutional designs on permanence. Cultural leaders, therefore, have a paramount responsibility to the ecosystem, which necessarily means consolidating, re-imagining, or phasing out arts programs that are not delivering sufficient public value. The dissolution of the San Jose Symphony, for example, made way for Symphony Silicon Valley, a small and more nimble ensemble.

Permanence, stability and durability are illusory and perhaps even counterproductive ideals in today’s speed-of-light marketplace. In a sense, the pursuit of sustainability, as historically defined, is quixotic. But with a more nuanced understanding of what it takes to flourish in a permanently volatile business environment, arts groups may build a legacy of creative invention and gain the enduring support of their communities.

## Resources on Sustainability

We are indebted to the excellent work of other consultants, researchers, funders and cultural leaders, which we drew upon in our research for this article. They include the following:

Bailey, Jackie (Australia Council for the Arts), “Defining Artistic Vibrancy.”

Culbert, Jane, William Keens, Laura Lewis Mandales and Thomas Wolf (Wolf, Keens & Company), “Rethinking Stabilization: Strengthening Arts Organizations in Times of Change,” Strategic Grantmaker Services, 1996. (To obtain a copy, contact the WolfBrown office at 617-494-9300)

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Wolf, Thomas (Wolf, Keens & Company), “The Search For Shining Eyes: Audiences, Leadership and Change in the Symphony Orchestra Field,” commissioned by the John S. and James L. Knight Foundation, 2006.

York, Peter (TCC Group), “The Sustainability Formula: How Nonprofit Organizations Can Thrive in the Emerging Economy.”

## HOW WILL YOU ENGAGE THE FUTURE?

WolfBrown guides foundations, government agencies, and nonprofit organizations in fulfilling their missions. Services include program design and evaluation, strategy development and sustainability planning, resource development, impact assessment, audience and cultural participation research.

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