



# Investing in Cultural Participation and Financial Sustainability

Cross-Cohort Analysis of the Arts Regional Initiative, 2009-2014



Image credit: Crocker Art Museum

## Foreword

The James Irvine Foundation has long had a commitment to strengthen arts organizations throughout California. As part of that commitment, we created the Arts Regional Initiative, which was a partnership between Irvine and 36 arts nonprofits in Southern California, the Central Valley, and the Central Coast. In the Initiative's second phase, between 2009 and 2014, grantees worked to increase cultural participation and improve financial sustainability.

We focused on locales that, compared to California as a whole, are home to people with lower income and education levels while reflecting higher proportions of younger, more ethnically diverse populations. We were intentional in selecting geographies outside of Los Angeles and the San Francisco Bay Area — recognized arts centers with long histories of donor support. Within the Initiative's regions of focus, we sought to support leading organizations, building their capacity to improve access to relevant and quality arts experiences for their local communities.

The Initiative's first phase launched at a time when the Irvine Arts program was evolving, and phase two began to reflect this evolution. Grantees continued work on cultural participation goals for broadening, deepening, and/or diversifying the audiences they served, while their capacity-building work focused more explicitly on financial sustainability. For the purposes of this Initiative, we defined financial sustainability as the ability of an organization to understand its financial position, make data-driven decisions, and adapt to become and stay a thriving organization. Initiative-funded projects were intended to help ensure that grantee organizations used accurate and timely financial data to inform decisions resulting in diverse and stable revenue sources.

The Initiative unfolded at the height of the Great Recession, which influenced grantee approaches to increasing cultural participation, and limited their ability to advance financial sustainability. Despite this challenge, many Arts Regional Initiative grantees achieved significant transformations. Most reached their goals for increased cultural participation by expanding the size of their audiences, increasing audience involvement, or attracting new, demographically distinct audiences. Some discovered and tested new outreach techniques. Many developed new capacity to capture, analyze, and use data to inform decision-making.

We commissioned an evaluation of the Initiative by [Harder+Company Community Research](#) to provide insights that arts organizations and funders alike may find valuable. Harder's work revealed a number of potentially useful findings. For example, organizations that were most successful in diversifying their audiences did so through partnering with other community groups. And organizations had the greatest impact on cultural participation when they employed a combination of three key strategies: direct outreach, market research, and updated programming. In the best cases, grantees used Initiative resources to strike a more sustainable balance of approaches for achieving their mission, generating revenue, and increasing cultural participation.

At Irvine, we are applying the lessons of the Initiative to advance our goal of promoting engagement in the arts for all Californians. [Our Exploring Engagement Fund](#) is providing risk capital for arts nonprofits with innovative ideas about how to engage new and diverse participants. Through the [New California Arts Fund](#) we are helping organizations grow in ability to sustainably expand arts engagement. We seek to boost engagement that embraces and advances the diverse ways that people experience the arts, and that strengthens the ability for all Californians to thrive together. As arts organizations everywhere continue to confront the challenge of changing times characterized by new demographics, new technologies, and new expectations for participation, we are grateful to share insights gleaned from the Arts Regional Initiative.



**Ted Russell**

Arts Senior Program Officer  
The James Irvine Foundation

## Summary

Between 2009 and 2014, The James Irvine Foundation invested \$13.4 million through the Arts Regional Initiative to build the capacity of a group of nonprofit arts organizations in California locales outside of major arts centers. The aim was two-fold: to increase cultural participation and improve financial sustainability.

The following lessons emerged from Harder+Company Community Research analysis of the Initiative:

- 1. It's possible to increase cultural participation.** As a group, grantees were most interested and successful in “deepening” cultural participation with existing audiences, and less so in “broadening” participation with similar audiences, or “diversifying” participation with new and different audiences.
- 2. Combining key approaches maximizes participation.** Organizations that realized the greatest success employed a combination of three key strategies, including, in order of effectiveness, direct outreach to members of targeted audiences, market research, and new programmatic activities.
- 3. Organizations can achieve new capacities.** Most organizations in the Initiative developed new capacity for improving their cultural participation and financial sustainability — including ongoing ability to advance these aims beyond the duration of their grants.
- 4. Increased capacity cannot ensure financial sustainability.** Economic results for Arts Regional Initiative organizations were mixed during this time period, when a recession was felt intensely in their regions; many participants credit their survival through this time in part to the Initiative and are hopeful with respect to new capacities developed.
- 5. Partnerships and executive leadership matter.** Collaborations with community groups and continuity of executive leadership were important factors contributing to degree of success.
- 6. Commitment level correlates with benefit.** Organizations highly committed to the work and strategies of the Initiative saw the most benefit.

The Initiative intentionally focused on nonprofit arts organizations working in regions of California characterized by changing demographics and lacking robust financial support for the nonprofit arts sector. This regional context, including effects of the recession, is provided in the Appendix.

## About participants and the evaluation

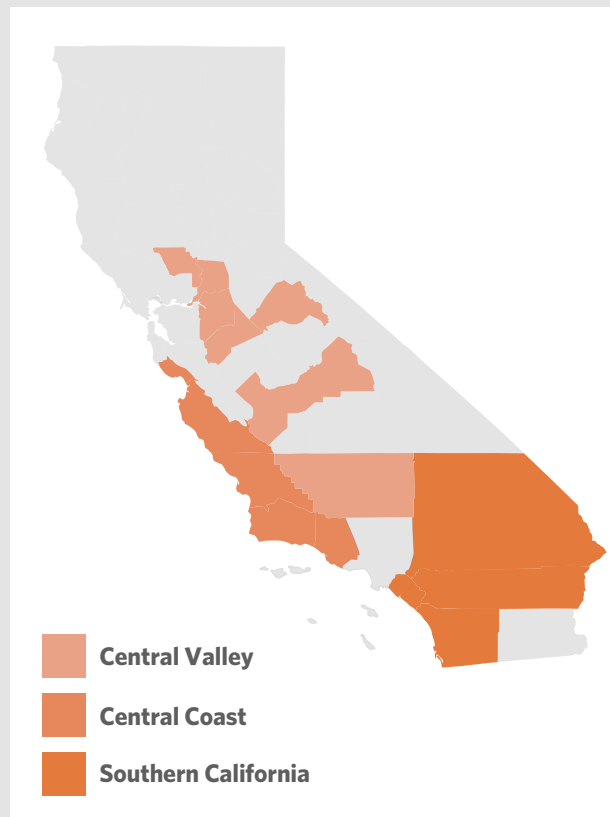
The Arts Regional Initiative involved nonprofit arts organizations from Southern California (including Orange County, San Diego, and Inland Southern California), the Central Valley, and the Central Coast. Initiative planners grouped these grantee partners into regional cohorts. The cohorts included a range of museums, symphonies, operas, music festivals, and theaters, comprising the majority of large arts organizations in each region. Organizational budgets, spanned from \$270,000 to \$9.5 million, with \$1.6 million being most typical.

The Initiative provided three-year grants ranging from \$225,000 to \$400,000. In addition to these grants, the Initiative invested \$2.3 million in technical assistance, organizational coaches, and regular convenings to share promising and best practices in arts management. A consulting team of four to six people managed these supports over the course of the Initiative. Technical assistance was largely provided by TCC Group.

The Arts Regional Initiative had two phases — this evaluation covers the second phase of work, from 2009 to 2014.

### EXHIBIT 1. Scope of Initiative, Phase II

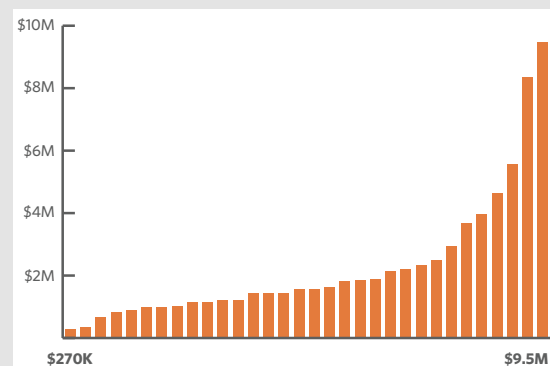
#### Grantee Regions



#### Investment Distribution

COHORT LOCATION AND TIMING	GRANTEES	DOLLARS
<b>1. Central Valley</b> Oct 2010 - Oct 2013	12	\$3.8M
<b>2. Central Coast</b> Oct 2011 - Oct 2014	13	\$3.7M
<b>3. Southern California</b> Oct 2009 - Oct 2012	11	\$3.6M
<b>TECHNICAL ASSISTANCE ACROSS COHORTS</b>		
2009 - 2014		\$2.3M

#### Organizational Budgets



See Appendix for demographic information on counties within these regions and full list of Initiative grantees.

Many of the same grantees participated in a first phase, which ran from 2006 to 2011 and supported cultural participation and basic capacity-building with a focus on strategic planning, governance, and leadership development. For this Initiative, capacity-building was defined as all activities that strengthen an organization and help it better fulfill its mission.

The second phase of the Arts Regional Initiative concentrated on increasing cultural participation with a secondary emphasis on improving financial sustainability. The evaluation sought to measure change in those two key dimensions, and to understand how key factors such as organizational leadership contributed to the outcomes.

The evaluation, conducted by Harder+Company Community Research, uses a meta-analytic framework for identifying grantee strategies, leadership and governance stability, as well as organizational outcomes based on the qualitative data collected over the course of the grant period for organizations in each of the three cohorts. With this framework, the evaluation team assessed the grantees in each cohort using the cross-cutting criteria created for this meta-analysis. The evaluation team then conducted descriptive statistical analyses to assess the relationships among these process and outcome measures.

This report presents highlights of the cumulative lessons that cut across all three cohorts and assesses the broad impact of the Initiative.

## It's possible to increase cultural participation

Most of the grantees across the three cohorts made substantial progress in achieving their cultural participation goals, as illustrated in Exhibit 2. Based on an aggregate assessment of their changes in audience and their support for more effective internal processes, the evaluation team determined that almost all grantees showed some improvement with just under half showing major improvement in cultural participation, as defined by the Initiative.

### Objectives pursued

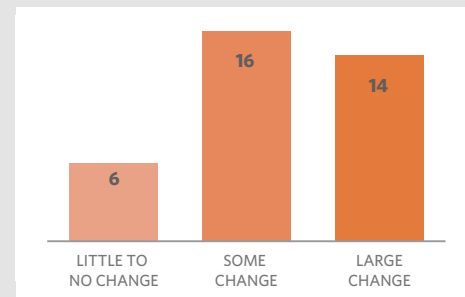
Grantees in the Initiative selected from the following objectives for increasing cultural participation:

- **Broadening:** Increasing the size of the existing audience without changing their characteristics
- **Deepening:** Increasing the level of involvement of the existing audience without changing their characteristics
- **Diversifying:** Reaching audiences with different characteristics, in terms of ethnicity, age, family status, income, or geography

These objectives are based on a framework presented in *Gifts of the Muse: Reframing the Debate about the Benefits of the Arts*,<sup>1</sup> which provides a comprehensive view of how the arts create private and public value and proposes the above three ways to reach more people and extend the benefits of arts involvement. In designing the Arts Regional Initiative, the Irvine Foundation did not prioritize any of these objectives over others. These objectives were not considered mutually exclusive and could be addressed simultaneously if the grantees wished.

The kind of increase many organizations achieved was related to broadening their audiences — growing the number of audience members who are similar to those who already participate. Few of the grantees chose to emphasize increasing audience diversity. Where grantees did, the most common types of increases were in bringing in greater numbers of families, children, and older adults. For the small number of grantees who were successful in increasing the ethnic diversity of their audiences, partnering with other community groups for focused outreach was the most effective strategy.

**EXHIBIT 2. Change in Cultural Participation**  
(number of organizations)



“The economy went south just as the Initiative started. This made things challenging, particularly for some of the smaller organizations because it was a struggle to make anything happen. For this reason, we didn’t focus on diversifying our audiences because we needed to broaden and deepen our relationship with existing customers to survive.”

**Peter Keller**, President, Bowers Museum

<sup>1</sup> RAND Corporation, *Gifts of the Muse: Reframing the Debate About the Benefits of the Arts*. 2004.

## Combining key approaches maximizes participation

Arts organizations employed a wide variety of strategies to increase cultural participation. In order to analyze the relationship between activities to increase cultural participation and actual impact, the evaluation team reviewed the grantees' final reports to identify a core set of cultural participation strategies.

### Strategies used

Strategies pursued by Initiative grantees fell into four general categories:

- **Outreach:** A focused set of marketing and engagement activities directed at the target audiences that matched the grantee's cultural participation goal. This included a range of activities from traditional advertising and marketing campaigns to building relationships with community organizations.
- **Market research:** The collection and analysis of information about the characteristics, preferences, and experiences of the target audiences. Consultants were often used to conduct this kind of research.
- **Programmatic changes:** The development and presentation of content specifically intended to engage a target audience group. This included using diverse performers to present new material, museum exhibitions featuring material of interest to a specific group or groups, or changing the time or venue for presentations to make them more accessible.
- **Hiring new staff:** Personnel to support existing functions, such as sales and audiences services, including staff with expertise in increasing cultural participation.

Exhibit 3 shows the extent to which Arts Regional Initiative grantees used each of these strategies. Outreach was the most common choice; almost all grantees relied on this strategy to some extent. Market research and programmatic changes also were common strategies. Only one-third of the grantees used Initiative funding to hire new staff members.

**EXHIBIT 3. Most Common Cultural Participation Strategies**

STRATEGY	GRANTEES
Outreach	30
Market research	25
Programmatic changes	25
Hiring new staff	11

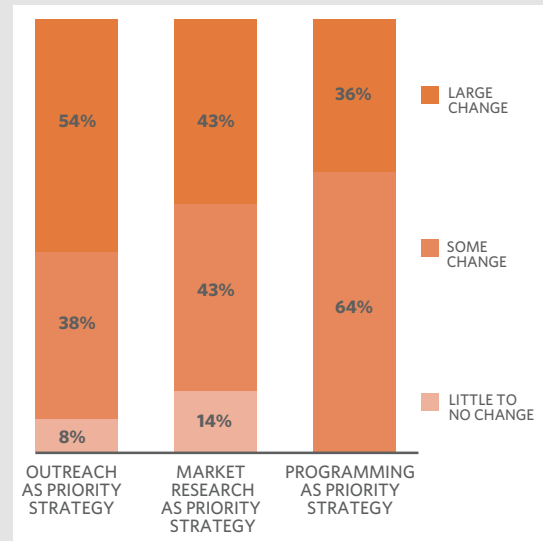
Based on top three cultural strategies used by each organization



In practice, all Initiative participants employed a combination of strategies, and the vast majority employed three or more distinctive strategies. Outreach that connected with a target audience was the strategy most likely to be associated with large changes in cultural participation, regardless of the type of cultural participation the grantee sought to increase. Market research followed in effectiveness, then programming changes. Exhibit 4 indicates the level of change connected with each of these cultural participation strategies.

The effectiveness of strategies also relates to the type of cultural participation goal that Initiative grantees chose to pursue. Those focused on broadening or deepening participation found the most success through investments in audience research and outreach. In contrast, creating partnerships with local community groups outside of the arts field was a key strategy for grantees who sought to diversify their audiences.

**EXHIBIT 4. Change in Cultural Participation and Priority Strategies Used**



## Organizations can achieve new capacities

Beyond determining whether changes in cultural participation and financial sustainability were achieved, the evaluation also looked at whether grantees developed new mechanisms and abilities to do this work.

The evaluation team found a general increase in organizational capacity relative to cultural participation in particular, such as using better information about audiences, forging new partnerships with key organizations, and increasing staff awareness of cultural participation techniques. Some grantees were also able to use Initiative funds to achieve even broader organizational transformation. For example, they grew in their ability to adapt to change by understanding their financial position, and making, as well as implementing, data-driven decisions. These abilities, which were explicit aims of the Initiative, can help them become and stay thriving organizations.

Despite these achievements, the evaluation shows that it is possible to develop the capacity of nonprofits without increasing effectiveness, as measured by tangible outcomes with respect to financial sustainability. Many of the grantees showed strong capacity in the form of expanded and better trained staff, more targeted fund development strategies, and more effective mechanisms to increase earned income. Despite their undeniable work to achieve this capacity, for most, total financial status was weaker at the conclusion of the grant period than at the outset.

“Before the Initiative our work was very ad hoc and driven by intuition. Now we’ve grown in our ability to collect and use data. We’ve established a baseline for measures important to each department and we share them on dashboards across our organization. We’re a data-driven institution today.”

**Miki Garcia**, Executive Director, Museum of Contemporary Art Santa Barbara

## Increased capacity cannot ensure financial sustainability

The Arts Regional Initiative organizations achieved mixed results in terms of financial sustainability during this time period. To understand changes in financial condition, the evaluation team examined indicators of financial performance taken from the audited financial statements of the grantees with evaluators' assessment of their goals and practices. Analysis of financial sustainability outcomes is based on financial reporting at the end of the grant period. This analysis focuses on the Southern California and Central Valley cohorts due to unavailable data for the Central Coast organizations.

At the conclusion of grants, most Initiative participants were no better off on measures of financial sustainability. In fact, more of the organizations in Southern California and the Central Valley had operating deficits at the end of the Initiative than at the start. At the outset, seven organizations had an operating deficit. By the end of the three-year grant period, that number increased to 10.

In the context of the recession, which was particularly hard on communities served by Initiative grantees, the fact that these organizations did not close completely may be considered a positive outcome. In interviews with the evaluation team, many of the grantees cited their Initiative participation as an important factor in their financial viability during those extremely challenging times. Some expressed the opinion that, without the Initiative's support, they might well have had to close their doors.

Eight of the grantees chose to increase their financial systems capacity as part of their Initiative work, making investments, for example, in new staff positions and new technology systems to expand fundraising efforts. Seven of these investments did not produce a measurable return during the three-year grant period. Challenges were attributed to the following factors:

- Choosing a financial system that was too complex for the organization
- Insufficient staff capacity to maximize the benefits of data systems (including reporting functions)
- Challenges with migrating past data into new systems

Changing or upgrading financial systems can present risk because of the time and expertise required to set up these systems. Once an organization has committed to a particular vendor and loaded all of its financial and constituent data into a system, it is difficult to change course.

"We're looking at very long-term goals when we consider the financial sustainability of our organization. You would need a much more longitudinal study to capture that impact. But even three-year funding to support these aims is important — it can help you rationalize a new investment, such as a new staff position, and then back-fill to fund it on an ongoing basis. It's difficult to show impact with a one-year grant."

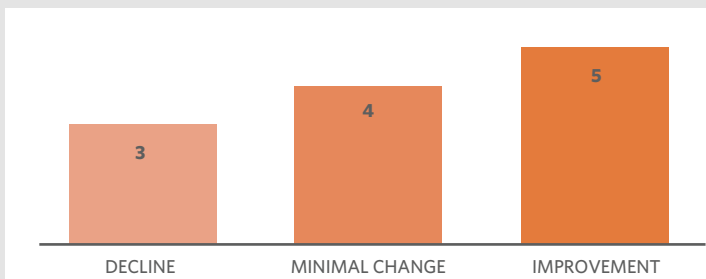
**Lial Jones**, Director, Crocker Art Museum

The evaluation examined three key financial metrics (unrestricted net assets, bottom line, and fundraising return ratio), as defined in these ways:

- **Unrestricted Net Assets:** Change in unrestricted net assets as percent of total assets. This indicates the amount of flexible reserve funds on hand.
- **Bottom Line:** Percent change in net income. This measure is used to understand whether organizations are operating with a surplus or deficit.
- **Fundraising Return Ratio:** Total support divided by total fundraising expense. This measures the cost-effectiveness of fundraising efforts.

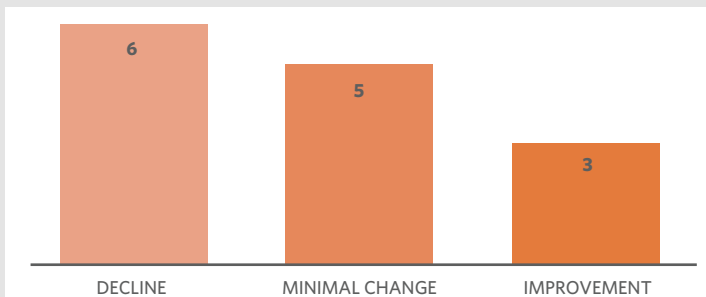
**EXHIBIT 5. Changes in Financial Sustainability During Arts Regional Initiative**

**Unrestricted Net Assets** (number of organizations)



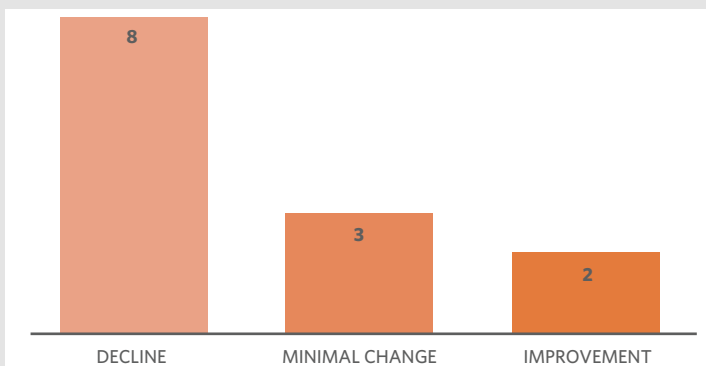
For Unrestricted Net Assets measures, 10% or more decrease in total assets was considered a decline. Less than 10% change was considered minimal. And 10% or more increase was considered improvement.

**Bottom Line** (number of organizations)



For Bottom Line measures, 100% or more decrease in net income was considered a decline. Less than 100% change was considered minimal. And 100% or more increase was considered improvement.

**Fundraising Return Ratio** (number of organizations)



For Fundraising Return Ratio measures, 10% or more decrease in invested versus contributed dollars was considered a decline. Less than 10% change was considered minimal. And 10% or more increase was considered improvement.

## Partnerships and executive leadership matter

Partnerships with community groups and continuity of executive leadership were important factors contributing to degree of success for grantees.

### Power of partnerships

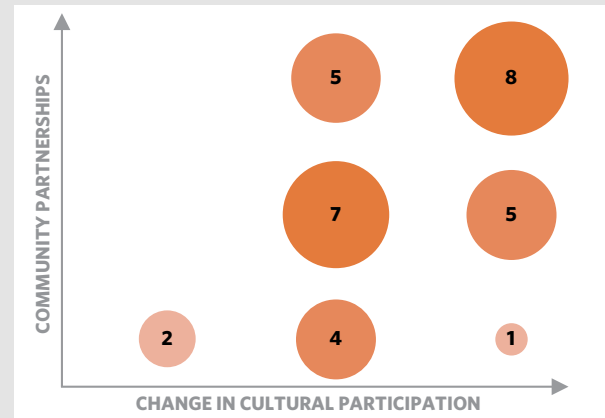
Building relationships with community organizations was also an important strategy for improving cultural participation. When Arts Regional Initiative grantees specifically worked with other nonprofit organizations that were able to increase their access to target communities, the results were impressive, as shown in Exhibit 6. Grantees with more community partnerships had the greatest change in cultural participation, particularly in diversifying audiences. This analysis also shows that moderate levels of community partnerships provided some benefits but not as significant as the highest level of relationship building.

### Executive continuity

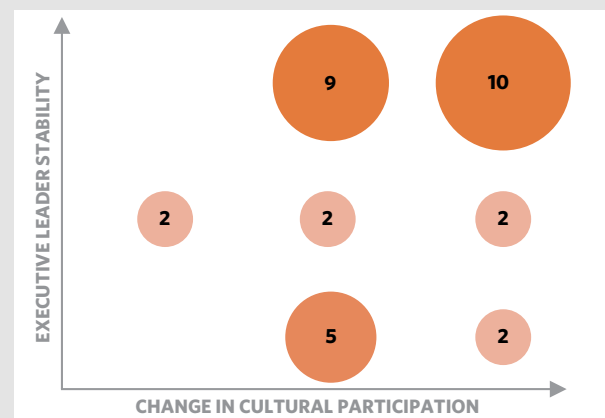
The evaluation hypothesized that changes in financial sustainability and cultural participation could not be achieved without effective leadership, which mediates strategy change.

Executive directors changed in 13 of the 32 grantee organizations during the Initiative period. While evaluators assumed that such changes could be positive if they created new opportunities for the organization, in fact, the evaluation found that changing leadership hurt cultural participation gains, as Exhibit 7 suggests. Continuity in executive leadership was associated with success in cultural participation. Note that while all three cohorts of the Initiative saw changes in leadership, it was most frequent among the Central Coast group — seven of the 13 organizations experienced at least one leadership change, with several organizations having more than two executive directors during their Initiative grant period.

**EXHIBIT 6. Change in Cultural Participation and Community Partnerships** (number of organizations)



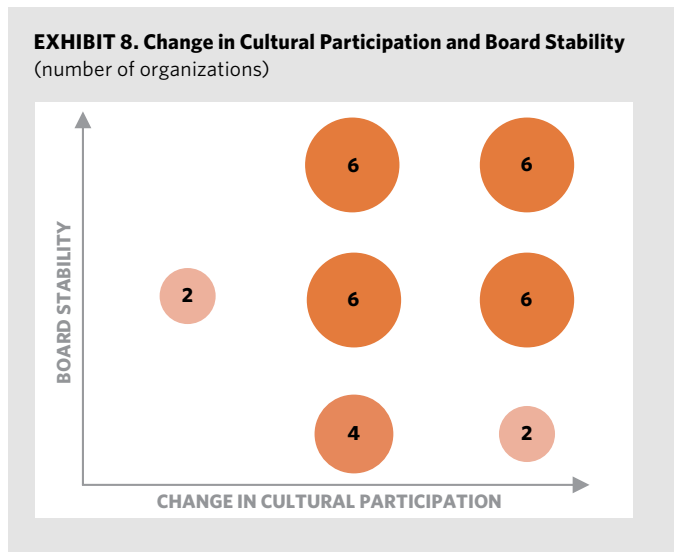
**EXHIBIT 7. Change in Cultural Participation and Executive Leader Stability** (number of organizations)



## Board stability

In nonprofit governance, one of the most important roles of the board of directors is to bring the perspectives of beneficiaries, community members, and donors to the oversight of the organization. Boards are often important to changing or maintaining strategic direction. The evaluation found that the stability of board membership of grantee organizations was not associated with changes in the organizations' cultural participation. This suggests that stable staff leadership had greater impact than board stability in this key impact area, as shown in Exhibit 8.

Many Initiative grantees tried to increase the diversity of their boards, hoping that such changes would allow them to be more effective in reaching their goals for changes in cultural participation. Most were not successful. The stability of the board did not appear to affect cultural participation.

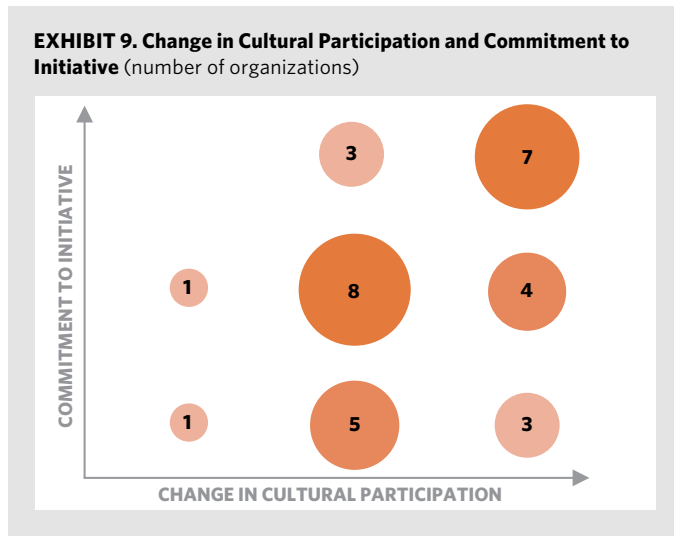


## Commitment level correlates with benefit

Organizations that were more engaged in the Initiative process were more likely to have increased cultural participation in their programming, as shown in Exhibit 9.

Of those who were highly engaged with the process, 70 percent showed a high level of impact, compared to just one-third of those who were somewhat or not very engaged.

Engagement ratings were assigned by the evaluation team based on participation in convenings and use of the organizational coach. This analysis suggests that the Initiative's focus on cultural participation in its technical assistance, coaching, and planning contributed to this result.



“We wanted to broaden and deepen our audiences, so we tied the goals, structure, and definitions from this grant into our own strategic plan. Doing this helped our staff and board take ownership of the process and the work has become institutionalized.”

**Rodney Gustafson**, Founder and Artistic Director, State Street Ballet

## Appendix: Regional Contexts

It is important to understand the economic and demographic context for the Arts Regional Initiative.

The Initiative targeted parts of California that are largely outside the major art centers, such as Los Angeles and the Bay Area, whose nonprofit arts communities have national recognition and long histories of support from regional and national donors. Organizations in these art centers are part of robust nonprofit environments with access to technical support in management, fund development, governance, and programming.

In contrast, the Arts Regional Initiative focused on three regions with less capacity and access to resources: Southern California outside of Los Angeles, the Central Valley, and the Central Coast. It is important to recognize that before and during implementation of the Initiative, these regions experienced demographic and economic trends much different from those affecting Los Angeles and the Bay Area.

The summary charts on the next page show that most of the communities served by Initiative grantees had lower incomes and education levels (Exhibit 10), and higher proportions of younger, more ethnically diverse populations (Exhibit 11) compared to California overall.

Another key piece of context is the economic recession that hit the nation starting in 2008 and was particularly severe in Central and Southern California, creating a very challenging environment in which to increase nonprofit financial sustainability. These regions historically experienced lower levels of arts funding; during the recession they saw declines in both public and private support. In California, as a consequence of an unrelenting state budget crisis, state funding for the arts declined by 13 percent during the recession. Between 2008 and 2010, local government arts funding across the state also decreased by more than 10 percent.<sup>2</sup> Meanwhile, foundation giving to the arts dropped 29 percent nationally in that same time period.<sup>3</sup> Giving, even among affluent arts supporters, fell in response to the deepening economic crisis.

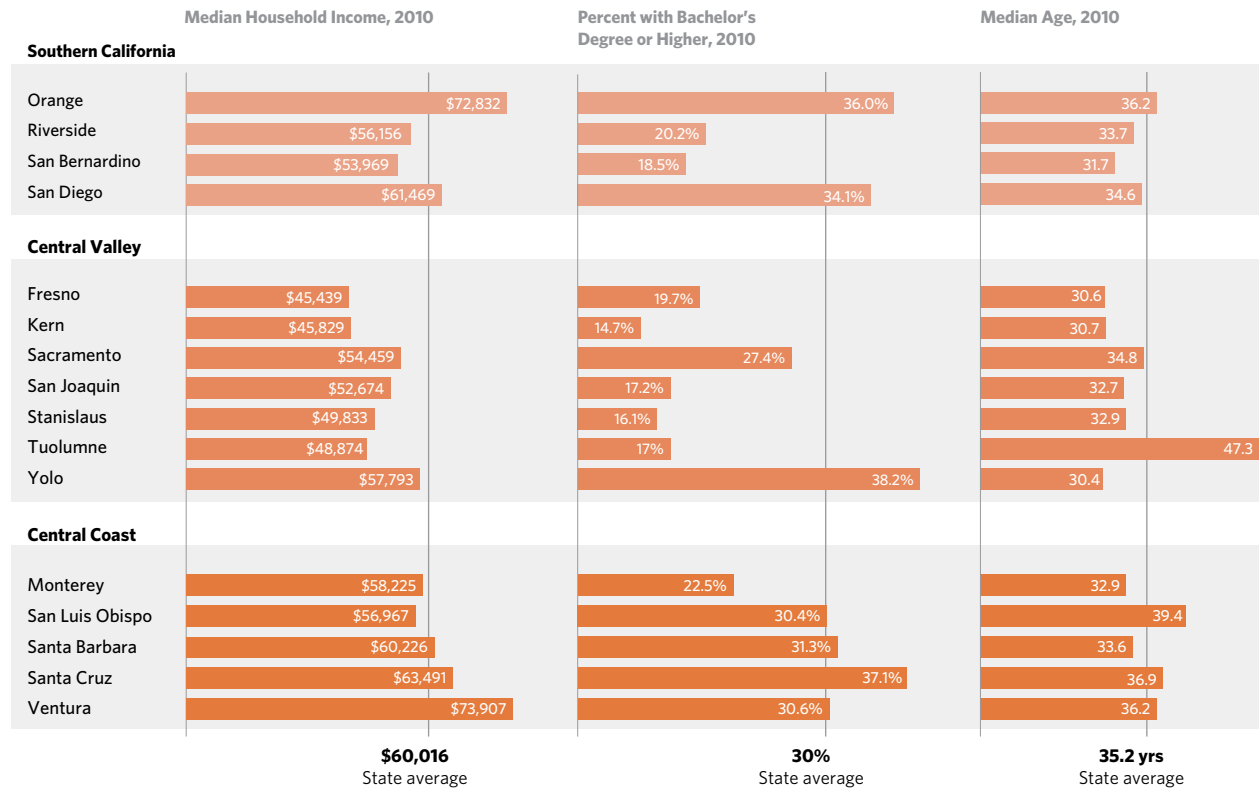
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<sup>2</sup> Helicon Collaborative, *Arts Funding in California: Where Do We Stand?* November 2010.

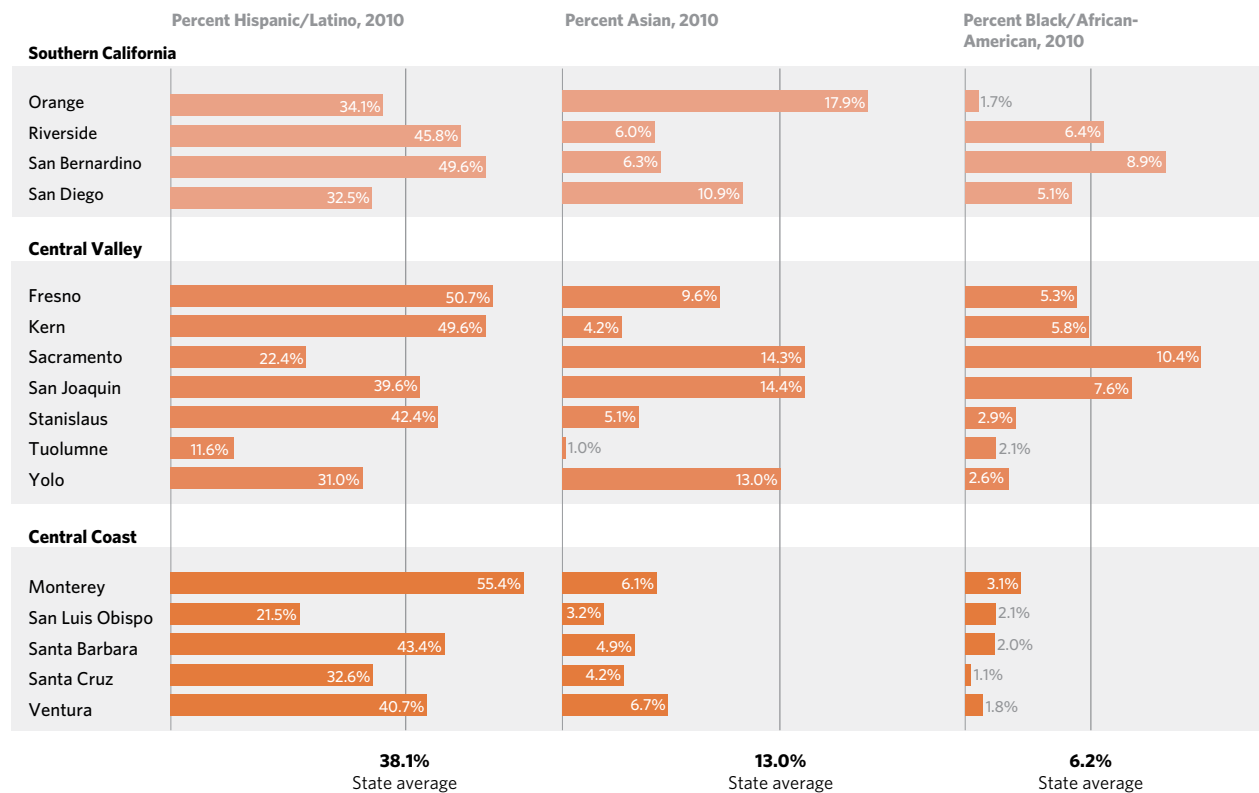
<sup>3</sup> National Endowment for the Arts, *How the United States Funds the Arts*. November 2012.



**EXHIBIT 10**



**EXHIBIT 11**



## Appendix: Arts Regional Initiative Phase II Grantees

### Southern California

Bowers Museum  
Cygnet Theatre Company  
Laguna Art Museum  
Mainly Mozart  
Oceanside Museum of Art  
Orange County Museum of Art  
Orchestra Nova San Diego\*  
Redlands Bowl  
Riverside Art Museum  
San Bernardino Symphony  
Orchestra  
The Wooden Floor

### Central Valley

Bakersfield Museum of Art  
Crocker Art Museum  
Davis Art Center  
Fresno Grand Opera  
Fresno Philharmonic  
Gallo Center for the Arts  
Sacramento Ballet\*  
Sacramento Opera\*  
Sacramento Philharmonic  
Orchestra\*  
Sierra Repertory Theatre  
Stockton Symphony  
The Haggin Museum

### Central Coast

Cabrillo Festival of  
Contemporary Music  
Kuumbwa Jazz  
Monterey Jazz Festival  
Monterey Museum of Art  
Museum of Contemporary Art  
Santa Barbara  
Museum of Ventura County  
National Steinbeck Center  
Ojai Music Festival  
Opera Santa Barbara  
Rubicon Theatre Company  
San Luis Obispo Museum of Art  
Santa Barbara Symphony  
State Street Ballet

\* These organizations were not included in analysis of the Initiative due to organizational changes or data limitations. Note that Sacramento Opera and Sacramento Philharmonic merged to become Sacramento Philharmonic & Opera.

## About Insight

Insight is a periodical publication of The James Irvine Foundation, designed to provide nonprofit and community leaders, grantmakers, policymakers, and other audiences with information about what we are learning from our grantmaking programs. Insight and its partner publication, Focus (reporting research findings), are available free of charge from the Foundation's website, [www.irvine.org](http://www.irvine.org).

## About The James Irvine Foundation

The James Irvine Foundation is a private, nonprofit grantmaking foundation dedicated to expanding opportunity for the people of California to participate in a vibrant, successful, and inclusive society. The Foundation's grantmaking focuses on three program areas: Arts, California Democracy, and Youth. Since 1937 the Foundation has provided more than \$1.5 billion in grants to more than 3,600 nonprofit organizations throughout California. With approximately \$1.9 billion in assets, the Foundation made grants of \$73 million in 2014 for the people of California.

## About Harder+Company Community Research

Harder+Company Community Research is a comprehensive social research and planning firm with offices in San Francisco, Sacramento, San Diego, and Los Angeles, California. Harder+Company's mission is to help its clients achieve social impact through quality research, strategy, and organizational development services. Since 1986, the firm has helped foundations, government agencies, and nonprofits use good information to make important decisions for their future. Success rests on providing services that contribute to positive social impact in the lives of vulnerable people and communities. To learn more about Harder+Company, visit [harderco.com](http://harderco.com).



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