*Image provided by Dallas Black Dance Theatre. Local Profile, dancer Sean J. Smith; photo by Cori Baker, Dallas, TX.*

# The Alchemy of High-Performing Arts Organizations, Part II: A Spotlight on Organizations of Color

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**As we begin — albeit slowly — to emerge from the ravages of  the COVID-19 pandemic,** many arts organizations are turning their sights to not only reopening, but reopening in ways that better connect them with a broader swath of the community.

As Simon Woods, the CEO of the League of American Orchestras, wrote in a February 28 letter to *The New York Times*: "After a pandemic that has asymmetrically affected those who have less, and who are marginalized or oppressed, orchestras — and all arts organizations — must come back with a new will to engage with their whole communities."

Toward this reimagining, arts organizations nationally might look for inspiration to those among them whose missions center on serving communities of color.

This study, *The Alchemy of High-Performing Arts Organizations, Part II: A Spotlight on Organizations of Color*, is a step toward that end. It provides a glimpse of how leaders of 21 organizations of color, including dance, music, theater, multidisciplinary performing arts, and community-based arts organizations, see their organizations' journey to organizational health.
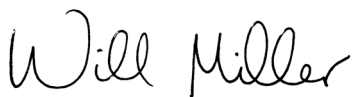
As a follow-up to their widely read 2020 study, *The Alchemy of High-Performing Arts Organizations*, researchers Zannie and Glenn Voss used the same approach: They identified a set of high-performing arts organizations of color through a quantitative method called stochastic frontier analysis that allowed them to identify outperformance regardless of organizational size and other factors. They then interviewed the organizations' leaders to create a "mental map" based on the "theories in use" by those leaders to guide their actions over time.

Success for these organizations, the researchers heard, didn't happen overnight, but took "a slow, controlled burn." The leaders of these organizations viewed the cornerstones of organizational health to be community orientation and high-quality programming — replicating the findings in the original study. Similarly, key internal factors the leaders credited as enabling high performance included mission alignment, positive organizational culture, investments in marketing and fundraising, a multiyear time horizon, and the discipline to live within your means.

Yet leaders of arts organizations of color also revealed differences in perspective. They put even *more* emphasis on community orientation, and saw it deepening over time. They also reported facing different challenges that deserve to be addressed including racism, gentrification, and unequal access to funding.

It's important to note that the "mental map" uncovered by the researchers is not a tested recipe for success. As the authors note, "There is no shortcut to financial success, nor a single silver bullet," and "The current external challenges are unprecedented, and will be, for some, insurmountable."

Nonetheless, we hope this study will stimulate new thinking about how, as one leader put it, arts organizations can "walk alongside people," serving their communities, their art forms, and their own organizational health.

**Will Miller**
**President, The Wallace Foundation**
March 2021

What lessons can we learn about relevance and resilience from high-performing arts organizations that primarily serve communities of color?

How do they establish and maintain deep connections with the communities they serve and that sustain them, and what are the distinctive challenges they encounter in doing so?

This paper, based on research conducted during August and September of 2020, shares findings from a second phase of research investigating the elements of successful strategies employed by high-performing arts organizations. Phase I, conducted in early 2020, examined the strategies employed by 10 visual and performing arts organizations that financially outperformed others and 10 that once performed poorly but engineered a turnaround. It also explored the conditions in which these strategies appeared to succeed.

Phase II explores whether findings similar to those of Phase I would emerge with high-performing organizations in the performing and community-based arts sectors that primarily serve communities of color,[1] with lower average budget size than those in the initial cohort, and during the COVID-19 pandemic. Despite the pandemic and key differences in organizational characteristics, many of the elements described by leaders of these organizations of color were identical to those that emerged in Phase I while others were depicted quite differently, and several new elements and connections emerged.

As of the writing of this report, bans on large gatherings have prompted the indefinite shuttering of all in-person programs for organizations in many markets, including those that participated in this study. We hope these findings will be helpful to organizations as they work to emerge from the pandemic.

Specifically, in Phase II we examined the following research questions: 1) What are examples of performing arts and community-based arts organizations of color that have financially outperformed others in substantial ways? 2) What kinds of strategies were used to achieve this financial performance? and 3) Were there particular contexts or conditions in which these strategies seemed to be more effective?

To identify high performance on a variety of financial and operating metrics, we analyzed data from over 5,000 organizations around the country to estimate

the "highest" feasible performance level an organization might attain under different conditions and with different sets of inputs. This analytical method is called stochastic frontier analysis. Given the same conditions and with the same set of inputs, high-performing organizations come close to achieving the maximum performance that is reasonably possible. In this case, inputs are the characteristics of the organization (e.g., budget size, arts sector, organizational age, square footage, whether it seeks primarily to serve a specific audience demographic, etc.) and the community in which it operates (e.g., median age and income, cost of living, population, number of local arts organizations, etc.). This approach allows us to create a level playing field and focus on organizations that outperform expectations given their context, thereby avoiding the pitfall of equating high performance with larger budget size.

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[1] We have chosen to use the terminology "communities of color" and "arts organizations of color" in keeping with organizations such as the Coalition of Communities of Color as well as the ways in which participants in this study referenced themselves and their communities, with recognition that any attempt to speak of a variety of heritages and cultures as a group is fraught with imperfection. These terms, used for purposes of brevity, refer to people of Asian, African, Hispanic/Latinx, Indigenous, Arab, or multiracial descent. We acknowledge, celebrate, and honor each of these individual communities' rich artistic and cultural traditions, as well as the diversity of individuals and preferences among them. We acknowledge that using such terminology can be construed as an effort to sanitize historical and current segregation, discrimination, or exclusion that is unique to each group. This is not our intent. Our intent is to reflect the positive affirmation of identity that came across in interviews, which we share in this report.

We identified and interviewed leaders of 11 performing arts organizations in the dance, music/orchestra, theater, performing arts center, and multidisciplinary performing arts sectors, as well as 10 leaders of community-based arts organizations (CBOs) in the folk arts, cultural and ethnic awareness, and general arts and culture sectors[2] with a track record of high performance along seven financial and operating metrics in recent years.[3] These 21 organizations each self-identify as primarily serving Black, Indigenous, Hispanic/Latinx, Arab American, or Asian American communities through their mission-related work.[4] Their annual budgets ranged from $146,000 to $15 million.

To understand how these organizations achieved high performance, we then conducted interviews with the individuals who lead them. Based on recurring themes that surfaced in the interviews, we built a theoretical model for success, which can be empirically tested in future research.

Throughout the report we share strategies, insights, and advice from successful arts leaders in their own words. The findings from Phase II, while largely consistent with Phase I findings, included some important nuanced differences that are embedded into the descriptions below, and elaborated upon in the full report. We heard that success takes a slow, controlled burn. These leaders recognize that there are multiple steps in the process rather than assume there will be a miracle moment or single action that leads to success. In speaking to their strategies and plans, **they described the following elements** of a kind of "mental map," or playbook, **linking their strategic choices and decisions to outcomes:**

- **The cornerstones of high performance appear to lie in the alchemy between community orientation and high-quality programs.** According to arts leaders, therein lies the formula for strategic vision, or the organization's answer to the question, **"How will you have created value, and for whom?"** An executive director shared: "We have really built a community around outstanding theatre and education programs. Artists want to work here, fans want to come, funders want to support it."

- **Strong cornerstones of a strategic vision lead to the following short-term outcomes:** tactical wins that inspire confidence and excitement, a stronger brand, a high-functioning board, and community relationship development and buy-in.

- **Environmental factor**s such as racism, gentrification, lack of access to institutional funding, and the crises of COVID-19 and racial unrest **challenge an organization's ability to achieve short-term gains.**

- A number of **internal factors moderate** or regulate **the organization's ability to translate these cornerstones into positive short-term outcomes,** including mission alignment, adaptive capabilities, investments in marketing and fundraising, a multiyear horizon, and a healthy culture that invites participation.

- **Short-term outcomes** provide a feedback loop that reinforces the cornerstones of strategic vision. **They also lead to the intermediary outcome of deeper community and donor engagement,** provided the organization continues to invest in relationship-building.

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[2] For more information on the list of arts and cultural disciplines by NTEE code that comprise the distinct category of CBO sector referenced in this paper, see **culturaldata.org/pages/research-methodology**.

[3] Please see Appendix A1 for details on methodology and participating organizations.

[4] We identified organizations for this study based on their response to the following questions in SMU DataArts' Cultural Data Profile (CDP): Does your organization primarily serve a particular racial/ethnic group? If yes, primary racial/ethnic group served?

- **The deeper relationships then lead to increased revenues from audiences and donors and greater organizational capacity, if the community has the means to elevate its level of support and the organization has equitable access to institutional funding.** When organizations operate in environments that are lacking fertile ground for revenue growth and they serve economically disadvantaged communities, they tend to remain relatively small but can achieve financial stability nonetheless. It is important to acknowledge that while some organizations that want to grow face challenges, growth is not a universal ambition and unbalanced growth can be detrimental to long-term health.

- **Intermediate outcomes of increased engagement, financial support, and organizational capacity** reinforce an organization's community orientation and advance its ability to achieve high-quality programming standards. They **also lead to financial sustainability, provided the organization has discipline.** Arts and cultural organizations exist for mission fulfillment, not financial sustainability. Yet the long-term outcome of financial sustainability undergirds the ability to maximize mission success.

It is of note that over 80% of the arts leaders we interviewed in Phase II indicated that their organization is financially solid this year despite the COVID crisis. Their stability may be attributable to the elements that surfaced during our interviews: clear strategies, solid financial starting place heading into the pandemic, strong internal and external relationships, adaptive capabilities, discipline, and alchemy of high standards in the creation of work that is deeply meaningful to the local community. This is not to minimize the difficulties faced by the remaining organizations or to assume that financial stability will endure next year should these difficult extenuating circumstances persist.

This paper is designed to share lessons from interviewees and offer ideas to organizations that seek a path linking strategy and financial sustainability. Phase II

interviews reinforced the conceptual model that emerged from interviews in Phase I, with some important nuances. These organizations repeatedly described how their reason for being is rooted in serving their communities' needs through high-quality art and arts education, and how deeply embedded they are in the fabric of the community. More than half were created to meet unmet needs where no local similar services existed or where there was a lack of opportunities for artists of color. In contrast to leaders interviewed in Phase I of this research, none of the organization leaders mentioned changing consumer preferences or declining participation as obstacles.

The interviews also brought to light challenges faced by these organizations of color that deserve attention. Commonly identified external hurdles unique to these organizations are racism, gentrification, and lack of access to funding, which some see as elements of white supremacy culture. Interviewees noted that **when organizations of color seek to grow and serve low-income communities, their ability to expand is inhibited** by a participant base that does not have the means itself to generate substantial earned revenue and individual contributions, and by lack of access to corporate and foundation funding at levels equitable to those provided to their peers that do not primarily serve communities of color. The absence of an engine for revenue growth appears to perpetuate critical organizational capacity shortages reflected in burnout, low wages, and insufficient staffing, particularly in the administrative areas that generate revenue. It also limits the number of people that can be served. When organizations of color operate in and serve communities with greater means, they are able to attract sufficient financial resources to fuel growth. However, according to many of those interviewed, they, too, are constrained by comparatively low compensation levels and insufficient organizational capacity, which leads to difficulty recruiting high-caliber talent and burnout for those who stay.

## INTRODUCTION

Now more than ever, it is important to understand the elements of successful strategies that fuel financial stability for arts and cultural organizations with a mission focused on primarily serving Black, Indigenous, Hispanic/Latinx, Arab American, and/or Asian American communities, hereafter referred to as "communities of color." **The COVID-19 pandemic and recent racial injustice unrest have laid bare the inequities that these communities face,** as evidenced, for example, by the surge in hate crimes to a 10-year high in 2019 (Arango 2020) and their continued rise in 2020 (Anti-Defamation League 2020), a 55% increase in the number of white nationalist groups in the U.S. since 2017 (Southern Poverty Law Center 2020), and the senseless and inhumane recent killings of George Floyd, Breonna Taylor, and Ahmaud Arbery, among many others.

Research has shown that **the field of nonprofit arts and culture itself has not been inclusive of communities of color.** Studies in numerous markets have revealed that the general profile of the arts and culture workforce underrepresents the racial and ethnic diversity of the communities where the organizations are located, despite an uptick in involvement by a more racially diverse, younger generation (SMU DataArts 2019a, 2019b, 2019c). Similarly, a variety of studies reveal that there remains a significant gap in racial representation between arts audiences and the general population (National Endowment for the Arts 2015; Park, Voss, and Voss 2020; Benoit-Bryan et al. 2020). Arts and cultural organizations that have roots predominantly in Western Eurocentric traditions and culture are routinely criticized as elitist and exclusionary despite publicly espoused values of equity, diversity, and inclusion (EDI) and dedicated grantmaker support for EDI initiatives.[5]

Yet **there are organizations whose work is rooted in communities of color that receive far less support, recognition, and attention from funders and society as a whole** (Dao-Shah and Faust 2018; Dorsey, Bradach and Kim 2020; National Association of Latino

Arts and Cultures 2018). Sidford and Frasz (2017, p. 7) reported that while people of color represent 37% of the U.S. population, only 4% of foundation funding flows to organizations that primarily serve communities of color. Prejudices in the arts, as in the marketplace as a whole, may manifest as a subtle failure to include diverse communities rather than an overt attempt to exclude them (Bennett, Hill, and Oleksiuk 2013).

**In this paper, we spotlight high-performing arts organizations of color and the strategic elements that their leaders recognize as drivers of success.** It builds on recent research studies on the health, needs, and support of Black theatre (Anderson 2018), Black dance (International Association of Blacks in Dance 2020), New York City organizations of color (Yancey Consulting 2018), and ethnocultural organizations in the U.S. and Canada (Para Matlon, Von Haastrecht, and Wittig Mengüç 2014), among others.

### IDENTIFYING HIGH-PERFORMING ORGANIZATIONS

We identified high-performing organizations through stochastic frontier analysis, an analytic method that allows us to compare an organization's financial and operating performance to the highest feasible performance expected from similar organizations in similar communities. It is important to take into account each

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[5] See, for example:
- *Dear White American Theatre* (2020), retrieved from **weseeyouwat.com/statement**.
- "Black Artists on How to Change Classical Music," *The New York Times*, Interviews by Zachary Woolfe and Joshua Barone (2020, July 16), retrieved from **nytimes.com/2020/07/16/arts/music/black-classical-music-opera**.
- Deng, Boer (2015, August 17), "Ballet Is More Diverse Than Ever. Why Is the Audience Still So White?" *The Washington Post*, retrieved from **washingtonpost.com/posteverything/wp/2015/08/17/ballet-is-more-diverse-than-ever-why-is-the-audience-still-so-white?**

organization's context to get to as level a playing field as possible before considering whether the organization is performing above or below average, all else being equal. It helps us answer questions such as, "Given this organization's characteristics and the characteristics of its market, what would we expect its average annual attendance to be, and what would be the highest level of attendance one might reasonably observe?" The data reveal, for example, that the average large art museum in a densely populated community has higher average annual attendance than the average small dance company in a small town, so it would be misguided and inequitable to assess the highest level of attendance one might reasonably observe for the two without taking into account budget size, arts, sector, and community characteristics.

We know that some organizations that are similar in every way still perform differently than one another. Intangible assets like good decision-making, artistic and managerial expertise, reputation, and relationships all influence an organization's performance. Because these traits are, by nature, intangible, we cannot easily measure them. And yet we all know how important they are, and we can statistically estimate how much these intangibles play a role in setting an organization apart from others like it in similar markets. In fact, our qualitative data collection with leaders of arts organizations during the course of this project underscored the critical importance of intangible assets to achieving high performance.

Our analyses focused on a 4-7 year arc of context-controlled, relative performance on seven financial and operating outcomes: working capital and debt ratio, unrestricted contributions from individuals, community engagement, occupancy expense, surplus/deficit, revenue diversity, and revenue from subscriptions and memberships (for performing arts organizations) or revenue from institutional funders (for CBOs). From a listing of organizations that met the selection criteria for high performance, we identified those that self-identify as primarily serving communities of color.

We narrowed the list to 11 performing arts organizations of color that span the dance, music/orchestra, theater, and multidisciplinary performing arts sectors, and 10 CBOs of color with a track record of high performance. The performing arts organizations have a median budget of $1.4 million and a mean budget of $2.7 million. They range in annual budget size from $278,000 to $15 million (i.e., average total annual expenses over the period). The CBOs tend to have significantly smaller annual budget size. Those included in this study have a median budget of $486,000 and a mean budget of $639,000. Their annual budgets range from $146,000 to $2 million. Nine of the 21 organizations are led by founders or co-founders who have been at the helm of the organization for over 20 years. (For details on methodology, selection process, and information on participating organizations, see Appendix A1.)

## ARTS LEADER INTERVIEWS

Once we identified arts organizations of color that have financially outperformed others in substantial ways, the next step was to explore the elements of successful strategies, how they relate to financial sustainability, and the contexts or conditions in which these strategies seemed to be more effective. To do so, we spoke with leaders of the 21 organizations and followed a **theories-in-use methodology, a theory-building approach that seeks to capture the mental model of how things work from the perspective of individuals who are closest to the problem** (Zeithaml et al. 2020). (For details on the theories-in-use methodology and interview questions, please see Appendix A2.)

Common themes emerged across the performing arts organizations and CBOs included in this study and largely reflected the themes that emerged in Phase I of this research, which culminated in the report *The Alchemy of High-Performing Arts Organizations*, with some notable differences (Voss and Voss 2020).

Success is not accidental for these organizational leaders,

who spoke to their strategies and strategic plans. They possess a "mental map," or playbook, for how success happens. As one CEO remarked, "Our success is based on the quality of the program and the true impact and what it's doing for those lives in the short term and long term." Grounded action plans for achieving goals recognize multiple steps in the process rather than assume that a single action or miracle moment will provide transformation (Collins 2005). **The synthesis of commonalities across those mental maps forms the basis of these findings and the conceptual blueprint for achieving high performance.**

In the following sections, we address the importance of recognizing the contexts in which participating organizations were founded, then provide a comparative summary of findings from this study with those from Phase I of this research. For the remainder of the report, we focus exclusively on the current study and provide greater detail on key findings, describe the conceptual model linking strategy and financial stability relayed by project participants and supported by quotes from organizational leaders, and discuss limitations and future research.

## THE IMPORTANCE OF ORIGIN STORIES

To understand the current-day situation of these organizations, it is important to **recognize the contexts in which they were formed.** Origin stories can influence an organization's culture and mission, and help explain why its strategies follow a particular direction or why its relationships thrive. An executive director commented: "We were founded in one of the lowest income zip codes in [our city] to serve a community that had no other access to opportunities as dancers, or see their culture celebrated through dance. This links us to the African American community."

Moreover, organizations have the potential to effectively use rhetorical history as a strategic asset when their past aligns with the wider historical culture in their

community (Foster et al. 2017; Smith and Simeone 2017). Perhaps no other organization embodies this notion more than the Apollo Theater, from which we heard: "An incredibly important element to the success that cannot be underestimated is a historic rooting in our community. The Apollo is unthinkable without Harlem, and Harlem is unthinkable without the Apollo. Being embedded in the neighborhood and being part of this community is the lifeblood of this organization. This is a key to its success."

The genesis of the organizations included in this study followed **one of three premises:**

1. Two performing arts organizations and three CBOs were **founded by an artist with vision** for the kind of work s/he wanted to create.

2. Others were **created in response to lack of opportunity in the community.** Seven performing arts organizations were created in communities that lacked opportunities for artists of color. These organizations met a need of providing artistic opportunities where none existed. Four CBOs were established to meet an unmet community need, where no local opportunities for similar services existed.

3. Still others were founded to **preserve cultural traditions or celebrate a culture,** as was the case for two performing arts organizations and three CBOs.

## COMPARISON OF PHASE I AND PHASE II RESULTS

As stated above, this study represents a second phase of research on high-performing arts organizations, the first of which culminated in the report *The Alchemy of High-Performing Arts Organizations* (see the Sidebar for a Phase I Report Summary). There were three major differences in organizational characteristics between Cohort 1 (Phase I organizations) and Cohort 2 (Phase II organizations):

1. Cohort 1 was comprised of visual and performing arts organizations that do not necessarily focus primarily on

serving communities of color, whereas Cohort 2 shines a spotlight exclusively on performing arts organizations and CBOs that primarily serve communities of color.

2. Cohort 1 included both high-performing and turn-around organizations, whereas Cohort 2 organizations were all identified as high-performing over a 4-7 year arc of context-controlled, relative performance.

3. Cohort 1 organizations all had an annual budget of $500,000 or more, whereas there was no minimum budget cutoff for determination of organizations to include in Cohort 2. Therefore, there are significant

differences between Cohort 1 and Cohort 2 in the mean annual budget size ($7.3 million and $1.7 million, respectively) and median budget size ($2 million and $667,000, respectively).

Despite these distinctions, **there were widespread similarities in the ways organization leaders in both cohorts talked about their strategies for attaining high performance. Nevertheless, they diverged in four notable ways.** Table 1 summarizes key differences, which we describe more fully below.

## TABLE 1
## DIFFERENCES BETWEEN PHASE I AND II COHORTS IN THE CONCEPTUAL MODEL LINKING CORNERSTONES FOR SUCCESS WITH FINANCIAL SUSTAINABILITY

| AREA OF DIFFERENCE | COHORT 1 | COHORT 2 |
|---|---|---|
| Identification Criteria | • Visual and performing arts organizations<br>• Annual budgets greater than $500,000<br>• No specification of target communities served | • Performing and community-based arts organizations<br>• No budget limit<br>• Primarily serve communities of color |
| Cornerstones for Success | High program standards and community orientation | Community orientation and high program standards (reversal in order of priorities) |
| Internal Factors | Investments in marketing and fundraising enhance ability to convert cornerstones for success into short-term outcomes | Insufficient resources to invest in marketing and fundraising inhibit ability to convert cornerstones for success into short-term outcomes |
| Unique External Factors | • Shifting consumer preferences<br>• Policy changes<br>• Struggle to achieve goals related to equity, diversity, and inclusion | • Racism<br>• Gentrification<br>• Lack of equitable access to institutional funding |
| Intermediate Outcomes | • Deeper relationships with existing audiences and donors generate more revenue<br>• New audiences and donors generate additional revenue<br>• Increased organizational capacity | • Deeper relationships with existing audiences and donors<br>• Deeper relationships can lead to increased financial participation and revenue growth from audiences and donors when primary communities served have means<br>• Deeper relationships can lead to increased organizational capacity along with increased financial resources |

First, the cornerstones for success remain consistent across the two cohorts. However, Cohort 1 organizations tended to spend more time emphasizing artistic excellence, virtuosity, and overall program quality than those in Cohort 2. High-quality programming standards were systematically mentioned by Cohort 2 organizations as being essential; however, only two arts leaders emphasized them more than once during our discussions. This was the case despite the fact that several Cohort 2 artistic directors who did not repeatedly underscore the importance of artistic excellence had Grammy Awards and other major recognition for their outstanding artistry.

By contrast, Cohort 2 organizations spoke for far more time and in greater detail than Cohort 1 about their commitment to having a community orientation and dedication to serving their community's needs through their artistic and educational work. This was true for both CBOs and performing arts organizations. Their passion for the artistry and the community are inextricably tied. When CBOs spoke about artists, they frequently referred to putting artists and the communities they serve first. These findings align with existing research into organizations of color and the critical role they play in humanizing residents of marginalized communities by acknowledging and celebrating their cultures, reducing isolation, and providing both a sense of belonging and a place to engage in community activism (Sen 2015).

Second, Cohort 1 referred to investments they made in professional marketing and fundraising staff as enhancing their ability to convert cornerstones for success into short-term outcomes. Cohort 2 organizations recognize the importance of investing in professional marketing and fundraising staff but frequently see their organizations as having insufficient resources to do so. As one executive director shared: "We've never had strong marketing and development staff. It's always been our Achilles heel. I do all three jobs now and that isn't sustainable enough to drive real revenue growth." Their tendency is to put every dollar they can towards programs. Only the larger-budget

## THE ALCHEMY OF HIGH-PERFORMING ARTS ORGANIZATIONS, PHASE I SUMMARY

Based on research conducted from mid-January to mid-March 2020, Phase I examined the following research questions: 1) What are examples of visual and performing arts organizations that have financially outperformed others in substantial ways, as well as examples of those that came close to shutting down or were in the bottom ranking of performers but engineered a financial turnaround? 2) What kinds of strategies were used to achieve this financial performance? and 3) Were there particular contexts or conditions in which these strategies seemed to be more effective?

To answer these questions, we followed a similar methodology to that described in this report to identify 10 organizations with a long track record of high performance along seven financial and operating metrics and 10 that successfully engineered a turnaround from low to high performance on these same metrics in recent years. To understand how those organizations achieved high performance, we then conducted interviews with organizational leaders in both cohorts. In speaking to their strategies and plans, **they described a kind of "mental map" linking choices and decisions to outcomes.** The synthesis of shared elements across those mental maps forms the basis of these findings:

• **The cornerstones of high performance appear to lie in the alchemy of high standards in the creation of work that is meaningful to the local community.**

• **Strong cornerstones of a strategic vision lead to these short-term outcomes:** tactical wins that inspire confidence and excitement, a stronger brand, a high-functioning board, and community relationship development and buy-in.

• Environmental factors such as shifting consumer behavior and funder priorities, local population and policy changes, natural disasters, and national crises affect an organization's ability to achieve short-term gains. A number of internal factors also moderate or regulate the organization's ability to translate these cornerstones into positive short-term outcomes, including mission alignment, a healthy culture that invites

Cohort 2 organizations spoke to the importance of their professional marketing and fundraising efforts as critical to their success.

Third, the two cohorts each identified some unique headwinds. Unlike Cohort 1, **Cohort 2 organizations spoke to the environmental threats of racism, gentrification, and lack of equitable access to institutional funding.** Interviewees raised these issues separately on various occasions. However, **some arts leaders saw the connection between the three as indicative of a broader threat of white supremacy culture,** reflective of, in the words of one interviewee, "deep-seated cultural norms and practices where assumed cultural values are assigned, from measuring outcomes to 'what art is' at all."

Cohort 1, by contrast, emphasized difficulty achieving goals related to EDI; downward industry attendance trends attributed to changes in consumer behavior and high-quality substitutes; and the impact of tax reform on individual contributions, none of which was mentioned by Cohort 2 organizations. We note that the Cohort 1 interviews were conducted before the pandemic and racial justice movement escalated in summer 2020. Some of these differences may be attributable to characteristics of the cohorts and the communities they primarily serve, or they may be linked to the timing of the interviews. Both cited local population changes, although Cohort 1 noted both positive and negative trends while Cohort 2's emphasis centered on gentrification.

Fourth, as mentioned above, Cohort 2 includes organizations with annual budgets under $500,000, whereas Cohort 1 did not. The smaller-budget organizations in Cohort 2 have been in existence for over 20 years, and yet they remain small and financially stable relative to organizations like theirs nationally. This led us to consider the following:

1) **Unpack the construct of increased audience and donor participation and engagement.** For some Cohort 2 organizations, the intermediate outcomes of

participation, adaptive capabilities, investments in marketing and fundraising, and a multiyear horizon.

- **Short-term outcomes** provide a feedback loop that reinforces the cornerstones of strategic vision and **translates into intermediate outcomes of increased organizational capacity and increased audience and donor participation and engagement.** These resource and relationship wins reinforce an organization's community orientation and advance its ability to achieve high programming standards. Environmental factors again affect an organization's ability to translate short-term gains into intermediate outcomes.

- **Intermediate outcomes also lead to financial sustainability, provided the organization has discipline.**

- **Long-term financial sustainability undergirds the ability to maximize mission success.**

To access the full report, visit **culturaldata.org/media/2128/alchemy-final-8182020-dataarts.pdf**.

increased audience and donor participation and engagement that emerged from conversations with Cohort 1 organizations simply manifest as deeper relationships with the same individuals rather than growing the revenue they provide the organization or adding audience members and donors. Therefore, it is important to separate deeper community and donor engagement from increased audience and donor financial participation. The former may lead to the latter, but not always.

2) **Financial stability, with or without growth.** When organizations serve economically disadvantaged communities with their mission-related work, operate in communities where philanthropic support is limited or inaccessible, and lack equitable access to institutional funding, they can achieve financial sustainability without budget growth. This is frequently a source of frustration and challenge to organization leaders who seek to serve more people but do not see a way to add organizational capacity in a sustainable way.

3) **Organizational capacity challenges.** Cohort 2 organizations tend to be particularly constrained by low compensation levels and insufficient organizational capacity, which leads to difficulty recruiting high-caliber talent and burnout for those who stay. This issue surfaced repeatedly, regardless of whether the organization had achieved budget growth over time.

We now focus attention exclusively on findings that emerged from our qualitative research with leaders of Cohort 2 organizations. While most of the conceptual elements are identical to those that emerged in Phase I of this research, Phase II participants characterized them in their own unique voices.

## LINKING STRATEGY AND FINANCIAL SUSTAINABILITY

In this section we explain and provide support for each of the elements that are part of the conceptual model — or mental map — of the relationship between strategy and financial sustainability (see the Figure). According to all those whom we interviewed, **success is rooted in the alchemy between community orientation and high-quality programming.** As one arts leader noted, "Where we excel is combining the artistic and the community aspects." It is up to each organization to interpret these essential cornerstones for strategic success to fit its mission, vision, and community's needs. They come together to formulate a clear and compelling sense of purpose.

Participants cited **external factors that diminish an organization's ability to achieve short-term gains,** including gentrification, inequitable access to institutional funding, racism, and crises such as the COVID-19 virus and racial injustice. Rapid change and uncertainty in these external factors have been particularly pronounced in 2020. All organizations in this study closed for in-person performances and programs in March and had yet to resume that activity as of September.

A number of **internal factors appear to moderate the**

**organization's ability to translate these cornerstones into positive short-term outcomes.** Moderators affect the direction and/or strength of the relation between an antecedent and its impact on an outcome (Baron and Kenny 1986). A strong foundation's positive impact is maximized when there is mission alignment — i.e., a shared understanding of and commitment to mission — throughout the organization that permeates decision-making. It flourishes in a positive, open, healthy culture that is akin to family, with heavy emphasis on allowing artists and employees input and voice. It appears to thrive in an organization that invites and inspires participation from all stakeholders, holds a longer-term vision, and possesses both professionalism and adaptive capability. When these internal elements are in place, they pave the way for **short-term tactical wins that inspire confidence and excitement, build the brand, and strengthen relationships** with artists, employees, board members, and external stakeholders who buy into the organization's strategy for success.

Momentum builds as short-term outcomes translate into the intermediary outcome of deeper community and donor engagement. **The deeper relationships then lead to increased revenues and support for more organizational capacity, if the community has the means to elevate its level of support and the organization has equitable access to institutional funding.** When organizations operate in environments that lack fertile ground for revenue growth and their mission is to serve economically disadvantaged communities, they can still achieve financial stability and remain relatively small. **For those who seek to grow, lack of access to a stronger revenue engine and organizational capacity thwart their ambitions. For others, growth is not an ambition.**

According to participants, intermediate outcomes can have positive impact on the organization in two ways, provided external factors do not obstruct progress. First, they reinforce its community orientation and advance its ability to achieve high-quality programming standards. Second, they lead to financial sustainability provided the organization has the discipline to stay

within its means, diversify revenue sources, take informed risks in the face of uncertainty, and jointly set policies and priorities. Arts and cultural organizations exist for mission fulfillment, not financial sustainability, yet financial sustainability undergirds the ability to maximize mission success.

Organizational leaders whom we interviewed measure their success at different junctures. Objective measures repeatedly cited were budget growth, growth in number of people served, the demographics of those served, increased revenue diversity, healthy bottom line, and sufficient cash flow and working capital. Subjective measures tended to focus on impact of social programs as well as stakeholder retention and
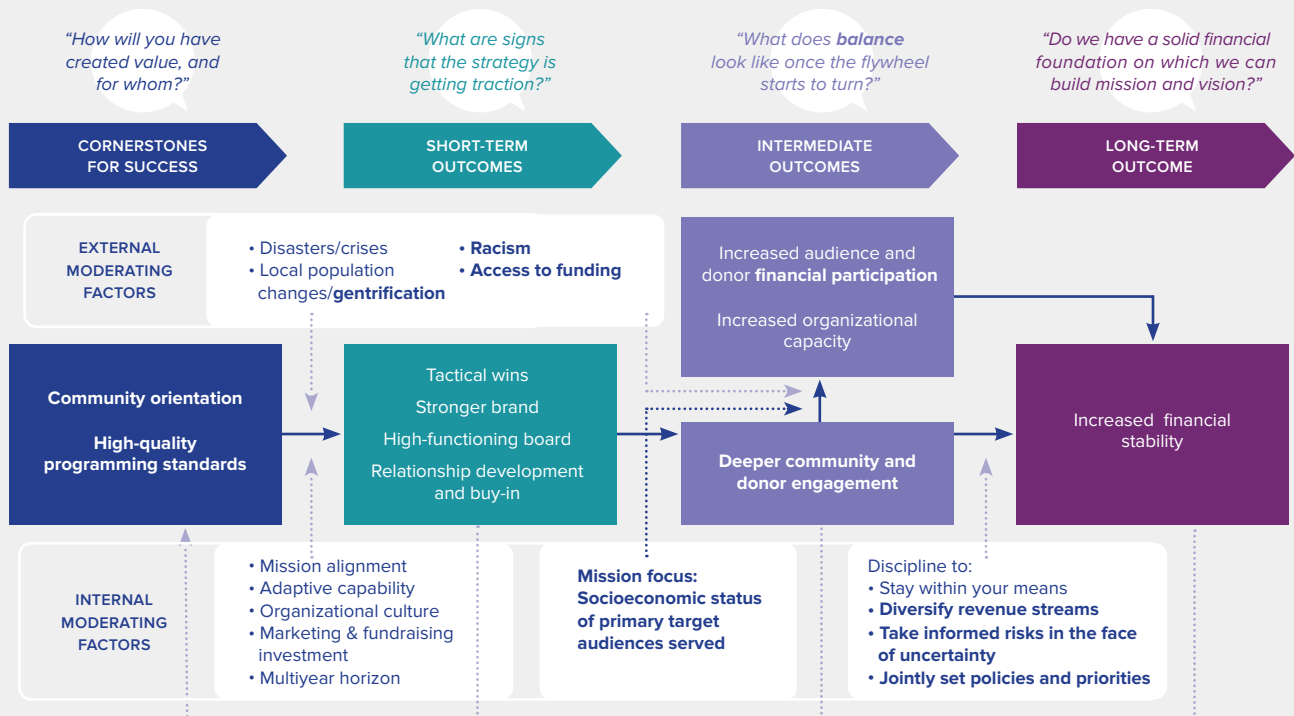
satisfaction, which is collected through surveys, interviews, and informal conversation.

We now explain the steps and underlying constructs that emerged in interviews for each of the elements that are part of the conceptual model linking strategy and financial sustainability in Cohort 2 CBOs and performing arts organizations, supported by quotes from arts leaders.

## CORNERSTONES FOR SUCCESS

The leaders of high-performing organizations attributed their success to the **alchemy between two essential, common cornerstones: community orientation and**

## FIGURE*: LINKING STRATEGY AND FINANCIAL SUSTAINABILITY IN PROFESSIONAL ARTS ORGANIZATIONS

*"How will you have created value, and for whom?"*   *"What are signs that the strategy is getting traction?"*   *"What does balance look like once the flywheel starts to turn?"*   *"Do we have a solid financial foundation on which we can build mission and vision?"*

| CORNERSTONES FOR SUCCESS | SHORT-TERM OUTCOMES | INTERMEDIATE OUTCOMES | LONG-TERM OUTCOME |
|---|---|---|---|

**EXTERNAL MODERATING FACTORS**
- Disasters/crises
- Local population changes/**gentrification**
- **Racism**
- **Access to funding**

Increased audience and donor **financial participation**

Increased organizational capacity

**Community orientation**

**High-quality programming standards**

Tactical wins
Stronger brand
High-functioning board
Relationship development and buy-in

**Deeper community and donor engagement**

Increased financial stability

**INTERNAL MODERATING FACTORS**
- Mission alignment
- Adaptive capability
- Organizational culture
- Marketing & fundraising investment
- Multiyear horizon

**Mission focus: Socioeconomic status of primary target audiences served**

Discipline to:
- Stay within your means
- **Diversify revenue streams**
- **Take informed risks in the face of uncertainty**
- **Jointly set policies and priorities**

*Bolded elements in the Figure indicate those that have changed from the original conceptual model presented in The Alchemy of High-Performing Arts Organizations, Phase I of this research.*

**high-quality programming.** These two essential elements were equally underscored by those who lead performing arts organizations and those leading community-based arts organizations. Their core purpose is to serve the local community at a high-quality level with relevant, unique programming. Therein lies their formula for strategic vision, or each organization's answer to the question, **"How will you have created value, and for whom?"** Given unique community needs and organizational missions, the way these cornerstones are interpreted and manifest varies from organization to organization. Each organization must find its own way and compelling purpose. Arts leaders shared the following:

○ *"When you build community with a group of people that have been historically underrepresented, it builds a lot of loyalty. Organizations rooted in their community are very valued because it's where people find their people. We get a lot of value from our resources and because there's such loyalty, people want to work with us. We give Asian Americans a home, representation, high-quality art, and projects they want to work on."*

○ *"As a CBO we feel accountable to our community to create work that is excellent, relevant, and accessible."*

○ *"Our success is due to the high-quality work we do that hits a specific community in the diaspora. Community members come back to see shows multiple times, and they bring new people. Also, we fill a lot of needs and voids around representation and visibility."*

Understanding what programming will be meaningful to the local community requires getting out of the organization and participating reciprocally, listening, learning, and responding, all of which lead to relationship-building. Participants in this study have a prodigious commitment to their communities, as reflected in these statements:

○ *"Revere your community. We build relationships around what the community needs, not what a funding initiative dictates."*

○ *"We don't say 'We're the orchestra, let us bless you.' We ask, 'How can we be of service?' That requires way more work!"*

○ *"To succeed, most importantly, you need the trust of the artists and the trust of the community members. We spend a lot of time in our daily work constantly in touch with each community to understand it. Each project has an organizing committee. We have to understand it with a real sensitivity towards the art form so that when the artists and community present it, they are confident we're behind them and in their voice. These are relationships."*

Pride in community, culture, and artistry emerged repeatedly, as embodied in these comments:

○ *"We lead. Chinatown is seen as a ghetto and an impoverished community that needs help. We believe in the vibrancy of the community that adds to America's cultural and artistic vibrancy. We celebrate the place we're situated in. We don't need saving. We invite funders to partner with us in showcasing the community's vibrancy and what it has to offer through arts and culture."*

○ *"We don't believe that Mexican music is for only Mexican people. A lot of people have interest in and curiosity about Mexico but don't have the access. We have an attitude of being for the world and not thinking of ourselves as being ghettoized. We have genuine interest in other people so we seek out collaborations and fusion. Led Zeppelin with Aztec drums. Our core value is to inspire others to explore their own traditions."*

**Leaders spoke to their organization's role as an important part of the fabric of the community, not merely as an entity trying to attract attendees to its work.** These participant comments, and many more like them, highlight this critical difference:

○ *"We provide agency to our constituents."*

○ *"For us it's definitely staying in tune with the needs of the neighbors who live in this community. We*

*never forget why we exist."*

o *"We are a trusted resource. We have an ear to the community and we hire people from the neighbor-hood. We don't bring in troops from elsewhere to solve this community's problems."*

o *"Community engagement is my job! Develop rela-tionships across communities, develop relevant programming and client services that serve those relationships. It all has to be welcoming and rele-vant. I think about 'what are the barriers'? What can we do to get beyond the barriers?"*

o *"Be honest and relevant to the people living here, and make it affordable and accessible. This city is predominantly African American, and so have been the plays on our stage. Audiences come to see themselves on stage. Our patrons want to be called by their first name. It's sincere."*

The founder of a theatre company that once performed in its own space but toured extensively relayed how his organization's deep commitment to meeting community needs has profoundly transformed its programming over time:

o *"In the '90s there was a wave of East Africans who came to our block and stayed. What was a transient neighborhood became stable. Now it is the biggest Somali community in the U.S.* **We had to decide whether to become an island or an anchor. We stopped touring and changed our programming to be a neighbor to the neighborhood we're in.** *We started doing it in 2000 with the belief that we could, over time, have this immigrant community become part of our audience. It took every year doing something a little less stupid to realize that the audience relationship wouldn't be the one that works. It changed how we do what we do. We are here to serve. It's how you create change. Now we are more than a theatre that does plays for the public."*

**Community orientation is essential, but it has to inform work that is created and delivered at the highest standards.** Leaders of performing arts organi-

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**SPOTLIGHT ON COMMUNITY ORIENTATION: CHEN DANCE CENTER, NEW YORK, NY**
*H.T. Chen, Artistic Director, Dian Dong, Partner and Company Member*

Essentially, for our organization, we are totally mission driven. We just don't know any other way. When we first moved into 70 Mulberry Street in the heart of Chinatown, people called us "La MaMa-Chinatown." Ellen Stewart was a founding board member of our company and we got our start there.

In January 2020, the entire 70 Mulberry Street building burned down and we have been displaced since then. From our three dance studios, piano rooms, theater, ar-chives, storage and office, only 5% of the items from the office were retrieved from the fire, which we now keep in a mini-storage unit.

Nevertheless, we continued to provide for the community through online classes and alternative programming. You always want to give the best and manage to deliver under all kinds of circumstances. At one point, the two of us used the mini-storage unit to teach from, while our teachers were teaching from their apartments. Success is how you can continue working with your artists for the long term. Make the artists, students, community members valued and you build trust. We have always believed that "good art has social value."

From a more practical point, long-term success is due to thinking through how to turn each dollar into $3, or a smaller engagement into a larger project. H.T. Chen & Dancers has toured to many sites, but never did only what the presenter expected of us; we always did more. For example: For a 2006 residency at CSU Fresno, the company made an advance site visit on our own to learn more about the surrounding area, which included a large Laotian resettlement community of farmers. We returned with a local phone book and made calls from NYC to arrange free dance workshops for the children in this community. A small team arrived three days before the full residency to begin dance workshops and a perfor-mance for the refugee children.

We feel that it isn't enough just to do a performance or a residency. It's really an opportunity to impact a community.

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zations and CBOs alike spoke to the importance of unique, high-quality programming:

○ *"We create an environment that breeds excellence; that's what allows the financial success to flourish."*

○ *"Believing in the power of artists really influences us. Being able to work with artists on community content. If you have a strong artistic vision and have a strong social justice vision, too, and are connected to the community, you can inspire artists who want to create relevant art."*

○ *"We have the most amazing artists coming from all over the world. The more talking we can do with different artists, and finding out what they're up to, then seeing how we can help elevate the projects they're thinking of doing and giving them a place to do it. Excellence on a global scale. There's also uniqueness to our mission by creating long-term infrastructure in communities."*

○ *"You really have to have a strong artistic product. The best board and staff in the world can't overcome mediocrity."*

### EXTERNAL FACTORS MODERATE THE LINK BETWEEN CORNERSTONES FOR SUCCESS AND SHORT-TERM OUTCOMES

High-performing organization leaders noted numerous environmental factors that inhibit the ability to translate a solid vision rooted in cornerstones for success into positive, short-term outcomes: disasters and crises, racism, gentrification, lack of access to institutional funding, and limited means and propensity to contribute among primary communities served.

### *Disasters/Crises*

Given the timing of this project, it is not surprising that the COVID-19 virus is an unprecedented barrier to success (see the Sidebar: COVID-19). This particular crisis has disproportionally affected the communities-served by many of the organizations included in this study. An executive director shared: "I'm VERY worried about the community's well-being and my staff's

We're always full of ideas and pack everything we can into every moment of engagement. At the end of the CSU residency, we were treated by the Laotian families to a summer feast. One farmer donated a pig and another donated a cow. It was the most delicious spicy meal, eaten in 113-degree Fresno Valley weather. THAT made the residency really complete. It's the approach of, "…and while we are there…" do something meaningful. Forge relationships wherever you go.

well-being. People feel disconnected, vulnerable." Others expressed a heightened sense of economic uncertainty and fear that the ongoing crisis will severely impact government funding at a time when their earned revenue is compromised from forced closures.

### *Racism*

**Numerous arts leaders identified racism as a barrier to success, both historically and in the current environment.** They have experienced firsthand the national crisis of racism and inequity. There is a sense that organizations of color have never been perceived as essential to the arts ecology outside of their communities. Several participants referenced a heightened state of animosity and violence towards Asian Americans due to COVID. Others spoke to institutional racism, in comments such as these:

○ *"The financial environment is totally different for us. No successful organization of color can have only one bank. There are many barriers to success. This happened recently even with PPP (federal government Payroll Protection Program) funds. The first bank perceived fraud due to the fact that we're a Black institution. It took savvy, board members, and four banks for us to get PPP loans."*

○ *"In 1992, the local arts agency and major corporations asked us to take 'Black' out of our name. We were told they'd cut our support if not, because Dallas needed a professional dance company for its*

*image but didn't want 'Black' as part of it. The community rallied with us in laying a stake in the importance of this part of our identity."*

### Local population changes/Gentrification

Local population changes affect organizations' ability to implement successful strategies, according to interviewees. **Gentrification surfaced numerous times in our qualitative research as a serious issue that destroys the deep bonds of community.** It is pushing organizations out of their homes, and pushing out the marginalized communities served by some of the organizations. Others mentioned generational changes occurring in immigrant communities and how newer generations have different artistic preferences than their first-generation parents.

### Lack of access to institutional funding

**Inequitable access to funding was repeatedly noted as an important factor at play.** One arts leader commented: "Eurocentric organizations get buildings and resources. Organizations of color don't." The leader of a theatre company shared: "Funding for artistic creation is given by budget size. No theatre of color has a budget over $3 million. Until we reach $5 million, we don't get access to commission funding or new work development support. To funders, budget size conveys quality, excellence, and ability to deliver. There's an inherent bias in providing organizations like us support."

Underscoring findings from a variety of studies (Anderson 2018; National Association of Latino Arts and Cultures 2018; Sidford and Frasz 2017), arts leaders relayed that **lack of access to funding has become more pronounced as institutional funders have adopted EDI priorities in recent years but supported them in organizations that do not exist to primarily serve communities of color, while largely marginalizing the arts organizations that have always embraced this purpose and have a long history of doing so.** Following are examples of comments shared on this point:

o *"There's one [state government] legacy program to*

*provide more equity to minority-led organizations to do programs. Over the years that's how [we and other major local organizations of color] received support. Now it is harder to get those funds because you no longer have to be an organization of color to apply.* **Everyone's running out trying to find a ghetto to serve to get the money.** *Great that they can serve a broader range of people, but* **it takes away from the organizations that have always done this work, and will be there forever.** *We shouldn't have to have a special arts service, we should all be treated equitably. But that isn't the case."*

o *"We don't get EDI money or support. It's embedded in us, and yet large Eurocentric organizations are getting millions to diversify their programming. Then they call us to get our audience list. I'm very mindful of the relationships. The field funds the problems, not the successes."*

o *"We get a lot of people nowadays who don't want to fund us unless we're doing social justice work. One of the things we stick to is we don't have to do social justice work.* **Our mere existence is social justice.** *A black dancer en pointe in a major PAC with a full house, you've just done social justice work. Because of the level of audience diversity we have, we don't have a diversity statement."*

### Limited means and propensity to contribute

In addition to inequitable access to institutional funding, **individual giving was identified by some interviewees as a challenge since the communities they serve do not include high-net-worth individuals, so there are few people to cultivate for major gifts.** In addition, **there are perceptual barriers to giving** as reflected in these observations:

o *"The specificity that gives us our niche gives people a limited view of who we are. Philanthropy to the arts isn't necessarily part of the culture in communities of color. I've worked hard to get big donors to Eurocentric theatres to get accustomed to give to us at the same level."*

o *"Protocols for capital campaign fundraising don't work with organizations of color because big donors aren't usually people of color, and if your silent phase (i.e., the early phase where large gifts are committed before the campaign is publicly announced) is only whites, then you can't get community buy-in if they're the last to know."*

## INTERNAL FACTORS MODERATE THE LINK BETWEEN CORNERSTONES FOR SUCCESS AND SHORT-TERM OUTCOMES

According to those whom we interviewed, numerous internal factors moderate or regulate the organization's success in translating cornerstones of a strong strategic vision into short-term outcomes. These include mission alignment, adaptive capability, organizational culture, investment in marketing and fundraising, and a multiyear horizon.

### *Mission alignment*

Arts leaders emphasized that staff and board members have to embrace the organization's mission and its vision for its excellent, relevant programming in the context of its community, then align all decisions behind it. Fisman, Khurana, and Martenson (2009) refer to this alignment as "True North," a concept reflected in numerous interviewee remarks such as these:

o *"Our success has been about staying true to the vision and our community."*

o *"Our mission is our strength. Always play to your strength, in every decision."*

o *"We have a road map of where our organization's north star should be."*

o *"It's all tied. Our solid bottom line, working capital, etc., all tied to the clarity of vision and mission strength and alignment."*

**Mission alignment not only helps organizational leaders focus on what is important, it gives them a guide for saying no to anything that takes it off base regardless of influence or pressure.** Some arts leaders

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**SPOTLIGHT ON MISSION ALIGNMENT: CHINESE CULTURE CENTER OF SAN FRANCISCO (CCC)**
*Jenny Leung, Executive Director*

The success of CCC's growth started with the vision – a big idea and great art. Beginning in 2009, CCC's new executive and curatorial leadership led the organization through a major transformation, and made a dedicated shift from preserving traditional Chinese culture to elevating the underserved through art by being a bold voice for immigrants, women, and those who are queer, trans, people of color. The team of three strong women (executive director, artistic director, and exhibition manager) overcame many challenges and succeeded in building CCC as a safe environment for artists who champion activism, resistance, and social transformation.

Prior to 2009, CCC meant many things to many people, and it produced a broad range of programming, from In Search of Roots for young people of Chinese American heritage to traditional art exhibitions and tea tasting. While these programs were engaging and well attended, the public didn't understand CCC's impact nor its relevance to the rapidly changing world.

By 2020, CCC became known as a loud creative voice to empower social and economic transformation. It has built a network of 400 artists from the Asian American community as well as national and international artists who are dedicated to sparking dialogues on equality, justice, and global concerns. CCC's collaborators include government and private sector partners as well as museums, art/cultural institutions, and social service and activist organizations.

The transformation was not easy. First, CCC had to cut some programs that didn't align with its vision. We also lost some donors because they didn't agree with the direction. However, through the implementation of the new vision, we gained many more new supporters and built meaningful partnerships with a shared vision. It took almost a decade to cultivate a growing family of support through donors, stakeholders, volunteers, and artists. The lessons we learned were: confidence, perseverance, belief in ourselves and to build teamwork with staff, board members, and core donors.

discussed strategy around programming they consider core and non-core, acknowledging that even non-core activities cannot represent a gross deviation from mission. They observed the following:

○ *"I am really focused on the mission, front and center. When I got here we did an audit of all our programs and we stopped running any that weren't related to the mission. We asked, 'What are we the best at? What are we passionate about? What has potential revenue opportunities?' We let go of programs that made money but didn't hit on mission or passion. Having the courage to not just chase the money."*

○ *"We were too many things to too many people. It was a big risk when the artistic director and I were hired and focused the vision. That's become our work — the link between social justice and a shift in the dominant perspective about what Chinese American culture is. Every decision we make supports the vision. We had to lose some programs, some donors left because they didn't like the new direction. But it really solidified the brand and identity of the organization, gave us a clear path moving forward."*

## Adaptive capability

A second moderating factor that surfaced in the interviews is the ability to adapt. **Adaptive capability embodies a learning orientation where organizations are willing to modify programming and operations in response to community and artist needs, feedback, crisis, and new information.** An executive director offered: "We never stop analyzing and improving. We don't say 'mission accomplished.' We're ready to adapt." Another shared: "A differentiator is that we are always looking around the corner. Not just today's need but what will tomorrow's needs be."

More generally, **adaptive capability is especially beneficial when unforeseen circumstances, challenges or new opportunities arise** (Eshima and Anderson 2017). Several arts leaders spoke to adaptive capability being key to survival during times of crisis, such as COVID-19

The "XianRui (Fresh and Sharp)" program was conceptualized in 2008, and is still the only exhibition series in the United States devoted to supporting mid-career artists from the Chinese diaspora. Stanford professor Dr. Gordon H. Chang noted that the series established "CCC as an outstanding venue of contemporary art [through] spectacular presentation." The careers of the artists have blossomed with this investment.

The lessons we learned were that artists need consistent infrastructure support as well as curatorial encouragement to break the glass ceiling. As there is a stigma that stereotypes Chinese artists as un-creative alongside the model minority myth, CCC's vision must not be afraid to deconstruct stereotypes and shift narratives.

As our vision became clearer, we learned how to engage our community and the spectrum of its stakeholders around the vision. "Museum Without Walls" is CCC's vision and engagement strategy to mobilize community members and activate public spaces by holding cultural events in vacant storefronts, alleyways, parks, and sidewalks. One example is "Sky Bridge," a temporary public art project that transformed a pedestrian bridge into a silver walkway by artist Beili Liu. It was named "Best Public Art" by KQED, a PBS affiliate in the Bay Area, and years later it is still a project for which people come back and talk about its vivid memory and impact.

When CCC launched its transformation a decade ago, it was a big risk in committing to the vision and investing in "new" artists, and there was uncertainty if the transformation was the right choice for the organization. Now, there's buy-in. We have begun to change the minds of stakeholders and supporters around a shared vision about what contemporary artists can bring to the community, contemporary art as a space for relevant discourse, and its ability to connect people and build community. It is a journey — we are constantly learning and refining our work in alignment with our mission. We have had incredible talents that we have incubated to lead this vision, the leadership of Abby Chen, and now Hoi Leung. Invest in great art, people, and a big vision.

(see the Sidebar on page 20). Adaptive capability could be thought of as a quality that emerges from an entrepreneurial culture, which emphasizes flexibility (e.g., renting and outsourcing) to take advantage of opportunities, rather than an administrative culture, which emphasizes ownership and control that result in higher fixed assets and fixed costs (Stevenson and Gumpert 1985). Low fixed costs and fixed assets came through as advantages that allow the organization to remain nimble and responsive. Arts leaders shared numerous comments to this effect, such as the following:

o *"We're more of an entrepreneurial, innovative organization. By being small, we're able to put together strategy more quickly, adapt more quickly. There's no bureaucracy. Staff-wise, we have very creative thinkers. Everyone has a role."*

o *"The secret for us is being nimble and multidisciplinary. In this pandemic, our performance foot was cut off and our education foot was cut off. Our media division has been called upon to develop content and really support the other areas now. The other big factor for us was having as little overhead as possible. We don't own a building. We rent our rehearsal space hourly. When all your programs collapse, all your expenses collapse as well."*

o *"We offer something the schools don't. There's a different energy and focus because we can be flexible and respond directly to the needs of the community in ways the school systems can't due to bureaucracy."*

Some arts leaders explained that **a true community orientation comes with a commitment to change at all costs if it means being more responsive to needs.** An adaptive mindset led one executive director to share: "I've learned that in order for us to have the future we envision, radical change is necessary. Not just when it comes to fundraising but reimagining what it means to serve and be a nonprofit. It's human nature to go with what you're comfortable with. I'm not afraid of changing things. What's really precious is our relationships and the people we serve. When their needs change, we have to change with them."

The strategic plan itself is another area where adaptive capability is important. Interviewees universally attested to the importance of a strategic plan formulated between the artistic and executive leaders, senior staff leadership team, and trustees, with buy-in from the staff. However, numerous comments such as this one spoke to the need for flexibility: "We're religious about strategic planning and pivoting within that plan when necessary."

## *Organizational culture*

Organizational culture is a third internal, moderating factor. Respondents unanimously brought up the importance of a healthy, positive organizational culture. **Key characteristics of a healthy culture were repeatedly described as trust, open communication, transparency, a "family feel," and participatory management style.** As one founding director noted: "My mantra is talk to people, even when communication feels hard. Be humble."

**Very small organizations that have only one or two staff members but deep community ties defined their organization's culture in terms of the culture of their relationship with the community.** This makes sense given the extent to which community partners and volunteers co-create the value delivered by the organization. Even organizations with larger staffs frequently remarked on the need of the organization's culture to reflect the community. A founder stated: "It's very much all about supporting communities. That's the kind of people we hire. There's a lot of passion. Everyone is about giving back to the community. Not just the art work alone." An executive director observed: "Ours is a familiar, relational culture. It should have a family feel. Bring all aspects of yourself into the room and share comfortably." A strong culture was cited as essential to development of long-term relationships, as exemplified in this statement: "Make the staff, artists, students, community members valued and you build trust. Success is how you can continue working with people for the long term."

**A participatory management style nurtures a culture that allows employees to voice their perspectives and have a say in decision-making** (Collins 1997). According to interviewees, it fosters trust, collaboration, and diversity of ideas. An executive director remarked: "Let the ideas of others blossom, give them room. There are so many right ways to do arts programming. Different branches and tributaries can flow that you never imagined. You start to see and appreciate what others can bring." A founder shared: "I try to be team-focused with what we do. I'm a loud type-A male who often comes into the room and dominates. I've been working on listening first and speaking second. It has made a lot of difference in terms of the things we do and success we've had. If my ideas are always spoken first and someone else has a good idea, the rest of the staff doesn't necessarily speak up. We need to hear ideas that are better than mine."

More than one arts leader remarked on the staff's high level of diversity being an advantage in establishing a collaborative, creative environment. Internal cultural dynamics appear to be particularly poignant in organizations where the staff diversity is not completely

## ADAPTIVE CAPABILITY AND THE COVID-19 CRISIS

Programmatically, organizations bemoan the loss of ability to gather the communities they serve in their spaces during the COVID-19 pandemic, and they are concerned about longer-term impact on their external relationships. However, numerous CBOs and performing arts organizations have pivoted to put their programming online and are meeting with success. They are, in the words of one interviewee, "Doing what we do well differently. Even in COVID we have wins." These organizations were already either providing some digital offerings or exploring the possibility. For them, COVID represents an opportunity to reach younger generations and reach beyond the local community to touch people in their diaspora who live elsewhere, as exemplified in this observation: "We've moved all our classes online and now we've tripled the number of classes because there's so much interest. They're coming from all over the country."

**Online programming is allowing some organizations to continue to pay artists, teachers, and staff while remaining relevant with meaningful content.** Some new online programming is supported by contributions, some through earned revenue generated by content that is behind a paywall. Several executive directors shared the following reflections:

o *"This is the most exciting time of my 34 years right now. It's our time to look 20 years down the road. We hate the loss of life. But should arts managers be as creative as the artists they manage? Forget the negative. Where are the opportunities?! We're turning cartwheels."*

o *"Paid virtual performances online—we have reinvented the business. Data and digital communications are going to be the savior of the arts. COVID has been the most exciting event in our history. It has given us reason to implement all the tech/digital ideas we had but hadn't implemented. All hindrances are gone. All the old ways of operating are now dead."*

o *"COVID opened up an opportunity to make changes in structure, programming, culture—it has been a license to change what would have taken much longer were the environment not so uncertain. What can we do now that will set us up post-COVID? People have developed a taste for our digital programs now. There's a space for us to claim."*

A number of arts leaders whom we interviewed shared their perspectives on how COVID has disadvantaged large organizations. This observation summarizes what we heard:

o *"We're in a field whose signature is convening people for a shared experience and it is currently illegal to do that. The art form and how we gather people will determine the food chain of the American theatre. Those who have lots of capacity to fill with artistically excellent work and high ticket prices are now at the bottom of the food chain. In this new food chain, doing what we do best and having the biggest impact will determine our success. The virus' future will determine our art form. Touch emotions or change public policy."*

reflective of the community served. An arts leader reflected on his keen awareness of the situation and how to manage it purposefully:

○ *"You can't do it alone. Shared leadership is essential. I've had to learn a lot as a white founder and leader of an organization that serves a community of people of color. It's essential that others on the senior leadership team be people of color who identify closely with the community. I want any of our kids to feel like they could do my job and be suc-cessful. My successor will be someone of this community who shares the characteristics of those we serve."*

### Invest in marketing and fundraising

A fourth internal factor that emerged in interviews is the level of investment in marketing and fundraising. Participating arts leaders identified the **need to invest in professional talent and strategies in the functional areas of the organization that drive revenue genera-tion.** They recognize that it is necessary to spend money wisely in order to raise and earn money. Partici-pants shared comments such as, "We started seeing results from branding and having dedicated resources to telling our story."

Numerous interviewees acknowledged the critical importance of hiring professional staff in the areas of revenue generation, or providing professional develop-ment to existing staff to increase their expertise. They noted the dramatic impact that investments in profes-sional staff had on revenue. We heard comments such as the following, particularly among the larger-budget organization leaders:

○ *"Transformation of vision takes a transformation of staffing. Is our brand on target? How are our communications and partnerships? Before that, everyone did everything and now we have roles we fill and we specialize."*

○ *"I credit our founder with hiring a fundraiser first even before she paid herself. We're a business that's about fundraising that supports the mission-*

*related work. Our fundraising staff is now four people, and I do it, too, as the executive director."*

○ *"We have an immensely talented and deep staff that are really good at what they do. Our talented, young, communications director understands all social media expertly. We have a development director who has built upon the great work that was done by her predecessor. Now we're building the individual donor base and increasing average gift size."*

**Although recognition of the need for professional marketing and fundraising staff was widespread among the arts leaders interviewed, many see their organizations as having insufficient resources to do so.** As one executive director shared: "We've never had strong marketing and development staff. It's always been our Achilles heel. I do all three jobs now and that isn't sustainable enough to drive real revenue growth." Another observed: "We don't have a strong fundraising staff in place. It falls to the board and myself. We need more dedication put towards this area." In these cases, sufficient investment in marketing and fundraising is recognized as an internal challenge rather than an internal success factor.

### Multiyear horizon

**Adoption of a multiyear planning horizon is the final internal factor that moderates the relationship between the cornerstones of strategic vision and short-term outcomes,** according to the leaders inter-viewed. Research into and discussions about future priorities help organizations to reinforce priorities and discover new ways to be relevant.

Arts leaders shared that **the very act of creating a road map to attaining or retaining financial stability feeds optimism and galvanizes the board, staff, and commu-nity behind common goals.** As an executive director shared: "We received a grant to do strategic planning. We've identified areas where we want to focus. Just going through that exercise helped us to create the future we wanted to see."

Other arts leaders described the positive effects of the process, as follows:

o *"We formed a strategic planning team with board and staff. Before we met as a group we invited community members, performers, program providers, donors for a focus group first. Then we invited a bigger group for a roundtable. What do they expect us to do, what do they see, what do they want to see? Then we had a board retreat. All of the input helped us identify the direction where we should focus. Now the core staff and strategic planning committee from the board are leading the charge, but everyone has already bought into where we're headed."*

o *"Traditionally, strategic planning discussions revolve around mission and vision. Because we had already done that and have mission alignment, we spent a lot of time talking about what growth looks like. I wanted guidance about the direction we should grow this organization. We did a comparison with a handful of organizations that had program models that attracted strong government funding. We made a plan and doubled our budget in three years."*

o *"Strategic planning really reinforced the priority list. Historically we've been heritage oriented. There's a need for relevancy in the current community. The research we did as part of the strategic planning process helped us see the need for change. Young people growing up in America. These key issues are guiding us now. We reevaluate every quarter. We listen when people suggest programs."*

Adopting a multiyear horizon can be especially important in navigating uncertainty, as reflected in this comment from an executive director: "Post-COVID, everyone's lives will be changed. We need to be prepared. It is forcing everyone to reeducate themselves. We want to be ready for the other side."

## SHORT-TERM OUTCOMES

**What are signs that the strategy is getting traction?**

According to the arts leaders whom we interviewed, cornerstones for strategy success lead to positive short-term outcomes under the right internal and external conditions. These include tactical wins, a stronger brand, a high-performing board, and relationship development and buy-in. These provide a feedback loop that reinforces the cornerstones of strategic vision and translates into intermediate outcomes. A prevailing mantra among arts leaders is that success breeds success.

### Tactical wins

More than one participant spoke to "early wins" that sparked a positive trajectory. According to these arts leaders, **tactical wins can generate excitement that reinforces belief in the strategic cornerstones and confidence in the subsequent road map.** While this research focused only on organizations that were high performing during recent years, several participants shared insights about the importance of tactical wins that galvanize stakeholders and solidify progress:

o *"The clarity that the outcomes are happening gives you the will to make the hard decisions and the faith you can grow."*

o *"To break out, you have to take some risks that surprise people in new and positive ways. We did that with a production that really stretched us and it replenished us. It was a huge success. Don't undervalue the power of people entering into a full theatre."*

o *"Once we shifted our vision, we also established an endowment. We never had one before. We got to $300,000 quickly. That's been a big win."*

### Stronger brand

A second short-term outcome that emerged repeatedly in interviews is an increase in brand strength, an asset that is recognized as beneficial in the nonprofit sector just as it is in the commercial sector. Branding transforms functional assets into relationship assets by making a psychological connection between the brand and the target audience (Andreasen and Kotler 2008).

**Positive brand awareness, image, and associations appear to grow out of the consistent delivery of work that is meaningful to the local community at a high standard of quality.**

The brand is the organization's promise to the community. To be effective, the promise has to be distinctive so that it helps those external to the organization navigate to find it, and trusted so that people can rely on it to be consistently delivered. Brand power determines whether you can attract target beneficiaries to the service and what donors are willing to give (Cone 2009). These comments further underscore how arts leaders think about their organizations' brands:

o  *"Consistency is very, very important. In branding, in the quality of our work, in the work in the community."*

o  *"Our success is largely attributable to our unique brand and our ability to monetize the brand. We've been able to build on that recognition to have strong ticket sales. We attract a level of corporate sponsorship due to the brand. We hit above our weight relative to other organizations with this budget and audience size."*

o  *"Developing relationships is the most important thing. I've gotten pretty good at it. We had to develop that muscle. Making sure that our brand stays strong and relevant. When people hear the name, you want them to want to support you and get involved. I have no hesitation asking for support at any time. I've made sure we have a reputation that's above reproach."*

o  *"Our last four board members came to us asking to serve. That's a high compliment to our reputation and brand strength."*

## High-functioning board

Once the organization sets its sights on a galvanizing vision of the future, adopts a positive culture, and aligns its mission to support advancement of its strategic cornerstones, it can result in a more highly functioning-board, the third short-term outcome raised by interviewees. While the composition and role of board members

### SPOTLIGHT ON HIGH-FUNCTIONING BOARD: DALLAS BLACK DANCE THEATRE
*Zenetta Drew, Executive Director*

We create an environment that breeds excellence through internal and public accountability for achievement of the organization's strategic vision. That's what allows the financial success to flourish. As the organization grows in size and moves through each new phase of organizational development, we create new policies and practices that do not follow many of the traditional nonprofit practices but are tailored to meet the needs and results desired by the organization. We support excellence with a number of tenets that we've put in place. One tenet created early in the organization's plan for sustainability was to develop a comprehensive board accountability report that manages membership retention, volunteer participation, parity, and/or removal from the board.

Created in 1988 and the first in the nation, our board report card allows the organization to meet and manage its goal of 100% participation annually, whatever the approved board giving level. This participatory process in resource development sets the basis for revenue and budget goals, increasing in all areas where the board has resources. In 1995, the board decided to elevate the excellence standard over traditional business operating paradigms by making innovation, strategic risk, and development of new "thought leadership" in the arts industry a part of the organization's strategic plan and annual performance requirement of the executive director. DBDT has introduced 14 new thought leadership ideas into the industry over the past 30 years.

To ensure a focused and aligned financial and budget management process, in 1990 the organization instituted a line-item budget and cash forecast with detailed accountability for staff and board that also includes a line-item written operating plan that is a required component of the board approval process. This limits the capacity for board members to redirect the focus of the organization's budget achievement efforts toward introducing new ideas during the year that create disruption to goal achievement, and dilute the energy and fundraising focus of the board. New ideas are vetted for resources

may change with an organization's age or budget size, **high-functioning board members were commonly described by all as willing to leverage their networks, advocate on behalf of the organization, actively participate, and mobilize to provide resources.**

Boards tend to be hands-on volunteers who are involved in the day-to-day operations of smaller-budget organizations in this study. One founding arts leader shared: "The daily activity of the board is very vibrant—they move the organization forward. The board is hands-on. They operate the place. They are highly functional through committees. They share their talents and tap the resources in our community." As organizations increase in budget size and add professional staff, board members become less involved in operations and focus more on fundraising and finances.

Arts leaders provided numerous examples of board buy-in that sparked a positive feedback loop of support for mission-driven governance:

o *"We make public an accountability board report card. Our board demands 100% participation."*

o *"We've built the board. We've built a community of people with networks and resources in a genuine and authentic way. They believe the arts are essential to a child's well-being, and they're willing to use everything they have to be successful."*

o *"I had to start in the job with a balance sheet that was less than stellar while mission was still very strong. With the board, we immediately identified what was in our locus of control: raising money and reducing expenses. We realized that our greatest problem was our mortgage, so we did a capital campaign to reduce our mortgage so we could allocate donations from here on out to our mission. It was incredibly successful. Together, we righted the ship."*

o *"Our board was transformed when our vision was transformed. We've been bringing on more board members that are from not just the community side but the arts side as well. We were able to change*

(both funding and personnel) required and considered for implementation during the next business cycle. Board members offering new ideas are asked to take responsibility to bring required resources to assist in implementation and can't create their own initiatives for fundraising outside of what's been approved. No board member or staff is allowed to make unauthorized approaches for fundraising without coordination with the development team. All of the success and communication with funders and donors is very tightly planned and managed.

Many board members for organizations of color and those serving on smaller non-traditional arts organizations don't have the experience of being on a large-budget organization board, so they are extremely hesitant to ask for money, even though they understand that is part of their fiduciary responsibility. On this board, you can't just show up. Small organizations of color need more than just time and influence; board member fundraising is a must and often there's reluctance due to personal histories. With the transition of America's racial inclusion and access to capital having changed significantly over the past 50 years, many individuals of color have watched their parents have to beg and ask society to meet their needs and have vowed to now never ask anyone for anything. Most small organizations recruit people who have a reservoir of resources but have not been armed with the proper resources and training to feel comfortable making "the ask." In putting together a financial plan you have to look at the social and behavioral strategies that will embolden goals to be met. There are a lot of historic operating intricacies that were built for large white organizations regarding board policies, fundraising structures, and financial practices that don't work for organizations of color and must be revamped to achieve a high-functioning organization.

We codified board composition, policies, and behavioral values. We look for capacity and skills—what do we need on the board? What are the infrastructure needs of the organization? When you have a business issue you need someone you can turn to with expertise. We don't just look for money. We want no gaps in how the business is run. We removed term limits and limits on board size, and have allowed members who relocate to participate via technology since 1996. The board leadership structure is based on who can lead the organization given where we are and the environment we're in. It's always about "the

*the minds of some board members who were slow to see the power of the new vision, especially once they saw the success it was bringing. The strong vision now attracts high-functioning, dedicated board members."*

### Relationship development and buy-in

The fourth short-term outcome that surfaced in interviews is relationship development and buy-in from artists, staff, board, audiences, program participants, donors, and the community at large. Internal and external relationships take root in the short term as the organization invites and inspires participation. With a strong community orientation, the organization gives and receives. As one executive director commented: "Building community is not a one-person job. You're not alone. If you have faith in them, they will have faith in you and your leadership. It is reciprocal."

These comments from arts leaders speak to perspectives on the importance of relationship development and buy-in:

o *"We have a clear story to tell and people respond. We constantly tell the stories and back them up with with actual data. The balance between 'people like to hear stories'—the heart—and 'people have confidence that the dollars are impacting change'—the head."*

o *"We see it as whenever we stay true and relevant, we get buy-in and have support."*

o *"We walk alongside people rather than come in with answers for them. It has created a different culture for us, which shows up when we enter into relationships with donors."*

o *"Everyone knows everyone here. Five years ago we started getting out into the community more. We have intentionally built deeper relations so our projects are outgrowths of community relationships. Because of that we built trust in the community. Now there's buy-in that wasn't previously there. Community building through art and dialogue."*

good of the whole." With most volunteers having limited time and many involved with multiple organizations, we sought to ensure efficiency and effectiveness in board meetings with a tightly structured, one-hour timed agenda. This practice has helped ensure prior preparation, problem-solving outside of meetings, and reduced opportunities for loss of meeting focus. This meeting structure has led to long-term board member participation (average 10+ years) and organizational sustainability and buy-in.

## EXTERNAL FACTORS MODERATE THE LINK BETWEEN SHORT-TERM AND INTERMEDIATE OUTCOMES

The environmental factors described above again moderate the organization's ability to convert short-term wins into intermediate outcomes, according to interviewees. Some shared how the pandemic has affected their organization and how they see their future:

o *"As of March 2020 we were on a trajectory to have the strongest season we had ever had, and the capital campaign had great momentum behind it. We've been closed since then. We're slowly seeing some potential improvements in the coming months in terms of earned revenue, but have recently been entirely dependent on contributed support. We have had to make staffing cuts, which has limited our capacity to execute on mission. I'd say that the strength of the board, donor relationships, and the brand are what have kept our head above water."*

o *"Like everyone, we've had a setback, but right now it looks like we're going to break even, which is astounding. Transparency and communication are key to ensure that your stakeholders value and appreciate your challenges and efforts, and that they feel a part of the inner circle as you seek solutions. We're in no position to grow at the*

*moment, but board oversight is strong and the finance committee has been working with me to set new expectations and build projections based on the assumptions we've made."*

o  *"This has affected our momentum, but we survived the great recession and, in our case, came out focused on mission and stronger financially. The good news is we've seen this before and, even though it is a different set of challenges, I am confident we will recreate, reinvent, reengineer a path forward that will once again make us stronger. Why so confident? We have to be. Our community relies on us as the only nonmedical resource that helps heal."*

### INTERMEDIATE OUTCOMES

**What does balance look like once the organization builds momentum?** Leaders reported that short-term outcomes can bring about the intermediate outcome of **deeper community and donor engagement** over time, provided the organization continues to invest in relationship-building and environmental conditions allow. This **can translate into increased audience and donor financial participation and increased organizational capacity, provided the organization has access to a revenue engine for growth.** When organizations operate in environments that are lacking fertile ground for revenue growth and they serve economically disadvantaged communities, they tend to remain relatively small but can still achieve financial stability. In these cases, deeper levels of community engagement and buy-in emerge, but they do not translate into revenue growth that can support an increase in the organization's capacity to serve more individuals. It is important to acknowledge that while some organizations that want to grow face challenges, growth is not an ambition for every organization and unbalanced growth can be detrimental to long-term health.

Limited donor capacity and organizational capacity pose key challenges for a number of the organization leaders with whom we spoke. These constraints are

due in part to the fact that, in a number of cases, members of the communities of color primarily served through mission-related work do not have the kind of wealth that can translate into a cultivated base of individual support or higher earned revenue from programs. These are oftentimes immigrant or economically disadvantaged communities, so **the deeper footprint of individual relationships, while meaningful to mission, is not an engine for growth in the organization's capacity to serve more people.** What's more, **while some institutional funders share the organization's values and provide sufficient support to help the organization remain financially stable, their numbers and support levels are insufficient to fuel balanced growth.** These internal and external moderating factors determine whether revenue and organizational capacity increase along with the deeper engagement, or whether the organization remains small.

### *Deeper community and donor engagement*
This first intermediate outcome is an expansion and deepening of the relationships built during the short-term outcome phase. Like all meaningful relationships, these require constant cultivation. Initial enthusiasm gives way to solid relationships over time. Comments underscoring this notion are as follows:

o  *"We ask, 'What does healthy growth look like for us'? Growth looks like deeper relationships and community ownership in our spaces rather than new facilities or more money."*

o  *"We have a wonderful niche. We're seen as the go-to place for a diverse span of immigrant performing arts across the NYC area. Long-term funders understand and support our place in the city's artscape."*

o  *"Local community is everything for us. We could not be as prosperous unless the community was invested with us. One of our guiding principles is collaborations with community partners. We're now working with ex-inmates. Another partner is a women's HIV program. These are all long term."*

o  *"As we work with different communities, we're*

*incubating community infrastructure. When the project is done, the community has something. These have resulted in the creation of seven 501(c)(3)s and numerous annual festivals. They use us for fiscal sponsorship and back of house. We do it only at cost recovery. Our work is an investment in each community and their artists. We design projects to make long-term impact, not just the performance or workshop."*

Two arts leaders spoke to deeper engagement as the culmination of a long history of commitment to mission and communities of color:

○ *"What makes us different? Now many orchestras have EDI in their mission. We've been doing it SO long, we have the breadth and depth of work that no one else can attain in the short term. Our programs go from prenatal to senior citizens. Our segmentation is wider in scope. Then there's the concentration. We have a patron-centric model for how someone moves in the relationship with the organization throughout their life. A lifetime value model."*

○ *"We're the only one doing what we do the way we do it. Accessibility is key. One of our mission tenets is democratization of the arts. That's created extreme loyalty. We have 64 years of primarily African American loyal audience members. Individual donors see that and recognize that. We have an annual pledge program — $1 a week, $13 every 3 months — that raises over $50,000 per year."*

### *Increased audience and donor financial participation*

For most organization leaders interviewed, the intermediate outcome of deeper engagement comes with an increased and expanded footprint of community, audience, and donor relationships, the second intermediate outcome. **For financial and operational growth to occur, those relationships generate more earned and contributed revenue, which in turn feeds the organization's ability to deliver on its ambitions.** In other words,

they represent balanced resource and relationship growth. Arts leaders observed, *"I look at being able to raise enough money to hire enough people to run enough programs across the city — so budget growth,"* and *"We're focused on intentional, balanced growth."*

These relationships evolve over time. One arts leader shared: *"A lot of high-net-worth individuals in [my city] are donating to us at least $2,000 to $3,000 annually now. That wasn't the case when I got here. That we built, slowly and steadily. Meeting people for lunch, doing the work, telling our story."* A longtime executive director shared this insight: *"Most organizations of color have not become institutions. We've made sure the types of fundraising and revenue focus that should occur at every stage of organizational development match that stage. We structure within the categories of what's reasonable. Disciplined growth. All planned."*

### *Organizational capacity*

Organizational capacity, a third intermediate outcome, reflects growth in the organization's ability to operate its business and carry out its mission (Miller 2001). Organizational capacity increases with investments in professional talent and quality governance, just as revenue increases when organizations build relationships with target audiences who have means and their environment supports access to philanthropy.

Adequate staffing skills and levels have to keep pace with growth in programmatic activity and the administrative functions that support it (Kim and Mauborgne 2009; Miller 2001). Arts leaders remarked:

○ *"A key to our success has been the ability to retain high performers on staff. We've made significant investments in staffing and that has made a tremendous difference to us over the years. Strong staff leadership is crucial."*

○ *"The biggest difference I see with other youth arts groups is that we are not afraid to hire experts to do their jobs in the varying administrative positions. Plug the right people in the right positions. Many*

*organizations don't get this right. They ask a performer to also write grants, for example. You get what you pay for. We pay more for skilled labor because their expertise will make the program and finances stronger."*

**The top perceived challenge mentioned by interviewees relates to organizational capacity.** There was widespread concern that staff burnout, low compensation levels, and recruitment are issues that can inhibit the organization's ability to capitalize on the successes achieved in short-term outcomes and serve an even greater number of people. Observations arose along these lines, such as the following:

o *"We listen to the community and create new programs to meet their needs. This has also created new programs where we don't have enough administrative capacity. We have 13 staff members, but now we need a stronger administrative team to support the programming."*

o *"Our employee benefits are basically nonexistent. This isn't uncommon for organizations of color. All the models that come to us say 'growth is good' and 'build your staff.' But that isn't sustainable when you can't offer compensation commensurate with large Eurocentric organization leaders. It is what people need to sustain themselves and their families. It gets you into a cycle where you eliminate infrastructure in order to telescope everything down to the art."*

o *"How do you most effectively invest your time, effort, and expertise to get the biggest benefit? We are so small that if a grant deadline falls when a production happens, we can't apply."*

o *"Inequity also figures into leadership and hiring. We have observed succession planning is difficult for many arts organizations of color. Because there are so few arts leaders of color and support for them in the field, we do need to build our own pipeline and training. This becomes part of our labor in growing and becoming high performing: to successfully coach and train future arts leaders."*

The **capacity of board members was also cited by organizational leaders as a limitation to growth,** as exemplified in these observations: "We need it to be more of a fundraising board in the coming years, even in this economic climate," and "One of the biggest challenges we have is board development and engagement. It is challenging to create mechanisms that allow the board to grow with the organization as it grows – at the same pace and rate – in terms of function and expertise."

## FACTORS THAT MODERATE THE LINK BETWEEN INTERMEDIATE OUTCOMES AND FINANCIAL STABILITY

The intermediate outcomes reflect growth when the organization's mission-related work serves or inspires individuals or institutions with high net worth or capacity to provide resources. According to interviewees, growth leads to financial stability when organizations show discipline. **Financial stability also can be attained by an organization whose growth potential is inhibited by the socioeconomic characteristics of the community it serves through its mission-related work and the limited pool of institutions that share its priorities in serving that community. Despite the challenges, these organizations appear to remain small but mighty when they exercise discipline.**

### *Discipline to stay within your means*

These high-performing organization leaders voiced a commitment to widely **practice financial discipline and put controls into place to closely monitor it.** Successful strategies depend on the ability to contain costs, carefully plan for what money can be brought in, and tailor expenses to available funds. People spoke to their conservative approach to budgeting, with comments such as: "A budget is a moral document," and "Don't spend more than you make. Don't take on debt. Even parts of the capital campaign shifted so we wouldn't have to take out loans or lines of credit. There are programmatic repercussions to those decisions – i.e., no storage, but financial stability. That discipline allows for a lot of different opportunities now."

Cost containment can also come with a sense of obligation to be good stewards of gifts and grants. Comments were made such as: "Every penny you get from foundations and government, you have to be very detailed in showing them that you aren't wasting their money. Not doing fancy things, showing what we can pay back to the community through this dollar. That's how you earn the trust of the foundations and government funders."

**Several study participants have never run a deficit and consider it a point of pride.** A founder shared: "Through the years, the board has always guided me. They all want the organization to be around long term. That's why we don't have a deficit." Some take the discipline down to the project level: "We do a revenue action plan that precedes every project. Each one has to cover its costs. We have a template we honor." One executive director relayed her strategy for getting universal buy-in for a balanced budget: "We have instituted a written operating plan tied to budget accountability by month for each line item of the budget. For instance, if we say we're going to employ 12 people, that's what we stick with. Cash flow management is projected with that budget, with names of board members affiliated with each line to deliver. There is accountability of board members, and accountability of the organization."

**Numerous interviewees spoke to building cash reserves through surpluses and never needing to exercise their access to lines of credit.** One founder shared his philosophy with a simple analogy: "Every year we put away money. If you eat all your rice today you'll have none for tomorrow. Always keep rice in your rice pot." An artistic director remarked: "Understanding cash flow is key, the ups and downs of it. And I'm an artist!" Others have a policy of always paying off their lines of credit every fiscal year. Arts leaders shared these strategies:

o  *"We capitalize depreciation in responsible ways, and this helps us manage cash flow so we don't need to*

*access lines of credit."*

o  *"Our board has been really diligent about working capital. We have a quasi-endowment. Before I got here it was required to put a certain amount in that account every year. We haven't had to use it during the pandemic but we can access it if we need to."*

o  *"Cash flow sounds simplistic, but it lets you dream big and really think ahead about strategic growth, which you can't do if you can't turn the lights on. It relieves the not sleeping at night issue and lets you get beyond basic needs. With the board we've done weekly cash flow reports during COVID."*

## Discipline to diversify revenue streams

Long-term financial stability, according to many of the arts leaders interviewed, was achievable due to the organization's disciplined approach to diversifying revenue streams. Overreliance on one source of revenue (e.g., the majority of revenue coming from ticket sales or local government support) leaves organizations vulnerable should that source dry up or become erratic. Unless the source is safe and stable, diversification of revenue sources diminishes risk.

Arts leaders shared comments such as: "One of the most important factors is revenue diversity. This has always been key. Concentration on each stream of the fundraising," and "To succeed, we knew we had to diversify so you're not standing on just one foot." High performance on revenue diversity was one of the seven financial outcomes examined to select organizations for participation in the study. As was the case with all other elements of the model, those whom we interviewed attested to the intentionality and discipline required to achieve it.[6]

Several participants attributed their ability to diversify revenue streams to their dual purpose as an arts organization and community-based organization. Three executive directors shared their organization's specific approach to diversifying revenue:

o  *"We've doubled in size even since 2018. In the*

*process, revenue diversity has grown substantially. The secret sauce to how we get the different funds? We set goals for the percentage of funds we want to have from each source. In the past, it has been in theory and now it is in practice. We strive to have an even balance between sources of support."*

o *"One of the newest funding sources we've accessed is government. We look at the programs we do and the requests-for-proposals the city releases. For example, the city funds mentoring programs. We ask ourselves whether we mentor, and the answer is yes. We apply and receive funding. Peel back the onion and evaluate where there's fit. Our programs do not change but the outcomes we choose to highlight for specific opportunities change in order to diversify and grow revenue."*

o *"We always look for ways to diversify revenue. We're working with a pro bono group helping us to evaluate whether there are earned revenue opportunities we might be able to exploit."*

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[6] We note that "Discipline to diversify revenue streams" is a new moderator in the conceptual model in this phase of the research. In Phase I, a number of organizational leaders spoke about revenue diversity as a positive and desired side effect of successful engagement with both audiences and donors. Qualitative input during Phase II that spoke to a disciplined approach to diversifying revenue guided us to rethink its prominence and role as a separate moderating factor between the intermediary outcomes and long-term financial stability.

## SPOTLIGHT ON FINANCIAL DISCIPLINE: THE KING ARTS COMPLEX, COLUMBUS, OHIO
### *Demetries Neely, Executive Director and CEO*

In 2011, when I began as The King Arts Complex executive director, The King Arts Complex was in a great deal of debt. Stakeholders and others in the community expected our doors to close. After working in corporate operations for more than 22 years and understanding how to run a business, including how to read financial statements, I felt we could turn it around.

The first action was to conduct an internal audit, assess the staff, and establish a baseline in these areas to move forward. Regarding staff, we were top heavy, and I had to make some difficult decisions to right size staff. Regarding income, we were lopsided. A disproportionate amount of our funding came from corporate contributions, a much smaller portion was earned income, and an even smaller portion came from individual donations.

The first strategy was to manage expenses. One example is we had a $250,000 line of credit with a 9% interest rate. We turned that LOC into a loan with a 3% interest rate. Today the loan balance is less than $22,000. It is our only long-term debt and will be paid off in December 2021.

The next step was a focus to improve earned income. Simultaneously, we developed new relationships and improved individual donations. Today, income streams follow best practices for nonprofits. For example, earned income is 37% of our total income versus 20% nine years ago.

Lastly, we have a monthly staff retreat to assess programmatic offerings. During the retreat, we assess past/future programs, eliminating duplications or programs that did not/will not reap the intended outcome. In addition, we have established a discipline of conducting a revenue action plan that precedes every program and a SWOT (strengths, weaknesses, opportunities, threats) analysis that follows each program. A precedent to a program moving forward is the program must cover its costs through sponsorships or ticket/concession/art sales. The individual postmortem SWOTs tell us what we will continue, start, or stop.

### Discipline to take informed risks in the face of uncertainty[7]

The mirror image of conservative strategic decision-making in the face of uncertainty is the taking of informed risks. High-performing organization leaders repeatedly spoke to taking calculated risks when the environment changes. Comments were shared such as "Build the network that supports your risk-taking when you do it." Organizational leaders relayed strategies such as the following:

o *"You have to continue evolving over time. But don't just change for the sake of change. Deeply evaluate and live through programs before you start the purging process."*

o *"We adopt the 'aim big and land somewhere in the middle' strategy. Have Plans A-C. Raise money for Plan A and if it doesn't all materialize, go with Plan B or C."*

o *"The quantum leaps we've made have come as a result of always planning and seeking opportunities, then being ready to seize them rather than strategic thinking in a vacuum. Adaptability has been our sustainability."*

### Discipline to jointly set policies and priorities

According to numerous interviewees, discipline to jointly set policies and priorities, which calls for the building of trust and consensus among those responsible for the organization's future, can moderate an organization's ability to translate intermediate outcomes into financial stability. It takes discipline from executive, artistic, and board leaders to **jointly set policies and priorities in order to minimize the potential for controversy and power struggles that can take the organization off course.**

For instance, when organizations have established deeper relationships and increased financial support from audiences and donors, exceptional influxes of funds may present themselves to the organization (e.g., an estate gift, a large unexpected donation, a sizeable surplus). Agreed-upon policies governing the use and

A strong brand, focus on financial sustainability, aggressively paying down debt, expense management, improvements in earned income, and diversifying streams of income have been critical to the turnaround of the KAC.

Today, The King Arts Complex is a vibrant, fiscally responsible organization whose brand is strong and has great community engagement and benefit.

expenditure of savings allow the organization to avoid opportunistic behavior and schisms over the responsible use of its hard-earned assets (Thomas and Voss 2018). Arts leaders shared:

o *"While I think it's important that the board not manage the day-to-day operations of an arts organization or its director(s), the board and leaders of the organization should have unity on what organization priorities are."*

o *"We are very much going through these conversations now due to a very large gift. We are pretty unified and mostly on the same page on a variety of issues, but this is one where I see emerging schisms and strong differing of opinions."*

o *"The idea that there is controversy regarding how an exceptional influx of funds should be allocated can be a very painful and upsetting situation unless there is some kind of pre-planning as to how to handle the issue. This can be very serious and have unforeseen consequences that can actually derail the vision of the organization at best and sink it at worst!"*

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[7] In Phase I, this moderator was labeled "Discipline to make strategic conservative decisions in the face of uncertainty." Qualitative feedback on the Phase I model by a Phase II participant led us to relabel the construct. We then tested the relabeling with remaining interviewees, who confirmed its accuracy.

o   *"One of our biggest successes in the last decade was having a strong partnership between executive and board. That enabled us to build our brand and a surplus, and to determine the surplus goals are to: 1) support staff sustainability by establishing 401ks; 2) build a rainy day fund for emergencies; and 3) prepare for executive transition."*

It bears mentioning that some interviewees see a healthy partnership between executive, artistic, and board leadership as an essential practice for a successful organization, but they consider it part of a high-functioning board and healthy organizational culture that carry through the model once established earlier on. We have, nonetheless, included it here to highlight the continued attention and discipline this issue requires even after the organization has built momentum towards a solid financial foundation.

## LONG-TERM OUTCOME: FINANCIAL STABILITY

The cornerstones of high performance, which appear to lie in the alchemy between community orientation and high-quality programming, ultimately lead to and are supported by a solid financial foundation, according to interviewees. This project began by identifying examples of performing arts and community-based organizations that have financially outperformed others in substantial ways and primarily serve communities of color. Interviews with organization leaders helped us understand how they achieve high financial stability. The model, which grew out of the interviews, represents financial stability not as an end unto itself, but as part of a virtuous cycle of high performance. We heard numerous supporting observations such as: "We create an environment that breeds excellence; that's what allows the financial success to flourish"; "Figure out how to finance the mission. The things are all connected at the hip"; and "The way we talk about who we are is mission driven. If you own and live your mission and values, longevity is yours."

Arts leaders think about financial stability in a variety of ways, as reflected in the following comments:

o   *"The financial structure and plans we looked at charting our financial course just follow solid business strategy. Diversification of revenues, a reasonable debt ratio, positive bottom line."*

o   *"One way I measure our success is steady budget growth. We had a $100,000 deficit on a $500,000 budget when I came. Last year we had a $1.2 million budget and a $125,000 surplus. The financial freedom has allowed us to really remain true to mission and not chase after money to fill holes."*

o   *"We don't do debt. We basically have no debt. No property, we're not straddled. We use rental space and we don't have a deficit. We raised over $800,000 in the early 1990s to create a cash reserve fund. It has to be paid back within two years but it lets us avoid borrowing from financial institutions."*

In the above sections on the discipline to stay within your means and to diversify revenue streams, we shared additional participants' insights into their thinking on strategies to achieve high performance along the dimensions of annual surplus/deficit, cash flow, and revenue diversity. We acknowledge that the "right" capital structure depends on the art form, organizational ambitions, programmatic calendar, and whether the organization owns a facility. There is no one right capital structure or balance of major assets that all organizations should strive for.

Financial stability was a topic of considerable discussion in our interviews, particularly in light of the pandemic. **Over 80% of the arts leaders with whom we spoke indicated that their organization is financially solid this year despite the COVID crisis.** This is not entirely surprising given that: 1) we selected organizations that have an arc of high performance on numerous financial and operating metrics over time; 2) they spoke to the importance of adaptive capabilities; and 3) they approach their financial management with clear strategies and discipline. Funders are supporting organizations that were more dependent on earned income and most organizations had cash reserves that

they are currently tapping. All recognize the need for even greater revenue diversity and new financial models in future years.

## LIMITATIONS AND FUTURE DIRECTIONS

As with any study, there are limitations to recognize and the findings raise questions for future exploration. Phases I and II of this study probed the elements of successful strategies that leaders of high-performing arts organizations see as key to their financial stability. The same general conceptual model emerged during interviews with both cohorts, with some important nuances, signaling that its basic elements may apply to a wider set of organizations. However, while we believe the experiences, perspectives, and approaches shared are instructive and hold potential for increasing stability, it is **unclear at this stage whether the findings are generalizable.**

Inclusion in Phase II of this study hinged on an organization's response to a question probing whether it primarily serves a community of color. Future research might explore whether findings similar to those in this study emerge for organizations that explicitly self-identify not only as primarily serving a community of color but also as having a mission rooted in an explicitly identified ethnic or cultural voice.

Another avenue of future research might attempt to replicate and extend findings by exploring whether they surface in organizations that primarily serve particular age groups, people with disabilities, people of low socioeconomic status, people who are LGBTQ, or those belonging to immigrant communities. One might explore whether the concepts manifest differently in other arts sectors such as arts education or science and history museums.

Arts leaders identified **internal factors** that they associated with high performance. However, **we do not know whether these factors are found *only* in high-**

**performing organizations,** and whether they are sufficient to cause high performance for all organizations. Interviewing leaders of organizations that did not recover, or recovered only moderately, to hear whether they did the same or different things, would provide stronger evidence on these questions.

Phase I of this research included only organizations with annual budgets above $500,000. This second phase of research addressed that limitation by eliminating minimum budget as a selection criterion. The results illuminated the struggles of some of the smallest organizations in this study. For example, the four organizations that are facing immediate financial hardship due to COVID all have a relatively lower annual budget and only one or two full-time staff. It is interesting to note that several organizations with similar staff size but slightly larger budgets did not indicate that they are currently facing financial crisis. **It would be instructive to examine whether these same struggles confront smaller-budget organizations in all arts and cultural sectors, regardless of whether they primarily serve a community of color.**

**Importantly, future research is needed to empirically test the theoretical model that emerged out of Phase I and Phase II interviews to verify the elements as well as their relationships to one another.** We encourage future research that develops measures for each component of the conceptual model, analyzes the accuracy of how we have depicted them as antecedents and outcomes, and tracks them to **determine the length of time required to achieve short-term, intermediate, and long-term outcomes.** In addition, more detailed analyses of the strategies and their outcomes could increase our understanding of what steps toward organizational success look and feel like in practice.

Given the unprecedented impact of the COVID-19 virus, it will be illuminating to learn how organizations confront and weather the crisis in the next fiscal year, whether their core strategy remains consistent, and the extent to which they encounter changes to short-term,

intermediate, or long-term outcomes. Will the path to high performance require the introduction of new elements, a shift in the timeframe required, or the development of new strengths? Or will the core elements remain essential? One arts leader shared the perspective that "organizational survival in this pandemic will require recentralizing in the communities in which we live." Future research might explore the extent to which the pandemic pushes arts programming into the digital realm as a mainstay activity that complements in-person engagement to meet people where they consume.

Another avenue for future research raised by this project is **how leadership transitions affect high-performing organizations of color.** Nine of the 21 arts organizations included in this study are led by founders or co-founders who have been at the helm of the organization for over 20 years. Many of these individuals have accepted low-to-no pay and work exhaustive hours out of a passion for the communities they serve and the artistry they create. Succession poses challenges as the organizations frequently have not made plans for attracting a new leader with better pay and sustainable work hours.

## FINAL OBSERVATIONS

Kim and Mauborgne (2009) propose that there are **three propositions that any organization needs to develop and align in order to achieve success: its value proposition, revenue proposition, and people proposition.** Success requires a value proposition—a set of benefits exceeding costs—that is attractive to some set of individuals. The organizations in this study resoundingly spoke to strength in their value proposition, as reflected in their deep connection to serving the community with high-quality programs that meet preferences and needs. The revenue proposition (or "profit" proposition in a for-profit context) enables the organization to generate sustainable revenue out of the value proposition from some set of stakeholders. Organizations that seek growth but remain small have

difficulty increasing the power of the revenue engine under current conditions. The people proposition must motivate and enable those working for or with the company to successfully carry out the value and revenue propositions. Investments in people allow the organization to scale up and break out of a cycle of burnout and undervaluing of the talents of those who provide the mission-related work that serves communities of color (e.g., Anderson 2018; International Association of Blacks in Dance 2020). **Many of the organizations with whom we spoke are largely human resource-starved, not because of a lack of capacity and talent among existing staff members, but because of the need for more of them.**

**If some of the unique external factors can be addressed or attenuated by the funding community through targeted investments, perhaps organizations of color would be better equipped to overcome the unique challenges** identified by participants in this project. Not all arts organizations seek to grow. But, for those organizations of color that do have growth as an ambition, access to substantial, dedicated institutional funding could not only address what are currently perceived to be real barriers to success (i.e., racism and access to funding) but also serve as a revenue engine, particularly when the organizations operate in environments that are lacking fertile ground for revenue growth and they serve economically disadvantaged communities. Recent funder initiatives are attempting to do just that, such as the 16-funder, $156 million commitment to America's Cultural Treasures to support Black, Latinx, Asian, and Indigenous arts organizations throughout the country led by the Ford Foundation,[8] and Black Seed, supported by the Andrew W. Mellon Foundation, which is a national strategic plan to create impact and the room to thrive for Black theatre institutions and initiatives.[9]

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[8] See **fordfoundation.org/the-latest/news/sixteen-major-donors-and-foundations-commit-unprecedented-156-million-to-support-black-latinx-asian-and-indigenous-arts-organizations**.
[9] See **americantheatre.org/2020/10/05/the-black-seed-receives-5-million-mellon-foundation-gift**.

## CONCLUSION

This in-depth inquiry of high-performing community-based and performing arts organizations that primarily serve communities of color sheds light on the strategic road map they describe following to achieve financial sustainability, which we hope will inform the thinking of other leaders. We emphasize that there is no shortcut to financial success, nor a single silver bullet. We acknowledge that the current external challenges are unprecedented and will be, for some, insurmountable.

The organizations that participated in this study vary considerably in their missions, the communities they serve, and their organizational size. Nevertheless, they share a fundamental belief that their purpose is to serve the local community at a high-quality level with relevant, unique programming. Doing so leads to positive short-term, intermediary, and long-term out-comes depending on the state of key internal and external conditions.

These organizations defy the societal obstacles they face related to racism, inequitable access to funding, and gentrification, recognized by some in this study as a reflection of white supremacy culture. None of the

arts leaders in this study spoke to challenges of declining audiences or waning interest in their work. Their relevance is palpable, and their origins, artistry, and relationships to the communities they serve are inspirational. Their commitment to meeting community needs, smaller size, and nimbleness may provide distinct advantages for survival during the current COVID crisis. They have something to teach the field more broadly.

It is not always evident what decisions are the right ones to make when running any organization. This research identifies the qualities that appear to advance high performance, which reinforce those that surfaced in the first phase of this research. Intangible assets like trust, good decision-making, artistic and managerial expertise, reputation and relationships, intellectual capital, a positive organizational culture, and the quality of the workforce all influence an organization's performance. They appear to set apart high-performing arts organizations.



*Sones de Mexico Ensemble; photo by Henry Fajardo.*

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## A1: METHODOLOGY: IDENTIFICATION AND DESCRIPTION OF HIGH-PERFORMING ORGANIZATIONS OF COLOR

Here we provide information about the selection criteria employed in this study regarding identification of organizations of color, our methodology for assessing financial health metrics and selection standards, and identification of organizations' arts and cultural sector. This section concludes with identification and description of the organizations themselves.

### ORGANIZATIONS OF COLOR SPECIFICATION

This project's focus is on high-performing arts organizations of color. We identified organizations for this study based on their response to the following questions in SMU DataArts' Cultural Data Profile (CDP):

1. Does your organization primarily serve a particular racial/ethnic group?
2. If yes, primary ethnic group served?

We readily acknowledge that this question is an imperfect measurement of whether an organization is an organization of color. For example, a traditional, Western Eurocentric arts organization may indicate in the CDP that it primarily serves every racial/ethnic group by checking all response options. For that reason, we verified each organization individually. The DeVos Institute has defined "arts organizations of color" as those "founded by, explicitly serving, or celebrating the artistry of African Americans and Latinos (p. 4)."[10] Once we generated a list of organizations that met the criteria described in the performance standards section below, we visited each one's website and eliminated those organizations whose mission made no mention of being founded by or celebrating the artistry of Black, Indigenous, Arab, Hispanic/Latinx, and/or Asian people or cultures.[11]

### FINANCIAL HEALTH METRICS

Our approach to understanding high performance is through stochastic frontier analysis, utilizing our Key Intangible Performance Indicators (KIPIs) as outcome variables. Stochastic frontier analysis is an analytic method that is in search of the "above average." It explores the frontier of maximum feasible output — i.e., the highest performance one might reasonably observe — given a set of inputs. In this case, inputs are the characteristics of the organization (e.g., budget size, arts sector, organizational age, square footage, number of programs, whether it seeks primarily to serve a specific audience demographic, etc.) and the community in which it operates (e.g., median age and income, cost of living, population, number of local arts organizations, etc.). In other words, it helps us answer questions such as, "Given this organization's characteristics and the characteristics of its market, what would we expect its average annual attendance to be, and what would be the highest level of attendance one might reasonably observe?"

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[10] DeVos Institute of Arts Management at University of Maryland (2015), *Diversity in the Arts: The Past, Present, and Future of African American and Latino Museums, Dance Companies, and Theater Companies*. Retrieved from **devosinstitute.umd.edu/What-We-Do/Services-For-Individu-als/Research%20Initiatives/Diversity%20in%20the%20Arts**.

[11] Beginning in 2021, the CDP will include a second question that addresses self-identification as an organization of color: "Is your organization's mission rooted in an explicitly identified ethnic or cultural voice? If so, please indicate which."

**FIGURE A1: EXAMPLE OF STOCHASTIC FRONTIER ANALYSIS AND KIPIs, APPLIED TO ATTENDANCE**



All characteristics of the organization and its market that influence attendance
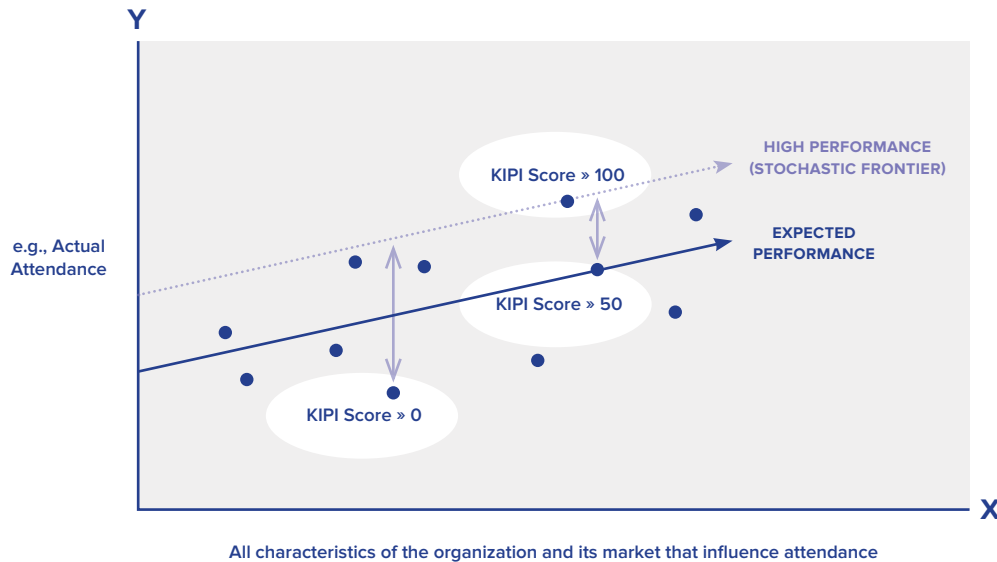
Figure A1 illustrates the concept using the example of attendance. It plots attendance levels with a dot for a set of hypothetical organizations, given each organization's operating and market characteristics. This strategy allows the detection of high performance in organizations of different sizes and contexts. KIPI scores range from 0 to 100, with a score of 50 representing average performance and scores approaching 100 representing "high performance" outcomes — e.g., high attendance in this case.  We know that organizational characteristics and market characteristics explain some level of variation in every measure of performance.

All else being equal, however, we know that organizations that are otherwise very similar in every measurable way still perform differently than one another. We infer that the presence of intangible assets like the ability to provide high standards in the creation of work that is meaningful to the local community, and knowledge of how to create a positive, healthy organizational culture, hone adaptive capabilities, and achieve mission alignment, etc., all influence an organization's performance. Because these traits are, by nature, intangible, we cannot easily measure them. And yet we all know how important they are, and we can statistically estimate how much they collectively play a role in setting an organization apart from others. In fact, this project's qualitative data collection with leaders of arts organizations underscored the critical importance of intangible assets to achieving high performance, as we discuss in the body of the paper.

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[12] For more information on KIPIs, including a detailed video explanation, please visit: **dataarts.smu.edu/kipis/whatisaKIPI.php** and pp. 136-145 of **smu.edu/~/media/Site/Meadows/NCAR/NCAR_Volume_II_Report**.

To generate KIPI scores, we draw on SMU DataArts' spatially modeled, integrated data set, which provides a mathematical representation of the national arts and culture ecosystem. In it, we pinpoint the location of every arts organization and then link it to its community's characteristics – e.g., who lives nearby, what other businesses operate nearby – in order to understand how community characteristics impact performance. Since we know that distance from the organization influences arts attendance, we weight more heavily the characteristics closest to the organization, with weights diminishing with distance.[13] The spatial model incorporates organization-level data from the Cultural Data Profile (CDP), Theatre Communications Group's fiscal survey (TCG), and IRS 990s; arts consumption data at the household level from TRG Arts; Census Bureau data; and public funding data from the National Endowment for the Arts, Institute of Museum and Library Services, and National Assembly of State Arts Agencies. Organizations selected for this project had completed either the CDP or TCG surveys in at least four of the past seven years. These two surveys provide sufficient depth of detail in data collection for us to conduct the KIPI analyses. All organizations that complete one of these two surveys receive free access to a KIPI Dashboard where they can log in to see their own organization's performance scores on 24 metrics.[14]

For this project, we define financial health in terms of relative performance on the following metrics:

1. Level of working capital and debt ratio
2. Level of occupancy expense
3. Level of unrestricted contributed support from individuals
4. Level of community engagement[15]
5. Annual surplus/deficit
6a. Level of earned relational revenue (i.e., revenue earned from subscriptions and memberships)
6b. Level of unrestricted contributed support from grantmakers (i.e., government agencies, foundations, and corporations)
7. Revenue diversity

To identify high-performing organizations for this study, we first conducted a factor analysis on the SMU DataArts KIPI performance indices. Factor analysis is a data reduction procedure designed to identify and combine measures that are highly correlated. The factor analysis produced four factors that align with the first five metrics above (the occupancy expense KIPI was highly correlated and combined with working capital and debt ratio). We included the factor score for earned relational revenue when evaluating performing arts organizations (#6a above), and institutional support from grantmakers (#6b) when selecting CBOs. This substitution for CBOs is due to the fact that the average CBO does not operate on a subscription or membership model. It has been replaced with unrestricted support from grantmakers since prior research has shown CBOs tend to support a higher percentage of their total

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[13] Voss, Glenn, Zannie Voss, Young Woong Park (2017), *At What Cost? How Distance Influences Arts Attendance*, SMU National Center for Arts Research. Retrieved from: **dataarts.smu.edu/artsresearch2014/ncar-arts-activity**.

[14] See **dataarts.smu.edu/kipis**.

[15] The community engagement measure – what we refer to as "total touch points" – throws a wider net to capture all stakeholder interactions with the organization relative to the population of the local community. It includes the organization's number of volunteers, students, artists, board members, donors, audiences, employees, and program participants. We use local population as a point of comparison to see market penetration, or the percentage of the organization's local community that engages with the organization and its programs.

expenses with contributed support from institutional funders, which is logical given their prosocial emphasis.[16] We added a single KIPI measure for revenue diversity (#7 above).

The factor scores and the revenue diversity measure are standardized, so that a score of zero is the average for all organizations and a score of one or two represents one or two standard deviations above average, while a score of minus one or minus two represents one or two standard deviations below average. We then aggregated standardized scores to arrive at an overall look at annual performance, and calculated the average of the annual performance scores.

## SELECTION STANDARDS

Organizations selected for this study met the following criteria:

1. A minimum of four years of data;
2. An average of aggregated annual mean scores across all factors greater than three, which would represent an average factor score of approximately .4 standard deviations above average on each factor per year;
3. Above average performance (i.e., a KIPI above 50) on at least three of the seven financial health metrics noted above for a minimum of three years, identified through stochastic frontier analysis;
4. Self-selection in SMU DataArts' Cultural Data Profile as primarily serving Indigenous people or people of African, Asian, Latin American, or Middle Eastern descent.

We would like to note that we selected organizations that met the fourth criterion from a pool of all organizations that met the first three criteria. That is to say, these organizations outperformed expectations relative to all organizations, not just relative to other organizations of color.

These selection criteria are similar in many ways to those employed for Phase I of this research, which resulted in the report *The Alchemy of High-Performing Arts Organizations*,[17] with several exceptions:

1. The Phase II criterion that the organization self-identify as primarily serving a community of color, was not included in Phase I.
2. Phase II eliminated the Phase I criterion of a minimum annual budget average above $500,000 for the period. The elimination of a budget floor is due to the fact that arts organizations of color are more prevalent in arts and culture sectors that have lower average budget size (e.g., Community-based, Dance, Multidisciplinary Performing Arts) and less prevalent in sectors that have larger average budgets (e.g., Museums, Opera Companies, Performing Arts Centers, Orchestras).[18]

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[16] See **culturaldata.org/the-fundraising-report/by-source-indices/key-findings**.

[17] Voss, Z. G., and G. B. Voss (2020), *The Alchemy of High-Performing Arts Organizations*, SMU DataArts with the Wallace Foundation. Retrieved from **culturaldata.org/pages/the-alchemy-of-high-performing-arts-organizations**.

[18] Voss, Voss, Louie, Drew, and Teyolia (2016), *Does "Strong and Effective" Look Different for Culturally Specific Organizations?* SMU National Center for Arts Research. Retrieved from **smu.edu/~/media/Site/Meadows/NCAR/NCARWhitePaper01-12**.

3. Employing identical criteria related to years of data and factor scores for Phase II as Phase I yielded fewer than the 20 organizations we sought. This is unsurprising given that there are roughly one-tenth the number of arts organizations of color as there are organizations that do not self-identify as primarily serving a community of color.[19] This prompted us to ease the minimum number of years of data registered from five years to four; reduce the minimum number of years of high performance along metrics from four to three and the number of areas of high performance from four to three; and reduce the required average of standard deviations above the mean on the annual, aggregated mean factor scores from four to three.

## ARTS AND CULTURAL SECTOR SPECIFICATION

We assign organizations to arts sectors using the National Taxonomy of Exempt Entities (NTEE), which is a classification system for nonprofit organizations. The NCCS website gives an excellent summary description of what NTEEs are and how they came about: **nccs.urban.org/project/national-taxonomy-exempt-entities-ntee-codes**. Organizations report their NTEE as part of DataArts' Cultural Data Profile survey. "Arts and Culture" is one of the NTEE's 10 major groups of tax-exempt organizations (the "A" category), and within Arts and Culture there are 10 subcategories that contain 30 additional subdivisions.

The categories of arts and cultural sectors and their associated NTEE codes initially examined for this project were as follows:

• Art Museums: Art Museums (A51)
• Community-based Arts Organizations (CBOs): Arts and Cultural Organizations—Multipurpose (A20), Cultural & Ethnic Awareness (A23), Folk Arts (A24), Arts & Humanities Councils/Agencies (A26), Community Celebrations (A27), and Visual Arts (A40)
• Dance: Dance (A62) and Ballet (A63)
• Music: Music (A68), Singing & Choral Groups (A6B), and Bands & Ensembles (A6C)
• Opera: Opera (A6A)
• Performing Arts Centers: Performing Arts Centers (A61)
• Symphony Orchestra: Symphony Orchestras (A69)
• Theater: Theater (A65)
• Other Museums: Museums & Museum Activities (A50), Children's Museums (A52), History Museums (A54), Natural History & Natural Science Museums (A56), and Science & Technology Museums (A57)
• Multidisciplinary Performing Arts: Performing Arts (A60)

No museums, performing arts centers, or opera companies that self-identify as primarily serving a community of color met the performance criteria detailed above, which is unsurprising given the paucity of arts organizations of color that operate in these sectors. Therefore, the report focuses on 11 performing arts organizations and 10 CBOs.[20]

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[19] Ibid.

[20] One performing arts organization did not respond to initial inquiries so we moved on and interviewed the leader of an alternate organization. Eventually the original organization replied with a desire to participate. Given its exceptionally high performance, we opted to include it.

## IDENTIFICATION AND DESCRIPTION OF PHASE II ORGANIZATIONS

The 11 performing arts organizations have a median budget of $1.4 million and a mean budget of $2.7 million. They range in annual budget size (i.e., average total annual expenses over the period) from $278,000 to $15 million. There is representation from four of the seven performing arts sectors (see Figure A2).

### FIGURE A2: PERFORMING ARTS COHORT, BY ARTS AND CULTURAL SECTOR
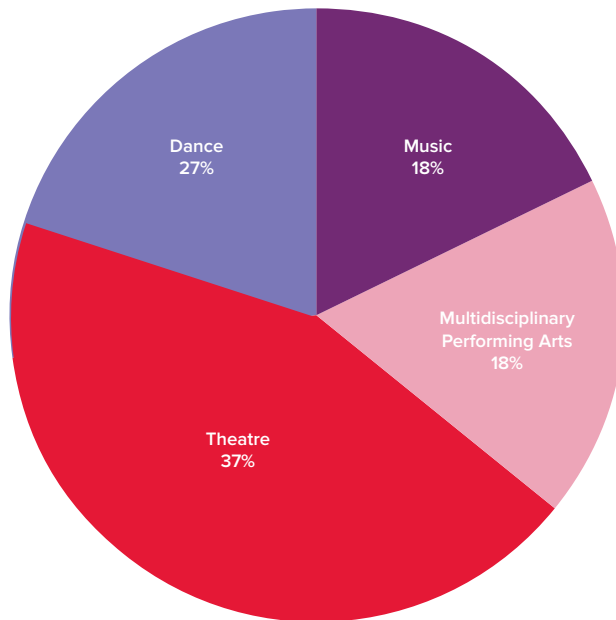


Dance 27%
Music 18%
Multidisciplinary Performing Arts 18%
Theatre 37%

The CBOs tend to have significantly smaller annual budget size. Those included in this study have a median budget of $486,000 and a mean budget of $639,000. They range in annual budget size (i.e., average total annual expenses over the period) from $146,000 to $2 million.

In Tables A1 and A2 we provide a listing of the organizations in the two cohorts by budget size, along with their location, sector (or NTEE within the sector), and mean budget over the period of study. Where an organization is still run by its founder (whether or not the founder was the person interviewed), we indicate so with an "F" following its name. Nine of the 21 arts organizations are led by founders or co-founders who have been at the helm of the organization for over 20 years. The tenure of the other organization leaders ranges from 5 months to 34 years.

We acknowledge the preponderance of CBOs located in the Bay Area that met the criteria. It is a topic we explored in our interviews with leaders of these organizations in order to better understand the community context and conditions that support their success. Two explanations emerged. First, there is strong funder support of CBOs of color in the Bay Area, so the philanthropic environment provides fertile ground for organizations to thrive. Second, there is a history of social justice initiatives in communities of color, an outgrowth of events such as the

## TABLE A1
## PERFORMING ARTS ORGANIZATIONS

| ORGANIZATION | CITY | STATE | SECTOR | MEAN BUDGET |
|---|---|---|---|---|
| Apollo Theater Foundation | New York | NY | Multidisciplinary Performing Arts | $14,849,513 |
| Herbie Hancock Institute of Jazz (F) | Washington | DC | Music | $3,725,078 |
| Dallas Black Dance Theatre | Dallas | TX | Dance | $3,584,280 |
| Chicago Sinfonietta | Chicago | IL | Music | $2,033,697 |
| The King Arts Complex | Columbus | OH | Multidisciplinary Performing Arts | $1,402,650 |
| East West Players | Los Angeles | CA | Theatre | $1,358,327 |
| Mixed Blood Theatre (F) | Minneapolis | MN | Theatre | $1,249,423 |
| Theater Mu | St. Paul | MN | Theatre | $667,422 |
| Chen Dance Center (F) | New York | NY | Dance | $475,487 |
| Detroit Repertory Theatre (F) | Detroit | MI | Theatre | $420,562 |
| Anita N. Martinez Ballet Folklorico (F) | Dallas | TX | Dance | $278,582 |

## TABLE A2
## COMMUNITY-BASED ARTS ORGANIZATIONS

| ORGANIZATION | CITY | STATE | NTEE WITHIN THE CBO SECTOR | MEAN BUDGET |
|---|---|---|---|---|
| Sitar Arts Center | Washington | DC | General Arts & Culture | $1,991,185 |
| Chinese Culture Fdn. of San Francisco | San Francisco | CA | Cultural & Ethnic Awareness | $1,086,675 |
| Center for Traditional Music & Dance | New York | NY | Folk Arts | $841,699 |
| CircEsteem | Chicago | IL | General Arts & Culture/ Children's-Youth Services | $604,479 |
| Grandville Avenue Arts & Humanities | Grand Rapids | MI | Arts & Humanities Councils & Agencies | $604,180 |
| Oakland Asian Cultural Center | Oakland | CA | Cultural & Ethnic Awareness | $368,026 |
| Idris Ackamoor & Cultural Odyssey (F) | San Francisco | CA | Cultural & Ethnic Awareness | $341,474 |
| Sones de Mexico Ensemble (F) | Chicago | IL | Folk Arts | $208,874 |
| Kaisahan of San Jose Dance Co. (F) | San Jose | CA | Cultural & Ethnic Awareness | $196,561 |
| Purple Silk Music Education Fdn. (F) | Oakland | CA | Cultural & Ethnic Awareness | $146,440 |

Third World Strike in Oakland in the 1960s, which solidified the legitimacy of organizations founded with a non-Eurocentric focus.[21]

## A2: METHODOLOGY: APPROACH TO CAPTURING SUCCESSFUL STRATEGIES AND HOW THEY LEAD TO FINANCIAL HEALTH

To understand the elements of successful strategies and how they relate to financial sustainability, we followed a theories-in-use methodology, which seeks to capture the mental model of how things work from the perspective of individuals who are closest to the problem (Zeithaml et al. 2020). This is the same methodology followed in Phase I of this research. We conducted telephone interviews with leaders of 11 high-performing performing arts organizations and 10 CBOs to triangulate quantitative findings and investigate the strategies that drive success. The individuals interviewed were chosen for their firsthand knowledge and experience related to the questions and issues important to this research. Seven of the performing arts organization leaders identified for interviews are executive directors, managing directors, or CEOs, three are artistic directors, and one is chief development officer (with co-responsibilities for setting strategy). In the case of CBOs, seven of the leaders identified for interviews are executive directors or CEOs and three are artistic directors. The interviews helped us formulate richer insights into the core elements of strategies that drove the results reflected in their KIPI scores and the pathway between these core elements and high performance.

The interviews followed a semi-structured protocol (please contact the authors for the set of questions posed as a conversation guide). Generally speaking, our questions documented a description of the strategies employed, whether they changed over time and how, the internal process of strategy design and implementation, and the key challenges encountered. Depending on the interviewee's responses, some issues were probed more deeply while other questions were omitted.

We took notes during the interviews and recorded them. We reviewed the interviews and conducted content analysis of the material collected to ensure convergence, reduce potential for bias, achieve multi-perspectives, and identify common themes across participants. Emergent constructs were grouped into broader categories. We then generated propositions related to the relationships between categories, and went through a process of selective coding to choose the most logical conceptual mapping of antecedents, consequences, and moderators (Corbin and Strauss 2008).

Once each interview was completed, we sent the participant a copy of the Phase I report, *The Alchemy of High-Performing Arts Organizations*. We asked, "Do you feel that the report, and especially the model on page 5, accurately captures your mental model of the link between strategy and financial sustainability?  If not, what would you add or change?"  The intention in doing so was to achieve extensive iteration that allows for probing of reactions to the propositions laid out in the original conceptual model.

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[21] In 1968, students at the California State University, San Francisco, began a student strike of the school called the Third World Strike, until an Ethnic Studies Department was formed. It was a coalition of ethnic student groups on college campuses in California in response to the Eurocentric education and lack of diversity. In January 1969, the strike had spread across the Bay Area to the University of California, Berkeley campus. See **picturethis.museumca.org/pictures/university-califorrnia-berkeley-students-who-support-third-world-strike-get-scuf-fle-police#:~:text=In%201968%2C%20students%20at%20the,University%20of%20California%2C%20Berkeley%20campus**.

## ACKNOWLEDGMENTS

## ABOUT SMU DATAARTS

SMU DataArts, the National Center for Arts Research, is a joint project of the Meadows School of the Arts and Cox School of Business at Southern Methodist University. The authors of this report, Dr. Zannie Voss and Dr. Glenn Voss, are director and research director, respectively. SMU DataArts compiles and analyzes data on arts organizations and their communities nationwide and develops reports on important issues in arts management and patronage. Its findings are available free of charge to arts leaders, funders, policymakers, researchers and the general public. The vision of SMU DataArts is to build a national culture of data-driven decision-making for those who want to see the arts and culture sector thrive. Its mission is to empower arts and cultural leaders with high-quality data and evidence-based resources and insights that help them to overcome challenges and increase impact. To work toward these goals, SMU DataArts integrates data from its Cultural Data Profile, its partner TRG Arts, and other national and government sources such as Theatre Communications Group, the National Endowment for the Arts, the Census Bureau, and IRS 990s. Publications include white papers on **emergence from the COVID-19 crisis**, **culturally specific arts organizations**, **protecting arts organizations through downturns**, **gender equity in art museum directorships**, and more. SMU DataArts also publishes reports on the health of the U.S. arts and cultural sector and the annual **Arts Vibrancy Index**, which highlights the 40 most arts-vibrant communities around the country. For more information, visit **smu.edu/dataarts**.

## ABOUT THE WALLACE FOUNDATION

The Wallace Foundation works to support and share effective ideas and practices to foster improvements in learning and enrichment for children and the vitality of the arts for everyone. Its objectives are to improve the quality of schools, primarily by developing and placing effective principals in high-need schools, promoting social and emotional learning in elementary school and out-of-school-time settings, expanding opportunities for high-quality summer learning, reimagining and expanding access to arts learning, and building audiences for the arts. The Foundation seeks to generate knowledge and insights from these efforts to enhance policy and practice nationwide. For more information and research on these and related topics, please visit the Foundation's knowledge center at **wallacefoundation.org**.

# smu.edu/dataarts

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