Vibrant Symphony Orchestras
A Policy Analytic Perspective

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Abstract

This dissertation addresses American symphony orchestras and the unusual economic challenges they face, which are shared by many performing arts organizations. The policy questions that guided the dissertation are:

1. What financial challenges do orchestras face?
2. What is the range of orchestras’ organizational goals and what are the strategies they use to achieve these goals?
3. How do orchestra strategies change with changing economic conditions, and which strategies are associated with which outcomes?

Through a review of the relevant literature, I identified the main, interrelated financial challenges as being: 1. the cost disease; 2. declining demand; and 3. aging audiences. I used the literature review and interviews with subject matter experts to form a conceptual model that guided data collection and analysis. I conducted multiple case studies of orchestra organizations and found the three financial challenges were present, to varying degrees, and I used the case studies to explore, identify, describe, and compare orchestras’, as well as their different stakeholders’, goals and strategies.

The most common goals expressed by respondents across the case studies concerned 1. making classical music accessible and relevant, and 2. attempting to ensure the survival of their organizations. I found that the case study orchestras’ goals could be characterized as nonprice information that prospective audience members use to decide whether they want to attend performances, but, more importantly, they are aspects of the organizations’ identities and operations that affect whether board members, donors, and volunteers want to invest their time and resources. I found that orchestras’ strategies seemed to be a function of their leaders’ visions for their organizations, and that the changes made in response to economic conditions were more short-term and tactical. To change strategies, the case study orchestras changed leaders.

The case study orchestras had small or medium-sized budgets. I concluded that these orchestras improved both their short-term adaptability and long-term chances of survival by attempting to broaden and strengthen ties to their particular communities, meeting concrete needs and satisfying local preferences. The dissertation ends with a proposed framework for evaluating any future policy innovations that orchestras’ leaders may implement.
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1. Introduction: The Economics of Vibrating Air

Music connects people. Orchestra performances offer many forms of connecting to the communities they take place in: connections between and within the different groups that attend, coordinate, and play, as well as the connection of everyone involved to the past (or present) that produced the music being performed. From a policy analysis perspective, the benefits of these connections can be hard to quantify; nonetheless, the benefits are real. If a symphony goes on strike, or experiences a lock out, or goes out of business, it is an unfortunate event that negatively affects a community. It is worthwhile thinking about the challenges orchestras face, in an attempt to help them avoid trouble to the greatest extent possible.

This dissertation addresses American symphony orchestras and the unusual economic challenges they face, which are shared by many performing arts organizations. Some of these unusual challenges are captured in this recent, remarkable exchange between a business journalist and the CEO of the Los Angeles Opera:

[Business Journalist]: Based on the financials of the LA Opera that I have seen, revenues are going down. Do you think of an opera company as a business? Because when you look at those revenue trends, it doesn’t paint a pretty picture.

[Opera CEO]: The numbers you are looking at go down because the income potential goes down when you reduce the amount of activity on the stage. We’re a nonprofit. Anyone from the for-profit world ... is going to be confused because of course we lose money every time the curtain is raised. We aim for a break-even or better every single year. It is a business and it is also a service. We are providing a community service. We rely on philanthropic dollars. That’s just a fact of the business. We’ve always depended on
When it comes to the American orchestras, what exactly is the “nature of the beast”? One symphony executive at the annual conference of American orchestras’ national service organization, the League of American Orchestras (LAO), described his job to me as being in the business of “selling vibrating air”—how does the market for vibrating air work, and how can it be sustainable if it is true that performing arts organizations like operas and orchestras “lose money every time the curtain is raised”?

The United States is home to roughly half of the world’s professional orchestras. According to data from the LAO, there were between 350 and 400 professional orchestras operating as recently as 2009, in addition to 800–900 volunteer orchestras, 150–200 collegiate/conservatory orchestras, and 400–500 youth orchestras. The annual budgets of these organizations range from under $10,000 to over $100,000,000. Over half a million individuals in this country are involved with orchestras as musicians, board members, conductors, staff and volunteers, helping put on symphonic music performances for over 25 million attendees in the 2008–2009 season.

The challenging economic environment of the past few years has meant trouble for American orchestras. Venerable symphonies in Honolulu, Syracuse, and New Mexico have all

4 Ibid.
recently closed their doors, and in April 2011 the Philadelphia Orchestra filed for Chapter 11
bankruptcy protection.\(^5\) Although the Philadelphia Orchestra emerged from bankruptcy in 2012,
it continues to struggle financially, and the continuing existence of many other orchestras is
threatened.

As was predicted in RAND arts policy analysis nearly fifteen years ago, midsized
performing arts organizations are particularly vulnerable in the current climate:

The biggest challenge we foresee relates to the middle tier of nonprofit arts
organizations, particularly those opera companies, symphony orchestras, ballet
companies, and theater groups that service small and medium-sized cities
across the country. The realities of aging audiences, escalating costs, and
static or even declining funding streams will force these organizations into a
serious rethinking of their primary mission, the audiences they want to reach,
and their organizational structure.... [S]ome will simply wither away, unable to
reconcile conflicts among their various stakeholders.\(^6\)

Since this prediction was made, even more distressing trends have come to light. Although
symphony attendance is positively correlated with education and income, this correlation may
be weakening over time.\(^7\) Writing in *The New Yorker*, music critic Alex Ross notes,
regarding the latest installment of the National Endowment for the Arts (NEA) *Survey of
Public Participation in the Arts*, that

the number of people who venture out to classical performances in a given
year has been declining for almost three decades, and that such people are

\(^5\) Trelawny, Petroc. “US Orchestras Must Evolve to Survive.” *Financial Times*, 7/31/11. As of
March 25, 2015: http://www.ft.com/intl/cms/s/2/7c280d2c-b79c-11e0-852300144feabd0.html#axzz3V9r7B5IS
\(^6\) McCarthy, Kevin F., Arthur Brooks, Julia Lowell, & Laura Zakaras. *The Performing Arts in a New
\(^7\) See Flanagan, Robert. *The Perilous Life of Symphony Orchestras: Artistic Triumphs and Economic
getting steadily older. Further, each new generation participates less than the one that came before it. [...] In the past, several generations experienced a spike in participation as they got older. That pattern led many music professionals to take the sanguine view that a taste for classical music is simply acquired as time goes by. Yet Generation X, which is now entering middle age ... shows no sign [of such a participation spike].

Add to these problems the continuing weak recovery from the 2007–09 recession, and the future of American orchestras may appear bleak.

1.1 Policy Issue/Research Questions

Keeping classical music performance alive is an important policy issue. Of the scant cultural policy analysis concerning orchestras that currently exists, much is not immediately useful to decision makers within orchestra organizations. There is great variety among orchestras in terms of their geographic markets, budgets, boards of directors, and administrative staffs. Policy decisions of individual orchestras affect their outcomes, as do the conditions of their local markets and the government policies they face. This study comprises multiple case studies of a stratified, convenience sample of small–to medium–sized orchestras located in diverse geographical locales.

This research will explore the challenges facing symphony orchestras from the perspectives of those organizations’ leaders and stakeholders. Rather than being of just academic interest, this study seeks to aid decision makers in arts nonprofits through exploring what works with regard to organizational strategies and goals for nonprofit orchestras. Leaders

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of orchestras have ultimate responsibility within their organizations for setting goals and strategies.

Although our understanding of how orchestras address the many challenges they face across different orchestra organizations is poor, we do know that leaders at every orchestra must accomplish—with varying degrees of cooperation and resistance from different stakeholder groups—a common set of fundamental tasks. This includes: (a) setting the goals and agenda of the orchestra within the larger socio-demographic environment in which the orchestra is embedded; and (b) balancing their total costs with their total revenue (or risk taking on excessive debts that could eventually cause them to cease operations). Generating revenue at a minimum further involves making decisions about how to price tickets, promote attendance and raise additional funds. Managing costs involves decisions about how many musicians and staff (in areas including fundraising, programming, marketing and music education) to employ, how much to pay them; how long a performance season to have; where to perform, rehearse, and have office space; and how to treat the orchestra’s endowment (if it has one). How orchestras’ leadership address these fundamental tasks in relationship to their goals can be said to constitute the formation of their tactics and strategies.

The ways orchestras address these fundamental issues vary tremendously across organizations. For instance, smaller, “community” orchestras often do not charge for tickets to performances, while major orchestras can have complex ticket pricing schemes based on empirical research into the local price elasticity of demand for orchestra performances. Some
orchestras are more forward-looking, while others tend to address challenges as they arise. Some have large administrative staffs, while others rely almost entirely on volunteers.

To explore mechanisms of success in orchestra leadership, I conducted multiple case studies of orchestra organizations. I convinced four variously-sized (small to medium) orchestras to participate as cases. Below are the policy questions that guide this dissertation.

1. What financial challenges do orchestras face?
2. What is the range of orchestras’ organizational goals and what are the strategies they use to achieve these goals?
3. How do orchestra strategies change with changing economic conditions, and which strategies are associated with which outcomes?
2. Background

There is a body of scholarly literature that deals with symphony orchestras. For this dissertation, I divide the applicable literature into three groups: 1. literature on the economic trend known as the “cost disease”, 2. literature on orchestras’ finances, and 3. literature on organizational strategy. I address each separately.

2.1 The Cost Disease

The cost disease is of great consequence to the world of symphony orchestras. Recognition and exploration of the cost disease—and indeed the entire field of cultural economics—began in 1966, the year William Baumol and William Bowen published their seminal work, Performing Arts—The Economic Dilemma: A Study of Problems Common to Theater, Opera, Music, and Dance. Essentially, Baumol and Bowen seek to account for what explains the widely-observed, persistent gap observed between earned revenues and expenses of performing arts organizations. Writing in 2012 on the subject of how the verification of the cost disease has been borne out in the decades since his original study, Baumol writes that “our predictions have achieved what is surely a special status: they may well be the longest valid forecast ever to emerge from economic analysis.” The future societal and political implications of the cost disease are likely profound and largely unknown.

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What is the cost disease? It is an observation regarding the effects of workers’ productivity changes on the costs of different goods and services over time. Before the Industrial Revolution, productivity in all economic areas had changed very little for millennia. Industrialization, as well as subsequent technological innovations since the 18th century, changed workers’ productivity rapidly, making societies wealthier. However, some economic activities are more affected by technological changes and concomitant productivity improvements than others; Baumol divides the modern economy into two sectors, which he refers to as the “stagnant sector” and the “progressive sector”. The stagnant sector includes all activities that are not greatly affected by labor-saving changes in production, while the progressive sector includes all the goods and services that are affected by such changes.11

Because classical music performances have been mostly unaffected by improvements in productivity, they often serve as archetypes of Baumol’s stagnant sector (an oft-observed illustrative fact is that the same number of musicians are required today to perform some centuries-old piece of music by Mozart or Beethoven as were required at its first performance). Other examples of stagnant sector commodities are medical care and education. Activities do not have to be entirely unaffected by changes in productivity to qualify as stagnant, they only must be less affected by changes in productivity than the activities that are immensely affected by it (most notably, manufacturing).

It is helpful to think of the cost disease in terms of inflation. The rate of inflation is an average, with some commodities’ prices rising faster than the average, and some slower.

11 Ibid., p. xx.
In other words, some commodities’ real, i.e., inflation-adjusted, prices are rising, and some commodities’ real prices are falling. Beyond this, according to Baumol,

the only additional element of the cost disease is the observation that the list of those items whose real costs are rising remains roughly constant, decade after decade, while the same appears to be true of those items whose real costs are falling. The reason is not difficult to identify. The items in the rising-cost group generally have a *handicraft* element—that is, a human element not readily replaceable by machines—in their production process, which makes it difficult to reduce their labor content.\(^{12}\)

Again, performances of orchestral music cannot reduce their labor content without altering the composers’ intentions for a piece, making this activity unusually immune to productivity improvements. The real costs of symphony performances, according to the logic of the cost disease, should be rising year after year.

According to the most extensive econometric study of symphony finances undertaken in recent times, this predicted rise in real symphony costs is exactly what is observed in the data. Robert Flanagan’s 2012 study, *The Perilous Life of Symphony Orchestras*, contains the following graph, which compares “the evolution of the median performance expense per concert of 32 large symphony orchestras with costs in the goods-producing sector”\(^ {13} \):

Figure 2.1: Growth in Expenses per Concert versus Producer Price Index\(^ {14} \)

\(^{12}\) Ibid., p. 19.


\(^{14}\) Ibid.
Between the years 1987 and 2005, the average cost of a symphony performance increased over 300 percent, while the cost of finished goods increased only 148 percent. Flanagan states that “[a]lthough one still hears claims that the cost disease does not exist or has been ‘repealed,’ in fact the disease cannot be repealed without repealing the laws of arithmetic.”

The cost disease works slowly, over decades and centuries. Its implications are great and unprecedented in human history, as productivity rises (in the progressive sector) to unprecedented heights. It is an inevitable outcome of rising productivity in the progressive sector, which makes society wealthier, but which has a downside. Baumol points out that a “disturbing moral of the story is that the products most vulnerable to the cost disease include some of the vital attributes of civilized communities: health care, education, the arts, police protection, and street cleaning, among others.” If the cost disease is not addressed and

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15 Ibid., p. 9.
16 Baumol, 2012, p. 27.
adapted to, the result might best be described by John Kenneth Galbraith’s famous phrase: “private affluence and public squalor.”17

The good news regarding the cost disease, according to Baumol, is that although stagnant sector services will have ever-increasing real costs vis-à-vis the progressive sector, these services will never become entirely unaffordable for society as a whole. The rising productivity that creates the cost disease also “simultaneously increases the community’s overall purchasing power and makes for ever improving overall living standards.”18 Commodities produced within Baumol’s stagnant sector will simply take up a greater share of society’s income. For instance, Baumol notes that average American purchasing power in 2010 was seven times higher than it was one hundred years earlier. Extrapolating current trends, he predicts that one hundred years in the future, outlays on health care will grow from their current level of about fifteen percent of the nation’s gross domestic product (GDP) to becoming roughly sixty percent of GDP.19 But because productivity (and hence, purchasing power) will have increased, the average American in one hundred years will be able to afford more of everything, despite a greater share of income going towards health care.

The same must be true of orchestras. The cost to a community of supporting its own orchestra will continue to grow for the foreseeable future, at a rate consistently faster than the rate of inflation, but, ceteris paribus, the concomitant increase in that community’s purchasing power will make the orchestra’s survival possible, though not assured. The

17 Quoted in ibid., p. 65.
18 Ibid., p. xx.
19 Ibid., pp. 50-55.
relevant factor will be whether the community prioritizes the survival of its orchestra highly enough. However, this good news regarding the theoretical affordability of future orchestras must be tempered by the reality that the cost disease is not the only problem orchestras face. There are empirically-grounded reasons to believe that in the future, communities may not prioritize the survival of their orchestras highly enough. These reasons (most notably, declining demand and aging audiences) are discussed in the following section on orchestra finances.

On the subject of the cost disease, two final points bear mentioning. The first is that there is some debate among economists as to whether the performing arts should be characterized as being largely unaffected by productivity increases. Tyler Cowen, for instance, has challenged the very notion that innovation cannot occur in the performing arts, pointing to recording technology and “the growing diversity of musical composition and performance [which] represents a vast productivity increase.”20 The main problem facing orchestras, according to Cowen, is that

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\text{in many sectors of the arts, especially music, consumers demand constant turnover of product. Old music becomes “obsolete” — for whatever sociological reasons — and in this sense the sector is creating lots of new value every year. From an “objectivist” point of view they are still strumming guitars with the same speed, but from a subjectivist point of view — the relevant one for the economist — they are remarkably innovative all the time in the battle against obsolescence. A lot of the cost disease argument is actually an aesthetic objection that the art forms which have already peaked — such as}
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Mozart — sometimes have a hard time holding their ground in terms of cost and innovation.\textsuperscript{21}

Cowen seems to be saying that the cost disease, as it applies to orchestras, is more accurately a problem of insufficient demand for old music. Some orchestras, such as the Los Angeles Philharmonic and Berliner Philharmoniker, have experimented with new technologies that can enhance productivity for live performances: simultaneous broadcasts (“simulcasts”) to movie theaters and internet-connected devices. The results of these experiments, however, have not demonstrated that simulcasts are a promising source of performance revenue for even the most prestigious, in-demand orchestras. The L.A. Philharmonic ended its theater simulcasts after two seasons “due to a difficult economic environment.”\textsuperscript{22}

A second, final point regarding the cost disease is that the actual economic phenomenon should be distinguished from its use as a rhetorical tool. One place that the cost disease has made repeated appearances since the 1960s is in policy debates concerning arts funding. David Throsby, in his comprehensive survey of cultural economics in the \textit{Journal of Economic Literature}, observes that “[i]n the 25 years following its initial presentation, this proposition (the cost-disease) has been widely seized upon in a number of countries as

\begin{footnotesize}
\textsuperscript{22} Ng, David. “L.A. Philharmonic kills series of live broadcasts to cinemas.” \textit{Los Angeles Times}, Oct. 8, 2012 (“Both the L.A. Philharmonic and Fathom declined to provide U.S. attendance figures. Cineplex could not provide attendance figures for Canada, but the spokeswoman said, ‘We didn’t get the attendance in our locations that we had hoped for with these events.’”). As of February 24, 2016: http://articles.latimes.com/2012/oct/08/entertainment/la-et-cm-los-angeles-philharmonic-live-canceled2012009
\end{footnotesize}
spelling doom for the live arts unless governments intervened. . . .\textsuperscript{23} Even if it is not effective in persuading elected leaders to subsidize their communities’ performing arts organizations, the cost disease is still an important phenomenon for all symphony stakeholders to be aware of. The existence of the cost disease also does not provide a ready-made excuse for orchestras to be blasé about rising costs; it is still important, as will be discussed infra, to try and spur cost savings and innovation in stagnant sector services, including orchestra performances.\textsuperscript{24}

\textbf{2.2 Literature Concerning Orchestra Finances}

Other examples of matters that cultural economists have investigated in the realm of the performing arts include whether crowding out or crowding in occurs in the market for contributions to orchestras (the evidence is mixed),\textsuperscript{25} and what the price elasticity of demand for symphony orchestra services is (again, the evidence is mixed, although it is generally inelastic).\textsuperscript{26} In the face of conflicting empirical evidence, it is hard to know how symphony orchestra stakeholders should use this literature in their decision making.

One of the more valuable services cultural economists have performed for American orchestra organizations is attempting to give an accurate overview of what their economic

\textsuperscript{23} \textit{Quoted in} Cowen, p. 207.
\textsuperscript{24} \textit{See} Baumol, 2012, p. 74.
environment looks like, and its trends over time. F. M. Scherer, for example, has found empirical evidence for the common-sense observation that urban areas with larger populations are more likely to have orchestras with larger budgets.\textsuperscript{27} Scherer’s analysis also indicates that:

\begin{quote}
holding population constant, the presence of corporate headquarters with their well-paid staffs and their command over substantial assets leads to higher local orchestra budgets. This occurs in part because local audience members are more affluent than they might otherwise be (shown also by the strong role of per-capita income) and also by enlarging the base of philanthropic contributions to orchestras’ budgets and their endowments.\textsuperscript{28}
\end{quote}

These findings are of limited value to most orchestra leaders, as they presumably cannot control either the size of their local population or the number of corporate headquarters in their geographic area. However, the Cleveland Orchestra’s annual residencies in Miami, which began in 2007, are at least partly explained by the findings.

The seemingly straightforward task of creating an accurate portrait of the orchestra industry is not without its difficulties. Complicating any analysis of symphony orchestras’ present crisis is that a review of this literature leads one to believe that orchestras have been afflicted by recurring existential crises.

One early attempt at an orchestra industry overview, predating Baumol and Bowen, is Margaret Grant and Herman Hettinger’s 1940 study, \textit{America’s Symphony Orchestras: And How}


\textsuperscript{28} Ibid., p. 20.
Although the term “cost disease” had not yet been coined, the phenomenon of the gap between performance revenue and total operating expenses (hereafter referred to as the “performance income gap”) was obvious and troublesome. In 1939, the three most successful orchestras’ ticket sales covered “only an average of 85 percent of their total budgets, while ... the whole group [of American orchestras] averages about 60 per cent.”

While these figures were considered cause for alarm in 1940, today “these results would be viewed with envy.” Grant and Hettinger’s study concluded that “symphony orchestras are facing serious financial problems and their future rests on an unstable basis.”

The report of the Wolf Organization, *The Financial Condition of Symphony Orchestras*, is another comprehensive overview of the orchestra industry and its finances. Again, the tone is one of alarm: Thomas Wolf created a sensation when his findings were presented at the annual conference of the organization now called the LAO in 1992. Essentially, the Wolf Report argues that orchestras at the time faced a financial crisis—because of the performance income gap—despite the tremendous growth in both budgets and audience demand that orchestras had experienced since the 1960s.

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29 Grant, Margaret, & Herman S. Hettinger. *America’s Symphony Orchestras: And How They Are Supported*. New York: W.W. Norton, 1940.
32 *Quoted in* Flanagan, 2008b, p. 1.
Indeed, the financial crisis described in the Wolf Report was in large part the fallout resulting from this tremendous growth. The Ford Foundation had initiated a significant leveraged grant program with orchestras in 1965. The grants provided over $450 million (in year 2000 dollars) to sixty-one different orchestras, improving the economic lot of symphony musicians through enabling longer guaranteed seasons—prior to the grants, most symphonies had concert seasons running less than six months. Between 1960 and the late 1980s, the number of orchestras offering year-round employment to their musicians increased from two to 46.35

At roughly the same time, symphony musicians began receiving much more effective union representation from the International Conference of Symphony and Orchestra Musicians (ICSOM), which had formed in 1962 and became affiliated with the older union, the American Federation of Musicians (AFM), in 1969. Although these two developments corrected what the Ford Foundation in 1965 had considered a problem—inadequate compensation for American symphony musicians—a perhaps unintended consequence was that musicians’ compensation shifted from being a variable cost to a fixed cost from the perspective of orchestra management.36 By the time of the Wolf Report, in the aggregate artistic personnel expenses made up a majority of all orchestra expenses. Although artistic expenses had been increasing at about the same rate as overall expenses, collective


36 Ibid.
bargaining agreements had effectively divorced the length of orchestra seasons from audience demand, the number of services being set in advance in contracts.\textsuperscript{37} As Flanagan observes:

\begin{quote}
These contractual provisions emerged in the wake of the Ford Foundation grants to U.S. symphony orchestras during a period of rising demand for symphony performances. But many of the collective bargaining provisions underpinning improvements in the financial and employment security of musicians limit the ability of orchestras to adjust artistic costs in response to financial pressures that emerge during periods of declining concert attendance, such as the late 20th century.\textsuperscript{38}
\end{quote}

The Wolf Report foretold financial doom for orchestras through deficits, and Dr. Wolf warned that a “paradigm shift” was needed in order to avoid total disaster. This shift, as proposed by Wolf, had several aspects, which he expressed in the form of ten rhetorical questions:

1. How viable is the full-time 90 to 100-piece orchestra?
2. Should orchestras continue to market their wares primarily from a single venue?
3. Can orchestras continue to produce more product than their consumers want?
4. Should orchestras continue to focus so heavily on performances before live audiences?
5. How much longer can American orchestras remain all-white, upper class institutions?
6. When will orchestras take a more active role in the long-term development and training of players of color?
7. Why are orchestra education programs so inconsistent with current educational and learning theory?
8. Why aren’t orchestras taking a greater role in forging local institutional partnerships?

\textsuperscript{37} Wolf Organization, 1992.  
\textsuperscript{38} Flanagan, 2008a, p. 28.
9. Why have orchestras not spent more time and effort making the concert-going experience more enticing to those who are not hard-core music lovers?

10. When will orchestras develop a collective decision-making structure that makes everyone a stake-holder in the industry’s future?  

Subsequent to the Wolf Report, however, American orchestras on the whole experienced growth and prosperity for the remainder the 1990s, apparently without such a paradigmatic shift.  

Writing ten years after the Wolf Report, Douglas Dempster observes that “none of the report’s simple projections was even close to being right.” How was the Wolf Report so far off on its warnings?  

Dempster asserts that the Wolf Report “very likely did much to frighten the industry into fiscal sobriety.” Another possibility is suggested by the most recent and up-to-date overviews of the orchestra industry, by Robert Flanagan of the Stanford University Graduate School of Business.  

An innovation in Flanagan’s analysis is that it takes into account the

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40 Dempster, 2002.
41 Ibid., p. 3.
42 A final interesting feature of the Wolf Report should be pointed out: the presence of three appendices, each a response of an orchestra leader to the financial analysis and predictions of Dr. Wolf. Deborah Borda (then with the New York Philharmonic), John McClougherty (West Virginia Symphony Orchestra), and Peter Pastreich (San Francisco Symphony) each had significantly more sanguine views of the orchestra industry than the view expressed in the Wolf Report. For instance, Pastreich writes that “[w]e do have a critical financial problem. The orchestras are spending more than they are taking in, and if they don’t stop doing that soon there will be some disrupted seasons and lowered living standards for musicians and administrators. But the situation is critical, not serious, and music will survive. What we don’t need to do is allow the financial problems which have developed from over optimism, poor management and admirable generosity to drive us to “solutions” which are worse than the problem. What we do need to do is balance our budgets: take in more money and spend less. And continue to be an innovative, living force on the American cultural scene.” Wolf Organization, 1992, p. D-2.
44 Flanagan, 2008b; Flanagan, 2012.
effects of the business cycle on orchestra finances, and he finds that the performance income gap is sensitive to the general state of the economy, which experienced expansion during the mid- to late-1990s. Flanagan writes that

> [h]olding the influence of general economic conditions on symphony finances constant, upward trends in private contributed support and investment income offset both a long term decline in government support and the long-term deterioration in the performance income gap. As a result, there was a modest trend improvement in the overall surplus/deficit position of orchestras in the late 20th century.\(^{45}\)

Thus, the failure of the disasters predicted in the Wolf Report to come to pass may have only been temporary. The performance income gap, consistent with predictions stemming from the cost disease, will continue to be a growing problem, whether or not general economic conditions improve. Consistent with Flanagan’s analysis is the observation that the sustained economic downturn that lasted between the end of 2007 and mid-2009 affected orchestras more than shorter, past recessions did.

Flanagan’s recent contributions to the understanding of orchestra economics go beyond taking into account the effects of the business cycle on the widening performance income gap. His *The Perilous Life of Symphony Orchestras* is a rigorous and thorough examination of financial, concert attendance, and audience demographic data for 63 of the largest American orchestras, over the 19 years from the 1987–88 through the 2005–06 concert seasons.

After demonstrating that the cost disease is a real and growing concern, Flanagan shows that orchestras appear to be subject to the same “broad social shifts in the use of

\(^{45}\) Flanagan, 2008b, p. vi.
leisure time” that are negatively affecting participation in traditional leisure activities such as gardening, hunting, golf, and attendance at both movies and live sporting events, even as the total amount of leisure time has increased.\textsuperscript{46} Even if the trend in declining orchestra attendance were somehow reversed, Flanagan notes that “if every seat were filled, the vast majority of U.S. symphony orchestras still would face significant performance deficits.”\textsuperscript{47} Over the 19 years of the study, the average attendance at regular-season performances for the 63 orchestras was about 70 percent of capacity—“although the fraction filled was lower at the end of the period than at the beginning.”\textsuperscript{48} Holding the effects of the business cycle constant, Flanagan finds a “statistically significant trend decrease in average annual attendance of about 2 percent per year.”\textsuperscript{49} A recent \textit{Wall Street Journal} article examining the growing popularity of videogame music performances by orchestras cites a “soon-to-be-published report commissioned by the League of American Orchestras” that arrives at a similar figure: orchestra ticket sales declining at an average of 2.8 percent annually over the past ten years.\textsuperscript{50}

Flanagan shows how symphony audience size has not kept pace with U.S. population increases.\textsuperscript{51} Flanagan’s analysis of symphony audiences incorporates, and is buttressed by,
data from the NEA’s surveys of arts participation which began in 1982.\textsuperscript{52} The NEA asks respondents about their classical music attendance, and the results are summarized in Table 2.1, below. The reality faced by orchestras is worse than the picture presented in Table 2.1, because the NEA definition of “classical music” includes symphony and chamber music, as well as choral music. One overall trend for classical music since 1982 is clear: the percentage of U.S. adults attending at least one performance is shrinking. The total number of attendances and average number of attendances per attendee have been declining since 2002.

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One reason for declining overall attendance is that successive generational cohorts have demonstrated lower demand for classical music. Audiences are aging more rapidly than the general population. Flanagan notes that “[s]ince 1982 the proportion of classical music audiences over the age of 45 years has increased from 40 percent to 59 percent, while the proportion of the U.S. adult population in that age group has increased from 42 percent to 51 percent.”53 As mentioned in the introduction, supra, Alex Ross points out in *The New Yorker* that:

> in the past, several generations experienced a spike in participation as they got older. That pattern led many music professionals to take the sanguine view that a taste for classical music is simply acquired as time goes by. Yet Generation X, which is now entering middle age ... shows no sign [of such a participation spike].54

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This generational effect is explored in a 2009 McKinsey & Company study on orchestra audiences commissioned by the LAO. The following graph, taken from the study, illustrates that attendance has “generally declined between and within generational cohorts since 1982.”

Figure 2.2: LAO/McKinsey Graph

Besides dissecting declining demand for orchestra performances, *The Perilous Life of Symphony Orchestras* highlights other results of Flanagan’s analyses, which show, for instance, that symphony musicians’ salaries do not vary reliably with the financial balance of their organizations, whereas their salaries are positively correlated with private donations. During the period covered in his study, musicians’ salaries grew much faster than most other workers’ salaries in the economy as a whole. That this is the case when there is large supply of aspiring symphony musicians relative to the number of positions available points to

56 Flanagan, 2012, pp. 85, 89.
the strength of musicians’ collective bargaining and to a lack of bargaining resistance on the part of symphony boards, relative to the boards of for-profit corporations.57

On average, for his sample of 63 large U.S. orchestras, Flanagan finds that a decline in general business conditions (signified by a one percentage point increase in the unemployment rate) “is associated with a .7 percentage point fall in the proportion of performance expense covered by performance revenue.”58 Holding the influence of other factors, including the business cycle, constant, each passing year of exposure to the cost disease is associated with a .2 percentage point decrease in the same ratio of performance revenue to performance expense.59 Flanagan states that if the business cycle were all that orchestras had to contend with, the solutions would be straightforward: attempt to anticipate recessions using economic indicators, use surpluses earned during good years to offset deficits that occur during bad years, and attempt to “[r]educe the cyclical sensitivity of financial balance” by having “less flexible revenues, more flexible expenses, or both.”60 Orchestras can achieve flexible expenses by having a per-service employment contract with musicians, which allows for fewer performances when demand is down (and more performances if demand were high). Having less flexible revenues, however, is harder for orchestras to achieve. According to Flanagan:

The key point is that, in large measure, U.S. symphony orchestras do not control the main factors influencing their nonperformance income. The flow of nonperformance income to an orchestra reflects the largely uncoordinated

57 Ibid., p. 89.
58 Ibid., p. 21.
59 Ibid.
60 Ibid., p. 29.
decisions of individual contributors, businesses, foundation personnel, politicians, arts council employees, and symphony boards of trustees. The prospect that the diverse interests motivating these sources of nonperformance income would produce an annual flow of income just equal to performance deficits is staggeringly small—a fact confirmed by the observation that no U.S. symphony orchestra, however prominent, has been able to maintain a consistent record of financial balance.\(^\text{61}\)

Unlike the business cycle, potential solutions to the cost disease are not straightforward. As the cost disease results in growing structural deficits, potential solutions would have to likewise grow, to keep pace. According to Flanagan, “[c]ontinual policy innovations that variously raise performance and nonperformance revenues and reduce expenses are necessary to counter the ongoing growth of structural deficits [emphasis added].”\(^\text{62}\)

Proposed solutions to the cost disease are doomed to fail if they result in one-time improvements to financial balance and ignore its continuous, cumulative operation. Given all the challenges orchestras face, Flanagan concludes that “[t]he facts support the view that access to live symphonic performances could gradually become more concentrated.”\(^\text{63}\)

Flanagan’s conclusion is essentially the same as that of the RAND study, by McCarthy et al., quoted in the introduction.\(^\text{64}\)

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\(^\text{61}\) Ibid., p. 173.

\(^\text{62}\) Ibid., p. 30.

\(^\text{63}\) Ibid., p. 175.

\(^\text{64}\) See McCarthy, Kevin F., Arthur Brooks, Julia Lowell, & Laura Zakaras. The Performing Arts in a New Era. Santa Monica, CA: RAND Corporation, 2001, p. 109 (“The biggest challenge we foresee relates to the middle tier of nonprofit arts organizations, particularly those opera companies, symphony orchestras, ballet companies, and theater groups that service small and medium-sized cities across the country. The realities of aging audiences, escalating costs, and static or even declining funding streams will force these organizations into a serious rethinking of their primary mission, the audiences they want to reach, and their organizational structure…. [S]ome will simply wither away, unable to reconcile conflicts among their various stakeholders.”).
Just as the Wolf Report arguably engendered changing attitudes within the world of orchestras, Flanagan’s industry overviews have generated much discussion among orchestra stakeholders, surely altering the terms of the debate on the future of symphonic music.

Bruce Ridge, chairman of ICSOM, gave *The Perilous Life of Symphony Orchestras* a generally unfavorable review, stating that “this book seems to be written by someone who simply doesn’t understand his subject” and that Flanagan’s work “has done harm to a field I love.” The basis for Ridge’s dislike seems to boil down to the fact that because the book highlights difficult economic problems besetting orchestras, it could negatively affect musicians’ collective bargaining position. LAO President and CEO Jesse Rosen, however, tells his readers to “[r]ead the book, no matter how much you may not like what it has to say. Orchestras can’t afford to ignore the issues it raises.”

2.3 Organizational Strategy Literature, Orchestra Case Studies, and Conceptual Framework

In addition to literature concerning orchestra finances, there is a body of literature on organizations and leadership that helps contextualize the problems faced by symphonies; after all, symphonies are not immune from the problems and dysfunctions that affect all types of organizations, and nonprofit organizations in particular.

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Legal constraints unique to nonprofits create special organizational dynamics, as well as opacity in understanding their incentives and behavior through an economic lens. Economists can assume a profit-maximizing objective for for-profit firms, but the non-distribution constraint common to all American non-profits prohibits such an assumption in their case. As Arthur Brooks and Jan Ondrich write, specifically concerning arts nonprofits,

a more nuanced objective must be considered. For example, we might imagine that firms maximize their “output”: they seek to reach the maximum number of clients, or service area. Alternatively, we might imagine that firms prefer to maximize quality, however measured. Perhaps more cynically, we might imagine that some firms are “empire builders,” seeking to maximize their budgets.\(^67\)

Brooks and Ondrich propose a model of arts nonprofit utility and test alternative hypotheses concerning the nonprofit utility function with data from public radio stations. Although an objective is not always discernable through their analysis, they find evidence that some nonprofit arts organizations are primarily budget maximizers, others primarily quality maximizers, and still others are maximizing their audience size. Objectives seem to differ based on the size of the organization.\(^68\) In this, their findings are in accord with previous work by economists attempting to model and test empirically what nonprofit arts firms’ objectives are. For instance, Lukesetich and Lange find that, in testing a model of nonprofit arts behavior first

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\(^{68}\) Ibid.
proposed by Hansmann, major orchestras have expense and attendance maximization goals.⁶⁹ All such models will have a difficult time dealing honestly with operational definitions of “quality.”

Another route to discerning the objectives of nonprofits is simply asking leaders and stakeholders in organizations what goals they are working towards. This is the route chosen in a RAND study of higher education, *In Pursuit of Prestige.*⁷⁰ The study authors form two distinct constructs, “prestige” and “reputation,” to describe what they observe organizations of higher education working towards. Successful sports programs, high-achievement students, and well-funded, quality research by faculty all generate prestige, but reputation is generated only by having alumni succeed in the job market. Institutions can thus be categorized either as having a prestige-based strategy (i.e., if the institution already possesses prestige), a prestige-seeking strategy, or a reputation-building strategy.⁷¹

An analogous study to *In Pursuit of Prestige* has not been conducted for the world of symphony orchestras, although it seems likely that concepts similar to prestige and reputation are at work in orchestras’ organizational strategies. As preservers and presenters of “high art,” symphonic music organizations could perhaps be even more inclined to pursue prestige as a goal than are institutions of higher learning. A look at two in-depth case studies of

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⁷¹ Ibid.
American orchestras that have gone out of business supports the use of prestige and reputation in understanding goal and strategy formation at symphony organizations.

Two Orchestra Case Studies

In Melanie Beene’s excellent case study,72 one finds evidence that the Oakland Symphony Orchestra Association’s (OSOA’s) bankruptcy and dissolution in 1986 was at least partly due to overreach on the part of its managers and trustees in seeking prestige for the organization. One reason Beene cites for the OSOA’s closing is that it had long attempted to grow its budget, apparently with the goal of moving from a “regional” to a “major” orchestra, according to the LAO’s classification scheme of the time.73 This distinction was, apart from prestige and the desire for higher-status “peer” organizations, apparently arbitrary. Another reason for the OSOA’s financial troubles was its attempt to acquire a new performance space. This space would have been prestige-enhancing, but the effort and resources expended to acquire it derailed the orchestra from its central mission of presenting music. Beene refers to this pitfall, which according to her is not uncommon among performing arts organizations, as the “edifice complex.”74

An even stronger case regarding the dangers of “prestige overreach” can be made regarding the San Jose Symphony (SJS), which closed its doors in 2001.75 Thomas Wolf,


73 Ibid., p. 108.

74 Ibid., p. 107.

75 Wolf, Thomas, and Nancy Glaze. *And the Band Stopped Playing: The Rise and Fall of the San*
of Wolf Report fame, along with Nancy Glaze of the Packard Foundation, studied the causes of the SJS’s dissolution after 125 years of existence. As in the case of the OSOA before it, the SJS had attempted to acquire a new hall. It had been hoped within the Symphony that this new hall would be funded with city redevelopment money, and this hope even led to the appointment of an executive director in 1992 who lacked orchestra management experience, but who was a former San Jose City Council member (with connections to sources of local public funding).76 In more ways than one, the ongoing pursuit for a new concert hall distracted the SJS from addressing more important organizational issues affecting its chances of survival.77

Other decisions by SJS can be seen in a similar light of putting the pursuit of prestige above more immediate and important goals. According to Wolf and Glaze, the Music Director of SJS had been a prestigious choice, with impeccable music credentials, but he had failed to be an effective spokesman for the SJS and connect with the San Jose community.78 Also, music education had been neglected by SJS. In the case of orchestras, music education may be a constituent element of “reputation,” as opposed to prestige (more on this below).79 Finally, and most fundamentally, how SJS hired and paid its musicians can be seen as prestige overreach: instead of a “per service” arrangement, with greater flexibility regarding how to respond to audience demand for performances, the orchestra’s collective

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76 Ibid., p. 46.
77 Ibid., pp. 55, 62.
78 Ibid., p. 47.
79 Ibid., p. 58.
bargaining agreement with the union featured a high number of guaranteed services, and the number had been growing over time (i.e., labor costs increased and became fixed as opposed to variable). This despite the audience demand for SJS performances dwindling—“fewer guaranteed services would have been more appropriate. Houses were often half full, indicating that there were simply too many concerts for the demand.”80 The assumption at work at SJS was that “per service” orchestras are inherently inferior (and less prestigious) compared to full-time, salaried ones. Wolf and Glaze call this assumption, at least in the context of the San Francisco Bay Area, where talented musicians are plentiful, “specious.”81 Wolf and Glaze also comment on OSOA’s dissolution, and see a similar thread with SJS’s troubles: both orchestras had, in effect, attempted to emulate and compete head-to-head with the highly-prestigious and successful San Francisco Symphony, and both had “passed into history” as a result.82

Reputation and Prestige in Higher Education and in Orchestras

In the context of higher education, Brewer et al. use the constructs of reputation and prestige to describe the range of strategies and goals exhibited by American non-profit and for-profit colleges and universities.83 To differentiate between the two constructs, consider two corresponding archetypes in higher education, University of Phoenix and Stanford University. Phoenix may be said to pursue a goal of reputation: it is a for-profit institution

80 Ibid., p. 40.
81 Ibid., p. 41.
82 Ibid., p. 77.
with no sports programs and faculty who do not produce research as part of their job duties. Phoenix specializes in online courses, but also has more than 100 “campuses” worldwide, which are usually suites of rooms in office buildings. Stanford, on the other hand, may be said to pursue a goal of maintaining its prestige: it is non-profit, with competitive athletic programs, excellent faculty research, and one large, picturesque primary campus.

According to Brewer et al., reputation in higher education is defined by the desires of the customers/students, which are largely based on subsequent job placement. Students attend University of Phoenix because it offers a convenient (admission is not competitive) means to further their careers in identifiable ways. Prestige, on the other hand, is a rival good, measured relative to other institutions, and is defined by the desires of college faculty and other insiders. Students attend Stanford (if they can get through the fiercely competitive admission process) because it is selective and more highly esteemed than most other schools. Phoenix and Stanford are at two extremes of a continuum; all colleges and universities can use strategies that invest in reputation, invest in prestige, or can attempt to invest in both. Pursuing prestige, when a school does not already possess it, is a riskier strategy than is pursuing reputation.

Essentially, reputation and prestige are important because they convey nonprice information to customers. According to Brewer et al., information conveyed by reputation and prestige allows customers to evaluate better the extent to which the institution will be able to satisfy their demands. Such information assets play a role in a number of industries, particularly in
markets where the quality of the good or service is difficult for a customer to assess beforehand. In order to employ these constructs fruitfully, they must be distinguished as precisely as possible. Reputation can be good or bad, whereas prestige is always good. Reputation is evaluated with much greater frequency than is prestige. Reputation reflects an organization’s ability to meet specific customer demands, but an organization with prestige cannot necessarily demonstrate that it has met identifiable customer needs—instead, the prestige signifies that the organization has some features that “tend to be associated with exceptionally high-quality service.” In other words, prestige is vaguer than reputation. One might associate prestige in higher education with something as simple as seeing ivy growing on campus grounds.

How would reputation and prestige work in the case of orchestras? Reputation in this case is still defined by the customers/audience, and prestige is defined primarily by organizational insiders. Reputation would still be a non-rival good, measured in absolute terms, and prestige a rival good, measured relative to other organizations.

The primary prestige generators in higher education are student quality, research, and sports. I posit that prestige generators for orchestras might include: a full-time group of salaried musicians; an acoustically-appropriate performance space that features the orchestra as the resident music presenter; a music director with elite training and/or connections to other prestigious symphonies; tours and recordings; the use of famous guest artists; and performances of premieres of well-known composers. A high and/or growing budget may

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84 Ibid., p. 27.
85 Ibid., p. 28.
itself be a source of orchestra prestige. Finally, I posit that the age of an orchestra is positively correlated with prestige. These potential prestige generators are more closely aligned with interests associated with orchestra industry insiders, rather than orchestra audiences.

As an archetype of orchestral prestige, one might consider the Los Angeles Philharmonic: its musicians are employed year-round; it is a resident presenter at iconic Walt Disney Concert Hall (and its summer performance space the Hollywood Bowl); its music director is the world-famous maestro Gustavo Dudamel; it records and tours extensively; regularly performs with famous guest artists and premieres contemporary music (since the 1980s it has employed a composer-in-residence); and its yearly budget is currently the largest of any American orchestra at well over $100 million. It was founded in 1919.

Reputation in the orchestra world would seem to depend primarily on whether performances are accessible and enjoyable for audiences, and available at a reasonable price. In other words, orchestras with a goal of reputation attempt to serve their communities. As an archetype for reputation, consider the Santa Monica Symphony.\(^86\) It offers free admission to its concerts, which take place four or five times per year in the local high school auditorium. Some of its musicians are professionals, but many are amateurs. Its budget was just over $100,000 in the latest year for which records are available. The symphony cannot afford to engage in much advertising, so it largely relies on word of mouth.

While the Santa Monica Symphony also has some prestigious characteristics and connections (for instance, it was formed in 1945 and its current music director is also a

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\(^{86}\) See www.smsymphony.org.
violinist with the LA Philharmonic), it seems in many ways to be near the opposite end of a spectrum from the LA Philharmonic. The Santa Monica Symphony’s programming largely consists of classical “warhorses.” Hypothetically, if it were to play a concert of videogame music, of the sort where concert attendees dress up as game characters, this would be even further along the spectrum towards reputation and away from prestige. Music education programs would also seem to fall in the category of reputation, as an orchestra engaging in music education is meeting a specific customer demand and serving community members.

Although the analogy is not in all ways a precise fit, one might say the Santa Monica Symphony is the University of Phoenix to the LA Philharmonic’s Stanford University. In both higher education and orchestral performance, reputation and prestige provide firms with a buffer from competitive forces. Both a good reputation and prestige, in theory, improve an organization’s ability to generate revenue.

The value of reputation and prestige to a particular orchestra depends greatly on geographic context, i.e., the features of the market in which the individual orchestra operates. For instance, if competition is strong in a particular market, good reputation is more important than it would be in a market with weak competition. (This competition could come from other orchestras, other fine arts presenters, or other entertainment options, generally.) Also,

88 Brewer et al., p. 40.
89 Ibid., p. 97.
as stated above, many high-prestige orchestras are currently in financial trouble across the country, signifying that prestige is not an absolute buffer from economic realities. Finally, it should be noted that Brewer et al. point out that prestige-seeking strategies are inherently more risky than reputation-based strategies, because investments in prestige have uncertain payoffs compared with investments in reputation. This point echoes the discussion, supra, regarding OSOA and SJS and their apparent overreach in pursuing prestige, leading to their eventual demise.

A Basic Framework

Below I outline a simple framework to help address my three research questions: (1) What financial challenges do orchestras face?; (2) What is the range of orchestras’ organizational goals and what are the strategies they use to achieve these goals?; and (3) How do orchestra strategies change with changing economic conditions, and which strategies are associated with which outcomes?

This framework comes from a synthesis of the literature reviewed above as well as from pilot interviews I conducted with subject matter experts and current orchestra professional staff prior to conducting my case studies (see Chapter 3). This conceptual framework is depicted in Figure 2.3, below.

Figure 2.3: Conceptual Framework

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90 Ibid., p. 98.
The left-most side of the framework represents the geographic, socio-demographic and historical context in which an orchestra is embedded. The right side of the framework represents the goals and agenda of the orchestra. The middle of the framework represents the revenues and costs (and their key component parts) that orchestra leadership must try to balance to maintain an orchestra’s long-term sustainability. As the framework demonstrates, the relationships between context, goals, costs and revenue are indeed complex and often feedback on each other.

Organization of dissertation

The conceptual framework served as a guide for collecting and analyzing data from the case studies (see Chapter 3 on research methodology) and serves to organize the presentation of my results.
• Chapter 4 describes the history, geography, and demography of the four case study orchestras. This chapter includes an examination of the evidence that the orchestras are affected by aging audiences.

• Chapter 5 covers the right-most side of the framework, the goals of the case study orchestras.

• Chapter 6 discusses the performance income of the case studies, including a discussion of whether they are experiencing declining demand.

• Chapter 7 discusses the nonperformance income of the case studies.

• Chapter 8 covers the costs of the case study orchestras.

• Chapter 9 compares revenues and costs at the case study orchestras, and includes exploring whether the case studies are affected by the cost disease.

• Chapter 10 is a conclusion that summarizes the results of the case studies and answers the three research questions introduced in Chapter 1.

• Chapter 11 discusses my policy recommendations.
3. Methodology and Approach

3.1 Overview

This project aimed to explore, identify, describe, and compare goals and strategies of orchestra organizations. To allow for in-depth examination of these goals and strategies and how they are influenced by the larger socio-demographic contexts, I decided to use a multi-case study approach. While the psychologist Hans Eysenck had early in his career disparaged the case study as an inferior form of social science inquiry, he later stated that “sometimes we simply have to keep our eyes open and look carefully at individual cases—not in the hope of proving anything, but rather in the hope of learning something!” I attempted to conduct my orchestra case studies in this spirit.

Despite small sample sizes, the power of the case study comes from the cross-case and within-case variance that a researcher is able to observe through the purposeful selection of cases and a diverse sampling of informants within each case. I describe my recruitment and selection strategy below.

3.2 Case-study and informant recruitment and selection

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91 Quoted in Flyvbjerg, 2006, p. 224.
92 In choosing to conduct case studies, I was also influenced by and mindful of issues concerning the philosophy of social science raised by Bent Flyvbjerg. In short, I strove to avoid “ritual academic blind alleys, where the effect and usefulness of research becomes unclear and untested.” Flyvbjerg, Bent. Making Social Science Matter: Why Social Inquiry Fails and How It Can Succeed Again. Cambridge, UK: Cambridge University Press, 2001; and Flyvbjerg, Bent. “Five Misunderstandings About Case-Study Research.” Qualitative Inquiry, Vol. 12, No. 2, 2006, pp. 219–245.
Case-study research typically includes two stages of sampling. In the first stage, cases are identified and recruited. When recruiting organizations such as orchestras, organization leaders need to give permission to be included in the study and allow the researcher to approach staff and affiliates for interviews. In case study research, this is often the most difficult of the recruiting stages as organizations are leery of letting outsiders into the organization to ask questions.

Once cases are identified and permissions are given, the second sampling stage begins with the identification and recruitment of interviewees. Here, finding people who have insights into the multiple aspects of an organization are critical. It is not unusual at this stage to try to interview as many types of people as time and resources allow. Researchers typically use a purposeful diverse sampling approach.

3.2.1 Recruiting cases

To recruit a diverse sample of orchestras, I began by conducting preliminary interviews with subject matter experts. During this initial stage, I attended the League of American Orchestras (LAO) and Association of California Symphony Orchestras (ACSO) conferences where I met with orchestra staff and board members, as well as consultants specializing in serving performing arts nonprofits (see below). When I met with orchestra leaders, I attempted to persuade them to allow me to use their organizations as case studies. Most did not want their organizations to be case studies, but many were willing to share their thoughts on the orchestra industry as a whole with me.
Although I initially had planned on recruiting a total of eight orchestras to serve as cases, I ultimately was able to convince five orchestras to participate. One of the five cases, however, proved difficult and I was unable to recruit as many interviewees as I would have liked. Due to a lack of sufficient data, I decided to drop this case from my study. This research, then, is based on a convenience sample of four orchestras.

To persuade the orchestras to participate, I promised to provide confidentiality to not only my interviewees but to the orchestras as a whole. Therefore, I identify each orchestra pseudonymously with the letters A through D.

3.2.2 Recruiting interviewees

For each case, I arranged a time to do an in-person site visit and tried to arrange interviews ahead of time. Before traveling, I set up interviews with the orchestra’s professional staff, including its chief executive, development, marketing, and operations personnel. When possible, I also interviewed musicians, board members, and volunteers with the orchestra. I also used these initial interviews to identify additional people that I thought might be able to provide additional perspectives on how the orchestra functioned and its strategic decisions.

In total, I conducted 34 interviews across the four case studies. As stated above, during site visits I interviewed as many staff members, board members, and performers as were willing to participate. As with the selection of the cases, the interviews used to form the basis of each case were a convenience sample. The majority of the interviews (18 out of 34) were with staff members, and 10 interviews were with board members. The rest of
the interviews were with volunteers and performers (both musicians and conductors). Many of the staff and board members interviewed (11 out of 28) had backgrounds as musicians, often with training at conservatories or as performance majors at universities.

Each case included interviews with individuals in leadership roles at their organizations, but it was not possible in all cases to interview individuals from each stakeholder group. At Symphony B, for instance, I interviewed the staff leadership (president and vice presidents), but no board members or performers. Each of the other three cases, however, included interviews with members of the board, the staff, and at least one performer.

3.3 Data Collection

My data collection efforts can be divided into three types: informational interviews, secondary-document reviews, and case-study site visits and interviews. Each are briefly described below.

3.3.1 Informational interviews

As mentioned above, I began my data collection efforts by conducting informational interviews with subject matter experts who I met while I attended the LAO and ACSO conferences. These included orchestra leaders, staff and board members, consultants specializing in serving performing arts nonprofits, as well as other researchers who had experience studying orchestras. These informational interviews with subject matter experts continued throughout all stages of data collection and analysis, with a final total of approximately twenty interviews. These informational interviews helped me develop my understanding of the challenges orchestras face adapting to their changing environments, and
were important in helping me modify the interview protocols I planned to use with my case study informants.

3.3.2 Secondary documents

After the potential case study orchestras were identified, I continued data collection by looking at the most recent publicly-available tax documents (Forms 990) for each of the four orchestras. I extracted data from these documents regarding revenues and expenditures, performance income gap, investment income, etc., and entered it into Excel spreadsheets. I performed only cursory examination of these data before conducting site visits with orchestras, to be generally familiar with their financial situation while conducting interviews. I later supplemented the Forms 990 initially collected for each orchestra with the most recently-filed forms, so that I had Forms 990 for twelve tax years (2001 through 2012) for each orchestra.

3.3.3 Site visits and face-to-face interviews

I began my case study data collection by scheduling site visits with each of the orchestra organizations participating in the case studies. These visits provided important opportunities to observe first-hand the environments in which orchestra business took place. Site visits lasted from two to three days. For three of the four case studies, I also attended at least one performance of the orchestra. Site visits for all four case studies took place between late 2011 and early 2012.

The main focus of a site visit was to conduct face-to-face, semi-structured interviews with the orchestra’s professional staff, musicians, board members, and volunteers. Semi-
structured interviews are the preferred data collection tool for exploratory case studies like this one because they are structured but flexible. Since the same generic protocol is used across interviews, interviewees all addressed similar key questions and therefore permit comparisons across individuals and groups. On the other hand, semi-structured interviews allow the interviewer to follow the lead of the informant and therefore explore areas that the interviewer might not have considered a priori.

For my interviews, I developed a generic interview protocol, which was based on the conceptual framework described previously (Figure 2.3). The interview began by asking the informant to describe their backgrounds and how they came to the orchestra. After that, the interview covered key components related to how they orchestra functioned and how decisions were made. These included: operation, financial health (i.e., revenue and expenditures), governance, goals and strategy, monitoring performance, and past changes and future challenges. Additional details regarding the interview protocol are displayed in Figure 3.1, below. I refined and pilot-tested this protocol at the first two case study site visits. Each semi-structured interview generally lasted between one to two hours.

The information I gathered during the visits was documented using a smart pen which digitally recorded both written text and sound. Upon returning from the site visit, I re-listened to the recordings and reviewed my handwritten notes, and I then typed a final record of each interview using a standardized format following the interview protocol. If at this point any interview detail was unclear, I followed up with the interviewee over the phone. These final records were not meant to be verbatim transcriptions. To quote verbatim in the following
chapters, I continued to refer directly to the digital recordings. All data collection activities conformed to confidentiality protocols reviewed by RAND’s Human Subjects Protection Committee.
Figure 3.1: Interview Protocol

1. Interviewee’s background
   - What brought you to this organization?
   - How long have you been in this position?
   - What was your position before you assumed this one?

2. Operations
   - Tell me about the symphony’s operations. (Total # performances? Rehearsals? Other activities, that may not be on your website? Educational activities?)
   - Describe your role in these operations.
   - Do you supervise anyone? If so, who, and what are their jobs?

3. Financial health of organization
   - Revenue
     - Tell me about your ticket pricing. How did you arrive at your current price structure?
     - Tell me about your private giving. How do you encourage it?
     - Tell me about your grants and public support.
     - Tell me about any endowment & investment income.
   - Expenditures
     - Tell me about your contract with your musicians.
     - Tell me about how you decided on the current professional staff you have.
     - Tell me about your arrangements with your performance space. (Own? Rent? Who sets things up and cleans up after performances? Who pays them?)
   - Is your organization financially healthy? Why or why not?

4. Organization governance
   - What groups have the most important influence on the organization?
   - Tell me about how they exert this influence.
   - Of the different groups you mentioned, how would you characterize their goals?
   - Are the demands being placed on your organization by different groups in conflict?
   - What are the most significant conflicts?
   - How do you balance demands in the event of conflicts?

5. Organizational goals & strategy
   - Describe the three most important goals for which this institution is striving.
   - Is there a plan to help the institution achieve these goals? If yes: tell me about the plan. (formal plan? strategic plan? Been disseminated? How was this plan arrived at?)

6. Monitoring & Comparing
   - How do you know whether or not you are achieving your goals?
   - Tell me about your system for evaluating progress toward the goals. (indicators? Dashboard?)
   - What is unique about your orchestra?
   - Tell me about other institutions you tend to compare your orchestra with. (In what ways do you compare yourself with them?)

7. Past Changes and Future Challenges
   - Tell me about how this organization has changed over the past 5 years.
   - Tell me about the most significant challenges facing this organization today.
   - How are you meeting these challenges?
   - Are you considering any major organizational changes?
3.4 Exploratory Analysis

Overall, I took a phenomenological approach to analyze the case study data, supplemented by a small amount of content analysis. Rather than relying exclusively on coded data, which provides “frequencies of contingent happenings,” I realized that narrative descriptions of my cases were of greater interest to me, and that interpretation directly from observation was the clearest route to these narrative descriptions.\(^93\) Except in one area where I did engage in content analysis (interviewees’ free lists of orchestra goals), this form of data analysis did not result in matrices of texts and codes.

Different data situations called for different amounts of effort toward confirmation; generally, the more important an interpretation, the greater the need was for triangulation.\(^94\) Below, I briefly describe how I analyzed my interview data, the free list of orchestra goals and the Forms 990.

3.4.1 Analysis of interview data

The interview data were primarily used to piece together narratives for the four case study orchestra organizations. An important part of phenomenological data analysis is attempting to bracket bias, which I attempted to do in the course of the pilot case studies, as well as during the two subsequent case studies. The Forms 990 helped me with this (see below). Another important part of this type of analysis is selecting quotes from

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\(^94\) Ibid., p. 112.
interviewees that communicate the essences of what they are experiencing. Each of the
direct quotes from interviewees in the following results chapters attempts to elucidate how they
experience their roles within the case study orchestras.

3.4.2 Analysis of free list of orchestra goals

As part of my interview protocol (see Section 5 in Figure 3.1) I asked interviewees
to describe the three most important goals for which their institution is striving. This question
produced a free list of responses with some informants mentioning more than 3 and some
less than 3 goals. To analyze these data, I used classic content analysis. That is, I
read through all the responses and identified a short list of thematic categories. I then re-
read each of the lists and systematically coded the frequency of which the themes appeared
in the lists. By creating tables of themes–by–case and themes–by–stakeholder–role, I could
then examine which themes were most often mentioned how the themes were distributed
across cases and different kinds of stakeholders. See Chapter 5 for results.

3.4.3 Analysis of Forms 990

The Forms 990 were essential tools for engaging in this type of qualitative data
analysis, as they offered the most straightforward way to triangulate my interpretations from the
interview data. The quantitative data from the Forms 990 was analyzed in several ways. I
conducted simple univariate analysis to describe the sample in terms of the average and
range of values on key variables (e.g., budget size, performance revenues, size of

96 See Russell & Ryan, 2010.
professional staff). By examining the trends in the organizations’ financial data, I attempted to link the strategies and goals observed in the qualitative data collection and analysis to the actual financial results experienced by the orchestras. As an example of using the quantitative evidence to confirm interpretations of qualitative data: an interviewee may have said their orchestra was financially healthy, but the organization’s Forms 990 reveal objectively whether it has a budget surplus or deficit in each of the twelve years studied.

I also used the data from Forms 990 to help put my case studies into a larger context and compare them to other orchestras throughout the country. This analysis is shown in the next section.

3.5 Characteristics of Case Studies

In this section, I briefly describe key characteristics of my case studies and how the fit into a larger population of orchestras. My four case studies range from small orchestras (Case D) to medium–large orchestras (Case B). Some basic characteristics of each of the four case studies are listed in Table 3.1, below. Staff size ranged from 1.5 full-time equivalent positions to nearly 50; the number of board members ranged from 12 to 60; and the average yearly budgets ranged from just over a quarter of a million dollars to nearly $17 million. In three of the four cases musicians were unionized and in all cases they were paid on a per service basis.

<table>
<thead>
<tr>
<th>Number of interviews</th>
<th>Total number of</th>
<th>Total number of</th>
<th>Average yearly</th>
<th>Average yearly</th>
<th>Contract with</th>
</tr>
</thead>
</table>

Table 3.1: Characteristics of Case Studies
3.5.1 Sample Representativeness

How representative are the four cases of U.S. orchestras as a whole? One way to answer this question would be to compare budget sizes and labor arrangements. According to the National Center of Charitable Statistics, 1,020 adult orchestras filed Forms 990 for fiscal year 2012. The number of these organizations by their budget size is presented in Table 3.2, below.

Table 3.2: U.S. Orchestras by Budget Size

<table>
<thead>
<tr>
<th>Annual Budget Size</th>
<th>Percentage Total Number</th>
<th>Number of Cases</th>
</tr>
</thead>
</table>

(Amounts in 2014 dollars)

<table>
<thead>
<tr>
<th>Budget Size</th>
<th>Percent</th>
<th>Number</th>
<th>Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1m</td>
<td>84.1</td>
<td>858</td>
<td>1</td>
</tr>
<tr>
<td>$1m-$5m</td>
<td>11.3</td>
<td>115</td>
<td>2</td>
</tr>
<tr>
<td>$5m-$20m</td>
<td>2.6</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>$20m-$50m</td>
<td>1.3</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>More than $50m</td>
<td>0.7</td>
<td>7</td>
<td>0</td>
</tr>
</tbody>
</table>

The four case orchestras are not representative of the total number of U.S. orchestras in terms of their budget sizes. While there is a wide range among the case orchestras’ average budget sizes ($253,075 to $16,959,651, in 2014 dollars), those orchestras with yearly budgets greater than $20 million that were contacted all declined to participate in this study. As mentioned in the background section, since the Ford Foundation grants and increased effectiveness of musicians’ collective bargaining in the 1960s, orchestras with higher budgets are more likely to have longer seasons and more services. Orchestras having salaried, year-round employment for their musicians are absent from the sample.

Beyond comparing budget sizes and labor arrangements, the question of whether the case studies are representative of U.S. orchestras as a whole is a complicated one.

Regarding orchestras’ budgeting practices, Flanagan notes that:

... evidence that U.S. orchestras do not follow a common financial model emerges from the wide variation in the cost structures of individual orchestras.... The remarkable differences in cost structures raise the question of best practices in the orchestra industry. Despite differences in their concert portfolios, most orchestras perform a similar set of activities. If they were in more direct competition with each other, one might expect superior practices to be widely emulated, generating more similar revenue and expense structures. The wide
variation that exists may signal a tendency to address economic challenges by seeking new sources of non-performance income rather than identifying and adopting best practices that might reduce performance deficits.  

The variation in cost structures that Flanagan refers to is highlighted in the following table, Table 3.3, taken from *The Perilous Life of Symphony Orchestras*.

<table>
<thead>
<tr>
<th>Expense Source</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artistic</td>
<td>49%</td>
<td>25%</td>
<td>67%</td>
</tr>
<tr>
<td>Production</td>
<td>16%</td>
<td>6%</td>
<td>26%</td>
</tr>
<tr>
<td>Administration</td>
<td>11%</td>
<td>5%</td>
<td>53%</td>
</tr>
<tr>
<td>Marketing</td>
<td>11%</td>
<td>4%</td>
<td>21%</td>
</tr>
<tr>
<td>Fundraising</td>
<td>6%</td>
<td>1%</td>
<td>12%</td>
</tr>
</tbody>
</table>

99 Ibid., p. 39.
As stated in the background section, above, Flanagan’s sample is composed of the 63 largest American orchestras between the years 1987–2006. A similar table for the four case studies, below, shows the variation in their cost structures.

Table 3.4: Distribution of Expenses, Case Study Orchestras, 2005

<table>
<thead>
<tr>
<th>Expense Source</th>
<th>Case Mean</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Services</td>
<td>76.4%</td>
<td>80.4%</td>
<td>69.9%</td>
<td>64.5% (min)</td>
<td>90.9% (max)</td>
</tr>
<tr>
<td>Management &amp; General</td>
<td>16%</td>
<td>12.4%</td>
<td>21.9% (max)</td>
<td>20.6%</td>
<td>9% (min)</td>
</tr>
<tr>
<td>Fundraising</td>
<td>7.6%</td>
<td>7.2%</td>
<td>8.2%</td>
<td>14.9% (max)</td>
<td>0% (min)</td>
</tr>
</tbody>
</table>

Source: Forms 990

The case study orchestras, then, are like Flanagan’s sample of orchestras in that they exhibit variation in cost structures, although the differences among the four case study orchestras are not as great as the differences among the 63 largest U.S. orchestras.

In addition to expenses, Flanagan also examines sources of revenue to illustrate that U.S. orchestras “do not follow a common financial model.”

The distribution of revenues for his sample is shown in Table 3.5, below.

Table 3.5: Distribution of Revenues, Largest U.S Orchestras, 2005

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
</table>

100 Ibid., p. 35.
101 Ibid.
Table 3.6, below, shows the distribution of revenues for the case study orchestras. As with Flanagan’s table, the figures are all from fiscal year 2005.

Table 3.6: Distribution of Revenues, Case Study Orchestras, 2005

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Case Mean</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(min)</td>
<td>(max)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program service revenue</td>
<td>30.3%</td>
<td>28.1%</td>
<td>33.6%</td>
<td>29.2%</td>
<td>30.1%</td>
</tr>
<tr>
<td>Contributions (including membership dues)</td>
<td>56.4%</td>
<td>56.8%</td>
<td>58.7%</td>
<td>47.5%</td>
<td>62.4%</td>
</tr>
<tr>
<td>Government contributions</td>
<td>2.1%</td>
<td>0.5%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>6.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(min)</td>
<td>(max)</td>
<td>(min)</td>
<td>(max)</td>
</tr>
<tr>
<td>Investment income</td>
<td>5%</td>
<td>11%</td>
<td>5.1%</td>
<td>1.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(max)</td>
<td>(max)</td>
<td>(min)</td>
<td>(min)</td>
</tr>
<tr>
<td>Special events</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
<td>19.1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Forms 990

The case study orchestras do not exhibit as much variation in their revenue sources as do the largest U.S. orchestras, and their revenue sources exhibit less variance than their expense categories. This could be because all the case study orchestras are all located in relatively prosperous communities (with median household incomes greater than the national
median household income and with growing populations), while the 63 largest U.S. orchestras are spread throughout the country, including in some economically declining communities. Furthermore, one would expect the variation among revenue sources and among expense categories for the case studies to be smaller than in Flanagan’s study simply because they represent a smaller sample.

Finally, on the question of how representative the case study orchestras are of U.S. orchestras as a whole, one should recall how much all U.S. orchestras have in common. All U.S. orchestras are organized as nonprofits; none are profit-seeking business enterprises. All must have significant sources of income in addition to their performance income to survive. On the whole, U.S. orchestras have been experiencing for many years a trend of declining demand, with audience size not keeping pace with population growth and audiences aging more rapidly than the general population (Chapters 4 and 6, below, respectively address whether the case study orchestras are experiencing: 1. aging audiences, and 2. declining demand). Because of the nature of orchestral performance and repertoire, all orchestras are part of Baumol’s stagnant sector, and therefore should be subject to the cost disease. In Chapter 9, I examine the evidence regarding whether the case study orchestras are experiencing the effects of the cost disease.
4. Results: History, Geography, and Demography of the Case Study Orchestras

As discussed in the previous chapter, understanding the fortunes of different orchestra organizations requires, as a first step, understanding something about their origins and the communities in which they are situated. This chapter recounts the recent histories of the case study orchestras, and provides some relevant geographic and demographic characteristics of the communities in which they are embedded. The chapter concludes by focusing on how community demographics—particularly aging—are seen and taken into account by the different orchestras.

4.1 History & Geography

**Symphony A**

Symphony A is the community orchestra of County A, which is by most accounts considered a highly desirable place to live, with great natural beauty and an unhurried lifestyle. More than one case study interviewee mentioned that they took a job with lower pay
in order to live in this community. In addition to working professionals, County A is also popular with students and retirees.

Symphony A recently celebrated its 50th anniversary season with fifty performance events of varying size. The longevity of Symphony A is undoubtedly partly due to the characteristics of its community. The presence of retirees is especially important, as they make up a great portion of Symphony A’s audience and donor base. The county seat where the orchestra performs is, in the words of one board member, “small, but not a hick town.” Informants reported that there is a great amount of wealth, cultural capital, social capital, and love of music in County A for Symphony A to tap into, which would presumably make a community orchestra located in, say, a Midwestern rust belt town with a declining population, highly envious.

Symphony A is the resident music presenter of an excellent performance facility that opened in the mid-1990s and is located on the campus of a public university. Symphony A players are all community members, all have primary sources of income apart from the Symphony (the co-concertmaster, for example, is a local dentist), and they are not represented by any union when it comes to their participation in the symphony. Musicians are paid per service, but there is no collective bargaining agreement. Lack of union involvement was cited in many interviews as the most unique factor in the symphony’s operations, as compared with other symphonies of its budget size.

In 2006, Symphony A merged with the local youth symphony, which had been a separate organization primarily run by parents. The decision to merge organizations followed
years of the youth symphony contracting with Symphony A for administrative support; the amount of administrative support slowly grew, until it became apparent that a merger was in both organizations’ interests.

**Symphony B**

Symphony B is the largest of the case study orchestras, and is located in County B. County B has a prosperous economy: it is a popular tourist destination and is home to several Fortune 500 companies’ headquarters. County B also has several public and private university campuses. Its population is becoming increasingly diverse, with around 45 percent of residents speaking a language other than English at home.

Symphony B is a relatively young organization—it is less than 40 years old, and it has only ever had two different music directors, the current music director having served for most of the organization’s existence. Symphony B’s origins were significantly influenced by County B’s proximity to a hub of the entertainment industry. From an ad hoc group of professional symphony musicians working primarily in film and television, it organically grew into a fixed ensemble. One effect of this origin that remains significant is that it is still a “per service” orchestra, which is unusual given the size of its budget (around $18.5 million). As discussed in the background section, above, a per-service arrangement with musicians through collective bargaining allows for greater flexibility for an organization to change the number of services in response to changes in audience demand. Many interviewees cited this aspect of the symphony’s contract with musicians as its most unique characteristic, and all viewed it as a wholly positive attribute.
Symphony B became the resident presenter at a brand new, state-of-the-art hall in 2006. This hall is owned and operated by another nonprofit arts organization, which the orchestra contracts with. At the time of interviews, the orchestra’s professional staff comprised 45 full-time positions, plus some hourly and seasonal positions, as well as some volunteer labor. Many interviewees describe Symphony B as a “loving family,” and the long-serving music director as a “hugger.”

**Symphony C**

Symphony C is located in County C. Median household income in County C is about 45 percent greater than national median household income. The county is adjacent to a large, densely-populated metropolitan area.

As with Symphony B, Symphony C’s musicians are employed on a per service basis, and many are also employed as studio musicians in the entertainment industry. The orchestra players are unionized—collective bargaining negotiations occur approximately every three years and were just about to begin at the time of my site visit to the symphony’s offices.

Symphony C formed in the mid-1990s through the merger of two smaller community orchestras. Both community orchestras, which had each been in existence around 30 years, had accumulated significant debts—around $100,000 of debt apiece, according to interviewees. Board members from both orchestras collaborated to bring the idea of a merger to fruition; one of the board members involved with this process has said the choice was between “losing both orchestras or keeping one.” Also influencing the decision to merge was a new

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102 U.S. Census Bureau, factfinder.census.gov
performance space which opened in 1994. It was a much bigger and more ornate venue than the venues either of the two community orchestras had previously been playing in—mostly churches and gymnasiums. Both community orchestras had played in the new hall separately during 1994, but their separate audiences did not fill the seats. Symphony C’s founding board members describe the decision to merge the two smaller orchestras as an attempt to create a superior-sounding orchestra, one that would be worthy of the new hall.

Although the merger achieved its goals, it did so at the cost of alienating and angering many patrons and musicians of the earlier orchestras. The new orchestra had over 1000 fewer season ticket subscribers than the combined subscription bases of the previous orchestras. Many musicians lost their jobs; the newly-formed Symphony C had auditions to see who would remain. The local union had the symphony temporarily placed on the AFM’s “International Unfair List”, and the music director at the time claims to have received anonymous death threats. Symphony C successfully dealt with these challenges over the remainder of the 1990s. In the 21st century, as will be discussed in more detail, below, a new problem emerged: chronic indebtedness.

One unusual aspect of Symphony C’s operations is that it has three different venues at which it regularly performs: 1. the large hall that opened in 1994, 2. a venue in a different city in County C, and 3. a venue in a neighboring county. The third venue was

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103 See American Federation of Musicians, International Unfair List (“... at the time of placement on the International Unfair List a primary labor dispute must exist between the union and the employer. Such disputes may include, but are not limited to: Lawful strikes in support of the union’s bargaining demands and/or demands for union recognition, or; Employer-initiated lockouts of musicians represented by the AFM or any of its Locals, or; Union protests against employer unfair labor practices.”). As of December 10, 2015: http://www.afm.org/about/international-unfair-list
added circa 2004. One interviewee described Symphony C as a “timeshare orchestra.”

Each of the three venues has its own board of directors, which meet separately, and which have also been meeting jointly about once per quarter since around 2011.

**Chamber Orchestra D**

Chamber Orchestra D is over fifty years old, and has been under the leadership of the same music director since 2002. This music director succeeded the orchestra’s founding music director, and he has effectively made the organization conform to his artistic vision, making some major policy changes and growing the orchestra’s reach and budget. Chamber Orchestra D operates in a major metropolitan area with a thriving economy and many competing classical music performance organizations.

One aspect of Chamber Orchestra D’s identity that all interviewees emphasized as central is its accessibility. This identity is realized most starkly through a decision the orchestra’s leadership made to not charge for admission to nearly all its performances. While free admission had been the orchestra’s policy for at least some of its programming through most of its history, the organization really committed to it in 2005.

When the current music director began his tenure in 2002, Chamber Orchestra D was performing two main stage concerts, at two venues, per season, with a handful of other events. Over the next ten years, he and the board gradually increased the scope of the orchestra’s annual operations to four main stage concerts at three different venues, with additional family and children’s concerts. The budget grew by over 225 percent during that ten year period.
In 2002 the organization had no collective bargaining agreement (CBA) in place with its musicians. Expanding the concert programming meant formalizing the labor arrangements, and there has been a deal in place with the local union that was due for updating at the time of the site visit. The amount of funds available to the orchestra sometimes influenced its programming choices. Chamber Orchestra D plays mostly baroque music, with some newly commissioned works, but within the constraints of this repertoire, the orchestra’s leadership has flexibility to elect to play pieces with smaller ensembles. A typical performance in 2012 had 32 players, but lower budgets in earlier years meant the orchestra occasionally comprised as few as eight players.

In addition to an active board of directors and music director, the chamber orchestra has a small administrative staff—at the time of the interviews, it was one full-time managing director and one part-time assistant position. In order to keep costs low, the orchestra hardly advertises at all, and their printed marketing materials, as well as their social media and website, are all designed in-house (the managing director had a background in graphic design). This orchestra rents no office space—it only has a P.O. box.

4.2 Demography: Case Studies’ Experiences With Aging Audiences

From an outsider’s perspective, the question of whether the case study orchestras’ audiences are greying is complicated. Although the case study orchestras all claimed to solicit feedback from their audiences with surveys, they did not share with me any survey results, or any other data, that would permit audience demographic analysis. Such analysis
could potentially confirm that the case study audiences’ ages increased faster in the orchestra’s catchment area than the general population, as is generally the case with U.S. orchestras (Chapter 2).

From an insider’s perspective, however, the answers given by respondents during interviews provide the strongest evidence that aging audiences are a challenge being confronted by three out of four of the case study orchestras. Indeed, it was striking how frequently aging audience members were cited as the primary cause of declining audience demand. Also striking was how often age was brought up by interviewees, not as a factor of who purchases tickets to concerts, but as a factor of who supports their orchestra through donations and volunteering. Below, I provide examples from a variety of different kinds of respondents who worry about their aging donor and audiences populations and actively seek to involve a younger population to replace them.

Symphony A’s board president, along with a majority of the other interviewees, cited aging audiences as the orchestra’s most significant challenge. The staff communications director stated that ticket “subscriptions have slid due to the aging audience—they retire and travel, or they can’t drive at night, or they die.” The director of development told me that she goes “through the obituaries and find[s] donors every day.” She also echoed the communications director and suggested that a bus be made available for evening performances, for “old folks who don’t drive.” While the area in which Symphony A is located is attractive for retirees to move to, the orchestra has had limited success in attracting
the support of these transplants, who often maintain ties with their previous communities’ orchestras.

Symphony B’s staff also lamented the challenge posed by aging audiences, but they often expressed this concern delicately, by saying things like “we need to engage new, younger audiences” and “we’d like to lower the average age of the audience.” According to the chief operating officer, “young people have shorter attention spans” than befits an orchestra audience. The symphony’s president cited “changing consumer patterns, less knowledge and familiarity with the art form,” and spoke extensively on the role of age as it relates to support for Symphony B:

What I hear a lot of donors saying is, “I’m aging, I’m one of your major donors, and my kids don’t care.” Their children are looking at different philanthropic priorities, or they’re not philanthropic.... In general, arts giving amongst the older baby boomers, who are the next logical philanthropic base... that group has not demonstrated the same conviction and investment that their predecessors have. All ages are touched very deeply by classical music, but it doesn’t translate to philanthropy—time commitment, volunteerism-- the same. I’m sure there will be, for generations to come, individuals who will make very large commitments, but they may not be in the same quantity of commitments that came out of the greatest generation. Their whole identity was sculpted by the cultural landscape of the 1930s and 40s, when orchestra broadcasts were popular culture.

The president of Symphony C’s board spoke of wanting to get younger as an organization, both in terms of board membership and audience composition. Symphony C is the only case study where the agedness of the musicians themselves was an issue raised by interviewees: because the collective bargaining agreement protects the jobs of the most senior players, some staff and board members were frustrated that they could not fire those whom
they considered past their primes. Of the four cases, Symphony C has the most active and involved auxiliary league, made up almost entirely of retirement-age women. This group’s involvement in the business of running the organization had at some times in the past been contentious, but these conflicts had mostly been resolved. Like the president of Symphony B, Symphony C’s highest-ranking staff member told a story about generational change and how it affects support for an orchestra:

This is the typical cycle that I have observed: an orchestra is started by a league. They hire a conductor. A professional conductor will come and say, “I need professional musicians.” Professional musicians need to be managed by professional staff. The professional staff builds the budget to accommodate their goals and activities. And all of a sudden, the league is not participating, because they just hired all this staff…. Up until three or four years ago, our league would say to us [the staff], “we give you the money, so we want to tell you what to do.” Now our league understands that they have to enable us.

At the time of the site visit, according to this staff leader, the league was having trouble replenishing its membership, and members were passing away. The passage of time turned what had once been a source of minor conflict into a longing for the league’s continued existence: “we can’t even estimate their impact …. I pray that they continue to exist, and I try to encourage them however I can.” The auxiliary league president herself told me that “we’re still trying to figure this out, how to get younger.”

Chamber Orchestra D is the notable exception to this pattern. It is unique among the cases in that no interviewee spontaneously mentioned that aging audiences, aging board members & donors, or aging musicians were a concern. Because the group offers free
admission and wants its identity to be centered on accessibility and a kid-friendly atmosphere, families with small children often attend performances.

It is within this larger historical, geographic, and demographic context that orchestras make short and long-term decisions. In the next chapter, I examine how the different orchestras establish their goals and objectives.
5. Results: Goals

Having examined the left-most side of the conceptual model in the previous chapter, the present chapter examines the right-most side, the goals of the case study orchestras. I have broken the chapter into three sections. In the first section, I explore how the constructs of “reputation” and “prestige” (introduced in Chapter 2) apply to the case study orchestras. Next I examine how interviewees talk about their organizations’ goals and how these goals vary within and across orchestras. The chapter concludes by characterizing the case study orchestras’ goals incorporating the conceptual model as well as the results of the content analysis.

5.1 Observations Regarding Reputation and Prestige

In Chapter 2, I posited that orchestral prestige might entail: full-time, salaried musicians; an appropriate performance space that features the orchestra as the resident music
presenter; a music director with elite training and/or connections to other prestigious symphonies; tours and recordings; the use of famous guest artists and well-known composers. These potential prestige generators are more closely aligned with interests associated with orchestra industry insiders, rather than orchestra audiences. In contrast, reputation in the orchestra world seems to depend primarily on whether performances are accessible and enjoyable for audiences, and available at a reasonable price. In other words, orchestras with a goal of reputation attempt to serve their communities. I posit that reliance on word of mouth in lieu of advertising, and emphasis on music education are aspects of reputation. Below, I examine the role that the concepts of prestige and reputation play in the four case studies.

**Symphony A**

Symphony A appears to enjoy both a good reputation and high prestige. The organization has a consistently high subscription renewal rates and extensive music education programs, which point to a good reputation: community demands are clearly being met. In terms of the “prestige generators” posited above, Symphony A scores highly: it had a prestigious music director, its own acoustically-appropriate hall where it was the resident music presenter, it toured and recorded far more extensively than most community orchestras, and it performed commissioned pieces of original music.

The music director charted an ambitious course of prestige building in his nearly 30-year tenure, while avoiding—with guidance from the board—the dangers of pursuing prestige too aggressively. The music director had always been committed to using and developing
local talent, rather than bringing in, as he says, “ringers” from outside the community. This represents a decision to eschew the pursuit of prestige, with respect to one of the prestige generators. In addition, the long-serving former executive director of the symphony explained that a bequest of $500,000 to the symphony at the start of her tenure allowed her to take more risks—and indulge the expansive artistic vision of her conductor—knowing that the symphony would be able to financially withstand any overreach before it became existence-threatening. None of the interviewees for this case named any other organizations that Symphony A should be trying to emulate. Regarding the fit of the organization with its community, one interviewee put it: “you can’t fix what isn’t broken.”

Symphony B

Symphony B scores highly in most measures of prestige: it had a successful European tour, has a new hall, and frequently produces recordings of contemporary composers. Its long-serving music director is elite and the orchestra regularly features famous guest artists. It is almost undoubtedly among the most prestigious and highest-budgeted U.S. symphonies that use the per service model. It is, though, at less than 40 years old a relatively young organization. One member of the staff development team cited the orchestra’s age as an advantage, saying there is “room for further integration into the community,” as opposed to places where a symphony is very old and ossified.

However, Symphony B also scores highly in terms of reputation. It wants to be celebrated locally, in County B, as a preeminent cultural organization with a broad base of
support. Its musicians are not year-round, salaried employees, and most of them have sources of income apart from their work with the symphony. Symphony B prioritizes music education: about ten percent of the entire organization’s budget and five full-time staff positions are devoted to it. Interviewees mentioned they keep ticket prices for some groups of seats low to ensure that performances are accessible to the entire community.

**Symphony C**

In terms of the prestige generators, Symphony C scores fairly well relative to other orchestras of its budget size. Its average for yearly expenses, in 2014 dollars, was $2.7 million during the period 2001–2012, but it had total expenses peaking at around $3.2 million in the years 2005–2007. The symphony’s problems with overspending and debt eventually led to changes of leadership, which led to lower spending. As will be discussed in Chapter 8, Symphony C is the only one of the case studies to end the twelve-year period with lower expenses than when it started. It is the resident music presenter of three halls; it has had music directors with international reputations; it has made some recordings and has toured; it regularly features guest soloists; and it occasionally premieres original compositions.

The retrenchment within Symphony C that began around 2009 seems to have represented a shifting from a prestige-seeking strategy towards more of a reputation-based one. However, the orchestra was forced to pursue a scaled-down artistic vision because of its lack of resources, and in trimming its budget it also sacrificed reputation-oriented aspects of its operations, such as music education. Among the staff positions that were eliminated in
2009 was the director of music education. The passionate involvement of the auxiliary leagues indicates that community needs are being met, but the leagues represent an aging part of the community.

**Chamber Orchestra D**

Chamber Orchestra D has been experiencing rapid growth in recent years, and its choice between prioritizing reputation or prestige is apparent in how it has approached this growth. The orchestra has clearly chosen to prioritize reputation. They have decided to make their accessibility and fun-loving lack of stuffiness core elements of their identity, and the response has been that they usually have to turn people away for lack of room when they perform.

The orchestra most often plays in venues that are not especially prestigious, such as churches. One of their venues is ornate and historically significant, but they are not the only orchestra that performs there. When they premiere original works or have guest artists perform, they are often young composers and musicians, whose formal music educations are still in progress. The music director is well-connected, having performed in prestigious ensembles himself, but he also works as a music educator, and emphasizes education in his role with Chamber Orchestra D. According to interviewees, when the orchestra surveys its audience, they regularly hear that word of mouth is the most common way people learn of the orchestra. As one interviewee puts it: “Once people hear us, they get hooked, they tell their friends, and it becomes a tradition.”
How did the organization decide on its accessibility-emphasizing approach? The most relevant factor seems to be the vision of the music director, who started in his role in 2002. His dynamic leadership was cited by interviewees as indispensable to the success and growth the organization achieved during the period.

5.2 Variation in perceived goals

In reviewing my notes about what respondents said about the goals and missions of their orchestras, I noticed two different patterns. First, respondents often mentioned a small set of themes. The five most common included: (a) finances/survival; (b) artistic excellence; (c) organizational/personnel; (d) making music accessible & relevant; and (e) to serve the community. Second, I also noticed that there was often substantial variation in informants’ responses not only across the four cases, but also within the cases. In other words, I found that the people whom I interviewed within a single case were not necessarily in agreement with each other as to the most important goals of the organization. Below, I first describe the most common themes mentioned and then describe to what degree these themes were shared within and across cases.

5.2.1 Common themes and subthemes

*Finances/survival.* This theme includes subthemes that dealt explicitly with orchestras’ finances, and these goals were often expressed in terms of simply keeping an orchestra in operation. Respondents mentioned stability, solvency, financial sustainability, and viability, but they also mentioned more specific goals such as growing an endowment and improving
fundraising capabilities. This theme was expressed by all types of stakeholders and across all the cases.

Artistic excellence. Respondents mentioned many goals that fit under the rubric of musical quality: aspiring to be an orchestra that is celebrated nationally and internationally, presenting superb music, and serving the missions of their organizations, which express artistic excellence as a raison d'être. As no respondents expressed a desire for a “passable” musical product, or a “serviceable” orchestra, this theme is the closest among the five themes to being an expression of the pursuit of prestige. The stakeholder groups who most often expressed these goals were staff and performers, and expression of these goals was prevalent at Cases B and D.

Organizational/personnel. This theme includes subthemes that address specific organizational needs. Some respondents expressed goals that involved filling specific roles or positions within their organizations, such as finding a new music director or executive director, or they mentioned goals that related to “cultivating more effective board members” or finding younger board members. A few interviewees expressed a desire for a new, formal strategic plan for their orchestras. The stakeholder group most likely to mention goals within this theme was board members, and this theme was prevalent at Cases A, C, and D.
Making orchestral music accessible and relevant. This theme captures a range of goals including: attracting younger and more diverse audiences, expanding audience size generally, and developing music education programs. Respondents mentioned that it was important to cultivate and expand the number of youth and ethnic minorities (specifically, Latinos) who participated in concerts and programs. They felt it was important to keep classical music performance alive, generally, and suggested that fostering music education, and other innovative programing as well as spreading of the communal experience, were a salient part of their mission. These ideas were spontaneously mentioned by all types of stakeholders and were most prominent in Cases, A, C and D.

Serve the community. This theme captures all goals regarding how the case study orchestras contribute to their communities. This was the least prevalent theme overall. Respondents mentioned it was an important goal for their orchestra to “contribute to economic vitality in the community” or to “deepen community engagement.”

The key themes and major subthemes are summarized in Table 5.1, below.
Table 5.1: Mapping Themes and Subthemes to Reputation- and Prestige-seeking Strategies

<table>
<thead>
<tr>
<th>Themes</th>
<th>Major Subthemes</th>
<th>Mostly Reputation or Prestige?</th>
</tr>
</thead>
</table>
| Artistic Excellence        | - Be celebrated nationally, internationally  
                              | - Serve mission of organization  
                              | - Present superb musical product | Prestige                      |
| Organizational/Personnel   | - Find new development director/executive director/music director  
                              | - Cultivate more effective board members  
                              | - Find younger board members  
                              | - Form new strategic plan     | Ambiguous                     |
| Serve Community            | - Contribute to economic vitality in community  
                              | - Deepen community engagement  
                              | - Become a bigger presence in community | Reputation                   |
| Making Music Accessible & Relevant | - Foster music education  
                                    | - Cultivate younger audience  
                                    | - Expand Latino audience  
                                    | - Innovative programming  
                                    | - Keep classical music alive  
                                    | - Spread communal experience of music | Reputation                   |
| Finances/Survival          | - Make/build endowment  
                              | - Stability  
                              | - Sustainability  
                              | - Increase fundraising  
                              | - Survival                  | Reputation                   |

Table 5.1 also notes how the themes and subthemes loosely align with the reputation- and prestige-seeking strategies. One the one hand, *seeking artistic excellence* (e.g., seeking a national reputation or producing a “superb” product) is clearly a goal that implies at least some kind of prestige-seeking. Other the other hand, *serving the community, making music assessable and relevant* and making sure that the orchestra remains *financially sound and survives* imply more of a reputation-based strategy – one that is tied to meeting the needs of the community, rather than impressing anyone outside of it. The theme of
organizational/personnel is more ambiguous because noting the existence of organizational needs does not offer clues as to the criteria that would be applied in satisfying them. For example, it is not clear whether seeking new artistic leadership implies any desire on the part of stakeholders to build a certain image outside of their community, or just within it.

5.2.2 Variation among stakeholders

As mentioned above, stakeholders did not always agree with each other as to the most important goals of their organizations. The similarities and differences across the four cases are described in Table 5.2 and the variance among stakeholders is summarized in Table 5.3. As both tables show, the goals most frequently mentioned fall first under the theme of making orchestral music accessible and relevant, followed by finances/survival. Artistic excellence and organizational/personnel are both tied for third place in terms of salience and serving the community is last.

Making orchestral music accessible and relevant was an especially salient theme at Symphony A (where it accounted for half of the goals mentioned by all interviewees) and among administrative staff at all the cases (with whom it ranked as the most frequently mentioned type of goal). With the exception of Case B, this theme was either first or second across the cases. The theme was ranked first by staff members or second by board members and musicians.

The finances/survival theme was the second–most frequently mentioned type of goal among staff (tied with artistic excellence) and board members (tied with making music
accessible & relevant), while ranking first among performers interviewed. Financial goals were the most salient at both Case B (outright) and Case C (tied with making music accessible & relevant). Interestingly both have quite different recent experiences with managing their finances (see Chapter 4). Symphony B had the largest budget of any of the case studies and averaged a yearly surplus of $1.8 million over the years 2001-12, while Symphony C, with a much smaller budget, averaged a yearly deficit of over $100,000 during the same period. While interviewees at both organizations expressed financial goals, at Symphony B a campaign had been underway to build its endowment, while Symphony C was attempting to get out of debt. In other words, they were prioritizing different subthemes under the category of finances/survival.

Another interesting finding to emerge from this analysis is that no board members mentioned artistic excellence-related goals, and that their highest-ranking goals concerned organizational/personnel matters. As the group with the ultimate authority to form employment contracts with staff and performers, it is not surprising that board members paid careful attention to matters of personnel and succession. Many board members expressed concerns about the future compositions of their own boards, and whether they would be able to find capable successors.

As can be seen from this analysis, the goals and strategies varied from one orchestra to another as well by the role that interviewees played in their organizations.
Table 5.2: Goals Spontaneously Mentioned Sorted by Case

<table>
<thead>
<tr>
<th>Goals Mentioned</th>
<th>Total Sample (N=90)*</th>
<th>Case A (n=34)</th>
<th>Case B (n=27)</th>
<th>Case C (n=17)</th>
<th>Case D (n=12)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>Rank</td>
<td>%</td>
<td>Freq</td>
<td>Rank</td>
</tr>
<tr>
<td>Finances/Survival</td>
<td>22</td>
<td>2</td>
<td>24.4</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Artistic Excellence</td>
<td>15</td>
<td>3</td>
<td>16.7</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Organizational/Personnel</td>
<td>15</td>
<td>3</td>
<td>16.7</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Making Music Accessible &amp; Relevant</td>
<td>30</td>
<td>1</td>
<td>33.3</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td>Serve Community</td>
<td>8</td>
<td>4</td>
<td>8.9</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

*Interviewees were asked to describe the three most important goals for which their institution is striving; some described more than three and some less.
Table 5.3: Goals Spontaneously Mentioned Sorted by Stakeholder Group

<table>
<thead>
<tr>
<th>Goals Mentioned</th>
<th>Total Sample (N=90)*</th>
<th>Staff (n=61)</th>
<th>Board members (n=17)</th>
<th>Performers (n=9)</th>
<th>Volunteers (n=3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>Rank</td>
<td>%</td>
<td>Freq</td>
<td>Rank</td>
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<td>33.3</td>
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<td>1</td>
</tr>
<tr>
<td>Serve Community</td>
<td>8</td>
<td>4</td>
<td>8.9</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

*Interviewees were asked to describe the three most important goals for which their institution is striving; some described more than three and some less.
5.3 Conclusions

The case study orchestras are not a representative sample of U.S. orchestras, but they exemplify a range of smaller to medium-size organizations. They are different enough from one another so as to provide an informative look at a range of goals. The picture that emerges from the four case studies is of organizations that are largely concerned with the goal of survival. Orchestras are fundamentally unprofitable enterprises, and this limits their ability to set goals and behave strategically. Choices concerning organizational goals are most often expressed through how the orchestras choose to address basic operating costs. Personnel choices seem to matter a great deal.

The case studies support the use of the reputation/prestige constructs. Reputation and prestige are nonprice information that prospective audience members use to decide whether they want to attend performances, but they are also aspects of the organizations’ identities and operations that affect whether board members, donors, and volunteers want to invest their time and resources.

The previous chapter addressed the left-most side of the conceptual framework, and the present chapter has addressed the right-most side. The following four chapters address the middle of the framework: performance revenue, nonperformance revenue, costs, and how total revenues and total costs compare.
6. Results: Performance Revenue

In the previous two chapters, I examined the historical, geographic, and demographic contexts in which the case orchestras are embedded and the variation held by different orchestras and stakeholder groups in terms of the goals they wished to pursue. In this chapter, I begin to examine how orchestras reach these goals—by juggling how they generate revenue and how they allocate costs within the socio-economic context in which they are embedded.

The present chapter examines the case study orchestras’ experiences with their performance revenue. I have divided this chapter into two sections. The first section addresses each of the case studies’ experiences regarding performance revenue during the twelve years under examination. The second section addresses the question of whether the
case studies experienced declining demand over the same period, as U.S. orchestras did generally during that time.

**6.1 Performance Revenue at Each Case Study Orchestra**

Performance revenue is mostly ticket sales, but also includes any other revenue generated through performances, such as the sale of CDs, concessions, and other orchestra-associated merchandise. Given the variation in the case study orchestras describe previously, it is not surprising to see variation in their performance revenue over time. Figure 6.1, below, summarizes the changes in each case study orchestra’s inflation-adjusted performance revenue from 2001 to 2012.

*Figure 6.1: Real Performance Revenue, Indexed*
Symphony A and Symphony B ended the twelve year period with greater performance revenue than they reported in 2001. Symphony C had only one year during the period with greater performance revenue than it had in 2001, and Chamber Orchestra D’s performance income dropped precipitously. What accounts for these different results? I address each case study’s performance revenue in turn.

**Symphony A**

Ticket sales are an important source of revenue at Symphony A, constituting 43 percent of total revenue, in an average year, from 2001 to 2012. Symphony A’s ticket structure consists of six levels of pricing, and prices had not gone up for some years at the time of interviews. The symphony receives guidance on ticket pricing from their performance venue. Interviewees generally did not view possible financial gains to be realized through increasing ticket prices as worth the risk of alienating patrons; Symphony A puts accessibility and robust relationships with its audience and community above maximizing its program revenue. However, there were some interviewees who questioned whether the symphony’s practice of offering free admission to dress rehearsals should go on indefinitely, given these performances’ popularity (they often fill the majority of their hall’s 1200 seats).

**Symphony B**

Ticket revenue usually makes up half of each year’s total expenses at Symphony B. Of the four cases, Symphony B has the most sophisticated ticket pricing strategy. Many interviewees mentioned their strategy being akin to airline ticket pricing: they attempt to
balance optimizing total revenue and optimizing revenue per seat. An analytics consultancy helps Symphony B with data gathering, while the ticket pricing analysis itself is conducted by staff members. Unlike with airline tickets, the optimization of ticket revenue is bounded by Symphony B’s goal of keeping prices low to welcome patrons and increase participation. Respondents stated that the recession had increased the importance of ticket sales for single performances. This, in turn, changed the way the symphony programmed its season and marketed it—essentially, the programming had to be less adventurous to guarantee enough tickets would be sold to keep performance revenue steady. As the symphony’s president put it, “support for diversified repertoire takes deep pockets.”

**Symphony C**

On a yearly basis over the twelve year period, Symphony C’s ticket sales accounted for an average of 31 percent of its total expenses and 32 percent of its total revenue. At the time of my interviews, Symphony C had not raised its ticket prices in the preceding three years. The orchestra was not unwilling to raise ticket prices, but staff members felt unqualified to optimize this source of revenue by themselves. Several interviewees mentioned that an arts consultancy would “rescale the house,” creating a new ticket pricing structure based on a calculation of local price elasticity of demand for all three venues, for a fee of around $30,000. Interviewees stated that the organization could not afford such an expense at that time.

**Chamber Orchestra D**
One aspect of Chamber Orchestra D’s identity that all interviewees emphasized as central is its accessibility. This identity is realized most starkly through a decision the orchestra’s leadership made to not charge for admission to nearly all its performances. While free admission had been the orchestra’s policy for at least some of its programming through most of its history, the organization really committed to it in 2005. Over the twelve year period, performance revenue went from covering over half of the orchestra’s total expenses to covering approximately 5 percent of total costs.

Interviewees mentioned that board members sometimes revisit the decision to not charge admission. The orchestra’s music director, whose leadership is influential, explained his commitment to the free admission policy thusly:

I always oppose changing it. It gives us a unique spin, and it’s in my heart that this orchestra is about bringing classical music to people who otherwise wouldn’t have the opportunity.

He also mentioned that selling tickets is not all revenue but involves its own set of costs. For instance, more staff would be needed to print, sell, and/or otherwise distribute the tickets.

6.2 Have the Case Studies ExperiencedDeclining Demand?

The question of whether the case orchestras experienced declining demand is hard to answer directly, because of a dearth of data. The orchestras’ Forms 990 do not report how many tickets were sold in a given year, or ticket prices, or how full their performance venues were. If information regarding ticket sales and performance venues’ capacities were available, one could more accurately describe changes in demand. During site visits, the case study
orchestras did not provide me with their attendance figures. Neither did they provide their average ticket prices for the twelve performance seasons I looked at, which could be used to estimate attendance. Complicating the measurement of demand is the relative price inelasticity of demand for orchestral performances (see Chapter 2).

One way of inferring declining demand would be if one observed, say, that the orchestras were spending increasing amounts on advertising (Figure 6.2), while advertising yield (performance revenue divided by advertising expenses) dropped (Figure 6.3). Looking at the indexed graphs for advertising expenses and advertising yield, one sees that this describes at least two of the case studies, Symphony A and Symphony B.
Figure 6.2: Real advertising expenses, indexed

Source: Forms 990

Figure 6.3: Real advertising yield, indexed

Source: Forms 990
While Figures 6.2 and 6.3 cannot be used to make statements about the optimal amount of advertising for any of the orchestras, these trends might be circumstantial evidence of declining demand, especially in combination with interviewees’ responses during site visits.

Since orchestra leaders often cannot afford what is perceived as costly market surveys and consultation, symphony stakeholders often use as shorthand to discuss demand the rate at which season ticket packages, or subscriptions, are renewed from season to season. For example, the president of Symphony B noted that subscription renewals were down (the aggregate subscription renewal rate was about 60 percent at the time of the interview) and that this put greater pressure on the organization to sell tickets to single performances. Hence, the great increase (over 400 percent) in Symphony B’s advertising expenses, despite the falling advertising yield, in an attempt to keep their hall relatively filled.

Shortly before the time of my site visit, Symphony A began offering a 50 percent discount to new subscribers as a way of attempting to counter declining demand. Their subscription renewal rate was 74 percent, with a goal of 80 percent, but it had been 100 percent within the memory of some interviewees. Symphony A’s advertising expenses rose 200 percent over the period from 2001 to 2012, and their advertising yield likewise went down.

The Director of Marketing and Patron Services at Symphony C told me that the number of subscribers had dropped from about 2500 in 2008 to about 1900 at the time of my site visit, at the end of 2011—a reduction of over 20 percent. While their advertising yield went up, this is largely due to the fact that their advertising expenses, like many of
their other categories of expenses, were curtailed during the period of retrenchment and changing leadership that took place in the period 2006–2008. Several other interviewees at Symphony C also mentioned that declining demand was a problem.

Chamber Orchestra D is unique among the cases in that declining demand does not seem to be a problem, at least in the same way it is for the other cases. Respondents indicated that they “have full houses” and “usually have to turn people away.” The orchestra’s policy of free admission is undoubtedly part of the explanation for this, but their paid memberships (donations in exchange for perquisites like preferential seating) were also going up.
7. Results: Nonperformance Revenue

Having described the role of performance revenue in the previous chapter, this chapter addresses the case studies’ nonperformance revenue. Nonperformance revenue includes contributions from private sources (primarily: individuals, foundations, and businesses), contributions from government sources, and investment income.

7.1 Role of Nonperformance Revenue in Total Revenue

As stated in the background section, nonperformance revenue is largely the product of uncoordinated decisions made by individuals motivated by diverse interests, largely outside an orchestra’s control. The orchestra’s role is sometimes as simple as asking for money, but often involves a long process of developing strong relationships with donors and working with them to find the right mechanisms for providing gifts.
Nonperformance revenue varied significantly across the four case studies. Figure 7.1, below, summarizes the case study orchestras’ real nonperformance revenue trends.

Figure 7.1 Real nonperformance revenue, indexed

As seen in Figure 7.1, Symphony A and Chamber Orchestra D dramatically grew their nonperformance revenues during 2001–2012, while Symphony B and Symphony C did not. (However, nonperformance revenue for Symphony B was already quite high in the baseline year, with nonperformance revenue exceeding total expenses.)

For the remainder of the chapter, each of the three main sources of nonperformance income is addressed in turn.

7.2 Private Giving (From Individuals, Foundations, Businesses)

Of all the sources of nonperformance income, private giving is the largest and most important (for both U.S. orchestras in general and for the case study orchestras in particular). Private gifts typically made up around 86 percent of the case study orchestras’
nonperformance revenue. Gifts from individuals (as opposed to foundations or businesses) are the largest and the most important among the primary sources of private giving. Foundations and businesses sometimes provide valuable support, often targeted to help orchestras achieve specific goals.

Symphony A

One interviewee stated that “individual donors drive our organization,” and another stated that they “have a few whales” in their community. Symphony A has done well growing their private giving, but there was widespread agreement among interviewees that the organization could do even better.

One contentious issue among staff members was the database of symphony donors; many wondered whether a better option than the current software was not available at an acceptable cost. Interviewees noted that the donor lists required updating: there were about 12,000 entries, but this included some duplicates and some names that were no longer active. Only about 2000 of the entries were “close friends” of the symphony. Staff mentioned in interviews that perhaps keeping and sharing amongst staff more detailed information on donors, including “contact reports,” should be a higher priority.

Using Symphony A’s board in more of a development role was mentioned by several interviewees as a goal. By all accounts the board was active and becoming ever more educated and professionalized. Interviewees described the board’s committee structure as being productive. One suggestion that came up more than once in discussions with staff is hiring someone to pursue grant funding more actively, on either a full-time or part-time basis.
Currently foundation grants make up a very small part of the symphony’s revenues, although these grants are not listed as a separate category on Forms 990, so their precise share of revenue is unclear.

A few local businesses also support Symphony A in non-negligible ways; for instance, some banks underwrite the symphony’s free-admission dress rehearsals. A local property developer helps the symphony staff with their office space—interviewees characterized it as “almost free” to the symphony.

**Symphony B**

As with Symphony A, Symphony B is reliant on a passionate core of individual donors. As mentioned in the previous chapter, performance revenue pays for about one half of each year’s total costs, which means the Symphony B development staff (comprising about 12 full-time positions) has to raise about $8 million per year.

Symphony B has an active board of directors, with between 50 to 60 members each year, and each board member has a “give or get” commitment that interviewees reported to be around $15,000. In addition to a board of directors, Symphony B also has a “board of counselors” with about 40 members, who each commit to contributing $5000 per year.

One of Symphony B’s high-ranking staff members estimates that 2 percent of the symphony’s supporters give about 80 percent of the contributions. These individuals are all members of the Greatest Generation, which, as recounted in Chapter 4’s discussion of aging audiences, is a group that is shrinking. Pursuing planned giving is therefore a high priority for Symphony B, with one development staff position dedicated solely to this type of gift.
According to this staff member, legacy gifts to Symphony B could amount to $25 million over the next ten to thirty years.

**Symphony C**

Several interviewees at Symphony C mentioned that the orchestra attempts to raise $100,000 per month through gifts from individuals. For the twelve-year period, the average for yearly total contributions is roughly $1.3 million, which seems to indicate that the organization has been generally successful at reaching this goal. One interviewee mentioned that board membership entails at a $2500 gift plus a $7500 “give or get” commitment. Counting all three regions, the board has around 30 members in a typical year, which would signify $300,000 in revenue just from the board.

One of the great strengths of Symphony C is the broad base of support it enjoys from its community. Each of the three performance locations has an active auxiliary league. The membership in these groups varies from year to year; total membership is usually in the range of 200–300 people, mostly retirement-aged women (and sometimes their husbands). They are Symphony C’s most passionate and loyal supporters, as the symphony provides them with a chance to socialize and form friendships. One long-time auxiliary league member told me that Symphony C saved her life, as she struggled with grief over her husband’s passing. Each year the leagues raise about $200,000, total, for Symphony C on their own—they throw their own fundraising events and are well organized. However, their involvement with Symphony C was also somewhat contentious. The leagues’ development activities may conflict with the staff development efforts; if, for instance, a league member
solicits a $1000 donation, the staff is left wondering whether a greater amount might have successfully been asked for. On the whole the staff is grateful to have the leagues and their support.

Symphony C is trying to grow its support from corporate and foundation sources, but these sources presently do not make up a large proportion of private gifts. One interviewee said corporate gifts make up about 2 percent of the budget. As with the case of growing performance revenue, Symphony C’s staff felt they could not be successful growing nonperformance revenue without more help, either from an additional staff member or an outside arts consultancy.

**Chamber Orchestra D**

According to the Chamber Orchestra D’s leadership, its free admission policy has helped attract support in the form of foundation grants and individual giving. It has helped the orchestra distinguish itself from a crowded local field of classical music performance nonprofits. One way the orchestra makes up for this lost stream of revenue is by offering “memberships” to patrons, who then get priority seating at performances, in addition to some other perquisites, like recordings of the orchestra and invitations to receptions to meet with guest artists. There are different levels of membership, with the number of perks increasing with the amount of support. Membership levels start at $75 per year and go up to $5000 per year.
The total revenue of the Chamber Orchestra D rose significantly over the period 2001-2012, due almost entirely to increased nonperformance revenue, mostly from individual donors. The organization has no development director on its tiny staff, but the twelve members of the board of directors support the organization with fundraising (as well as helping with mundane tasks such as setting up venues for concerts). Chamber Orchestra D’s staff and board members seem to excel at networking and attracting support within its community’s population of arts patrons. Based on all interviewees’ statements, the charisma and dynamism of the orchestra’s music director has helped greatly with attracting new patronage.

7.3 Public Support/Government Contributions

Each of the case studies received some direct contributions from their local governments, although the amounts of these contributions never exceeded 7 percent of total revenues for any case study in a given year. The tax inducement provided by the federal government through deductions for charitable giving is the most important form of support that the case study orchestras receive from all the levels of government.

7.4 Investment Income

All of the case study orchestras had endowments or quasi-endowments that generated investment income, except for Chamber Orchestra D. The largest of the three endowments belonged to Symphony B; one interviewee suggested that their endowment tends to generate about $700 thousand per year in revenue. Symphony C interviewees claimed their endowment generates around $24 thousand per year, an amount one interviewee described as
“half the symphony’s payroll expenses for one month.” Symphony A interviewees likewise characterized their endowment as “not a significant source of income.”

At the time of my site visit, Symphony B was in the early stages of a campaign to grow its endowment; many interviewees mentioned their goal was to have an endowment equal to three or even four times the amount of the annual budget. At the end of the twelve year period Symphony B’s endowment was almost twice the size of the annual budget. One interviewee at Symphony A told me that they had never had a “huge, proactive endowment campaign.” At Symphony C, the consensus was that funds for operations were the top priority, and that the endowment was “on the back burner.” Chamber Orchestra D’s music director told me that he would like to build an endowment someday.
8. Results: Costs

Having described how the case study orchestras raise money in Chapters 6 and 7, the present chapter describes how they spend it. I begin by briefly examining the overall cost trends and the primary categories of expenses that orchestras incur. The remainder of the chapter describes operations at each of the case studies, exploring how and why the costs of operating changed over time.

8.1 Cost Trends

As Figure 8.1, below, shows, real total costs increased between 2001 and 2012 at three of the four case studies. Only Symphony C ended the period with reduced costs relative to the baseline year.
8.2 Categories of Costs

The primary cost categories include musicians, professional staff, and venue (more on this below). There are others, such as outside consultation, but these tend to represent only a small percentage of an orchestra’s total costs.

Musicians. The number of musicians working for each of the case study orchestras varies from performance to performance, as different compositions have different instrumentation requirements. The smallest performances of the smallest case study orchestra, Chamber Orchestra D, involved as few as eight players. Performances of Classical and Romantic repertoire, which make up the majority of the other three case studies’ programming, can require from around 60 to over 100 musicians.
All of the case study orchestras paid their musicians for services, which are rehearsals or performances, as opposed to paying them fixed salaries. The total cost of musicians to an orchestra is a function of the costs for services and the total number of services required. As described in more detail below, this varied from just a few performances per year in the case of Chamber Orchestra D to over 150 services per year in the case of Symphony B. The number of services offered by the case study orchestras could change (either from one performance season to the next, or even in the course of a single season) based on the availability of funds or changes in demand. All cases but Symphony A had collective bargaining agreements with musicians’ local unions that controlled how much musicians were paid, as well as rules concerning issues such as seniority, which could, for instance, determine the order in which musicians are called to offer services. Symphony A has to arrive at similar agreements with their musicians, with rules governing pay and such, but these agreements do not involve the unions (even though union members sometimes play with Symphony A). All of the case study orchestras’ employment terms for musicians tended to be updated every three to five years, according to interviewees (terms for when and how to update collective bargaining agreements would typically be agreed upon through previous collective bargaining).

Venue. None of the case study orchestras owned their performance spaces; they had to rent them. Generally, mixed-use venues like churches and schools are the least expensive in which to perform. Even churches and schools would typically require renters to purchase insurance, which can be a substantial cost. The costs of renting a hall may also include
paying parking attendants, box office workers, ticket takers, ushers, and stagehands (who are typically represented by their own unions). The most expensive venue rented by a case study orchestra was the main hall of Symphony B.

Professional staff. The case study orchestras all had professional staffs, which ranged in size from 1.5 full-time equivalent positions (Chamber Orchestra D) to 48 (Symphony B). Whatever their size, symphony staffs have to engage in the nuts-and-bolts tasks that keep their organizations functioning. These tasks may be outsourced to specialized arts consultancies, and sometimes board members themselves engage in these activities (at no cost to the organization). These administrative tasks include soliciting donations and managing relationships with supporters (development), planning performances (programming), advertising and marketing, and managing music education. I include the costs of implementing the tasks performed by professional staffs under this category (for instance, the case studies’ advertising costs and office supplies). Also included in this category are the costs associated with providing work space for staffs; Cases A, B, and C rented office space for their professional staffs, while Case D did not.

8.3 Managing Costs

To reach their diverse goals, orchestras have different cost profiles. As will be shown below, these profiles vary considerably as each orchestra juggles musicians, performances, venues, and professional staffs.
Symphony A

Symphony A’s operations are divided into two main areas: performances of the symphony, and music education. There are typically five regular season performances of the full orchestra. There are usually about 10 additional events, including youth symphony and pops performances.

Music education activities run year-round, but are especially busy during the school year. The Symphony A music education programs are many and varied, and have been carefully designed by symphony staff to entice participation. There is the full youth symphony with its own rehearsals and performances, performances of the adult symphony for school children on field trips, as well as the efforts of Symphony A to bring music into the county’s elementary and middle schools. Of the six members of the Symphony A professional staff, one is the full-time Music Education Director, and another spends roughly half of her time managing the youth symphony. As music education (especially strings, as opposed to brass instruments) has been almost entirely dropped from County A schools’ curricula, Symphony A sees itself as the only local organization fighting to make orchestral music a part of children’s learning experience.

Symphony A’s total expenses nearly doubled during the twelve years under examination. The increase in spending is partially attributable to the 2006 merger with the youth symphony. Interviewees at Symphony A viewed the merger favorably. Another source of increased costs was growth in advertising expenses (see Chapter 6).
Although there was some confusion expressed among staff members regarding job titles, responsibilities, and who reports to whom for various tasks, it seemed clear from interviews that staff members were all hardworking, competent, and committed to the symphony’s success. The staff arrived at its current size after the youth symphony merger. Symphony A staff reported often working beyond normal business hours, and respondents indicated that staff members are paid below-market wages, even by the standards of the local nonprofit employment market. Staff members stated that they and the orchestra’s musicians have not had raises in several years. In the immediate aftermath of the 2007–09 recession, the symphony staff had furloughs, but no layoffs.

**Symphony B**

Symphony B performs about 40 classical concerts per year, with additional pops concerts, family concerts, summer concerts, and youth concerts, for a total of over 150 services in a typical year. Symphony B’s contract with its musicians stipulates payment on a per-service basis. Interviewees described this as a positive; one high-ranking staff member described the per-service arrangement as a “source of calm and health” for the organization. While the income from performing with Symphony B is probably not the sole income source for any of its musicians, for many musicians Symphony B is their single largest source of income. According to staff members, the musicians like the flexibility that being a part of Symphony B gives them. Around the time Symphony B moved into its new hall during the 2006–07 season, it guaranteed a higher number performances, as well as agreeing to raise musicians’ pay by approximately 40 percent over the next five years. These increases in
expenses occurred just as Symphony B completed a highly-acclaimed European tour, and right before the recession hit.

Notably, Symphony B’s program service expenditures dropped in the 2007–08 season by nearly $2 million. This ability to adjust expenditures to changing conditions is a feature of the per service pay model. In response to the recession, the professional staff had a pay freeze, and 4.5 full-time equivalent staff positions were eliminated in 2009.

The new hall was itself a great expense—one member of the development staff called it the most expensive hall in the country to rent. Overall, the opinions expressed by the staff on the subject of the new hall were ambivalent. On the one hand, the hall is beautiful (its architect is world famous for creating urban landmarks), the move there has been invigorating, and as the home of Symphony B, it gives the orchestra a sense of permanence in the community. On the other hand, the timing of the move there has been a challenge, and there have been some complaints from dedicated patrons regarding the hall’s sound versus the old venue.

Symphony B has extensive music education programs, and these consume about 10 percent of the total budget, according to interviewees. These programs include four separate youth ensembles, instructed by Symphony B musicians, which also perform at the same concert hall as the adult ensemble. Symphony B also produces original educational programming, which is considered exemplary by the LAO and National Endowment for the Arts. The symphony’s music appreciation programs, which take place in County B schools, used to be free, but recently the Symphony began charging participating schools some small
fees. There were six full-time Symphony B staff dedicated solely to music education, as well as numerous volunteers and some part-time help, and interviewees stated that music education is a revenue-neutral endeavor.

Symphony B’s operations staff reported that slowing the growth of costs was a high priority, especially in the aftermath of the economic downturn. Specific cost-cutting measures included renegotiating with vendors (e.g., for instrument rentals) and greater use of volunteer or part-time labor (for tasks like setting up the stage for a summer concert or ushering). While Symphony B must pay for expensive union stagehands, they also plan performances so as to not have to use this source of labor more than is strictly necessary.

**Symphony C**

Symphony C’s operations revolve around performances of the full symphony. A typical season features 18 main stage performances, with an additional 5 educational concerts. The 18 concerts are divided equally across the symphony’s three venues. The third venue, located in an adjacent county, was added around 2004. The rationale for adding another performance was that it would bring in more ticket revenue without requiring additional rehearsals.

As mentioned above, Symphony C has been struggling with debt and deficits. Shortly before the time of my site visit, Symphony C had instituted a “recovery plan,” a copy of which was provided to me, in order to put the organization on a path to financial sustainability. The new board president, who took the post in summer 2010, initiated the
recovery plan process. She broke sharply with recent precedent and brought a new vision for the organization, a vision that involved a strategy of aggressively cutting costs. One long-serving board member characterized the recovery plan as the organization confronting the same question that the board had asked at the founding of Symphony C through the merger of two smaller, community orchestras: “how much money can we raise?”

Three administrative staff positions were eliminated around 2009, and around that time Symphony C’s founding music director’s contract was not renewed. The executive director was also replaced—one interviewee described the previous executive director as a “big spender.” At the time of my visit, Symphony C had four full-time staff members and four part-time. One of the remaining staff members told me that the smaller staff size meant reduced capabilities for the organization. In addition to their reluctance to change their ticket prices without the help of a consultancy (discussed in Chapter 6, above), the staff also relied on an arts consultancy to plan their musical programming.

One of the three administrative positions eliminated was the director of music education. Symphony C’s music education programs were in a state of flux at the time of my visit—one long-serving board member stated that the symphony’s music education activities “took a hit in the downturn.” A staff member said that the music education operations of the symphony were in the process of being “redesigned.” In other words, under the recovery plan, music education was on the back burner.

Several interviewees stated that the financial problems of the orchestra had led to improved relations between the musicians and board/staff, because the financial problems had
increased transparency. Some previous contract negotiations had been acrimonious, with the musicians wanting, among other things, to have a higher number of guaranteed services. The board fought to keep a contract provision allowing for cancelling services with four weeks of notice. Regarding negotiations, the board president described her experience thusly:

In the past, the musicians had complained that they felt there was a very confrontational approach between the symphony management and the musicians, so that it was always a little negative and difficult to come to an agreement... So, we increased the transparency and explained we can’t afford to make huge increases in the pay scale, otherwise we’d go out of business and we couldn’t hire them at all. Interestingly, a lot of their complaints were not financial. There were morale issues, issues with the conductor and personnel manager, people they have to work with... Unions used to be so hard-nosed, and I think they realized it was not to their advantage... They have become more reasonable, just in the last few years, which is a good thing. So there’s a better feeling of cooperation between management and union.

Chamber Orchestra D

When the current music director began his tenure in 2002, Chamber Orchestra D was only performing two main stage concerts, at two venues, per season, with a handful of other events. Over the next ten years, he and the board gradually increased the scope of the orchestra’s annual operations to four main stage concerts at three different venues, with additional family and children’s concerts. The budget grew by over 225 percent during that ten year period.

In 2002, there had been no collective bargaining agreement (CBA) in place with the musicians. Expanding the concert programming meant formalizing the labor arrangements, and
there was a deal in place with the local union that was due for updating at the time of the site visit. All interviewees expressed a desire to pay the orchestra’s musicians as much as possible, but some expressed a preference for a longer concert season rather than increased pay rates per service. The music director explained his approach to labor negotiations thusly:

I’m very proud of this: I’m management, and I’m a musician. We don’t have this split. I’ve been in major orchestras, and there’s distrust, the belief that management is out to screw you, cut the musicians’ salaries… We’ve always gotten along very well. I mean, these are my people, who I’m sitting with at the table, and I’m going, “it’s weird that you’re on that side, and I’m on this side, because we’re really here for the same thing.” I want to pay my musicians as much as possible. Musicians are sorely underpaid, until you get into the full-time, major symphony orchestras.

The orchestra does not use any arts consultancies—the music director is well connected with the local music community, and plans the programming and hires guest artists and soloists himself. The amount of funds available to the orchestra sometimes influences its programming choices. Chamber Orchestra D plays mostly baroque music, with some newly commissioned works, but within the constraints of this repertoire, the orchestra’s leadership has flexibility to elect to play pieces with smaller ensembles. A typical performance in 2012 had 32 players, but lower budgets in earlier years meant the orchestra occasionally comprised as few as eight players.

Board members typically help with setting up and taking down the concert stages at their venues. In addition to the active board of directors and music director, the chamber orchestra has a small administrative staff—at the time of the interviews, it was one full-time managing director and one part-time assistant position. In order to keep costs low, the
orchestra hardly advertises at all, relying mostly on word of mouth. The orchestra receives some free publicity on the local classical music radio station, thanks to a board member’s friendship with a disc jockey. Their printed marketing materials, as well as their social media and website, are all designed in-house (the managing director had a background in graphic design). This orchestra rents no office space—it only has a P.O. box.
The present chapter, the final of results chapters, compares the revenues and expenditures at each of the case study orchestras. Recall from Chapter 2 that all orchestras occasionally have operating deficits, as performance revenue is never enough to cover all their costs and amounts of nonperformance revenue are largely out of their control. Econometric analysis provides evidence as to when deficits will occur. For instance, the cost disease results in ever-growing structural deficits for orchestras, while periods of recession are associated with both lower ticket revenue and lower revenue from contributions (see Chapter 2).

The cost disease is akin to climate change, in that it is a long-term trend, while the general state of the economy cycles, in a more weather-like fashion, through periods of expansion and decline. Both cycle/weather and trend/climate have important impacts on
orchestras’ finances. This chapter will first discuss the cost disease, and then focus on the business cycle’s effect on the case studies’ finances.

9.1 Are the Case Study Orchestras Affected by the Cost Disease?

Evidence of the cost disease takes the form of growing structural deficits, i.e., performance incomes becoming smaller relative to performance expenses over time. The trends for the case study orchestras over the period 2001–2012, shown in Figure 9.1, below, seem to be in accordance with the cost disease. Although there are periods when the deficits shrink, the proportion of performance expenses covered by performance revenues is smaller in each case at the end of the twelve–year period than it was at the beginning. The growing deficit is most pronounced in the case of Chamber Orchestra D, which stopped charging for admission to most of its performances in 2005, but its deficit had been growing before this policy was implemented.

Figure 9.1: Performance Income as Percentage of Performance Expenses

Source: Forms 990 (Chamber Orchestra D filed the shorter Form 990–EZ in 2008 & 2009, which does not list program service expenses)
The case study orchestras appear to be suffering from the effects of the cost disease.

9.2 Are the Case Study Orchestras Affected by the Business Cycle?

Table 9.1, below, summarizes some important changes in national and local economic conditions during the period 2001–12, along with changes in total expenses of the case study orchestras. Cells with negative percentage changes are marked red. Budget deficits seem to be clustered around recessionary periods (all four orchestras had budget deficits in 2008, for instance), but they are also found during times of economic growth. In fact, all four of the orchestras ran at least 4 years (Case D) and as many 7 years (Case C) of deficits over the 12-year period. The duration of most deficits was relatively short, lasting a year or two. Symphony C, however, had a much longer 6-year run of annual deficits. The remainder of this chapter will discuss the finances at each case study from the perspectives of the interviewees.
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**CASE A**

| Local unemployment rate | 4.0% | 4.6% | 4.7% | 4.6% | 4.3% | 3.9% | 4.3% | 3.9% | 5.8% | 8.8% | 10.1% | 9.6% | 8.2% |
| % growth in total expenses | 25% | 1% | 5% | 27% | -14% | 23% | -3% | -3% | 5% | 1% | 8% |
| Budget excess or deficit as percentage of total expenses | -29% | -0.4% | 18% | 39% | -3% | 35% | -13% | -31% | 2% | 16% | 4% | 1% |

**CASE B**

| Local unemployment rate | 5.3% | 6.3% | 6.4% | 5.9% | 5.0% | 4.4% | 4.8% | 7.0% | 10.9% | 11.8% | 11.4% | 10.2% |
| % growth in total expenses | 4% | 7% | -8% | 26% | 4% | -10% | 4% | 1% | -1% | 6% | -2% |
| Budget excess or deficit as percentage of total expenses | 53% | -10% | 2% | 24% | 38% | 18% | -6% | -8% | 22% | -13% | 31% |

**CASE C**

| Local unemployment rate | 4.8% | 5.7% | 5.7% | 5.3% | 4.7% | 4.3% | 4.9% | 6.3% | 9.6% | 10.8% | 10.2% | 9.1% |
| % growth in total expenses | -21% | 11% | 18% | 8% | 0% | 0% | -8% | -18% | -10% | -11% | 14% |
| Budget excess or deficit as percentage of total expenses | -11% | 2% | 0% | -4% | -8% | -20% | -1% | -12% | -3% | 5% | 5% | 11% |

**CASE D**

| Local unemployment rate | 4.4% | 6.2% | 6.3% | 5.5% | 4.8% | 4.2% | 4.4% | 5.7% | 9.4% | 9.9% | 9.1% | 7.8% |
| % growth in total expenses | 27% | -37% | 68% | 64% | 8% | -19% | 28% | 13% | 4% | -2% | 17% |
| Budget excess or deficit as percentage of total expenses | -16% | 25% | 18% | 3% | -21% | 4% | 7% | -20% | 9% | -1% | 2% | 4% |

Symphony A

Symphony A operated at a deficit in five of twelve years. Interviewees almost unanimously described the Symphony as financially healthy, despite the deficits. Only one respondent expressed alarm regarding Symphony A finances, describing the organization as “teetering” and citing the repeated draws from the quasi-endowment as evidence. The deficits this individual was referring to occurred in 2007 and 2008, and they were large deficits. However, the symphony had budget surpluses the next four years, and its fund balance in 2012 was greater than it had been in 2001, and greater than its total expenses in 2012. In other words, Symphony A had about one season’s budget in the bank.\footnote{104}

Symphony A’s music director summed up the organization’s recent financial performance by stating: “we got hit in ’08, but we got better.”

While they mostly considered the organization financially healthy, a majority of interviewees saw problems on the horizon, in the challenges that all American orchestras are currently experiencing: aging audiences and other demographic changes that will eventually mean declining demand for the orchestra’s product. Interviewees expressed concern for longer-term demand, especially in light of the disappearance of music education from County A’s schools. The symphony is attempting to get in front of this problem by building up its music education programs, which it believes will help create future symphony audience members and supporters in the community. Taking up approximately one third of each year’s

\footnote{104}{It is unclear what portion of this fund balance is a proper endowment and what portion is quasi-endowment.}
total expenditures since the 2006 merger with the youth symphony, the symphony’s commitment to music education is significant.

As mentioned previously, Symphony A’s staff had furloughs in the aftermath of the 2007–09 recession, but no staff positions were eliminated outright. Performance seasons were not shortened in response to the recession, but that option had been available to the symphony’s leaders. Total expenses went down, modestly, in 2008 and 2009.

**Symphony B**

Symphony B also had budget deficits in five of the twelve seasons from 2001 to 2012. The magnitudes of budget surpluses in the other seven years were much greater than the deficits, so the Symphony’s quasi-endowment grew by about $10 million over the period, to an amount approaching double the amount of one year’s expenses. Many interviewees mentioned that a long-term goal of Symphony B is to grow its combined endowment and quasi-endowment to as much as three or four times the annual budget, which would make investment income a much larger share of revenue than it currently is. The symphony was set to begin a capital campaign shortly after the site visit concluded, which is perhaps why the 2012 fiscal year ended with a large surplus. As was the case with the other case studies, the precise mix of donor-restricted gifts (i.e., endowment) and board-designated savings (quasi-endowment) is unclear, based on both interviews and Forms 990.

There was general agreement among interviewees that Symphony B is financially healthy—it pays its bills on time, and despite occasional deficits, has no accumulated debts. However, many interviewees did mention deficits when discussing the symphony’s financial
health, which conveyed that the symphony’s staff members have high expectations for the financial performance of their organization. As with the other case study orchestras, many interviewees spontaneously mentioned their concern regarding the long-term challenges faced by U.S. orchestras, especially declining demand and aging audiences. As mentioned in Chapter 4’s discussion of aging audiences, Symphony B’s president cited generational differences not just as a factor affecting who attends performances, but as a cause of declining philanthropic support for the symphony. No one spontaneously mentioned the cost disease or rising costs as long-term challenges; the staff all seemed to characterize their struggle primarily as one of raising enough money, rather than reducing the growth rate of costs. For instance, the substantial raise (about 40 percent) Symphony B musicians received during the 12-year period was not lamented or criticized.

As mentioned in the previous chapter, 4.5 fulltime staff positions were eliminated at Symphony B in response to the 2007–09 recession, and the remaining staff had a pay freeze. However, performance seasons were not shortened, nor were symphony operations otherwise curtailed. As mentioned in Chapter 6, interviewees stressed that single ticket sales were becoming increasingly important, and that this made the symphony’s programming choices more conventional and less adventuresome. The increasing importance of single ticket sales also helps explain the tremendous growth of Symphony B’s advertising expenses (see Chapter 6, Figure 6.2).

As with Symphony A, Symphony B has substantial music education programs, including multiple youth ensembles, as part of its operations. It is committed to fostering music
education in County B. According to interviewees, its music education programs are revenue neutral, and the symphony had only recently begun charging participating schools fees for its teaching materials. Along with building its endowment, Symphony B sees music education as part of the answer to the question of how to maintain long-term cultural relevance and financial health.

**Symphony C**

In contrast to the previous two cases, Symphony C is an organization beset by deficits and debt. Although Symphony C was only beginning to emerge from a period of very shaky financial management, all interviewees stated they believed it was on the right path. Several interviewees answered the question “is the symphony financially healthy?” by hedging: “we’re better off than we were a year ago.” The board president’s reply to the question regarding symphony’s financial health is especially illuminating regarding how dire were the straights:

> When I took over [in 2010], we were barely making it month to month. Paychecks were being held back, because the money wasn’t in the bank—now, legally, you’re not allowed to do that. And some musicians would say, “Well, okay, you can pay me in two weeks instead of now, even though it’s due now.” That’s a terrible state to be in. Just so much debt!

She went on to say:

> Board members used to not know how bad things were going; now we make sure they know. We’ve turned it around, but still have a lot of debt.

One source of debt (around $200,000) was past salary owed to the symphony’s founding music director, with whom the organization had parted ways before my site visit. According to the board president, the symphony’s plan for addressing this particular debt was to identify
specific donors, including some board members, to contribute a combined $10,000 per month until the contractual obligations were fulfilled. In both 2008 and 2009, the organization’s Forms 990 reported that its debts exceeded $1 million. By 2012, the total debt was down to about $500 thousand. According to interviewees, some vendors had simply forgiven the symphony’s debts to them, but no one specified the amount of debt erased in this fashion.

The board president also worked to increase transparency regarding the orchestra’s finances, and previous conflicts among all the relevant stakeholders improved as a result. The executive director characterized the change that occurred when she replaced the previous leadership thusly:

We’ve implemented a culture of transparency, where there is no dollar that somebody cannot question. In the past we focused on revenue, now we focus on expenses.

Symphony C had been experiencing financial problems for years before the 2007–09 recession, and the executive director who had been replaced prior to my site visit was characterized by interviewees as a “big spender.” As mentioned in Chapter 8, three staff positions were eliminated in the aftermath of the recession. The remaining staff had reduced capabilities, and they relied more on arts consultancies as a result. One area of operations that was negatively affected by retrenchment was music education. Interviewees expressed a preference to doing more music education, but it was a much lower priority than getting the symphony on firmer financial ground. In short, Symphony C’s experience was that successfully addressing its debts required refocusing on its core mission of presenting concerts,
and it accomplished this through changing leadership, both artistically (music director) and administratively (board and professional staff).

**Chamber Orchestra D**

By not charging for its main stage, family, or children’s concerts, Chamber Orchestra D puts its basic economic reality in sharp relief: every “free” performance costs money that must be raised through contributions. The evidence indicates the orchestra has been doing a good job raising revenue to fund the music director’s artistic vision. There were deficits in only four of the twelve years, and no accumulated debt. More than one interviewee mentioned that they would like the orchestra to build an endowment, and the accumulated fund balance by the end of 2012 had grown to $50 thousand (an amount equal to about one eighth of that year’s budget).

The board chairperson stated that in the past few years, the budget philosophy of the orchestra had changed:

We used to say, “this is the money we have; what can we do with it?” Now we approach it by saying “this is what we want to do, need to do, now let’s raise the money we need to get there.”

Asked if the orchestra was the financially healthy, the music director responded:

Well, we’re still standing. I think in this economy, “healthy” means you’ve got enough money to go for another six months. Yes, we’re healthy. We have no endowment; we have the thinnest of cushions; I feel like we’re moving forward in a positive direction... there’s a lot of faith. Pray and work. It’s a year to year to year thing... If a businessman looked at our finances, they might not agree that we’re financially healthy.
As mentioned in Chapter 8, the orchestra had expanded the length of its performance season since the present music director took over in 2002. The music director expressed desire to expand the number of performances even more, but stated that “at the moment we’re holding on with our fingernails to our fourth concert series,” indicating that if the orchestra were unable to raise sufficient nonperformance revenue, the number of main stage concerts could be lowered to three.
10. Conclusions

Chapters 4 through 9 use the conceptual framework to systematically assess each of the case studies. The present chapter summarizes the results by addressing the research questions introduced in Chapter 1:

1. What financial challenges do orchestras face?
2. What is the range of orchestras’ organizational goals and what are the strategies they use to achieve these goals?
3. How do orchestra strategies change with changing economic conditions, and which strategies are associated with which outcomes?

10.1 What financial challenges do orchestras face?

U.S. orchestras appear to face two types of intertwined financial problems. In the short-term, they are constantly trying to stay afloat — making sure that they have enough revenue to offset their expenses. As the case studies show in detail, each orchestra has an array of options and tactics to raise performance and non-performance revenues (Chapters 6 and 7), and moderate expenses (Chapter 8). They employ short-term business strategies that juggle these revenues and expenses and that attempt to generate surpluses and avoid accumulating debt (Chapter 9). I address this in further detail on Question 3, below.

The four case study orchestras all survived for the twelve years under examination, and all are still in operation at the time of this writing. They all weathered financial ups and downs. Debt and deficits were not death knells; they could be offset by surpluses in good
years. In one case, Symphony C, more serious problems with debt led to restructuring and adaptation in the form of changing artistic and administrative leadership and downsizing staff.

In the long-term, U.S. orchestras are continually trying to survive in the changing social environment in which they operate. The three most salient changes are aging audiences (Chapter 4), declining demand (Chapter 6), and the slow creep of the cost disease which predicts that the price of producing orchestral concerts will rise faster than the rate of inflation (Chapter 9).

One long-term adaptation mechanisms that orchestras use to respond to changing circumstances is to modify their goals vis-à-vis a variety of stakeholders. The case studies demonstrate that attending an orchestral performance can be viewed in a variety of manners, including as a leisure activity, an educational activity, and a social activity. Furthermore, the case studies demonstrate that a variety of stakeholders participate in orchestra activities including older and younger audiences, experienced as well as budding musicians, board members, and staff. They often participated for different reasons.

Attending symphony performances is a leisure activity that people have engaged in for hundreds of years. Orchestras are associated with tradition, specifically, with “high culture” and other performing arts such as opera and ballet. In addition to being subject to the cost disease, the evidence indicates that there are generational changes occurring in preferences for leisure.\textsuperscript{105} Opera and ballet are also experiencing declining participation rates.\textsuperscript{106} Some opera

\textsuperscript{105} For example, when I discussed my dissertation topic with my undergraduate mentor, sociologist Barry Schwartz of the University of Georgia, he said the declining popularity of orchestras reminded him of the disappearance of Yiddish theater, which he had grown up with, from his native Philadelphia.
and ballet companies are, like orchestras, struggling to fill their seats.\textsuperscript{107} As mentioned in Chapter 2, other traditional leisure activities like gardening, hunting, and golf are also experiencing declining popularity.

Orchestra performances can also be viewed as educational activities. I attended performances by all case study orchestras except for Case A, and at each of the other three case studies’ performances, the conductors regularly addressed their audiences, offering insights on the pieces being performed from the podium, often in addition to offering pre-concert lectures. Young people are the focus of even more music education efforts. Symphonies A and B had the most extensive music education programs, including programs partnering them with area schools, providing teaching materials, and supporting youth ensembles. According to interviewees at these two organizations, they were attempting to counter the disappearance of school-sponsored music education from their communities. Symphony C’s educational activities had been curtailed, but they still offered some educational concerts for school children. Chamber Orchestra D also offered educational concerts designed for young people, and its policy of offering free admission to most of their performances was intended to, in the words

Yiddish is hardly spoken in the U.S. anymore, and classical music may be thought of as its own “language,” the basics of which must be learned before a performance can be appreciated. When speaking to people from outside the world of orchestras about this dissertation, I noticed that many expressed that they would like to know more about classical music, but they were put off by its length and complexity.

\textsuperscript{106} See National Endowment for the Arts, 2015, p. 8.

of the music director, “bring classical music to people who otherwise wouldn’t have the opportunity.”

Finally, the cases studies also reveal that orchestra performances can also be seen as social activities. The boards at all the cases (and especially the auxiliary leagues at Cases B and C) enjoyed each other’s company and were gratified by their group efforts to bring music to their communities. Purchasers of ticket subscriptions see other subscribers at performances repeatedly throughout the season and over the years. Respondents at the cases reported the growing importance of single ticket sales versus subscriptions, and one may see in this a resemblance to the decline of league bowling and concomitant rise of single pickup games documented in Robert Putnam’s *Bowling Alone*.\(^{108}\) It is possible that the declining popularity of orchestras in the U.S. is tied to an overall decline in “social capital.”

Different stakeholders get different things out of orchestras. For administrative staffs and musicians, orchestras provide employment as well as an outlet for their passionate love of music. For parents, teachers, and school officials, orchestras offer creative opportunities for young people. For board members, they offer not only a way to engage, but also to serve their communities. That orchestras can function in such different roles provides some clues as to how they can shape their adaptive options.

10.2 What is the range of orchestras’ organizational goals and what are the strategies they use to achieve these goals?

Characterizing the case study orchestras' goals is addressed in Chapter 5. I observed in the case studies that the goals which interviewees mentioned could be grouped under five main themes: 1. Artistic excellence; 2. Organizational/personnel; 3. Serving the community; 4. Making music accessible & relevant; and 5. Finances/survival. The frequency with which these themes were mentioned varied both by organization and by stakeholder group. One feature of the case study orchestras is that the organizations accommodate within them groups that accentuate different goals.

Most of the goals mentioned by interviewees could be characterized as reputation-seeking, as opposed to prestige-seeking. This is to be expected, given that the case studies were mostly lower-budget orchestras. Only one case, Case B, was also a part of the same sample used in Flanagan’s 2012 study of the 63 largest U.S. orchestras.

As for strategies, the cases exhibited variation in how they sought to achieve their goal of a good reputation. Symphony A, a community orchestra, accentuated the involvement and development of its amateur musicians. Chamber Orchestra D accentuated accessibility for its audience, most notably through free admission. Symphony C’s strategy was centered on cost cutting, as a necessity to try and stay in operation. Symphony B did everything that characterizes a reputation-building strategy, as well as engaging in some prestige-building activities.

An important aspect of the case studies’ goals and strategies were how they helped entice the involvement of board members. Reputation and prestige are nonprice information that prospective audience members use to decide whether they want to attend performances,
but, perhaps more importantly, they are aspects of the organizations’ identities and operations that affect whether board members, donors, and volunteers want to invest their time and resources. Some of the board members with whom I spoke had a strong commitment to the continuing operation of their orchestras, spending significant amounts of their personal wealth to keep the organizations going. Two examples from my site visits stand out in terms of illustrating this level of commitment. At Chamber Orchestra D, the board president said:

Sure, I could go and be a volunteer for the [prestigious local] symphony, but they’re funded by these huge, major donors. I see something unique in us. … We’re not solving malnutrition in Africa, we’re not curing AIDS, but we’re helping our community. Our concerts are free admission… our audiences might not be able to afford a $50 symphony ticket, but they can hear our amazing, glorious music for nothing. It makes me feel good to know that I’m helping people experience that joy.

Similarly, Symphony C’s board president told me:

Since we began giving, to my utter surprise, I realized we’ve given three quarters of a million dollars. Not that I’m bragging about it, but the point is, that to have given that much shows a great commitment to the purpose of the symphony, and our desire to see it continue. And that gives us the ability—my husband and I, and other donors—to go out to the community and say, “look, we’ve put our money where our mouth is. Would you consider giving a substantial donation?” We believe in this.

These case studies show how important a strong local reputation is to strengthening the morale of boards. Building a strong local reputation is highly adaptive and quite flexible in other ways. A good reputation involves building a variety of strong ties between the orchestra and different parts of its community. For example, it allows donors to take on a cause, act publicly as benefactors, and helps them raise the image and pride of their community. A reputation-centered orchestra links the education sector to the arts sector, and
it can link different art forms together when they share venues and performers. It is a source of employment for both musicians and staff. It becomes a place where community members come together and intermingle, helping people of different backgrounds, classes, and ages share a common interest. When done well, orchestras are integrating mechanisms and powerful symbols of how communities can thrive.

10.3 How do orchestra strategies change with changing economic conditions, and which strategies are associated with which outcomes?

The results of the case studies suggest that the changes made in response to economic conditions are more short-term and tactical than long-term and strategic. For instance, three of four case study orchestras reduced their labor inputs in response to challenging economic conditions. When conditions improved, they added performances and/or hired more personnel (professional staff or musicians).

I also observed that orchestra strategies are more of a function of leaders’ visions for their organizations, and consequently, changes in strategy were most often effected by changing leaders. In his role as instructor, the long-serving music director of Symphony A was indispensable for the organization’s strategy of developing local talent. At Symphony B, the large staff size allows the highest-ranking leaders, the staff president and the music director, to concentrate fully on refining and implementing their ambitious vision for a high prestige, strong reputation orchestra. Symphony C’s board president almost single-handedly reformed the culture of the organization in ways that made it more reputation-centered and
sustainable. Chamber Orchestra D’s music director’s passion for making music accessible to
the community ignites the support of his board and other donors.

The music director of Chamber Orchestra D acknowledged that he preferred his role to
be one of forming his organization’s identity. He tellingly expressed skepticism regarding an
upcoming strategic planning retreat that his board had organized, stating:

I’m always dubious about what comes out of these things, besides post-it
notes on a blackboard. I tell this to the board: “My artistic vision is being
realized; I just want more of it, which means more concerts.” You can
strategize all you want, but what we really need is money.

This leader experienced great success over the period 2002–12 in raising increasing amounts
of money for his orchestra. In contrast, at Symphony C, the executive director who had left
the organization before my site visit had not been able to match his ambitious artistic vision
with an ability to raise appropriate amounts of revenue, and the consequence was sustained
deficits. Both leaders had ambitious goals that combined, in varying amounts, aspects of both
reputation and prestige, but only one successfully matched his chosen ends with feasible
means.

The third policy question further asks which strategies are associated with which
outcomes. All orchestras, including the case studies, suffer from budget deficits occasionally.
The largest and most capable administrative staff from among the case studies, that of
Symphony B, led the orchestra to deficits in five of twelve years. However, these deficits
were tiny compared to the surpluses Symphony B had during the other seven years. When
asked if Symphony B was financially healthy, the staff president responded: “We have been
generally healthy. We don’t have accumulated debt. We can pay our bills on time, and we’ve never missed a payroll.” Asked the same question, the board president of Symphony C said:

When I took over [in 2010], we were barely making it month to month. Paychecks were being held back, because the money wasn’t in the bank—now, legally, you’re not allowed to do that. And some musicians would say, “Well, okay, you can pay me in two weeks instead of now, even though it’s due now.” That’s a terrible state to be in. Just so much debt!

Symphony B had the most prestigious characteristics of the four case studies, but it also emphasized reputation and was managed in a financially sound manner. The sole evidence from the case studies that supports the view that excessive pursuit of prestige is associated with more extreme deficits and debt comes from the period at Symphony C which preceded my site visit. In all, there was no evidence from the case studies to counter the assertion that the pursuit of prestige to the exclusion of reputation can be risky.

In general, the case studies seemed to be subject to the cost disease, aging audiences, and declining demand. Describing their basic economic reality must include acknowledgement that performance revenues cover an ever-declining share of performance expenses, that their strongest supporters are growing older and passing away, and that they are becoming less popular among an increasingly large and diverse array of entertainment options.

One case, Chamber Orchestra D, did not appear to be affected by aging audiences and declining demand. It avoided these two problems through a radical reputation-building
strategy of accessibility through free admission concerts, but this strategy exposes it to other risks, as it is almost completely reliant on nonperformance revenue.

The four case studies reveal some of the many ways that orchestras can adapt to changing circumstances. Recall from Chapter 3 that the case study orchestras, as well as the larger sample of orchestras examined in *The Perilous Life of Symphony Orchestras*, exhibit variation of both revenue and cost structures. The leaders of orchestras are confronted with great uncertainty from year to year; for instance, the flow of nonperformance income to their organizations is largely outside their control. Orchestras do not follow a common financial model, but their shared economic reality means they are all forced to adapt to their particular circumstances with whatever solutions are at hand in their communities. This is the essence of a reputation-based strategy: exploring the adaptive options for being relevant to a community. Building in mechanisms that help an orchestra be adaptive in the short term seems to be very helpful for improving the chance of long-term survival.
11. Policy Recommendations

11.1 Introduction

In the previous chapter, I summarized the results of the case studies and provided answers to the three research questions. The present chapter builds on insights from the case studies to provide recommendations to orchestra leaders and supporters.

Consider the following hypothetical scenario. Suppose the executive director at an orchestra in the year 2020 is facing a budget crisis. The U.S. economy is in a major recession for the first time since 2007-09. This executive director has not been serving in her role for very long, but she has a good relationship with her predecessor, who had success leading the orchestra and retired after twenty years on the job. The executive director calls her predecessor and asks for advice, but nothing the previous director experienced is exactly apropos: although the previous director led the orchestra through the Great Recession of 2007-09, and also had to deal with the cost disease, the cost disease increased the structural deficits at the orchestra over the subsequent decade. While her predecessor could perhaps call on certain “angels” to save the orchestra during her directorship, perhaps these angels are no longer around, and perhaps their progeny, if any exist, are not as interested in supporting classical music performances.

Without dwelling too much on this hypothetical scenario, it is worth considering how the solutions that worked in the past may not necessarily work in the future. That an orchestra has successfully confronted the problem of a widening performance income gap over previous decades offers no assurance that it will continue to be able to do so. As quoted in Chapter
2, Flanagan concludes that “[c]ontinual policy innovations that variously raise performance and nonperformance revenues and reduce expenses are necessary to counter the ongoing growth of structural deficits [emphasis added].” ¹⁰⁹

What are these “continual policy innovations”? No one can claim to know what they are in advance, but it is hoped that they will emerge from praxis. Also, we have at least some inkling of what will not work: understanding the recalcitrant financial challenges of orchestras should at least provide ample warning to beware of anyone peddling facile solutions. As Flanagan states:

No undiscovered “silver bullet”—a single solution that eliminates these challenges—emerges from the analyses of the financial and operating data of U.S. symphony orchestras… Indeed, taken as a whole, this book documents the futility of single solutions. Most orchestras cannot achieve economic stability solely by selling out their concert halls, or by ever-increasing marketing expenditures, or by drawing prudent amounts from their endowments, or by relying on direct government support.¹¹⁰

In light of the preceding analysis, as well as the accumulated research in the field, what are orchestras to do to help ensure their own survival? The remainder of this chapter will cover two separate areas which orchestras can focus on: 1. choosing appropriate ends (or goals); and 2. choosing appropriate means (or strategies & tactics).

11.2 Choosing Appropriate Ends

In Chapter 2, I introduced the constructs of reputation and prestige, and the case studies support the use of reputation and prestige as constructs to describe orchestras’ goals and strategies. A reputation-seeking strategy may be considered generally less risky than a

¹¹⁰ Ibid., p. 185.
prestige-seeking strategy. Prestige, as I characterized it, is difficult to achieve. Reputation is more adaptive to local circumstances.

11.2.1 Refining the Constructs of Reputation and Prestige

Recall that the constructs of reputation and prestige are borrowed from Brewer et al.’s study of higher education, *In Pursuit of Prestige*. As I have been studying the world of orchestras, I have encountered some evidence that the working definitions of reputation and prestige that I posited in Chapter 2 may be incomplete, or that their definitions are changing. In short, I have noticed that traditional indicators of prestige in the classical music world could be becoming passé, and that a focus on reputation is, paradoxically, becoming prestigious.

This shift in the nature of prestige for classical music is something music journalist Alex Ross has described with regards to the work of Community MusicWorks, which uses classical music to effect social change in a low-income neighborhood of Providence, Rhode Island. Sebastian Ruth, a violist and the organization’s founder, won a prestigious MacArthur “genius” grant; his group offers free performances and music education, mostly to poor young people. His vision is to bring music to people who need it most, tearing down traditional boundaries. Ross asks Ruth,

But why Brahms? Isn’t it simply self-indulgent fantasy to think that German chamber music could change the world of a girl whose mother is living on food stamps? Ruth paused, his rueful smile indicating that he had answered this question many times.

“I don’t know how it works,” he said...
“Let me tell you a story about Vanessa Centeno, who’s been with us for many years. Her mom works various jobs, day and night. She doesn’t want her daughter to have the same existence. There was an article about us in the paper, in which she was quoted as saying that she loves our program because classical music is ‘for people who have class.’ It was funny that she said that, when my whole thing has been about trying to undo these stereotypes, deconstruct the idea that this music has ‘class,’ and make the point that music can be made anywhere by anyone at any time. Vanessa’s mom and I had such different ideas in mind. I was trying to get out of the world that she was trying to get into.”\textsuperscript{111}

While classical music and orchestras are, to a large extent, inherently prestigious, I also observed that the orchestras I thought of as the most prestigious were also engaged in many reputation-seeking activities. There seems to be a growing realization within all parts of the orchestra world that they should focus on connecting with and serving their communities.

In Chapter 2, I proposed the Los Angeles Philharmonic as an archetype of prestige. I mentioned Gustavo Dudamel as a prestigious choice for music director to succeed Esa-Pekka Salonen in 2009, but was his selection motivated more by reputation-related factors? He is Venezuelan, and a product of the music education & social change organization El Sistema, which was championed by Hugo Chavez. Los Angeles is one of the largest Spanish-speaking cities in the world, and Dudamel expanded the Philharmonic’s music education programs in ways modeled on El Sistema and aimed at Los Angeles’ underprivileged youth. Shortly after taking the reins of the orchestra, Dudamel led it on a U.S. tour. \textit{National Public Radio} covered the tour’s critical reception:

The critics in San Francisco, Chicago, D.C., Philadelphia and New York—cities where the “Dude” (another nickname) and his orchestra touched down—were mostly unanimous in pointing out significant problems.... [W]hile there was

praise for Dudamel’s expressiveness and charisma, and his ability to handle big, complex scores... a darker notion was also lurking, which Peter Dobrin of the Philadelphia Inquirer chose to highlight in his review.

“The most cynical listener,” he writes, “figures that the Los Angeles Philharmonic has recalculated aspects of the [conductor’s] job once considered ancillary (community relations, education, fund-raising) as primary now, and a winsome persona is more important than revelatory interpretations” [emphasis added].

Dobrin goes on: “I’d rather think that the Los Angeles board, administration and players really believe they have a great musical thinker on their hands. But that’s not who Dudamel is—not now, at [age] 29, and not Wednesday night in Verizon Hall.”

It may be that Dobrin’s assessment was not so cynical, but simply accurate: perhaps leaders of the most famous and well-funded orchestras, knowing the long-term financial problems the art form faces, should emphasize community relations, education, and fund-raising as primary aspects of a music director’s job.

This shift towards reputation and away from prestige is highlighted in the LAO’s Fearless Journeys case studies. For instance, when the Memphis Symphony Orchestra (MSO) was confronted with serious financial challenges and an increasingly indifferent community, they developed a new approach:

Artistic excellence was still at the center of the MSO’s ambitious future agenda—but with a twist. The orchestra no longer saw artistic achievement as an end in itself, but rather as an enabler of the orchestra’s citizenship.

114 Ibid., p. 29.
In other words, the MSO began a process—which is still ongoing—of making a case to its community of its continuing relevance.

*Fearless Journeys* also describes how the Pacific Symphony of Orange County, California programs its concert season using different themes, creating multiple “entry points” for new audiences. Examples of these themes include celebrations of Mexican classical music and of Nowruz, the Iranian New Year. The result of this approach to programming has been an increase in single ticket sales, bringing in new audience members from segments of Orange County’s population that the Symphony previously had not reached—again, serving the local community rather than an abstract notion of “excellence.”

How do orchestras ensure that they are pursuing reputation rather than prestige (as I had originally formulated the constructs)? The following section discusses what orchestras can do to make sure they are focused on the most fruitful goals: concentrate on goals during periods of transition.

### 11.2.2 Policy Recommendation: Focus on Goals during Periods of Transition

As stated in Chapter 10, reputation and prestige are nonprice information that prospective audience members use to decide whether they want to attend performances, but, perhaps more importantly, they are aspects of the organizations’ identities and operations that affect whether board members, donors, and volunteers want to invest their time and resources. Each of the case study orchestras had a “give or get” commitment as a requirement for board membership—a minimum dollar amount to either give to the orchestra directly, or to

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115 Ibid., p. 52.
solicit from others. Boards are unlike musicians and staff members in that they are not earning any wages or salary from the orchestra. Board members are the only stakeholders who owe the organization fiduciary duties. Profiting financially through their role could be evidence of punishable wrongdoing.\textsuperscript{116}

How do orchestras get dedicated and passionate boards? By inspiring people who have the capability to serve. The results of the case studies suggest that the individual most responsible for inspiring both current and prospective board members is an orchestra’s music director. Another example from outside the case studies would be that of Alvin Mills, who led the Brentwood-Westwood Symphony Orchestra (BWSO), a community orchestra, for its entire 63-year existence until this year. Mills inspired his board members, even across generations:

“I feel that in the world today, classical music is dying unless people fight for it,” says Bob Engelman, the current BWSO board chair. His father served in the same role for decades and helped Mills keep the nonprofit alive. Mills, he says, has been loved by his musicians and audiences. “He’s kind of spiritual,” says Engelman, “and he believes that if you do good things and create good energy and good music, everything will work out. It’s worked out pretty well for him.”\textsuperscript{117}

Although it is easier said than done, boards should hire music directors who are inspiring leaders and connect their love of music to serving a particular community.

The implications of choosing between a strategy based on the pursuit of prestige and one based on reputation, i.e., satisfying local community preferences, are perhaps most clear

\textsuperscript{116} See Appendix, infra.

during an orchestra’s transitions. Changes in leadership are among the most important transitions that orchestras face. During a search for, say, a new music director, orchestra stakeholders may implicitly understand that these leadership roles can be considered symbols of the entire organization’s identity. A desire to increase the orchestra’s prestige may factor into such a hiring decision, even when prestige is not explicitly included among the criteria used to evaluate candidates. Of course, prestige is not a negative quality to look for in new leaders, but it should be addressed in an intentional and straightforward way. In other words, prestige should not be allowed to obscure or distort other relevant evaluative criteria, or to overshadow the basic question of whether a prospective leader is a good fit for a particular orchestra’s community.

Orchestras can lessen the risk that comes with leadership transitions—and any tendency to overvalue prestige during the process—by creating succession plans in advance. While the practice of strategic planning has gained widespread acceptance in the nonprofit world in general and the orchestra world in particular, there is evidence that nonprofit strategic plans insufficiently address succession issues. A recent survey of nonprofit executives (at both §501(c)(3) charities and §501(c)(4) cooperatives) by Froelich et al. finds that

Respondents from both organization types largely perceive succession planning as important—at least 70 percent indicate 4 or 5 on the importance scale, with 5 being “very important”—yet seemingly are doing relatively little about it beyond general board discussion, which is reported by 60 percent of the organizations. Less than 20 percent of organizations have developed a formal plan for CEO transition.118

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Besides transitions of leadership, another potentially important type of transition that an orchestra may face concerns performance spaces, and as with leaders, the issue of prestige may unduly factor into these decisions. As the descriptions in Chapter 2 of the case studies examining the dissolutions of the Oakland Symphony Orchestra Association and the San Jose Symphony show, the pursuit of a prestigious new venue can derail an otherwise healthy and successful orchestra—the so-called “edifice complex.” As in the case of leaders with prestigious pedigrees, prestigious performance spaces are not bad in and of themselves, but the pursuit of prestige should not be permitted to distract an orchestra from pursuing its artistic mission or from raising enough nonperformance income to simply survive.

11.3 Choosing Appropriate Means

Once again, Flanagan states that “continual policy innovations” are needed to counteract the effects of the cost disease, as well as aging audiences and declining demand.\footnote{120 Flanagan, 2012, p. 30.} These policy innovations should 1. raise performance revenue, 2. raise nonperformance revenue, and/or 3. lower expenses. As stated at the outset of this chapter,
these policy innovations will most likely emerge from praxis. U.S. orchestras have already been engaging in policy innovation, but, distressingly, the effects of every innovation orchestras have been using to counteract the financial challenges they face is reflected in the recent trends discussed in Chapter 2, which do not show much, if any, improvement in response.

As future policy innovations are implemented, their efficacy should be judged objectively, according to how well they 1. raise performance revenue, 2. raise nonperformance revenue, and/or 3. lower the growth rate of expenses. In addition, given the choices orchestra leaders must make regarding ends/goals (discussed in the previous section), the policy innovations should also be evaluated as to whether they help achieve these goals. Because the four case studies focused on the importance of reputation, the following discussion will evaluate practices with regard to whether they enhance an orchestra’s reputation, i.e., strengthen its links to its community.

A simple stoplight chart could be useful to rank and prioritize potential policy innovations. Such a chart, with some examples of “innovations” taken both from the cases and the literature, is shown in Table 11.1, below. Because they are drawn from existing practice, I am not asserting that the following policies are especially innovative; a better term would be “smart practices.” The purpose here is to demonstrate the evaluative framework. Note that these smart practices produce one-time effects, rather than ongoing improvements that would “cure” the cost disease and growing structural deficits (with the possible exception of improving analytic capabilities). The smart practices in Table 11.1 are presented in no particular order. Each of the proposed practices is then discussed in more detail below.
Table 11.1: Smart practices evaluated with four key criteria

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<th>Raise Performance Revenue</th>
<th>Raise Nonperformance Revenue</th>
<th>Lower Growth Rate of Costs</th>
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(Red=low likelihood of achieving goal; Yellow=indeterminate likelihood; Green=high likelihood)

1. Pursue Planned Giving

“Planned giving” refers to a charitable gift from an individual that will take effect at or after his or her death, and these types of gifts can take many legal forms, each with its own particular tax characteristics. Each of the case study orchestras was engaged in attempts to foster planned giving among its supporters. Several development staffers referred to an influential 1999 study, by John J. Havens and Paul G. Schervish of Boston College’s Social
Welfare Research Institute, which predicts at least $41 trillion of intergenerational wealth transfer occurring between 1998 and 2052 and a concomitant “golden age of philanthropy.”

Havens and Schervish have defended their findings from claims that the $41 trillion figure might not be accurate. Whether it is accurate or not, perhaps the important point vis-à-vis the cost disease is that planned giving represents a potential source of revenue that orchestras cannot afford to ignore. However, establishing a planned giving program does involve some upfront costs. The capabilities to be included in a planned giving program at a particular orchestra will depend on many variables, including the availability of legal help in setting up transfer instruments, which can be complicated. The simplest way to encourage planned giving is probably to include sample will language for bequests to the orchestra in appeals for donations.

One of the best ways to begin a planned giving program would be for board members to commit to planned gifts themselves. The fact that orchestra staff can, given appropriate levels of tact, discuss planned giving with orchestra supporters, and expect resulting gifts, is itself testament to the profoundly intimate and important relationships these organizations can have with the music lovers of their communities. For this reason, having a successful

124 Ibid.
planned giving program would seem to be highly correlated with having a strong local reputation. Someone who is planning on leaving gifts to his or her community’s orchestra is someone who has been convinced of the value of that orchestra to the community.

2. Improve Analytic Capabilities

Many case study interviewees reported that the orchestra world has become more “data driven” in the past few years. One case study orchestra president mentioned that simply deciding to perform Beethoven’s Symphony No. 3 versus the more popular Symphony No. 5 would mean thousands of dollars less in ticket sales. There are compelling artistic reasons to perform Symphony No. 3, but orchestra leadership should be aware of—and be able to quantify—the potential downside of such a decision.

Using data and analysis to help make decisions may not come naturally to all staff members at orchestras, as many aspects of orchestras’ decision making are steeped in tradition. Again, staff and board members might be motivated by prestige when it comes to certain choices (say, hiring a certain guest soloist for a performance with the orchestra) rather than an explicit calculation of costs and expected benefits. Flanagan addresses the issue of guest soloists:

Most concerts include guest soloists, whose fees can be quite high. Does the presence of soloists attract a sufficiently larger audience (or higher ticket prices) to justify the expense? Do orchestras know? Do they even raise the question? ... [R]educing the number of soloists will not balance an orchestra’s books by itself—soloists comprise too small a proportion of an orchestra’s costs. But when soloists do not pay for themselves, a reduction will narrow an orchestra’s performance deficit.\(^{125}\)

Investing in improved analytic capabilities can potentially help an orchestra with such a decision, in a way that can raise performance revenue and lower the growth rate of costs.

Improving analytic capabilities within an orchestra can also help raise nonperformance revenue, by helping identify prospective donors. At least one of the case study orchestras was engaged in this practice, which they referred to as “heat mapping.”

I observed that many data-intensive tasks at orchestras are outsourced to arts consultancies. Consultants commonly help orchestras attempt to optimize their ticket pricing structure (“scale the house”), or identify prospective donors, or even handle the music programming. Arts consultancies can bring special expertise and an objective viewpoint to bear on an orchestra’s problems, but they can also be expensive. Orchestras should be wary of the claims made by arts consultancies, and use the national and regional orchestra associations to share information on which consultancies are the most dependable. In order to try and keep costs low, orchestra staffs should ultimately attempt to take on a greater share of tasks themselves, rather than rely on consultants.

How do orchestras improve their analytic capabilities? Maggie Grieve, writing in The Chronicle of Philanthropy, lists some steps staffs can take to “build a culture of data” at their charitable organizations:

- Add data roles to job descriptions and performance reviews
- Provide technical support to achieve quality data
- Access the best mix of technology or data needs
- Revisit your data-collection approach periodically and learn from experience
Communicate the organization’s approach to measurement to grant makers and other stakeholders.\textsuperscript{126}

Even if orchestras don’t have in-house data analysis capabilities, there are data scientists willing to work pro bono, in the same way that many attorneys and accountants volunteer their time and expertise to help nonprofits. Programs that match volunteer data scientists with nonprofits in need of help in this area are becoming more common.\textsuperscript{127} Even if an orchestra is using volunteer data scientist input, the ultimate goal should be to increase the capabilities within the organization.

Of all the policy innovations considered here, only improving analytic capabilities has the potential to help in each of the three areas of raising performance revenue, raising nonperformance revenue, and lowering the growth rate of costs. According to the stoplight chart of Table 11.1, above, this makes it a clear winner when choosing the means to an orchestra’s chosen ends.

Similarly, improving analytic capabilities has a high likelihood of strengthening an orchestra’s reputation. For instance, systematically collecting and analyzing feedback from audience members would help an orchestra evaluate whether and to what extent it is meeting


\textsuperscript{127} Wallace, Nicole. “Nonprofits Are Taking a Wide-Eyed Look at What Data Could Do.” The Chronicle of Philanthropy, 2/24/2014 (“... Rayid Ghani, chief data scientist for President Obama’s 2012 campaign, started Data Science for Social Good, a summer-fellowship program that pairs undergraduate and graduate data-science students with nonprofits and government agencies to solve pressing problems. Eric Schmidt, executive chairman of Google, and his wife, Wendy, financed the program, which received 600 applications for 36 spots. Another group, DataKind, which matches data scientists with charities for pro bono projects, has grown from an all-volunteer effort to a nonprofit with six full-time staff members in a little more than two years.”).
community needs. If it is important to an orchestra’s leaders to strengthen ties to their community, they surely must measure and evaluate the ways they attempt to reach this goal.

3. Merger With Youth Orchestra

Orchestras may benefit from merging with their community’s youth orchestra(s). One possible benefit of merging is lower overhead spending. The idea of nonprofits reducing their total administrative costs through merger is sometimes described as a “myth,” but it is likely that an adult–youth orchestra merger will actually result in such reduction, if the adult orchestra has a more efficient, professional administration which it can scale up.128 Among the case study orchestras, Symphony A underwent such a merger, in 2006 (see Chapter 4). Figure 8.1 shows that Symphony A’s real total costs went up after this merger, but it is unclear whether the merged organization’s costs were lower than the combined costs would have been for the two organizations absent the merger.

There are other reasons besides lowering administrative costs. Anecdotally, symphony staff members in the case study orchestras reported that having a youth orchestra under the umbrella of their organization greatly aided fundraising—interviewees who addressed this topic were unanimous in the view that having a youth orchestra made it easier to solicit donations.

128 See McLaughlin, Thomas A. “Merger Myths.” The Nonprofit Times, Vol. 23, No. 7, 4/1/2009 (“Only when one of the entities is much larger than the other and has far more established and efficient administrative systems will there likely be significant administrative savings.”). Cf. Vergara-Lobo, Alfredo, Jan Masaoka, and Sabrina L. Smith. The M Word: A Board Member’s Guide to Mergers. San Francisco: CompassPoint, 2005, p.5 (“Most community-based nonprofits have underdeveloped infrastructures and a merger may often result in a rise in administrative costs. An organization may be getting by without an HR Director, for example, because the Finance Director is able to manage that area — although she doesn’t have time to do it really well. It may get by without a receptionist because staff take turns answering the phone. The newly merged organization however, because it’s typically larger, may have to professionalize systems that could just ‘get by’ before.”).
Donors like to facilitate young people learning to play instruments in ensembles, especially as music education is curtailed in schools. Youth orchestras often have passionate support from parents of the participants, which a merged organization can tap into, to gain new potential board members, for instance. This anecdotal evidence is why the cell for “raising nonperformance revenue” in Table 11.1, row 3, is marked green.

The youth orchestra also potentially benefits from merging with an adult orchestra, as young players often have increased opportunities to interact with and learn from older, more experienced musicians and conductors. There may be ample opportunities to engage in this type of merger: Joohee Hong reports that in a sample of 98 youth orchestras she examined only seventeen percent were already affiliated with adult orchestras.129

Providing support for youth ensembles would undoubtedly strengthen an orchestra’s reputation, as I have defined it. It would provide music education and demonstrably fulfill the desires of parents in the community.

4. Merger with Adult Orchestra

The merger of two adult orchestras occurred only once with the case study orchestras: Symphony C was formed through such a merger in the mid-1990s. Unfortunately, the Forms 990 from that period are not available. Many interviewees spoke of that period as one full of acrimony; the music director of the merged organization even told me he received anonymous death threats. According to interviewees, many ticket subscribers from the two separate orchestras declined to extend their patronage to the newly merged one (see Chapter

4). Based on this experience, I assign a low likelihood as to whether such a merger would enhance the resultant organization’s reputation. An orchestra formed through a merger of two smaller orchestras would seem, necessarily, to be more greatly removed from meeting the tangible needs of a community.

As with a merger between an adult orchestra and a youth orchestra, a merger of two adult orchestras has the potential to lower total costs, although this result is not automatically assured. Mergers of two adult orchestras lack the potential positive effects of greater youth involvement, mentioned above. The successful merger of two adult orchestras would seem to be extremely dependent on the details of a particular case.

5. Non-traditional Musical Programming

There is empirical evidence that suggests that classical music audiences tend to prefer the standard orchestra repertoire: Mozart, Beethoven, Brahms, Tchaikovsky, and the like. Pompe et al. created a “Repertoire Conventionality Index” and found that programming more standard repertoire tends to increase attendance, across nearly all specifications of their regression model.\(^{130}\) It appears, then, that orchestras must strike a balance between playing traditional orchestral music and more innovative musical fare. Each community in which an orchestra is situated may have a different aggregate preference concerning the optimal mix of traditional and innovative programming, which may change over time, and which could potentially affect both performance and nonperformance revenue. I would argue that any

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orchestra concerned about its local reputation would have to occasionally make some forays into offering non-traditional programming.

Pop artist Kid Rock performed with the Detroit Symphony Orchestra (DSO) in 2012 to help raise money for the organization, and the sold-out event raised $1 million, but Detroit Free Press music critic Mark Stryker writes that it “would be silly to pretend” that the collaboration “will convert a bunch of Kid Rock fans into DSO ticket buyers.”131 Similarly, the trend of orchestras performing video game music may raise gross performance revenue, but they could also raise gross expenses. Whether such performances make financial sense depends on many factors, including whether they are intended as replacements for traditional performances or additions to them. The Wall Street Journal reports that video game music audiences spend much more on “action figures, posters, T-shirts and other souvenirs” than typical orchestra audiences do.132 Improving analytic capabilities would help orchestras decide when and how much to perform non-traditional programming. If the community responds positively, the orchestras should provide more.

6. Stop Charging for Performances

Given the success of Chamber Orchestra D in implementing a strategy based on accessibility through free-admission concerts, other orchestras may be tempted to follow their lead. As with other potential policy innovations, this one is extremely context dependent.

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Chamber Orchestra D had success offsetting its lower performance revenue with greater nonperformance revenue, but there is no guarantee that implementing such a policy elsewhere would result in similar effect sizes. It would seem to depend mostly on the donative capabilities of a particular board, their enthusiasm for such a policy, and the community’s receptivity to an orchestra with a goal of accessibility, i.e., reputation. A free-admission policy might be the most reputation-enhancing innovation imaginable; while I have characterized prestige-seeking strategies as being generally more risky than reputation-seeking ones, this reputation-seeking policy is obviously extremely risky.

7. Alter Board Composition/Duties

The case study orchestras all had either formal or informal musician participation with board activities; usually, a representative from the musicians would attend board meetings to facilitate communications between the musicians and the staff and board. Increased involvement by musicians is often to be found after an orchestra experiences labor strife or financial problems. For instance, after the Minnesota Orchestra experienced a 16-month lockout from 2012 to 2014, the *New York Times* reported that changes were made to the organization’s governance:

Musicians have been placed at the organization’s core. Their faces beam more prominently from programs and wall displays than at most other orchestras. They sit on governing committees that also include board members and staff. They work with an 11-strong management team, seven members of which are new to their roles, and who have been keen to continue innovations begun by players during the hiatus, including a Symphonic Adventures series aimed at high school students. The effect has been to foster harmony throughout the institution and among supporters who sprang up to show how much the orchestra was valued. ... While the musicians now feel more involved
in the administration, they also have greater respect for a staff they have become closer to.\textsuperscript{133}

Greater involvement by musicians, whether as voting board members or simply as observers at board meetings, seems to be a good way to build trust and transparency in an orchestra. Greater amounts of trust and transparency could help an orchestra lower its expenses. As musicians are often members of an orchestra’s community themselves, and have a vested interest in keeping their employer in business, increasing their involvement could be a way to burnish local reputation.

The appendix following this chapter discusses the legal duties of board members and whether better outcomes for orchestras could be achieved by changing these duties and/or more strictly enforcing them.

\textbf{11.4 Final Point Regarding Policy Implications: Changes to Tax Laws}

At the federal level, orchestras (as well as all §501(c)(3) organizations, generally) are potentially vulnerable to proposed changes in tax policy. Symphonies and their stakeholders have limited opportunities to influence these changes.\textsuperscript{134}

Most government support to U.S. symphonies comes in the form of tax expenditures, as opposed to direct subsidies.\textsuperscript{135} By allowing individuals and corporations to deduct contributions to nonprofit organizations (including orchestras) from their taxable income, both the federal government and the state governments with income tax that allow charitable contribution deductions forgo revenue. These tax deductions incentivize charitable giving by businesses and individuals, especially for the highest individual income earners, who are subject to the highest rates of income taxation. Flanagan estimates the total value of only the federal tax expenditure to U.S. orchestras to be over $110 million in 2005, dwarfing the $4.5 million orchestras received that year in direct government subsidies.\textsuperscript{136}

Changes to tax policy will inevitably affect this form of indirect government support. Leaders from both of the main political parties have recently advocated changing tax policy in ways that will affect orchestras. For instance, since taking office in 2009, President Obama has advocated capping the amount that individuals can deduct for charitable contributions at 28 percent, even as the highest tax bracket has increased from 35 percent to 39.6 percent.

\textsuperscript{134} Although changes in laws and in outcomes of elections can greatly affect their prospects, nonprofit organizations put their tax-exempt status at risk through engaging in substantial lobbying or participating in political campaigns. See Fishman, James J., and Stephen Schwarz. \textit{Nonprofit Organizations: Cases and Materials} (4\textsuperscript{th} ed.). New York: Foundation Press, 2010, p.474 (“A nonprofit organization qualifies for tax-exempt status under § 501(c)(3) only if: (1) ‘no substantial part’ of its activities consists of carrying on propaganda or otherwise attempting to influence legislation, and (2) it does not participate or intervene in ‘any political campaign on behalf of (or in opposition to) any candidate for public office.’ In lieu of the vague ‘no substantial part’ lobbying limitation, most publicly supported charities may elect to be regulated by more objective expenditure tests that permit the organization to spend certain amounts on lobbying without penalty and then imposes gradual sanctions—first an excise tax on excessive lobbying expenditures and then loss of exemption for more serious transgressions. See generally I.R.C. §§ 501(h), 4911.”).

\textsuperscript{135} Flanagan, 2012, pp. 104–108.

\textsuperscript{136} Ibid., p. 107.
This would effectively make charitable contributions more expensive for high-income individuals to make, and it is reasonable to believe charitable giving would decline as a result.\footnote{137} This would likely decrease the amount of nonperformance revenue for American orchestras by a non-negligible amount. Some analysts predict that limiting the deductibility of charitable donations in this way would cost the entire nonprofit sector billions of dollars in revenue.\footnote{138}

Recent Republican tax proposals at the national level, on the other hand, typically involve lowering tax rates and eliminating deductions.\footnote{139} It is hoped by Republicans that such changes will spur economic growth and rising real incomes, but it is unclear whether such growth would occur, and whether its effect size would offset the reduction in charitable giving that would likely accompany eliminating deductions for charitable giving. The ideal situation for charities, including orchestras, would seem to be rising real incomes combined with high, stable marginal tax rates (and full deductibility for charitable donations).\footnote{140} Whether the near

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\footnote{140} This scenario resembles what orchestras experienced during the late 1990s. See Flanagan, 2012, p. 174 (“The surge of private donations in the late 1990s, for example, offset both declining government subsidies and the rising performance deficits of orchestras. But the late 1990s were years of stable tax rates and growing real incomes. As income growth moved increasing numbers of people into higher tax brackets, contributions to orchestras and other nonprofits became more attractive. Periods with slower income growth or different tax rates could produce quite different flows of ‘private’ donations.”).
future will bring any changes to the basics of the federal tax code remains to be seen, but orchestras must be aware how any such changes could affect their financial health.

11.5 Conclusion

This dissertation has taken as axiomatic the position that orchestra performances are good for their communities, and that the tools of policy analysis should be used to help orchestra organizations thrive. While there are many challenges that organization-level policies cannot address, such as changing tax policies and the exogenous economic aspects of their communities, this chapter has explored options for goal-setting and smart practices that an orchestra may consider adopting in its attempt to stay afloat.

As the present study has focused on small- and medium-sized orchestras, the results are particularly applicable to other orchestras in this budget range, which includes the vast majority of U.S. orchestras (see Table 3.2).
Appendix: The Legal Environment

Introduction

Los Angeles’ Museum of Contemporary Art (MOCA) is a 501(c)(3) nonprofit that had been experiencing severe financial distress in the wake of the Great Recession. While art museums, like orchestras, typically rely on a combination of revenue sources which are sensitive to the state of the overall economy, the distress experienced by MOCA in 2008 was not simply a reflection of hard times due to the business cycle. According to Los Angeles Times reporting in 2010, MOCA’s board of directors had been making questionable—and in some cases, unlawful—decisions regarding the organization’s finances for several years, and its situation became so dire that the California Attorney General’s office got involved:

The California Attorney General’s office determined that the Museum of Contemporary Art skirted state law for years enroute to financial meltdown in late 2008 and ordered the museum to hire a consultant to help improve its financial management. The attorney general also required MOCA board members to receive special training in their fiduciary duties. The findings and "required corrective actions" were included in a two-page letter to MOCA last November. The attorney general's office provided it to The Times this week after repeated inquiries. Overspending and investment losses drained MOCA's investment portfolio from a peak of $38.2 million in mid-2000 to $5 million in December 2008.... A spokeswoman for the Attorney General’s office said Thursday penalties could include a requirement that board members repay money drawn improperly from an endowment, but “whether and how that occurs is based on the facts and circumstances of each situation” [emphasis added].

Part of the problem with MOCA’s board was redolent of an overreaching pursuit of prestige:

... [F]ormer [MOCA] co-chairman Tom Unterman and others said the museum followed a strategy of trying to spend its way out of deficits, on the theory that by keeping a high profile with attention-grabbing (and expensive) exhibitions, it could attract the high-rolling donors needed to turn things around.\(^{142}\)

As the letter from the California Attorney General’s office to MOCA’s board puts it:

> Our review indicates that MOCA encountered financial problems because management had unreasonably enthusiastic expectations for MOCA’s income, which were rarely, if ever, met. Likewise, it appears MOCA’s budget underestimated expenses and provided for insufficient reserves for unexpected costs.\(^{143}\)

MOCA’s expensive exhibitions—which it could not, in fact, afford—could be seen as analogous to a symphony pursuing, say, an attention-grabbing new performance hall, heedless of the risk entailed. But as has been discussed, above, in the cases of San Jose Symphony and Oakland Symphony Orchestra Association, decisions by boards of directors that lead to financial distress (and even eventual dissolution) for venerable California nonprofit organizations do not always lead to an investigation and required corrective actions handed down from the attorney general’s office. What is the difference between SJS/OSOA on the one hand, and MOCA on the other?

To understand this episode with MOCA’s board and the legal basis of the California Attorney General’s involvement in its affairs, one must understand something of the nature and history of fiduciary duties. The same fiduciary duties owed by MOCA’s board members to


\(^{143}\) Letter from Belinda J. Johns, Senior Ass’t Attorney General, California Dept. of Justice, to Luis Li and Maria Seferian (Nov. 17, 2009) (on file with author).
MOCA itself are owed by all nonprofit board members in California to their respective organizations. The goal of this appendix is to explore these fiduciary duties. In addition to fiduciary duties, some other state and federal rules constrain the activities of nonprofit corporations, and these are also worthy of brief examination. The appendix concentrates on California law: California is an extreme case, in that its Attorney General’s office is the most aggressive in monitoring nonprofits.

Fiduciary Duties

Derived from the Latin word for “trust,” the term “fiduciary” “entered English law reports in the mid-nineteenth century…. The fiduciary obligation came to have a life of its own in the English chancery courts which historically were a separate court system of equity.”144 Although it is difficult to precisely define fiduciary duties, they generally involve a position of trust, with heightened legal obligations, in relation to a vulnerable beneficiary—in this case, the nonprofit corporation. Perhaps the most famous description of fiduciary duties comes from Judge Cardozo, who states that “[n]ot honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior.”145

In the context of nonprofit corporation boards, fiduciary duties include 1. a duty of care, 2. a duty of loyalty, and 3. a duty of obedience. Each of these duties has its origin in case law; many state legislatures, including California’s, have also largely codified them in

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their corporate law. The duties vary in different jurisdictions. The following discussion focuses on the rules applicable in California.

1. Duty of Care

The duty of care in a nonprofit context generally means that a member of a board of directors may not mismanage a charity through either inattention or uninformed decision making. The duty of care has evolved through case law\(^\text{146}\) and California nonprofit corporation law addresses the duty in Cal. Corp. Code §5231.\(^\text{147}\) The language in §5231 (“... with such care, including reasonable inquiry, as an ordinarily prudent person in a like position


\(^{147}\) Cal. Corp. Code §5231 (2015) (“(a) A director shall perform the duties of a director, including duties as a member of any committee of the board upon which the director may serve, in good faith, in a manner that director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

(b) In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by:

(1) One or more officers or employees of the corporation whom the director believes to be reliable and competent in the matters presented;

(2) Counsel, independent accountants or other persons as to matters which the director believes to be within that person’s professional or expert competence; or

(3) A committee upon which the director does not serve that is composed exclusively of any or any combination of directors, persons described in paragraph (1), or persons described in paragraph (2), as to matters within the committee’s designated authority, which committee the director believes to merit confidence, so long as, in any case, the director acts in good faith, after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause that reliance to be unwarranted.

(c) Except as provided in Section 5233, a person who performs the duties of a director in accordance with subdivisions (a) and (b) shall have no liability based upon any alleged failure to discharge the person’s obligations as a director, including, without limiting the generality of the foregoing, any actions or omissions which exceed or defeat a public or charitable purpose to which a corporation, or assets held by it, are dedicated.”).
would use under similar circumstances”) is consistent with a negligence standard of care, although courts typically treat the corporate standard of care as one of gross negligence (to distinguish it from trust law, which uses a mere negligence standard).148

A member of a board of directors should actively participate in the affairs of the nonprofit and attend meetings. As long as a director is properly informed of relevant facts (acting in good faith and unaffected by a conflict of interest), the so-called “business judgement rule” will shield the director’s ability to make decisions from any judicial scrutiny, even if the decision turns out to have disastrous consequences for the nonprofit.149 This means the duty of care is largely a matter of following an appropriate decision-making process, rather than being concerned with outcomes or the substance of decisions.150

2. Duty of Loyalty

The business judgement rule only applies to directors’ decisions in the absence of conflicts of interest. The obligation of nonprofit directors to avoid conflicts of interest is generally part of the fiduciary duty of loyalty—the director must, in other words, put the organization’s interests before his or her personal interests. According to Fishman and Schwarz,

Breaches of loyalty are not only much easier to identify than breaches of care, they are more prevalent... Some common forms of interested transactions include:

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148 See, e.g., Fishman & Schwarz, p. 151.
149 Ibid., p. 152–3.
1. The use of an organization’s property or assets on a more favorable basis than available to outsiders...
2. Usurpation of a corporate opportunity...
3. The use of material nonpublic organizational information or position...
4. Insider advantages and corporate waste...
5. Competing with the organization.\textsuperscript{151}

California’s rules on self-dealing transactions are codified at Cal. Corp. Code §§5233–37. It is important to note that self-dealing transactions are not prohibited outright, but are allowed if certain conditions are met.\textsuperscript{152} However, if directors are found to have violated their duty of

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\textsuperscript{151} Fishman & Schwarz, pp. 163–165.

\textsuperscript{152} See Cal. Corp. Code §5233(d) (2015) (“In any action brought under subdivision (c) the remedies specified in subdivision (h) shall not be granted if:
\begin{enumerate}
\item The Attorney General, or the court in an action in which the Attorney General is an indispensable party, has approved the transaction before or after it was consummated; or
\item The following facts are established:
\begin{enumerate}
\item The corporation entered into the transaction for its own benefit;
\item The transaction was fair and reasonable as to the corporation at the time the corporation entered into the transaction;
\item Prior to consummating the transaction or any part thereof the board authorized or approved the transaction in good faith by a vote of a majority of the directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director’s interest in the transaction. Except as provided in paragraph (3) of this subdivision, action by a committee of the board shall not satisfy this paragraph; and
\item Prior to authorizing or approving the transaction the board considered and in good faith determined after reasonable investigation under the circumstances that the corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) the corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances; or
\end{enumerate}
\item The following facts are established:
\begin{enumerate}
\item A committee or person authorized by the board approved the transaction in a manner consistent with the standards set forth in paragraph (2) of this subdivision;
\item It was not reasonably practicable to obtain approval of the board prior to entering into the transaction; and
\item The board, after determining in good faith that the conditions of subparagraphs (A) and (B) of this paragraph were satisfied, ratified the transaction at its next meeting by a vote of the majority of the directors then in office without counting the vote of the interested director or directors.”
\end{enumerate}
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loyalty, they face liability to the corporation, including possible exemplary damages and any equitable remedies the court may find appropriate.153

3. Duty of Obedience

Directors have a duty to pursue the purposes of their organization, as expressed in its founding documents (e.g., articles of incorporation). A breach of this duty could occur if directors try to change the nonprofit into another type of organization; for example, this was found to have occurred when a California nonprofit hospital board attempted to close their hospital and instead operate neighborhood clinics.154

4. Duty of Good Faith

While some authorities refer to nonprofit directors having a separate duty of good faith, it “is in essence a component of both the duty of care and the duty of loyalty…. Whether good faith is viewed as a separate obligation is not truly significant in measuring directors’ duties.”155 In other words, requiring good faith in this context means that board members are not permitted to surreptitiously evade their responsibilities.

Rules other than Fiduciary Duties

There are state and federal rules aimed at eliminating nonprofit mismanagement, mostly through promoting good governance and transparency. For instance, in 2004 California enacted the Nonprofit Integrity Act, which imposes audit requirements on nonprofits with more than $2 million in yearly revenue. The results of required audits must be made available to

155 Hazen & Hazen, p. 386.
the public. The composition of the committee responsible for the audits is governed by the law and must also be publicly available.\textsuperscript{156}

The Internal Revenue Code (IRC) also imposes restrictions on the operations of nonprofits, some of which overlap with the Nonprofit Integrity Act. The most obvious restriction in federal tax law is that the organization must be organized and operated exclusively for a charitable purpose.\textsuperscript{157} One important obligation that the Internal Revenue Service (IRS) imposes on most §501(c)(3) organizations (including all the orchestras participating in the case studies) is filing an annual information return—most commonly, the Form 990. The Form 990 has always included sections for information on an organization’s finances, and it was revised in 2008 to require more disclosure regarding governance.

According to Hazen and Hazen,

These [2008] changes are consistent with more general increased concern over high executive compensation and other wasteful nonprofit expenditures.... The Form 990 must indicate whether the organization provided a copy of the 990 (including all required schedules) to each voting member of the governing body prior to filing with the IRS. The Form 990 must also describe the process by which the officers, directors, trustees, or management reviewed the form, whether the form was reviewed before it was filed with the IRS, who conducted the review, when it was conducted, and the extent of the review.... The Form 990 must state whether the nonprofit has a written conflict-of-interest policy. The Form 990 must also disclose whether the nonprofit’s officers, directors/trustees, and key employees are required to disclose annually interests that could give rise to conflicts. The Form 990 must indicate whether the nonprofit contemporaneously documents meetings of the board and its committees. The Form 990 must also indicate whether the process for determining the compensation for the CEO, key officers and key employees included a review and approval by independent persons, consideration of compensation data for comparable positions at similar organizations, and

\textsuperscript{157} See 26 U.S.C. § 501(c)(3).
contemporaneous documentation of deliberations and decisions regarding compensation.\textsuperscript{158}

By requiring affirmative answers about a nonprofit’s policies and documentation regarding their implementation, the post-2008 Form 990 provides greater transparency as to whether board members are acting in accordance with their fiduciary duties, as well as in accordance with IRS rules. The IRS can revoke tax-exempt status for nonprofits that fail to follow its rules. For example, the IRS revoked tax-exempt status for over 275,000 nonprofits in 2011 simply for failing to file Forms 990.\textsuperscript{159}

Finally, there are state laws that govern how nonprofits are permitted to manage their endowments. Chief among these is the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which replaced the earlier Uniform Management of Institutional Funds Act (UMIFA) in California starting in 2009.\textsuperscript{160} These acts do not apply to endowment funds that were designated as such by a board of directors (sometimes called “quasi-endowments”), but only to endowments created as part of a gift instrument by a donor. Most orchestras possess only board-restricted quasi-endowments, but even though UPMIFA’s terms would not apply to such funds, there is another, more general standard for managing investments found in Cal. Corp. Code. §5240.\textsuperscript{161}

\textsuperscript{158} Hazen & Hazen, pp. 366–68.
\textsuperscript{159} Ibid., p. 397.
\textsuperscript{161} See Cal. Corp. Code. §5240(b)(1) (“Avoid speculation, looking instead to the permanent disposition of the funds, considering the probable income, as well as the probable safety of the corporation’s capital”).
Conclusion: How does the legal environment in which orchestras operate constrain and shape their goals and strategies?

The foregoing discussion attempts to briefly summarize the main restrictions the law places on nonprofit boards in California. In addition to these specialized restrictions, boards of directors are, of course, still subject to general criminal and civil laws. Complicating matters is the fact that another set of federal and state laws attempt to limit civil liability for volunteer directors.162 These acts were passed in response to concerns that subjecting directors to heightened risks of personal liability was disincentivizing service on nonprofit boards in a way that was damaging to the public interest. Any legislative, judicial, or executive attempts to improve the performance of nonprofits, including orchestras, will have to confront this dilemma of increasing accountability, on the one hand, versus encouraging volunteerism, on the other.

Besides this balance, the discussion of rules in this chapter shows that the law governing nonprofits is fragmented, existing both in statutes and in principles of equity, making the application of the rules to a particular circumstance very difficult to predict. Regarding the case of MOCA that began this chapter, for instance, the California Attorney General’s

162 See Volunteer Protection Act of 1997, 42 U.S.C. §§ 14501–05; Cal. Corp. Code §5047.5 (2015) ("The Legislature finds and declares that the services of directors and officers of nonprofit corporations who serve without compensation are critical to the efficient conduct and management of the public service and charitable affairs of the people of California. The willingness of volunteers to offer their services has been deterred by a perception that their personal assets are at risk for these activities. The unavailability and unaffordability of appropriate liability insurance makes it difficult for these corporations to protect the personal assets of their volunteer decisionmakers with adequate insurance. It is the public policy of this state to provide incentive and protection to the individuals who perform these important functions."); Cal. Corp. Code §5239 (2015).
Charitable Trusts Section claimed for itself the power to hold the organization’s directors liable for misuse of funds, even though there was no allegation that the directors personally benefited from the transactions in question, and even though the statutory language of Cal. Corp. Code §5231(c) seems to expressly preclude such a theory of liability. The California Attorney General is among the most active attorneys general in the country when it comes to monitoring nonprofits, but, as noted above, there was no state intervention in the cases of SJS and OSOA.

According to Fishman and Schwarz, “[t]he assumption of good governance mandates is they will improve a charity’s performance and assist in the attainment of the organization’s mission. There is no empirical data that confirms such assumptions.” However, there exists some empirical evidence that the presence of major donors on boards is correlated with some improvement of some measures of nonprofit organizational efficiency. For orchestras to be able to successfully confront the challenges of the cost disease and declining demand, their boards must be as attentive and competent as possible.

163 See Brown, Edmund G., Jr. California Attorney General’s Guide for Charities, 2005, p.34 (“The Attorney General investigates and audits charities to detect cases in which directors and trustees have mismanaged, defrauded, or wrongfully diverted funds from the charity. If these improper actions by directors have resulted in a loss of charitable assets, the Attorney General may sue the directors to recover from them the missing funds. The funds recovered by the Attorney General are returned to the charity.”).

164 See note 6, supra (“Except as provided in Section 5233, a person who performs the duties of a director in accordance with subdivisions (a) and (b) shall have no liability based upon any alleged failure to discharge the person’s obligations as a director, including, without limiting the generality of the foregoing, any actions or omissions which exceed or defeat a public or charitable purpose to which a corporation, or assets held by it, are dedicated.”).