

As the Mission Models Money programme draws to a close and looks to the future, **Clare Cooper** and **Roanne Dods** report on the evidence gathered.

Towards a healthier arts and cultural ecology



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For the past two years Mission Models Money, a national action research programme and campaign for change, has been addressing the challenges faced by individual arts and cultural organisations (A&COs) and their funders in developing mission-led organisationally and financially sustainable businesses. The accumulated evidence highlights many issues that are already well known and some that have barely begun to be understood. The headlines make for uncomfortable reading yet show an appetite for radical change.

Surviving, not thriving

Technological advances, increasing global interconnectedness and shifting public interest and consumer behaviour mean the sector is facing major, permanent structural change.

Hundreds of non profit A&COs, critical to both the historical and contemporary cultural canon, are over-extended and under-capitalised. Often with high fixed costs they are increasingly dependent on annual public sector

grants to survive as patterns in attendance and earned and fundraised income from the private sector change. This scenario, whilst allowing survival, offers very little scope for the fundamental transformation of organisations into responsive, adaptive, sustainable, mission-led businesses delivering cultural excellence to a wider general public. Given the rapidly accelerating change in the external environment, this ability to transform has never been so essential.

Technology laggards

Many A&COs are being too slow at responding effectively to the rapidly changing external environment, especially the shifts in the way the wider public are engaging with cultural experiences and threats and opportunities brought about by new technology.

Often small scale and under-capitalised, they have insufficient resources to develop and implement an effective technology strategy. As a result they are unable to meet the high costs of gaining access to new delivery platforms to innovate and develop new services. They also tend to be poorly informed

of changes in technology, which are happening at an increasingly rapid pace, making it difficult for them to respond quickly and effectively to the changes in market conditions and new business opportunities brought by these changes. Given that the strategic understanding and exploitation of technology innovation is an increasingly important factor in their future viability, it is vital now to bridge the communication and research and development divide between A&COs and the technology sectors, and enable them to drive, develop and exploit the potential of new technologies.

Knowledge ability

There are significant knowledge gaps in key areas that could help some organisations achieve greater sustainability. Relatively few are familiar with methods of financing which extend beyond the mainstays of grants, fundraising, ticket sales and other earned income, or alternative legal structures and business models that may offer a better environment for the delivery of mission, or the role that new technology could play both in back office functions and front of house. Some core competencies that relate to the existing modus operandi, such as

governance of a traditional charity model, need serious attention across the sector. Outside the relatively well-resourced albeit small number of super tankers who ply the sector's seas and reign our 'commanding heights' there are major capability issues in key areas such as finance, fundraising and the increasingly diverse and complex world of audience and community engagement. And it is not just in existing frameworks of competence that we need to make a step change. As Graham Leicester¹ points out, we need to develop new competencies to manage the increasing complexity and rapidly accelerating change of our world.

Re-calibrating misalignments

It is by no means only A&COs that face challenges of responding to change faster and driving up performance. The original missions, roles and structures of the dominant public funding agencies and some intermediary organisations may not be best suited to the cultural and political realities of our time and there is still an insufficiently challenging public conversation about the

infrastructure and funding environment currently supporting the arts. Recent papers by John Knell and Margaret Bolton and David Carrington² are attempting to raise the temperature around this.

There is a plethora of publicly funded business development support on offer in most regions, largely focusing on sole trader, start-up or commercial creative industries, but not so much on the business development needs of mature non profit A&COs. Quality issues are being raised and there is confusion about what's on offer. Questions about whether primary public funders should be the ones to deliver capacity building support are being asked, and preferences are being expressed for access to non-partisan sources. Publicly funded agencies charged with capacity building or acting as intermediaries are not responding to the task fast enough, nor are they employing the people with the right skills and competencies to do it.

True or False?

The publicly funded agencies in my region offer the services and expertise I need to develop organisational and financial sustainability.

Go to www.artspromotional.co.uk to answer this and other questions in the MMM consultation.

With the help of around 270 practitioners, the majority of them volunteers, the MMM initiative has delivered a seven-stranded programme involving:

- **the support, investigation and evaluation of seven diverse exemplar projects in organisations undergoing radical change in working practices.**
- **seven widely disseminated provocation papers commissioned to catalyse debate on key issues.**
- **twelve nationwide road shows on governance and developing financial capacity.**
- **engagement of existing social lenders and arts and cultural organisations in an investigation into the potential for greater use of new and alternative financial instruments in the sector.**
- **nearly thirty case studies giving examples of how arts and cultural organisations can move towards greater organisational and financial sustainability.**
- **more than twenty advocacy and dissemination events on the topics of new technologies, intelligent funding, corporate social responsibility and the ecology of the arts, and several high profile features in Arts Professional.**
- **a popular and extensive website signposting relevant information, sharing documentation as it emerges from the programme including leading-edge management tools under a creative commons licence.**

www.missionmodelsmoney.org.uk

► Structural tensions

New hybrid business models are emerging, demonstrated by a growth in the number of freelancers, facilitators, networkers and producers, but these are not easily corralled into the forms most often required for recognition by the infrastructure agencies and funding communities, who continue to take the view that non profit institutions should be the major beneficiaries of public support. A broader array of institutional and non-institutional forms could provide wider access and help build universal recognition of the value of arts and culture among diverse publics, but there is currently too much concentration by funders on support for traditional structures. Churchill said, "We shape our buildings, and afterwards our buildings shape us". In the same way, our organisational structures and our financial structures influence our behaviour, as do our mindsets. Cultural policy itself defines structures that discourage or encourage certain behaviours and the ecology of funding has a profound effect on the ecology of the arts.

Jim Collins³ observes that one of the traits that enables good companies to face adversity and transcend into great companies is the capacity of its management team to stoically face the brutal facts of reality whilst on the other hand maintaining an unwavering faith in the endgame and a commitment to prevail as a great company. Despite the brutal facts our sector faces at this time we have found a real appetite for radical change from within the sector. Route maps are as yet inadequate, but opportunities for positive transformation need to be exploited by all the different players now if we are to design for transition into a healthier arts and cultural ecology. ■

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¹Graham Leicester, 'Rising to the Occasion: Cultural Leadership in Powerful Times' at www.missionmodelsmoney.org.uk

²John Knell, 'The Art of Living'; and Margaret Bolton and David Carrington, 'New and Alternative Financial Instruments', both at www.missionmodelsmoney.org.uk

³Jim Collins (2001) 'Good to Great and the Social Sectors', Random House

Driving up performance

There are major capability issues relating to the core competencies currently required to drive up organisational and financial performance. Given that the prevailing mindset in most organisations identifies training as one of the first areas to be cut when budgets are tight, the consequent lack of investment in people and skills development is at the root of many issues that dominate the sector.

Some of the solutions certainly lie in upskilling in key areas such as finance, fundraising and public engagement activities, and in leadership development; but there also needs to be a focus on identifying new, emerging competencies which will help manage the complexity around us. In a wider context, and not only relating to the arts, research in the workplace suggests that 60% of positions now require a range of multiple intelligences that only 30% of the population possess. We need to start understanding what these might be as there is

evidence that our existing leadership group is hiring the wrong people with the wrong talents to the wrong job specifications.

The lack of sophisticated financial knowledge and skills within A&COs at both executive and non executive levels, and indeed among funders, is a widely recognised feature of the sector. We have found that the financial dynamics of non-profits are not well understood either at Executive or Trustee levels and there is an urgent need for both A&COs and funders to deepen their understanding of capital structure. Appropriate financial information at a strategic level is not often available, and many people in senior positions cannot read a balance sheet. There is often an inability to distinguish between bidding for funds and business planning, especially on capital projects, with both funders and A&CO's colluding on this.

In relation to IT, recent studies reveal below average understanding and engagement with IT at all levels of operation. And this is not only affecting back office functions. Interviews with artistic directors paint a picture of thwarted aspiration: ideas are not limited by imagination or lack of ambition, but by a lack of inclusion in formal strategic documentation; budgets and capacity planning; and organisational development thinking.

Many of the barriers to adapting to the changing external environment lie at the top end of the food chain with the incumbent Chief Executive Officer or equivalent, and with Trustees. This existing leadership group is trapped in old ways of thinking: 'fixing not transforming'. With regard to governance we have found that behaviours generally are not changing fast enough to reflect the new operating context where the challenges are of a different order to those in the past. All too often boards operate in such a

collegiate, consensus-driven manner that individuals are uncomfortable in challenging management or questioning inconsistencies or the quality of information they receive. Trustees also need to regularly revisit the relevance of the mission of their

organisation and become more aware of 'mission creep' being forced upon them by funders and other stakeholders.

At the same time where best practice does exist it is not sufficiently shared across the sector and is very slow to be taken up. For example, relationship-building strategies continue to be compartmentalised internally into 'audience development', 'fundraising' and 'education', thus preventing more holistic engagement strategies, and whilst there is a growing willingness for more effective horizon planning to manage accelerating change, there is generally inadequate time allocated to this. ■

True or False?

I am investing sufficient resources into developing the relevant financial and organisational competencies of my team and the knowledge and skills of my Trustees.

Go to www.artspromotional.co.uk to answer this and other questions in the MMM consultation.

Influence the future: take part in MMM's final consultation

Go to www.artspromotional.co.uk to give your response to the key issues facing the sector

Financing the future

Much of the MMM programme has focused on exploring how A&COs can become more organisationally and financially sustainable, and one of the programme's most important strands has concentrated specifically on 'intelligent funding'. To get to the heart of the issue, interviews and focus groups took place with trusts and foundations, individual philanthropists, the corporate sector, the public sector, the social investment community, leaders and board members of A&COs, senior development professionals working at differing scales, groups of producers across all artforms, advocacy organisations, and policy makers. Three overarching concerns emerged:

- Poor alignment of missions between funders and A&COs is helping to drive the over-extension and under-capitalisation of the sector, stalling healthy growth and diverting A&COs from being mission-led.
- A&COs are under great pressure through funders' preferences for funding programme activity over core costs and for short-term funding agreements, their tendency

to penalise reserves, and their failure to accept full cost recovery.

- The shape, distribution and flow of financial resources have a dramatic effect on the behaviour of individuals, organisations and communities. At a time when the wider voluntary sector is developing new forms of financing, most A&COs remain heavily dependent on grants and income from fundraising.

A few simple changes to funding practices could make a big difference to the sector's chances of achieving financial stability. Here are some of the suggestions made in the MMM Provocation 'The Art of Living'.

- 1) Just as it is important for A&COs to be clear and strict on mission focus, so too should funders articulate clearly why they fund what they fund and relate this to their decisions. When funders have doubts about the quality of delivery, they should be prepared to make rigorous decisions on the allocation of funding.
- 2) They need to encourage the deepening of organisational and financial capacity in the funded, discourage a dependency culture and

encourage autonomy, not penalise it.

- 3) It is essential to fund core operations, not just the marginal costs of programmes. The price of contracts and value of grants must reflect the full costs of delivery, including a legitimate portion of overhead costs.
- 4) Funded organisations or individuals should be judged on their delivery against a clear mission, and funding should be withdrawn or increased based on delivery against mission rather than other secondary criteria.
- 5) The complex, fragmented, diverse, multi-relationship nature of the financing system, and the cost of accessing it, is burdensome and discouraging for too many people and it takes a heavy toll on our human capital. It's time to recognise this.

The negative impact of the parent/child relationship between public funders and those A&COs that are heavily dependent on public sector grants is a problem, and there is little evidence of a will on either side to change the dynamic. Funders are sceptical of A&COs' ability to understand the parameters and boundaries they are working within and therefore unable to build trust, while

True or False?

My organisation is free to make decisions without pressure to conform to the wishes of funders.

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A&COs believe that any challenge they make to the authority, mission and methods of their funders will result in a reduction or withdrawal of funds. Some of the changes recommended above, and in other areas of governance and capacity building, would go a long way to building trust and renewed confidence in risk-taking between public funders and A&COs. It is also important that more time is devoted to exploring alternative forms of finance which extend beyond the mainstays of contributed and earned income. Scepticism about these, as well as core capacity issues within A&COs, will need to be addressed if the sector is to survive and prosper in an ever more competitive funding environment. ■

New methods, new models

“You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.” R. Buckminster Fuller's quote is radical, but we are living in a time of major permanent structural change in our sector driven by the accelerating change and complexity in our external environment. We need to develop new structures and models to respond to that changing environment.

True or False?

I feel that the charity model is restricting my organisation's capacity to become more financially sustainable.

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The current status quo is insufficiently flexible and adaptive in the contemporary operating environment. Charitable status, the legal structure almost unquestionably adopted by most non profit A&COs, is risk averse and fails to promote the spirit of the entrepreneur as it imposes legal limitations that encourage conservatism. Inevitably this works against the spirit of creativity, artistic risk and dynamism that we need if we are to develop a healthy

arts and cultural ecology. The master/servant dynamic, as it is described by some, lies at the heart of the charity model, with Trustees in ultimate authority. This has a tendency to create command and control structures which are losing ground in an age where flatter more networked organisational structures are becoming the norm.

Pressure is also being brought to bear on our traditional ways of organising as the boundaries between 'for profit' and 'not for profit' creative industries blur. Low wage scales, coupled with perceptions that the not for profit sector is insufficiently open to new ideas and working styles and lacks technological savvy, mean the sector could become insufficiently attractive to an ever shrinking talent pool. Additionally, major fixed assets such as buildings are becoming increasingly expensive to maintain, let alone programme, at a time when patterns of public and private funding and earned income revenues are changing.

New methods of operating are already appearing, mostly outwith the traditional subsidy framework. With the advent of Community Interest Companies (CIC) in particular there is a possibility for A&COs to operate commercially and on a non profit distributing basis. Watershed in Bristol, one of MMM's Exemplar projects, has been in the process of setting up a CIC to operate alongside its trading and charity



Watershed: exploring the CIC model

structures. New legal structures such as CICs will be suitable for some organisations only at certain points in their lifecycles; new ways of working, however, involving strategic alliances, shared services and joint procurement activities for example, offer broader potential for organisations delivering complementary activities to work together. Another MMM Exemplar project involved a group of independent museums in Yorkshire working together to raise funding, and there is interest in such alliances extending to front of house activities as well as back office functions, especially in the education and learning programme areas. Looser, more adaptive organisational forms, need to be encouraged now by funders and supported by those agencies responsible for organisational development. ■