Nonprofit Finance Fund®

Change Capital in Action: Lessons from Leading Arts Organizations

Alvin Ailey American Dance Theater in Alvin Ailey's *Revelations*.
Photo by Andrew Eccles.

Change Capital in Action: Lessons from Leading Arts Organizations

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Introduction

Ping Chong + Company's *Tales from the Salt City.*
Photo by Michael Davis.

Growing Program Revenue Supports Artistic Risk

In 2007, Ping Chong + Company's *Undesirable Elements* was gaining national recognition as an artistically imaginative way to engage audiences. This community-specific, interview-based theater program examines the experience of living between cultures, and participants include those with disabilities, new immigrants, and refugee youth. After more than a decade of experimentation, *Undesirable Elements* had become an important part of the Company's artistic profile and philosophical core. As founder Ping Chong increasingly focused on the development of new, large-scale and multi-disciplinary works, Company leaders began to wonder if *Undesirable Elements* could contribute more robustly to the group's financial position and artistic health.

> *Could Undesirable Elements be grown in ways that would generate reliable, recurring revenue sufficient to cover its own costs and offset some of the expense of Ping Chong's large, multi-disciplinary work? Could the program be designed and developed to improve the overall financial health of the Company while propelling its artistic development?*

Investing in the earned revenue potential of *Undesirable Elements* seemed like a creative way for Ping Chong + Company to address its financial challenges and realize its artistic ambitions. But the Company had no resources of its own to apply to this potentially transformative idea, and testing the viability of this approach went well beyond the bounds of traditional operating or project grants. Ping Chong + Company needed a different kind of funding to alter its program and business model in ways that would sustain the organization into the future. It needed something that didn't exist in the nonprofit arts and culture sector. It needed **change capital**.

Technology Investment Yields Meaningful Returns

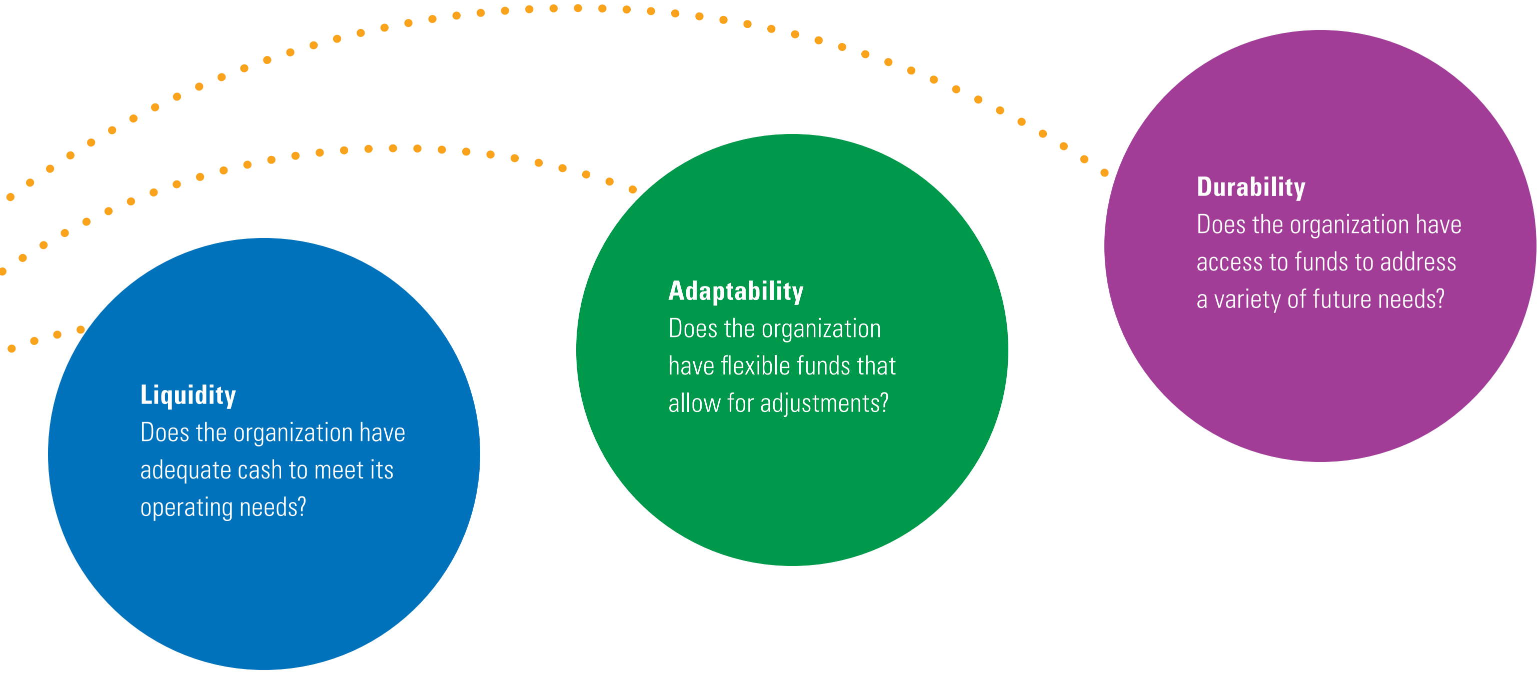
The Alvin Ailey Dance Foundation is an internationally recognized artistic treasure, one of the most celebrated modern dance companies in the world. While best known for its main touring company (Alvin Ailey American Dance Theater), Ailey also operates a second company (Ailey II), a professional training academy (The Ailey School), and extensive dance and fitness programs for everyday people (Ailey Extension). Additionally, it runs a boutique and manages a sophisticated development operation. In 2007, as Ailey neared its 50th anniversary, each of these separate divisions was functioning successfully but had developed its own approach to data management and patron engagement. The organization had no easy way to encourage audience members to take advantage of its multiple offerings, or to track and deepen a person's participation in different aspects of its work. Ailey's leaders had a growing concern that this siloed approach was curtailing the organization's ability to attract, retain and expand audiences and patrons. They asked themselves whether greater departmental integration might support revenue growth, helping the organization reach its full artistic potential.

> *Could a new centralized database, linked to a re-fashioned website with social media capability and web-based analytics tools, facilitate cross-program collaboration, encourage patrons to participate in more Ailey programs, and generate significant incremental revenue?*

Ailey had a healthy balance sheet and impressive endowment from more than a decade of careful fiscal stewardship. But even this cultural powerhouse was not comfortable using reserve funds to develop, implement and refine such a large and novel concept, one that had implications for the entire organization and, possibly, the larger field. Neither project grants nor operating support were appropriate or sufficient funding mechanisms. While Ailey's idea was very different from Ping Chong + Company's, the organization needed a similar kind of investment. It needed a new kind of financing – **change capital** – to substantially overhaul its internal operations and generate recurring net revenue to support its artistic ambitions.

Appropriate capitalization supports…

Inappropriate capitalization, or mis-capitalization, is a widespread problem in the nonprofit sector and is particularly acute in the performing arts. The vast majority of nonprofit performing arts organizations are mis-capitalized. They have poor liquidity, meaning they lack adequate cash to meet operating needs. They have limited ability to adapt because they operate without flexible funds to adjust programs and operations in response to shifting external conditions. Their organizations are not durable because they have insufficient funds to properly maintain their facilities, and their endowments are too small to generate meaningful annual income.



Mis-capitalized cultural organizations have few, if any, resources to make fundamental improvements in operations that will lead to reliable, recurring revenue. As a result, they lack the right kinds of money at the right times to grow artistically and evolve organizationally. They are in a constant financial struggle that stunts their artistic aspirations and their contributions to their communities.

Leading for the Future (LFF) has been an experimental learning program designed to address the mis-capitalization of nonprofit performing arts organizations by providing them with access to flexible funds to support their adaptability. The goals of the program were to:

1. help a group of artistically excellent organizations alter programs and operations in ways that would strengthen their business models, enhancing their ability to adapt to evolving circumstances.

2. refine the concepts of capitalization in ways that would assist the broader performing arts field.

The program grew out of a series of conversations sponsored by the Doris Duke Charitable Foundation (DDCF) in early 2007. At the time, leading performing arts organizations expressed deep concerns about how their artistic development and basic financial health were affected by rising costs, shifting audience behaviors, technology trends, and unreliable funding.

In response to these concerns, the Foundation invited the Nonprofit Finance Fund (NFF) to design a pilot program based on NFF's concept of **change capital: substantial, multi-year, flexible funds that are invested in a plan to implement and sustain organizational change. Change capital, invested wisely, enables organizations to realign revenue with the full costs of operations and to generate reliable surpluses beyond the term of the investment.**

Capital for change is commonplace in the business sector and, in recent years, has been applied successfully as growth capital in education, health care and other nonprofit fields.[1] But change capital was a new concept for the nonprofit arts sector in 2007, one that both DDCF and NFF thought could help address the mis-capitalization challenge.

1. NFF helps nonprofit organizations attract flexible capital to fuel their growth through its Capital Partners program. To learn more about NFF Capital Partners, please visit: http://nonprofitfinancefund.org/capital-services/about-nff-capital-partners.

Rude Mechs in *The Method Gun*, presented by Center Theatre Group at the Kirk Douglas Theatre. Photo by Craig Schwartz.

Change capital is money to grow, shrink or adjust an organization's business model[2] in ways that will lead to reliable recurring revenue to cover full costs. It can be used by any organization that is prepared to plan and manage its use successfully. **Through the eventual generation of regular surpluses, change capital contributes to a more flexible and appropriate balance sheet capable of supporting artistic mission over the long term.**

Change capital covers planned, temporary deficits as an organization incurs new ongoing expenses ahead of the generation of ongoing revenue. To use change capital effectively, an organization undertakes a planning process that involves the development of multi-year financial projections and indicators for tracking progress toward desired program and operational outcomes. During implementation, it then makes adjustments to the original plan as circumstances change. Ultimately, an organization's success is measured by its achievement of the plan for adaptation and its maintenance of healthy annual finances during and after the change period.[3]

Change capital is distinct from other forms of episodic investment. It differs from **working capital**, which is used to tide over an organization's cyclical and predictable cash flow challenges. Change capital supports investment in operations rather than fixed assets, differentiating it from **facilities & equipment capital** and **endowments**. While change capital is often used to take calculated risks, the expectation of future revenue distinguishes it from pure **risk or opportunity capital**. When organizations have accumulated substantial liabilities, **recovery capital** can be used to reduce them, with change capital later applied to address the underlying business issues that led to the entrenched financial problems. For more on different types of capital, please see NFF's publication, *Case for Change Capital in the Arts*.[4]

Types of Capital

Working Capital
Tides an organization over during predictable lows in its operating cycle, covering costs until revenue comes in.

Risk & Opportunity Capital
Funds to weather the unexpected and support experimentation or course corrections.

Change Capital[5]
For growth, downsizing and to change the size and scope of the organization, with the expectation of improved net revenue.

Recovery Capital
Helps an organization recover from financial shortfalls by reducing debt and other liabilities.

Facilities & Equipment Capital
Organizations can raise funds for specific acquisitions or upgrades, or accumulate reserves to meet future needs as they arise.

Endowments
Capital, usually permanently restricted by the donor, that generates investment income to support the organization. Investment income can be used as revenue or re-directed towards any of the types of capital described above.

2. A business model represents how an organization makes and spends its money in service of its mission. It is comprised of the composition and reliability of revenue, the composition and fixity of expenses, and the size and reliability of surpluses that can be used to address a range of capitalization priorities.

3. To learn more about financial planning and the reporting of change capital, please visit: http://nonprofitfinancefund.org/case-change-capital-arts/reportingdoneright.

4. Case for Change Capital in the Arts: http://nonprofitfinancefund.org/research-resources/case-change-capital-arts.

5. Organizations scaling rapidly may require an enterprise-level infusion of growth capital into a rigorous plan for sustainability. To learn more, visit: http://nonprofitfinancefund.org/capital-services/portfolio-performance-report.

Features of the Program

The Leading for the Future initiative was launched in the Fall of 2007 with a field-wide call for nominations of organizations which "by virtue of the body of their work and/or by the depths of their relationships with artists … are leaders in the contemporary dance, jazz, theater and/or presenting fields." More than 1,300 organizations were nominated. In a multi-stage process involving input from a panel of field experts, NFF and DDCF selected a group of ten diverse organizations based on the quality of their artistic work and the potential of their preliminary plans.

"Leading for the Future was designed to enable artistically leading organizations to undertake potentially innovative strategies in response to the rapidly changing external world," said Ben Cameron, Program Director, Arts, at DDCF. **"The ten grantee organizations spanned a wide range of aesthetic styles, organizational structures, scale and more, but all offered the opportunity for us to learn more about the value of sustained, large-scale investment in innovation – an opportunity that we recognized involved funding plans with a high degree of risk and also, potential failure.'"**

The program acknowledged that different organizations have different capitalization challenges, and NFF and DDCF deliberately included a range of organizations and approaches to test the applicability of capitalization concepts in different situations. The funded initiatives were as diverse as the participating groups and included projects to expand and monetize online content, launch a new web-based audience development service, grow earned revenue through program and educational partnerships, expand young audiences and gracefully close a major modern dance company.

Participating groups received a range of support from NFF and its project partner, Helicon Collaborative, including:

- Ongoing consultations about the practical application of capitalization concepts, the use of change capital and organizational change management;
- Grants of $75,000 to develop and refine their plans for change;
- Technical assistance to: create multi-year financial projections distinguishing revenue from capital; define success indicators for programs, revenue and expenses; clarify the drivers of recurring revenue; and articulate how change capital would be used to achieve revenue reliability;
- Change capital of up to $1 million, released on a schedule proposed by each organization and designed to propel its project goals;
- Periodic convenings, webinars and other information-exchange opportunities for the participants and the larger field;
- Annual financial assessments based on NFF's Nonprofit Business Analysis and ongoing assistance in monitoring progress toward benchmarks and strategic goals; and
- Exit grants of up to $225,000 to organizations that made the most progress securing their change efforts.

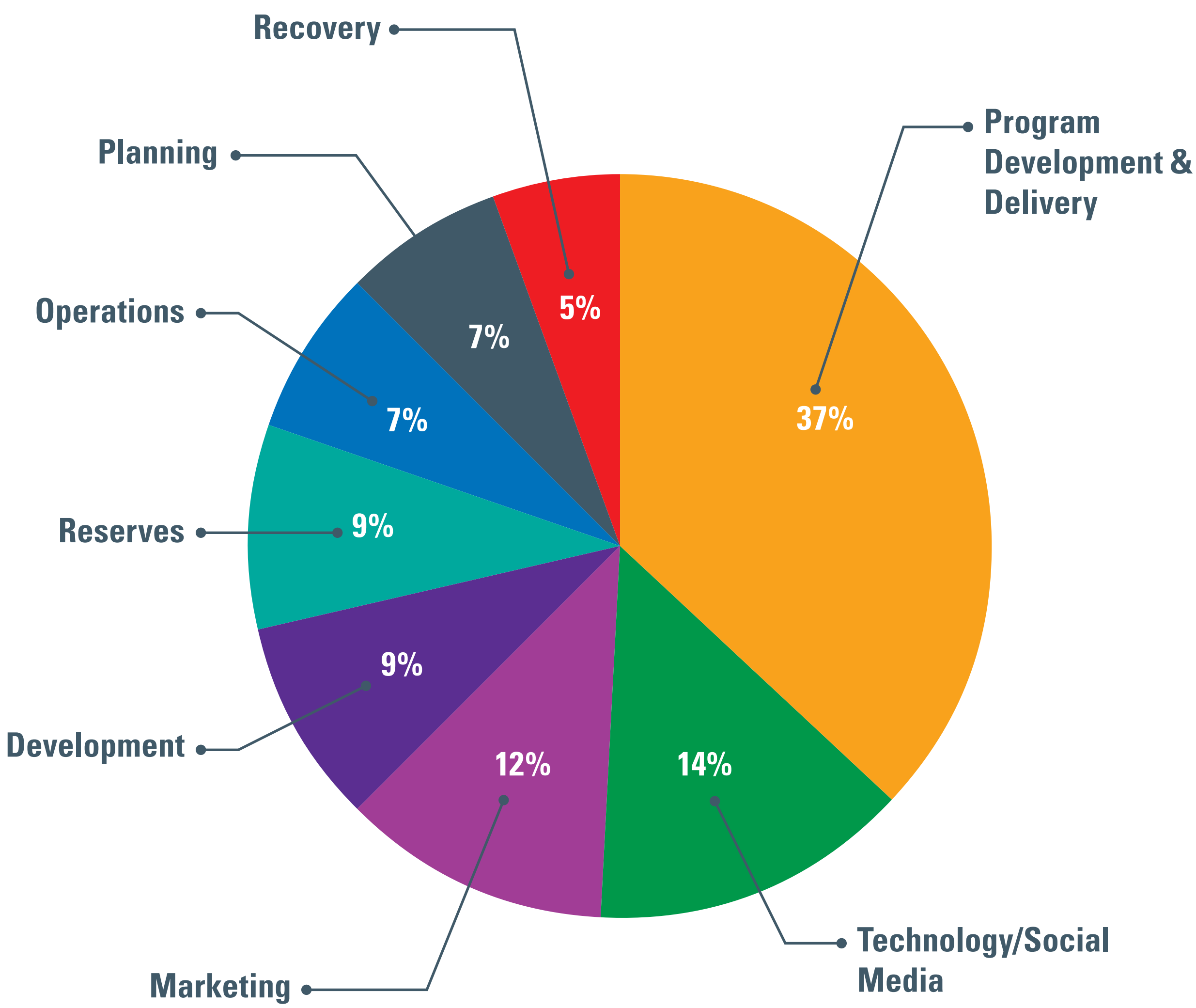
NFF also commissioned WolfBrown to conduct an assessment of the program and to serve as thought partner in its activities. Alan Brown and his colleague, Arthur Nacht of Nacht Theatre Consulting, attended the program convenings, reviewed annual reports, conducted annual assessment interviews with each participating group and produced periodic reports for NFF and DDCF. In addition, they have partnered with NFF to author a forthcoming white paper on capitalization planning in the arts (mid-2013).

Over the course of the LFF initiative, NFF undertook a complementary education program, sharing emerging lessons from the program and advancing field-wide understanding of capitalization principles through publications, workshops and public presentations. Highlights of these efforts included: *Case for Change Capital in the Arts* (2011), *Financial Reporting Done Right* (2011) and numerous blog posts and conference presentations. A repository of resources related to the LFF program is available on NFF's website at: nonprofitfinancefund.org/LFF.

In addition, NFF contributed to an effort launched by Grantmakers in the Arts in 2010 to raise arts funders' awareness of capitalization principles. A series of local and regional workshops for funders called "Conversations on Capitalization and Community" was developed and presented in partnership with consulting firm TDC during 2012-2013.

Aggregate Use of Change Capital by 10 LFF Participants

Change capital can support a variety of investments that drive an organization toward more reliable, recurring revenue.



$10.75 million of change capital was disbursed to the ten organizations participating in the LFF program. In addition, NFF made exit investments totaling $1.28 million in the final year of the program.

Profiles of the ten LFF change efforts are available on NFF's website at nonprofitfinancefund.org/LFF/Profiles. A sampling here reveals the variety of approaches for using change capital effectively.

Alvin Ailey Dance Foundation applied change capital to transform the way it uses technology to engage and retain audiences and patrons. LFF funds supported Ailey's institution-wide re-thinking of how to increase reliable revenue by forging new connections with audiences via its website and related social media. Ailey simultaneously re-conceptualized its centralized database and website, connecting previously separate business divisions – its two dance companies, schools, boutique and development operation. This resulted in new platforms to better support fundraising, ticketing, education programs and cross-program patron services, supported by new web-based analytics tools that facilitate the tracking of user behavior and incremental revenue. These multiple, interconnected strategies enabled Ailey to generate substantial incremental revenue through revenue streams that it can sustain and enhance going forward. **"In a world with constantly changing entertainment options, it's more important than ever that we engage our current patrons and expand our audience base through better use of technology,"** said former Executive Director, Sharon Gersten Luckman. For more, see nonprofitfinancefund.org/LFF/Alvin-Ailey.

The Wooster Group applied change capital to four interrelated initiatives designed to increase earned income while strengthening the company's ability to create and present new work and share its unique creative process with audiences around the world. The company developed an extended annual residency at the Baryshnikov Arts Center in New York City. It launched an innovative daily video blog to share its work on a new artistic platform and make new and existing audiences feel intimately connected with the company. The Group cultivated long-term relationships with strategic presenting partners outside New York to develop and tour new work. And, it digitized and distributed archival materials for use by educational institutions, scholars, theater artists, and others. The results included: meaningful growth in audiences and ticket revenue, more than $180,000 in new revenue from sales of five DVDs, and the creation of a risk reserve equal to 33% of The Group's annual budget. This risk reserve will enable the company to invest in new initiatives and seize future catalytic opportunities ahead of confirmed revenue. **"The LFF initiative forced us to think about capitalization,"** said Producer Cynthia Hedstrom. **"Now we are using capital to initiate new programs that we think will move the organization forward and increase income in the long-term. It encouraged us to move ahead full tilt with our artistic ambitions. We launched a video blog, undertook a major collaboration with the Royal Shakespeare Company and are about to initiate a Wooster Group artist fellowship program. These new projects have, in turn, spurred growth in our earned and contributed income, even in the midst of a prolonged recession."** For more, see nonprofitfinancefund.org/LFF/Wooster-Group.

The Wooster Group's *HAMLET*.
Photo by Paula Court.

Ping Chong + Company invested its change capital in strengthening and growing its *Undesirable Elements* productions and building a corresponding education program and annual Training Institute. The investment was made with the goal of generating new sources of earned and contributed revenue sufficient to cover the costs of these programs and contribute to the Company's large-scale interdisciplinary projects. The Company also put capital toward the development of an artistic reserve for the purpose of investing in future projects that have the potential for reliable revenue. By 2012, *Undesirable Elements* was generating an annual surplus and attracting multiple new foundation and individual investors and donors. **"LFF funding allowed us to invest in the development of new programs that we anticipate will generate multi-year support, enabling us to create opportunities with both current and long-range potential,"** said Managing Director Bruce Allardice. **"And participation in this program helped us value reserves as an organizational goal."** For more, see nonprofitfinancefund.org/LFF/Ping-Chong.

Cunningham Dance Foundation's LFF project entailed a radical transformation of its business model: the closing of its operations, in keeping with Merce Cunningham's wishes and the Foundation's Legacy Plan. The Foundation's plan had multiple elements, including: a comprehensive documentation and preservation program leading to the creation of digital Dance Capsules for the future study, performance and enjoyment of Cunningham's choreography; a final international tour for the dance company before it closed; and financial stipends for the dancers and other members of the organization to encourage them to stay through the closure and assist in their transition thereafter. All of this activity required a fundraising campaign of a size unprecedented in the Foundation's history. The Plan also called for transfer of the Foundation's remaining assets, including the Dance Capsules, to the Merce Cunningham Trust, helping ensure Cunningham's legacy. With Cunningham's passing in July 2009, the timing of the Legacy Plan was accelerated, and the Foundation successfully completed the Plan and terminated operations in June 2012. **"LFF's novel approach to financing was instrumental to our success during this unprecedented and highly pressured transition,"** said Executive Director Trevor Carlson. **"The LFF methodology guided much of our thinking, financed the kick-off of our final fundraising efforts and at critical moments, helped us lever crucial revenue. We would have had to significantly compromise our Plan without this kind of capital investment."** For more, see nonprofitfinancefund.org/LFF/Cunningham.

Program & Financial Results

Both DDCF and NFF expected a range of results from the LFF program. More than half of the participating organizations achieved remarkable success, in some cases exceeding their planned financial and artistic results, despite the challenging nature of the program and unprecedented turbulence in the economy. Others encountered obstacles that prevented them from realizing their goals. All gained a deeper appreciation for what it takes to be well-capitalized and financially able to adjust to a future filled with unexpected opportunities and challenges.

Two overarching questions guided NFF's assessment of progress and results in the program:

1. Did the organizations achieve their proposed business model and artistic transformations?
2. Were they able to use their change capital to increase the likelihood of reliable, recurring revenue to cover their full costs within or beyond the program?

To measure progress toward these goals, each organization worked with NFF to establish financial and programmatic metrics that would best illustrate the realization of its desired state of change. Targets for each metric were set and tracked annually.

The table below shows each organization's progress against a program metric closely associated with its change plan. NFF expects program execution to strengthen further as organizations continue to implement their change strategies in the months and years ahead.

Progress Indicators

Organization	Metric	Baseline	Current
Alvin Ailey Dance Foundation	% of ticket buyers who are also donors	1.20%	2.83%
Center Theatre Group	% subscribers who purchase tickets to DouglasPlus	0%	18%
Cunningham Dance Foundation	# digitized Dance Capsules	0	87
Jacob's Pillow Dance Festival	Total Virtual Pillow page & video views	1.1M	1.7M
Misnomer Dance Theater	GoSeeDo artist users	0	254
National Black Arts Festival	# unique visitors to new website	26,445	78,722
Ping Chong + Company	# Undesirable Elements partnerships	5	15
Steppenwolf Theatre Company	Unique millennial (age 22-30) ticket buyers	263	718
SITI Company	Attendance at NYC performances	0	5,954
The Wooster Group	New income-generating projects in development	3	8

The LFF program concurrently monitored whether each organization was investing its change capital in ways that had the potential to increase reliable recurring sources of revenue to sustain the organization in its changed state. NFF considers an organization sustainable when its full cost of operating is regularly covered by revenue from its business model,[6] and it is generating recurring surpluses that contribute to savings.

During periods of transformative change, organizations often intentionally spend in advance of realizing revenue. In other words, they may run temporary deficits as they build their internal capacity to support a changed way of operating and producing art. Ideally, organizations should be moving *toward* a business model that is better than breakeven once the capital supporting their change is fully spent.

- By 2012, four years into a five-year program, **six of the LFF participants were fully covering their operating costs with business model revenue, exclusive of the change capital. All but two organizations operated at breakeven or surplus when change capital is added to revenue.**
- The prolonged economic downturn and risk-taking nature of the program notwithstanding, LFF participants also maintained healthy balance sheets throughout the program. **By fiscal year end 2012, six groups had more than three months of unrestricted liquid net assets. Median liquidity was four months for the LFF cohort, double the sector-wide median of approximately two months.**

NFF believes these results provide proof of concept that change capital is an important and useful addition to the financial toolbox of nonprofit performing arts organizations and to the philanthropic strategies of arts grantmakers.

6. Business model revenue may come from relatively reliable earned or contributed sources that pay for the costs incurred during an organization's recurring activity. These operating costs, which often grow during a period of planned change, include depreciation but exclude one-time or extraordinary items.

SITI Company's *Radio Macbeth*.
Photo by Chasi Annexy.

The experience of the LFF program – both its successes and setbacks – offers lessons for performing arts groups and their financial investors. Change capital is truly transformational when used appropriately, but it may be the most difficult kind of capital to apply effectively because it must align with shifts in an organization's fundamental thinking about what it does and how it operates.

Change capital is not a panacea, therefore, and is best applied when these conditions are present:

The organization's finances are generally healthy, and the board and staff are knowledgeable about different forms of capital.

The organizations that fared best in the LFF program had stable operations, characterized by regular surpluses and a reasonable amount of liquidity, at the start of the program. As one example, SITI Company had a long history of running modest surpluses and seven months of cash reserves when it headed into the LFF initiative. With a strong financial foundation, the organization had the flexibility to use its change capital strategically rather than to plug gaps in operations.

Leadership is stable, and staff is collaborative, nimble and self-critical.

Groups such as Alvin Ailey Dance Foundation, Steppenwolf Theatre Company and Jacob's Pillow Dance, all with long-standing and exceptionally collaborative leadership teams, were able to make especially effective use of the program. These leadership teams are very deliberate about the choices they make, rigorous in their evaluation of what works and what doesn't, and quick to act when new information leads them to shift plans. Groups such as the National Black Arts Festival and Misnomer Dance Theater, which experienced significant changes in leadership during the term of the LFF program, faced challenges fully implementing their plans for change on schedule.

The link between artistic development and change capital is clear to all.

A number of organizations struggled with the rigor of the capitalization principles, especially if they perceived the discipline of capitalization to detract attention from their artistic programs. Those that fared best conceived of the business model transformation as essential to the organization's long-term artistic health. Jacob's Pillow, for example, conceptualized its investment of change capital in a Virtual Pillow as financing a fourth "virtual stage" and wove its plan for maximizing archival assets online into the fabric of the organization's overarching artistic vision and strategy.

The organization has an enterprise perspective[7] about its work and capacity to manage informed risk. It is thinking about its appropriate next stage of development, not just about growth.

For example, The Wooster Group used its change capital to improve the current and future earnings potential of every aspect of its enterprise – from touring and commissioning to NYC-based productions to online engagement and fundraising functions. The organization, along with SITI Company and Ping Chong + Company, intentionally avoided the "grow or die" mantra by focusing on how it operates, raises money and delivers programs with minimal expansion of core operating costs. Cunningham Dance Foundation deliberately chose to use change capital to go out of business – and in so doing, became a shining example of what it takes to plan for a strategic, graceful closure.

The change capital amount is appropriately sized for the organization and its change plan.

By providing $1 million in change capital to every organization regardless of size, the LFF program was taking a risk: the infusion could destabilize smaller organizations and have a limited impact on larger groups. To mitigate this risk, the change capital investment in larger budget organizations was targeted to specific areas where the funds could make a meaningful difference. For example, Alvin Ailey Dance Foundation concentrated on strengthening its web-infrastructure while Center Theatre Group focused on improving the theatre-going experience at one of its houses. The smaller organizations that achieved the strongest outcomes implemented change gradually, with a measured approach to spending. Several saved a portion of their original funds, thereby stretching out their change period by a few years. SITI Company, for example, set aside more than $400,000 of its original investment for the 2013 launch of a Conservatory, which its leadership determined was the best, and most financially viable, approach to expanding its education programming.

7. In NFF's view, organizations are more than a collection of separately funded programs and activities—they are "enterprises." Successful enterprises require leaders to develop and pursue an overarching strategy supported by a viable business model and appropriate capitalization.

The organization has potential to generate reliable recurring revenue: that is, by the nature or the limitations of its market, the organization is not "topped out" in its ability to earn revenue or generate contributed income.

There is room for revenue growth in all nonprofit cultural organizations, but some have greater potential than others because of the characteristics of their programming, audience and donor base. Ping Chong + Company's *Undesirable Elements* program, for example, made it particularly attractive to new corporate, university and presenter partners, and to foundations with a focus beyond the arts.

The organization is serious about developing a long-term financial plan, has capacity to create and monitor projections and benchmarks that track progress (or setbacks), and can change course based on data analysis.

For a variety of reasons, most nonprofit cultural organizations think more about short-term revenue and expense management than about long-term strategies for enhancing reliable revenue to fully offset the costs of artistic programs and operations. This is both a result and a cause of mis-capitalization. The LFF participants who broke this pattern – either before and/or during LFF – realized the greatest returns on their LFF investment. Alvin Ailey Dance Foundation's leadership, for example, developed ambitious but realistic revenue and expense projections for the incremental revenue likely to result from its investments in patron engagement. The team then developed a methodology for tracking financial returns on each of its change capital investments and met regularly to evaluate and act on metrics revealing the results of various online engagement strategies.

The revenue-generating horizon is well-timed to the change capital investment period.

Steppenwolf Theatre and Center Theatre Group used capital to understand and engage new audiences and to explore new programming and marketing techniques, but the change capital investments did not fundamentally alter their business models. When the initiative began, NFF and DDCF understood that Steppenwolf and Center Theatre Group's plans intentionally had a longer time horizon for potential net revenue generation than the period of the LFF initiative. What became clearer to NFF as our thinking about capitalization evolved is that these investments were more characteristic of innovation (i.e., risk and opportunity) capital than change capital. For these organizations, financial return was not the motivation; rather, they took advantage of the LFF funds to identify creative ways to connect to their constituents.

If the organization's change plan is focused on expanding the use of technology, it has sufficient change capital (and/or other flexible project funding) to absorb inevitable setbacks, and is particularly adept at iterating and adapting to new information.

Software and online platforms that are intended to generate revenue, whether occurring in the for-profit or nonprofit world, can experience frequent delays and adjustments. Misnomer Dance Theater embarked on a plan to develop a new online platform that would enable artists, and Misnomer itself, to engage audiences and yield revenue. Despite setbacks, Misnomer's GoSeeDo platform was launched in early 2012 and is building momentum with users in 23 states. National Black Arts Festival's NBAF365 – a robust year-round online platform of programs and services that engages audiences between annual summer festivals – also experienced unforeseen hurdles and course corrections that were costly and time-consuming.

Lessons Learned: Context Counts

NFF's ideas about the capitalization of nonprofit performing arts organizations evolved over the course of the LFF program as we learned with and from the experiences of our arts partners. We know now that some organizations in the initiative were not ready to undertake organizational-level change that focused on generating improved net revenue. Their financial condition was not sufficiently healthy, leadership was unstable or stretched too thin, or their time horizon for revenue generation was longer than this program. A few groups diverted their capital to urgent but less transformational causes – to the ultimate detriment of their planned change. While program participants made determined efforts to invest in internal capacities that would realize new, more reliable earned and contributed revenue, several found the expected returns were dishearteningly slow to materialize.

The organizations also encountered serious headwinds. The recession began as the LFF program was launched, contributing to unexpected drops in earned and contributed revenue just when the groups were starting to invest in strategies to strengthen their revenue-generating infrastructure and potential.

A final lesson of the program involves the larger context of arts funding. LFF participants (and other prospective users of change capital) may not be able to build fully on their learning and accomplishments because they are understandably reluctant to candidly share fundamental financial challenges with their funders and major donors for fear that they will be penalized with loss of support. Currently, there are relatively few funders who are working in a sustained way with their grantees on improving capitalization. Additional comprehensive change capital investment from other funders – which would have increased the impact of the original infusion from the LFF program – has not been forthcoming as of yet, although many organizations have identified additional support for specific components of their future change efforts.

Conclusion

"The economic collapse of 2008 of course had significant impact on participants in the LFF program, but as we draw to the end of the initiative, we are struck not only by the resonance and potential replicability of some of the supported plans, but by the richness of what can be learned from them all," said the Doris Duke Charitable Foundation's Ben Cameron. "This investment remains an important and proud one for us at the Foundation, and we thank our grantees, NFF and their family of consultants for the patience, the care, the rigor, and the openness through which we were all able to learn together to the benefit of, we hope, the larger field."

A majority of the participating LFF groups achieved significant success and are on track to sustain improved financial and artistic returns long after the end of LFF. All of the participating organizations, regardless of whether they achieved the business and artistic transformations originally envisioned, expanded their understanding of different kinds of capital and of the important relationship between capital investment and revenue return. All increased their appreciation for rigorous financial planning to support organizational-level change and for the need to establish and track metrics associated with financial and artistic outcomes.

This first national experiment in applying change capital principles to nonprofit performing arts organizations has produced significant returns – for the ten participating organizations and, we hope, the performing arts sector and arts funders who care about the long-term liquidity, adaptability and durability of outstanding cultural institutions nationwide. NFF will continue to build on and share these lessons in our work with nonprofits, funders and other stakeholders in the years to come.

Merce Cunningham Dance Company in Merce Cunningham's *XOVER* (2007).
Photo by Amina Kawakahi.

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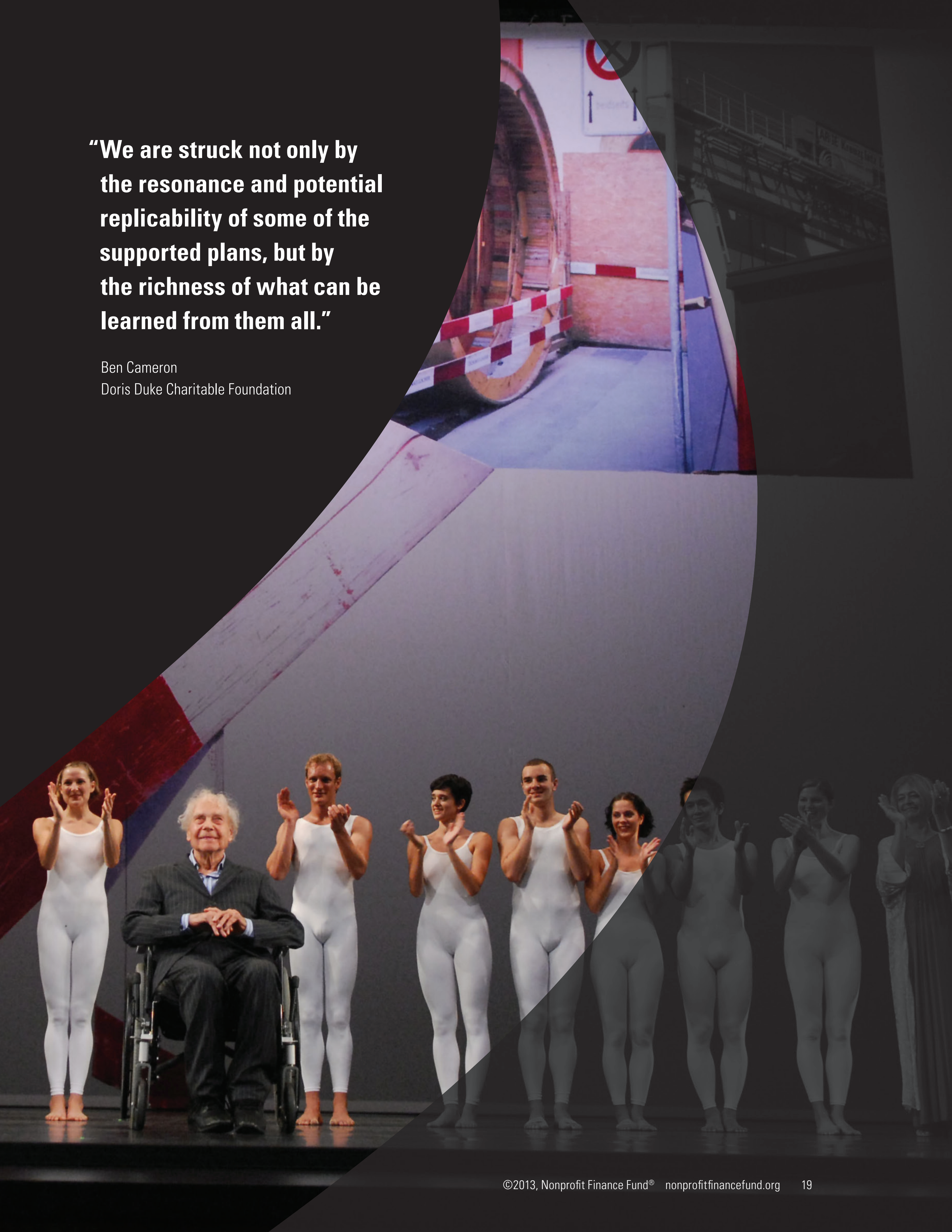
Ben Cameron
Doris Duke Charitable Foundation



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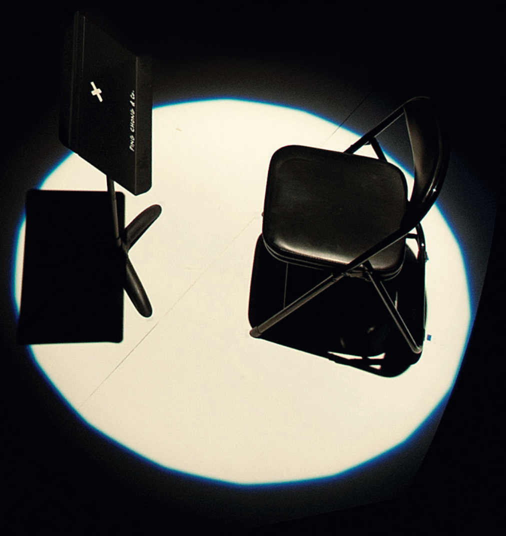

Cover photo: Ping Chong + Company's *Secret Survivors*.
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