

Arts Service Organizations: A Study of Impact and Capacity

The Boston Foundation



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The Boston Lyric Opera's September 2002 presentation of Bizet's *Carmen* attracted 140,000 people to two free performances on the Boston Common.

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Preface

One of the primary roles played by the Boston Foundation in the Greater Boston community is to serve as a center of information and inquiry. In the process of listening and sharing ideas, all residents and those working in every sector gain a greater understanding of how this city, state and region work—and are better equipped to meet challenges, identify the levers for change, and develop common agendas for the future.

This was the spirit in which the Boston Foundation convened the Cultural Task Force in early 2003. The Foundation had just released a detailed report, *Funding for Cultural Organizations in Greater Boston and Nine Other Metropolitan Areas*, which helped to develop a broader understanding of the difficult fiscal environment in which arts and cultural organizations operate. Next, we turned to 64 nonprofit, corporate, civic and philanthropic leaders to identify ways to increase investment in our nonprofit cultural sector. A year later, we released their response: *Culture is Our Common Wealth: An Action Agenda to Enhance Revenues and Resources for Massachusetts Cultural Organizations*.

The Task Force identified myriad ways that all of us—foundations, corporations, state and municipal governments, leaders and board members of cultural organizations, and individual donors—could take action to strengthen the cultural organizations we value. It also pointed to three principal strategies that have the greatest potential to strengthen all parts of the sector, including individual working artists, large institutions, and small community-based agencies. These are: first, significant, sustained state investment in cultural facilities; second, greater attention to the growth and development of cultural tourism; and, finally, a greater investment in the sector's service and advocacy organizations.

Arts service organizations are, in many ways, the unacknowledged gems of the cultural ecosystem. They play an important role in supporting the work of artists and nonprofit agencies and in developing the sector's cohesion and ability to meet its collective needs. However, many of them fall short in meeting their own operational needs. This, in turn, limits their impact. How can foundation investment be targeted to leverage change and build the capacity of key arts service organizations?

To address this question, the Foundation used several tools—grantmaking and independent research and analysis—to balance the theoretical with the practical, the current reality with what could be. With an eye on the larger nonprofit context, which is one of unparalleled growth and increased competition for resources, the answer came back: consider mergers, strategic alliances, and shared operations.

This is a message that other parts of the cultural sector, and indeed, the entire nonprofit sector should hear. Of course, we realize that mergers, alliances, and shared functional operations are not for every nonprofit, or even for most. These are complex strategies best left to highly motivated nonprofits that are prepared for hard work and significant change. But these options, which hold great potential for improving operational effectiveness, broadening constituencies, and enhancing programs, should be on the table for consideration.

One of the Foundation's roles in fostering a deeper understanding of Boston is to make sure that all available alternatives are clearly understood—whether they are faced by nonprofit executives, donors and funders, or civic leaders. With this publication, we've asked and answered some important questions about a select segment of the nonprofit cultural sector. Readers will immediately identify other unanswered questions: Which arts service organizations will take up this challenge to consolidate operations? What does this mean for those that don't? What other parts of the nonprofit sector could benefit by considering mergers, strategic alliances, and shared operations?

Once again, I am pleased to present a publication that frames the issues, asks the right questions, and makes powerful recommendations for targeted change. As our understanding of the cultural sector grows, along with our knowledge of the issues faced by all of Greater Boston's nonprofits as well as the residents they serve, we will be far better equipped to face up to future challenges.



Paul S. Grogan
President and CEO
The Boston Foundation

Introduction and Executive Summary

Arts service organizations, the topic of this study by the nonprofit management consulting firm TDC, are an important, but poorly understood segment of the arts sector. Indeed, the Boston Foundation Cultural Task Force, meeting from April 2003 through March 2004, spent a good deal of time discussing the sector's service organizations, often without realizing that this was the topic.

The Cultural Task Force, a broadly representative group of 64 leaders from the nonprofit, philanthropic, and corporate sectors, was convened to develop strategies that would enhance the revenues and resources available to Massachusetts' nonprofit cultural organizations. Meeting in five committees, the Task Force explored best practices nationwide, conducted surveys and scans of the current operating and regulatory environment for cultural nonprofits, and conferred with colleagues across the state.

The Collaboration committee's appendix on best practices in collaboration and resource sharing includes arts service organizations as varied as the Pittsburgh Cultural Trust's in-house Shared Services Division, which combines the purchasing power of nearly 10 nonprofits with the ticket operations of about 40 small organizations; the Alliance of Resident Theatres/New York, which provides low cost office and rehearsal space, technical assistance and capital financing; and, the Greater Philadelphia Cultural Alliance, which provides marketing, a grants program, as well as advocacy for its members.

At the same time, the Philanthropy committee noted the need for board training in governance and fundraising, the Facilities group talked about the importance of technical assistance in planning building projects, and Tourism yearned for the kind of collaborative relationships that had raised the tourist profile of Philadelphia and Washington, DC.

Each group was talking about the kinds of activities provided by a robust nonprofit service sector. As a result, service organizations played a key role in the

group's comprehensive set of recommendations. Three principal strategies, those with the greatest potential for positive impact on all parts of the sector, headed the Task Force's action agenda: significant, sustained state investment in cultural facilities; growth and development of cultural tourism; and, "greater investment in service and advocacy organizations to develop the sector's cohesion and enhance its ability to meet its collective needs."¹

In any given nonprofit sector, service organizations play a significant supporting role by providing technical and management assistance, operational services such as collaborative buying or group marketing, and opportunities for collaborative learning and group solidarity with agencies that share similar characteristics. By handling or supporting the functions that nonprofits may not have the staff or expertise to tackle alone, service organizations help their participants act as if they had achieved a larger scale of operation while freeing them to focus on their core mission and programs.

Greater Boston's arts and cultural sector is relatively underserved by such agencies. Of those that are active here, few are of the necessary scale to operate as the peers of major nonprofits, businesses or governmental agencies.

However, there is increasing recognition of the need for service organizations and a parallel movement among the service organizations themselves to enhance their offerings as well as their own internal management, making this a propitious moment to invest in this part of the cultural sector.

In 2003, with funding from an anonymous foundation, the Boston Foundation launched a two-year Initiative to Strengthen Arts Service Organizations. The goal of this initiative, which provided \$360,000 in new funding to a resource-starved arena, was to enable local arts service organizations (ASOs) to strengthen their own infrastructure while they continued to help other small nonprofits and individual artists manage

¹ "Culture is Our Common Wealth: An Action Agenda to Enhance Revenues and Resources for Massachusetts Cultural Organizations." The Boston Foundation 2004, page 5 and 72.

better. The collaborating foundations also hoped to learn more about the field in general and about Boston's ASOs in particular.

This study, commissioned as part of the initiative process, reviews the role and impact of arts service organizations operating in other cities as well as at the national level. With a focus on the local arts service sector, the study takes an in-depth look at the organizations funded through the Initiative and outlines a key strategy for the support of this important segment of the cultural sector.

Arts service organizations are commonly understood to be nonprofits that serve and enhance the capacity of arts organizations and/or individual artists, but are not themselves involved in producing or presenting art or artists. They may be national, regional, or local in scope. They may focus their work based on a particular art form (dance, sculpture), type of organizational member (museums, theaters, presenting organizations), or by the services they provide (marketing, advocacy). Alternatively, ASOs may be focused on artists or arts organizations in a particular region, or those with a particular gender, ethnicity or language base.

The services ASOs provide to their constituencies include audience development, research, professional development, and access to shared services such as health insurance, office supplies, and marketing. Some also provide access to grants, loans or other means of financial support, while others include advocacy in their missions. The potential impact of these services is increased public involvement in the arts, more sustainable arts organizations and better supported artists, and the availability of a diverse selection of high quality artistic presentations.

But do Boston's arts service organizations have the capacity to help our cultural sector realize this ideal? For the most part, the answer must be no. Ironically, given that their services help other nonprofits achieve certain economies of scale and function as if they were larger operations, Boston's ASOs—with certain notable exceptions—do not have the budgets or staff capacities for real impact. The programs and services that these agencies offer are of good quality, but because of the ASOs' own limitations, the services are not of the depth or scale to meet the needs of the

market. Nearly a third of the organizations funded by the 2003/2004 Initiative showed deficits that ranged from \$100 to over \$100,000, a range of 1% to 26% of the given agency's budget. Ten of the 14 organizations had two or fewer staff, typically an executive director and assistant. All but three had annual budgets below \$500,000 and half of the group had budgets under \$250,000. Service organizations are caught in a difficult cycle of small budgets, minimal staff, limited programming, and low fees, resulting in curtailed impact.

Revenues, whether earned or contributed, are not available to solve this resource dilemma. Fees for services or memberships are typically minimal, reflecting the ASOs' constituency of small, often under-resourced nonprofits and poorly paid individual artists. Individual donors are not aware of the work of ASOs, and prefer to direct their cultural giving to the larger museums and theaters they patronize. Only the Massachusetts Cultural Council, a state agency, provides grants for general operating support, but these are based on budget size and so tend to be small. Of Boston's private foundations that invest in the arts sector, none make general operating support grants. Instead, these foundations look for targeted opportunities to invest in growth or change, limiting opportunities to apply for project based funding to a few of the higher capacity ASOs. Most ASOs are less competitive for the market's limited resources because they have not achieved the scale or scope of programs to be visible and important to the philanthropic sector. But if limited awareness of their impact reduces contributed income, how can ASOs achieve the scale necessary to expand that impact and recognition?

There is great, if unrealized potential within Metro Boston's arts service organizations. But this potential can only be reached if a select few of these agencies choose to combine their assets to create organizations with greater capacity, stronger impact, and higher visibility through mergers, alliances, or the sharing of back office operations.

By combining functions, these organizations could achieve a larger scale of operations, increase the depth and quality of services, realize quantifiable cost savings, and attract greater visibility in the philanthropic sector. But, the decision to merge or form an alliance must come from the agencies' own

strategic planning processes, rather than from a need to chase funding. An effective merger or alliance will require too much work and financial investment to be undertaken lightly, and will not be appropriate for many of Boston's arts service organizations.

Organizational restructuring is a complex undertaking that demands a high level of engagement and honesty between funder and nonprofit leadership. While Metro Boston's current funding structures will not change easily or quickly to accommodate the arts sector's need for stronger, better-resourced service organizations, foundations can take the lead in building greater awareness of the service sector and its impact on the arts, while being strategic about deploying their limited grant dollars. At the same time, arts service organizations must think creatively about how they can address issues of financial health and increased capacity by restructuring their operations to achieve the scale and impact necessary to attract the funding they need.

Above all, this study asks both the philanthropic community and the arts service sector to think hard about how these nonprofits can best be moved to the next level by addressing issues of funding, scale, and service through mergers, strategic alliances, and the sharing of back office systems.