

National Arts Strategies

This talk was delivered by NAS President and CEO Russell Willis Taylor as the keynote address at the Bolz Center Collegium at the Wisconsin School of Business in Madison on September 16, 2010.

It's a great pleasure to be here – I always enjoy spending time in this beautiful town, and as all of you know Andrew and his students are leaders in the field. As most of you are alumni, that makes you leaders by implication. That makes this, in theatrical terms, a tough house, but a great one to play.

I think this is the best of all times to be a cultural leader. While we revere the taxonomy of for profit vs. nonprofit, most consumers don't care, and what is exciting about right now is that in this tectonic economic shift we are seeing we are also focusing on meaning rather than money – and that is our stock in trade in the arts. This is a period of great reinvention, and while I know how difficult it is I want to start by saying that we have never needed the arts more, and the work that you do in this field has never mattered more.

I want to talk today about cultural leadership, with specific attention to four topics that I think might interest you.

What shall we talk about?

Convergence

Value

Scope and Scale

What next?

The Bolz Center Collegium, September 16, 2010 RYWT

Page 2

1. Culture and convergence: The world has changed, consumers have changed, and we find ourselves in a strange new landscape with greater consumer power and more competitors than ever before. What's the pattern, how do we address it, and what does it mean for our business models?

2. Value: Leaders can no longer assume that value is implicitly understood by their audiences and donors. How can we take a fresh look at the value that we

create and find new ways of expressing that value? And by the way, what value are we creating?

3. Scope and Scale: We are reaping the harvest of unplanned growth. How do we unpack the notions of place and purpose and identify what is the appropriate scope and scale of our organizations in the future?

4. Now what? This will be my thoughts on what happens next for the gifted leader, a category which includes all of you.

Convergence

What does this actually mean? We hear the term a lot and it goes well with the word culture, but what does it mean for us? I would like to tell you about our program on this subject, coming soon to Ross School of Business.

Leadership and Convergence is a three and a half-day residential program that will take place on the University of Michigan campus on November 1-4, 2010. It is based on the premise that cultural leaders are working in a radically different environment than in decades past. The market now provides an almost endless array of choices for consumer time, money and loyalty. Over the past decade, consumers have stopped making the traditional, rigid distinctions between the benefits they get from leisure activities, artistic offerings, commercial products and nonprofit offerings.

At the same time, new technologies (such as high-definition broadcasts), product and service innovations (such as theatrical, immersive experiences at retail stores), and new production models (such as participant-created content and experiences) have brought leisure, arts, and entertainment sectors into each other's historically separate markets. This convergence in both the mind of consumers and the market scope of organizations has changed the stage for arts and cultural organizations.

In a recent gathering in which Andrew Taylor of your own Bolz Center was both a speaker and a participant -- a Salzburg Seminar on the future of the performing arts, we reached some conclusions about this convergence and what it means. The full report is on our website and may be on Andrew's as well. In short, after 4 days, we concluded that: *We face broader societal changes that present challenges to institutions founded on principles no longer universally held. The relationship between the arts and society is evolving as changes in demographics, in technology and in how people can and do spend their leisure time fundamentally challenge old models. Is this a 'marketing' issue or does it go to the core of what we do, and why and how we do it? What do we hold on to as core, what do we need to jettison?*

The world has changed. How? Let's look at a few statistics (again you can get the full report on this from a joint convening that we did with the Getty Leadership Institute some time ago, and these statistics are a couple of years old because of

that, but still very relevant to our understanding of what has changed and how – and how we might respond to it).

We spend more time alone, consuming personalized “car culture”

The percentage of U.S. commuters using private vehicles in 2005: 88

The percentage of these commuters driving alone: 90

The percentage of U.S. commuters using private vehicles in 1960: 64

The Bolz Center Collegium, September 16, 2010 RYWT

Page 3

People have much longer commutes than they once did, and it is worth asking whether people are compensating for longer work commutes with shorter leisure commutes.

We are also seeing a democratization and customization of culture:

We enjoy more customized culture

- *Number of unique radio stations operated by Clear Channel radio: 1052*
- *Estimated total number of radio stations in the U.S.: 13,000*
- *Number of cable channels in 1980: 28*
- *Number of cable channels in 2002: 280*
- *Number of unique internet radio channels operated by Live365: 5000*
- *Number of unique custom music channels operated by Pandora: 6,000,000*

The Bolz Center Collegium, September 16, 2010 RYWT

Page 4

We are living in a world where many of our audiences are time poor and choice rich...

Time poor

- *The dollar value of all unused frequent flyer miles: 700,000,000,000*
- *The number of years it would take to use up all of these miles: 25*

The Bolz Center Collegium, September 16, 2010 RYWT

Page 5

...and where we spend this increasingly scarce time resource doing more and more in every minute, and where one of the biggest luxury activities is sleeping.

Parallel processing

- *Percentage of American workers whose lunch lasts less than 30 minutes: 55*
- *Percentage of workers who spend lunch “working with colleagues”: 49*
- *Percentage of adults who engage multiple simultaneous instant messaging conversations: 16*
- *Percentage of teens who do: 45*
- *Number of sleeping pill prescriptions filled in 2000: 26.25 million*
- *Number of sleeping pill prescriptions filled in 2005: 42 million*

The Bolz Center Collegium, September 16, 2010 RYWT

Page 6

We are cultural omnivores, blurring the lines between our different appetites in a way that makes the formerly neat boundaries of marketing efforts increasingly irrelevant.

Boundaries are shifting

A young person who likes classical music is nearly two times more likely to enjoy rap music than a young person who does not like classical music.

The Bolz Center Collegium, September 16, 2010 RYWT

Page 7

Commercial companies aided by new technologies have found ways to enter markets that were not previously profitable for them: one of the biggest competitors to live theatre now is – any guesses? HBO.

So one of the challenges we face as cultural leaders is designing and delivering experiences to audiences that may not be as interested in the traditional, non-participatory, pre-curated, long-form cultural offering as those who populated our audiences in the past. The structures that we have created to deliver our work may not fit consumer needs as well as they once did, given the changes in consumer needs.

A lot of people are writing about new business models for our field at the moment – Barry Hennesius has written some very good things on his blog, and Andrew has no doubt alerted you all to the innovative new business planning book written by Alexander Osterwalder.

I won't spend a lot of time on business model theory today, but I will say that we cannot escape the fact that form follows function and if our function is changing, then so must the form of our organizations. I will talk a bit more about that later.

Our main concern today may be what has value for audiences and communities now, and how do we deliver it?

Value

Price is what you pay,
value is what you get.

Warren Buffet

The Bolz Center Collegium, September 16, 2010. RYWT

Page 8

There is an irritating thing about value, which many business writers have expressed in very different ways. The tricky thing about value is that we, the producers, don't determine it. We set the price, and we sometimes are optimistic in assuming that our *core values* as an institution are automatically transferred to buyers when they meet our price and attend our events. But value isn't something we determine – it's the consumer who determines value. Like beauty, it's in the eye of the beholder. And we are now at a point where the gap between what we as insiders think the value of culture is, and what we want it to be in order to continue with business as usual is widening, and our views don't seem to be quite in synch with how society at large values our work.

One of the challenges we face now as leaders is articulating the value we do provide, and creating value where we may not be at the moment. For example, if we want to create real value within communities, we have to recognize, in my view, that while most arts organizations are formed around the idea of being about something, if they are not equally "for somebody" as well they may have far less value for a community than we would wish. Our cultural institutions must reflect as well as lead.


Part of leadership is to make decisions about the community that we choose to serve, and to create a consensus within and around the organization as to that community. It can be defined geographically, socially, technologically, or by issues of taste. But clarity about the community one serves and the relationship to it is critical – the temptation to try to be all things to all people dilutes our value to those we can really engage. Community engagement is not incompatible with fundamental artistic responsibilities to take risks and advance the art form, maintaining artistic standards.

We have a lot of well rehearsed value propositions that somehow don't add up. Some of you may have seen a recent article highlighted in the Chronicle of Higher

Education, written by Mark Bauerlein. He talks about how we have focused so much on the arts within the curriculum as creating value for picking up young people who might otherwise be lost within the system that we seem to have forgotten the real intellectual value that the arts provide for anyone pursuing an education. He puts it: *This ties arts learning too much to social benefits and downplays the arts as an academic subject. It doesn't insist upon the arts as a discipline, but sentimentalizes the arts as salvation.*

He goes on to say that the study of the arts should be, and should be seen to be, rigorous and demanding. Imagine a math teacher talking about the principle value of their subject being to boost self-esteem. The arts are worth studying as a discipline in their own right, and form a body of knowledge that students benefit from both technically and intellectually.

I know that Andrew recently highlighted on his blog the work of John Kay, a British economist. Kay has an elegant and irrefutable observation about the limits of economic arguments for the arts, valuable though they are in providing language to those we want to support us. Kay notes that if you take this kind of thinking into another arena it begins to show its weakness: he notes that illness contributes about 10 percent of the UK's economy (jobs, facilities, etc.) and that therefore the British government should do more to promote illness. In his words:



Activities that are good in themselves are good for the economy, and activities that are bad in themselves are bad for the economy. The only intelligible meaning of “benefit to the economy” is the contribution – direct or indirect – the activity makes to the welfare of ordinary citizens.

John Kay,
Financial Times
11 August 2010

The Bolz Center Collegium, September 16, 2010 RYWT

Page 9

To go back to some of the conclusions we reached at Salzburg about our real value: Artistic expression is, by nature, disruptive, and artists are often agents of change. The alternative perspective they offer allows the arts to help communities reevaluate ways of thinking, examine critically philosophical issues, and embrace values that transcend the mundane. An arts leader's role with regard to community is not to seek institutional structural preservation, but instead to look at how connections can be made that will benefit the community. Arts organizations offer a chance to celebrate purpose, refocus values, and form a collective identity. The arts can also be a rare, flexible and porous part of the

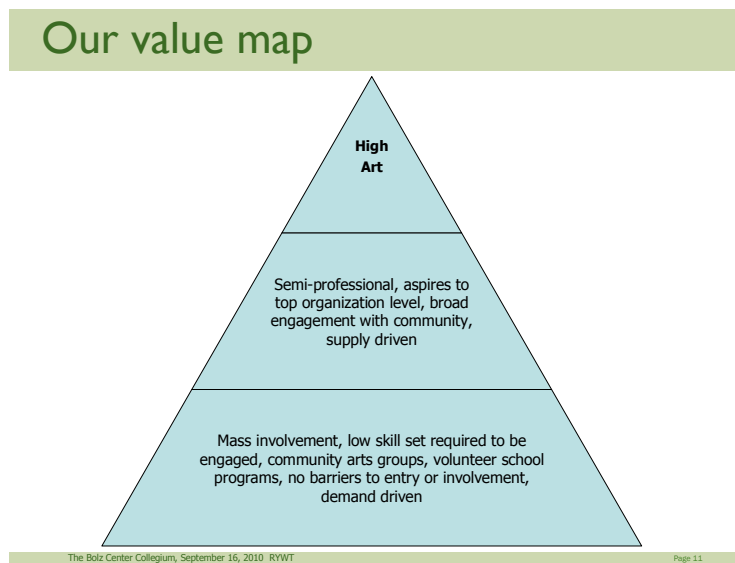
creative infrastructure within a community, finding common ground in the act of either creating or enjoying artistic expression.

Arts activities offer the opportunity for partnerships that unite universities, governments, artists and the broader community. Artistic organizations can become the “R&D” function for their communities as citizens look at new ways to view the world around them and the challenges they may face. Arts organizations can be the risk-takers in communities, bringing in new ideas that give people permission to think differently. And finally, one of the greatest contributions that the arts make to community building is to create a broad sense of empathy for difference, and a celebration of what makes each community unique.

Whatever your view of America today, I wager you will agree that this is real value, and badly needed.

On our marketing seminar at NAS, we ask leaders to articulate very specifically what their value proposition is. Many of the most talented leaders in the field find this harder than they might have guessed, but once they have done it they agree that it has an impact on how they tell the story of value to board members, donors, and audiences.

I have a feeling that part of the reason we sometimes have difficulty articulating value, or thinking about how we might create it, is because we are all trying to climb into the same value creation space. I am sure you will want to shout me down about this, but I sometimes feel that we are trying to do this:



We are all crowding into the space at the top, thinking that you can't aspire to artistic perfection and also serve the bottom of the pyramid. And now for something really controversial: we run the risk of creating more value for our employees than our audiences when we do this. Professional security and recognition are important but may not create universal value.

With the rapid democratization of all information and culture, huge gaps in education systems, and the needs of the younger/poorer/time rich and cash poor audiences, which space in my crudely drawn pyramid would you think would be the biggest growth area? And would therefore have the most resource and competitors? And yet . . .

And finally on the topic of value: Clay Shirky writes about the difference between communal value and civic value. Communal value is for the already interested – he uses some cat website that I have to confess I do not know but which features funny videos of cats -- as a communal value website. But civic value is for the benefit of society at large. Perhaps we need to move away from communal value, and explore what our civic value should be? Many of you no doubt already do.

Scope and Scale

When the downturn really began to bite, John Hennessey, the President of Stanford, sent a refreshingly honest letter to the wider Stanford community of alumni, donors, and faculty. In it, he said that the downturn had been a wake up call for Stanford and that it offered one of the most important opportunities in a generation – the opportunity to consider the appropriate scope and scale of Stanford now and into the future.


It is generally acknowledged that we have had a building boom over the past 20 years in the arts, from performing arts centers to museums. I do not say that this is a bad thing, but it is possible that we have overbuilt. (NAS is playing a small part in a very thorough research project on this subject led by the Public Policy Institute at the University of Chicago, the results of which will be published in the not too distant future.) It changes the capital structure, and research is going on now to find out if it changes the level of artistic risk that organizations take, when your fixed costs escalate and the scale of your work grows in advance of demand. All of us are now looking at how big we really should be as a field, and are our resources in the right areas to meet demand?

In the commercial sector, you build a physical plant because over time it will either save you money or make you money. In our sector, we have built in large part because it gave us presence, physical presence, and the security of freehold. It made us feel more established, and it made our performing staff more comfortable. These are all good things, but it is possible that we have now reached a point where we have confused place with purpose. The great economic writer Edith Penrose noted in the 50's that unplanned growth without spare management capacity could kill a company more effectively than bad management or bad luck. If you think about our own management capacity, we may need to look at our definitions of growth more closely. Does it always have to mean getting bigger?

Edward Hess, a professor at the Darden School, the business school of the University of Virginia, has written some very intriguing articles about how the US corporate growth model is flawed. By making growth our dominant metric, we

force companies to maximize profits in the short term at all costs. We have all seen what one of the outcomes of this can be – we are living it. But Hess makes some even more interesting arguments about our need to unpack our assumptions that growth is synonymous with continual improvement. The latter is essential for any business, the former may not be. I believe that one of the real leadership challenges we face is reframing the thinking about growth in our field. I suggest that we need to be very aggressive about continual improvement, and very cautious about growth.

I know that this can be difficult. Funders, donors, and most of the system seem to conspire to make this an unattractive proposition.



The value of culture cannot be expressed only with statistics. Audience numbers give us a poor picture of how culture enriches us.

John Holden, Demos
Capturing Cultural Value

But we should hold fast against the idea that our legitimacy and our power as force for good within a civil society derive from being big. We should remember these sobering facts:

- 54% of arts organizations saw increases in demands for services, 64% expect increase for demand in 2010
- In 2009, 37% had an operating deficit
- In 2009, 32% had an operating surplus, 26% expected a surplus in 2010
- 13% have no reserves
- 65% have less than three months cash on hand

Source: Nonprofit Finance Fund, 2009

We should look at the impact we have and the resources we are likely to have, and perhaps, just once, we should have a year when we deliberately accumulate a surplus for a working reserve rather than spend everything we have on a new production.

Joseph Horowitz has written very compellingly about the rapid rise of an overproduction of concerts as the business model for many orchestras. Consider this:

“Every year our expenses go up, but the donations remain the same.”

Zubin Mehta,
LA Philharmonic
Interview, 1969

I think I may be able to guess what is causing the problem . . .
We need ambition, and we need to dream the impossible dream. But we don't have to be the size of GE to do it.

Frugal Arts

I am intrigued by the concept of frugal engineering. This is when you don't try to make incremental cuts in what you are doing (GM making a cheaper car) but you try to forget what you have learned about the right way to create something and you start with what is needed. This process is why Tata can create a \$5,000 car. When you are answering the question "how can we save lots of money on a \$25,000 SUV" you come up with something that looks like a cheap and badly made vehicle. When you are solving the problem of "how can we build something that takes less energy than walking and can be affordable to people with an annual income of less than \$10,000?" you come up with a mass market car at the \$5,000 mark. And cup holders don't really feature . . .

Perhaps there is a market space here that we are overlooking. Community Music Works in Providence, Rhode Island isn't ignoring it. The National Theatre of Scotland, who declined a custom built multi-million pound building offered by the new Scottish parliament because they want to be forced to travel around the country and create work for everyone in Scotland -- isn't overlooking it. And the artistic product of these two companies is incomparable.

Now what?



The Bolz Center Collegium, September 16, 2010 RYWT

Page 15

One of the many great thoughts from the great writer C.K. Prahalad, who passed away just a few months ago, is the insight that you can't define the next practice with lots of examples and templates – by definition it's not happening yet. Big ideas are always breakthroughs, not part of the pattern that came before.

So I will now step out into space and give you my predictions for those activities, preoccupations, and characteristics of successful cultural leaders in the future. And the future, as they say, starts now.

I sometimes ask people who run very big institutions if they had all the resources, talent, and knowledge that they currently have and were going to build something that would achieve their mission from scratch today, would it look like what they have? The answer is always no.

The challenge of gifted cultural leaders is always going to be navigating that gap between what the future should look like and what you have now. Your value to your organization and to the field is your ability to see how what you have now might be reconfigured and redesigned, and to convince people to cross that gap with you – to help them find the stamina to make it. And when you get there, to be ready to do it all again if need be. I have run a very large organization, and I don't make this assertion lightly. But the first task of the leader, or team of leaders, must be to see where you need to go.

Prahalad also introduced the new concepts of marketing to the bottom of the pyramid – and for our purposes let's use my pyramid rather than his. He asserted, and I agree, that we need to forget the old fascination with the four Ps: Product, price, place and promotion, and instead embrace the new A-s: awareness, availability, access and affordability. We need to focus on the value others place in our work, not what we wish were there.

I think that we will be successful as cultural leaders when we accept this fact:

This house proposes:

**The moral high ground is
neither a business model nor
a strong value proposition
for a cultural institution.**

We need to be consumed by our appetite for data – we should want to know as much as we can about trends, audience behavior, and general societal changes. While we don't want to “commodify” our audiences, we do need to create relationships and not transactions and to do this in a smart way we need information and real facts, not sentimentality and supposition. The Royal Shakespeare Company in England recently sifted through 7 years of sales data which they analyzed for a marketing campaign that increased regular ticket sales by 70%. By examining more than 2 million transaction records they discovered a


lot of things about their customers' needs, desires and lifestyles that allowed them to use the scarce resource of marketing money with an extraordinary result.

We need to recognize that collaboration is the new competition (as many have said before me). If we aren't going to grow unnecessarily we need to find ways to be bigger without getting bigger, and collaboration is the way to go.

We need to invest everything we can in developing and educating our work force. As the head of NAS, I would say that wouldn't I? But really, our competitive advantage will always lie with our people. I believe – and have said to varying degrees of disapproving reaction, that we should pay people what they are worth, take care of them, and fire them if they don't do a good enough job.

We must accept that uncertainty is the price of innovation. There are no guarantees, and we are no worse off than many fields.

We need to approach every day believing that this is the ultimate test of our ability as a leader:



The ultimate test of your organization is
whether it has a life beyond you.


Jon Washburn
Founder, Vancouver
Chamber Choir

And we need to celebrate constraints. Referring to C.K. Prahalad again, he wrote an amazing article called the Innovation Sandbox in which he noted that being very clear about constraints gives rise to extraordinary innovation. We teach at NAS on our own Leading Innovation seminar that you should, in the words of David A. Owens, think *inside* the box. Innovation is making things happen, not generating new ideas that will never get off the launching pad.

And finally, we need to recognize that in an age of co-creation, where 70% of commercial companies are creating value through on-line communities of one sort or another, technology is our friend. The passivity of an art form which is delivered only in person or only to people who want to show up is out of synch with what our customers and communities want. There is no replacement for live performance, but there are a truckload of good alternatives.

Participation is everything: Almost all of the newer recreational arts and culture activities, commercial or not, engage more of our senses, neurological resources and intellect than ever before. Passivity is boring to most younger people. Consider that the NEA estimated in 2008 that there were approximately 78 million Americans participating in the arts at least once a year. This included mainly the nonprofit sector, but the way the data is collected it would be very hard to think that all of this is nonprofit activity. About ½ of this is attendance at outdoor events. This is a great number for a field that has been around for over 50 years, but this number has declined since 2002. Compare this to World of Warcraft, an MMORPG or massively multiplayer online role playing game. This was started in 1994 and has 11.7 million monthly subscribers in North America. It's participatory, it's theatrical, it's creative, it's not time-sensitive, and it's portable. W of W is our competition – we don't have to look just like it but we do need to recognize that we are competing to add value in this market arena: cultural recreation. Steven Johnson in his great book Everything Bad is Good for You notes that when we think that low quality popular culture is eclipsing our work, we should bear in mind that generations of people are being trained, yes by TV and online gaming, for far greater complexity in their entertainment. He notes: "The sky is not falling – in many ways, the weather has never been better. It just takes a new kind of barometer to tell the difference."

We should celebrate that although times are hard, we are in the right business. We are in the meaning business, and it trumps the money business every time. You will all be familiar with this famous quote by the late Robert Kennedy, but it has never been more apposite.



"Yet the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile."

Robert F. Kennedy

**Address, University of Kansas, Lawrence, Kansas,
March 18, 1968**

I wish you every success as you continue your work and thank you for your attention.

RYWT