AEA
CONSULTING

The Platform

Volume Two, Number One
March 2001

The Platform *is published six times a year by AEA Consulting, a company that specialises in strategic and operational planning for the cultural sector.* The Platform *serves to promote discussion and understanding of the critical factors affecting the successful management of cultural organisations. Comments or contributions welcomed by Jeanne Bouhey, Editor,* The Platform, platform@aeaconsulting.com. *Back copies available. If you don't wish to receive* The Platform *again, then just send an e-mail to this address saying 'CEASE AND DESIST' and you won't.*

Article

Last month I gave a lecture to a class of graduate students at New York University studying performing arts management, all of whom were intending to pursue careers as arts managers, and most of whom had some experience in line management under their belts. My session slotted into the finance elective. They were, as I had been forewarned, bright and engaged.

I thought I would play the Ancient Mariner and use the opportunity of a captive audience to drive home some fundamental hard-learned truth that, if sufficiently memorable in its delivery, would serve them well in their professional lives. All I had to decide was what … it's an interesting exercise.

My chosen 'insight' was that nonprofit cultural organisations are inherently loss-making. This is so stupefyingly self-evident that, my thesis runs, we forget that its implications permeate every aspect of the financial dynamics and culture of the sector. 'We forget'–maybe. Perhaps 'we are in denial about' is a better way of putting it.

There are all sorts of goods and services for which the market does not generate enough demand at a sufficiently high price to stimulate supply, given the cost of supplying at that level of demand. Some of them are valued by society to the extent that governments are mandated either to supply them or to give suppliers tax advantages such that, on the margin, those goods and services are sufficiently inexpensive to supply and/or cheap to buy that a subsidized market can operate. Much – but not all – of what we think of as culture, along with much of health, education, human and animal welfare, fits into this category. The difference between what the market would spontaneously generate and what is actually supplied is made up through a combination of direct subsidy, philanthropy and the indirect subsidy associated with tax concessions to both philanthropists and recipient organisations.

The balance between these three sources of market intervention for any given cultural organisation is determined by the legislative regime, on the one hand, which varies from country to country, and by the extent and depth of perception of social worth that an individual organisation can trigger on the other – which means the skill with which the organisation can persuade potential funders that it is doing something worthwhile and doing it well.

(So far, so obvious, so what? …) Next step:
Q: What do most cultural organisations want to do, all other things being equal?
A: More. Specifically more of the stuff that is their *raison d'être;* which is programming; which is loss making; which therefore requires them to generate contributed income along with earned income.

More programming means more overhead, more depreciation, more skilled or more numerous staff, more office space – more fixed cost…. But raising contributed income in parallel with programme growth is tough. The easy stuff is direct programme costs – visible, attractive, fundable… Meanwhile the fixed costs get drafted around, talked down and deferred, not least because organisations wishing to present themselves to potential funders as efficient want to maximize, at least on paper, the ratio of direct to indirect costs.

The net impact of programme growth, therefore, is to stretch a given pool of resources thinner and thinner. The result is that most cultural organisations, left to their own devices, systematically under-invest in facilities, staff development, etc. etc. as they grow. It takes determined leadership, with a long-term view of the organisation, a knowledge of its cost base and a commitment to institutional stability to ensure that growth in programmes does not, over time, hollow out the organisation. ... (Nods of recognition.)

Without the knowledge, the will to act on that knowledge, and a sophisticated or receptive funding community, as a cultural organisation grows its programming it will 'hollow out', the balance sheet will weaken, and short-term cash-flow issues will come to dominate long-term vision. It is for this reason that so many cultural organisations are a bit of a disappointment for the well intentioned, competent, highly motivated people they recruit. Their own growth has left them increasingly hard-pressed, under-managed, under-staffed, de-skilled, ill-housed, foreshortened in their horizons and generally ground down. It is because nonprofit cultural organisations are, for the most part, inherently loss-making and have not faced sufficiently straightforwardly the implications.

(OK, makes sense, so what can we finance types do about it?)

Encourage your organisations to look at their balance sheets as well as their cash flow when considering programme expansion.

Encourage them to analyse and articulate the full cost rather than the marginal cost of programmatic growth and to generate cost information in a format that allows this to be done.

Encourage them to think about and articulate the requirements for institutional growth in parallel with programme growth.

Encourage them to include goals for capital structure and investment as part of their strategic planning process.

Encourage them not to forget that the reason they are nonprofit organisations is not just because they are mission driven. It's not just because their mission is valued by society. It's also because the pursuit of mission is an axiomatically unprofitable activity.

(No wonder they call economics the dismal science…)

Adrian Ellis
aellis@aeaconsulting.com

Book Reviews

The Creative City: a toolkit for urban innovators
Charles Landry
Earthscan Publications: London, 1999.
ISBN 1-85383-613-3

We live in a global economy. As a result, cities have to rethink how they present themselves, both to their existing residents, businesses and visitors, and to the outside world. For cities to be visible on the map of the 21st century they need to focus on how they communicate – and how they can trade on – their differences. Successful cities will be those that connect people, movement and places efficiently. They will be engaging, welcoming, accessible and easily understood. All of these factors make the promotion of creativity essential.

Promoting creativity is difficult. *Creative City* is the first book on the subject I have come across that goes beyond simple description and history to actually delve in detail into the meaning of creativity, and the development, management, and evaluation of creative cities. It includes numerous case studies of creative cities, a helpful conceptual toolkit for measuring and developing them, and is based upon extensive consultancy work.

Though not an easy read – it is repetitive in places, and I sometimes wished there were more diagrams – Landry's book is valuable for breadth and richness of detail, though this in itself makes for a daunting proposition for the urban manager. Landry's argument is that cities in the new economy of the digital revolution need to return to a sense of place. Whilst most people in Britain seemingly want to live in the country, there are not enough villages to house this demand. Therefore, cities have to build the village values of a place – belonging, continuity and safety, among others – to complement the buzz and serendipity of city discovery. Cities especially can promote the traditional attributes needed now: trading, face-to-face interaction and networking.

What is important are the cultural *assets* of a city – now as significant as coal, steel and gold used to be – whether these be the *hard* assets of buildings and cultural facilities, or the *soft* assets of networks and connections. Creativity lies in growing and exploiting these assets. However, this development requires new forms of leadership and management. Cities need leaders in public, private and voluntary sectors who are open, flexible and resourceful risk takers. The will needs to be there, balanced by generosity and understanding. Outsiders are particularly valuable as they bring new thinking into the city, Landry argues. Urban planning should be taken away from 'the hands of middle-aged men' with children's, women's and minorities' perspectives added. Finally, new partnerships need to be created between public, voluntary and private sectors.

Landry makes four key points ultimately. Cities need to be intellectually, culturally, technologically *and* organisationally creative; creativity needs to be an integrated process involving all aspects of urban life – economic, political, cultural, environmental; an emphasis on softer forms of creativity is essential, with cities being tolerant, open-minded places; quality of life should be the predominant focus.

I worked in Huddersfield for a year creating the new Kirklees Media Centre. It felt a very different local authority from any I had worked with previously. Leadership at elected and officer level was flexible and open; diverse ideas were welcome; and creative initiatives – in this case a risky media training and production facility – were backed. Huddersfield plays a role in Landry's book, and it is good to see that the success I enjoyed has continued. This also demonstrates that creativity can be maintained if the right conditions are present.

Andrew Kelly
Bristol Cultural Development Partnership
kelly.bcdp@genie.co.uk

e-topia: 'Urban Life, Jim - but not as we know it'.
William J. Mitchell
MIT Press: Cambridge, Mass., 1999.
ISBN 0-262-13355-5, 0-262-63205-5

In *e-topia,* his second book examining our cyberfuture, Mitchell provides an enthusiastic account of the possibilities associated with our networked society. Neither digiphile nor digiphobe, Mitchell instead attempts to look beyond the seductive trappings of modern technologies – email, the worldwide web – to establish the likely impact of the emerging global digital infrastructure.

As Dean of the School of Architecture & Planning at MIT, Mitchell has considerable insight into the impact of these new technologies on the shape of our cities, and he situates them in a long line of revolutionary changes that have enabled the progression of human settlements from collections of primarily independent dwellings to highly integrated, networked communities through the development of an increasingly refined urban infrastructure. Change in this context is incremental – offering increasingly enticing means of accessing existing 'activity nodes' and then parasitically overwhelming and transforming them.

One example of this is provided by the city of Bangalore: initially a principality, it was transformed by the introduction of the railway and subsequently developed into an administrative centre during the second half of the nineteenth century. By the 1990s, however, it had again been transformed, this time into a centre for manufacturing software, the exports of which currently drive its wealth.

While it is tempting to view emerging technologies as offering absolute locational freedom by enabling real-time communication at the click of a mouse, it seems more apt to view silicon as the new steel and the internet as the new railroad. Rather than inviting the 'galloping decentralisation' of communities on the basis of absolute freedom of choice, Mitchell recognises the probability that existing urban structures will likely be recreated on the basis of a spatial distribution of labour, within which different localities will perform specialised roles according to their merits. Greater freedom from place will result in the clustering of the affluent in their areas of choice, the downside for which will be that the poor are increasingly sequestered in places with few services and fewer opportunities.

This tendency is further exacerbated by the very nature of the technology that is reshaping our landscape: technology that facilitates the efficient transmission of information and the expansion of communities of interest. Thoreau wrote in 1845, 'We are in great haste to construct a magnetic telegraph from Maine to Texas; but Maine and Texas, it may be, have nothing to communicate'. Whether or not this is the case, the demand for new technologies and their capacities for economic and social integration on a large geographic scale and across traditional political borders continues unabated.

It is, however, no longer the distance between two cities that must be bridged, but the distance between two worlds. The nature of virtual information, with its systems tailored to the interests of the user, puts up boundaries less apparent than geographical or social distance but no less significant. As Mitchell says, new technologies create conditions under which individuals position themselves less as members of discrete, well-bounded civic formations (towns or cities) and more as intersection points of multiple, spatially diffuse, categorical communities.

It is the role of the city to create cohesion between those outside the digital economy and those within, and this is no easy task. Mitchell ascribes to cities the potential to build and cultivate skills in entrepreneurs and workers through their capacity to blend cultural and technical knowledge.

The task of preserving the vitality of these places in a world transformed by technology is one best laid at the feet of institutions unique to their communities: non-commercial organisations like libraries, museums and performing arts centres that have the capacity to develop skills appropriate for the 'learning society' or 'knowledge economy'. Through encouraging diversity, these institutions can foster the characteristics ultimately required for cities to remain sufficiently authentic and distinctive, to remain dynamic and attractive places to be.

Mitchell's high-level thinking is complemented by an engaging, even amusing prose style (he has a particular penchant for the witty neologism), which makes *e-topia* a highly stimulating read.

Susan Conroy
sconroy@aeaconsulting.com

Visionaries and Outcasts: The NEA, Congress, and the Place of the Visual Artist in America
Michael Brenson
The New Press: New York, 2001.
ISBN 1-56584-624-9

This passionate little book traces the prehistory, history and demise of the NEA's direct funding of visual artists, a program that lasted from the NEA's inception in 1965 under the Johnson administration to 1995 when Congress revoked funding for all NEA programs aimed at supporting individuals – other than those for writers.

The book's strengths lie in its overt point of view – the program was, in the author's view, well conceived, well run and important to the development of the visual arts in the United States – and in its broader analysis of the political environment in which the program was developed and subsequently axed. The conviction – more asserted than demonstrated it has to be said– that direct federal funding of individual artists is of value is tempered by realism as to its future prospects: "The private sector is probably the only hope now for an ambitious fellowship program than can think imaginatively about artists, their place in America, and the needs of the field…."

The NEA program – of which, incidentally, Robert Mapplethorpe, Karen Finley and Andreas Serrano were not recipients – was conceived during the Cold War, when the Kennedy and Johnson administrations felt that it was almost as important to demonstrate America's cultural superiority as it was its military and economic superiority. The NEA continued under the Nixon administration, primarily as it was thought an inexpensive way of helping to neutralize an otherwise hostile constituency. The Reagan years brought a significant change in the climate – with all public expenditure suspect – and the end of the Cold War in some ways took away the behind-the-scenes *raison d'être* of the program. The changing, higher-profile, and more politically-charged role of the artist in society, and the shift in NEA policy from recognizing achievement to the inherently more risky task of identifying promising talent both increased the potential for controversy.

In parallel, the individual artists granting program became isolated and anomalous within the NEA. First, the balance of perspective shifted from a desire to support 'the artist' to supporting cultural institutions – professional mediators. Secondly, under pressure, the NEA increasingly sought to legitimate its programs by highlighting the instrumental contribution of culture to the wider social and economic agenda—in retrospect, a tactical error so far as the provision of individual grants was concerned.

An American Canvas: An Arts Legacy for our Communities, initiated by Jane Alexander and published by the NEA in 1997, was the result of a sprawling initiative to map the contribution of culture to wider social and economic agendas. It was also in effect a sort of institutional *mea culpa*. As *An American Canvas* puts it: "In the course of its justifiable concern with professionalism, institution building and experimentation in the 60's and 70's, the arts community neglected those aspects of participation, democratisation, and popularisation that might have sustained the arts when the political climate turned sour" (90).

This book analyses an important chapter of American cultural policy in detail and provides the evidence to draw different conclusions to the author's should you wish. If you want to know what it felt like to live through these choppy times on the inside, John Frohnmayer's *Leaving Town Alive* (Houghton Mifflin, 1993) is a much better read than Jane Alexander's recent *Command Performance* (Public Affairs, 2000).

Adrian Ellis
aellis@aeaconsulting.com

Site Review

Review of www.geofunders.org

The grantmaking community in the US is a diverse and powerful force. On both an individual and collective level, funders are playing an increasingly important role in influencing the scope and direction of independent sector activity, and this impacts the way in which both grantmakers and grant recipients view the role of funding.

One of the most engaging debates in the sector at the moment centres on the balance between funders holding organisations accountable for the outcomes of specific funding objectives and funded organisations retaining the level of strategic and operational independence necessary to pursue their missions effectively. There is a fine line between intervention that promotes the growth and health of an organisation and 'shadow governance' that wrests control away from the organisation and into the hands of the funder.

Grantmakers for Effective Organisations (GEO), an affinity group of the Council on Foundations, is dedicated to promoting, learning, and encouraging dialogue among funders committed to the field of organisational effectiveness in the philanthropic and non-profit sectors. GEO views organisational effectiveness as the key to the nonprofit sector's gaining a 'margin of excellence' that will enable it to adapt to a changing environment and, ultimately, support stronger communities and a vibrant civil society. Organisational effectiveness is defined as '*the ability of an organisation to fulfil its mission through a blend of sound management, strong governance and a persistent rededication to achieving results*.'

As I understand it, GEO wants to encourage the grantmaking community to take a more strategic approach to funding organisations – to explore the extent to which the funder can act as a catalyst for and supporter of organisational change and development. It is a challenging, potentially controversial, and timely mission.

Established in 1997, GEO has amassed an impressive membership list of approximately 300 grantmakers, among which are many of the most wealthy and influential in the US. Its objectives include conducting research into funder involvement and engagement in organisational effectiveness and building connections with other funder affinity groups, as well as other agencies and institutions that share a concern for and commitment to organisational effectiveness.

To date, GEO has facilitated and participated in a number of conferences and established a web site. The site offers: information on conferences; an interesting list of selected readings that covers a host of topics relating to the governance, management and funding of nonprofit organisations; links to selected publications; and information on other entities involved in studying or promoting effectiveness in the sector. Task groups are being formed within GEO this year to work on the development of the organisation and its services – the web site will be expanded to include discussions of work being undertaken on organisational effectiveness.

The web site does not yet provide any real insight into the debates being facilitated and promoted by GEO and has limited appeal for the repeat visitor. However, it is already a useful reference point and worth keeping an eye on as GEO finds its feet. As with so many network sites, it remains to be seen how truly relevant and challenging GEO will be able to make its web presence, given the complexity of the subject is has taken on and the sizable, demanding and diverse audience base it could potentially serve.

Catherine McDonald
cmcdonald@aeaconsulting.com

CD Rom Review

is.C^3 – an interactive simulator

is.C^3 is a computer simulation game in which the player assumes the identity of a Foundation Director with an endowment of $500m and a remit to 'unleash a cultural renaissance' through investment in arts education, arts marketing, organisational development, marketing and facilities. As the Foundation director, you determine the amount to be invested in these cultural activities (being aware of the impact of spending on the size of the endowment!) and the distribution between them, and you get the opportunity to adjust your investment portfolio every five years. Your goal, over a forty-year period, is to create a *belle époque* of cultural vitality and a burgeoning creative economy. Should you fail, you risk blowing your endowment, reducing Silicon Valley (where you are based) to a cultural desert, and being fired. The simulation has been put together by Cultural Initiatives, a Silicon Valley community foundation. The underlying macroeconomic model, which is accessible through the game, is a sophisticated one and bears examination. It is well presented and thought-provoking. Advanced players can alter the model and, in turn, track the impact on investment decisions.

is.C^3 doesn't tell you how to be a foundation or a foundation director. Its value lies rather in importing cultural expenditure into a standardized, dynamic macroeconomic model in a new way (at least for this reviewer). It provides a context for thinking about the differential impact of cultural expenditure upon varying urban planning agendas – economic growth, quality of life, etc. One finds (quite rightly) that it's easy to spend money on culture, and hard to spend it wisely.

The game itself is no SimCity of fun – there are too few options and too few moving parts for sustained (read: addictive) playing. It is, however, a useful teaching aid and best seen as an enjoyable way of accessing and illuminating the underlying model itself.

Adrian Ellis
aellis@aeaconsulting.com

Beginnings and Ending

Commissioned December 2000 - February 2001

Arts Council of England – a report on the diversification of the funding base of UK arts organisations.

Ballet Met, Columbus, Ohio – facilitation of a strategic planning process.

Birmingham City Council – an appraisal of leisure, culture and tourism facilities in the North West Corridor of Regeneration SRB6 programme.

The British Empire and Commonwealth Museum, Bristol – audience development and income generation plan.

Hatton Garden Jewellery Partnership, London – a business plan for the planned Jewellery Centre.

Leeds City Council – a review of the Leeds Grand and Opera North redevelopment proposals.

London Transport Museum – a strategic planning exercise for a major capital development.

Nonprofit Finance Fund, New York **–** a manual on the capitalization of nonprofit organisations.

Poets House, New York – board development review.

Shakespeare and Company, Lenox, Massachusetts – facilitation of a strategic planning exercise.

The Women's Library, London **–** membership strategy.

Completed December 2000 - February 2001

Imperial War Museum / Duxford Airfield – plan for a SuperHanger.

Courtauld Institute of Art, London – feasibility study for a major digitisation project.

Birmingham City Council, England **–** a business plan for the development of Aston Hall and Park, Birmingham.

Leeds City Council – a review of the Leeds Grand and Opera North redevelopment proposals.

London Borough of Camden – a development study for Cockpit Arts addressing income generation potential.

Toynbee Hall, London – research and preparation of plan for the redevelopment of the historic site and facilities.

[1] i.e. regurgitation – attribution = calumny