# Strategic Planning in the Arts: A Practical Guide

## Internal Analysis

### The Management Audit

*The internal analysis reveals an organization's most salient strengths and weaknesses. An honest appraisal, or "audit" of company operations, coupled with a revealing environmental analysis, provides a strong foundation for creative strategy development.*

While the external analysis suggests the constraints and opportunities presented by the environment, the internal analysis reveals the strengths and weaknesses of a particular organization. Matching the results of the internal analysis with the requirements for success revealed in the industry analysis identifies those areas of strategic concern. If one key for success for a modern dance company, for example, is a strong touring program, a non-touring organization must address this shortcoming explicitly in its strategic plan. Conversely, a company with a thriving tour program should strategize to protect this important asset. This does not imply that every modern dance company should have the same strategy or should aim to operate in one prescribed manner. Rather, a modern dance company that cannot, or chooses not, to tour must accept the consequences of that decision.

As with peer company analysis, each element of the company's operations should be scrutinized. While it is obviously easier to obtain more data for internal analysis than for peer company analysis, it is far more difficult to interpret that data objectively. Some organizations rationalize away any negative reviews, fund-raising shortfalls, or earned income problems. Others are too critical of their own capabilities, believing that other organizations do everything better. An honest appraisal of weaknesses and strengths must be developed; nothing is gained from being overly generous with praise nor is there any point to self-flagellation.

The most effective way to perform an internal analysis is to conduct an "audit" of operations. This evaluation creates a profile that can be compared to that of a "typical" arts organization. While no two arts institutions mature in exactly the same manner, many develop in a similar series of stages:

**STAGE ONE: THE DREAM**

Virtually every arts organization begins as the dream of a visionary. The goal may be lofty ("providing access to great art to people of all backgrounds") or more personal ("providing an opportunity to show my work") or some combination of the two.

Artists who decide to leap into self-production will follow very different paths depending upon two vital characteristics: talent and money. Great artists, at least those who are perceived by the world as great artists, can build an earned income base and, eventually, a contributed income base as well. Those artists with sufficient financial backing can "buy" some measure of success. These lucky few (and they are getting fewer and fewer each year) can establish a Board of

Directors, receive bookings, sell tickets and raise funds. If they approach these activities in an organized manner, they can mature in a rather painless fashion.

But most artists who launch organizations do not have this bounty and must start with little acclaim and less money. They will typically save up for one initial project, frequently with the support of family and friends. The project goes well, everyone offers positive feedback (except, perhaps, the critics, who may pay no attention whatsoever) and the artist is convinced that the applause will go on forever.

## STAGE TWO: THE REALITY

Then reality sets in. All funds were used for the first project. No one is knocking down doors to offer bookings or money. And the thought of doing it all again is daunting.

Many artists stop at this point and return to employment with an established arts organization. Others persevere and enter a critical stage in the development of their companies: they come to appreciate the non-artistic elements of arts production. Marketing, fund-raising, tour booking, finance, Boards of Directors, and even planning become real and important.

How the artist copes with this set of issues will determine, in many respects, the way the company will develop. Creating a strong Board that can provide and solicit funding and can help address administrative requirements is crucial. Building an arts organization is expensive; without access to substantial resources of their own, artists must rely on others. Typically, artists will limp along from season to season, without significant growth in support, ticket sales or artistic scope. In fact, most start-up arts ventures become mired at this stage and then eventually evaporate from lack of funding or persistence.

The fortunate few who can attract a strong Board, who can make an impression on critics and audiences, who can begin to receive support from foundations or corporations (usually through Board contacts) and who can make it through this arid period with determination intact will enter the most exciting phase of their organizational careers.

## STAGE THREE: GROWTH

After several years of presentations, a well-managed, successful arts project will enjoy a level of demand, a degree of visibility and a base of support that provide the seeds of a lasting organization. Typically, at this time, gifts from individuals grow substantially, foundation support and government grants commence, and touring opportunities increase. This confluence of visibility, institutional support and earned income growth allows the organization to flourish. The hard work of the Board begins to pay off, money flows more freely, the administrative infrastructure can be strengthened, and management looks like a group of heroes.

## STAGE FOUR: STAGNATION / CRISIS

The euphoria of the growth period comes to a crashing halt when the company has maximized its income from funders, the Board members are no longer increasing their gifts to match the organization's budget growth and earned income hits its peak (especially if the artistic programming loses its "edge").

Suddenly, the rapid annual increases in expenses enjoyed during the growth phase are no longer matched by increments in revenue. Since this turn is rarely anticipated, arts organizations typically incur one to three years of deficits during this stage. If the deficits are large enough, they can erase all accumulated surpluses and even threaten the life of the organization. The lack of a financial cushion is perhaps now most evident; the organization is as famous as it ever was but it is in danger of extinction. Management invariably is blamed, the Board grows frustrated, the artistic mission is ignored and cash flow becomes the central topic of every conversation.

These problems call for substantial institutional change - improving development capability, building institutional visibility, strengthening the Board, etc. Organizations that recognize this are in a good position to move past the crisis point. Those who fail to see the need for change, or who believe they can grow stronger by continuing to reduce budgets, tend to wither away.

## STAGE FIVE: THE INSTITUTION

Organizations that emerge from the crisis (and the rare few able to avoid it altogether) can become true institutions with the Board and staff needed to foster consistent artistic accomplishment and the earned and contributed income base needed to support program development.

These institutions are not immune to problems and must stay aware of environmental changes. But with the proper mix of artistic and administrative leadership, and the oversight of a strong, continuously evolving Board, these organizations have the potential to weather crises by building financial structures, including endowments, that provide long-term stability.

## COMPARISON CHARTS

While each arts organization develops in its own unique way, this normative model provides a context for internal analysis. Indeed, by isolating ways in which an arts organization strays from this typical path, one can learn a great deal about its idiosyncrasies: both its peculiar strengths and weaknesses. These revelations form the heart of the internal analysis.

# ORGANIZATIONAL STAGES OF DEVELOPMENT COMPARISON CHART

| | STAGE ONE<br>The Dream | STAGE TWO<br>The Reality | STAGE THREE<br>Growth | STAGE FOUR<br>Stagnation / Crisis | STAGE FIVE<br>The Institution |
|---|---|---|---|---|---|
| **PROGRAMMING** | Self-Produced<br>Single-Project Focus<br>Artist-Driven | Self-Produced<br>Single-Project Focus<br>Artist-Driven<br>Company Size Remains Small | Increased Touring<br>High Production Values<br>Increased Program Resources<br>Earned Income Increases | Earned Income Levels Off<br>"Fundable" Projects Developed<br>Programs Retrenched | Vital / Well Rounded Programming<br>High Production Quality |
| **FUNDING** | Personal Funds<br>Friends / Family<br>Minimal Fees From Presenters | Limited Foundation Funding<br>Small Gifts from Individuals<br>Corporate Matching Gifts | Large Individual Gifts<br>Initial Government Funding<br>New / Larger Foundation Support<br>Corporate Gifts<br>Membership Drive | Institutional Sources Maximized<br>Board Unable to Increase Personal Gifts | Stronger Support From Individuals<br>Planned Giving Programs<br>Multi-Year Institutional Gifts<br>Access to Corporate Underwriting |
| **MARKETING** | Word of Mouth<br>Cards / Posters<br>Modest Ads if Any | Word of Mouth<br>Cards / Posters<br>Modest Ads if Any | Advertising Program Initiated<br>Group Sales<br>Subscription Program | Marketing Program Cut to Reduce Budget | Institutional Visibility Required<br>Better Packaged "Product" |
| **FINANCE** | Cash-Driven | Bookkeeping Required<br>Need to "Manage" Cash<br>Annual Budgets | Careful Budget Preparation & Monitoring<br>Financial Reporting Improved | Expenses Greater Than Revenues<br>Substantial Payables Accrued<br>Board / Bank Loans to Meet Cash Flow Needs<br>Financial Analysis Refined | Stabilization Tools Required<br>- Cash Reserves<br>- Endowments<br>- Real Estate |
| **BOARD** | Small<br>Friends of Artistic Director<br>Serve Legal Needs<br>Volunteer Staff<br>Some Financial Support | Small<br>Friends of Artistic Director<br>Serve Legal Needs<br>Volunteer Staff<br>Some Financial Support | More Financial Support<br>Effort to Identify Funding Prospects<br>Committees Formed | Financially "Tapped Out"<br>Inadequate Access to Gifts<br>Demand Cutting Costs<br>Board Feels Ineffective | Maturing / Improving<br>Organized Committees<br>Accepts Fundraising Responsibility<br>Monitors Financial Performance Closely<br>"Experienced" Board Members |
| **STAFF** | No Administrative Staff<br>Artists / Board Do Everything | No Administrative Staff<br>Artists / Board Do Everything<br>Some Staff May Be Required | Staff Departments Formed<br>Greater Staff-Board Activity | Staff/ Board Tensions<br>Survival an Issue Again<br>Morale Problems | Formal Management Structures |

Another method of isolating differences is to produce an analysis that reveals how one's own organization and one's peers differ from industry norms for selected important parameters. Each industry association (e.g., American Symphony Orchestra League, Association of Art Museum Directors, etc.) publishes substantial data for the industry and for individual organizations. This data can be used to compare financial performance, allocation of resources, staffing levels, funding sources and the size of endowments and other long-term assets.

The parameters selected to compare should depend, in great measure, on the results of the environmental analysis (e.g., Is an endowment crucial in this industry? Is developing a base of corporate support important?).

For example, in 1993, the Museum for African Art in New York had an income distribution that differed markedly from other art museums:

THE MUSEUM FOR AFRICAN ART COMPARED TO OTHER ART MUSEUMS SOURCES OF INCOME (1993)

| **ART MUSEUMS** | | **MUSEUM FOR AFRICAN ART** |
|---|---|---|
| **18%** | **Endowment Income** | **-** |
| | | |
| **22%** | **Earned Income** | **43%** |
| 6 | Admissions | 5 |
| 1 | Concerts / Lectures / Films | - |
| 6 | Store | 9 |
| 1 | Restaurant | - |
| 1 | Tuition | - |
| 1 | Participation Fees | 25 |
| 2 | Special Events | - |
| 4 | Other Earned | 4 |
| | | |
| **60%** | **Contributed Income** | **57%** |
| 18 | Individuals | 20 |
| 9 | Corporations | 1 |
| 9 | Foundations | 13 |
| 18 | Government | 24 |
| 6 | Events | - |
| | | |
| **100%** | **TOTAL** | **100%** |

This analysis reveals the Museum for African Art's reliance on renting its exhibitions to other museums and on government funding. Given the precarious nature of government funding and the increasing competition for exhibition rentals, the Museum for African Art faced the challenge of building its contributed income base.

## THE AUDIT

Having identified the key areas of concern, one can then proceed to gather the internal data that will prioritize these problems and will provide clues to the strategies needed to solve them. The list of generic questions provided below should serve as a useful guide in this process.

### Programming

The mission of every arts organization focuses most closely on programs and services. It is essential that an honest appraisal of program quality and effectiveness lead off an internal analysis.

- What is the nature of the programs offered by the organization?
- Who is served by each program?
- How strong is each program?
- How well is the company received by its audience at home? On tour?
- How well is the company received by critics?
- How does this compare with the peer companies?
- How could each program be improved?
- How much does each program cost?
- How does this compare with the peer companies?
- How are these costs split between personnel and other categories?
- Who is the dominant artistic force?
- Is he/she satisfactory?
- What are the backgrounds of the artists/performers/curators?
- Is there a succession plan in place for artistic management?

### Education/Outreach

As noted in the environmental analysis, the importance of education and outreach programming is growing. Many arts organizations have a true commitment to their communities; others are more concerned with their image with funders. It is becoming increasingly difficult to "fool" funders into believing that superficial efforts deserve serious funding.

- What educational programs are in place? How broad an audience is reached?
- Is there a specific outreach goal?
- Is there an explicit outreach strategy?
- What are the elements of the outreach activities?
- What internal or external expertise is drawn upon to guide the development of education and outreach programming?

**Earned Income (For Performing Organizations)**

Earned income, revenue derived from the organization's performances, schools and other programs, is a measure of the demand for its services. The portion of a budget covered by earned income differs substantially between art forms and between organizations within each area of the arts. While there is no specific target one can set for arts groups as a whole, comparing earned income to one's peer companies can be instructive.

- What percent of income is earned?
- How does this percent compare to industry average?
- Why does this difference occur?
- What percentage of capacity is filled?
- How does this compare with the peer companies?
- Has the company been building its subscription base?
- How does the percentage of seats sold on subscription differ from peer companies?
- How is the subscription renewal program managed?
- What percentage of subscribers renew their subscriptions?
- Has this changed over time?
- How do ticket sales vary with repertory selection?
- Who purchases subscriptions? single tickets? groups?
- What are the sources of non-performance earned income?
- How has non-performance earned income changed over time? Why?
- How important is touring revenue?
- How do touring expenses compare with touring revenue?
- How has the annual tour changed? Why?
- How has the quality of tour dates changed?

- How difficult is it to book tour dates?
- Who is responsible for tour booking?
- How do peer companies' touring programs compare?

**Earned Income (For Non-Performing Organizations)**

Arts organizations without performances - museums, galleries, associations, etc. - typically earn a far smaller portion of their budgets, placing great strains on fund-raising and heightening the importance of endowment income. This does not imply that earned income is unimportant for these organizations; in fact, many museums have been working diligently to increase store, restaurant and other earned revenue to support increasing costs.

- What percent of income is earned?
- What are the sources of earned income?
- How does this percent compare to industry average?
- Why does this difference occur?

**Other Income**

As increased attendance-related income becomes harder to achieve, many arts organizations are attempting to build other types of earned income. Many of these efforts are time-intensive but do not contribute substantially to total revenue. The time and effort devoted to these endeavors must be monitored to ensure that they do not dilute the more productive operations of the organization.

- Does the organization have sources of income other than ticket sales and fund-raising?
- Does the organization sell program advertising?
- Does the company rent its sets and/or costumes?
- Does the organization rent out space?
- Have these sources of income grown?
- How much time is devoted to these activities?
- What other sources of income can be cultivated?

**Marketing**

Environmental analysis suggests the importance of visibility for building earned income *and* contributed revenue. Inadequate earned income frequently results from a marketing problem. Cost can also be a determining factor. Several major dance companies, for example, have very high name recognition but low levels of earned income; the cost of presenting these companies outstrips the audience's ability to pay for them. Even "famous" organizations can have a visibility deficit. Visibility does not simply imply name recognition; visibility comes to those organizations that are doing exciting things and attract on-going attention. Understanding the resources that build visibility is central to a strong internal analysis.

- How visible is the organization? at home? regionally? nationally? internationally?
- Which approaches to marketing have been tried?
- Which of these have been the most effective?
- Which are the most cost effective?
- What percentage of earned income is spent on marketing?
- How does this compare with the peer companies?
- How strong is the marketing staff?
- How well do you understand the demographics of your audience?
- How have audience demographics changed?
- What is the size/characteristics of your potential audience?
- When was the last time the audience was surveyed?
- What does the audience want to see/hear?

**Development**

Few arts organizations are completely satisfied with their fund-raising activities; the feeling that there is always "more money out there," and a compelling need for that money, drives most organizations to evaluate their development efforts closely. In fact, most organizations devote more attention to their development efforts than to other operations when performing internal analysis.

Evaluating both the portion of the total budget covered by contributed income and the relative importance of each revenue source is an essential part of this analysis. Comparing these statistics to peer companies, and to the industry as a whole, can be very instructive.

Many organizations of color, for example, tend to receive a higher proportion of funding from government and foundations then from corporate and individual donors. While there is nothing "wrong" with this distribution, it does raise some important questions about the security of government funding, the ability to attract additional foundation funding, and the need for added visibility to build corporate and individual gifts.

- How has marketing strength/weakness affected the fund-raising effort?
- How are contributed funds distributed among individual, corporate, foundation and government donors?

- How do these percentages compare with peer companies?
- Why do these differences exist?
- How much revenue comes from support groups (e.g., guilds)?
- Which approaches to fund-raising have been tried?
- Which have proven to be effective?
- What percentage of revenue must come from development efforts?
- How has this percentage changed?
- How does this ratio compare with peer companies?
- How has the development effort grown?
- What is the dispersion of the gifts? (Starting with the largest donors, how many does it take to add up to 25% of total fund-raising? 50%? 75%?)
- Has a special capital campaign been mounted recently?
- How effective was it?
- How did the special campaign affect the annual campaign?
- How strong is the development staff?
- How active is the Board in fund-raising?
- How much does the Board contribute?

**Board of Directors**

For most organizations, the Board of Directors represents the most important fund-raising tool. An effective Board is a requirement for long-term, consistent success in the arts.

- Who is on the Board?
- What are their backgrounds?
- How strong is the Board?
- What skills are present on the Board?
- What skills are lacking on the Board?
- What are the requirements of Board membership?
- How does this compare with peer companies?
- Are all of the communities served represented?
- How does your Board compare with other Boards in your city?
- How involved is the Board in operations?

- How involved is the Board in fund-raising?
- How effective is the Board in fund-raising?
- What Board committees have been created?
- Do they meet?
- Are they effective?
- How important is the Executive Committee?
- How are members of the Executive Committee selected?
- Is there a succession plan in place?

**Staffing**

While the strength of the Board is a central determinant of any organization's success, it remains with professional staff for all but the smallest arts groups to implement major initiatives. A careful analysis of the staff size, structure and quality is a key element of any internal analysis.

- How large is the administrative staff?
- How does this compare with the peer companies?
- How do salary levels compare with industry averages?
- How is the staff organized?
- Are roles and responsibilities explicit?
- How rapid is turnover? Why?
- What is the total cost of administration?
- How does this compare with peer companies?
- What is the experience level of the staff?

**Facility/Equipment**

The development of many institutions is limited by the physical facilities available to them. A museum's exhibition space, a dance company's studios, all organizations' office space, etc. are central assets that, in many instances, define the boundaries of growth.

- Are the performance/exhibition/public programming facilities adequate?
- What needed facility is lacking?
- Is rehearsal space/collection storage space adequate?
- Does the physical facility limit achievement of the mission?

- Is office space satisfactory?
- How expensive is the facility to own/rent/maintain?
- Is office equipment/technology satisfactory?

**Financial Performance**

A substantial portion of the internal analysis should be devoted to understanding the financial structure and strength of the organization. Invariably, a considerable portion of the plan will deal with methods for building financial strength; a clear picture of the current position is essential. Financial analysis will also indicate how the organization's resources are used. Comparing this analysis to industry averages or to peer organizations will raise important questions regarding the appropriateness of current resource allocation decisions.

- Has the organization developed a financial profile?
- How does its fiscal strength compare with peer companies?
- In which areas does the organization over-spend?
- In which areas does it under-spend?
- How does revenue compare with expenses? How has this changed?
- Does the company have an endowment?
- Does the company have a working capital reserve?
- How liquid is the company?
- How much debt does the company carry?
- How has this level changed?
- Does the company have an accumulated deficit?
- How has it changed?
- Does the company have a cash balance?
- How large is the company's line of credit?
- At which times of the year is cash flow a major problem?
- Are these times predictable? manageable?

**Support Groups/Volunteers**

Many arts organizations have extra-Board groups of supporters who raise funds, volunteer their services and serve as champions for the organization. It is becoming increasingly difficult to find and motivate volunteers as more and more people work outside the home. Yet a strong volunteer corps can have a profound impact on the organization.

- Does the organization have a guild or other support group?
- What is its charter?
- How much money is raised by the group?
- How does this compare with peer companies?
- How much staff effort is required to manage the group?
- Does the company have an active corps of volunteers?
- How effective are these volunteers?
- Could additional volunteers be used effectively?
- How are volunteers solicited? managed? rewarded?

**Summary**

Once again, it is essential to stress that these questions are simply meant to guide the internal analysis process; they do not address every issue that will face every arts organization, especially those in unusual situations.

In fact, the answers to these and other questions do not comprise the internal analysis. Rather the insights gained from analyzing the answers should generate a list of strategic issues to address in the plan. In completing an internal analysis, it is important to prioritize these concerns. The key strategic issues will usually relate to the success factors in the industry. Office furnishings are rarely an industry success factor, thus they are not likely to be of strategic importance (although a lack of office space may be an important tactical issue.) However, the lack of strong fund-raising skills, inadequate attendance or an exceptionally high cost structure will be of strategic concern.

A list of major issues can direct the remainder of the planning process. Indeed, the strategizing process is simply a matter of "solving" the issues raised in the external and internal analyses in an integrated manner. This implies that the list must be complete, honest and accurate, or the entire plan will be less effective. If issues arise during the strategizing process that were not revealed during the external and internal analyses, these analyses were not completed in a comprehensive manner and must be revisited. A weak internal analysis threatens the integrity of the plan; a solid internal analysis, coupled with a revealing environmental analysis, provides a strong foundation for creative strategy development.