

# **Philanthropy and the Arts:**

A Retrospective

By  
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A Master's Capstone

Presented to the Arts and Administration Program of the University of Oregon in partial fulfillment of  
the requirements for the Degree of Masters of Science in Arts Management

Approved: \_\_\_\_\_ Date: \_\_\_\_\_

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**ABSTRACT:**

The purpose of this master's capstone is to examine the history of contributed revenue streams for nonprofit arts organizations in the United States and the role those streams play in the current arts nonprofit funding environment. Through a synthesis of coursework and an extensive literature review, this research serves to inform arts leaders as to major trends and areas to be aware of regarding contributed income and the arts, which assists in enabling them to navigate the present funding environment as well as plan for the future.

**KEYWORDS:** Contributed Income, Philanthropy Trends, Arts Funding

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<b>Oregon Bach Festival</b>	Eugene, OR	Oct 2006-March 2007
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<b>University of Oregon Chamber Music Series</b>	Eugene, OR	Oct 2005-Dec 2006
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<b>Wollborg/Michelson Personnel Service</b>	Torrance, CA	Aug 2003-Aug 2005 Recruiting
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- Conducted reference and background checks
- Scheduled candidate interviews with clients and took interview feedback

- Extended offers of employment

**Accenture/Accenture HR Services** Chicago, IL

Oct 2000-July 2003

Resourcing Services Expert

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- Conducted Peer Interviews
- Generated correspondence
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- Requested and tracked background checks
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St. Paul, MN

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- Prepared grant applications for several foundations
- Asked donors at the \$100 level and below for a renewed gift to the annual fund
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- Prepared signage for concert sponsors
- Assisted with Opening Night event
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## **Organizations/**

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## Chapter 1: Introduction

## 1.01 Problem Statement

Arts organizations are facing, “. . . increased competition, more diversity among their constituents, higher expectations from the public and from funders, increasing costs, declining support, rapidly changing technology and substantially different ways of conducting business” (Wolf, 2001, p. 314). Today’s cultural administrators are operating in a universe that has changed significantly over the last 20 years. Arts organizations have not kept up with the changes and as a result, the environment arts administrators are working in is one that is facing serious sustainability issues, including those of funding.

Because of the current challenges facing nonprofit arts funding, changes in funding streams can positively or negatively impact nonprofit arts organizations’ ability to carry out their missions as well as how organizations operate and the types of art that is produced. In order for arts administrators to successfully meet the funding challenges facing arts organizations, it is necessary to understand how the current funding environment evolved.

Funding for arts and organizations is broken into two main categories: Earned Income and Contributed Income. According to Americans for the Arts (see Figure 1), earned income, which includes ticket sales, merchandise sales etc., represents half of the total revenue stream for nonprofit arts organizations. The other half of arts income is contributed income, *Figure 1: www.AmericansForTheArts.org* which includes contributions from: individual contributions, individual foundations, federal, state and local government, and corporate contributions. As the issues facing the entire arts funding system are too numerous to include here, the focus of this capstone will be delimited to the contributed income piece of the funding puzzle. By providing an overview of the evolution of contributed income streams in the United States and the major trends, this project will attempt to provide the big picture of contributed revenue and the arts.

## 1.02 Conceptual framework

According to *Giving USA* (2005) the 1990’s were a banner decade for contributions, minus government dollars, for the nonprofit sector. The following are major societal, economic and philanthropic trends that took place from 1990 to 1999:

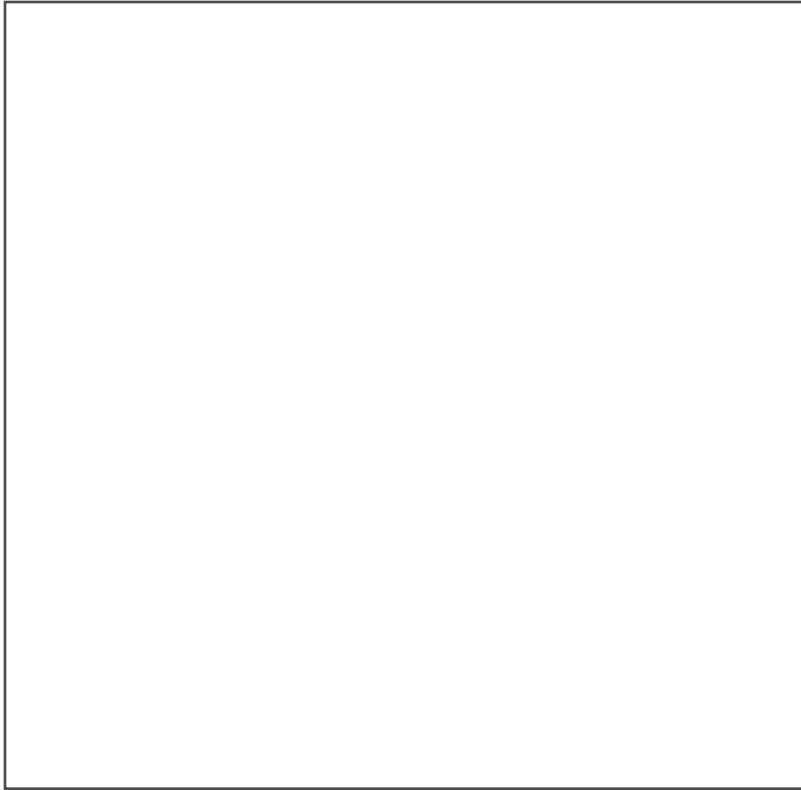
- Giving grew from \$142.72 billion in 1990 to \$222 billion in 1999 (Adjusted for inflation).
- Giving increased (adjusted for inflation) 56 percent, with nearly all of that increased between 1995 and 1999.
- In 1998, giving rose above 2 percent of GDP for first time since 1971.
- By 1995, federal outlays had declined slightly to just under 23 percent of GDP.
- A four-year surge in the stock market began in 1995, with the Standard & Poor’s 500 Index increasing more than 123 percent over four years. This surge was largely driven by the “tech bubble” that created “instant billionaires” at many computer hardware and software companies.
- *Giving USA* reported a growth in giving of 12.4 percent in 1997, driven largely by growth of

12.9 percent in individual giving. Not all individual giving was from ultra-wealthy individuals.

- *The Statistical Abstract of the United States* reports a population increase of 11.7 percent for the decade, higher than increases in the 60's, 70's and 80's.
- In 1997, 67.1 percent of the population was in the labor force, the highest rate in the decade. Higher personal income meant more giving at all sizes of household budgets.
- Giving by foundations increased by nearly 123 percent in the '90's. Total foundation giving by 1999 was more than double what it was at the end of the '80's.
- The foundation Center reported a 41.3 percent increase in the number of foundations for the decade.
- In 1999 the Bill & Melinda Gates Foundation was formed, and it became the largest charitable foundation in the world (p. 13).

The above trends did not last into the New Millennium. The double-digit percentage increases in giving seen in the 1990's were not sustained. The stock market began a decline in 2000 and continued to drop through 2002. This was the first time since the Great Depression that the stock market fell for three consecutive years. With the market down, giving slowed its rate of growth and even fell (adjusted for inflation). The events of September 11, 2001 took place and a recession struck, followed by a "slow economic recovery." Giving USA reported in 2001 that an estimated \$1.88 billion had been contributed by the end of the year to charities collecting for relief and recovery work after the attacks of 9/11. Even as growth in giving slowed, total dollars contributed remained above 2.0 percent of GDP through 2004. The Foundation Center reported in 2000 that more than 56,000 foundations had combined assets of more than \$400 billion (Giving USA, 2005, p. 14).

Within in the midst of the trends in the 1990's and 2000's, overall giving to the arts has been mixed. There is a general trend of a rise in the dollar amount contributed to arts and culture over the last 10 years. In 1996, the arts and culture sector received \$9.96 billion, which rose to \$13.51 billion in 2006. However, the percentage of contributions to the arts and culture sector as a whole has declined from 6.7 percent in 1996 to 5.6 percent in 2005 (*Giving USA, 1996- 2006*). These facts indicate a disturbing trend for the arts and culture sector, given that contributed income makes up roughly half of the revenue received by arts organizations. In order to gain a better understanding of how each contributed income stream has played into the current state of arts funding, there are several areas that will be explored (see figure 2). First, it is necessary to take a look at how each funding stream evolved in the United States. This will make it possible to understand the social, economic, demographic and political influences that have affected funding in the nonprofit sector and the context for arts funding. Combined with an overview of trends in arts funding, it will be possible to show how the current climate of contributed income streams relating to the arts evolved and will serve to inform arts leaders as to major trends and areas to be aware of regarding contributed income and the arts, enabling them to navigate the present as well as plan for the future.



*Figure 2: Conceptual framework*

### 1.03 Research Methodology

#### *1.03.1 Purpose statement*

The purpose of this research is to examine the history of contributed income streams for nonprofit arts organizations in the United States and the role those sources play in the current arts nonprofit funding environment.

#### *1.03.2 Research questions*

The main research questions for this capstone project are as follows:

- How did the current arts nonprofit contributed income streams evolve in the United States?
- What part does each contributed revenue source play in the current arts nonprofit funding environment?

#### *1.03.3 Delimitations*

This capstone study will provide an overview of the history of contributed income streams in the United States and the trends in arts funding from 1990-present. Literature used for this study will

include journal articles, reports and books published between 1980 and 2007 as well as applicable websites.

#### *1.03.4 Limitations*

Due to the immense amount of literature published about contributed revenue sources in the nonprofit sector, the discussion of each stream is a snapshot rather than an in-depth analysis. Therefore, this project is not an all-inclusive study of contributed income.

#### *1.04 Benefits of the study*

The result of this study will be a document that provides the broad picture of contributed income streams to nonprofit arts organizations in the United States. This can be used by arts administrators to better understand the current state of arts funding; how it evolved; and the factors that affect contributed income streams, which will allow administrators to successfully navigate the current climate and to anticipate issues in future funding.

#### *1.05 Research Design*

In order to answer the main research questions of this study – namely, how did the current arts nonprofit contributed income streams evolve and what part does each contributed revenue source play in the current arts nonprofit funding environment, this study is exploratory and descriptive in nature. Coursework completed in requirement for this study included PPPM 607/Graduate Study in Philanthropy and PPPM 524/Public & Nonprofit Financial Management. Both of these courses helped to frame the structure and content of this capstone. In addition to synthesizing across course content, this study includes an in-depth review of literature.

#### *1.06 Data collection instruments*

The literature reviewed for this capstone included journal articles, reports and books published between 1980 and 2007. As information related to the arts specifically regarding the subject of contributed income streams is limited, the articles, reports and books used for this project came from arts administration, nonprofit and corporate sectors. In addition, various websites were used to determine trends specific to the arts. Websites used included: Americans for the Arts, National Endowment for the Arts, National State and Local Arts Agencies and the Foundation Center.

#### *1.07 Coding and analysis procedures*

Data from the literature review was coded according to the following subjects: evolution of individual giving, governmental funding, individual foundation and corporate funding streams; and trends in individual giving, governmental funding, individual funding, and corporate philanthropy from 1990 to present.

#### *1.08 Conclusion*

The following chapters outline, in broad brushstrokes, the history of each funding stream in the United States. In addition, an overview in arts funding is included in each chapter with a focus on trends for the last 20 years. This leads to a better understanding of the current environment of each revenue source. Finally, the last chapter provides suggestions for further research as well as implications this research might have for arts administrators.

## Chapter 2: Individual Philanthropy



## 2.1 Introduction

Individual donations to arts organizations constitute the second largest source of income after earned income (McCarthy, Brooks, Lowell & Zakaras, 2001). Donors to the arts are generally between 25 and 64, well educated, employed full-time and are more than twice as likely to claim charitable deductions and give to other causes (Cobb, 1996). This chapter takes a look at the history of individual giving as well as the trends for arts funding from 1990-present. It also provides an overview two current trends in individual philanthropy: planned giving and the new breed of philanthropists that resulted from the wealth dot-com boom.

## 2.2 History of individual giving

Philanthropy has a history that can be traced back to the beginning of human civilization. As cited in Bremner (1994):

According to Greek mythology mankind's first benefactor was Titan, Prometheus, who gave fire, previously the exclusive possession of the gods, to mortal man. For this act Zeus condemned Prometheus to be bound to a mountain peak, forever exposed to burning sun and bitter cold. In *Prometheus Bound* by Aeschylus (525-456 B.C.) Prometheus's captors tell him his punishment is the reward of his *philanthropos*. Scholars have offered various translations for the word: philanthropy, man-loving disposition, loving kindness, love of mankind, human charity, fostering mortal man, championing mankind and helping men (p.3).

Evidence of early philanthropic teachings can also be found in Jewish, Christian and Islamic traditions (Bremner, 1994). Given the breadth of history concerning individual philanthropy, for the purposes of this research, the scope of the discussion will be limited to an overview of philanthropy in American history.

Philanthropy in America has been a key player in American society and included not only solving the problems of the poor but also improving the quality of human life. Imported from Europe, the American philanthropic system is based on European experience and theory. What is unique is the rapidity that philanthropy in America grew and how early in our history philanthropy assumed a stature and significance of its own. Throughout the history of giving in the United States, the focus has always been on social welfare. What is also striking is the aversion to the direct involvement of government in social welfare (Bremner, 1988).

One of the first figures to characterize American philanthropic practices was Cotton Mather, one of the most prolific and learned writers of the period and a founder of Yale University (Mather is unfortunately better known for his role in the witch trials). The work he wrote that enjoyed the most popularity was called *Essays To Do Good* written in 1710. This work proposed that men and women, either as individuals or part of an organization should engage in, ". . . a perpetual endeavor to do good in the world" (as cited in Bremner, 1988, p. 12). What was novel about this advice was the individualistic, voluntary way that it was to be carried out. Mather also went on to consider why it was necessary to do good. He believed that doing good works was an obligation that was owed to God and that God would punish the unfaithful steward. Mather also listed a variety of earthly advantages to doing good such as long life and business success and that doing good was sound policy, an effective means of social control. For Mather, charity began at home, however he also urged people to keep a list of the needy in their neighborhood. He also felt that

the highest form of benevolence was charity to men's souls, believing that often the poor need admonitions of piety as much as alms. To that end he encouraged people to send ministers, bibles and other books of piety, support the church and keep an eye on the spiritual health of the community. With regards to giving money to the poor, he told people to be wary, that it was all right to give money to the poor that were unable to work, however for the poor who could work, but would not, he encouraged people to find them work and to keep them working, then it would be acceptable to give them money (Bremner, 1988).

Following in Mather's footsteps, but with a slightly different philosophy was Benjamin Franklin. Franklin believed in a society that would have no poor and little need for relief or charity. He counseled men to, "Be industrious and free; be frugal and free" (as cited in Bremner, 1988, p. 16). When Franklin said free, what he was saying was to be free of dependence on the uncertain charity of the world. Franklin was also of the opinion that it was better to prevent poverty, rather than simply relieving it. According to Franklin, "I am for doing good to the poor, but I differ in the opinion about the means. I think the best way of doing good to the poor is, not making them easy *in* poverty, but leading or driving them out of it" (as cited in Bremner, 1988, p. 17).

The views of Mather and Franklin permeated throughout early American culture. Generally, all socioeconomic classes accepted the values promoted by Mather and Franklin in the early 19<sup>th</sup> century. The principles were used to justify the acquisition of wealth and to condemn the display, enjoyment, waste or hoarding of it. The early 1800's were a time when large fortunes were rare and those that had wealth were scrutinized as to the ways that the wealth was accumulated as well as the ways in which it was distributed. Thoreau remarked that ". . . he who bestows the largest amount of time and money on the needy may be doing the most by his mode of life to produce the misery he strives in vain to relieve" (as cited in Bremner, 1988, p. 42). Religious reasons were often cited by the rich for why they gave; however, giving was often out of a feeling of enjoyment and for some, it was considered a good investment. This was a time period that saw, in almost every American community, many of the wealthy support churches, hospitals, breadlines, orphanages, homes for fallen but repentant women, gifts to states or cities for improvement as well as many other specialized purposes (Bremner, 1988).

With the advent of the Civil War, America saw a hitherto unprecedented rise in philanthropy. Never had there been such a movement of philanthropic support in general and specifically one that was carried out by women. They were out by the thousands, very successfully raising money for the troops, wounded soldiers and the families of dead soldiers. The next 25-35 years after the end of the Civil War saw an increase in the achievement of philanthropy and the rise of a 'millionaire' class that 50 years earlier was non-existent. With the rise of this class, there was an increase in philanthropic endeavors. Gifts were made to hospitals, art museums, libraries, relief societies, churches, seminaries, colleges and universities as well as many other endeavors. This time also saw a shift in the way philanthropy was carried out, which was actually really quite similar to the way it was carried out in the time of Mather and Franklin. This 'new' philanthropy was called "scientific philanthropy" and for the first time took down all the do's and don'ts of philanthropy and set them down as rules and employed them very vigorously. The focus was on how to prevent poverty and how to get the impoverished to be self-supporting. As stated by Robert Treat Paine, president of the Association Charities of Boston, in 1893, "Pauperism cannot be wisely considered alone, but the problem of how

to uplift the general level of life must be studied as *one whole problem*" (as cited in Bremner, 1988, p. 99). This sense of a responsibility for improving the social environment continued through the early 1900's and led to the formation of a large number of new organizations to aid with achieving this. World War I gave Americans another reason to give. Giving for the war began before the U.S. was involved militarily, with donations to the Red Cross, most notably, for the relief of Allied soldiers and the civilians in those countries. It was also during this time, 1917 to be exact, that the tax law was amended to encourage individual giving by permitting a deduction of contributions up to 15 percent of taxable income. This combined with the 60 percent surtax on high incomes, enabled the very wealthy to give generously to keep that money from going to the IRS (Bremner, 1988).

Another shift in philanthropy ensued with the beginning of the Great Depression. While the giving of alms to the poor had long since been out of fashion, it saw resurgence during the first two years of the depression. This was a practice that was supported by the Hoover administration, which was in power for the first part of the 1930's. Hoover believed that the federal government needed to promote economic recovery, however he just as firmly believed that it was the responsibility of individuals to relieve the distress of the poor. Unfortunately, the effects of the depression were too much for individual philanthropy to handle, which ushered in the beginning of government support of social welfare, which will be briefly covered in Chapter 4. The result of this was that never again would individual philanthropy be expected to be the dominant means by which economic need would be relieved. This also caused the role of philanthropy to become more complex and saw an increase in the responsibility of philanthropy to devise and demonstrate helpful services (Bremner, 1988).

Over the next 30 years, through the 1980's, contributions made by individual philanthropists continued to rise, although from the 1970's on, the percentage of wealth contributed declined steadily. The place of individual giving in the American culture was as ingrained as it was in colonial times. Tax laws helped to foster this increase. In the 1960's the federal tax code allowed a 30 percent tax deduction on contributions made to charitable organizations. The '60's also saw a substantial increase for arts and culture, although it only comprised 5 percent of giving. The 1970's saw the pace of individual giving slow due to the recession and in some years failed to keep pace with inflation. The 1970's also saw the first research on the impact of charitable giving on American society. Nonprofit leaders of the time felt that the American public, government and businesses did not understand the essential role of the then nonprofit sector, which led to the establishment of the privately supported Commission on Private Philanthropy and Public Needs. The commission involved experts in law, economics, health, education, and sociology to collect and analyze the data. Organizations involved in the data collection numbered about 6 million and included religious groups, libraries, universities, hospitals, colleges and symphony orchestras (Bremner, 1988).

The 1980's saw various governmental cuts mainly to social welfare by the Reagan administration. The expectation by the administration was that individual philanthropy would be able to make up for the loss in funding, hearkening back to the attitude expressed by the Hoover administration in the early 1930's. While individual giving continued to increase, it was unable to make up the gap in income for social organizations largely dependent on government funds (Bremner, 1988). The result of these cuts and the repercussions will be examined in more detail in Chapter 4 of this document regarding government support of the nonprofit sector. The late 80's and early '90's saw a decline in overall charitable giving that could be attributed to the recession, which resulted in an

increase in the number of people worried about their economic futures. While the number of contributions did not decline, the amount of the gift did. The households that showed the most declines were those with an income between \$40,000 and \$50,000. However, declines were also noted in other income brackets up to the \$1,000,000 bracket. These declines have often been covered by statistics that show a dramatic increase in charitable contributions in households with an income over \$1 million (Cobb, 1996).

### *2.3 Individual giving trends in the arts*

The main source of information regarding philanthropic trends in the United States is *Giving USA*, which is a publication of the AAFRC Trust. Due to the data collections used overall total dollar amounts contributed to arts and cultural organizations, specifically by individuals, is unavailable. This publication, however, does document total giving to arts and cultural organizations for a given year as well as trends for that year that may have affected giving making this an excellent resource for any arts administrator.

What is known is that overall individual philanthropic support increased as part of arts funding streams more than any other source of income from 1990-1997. While this at first glance seems to be good tidings, a second look discovers that following the trend of individual giving across the nonprofit sector, while the number of charitable contributions has risen, i.e. the number of households giving to the arts, as a share of personal income, private giving has been declining steadily from 1.86 percent in the 70's to 1.72 percent in the early 90's (Hodgkinson, 2002; McCarthy, Brooks, Lowell and Zakaras, 2001; Salamon, 1999, 2002; Wolff, 1999). Put another way, in 1987 the average gift to the arts per household was \$262, this fell by 47 percent to \$139 in 1993, however the number of households giving increased by 53 percent (Cobb, 1996). There are also various demographic trends occurring in individual philanthropy including; a rise in women in philanthropy, a rise of minorities involved in philanthropy as well as an increased focus on global philanthropy. Two of the main trends that arts administrators should be aware of are the increased emphasis on planned giving as well as the 'new philanthropists' that came out of the tech boom of the 1990's.

### *2.4 Planned giving*

One of the greatest opportunities for nonprofit organizations is the anticipated intergenerational transfer of wealth that is estimated at \$41 to \$131 trillion making it the largest generational wealth transfer in history. This greatly increases the importance of planned giving for arts organizations. In order to capitalize on this opportunity, there are several elements to planned giving arts nonprofit administrators need to be aware of. These include: motivations for giving; income levels of potential donors and age donors begin to consider planned giving; growth of the role of financial planners in estate planning; planned giving vehicle preferences and the increased role of community foundations.

#### *2.4.2 Elements to planned giving*

As is true for all forms of major gift giving, understanding a donor's motivations for making gifts enables fundraisers to communicate the value of a gift in a way that speaks to the donor, thereby

increasing the chance that a gift will be made. While tax benefits and financial issues are assumed to be the major motivator for legacy giving, Richardson and Chapman (2005) assert that a desire to support a charity and how the charity will use the gift are the largest motivators. According to Brown (2003) and Bernstein (2005) donors can be categorized into seven groups, each with their own motivations for making legacy gifts. These are the Communitarian, Devout, Investor, Socialite, Altruist, Repayer, and Dynast. While each of these may have overlapping values, they all have a distinct way of approaching philanthropy. For instance, the Communitarian, Devout and Socialite see the nonprofit sector as an alternative to government but each has a different view of the issue (Brown, 2005). For the Communitarian, donating to local nonprofit organizations makes good sense as it helps the local community. For the Devout, giving is about doing God's will. The Investor's give because they believe that it is good business to do good in the community. For the Socialite, they simply believe that doing good is fun. In contrast, the Altruist gives because it feels like the right thing to do. The repayer believes in doing good in return, for instance giving back to their college in repayment for the good education they received. Finally the Dynast gives because it is a family tradition (Bernstein, 2003; Brown, 2005). For the arts in contrast to education, there is no one group they should look to for support. All of the seven, probably with the exception of the Devout, have the potential to support arts organizations. By understanding why the members of these groups participate in philanthropy, nonprofit organizations will enhance their ability to identify and cultivate donors at the planned giving level.

Another aspect to be aware of is the income level and age at which donors begin to think about leaving legacy gifts. It has been assumed that only very wealthy donors nearing retirement age leave legacy gifts. However, findings indicate that over half of the donors that provide for charities in their wills are in the mid-level income range, i.e. \$75,000 (Brown, 2003; Grote, 2003; Richardson & Chapman 2005). According to a National Council on Planned Giving survey cited in both Richardson and Chapman (2005) and Brown (2003), 49 is the age at which many respondents first put a bequest in their will. This information will aid organizations in their ability to market their planned giving programs appropriately.

Nonprofits should also be aware of the role financial planners play in planned giving. Research shows that with the rise in sophistication of donors, their reliance on financial planners is increasing (Brown, 2003; Grote, 2003; McJunkin, 2000; Richardson & Chapman, 2005). With the increasing influence of financial planners on donors, nonprofits would do well to market their planned giving programs to their local financial planners.

Additionally, nonprofit organizations should track the trends regarding the types of planned giving vehicles being used by donors. Bequests remain today's easiest and most popular means of leaving a gift (Bernstein, 2005). According to Brown (2003), organizations offering Charitable Gift Annuities (CGA) are increasing. Most notably this increase has come from community foundations, arts organizations and environmental agencies. This vehicle is popular with donors due to the relative ease that CGA's can be created. As opposed to creating trusts there is no need to have a trust document drawn up for lawyers, which can be a determinant for donors (Grote, 2003).

Donor-advised funds are another vehicle of giving that is seeing an increase in popularity (Bernstein, 2005; Grote, 2003). These funds are created instead of private foundations because they are less expensive to set up and more flexible (Bernstein, 2005, Grote, 2003). However, at this point, donor-advised funds are not a large source of charitable giving (Bernstein 2005).

With the increase in donor-advised funds there has been an increase in the use of community foundations as repositories for these funds (Grote, 2003; Panko, 1998). While community foundations do not offer financial planners the fees associated with other types of funds there are several advantages to using community foundations. Grote (2003) states that community foundations are designed to provide more services than other funds, work closer with the donors in their grant making decisions, and complex gifts are easier to make. According to Panko (1998) community foundations help donors detail their donations to specific causes and a small geographical area; allow donors to redirect gift disbursements to a different cause should they choose and they offer tax advantages other organizations may not be able to offer. As with financial planners, nonprofit organizations should ensure that their local community foundation is aware of their organization and planned giving program to help grow donor-advised funds as a source for charitable giving.

### *2.5 New philanthropists*

Another opportunity for funding is among the *new wealth* that resulted from the dot-com economy and other economic trends in the 1990's, which include a rise in women and ethnic and racial groups as well as those who have become wealthy through the intergenerational wealth transfer (Grace & Wendroff, 2001; Salamon, 2002). These 'New Philanthropists' are changing the face of traditional philanthropy. It is important to note that they are joining traditional philanthropists, not replacing them. The new philanthropists are more ambitious, taking on giant issues from revamping American education to curing cancer. The focus of these new philanthropists is more global in nature and just as in their business dealings, these donors are demanding results from nonprofits (Byrne, 2002; Grace & Wendroff, 2001). They also want to be more involved with the organizations they are investing in, which can cause considerable unease for the recipient nonprofits (Grace & Wendroff, 2001).

In order for arts administrators to engage these new philanthropists in contributing to arts organizations, it is necessary to take a look at the characteristics of the new philanthropists. First, their initial gift may be a major gift. This is a result of their desire to make a difference. The traditional methods of giving where donors are carefully tracked and assessed for their ability to make major gifts can be too slow for this new breed of donors. Second, they invest in issues and expect results (Grace & Wendroff, 2001). The donors are being more strategic with their giving and are taking the same systematic approach that made them successful in business to get to the heart of the problem, rather than just treating the symptoms (Byrne, 2002). These donors give to issues, not organizations, which is important to realize as many cases made for giving are based on giving to a specific institution. Third, they seek value driven organizations, often not realizing that it is the values that are attracting them. This relates back to being focused on issues: it is impossible to be issue focused and not be focused on values. In order to capitalize on this, nonprofits need to publicize their values. Fourth, new philanthropists want organizations to accept their ideas and opinions, not just money. This can be problematic, but it can also be an opportunity to gain the advice of successful businesspeople and can aid the organization in the fulfillment of its mission. According to Grace and Wendroff (2001), the best thing to do, rather than passing up an opportunity for a transformational gift, is to create a policy that allows for donor involvement, but does not let them exert too much control, and to make sure to enforce the policy. Fifth, the new donors are impatient for results. Often the way the nonprofit sector works is too slow for these philanthropists. The main way to combat this is to make sure to keep the lines of communication open with the donor to let them know what is

happening so that even if they are not seeing immediate results, they at least know the organization is working on it and what the status is. Sixth, they might be impatient for the ask. The process that most nonprofits employ takes time, more time than some donors are willing to wait for. These are donors who are used to having information when they want it by e-mail or phone; they want transactions to take place at the speed of technology. They have been known to move onto other organizations if the ask is not made quickly enough. In order to get around this, nonprofits should be open to adapting their processes for these donors by internalizing or skipping steps that do not seem necessary for the donor. Lastly, they want to be involved and want a base of power or control in the program or organization. Ways that this could be accomplished could be to give them a seat on the board, invite them to be part of a committee or advisory board or chair a task force in an area that is related to the implementation of their gift (Grace & Wendroff, 2001).

Individual Giving	Main Points
History in United States	System imported from Europe
	Unique to U.S. - How fast American philanthropy grew; How early in our history philanthropy assumed stature and significance
	Focus always been on social welfare
	Aversion to direct government involvement in philanthropy until Great Depression
	Tax Laws help to foster individual giving
Trends in Arts	From 1990-1997 individual philanthropic support increased more than an other source of income
	Number of households giving to the arts increased but as share of personal giving, individual giving has been declining steadily as has the average gift amount per household
	Specific individual giving amounts to the arts sector is unavailable
Planned Giving	Largest intergenerational wealth transfer occurring now
	Estimated to be \$41-131 trillion which makes this an important trend for Arts Organizations to take advantage of
	Arts Administrators need to know: motivations for planned giving; income level and age donors begin to consider legacy gifts; role of financial planners; and planned giving vehicles
'New Philanthropists'	Result of wealth gained from dot-come economy and other economic trends
	New Philanthropists are joining traditional philanthropists, but not replacing them
	New Philanthropists are more ambitious, take on giant issues, focus is global in nature and demand results from nonprofits
	Characteristics of New Philanthropists include: their initial gift may be a major gift; they invest in issues and expect results; they seek value-driven organizations; a desire for organizations to accept their ideas, not just their money; they are impatient for results; they

| might be impatient for the ask; they want to be |  
| involved and have a base of power |

## 2.6 Conclusion

Table 1: Summary of Individual Giving in the United States

Individual giving has long held a prominent place in the United States, dating back to Colonial times. While the system of philanthropy was imported from Europe, what is unique to America is how fast philanthropy grew and how early in America's history philanthropy assumed a stature and significance of its own. The focus of American philanthropy has always been on social welfare, which exists to this day. While there was a general aversion to direct government involvement in philanthropy until the Great Depression of the 1930's, the federal government helped to foster individual giving through various tax laws.

Giving to the arts has never been the focus of philanthropy in the United States and while specific giving amounts to the arts sector is unavailable, what is known is that from 1990 to 1997, individual philanthropic support increased more than any other source of income. At the same time, while the number of households giving to the arts increased, the average gift steadily decreased, as has the percent of personal income contributed to the arts.

Within the context of overall individual giving in the United States as well as trends in art giving there are two developments in the individual giving income stream that arts administrators should be aware of, which are: the rise of planned giving, and new philanthropists. The largest intergenerational wealth transfer is occurring now and is estimated to be \$41-131 trillion. In order for organizations to take advantage of planned giving there are various things they need to be aware of including: motivations for planned giving; income level and age donors begin to consider legacy gifts; role of financial planners; and planned giving vehicles

The other development to be aware of is the rise of 'New Philanthropists,' which resulted from the wealth gained from dot-com economy and other economic trends in 1990's such as rise of women, minorities and wealth from intergenerational wealth transfer. These new philanthropists are joining traditional philanthropists, but not replacing them and are more ambitious, taking on giant issues, focusing on global issues and demanding results from nonprofits. These new donors have various characteristics arts administrators should familiarize themselves with to best cultivate and retain the New Philanthropists. These characteristics include: their initial gift may be a major gift; they invest in issues and expect results; they seek value-driven organizations; a desire for organizations to accept their ideas, not just their money; they are impatient for results; they might be impatient for the ask; and they want to be involved and have a base of power. Individual giving is influenced by a variety of factors, as can be seen throughout its evolution in the United States.



## **Chapter 3: Independent Foundations**

### 3.1 Introduction

Independent foundation giving programs provide a small share of income for arts and cultural organizations. According to Americans for the Arts, foundation grants only account for 5% of total income. The receipt of funding from granting organizations, however, is one of the most visible and prestigious sources of support (Lenkowsky, 2002). The following sections will examine the rise of independent foundations, trends in foundation giving to the arts with an emphasis on 1990 to present.

### 3.2 Rise of independent foundations

The first independent foundations were created by business industrialists at the turn of the 20<sup>th</sup> century. The late 1800's and early 1900's was a time period of increasing wealth for businesses, rising poverty levels, and intense political corruption and disorder. Traditional philanthropy in the form of individual giving to social organizations was not enough to alleviate the rising social and economic issues of the era. While many Americans perceived business leaders as enemies of social and economic justice, many businessmen *were* concerned about the issues of the day and wanted to find avenues to directly address these issues, which is ironic considering that the business practices of these industrialists contributed to many of the social and economic problems. Due to a general aversion to big government in American society, these leaders did not want the federal government to intervene. The corruptness of American politics at the turn of the 20<sup>th</sup> century was another incentive to keep the federal government out of social welfare. Because of the economic and political factors, business leaders felt it was their responsibility to lead the private sector in working towards social justice (Hall, 1987).

These leaders, most notably, Andrew Carnegie and John D. Rockefeller, had a patriarchic view of how to best use their money to deal with the social and economic issues of the time. The first involved articulation of how the wealthy should approach philanthropy came from Carnegie via his famous essay "The Gospel of Wealth," written in 1889. In it he proposes that the millionaires of America achieved their wealth due to natural selection, i.e., survival of the fittest (Brenman, 1988; Kass, 2002). In Carnegie's view, wealthy businessmen amassed their fortunes because they were experts in their fields. This singular expertise meant that businessmen were the only ones qualified to decide how their surplus wealth was dispersed and that they were responsible only to their conscious and community. Carnegie believed there were three ways to distribute surplus wealth: leave the wealth to descendents; bequeath it for public purposes; or administer it during their lives. He went on to state that leaving a large inheritance to descendents does them more injury than good. As for bequeathing the surplus at death, Carnegie scorns this idea as it indicates that the individual is content to wait until death to do good for the community. For this reason, he supported estate taxes, stating:

Men who continue hoarding great sums all their lives, the proper use of which for public ends would work good to the community from which it chiefly came, should be made to feel that the community, in the form of the State, cannot thus be deprived of its proper share. By taxing estates heavily at death the State marks its condemnation of the selfish millionaire's unworthy life (as cited in Kass, 2002, p. 234).

By far, Carnegie's preference was that men of wealth disperse their surplus assets while alive. Standard Oil mogul John D. Rockefeller shared this view, which he expressed in his book *Random Reminiscences of Men and Events*. Both men in their writings go so far as to outline in order

appropriate philanthropic fields for the rich to contribute their surplus wealth to. Surprisingly, they are very similar lists. Carnegie's seven were to:

- Support universities
- Create libraries in communities, as long as the community will maintain it as a public institution
- Founding or extension of hospitals, medical colleges, laboratories and other institutions that work to alleviate human suffering, with a specific focus on prevention rather than cures
- Creation of public parks, again with the stipulation that the community maintains them
- Provide cities with halls for meetings of all kinds and for concerts of elevating music
- Provide swimming-baths for the public
- Support churches (Kass, 2002).

Rockefeller's list entailed supplying the public with progress in abundance and variety of food-supply, clothing, shelter, sanitation, public health, commerce, manufacture, the growth of public wealth; progress in government and law; progress in literature and language; science and philosophy; art and refinement; and lastly morality and religion (Rockefeller, 1933).

In order to disperse their enormous surplus wealth and achieve their philanthropic goals, Carnegie and Rockefeller created a new giving vehicle, the charitable foundation. Until this point, charity had been carried out by institutions and philanthropists donated directly to the institution. The new giving vehicle differed from the established form of charity in three ways. First, its purpose was open-ended, rather than being devoted to a specific cause such as the environment. Second, the way foundations performed their charity was through donating money rather than by actually performing the actual work and third, a staff of experts was entrusted to identify worthy causes to contribute to as opposed to the board of trustees (Hall, 1987).

Along with Carnegie and Rockefeller, many other affluent Americans established similar foundations. While this would seem to mean great things for the nonprofit organizations of the day, many of them were hesitant to accept funding from the foundations because of how the wealth of men like Carnegie and Rockefeller had been amassed. The federal government also opposed these large foundations seeing them as a way for the very well to do to perpetuate their wealth. A study conducted by the United States Industrial Relations commission went further to berate all foundations for their wealth, loosely defined powers, federal tax exemption, freedom from public control, subservience to donors and their effect on smaller philanthropic agencies and individual donors. The opposition to foundations stemmed from a fear of how they would use their powers in the future. This was a debate that plagued foundations and organizations that received foundation grants for the first quarter of the 20<sup>th</sup> century (Bremner, 1988; Hall, 1987).

Foundations continued to be created, with a dramatic increase in assets and numbers from

1940-1959. This increase was stimulated by the prosperity of the WWII and post-war years, high income taxes, increases in estate taxes in 1936, and the realization that families could use the foundation as a way to keep control over family corporations, draw large salaries as well as extend their political and cultural influence (Hall, 1987). By the late 1940's the foundation structure was being taken advantage of, validating the fears associated with foundation structures from 20 years earlier. Evidence showed that some foundations served the donor's business interests better than philanthropic ones. This led to an investigation of foundations by the federal government, which resulted in a revision of the tax code in 1950 that stated foundations would lose their tax-exempt status if they engaged in activities that benefited the principle donor or their associates and it subjected revenue obtained by business unrelated to the foundation to taxation. The 1950's also saw foundations being scrutinized to determine if they gave to "un-American" causes.

While foundations were able to weather the McCarthy Senate hearings of the 1950's, they continued to be under scrutinization by the federal government because they *did* have large assets and *were* often used to maintain family control of corporations and they were not investigated by the IRS or subject to public oversight. The continued issues with foundation structure resulted in an additional tax reform act instituted in 1969. This reform put foundations under federal oversight; set standards for public reporting; outlined the types of assets foundations could have; and stipulated the foundations must use at least 5 percent of their assets per year. This act resulted in inhibiting the creation of new foundations and encouragement for the dissolution of small ones. The existence of fewer foundations and higher taxes on foundation assets led to a decline in funds available for granting. The late 1960's and early 1970's also saw the Nixon administration questioning the tax-exempt status of many types of nonprofit organizations, and as a consequence foundations received increased attention from the IRS. Foundations were being advised to engage in public policy activities, but were also being told it would be unwise to do so (Bremner 1988; Hall, 1989).

If this were not enough, the economic climate of the '70's was as unfavorable if not more so than the political climate. The recession that began in 1973 sharply reduced the market value of foundation assets, which affected the size of grants available (Bremner, 1987). It was not until 1983-1989 that foundations experienced another period of dramatic growth in endowments which came from new sources or from funders whose assets grew rapidly through the 1980's, many of which were concentrated in the West, Southwest and Southeast (Rentz, 1994). Within the last 20 years the number of foundations has tripled to an estimated 47,000 and their grants have increased more rapidly than inflation (Lenkowsky, 2002; *Foundation growth and giving estimates*, 2006).

### 3.3 Foundation support of the arts

Foundation support of the arts did not evolve until the 1920's with the partnership of the Carnegie Corporation, Rockefeller Foundation and a few other private foundations. In 1957, the Ford Foundation entered the arts funding scene with a goal of developing the arts through the establishment of nonprofit theatres, orchestras, dance and opera companies across the country (Cobb, 1996). The percentage of arts support from foundations remained fairly steady from 1957 through the 1980's, despite changes within the arts funding community. While the percentage of dollars for arts support remained steady, the number of dollars spent on the arts saw a surge in the 1980's in line with the overall increase in both the number of foundations and their assets as

mentioned in the previous section (Renz, 1994).

By the late 1980's and early 1990's, foundation funding of the arts was going through a tumultuous time. With the recession of the late 80's and early 90's, the surge in funding dollars for the arts slowed. Between 1989 and 1992 estimated arts giving only grew 4 percent from \$1.1 billion to \$1.3 billion and in 1993 the arts giving share fell from 14 percent to 12.7 percent (Cobb, 1996; Renz, 1994).

This all changed between 1995 and 2001 when foundation contributions for the arts more than doubled, with the greatest increase to the arts between 1995 and 1998 (see Figure 3). Arts and culture grant dollars grew from \$1.6 billion in 1995 to \$3 billion in 1998 to \$4.2 billion in 2001. This was in spite of the declines in the stock market starting in 2000 and the onset of the recession in 2001 (*Arts funding IV: An update on foundation trends, 2003*).

Overall giving by foundations again declined in 2002 and 2003, however the giving amount was still higher than the amounts of the early to mid 1990's. By 2004, there was a rebound in foundation giving with an increase of 8.1 percent between 2003 and 2004 to 15.5 billion, of which arts and culture received 13% (*Highlights of foundation giving trends, 2006*).

This rebound continued in 2005 with a modest increase in foundation giving at an estimated total of 33.6 billion (See figure 4). While estimated giving by foundations grew 2 percent ahead of inflation, overall inflation-adjusted giving fell slightly below the level of funding in 2001. There are several reasons for the increase in 2005, which include a rise in the stock market, new gifts into foundations, the establishment of new foundations and foundation support in response to the tsunami and hurricanes Katrina and Rita (*Highlights of foundation giving trends, 2006*).



The outlook for 2006 giving suggested that there would be minimal growth in giving. The grounds cited for this outlook were: unchecked growth in the national debt; high energy costs; rising oil prices; the war in Iraq as well as an expected softening in the housing market and other U.S. sectors that rely on low interest rates (*Highlights of foundation giving trends, 2006*).

### 3.4 Conclusion

Table 2: Summary of Independent Foundations

Independent Foundations	Main Points
History in United States	First created at turn of 20th century by business industrialists Impetus to combat social issues of time and keep government out due to its corruptness Faced government censure throughout history
Trends in Arts	Foundation support of the arts did not evolve until 1920's Support from foundations remained steady until 1980's 1980's saw percentage of dollar support to arts remain steady, but saw an increase in the number of dollars spent on the arts Greatest growth in foundation contributions to the arts during 1995-1998. Funding to arts organizations in the late 1980's to early 1990's and again in 2002 to 2003 declined due to recessions Foundation contributions rebounded in 2004 and continued through 2005. Outlook for 2006 suggested minimal growth in giving

First created in the early 20<sup>th</sup> century by business industrialists in response to the rising social issues of the time and a desire to keep the federal government out of the business of philanthropy, due to the corruptness in American politics of the day, foundation funding has become one of the most visible and prestigious sources of support. Foundations from their inception to present day have faced government censure at various times due to a fear that foundations would be vehicles that would serve the founder's interests better than their philanthropic interests. While foundations have successfully weathered government scrutiny over the years, it has not been without various restrictions put on how they operate.

Foundation support of the arts did not evolve until the 1920's, and remained a steady source of support through the early to mid 1980's. During the 1980's, while the percentage of dollar support to the arts remained steady, the number of dollars spent on the arts increased. With the recession of the late 1980's and early 1990's support did decline, however saw an increase due to the economic boom of the mid 1990's. Funding again declined in 2002-2003 due to another recession, however saw an increase in 2004 and 2005. Reasons for this include: a rise in the stock market; new gifts into foundations and the establishment of new foundations. For 2006, the outlook suggested minimal growth in giving due to: unchecked growth in the national debt; high energy costs; rising oil prices; the war in Iraq; and softening in the housing market. As can be seen throughout the history of foundations their support is directly affected by political and economic factors.

## Chapter 4: Government Funding

#### 4.1 Introduction

In an effort to understand the role federal, state and local governmental funding plays in the nonprofit sector and the arts, this chapter will look at the history of government funding of the nonprofit sector as well as governmental arts funding and trends associated with government funding from 1990-present.

#### 4.2 Federal funding of the nonprofit sector

As indicated in previous chapters, direct federal governmental funding of the nonprofit sector was unacceptable to most of the American public, an opinion dating back to colonial times. It was not until the onset of the depression of the 1930's when it was painfully obvious that philanthropy alone would not be able to compensate for the needs of the period that the federal government began to directly support social welfare. From the 1930's on, the nonprofit sector saw increased governmental support in a variety of areas (Bremner, 1988).

By the 1970's federal support to the American nonprofit sector was the main source of funding. This resulted from the government's effort to stimulate scientific advance and overcome poverty and ill health (Salamon, 2002). However, on August 13, 1981 the Regan administration delivered on its campaign promise of cutting the federal budget. This was the largest federal budget cut in history, amounting to \$131 billion between 1982 and 1984. Most of the cuts were aimed at social programs, eliminating a significant source of funding which led to a budgetary crisis for many organizations (Muirehead, 1999; Salamon, 1990, 2002). A return to the funding amounts prior to the early 1980's was only achieved in the late 1990's (Salomon, 2002).

In addition, during the 1980's government program managers were encouraged to bring in for-profit entities offering the same services as nonprofit organizations. Traditional funding tools, e.g. the use of grants and contracts, were substituted with vouchers and tax expenditures that aided consumers as opposed to the organizations. The result was nonprofit organizations having to compete for customers in a market where for-profit entities had the edge. This was due, in addition to the budget cuts, to the rise of conservative political forces that favored increased consumer choice (Salamon, 2002). In response to this trend, state and local governments increased their levels of support in a variety of fields. This helped to offset the federal cuts, with government assistance accounting for 40% of increased revenues nonprofits received in the 1980's, however this increase did not completely cover for the loss in federal funding. Nor was independent giving able to cover the loss. Research showed that while the number of charitable contributions rose, as a share of personal income, private giving had been declining steadily from 1.86 percent in the 70's to 1.72 percent in the early 90's (Salamon, 1999, 2002; Wolff, 1999).

In order to offset these trends, nonprofits increasingly began to charge fees and service charges (Salomon, 1999). While this tactic allowed nonprofit organizations to survive the budget cuts and their inability to raise enough private funding to close the funding gap, it created another set of issues. By creating or newly entering markets that yielded a high return, nonprofits now encountered massive competition from for-profit entities, who are better equipped to attain the capital investments that being involved in the market involves (Salamon, 1990, 2002). Additionally, nonprofits operating margins were so narrow that it hurt their ability to subsidize mission-related activities, lending to the blurring of the lines between nonprofit and for-profit providers. This in turn raised and continues to raise questions about the validity of the tax advantages that nonprofit organizations receive, threatening the very existence of the nonprofit sector (Salamon, 1999, Wolf, 1999).



While this seems to paint a bleak picture, in the last few years there has been an increase in governmental social welfare spending (Salamon, 2002). This is due to five factors. First, basic entitlement programs for health and income assistance grew due to expanding eligibility. Second, the federal government created a variety of new programs to address long-standing or newly emerging social issues. Third, funding at the state and local level mirrored the new federal activism. The fourth factor was the passage of welfare reform legislation, which resulted in a social welfare system that had plentiful funding. Lastly, new tools were introduced to help fund social welfare and related needs. These tools included loan guarantees and tax subsidies, which, in themselves were not new, their use in fields where nonprofits are active was (Salamon, 2002). So where do the arts fit into all of this?

#### *4.3 Federal funding of the arts*

While comprising only 2% of total arts funding and the smallest source of governmental funding (see figure 1, Chapter 1), federal funding of the arts is an important source of revenue. There are a variety of ways the federal government supports the arts including: the National Endowment for the Humanities, Federal Council on the Arts and Humanities, National Gallery of Art, Smithsonian Institution, Library of Congress, Corporation for Public Broadcasting, the Institute of Museum and Library Services and oversight of the Kennedy Center for the Performing Arts and several other cultural affairs programs in the District of Columbia. Additionally, the Department of Interior supports Native American Arts and Crafts as well as overseeing the allocation of historic-preservation funds (Mulcahy, 1999). The main source of federal government arts funding however is the National Endowment for the Arts (NEA), which was founded in 1965. Currently, by law the NEA must allocate 40 percent of their appropriations to states and regions (National Assembly of State Arts Agencies). Therefore, increases and decreases in the NEA budget directly affect the budgets of state arts agencies.

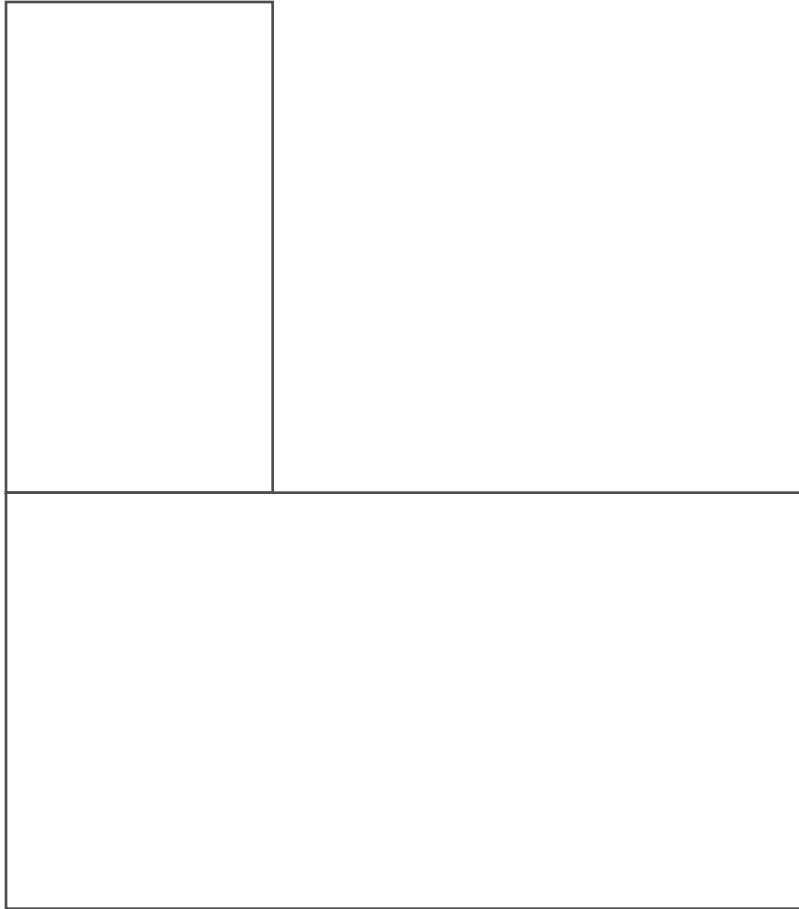
As stated above, funding to the nonprofit sector by the federal government was cut in most other areas in the early 1980's; however, this period saw a growth in federal government spending for the arts. It was not until the mid 1990's that appropriations to the NEA were slashed. In 1990, the agency had a budget of \$171, 255,000 which rose to \$175, 954,680 in 1992 and then dropped to \$99,470,000 in 1996 and continued to decline until 2001(NEA website). See figure 5.

#### **Fiscal**

Year Total Funds

#### **NEA Appropriations History**

Fiscal Years 1990-2001



*Figure 5: www.AmericansForTheArts.org*

The budget cuts were the result of the so called ‘culture wars,’ which began in the summer of 1989 (Burgess, 2006; Yudice, 1999). The catalysts for this event were exhibitions of photographs that were considered by some to be sexually explicit and presumably blasphemous, which were funded with NEA grants (Burgess, 2006; Cargo, 1995; Yudice, 1999). The two exhibits funded by the NEA grants were a retrospective of Robert Mapplethorpe’s work, which included works with a homoerotic or sexual subject matter and an exhibit of Andre Serrano’s *Piss Christ*, a photograph of a crucifix submerged in urine (Burgess, 2006; Yudice, 1999).

These works were brought to the attention of hard-line conservative congressmen, most notably, Jesse Helms (Burgess, 2006; Yudice, 1999). Questions began to be raised ranging from particular grants, to the NEA granting process and finally to the necessity of the NEA and public funding for the arts. While this was not to first time the NEA had faced arguments of this nature, due to the conservative political culture of the time, the accusations did not die down (Burgess, 2006).

In order to deal with the initial issue of how grants were appropriated as well as whether the standard for funding public art should be different from art funded privately, a panel, known as the Independent Commission (IC) was formed (Burgess, 2006, Independent Commission Report, 1990). In order to maximize the effect of their findings, the IC consciously made an effort to ensure that all members supported the findings. The (IC) findings and recommendations are as follows:

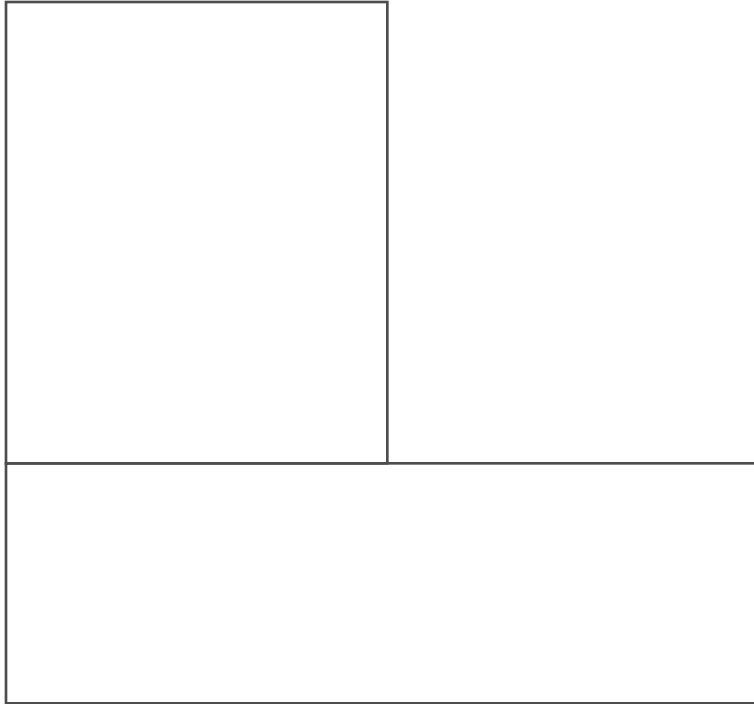
- The standard for publicly funded art must go beyond the standard for privately funded art.

- Artistic excellence should remain the guiding standard in grant making.
- The authority of the chairperson must be made explicit.
- National Council meetings should be open to the public.
- The pool of advisors sitting on grant advisory panels should be expanded.
- Panels should act as sources of advice to the chairperson and National Council.
- NEA grant-making procedures should be significantly reformed.
- Grant advisory panels should have as their primary responsibility the evaluation of artistic merit.
- The present statutory formula allocating 20 percent of endowment funds to state art agencies should be maintained.
- Freedom of expression is essential to the arts.
- Obscenity is not protected speech and the NEA is prohibited from funding it.
- The NEA should rescind the obscenity pledge requirement.
- There should be no legislative changes to impose specific restrictions on artistic content. (Burgess, 2006, p.106)

During this time the NEA was also eligible for reauthorization (Burgess, 2006). The reauthorization was ultimately approved, but included a funding cut in the amount of \$45,000, the amount of the grants had been awarded for the Serrano and Maplethorpe exhibits (Burgess, 2006).

This was the first cut in many for the NEA. The major blow came in 1996, when the budget was cut to just over 99 million. In the summer of 1997, arguments similar in nature to those in 1989-1990 again surfaced. This time the NEA was in danger of being eliminated altogether, when the House of Representatives voted to abolish the NEA (Yudice, 1999). The NEA was saved when the House-Senate conference committee deferred the abolishment for another year. However, the committee put congressional members on the NEA decision-making committees, which reduced the NEA's autonomy (Yudice, 1999).

It was not until 2001 when appropriations to the NEA began to rise (see figure 6). Since 2001 appropriations have risen from \$104,796,000 to \$125,660,000 in 2006. While this is certainly not near the funding levels of the early 1990's, this rise in funding over the last 5 years gives rise to hope for a better future for federal government funding of the arts.



*Figure 6: [www.AmericansForTheArts.org](http://www.AmericansForTheArts.org)*

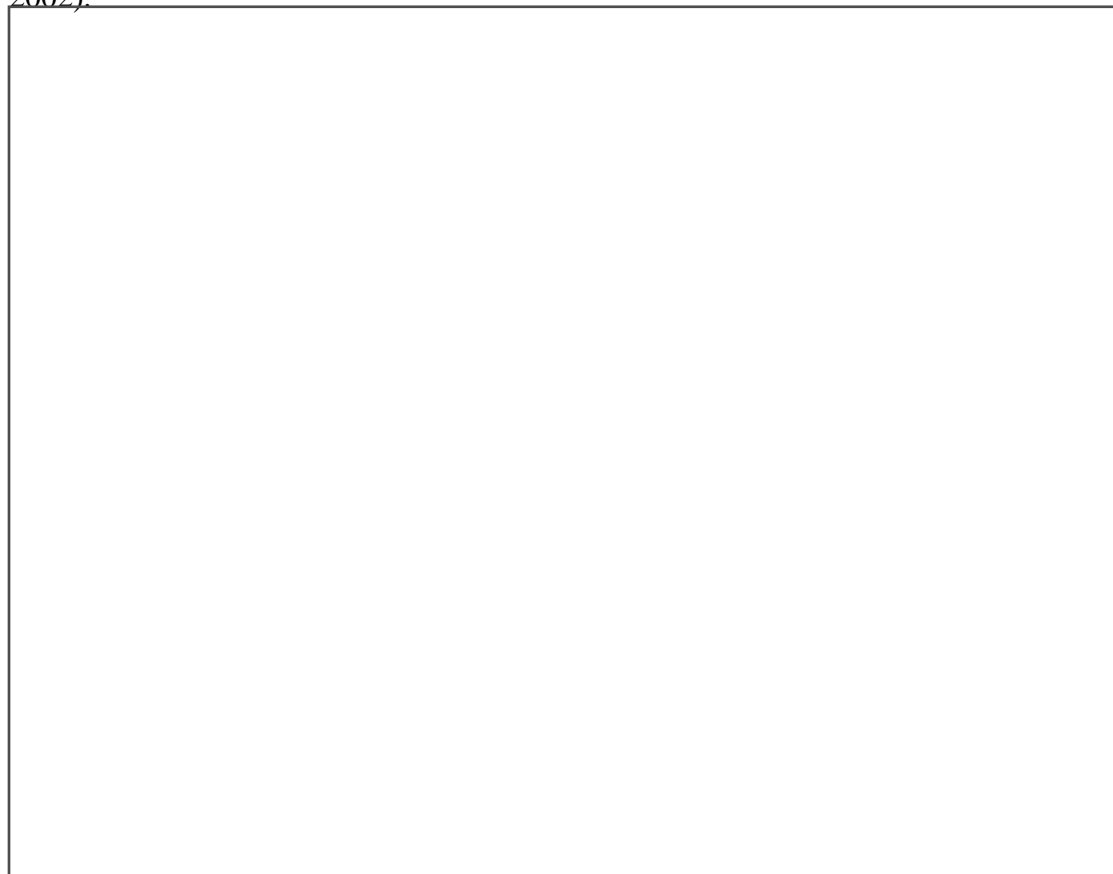
#### *4.4 State and local government arts funding*

The majority of government funding for the arts comes from state and local governments, comprising approximately 5% of total arts funding (See figure 1, Chapter 1). The system of state arts agencies (SAA) was created by the founders of the NEA as part of their bid for the creation of the Endowment (Lowell, 2004). Part of the opposition encountered to the creation of the NEA stemmed from concern that it would turn into a centralized bureaucracy that would hinder the diversity of artistic expression and that the existing gaps of cultural disparity between large and small cities would widen (Lowell, 2004). To combat this, part of the NEA legislation included establishing a partnership between the federal government and the states with goals to: ensure access to quality arts experiences for all Americans; maintain a degree of local control over public funding of the arts and culture; and to achieve broad-based political support for public funding of the arts (Lowell, 2004). It was not until 1974 that all 50 states had state arts agencies. For most states the motivating force for State Arts Agency creation was the receipt of NEA money (Lowell, 2004). With creation of the SAA's, local arts agencies were created to disburse funds at a local level. It is estimated that there are 4,000 local arts agencies in the country (Wyszomirski, 2002).

Funding for State and local arts agencies comes from many sources including: state legislative appropriations; NEA funds; other state funds and other non-government related funds. According to the National Assembly of State Arts Agencies, in 2006, 84% of SAA's revenue came from state legislative appropriations (see figure 7), which are driven by the fiscal health of each state as well as the political climate. Funding

### SAA revenue.

While the ‘culture wars’ of the early 1990’s were focused mainly on the NEA, budget cuts at the federal level initially adversely affected state arts agencies. This was in spite of an increase to the NEA state grant program (Lowell, 2004). In Fiscal Year 1992, nine states experienced cuts of more than 20 percent in their legislative appropriations (Lowell, 2004). State arts agency funding reached its lowest point of the 1990’s in 1993, with only \$211 million in appropriations (Cohen, 2002; Wyszomirski, 2002). After 1993 SAA funding continued to rise to their peak in FY2001 (see Figure 8), when funding reached \$450 Million (NASAA Website, Urice & Eyyuboglu, 2005, Wyszomirski, 2002).



*Figure 8: [www.AmericansForTheArts.org](http://www.AmericansForTheArts.org)*

In contrast funding to local arts agencies (LAA) from 1990-2001 continued to rise (see Figure 8). In 1991 government support to LAA’s was \$600 million, almost 3 times the amount allotted to state agencies and had risen to \$800 million by 2001, almost twice the funding to SAA’s that same year (Cohen, 2002, Americans for the Arts).

Since 2001, funding to state and local arts agencies has been unstable (Urice & Eyyuboglu, 2005). In FY03 a record of 43 SAAs reported declines in general fund appropriations from their state legislatures and in FY04 39 agencies reported additional budget reductions, nine of which were cut by more than 30 percent (Lowell, 2004). As many state SAAs do not have the resources to build cash reserves, they are almost completely dependent on appropriations from the state legislature,

appropriations that unfortunately are driven by politics as opposed to agency need (Urice & Eyyoboglu, 2005). The reductions in 2003 and 2004 represented threats to the viability of SAAs, longstanding programs as well as the legitimacy of state arts agencies themselves (Urice & Eyyoboglu, 2005).

The good news is that 2005 and 2006 saw a rise in funding to state and local arts agencies (Americans for the Arts). In FY06, government support for SAA's and LAA's for FY06 are \$328 million and \$778 million, respectively (Americans for the Arts).

Federal Government Funding	Main Points
History in United States of Federal Funding to the Nonprofit Sector	Federal Government was not involved in funding the nonprofit sector until the 1930's due to the Great Depression Funding continued to increase until 1981 Was cut by President Regan Caused large budgetary crisis' for nonprofit organizations Led to changes in how nonprofits operated A return to previous government funding amounts did not occur until late 1990's
Federal Funding of the Arts	Comprises only 2% of total arts funding Support sources include the National Endowment for the Humanities, Federal Council on the Arts and Humanities, Corporation of Public Broadcasting, Institute of Museum and Library Services, oversight of the Kennedy Center for the Performing Arts and several other cultural affairs programs in the District of Columbia, support for Native American Arts and Crafts and allocation of historic-preservation funds through the Department of Interior Main source of federal funding to the arts the National Endowment for the Arts (NEA) Formed in 1965 While funding to the nonprofit sector was cut in the 1980's federal funding to the arts continued to increase. Due to culture wars of the early 1990's appropriations to the NEA were dramatically slashed It was not until 2001 that appropriations to the NEA began to rise.

#### 4.5 Conclusion

Table 3: Summary of Federal Funding

State and Local Funding for the Arts	State and local government funding equals 5% of total funding for the arts System of state arts agencies created by founders of NEA Local arts agencies created to disburse funds at
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		local level, currently estimated 4,000 local arts	
		agencies	
		Majority of income to State Arts Agencies from	
		state legislative appropriations, which are	
		driven by economics and politics	
		40% of NEA appropriations goes to State Arts	
		Agencies, comprising 8.6% of revenue	
		During slashing of NEA funding, State and Local	
		Arts agency funding continued to rise through	
		2001	
		Since 2001, funding has been unstable	
		2003-2004 saw declines in general fund	
		appropriations to many state arts agencies	
		2005 and 2006 saw slight increase to state and	
		local arts agency funding	

*Table 4: Summary of State and Local Arts Funding*

Since the 1930's government has been funding the nonprofit sector. However, a formal system for support of the arts did not begin until 1965 with the creation of the NEA. Soon after the creation of the NEA, state and local arts agencies were created in all 50 states as additional vehicles for government support. Federal government funding to the arts continued to rise through the 80's, however with the culture wars of 1989-1990, funding was slashed and questioned. To make up for the cuts in federal funding, state and local government funding to the arts rose through the 1990's. Since the recession of the early 2000's, state and local funding of the arts has been very unstable. However, the last two fiscal years have seen a rise in funding. Federal funding, while not near the level it was in the early 1990's, has been rising over the last 5 years. These trends give hope to the future of governmental funding of the arts.

## **Chapter 5: Corporate Philanthropy**



## 5.1 Introduction

Corporate philanthropy is one of the most recent funding streams for nonprofit arts organizations. This chapter will discuss the beginnings of corporate philanthropy; trends in corporate philanthropy; corporate giving vehicles; impetus for corporation contributions to the nonprofit arts sector; and benefits arts organizations receive from corporate contributions.

## 5.2 Corporate philanthropy-the beginning

Corporate philanthropy is a relatively recent source of funding for nonprofit organizations in the United States. While the concept of corporate citizenship has existed in various forms and varying degrees for several centuries, it was not until the early 1900's that corporations in the United States began to give philanthropically (Burlingame & Smith, 1999; Muirhead, 1999). Prior to this time, corporate contributions were viewed negatively as "giving away" shareholder assets without their permission. In fact, until 1917, it was considered illegal for a corporation to donate unless the company directly benefited. Beginning in 1917, with the entry of the United States in World War I, a handful of states starting with Texas, began to enact legislation that allowed corporations to contribute to bona fide organizations whose express purpose was for charitable activities enabling corporations to support the war effort by donating to organizations such as the Red Cross (Muirhead, 1999).

While the legislation enacted in 1917 was a step towards legitimizing corporate contributions, it took two events to really shape the face of current corporate philanthropy. The first occurred in 1935. It was in this year that the Internal Revenue Service first permitted corporations to donate up to 5 percent of their pre-tax earnings from taxable income. This act provided an incentive for companies to engage in charitable donations, however it was still not considered legal to contribute funds towards causes or organizations that did not directly benefit the corporation such as general contributions to a university as opposed to a specific research program (Muirhead, 1999).

This was changed in 1953 by the New Jersey Supreme Court in the case of *Smith v. Barlow*. As stated above, corporate contributions were considered legitimate, as long as they directly benefited the company. In 1951 the board of directors of A.P. Smith Manufacturing Company gave \$1,500 to Princeton University for general purposes. As a result Barlow and other shareholders challenged the gift as misappropriation of corporate funds and beyond corporate powers because the company's charter did not specifically allow that type of donation. The response of the company president was to justify the grant by stating that the public expects corporations to assist charitable organizations and that the grant would incite public good will and create a more favorable environment for their business. The president also argued that, by contributing to liberal arts institutions, corporations were helping to ensure that there would be properly trained personnel for administrative and other corporate employment. After hearing arguments on both sides, the state supreme court ruled that A.P. Smith Manufacturing did not violate the law (Burlingame & Smith, 1999; Muirhead, 1999). This monumental ruling essentially overturned the notion of corporations being allowed to give only to organizations that directly benefit the company and it helped provide the rationale for corporate philanthropy. This ruling also opened the door for corporate funding for the arts.

Corporate contributions to the nonprofit sector until the mid 1950's were handled on a case-by-case basis. After 1955, corporate employees in charge of giving programs began to give more consideration to how funds were allocated. While funds were still being donated for altruistic reasons, in a precursor to late 20<sup>th</sup> century strategic giving, other funds were being contributed with the expectation of some sort of return (Muirhead, 1999).

The face of corporate philanthropy continued to evolve. Prior to the riots of the 1960's, corporate contributions were done on an anonymous level, however with the civic unrest and charges against businesses about environmental and minority hiring practices, this began to change. Businesses began to communicate their contributions to the community. They also began to encourage employee participation in community affairs; implement new hiring and training practices; invest in urban enterprises; participate in government-sponsored construction and rehabilitation of low-cost housing; create pollution-control procedures; establish policies for social and profit objectives; and develop public affairs departments. Additionally, the '60's saw an increase to arts funding from 3.0 cents in 1952 to 8.6 cents in 1965. With the economic situation in the late '60's and 1970's companies turned towards their corporate foundations as a means to keep contributions constant. Because of this, corporate contributions were able to stay ahead of a very high inflation rate. In addition, by 1978, corporations started to place a portion of their profits in corporate foundations, in reserves. This reserve helped cushion recipients of corporate contributions into the '80's when corporate profits continued to decline (Muirhead, 1999).

### *5.3 Corporate funding trends*

As stated in the previous chapter, government funding for the nonprofit sector was dramatically slashed in the early 1980's, by the Regan administration. State and local government funding as well as other contributed income streams were unable to make up for the gap in funding. The Regan administrative strategist's answer to this dilemma was to expect the business sector and individual giving to make up the gap. This expectation caused a backlash in the corporate world. Business leaders, while being concerned about the issues, did not feel that the administrators of the federal government appreciated the extent of the business sector's philanthropic support nor that they understood the limited resources available to businesses to meet the \$29 billion funding gap. Funding requests rose for some corporations by 300 percent and the answer to whether or not corporations would increase funding levels in 1981 was 'no'. However, by 1984 corporations began looking for other ways to support the nonprofit sector. C.C. Garvin, Jr., chairman of Exxon Corporation said:

Businessmen should focus on philanthropic activities just as we focus on regular business activities when we are really determined to get things done. We have a splendid – perhaps a unique – opportunity in the next few years to demonstrate anew that the economic system we believe in can work, and work well, in the public interest (as cited in Muirhead, 1999, p. 36).

By 1985 corporate contributions had reached an all time high of \$4.4 billion. This level of giving however declined by 2.5 percent in 1986 (Muirhead, 1999).

Starting in 1987 and into the 1990's, corporate contributions as a percentage of pretax profits began to decline due to the unpredictable corporate climate when many businesses were downsizing and or merging. Through these mergers, some corporate contributions programs disappeared and the ones that remained experienced little if any growth. In addition, this period saw increasing pressure put on contribution and community relations managers to prove the value of their departments. Between 1991 and 1997 the number of full-time staff members assigned to corporate giving functions dropped by an estimated 80 percent. This led to corporations changing their philanthropic strategies coming full circle back to its roots by contributing to organizations only if they benefit the corporation (Burlingame & Smith, 1999; Muirhead, 1999). This "new" rationale for giving is known as corporate citizenship. As cited in Burlingame and Smith (1999, pp. 63), Logan, Roy and Regelbrugge (1997), believe that companies have a vested interest in investing strategically as the investment in civic,

social, physical, infrastructure, and the natural environments are, “. . . necessary prerequisites for successful business” (p. 16). This shift in how corporate philanthropy is viewed serves to encourage the business sector to support and play leadership roles in social change while at the same time advancing business goals.

#### 5.4 Corporate support of the arts

Corporate support of the arts takes many forms, including grants through corporate foundations, sponsorships, employee-matching gift programs, in-kind donations of products and services, payroll deductions, employee volunteers as well as encouragement of executives to serve on arts boards. However, with the shift in how corporate philanthropy is viewed, sponsorships have risen in importance, particularly with regard to corporate support for the arts. According to Dallenbach, Davies and Ashill (2006), sponsorships have become, “a highly integrated market-oriented activity, of importance to both the sponsor and the sponsored organization” (p. 73). They go on to state that sponsorships have become a key line item on income statements, especially for arts organizations. Monetary trends in corporate sponsorships are difficult to measure, reliable estimates of their value are not available, however many argue that in the United States, they exceed the total of all giving by \$8.5 billion (Burlingame & Smith, 1999).

Companies from a variety of industries support arts and culture through sponsorships. According to The World Sponsorship Monitor survey conducted at the end of 2004 as cited by Benezra (2005), the top 10 industry sponsors in arts and culture (by \$ committed) are as follows:

Travel	\$10.8 MILLION
Beer	5.0
Telecom	4.3
Financial services	3.0
Restaurants	2.8
Spirits/liqueurs	2.5
Consumer electronics	2.2
Banking	2.0
Retail	1.8
Cars/automotive	1.7

The top 10 sponsored arts and culture activities (in value reported) 2004 were:

Arts/cultural groups	\$10.8
Festivals/exhibitions	9.1
Pop/rock music	8.3
Local celebrations	3.7
Opera	3.5
Music festival	3.3
Cultural events	2.7
Classical music	1.8
Museum	1.4
Film	1.4

According to Wymer and Samu (2003), there are two components to sponsorships. First, the sponsor pays the sponsee a fee for the right to associate itself with the activity sponsored and second, the marketing of the association by the sponsor. In order to understand the varying nuances of sponsorships, there are several aspects that arts administrators should be aware of. These include: sponsor selection; keys to successful sponsorships; and the risks of sponsorships.

#### *5.4.1 Sponsor Selection*

Wymer and Samu (2003) state that there are three main avenues used to find sponsors. First, is the use of social networks of organizational leaders, i.e. board members, executive directors, etc. Second, consultants can be employed. Consultants have contacts in both sectors and maintain databases of organizations. A caveat with the use of consultants is to use them **ONLY** to find potential partners, **NOT** to develop the relationship. Third, organizations can purposively search for partners.

Above all, potential partners must be screened for suitable characteristics. These characteristics include: Organizational reputation; organizational values; organizational objectives; organizational structure; and timeframe of sponsorship.

Organizational reputation is one of the most important aspects to be aware of in potential partners, especially for nonprofits, as their name is their most valuable asset. According to Nowak and Clarke (2003), public attitudes and intentions towards a cause appear to be increased by association with a sponsor with a strong reputation. This increase can come in the form of trust for the nonprofit organization, increased volunteerism or donations, increased perception of the importance of the organization to society, feelings of responsibility to help and the feeling that personal support can make a difference for society. Research of an organization's reputation should encompass reading recent news articles, speaking with members of the target audience and other nonprofits that have been involved with the firm. It is also important to monitor the firm's reputation throughout the lifetime of the sponsorship (Nowak & Clarke, 2003).

Organizational values are another element that potential partners need to be aware of. Organizations should seek partners that have shared values. "Shared values," as defined by Nowak and Clarke (2003), is, "the extent to which partners have beliefs in common about what behaviors, goals and policies are important or unimportant, appropriate or inappropriate, and right or wrong" (p. 141). Shared values have been shown to increase trust and relationship commitment. Organizations that have shared values are less likely to participate in any activity that may damage the relationship (Nowak & Clarke, 2003).

Additionally, knowing each organization's objectives for the sponsorship will greatly increase the probability of a successful sponsorship. According to Iyer (2003), partnerships are formed in order to accomplish outcomes that may not have been possible without the partnership. In order for the partnership to work, it is essential, as stated by Wymer and Samu (2003), that each partner is open about their objectives and expectations for both their own and their partner's performance. Munson (2001) states that companies look for sponsorships with specific objectives in mind. They want opportunities to provide personal contact with their market and to attach their brands to an experience.

An analysis of the organizational structure should also be conducted. This includes looking at the mission, management style, workforce make-up, including size, cultural fit, and market. Because their missions govern nonprofits, it is crucial that nonprofits ensure the integrity of their mission in

their choice of partners. Failure to do so could lead to negative associations of the organization by their target market. Management fit is another area that needs attention in partnership selection. If the leadership fails to establish supportive, respectful relational bonds then the relationship is unlikely to flourish (Wymer & Samu, 2003). The workforce makeup is also useful to examine when researching potential partners. This refers to the number of employees and their skill level. According to Iyer (2003), workforce makeup plays an important role in the establishment of alliances. For instance, if a business with excellent managerial capabilities is lacking in PR skills and aligns with a nonprofit lacking in managerial skills, but that has excellent PR capabilities, both organizations can benefit due to the complimentary skills each has.

Iyer (2003) asserts that organizational culture plays a role in the ability for alliances to succeed. The reason for this lies on the premise that organizations form alliances because they lack in a certain area and are looking for ways to make up for that missing component. By understanding an organization's culture, each organization can better understand what the missing component is and how to best form the partnership.

It is also important to research each organization's target market as well as what markets they are looking to get into. This greatly assists nonprofits in their ability to gain sponsors. According to Bruce Skinner, president of the International Festival and Events Association "The key is to look through the sponsor's eye's and see what they value most. Then determine what you have to offer that would match their specific audience and marketing goals" (as cited by Munson, 2001, p. 29).

The commitment level of an organization to a sponsorship should also be taken into consideration. Studies show that associations between two products or events in a person's memory are developed and reinforced through repetition (Nowak & Clarke, 2003). Therefore, in order for sponsorships to be as effective as possible, it is in each organization's interests, assuming they maintain a positive image, to commit to long-term relationships.

#### *5.4.2 Keys to a Successful Sponsorship Relationship*

In order for sponsorships to be successful the sponsor and sponsee need to have a strong relationship. There are a variety of keys to establishing a good sponsorship relationship. The first key is effective communication (Nowak & Clarke, 2003). This includes both formal and informal as well as the frequency that communication occurs. According to Iyer (2003), it is best to have a mix of formal and informal exchanges. There must also be free and open access to members at all levels of the organizations to participate in the information exchange.

Trust is another very important aspect of the sponsorship relationship. There are three parts to trust, as stated by Nowak & Clarke (2003), which are predictability, dependability and faith. If these three are not present, the relationship is likely to fail.

Allocation of responsibility also needs to be understood by each organization in order for the partnership to succeed. The responsibilities must be clearly laid out and each partner needs to understand their accountability (Iyer, 2003). Both parties need to give the project the attention it needs; be willing to stay involved; and stick to timelines (Nowak & Clarke, 2003).

At the end of the sponsorship an assessment should take place regarding whether the goals and other outcomes were achieved or not (Wymer & Samu, 2003). By assessing the success of the sponsorship, both parties will increase their ability to form successful partnerships for the future.

#### *5.4.3 Risks of Sponsorships*

There are several risks associated with sponsorships. The first is if something goes wrong

with the sponsorship, it could seriously damage the reputation of each organization. This can have a greater effect on nonprofits as their name is their main asset and a tarnished reputation can make it difficult for the nonprofit to attract future sponsors (Wymer & Samu, 2003).

In order for nonprofits to protect their name, there are several things they should do upon entering into sponsorship agreements, according to Nowak and Clarke (2003). First, they need to make sure that the relationship represents the full value the business will receive from use of the nonprofit's name. This can be particularly hard for the nonprofit as they often find it difficult to determine what their brand is worth (Austin, 2003). Second, if the sponsor is to provide the nonprofit a sum of money, the nonprofit should receive it up front. Third, the nonprofit needs to make sure that they approve all uses of their name including copy, photos and media placements.

Another concern is that the nonprofit's mission will be compromised, i.e. diverted or tainted. It is absolutely necessary to ensure that the collaboration be supported by key stakeholders (Austin, 2003). Also, the partnership needs to be clearly outlined in all promotional materials to ensure that it does not look like the nonprofit is endorsing the business' product (Austin, 2003). This can be accomplished by adhering to the guidelines of the Philanthropic Advisory Service of the Better Business bureau and the National Charities Information Bureau (Nowak & Clarke, 2003).

A final concern is that logos, commercials etc., will intrude too much on public spaces, such as museums and sports arenas (Austin, 2003). This intrusion could change the spaces and alienate current and potential consumers.

#### *5.5 Why companies give to the arts*

Even though the 1953 New Jersey Supreme Court ruling set a precedence for corporations to give to organizations that do not directly benefit the company, therefore opening the door for contributions to the arts, it took until the 1970's for the business sector to contribute to the arts and cultural sector in a sizeable way (Cobb, 1996; Hopkins & Friedman, 1997; Levy, 1999). There are a variety of reasons why the business sector contributes to the arts, all of which relate back to corporate citizenship. These include the ability to help an organization serve the public interest (Levy, 2004; O'Hagan & Harvey, 2000), and receive in return good will from the public the organization serves, which can increase sales and earnings for the business (Levy, 2004; O'Hagan & Harvey, 2000). Findings indicate that there is a positive relationship between proactive citizenship and customer loyalty (Nowak & Clark, 2003). Contributions allow a business to associate itself with artistic and cultural excellence, which adds a touch of humanity to its image (Hopkins & Friedman, 1997), enhancing the public good will. Additionally, certain types of corporate support, such as sponsorships, enable the company to target new audiences (French, 1991; Levy, 1999; Wymer & Samu, 2003).

Arts venues are excellent places for businesses to entertain customers and to interact with community leaders. Employees can benefit as well in that it is easy for them to be involved with the arts through matching gift programs, tickets to performances, exhibits or having arts in the workplace (Levy, 1999). These activities allow corporations to prove the value of their contributions to their key constituencies.

Furthermore, according to Hopkins and Friedman (1997), O'Hagan and Harvey (2000) and Radich (1987), corporate support of the arts help to ensure that there is a thriving cultural community. This community enhances the ability of businesses to recruit highly educated and talented personnel. The business sector is recognizing the economic impact of the arts on the community. Arts facilities draw people to the community, both locals and tourists. With arts facilities come artists and it has

been shown that when concentrations of artists live in a neighborhood, the ambience and image of the neighborhoods change. Since artists cannot generally afford to live in high-income neighborhoods, the neighborhoods they live in are low income. This can result in gentrification by drawing young and middle-class professionals to the neighborhood (Radich, 1987).

These young and middle-class professionals tend to be highly educated, creative, and have a high level of human capital (Florida, 2002). According to Richard Florida's article, *The Rise of the Creative Class*, in *The Washington Monthly Online* (2003), these professionals are becoming a new force both economically and socially. This is a class that is stimulated by having a variety of options; not only employment options, but also arts options, including music venues, art galleries, performance spaces and theatre. They choose where they live based on those options. Cities, according to Florida, that do not recognize these professionals and work to attract and retain them are growing stagnant and in some cases, declining.

#### *5.6 Benefits of corporate support for nonprofit arts organizations*

There are many benefits of corporate support for nonprofit arts organizations. The first, and most obvious, the nonprofit receives funding or in-kind gifts, which enable nonprofits to carry out their mission. Second, the nonprofit receives name exposure above what the nonprofit would be able to achieve on its own. This can come from the company advertising on radio, television, newspapers, magazines, as well as other places, about an arts organization or event. Major corporate support also suggests that an arts nonprofit has shown themselves to produce quality art, be efficient and effective (Levy, 1999). These can lead to an increase brand and image is critical to a nonprofit's ability to increase memberships and donations (Austin, 2003). It is important to note, however, that a nonprofit arts organization should avoid accepting contributions from a corporation with a tarnished reputation as the arts nonprofit name is then tied to the reputation of the corporation. The next benefit of corporate support is that the increased involvement of corporate management can lead to potential board members for the organization (Munson, 2001). This could lead to increased board expertise as well as increased networking opportunities for the organization.

## 5.06 Conclusion

Corporate Philanthropy	Main Points
History of Corporate Philanthropy	<p>Corporations began to give philanthropically in early 1900's</p> <p>Was illegal as viewed as giving away shareholder assets</p> <p>With the entry of United States into WWI in 1917, handful of states began to enact legislation allowing corporations to give to nonprofit organizations</p> <p>1935 IRS permitted corporations to donate up to 5% of their pre-tax earnings from taxable income</p> <p>1953 Smith v. Barlow opened door for corporations to donate to organizations that do not directly benefit the company and helped provide rationale for corporate philanthropy</p> <p>1955 started to see mix of altruistic giving and strategic giving by corporations</p> <p>1960's corporations began to publicize their philanthropic activities</p> <p>Recession of the 1970's corporations turned to corporate foundations</p> <p>With funding cuts to nonprofit sector in early 1980's it was expected that corporations fill the funding gap</p> <p>By 1984, corporations began to give in higher amounts reaching an all time high in 1985</p> <p>Due to unpredictable corporate climate of late '80's and early 90's corporate contributions began to decline and in some cases corporate giving programs were eliminated</p> <p>Because of changes in corporate sector, rise in idea of Corporate Citizenship, i.e., corporations give to support social change while furthering business goals</p>
Trends in Corporate Giving	<p>Corporate giving comes in form of gifts from corporate foundations, sponsorships, employee-matching gift programs, in-kind donations of products and services, payroll deductions, employee volunteers as well as encouragement of executives to serve on boards.</p> <p>One of trends to be most aware of for Arts Administrators is: Sponsorships</p> <p>Elements of sponsorships to be aware of include: sponsor selection, keys to successful sponsorships, risks of sponsorships, why companies give to the arts and advantage of corporate support to arts</p>



*Table 5: Summary of Corporate Philanthropy*

Corporate philanthropy, while being one of the most recent funding streams, is also one of the most complex and difficult to completely measure. On the flip side, it is one of the most valuable as corporations can offer assets to nonprofit organizations that no other funding stream can. Since the 1900's, corporate philanthropy in the United States has gone through several evolutions. When corporations began to contribute philanthropically, it was considered illegal, being viewed as giving away shareholder assets. With the entrance of the United States into WWI in 1917, state legislatures began to pass legislation making corporate contributions legal enabling them to help with the war effort. In 1935, the IRS bolstered corporate contributions by allowing corporations to donate up to 5 percent of their pretax earnings from taxable income. The face of corporate philanthropy as we know it today however did not come into being until after 1953 when the New Jersey supreme court ruled in favor of the president of A.P. Smith Manufacturing Company, who was being sued by the board of directors for a contribution that was made to Princeton University. This ruling opened the door for companies to contribute to organizations that do not directly benefit the corporation as well as the rationale for corporations to give to nonprofit organizations. From 1953 through today corporations have continued to contribute to nonprofit organizations. However, there has been a shift in the justification of corporate donations due to various economic factors, leading to the rise of 'Corporate Citizenship,' meaning corporations give to support social change while furthering business goals. This has led to the rise in the importance of sponsorships for arts organizations. In order for arts administrators to successfully gain sponsorships they need to be aware of the various elements to a sponsorship relationship such as: sponsor selection, keys to successful sponsorships, risks of sponsorships, why companies give to the arts and advantage of corporate support to arts.

## Chapter 6: Conclusion

### 6.1 *Summary*

Given the challenges facing nonprofit arts funding, it is necessary for arts administrators to understand the funding environment they work in. To this end, the purpose of this study was to examine the history of contributed income streams for nonprofit arts organizations in the United States and the role those funding sources play in the current arts nonprofit funding environment. The main research questions that framed the structure and content of this paper in conjunction with coursework completed in requirement of the capstone option were: **how did the current contributed income streams evolve in the United States?**; and, what part does each contributed revenue source play in the current arts nonprofit funding environment? In order to answer these questions, a study of the evolution of each contributed income stream and an overview of trends in arts funding, was

conducted.

Contributed income to arts nonprofit organizations comes from a variety of sources. While it collectively makes up roughly 50 percent of their income, the amounts of each stream shift due to the various social, economic, political and demographic factors that affect each of the funding sources. In order to comprehend how these factors affect each funding source, it is necessary to realize that philanthropy in the United States comes out of a tradition of an emphasis on social welfare, which has influenced each of the funding streams and society at large. The focus of philanthropy has generally been on preventing a problem rather than on fixing the current problem. This can be seen at various periods throughout American history:

- Cotton Mather's preaching against almsgiving, unless the person is unable to work in Colonial times.
  
- Foundations were created, by business leaders who felt it was their responsibility to lead the private sector in working towards social justice, in direct response to the many social issues of the time.
- Direct government involvement in philanthropy did not occur until the 1930's during the Great Depression, when traditional forms of philanthropy were unable to compensate for the needs of the time.
  
- Corporate philanthropy, while still oriented towards the good of the company, rose out of a sense of a necessity to contribute to their communities to make them better places.

Politics have also played a significant role in the history of nonprofit contributed income. This has occurred through tax laws, various governmental investigations as well as outright cuts in funding, for example:

- Tax laws allowing for tax deduction to individuals and corporations helped to increase giving throughout the 20<sup>th</sup> century, when the first such laws were enacted.
  
- Tax laws also helped keep certain giving vehicles in check, specifically foundations:
  - o The tax law of 1969 put foundations under federal oversight, set standards for public reporting, outlined the types of assets foundations could have and stipulated that foundations must use at least 5 percent of their assets per year.
  
  - o Governmental commissions also aided in keeping foundations in check.

Governmental and societal political shifts are another environmental dynamic arts administrators need to be aware of. These shifts have an effect on all contributed revenue sources. Recent examples of this include:

- Foundations being put under intense scrutiny during the Nixon administration and being told to engage in public policy activities, but that it would be unwise to do so.
- One of the most devastating political decisions for the nonprofit sector were the huge budget cuts to social welfare programs in the early 1980's. This was something that affected how nonprofit organizations operate. It also showed that for the nonprofit sector as a whole, governmental funding is a key component. Corporate philanthropy, foundation giving, and individual giving cannot make up the difference.
- The conservative shift in American society in the early 1990's with the culture wars, which resulted in budget cuts for the NEA.
- Politics also play an important role in state and local arts agencies as 84 percent of state arts agency's budgets are made up of state legislative appropriations.

Economics, while affecting each funding source, tend to affect them differently. For individual philanthropy:

- As the economy got stronger and people became wealthier, philanthropy increased.
- In times of economic hardship, individual giving remained strong, showing how engrained in our society philanthropy is, especially when it comes to times of war and natural disasters.
- The upturn in the economy in the mid-1990's to early 2000, with the 'tech bubble,' also led to a lot of new wealth and has resulted in the 'New Philanthropists.'

Foundations, corporate giving and state and local governments are more susceptible to economic downturns, as can be seen below:

- In the case of foundations, their assets are invested and when the economy slows down, their assets do not grow as quickly, which affects the amount of grants they are able to give.
- For corporations, their contributions come out of their earnings. When the economy slows, it affects their earnings, which directly affects their ability to give.
- Additionally, slowing in the economy often sees a time of mergers and acquisitions in the corporate world, many of which led to the elimination of many corporate giving programs. This environment also resulted in a change in the focus of corporate philanthropy, back to its roots in investing in causes and organizations that directly benefit the corporation, leading to the rise in the use of sponsorships.

- State arts agencies are hit by downturns because they are so dependent on state legislative appropriations. In times of economic hardships, if the state government does not have enough funds to cover expenses, often the arts are what get cut first and the most dramatically. This can be seen in trends for state arts agency appropriations from 2000-present.

Demographics also affect contributed income. They can be used determine who is most likely to give philanthropically to a cause, enabling arts administrators to better target their audiences. For instance, donors to the arts are generally between 25 and 64, well-educated, employed fulltime and are more than twice as likely to claim charitable deductions and give to other causes. Another example of the importance of demographics is the intergenerational wealth transfer of an estimated \$41-\$131 trillion, which increases the importance of planned giving. Knowing the demographics of a nonprofit organization also affects corporate giving based on what audience the corporation wants to reach.

### *6.2 Implications for the arts*

So, what can be inferred from this study with regards to the arts? First, given the importance of social welfare in the development of philanthropy and its place in American society, it could be inferred that the arts are a secondary consideration for sources of contributed income. As mentioned above, the arts are often not the only cause individual donors contribute to. Additionally, as can be seen in Chapter 3 regarding foundation giving, only a small percentage of overall foundation grants go to the arts. Also, federal funding to the arts, while climbing, is still not at the same level as it is for the social sector. This could suggest a continuing need for arts leaders to couch their case for support in a social context, i.e., how the arts can meet the needs of society and help to improve society, their societal benefits, as well as a need for further research in this area, outside of the economic impact.

Additionally, because of the social welfare emphasis of the American culture, it could be suggested that there is a different access level to the arts then to social causes, which increases the importance of arts education. Without arts education, there is the very real possibility that the arts in the future will be hurting for audiences more so than they already are, which could lead to greater financial troubles as donor bases are built from arts organizations' audiences.

### *6.3 Importance for emerging arts leaders*

As can be seen, contributed revenue is a volatile source of funding. For emerging arts leaders, it is important to note how the various contributed revenue streams evolved. Armed with this knowledge, it is possible to understand how various social, economic, political and demographic trends affect each funding stream. This, in turn, aids in the understanding of the current state of arts funding and helps to place the state of arts funding within the context of overall funding to the nonprofit sector. With this information, arts leaders can understand the importance of paying attention to their social, political, economic and demographic environments, which will aid in identifying potential funding threats, opportunities and emerging trends. Arts leaders can also infer the importance of arts advocacy on a local, state and government level as it affects funding. Finally, being aware of the funding environment will allow arts leaders to appropriately make their cases for support to contributors from all sources, which will aid in ensuring the sustainability of arts funding and therefore the arts both now and into the future.

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Figure 3: The Foundation Center, Foundation Giving Trends, 2006

Figure 4: The Foundation Center, Foundation Growth and giving Estimates, 2006

NEA Appropriations History  
Fiscal Years 2001-2006

from the NEA makes up 8.6 percent of

Figure 7: [www.nasaa-arts.org](http://www.nasaa-arts.org)