

**Alberto Vilar
Americans for the Arts
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Keynote Address
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**SOME THOUGHTS
ON HOW A MAJOR ARTS PATRON
DECIDES WHERE TO HAVE AN IMPACT
AND HOW TO MEASURE IT**

I'm delighted to have been asked to be the keynote speaker at today's luncheon by an organization with whom I share a passionate goal of supporting the arts, and which publicly honored my own efforts on behalf of the arts several years ago, which to this day I profoundly cherish. While I invariably relish the opportunity to promote arts giving, I very well know that I would be preaching to the choir if I did so with this audience. Before I get started, I first want to thank all of you for all you do to promote the role of the arts in our society – both of which are under constant attack by friend and foe alike around the world.

My own philanthropy falls somewhere between corporate and individual giving, and is largely the result of business-investment success. We all know that the arts depend heavily on both business support and private philanthropy to sustain itself; half of the money required to support the classical performing arts tends to be raised privately each year, which itself is an extraordinary task. This is why I believe private individual philanthropy must continue to play a major role in supporting the arts. The areas within the arts I have chosen to target are described further on.

Today I've been asked to offer some perspective on how one arts patron, in this case myself, decides how and where to have an impact with his giving, and secondly, how to measure that impact, and, for that matter, whether it makes sense to try to do so at all. These two questions can be neither addressed nor answered in a vacuum. They need to be evaluated within the framework of how the key drivers in arts giving are likely to change in the future. Once this is established, we can then try to see where it makes sense to target one's private giving, or put another way, what part of the arts can private giving hope to have an impact on. Only then would we be in a position to measure the impact of such targeted giving.

My experience is that once private giving to a specific area within the arts gets to be of a certain size and scope, it is reasonable to think that a major arts patron expects to see certain things that he or she is interested in, happen as a result of their direct efforts. A major donor undoubtedly has a prior established record of having contributed to smaller

“basic overhead” styled projects for some time, and likely wants to break out of this mold and make something new and different happen. This is going to be someone very familiar with giving and committed to the arts.

I think that philanthropy needs to be able to accommodate itself to the overall system and structure for giving that exists. This topic is of course closely related to why a select few become major arts givers – in my case largely to the classical performing arts. For starters, we live in a consumer-driven society in which new ways to capture our income and wealth seem to surface every day. The obstacles to large scale giving cannot be underestimated.

It strikes me that we can start to analyze this important issue of targeted or goal-directed giving by drawing a time-tested lesson from the world of investing (which is my daytime job). This literally starts with the realization that ultimate success in investing in public stock markets is highly dependent on what the “market”, or the system itself effectively gives us, or lets us do. For example, psychology, taxes, politics, geopolitical issues, investor preferences, amongst others, impact the investment landscape or playing field. Philanthropy is part of a large established structure and no matter how strong a donor’s convictions are on how something should be done, such donor preferences must be accommodated to the system already in place.

So what are some of the key drivers that influence the arts and how are they likely to change over the next five-to-ten years? While this is guesswork extraordinaire on my part, it’s also very much what I do for a living, again, my daytime job.

(Without digressing from the arts or wanting to sound promotional about my profession, I would like to cite a business example of having looked successfully into the future. Some years ago, in the early 1990’s, I believed that there was a paradigm shift in computing technology underway from mainframes to desktop, or client-server, computing, that required a new technology, called routing. Based on this belief, my firm proceeded to become the largest shareholder in Cisco, which subsequently went up 1200 times. Of more recent vintage, I’ve been on record since 1997 saying that another paradigm change was underway from client server computing to Internet-networking, wireless broadband convergence, and have bought substantially into Yahoo!, eBay, Expedia, etc.)

Now let’s go back to the likely changes the main drivers in the arts are likely to undergo in the period ahead, so we know more about the changing landscape into which large donors will be giving, and in turn what kinds of impact private giving can be expected to have.

1. The first driver is wealth creation. I believe that the next wave of arts funding is at an interesting juncture. In this sense, it is a fact of life that arts institutions must continuously ask where the next major wave of wealth will be made and who will create it. To survive, arts funding must follow the creation of new wealth. I would argue that as a result of changes in the line-up of industries that will create substantial new wealth in

the years ahead, arts institutions will be forced to devise new strategies to ensure that they avail themselves of an evolving set of funding options. Unfortunately, the sectors most likely to generate new wealth over the next half dozen years, which I identify further on, have scant history of funding the arts. This means that arts institutions will have to learn from scratch how to tap into these new sources of wealth. And if this new requirement were not sufficiently burdensome, the new post 9/11-homeland security era is certainly having its own, negative impact on arts attendance, at least where I live in New York City.

Understanding what I believe are the two main, time-honored tenets of arts funding, and correctly assessing how they are likely to unfold in the changing world environment that lies ahead, is absolutely essential. The first tenet is that private funding of some of the arts in the U.S. can be as much as half of the total income received. This is the case in the classical performing arts. The second principle is that private support for the arts is highly cyclical, rising and falling with both the economy and the stock market.

The U.S. model for supporting the classical performing arts is unlike anything else in the world. European performing arts institutions receive up to 90% of their funding from public subsidy, while the comparable U.S. figure is practically nil. Private U.S. arts organizations must compete against these generous public subsidies abroad, principally in Europe, for the same costly talent, which in my experience is a highly underestimated problem.

The second tenet of arts philanthropy, its inherent cyclicity, is due to the fact that much of the wealth in the U.S. has historically been amassed through the stock market. Well known fortunes derived from this source that were subsequently channeled into philanthropic foundations include those of Bill Gates, Gordon Moore of Intel, Ted Turner, George Soros, Larry Ellison of Oracle, among others. These philanthropists, however, largely chose fields other than the arts to support. To fast forward this particular dynamic, we could ask ourselves now whether the original founders of extraordinarily successful technology companies like Yahoo!, eBay and Google, that have made or are about to make vast fortunes in new market wealth, support the Arts.

While a recovery in the nation's economy is in the works this year and could be expected to continue into next year, notwithstanding that it appears to have hit a soft spot at the end of the second quarter, the number of sectors or industries that can be expected to do exceedingly well going forward is quite limited. From my perspective of investing in emerging technology for more than three decades, I believe that emerging technology, principally electronics, has embarked on its third paradigm change in its 40-year history, from Mainframes in 1960, to Client-Server or desktop computing, launched in 1983-4, to the "Third Wave of Technology" that we are in now, which is the Internet-networking wave, which, as I mentioned, got underway in the second half of the 1990's.

To highlight the point of wealth creation within a sector, namely technology, the client-server wave of technology that reigned between 1983-1997 created some \$2 trillion in

stock market value in the 1990s. The Third Wave we are in now will involve networking a lot of business and consumer activities, all run over the Internet, enabled by wireless broadband convergence. Technology has led the stock market since the big bear market ended in October 2002.

So for now, the \$64 million question is: Can the arts expect to share in the new wealth technology is likely to create over the balance of this decade? I haven't discussed the constructive future the two emerging technology sectors that I work in, electronics and biotechnology, have going for them to make a sales pitch, but rather to suggest that they are likely to be huge creators of new wealth over the balance of this decade, and arts organizations need to take note. It needs to be remembered that the arts are far more dependent on private individual philanthropy than on corporate sponsorship for the bulk of the giving they receive.

Individuals play a crucial role in making sizable or “naming” gifts to fund specific projects, notwithstanding that the trend towards public ownership of global companies reduces the likelihood that a new generation of individual donors such as J.P. Morgan or Andrew Carnegie will surface again. Again, technology, as a possible future generator of large new wealth, is the “exception” as far as I can tell. But if the past is prologue, the record is unfortunately not encouraging as regards new wealth created by technology being directed to the arts.

I would list the following additional factors impacting philanthropy where change could be disruptive going forward.

1. The lack of educational programs in the arts, beginning at the most elementary level of schooling, which is especially the case in music. I cannot think of a single other issue, after money, that is more critical to address and on which the future of the arts is more dependent. This extra burden also forces arts organizations to take responsibility — at huge costs — for developing, educating, and cultivating their own future audiences and donors.
2. The rapidly changing role of technology itself in the Arts. While I have already alluded to my earlier involvement in technology, I believe that the Internet, plus wireless broadband convergence, should be very helpful to children's education, audience development, and cheap distance production programming. It only requires that arts organizations exploit this extraordinary opportunity which is going to get cheaper, better, faster in years to come.
3. Getting the government to play a greater role in the arts should not be at first blush considered to be politically incorrect – especially just because it's an election year. We can start by letting people know that private philanthropy is not in competition with government support. Much could be tried if not achieved to increase government collaboration on selective projects with business sponsors and private donors that help communities' efforts in the arts. (Parenthetically, public schools are largely defaulting on music education – which is being left to arts organizations themselves.)

4. Aging demographics, namely the 77 million baby boomers who will be close to retirement this decade, could change the mix of audiences. Frankly, it should be a positive if it is properly understood and addressed by creative new marketing and education programs.
5. The last factor influencing arts giving, which I think many arts organizations fail to come to grips with, is the relationship of the press to the arts and art donors. Why the press routinely gives short shrift to its coverage of private philanthropy; why it believes it is largely driven by ego, or that it exists just to leave a lasting personal legacy, is an unfortunate quandary that works to the disadvantage of the arts. Regrettably, in far too many cases, press coverage gets caught up in the numbers game, focusing on how much money was donated, and the timing of payments, at the cost of a sound grounding in the cultural and social benefits of the gift. I don't know how large the role of the press is in local arts organizations, but I can say that it is a major factor in large-scale donor giving – unfortunately, largely negative.

In my experience, an important aspect of the generally poor press coverage of arts philanthropy in this country is that most journalists who write about arts philanthropy probably lack a deep understanding of the subject because they haven't studied it in depth, as they would study music if they wanted to be a music critic.

The press often does not show much interest in why people contribute to the arts, the sacrifices these gifts represent, or the goals donors have for their gifts. Yet most donors are passionate about the essential role they know the arts play in humanizing society and enriching it culturally.

Negative press surrounding a donation can be demoralizing to the gift giver, and can discourage or drive away potential benefactors. Excessively critical coverage might well kill a golden opportunity for bringing readers' attention to philanthropy that could inform and inspire others to give.

In my reading of arts philanthropy coverage, it seems to me that reporters often go out of their way to find a negative aspect of what is invariably an upbeat story in the name of a "balanced story." I would be the first to acknowledge that fairness in journalism is essential. But carried to an extreme, it runs the risk of eroding and knocking off-balance an inherently positive story.

Few would argue that philanthropy is not by nature an act of goodwill—like a fireman to the rescue—and should not require offsetting criticism as, for instance, might be the case with politicians.

From this list of drivers I have offered that could likely influence future arts giving, I would suggest several ways arts organizations could nurture large private, donor directed gifts:

- Large gifts should be tailor-made to suit the financial needs of donors. These gifts should be structured with flexible funding timetables and should not be too tightly aligned to annual budgets.
- Arts organizations should design specific media outreach programs in order to communicate what a specific gift means and does for the receiving institution and its audiences.
- Institutions should target major projects for specific donor recognition, and vice versa. An example is education. A lot of people want to have a part in developing tomorrow's young talent.
- Arts organizations need to treat donors as long-term clients. The worst thing would be to cut back on fundraising activities and donor support.
- Arts organizations should not get drawn into negative publicity on donor support. Disputes over gifts happen, but the worst thing to do is to go public. It will surely lose the donor for good, and scare away others.
- Arts groups and their Boards need to sit down with their auditors and review the unique nature of long-term giving, and the unusual adverse circumstances in which many organizations currently find themselves. Letting auditors play tough cop puts long-term donor relationships at risk.

So far I've offered a view of likely changes in some key drivers affecting the arts. All things equal, private donors cannot really impact the sources of new wealth creation, the role of the government in the arts, press coverage, or expected demographic changes in the population. Where they might be able to have a directed gift impact is in education, technology for the arts, and of course new programming and structures. This is a major reason I have tended to channel gifts into these three specific areas.

The second big question that follows after what determines where private donors will try to have an impact is: How can this targeting be measured for its impact? This second question is far more difficult to answer. I think I know why I give, and have a brief agenda of areas to support that would appeal to me. (Incidentally, in response to the rhetorical question of what does it take to become a major philanthropist, my answer is first, conviction and passion about the project being supported, as for example, with myself in music; a natural proclivity to be generous, and lastly having the requisite resources. At the end of the day, a great philanthropist must also be a humanitarian. He or she must care about the well being of others and how life is best lived.)

But can a "return," so to speak, be measured on the funding of one's preferred activities? It's very much a yes and no situation, but most results are "soft" and do not lend themselves to hard measurements.

Young artist development programs either produce successful performers or they don't. We can measure this. I had the great pleasure last Friday in London to see the young artist's development program of the Royal Opera House, called The Vilar's, go through a 60-minute rehearsal. Over the past three years that the program has been in existence, a respectful number of the program's graduates have taken on major and supporting roles in opera houses around the world.

Another great program for professional development is being done right here in Washington at the Kennedy Center. This is a one year program for the training and development of future arts managers – the young people who will run our concert halls, theatres and opera houses in the future without having to work their way up to the top over a 3-to-4 decade period.

One of the most successful things I've done is install translation titles on the back of seats in several opera houses in Europe. They have been extraordinarily well received. One opera house in particular, the rebuilt Teatro del Liceu in Barcelona, has taken the usefulness of the titles a step further. They have built an internal fibre-optic network and are actively transmitting a number of live opera performances to local universities through a video system connected to the titles. What better way to get young students interested in this unique art form? They titles themselves increase audience satisfaction and attendance. Cost is clearly calculable, the return isn't. This is where good judgment, experience, and involvement in the arts have to carry the day rather than an accountant's calculator.

Over the past few years a new school of thought, called venture philanthropy, has seemingly sprung up. Frankly, while I am a venture capitalist (and a holder of advanced degrees in business and mathematics), I am not all that turned on by this idea. It is one thing to give to a cause and insist that the receiving institution abide by that mandate or risk losing the gift. This is common sense. But to start doing cost-benefit ratio analyses on large gifts, at least in the arts, can be far-fetched. After all, investing in the arts is very much about keeping a great part of our western legacy alive and enhancing our appreciation of life through cultural enrichment.

As I mentioned at the start, I believe that the ultimate success of large-scale arts philanthropy, which is really not so common that we can be cavalier about it, requires an integrated, three-pronged approach to flourish: first, the development and adoption of a sustainable culture of giving by business leaders, entrepreneurs, and private citizens; second, some degree of collaboration or partnership with government; and third, a fair and knowledgeable media.

In conclusion, the next wave of arts philanthropy, not likely to be easily achieved, would seem to remain heavily dependent on individual donors. This means that creative new programs are essential to entice private donors from the areas likely to create major new future wealth, which seem to be few outside of technology and healthcare. Development offices need to target these two groups; failure to do so could mean that house lights in the future could be dark.