EXECUTIVE SUMMARY

The Unsung Majority

An exploratory study of small and mid-sized arts organizations in Allegheny County, PA

I. Introduction

In the performing arts, resources tend to be concentrated among a few large organizations, a distribution seen across many areas of the broader nonprofit and commercial sectors. In the Pittsburgh region in 2010, the eight performing arts organizations with budgets over $1.5M collectively spent $130M to bring their work to the stage. The two largest organizations in this group spent a combined $90M and attracted $13M in institutional donations. [1] In contrast, the estimated ~160 small to mid-sized arts organizations in the area have a combined budget of $40M, or less than a third of the total spent by the eight largest organizations. In short, even though the vast majority of organizations are small to mid-sized, the vast majority of dollars are directed to a just a few large organizations. In addition to these financial resources, large organizations also tend to benefit from funders', researchers', and professional associations' efforts to find solutions to the many challenges non-profit arts organizations face as audiences change and financial pressures grow. Small and mid-sized organizations remain relatively unstudied, and often lack the benefit of strategic, integrated policies that improve their ability to succeed.

Recognizing that small and mid-sized organizations contribute to a vibrant and diverse cultural ecology, a Consortium of Small Arts Funders (CSAF, or the Consortium)—including staff from The Heinz Endowments, The Pittsburgh Foundation, The McCune Foundation, The Allegheny Regional Asset District, and the Greater Pittsburgh Arts Council—have worked together since 2007 in an effort to think more strategically about their approach to funding arts and culture organizations with budgets under $1.5M.

Study purpose and core research questions

CSAF members noted a dearth of data and published research on which they could draw to identify ways to develop grant making and other strategies to support organizations under $1.5M. In response, these funders commissioned TDC to conduct research to develop strategies that might better position small and mid-sized organizations in the region to evolve and grow. CSAF placed emphasis on improving its understanding of the current circumstances of the sub-$1.5M group, as well as on deepening its

[1] Source: 2010 Cultural Data Project

understanding of the ways in which the larger cultural ecosystem influences the group's challenges and opportunities.

The Consortium asked:

- Can cohorts of similar organizations that experience shared challenges or strengths be identified within this group, by discipline, budget size, age, race/ethnicity or other factors? What organizational factors position cohorts within the target population to grow audiences and evolve artistically?
- What are the characteristics of the Allegheny County ecosystem in which small and mid-sized arts organizations operate? To what extent do these organizations leverage connections within the ecosystem to advance their administrative and/or artistic practices?
- How does the target population define organizational strength? What are the operating characteristics of small and mid-sized arts organizations that are distinct from those of their larger counterparts?
- Given the answers to these questions, what can be done at a system level to enhance small and mid-sized arts organizations' opportunities to grow audiences and evolve artistically?

CSAF would like the greater arts community of Pittsburgh (including foundations, government entities, corporations, volunteers, audiences, and the artists and administrators of the organizations themselves) to work collectively to create an equitable and fertile environment for all of the arts organizations that contribute to the region's cultural vitality.

CSAF and TDC hope that this research marks the beginning of conversations that will pave the way for the next phase of understanding and action.

II. Methodology

The findings of this report are underpinned by qualitative and quantitative research, including the following:

- **Interviews**: TDC spoke with a sample of 31 small and mid-sized performing arts organizations.
- **Literature review**: TDC conducted a detailed literature review in order to provide baseline information on small arts organizations on which this effort could build, and to explore system analysis frameworks.
- **Initial hypothesis generation**: TDC built on our experience and the insights gained from interviews and the literature review to generate a set of hypotheses describing the target population's operating practices, its connections to its environment, and resources needed to facilitate audience growth and artistic evolution.
- **Survey of small and mid-sized performing arts organizations**: We then designed and fielded a comprehensive online survey among small and mid-sized performing arts organizations in the region to gather data to analyze our study hypotheses. The target population included any

nonprofit performing and presenting organization with a budget under $1.5M in the region. The survey focused on three disciplines (music, dance, and theatre) in order to provide the opportunity to compare and contrast. Of an estimated eligible group of 157 organizations, a final sample of 57 organizations completed the survey. These 57 participants had combined budgets of just over $13M. TDC estimates that this sample reflects about a third of all small performing arts organizations in the region. We therefore estimate that the total combined budget for all small to mid-sized arts organizations is about $40M.

- **Development and application of metrics for assessing organizational strength and audience growth**: TDC worked with CSAF to develop metrics for measuring organizational strength. On the business side, these metrics are financial and administrative strength; on the artistic side they include community vibrancy, artistic talent and innovation capacity. We further noted that small-scale organizations' financial picture, particularly for those that are very small, is not as reliable an indicator of their overall strength as it tends to be for larger organizations, because many of them use a wide variety of free and low-cost resources ("sweat equity") to operate. TDC also developed a metric for measuring audience growth so that researchers could explore the extent to which components of organizational strength contributed to this outcome. While TDC attempted to develop a meaningful metric to measure artistic evolution, researchers ultimately concluded that a survey is not the best mechanism by which to explore this highly complex and nuanced topic.

III. Does one size fit all?

An important question for this research was whether the target population is too heterogeneous to be understood as a whole. Are certain groups – disciplines or otherwise – facing unique challenges or benefiting from specific advantages? Are some of these "sub-groups" similar enough that they could be considered cohesive cohorts? Or are the drivers or barriers to organizational strength, growth, and evolution shared more broadly amongst the full set of organizations operating at a similar scale? These questions will help the greater arts community understand whether and where targeted interventions are more appropriate than one-size-fits-all strategies.

Full sample findings

To provide a platform from which to look at sub-groups, TDC first looked at audience growth and organizational strength across the entire sample.

Figure 1 highlights our key findings with regard to audience growth. Figure 2 on the next page provides detailed information on how each aspect of business and artistic strength was defined and measured, and what the findings were. It further details how these factors relate to audience growth.

Figure 1: Growth

Outcome	Definition (What is the metric?)	Measure (How was it measured?)	Results (What were the findings?)
Audience Growth	Audience growth means that total attendance grew in the recent past.	The measure combined trends in organizations' self-reported annual audience numbers with self-reported assessments of audience growth. To add further nuance to the findings, TDC also checked to see whether groups wanted to grow their audiences	Most groups are not struggling with declining audiences and many are successfully growing. Audiences were largely stable (28%) or growing (47%). 25% reported declining audiences. More organizations would like to grow their audiences than have been able to do so.

Figure 1: Organizational Strength Metrics

Metric	Definition (What is the metric?)	Measure (How was it measured?)	Results (What were the findings?)	Audience Growth (Is it associated with audience growth?)
Financial Strength	Financial strength means that organizations have sufficient operating cash and capitalization to fund operations, manage risk and invest in artistic quality. Financial weakness means that organizations have little to no operating cash or assets, and risk being unable to fund their obligations.	The scale incorporates organizations' self-assessments of adequacy of operating funds, and their ability to meet payroll, break even, post surpluses, and raise capital funds.	Most groups are in weak financial condition, with 70% in the lower two categories on the 4-point scale, and 23% in the lowest category. This was the most acute challenge among the five drivers, but given the extent of sweat equity in the system, financial weakness itself may not signal a constrained organization.	Financial strength is associated with stable or growing audiences. 100% of organizations that were rated financially strong had either stable or growing audiences. Although all of the organizations that reported declining audiences were also financially weak, financial weakness does not preclude growth. 40% of the group rated financially weak grew, and an additional 25% were stable.
Administrative Strength	Administrative strength means that organizations have the management, finance, fundraising, and marketing skills to run the organization effectively.	The scale incorporates organizations' self-assessments of the adequacy of fundraising, marketing, finance, and general management skills.	Just 26% of organizations reported administrative weakness, as measured by the lower two categories on the 4-point scale. When the components in the scale were separated, there was more concern with marketing and fundraising skills than finance or management skills.	Administrative Strength does not appear to be related to audience growth.
Community Vibrancy	Community vibrancy means that organizations are part of an active local creative community, both broadly and within their specific discipline.	The scale incorporates organizations' self-assessments of their degree of connection to a "vibrant creative network locally" and their view of Pittsburgh's "scene" for their specific discipline.	54% were rated at the top of the 3-point scale, meaning that they had a positive perception of their creative communities. 9% had uniformly negative perceptions of their creative communities, as measured by the lowest score on the scale.	Community Vibrancy does not appear to be related to audience growth. Note that very few organizations scored in the lowest category on this scale, making any pattern difficult to detect.
Artistic Talent	Artistic talent means that organizations have access to artists and artistic leadership that enable quality and fulfillment of the artistic vision.	The scale incorporates organizations' self-assessments of the degree to which their artistic leadership and artistic talent meets their needs.	No organizations reported inadequate access to talent as measured by the lowest score on the 3-point scale. 81% of organizations rated their talent positively – in the highest category of the scale.	Artistic Talent is associated with audience growth, but does not preclude audience decline. Among artistically strong groups, 50% saw increased audiences, compared to 36% of moderately strong groups. 22% of strong groups had declining audiences, compared to 36% of moderately strong groups.
Innovation Capacity	Innovation capacity means that organizations have the means and inclination to experiment and innovate artistically, positioning them to adapt to a changing environment and sustain quality over time.	The test used organizations' self-assessments of their ability innovate artistically and their belief in the importance of innovation to determine their capacity. Organizations that consider innovation essential to their artistic health and feel able to innovate were scored as high innovation capacity.	39% did not meet the threshold for high capacity for innovation. 61% of organizations both valued innovation and felt they were able to innovate.	Innovation Capacity is associated with stable or growing audiences. Among high innovation groups, 81% of organizations had either stable (31%) or growing (50%) audiences. In contrast, among low innovation capacity groups, 67% had either stable (24%) or growing (43%) audiences.

In this section, we now explore differences across five dimensions: budget size, discipline, age, contemporary/ traditional artistic focus, and racial/ ethnic composition of staff.

Budget size

Mid-sized and very small organizations were found to have some significant differences. Among mid-sized organizations, maturity is evident in their administrative strength and community connections. However, growth is difficult, financials are challenging, and, with a larger organization to maintain, innovation is likely riskier. In contrast, very small organizations are administratively weaker and less connected to the community. Yet they do better on audience growth, have stronger financials, and are better positioned to innovate. These results suggest that these two categories of very small and mid-sized require different approaches to best support them.

High-level discipline

Theatre organizations as a group were the strongest on all metrics. Music organizations were financially weak but stronger administratively. On the artistic side, they were the most disconnected from community. Of the three disciplines, they were the least likely to have grown. Within a small sample, dance organizations were stronger than anticipated based on initial interviews and the size of the dance community in Pittsburgh. The data also suggests that organizations in disciplines with few peers struggle to grow audience, are organizationally weaker, and are disconnected from community.

Age

Younger organizations (under 10 years old) are markedly stronger on audience growth than their older peers. Younger organizations were substantially stronger on all artistic drivers (community, talent, and innovation), and were better off financially as well. Later, we show that younger organizations have more stringent definitions of organizational strength than their older counterparts, and that they appear to meet these more rigid standards as well. These results suggest that younger organizations are an important locus of growth within the larger group of small to mid-sized organizations.

Contemporary/traditional artistic focus

Overall, organizations with a contemporary artistic focus are more successful on audience outcomes than traditional organizations. On artistic drivers, they were also much stronger than traditional organizations, and they did somewhat better on administrative and financial measures. As with younger organizations, these results show that contemporary organizations are an important locus of growth within the larger group of small to mid-sized organizations. There is also substantial overlap with the younger cohort: 63% of the contemporary organizations were under ten years old, compared to 10% of the traditional organizations.

Racial/ethnic composition of staff

Though the sample size is quite small, the data suggests that Black/ African American organizations (defined as those where more than 50% of the staff is Black or African American) have stronger audience growth, but are more likely to have limited organizational resources than White/ Caucasian organizations.

Summary

By analyzing our sample groups along a variety of dimensions, we were able not only to understand small and mid-sized organizations' overall strengths and audience growth patterns, but also to determine if sub-groups of organizations appear to cohere as unique cohorts. TDC observed differences along a number of dimensions that suggest the possibility of cohorts that share common challenges and strengths.

Our initial hypothesis was that discipline would be the most relevant organizing principle. The overall data on strengths coupled with a close look at community vibrancy and the network data (below) compiled in the survey shows that theatre looks like the strongest among these, and also suggests that theater may actually *behave* more like a cohort (as opposed to simply having shared challenges) than the other disciplines. Scale too appears to be a key differentiator – very small and mid-sized organizations appear to be quite different from each other, with mid-sized organizations more strongly positioned in terms of existing networks.[2] In addition to discipline and scale, TDC observed differences based on age and contemporary or traditional content that imply these groups too may be sufficiently different to warrant consideration of customized interventions to address their particular needs. Within these categories, contemporary and younger organizations appear to be potentially better positioned to work as a cohort based on their existing communities.

IV. Pittsburgh ecosystem

Allegheny county's small and mid-sized arts organizations operate within a dynamic cultural ecosystem that contains many assets: wealthy foundations, an extensive higher-education system, mature arts service organizations, and a strong cultural district of large organizations. TDC explored whether any of these entities served as system hubs positioned to implement strategies designed to help other organizations. In addition, TDC wanted to learn whether small and mid-sized groups are connected in ways that facilitate the collaborative production of work, sharing of ideas and perspectives, and adaptation of others' innovations. To explore these questions, TDC first analyzed the nature and scope of creative networks within the target population.

Relationship with the larger ecosystem

In looking at how the target population relates to the larger ecosystem, TDC found that foundations were not only an important aspect of organizations' overall revenue, but also that certain foundations are highly connected to the group as a whole. Pittsburgh also continues to have some government funding for the arts, but corporate funding is much scarcer than foundation or government funding. Universities do not appear to be important to helping organizations secure funding, but they do provide performance space, marketing opportunities, and talent. Arts service organizations (ASOs) have the most impact with marketing support, and help some organizations with fundraising as well. Large organizations provide limited support to small and mid-sized arts organizations. The target population works with similarly-scaled organizations on artistic talent recruitment, space, and marketing.

[2] TDC defined organizations with budgets under $250,000 as very small; budgets between $250,000 and $500,000 as small; and those between $500,000 and $1.5M as mid-sized.

Creative networks

To identify creative networks within our target population, we gathered data for a network analysis. We looked closely to see if any organizations appeared to be "hubs" in the system – those that a large number of organizations cite as close collaborators. We did not observe any prevalent hub organizations for the group as a whole – those that many others frequently identify as engaged in collaborative artistic work with them. Although no organization stood out as pervasive, there were some commonalities among the most frequently named groups: they were presenting organizations that provide space to others, large organizations, performing arts schools and small to mid-sized producing organizations.

TDC also did not observe any "hub" organizations that many others look to as peers that spark their creative thinking. Overall, the results indicated that there are no dominant thought leaders within the group as a whole. Among the most frequently cited organizations were presenting organizations that provide space to others, large organizations, small to mid-sized producing organizations, and theatre organizations. The prevalence of theatre organizations implies that the theatre community specifically may contain some influential thought leaders that could strengthen the discipline's ability to progress artistically.

Sub-group networks

Looking at the collaborative network data by sub-group, dance organizations were most likely to lack close relationships, and music organizations were least likely to have large networks. Theatre was strongly represented among the highly-networked, suggesting higher prevalence of collaboration within the discipline. Traditional organizations were less likely to be highly networked and contemporary organizations are less likely to be isolated. This could imply greater incidence of collaboration among contemporary organizations.

On the "awareness" dimensions, mid-sized organizations seemed to be more likely than others to pay attention to other organizations as artistic influences.[3] Similarly to the collaborator networks, theatre organizations and contemporary organizations were less likely to be isolated from peer artistic influence.

Ecosystem summary

We learned that foundations are the leading connector within the target population, a position of great influence in leading sector-wide conversations. Universities, arts service organizations, peer organizations and the largest organizations are weaker connectors, but their potential to strengthen the system could be explored in greater depth. We did not find evidence that the majority of organizations in the target population have extensive creative relationships with each other or their larger peers. Of the sub-groups that TDC analyzed, theatre organizations appear to be most likely to engage in extensive artistic collaborations and to view other organizations as creative influences.

[3] In the survey, TDC asked organizations to indicate which other arts organizations they have creative relationships with. TDC asked respondents to report connections in five categories that differed in nature and "closeness." The awareness dimension indicates "seeing or learning about their work advances our own thinking."

V. Organizational Characteristics

In this section, we look more closely at how the sample organizations themselves define organizational strength and describe key aspects of their operations. We compare our definition to the target population's self-definition, revealing some intriguing distinctions. Armed with an understanding of how the groups themselves define organizational strength, we then turn to looking more closely at those aspects of their daily operations that distinguish them from larger organizations.

Organizations' view of strength

Survey respondents were asked about the extent to which they agreed with our view of what strong organizations need. Overall, organizations appear to be in broad agreement with the definition of organizational strength. The majority of organizations consider nearly all of the components tested to be critical, with the notable exceptions of balance sheet strength and creative networks. Key insights from the data are summarized below.

- **Sweat equity:** Organizations are mixed in their acceptance of sweat equity as a cost of doing business, with about half considering a living wage critical.
- **Financial strength:** Nearly all organizations believe they should hold themselves to a breakeven standard, but many are less concerned with the balance sheet. Two of the three categories that the majority of groups considered ideal but not critical were operating surpluses and the ability to invest in infrastructure. The fact that smaller organizations are not as concerned with the balance sheet may be appropriate given the scale of the operations and their reliance on sweat equity. At the same time this result also reflects divergent opinions in the field about the importance of capitalization that goes beyond a breakeven annual budget.
- **Administrative strength:** There is general consensus that administrative skills and marketing are critical.
- **Community vibrancy:** Opinions are mixed on this topic; about half of organizations consider a vibrant local creative community to be critical.
- **Artistic Talent:** Nearly all consider talent an important part of health.
- **Innovation:** Many organizations value innovation, but a substantial number do not consider it essential.
- **Audience growth:** Nearly all organizations are resistant to losing ground on audience, but not all organizations consider audience growth necessary to health.

Comparison between younger and older organizations was the factor that revealed a systematic difference of opinion. Apart from operating surpluses, at least 50% of the group of organizations under 10 years old agreed that every component tested is critical to health. Older organizations fell below this threshold not only on operating surpluses, but also on living wages for artists, infrastructure investments, vibrant creative networks, innovation and audience growth. In general, organizations that have been operating for longer periods of time appear to have more relaxed – or perhaps more realistic – standards for organizational health.

Operating Characteristics

TDC began this project with certain assumptions about the ways in which small organizations' operating practices are likely to differ from those of their larger peers. TDC asked sample organizations a series of questions verify and assess the prevalence of these characteristics, which included:

- **Dependence on current leadership:** Many organizations within the target population rely on a specific individual leader to ensure the organization's stability and success.
- **Reliance on personal relationships:** The target population frequently relies on stakeholders' personal relationships to secure basic resources.
- **Dependence on "sweat equity":** The target population relies on free and low-cost labor, space, and other resources to operate.
- **Dependence on community for space:** Organizations within the target population are typically operating at a scale that precludes space ownership, and are therefore dependent on shared space to meet their needs.
- **Persistent scale challenges to marketing and fundraising efforts:** Organizations within the target population have insufficient marketing capacity to raise awareness among potential audiences, limiting their earned income potential. In addition, their development capacity is insufficient to cultivate a transformative donor base, limiting both their contributed revenue potential and overall ability to expand dramatically.

Dependence on current leadership

TDC found that half of the organizations appear to be highly dependent on current leadership. Patterns were similar regardless of age and budget size. Dance organizations had a higher rate of dependence, and theatre organizations had a lower rate. This finding suggests that about half of the organizations in the sample appear to be highly reflective of the work of a specific individual.

Reliance on personal relationships

Organizations use stakeholders' personal networks to secure financial and other resources with more frequency than they use most other strategies or connections. TDC's examination of organizations' use of personal networks highlighted that networking is a core component of small to mid-sized organizations' operating practices. With minimal professional staff and scarce financial resources, personal networks are an incredibly valuable way – and in many cases the most important way – to secure the financial and human resources organizations need. This dynamic also underscores how critical key individuals are for small organizations – if someone who holds many important connections were to leave, the organization could experience a meaningful setback.

Dependence on "sweat equity"

We found that 64% of the organizations surveyed rely extensively on sweat equity, which includes use of free and low-cost staff, artists, space and marketing. This finding was similar regardless of discipline or age, but varied based on budget size. Mid-sized organizations use these strategies less frequently than very small groups; overall the comparative data reflects more professionalized organizations in the mid-sized group. This difference reflects mid-sized organizations' more extensive infrastructure and more sophisticated operations.

Overall, each organization's mix of in-kind support and purchased resources varies, though below-market labor is a large factor for most, particularly on the administrative end. While this is perhaps unsurprising, it has important implications for support strategies. Most critically, it raises the question of whether sweat equity is a challenge, an opportunity, or both in terms of strengthening these organizations.

Dependence on community for space

Just six of the 57 organizations (7%) had their own spaces. As such, the quality and location of small and mid-sized arts organizations' space depends on what is available and affordable in the larger community. This suggests that communal spaces and other ways to facilitate access to appropriate space are critical for small to mid-sized organizations. The Pittsburgh region appears to be doing well in this area, as most organizations were satisfied with their spaces.

Persistent scale challenges to marketing and fundraising efforts

We learned that marketing activities and approaches are typically free or low-cost. The data also showed that some organizations use collaborative marketing strategies. Compared to very small organizations, mid-sized organizations were more likely to used paid marketing strategies, and less likely to engage in collaborative approaches.

We further observed some dissatisfaction with marketing skills and opportunities, with smaller and traditional organizations expressing somewhat more dissatisfaction than the group average. When organizations were asked to describe what would help them to attract larger audiences, marketing funds and access to various tools were the nearly universal response. Unfortunately, making a meaningful difference in awareness through marketing is an expensive proposition that would likely dwarf the budgets of these organizations, though some mid-sized organizations may be an exception to this rule.

On the fundraising side, the data revealed that the small and mid-sized organizations in our sample range from dissatisfied to moderately satisfied with their fundraising skills, though mid-sized organizations were happier if not fully satisfied.   Similar to marketing, it is not clear that most organizations operating at this scale would be able to raise more money than development staff would cost, because the large donors that would be needed to generate the return tend to be attracted to large, sophisticated organizations. Again, mid-sized organizations could be an exception to this rule – though they too may find it hard to penetrate an individual donor market that tends to be attracted to higher-profile organizations.

Organizational characteristics summary

We learned that organizations strongly agree that financial and administrative strength, along with artistic talent, are core components of organizational strength. The ability to innovate and connect to a vibrant artistic community were seen as significantly less critical indicators of strength, but were of great importance to younger organizations (those under ten years old).

We confirmed our starting belief that to mitigate the resource challenges posed by their scale, organizations in the target population are highly reliant on shared space. We also learned that many of the practices that we expected based on scale are common, but by no means universally shared, including reliance on free and low-cost labor and marketing, dependence on leadership, and the use of personal connections to secure resources. We also confirmed that organizations smaller scale may prevent them from engaging in marketing and development efforts that achieve positive return on investment.

VI. Implications and Recommendations

Stepping back from the detailed findings, we observe overarching themes that bring our understanding of the cohort of small and mid-sized organizations into sharper focus. These themes have implications that both funders and organizations should consider. For funders, they have implications for the traditional work of supporting individual organizations through various funding programs designed to target specific outcomes. They also suggest opportunities to develop interventions to strengthen entire cohorts, as opposed to specific individual groups. For organizations, they have implications for articulating challenges and perhaps prioritizing among potential strategies to address these challenges.

Individual organization support

Overall, the key implications of the findings for our understanding of individual organizations can be summarized in the following categories:

- **Scale:** For the group under $1.5M, scale influences organizational health, operational practices, and therefore appropriate interventions.
- **Racial/ ethnic composition of staff**: Most organizations are majority-staffed by individuals who identify as White/Caucasian. A handful of organizations were majority staffed by individuals who identify as Black/African American. There were no organizations that were majority staffed by individuals of another racial or ethnic group.
- **Organizational form**: Our observations about the relationship between age and health, along with the prevalence of organizations that strongly identify with a specific individual, suggest that better support for alternatives to the 501(c)(3) structure might help more individuals and emerging groups to be successful.

Scale

No matter what an organization's size, its scale affects its operating strategies and shapes the most effective ways for supporters to invest in it. Even within the sample's seemingly narrow subset of the overall arts and culture sector, the data consistently reflected differences between very small and mid-sized organizations, particularly in terms of financial health, innovation capacity, networks, and the use of sweat equity. Taken together, the data suggests that the very small and mid-sized groups are profoundly different from each other, and should therefore be treated quite differently in terms of funding approaches and funder expectations.

TDC knows from observation as well as data that mid-sized organizations are less flexible than their smaller peers due to their defined season structures, audience expectations, and meaningful overhead – including payroll.   To make their budgets work, they must constantly seek philanthropic dollars, yet their fundraising reach is limited by both their staff capacity and their lower profile relative to much larger organizations.   At the same time, certain mid-sized organizations seem to punch above their weight, with some having high visibility as both creative influences and collaborative partners. With many of the organizational demands of larger organizations, but fewer of their advantages, mid-sized organizations need to both take capitalization seriously and secure reliable operating support to ensure stability from year to year.   Their challenges in doing so are evident in their poor financial health. Institutional funders seeking to strengthen the ecosystem could help to correct for the inequities in individual fundraising by directing support disproportionately to these organizations.

In contrast to mid-sized organizations, very small organizations are administratively weaker and less connected to the community. Yet they do better on audience growth, have stronger financials, and are better positioned to innovate. Without fixed obligations, very small organizations benefit from the flexibility to scale up and down quickly as circumstances change. Because of this flexibility, they have limited operational risk and therefore minimal needs for capital reserves. Instead, project money that supports their minimal overhead and doesn't strain their limited administrative capacity is most appropriate.

The intersection between scale and financial health in turn influences innovation and risk-taking differently for these two groups. With larger fixed costs and typically little in cash reserves, mid-sized organizations are particularly vulnerable to being trapped by "what works," inhibiting their ability to experiment. One promising strategy, particularly for mid-sized groups, is for funders to provide flexible project money that fully covers the financial risks of an innovative project.

Operating strategies also look different for very small organizations compared to mid-sized groups. Due to sweat equity, we know that small organizations' financials only tell part of the story in terms of the economic value that goes into operating them. For many organizations, the budget would grow substantially if they paid market rates for space, staff, marketing and talent – even with no related change in program output or quality. An organization that wants to professionalize, expand, or have more control over its space faces a daunting challenge to achieve the scale necessary to support increased cash expenditures for staff.

Very small organizations likely do not need to substitute cash expenses for sweat equity to achieve their goals. As such, helping organizations to access low-cost resources more easily would be an appropriate goal for intervention. For example, facilitating access to board members or volunteer candidates with appropriate artistic and/or administrative skills could be beneficial, if hard to implement effectively.

In the case of mid-sized organizations, the appropriate response is more ambiguous. They will need to make use of sweat equity in some areas, while it could undermine them in others. In general, if a particular issue is inhibiting a valued organization from doing its work, funders should consider addressing it. They must bear in mind, however, that funding, for example, a director's salary for one year implies a need to continue to fund it in perpetuity unless the organization can make the case that it can't fund it now but will be positioned to do so in the future.

Scale also affects organizations' opportunity to materially increase revenue by investing in marketing or development efforts. As TDC saw in the data, supporters should not expect very small organizations to be able to achieve this kind of growth in a cost-effective way. These organizations are far more likely to benefit from artistic project funding with an appropriate allocation for overhead than from audience growth initiatives, marketing projects, or capacity-building efforts that are more appropriate for larger organizations. Another appropriate investment for many organizations (even much larger ones!) would be to help organizations develop their skills in using the free and low-cost tools that connect them to their existing base of supporters. Improved email marketing, social media strategies, or the ability to make use of crowd-funding tools could help organizations leverage what they do best more effectively – i.e. putting the art on the stage.[4]

The appropriate approach for mid-sized organizations is less clear. Some may be operating at sufficient scale and with sufficient demand that the type of marketing and development investments that larger organizations make could achieve a positive financial return; this would need to be determined on a case-by-case basis.

Racial/ ethnic composition of staff

Perhaps the most striking finding in this area is the small number of organizations that fall into this category. The limited data gives the impression that these groups have a harder time securing organizational resources. If this is in fact true, perhaps that is a partial explanation for their scarcity. In TDC's literature review, we found several studies that suggested that organizations with Black/African American leadership can struggle to access philanthropic dollars because their markets are much smaller than those of White/Caucasian organizations. If cultural equity is a goal, institutional funders are well-positioned to play a role in correcting the inequity in individual donor markets by purposefully seeding and supporting organizations run by Blacks/African Americans and other under-represented racial and ethnic groups.

[4] Crowd funding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via online platforms.

Organizational form

One of the clearest findings in the data was that younger organizations are both stronger and have better outcomes than older organizations, but the ecosystem contains a large concentration of organizations over 20 years old. A potential point of concern emerges when these observations are considered in light of recent research from the Greater Pittsburgh Arts Council (GPAC) showing that the region ranks last in the number of organizations founded after the year 2000, even though total arts spending is among the highest in the country.[5]

Several factors could be contributing to the scarcity of younger organizations. Perhaps newer organizations are finding it hard to get a foothold in an ecosystem flush with older organizations. Additionally, artists who might once have founded a 501(c)(3) may be taking advantage of more flexible organizational forms and fundraising tools to work on different platforms. If there is activity in the system that that is bypassing the institutional funders, but is an engine for artistic evolution and audience participation in arts and culture, funders might ask themselves whether their funding goals imply that they should seek out and support such activity in whatever form it assumes.

The research also highlighted the fact that about half of the organizations in the target population are more properly thought of as platforms for the work of an individual rather than organizations that have a mission that extends beyond a single person's expression. Whether these individuals are best served by maintaining a 501(c)(3) is a question with a case-by-case answer. Institutions are merely a means to the real end, which is the art on the stage. The need to fund and maintain infrastructure and the implied mandate to build an organization that can perpetuate itself over time can take the individual artists' attention away from the art on the stage and limit their flexibility to evolve and work in new ways with new people. Of course, the need to raise money and promote the work is perennial. However, fiscal sponsorship, crowd-funding, thoughtful institutional support for individuals, and other innovative approaches could give individual artists the opportunity to achieve their artistic goals without the burdens of maintaining a formal organization.

Cohort support

One of the important desired outcomes of the study was to determine whether cohorts of organizations have common challenges to audience growth and artistic evolution that could be addressed with shared solutions aimed at improving the overall environment. In this section, TDC proposes two such initiatives that we believe institutional funders are uniquely positioned to coordinate and support: shared marketing and facilitated cohort groups.

Shared marketing

Regardless of sub-group, organizations agree that their biggest challenge to audience growth is marketing. Due simply to their scale, audience growth is unlikely to be a transformative economic engine for most small and mid-sized groups. It does, however, matter tremendously to organizations for

[5] Greater Pittsburgh Arts Council, *Arts, Culture and Economic Prosperity in Allegheny County PA,* <http://www.pittsburghartscouncil.org/prosperity>

creative affirmation, and it brings value to audiences by exposing more people to a diversity of artistic experience. As such, we believe that interventions that support audience growth do not need to also deliver a net financial return to be worthwhile. Audience members in and of themselves are a meaningful goal, but the barriers to raising awareness and encouraging attendance are high in comparison to small and mid-sized organizations' reach and economic resources.

In response, we propose piloting a group promotion effort that includes a collective branding and promotion strategy, along with tickets sold under a central brand umbrella or made available through a membership that would carry a fixed charge for a specified time period. This approach assumes that awareness, rather than price, is the main barrier to participation. The basic goal of the effort would be to fill small and mid-sized organizations' existing empty seats. Very small organizations may not have the resources to follow up with these new audience members in order to retain them, but mid-sized groups may in fact be able to market directly to this new group of attendees and retain them over time.

A portion of sales revenue would need to cover administration, which could be a significant portion of the total. In a ticket sales model, this would mean that organizations receive only a portion of the purchase price. Those that do not charge for tickets would not have a natural way to contribute to administrative expenses; this would need to be factored in. Under a membership model, organizations might receive a participation offset sized to negate their direct costs, as well as some ticket revenue dependent on the number of redemptions and prevailing ticket prices for those that are not free.

Of course, benchmarking of comparable collective marketing efforts and detailed analysis would be required to determine the overall costs of both the marketing and administration of such a program, as well as the potential revenue for organizations. TDC is confident, however, that considerable ongoing expense will be involved if the efficacy of the idea is to be truly tested. Substantial branding and media expenses, as well as a sustained effort over several years, will be required.

As such, this strategy will require funding from a third party rather than the collective efforts of a group of organizations. Because foundations and other institutional funders value audience growth and are highly connected to these organizations, TDC believes they are uniquely positioned to spearhead and fund an effort of this kind. The initiative could be housed at an ASO that already has some of the core capabilities required to execute it. Universities could be core partners in promotion and distribution. Larger organizations too might be involved in this way.

This type of initiative is not without risk. Funding would need to be incremental to the total funding pool already being provided to these organizations. Otherwise, it could leave organizations worse off by impairing their operating budgets. Organizations, especially more successful ones, could be reluctant to become involved, as a group solution will simultaneously raise the profile of the organization along with those of its competitors. And, despite best efforts, demand could be tepid. Yet, given the pervasive barrier that marketing presents, and the overall scale dynamics that make it impossible for most individuals to solve on their own, TDC believes the potential payoff may well be worth the risk.

Facilitated cohort groups

As noted above, TDC's research implies that the larger group of small and mid-sized organizations shares a few fundamental challenges (particularly marketing). The research also identifies some evidence of more coherent cohorts based on budget size, discipline, age and content. While it appears likely that these cohorts have shared needs, the analysis also shows that active networks and community are nascent at best for most organizations. This implies that collective strategies would not have much of a platform from which to work today. In order to implement group-level interventions, the first step is to build community – admittedly a challenge for organizations that are already spread thin.

In response, TDC proposes establishing a slate of cohort-based coach-facilitated discussion groups, open to leaders and board members of small and mid-sized organizations. The goal of these groups is two-fold. At a minimum, they will provide an opportunity to build and deepen the kind of personal relationships and knowledge-sharing on which these organizations depend to operate effectively. In addition, they could identify very specifically the most acute shared needs within the cohort, and work together to determine whether there are actionable collective strategies that could address them. In contrast to a "pre-baked" initiative, this approach has the considerable benefit of avoiding the trap of funder and consultant-designed initiatives that don't address core needs, but nonetheless attract participation because there is funding behind them.

These discussion groups could be hosted by foundations or ASOs, but agendas should be set organically by the participants. Based on our experience, groups like these tend to be some of the lowest-cost and most effective ways to support organizational leaders. Costs typically include space, catering, and a facilitator and/ or expert speakers. The biggest challenge up front will be securing participation amongst already overworked individuals who may not immediately see the potential value. TDC suggests using this report as a tool to seed discussion and pique interest in forming groups. The handful of organizations that have many connections could potentially become leaders and recruiters for the initial effort. In addition, funders might establish a pool of funds to support proposals for collective projects that emerge from these groups.

While we expect only a few of these groups will take root over the long run, we think it is sensible to try a range of them at first to see what sticks. As a starting point, we could imagine the following groups coming together, though we think that allowing others to suggest groups would also be a good idea.

- **Theatre**, as the most coherent and strongest discipline-based cohort appears ripe to leverage the opportunity to propose collective support strategies.
- **Mid-sized**, which share many challenges related to being "in-between" sized, may be able to work on collective marketing strategies using available audience data.
- **Young Leaders**, who seem to be starting from a strong position but will soon be navigating questions of sustained relevance and growth strategies.

- **Succession Planning**, which is appropriate for older organizations. In our experience, this group may not be well-attended by organizational leaders, but board members could have a strong interest.
- **Traditional Organizations** are challenged by demographic shifts in demand.
- **Contemporary/Modern** groups, in contrast to traditional, may share similar characteristics as their audiences appear to be growing.

VII. Acknowledgements

TDC wishes to thank all those who participated in this study. In particular, deep thanks go to the organizations that shared their candid perspectives through the survey and/or individual interviews. The cultural activity undertaken by these organizations is rich and varied and contributes to the region's vitality. Shedding light on the work of these organizations and promoting effective investment in their efforts is a critical issue for every community. The Pittsburgh region clearly values this sub sector as witnessed by the efforts the Consortium of Small Arts Funders, including the Heinz Endowments, The Pittsburgh Foundation Multicultural Arts Initiative, The Allegheny Regional Asset District, the Greater Pittsburgh Arts Council and The McCune Foundation.

TDC is honored to have been given the chance to contribute to the conversation, and hopes that this report paves the way for continued and robust dialogue and action.