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Strategic Planning May Be Saving the Day for Cultural Institutions

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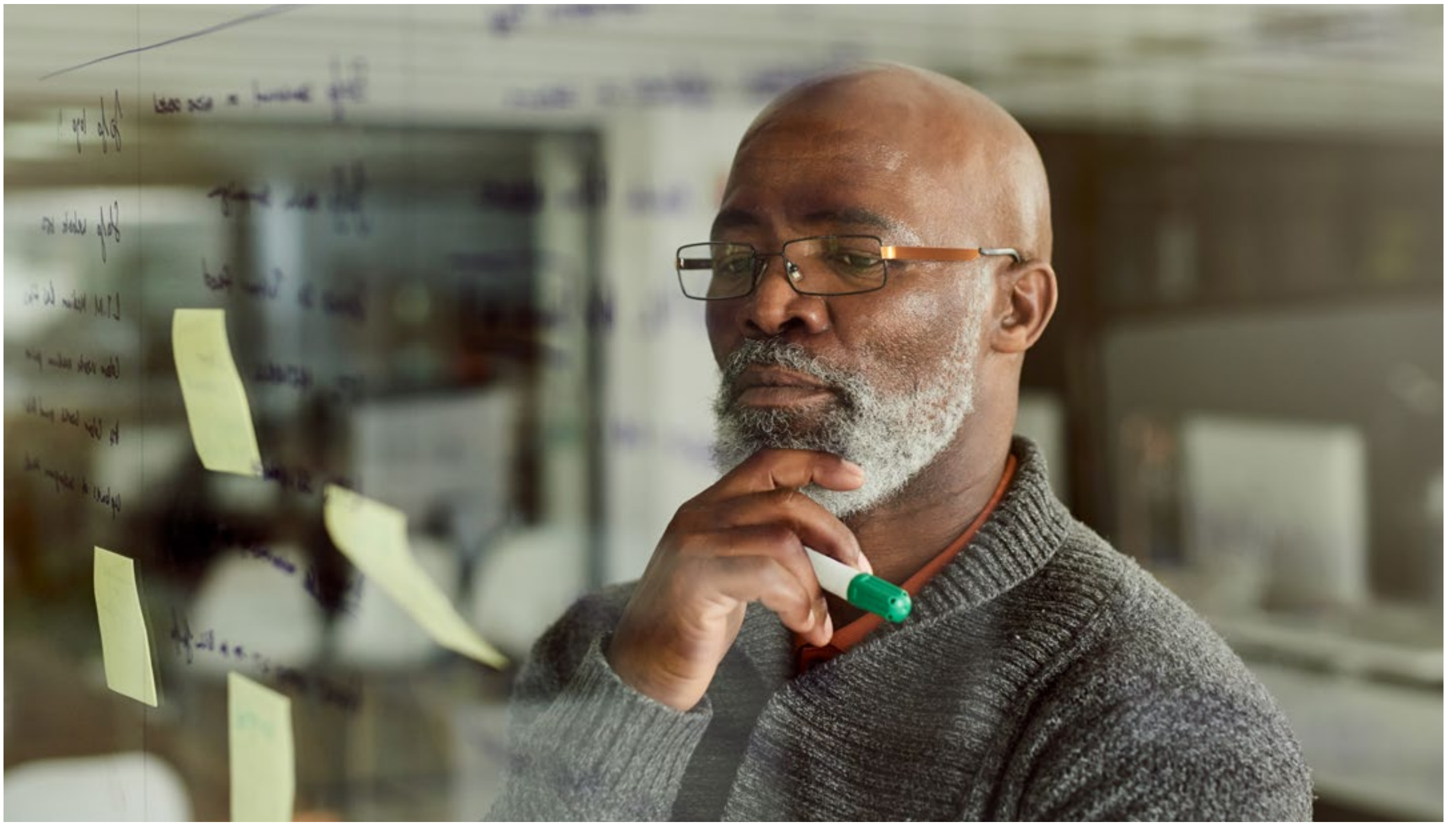

Given the disruption to "normalcy" brought on by the COVID-19 pandemic and the racial justice issues that erupted in the U.S. in 2020 and continue today, some may say it has been a time of reckoning for cultural institutions.[1] However, the challenges these institutions are facing did not necessarily start with the pandemic or the social unrest. How some of these institutions navigated the hurdles of the past two years provides valuable insight into important considerations for cultural institutions going forward.

1 NPR: A new report shows museums had a bad year but not the worst possible, Retrieved Fall 2021

For purpose of this article, we define a cultural institution to be an operating nonprofit (or a foundation that directly supports such an entity) that supports the arts and other cultural endeavors (e.g., museums, art galleries, symphonies, libraries). These are not grant-making organizations; rather, they are typically recipients of grants from private and public foundations.

One issue exacerbated by the pandemic in early 2020 was the extreme financial hardship that many museums faced, as profits from ticket and admission sales plummeted for several months. A cultural institution's revenue can include, earned income from sources such as admissions, rental space, as well as investment and endowment earnings, government funding, and charitable donations. The American Alliance of Museums (AAM) conducted a survey of 760 museums in June 2020 that reported one-third of respondents expected to lose over 40 percent of their annual operating income and only two-thirds were confident that they'd be able to survive through 2021.[2] Although these survey results are informative, many would argue that cultural institutions were facing challenges in several capacities prior to the pandemic.

According to the Americans for the Arts, the COVID pandemic resulted in financial losses to nonprofit arts and cultural organizations of an estimated $14.1 billion as of October 2020. Ninety percent of organizations had a pandemic-related closing, 96 percent of organizations cancelled events and 29 percent of organizations laid off or furloughed staff.[3] The National Endowment for the Arts reported a downward trend in art museum attendance in recent decades, with visitation declining by approximately 42 million visits between 2002 and 2008 and by 16 million visits between 2008 and 2012. More recently, broader population sampling conducted on behalf of AAM by Wilkening Consulting, stated 22 percent of the public visited a museum in 2020—a decline from 28 percent in 2017—with only 13 percent of the broader population reporting they visit museums regularly.[4] However, a lack of sufficient data means that the picture for the industry as a whole is much less clear.

It can be easy to attribute pandemic-related revenue loss to drastic reductions in visitation, however it should be noted that decreases in charitable giving have also had an impact. While charitable donations across the U.S. increased by 3.8 percent in 2020 compared to the year prior, donations were not evenly distributed across types of institutions. For example—based on the categorizations in the *Giving USA Annual Report*—organizations focused on "public-society benefit" and "environment and animals" saw the greatest increases in giving, of 14.3 percent and 10.3 percent, respectively. While organizations focused on "arts, culture, and humanities" saw an 8.6 percent decline in giving.[5] This decline, paired with the loss of typical revenue sources such as admission ticket sales, contributed to the significant financial strain experienced by cultural institutions over the past two years. As of Q2 2021, science and technology centers were only providing 42 percent of their usual programing and events.[6] For many organizations, these drops in revenue translated into painful cuts in spending with serious operational implications, their ability to fulfill their mission.

The pandemic shut down and challenges later encountered with reopening in late 2020 and 2021 made for a difficult adjustment period, even for organizations that engaged in extensive strategic planning prior to the onset of the pandemic. However, our analysis concludes that cultural institutions that dedicated more time and thought to their strategic approach pre-pandemic—reimagining programmatic elements, revenue streams, operations, endowment management etc.—were better equipped to adapt than those without thoughtful and comprehensive plans of action. The former were able to make fewer cuts, better preserve their missions and community roles, and in some cases, have even been able to expand their organizational capacities.[7] This article highlights the benefits of strategic planning in the areas of endowment management and spending, governance, and operations as it pertains to cultural institutions and their respective foundations.

2 American Association of Museums: National-Survey-of-COVID19-Impact-on-US-Museums, Retrieved Fall 2021
3 Upstart Co-Lab: The Guide-what cultural institutions need to know about investing for values and mission, Retrieved Winter 2021
4 Wilkening Consulting: 2019 Annual Survey, Retrieved Fall 2021
5 Giving USA: Annual Report, Retrieved Fall 2021
6 Association of Science and Technology Centers: Attendance and Operations Year in Review, Retrieved Winter 2021
7 Institute of Museum and Library Services: Facing Challenges with Residence: How Museums are Responding during COVID-19, Retrieved Winter 2021

ENDOWMENT MANAGEMENT AND SPENDING

A sharp market contraction in the early stages of the pandemic negatively impacted endowments of cultural institutions, although the market recovery was quick. Increased spending from endowment (or draw down) to replace lost revenue, shoring up 2020 operating budgets and having a strategic recovery plan benefited those institutions confronting financial issues.

For example, in 2020, *The New York Times* reported that the Lyric Opera of Chicago planned to spend $23 million from its $173 million dollar endowment in response to COVID revenue losses, almost triple the amount it usually draws down. The Los Angeles Philharmonic took a $37 million draw from its endowment, more than twice what it usually takes. Additionally, the New York City Ballet had planned to take roughly $11 million from its endowment, representative of the typical five percent draw. However, faced with a looming deficit, it was expected to take about $19 million instead.[8] Some institutions that preferred not to dip into their endowments found other creative ways to leverage their financial resources. The Association of Art Museum Directors (AAMD), acknowledging the difficult situation in 2020, adopted a board resolution to not penalize museums if they redirected endowment investment income from restricted sources to general operations. This, however, did not account for state or donor restrictions, to which many endowed cultural institutions reached out for flexibility. The Metropolitan Museum of Art in New York decided to spend it's roughly $150 million in endowment earnings on operating expenses to shore up losses from the pandemic, instead of on art acquisition.[9] This was true for many other cultural institutions-even if they did not dip into their endowment they sought flexibility from donors and their board to spend endowment income to maintain operations. For example, in 2020 the Metropolitan Museum of Art redirected $25 million in donations to its endowment to start an emergency fund.[10] The fund helped support exceedingly high operating expenses for the year and provided a financial safety net for the future.

OPERATIONS

Operational challenges spurred by the pandemic in relation to social distancing and state shutdowns caused cultural institutions to quickly adopt new operational and communication techniques to have the best shot at survival. With 98 percent of museums closing their physical doors for some period in 2020, many opted to created virtual content, online educational programming, and social media events to engage community members and connect with patrons.[11] The New Orleans Museum of Art drastically expanded the depth of the virtual content that they provide. In a single day the museum created and launched a comprehensive library of curator talks, virtual tours, and other digital offerings. The amplification of virtual content increased access to the museum's collections for disabled persons and other communities that normally would not be able to enjoy the content in its entirety. A testament to this increased accessibility and reach of a broader audience occurred in April of 2021, as the museum reported having 7,000 hours of content streamed on their YouTube channel.[12] This is one example of how cultural institutions revamped their operational approach to be more inclusive and support their community in the midst of a crisis.

Institutions that fared well throughout the COVID crisis have expanded and redefined how they conduct operations to adapt to the needs of their community. This can be seen at The Children's Museum of Fond du Lac,[13] an organization heavily dependent on ticket revenue and membership income. When they saw the need to pivot because of pandemic-related shutdowns, Andrea Welsch, Executive Director, leaned heavily into strategy by participating in weekly conference calls with the Association of Children's Museums, an international professional society focused on the betterment of children's museums. The calls served as an opportunity and space to share best practices in sustaining cultural institutions during the pandemic. It was through these meetings that Welsch was put in contact with Aaron Sadoff, superintendent of the School District of North Fond du Lac. Having heard that schools would be receiving federal-relief money, Welsch reached out to Sadoff to ask if

8 New York Times, The Sacrosanct Endowment? Not Anymore for Some Groups, Retrieved Fall 2021
9 Hyper Allergic, Why Museums Can't Always Fall Back on Endowments, Retrieved Fall 2021
10 Art News: What Keeps U.S. Art Museums Running and How Might the Pandemic Change That, Retrieved Fall 2021
11 American Alliance of Museums: National Survey of COVID-19 Impact on United States Museums, Retrieved Winter 2021
12 Art News: What Keeps U.S. Art Museums Running and How Might the Pandemic Change That, Retrieved Fall 2021
13 The Chronicle of Philanthropy: A Children's Museum's Partnership With Local School District Brings in Revenue and New Ideas, Retrieved Summer 2021

his district had any space needs that the museum could help accommodate. Ultimately, the museum rented out space to Treffert Way for the Exceptional Mind—a public charter school with a mission of experiential and movement-based learning—allowing them to maintain their approach to teaching while also adhering to social distancing guidelines. In this way, the museum was able to reroute federal funding sent to the school to compensate for revenue losses, limiting the number of layoffs necessary and covering much of their costs. Beyond financial benefits, this arrangement also allowed the museum to continue its community outreach and gain better insight into the community's needs. This partnership gave the museum inspiration for the creation of a "quiet" room, a space designed to allow children, particularly those with autism, to avoid the sensory overload that often accompanies crowded public spaces. This example highlights the importance of making space for innovative, perhaps unheard-of ideas, when pivoting strategy to meet the needs of a crisis.

These expansions to operations and services provided to the public do not exist in a vacuum. According to the Association of Science and Technology Centers, cultural institutions have been increasing their occupational capacity with approximately 80 percent of facilities being open to the public since September 2021. They also increased their public program offerings by 20 percent between Q2 2020 and Q2 2021.[14] Not only are cultural institutions providing more services to the community, but the community is taking advantage of them. According to reports conducted by the Little Rock Zoo and Lake Superior Zoo both organizations have seen record breaking increases in attendance and membership in 2021.[15] To draw attendance, the Little Rock Zoo in Arkansas started their first annual GloWILD! Larger than Life Light Experience that features over 50,000 LED animal lights. They also welcomed a baby rhino to the facility and incorporated suggestions from the community to pick the baby's name.[16] In June of 2021, the Brooklyn Children's Museum and the Bronx Zoo expanded their operational capacity by hosting public COVID vaccination sites and gave families free admission to their exhibits and a family pass after receiving the vaccination.[17] Cultural institutions are clearly reevaluating their role in educating and serving the public and are actively implementing strategies to increase their programming and offerings.

GOVERNANCE

In recent years, social justice movements in the arts and culture space have, and continue to, highlight the disconnect between certain practices of cultural institutions and public opinion.

In March of 2021, an artists' coalition called International Imagination of Anti-National Anti-Imperialist Feelings (IIAAF) led a 10-week-long series of protests directed towards the Museum of Modern Art. The protests were focused on the institution's perceived "elitism, hierarchy, inequality, precarity, disposability, anti-Blackness, [and] misogyny," as well as chairman Leon Black's ties to questionable figures.[18] The protests reflected a broader demand for institutions to make greater strides towards racial justice, take greater accountability and be more transparent with their governing boards. The social justice reckoning of 2020 showed that if governing bodies of cultural institutions want to progress, they need to listen to their communities. Institutions that are in tune with the the needs of the communities are more likely to continue to successfully fulfill their missions.

In June of 2020 the Board of Trustees at the San Diego Museum of Man officially renamed the institution to the "Museum of Us," thus acknowledging their own complacency in systems that perpetuate inequality.

Over the past two years, many boards of directors have looked internally to reflect on the diversity of their board's composition which has led to the adoption of more inclusive recruiting practices by many. The New Orleans Museum of Art recently released a statement on their website indicating plans to diversify their board of trustees and increase the number of BIPOC—Black, Indigenous, and people of color—identifying board members to 25 percent each year over the next three years.[19] Other large cultural institutions have

14 Association of Science and Technology Centers: Attendance and Operations Year in Review, Retrieved Winter 2021
15 Duluth News Tribune: Lake Superior Zoo bounces back from pandemic, Retrieved Winter 2021
16 THV11: Little Rock Zoo sees record-high membership after pandemic slump, Retrieved Winter 2021
17 amNY: More NYC cultural institutions to offer COVID-19 vaccine, free admissions, Retrieved Winter 2021
18 Art Forum: Artists Coalition Announces Strike Action Against MOMA, Retrieved Winter 2021
19 New Orleans Museum of Art: NOMA Announces Seven New Members of Board of Trustees for 2021, Retrieve Fall 2021

hired Diversity, Equity, Inclusion and Access (DEIA) consultants to train their leadership, staff, docents and volunteers and conduct assessments of the institution to form a DEIA framework. The New Orleans Museum of Art adopted new governance policies that emphasize diversity of thought and leadership experience as a strategic approach to governance. This puts them in a position to respond to the social unrest during the pandemic and beyond.

By taking a definitive stance on inclusion, cultural institutions are rebranding themselves to be more inviting and to hold space for events that support and engage their communities in unique ways. The intricacies of the sector, given major differences between types of cultural institutions, calls for strategic approaches to innovation that prioritize community inclusion to carry the institution and its mission into perpetuity.

INSIGHTS FOR THE FUTURE

Below are some considerations as we look to the future of cultural institutions:

Endowment Management

Cultural institutions fortunate enough to have an endowment understand the difficulty of starting, maintaining, and growing it. Prudent scenario planning and endowment management help to optimally grow the endowment when times are good and provide protection and resiliency when times are less favorable. As markets continue to recover and people are slowly getting back to patronizing cultural institutions, endowments set up to generate returns and recover quickly after future downturns will be important.[20]

We've seen some cultural institution endowments realize incredible gains over the past eighteen months. Now, let's explore how they may be able to maintain some of the adjustments made to their endowment spending. For example, the AAMD and other trade association bodies that regulate museum best practices, could provide more flexibility to allow art museums the option to reallocate investment income generated during the pandemic to more liquid operating reserves to complement the endowment for longer-term sustainability of the institution.[21]

Additionally, many of the strides made by cultural institutions in the Environmental, Social, and Governance (ESG) and impact investing spaces need to not only be continued but intensified. Sustainable investing, investing in diverse managers, and other values-aligned investment strategies speak to the global shift in awareness that has grown along with the COVID-19 pandemic and the racial reckoning of 2020.

Upstart Co-Labs, an organization that connects impact investing to the creative economy, in partnership with Rockefeller Philanthropy Advisors, recently produced a report "The Guide: What Cultural Institutions Need to Know about Investing for Values and Mission" with impact investing strategies and frameworks for cultural institutions with a focus on post-pandemic growth, recovery, and values alignment investing approaches.[22] These frameworks and implementation guides chart a path toward sustainable, impact focused investing that allows cultural institutions to do well and generate positive social and environmental impact for communities they serve.

Human Capital and Operations

Pandemic-related shutdowns forced cultural institutions to lay off more than 14,400 employees across the U.S. which comprised 28 percent of the sectors' workforce.[23] With this in mind, institutions should focus on employee retention and development strategies that help employees feel valued and increase productivity. Institutions should consider leveraging technology and virtual programming to optimize staffing size and employment opportunities. The incorporation of virtual programing and events provides the institution and its employees with more adaptable, inclusive and cost-effective opportunities to engage with the community.

The pandemic also illuminated the complex business models of cultural institutions. Performance and admission ticket sales, government contracts, philanthropy, and endowments are the key revenue levers. Flexibility from donors, increased government spending to support a vibrant arts and cultural ecosystem, and lessons learned from institutions that have reimagined their endowment spending should not be lost post-pandemic.

20 Commonfund, Evolving Asset Allocation and Policy Portfolios (Video), Retrieved Winter 2021
21 Commentary: Art Museum Endowments Soared in the Pandemic. So Why Sell Art to Pay Bills? Retrieved Winter 2021
22 Upstart Co-Labs, The Guide: What Cultural Institutions Need to Know about Investing for Values and Mission, Retrieved Winter 2021
23 AFSCME Cultural Workers United: Accountability Report, Retrieved Winter 2021

Governance

The importance of transparency between board members and the communities they serve is apparent. We have seen evidence of this as cultural institutions consider who serves on their board, who they accept philanthropic gifts from, and who has access to their institutions as patrons and supporters. Following the framework of community-based participatory research, we encourage cultural institutions to solicit feedback from and involve their communities in cultivating a mutually beneficial relationship. By fostering an explicit pathway for collaboration between patrons, the wider community and the board, ways to support and engage the community through initiatives and inclusive practices can be identified. The implementation of surveys or an open-comments web page is a starting point for community members to feel a deeper connection to the institution and for the board to incorporate sentiments from their community into governance decisions.

With many cultural institutions reopening their doors to the public now that COVID vaccination rates are steadily increasing, it is imperative that they learn from the past two years and recognize the importance of strategic planning in endowment management, operations and governance. Prioritizing innovation and reevaluating brand and communications strategies that seeks input from the community and fosters a culture of social inclusion will help to ready cultural institutions for future stress tests that may confront them.

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