

A thousand forests in one acorn: What does organizational ecology tell us about state arts agency grants and the sustainability of arts and culture nonprofits?

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INTRODUCTION

Sustainability, or organizational survival, is an important concern for all organizations. Increasingly, the survival of organizations in the nonprofit sector is also important to policy makers as these organizations are being used to address public problems and deliver publicly-funded services and programs to the people. This is no less true in the arts and culture subsector.

Kaufman (1991) speculated that the most probable cause of organizational failure was inadequate access to resources. Cultural economists have explained many of the economic conditions that threaten the survival of arts and culture organizations. One much-debated premise is the ability of government funding to leverage, or crowd-in, private donations – particularly among arts and culture nonprofits. “The creation of a thousand forests is in one acorn,” is a quote attributed to Ralph Waldo Emerson. Do government grants to arts and culture nonprofits have the capacity to influence the population of nonprofit arts and culture organizations. As governments leverage arts and culture for a variety of policy agenda, it is an appropriate time to evaluate the sustainability of arts and culture nonprofits and the role of government support.

The United States Government has maintained a limited role in directly supporting arts and culture organizations. This is matched with direct subsidies contributing 6.7 percent of revenues to arts and culture nonprofits – 1.2 percent from the Federal government, 2.2 percent from state governments, and 3.3 percent from local governments (National Endowment for the Arts, 2012b). In 1966, (National Endowment for the Arts, 2005). In 1966, the Watts Writers’ project received a grant from the newly formed National Endowment for the Arts. Budd Schulberg, a screenwriter and the organization’s founder, said, “The NEA provided tremendous assistance, no question about it. It was like the Good Housekeeping seal of approval, and it helped us gain additional private support and also obtain help from the film industry.”

The benefits of this seal of approval were subsequently circulated and used to support arguments for direct government subsidies. While this claim has been tested by crowding studies, the association between grant receipt and organizational sustainability, or survival, has not.

Organizational ecology empirically studies populations of organizations. Using such vital statistics as entry, or birth, and exit, or death, organizational ecology explores how the environment influences forms, types, and life-cycles of organizations. This paper examines the population of United States arts and culture nonprofits and asks, “Do organizations that receive grants from a state arts agency experience a different rate of exit than those that do not?” The exit counts are analyzed using negative binomial regression.

History of Funding for Arts and Culture Nonprofits in the United States

The United States’ system of funding arts and culture institutions has been considered unique when juxtaposed with the systems of other countries. However, the policies that resulted from political evolution form an important legacy that cannot be overlooked. The European tradition of supporting artists and the arts was built on patronage from the aristocracy and the Roman Catholic Church (Miller, 1974). The United States intentionally broke with this tradition and maintained limited direct financial support for the majority of its history (Bierkiewicz, 2004; Binkiewicz, 2004; Miller, 1974). Lloyd Goodrich, curator and director of the Whitney Museum of American Art and chair of the Committee of Government Arts in the 1950s, reported that the three greatest obstacles to federal patronage were a puritan tradition, a decentralized federal system, and the growth of private wealth (Larson, 1983). These circumstances resulted in the limited government involvement for the majority of United States history. This position changed in

1965 with the formation of the National Endowment for the Arts. While the NEA formalized a role for government involvement at the national level and incentivized development at the state level, funding levels remained limited and modest (National Endowment for the Arts, 2012b, 2012c).

The first annual report on the NEA articulated the organization's purpose to foster the arts in the United States and identified a program to build cooperation among federal, state, and local governments (National Endowment for the Arts, 1966). At the time of formation, the Chairman of the National Endowment for the Arts and Humanities (NEA), advised by the National Council on the Arts, offered an incentive to states that did not yet have an arts council (National Endowment for the Arts, 1966). States were offered \$25,000 as a one-time study grant and \$25,000 in matching funds to begin programs and projects at the state arts council level (Larson, 1983)¹. Between the formation of the NEA in 1965 and the end of 1967, the number of state art agencies increased from 18 to 53 to include all 50 states and three special jurisdictions (Larson, 1983). The federal government not only adopted an official role as patron to the arts but also encouraged every state to follow suit and collaborate or partner with the NEA to promote arts and culture in the United States.

The next twenty years was a period of growth and consolidation for the NEA and state arts agencies (SAAs). Concerns over what forms of art were funded and regulation of the agency persisted (Baurelein & Grantham, 2009). However, funding for both the NEA and SAAs increased (Lowell & Ondaatje, 2006). The NEA budget reached its pinnacle in real dollars and purchasing power in 1979 (DiMaggio, 1991). Adjusted for inflation, the NEA declined by 40 percent between 1979 and 1987 (DiMaggio, 1991). By 1985, aggregate

¹ Adjusting for inflation, \$25,000 from 1965 is equivalent to more than \$184,877 today.

total spending of SAAs exceeded that of the NEA (Lowell & Ondaatje, 2006). By 1989, the aggregate of SAAs budgets totaled approximately 60 percent more than the NEA budget (DiMaggio, 1991). Importantly, the spending power and influence of state arts agencies has continued to increase, relative to NEA appropriations. By 1994, state legislatures in 35 states were the dominant providers of revenues (Lowell & Ondaatje, 2006). Controversy in the late 1980s and the 1990s would shift the power between SAAs and the NEA.

Culture Wars

Federal and state programs were established in the mid-twentieth century, but public patronage was not without question. The issue of legitimacy exploded in what is commonly known as the Culture Wars, an era of conflict between conservative and liberal orientation in which arts and culture featured prominently. The NEA funded a number of controversial projects such as Andres Serrano's *Piss Christ* and exhibitions of work by Robert Mapplethorpe and Annie Sprinkle (Wallis, Weems, & Yenawine, 1999). These funding decisions contributed fuel to the debate between accountability to public sensibilities and the freedom of speech of the artist or curator (Wallis et al., 1999).

Controversies have proven to increase the risk of volatility and political retribution made via cuts to funding. NEA funding grew from \$2,898,308 in 1966 to \$158,795,000 in 1981, equivalent to \$20,838,924 and \$40,651,200 when adjusted for inflation to 2013 (National Endowment for the Arts, 2012a). Appropriations dipped in 1982 and 1983 and then fluctuated mildly between 1984 and 1995. Funding dropped nearly 40 percent between 1995 and 1996. The annual appropriations remained in this range until 2001, when it once again exceeded \$100 million.

The so-called Culture Wars of the 1990s resulted in substantial cuts to NEA appropriations. Funding was reduced from \$162,311,000 in 1995 to \$99,470,000 in 1996, illustrated in Figure 1 (National Endowment for the Arts, 2012c). Cuts continued annually until 2000 when only \$97,627,600 was appropriated. Funding did not return to 1995-levels until 2010. The Culture Wars clearly demonstrated the risks involved in an arts community relying largely on legislative appropriations.

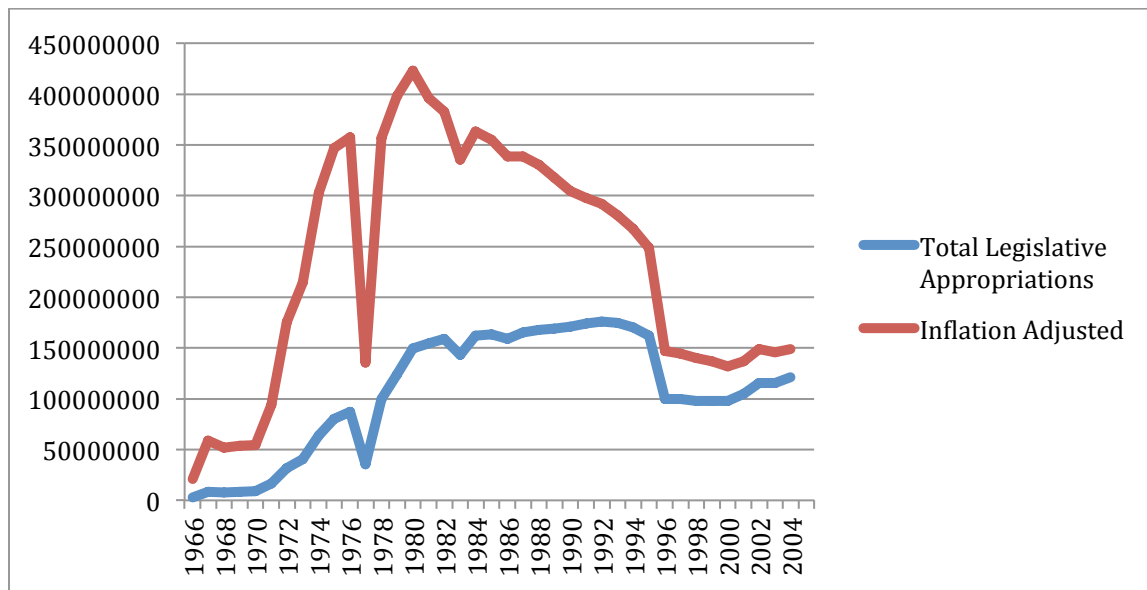


Figure 1 NEA annual appropriations

State level appropriations ranged from \$0 in several states in the early 1970s to over \$68,000,000 in California in 2001 (National Assembly of State Arts Agencies, 2012a). In contrast to the seismic decline in NEA appropriations between 1995 and 1996, total state appropriations for 1996 declined less than two percent from 1995 and continued to increase until 2002 (National Assembly of State Arts Agencies, 2012a; National Endowment for the Arts, 2012a).

The population of arts and culture organizations is approximated by those arts and culture organizations that file the IRS 990. There were 39, 536 reporting public charities identified as arts and culture organizations in 2010 (Blackwood, Roeger, & Pettijohn, 2012). These represented 10.8 percent of the nonprofit sector population (Blackwood et al., 2012). This is an under-representation in that organizations with revenue under \$25,000 were not required to file annually and organizations with less than \$5,000 in revenue are not required to register with the IRS. However, it is the best approximation we have and is routinely used by scholars. Other ways to contextualize the population include analyzing revenues, expenses, and assets. The subsector reported \$29.3 billion in revenues, \$27.8 billion in expenses, and 98.9 billion in assets (Blackwood et al., 2012). These amounts represent 1.9 percent, 1.9 percent, and 3.7 percent of the sector totals, respectively (Blackwood et al., 2012). Contemporary funding of arts and culture organizations in the United States relies on several common forms. Gifts and grants from the private sector, direct and indirect subsidies from the public sector, and earned income are the primary sources of revenue for arts and culture nonprofits.

Direct subsidies derive from federal, state, regional, and local agencies (National Endowment for the Arts, 2012b, p. 3). Direct subsidies occur when government agencies provide funds directly to artists or an arts institution (Cowen, 2006). These may be offered by the federal, state, or local levels of government. Grants are a common form of these direct public subsidies. They are payments from a donor (in the case of direct subsidies, a government) to an organization or an individual with the intent of supporting some of the service or activity of the recipient (Beam & Conlan, 2002).

Direct subsidies to arts and culture first emerged with the WPA but truly arrived in the funding landscape with the creation of the National Endowment for the Arts (NEA) and Humanities in 1965. Supporters of direct subsidies assert that government patronage is provided for by the Preamble of the United States Constitution, tasking the government with providing for the general welfare of the United States (Larson, 1983). Direct subsidies from the all levels of government provide only 9 percent of arts budgets, on average (Americans for the Arts, 2012).² This amounted to approximately \$1,230,000,000 in 2009 (Americans for the Arts, 2009).

Government subsidies for the arts have been justified as a method of economic development, as they contribute to developing tourism, attracting businesses, and increasing public access to the arts (Heilbrun & Gray, 2008; Martell, 2004; Mulcahy, 1992; Schuster, 1998; Tepper, 2002). Furthermore, it is argued that government patronage inspires and encourages private patronage of the arts by endorsing their value to the public (Connolly, 1997; Garber, 2008; P. N. Hughes & Lukestich, 1999). Those in favor of government support argue that the arts are not economically sustainable without the support of the government (Larson, 1983). Dissenters often counter that arts and culture organizations are luxuries benefitting a small portion of the population and should not take scarce resources away from more widely dispersed public goods.

Direct subsidies are typically made possible by legislative appropriations or allocations from the general fund. Legislative appropriations are authorizations from a specific fund to a specific agency or program to make expenditures/incur obligations for a specified purpose and a period of time (California Department of Finance, 2012; National

² This is composed of 3% from the federal level, 2% from the state level, and 4% from local government.

Assembly of State Arts Agencies, 2012b). These resources are given by state and city governments and are justified, in part, by efforts to attract the creative class, draw businesses, and increase tourism (Cowen, 2006). In 2009, state funding totaled \$343 million and local support was \$832 million (Americans for the Arts, 2009).

Direct subsidies are, of course, highly susceptible to changes in political leadership and the putative economic “health”. It is reported that state appropriations are less consistent and predictable than federal funding. In describing state-level funding, Cowen (2006) wrote the following:

State art budgets exhibit more year-to-year volatility than does the NEA, largely because of the volatility of local state economics. In many cases, cultural nonprofits receive a direct, line-item appropriation from the state. (pp. 88-89)

The role of state and local appropriations in the sustainability of nonprofit arts and culture organizations warrants evaluation and careful consideration.

City-level expenditures are no different and fluctuate with the state of the economy (Cowen, 2006). These fluctuations are particularly significant when considering the power of state and local appropriations. The NEA budget peaked in dollars in 1979 and declined, when adjusted for inflation, by approximately 40 percent between 1979 and 1989 (DiMaggio, 1991). By 1989, state legislative appropriations for the arts totaled approximately 60 percent more than the NEA budget (DiMaggio, 1991). In 2009, NEA appropriations were \$155 million, total state appropriations were \$343 million, and local appropriations totaled \$832 million (Americans for the Arts, 2009).

Financial vulnerability of arts and culture organizations is a growing concern. Cultural economists have studied cost disease, or the income gap, among arts and culture nonprofits. “Cost disease” argues that arts and culture organizations see their labor costs

escalate while productivity remains the same (Brooks, 2000a; Heilbrun & Gray, 2001b). Admissions prices rise more slowly, causing a gap between revenues and expenditures. Furthermore, Bowen, et al. (1994) found the average annual exit rate of nonprofits, or the percent of nonprofits that ceased to operate each year, from 1984 to 1992 to be 2.3 percent.³ The implied that annual failure rate among nonprofit arts and culture organizations was substantially higher: 1.1 percent among museums, 2.4 percent among theaters, 2.7 percent among dance organizations, 2.7 percent among opera companies, and 3.0 percent among ballets⁴. More recently, Harrison and Laincz (2008) reported nonprofit exit rates for the period 1989 to 2000. The United States nonprofit sector experienced an average exit rate of 2.14 percent. Arts, culture, and humanities were treated as a single group, with an exit rate of 2.29 percent.

Scholars have operationalized vulnerability differently. Tuckman and Chang (1991) identified a vulnerable organization as one that reduces services immediately upon experiencing a financial shock. Greenlee and Trussel (2000) reported organizational vulnerability when an organization reduced program expenditures in each of three consecutive years. Hager (2001) used an organization's inability to survive financial shock as the operationalization of vulnerability. Hager (2001) applied the financial ratios offered by Tuckman and Chang (1991) to arts and culture nonprofit organizations to evaluate their value in predicting the well-being of organizations. Using

³ Bowen, Turner, Nygren, and Duffy (1994) contrast this to 1.2 percent (1984-1987) and 0.8 percent (1989-1990) among for-profit organizations.

⁴ Bowen, Turner, Nygren, and Duffy (1994) report exit rates for 1981-1991 and then offer an "implied annual rate". Their method of calculating was to establish "the average annual rate of increase in the total number of new entrants (gross entrants) between 1981 and 1991. We then calculate the average annual rate of increase in the number of still active organizations (surviving entrants). The average annual exit rate is the difference between these measures" (p. 101).

data from IRS 990 tax returns, Hager (2001) calculated financial ratios for equity balance, revenue concentration, administrative costs, and operating margin. Hager (2001) cautioned about broad application of his finding, noting that even among arts and culture nonprofits, there were variations in the strength of these ratios in predicting exit or failure. However, low equity balance predicts failure of art museums, theaters, and music organizations. High revenue concentration is associated with the closure of visual arts organizations, theaters, music organizations, and generic performing arts organizations. Low administrative costs were associated with the failure of theater and music organizations. Low operating margins were predictive of the collapse of theaters and generic performing arts organizations.

Organizational ecology studies the environment to ascertain how the environment influences a population of organizations. The ability to attract resources and heightened financial vulnerability are two important issues confronting arts administrators. A deeper understanding of how alternatives to legislative appropriations to fund state arts agencies contribute to the ecology of nonprofit arts and culture organizations may bring better methods for attracting necessary resources and controlling financial vulnerability.

Organization Ecology

The world is populated by organizations. However, basic demographic figures have received limited attention and scholarship (Carroll & Hannan, 2000). Organizational theorists have criticized organizational demography as being a process of counting and dismiss it in favor of theoretical approaches (G. R. Carroll & O. Khessina, 2005; Lawrence, 1997; Perrow, 1986). Lawrence (1997) argues that organizational demography requires only demographic predictors and outcomes, leaving additional theoretical concepts

“...loosely defined and unmeasured, creating a ‘black box’ filled with vague, untested theories” (p. 2). However, scholars specializing within fields are commonly unable to identify average lifespans, stability of the field, and changes over time (Carroll & Hannan, 2000). Kaufman (1991) goes even further when he argues that organizational trouble and failure or survival are attributable to simple chance.

I anticipate ... that comparison between organizations that survive and those that expire will in the vast majority of instances disclose no significant differences in their respective levels of ability, intelligence, or leadership talents. (Kaufman, 1991, p. 69)

The driving assumption of organizational ecologists rejects the thesis that chance drives success or failure, arguing, rather, that the interaction of internal and external conditions produce threats to which organizations must respond in order to survive (Carroll & Hannan, 1989; Freeman, Carroll, & Hannan, 1983; Hannan, 1998; Hannan, Carroll, Dobrev, & Han, 1998; Hannan & Freeman, 1977, 1984, 1989). Organizational ecology, an emphasis of study within organizational theory, was developed to answer the question of which forms of organizations survive and which become extinct and why (Carroll & Hannan, 2000; G. R. Carroll & O. Khessina, 2005; Hannan & Freeman, 1977). This approach relies on the examination of how factors in the environment contribute to the formation, growth, transformation, and demise of populations of organizations (Carroll & Hannan, 2000; G. R. Carroll & O. Khessina, 2005; Hannan & Freeman, 1977). These vital components and rates of a population are central to understanding the ecology of organizational forms. They also address the demographic composition of organizations, making it possible to better manage organizations, objectives, and policy development.

Ecologists use vital rates to study populations of species. Birth rates, growth of the population, and mortality rates are indicative of changes in the environment.

Organizational ecologists use the history of vital rates of populations of organizations to the same ends. Birth rates, growth of the population, and mortality rates are indicative of available resources, including wealth, labor, and technology (Aldrich & Pfeffer, 1976; Stinchcombe, 1965). Identifying the conditions under which populations of organizations form, operate, fail, and exit the environment makes it possible to explain the number and distribution of organizations, explaining why organizations take many forms (Hannan & Freeman, 1977).

Applying ecological concepts, such as birth and death, to organizations requires some refinement of definitions. Instead of being born, organizations are typically formed, founded, or enter the market (Bowen, Nygren, Turner, & Duffy, 1994; Hager, 2001). The formation of an organization is a conscious decision of a person or group in response to a perceived opportunity or need in a particular manner. Ecological conditions at the national level have been proven to influence approaches to organizational structure (Wholey & Brittain, 1986). After the Civil War, the United States society underwent changes to political, technological, and social conditions and the expansion of national markets (Aldrich & Mueller, 1982). This environment contributed to the emergence and growth of two particular forms – (a) large, functionally organized industrial firms that relied on technical controls and (b) parent-subsidiary organizations that utilized bureaucracy to maintain control (Aldrich & Mueller, 1982). Organizations were created in these forms as a response to the environment of the times.

How scholars define the moment of formation or market entry varies. Hannan and Freeman (1989) used the “presence of a functioning organization” (p. 149). Bowen et al. (1994) used the date of recognition of tax exempt status in their study of the nonprofit

population. This work relies on the identification used by Bowen et al. (1994) and Hager (2001) that an organization enters the market in the year of the IRS rule date. It is evident that organizations attract resources and begin to serve their mission in advance of this date, but locating comprehensive, reliable evidence of these moments for the population is virtually impossible (Bowen et al., 1994). The ruling date is the year in which a registered nonprofit was recognized by the IRS as tax-exempt. This is accepted as a proxy for when an organization was created (Bowen et al., 1994; Hager, 2001; National Center for Charitable Statistics, n/d-a)⁵.

Organizational deaths, like births, are responses to changes in environmental conditions. As environments alter, organizations may adapt, if they have the necessary resources. Internal pressures – such as capital investments, information asymmetries, political constraints, and organizational histories – and external constraints – such as legal and fiscal barriers to entry and exit, information limits, legitimacy, and collective rationality – produce inertia and limit an organization’s ability to change (Carroll, 1984; Carroll & Hannan, 2000; G. R. Carroll & O. M. Khessina, 2005; Freeman et al., 1983; Hannan & Freeman, 1977, 1984, 1989). Nonprofit organizations are not immune to the forces of organizational inertia. Often operating with narrow, if any, financial reserves and frequently under pressure to serve the founders’ mission and traditions of the organization, nonprofits may lack the resources to adapt to changes in regulations and markets. The significance of mortality rates goes beyond the number of organizations that are unable or fail to adapt. Rather, observations of deaths reveal patterns of longevity and population

⁵ Organizations form, acquire voluntary and monetary resources, and may even operate as associations for a while before seeking recognition as a tax-exempt entity. For the purposes of this study, the IRS ruling date was selected for availability and consistency of the data.

diversity (Hannan & Freeman, 1989) and contribute to answering the central question of why so many organizational forms exist.

Death or failure of organizations has been defined multiple ways. Organizational death has been defined by failure to carry out sustaining routines (Hannan & Freeman, 1989), the move from the active to inactive part of the IRS Business Master File (Bowen et al., 1994), and the failure to file required documents with the Internal Revenue Service for more than three successive years (Hager, 2001). This research relies on Hager's (2001) definition of organizational exit. An organization is considered to have exited when it fails to file the IRS form 990 for three or more consecutive years. This is consistent with current IRS policy that revokes a nonprofit's tax-exempt status for failure to file the appropriate 990 for three consecutive years (Internal Revenue Service, 2013). These concepts of birth and death are operationalized and produce quantitative reports about the size and scope of populations of organizations. The value of organizational ecology rests in the ability to understand dynamics of groups of organizations over time. Is an organizational form expanding or contracting? Has the number of organizations in a geographic area grown or declined? Are organizations serving a particular mission disappearing? Has a new form emerged? The nuanced meaning of organizational ecology comes not from looking at all organizations but from studying sub-populations of organizations, and this necessitates the act of bounding the study in some way.

Studying a population clearly requires bounding it in a well-defined way. Hannan and Freeman (1977) stipulated that populations are aggregates of organizations that share some common feature or features, including history, politics, social structure, geography, and vulnerability. Furthermore, professionalization and other normative claims may be

used to define a population (Hannan & Freeman, 1977). Studies conducted on newspapers (Carroll & Delacroix, 1982; Delacroix & Carroll, 1983; Hannan et al., 1998), the automobile industry (Hannan et al., 1998), and beer and wine production (Swaminathan, 1995; Swaminathan & Wiedenmayer, 1991) define populations by the product. Differentiations have also been made on an organization's size (J. C. Baum & Mezias, 1992; Swaminathan, 1995, 2001) and sector (J. A. C. Baum & Oliver, 1996; Bowen et al., 1994; Potter & Crawford, 2008).

Aldrich and Stern (1983) and McKelvey and Aldrich (1983) urge deliberate, careful construction of boundaries and taxonomies. These may derive from policy interest, public access, or sources of funding (McKelvey & Aldrich, 1983). Furthermore, scholars should define the degree of similarity among organizations under study, on a scale from extremely similar to dissimilar (McKelvey & Aldrich, 1983). They advocate that developing taxonomies will lead to more homogenous groups for study and increase generalizability. An explicit taxonomy, however, is not evident in more recent studies utilizing organizational ecology.

A population must be bound geographically. Spatial aggregation, or the geographic level of analysis, drives the selection of the national, regional, state, or local level. This choice should reflect the level at which competition for resources occurs (J. C. Baum & Mezias, 1992; Carroll & Huo, 1986; Delacroix & Carroll, 1983; Pennings, 1982; Swaminathan, 1995; Swaminathan & Wiedenmayer, 1991). Newspapers published in Ireland and Argentina in the nineteenth- and early twentieth-centuries competed for readers and advertisers at a national level (Carroll & Delacroix, 1982; Delacroix & Carroll, 1983). Carroll and Huo (1986) studied newspapers at the metropolitan level because in

San Francisco between 1870 and 1910, the competition for readers and advertisers was among local newspapers. Similarly, Baum and Oliver (1996) analyzed issues related to population density of day-care organizations at the metropolitan level because customers come from within the MSA.

Resources also vary with geography. Urban areas present a diversity of resources that escalate with the size of the city (Lincoln, 1979). The associated specialization this fosters in organizations warrants identification (Lincoln, 1979). Lincoln (1979) found that larger financial institutions competed with other similarly sized organizations, while smaller organizations limited their focus to local markets. This issue of magnitude should be considered when selecting the appropriate level for analysis.

Populations of nonprofit organizations have been defined in previous studies. Bowen et al. (1994) and Potter and Crawford (2008) used an organization's status as a recognized nonprofit to define the populations of their studies. Bowen et al. (1994), Hager (2001), and Archibald (2007) further narrowed their populations within the nonprofit sector by classifying the organization's purpose. Arts and culture nonprofits are a generally recognized population. While they may differ in size, age, and the arts and culture they make available for public consumption, the authoritative National Taxonomy of Exempt Entities (NTEE) classifies them, according to nonprofit status and purpose, as group A. This definition of population has been used in other research (Bowen et al., 1994; Hager, 2001).

The United States population of arts and culture nonprofit organizations in the twentieth- and twenty-first century numbers in the tens of thousands. They share status as tax-exempt entities, a mission to deliver arts and culture programming or education, and

the general funding system of direct and indirect subsidies, private donations, and earned income. Many studies of arts and culture use a national lens (Brooks, 2000b, 2000c, 2004, 2007; Cowen, 2006; P. N. Hughes & Lukestich, 1999; P. N. Hughes & Lukestich, 2004; National Endowment for the Arts, 2012b; Schuster, 1991, 1998; Smith, 2007). However, state and local studies capture important variations in the environment. Schuster (2002) identified the rich potential of studying sub-national arts policies. The ecology of states varies. Using organizational ecology to study the population of arts and culture organizations at the state level furthers knowledge of the conditions under which forms emerge, persist, and cease to exist.

Data and Methods

The hazards to which arts and culture organizations are exposed have been identified by cultural economists, organizational ecologists, arts administrators, and advocates. Cultural economists have observed that costs are rising faster than revenues (Baumol & Baumol, 1985; Brooks, 2000a; Heilbrun & Gray, 2001a) and that revenue from private donations is shrinking (Cowen, 2006; National Endowment for the Arts, 2012b). The majority of states use legislative appropriations to support the state arts agency. Arts advocates argue for greater public support to face economic and financial challenges. Earned income has been leveraged as a source of revenue and now produces 60 percent of revenue (Americans for the Arts, 2012). Alternative mechanisms have been identified as another mechanism to insulate arts funding from sudden changes (National Assembly of State Arts Agencies, 2012b). They have been instituted as a supplement in many states and as a substitute for legislative appropriations in only one (National Assembly of State Arts Agencies, 2012b). Legislative appropriations have been the prevalent form of support for

state arts agencies for the majority of their history. Just 15 states used alternative funding mechanisms to benefit the SAA in 2003 (National Assembly of State Arts Agencies, 2012b). By 2013, that number had almost doubled, reaching 29. Therefore, entry and exit patterns among states that use only legislative appropriations when the number of states using alternative mechanisms was limited should resemble national averages.

Exit and turnover are natural in a population of organizations. Organizations exit for a variety of reasons. However, when exit patterns are noticeably different than those for other organizations, as well as for organizations within the same sector, additional scholarship is warranted. Too much turnover reduces market efficiencies. A sustainable population of organizations is necessary to function and contribute to shared policy goals. These conditions prompted the formulation of the research question and hypothesis.

Do nonprofit arts and culture organizations that receive grants from a state arts agency experience a different rate of exit than those that do not?

Nonprofit arts and culture organizations receiving grants from state arts agencies will experience fewer exits than nonprofit arts and culture organizations not receiving these grants.

Grants from the National Endowment for the Arts have been purported to serve as an endorsement, or a seal of approval, and have been claimed to attract private donations (Hershenson, 1995; Larson, 1983; National Endowment for the Arts, 2005). This argument has been extended to the benefit from state arts agencies (National Assembly of State Arts Agencies, 2010). According to claims that have been in circulation for almost 50 years, recipients of grants should have greater success in attracting private donations.

Population

Organizational ecology empirically studies populations of organizations. These are defined by shared organizational features, such as structures, behaviors, and members (Hannan & Freeman, 1989). This paper examines the population of arts and culture nonprofits in the United States. These are defined as organizations that are identified in the National Taxonomy of Exempt Entities Core Codes (NTEE-CC) as “A” organizations, arts, culture, and humanities. These are further classified by decile and centile codes that identify the organization’s activity area. These codes appear in Table 1. The NTEE codes are used, including the decile and centile codes, to look at the research questions broadly (arts and culture) as well as more narrowly (museums versus performing arts), and even more narrowly (being able to distinguish within performing arts between ballet and symphonies, for example). This is in keeping with scholarship of organizational ecology and arts and culture organizations (Bowen et al., 1994; Hager, 2001).

Table 1 NTEE Classification of arts, culture, and humanities

| | |
|----------|--|
| A | ARTS, CULTURE & HUMANITIES |
| A01 | Alliances & Advocacy |
| A02 | Management & Technical Assistance |
| A03 | Professional Societies & Associations |
| A05 | Research Institutes & Public Policy Analysis |
| A11 | Single Organization Support |
| A12 | Fund Raising & Fund Distribution |
| A19 | Support NEC |
| A20 | Arts & Culture |
| A23 | Cultural & Ethnic Awareness |
| A24 | Folk Arts |
| A25 | Arts Education |
| A26 | Arts & Humanities Councils & Agencies |
| A27 | Community Celebrations |
| A30 | Media & Communications |
| A31 | Film & Video |
| A32 | Television |
| A33 | Printing & Publishing |

| | |
|----------------|--|
| A34 | Radio |
| A40 | Visual Arts |
| A50 | Museums |
| A51 | Art Museums |
| A52 | Children's Museums |
| A54 | History Museums |
| A56 | Natural History & Natural Science Museums |
| A57 | Science & Technology Museums |
| A60 | Performing Arts |
| A61 | Performing Arts Centers |
| A62 | Dance |
| A63 | Ballet |
| A65 | Theater |
| A68 | Music |
| A69 | Symphony Orchestras |
| A6A | Opera |
| A6B | Singing & Choral Groups |
| A6C | Bands & Ensembles |
| A6E | Performing Arts Schools |
| A70 | Humanities |
| A80 | Historical Organizations |
| A82 | Historical Societies & Historic Preservation |
| Table 1 cont'd | |
| A84 | Commemorative Events |
| A90 | Arts Services |
| A99 | Arts, Culture & Humanities NEC |

Unit of Analysis

Organizational ecology utilizes three levels of analysis: organizational demography, population ecology, and community ecology (Carroll, 1984). Organizational demography attends to the life-cycle events of individual organizations, such as birth, the liabilities of newness and smallness, status as a generalist or specialist firm, and death (Carroll, 1984; Wholey & Brittain, 1986). Population ecology examines the vital counts and rates of the population of organizations (Carroll, 1984). Community ecology studies the interaction among multiple populations within a geographic area (Carroll, 1984). This paper takes the approach of population ecology by studying the entry and exit of arts and culture

organizations in the United States. Many organizational ecology studies examine populations at the national level (Bowen et al., 1994; Carroll & Delacroix, 1982; Delacroix & Carroll, 1983; Hannan et al., 1998; Hannan & Freeman, 1989). However, Delacroix and Carroll (1983) argue that the environmental unit should be established in accordance with exchange boundaries related to the task environment. State and local geographic boundaries are also commonly used to reflect the appropriate level of competition for resources (J. A. C. Baum & Oliver, 1996; Carroll & Huo, 1986; Lincoln, 1979; Swaminathan, 1995; Swaminathan & Wiedenmayer, 1991).

U. S. arts and culture nonprofits draw resources from the national, state, and local levels (Cowen, 2006; Howard, 2002; National Endowment for the Arts, 2012b). National studies provide a baseline and allow for comparison to other countries but fail to capture the variation resulting from the state environments (Schuster, 2002). The NEA sought to and succeeded in fostering the development of an arts agency in every state. Until 1986, the NEA appropriations were more than the aggregate of state arts agency revenues with two exceptions (National Assembly of State Arts Agencies, 2012a; National Endowment for the Arts, 2012c).⁶ After 1985, aggregate state arts agency revenues exceeded NEA appropriations every year, indicating the growing importance of state arts agency funding. The National Assembly of State Arts Agencies has collected and maintained data on state arts agency revenue and state arts agency grants that enhance comparison between states (National Assembly of State Arts Agencies, 2012b, 2013). The unit of analysis is, therefore, the state.

⁶ There are two exceptions, 1971 and 1977, in which the aggregate appropriations to state arts agencies exceeded NEA appropriations. State arts agency appropriations were equal to an average of 78% of NEA appropriations for the period 1970 to 1985.

Description of Data

The IRS Form 990 is a common source of financial information on nonprofit organizations in the United States. The IRS has required tax exempt organizations to file the Form 990 since 1941 (National Center for Charitable Statistics, n/d-b). It is the only financial information that a nonprofit is required to make public (Calabrese, 2009). The rules governing the filing of the Form 990 have changed over time, including the level of revenue at which filing becomes mandatory (National Center for Charitable Statistics, n/d-b). That is to say, until recent revisions, not all nonprofits were required to annually file an IRS 990. As a result, some newer and/or smaller organizations were not required to file and may have been excluded (Hager, 2001).

The data set was constructed from several existing data sets and sources of data. These include the core data files from the National Center for Charitable Statistics, *The State Arts Agency Public Funding Sourcebook*, a custom report identifying all grants made by state arts agencies to arts and culture organizations between 1995 and 2011 from the National Assembly of State Arts Agencies, and data on the population, education, gross domestic product, and political party representation. The following paragraphs describe how the data were employed in response to the research questions posed.

The National Center for Charitable Statistics at the Urban Institute compiles and maintains the National Center for Charitable Statistics (NCCS) Core Files. The core financial files include more than 60 variables drawn from the IRS annual Return Transaction Files (RTF) for all organizations required to file since 1989 (Urban Institute, 2006). This provided basic information, including organization name, employer identification number (EIN), National Taxonomy Exempt Entities (NTEE) classification, address, rule date (when

the tax-exempt status of an organization was recognized), and financial details, such as total revenues. It also documents the last year of filing, used to establish years of entry and exit.

As noted, NCCS core files are available from 1989 forward. While arts and culture nonprofit organizations have existed in the United States earlier than the NCCS core data files, the analysis for research questions one and two begin with the first year of available data, 1989. At the time data were downloaded, they were available through 2007. Given the operationalization of exit, the final year for which exits can be established is 2004.

A total of 25,952 nonprofit arts and culture organizations entered during the period. A total of 12,209 nonprofit arts and culture organizations exited during the period. Counts were made of entries and exits for each state and year between 1990 and 2004⁷. These formed the basis of each observation and were augmented with the annual allocation of government funds received by each state arts agency from the National Assembly of State Arts Agencies *The State Arts Agency Public Funding Sourcebook*.

Nonprofit scholars and cultural economists have identified key variables that drive support for, donations to, and participation in arts and culture organizations. These include measures, educational attainment, unemployment, and population size (Brooks, 2001; Rushton, 2005, 2008; Wolpert, 1997). Politicians and party affiliation can also influence support for the arts (Brooks, 2001; Moen, 1997). Organizational ecology recognizes that density, the number of organizations in the marketplace, will impact the population of organizations. This is captured with the number of nonprofit arts and culture

⁷ Use of core data files makes it impossible to know what organizations filed in the years before 1989 and ceased filing in 1989. I was able, however, to observe if an organization filed in 1989 and failed to do so subsequently.

organizations present at the beginning of the year. Control variables for state population and educational attainment were gathered (U. S. Census Bureau, n. d.-a, n. d.-b, n.d.-a). Annual state unemployment rates (not seasonally adjusted) were drawn from the Bureau of Labor Statistics (Bureau of Labor Statistics, n. d.). Education attainment was operationalized as the percentage of the population over 25 who had earned a bachelor's degree or higher (U. S. Census Bureau, n.d.-b). These decennial data for educational attainment were transformed to annual estimates by dividing the amount of change by the ten years in the period to find an estimated annual rate of change. These rates were then multiplied by the time period and added to the base to approximate an annual rate of educational attainment using the process of linear interpolation.

The research question required additional information and an additional data source. NASAA provided a custom report identifying all grants made by state arts agencies to arts and culture organizations between 1995 and 2011. This reduced the number of years for analysis. The two sets were then matched by organization. Matching the two data sets for the unique identifier of the employer identifications numbers (EIN) would have been ideal. However, the NASAA data did not include the EIN until later years (circa 2007). This proved an additional challenge for merging the two data sets needed to answer the third research question. Names had to appear identically every year and across data sets to identify a match. Absent this, the data sets were combined and then separated by state. They were cleaned using Google Refine. This eliminated unnecessary leading and ending spaces. It also clustered organizations by name, identifying those that were likely to be related based on similarities. This made it possible to review and accept one name for an entire cluster, if appropriate. The resulting data were then split back to their sources,

NCCS or NASAA. Stata was used to collapse NASAA reported grant awards to an annual total per organization/fiscal year. This process resulted in 13,271 observations for the period 1995 – 2004. The data were collapsed to create one observation for each organization that included the total amount received in grant awards in that fiscal year. The data were match-merged to create one record per organization that included the data from NCCS and NASAA for the time period 1995-2004. This resulted in a sample of 3,127 unique organizations in 44 states. Counts were made of exits for the entire period for each state in which there were organizational matches in the data for the period 1990 to 2004. This contrasts with annual counts in research questions one and two. Density is the number of organizations in the population at the start of the period. For research questions one and two, this was all nonprofit arts and culture organizations that filed the IRS 990 form between 1989 and 1995 that had not exited. For the organizations that received grant awards, it was the population of organizations that received grants during the period. State averages during the period were calculated from the control variables described above (population, unemployment, educational attainment, state GDP level, per capita GDP, and number of seats held in the state senate and state house held by Democrats). The population of organizations receiving grants was coded as program 2. These values were compared to results for the general population from research question 2, where the program was coded as 1.

The data for the analysis were organized as annual time series for the years from 1995 to 2004 for all variables. This combination of data produced 94 (50 states for the entire population during the period and 44 states in which there were merged observations of organizations that received grants) observations for use in addressing research questions 3.

There are important limitations to this approach, and they are discussed in the Limitations.

Table 2 provides descriptive statistics for the variables used in the analysis.

Table 2 Descriptive Statistics for Variables Used in Analysis of Exits by Grant Recipients Compared to the General Population 1995-2004

| Variables | Observations | Mean | S.D. | Min. | Max. |
|---|--------------|--------|--------|--------|--------|
| Number of nonprofit arts and culture exits by state | 94 | 138.31 | 263.38 | 2 | 1,685 |
| Program Type (1= population; 2 = only grant recipients; 50 observations of type 1, 44 observations of type 2) | 94 | | | 1 | 2 |
| Density of nonprofit arts and culture organizations | 94 | 439.17 | 560.37 | 36 | 3,312 |
| State population (humans), in 1000s | 94 | 5,128 | 5,348 | 493.1 | 33,689 |
| State unemployment rate | 94 | 4.75 | 0.87 | 3.1 | 6.9 |
| Educational attainment (% of the population 25 or older with a bachelor's degree or higher) | 94 | 23.75 | 4.11 | 14.71 | 32.85 |
| Change in the state GDP | 94 | 5.44 | .96 | 3.6 | 8.5 |
| Per capita GDP | 94 | 32,886 | 5,675 | 22,952 | 49,780 |
| Percentage of the state senate seats held by Democrats ⁸ | 93 | 51.38 | 15.65 | 15.48 | 88.8 |
| Percentage of the state house seats held by Democrats | 93 | 51.48 | 15.86 | 17.43 | 85.55 |

Measures

The vital statistics of interest in this study are the annual counts of entry and exit of arts and culture nonprofits. These are attainable from the Core Data from the National Center for Charitable Statistics (NCCS). The year of entry is defined as the year in which the organization received IRS recognition (Bowen et al., 1994; Hager, 2001). The number of entries is calculated as the number of organizations formed in a year (Bowen et al., 1994; Hager, 2001). Consistent with existing research, exits are identified when an NPO fails to

⁸ The Nebraska Legislature is unicameral and nonpartisan. This means there is not a reported percentage of seats in the House or the Senate held by Democrats, reducing observations by one for each of the 16 years in the study.

file with the IRS several consecutive years during the time period studied (Bowen et al., 1994; Hager, 2001). The exit count is the number of organizations that failed to file an IRS 990 for three consecutive years. Stata was used to identify the last year an organization in the data filed the 990 form. If the organization did not file for at least three consecutive years, the exit year was the year after the final filing.

Empirical Model

Organizational ecology has used multiple methods to assess the environmental influences on populations of organizations. It relies on data from entire populations. Variations in the size, scope, and depth of these data drive selection of an appropriate methodological approach. Regressions have been used to analyze how environmental variables influence the formation and mortality of populations of organizations.

The selection of linear or logistic regression proves problematic in working with count data. Poisson regression is commonly used to analyze count data but includes several assumptions. First, the Poisson Distribution Function (PDF) assumes an equidispersion (Hilbe, 2007; Piza, 2012). A histogram of the data used in this study shows that counts are strongly skewed. Second, the PDF assumes that counts are independent of one another (Hilbe, 2007; Piza, 2012). When working with longitudinal counts of populations, entries, and exits cannot satisfy this assumption. Negative binomial regression can be used for over-dispersed count data where the mean exceeds the variance. It is a generalization of Poisson regression with parameters included to model for over-dispersion. The model was fit using Stata version 12.

The dependent variables is the count of exits among recipients of state arts agency grants between 1995 and 2004 for each state. The independent variables are the presence

or absence of particular sources of funds. The research question explored in this paper focuses on the purported significance and benefit of government grants to arts and culture organizations.

Control variables to account for the environment include the state population (in thousands), the percentage of the state population that has earned a bachelor's degree or higher, the state annual rate of unemployment, the log of the state gross domestic product (GDP) level, and the annual allocation of funds to each state arts agency (in thousands). The allocations of funds were lagged by one year, as changes in the level of funding are expected to have a delayed effect on the entry and exit of organizations (Brooks, 2003). They were also adjusted for inflation to bring all dollars into the same year. These variables and their sources of data are summarized in Table 3.

Table 3 Variables

| Variable(s) | Data Source | How calculate |
|--|--|--|
| State Entry and Exit Count (also communicated as rates for readers' ease) | NCCS | Calculated by year |
| State Legislative Appropriations (1); Special Taxes & Fees (2); Lotteries & Gaming (3); License Plate Fees (4); Tax Check-Offs (5); Public Cultural Trusts & Endowments (6); More than one alternative mechanism in place (7) | NASAA policy report on supplemental funding strategies, supplemented with research determining when instituted | Each program was given a unique "Program" identifier that was used for performing the negative binomial regression. The number is noted after the category in the variables field. |
| Population density | NCCS | Base number from previous year + entries – exits |
| SAA Revenues | NASAA Sourcebook | Reported |
| SAA Revenues, inflation adjusted | NASAA Sourcebook | Reported amount multiplied by an inflation calculator from the Bureau of Labor and Statistics to bring to 2013. |
| SAA Revenues, inflation adjusted, lagged by one year | Census data | Lagged for 1 year and adjusted for inflation |
| Population | Bureau of Labor and Statistics | Annual estimates |
| Unemployment Rate | Census data (1980, 1990, 2000) | As reported, not seasonally adjusted |
| % over 25 with college | Bureau of Economic Analysis | Calculated for implied annual rates |
| State level GDP (\$)/capita | Bureau of Economic Analysis | State level GDP/Population of the state |
| % change in the GDP | Bureau of Economic Analysis | % change in the GDP |

The relationship between grants and the ability of arts organizations to attract additional resources has been heavily researched through motivation-crowding studies. This study, instead, asks whether state grants are associated with lower rates of exit and higher rates of survival. The proposed model is as follows:

State exit count = f (organizational population density, human population, rate of unemployment, change in state GDP, educational attainment of the population 25 or older, per capita state GDP, state arts agency revenue lagged 1 year and adjusted for inflation, and grant receipt from SAA)

Limitations

Organizational ecology emphasizes the importance of the entire history of a population. Missing and disaggregate sources of data on many populations make assembling such data challenging. This standard would prohibit studying numerous populations, including arts and culture organizations in the United States. The data used for this study span the years 1990 to 2007. The data are limited for the third research question from 1995 to 2004. While this may reduce the depth of information specific to each organization, it contributes to understanding the current scope and patterns within the arts and culture subsector.

Direct government funding of arts and culture emerged as an ongoing federal program with the establishment of the NEA in 1965. Most states followed suit shortly thereafter and imitated the federal system of funding – legislative appropriations. Alternative mechanisms to fund the arts are, for the most part, even more recent additions. This results in a limited number of observations. Further dividing these 179 observations by type of funding mechanism (special taxes and fees, lotteries and gaming, license plate fees, tax check-offs, and cultural trusts) further reduces the number of observations in each

category. While a limitation, it does not invalidate the relevance of this study. The implementation of alternative mechanisms to fund the arts is a growing trend. The number of states using them grew from 15 in 2003 to 2009 in 2013 (National Assembly of State Arts Agencies, 2012b) (National Assembly of State Arts Agencies, 2012b). While additional time will yield more data and, ultimately, add to the understanding of the ecological influence on the population of arts and culture nonprofits, there is a need to begin understanding the impact of these sources of funding.

Prior to 2007, nonprofits with gross receipts less than \$25,000 were not required to file annually with the IRS. Smaller organizations, while part of the total population, were not documented in the NCCS data. Unfortunately, small organizations are under-represented in the data set. Smaller organizations may be subject to additional threats (Hager, 2001). Commonly, they do not have resource surpluses that make it possible to continue operation following financial shocks (Hager, 2001; Tuckman & Chang, 1991). Their exclusion from this study may understate the incidence of exit in the population. However, the NCCS data set is the most comprehensive source of information on the nonprofit sector and is routinely used by scholars in this field, making it an appropriate source of data.

NASAA's data provides a comprehensive list of grants awarded that includes the recipient names and state location, the amount of each grant, year of award, and grantor agency. In aggregate, the 50 states arts agencies made 173,896 grants during the ten-year time period. There are many types of beneficiaries, including, but not limited to, arts and culture nonprofits, individual artists, schools, recreation centers, and churches. This eliminates the possibility of a 100 percent match. Unfortunately, the lack of a clear, unique,

consistent identifier across all observations in the NASAA data set, such as an employer identification number, created a major obstacle to merging these data with the NCCS data for arts and culture nonprofit organizations. While cleaning the data with Google Refine increased the number of matches, it was far from complete. Of the 173,896 awards, 13,271 were matched to organizations/fiscal years in the NCCS data set. This is an extremely small 7.63 percent of the number of grants awarded. It is a gross under-statement to say that this produced an incomplete study of the population. There are several states in which no organizations were successfully matched between the two data sets. Missing data may underrepresent segments of the population and contribute bias to the study. The findings from the limited match in this study need to be taken very cautiously.

The details of the Denver case study are not generalizable to a wider study. It does, however, serve as an example of a special district supporting arts and culture organizations. In keeping with the tenets of organizational ecology, forms adapt to meet the conditions of their environments. Transplanting a successful form from one environment to another will not guarantee success.

Exit and Direct Grants from State Arts Agencies

It has been purported that direct grants from arts agencies (the NEA and SAA) serve as endorsements and will attract, or crowd-in, additional support. Data from the National Assembly of State Arts Agencies made it possible to test whether these grants positively impact the rates of exit of arts and culture nonprofits. Between 1995 and 2004, 10,362 arts and culture nonprofits exited the market. Annual exits ranged from 565 in 1995 to 1,890 in 2002. These are matched to rates of 1.68 percent to 5.18 percent. The annual, national average was 1,036 exits per year or 2.93 percent of the population per year. Exits for those

that received grants that were successfully matched with the larger data set, as described in the methods, produced different figures. Between 1995 and 2004, 532 arts and culture nonprofits that received grants exited the market. The number of exits ranged from 36 in Wyoming to 1,987 in Georgia. The national average was 11.64 exits per state for the period. The number of exits is illustrated in Figure 3. Results of the negative binomial regression are reported in Table .

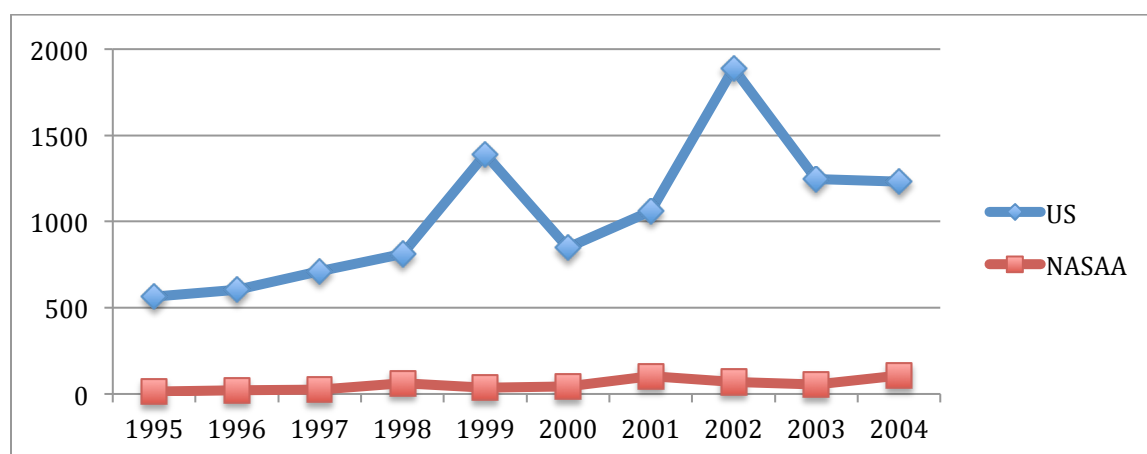


Figure 3 Annual number of exits

Table 4 Annual number of arts and culture organization exits and rate of exit

| Year | Total Orgs. Exits From Nonprofit Arts & Culture Sector | Rates of Exits of Arts & Culture Organizations | Matched Grant Recipients Exits ⁹ | Grant Recipients: Rates of Exits of Arts and Culture Organizations | Total Number of SAA Grants ¹⁰ |
|------|--|--|---|--|--|
| 1995 | 605 | 1.80% | 13 | 1.89% | 17,003 |
| 1996 | 711 | 2.27% | 20 | 2.54% | 18,193 |
| 1997 | 813 | 2.49% | 24 | 2.76% | 16,790 |
| 1998 | 1390 | 4.31% | 62 | 6.57% | 16,004 |
| 1999 | 849 | 2.62% | 37 | 3.86% | 17,612 |
| 2000 | 1061 | 3.31% | 43 | 4.20% | 17,924 |
| 2001 | 1890 | 5.73% | 102 | 9.63% | 18,129 |
| 2002 | 1245 | 3.76% | 68 | 6.68% | 18,817 |
| 2003 | 1233 | 3.52% | 56 | 5.69% | 17,458 |
| 2004 | 2010 | 5.89% | 107 | 11.29% | 15,990 |

Table 5 Negative Binomial Regression Model of Nonprofit Exits and Grants

| Variable | Coefficient | Std. Err |
|--|--------------|------------|
| Density | .0013176*** | .0002184 |
| Population | .0003604*** | .0001007 |
| Unemployment | -.01704 | .0737883 |
| State GDP level | -.0000102** | .00000307 |
| Educational attainment | .0490216** | .0171082 |
| Per capita GDP | .0000145 | .0000151 |
| SAA Revenue lagged 1 year and inflation adjusted | .000000486 | .000000544 |
| % State Senate seats held by Democrats | -.0093396 | .0078225 |
| % State House seats held by Democrats | .0107668 | |
| Grant receipt | -2.500051*** | .0081394 |
| Pseudo R2 | .2290 | |
| Number of cases | 93 | |

* p<.10, **p<.05, ***p<.01

⁹ This excludes grant recipients that were not matched to NCCS data. Matches should be increasingly successful with the inclusion of the EIN number.

¹⁰ This is number of grants given in a year, not number of recipients. Grants are distributed to organizations outside of the nonprofit arts and culture designation. Some recipients received multiple grants in a given year. Others receive multiple grants across time.

The coefficient of grant receipt is negative and statistically significant indicating a lower number of exits among the population of grant recipients. The IRR indicates that exit of grant recipients will be .1867789 the count of the general population.

Discussion

Arts and culture organizations have been an important part of the American landscape for much of America's history. They have long been recognized for providing enriching leisure-time activities to the populace. The commitment of public resources to their support has a much shorter history in the United States. The establishment of the National Endowment for the Arts in 1965 drastically changed the position of nonprofit arts and culture organizations, formally bringing them into the policy arena. This position was fortified by the multi-faceted use of arts and culture to serve numerous domains of contemporary society.

The reputation of NEA grants as an endorsement has been well-circulated. While studies have undertaken research to answer how private donors react to public support for arts organizations, they have not been able to conclusively report whether government grants to the arts crowd-in or crowd-out giving and charitable donations from individuals. This study posed the question: Do organizations that receive grants from a state arts agency experience a different rate of exit than those that do not? If government grants serve as an endorsement with the potential capability of leveraging private donations, endorsed organizations should have a greater incidence of survival and a lower incidence of exit. The analysis of data, limited as described earlier, does indeed support this hypothesis. This finding is unrelated to the intrinsic or instrumental value created by grant

recipients. If a goal of public art agencies is to foster sustainability of the sector, there may be value in analyzing this relationship.

Clarity in interpreting these findings is essential. First, limitations from the methods used necessitate caution. Second, the findings indicate correlation, not causation. While my findings indicate a positive relationship between receipt of state arts agency grants and a reduction in the likelihood of exit they do not show that the grants are the reason for reduction in exits. An exploration of additional variables is warranted.

Lower incidence of exit among grant recipients may rest with the process by which grants are awarded. The application, requirements, review, and selectivity may serve as vetting process. Researchers should establish any requirements, the review process, and if financial health is a consideration in grant awards. Requirements and standards may eliminate newer, smaller, or weaker organizations from the pool of candidates. Additionally, grants are not limited to nonprofit arts and culture organizations. These organizations must also compete with educational institutions, religious organizations, and community groups. A competitive process for grants should arguably yield high-performing recipients.

Grant awards are associated with the financial benefit. Consideration should be given to whether organizations receiving grants benefit in additional ways. Workshops, training, and support provided or facilitated by the SAA might also contribute to a reduction in occurrence of exit. Organizations may benefit through association and networking that takes place, prompting the discovery, identification, or connection with additional resources to benefit the organization. The possibility of these should be given fair consideration.

There are ample research opportunities in better understanding the relationship between SAA grants and exit counts of arts and culture nonprofits. The exploration of these questions provides an opportunity to better understand and leverage government grants to arts and culture organizations.

It has been contended that grants from the NEA serve as endorsements and leverage, or crowd-in, additional funding. This argument has been extended to grants from other government agencies but has not been empirically tested. Within the limitations described, the incidence of exit among a sample of grant recipients was compared to the incidence of exit among the entire population in the NCCS data for this period. While previously untested, the receipt of grants does appear associated in a statistically significant way. Cultural economists have tested the extent of benefit or the power of an endorsement in the form of a grant to leverage private giving with crowding studies (Andreoni & Payne, 2003; Borgonovi, 2006; Borgonovi & O'Hare, 2004; Brooks, 2000c, 2003; Dokko, 2009; Schiff, 1985). Scholarship has not tested for links between the receipt of grants and the risk of exit, failure, or organizational death. According to the findings here, the grants are correlated with increased organizational survival. Government grants may signal a level of quality, artistic achievement, or service to an objective of public policy. The ability of grants to serve as an endorsement was not tested here. However, these findings demonstrate an increased likelihood of survival.

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