

## Crafting a Sustainable Nonprofit Business Model: Is It Possible in the Arts and Culture Sector?

Dr. Bruce D. Thibodeau, President

The creation and implementation of a sustainable business model in the arts and culture sector has sparked discussions, articles, and, for board and staff leaders, many sleepless nights. The public, private, and nonprofit sectors all face the challenges of an ever-changing world. For private and nonprofit organizations, dialog regarding sustainable business models may develop from their strategies to maximize impact and increase revenues while minimizing costs. That sounds simple enough, so why is realizing that sustainability goal so elusive?

For many, strategy, operations, and business models are not clearly defined. The external context in which nonprofit organizations operate is becoming more challenging and competitive. Socially conscious nonprofits are shifting away from decisions based solely on past experience, industry norms, and resource dependency. Instead, they are creating innovative business models and practices by shaping strategic partnerships and responses that include a deeper understanding of the internal and external forces that impact their organizations.<sup>1</sup> This edition of *Arts Insights* clarifies the differences between strategy, tactics, and business models and highlights the properties of a sustainable business model. The information provided is intended to be the start to an ongoing dialog about the challenges and opportunities ahead for the dynamic nonprofit arts and culture industry.

### Defining Strategy, Tactics, and Business Model

Organizational strategy, tactics, and business model can mean different things to various stakeholders. At times, these words are used interchangeably, which can create confusion in broader discussions around strategy and sustainability. The *Harvard Business Review* (HBR) article “How to Design a Winning Business Model” sheds important light on using strategy as the primary building block of competitiveness, arguing that the quest for sustainable advantage likely begins with the right business model. Strategy is the plan to create a unique and valuable position involving a distinctive set of activities, while the business model consists of how an organization creates and captures value for stakeholders. Tactics, sometimes referred to as operations, are the residual choices open to a company by virtue of the business model that it employs. If the business model is a car, then strategy is designing and building the car and tactics are how you drive the car.<sup>2</sup>

### The Five Elements of Strategy

The article “Are you sure you have a strategy?” tackles issues related to strategic fragmentation, catch-all phrases, and statements that companies use as strategies when really referring to tactics. It is perhaps impossible to isolate specific elements of a strategy without looking at their synergistic whole. These elements include:

1. **Arenas:** Where will an organization be active? In the arts and culture sector, this can take many shapes and forms both inside and outside its facilities, in its social media and digital presence, and well beyond.
2. **Vehicles:** How will an organization get into those arenas? This may include collaborations, new program development, and any number of paths to reach a broader audience.
3. **Differentiators:** What is an organization’s value proposition and positive institutional impact that will capture participation and support for its programs and services?
4. **Staging:** What will be the speed and sequence of the organization’s actions?
5. **Economic Logic:** How will the organization obtain its financial, social, cultural, community, and other returns in its quest to achieve sustainability?<sup>3</sup>

<sup>1</sup> Robert E. McDonald, Gillian Sullivan Mort, Jay Weerawardena, “Sustainability of nonprofit organizations: An empirical investigation,” *Journal of World Business*, 2010, 346-356.

<sup>2</sup> Ramon Casadesus-Masanell and Joan E. Ricart, “How to Design a Winning Business Model,” *Harvard Business Review*, January-February 2011.

<sup>3</sup> James W. Fredrickson and Donald C. Hambrick, “Are you sure you have a strategy?” *The Academy of Management Executive*, November 2005, 51-62.

Key stakeholders with for-profit business savvy may believe the strategy is to run nonprofits more like a business with a financial bottom line as the primary goal. Experienced nonprofit sector professionals understand that the larger mission and intended institutional impacts are constrained by lack of resources, all of which influence the business model. The distraction of daily activities, emails, and meetings can complicate these perspectives, creating an illusion that addressing short-term or urgent needs will achieve both the strategy and underlying business model. Such fragmentation does not advance the concept of what is inherently long-term sustainability. Integrating these five elements into a cohesive strategy will allow for risk reduction in selecting a sustainable business model. It also positions the organization to flexibly respond to changing social, technological, economic, environmental, political, legal, and ethical trends.

### **Policy, Asset, and Governance: The Choices and Consequences**

Organizations generally make choices in three key areas when crafting their business models—policy, asset, and governance.<sup>4</sup> These choices can have flexible or rigid consequences. For example, discounted ticket pricing is flexible and could yield an increase in attendance from a broader base, while operating in resource scarcity mode for extended periods of time can create a rigid and embedded revenue-focused organizational culture.

In another example, consequences can result from policies that seek to limit the use of unrestricted bequests into the permanently restricted endowment. The policy can create a lean but inefficient business model that lacks the financial resources it needs to operate, achieve its strategic initiatives, and create long-term sustainability. These endowment funds are typically held in trust to protect long-term legacy. Policy restrictions (choice) can become an impediment that creates negative results (consequences).

Choices and consequences in the nonprofit sector are perhaps even more pronounced and complex than in for-profits. Individuals in governance and policy roles can also provide or connect an organization with important financial, human, technological, or other material or intangible assets. Additionally, many of these key individuals are also consumers of the product or service offered by the organization for which they are setting policy and providing governance. While board members of international pharmaceutical companies may never use the drugs developed for patients, cultural institution trustees will immediately see the consequences of their choices. Running an arts and culture organization like a business takes on an entirely new meaning and creates far more intricate challenges for nonprofits in regard to strategy, tactics, and business model.

### **A Good Business Model: Are We There Yet?**

Ultimately, the business model addresses who the customers are, what they value, and how the organization delivers value to them.<sup>5</sup> If strategy is about designing and building cultural institutions and tactics relate to how they operate, perhaps the institution as “the car” is the most elusive analogy of the three to solidify. The following three questions can help determine the characteristics of a good business model.<sup>6</sup> Is the business model:

- Aligned with the organization’s mission and goals? Ultimately, does the business model enable building momentum towards the financial, cultural, community, social, or educational goals established as part of the strategy?
- Self-reinforcing? As an example, if a theater company believes its purpose is to provide low-cost access to its programs for those in socioeconomically disadvantaged communities but a majority of its seats are tailored to those with the means to pay, is the business model structured correctly?
- Robust? Can an organization capitalize on its strengths and opportunities while minimizing its weaknesses and threats (SWOT)? To achieve this, it is necessary to examine if the business model can fend off four key challenges: imitation (direct/indirect competitors), holdup (customers/suppliers bargaining), slack (organizational complacency), and substitution (new products/services).<sup>7</sup>

Organizations must consistently review various internal and external forces, their SWOT, available resources, industry changes, and quality of programs and services. Focus should be directed at how effectively and consistently the cultural institution is delivering on its promises to the community and stakeholders that it serves.

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<sup>4</sup> McDonald, Sullivan Mort, Weerawardena, *supra*.

<sup>5</sup> Peter Drucker, “The Theory of the Business,” *Harvard Business Review*, September-October 1994, 95-104.

<sup>6</sup> McDonald, Sullivan Mort, Weerawardena, *supra*.

<sup>7</sup> Pankaj Shemawat, *Commitment: The Dynamic of Strategy*, New York: Free Press, 1991.

## Strategic Planning and Implementation Challenges

Members of the Academy of Management's Strategizing Activities and Practice (SAP) understand that strategy is not something that firms have but rather something that people in an organization do. Perhaps this is a further testament to the complexities of strategy, tactics, and business model that constantly require careful quantitative and qualitative research with different ways of thinking, learning, and doing business. Creating a meaningful strategy that has an innovative business model and effective tactical operations is not easy in the arts and culture sector. Private, public, and nonprofit practitioners struggle to comprehend the depth and breadth of issues that any business faces. All firms hope to advance sustainability by having an appropriate strategy, effective tactics, and the right business model. Through research, trial and error, and passion for their respective missions, arts and culture organizations can learn a tremendous amount about strategic frameworks, analytical tools, and organizational efficiencies. While challenging, the work must continue if these community pillars hope to thrive.

## Conclusion

A solid understanding of the dynamics within, across, and surrounding the nonprofit arts and culture sector will be one of the keys to its future success. The industry, institutions, and communities in which they operate have ever-changing demographics and socioeconomics that require careful consideration. As resources shift, local audience options expand, and live and virtual competition arise in the arts and culture sector, the factors that influence organizational sustainability are even more challenging. Focused strategies, efficient tactics, and well-defined business models must evolve—simultaneously learning from past experiences, living in an uncertain present, and looking to future opportunities. Extremely committed and socially active stakeholders continue to leave a tremendous legacy for the advancement of arts and culture as a cornerstone of resilient, diverse, and inclusive communities. Fortunately, their connection, capacity, and commitment bodes well for organizations that seek to realize impactful strategies and sustainable business models into the future.



### Dr. Bruce D. Thibodeau, President

Dr. Bruce D. Thibodeau founded ACG in 1997 and has guided hundreds of nonprofit, university, and government clients in achieving effective leadership transitions, planning cultural facilities, increasing revenues, developing dynamic institutional brands and messages, crafting strategic plans and business models, and revitalizing board governance practices. He has also conducted extensive research in a threefold exploration of stakeholders, nonprofit arts management, and cultural facility project management and has facilitated numerous community engagement processes that have increased the public dialogue and stakeholder awareness of the arts and culture sector's value and impact on communities. As both a researcher and practitioner, his expertise highlights the important roles of project champions and followers as they overcome inertia and gain momentum

derived from their social connections, personal commitments, and financial capacities to support the arts and culture sector. Prior to founding ACG, Dr. Thibodeau held various management roles at the Los Angeles Chamber Orchestra, Boston Symphony Orchestra, Hartford Symphony Orchestra, Santa Fe Chamber Music Festival, Price Waterhouse, and Museum of Contemporary Art Los Angeles. He is a regular guest speaker at national and international arts, culture, and academic conferences and has several published papers. Dr. Thibodeau holds a doctorate of business administration from the Grenoble Ecole de Management (France), a master of business administration from the F.W. Olin Graduate School of Business at Babson College, and a bachelor of music from The Hartt School at the University of Hartford. He also has multiple certifications in competencies, communications, and motivations analysis from Target Training International.

**Contact ACG for more information on how we can help your organization clarify its strategy, craft a business model, and improve operational efficiencies.**

**(888) 234.4236**  
**info@ArtsConsulting.com**  
**ArtsConsulting.com**