COLLECTIVE
INSOURCING

A Systemic Approach to Nonprofit Arts Management

BY GUY YARDEN & SARAH MAXFIELD

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Most administrators working in the performing arts have experienced various pitfalls of the U.S. nonprofit system. Regulatory and funder requirements exceed organizational capacity and experience; as costs increase with growth, disproportionate resources are required to maintain *the institution*, which detracts from efficient delivery of programs; frustrating structural and behavioral inefficiencies abound; addressing donor desires adds complexity; and there is a perpetual lack of resources to invest adequately and directly in artist projects. On top of all this, nonprofits are exposed to capitalism's growth imperative, which applies a constant pressure that can stress, dilute or limit the ability to achieve mission-related goals.

For too many years, individual staff members in small and mid-size organizations have been required to fulfill disparate roles, often in excess of their own experience and sometimes to the detriment of their work product. In a well-resourced, profit-making company or even a large nonprofit, a CEO will have the support of various other management positions,

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all specifically trained in fundamental, integrated business practices and in their own core areas of responsibility. However, in the nonprofit arts, it's not uncommon to find: an artist who founded a company for their own creative pursuits spending a disproportionate amount of time managing an overly burdensome administrative workload with insufficient staff support; an executive director struggling with lack of resources to train/supervise inexperienced staff and develop better operational systems; a finance director overseeing an IT infrastructure relying on limited experience and a hodge-podge of outsourced services; a development director, whose experience lies in grant writing and event management, trying to build and maintain a donor database without the time, knowledge, or staff to do so; a volunteer board member who feels they are spending too much time on fundraising or organizational oversight because the organization is under-resourced or not optimally managed. In the nonprofit arts, we have come to accept such convoluted structures as inevitabilities that can be corrected only through growth, by obtaining new contributed income support, which often produces new challenges. Instead, can we leverage our abundant creativity and functional commonality to create superior structures?

Overall, the nonprofit operating format is highly complex in relation to the resources that are available to maintain it. Implied in the word 'nonprofit' is a break-even operating approach – one in which, on annual basis, enough income is generated to cover estimated costs. On the surface, this appears straightforward, yet the complexity is evident when we explore certain factors. In running a nonprofit company, we are faced with the indirect cost of maintaining relationships with many types of stakeholders and of complying with donor, board, and government regulatory requirements. While these residual costs may be vital to maintaining desired funding, in the aggregate, they drain

already limited programmatic resources to pay for expanded infrastructure, while expectations increase at the same rate as (or disproportionately higher than) income growth.

In part, the failure of current nonprofit arts management methodology stems from the complex demands of operating unprofitably within a profit-oriented superstructure and the adaptation of profit-making thinking to serve nonprofit purpose. Nonprofits are subject to a dominant economic system that relies on predatory, opportunistic behavior, yet this system is counter-intuitive to nonprofit purpose. Nevertheless, as a nonprofit grows, it becomes more reliant on the dominant system for goods and services. A nonprofit's ability to grow fast enough to sustain costs is constantly tested and, even with discounts and pro-bono services, organizations struggle to balance operational needs with programmatic delivery. To compound matters, nonprofits have a disproportionally high *cost of sales* in order to attract contributions from funders, in addition to selling products and services to buyers (audiences, students, professionals). Specific expectations tied to funding from government agencies, corporations, and individuals to advance secondary agendas also can contribute to dilution of purpose and effect.

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While a fundamental purpose of a profit-making company is to generate net financial gains and distribute these gains to shareholders, achieving nonprofit purpose is less straightforward. Individual motivations and goals change when social compensation replaces financial compensation, and the metrics for measuring success of such goals become much, much more complicated. The implication of the term *unearned income*, itself, is a significant logistical and psychological challenge. Finding the right combination of buyers and funders to support programs and services is very different than relying solely on market demand for a product. Furthermore, built into nonprofit thinking is a disincentive to achieve financial surplus. Lack of accumulated capital can create significant cash flow challenges and limit ability to invest adequately in ongoing maintenance and sustainable expansion efforts. One disturbing result of this complexity is that artist/project funding has not kept pace with the cost of production or with the demand for resources. Artists continue to rely heavily on income from unrelated work[1] while struggling organizations use limited resources to support the maintenance of demanding administrative and social infrastructures. Many aspects of this complexity are considered to be operational risks and, therefore, an acceptable cost of doing business.

A new approach to arts management could offset these costs, while providing more adequate resources to artistic and programmatic activity. This approach would respond to the unique requirements of nonprofit activity in order to define a structure that helps organizations achieve their missions in collaboration with various stakeholders and through collective leveraging, rather

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1   e.g., see DanceNYC study, *Workforce* section (p. 23): http://www.dancenyc.org/images/State_of_NYC_Dance_web.pdf

than independently, in perceived competition with each other. Differentiation (uniqueness) would be recognized in creative and programmatic output, which is where it is needed to attain funding and attract public interest. Everything else required to run a nonprofit arts program or project can be considered to be the same as or similar to thousands of other nonprofits.

There is no advantage in keeping nonprofit operating systems proprietary and in-house, because these systems are not what make each organization special.

What differentiates artists and arts organizations is the creativity and individuality of the content they produce, not the procedures required to maintain a nonprofit company. This is different than for-profits, which may develop proprietary operational methods to produce similar products to their competitors more efficiently and achieve greater market share for a wider profit margin. Artists and arts organizations don't compete in this way because their *products* are each original. There is no advantage in keeping nonprofit operating systems proprietary and in-house, because these systems are not what make each organization special. An organization's programmatic output is what ensures its identity and longevity, and reducing the amount of time it wastes on duplicative efforts and inefficient systems increases its potential effect.

A SYSTEMIC APPROACH

We hypothesize a systemic approach to resolve or mitigate many of the challenges described above. Artists and organizations can benefit greatly from sharing systems in order to control costs and refocus resources on creative and programmatic activity. In fact, nonprofits have been informally sharing resources for years. Formalizing, reorganizing and leveraging a system for sharing collective resources can produce greater financial health for nonprofit arts organizations and can have a resounding impact on these organizations' abilities to achieve mission-related goals.

Our *collective insourcing* model proposes that routine processes of multiple arts organizations can be delivered through a shared, self-sustaining agency owned by its clients. The model may be applicable to various nonprofit fields, though initially we are focused on the arts. By shifting common processes of many organizations to a shared system, there is a multiplier effect on limited resources, specifically: time, money, and labor. Administrative processes that are currently duplicated within and amongst organizations can be aggregated and streamlined. Financial resources will have greater residual impact because any surplus generated by the client-owned agency is returned to the clients through lower fees, enhanced services, or shareholder distributions. Work product is delivered at substantially lower cost due to standardized practices, enterprise-level data systems, high-volume transactional processing, and collective utilization of labor. It is important to explore a client ownership model, rather than one based on outsourcing to third-party providers. For-profit companies outsource in order to find less expensive labor and achieve greater profits. However, when nonprofits outsource they often contract at higher hourly rates than their own employees receive, and this limits potential investment in programs.

We anticipate that the services provided by the new agency will be those that can be significantly

standardized and systemized. The model relies on identifying which administrative and production needs have enough commonality across various organizations to allow them to be shifted from each individual organization to a new, shared agency. Also, the model relies on being large enough in scale to gain the greatest possible benefit for each client, while not becoming so large or complex in its own activity that it dilutes its own effectiveness.

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It is important to recognize that existing service organizations offer some administrative services, but they are not comprehensive in nature, and they themselves are reliant on contributions for survival, meaning they compete with the very constituents they serve. Often, the services they offer are too diverse, and their resources too limited, to allow for managing large-scale transactional processing. While an existing service organization could be realigned to serve in the new model, it would have to convert to a client-owned agency in order to achieve the best reciprocal results between it and its clients. Also, it is important to understand why the proposed approach has a better chance for success than, for example, a few small companies pooling their resources to hire a shared staff member. While a company may perceive they are losing autonomy by not having direct control over their labor force, in fact, they are gaining something far more valuable – time recovered from administrative supervision to apply towards program delivery. Selection and acceptance of standardized processes and administrative products will allow for a significant streamlining of administrative work and the elimination of redundant efforts. In effect, the collective insourcing model creates a container for and recycler of limited financial resources, eliminates currently duplicated systems that serve common needs, reduces competition for limited funding, and maximizes resources available for program goals.

Even with the assertion that a nonprofit organization is inherently different than a for-profit company, there are valuable things to be gleaned from certain innovative profit-oriented companies and models. For example, there are increasing global trends towards generating profit and customer benefit through fractional ownership, pooled resource models, and client-owned structures. We can consider horizontal and vertical market and integration examples, such as a large company investing in its own supply chain, thus having a significant control over the cost and quality of the supplied resource. We can learn from agricultural and other business cooperatives, to understand how shared systems and resources can produce great benefits for all involved.

Perhaps most important, the building of a legitimate model requires understanding the unique requirements of achieving nonprofit goals, including a thorough evaluation of current practices, examining closely how organizations operate competitively, collaboratively, and collectively. We can study reciprocal systems to identify methods that amplify the recycling of assets within a nonprofit framework, such as artist employment. Research can further investigate organizational theory, centralized vs. decentralized operational functionality, and shared vs. proprietary processes and systems. With the ultimate purpose of helping companies refocus their resources on mission-related goals, our initial research and modeling proposes to explore many important questions:

- **Current Practice:** In what ways are energies and monies being drained from mission focus by structural inefficiencies, staff turnover, lack of training, lack of coordination and similar issues? Which elements of current nonprofit practice are essential and which are extraneous? Which elements are duplicative and which are unique?

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- **Organizational Change:** Which business processes can be extracted and delivered by a shared insourcing system? How will this system work in practice for the clients? How will this system be 'governed' by the client-group? Which services benefit from consolidation and which elements of an organization's operations must remain individuated?

- **Direct Effect:** What would an arts organization look like after many of its administrative processes are transferred to a separate administrative agency? How would it change the quality and/or quantity of the organization's output? How much labor would be shifted from the arts organization to the administrative agency? How much in cost-savings can be realized for participating groups? How will this system better support mission focus and delivery? How can this approach reduce the siphoning of resources away from the primary focus of the organizations?

- **Residual Effect:** What does cost-savings mean in this model? It is not a reduction in spending on labor in order to benefit fewer people with more compensation. Instead, it proposes the redirection of labor and other resources to programmatic activity. Can we create a model in which artists earn more income from their artistic work and less from other jobs, thus leaving jobs available for others while artists have more time to focus directly on creative work?

- **New Systems:** What is the best organizational design for an administrative agency that efficiently and discreetly manages the administrative needs of multiple arts entities? How many companies can it service while still maintaining optimal effectiveness? What are the best methods of processing work and communicating between the clients and the administrative agency? What is the legal structure that allows for a meaningful collective ownership of the administrative agency and what oversight mechanism will ensure an optimized administrative product for the client-owners?

- **Systemic Change:** How does a new operating model go about replacing an existing model? What incentives to change are required? Where is the resistance to change most likely? How would a new administrative agency start up, and how would it become self-sustaining?

- **Measurement:** What non-monetary metrics can be developed to measure impact in areas such as operational efficiency, mission focus, programmatic delivery and community engagement?

In the proposed model, a client-owned agency would support administrative needs in core areas

that are common to most nonprofit arts organizations, including:

- **Accounting** (receivables, payables, deposits, payments, cash management)

- **Budget Planning and Reporting** (creation and maintenance of budgets/forecasts, cash-flow projection, grant budgets and reports, board reports)

- **Legal Compliance** (audit and financial review preparation, tax filings, charities bureau filings, workers' compensation, unemployment insurance, liability insurance, visa applications for visiting arts workers, maintenance of organizational policies)

- **Human Resources** (payroll, health insurance, retirement; the professional employer organization (PEO) model could be an approach, since it is designed to aggregate multiple groups and take advantage of collective purchasing)

- **Facilities Management** (real estate and equipment lease management, building services management, daily maintenance, regulatory compliance)

- **Information Technology** (web and email hosting, equipment deployment and troubleshooting, software installation and maintenance)

- **Document Management** (document storage and back-up systems, physical storage for archival records)

- **Bulk Purchasing and Distribution** (ordering, receiving, and delivery of office and production supplies with an emphasis on local and sustainable products)

- **Banking, Loans, and Investments** (opportunity to pool funds and achieve greater return and liquidity for small and mid-size organizations)

- **Shared Space** (creative workspace, desks, and meeting space for a mobile workforce)

- **Administrative and Production Staffing** (hiring, training, and scheduling of hourly administrative and production staff)

- **Research and Dissemination** (ongoing research and distribution of updated best practices and cost-saving, mission-focusing measures)

- **Community-Building** (fundraising and marketing have certain elements that can be performed in the collective insourcing model and certain ones that will remain individualized)

Converting to, or even considering a new model, offers several challenges some of which are behavioral and some structural. For some organizations and individuals, there will be resistance to letting go of certain work processes, a fear of change, and an attachment to existing hierarchies. For more complex organizations, the realignment of labor needs and absorption of a new methodology will be particularly difficult. The most obvious early adopters of such a model would be new and small companies, where there is less to unravel and reorient. However, aspects of the model may be useful to larger organizations as well and, in a large-scale model, perhaps a group of agencies, each providing distinct services, will be more productive than a single agency providing comprehensive services. We are particularly interested in determining how the new model can

serve independent artists as well as organizations – perhaps decreasing or eliminating the need for artists to incorporate unless specific goals beyond personal artistic production warrant the cost of institutionalization.

Historically, nonprofit arts organizations have resisted change because there is no system in place to support anything but institutionalization, which perpetuates the requirement of proprietary systems and staffing. A replacement model would resolve many of the obstacles that stand in the way of more deliberate and complete focus on art-making and art. It would eliminate or delay the need for institutionalization while maximizing potential for programmatic activity.

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POTENTIAL IMPACT

While it may appear that activation of this model would result in reduced employment in the nonprofit arts through the consolidation of numerous administrative positions, we propose that the net effect would be to increase work opportunities. By reducing the resources needed to maintain administrative and operational requirements, organizations have more resources to devote to the direct delivery of mission. An organization that is not struggling under the weight of out-sized overhead can create more programmatic jobs and devote more resources to artist projects. Net costs might remain the same, but nonfinancial resources, primarily time, would be better spent. When organizations can spend less time managing high-turnover or complacent administrative staff, they can spend more time creating art, delivering programs, and supporting communities. Growth occurs naturally and integrally.

For artists, this new approach could mean higher compensation, more residency opportunities, resources to increase production values, and a more meaningful recognition that their work is central to the nonprofit arts mission. For program administrators, this approach alleviates significant time and energy currently consumed by non-programmatic activity. For non-program administrators, this approach elevates and focuses their skills and experience to deliver higher-quality work for a large, diverse group of clients. For organizations, this approach frees monetary and other resources from the drain of duplicative staffing and the strain of consistent turnover and training issues, allowing organizations to focus more resources directly on delivery of their missions. For funders, the approach leverages greater social return on the investment of their resources, increased clarity in reporting, and healthier grantees. For audiences, due to the increased resources available for programmatic content, there is a potential for increased access to information, improved production values, and more fully realized artistic work.

DEVELOPMENT AND IMPLEMENTATION

A development phase would build on experiential research already collected to develop the conceptual model. The model-in-development would be tested in a variety of ways, including peer review, legal structure analysis, financial assessment, and existing resource comparisons.

It is vitally important to strenuously test and refine the model in order to mitigate potential dysfunction, inefficiency, resistance, and change aversion. If this testing results in a viable model, a comprehensive business plan can be developed for the creation and management of a client-owned agency, implementing a new model for nonprofit management. Start-up funding would be secured to establish a legal structure, design/build necessary operating systems, hire/train staff, and develop client/owner participation.

Over many years of nonprofit arts operations, we have yet to experience a coordinated, systemic approach amongst organizations to resolve nonprofit arts management challenges. Offering services on a piecemeal basis often complicates matters rather than resolving them, because existing service organizations themselves are stuck with the inefficiencies of the nonprofit model and, thus, the problem is compounded. The lack of direct ownership in an arts service organization by its clientele means the individuals providing oversight and governance are too distant from their clientele's objectives, which leads to the digression and inefficiency previously discussed. Creating a purpose-built, self-sustaining, client-owned agency to service administrative needs could generate new resources and regenerate existing ones, benefitting all involved far more than continuing to build on existing systems.

Changing the ways in which we distinguish uniqueness and leverage commonality to support mission and goals can result in greatly improved effectiveness and strength for artists, nonprofit arts organizations, and their communities.

ABOUT THE WRITERS

Guy Yarden has participated in the U.S. nonprofit arts modality as artist and administrator for over 30 years. He has advanced his understanding through a variety of roles including, student, music improviser and composer, collaborator, printer, bookkeeper, theater technician, caterer, curator, codirector, graphic designer, publisher, editor, grants and awards panelist, fundraiser, capital project consultant, interim director, finance director, and board member. In addition to periodic consulting, he has been a staff member at Movement Research, Performance Space 122, Danspace Project, and Dance Theater Workshop. Currently, he is Board President of Movement Research and works as Finance Director for A.R.T./New York.

Sarah Maxfield investigates contemporary performance, and its history, through practice, discussion, and critical theory. She is an artist, curator, writer, and producer. Maxfield has been actively engaged in the nonprofit arts in New York City for more than a decade. She has been formally employed by organizations including Performance Space 122, Dance Theater Workshop, Danspace Project, Lincoln Center, and the Open Society Institute. She has contributed as an artist and consultant to The Chocolate Factory Theater, the Gibney Dance Center, A.R.T/New York, Galapagos Art Space, Dixon Place, The New Museum, and the Museum of Arts and Design, among many others. Maxfield has written articles for The Movement Research *Performance Journal* and *The Brooklyn Rail*, and she has participated on panels for events hosted by the Rhode Island School of Design, Hunter College, the Stage Directors and Choreographers Foundation, and Manhattan Theater Club, among others. She currently serves as a member of the New York Dance and Performance ("Bessies") Awards and balances a number of artistic projects, including an oral history of experimental performance in New York, with her day job as an assistant at a law firm.