Haves and Have-Nots: *Investment Capital among Performing Arts Presenters in the United States*

Mark A. Hager, Thomas H. Pollak

Some organizations are wealthier than others. That is, regardless of the number of dollars they earn and spend each year, some organizations have a surplus of cash or other assets that generate income and protect them against financial downturns, and some do not. The wealthiest of organizations have so much reserve that the income generated from the reserve is sufficient to cover all of their spending needs. In contrast, some organizations live from paycheque to paycheque and derive none of their income from investments. Just as people can sometimes be divided into the haves and have-nots based on their wealth, so can organizations. Some organizations have either made the strategic choice or had the good fortune to be able to develop a reserve for investment, while others have chosen not to or simply have been unable to develop such a reserve.

Many of those organizations that have a reserve of wealth have built it as part of a strategic organizational choice. That is, rather than build its reserves through the haphazard accumulation of revenues that may be left over at the end of the season, an organization will build endowments and other reserves by courting large donations from both institutional and individual donors. Some organizations are unable to pursue this strategy, and others choose not to. However, the boards of most organizations face the question at one time or another.

The case for developing a reserve of investment capital is compelling. In the short term, a reserve can help make up spending shortfalls in any given year. If investment capital is large enough, dividends can represent a substantial proportion of an organization's income. Such unrestricted funds are attractive to managers. In the long term, reserves are a hedge against uncertainties stemming from environmental shocks such as recessions and sudden changes in donor preferences due to disasters or political upheaval, and thus help to ensure the survival of an organization. Reserves also provide reasonably steady low-cost income that is neither earned nor solicited. Brody (1997) notes that "nonprofits without endowments crave one" (p. 874). Foundations, long committed to grants that support not-for-profit programs, have also turned their attention to endowment-building among their grantees (Marshall, 1998). Even state arts agencies, many of which face uncertainty in their annual appropriations, have turned to endowments as a means of stabilizing their revenue flows (Lee, 2001; Reiss, 1999). Individual donors, too, sometimes prefer to "live on" through gifts to permanently restricted endowments rather than donate to programs where the funds are used immediately. In short, the appeal of endowments to not-for-profits, foundations, governments and donors has brought them to the forefront of many board discussions.

Mark A. Hager is a research associate and **Thomas H. Pollak** a senior research associate of the Center on Nonprofits and Philanthropy at the Urban Institute, a social policy research organization in Washington, DC, USA. The Urban Institute is home to the National Center for Charitable Statistics, which houses several data resources that provide insight into the scope and activities of not-for-profit arts organizations in the United States.

Endowment-building has its critics, however, and some organizations choose not to pursue campaigns to build them. The principal issue is that money that could be spent on needed programs *now* is reserved for serving future generations with unknown needs. Hansmann (1990) contends that accumulation of money is worthwhile only if the return on investment exceeds the social value of, for example, increased education, research or artistic programming. He questions whether the return on the growing surpluses in higher-education endowments truly outweighs the advantages of spending the money to develop and improve current education and research missions. Jansen and Katz (2002) concur, estimating that 12,000 to 24,000 organizations in the United States hold larger endowments than they need. Payne (1995) suggests that endowments might even be counterproductive for many not-for-profits. Financial need, says Payne, breeds frugality and innovation, both of which are compromised when an organization has substantial savings. Despite these concerns, however, endowment-building is popular. Even if some organizations prefer to spend all of their earnings and contributions on current programs, others will continue to follow the direction of management consultants and board members who proclaim the virtues of endowment-building.

The sector that gets the most attention regarding endowments, presumably due to the size of its asset reserves, is higher education. The National Association of College and University Business Offices (NACUBO) publishes an annual report on college and university endowments. Drawing on this research, Klinger (2001) reports that colleges and universities hold more than $239 billion in endowment assets and that 41 institutions had $1 billion endowments in the year 2000. Pulley (2001) focuses on the advantages of the haves over the have-nots. Organizations with large endowments have the advantage of asset diversification and engage in a range of investment practices that are not available to organizations without endowments or with small endowments. The result is a widening of the gap between the haves and the have-nots.

The arts field does not have a resource comparable to the NACUBO study. Consequently, we have a limited understanding of the prevalence, size and function of asset reserves in the arts. In this paper we report on the results of a national study of performing arts presenting organizations in the United States. We gathered a wide range of data on these organizations, including measures of their asset reserves. We are concerned principally with the differences between presenting organizations that do and do not have asset reserves. The paper proceeds in four sections. First, we define our population of interest and clarify what we mean by asset reserve. Next, we advance a series of hypotheses on the differences between the haves and the have-nots. Then, we describe our study and define the variables that we use to test our hypotheses. Finally, we report our results and discuss several conclusions that we derive from them.

Definitions: Arts Presenter and Asset Reserve

Arts presenters are arts organizations that make artistic productions available to local audiences. They may or may not be

Acknowledgements

This work was supported by the Doris Duke Charitable Foundation, the Association of Performing Arts Presenters and the Urban Institute. An earlier version of the paper was presented at the 2001 annual meeting of the Association for Research on Nonprofit Organizations and Voluntary Action held in Miami, Florida. The authors thank Elizabeth Boris, Roland Kushner, John Farrell and four anonymous reviewers for their careful reading of and intellectual contributions to the paper.

ABSTRACT

Performing arts organizations are increasingly looking to build endowments as a means of stabilizing revenue flows. The authors report on a study of 272 arts-presenting organizations, some of which have built a substantial reserve while others have no savings at all. They hypothesize that the haves differ from the have-nots on seven factors: whether the organization is free-standing or part of a larger entity; the organization's age; budget size; whether the organization owns or rents its primary venue; the size of the board of directors; number of institutional donors; and proportion of revenues derived from donations. They conclude that the haves are larger organizations with large boards and a substantial number of institutional donors, factors that point to the value of budget size, network contacts and institutional legitimacy in the accumulation of investment capital.

KEYWORDS

Performing arts, presenters, endowments, survey

involved in the actual production of theatrical, dance, musical or some other type of artistic presentation; indeed, a "pure" arts presenter is concerned only with maintaining a space, arranging a season of touring productions, advertising, selling tickets and sharing the revenues. A community or university performing arts centre often fits this description, although many performing arts centres also have educational components to their presenting activities and may even be directly involved in the production of their own presentations. Performing arts presenters also include fairs and festivals and local arts agencies or university programs that book artists for their own community audiences. Our definition of performing arts presenter includes those producing organizations (e.g., dance or theatre troupes, opera companies, orchestras) that *also* occasionally present outside touring artists. In short, an organization is a performing arts presenter if it books external, touring artists for an audience.

An asset reserve is a surplus earmarked for investment. Use of the term endowment is complicated by the fact that its technical meaning differs from that of common parlance. Technically, an organization's endowment is that portion of its asset holdings that has been permanently restricted by donors. When a donor gives money to an organization for the purpose of endowment, the organization is required to account for the money as restricted, which means that it cannot use it for anything other than investment capital. If the gift is permanently restricted, it will remain in the organization's endowment until the restriction is removed by either the donor or a court.

The terminology becomes fuzzy when an organization's board or staff members reserve unrestricted assets for investment capital. Since both donor-restricted and organization-designated funds contribute to a reserve of investment capital, both are commonly referred to as "endowment." However, since the organization can re-appropriate the unrestricted portion of this endowment for other purposes, "generally accepted accounting principles" require that it maintain a strict accounting of which funds are donor restricted and which are technically unrestricted. The unrestricted funds designated for investment capital are frequently referred to as "quasi-endowment." However, this distinction is often lost in common parlance, with both true endowment and quasi-endowment funds making up an organization's "endowment."

In this paper we are concerned more with whether an organization has consciously built up investment capital than with whether or not it houses donor-restricted funds. Consequently, we refer to the sum of endowment and quasi-endowment funds as an asset reserve. We use this term in order to avoid misusing the word endowment as technically defined. However, the meaning of asset reserve is similar to that of endowment as used in common parlance.

Hypotheses

Presenting organizations build asset reserves when donors make a gift to endowment or when, over a period of one or more years, annual revenues exceed expenditures and

RÉSUMÉ

Les organismes d'arts de la scène sont de plus en plus nombreux à vouloir se constituer un fonds pour investissements afin de stabiliser les mouvements de leurs revenus. Les auteurs présentent les résultats d'un sondage effectué auprès de 272 organismes présentateurs de spectacles artistiques, dont certains ont accumulé une importante réserve quand d'autres n'en ont aucune. Ils avancent l'hypothèse que sept facteurs distinguent les premiers des seconds : l'autonomie de l'organisme ou son inclusion dans une entité plus vaste; l'âge de l'organisme; l'importance de son budget; la propriété ou la location de son lieu de présentation principal; la taille du conseil d'administration; le nombre de donateurs institutionnels; et la part des revenus provenant de dons. Les auteurs en concluent que les nantis sont de grands organismes dirigés par d'imposants conseils d'administration et bénéficiant de l'appui de nombreux donateurs institutionnels, facteurs qui soulignent l'importance d'un budget de taille, du réseau de connaissances et de la légitimité de l'organisme pour l'accumulation de capitaux de placement.

MOTS CLÉS Arts de la scène, présentateurs de spectacles artistiques, réserve pour investissement, sondage

residuals accrue to an investment pot. Not all annual surpluses should be thought of as investment reserves, only that portion of net surplus that an organization strategically designates as quasi-endowment. However, an organization is no more likely than an individual to successfully amass wealth, which requires a combination of careful planning, development, connection and luck. The central issue in this paper is the factors that separate arts presenters that have an asset reserve from those that exist exclusively on the fortunes of their annual budget. More simply, which presenting organizations are among the haves of investment reserve and which are among the have-nots?

Our first issue stems from a key difference in the taxonomy of presenting organizations: some are free-standing entities while others are embedded in larger institutions. Free-standing entities are typically independently incorporated, formal organizations, although unincorporated associations (such as community festivals) may also fall into this category. Embedded entities, on the other hand, operate under the auspices of other institutions. A theatre or music department, student union council, or university auditorium or amphitheatre may occasionally present external, touring artists.

Presenting programs are also embedded in other kinds of entities. A local government may have an arts or recreation agency that sponsors a summer festival or outdoor music series. A museum may supplement its visual arts focus with a performing arts series. The same can be said of libraries. In some communities, large churches may serve as venues for touring artists. Fairs and festivals, a major presenting type, are sometimes free-standing entities but are just as likely to be run by a school, church, local government agency or large not-for-profit organization. The structural relationship between the presenting program and the larger entity tempers the need for the program to establish financial independence and diversified sources of income. Further, the financial relationship between host and embedded entity may remove the option for the embedded entity to pursue its own endowment. To the extent that an asset reserve functions to buffer a presenting organization from uncertain times, free-standing entities require it more than embedded ones, since their hosts already function as a form of insurance.

Hypothesis 1: Free-standing not-for-profit arts presenters are more likely than embedded entities to have an asset reserve.

The relationship between an organization's age and the likelihood of its establishing a reserve is not a straightforward one. On the one hand, the characteristics of young organizations put them at risk in times of financial uncertainty (Hannan and Freeman, 1984; Stinchcombe, 1965). Consequently, young organizations might be expected to have the most to gain from the stability of an asset reserve and therefore endeavour to create one. Further, since endowment-building is a legitimate innovation among arts organizations, a new organization might be expected to adopt the strategy of endowment-building upon its founding. On the other hand, the same characteristics that contribute to the liability of newness militate against the quick accumulation of capital. Organizations overcome the liability of newness by developing routine, reputation, and both internal and

RESUMEN

Las organizaciones dedicadas a las artes escénicas están volcándose cada vez más a la obtención de legados como medio de estabilizar sus flujos de caja. En este artículo se presentan las conclusiones de un estudio realizado entre 272 entidades que presentan espectáculos artísticos, de las cuales hay algunas que han acumulado reservas importantes en tanto que otras no cuentan con ahorro alguno. Los autores trabajan sobre la hipótesis de que las organizaciones "pudientes" se diferencian de las "carenciadas" en siete aspectos: en que sean propietarias o inquilinas de su sala principal; en el tamaño de su consejo de administración; en la cantidad de donantes institucionales; y en la proporción de ingresos que provienen de donaciones. La conclusión que se deriva de este estudio es que las organizaciones pudientes son de mayor envergadura, con un numeroso consejo de administración y gran cantidad de donantes institucionales, factores estos que subrayan el valor de un presupuesto amplio, una red de contactos y legitimidad institucional en el proceso de acumulación de capital de inversión.

PALABRAS CLAVE *Artes escénicas, presentadores, legados, estudio*

external connections with colleagues, funders and the general public. Consequently, even though an established organization may derive fewer direct benefits from an asset reserve than a very young one, most organizations can be expected to establish their reserves over time.

Hypothesis 2: The older the arts presenter, the more likely it is to have an asset reserve.

An organization's age and size likely work together to determine whether it will develop an asset reserve. Young organizations are often small, and a small organization is unlikely to have the capacity to develop and maintain an asset reserve and successfully wring profits from it. In order for an asset reserve to pay off, it must be large enough to justify the staff necessary to maintain it. A large asset reserve and a financial management staff are likely to be found only in large arts presenters. Indeed, the establishment of an endowment may even be a sign of financial maturity (Billitteri, 1998).

Hypothesis 3: The larger the arts presenter, the more likely it is to have an asset reserve.

Other characteristics may signal a presenter's capacity to establish and maintain an asset reserve. One such characteristic is the relationship between the presenting entity and its primary venue. Many entities rent their presenting spaces or develop temporary arrangements. Others are sufficiently established that they (or their host entities) own their primary facility. McClellan, Rebello-Rao and Wyszomirski (1999) contend that identification with a popular space is important for an arts organization attempting to establish a presence in the community. While an organization that rents its space may have a solid and well-known connection with the venue, we hypothesize that ownership is generally associated with the presence required to generate the capacity necessary to maintain an asset reserve.

Hypothesis 4: An arts presenter that owns its primary venue is more likely to have an asset reserve.

Our final three hypotheses concern the capacity of an organization to mobilize community support in its effort to create an asset reserve. One source of donor support is the organization's directors, who are often expected to contribute financially to the organization and to solicit their well-positioned friends to do the same (Ostrower, 1995). A large board of directors serves not only as a signal that the organization is well established in the community (Singh, Tucker and House, 1986), but also as a vital pool of financial goodwill. This goodwill increases the potential for the development of an asset reserve.

Hypothesis 5: The larger an arts presenter's board, the more likely it is to have an asset reserve.

Board members also facilitate access to further resources. These may be individual donors but are more often institutions such as foundations, corporations or governments. In short, we hypothesize that presenting organizations that have a large number of contacts with institutional donors are more likely to create the surpluses that make up an asset reserve.

Hypothesis 6: The more institutional donors an art presenter has, the more likely it is to have an asset reserve.

Finally, we consider the extent to which an organization is more reliant on contributions than on its various sources of earned income. Reliance on contributions is a source of uncertainty for a presenter, but it is also evidence of community (or host entity) support. Both of these conditions lend support to the hypothesis that organizations that rely on contributions are more likely to develop an asset reserve. The uncertainty stemming from shifts in contributions makes an asset reserve a reasonable strategic choice. The community support indicated by previous contributions makes the development of an asset reserve more viable.

Hypothesis 7: The greater the proportion of revenues from contributions, the more likely an organization is to have an asset reserve.

These seven hypotheses suggest critical distinctions between organizations that establish an asset reserve and those that do not. The next section documents our efforts to test these hypotheses.

Method and Variables

We conducted a mail survey of arts-presenting organizations in the United States. The survey covered a wide range of topics around the organization's finances and operations. We received 272 valid responses. Details on data collection can be found in

Appendix 1. In this section we provide details on the variables relevant to the testing of the hypotheses presented above.

Asset Reserves

We asked the participating organizations if they had a reserve of cash or other assets designated as reserves by management or the board of directors. We also asked if they had a store of cash or other assets that was restricted by its donors. Slightly more than half of the presenters (53%) answered affirmatively to one or both of these questions, indicating that they had some kind of asset reserve. The remaining 47% reported that they had neither an endowment nor a quasi-endowment that they could use for investment capital. Our dependent variable is a dichotomy that takes on a value of 1 if the presenter reported either an unrestricted or a donor-restricted store of investment capital and 0 if it did not.

Embedded Versus Free-standing Entities

Performing arts presenters take a variety of forms. We asked respondents which of the following organizational types best described the legal status of their organization: for-profit business, part of a private college or university, part of a public college or university, incorporated not-for-profit organization, or part of a local or state government entity. Only three presenters were for-profit businesses; these were dropped from the analysis (along with two organizations that did not respond to this question), leaving 267 presenters. We collapsed private college or university entities, public college or university entities, and entities operating under the auspices of local or state governments into an "embedded presenters" category; 126 (47%) of the presenters fell into this category. "Free-standing" not-for-profit presenters made up the comparison category; 141 (53%) of the presenting organizations fell into this category. The variable is a dummy variable that takes on a value of 1 if the presenter is a free-standing not-for-profit and 0 if it is embedded in another entity.

Age of Organization

The calculation of a presenter's "age" is not as straightforward as it might seem. Since many presenters were embedded in other entities, and since the presenting program may have postdated the larger arts organization it was part of, one cannot always take the years elapsed since the presenter's founding as its age. Consequently, we asked respondents to give the year that the organization began presenting the performing arts. We then subtracted this year from 2001 to estimate the presenter age. While we use "presenter age" as an interval ratio variable in the analysis, Table 1 indicates how this variable is distributed.

Size of Organization

An organization's size can be calculated in a variety of ways. In this paper, we use total annual expenses (circa 2000) as the measure of a presenter's size. Many organizations are multi-purpose and include arts presenting among a variety of activities. We asked these to report financial information only for their presenting department or program. Thirty-nine respondents chose not to report any financial information, so they are eliminated from analyses that include financial variables. Since the field includes many more small than large presenters, the size distribution is skewed pronouncedly to the right. To normalize the distribution for use in the models below, we calculate the natural log of each organization's expenditures.

Ownership of Venue

We asked respondents a variety of questions about their most frequently used space, including whether they owned or rented it.

TABLE 1 PERIOD IN WHICH ORGANIZATION BEGAN PRESENTING PERFORMING ARTS

Before 1960	1960s or 1970s	1980s	1990s or 2000s	No year reported	Total
40	80	74	64	13	271

Almost two thirds of respondents, 168 (66%) of the 256 who answered this question, owned their primary presenting space. The majority of these reported that they were the main – but not exclusive – user of their facility. The 88 remaining cases (34%) rented their primary presenting space. The majority of these were only occasional users of the space. The "ownership of venue" variable is a dummy variable that takes on a value of 1 if presenters owned their primary space and a value of 0 if they rented.

Size of Board

Over one third of the presenters (34%) indicated that they did not have a board of directors or governors. Those that did have a board reported as few directors as three and as many as 220. The large number of cases with no board or a very small board produces a highly skewed distribution. The natural log transformation effectively normalizes the distribution, so we use the logged version in our models below.

Institutional Donors

We asked respondents to estimate the number of foundations, businesses and government agencies that had donated money to their organization during the preceding year. One in eight presenters reported that they received no contributions from institutional donors, while four reported at least 200 different institutional donors. The average (mean) presenter reported 30 institutional donors. As with the variables of size of organization and size of board, this variable exhibits a strong positive skew. As with the two other skewed variables, we calculated and use a natural log value in the analysis below.

Proportion of Revenues from Contributions

We asked respondents to report the total amount of contributed income (donations) they received from individuals, foundations, businesses, governments and their host institution in their most recently completed fiscal year. We also asked them to report their total revenues from all sources for that same year. For each organization, we divided contributed income by total revenues to calculate the proportion of revenues that came from contributions. More than one in 10 presenters received none of their revenues from contributions, while 3% received all of their revenues from contributions. This variable is approximately distributed around a mean of 0.43.

Analysis and Discussion

Table 2 reports the zero-order correlation coefficients between the independent variables. The intercorrelations reveal several interesting relationships between the various presenter characteristics. Not-for-profit organizations are less likely than embedded entities to own their own venue (r = -0.37); that is, in comparison with free-standing not-for-profits, a greater proportion of universities and local governments own the facilities that

Table 2 ZERO ORDER CORRELATION COEFFICIENTS

	AGE	LN(SIZE)	OWN VENUE	LN(BOARD SIZE)	LN(INST DONORS)	PROP DONATED
NPO	-.11	.23	-.37	.70	.53	.01
AGE		.02	.01	-.08	-.04	-.04
LN(SIZE)			-.01	.24	.50	-.08
OWN VENUE				-.27	-.17	-.19
(LN)BOARD SIZE					.55	-.01
(LN)INST DONORS						.04

they present in. However, since a large number of embedded entities did not have boards of directors, free-standing organizations are much more likely to have large boards than their embedded counterparts ($r = 0.70$). Free-standing not-for-profits are also associated with larger numbers of institutional donors ($r = 0.53$), probably due to the fact that a larger board is directly tied to a larger number of institutional donors ($r = 0.55$).

Interestingly, the number of years that the organization has been presenting the performing arts (AGE) is unrelated to the other organizational characteristics considered in this study. This would also be true for size of organization were it not for the fact that larger organizations clearly lay claim to larger numbers of institutional donors ($r = 0.50$).

Table 3 reports logistic regression models, which are intended to estimate the influence of the various independent variables on the (log) likelihood that an organization has an asset reserve. Models 1 through 8 allow us to observe the bivariate relationship between each variable and the likelihood of maintaining an asset reserve, while model 8 includes all variables and accounts for the relationships between variables.

Hypothesis 1, that free-standing not-for-profit presenters are more likely than embedded entities to have an asset reserve, is supported by the bivariate equation (model 1), but the relationship disappears from the saturated model (model 8). The loss of significance in the final model is due to the high intercorrelations among not-for-profit status, board size and number of institutional donors. The latter two variables retain their significance in the final model, while not-for-profit status washes out. Consequently, Hypothesis 1 is not confirmed.

Hypothesis 2, that older arts presenters are more likely than young ones to have an asset reserve, is supported by neither model 2 nor model 8, where the variable displays no relationship with the likelihood of maintaining an asset reserve.

Hypothesis 3 contends that large arts presenters are more likely than small ones to have an asset reserve. The SIZE variable in model 3 is significant at the $p < 0.001$ level. Although the significance drops to marginal levels ($p < .10$) when controlling for other organizational characteristics (model 8), we still take them as support for Hypothesis 3.

Hypothesis 4, that an arts presenter which owns rather than rents its primary venue is

TABLE 3 LOGISTIC REGRESSION MODELS EXPLAINING PRESENCE OF ASSET RESERVE

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8 (Saturated)
NPO	.70** (.27)							-.76 (.55)
AGE		.01 (.01)						.01 (.01)
LN(SIZE)			.46*** (.09)					.21~ (.12)
OWN VENUE				-.10 (.28)				-.29 (.39)
LN(BOARD SIZE)					.35*** (.10)			.32~ (.18)
LN(INST DONORS)						.62*** (.11)		.57*** (.18)
PROP DONATED							-.70 (.45)	-1.38* (.63)
Intercept	-.28 (.20)	-.14 (.21)	-5.65*** (1.17)	.15 (.22)	-.68** (.23)	-1.41*** (.32)	.40 (.24)	-3.25* (1.42)
N	233	229	230	224	230	225	232	195

Notes: ~$p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$. Numbers in parentheses are standard errors.

more likely to have an asset reserve, is not supported. Presenters that rent are no less likely to have an asset reserve than presenters that own their main venue.

Hypothesis 5 contends that the likelihood of a presenter developing an asset reserve increases with the size of the board of directors. The BOARD SIZE variable received strong support in model 5. Unlike the NPO variable, BOARD SIZE retains a significance level of $p < .10$ when controlling for other variables in the study, including several with which it is highly correlated. Hypothesis 5 is supported.

Hypothesis 6, which follows an argument similar to that of Hypothesis 5, contends that the likelihood of an asset reserve increases with the number of institutional donors. The INST DONORS variable is strong in model 6 and retains a high level of significance in the saturated model. Hypothesis 6 is strongly supported.

Finally, Hypothesis 7, that increasing reliance on contributions is associated with the increased likelihood of having an asset reserve, is not supported by model 7. Interestingly, however, the variable measure of proportion of revenues from contributions achieves a $p < .05$ significance level when controlling for the effects of the other seven independent variables. However, the negative sign indicates that increasing reliance on contributions may be associated with a *lower* log-odds of having an asset reserve, not a higher one. Consequently, Hypothesis 7 is not supported.

Conclusions

Implications for Researchers

If it has the capacity to manage an asset reserve effectively, a performing arts presenter can benefit from the stability afforded by the investment capital generated from such a reserve. National Arts Stabilization (NAS), an organization dedicated to helping arts organizations in the United States achieve financial stability, recommends that an asset reserve[1] should equal at least two years of the organization's operating expenses, so that investment income will cover at least 10% of annual expenses (NAS, 2000). However, in its study of 67 arts organizations in one state (including nine presenters), NAS found that only two organizations met this standard (NAS, 2000). The presenting organizations in the present study fared better, with one in 10 reporting an asset reserve equal to or greater than 200% of annual expenses. Still, this is a small figure, reflecting a low level of capitalization among arts presenting organizations in the United States.

The number of presenters seeking to develop endowments seems to be increasing, however. We asked organizations with donor-restricted endowments to indicate when these had been established. The median endowment age was 11 years (1990). Two organizations established their endowments as early as the 1950s, but more than 10% of the organizations with endowments established them in the year 2000. Roughly one in 10 organizations with endowments reported that they conducted an endowment campaign in the preceding three years. However, more than four in 10 reported that they intended to conduct an endowment campaign in the next three years. Regardless of whether these new endowments lead to greater stability or to a greater range of program options, the establishment of endowments is a growing phenomenon among performing arts presenters.

The purpose of this paper is to explore the relationship between various organizational characteristics and the likelihood of a performing arts presenter maintaining an asset reserve for the purpose of generating investment income. The number of organizations that currently have an asset reserve and the number that do not are approximately equal. What explains the difference between the two groups? We hypothesized that such characteristics as the presenter's legal status, number of years presenting the performing arts, budget size, ownership of primary venue, whether its booking decisions are financially based, board size, number of institutional contributors, and the proportion of its budget that comes from contributions would be factors determining the creation and maintenance of an asset reserve. Some of our hypotheses were supported while others were not.

Our analysis highlights three factors that we found to be related to the likelihood of an arts presenter having an asset reserve. The first, and probably the most intuitive, is the size of the organization. Large organizations, even when controlling for a variety of other organizational characteristics, are more likely than small ones to have an asset reserve. They are more likely to have the staff, skills, and legitimacy necessary to establish and maintain a reserve.

The second factor is the number of influential directors on the organization's board. The larger an organization's board of directors, the greater the likelihood of its having an asset reserve. We have argued that this relationship is probably due to the individual-donor and boundary-spanning roles that board members play in many community organizations. Some influential members may belong to corporate or foundation networks that ultimately lead to residuals that can be invested in an asset reserve. Organizations with small boards have fewer opportunities to exploit such networks. However, we should note that the key to board influence on endowment building is the number of *influential* members. While larger boards increase the likelihood of influence, a small board of influential members is more valuable than a large board consisting primarily of individuals without means or influence.

The third factor is the number of institutional donors the organization has. Even controlling for the size of the organization and its board, a larger number of institutional donors proved to be a strong predictor of a presenter's having an asset reserve. While donations from individuals ranged from small to large, contributions from institutions ranged from large to very large. Organizations need receive only a small number of institutional gifts to meet their modest goals. However, when they are able to command a large number of institutional gifts, they are more likely to have slack resources that they can put into investment capital.

All three of these findings point to the issue of organizational *capacity*. A presenting organization with an asset reserve has the size, networks or legitimacy required to mobilize the contributions necessary to generate a reserve. An organization that is small, lacks community representation through its board of directors, or does not have a reputation that allows it to mobilize a large number of contributions from businesses, foundations, or government is simply less likely to get ahead.

Implications for Managers

As we have seen, the development of an asset reserve requires more than the will to create one. Even in good economic times, an organization cannot develop and maintain an endowment without both internal capacity and the goodwill of external supporters. However, for those managers who are considering the possibility of developing an asset reserve, we offer four broad conclusions from our study.

First, smaller organizations face an uphill battle in establishing a stock of investment reserves. They must demonstrate to major donors and institutional funders that they have the staff to manage a reserve, and many small organizations do not have such a staff. They must demonstrate that their programs and services are an outstanding if not essential part of the community arts milieu. Many small organizations are unable to attain such status. Larger organizations, however, are able to capitalize on their personnel resources and the legitimacy and visibility they enjoy purely because of their size. Small organizations that are able to demonstrate financial management expertise and community standing should also be able to attract the resources necessary to build an asset reserve.

Second – and in contrast to the first point – an organization's age appears to play a minor role its ability to establish an asset reserve. While older organizations are better positioned in the community to build an endowment, younger ones are better positioned to take advantage of new trends in endowment building in the performing arts field. Young organizations must overcome the many liabilities associated with being new, but they are still able to attract the resources necessary to build a base of investment capital.

Third, presenters that operate under the aegis of a larger organization (such as a university, church or municipality) and those that rent their performance space should not write off the possibility of building an endowment. We found that embedded organizations and renters were no less likely to have an asset reserve than free-standing organizations and presenters that owned their primary performance space. While embedded organizations face special challenges in developing an independent investment pot, many organizations have been able to meet such challenges. These organizations enjoy the double benefit of having a host organization *and* asset reserves to protect them during lean times. Likewise, while organizations that own their property have a hedge against downturns in the economy, renters have demonstrated an ability to develop their own hedge by establishing an asset reserve. Endowments are not just for free-standing organizations that own their space.

Finally, these findings point to the value of building bridges to the community. One way that organizations have been able to establish and maintain an asset reserve is by building a large and influential board of directors. While a board needs to have the expertise necessary to provide strategic direction, many organizations have been able to build a board with an eye to its financial goals as well. Organizations with small or unconnected boards lack a critical component necessary to develop an endowment. Presenters also create endowments by building bridges to a variety of institutional donors, including foundations, local and regional businesses, and local, state and federal government agencies. Organizations with many such connections are much more likely to develop a reserve successfully. Connections to small contributors (i.e., a reliance on donations from individuals) is *not* the key to creating an endowment unless individual gifts tend to be very large. Endowments are primarily built through connections to the individual power brokers and institutional donors in the community.

Note

1. NAS uses the term endowment rather than asset reserve, although it is clear that endowment as used by NAS includes funds that are unrestricted, temporarily restricted, permanently restricted or held separately for the purpose of long-term investment.

References

Billitteri, T.J. 1998. "Endowments Mark Fiscal Maturity for Environmental Groups." *Chronicle of Philanthropy*, 3 December.

Brody, E. 1997. "Charitable Endowments and the Democratization of Dynasty." *Arizona Law Review*, Vol. 39, n° 3, p. 873–948.

Hannan, M.T., and J. Freeman. 1984. "Structural Inertia and Organizational Change." *American Sociological Review*, Vol. 49, p. 149–164.

Hansmann, H. 1990. "Why Do Universities Have Endowments?" *Journal of Legal Studies*, Vol. 19, n° 1, p. 3–42.

Jansen, P.J., and D.M. Katz. 2002. "For Nonprofits, Time Is Money." *McKinsey Quarterly*, n° 1.

Klinger, D. 2001. "Preliminary Results of the 2000 NACUBO Endowment Study." *NACUBO Business Officer*, April, p. 24–31.

Lee, K.D. 2001. "Contributions of Third Party Agents to Fund Development and Management Practices at Government Arts Agencies." Paper presented at the annual meeting of the Association for Research on Nonprofit Organizations and Voluntary Action, November/December, Miami, Florida.

Marshall, J.E. III. 1998. "Building Nonprofit Endowments." *Foundation News and Commentary*, January/February, p. 15–17.

McClellan, A., D. Rebello-Rao and M.J. Wyszomirski. 1999. "Resisting Invisibility: Arts Organizations and the Pursuit of Persistent Presence." *Nonprofit Management and Leadership*, Vol. 10, n° 2, p. 169–183.

National Arts Stabilization (NAS). 2000. *Analysis of the Capitalization of 67 of a State's Arts and Cultural Institutions*. Work in Progress #2. Baltimore: Author.

Ostrower, F. 1995. *Why the Wealthy Give: The Culture of Elite Philanthropy*. Princeton, NJ: Princeton University Press.

Payne, J.L. 1995. "Should Charities Live Forever?" *Philanthropy*, Vol. 9, n° 4, p. 16–17.

Pulley, J.L. 2001. "The Rich Got Richer in 2000, Study of Endowments Shows." *Chronicle of Philanthropy*, 13 April.

Reiss, A.H. 1999. "States Establish Endowment Funds to Ensure Long-Term Arts Support." *Fundraising Management*, February, p. 20–22.

Singh, J.V., D.J. Tucker and R.J. House. 1986. "Organizational Legitimacy and the Liability of Newness." *Administrative Science Quarterly*, Vol. 31, p. 171–193.

Stinchcombe, A.L. 1965. "Social Structure and Organizations." In *Handbook of Organizations*, J.G. March, ed. Chicago: Rand-McNally, p. 153–193.

METHODOLOGY

We collected data using a mailed survey. Our goal was to collect a wide range of information on the activities, structure and finances of a sample of performing arts presenting organizations in the United States. The first step in such a project is the creation of a *sampling frame* – a list of all organizations and host entities meeting our definition of a performing arts presenter. Unfortunately, such a list does not exist and its creation would require one to know in advance whether an organization was a presenting organization. For example, a list of museums (or orchestras) is reasonably easy to obtain, but one cannot determine which museums have a performing arts presenting program without conducting a full survey of museums. In short, the generation of a sampling frame proved difficult.

Our approach was to generate a list of *potential performing arts presenters*. We believed that this list of approximately 7,000 entities had the potential to meet our definition. We drew from two main sources in generating this list: The Unified Database of Arts Organizations, and a contact list provided by the Association of Performing Arts Presenters. The latter, which is the national service organization for arts presenters, maintains a database of organizations that contact its office. This list includes its member organizations, non-members it has identified as presenting organizations and other likely presenting organizations that it knows less about.

The Unified Database of Arts Organizations (UDAO) is a joint research project of the Urban Institute, the National Association of State Arts Agencies and the National Endowment for the Arts (NEA). The UDAO is the most comprehensive listing of arts organizations in the United States, with approximately 115,000 records. It draws on not-for-profit arts organizations that file with the Internal Revenue Service as well as state arts agency and NEA grantee and mailing lists. We drew organizations from two categories that we believed would include most performing arts presenters: performing arts facilities, and fairs and festivals.

Once we generated this sampling frame, we drew a random sample of organizations that we sought to contact by phone to determine whether they met our definition of a performing arts presenter. Our goal was to deliver our survey to approximately 700 arts presenters. However, missing and incorrect phone numbers, failure to reach a knowledgeable person at the organization, and our inclusion of a large number of non-presenting *potential* arts presenters required us to sample nearly 2,500 entities in order to generate a final sample of 707 entities that passed a simple phone screen.

We mailed the survey and a covering letter from the Association of Performing Arts Presenters to the 707 organizations. After 10 days, we faxed a copy of the survey and a reminder letter to the non-respondents. After two weeks, we called all the non-respondents and re-faxed the survey to those who requested it. Two weeks later, we again contacted those who had agreed to return the survey.

By the end of the data-collection period, we had received surveys from 303 organizations. However, 31 (10.2%) of these claimed that they did not meet our definition of a performing arts presenter, despite the fact that they had passed the phone screening. We removed these 31 organizations from the sample, which resulted in a base of 676 organizations. The true number of presenting organizations remaining in the sampling frame is unknown since we received no response from 404 organizations. However, if 10.2% of the respondents claimed not to be presenters, it is reasonable to infer that roughly 10% of the non-respondents also did not truly meet our definition of a performing arts presenting organization. A further reduction of 41 organizations (10.2% of 404 non-respondents) would reduce the sample base to 635, which places the return rate at 42.9% (272 returns out of 635 valid sample organizations). With 272 valid responses, we calculate a return rate of 40.2%. While this return rate causes us to interpret our results cautiously, it is a typical return rate for surveys of not-for-profit or community organizations.