GRAEBERT, MARIAN, D.M.A. The North Carolina Symphony: A Case Study in Fiscal Sustainability Strategies for a Large American Orchestra. (2016)
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The purpose of this document is to identify fiscal sustainability strategies that have been successfully employed by a large American symphony orchestra and to provide concrete suggestions for orchestra managers seeking to improve their orchestra's fiscal sustainability. To accomplish this purpose, this document addresses the following questions:

1. Which large American symphony orchestras are fiscally consistent?
2. What are the factors that contribute to a large American orchestra's fiscal consistency and fiscal sustainability?
3. How can practitioners incorporate these practices into their own orchestras?

To answer the first research question, the 2005–2011 tax form 990s of 25 large American orchestras were surveyed. Total Income/Total Expense ratios were calculated for each orchestra, and five orchestras consistently achieved an income ratio of over 100% from 2005 to 2011. The five orchestras included the Los Angeles Philharmonic, St. Louis Symphony, Cincinnati Symphony, North Carolina Symphony, and Buffalo Philharmonic.

To answer the second research question, one of the five orchestras was selected as the subject for a qualitative single-case study to determine what factors contributed to its fiscal consistency from 2005 to 2011. While any of the orchestras might have been chosen as the case study subject, the North Carolina Symphony was selected due to the fact that it displayed high levels of government support that were disproportional to

sector norms. Analysis from the case study indicated that while government funding was a crucial income source for the North Carolina Symphony, the orchestra's fiscal sustainability was primarily derived from community engagement, fostered by the North Carolina Symphony's clarity of mission that translated into community-oriented program activities. Secondary fiscal sustainability strategies included transparency, leveraging human resources, and a service mindset.

To answer the third research question, the last section of the document contains practical suggestions derived from the case study analysis to be employed by orchestra practitioners who seek to improve their organization's fiscal sustainability.

THE NORTH CAROLINA SYMPHONY: A CASE STUDY IN FISCAL

SUSTAINABILITY STRATEGIES FOR A LARGE

AMERICAN ORCHESTRA

by

Marian Graebert

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APPROVAL PAGE

This dissertation, written by Marian Graebert, has been approved by the following committee of the Faculty of The Graduate School at The University of North Carolina at Greensboro.

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CHAPTER I

INTRODUCTION

Background

Symphony orchestras are among the great cultural treasures of the United States of America. Their performances convey the depth of human experience, offering hope and inspiration.[1] Long considered the hallmark of a cultured city,[2] they contribute to a community's artistic vibrancy and are an essential component of a thriving arts and culture scene, generating civic pride and offering an avenue for social connection.[3] As a part of the creative economy, orchestras also enhance a city's economic development,[4] attracting business leaders, philanthropists, and civic-minded citizens, thus improving the area's overall quality of life.[5]

However, for several decades, American symphony orchestras have struggled as a field to maintain financial stability. Within the past twenty-five years, over one dozen American orchestras have declared bankruptcy, folded or temporarily suspended operations,[6] including major orchestras such as the Philadelphia Orchestra, Cleveland Orchestra, Minnesota Orchestra, Detroit Symphony Orchestra, and Atlanta Symphony.[7] In a recently published (2012) study by Stanford economist Robert J. Flanagan, 46 of the

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[1] Woodcock, "Why Music is Important."
[2] Florida, *The Rise of the Creative Class*, 182.
[3] Woodcock.
[4] United States, Department of Treasury, Internal Revenue Service, "2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 34.
[5] League of American Orchestras, "Quick Orchestra Facts 2015 (Data from 2011–12)," 2.
[6] Flanagan, *The Perilous Life of Symphony Orchestras*, 2–3.
[7] Woodcock.

63 largest orchestras in America ran deficits on average from 1987 through 2005, while only 17 of the orchestras achieved surpluses on average.[8] American symphony orchestras typically have status as Internal Revenue Core (IRC) 501(c)(3) public charities, and as nonprofit organizations, their primary purpose is to fulfill a social mission, rather to than to generate profit for owners and shareholders. However, without resources and solid financial grounding, it is impossible for any nonprofit, including an orchestra, to fulfill its mission.[9] As such, in order to ensure the lasting legacy of the American symphony orchestra, it is vital for the field to achieve financial stability and sustainability.

Purpose and Research Questions

The purpose of this document is to identify fiscal sustainability strategies that contribute to the fiscal consistency of large American symphony orchestras as well as to provide concrete suggestions for orchestra managers seeking to improve their orchestra's fiscal sustainability. I chose to concentrate on large orchestras because the majority of academic discussion on American orchestra economics focuses on large orchestras, which generate and incur the approximately 70% of the field's annual revenue and expenses.[10]

To accomplish this purpose, this document intends to address the following questions:

1. Which large American symphony orchestras are fiscally consistent?

[8] Flanagan, *The Perilous Life of Symphony Orchestras*, 2.
[9] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, "Financial Sustainability for Nonprofit Organizations," 3.
[10] Dempster, "The Wolf Report and Baumol's Curse," 2.

2. What are the factors that contribute to a large American orchestra's fiscal consistency and fiscal sustainability?
3. How can practitioners implement these practices in their orchestras?

Definitions

This paper employs the followings terms and definitions:

- **American symphony orchestra:** a symphony orchestra of the United States of America.
- **Cost disease:** the economic phenomenon in which an orchestra's expenses (particularly musician fees) generally rise faster than its ticket sales revenue as well as the U.S. economy.[11]
- **Dynamic capabilities:** "organizational and strategic routines by which firms achieve new resource configurations"[12]
- **Fiscal consistency:** regularly achieving a higher level of annual revenue than annual expenses.
- **Fiscal sustainability:** the long-term application of fiscal consistency.
- **Income gap:** the concept that an orchestra's ticket sales revenue cannot cover the entirety of its operating cost; as such, orchestras must fill the income gap with additional revenue streams such as private contributions, government funding, endowment income, etc.[13]

[11] Baumol, "Symphony Orchestra Economics: The Fundamental Challenge," 53.
[12] Pablo et al., "Identifying, Enabling, and Managing Dynamic Capabilities in the Public Sector," 688.
[13] Baumol and Bowen, *Performing Arts, the Economic Dilemma*, 147–148.

- **Large symphony orchestra:** a symphony orchestra with an annual budget of over $5 million.[14]
- **The field:** the aggregate whole of American orchestras of all budget sizes.

Organization and Research Methods

This dissertation is organized by the following chapters:

- Chapter II: Literature Review
- Chapter III: Context of the American Orchestra Field
- Chapter IV: North Carolina Symphony: A Case Study in Fiscal Sustainability Strategies for a Large American Orchestra
- Chapter V: Implications for Practitioners

The literature review in Chapter II provides a contextual financial framework by reviewing the American symphony orchestra field's standard financial structure as well as its inherent flaws and limitations. It will also summarize the current state of American orchestra fiscal sustainability literature, as well as identify gaps in the literature. Chapters III through V respectively address each of the three presented research questions. Through a quantitative survey of the annual revenue and expenses reported in the tax-form 990s of 25 large American orchestras, Chapter III quantitatively identifies five fiscally consistent orchestras with a consistently higher level of revenue than expenses from 2005 through 2011. To identify the qualitative factors that contribute to a large American orchestra's fiscal sustainability, Chapter IV presents a case study modeled after

[14] Brooks and Symphony Orchestra Institute, *Improving the Orchestra's Revenue Position*, 13.

the paradigms of Robert K. Yin[15] interpreted through the theoretical frameworks of dynamic capabilities[16] and a "resource-based" view.[17] I selected a single-case study model because each of the identified fiscally consistent orchestras displayed dramatically different revenue strategies, thus making it difficult to conduct controlled side-by-side comparisons of all five orchestras. While any of the orchestras might have been chosen, I chose the North Carolina Symphony as my single-case study subject because it displayed high levels of government support that were disproportional to the field's norms. As such, the case study will specifically reference the role of government funding in its fiscal sustainability strategy. Chapter V discusses how orchestra managers and leaders can incorporate practices from the case study's findings into their own orchestras.

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[15] Yin, *Case Study Research*, 38.
[16] Pablo et al.
[17] Pfeffer and Salancik, "The External Control of Organizations: A Resource Dependence Perspective."

CHAPTER II

LITERATURE REVIEW

Introduction

As noted by Erin V. Lehman in “Symphony Orchestra Organizations: Development of the Literature since 1960,” the genre of cultural economics with specific reference to American symphony orchestras emerged relatively recently, in the second half of the twentieth-century.[18] For this reason, this literature review addresses works that span from 1966 through 2014. The review is thematically categorized by the following topics:

1. Explanations of the American Orchestra’s Standard Financial Structure
2. Analyses of the Financial Health of the American Orchestra Field
3. Fiscal Sustainability Strategies for American Orchestras
4. Fiscal Sustainability Case Studies of American Orchestras
5. Discussions on the Government’s Role in Fiscal Sustainability

The first two sections will provide a contextual financial framework for the reader: Section 1 will discuss the field’s standard financial structure as well as its inherent limitations, and Section 2 will provide an overview of the financial health of the field as a whole from 1966 through 2005. Sections 3 and 4 will respectively review research that broadly and specifically addresses orchestral fiscal sustainability, thus providing the

[18] Lehman, “Symphony Orchestra Organization: Development of the Literature since 1960,” 42.

reader with an overview of the current state of orchestral fiscal sustainability research. Section 5 discusses the role of government in orchestral fiscal sustainability, as it is frequently characterized as either a something that will lead to mission drift or as the ultimate solution that will resolve the field's financial sustainability issues.

Notably, the League of American Orchestras gathers the most comprehensive and reliable data on professional American symphony orchestras through its annual Orchestra Statistical Report.[19] As such, several of the following sources, including the most influential and widely disseminated, heavily relied on the League's data for their research (Baumol and Bowen, the Wolf Organization, Dempster, Flanagan, Hughes, etc.).

Explanations of the American Orchestra's Standard Financial Structure

A variety of sources illuminate the standard financial structure employed by American symphony orchestras. Books that broadly address the topic of American symphony orchestras typically devote a chapter to standard revenue structures within the field. Examples include George Seltzer's (1975) *The Professional Symphony Orchestra in the United States*, D. Kern Holoman's (2012) *The Orchestra: A Very Short Introduction* and Samuel R. Rosenbaum's (1967) contribution to *The American Symphony Orchestr*a. Virtually every orchestra scholar points to the inevitable "income gap" that exists for every symphony orchestra–in other words, an orchestra's ticket sales revenue cannot cover the entirety of its operating costs. As such, orchestras fill the income gap with additional revenue streams such as private contributions, government funding, corporate support, and endowment income.

[19] Dempster, 2–3.

Analyses of the Financial Health of the American Orchestra Field

In virtually every discussion regarding the financial health of American orchestras, the following three works serve as a foundation for subsequent analysis:

- William J. Baumol and William G. Bowen's (1966) *Performing Arts, The Economic Dilemma: A Study of Problems Common to Theater, Opera, Music, and Dance*
- The Wolf Organization's (1992) "The Financial Condition of Symphony Orchestras"
- Robert J. Flanagan's (2012) *The Perilous Life of Symphony Orchestras: Artistic Triumphs and Economic Challenges*

Esteemed Princeton economists Baumol and Bowen (1966) present a thorough investigation of the economic condition of U.S. performing arts organizations with a heavy emphasis on symphony orchestras. In their analysis, Baumol and Bowen conclude not only that performing arts organizations "typically operate under financial strain"[20] but that the financial pressures will inevitably worsen over time due to what the authors term as "stationary productivity." They explain that in the instance of manufactured goods, technological advances and productivity increases will lead to greater efficiency and profits. Live arts performances, on the other hand, are prescribed a specific number of performers in order to present the works as intended by the composer or choreographer. Furthermore, Baumol and Bowen's findings indicate that the costs to pay the performers will always rise faster than the performance revenue, creating a continually widening gap

[20] Baumol and Bowen, *Performing Arts, the Economic Dilemma*, 161.

between revenue and costs. This phenomenon is widely known as "cost disease." As Baumol succinctly explained in a (1996) interview with the Forum of the Symphony Orchestra Institute's *Harmony* magazine,

> A Haydn symphony written to be performed by 30 musicians will require 15 person-hours of human labor for an 'authentic' performance, no less than it did at the end of the 18th century. But elsewhere in the economy it takes less and less labor every year to produce a product . . . Thus, orchestra costs are condemned to rise every year, cumulatively, at a rate faster than the average of the economy's prices; in other words, faster than the rate of inflation."[21]

Thus, Baumol and Bowen's work calls into question the long-term financial viability of performing arts organizations, including symphony orchestras.

Nearly thirty years later, the American Symphony Orchestra League (now League of American Orchestras) commissioned a consulting team to research the financial activities of American symphony orchestras in order to gain insight into the field's fiscal health. Commonly referred to as the Wolf Report, the findings, conclusions, and future implications of the research are perhaps even more emphatic than those of Baumol and Bowen. In its overview, the report states:

> The orchestra industry is in financial crises . . . [and] appears to be in the worst financial shape it has ever be in by several objective measures. **Unless changes are made in the way orchestras do business–changes that are substantial and systemic—the future health of the orchestra industry is in serious jeopardy.** [emphasis in original][22]

[21] Baumol, 53.
[22] Wolf Organization and American Symphony Orchestra League, *The Financial Condition of Symphony Orchestras*, vi.

Notably, the report seems to corroborate Baumol and Bowen's prediction of a continual income gap increase: the document reported that although the field now served more people per performance, the field's annual deficit increased from nearly $3 million to over $23 million in a twenty-year period.[23]

Presented at the 1992 American Symphony Orchestra League conference, the results of the Wolf Report immediately became well-known to the executives and managers of professional American orchestras and became a subject of significant controversy. While many orchestra managers, such as New York Philharmonic Managing Director Deborah Borda, embraced the Wolf report's somber message, others adopted a more blasé attitude. In response to the Wolf Report, San Francisco Symphony Executive Director Peter Pastreichf staunchly maintained, "We <u>do</u> have a critical financial problem. The orchestras are spending more than they are taking in . . . But the situation is critical, not serious, and music will survive." [emphasis in original][24]

In a decade-review *Harmony* magazine article, Douglas J. Dempster's (2003) findings echo Pastreichf's sentiments. Dempster's analysis revealed that the Wolf Report's predicted ten-year industry deficits did not come to pass and that the field actually increased its earned income revenue, thus preventing the industry income gap from increasing over the ten-year period. In conclusion, he triumphantly proclaimed that "orchestras are resisting a fate projected by the Wolf Report and foretold by Baumol's Curse."[25]

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[23] Wolf Organization and American Symphony Orchestra League, iii.
[24] Ibid., D–2.
[25] Dempster, 14.

Unfortunately, Stanford economist Robert J. Flanagan's findings (2012) do not concur with Dempster's conclusions. Compiling extensive data from the U.S.'s 63 largest orchestras over a twenty-year period, Flanagan employed statistical analysis to gain insight into the field's financial condition. His findings concluded that the field is marked by chronic financial insecurity and budgetary deficits,[26] and they also echoed predictions proffered by Baumol and Bowen: as the Princeton economists predicted, Flanagan found that from 1987 to 2005, the musicians' pay increased at a faster rate than product productivity gains, leading to an increasing income gap in the field.[27]

Fiscal Sustainability Strategies for American Orchestras

Although academic orchestral literature thoroughly documents that the standard financial model of the American orchestra faces inherent difficulties that result in a precarious financial position for the field, few sources respond to this inherent problem with concrete strategies for fiscal sustainability. The Wolf Report calls for a paradigm shift that includes reducing the number of full-time players, utilizing multiple venues, and revitalizing school music-education programs,[28] and Flanagan (2012) contends that orchestras must increase performance and nonperformance revenue while reducing expenses in order to combat the income gap.[29] However, the primary focus of these sources is the current financial condition of the field, rather than on viable methods to combat the condition. In response to Flanagan's early field research (2008), The Orchestra Forum (2008) created its The Elephant Task Force document, in which it

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[26] Flanagan, *The Perilous Life of Symphony Orchestras*, 2.
[27] Ibid., 77.
[28] Wolf Organization and American Symphony Orchestra League, A-17–A-20.
[29] Flanagan, *The Perilous Life of Symphony Orchestras*, 177.

presents three areas it concludes to be inextricably linked to a healthy financial structure (i.e., community relationships, internal culture, and artistic activities). However, The Elephant Taskforce does not cite scholarly research methods such as empirical data or orchestra case studies to support its ideas for potential solutions.[30]

One notable exception is Arthur C. Brook's research, which provides concrete fiscal strategies for orchestra managers supported by empirical and quantitative data. Brooks (1997) argues that an orchestra's cost-disease can be remedied through increased demand for industry products (i.e., concerts) through methods such as recording, fundraising, and advertising. He presents two strategies to increase product demand: the *Veblenian* strategy and the *Marshallian* strategy. The *Veblenian* strategy positions the orchestra as a luxury experience for audience members with high social standing, while the *Marshallian* strategy positions the orchestra as an experience for the general public and specifically for the "uninitiated consumer" (i.e., a person that has never been to a symphony orchestra concert). Based on his statistical research, Brooks recommends the *Veblenian* strategy paired with a fundraising focus for smaller orchestras (orchestras with budgets under $5 million). For large orchestras (orchestras with budgets over $5 million), Brooks recommends the *Marshallian* strategy paired with advertising and perhaps recording.[31]

Fiscal Sustainability Case Studies of American Orchestras

Academic orchestral literature contains a variety of general case studies, such as those of Robert Craven (1986), and there are also case studies that focus on nonfinancial

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[30] Orchestra Forum, "The Elephant Task Force: A Journey Toward New Visions for Orchestras," 2–3.
[31] Brooks, *Improving the Orchestra's Revenue Position: Practical Tactics and General Strategies,* 13.

topics, such as the League of American Orchestras' *Fearless Journey*s, which documents the innovative practices of five American orchestras. However, orchestra case studies rarely seem to focus on successful fiscal sustainability strategies. Philip Hart (1973) presents case studies of six American orchestras. In addition to providing general and administrative information on the orchestras, Hart delves into the financial difficulties of each orchestra with respect to the inevitable "income gap." Although Hart does note some specific instances of financial success, his focus leans towards the orchestras' current and future financial difficulties rather than the financial solutions of the individual orchestras.[32]

By contrast, Edward Arian (1971) cites several fiscal sustainability strategies such as programming, record royalties, and increased touring, which enabled the Philadelphia Orchestra to obtain what he describes as a "comparatively strong" financial position. However, he cautions that while the cited strategies contributed to the organization's financial stability, they also compromised the organization's artistic integrity such that they had the potential to "destroy the organization."[33] Thus, while Arian presents "strategies" for fiscal sustainability, he does not present them as a template for other organizations to follow.

TRG Arts, a private consulting company that specializes in helping arts organizations increase sustainable revenue streams, published two separate (2013) case studies that document how the Chicago[34] and Albany[35] symphony orchestras increased

[32] Hart, *Orpheus in the New World*, 139–294.
[33] Arian, *Bach, Beethoven, and Bureaucracy*, 48–49.
[34] TRG Arts, "Case Study: Chicago Symphony Orchestra."
[35] TRG Arts, "Case Study: Albany Symphony Orchestra."

their ticket and subscription sales through adopting strategies recommended TRG Arts. However, although TRG's case studies are informative and shed light on practices that have the potential to enable other orchestras to improve their financial stability, the studies are hardly objective due to the fact that they were published and promoted by the company that provided the services.

Discussions on the Government's Role in Fiscal Sustainability

Frequently addressed in the discussion of orchestral fiscal sustainability is U.S. public policy and government's role in maintaining its orchestras. Although the level of government support for American orchestras has varied throughout the last century, government funding generally has not exceeded more than 10% of an American orchestra's operating expenses.[36] Advocates for a higher level of government support point out that the continental European and Japanese governments view their orchestras as a public service[37] and support their orchestras at a much higher monetary level than the U.S. government. For example, in 1985, the continental European and Japanese governments respectively provided their orchestras on average with 73% and 48.7% of their orchestras' total revenue, whereas the United States funded just 9.7% of its orchestras' total revenue in the same year.[38] In light of this discrepancy, some scholars contend that the U.S. government should increase funding for its orchestras. As referenced in the Wolf Report, a McKinsey report (1972) argued that American

[36] Brooks and Rand Graduate School, *Arts, Markets, and Governments*, 74.
[37] Guillard, "The Symphony as a Public Service."
[38] Brooks and Rand Graduate School, *Arts, Markets, and Governments*, 74.

orchestras would eventually cease to be financially viable unless the U.S. government increased its level of support to 20–25% of its orchestra's operating expenses.[39]

On the other hand, other scholars are quick to point out the inherent drawbacks of direct government funding. Flanagan notes that government subsidies of symphony orchestras have historically been "a difficult political sell in the United States" and that "in an era of large structural government deficits, long-term direct government support to orchestras seems unlikely in the United States."[40] Historically, orchestra managers have also feared the "government interference" that could result from high levels of subsidies[41] and potentially lead to mission drift. Various contemporary scholars are also wary of high levels of government funding. For instance, a study of American orchestras (2006) concluded that high levels of government support are correlated with low levels of overall fiscal health.[42]

Economic theory suggests that government subsidies have the potential to displace or "crowd-out" private donations[43] because they can create a perception of less financial need.[44] However, recent studies have not found this to be conclusive. Based on the data from his study, Brooks (1998) concluded that government funding neither leverages nor crowds out private donations to symphony orchestras.[45] Similarly, Thomas More Smith (2007) concluded that his data did not provide any evidence that government

[39] Macomb and Wooster, "How to Resolve the Growing Financial Crisis of Our Symphony Orchestras."
[40] Flanagan, *The Perilous Life of Symphony Orchestras*, 110–111.
[41] Hart, 379.
[42] Kirchner, Markowski, and Ford, "Relationships among Levels of Government Support, Marketing Activities, and Financial Health of Nonprofit Performing Arts Organizations."
[43] Flanagan, *The Perilous Life of Symphony Orchestras*, 102.
[44] Hughes, Luksetich, and Rooney, "Crowding-Out and Fundraising Efforts," 1.
[45] Brooks and Rand Graduate School, *Arts, Markets, and Governments*, 79.

funding crowded out private donations to orchestras, but in fact indicated that government funding potentially had a modest “crowd-in” effect.[46] Patricia C. Hughes (2014) also concluded that government funding has a significant crowd-in effect for private donations to symphony orchestras, although the data also indicated that the government funds have a small crowd-out effect on foundation giving.[47]

Conclusion

Academic orchestral literature indicates that the standard financial structure of the American orchestra faces inherent difficulties that arise from the income gap and cost disease. Thus, in order for an orchestra to be financially sustainable, it must somehow manage to overcome the income gap and cost disease. Orchestra literature thoroughly documents that from the mid-twentieth century through present day, the American symphony orchestra field as a whole has struggled to fill the income gap and treat cost disease. It does not, however, thoroughly document concrete fiscal sustainability strategies that have been employed to successfully overcome the income gap and cost disease. Some sources suggest various strategies for fiscal sustainability, but the strategies are generally are not supported by scholarly research and empirical evidence. The few sources that do cite fiscal sustainability strategies supported by empirical evidence do not name specific orchestras that have successfully employed the strategies to achieve fiscal consistency, such as the works of Arthur C. Brooks. Furthermore, the orchestra literature as has a dearth of financial case studies, making it difficult for

[46] Smith, “The Impact of Government Funding on Private Contributions to Nonprofit Performing Arts Organizations.”
[47] Hughes, Luksetich, and Rooney.

practitioners to learn from and adopt the fiscal sustainability strategies of identified fiscally consistent orchestras. Thus, academic orchestral literature tends to focus more on the financial problems of the field rather than on potential solutions. Although it is typically fraught with controversy, one potential solution that is frequently brought up is government funding, as the U.S. government funds its orchestras at a far lower rate than many foreign governments fund their orchestras. However, the academic literature does not thoroughly document specific American orchestras that have successfully secured disproportionately high levels of government support as a fiscal sustainability strategy.

Within the literature, a wealth of information exists that describes the general financial state of the field as a whole. This is largely due to the extensive data gathered through the League of American Orchestras' Statistical Report, which is considered to be the most comprehensive and reliable source of information for the field, and as mentioned previously, several of the cited sources in this review relied heavily on data provided by the League of American Orchestras in order to complete their analysis (Baumol and Bowen, the Wolf Organization, Dempster, Flanagan, Hughes, etc.). However, there is a gap in the literature in regards to fiscal sustainability strategies and financial case studies that feature orchestras with strong financial performance. While it may seem natural to turn to the League of American Orchestra's Statistical Report to identify specific orchestras with a solid financial track record, the League abides by a strict confidentially agreement with its participants. The Statistical Report is available only to orchestras that participate in the annual survey,[48] and academics are granted

[48] League of American Orchestras, "OSR: Orchestra Statistical Report."

access to select data for their research under the condition that the identities of the orchestras are not linked to their corresponding data.[49]

As of this writing, the literature does not thoroughly address the following questions:

- Which specific large American orchestras are strong financial performers?
- What are the factors that contribute to an orchestra's fiscal sustainability?
- How can these fiscal sustainability strategies be adapted into a template for other orchestra managers to employ in their own orchestra?

This document intends to contribute to the literature by identifying concrete fiscal strategies that have been successfully employed by a large American symphony orchestra with the hope that other orchestra managers can incorporate the strategies into the practices of their organizations.

[49] Flanagan, *The Perilous Life of Symphony Orchestras*, vii.

CHAPTER III

FINANCIAL CONTEXT OF THE AMERICAN ORCHESTRA FIELD, 2005–2011

Introduction

As noted in Chapter II, current orchestral literature generally does not identify the specific orchestras that consistently have a higher level of revenue than expenses. This is largely due to the fact that the bulk of the financial data used in economic surveys is acquired from the League of American Orchestras, which has gathered extensive data from American orchestra for sixty-five years. Each year, the League generates an Annual Statistical Report. Containing far more than just orchestral financial information, the annual reports also contain information such as orchestra programming choices and musician demographics. Designed as a strategic and business planning tool for orchestra managers,[50] approximately 200 American orchestras voluntarily submit their information to the League each year.[51] Participating orchestras have access to the League's Annual Statistical Report and may also request customized reports.[52]

Because the League's statistical reports are considered to contain the most comprehensive and reliable data on the American orchestra field,[53] scholars and researchers desire to access the data. However, in order to gain access to the information, researchers must submit a formal application to the League and agree to abide by the

[50] League of American Orchestras, "OSR: Orchestra Statistical Report."
[51] Dempster, 2.
[52] League of American Orchestras, "OSR: Orchestra Statistical Report," l.
[53] Dempster, 2–3.

League's user agreement, including agreeing not to publish information that reveals the identities of specific orchestras.[54] As a result, while orchestra literature contains a wealth of financial information about the field as a whole, very little research has been published on the financial state of specific individual orchestras. In an effort to help fill this gap, I crafted my own study to identify fiscally consistent large American orchestras.

Methodology of Study

Because the literature does not identify the field's strong financial performers, I chose to survey multiple large orchestras to pinpoint the fiscally consistent orchestras. Constituting less than 5% of all American orchestras, there are approximately 60 large orchestras in the United States.[55] I chose to survey 25 of those orchestras. Orchestras were chosen across a variety of budgets: seven of the selected orchestras had a budget of over $50 million; eight of the orchestras had a budget between $20 million and $50 million, and seven had a budget between $5 million and $20 million. Every major region in the United States was represented in the sample. For a complete list of the surveyed orchestras, please refer to Appendix A.

I acquired each orchestra's annual expense and income and revenue stream distribution through their published IRS tax-form 990, and I chose a seven-year time boundary of 2005 through 2011. The year 2005 was chosen as a starting point because the last major work on the economic health of American orchestras (Flanagan's *The Perilous Life of Symphony Orchestras*) employed data through 2005. The year 2011 was

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[54] Flanagan, *The Perilous Life of Symphony Orchestras*, vii.
[55] League of American Orchestras, "Quick Orchestra Facts 2015 (Data from 2011–12)," 1.

chosen as an ending point because 2011 was the last fiscal year for which tax-form 990 data was consistently available at the time I conducted my study.

After compiling the orchestras' data from the seven-year period, I used the following equation to determine the orchestras' income ratios for each year: Income Ratio = Total Income / Total Expense.

In the identification of fiscally consistent orchestras, orchestras that achieved an income ratio of higher than 100% every year from 2005–2011 were automatically included in the list of fiscally consistent orchestras. Because the 2009 economic recession resulted in a drastic reduction in revenue across the American arts and culture field for that year,[56] orchestras were permitted to have a 2009 income ratio as low as 85% without being eliminated from the list of fiscally consistent orchestras. Orchestras were also permitted to have additional one year in which their income ratio was as low as 95%. If orchestras did not meet the above criterion, they were automatically discarded from the list of fiscally consistent orchestras.

In order to gain a better understanding of the revenue streams of the identified fiscally consistent orchestras, I recorded the specific dollar amount of revenue obtained within each broad revenue category as indicated on the orchestras' tax-form 990s. I subsequently calculated the revenue ratios for each identified orchestra, using the following ratio formulas:

[56] Marque-Louisa Miringoff and Sandra Opdycke, "The Arts in a Time of Recession," 150.

- Private Contributions/Total Revenue
- Government Support/Total Revenue
- Program Service Revenue/Total Revenue
- Investment Income/Total Revenue
- Other/Total Revenue

Background: Expenses and Revenue for the American Orchestra Field

According to the League of American Orchestras, 2012 tax-form 990 filings indicated that 1,372 orchestras existed in the United States, with field expenses totaling nearly $1.8 billion. Of those orchestras, the vast majority had annual budgets under $5 million: 84.1% had annual budgets under $1 million, and 11.3% had a budget between $1 million and $5 million. 2.6% of the orchestras had a budget between $5 million and $20 million, and 1.3% had a budget between $20 million and $50 million. Less than 1% (0.7%) of the orchestras had an annual budget of over $50 million.[57]

As mentioned in Chapter II, every orchestra in the United States supplements its ticket sales revenue with additional income streams, which are primarily private contributions (individual donations and foundation grants), government support, and investment income (generally from an endowment fund). Other revenue forms can include hall rentals, parking and concessions, and recording royalties.[58] As such, orchestral revenue streams can be divided into the following five broad categories: Private Contributions, Government Support, Program Service Revenue, Investment Income, and Other.

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[57] League of American Orchestras, "Quick Orchestra Facts 2015 (Data from 2011–12)," 1.
[58] Flanagan, *The Perilous Life of Symphony Orchestras*, 32–33.

In 2012, 46.7% of the field's revenue was obtained through private contributions; 4.6% was obtained through government support; 33.4% came from concert revenue; 5.0% came from investment income, and 10.3% came from "other" revenue streams.[59] As such, the field's largest sources of revenue were private contributions (nearly half of its total revenue) and concert revenue (one-third of its total revenue). Investment income, government, and other forms of revenue accounted for less than 15% of the field's total revenue.

While these figures represent the average distribution of revenue for American orchestras, they do not indicate a "standard model" of revenue distribution for most American orchestras. For example, the field's 2005 revenue distribution closely resembled the revenue distribution in 2012: private contributions comprised 45% of the field's revenue; government support comprised 5%; concert revenue comprised 37%, and investment income comprised 13%.[60] However, the total range for each category was very broad. Private contributions ranged from 18% to 66%; government subsidies ranged from 0.2% to 28%; concert revenue ranged from 18% to 74%, and investment income ranged from -2% to 36%. As a result, Flanagan asserts that "individual U.S. orchestras do not follow a common financial model."[61]

Results

After calculating the income ratios for the twenty-five orchestras, five orchestras fit the pre-specified guidelines of fiscal consistency: the Los Angeles Philharmonic,

59 League of American Orchestras, "Quick Orchestra Facts 2015 (Data from 2011–12)," 1.
60 Flanagan, *The Perilous Life of Symphony Orchestras*, 34.
61 Ibid., 35.

Cincinnati Symphony, St. Louis Symphony, North Carolina Symphony, and the Buffalo Philharmonic. Notably, the five identified orchestras ran the gamut in budget size and geographic location. One orchestra had an annual budget of over $50 million (the Los Angeles Philharmonic), two orchestras had annual budgets between $20 million and $50 million (Cincinnati and St. Louis Symphonies), and two of the orchestras had annual budgets between $5 million and $20 million (North Carolina Symphony and Buffalo Philharmonic). One orchestra resided on the West Cost, two resided in the Midwest, one resided in the North East, and one resided in the Southeast. The population of each orchestra's home city also varied. According to U.S. census data, Los Angeles had a population of approximately 9.8 million in 2010, while Cincinnati, St. Louis, Raleigh, and Buffalo had populations between 260,000 and 403,000 (respectively, the cites had 2010 populations of approximately 297,000; 319,000; 403,000; and 260,000).[62]

Table 3.1 lists the five orchestras and their income ratios from 2005 to 2011. For a table with the dollar amount of each orchestra's revenue and expenses, please refer to Appendix B. As evident from Table 3.1, the Los Angeles Philharmonic, Cincinnati Symphony, and North Carolina Symphony experienced noticeable negative income gaps in 2009 (the orchestras respectively achieved 93%, 92% and 85% income ratios). The Cincinnati Symphony and the North Carolina Symphony also experienced small income gaps in 2008, respectively achieving income ratios of 97% and 99%, respectively. Two of orchestras (the St. Louis Symphony and the Buffalo Philharmonic) maintained an income ratio of over 100% for the entirety of the time period.

[62] United States Census Bureau, "American FactFinder–Community Facts."

Table 3.1

Income-to-Expense Ratios of Five American Orchestras, 2005–2011

Symphony	2005	2006	2007	2008	2009	2010	2011
Los Angeles Philharmonic	109%	116%	120%	116%	93%	117%	106%
Cincinnati Symphony	104%	109%	105%	97%	92%	106%	112%
St. Louis Symphony	229%	123%	116%	106%	126%	103%	103%
North Carolina Symphony	104%	106%	104%	99%	85%	109%	103%
Buffalo Philharmonic	102%	104%	112%	112%	103%	101%	100%

Note. Orchestras are listed in descending order of budget size.

Table 3.2 details the revenue ratios of the five identified American orchestras from 2005 through 2011. For table with each orchestra's actual revenue numbers, please refer to Appendix C. Notably, in the surveyed time period, each orchestra appears to have employed unique revenue strategy with proportionally different revenue streams. The Los Angeles Philharmonic's program service revenue consistently comprised over two-thirds of its annual revenue, ranging from 64% to 81% of its total annual income. Orchestras' tax-form 990s generally do not contain detailed break downs of the components of its program service revenue, but the Los Angeles Philharmonic's forms listed the following broad categories: concert sales, ticket sales, concessions, parking, and recording royalties.[63] The remainder of its income came primarily from private contributions, comprising approximately one-quarter to one-third of its budget. The symphony orchestra's investment income comprised 1% to 3% of its revenue (with the exception of

[63] United States, Department of Treasury, Internal Revenue Service, "2005–2011 Returns of Organization Exempt from Income Tax (Form 990): Los Angeles Philharmonic."

2009, in which it experienced a significant loss), and government support comprised 0% to 2% of its total revenue.

Table 3.2

Revenue Ratios of Five American Orchestras, 2005–2011

		2005	2006	2007	2008	2009	2010	2011
Los Angeles Philharmonic	**Private Contributions**	29%	25%	28%	31%	27%	33%	29%
	Government Support	0%	2%	1%	1%	1%	1%	1%
	Program Service Revenue	68%	70%	64%	67%	81%	64%	67%
	Investment Income	1%	2%	3%	2%	-8%	3%	3%
	Other	2%	2%	4%	0%	-1%	0%	0%
Cincinnati Symphony	**Private Contributions**	30%	34%	30%	32%	36%	26%	33%
	Government Support	1%	1%	1%	8%	1%	0%	1%
	Program Service Revenue	58%	52%	59%	61%	68%	60%	57%
	Investment Income	2%	3%	3%	-1%	-6%	13%	9%
	Other	8%	10%	7%	0%	0%	0%	0%
St. Louis Symphony	**Private Contributions**	73%	55%	48%	44%	51%	42%	41%
	Government Support	3%	1%	6%	1%	4%	2%	5%
	Program Service Revenue	12%	21%	22%	25%	23%	31%	31%
	Investment Income	3%	2%	2%	1%	1%	0%	0%
	Other	9%	21%	22%	29%	21%	25%	23%
North Carolina Symphony	**Private Contributions**	33%	37%	37%	40%	31%	30%	33%
	Government Support	28%	25%	25%	24%	29%	37%	38%
	Program Service Revenue	35%	32%	31%	30%	33%	27%	28%
	Investment Income	3%	3%	4%	5%	0%	0%	0%
	Other	2%	3%	2%	2%	6%	6%	1%
Buffalo Philharmonic	**Private Contributions**	57%	52%	57%	53%	55%	48%	51%
	Government Support	12%	12%	11%	11%	11%	15%	10%
	Program Service Revenue	31%	34%	30%	32%	31%	35%	35%
	Investment Income	0%	0%	0%	0%	0%	0%	0%
	Other	0%	1%	2%	4%	3%	2%	4%

Note. Orchestras are listed in descending order of budget size.

The Cincinnati Symphony's program service revenue also comprised the bulk of its program service revenue, ranging from half to two-thirds of its income, and its private contributions comprised the majority of its remaining revenue, ranging from one quarter to one-third of its income. Although it had a spike in government support (8%) in 2008 and a dip in 2010 (0%), government support comprised 1% of its annual revenue in the remaining years. The symphony's investment income varied widely throughout the period, with a low of -6% in 2009 and a high of 13% in 2010. Its "Other" category also varied, ranging from 7% to 10% from 2005 to 2007 and drop to 0% for the remaining years.

By contrast, the St. Louis Symphony's largest revenue stream was private contributions, ranging from 41% to 73%. The remaining revenue primarily came from program service revenue and "other," respectively ranging from 21% to 31% and 21% to 29% over the course of 2006 to 2009 (because private contributions were disproportionately high in 2005, program service revenue and "other" respectively comprised just 12% and 9%). Government support ranged from 1% to 6% of its total revenue, and investment income ranged from 0% to 3%, steadily declining to 0% over the seven-year period.

Unlike the previous three orchestras, the North Carolina Symphony did not have a single revenue stream that comprised the majority of its total income. Instead, it had a balanced and diversified revenue stream package. Private contributions and program service revenue generally each comprised approximately one third of its total revenue each year. Notably, government support ranged from one quarter to one-third of its revenue, which is quite unusual in the American orchestral field. As previously stated, government funds comprise less than 5% of the American orchestra field's total revenue. The symphony's investment income ranged from 0% to 5% over the time period, and its "other" revenue ranged from 1% to 6%.

As in the case of the St. Louis Symphony, the Buffalo Philharmonic's private contributions generally comprised over half of its income, ranging from 48% to 57%, and its program service revenue comprised approximately one-third of its income. While its government support was not nearly as high as that of the North Carolina Symphony, its level of support was nevertheless over twice the field average, ranging from 10% to 15% of its income. The Buffalo Philharmonic's "other" revenue comprised 1% to 4% of its total income. Notably, while endowment income is often considered to be an essential component to an orchestra's fiscal sustainability plan, the Buffalo Philharmonic successfully achieved a positive Total Income/Total Expenses ratio every year from 2005 to 2011 with 0% of endowment income comprising its total revenue.

Thus, each of the five identified orchestras followed a very different revenue profile.

Conclusion

In order to identify the large American orchestras that are fiscally consistent, I surveyed twenty-five orchestras with budgets of over $5 million, calculating each orchestra's annual Total Income/Total Expense ratio over a seven-year period (2005–2011). Of the twenty-five orchestras, five consistently achieved an income ratio of over 100%. They are listed below by budgetary size in descending order:

1. Los Angeles Philharmonic
2. Cincinnati Symphony
3. St. Louis Symphony
4. North Carolina Symphony
5. Buffalo Philharmonic

For each of the financially consistent orchestras, I recorded their revenue streams by IRS Tax-Form 990 category: Private Contributions (i.e., individual donations and foundation grants), Government Support (i.e., government grants), Program Service Revenue (i.e., ticket sales), Endowment Income, and Other. I subsequently calculated the annual revenue stream to total revenue ratio for each orchestra in order to ascertain the "revenue package" of each orchestra.

In *The Perilous Life of Symphony Orchestras*, Flanagan notes that "individual orchestras do not follow a common financial model," meaning that while virtually every orchestra has the same revenue categories, the proportional makeup of each orchestra's revenue package varies widely.[64] This proved to be true in the resultant revenue ratios of the five top-performing financial orchestras of my study, which had extremely varied revenue packages and dramatically different revenue emphases in comparison to field revenue averages from 2011–2012. The Los Angeles Philharmonic displayed an extremely high level of program service revenue (over two-thirds of the orchestra's annual revenue). It had virtually no government support or investment income (generally less than 2% each). The Cincinnati Symphony displayed an unusually high level of

[64] Flanagan, *The Perilous Life of Symphony Orchestras*, 35.

program service revenue (between half and two-thirds of the orchestra's income). The St. Louis Symphony displayed an extremely high level of "other" (with the exception of 2005, the orchestra's "other" revenue ranged from 20% to 29%). From 2005 to 2009, it displayed an unusually low program service revenue (12% to 25%). The North Carolina Symphony displayed an extremely high level of government support (between one-quarter to one-third of the annual revenue package). Its remaining revenue was split fairly evenly between private contributions and earned income. The Buffalo Symphony displayed high level of government support (ranging between 10 and 15%) and moderately high level of private contributions (over half of its revenue). It had virtually no investment income in the surveyed time period (0% each year).

This preliminary study has several implications for future quantitative and qualitative research. Quantitatively, the study could be expanded to include every American orchestra with a budget over $5 million (approximately sixty orchestras) in order to identify additional fiscally consistent orchestras. Additional studies could also examine the expense ratios of fiscally consistent orchestras to identify consistent spending patterns that contribute to fiscal consistency in American orchestras.

As stated in Chapter II, the bulk of the quantitative analysis on the orchestral field is based on data provided by the League of American Orchestras. Because the League has strict confidentiality agreements with its users, specific orchestras may not be identified in the data analysis. As a result, the analysis generally pertains to the generalizations about the whole of the field and does not identify the orchestras that are fiscally consistent. However, every American orchestra's financial information is publically available in their IRS tax-form 990s through websites such as the National Center for Charitable Statistics, GuideStar, and the Foundation Center's 990 Finder. As a result, all of the financial data is publically available for analysis, but it not organized in a way that is conducive for analysis. An independent third party organization could create a free web-based data system that annually culls 990 tax-form data of every American orchestra with a budget over $5 million. The system could also be programmed to calculate financial ratios for each orchestra, including income, revenue, and expense ratios. Users would also be able to create customizable reports–for instance, they would be able to filter orchestras by budget size or geographic region. The third party-organization could also contract industry experts and economists to write analytical articles about the financial data.

A data system like this would have three key benefits. Firstly, it would provide a greater level of transparency to the field, potentially bolstering trust with the public[65] and encouraging increased and more thoughtful charitable giving from private and government funders.[66] Because the system would be updated annually as each orchestra publishes its form-990, the system would always reflect the current financial condition of the orchestra field. The users would also be able to retrieve information from prior years in order to directly compare the field's current and past states and to detect financial trends within the field. By contrast, the American League of Symphony Orchestra annually publishes a "Quick Facts" report for the public, but the report generally uses data from prior years (e.g., the League's 2015 Quick Facts Sheet data is derived from

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[65] Burtch, "Importance of Transparency."
[66] GuideStar, "The State of Nonprofit Transparency, 2008."

data from 2011-2012). Additionally, as of this writing, the League does not keep Quick Facts from prior years on its website.[67] If users wish to access prior Quick Facts, they must request the sheets directly from the League.

Secondly, the proposed system would be a valuable tool for orchestra researchers. While researchers can currently access comprehensive and accurate data through the League of American Orchestra's Annual Statistical report, there are some limitations to this method. Researchers must submit a formal written request to the League and wait for approval; by contrast, the information on the proposed database would be immediately accessible. Additionally, as stated previously, researchers may not identify any orchestras through information obtained from the League of American Orchestras. The proposed database would allow researchers to easily access public information on individual orchestras, and researchers would be legally able to cite specific orchestras as necessary if it enhanced their research.

Thirdly, the system would be a powerful tool for orchestra leaders and managers. In *The Perilous Life of Symphony Orchestras*, Flanagan argues that the wide "variance in actual practice raises the question of how much symphony orchestras learn from each other's policies and experiences" and that "best practices" are not emulated from one orchestra to another. [68] This may be partially due to the fact that much of the field's quantitative analysis is shrouded in anonymity, making it difficult to pinpoint the orchestras that have financial models worth emulating. The proposed system would allow orchestra practitioners to easily identify fiscally consistent orchestras as well as

[67] League of American Orchestras, "Quick Orchestra Facts 2015 (Data from 2011–12)."
[68] Flanagan, *The Economic Environment of American Symphony Orchestras*, 74–75.

successful “peer orchestras” of a similar budget size. Likewise, if an orchestra manager wished to increase a particular revenue stream within their orchestra (e.g., government funding or program service revenue), he or she would be able to use the proposed database to identify peer orchestras that consistently achieve a disproportionally high level of the desired revenue stream. Ideally, the practitioner would be able subsequently to reach out to and directly learn from the peer orchestra. However, even if the orchestra proved unwilling to collaborate, the orchestra practitioner would still be able to research the practices of the peer orchestra through published online and media sources.

This preliminary study also has implications for future qualitative research. The study identifies five fiscally consistent orchestras and it calculates the proportion of each broad revenue category within each orchestra’s total income. However, it does not identify the fiscal sustainability strategies that enabled each orchestra managed to achieve their revenue streams. For instance, the study reveals that the North Carolina Symphony had a higher level of government support throughout the time period than was typical for the field, and it reveals that the Los Angeles Philharmonic had significantly more program service revenue than average for the field. Qualitative case studies on each orchestra could shed light on each orchestra’s fiscal sustainability strategies contributing to their financial consistency. Lessons gleaned from the case studies could also provide practical implications for practitioners.

Chapter IV of this document will provide a qualitative single-case study on the fiscal sustainability strategies of the North Carolina Symphony, and Chapter V will offer practical implications for practitioners based on findings from the single-case study.

CHAPTER IV

THE NORTH CAROLINA SYMPHONY: A CASE STUDY IN FISCAL SUSTAINABILITY STRATEGIES FOR A LARGE AMERICAN ORCHESTRA

Introduction

Chapter III quantitatively identified five large American orchestras that consistently achieved a higher level of revenue than expenses from 2005 through 2011. Through a qualitative single-case study approach, Chapter IV will identify fiscal sustainability strategies contributing to the fiscal consistency of one of the orchestras: the North Carolina Symphony. Chapter IV will also examine the role of government funding in the North Carolina Symphony's financial stability.

A Single-Case Study Method: Rationales

As noted in Chapter II, academic orchestral literature has a dearth of orchestral economic case studies. To answer my second research question, I adopted a case study method in order to help fill this gap. I chose a single-case study model for a variety of reasons. As Flanagan states in *The Perilous Life of Symphony Orchestras,* individual American symphony orchestras have dramatically different financial models. While all orchestras share common revenue streams such as private contributions, government support, and performance income, the proportional role of each revenue category varies widely from orchestra to orchestra.[69] This certainly bore out in the five identified orchestras from Chapter III. For instance, the Los Angeles Philharmonic displayed a

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[69] Flanagan, *The Perilous Life of Symphony Orchestras*, 35.

consistently high level of earned income disproportional to field norms, and the North Carolina Symphony consistently showed disproportionately high levels of government support. As such, each orchestra has a varying level of dependence on each type of revenue stream, and the revenue streams consequently play a different role in each symphony's fiscal sustainability strategies. Additionally, Flanagan contends that the "sheer variety of [financial] policies" practiced by individual orchestras implies that there is no field standard for "best practice" for each financial issue.[70] Thus, it would be difficult to conduct a controlled side-by-side comparison of all five orchestras.

As Robert K. Yin states, "a single-case study is an appropriate design under several circumstances. First, recall that a single case study is analogous to a single experiment, and many of the same conditions that justify a single experiment also justify a single-case study."[71] One of his primary rationales for a single-case study is when "the case represents an *extreme or unique case*" [*italics* original].[72] In the instance of the five identified orchestras, each one is a unique financial case, and two are extreme outliers when compared to field norms.

Each of the five orchestras might have been selected for a qualitative single-case study in fiscal sustainability strategies. I selected the North Carolina Symphony as my subject for the study because I was intrigued by its high level of government support. As previously mentioned, government support for American symphony orchestra generally comprises less than 5% of total revenue for the entire field. With government support

[70] Flanagan, *The Economic Environment of American Symphony Orchestras*, 74–75.
[71] Yin, 38.
[72] Ibid., 39.

comprising 24–38% of its total revenue from 2005 to 2011, the North Carolina Symphony is a field outlier (i.e., it is an "extreme or unique case"). Interestingly, a 1972 McKinsey report argued that American orchestras would eventually cease to be financially viable unless the U.S. government increased its level of support to 20–25% of its orchestra's operating expenses.[73] In reference to the McKinsey report, the Wolf Report grimly noted that this "high level of public subsidy never materialized."[74] However, this statement was not entirely accurate. In the case of the North Carolina Symphony, a high level of government support had, in fact, already materialized. For instance, in 1983, government support covered as much as 70% of the North Carolina Symphony's total expenses,[75] and while current levels of government support are not as high as 70%, they continue to be at (and even surpass) the levels recommended in the McKinsey report.

Methodology of Study

The design of this qualitative single-case study incorporates Yin's essential research design components:

1. Research questions(s)
2. Proposition(s)
3. Unit(s) of analysis
4. Linking data to propositions
5. Interpretation of findings[76]

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[73] Macomb and Wooster.
[74] Wolf Organization and American Symphony Orchestra League, vi.
[75] Craven, *Symphony Orchestras of the United States*, 287.
[76] Yin, 20.

The first three components refer to data collection.[77] I have applied them as follows:

1. Research Questions: What factors contributed to the North Carolina Symphony's fiscal consistency from 2005 to 2011, and what were its fiscal sustainability strategies?
2. Proposition: Government funding played a prominent role in the orchestra's fiscal stability and fiscal sustainability strategies.
3. Unit of Analysis: The North Carolina Symphony, with a specific time boundary of 2005–2011.[78]

The North Carolina Symphony's Historical Background

I will also provide a brief historical background of the North Carolina Symphony that is informed by Robert R. Craven's *Symphony Orchestras of the United States* as well as *Hard-Circus Road: The Odyssey of the North Symphony*, a first-person account by Benjamin Swalin. The organization's historical background falls outside of the case study's 2005–2011 timeframe. However, due to the fact that the symphony's unique relationship with the North Carolina State government stems back to its formative years, an understanding of the organization's historical background is crucial to the investigation of the research proposition and will result in a richer case study analysis.

The North Carolina Symphony has a long history of community engagement and government support. In the late 1920s,[79] Lamar Stringfield, a Pulitzer Prize-winning

[77] Yin, 26.
[78] Ibid., 24.
[79] Swalin and North Carolina Symphony Society, *Hard-Circus Road,* 2.

composer and North Carolina native, had a vision of establishing a North Carolina state orchestra backed by government subsidy.[80] Although the state of North Carolina denied Stringfield's requests for funding due to the scarcity of financial resources in the midst of the Depression,[81] Stringfield persevered and the North Carolina Symphony Society (NCSS) formed in 1932 "to study, encourage, and promote the establishment of a North Carolina Symphony Orchestra."[82] The symphony held its first demonstration concert later that year, featuring volunteer musicians from sixteen North Carolina communities.[83] The orchestra soon extended its reach throughout the state of North Carolina, and within three years of its inception, the orchestra performed in over fifty towns across the state. By 1937, it performed over 180 live concerts for over 100,000 audience members across the state of North Carolina. Unfortunately, due to severe financial difficulties, the symphony collapsed in 1937.[84]

However, even at the time of its collapse, conductor Benjamin Swalin dreamed of resurrecting and rebuilding the orchestra,[85] so he and his wife, Maxine, spearheaded fundraising initiatives to revive the orchestra. By 1939, they raised sufficient funds to reform the orchestra,[86] and Swalin was appointed as its new music director.

Under Swalin's leadership, the symphony flourished and thrived. As Craven explains, "from [1939] to Swalin's retirement in 1972, the history of the NCS is 'the

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[80] Craven, 288.
[81] Swalin and North Carolina Symphony Society, *Hard-Circus Road*, 2.
[82] Craven, 288.
[83] Swalin and North Carolina Symphony Society, *Hard-Circus Road*, 3.
[84] Craven, 288.
[85] Swalin and North Carolina Symphony Society, *Hard-Circus Road*, 10.
[86] Craven, 288.

story of the indomitable spirit and vision of Benjamin Swalin.'"[87] Swalin immediately implemented a new personnel system that recruited "musicians of sufficient talent"[88] and thus elevated the group's artistic level. As the North Carolina Symphony 2005 Executive Summary points out, Swalin also led the organization in the continuation of its "grassroots emphasis of taking the orchestra to the people of the state."[89] To this end, the North Carolina Symphony Society restructured in 1942 and formed local chapters throughout the state to raise funds to bring North Carolina Symphony adult and children's concerts to their community.

Swalin also successfully persuaded North Carolina Governor J. Melville Broughton to grant the orchestra state subsidization.[90] In 1943 Senate Bill no. 248 (affectionately referred to as the "Horn-Tootin' Bill") granted the orchestra a recurring subsidy of $2,000 each year from 1943–1945, making the North Carolina Symphony the first orchestra in American history to receive recurring state government support.[91] As Benjamin Swalin wrote in *Hard-Circus Road*, the bill was a "major victory" for the symphony because it "gave the symphony not only financial support but official recognition and respectability."[92] Thus, in addition to providing the organization with crucial financial support, the government subsidy provided the orchestra with credibility in the community.

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[87] Craven, 289.
[88] Ibid.
[89] United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 14.
[90] Craven, 289.
[91] Swalin and North Carolina Symphony Society, *Hard-Circus Road*, 20–21.
[92] Ibid., 21.

After Swalin retired in 1972, John Gosling was appointed as its new conductor, leading the orchestra through additional artistic and administrative expansions. Gosling retired in 1980, and a two-year search for a new music director followed.[93] During this time, the symphony experienced significant financial difficulties: the organization had "lengthened the season, raised the musicians' pay, and added players hired without keeping a prudent eye on revenues. [Financial] shortfalls had been paid for by plundering a new endowment."[94] A musician strike ensued, causing contributions and audience sizes to shrink, and many predicted an inevitable organizational collapse.[95] To prevent an organizational catastrophe, the Symphony Society board took drastic measures and "sharply cut the length of the season, staff, and orchestra size."[96]

In 1982, Gerhardt Zimmermann was appointed as the orchestra's new music director.[97] Zimmermann helped the orchestra rise to a new artistic level: world-class guest artists began to perform with the orchestra, the board crafted a three-year plan to "build an orchestra of national quality"[98] and the orchestra expanded its number of concerts. During this time, the orchestra stabilized financially, balancing its budget every year from 1982 to 1990 and raising $10 million for a new endowment. The organization also increased its earned revenue through strategic marketing efforts and reviving the local chapters as established in the 1940s.[99]

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[93] Craven, 289.
[94] North Carolina Symphony, *Overture to Greatness to Build an Orchestra of National Quality*, 2.
[95] Craven, 289.
[96] North Carolina Symphony, *Overture to Greatness to Build an Orchestra of National Quality*, 2.
[97] Craven, 289.
[98] North Carolina Symphony, *Overture to Greatness to Build an Orchestra of National Quality*, 1.
[99] Ibid., 2.

Zimmermann acted as the North Carolina Symphony's music director until 2003, making his 21-year tenure with the group one of the longest professional music director appointments in U.S. history.[100] In 2004, Grant Llewellyn was appointed as the next music director.[101]

The North Carolina Symphony: Sources

Data sources used to examine the North Carolina Symphony included the following documentation and archival records:[102]

- Tax form-990s, with attached annual executive reports
- Report to the Community
- Media articles

A large portion of the information was obtained through the North Carolina Symphony's detailed annual Executive Overviews from 2005–2010, included as attachments to the orchestra's filed tax form-990s. In 2011, the organization switched from its Executive Summaries to a Report to the Community, which it continues to release at the time of this writing. Because the Report to the Community is formatted differently from the Executive Overviews, some information available from 2005–2010 is unavailable for 2011. The information culled from the sources provides a composite picture of the North Carolina Symphony's administrative infrastructure, artistic product, and financial state during the case study time boundary of 2005–2011. This information will provide a foundation for the analysis that follows.

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[100] North Carolina Symphony, "North Carolina Symphony Releases Recording in Honor of Gerhardt Zimmermann."
[101] United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 17.
[102] Ibid., 80.

North Carolina Symphony: Mission

Throughout the case-study's time period, the official mission statement of the North Carolina Symphony underwent three changes. From 2005 through 2009, the North Carolina Symphony's mission statement was "to present an orchestra of the highest artistic standard that enriches, entertains, and educates diverse audiences in a variety of settings and represents North Carolina as a leader in performance and music education."[103] In 2010, the mission statement was revised as follows: "The mission of the North Carolina Symphony is to be an orchestra of the highest artistic quality that embraces its dual legacies of statewide service and music education."[104] In 2011, the mission was modified to: "[The mission of the North Carolina Symphony is] to be North Carolina's state orchestra, an orchestra achieving the highest level of artistic quality and performance standards, and embracing its dual legacies of statewide service and music education."[105] Alternatively, in the words of music director Grant Llewellyn during a media interview, "[Our mission is] to take great music, in all its forms, to the people of North Carolina, wherever they are."[106]

The North Carolina Symphony's dual mission of statewide service and education dramatically impacts its artistic offerings. During the studied time period, the symphony annually performed approximately 175 full orchestra concerts, reaching nearly 250,000 people each year. Although the orchestra's "home" concert hall (Meymandi Hall) is

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[103] United States, Department of Treasury, Internal Revenue Service. "2009 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 31.
[104] United States, Department of Treasury, Internal Revenue Service. "2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 34.
[105] United States, Department of Treasury, Internal Revenue Service. "2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 2.
[106] Zane, "In All its Forms: Close Ties, Deep Roots, and Forward Focus at the North Carolina Symphony."

located in Raleigh,[107] over half of the symphony's concerts took place outside of the Triangle region each year[108] (the Triangle region of North Carolina is comprised of Raleigh, Chapel Hill, Durham, and their surrounding cities[109]), occurring in 30–40 counties throughout North Carolina. Of the 175 concerts, 25% to 34% were full orchestra concerts for public school children. Throughout the studied time period, between 50,000 and 100,000 school children experienced a live North Carolina Symphony concert each year.[110]

North Carolina Symphony: Artistic and Administrative Structure

From 2005 through 2011, the North Carolina Symphony employed between 64 and 69 full-time musicians. The symphony's core conductors included Grant Llewellyn, Music Director (appointed in 2004) and William Henry Curry, Resident Conductor (appointed in 1995). Additional conducting staff during the case's studied time period consisted of:

- Joan Laundry, Assistant Conductor (NCS appointment occurred from 2006 to 2009)
- Andrew Litton, Principal Guest Conductor (NCS appointment occurred from 2009 to 2010)

[107] United States, Department of Treasury, Internal Revenue Service. "2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 17.
[108] United States, Department of Treasury, Internal Revenue Service. "2005–2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[109] Economic Development Partnership of North Carolina, "Raleigh, Durham, Chapel Hill–North Carolina Travel & Tourism."
[110] United States, Department of Treasury, Internal Revenue Service. "2005–2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."

- Sarah Hicks, Associate Conductor (NCS appointment occurred from 2008 to 2011)[111]

From 2005 through 2011, the orchestra's administrative structure underwent various modifications. From 2005 through 2007, the North Carolina Symphony had a four-part administrative structure with the following departments, each overseen by a Vice President:

- Artistic Operations
- Marketing
- Development
- Finance[112]

In 2008, the symphony combined Marketing and Development into one department, renaming it "Patron Services." As one of the executive overviews explains, "the Symphony adopted a patron-centered business model which unified administrative functions around customer needs and expectations. . . . Rather than making the arbitrary distinction between marketing and development (i.e., earned income versus contributed income), the new model is geared toward maximizing the lifetime relationship between patron and organization."[113] The purpose of the Patron Services department was to "foster support for the organization by acquiring new audiences, building and nurturing relationships, and securing the earned and contributed income necessary to support and

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[111] United States, Department of Treasury, Internal Revenue Service. "2005–2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[112] United States, Department of Treasury, Internal Revenue Service. "2005–2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[113] United States, Department of Treasury, Internal Revenue Service. "2009 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 35–36.

sustain the organization, including relationships with individuals, corporations, and foundations."[114] Thus, in 2008, the symphony's administrative structure was comprised of the following departments:

- Artistic Operations
- Patron Services
- Finance and Administration

In 2009 and 2010, the symphony shifted back to a four-part administrative structure:

- Artistic Operations
- Audience Development[115] (renamed "Marketing and Audience Development" in 2010)
- Philanthropy
- Finance and Administration

In both 2009 and 2010, the purpose of Audience Development was to "foster support for the organization by developing new markets, acquiring new audiences, converting first-time attendees into repeat customers, building and nurturing relationships, and providing communications support to the entire organization." The purpose of Philanthropy was to "secure charitable investments to support and sustain the organization, including relationships with individuals, corporations, and foundations."[116]

[114] United States, Department of Treasury, Internal Revenue Service. "2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 28.
[115] United States, Department of Treasury, Internal Revenue Service. "2009 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 36.
[116] United States, Department of Treasury, Internal Revenue Service. "2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 39.

Data on the organization's administrative structure in 2011 was not available in its 2011 Report to the Community.

Throughout the period studied, the size of the North Carolina Symphony's administrative team varied significantly. In 2005, the administrative team consisted of 25 staff members,[117] and the team expanded to 26 people in 2006 through 2007.[118] In 2008, the administrative expanded to 39 positions,[119] and in 2010, the team reduced to 35 staff members.[120] Data is not available for the administrative team size in 2009 and 2011.

North Carolina Symphony: Governance

Throughout the period, the North Carolina Symphony had two boards: The North Carolina Symphony Society (NCSS) Board of Trustees and the North Carolina Symphony Foundation Board of Trustees. The purpose of the NCSS Board of trustees was to "serve as the governing body of the North Carolina Symphony, determine the organization's mission and purpose, approve and monitor the organization's program goals, engage in strategic planning, and review and approve the annual budget."[121] From 2005 through 2007, the NCSS Board of Trustees had 57 members[122] and expanded to 60 members in 2008.[123] By North Carolina statute, the North Carolina governor and

[117] United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 21.
[118] United States, Department of Treasury, Internal Revenue Service. "2007 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 29.
[119] United States, Department of Treasury, Internal Revenue Service. "2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 28.
[120] United States, Department of Treasury, Internal Revenue Service. "2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 39.
[121] Ibid., 40.
[122] United States, Department of Treasury, Internal Revenue Service. "2005–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[123] United States, Department of Treasury, Internal Revenue Service. "2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 29.

Superintendent of Public Instruction served as board members during the studied time period, as well as four appointees chosen by the governor. At the “symphony’s option,” board members also included the President of the North Carolina Symphony League and the Secretary of the Department of Cultural Resources. The remaining board members were “elected by the membership of the society.”[124]

The Board of Trustees for the North Carolina Symphony Foundation stated purpose was to “hold and manage the Symphony’s endowment, safeguard assets in a manner consistent with prudent investment of endowment funds, and expend endowment income and capital for the exclusive use and benefit of the Symphony Society.” From 2005 through 2010, the foundation’s board consisted of 18 members, with changing heads.[125] The board expanded to 19 members in 2011.[126]

North Carolina Symphony: Volunteers

Throughout the case study’s time period, the symphony had over 400 volunteers that collectively volunteered nearly 16,500 hours each season. The symphony also leveraged local volunteer chapters throughout the state, which it defined as, “grassroots organizing groups that seek to bring the North Carolina Symphony to their local communities through the sale of concert tickets and fundraising.”[127] From 2005 through

[124] United States, Department of Treasury, Internal Revenue Service. “2005–2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony.”
[125] United States, Department of Treasury, Internal Revenue Service. “2005–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony.”
[126] United States, Department of Treasury, Internal Revenue Service. “2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony,” 35.
[127] United States, Department of Treasury, Internal Revenue Service. “2005–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony.”

2008, the symphony's local chapters ranged in number from twelve[128] to fourteen.[129] Data on the number of chapters is not available for 2009–2011, although the symphony's documents indicate that chapters operated from 2009–2011.[130]

North Carolina Symphony: Finances

From 2005–2010, the symphony's annual expense consisted primarily of musician fees (i.e., fixed payroll and benefits). Overall, the organization's breakdown of annual expenses was relatively consistent throughout the period. The total budgetary expense ratios ranged as follows:

- Musicians: 44–48%
- Guest Artists and "Other Expenses": 16.8–19%
- Concert Production and Conductors: 7.7–8.5%
- Marketing: 6.5–10%
- Development: 5–8%
- Administration and other: 10–14%

As mentioned previously, government support comprises a significant portion of the North Carolina Symphony's total revenue. The bulk of this support comes from the North Carolina state government and its Department of Cultural Resources.

As depicted by Table 4.1, government funds from the state of North Carolina comprised between 19% and 35% of the North Carolina Symphony's total annual

[128] United States, Department of Treasury, Internal Revenue Service. "2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 29.
[129] United States, Department of Treasury, Internal Revenue Service. "2006 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 31.
[130] United States, Department of Treasury, Internal Revenue Service. "2009–2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."

revenue. As depicted in Table 4.2, “other” government support (i.e., government funds from sources other than the state of North Carolina) comprised a small amount of the North Carolina Symphony’s total annual revenue. With the exception of 2009, “other” government funding sources never exceeded 2.3% of the North Carolina Symphony’s total revenue.

Table 4.1

North Carolina Symphony’s State Government Support[131]

	2005	2006	2007	2008	2009	2010	2011
NC State Government Funding	$2.6 million	$2.8 million	$2.8 million	$2.8 million	$2.86 million	$4.1 million	Not Available
Total Revenue	$9.8 million	$11 million	$11.5 million	$14.1 million	$13.7 million	$11.4 million	N/A
% of Total Revenue	27%	25%	21%	19%	21%	35%	N/A

Table 4.2

North Carolina Symphony’s “Other” Government Support[132]

	2005	2006	2007	2008	2009	2010	2011
“Other” Government Funding	$179,000	$179,000	$277,630	$327,557	$489,043	$295,000	Not Available
% of Total Revenue	2%	2%	2%	2%	4.3%	2.3%	N/A

[131] United States, Department of Treasury, Internal Revenue Service. “2009–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony.”
[132] Ibid.

Of the state government funds, the vast majority was given as grant-in-aid. From 2005 through 2007, the grant-in-aid was allocated across the orchestra's entire operating budget.[133] In 2009 and 2010, rather than being applied across the operating budget, the grant-in-aid was used "exclusively toward musician salaries and benefits."[134] Data regarding the specific allocation of the grant-in-aid in 2008 and 2011 is not available.

Throughout the time period, the symphony employed approximately eight employees of the Department of Cultural Resources, the most prominent of which were the Vice President of Marketing and the Director of Public Relations.[135] The DCR funds that were not grant-in-aid were used as salary and benefits for the state employees as well as for "some administrative support such as postage and telephone costs."[136]

Notably, in 2010 and 2011, the state of North Carolina introduced a $1.5 million "challenge grant." In addition to its $2.65 million subsidy from the DCR, the state promised the orchestra an additional $1.5 million in support if it could raise a certain amount of private support. The North Carolina Symphony successfully secured the challenge grant both years.[137]

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[133] United States, Department of Treasury, Internal Revenue Service. "2005–2007 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[134] United States, Department of Treasury, Internal Revenue Service. "2009–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[135] United States, Department of Treasury, Internal Revenue Service. "2005–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[136] United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 20.
[137] United States, Department of Treasury, Internal Revenue Service. "2010–2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."

From 2005 through 2010, the North Carolina Symphony's endowment operated under a current spending rule of "4.5% of a rolling-twelve quarter average of asset market value."[138] Table 4.3 indicates the size of the endowment.

Thus, from 2005 to 2010, the endowment decreased from $7.7 million to $7.14 million. From 2005 through 2007, it increased annually, peaking at $9.4 million. Data for 2008 and 2011 is not available.

Table 4.3

North Carolina Symphony Endowment Size[139]

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Endowment Size	$7.7 million	$8 million	$9.4 million	Not Available	$7.4 million	$7.14 million	Not Available

In 2005, the symphony's tax-form 990 indicated a small net-asset deficit of -$212,000.[140] In 2006, the symphony eliminated the deficit and finished the year with a net-asset balance of nearly $412,000,[141] which subsequently grew to over $870,000 the following year.[142] In 2008, the orchestra's net asset balance began to decline, shrinking to approximately $734,000[143] and plummeting to -$1.3 million in 2009.[144] In 2010, the

138 United States, Department of Treasury, Internal Revenue Service. "2005–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
139 United States, Department of Treasury, Internal Revenue Service. "2005, 2006, 2007, 2009 and 2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
140 United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 1.
141 United States, Department of Treasury, Internal Revenue Service. "2006 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 1.
142 United States, Department of Treasury, Internal Revenue Service. "2007 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 1.
143 United States, Department of Treasury, Internal Revenue Service. "2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 1.

organization reduced its deficit to -$255,000[145] through making “significant changes to its operating plan,” including postponing projects and reducing artistic and administrative salaries.[146] In 2011, the organization successfully achieved a positive net-asset balance of approximately $103,000.[147] During 2007–2011, the symphony experienced certain amounts of operating deficits. In 2007 and 2008, the symphony experienced operating deficits of approximately -$143,000 and -$190,000. In 2009, the operating deficit plummeted to approximately -$2.5 million. However, through the implementation of a deficit reduction plan (set to take three years), the symphony successfully reduced its operating deficit to -$413,000 by 2011.[148]

Findings

To interpret the findings, I used the theoretical frameworks of dynamic capabilities[149] and a “resource-based” view.[150] After analyzing the culled data, I propose that while state government funding was a critical source of funding for the North Carolina Symphony, the government funding did not lie at the core of the orchestra’s fiscal sustainability. Rather, the orchestra’s fiscal sustainability was primarily derived from community engagement, fostered by the North Carolina Symphony’s clarity of mission that translated into community-oriented program activities. Community

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144 United States, Department of Treasury, Internal Revenue Service. “2009 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony,” 1.
145 United States, Department of Treasury, Internal Revenue Service. “2009 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony,” 1.
146 Ibid., 39.
147 United States, Department of Treasury, Internal Revenue Service. “2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony,” 1.
148 Ibid., 35.
149 Pablo et al.
150 Pfeffer and Salancik.

engagement was further fueled by the secondary fiscal sustainability strategies of transparency, leveraging human resources, and a service mindset.

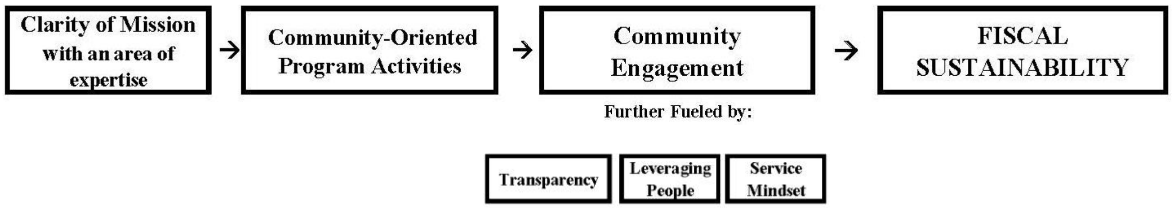

Figure 4.1. Fiscal Sustainability Strategies of the North Carolina Symphony.

A Clear Mission that Translates into Community-Oriented Program Activities

Nonprofit literature firmly establishes the importance of a clear and focused mission statement for long-term financial viability. As Lisa Sontag-Padilla et al. (2012) point out, a clear mission “focus[es] the organization’s activities and help[s] to motivate and direct innovation (and in turn, promote sustainability) in the long term.”[151] Likewise, Jim Collins (2005) argues that mission and financial sustainability (what he terms as an organization’s “resource engine”) are inextricably linked. He explains, “You must be able to answer the question, ‘How does focusing on what we do best [i.e., mission] tie directly into our resource engine, and how does our resource engine reinforce what we can do best?’”[152] Ironically, while fiscal sustainability literature for nonprofit organizations as a whole stresses the importance of a clear mission, American orchestra fiscal sustainability literature does not appear to highlight the importance of mission. Perhaps this is due to a general assumption that an orchestra’s mission is intrinsically predefined as performing orchestral repertoire. However, this premise may not be as clear-cut as it appears.

[151] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, 11.
[152] Collins, *Good to Great and the Social Sectors*, 22.

Fundamentally, an orchestra's mission should specifically answer: why does an orchestra perform orchestral repertoire, and for whom? What type of orchestral music does it perform, and where?

The North Carolina Symphony has a clear and specific dual mission to deliver music education and statewide service. This two-pronged mission translates into two broad community-oriented program categories that are directly linked with the orchestra's long-term fiscal sustainability:

- Music education concerts for North Carolina school children
- Orchestra concerts that take place in a plethora of communities throughout the state of North Carolina

Due to the fact that every organization has a finite amount of financial resources, nonprofit literature recommends "areas of expertise" as a strategy to combat resource scarcity. Pablo (et al.) presents dynamic capabilities as a strategy that "allow[s] organizations to use internal resources strategically and advantageously . . . to maximize organizational performance."[153] Kotler and Scheff advise organizations to focus on their identified "core competencies" as a basis for their program emphases.[154] Jim Collins recommends employing what he terms as a "best at," which he defines as "understanding what your organization can uniquely contribute to the people it touches, better than any organization on the planet."[155]

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[153] Pablo et al., 688.
[154] Kotler and Scheff, *Standing Room Only*, 530.
[155] Collins, *Good to Great and the Social Sectors*, 22.

Based on the language in the North Carolina Symphony's executive summaries, the organization clearly views education and statewide service as its "area of expertise" and unique contribution to the community it serves. As all of its executive summaries from 2005 through 2010 state, the North Carolina Symphony "is [one of the] largest orchestras in the country, but it is *singularly unique* in two respects: 1) its commitment to statewide service 2) its dedication to the musical education of North Carolina's school children" [*emphasis* added].[156] Several of the executive summaries add, "No other orchestra in America serves its state to the extent of the North Carolina Symphony does, as the orchestra performs far more educational performances outside of its home-base community than any other orchestra."[157] Its 2008 Executive Summary even asserts that the orchestra is "without peer in either respect" to statewide service and music education.[158]

Thus, the North Carolina Symphony's mission has an area of expertise designed to distinguish it from other American orchestras. Many symphony orchestras have some sort of education program, but often orchestra education programs seem to be afterthoughts of lesser importance than the orchestra's artistic offerings, whereas the North Carolina's symphony's education program is a central part of its missions and an integral component of its program offerings to its constituents. As North Carolina Symphony resident conductor William Henry Curry explained in a media interview, "When I began here 18

[156] United States, Department of Treasury, Internal Revenue Service. "2005–2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[157] United States, Department of Treasury, Internal Revenue Service. "2005, 2006, 2007, 2009 and 2010 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony."
[158] United States, Department of Treasury, Internal Revenue Service. "2008 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 24.

years ago, I saw the education concerts as something we just did, but through the years I've seen them as perhaps the most important part of the mission."[159] Likewise, many orchestras have community concerts that take place outside of their home-base. However, the North Carolina Symphony performs over 55% of its concerts outside of the Triangle region, annually traveling 15,000 to 18,000 miles throughout the state to perform its concerts.[160]

Music education and statewide service translate into economic drivers for the symphony. Since its first education concert in 1940s, the orchestra has performed for over 5 million North Carolina school children. In addition to introducing the school children to general musical concepts such as melody and texture,[161] the education concerts allow the children to "interact with the orchestra and experience the thrill of hearing [live music]."[162] Ultimately, as Senior Director of Statewide Development Rob Maddrey explained in a 2010 media interview, "we are hoping we will inspire a love of music for years to come just by this one simple introduction." Studies have indicated that arts education is strongly correlated with adult arts event attendance,[163] and some have concluded that exposure to arts education is the strongest predictor of arts consumption.[164] In this way, the music education concerts can be viewed as a long-term investment in the symphony's audience base.[165]

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[159] Zane.
[160] Ibid.
[161] Public Radio East, "North Carolina Symphony in ENC."
[162] North Carolina Symphony, "2012 Report to the Community."
[163] Rabkin and Hedberg, 12.
[164] Kotler and Scheff, 517.
[165] Ibid, 535.

There is also anecdotal evidence that suggests the North Carolina Symphony education concerts have an impact that many of students remember in adulthood. As Swalin wrote in *Hard-Circus Road*, “Even today, in communities across the state, someone will occasionally stop me on the street and exclaim, ‘I know you! I was in’–he or she will specify the grade and school–‘I heard the North Carolina Symphony!’ Music has moral potentialities; for through it, a student can grow from the small to the large in terms of quality of existence, character, and nobility of soul.”[166] Resident conductor William Curry concurred in a media interview, “Everywhere we go, people come up to me and say thank you for that experience thirty or forty years ago, when the symphony visited their small town.”[167]

In addition to educating school children about the symphonic genre, the school concerts are intended to ignite an interest and passion for classical music within the children. When the children grow up, some of them become audience members and donors, Kotler and Scheff cite the importance of a long-term view of marketing that focuses on attracting young audience members in order to “build a strong foundation for [the organization’s] future for a time when the younger people will have more leisure time and more discretionary income to pay higher ticket prices and make substantial contributions.”[168] A small portion of the children at the North Carolina Symphony education concerts even become future arts leaders. Some of the North Carolina Symphony’s board members are native North Carolinians and heard the orchestra

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166 Swalin and North Carolina Symphony Society, *Hard-Circus Road*, 134.
167 Zane.
168 Kotler and Scheff, 535.

perform for the first time when they were schoolchildren. These board members cite the concerts as a pivotal experience in their lives that ignited their love for the North Carolina Symphony specifically as well as the genre of classical orchestral music as a whole.[169] Thus, the education concerts also have the potential to grow future leaders of the symphony.

The education concerts also help to secure private grant funding from sources that, like the orchestra, exist to serve the people of North Carolina. For instance, the symphony secured a new $10,000 grant for its educational programs from the A.J. Fletcher Foundation, an organization with a mission "to support nonprofit organizations in their endeavors to enrich the lives and well-being of people in North Carolina."[170] In a press release Fletcher Foundation Executive Director Damon Circosta explained that "music has the power to reach and teach children in a unique and powerful way. For decades, the North Carolina Symphony's Education Programs have proven this through their exceptional outreach and we are proud to extend our support to continue their programming throughout the state."[171] Thus, because the foundation and the symphony serve the same constituents, they are natural financial allies.

The orchestra's statewide service and philosophy of "bringing the music to the people" also has many immediate benefits that contribute to the organization's fiscal sustainability. Touring allows the symphony to reach a wider audience and potential donor base, increasing their earned and contributed revenue. As indicated by the research

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[169] North Carolina Symphony, "2013 Report to the Community."
[170] North Carolina Symphony, "North Carolina Symphony Receives A.J. Fletcher Foundation Grant."
[171] Ibid.

of orchestra scholar Arthur C. Brooks, orchestras with budgets of over $5 million are more likely to reap long-term financial gains if they concentrate on “expanding [their] audience/patron base with previously uninitiated consumers” (i.e., first-time concert-goers) rather than if they “promote the elite image of orchestra products.”[172]

Community Engagement as a Fiscal Sustainability Strategy

As evidenced by *Strategy 2017*, the North Carolina Symphony’s strategic plan for the years 2013–2017, the orchestra has intentionally leveraged community engagement as a fiscal sustainability strategy. While *Strategy 2017* was not the strategic plan for the case study’s time period, it was crafted immediately after the time period. As a result, an examination of the plan can shed light on the beliefs, values, and organizational culture of the North Carolina Symphony from 2005–2011.

Strategy 2017 articulates three goals: Artistic Excellence, Community Engagement, and Fiscal Sustainability. As visually represented in Figure 2, each goal is linked to the other goals: artistic excellence leads to an engaged community; an engaged community leads to financial sustainability, and financial sustainability leads back to artistic excellence.

The diagram depicts a positive cycle: the symphony produces an excellent product (musical and education concerts) desired by the community. In response, the community members support the product through buying tickets to concerts and providing individual donations, and foundations and government groups also invest funds in the product. Essentially, the community “buys” a product supplied by the symphony.

[172] Brooks and Symphony Orchestra Institute, *Improving the Orchestra’s Revenue Position*, 13.

This buy-in leads to fiscal sustainability, which then produces the financial resources necessary to continue supplying the market with the desired product of high quality music and education concerts.

Figure 4.2. Diagram Excerpted from *Strategy 2017*[173]

Most importantly, the goals and strategies outlined in *Strategy 2017* demonstrate that the symphony views community engagement as an economic driver. Notably, each of the three goals in the strategic plan (Excellence, Community, and Fiscal Sustainability) refer to the North Carolina community in their descriptions or underlying strategies. The strategic plan's second goal, Community, defines the role the symphony desires to have in its community, which is "to effect positive change [in our community] through the advancement of orchestral music." The first and third goals, Excellence and Fiscal Sustainability, also indirectly reference community. Under Excellence, *Strategy 2017* states that the symphony intends to be "identified as the first orchestra experience *by the*

173 North Carolina Symphony, *Strategy 2017*, 1.

citizens of North Carolina" [emphasis added]. Thus, the symphony wishes to have a prominent place in the experiences of the people of North Carolina. Additionally, of the four cited strategies to achieve Excellence, two reference people: one strategy is to improve patron/customer service, and another strategy is to deliver top-quality music education programs to school children. Under Sustainability, four of the strategies naturally reference financial health, but the final cited strategy is for the symphony to "deepen its relationship with the North Carolina community." As a result, community engagement is integrated into every goal of *Strategy 2017*.[174]

Based on *Strategy 2017*, it is apparent that the symphony views community engagement as an essential component of its fiscal sustainability. This concept is also supported by nonprofit literature. Collins promotes "brand" as a crucial component of an organization's resource engine, and he defines "brand" as "how well your organization can cultivate a deep well of emotional goodwill and mindshare of its potential supporters."[175] Thus, while a great mission and product are essential components for a fiscally sustainable organization, they are not enough without a deep connection to and support of the product. In the instance of the North Carolina Symphony, its statewide service and music education concerts foster relational community engagement with the people of North Carolina. Kotler and Scheff also cite the importance of community engagement as a method to integrate the arts into "our everyday lives," which will in turn enable arts organizations to attract more people to their product and build audiences.[176]

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[174] North Carolina Symphony, *Strategy 2017*, 2.
[175] Collins, *Good to Great and the Social Sectors*, 19.
[176] Kotler and Scheff, 536.

Transparency

The North Carolina Symphony's community engagement also manifests through the organization's transparency and accountability. For instance, in the organization's IRS tax form-990s from 2005–2010, the orchestra voluntarily included detailed executive summaries as supplemental documentation. In 2011, the orchestra shifted to an annual "Report to the Community" format, which it voluntarily attached to its 2011 IRS tax-form 990 (at the time of this writing, the symphony continues to publish an annual Report to the Community, all of which are easily accessible on its website).[177] As RAND researchers explain, transparency is a key element to fiscal sustainability because "foundations and other donors increasingly want access to up-to-date information about an organization's operations and finances."[178] The researchers point to annual reports as a key method of providing stakeholders pertinent financial information such financial numbers as well as "soft data" such as mission success and program achievement,[179] citing it as "the most relevant information a nonprofit can provide to its stakeholders…. For donors and funders, what an organization does (its mission) is the most important motivating factor when it comes to giving."[180]

Leveraging Human Resources

To deepen its community engagement, the symphony also leverages its human resources of administrative and artistic leadership, board members, and volunteers. In 2010, the orchestra hired Sandi MacDonald as its new president and CEO (Ms.

[177] North Carolina Symphony, "About the North Carolina Symphony."
[178] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, 14.
[179] Ibid., 16.
[180] Ibid., 17.

MacDonald previously worked for The Cleveland Orchestra). Within the first six months of her appointment, Ms. MacDonald made an enormous effort to visit as many of North Carolina's towns as possible in order to become acquainted with the communities. As state secretary of cultural resources Linda Carlisle remarked, "She is working to make connections with the citizens. She is very focused on high-quality programming, but she is also looking at how to extend the reach of the symphony, [including to the non-metro areas of the state]."[181]

The North Carolina Symphony also invests in artistic leadership that can connect with audiences. In a 2013 press release announcing the renewal of North Carolina Symphony music director Grant Llewellyn's contract, orchestra administration emphasized the conductor's ability to connect with the people of North Carolina. As Symphony Society Board Chair Jeff Corbett explained, "Through Grant's amazing ability to connect with people, young and old, and in every walk of life, he has helped to take this cultural treasure of our state and make it a real part of our communities." Likewise, North Carolina Symphony bassist Bruce Ridge echoed, "The musicians of the orchestra and Maestro Llewellyn have formed a unique bond, built in friendship… and a deep belief in the mission of the North Carolina Symphony to bring great music to all the people of North Carolina."[182]

Thus, the North Carolina Symphony actively seeks artistic and administrative leaders that are committed to investing in and connecting with the North Carolina community. Dynamic administrative and artistic leadership contributes to fiscal

[181] Christensen, "N.C. Leader Takes Command."
[182] North Carolina Symphony, "Music Director Set to lead Orchestra through 2018 Season."

sustainability, because a leadership team engaged with the community is better able to recruit donors and attract audiences. As symphony bassist Bruce Ridge noted, "The extension of [music director Grant Llewellyn's contract will lead to . . . organizational growth through our service to our loyal audiences in the Triangle and throughout the state."[183]

The North Carolina Symphony also invests in and leverages its board members. The North Carolina Symphony's board is comprised of a select number of government officials and governor appointees as well as members from a variety of communities. For in instance, the orchestra's 2011 board primarily consisted of Raleigh residents, but it also consisted of residents of other towns across the state including Greensboro, Fayetteville, Pinehurst, Hendersonville, and New Bern.[184] As noted by Rand Corporation researchers, a key factor in nonprofit fiscal sustainability is leadership from a community board that consists of political leaders and variety of individual with differing occupations from various communities.[185] In addition to fiduciary duties, board members must approve program goals and oversee the strategic direction of the orchestra to ensure that it achieves its mission. In order to accomplish this, trustees must fully understand the mission and the purpose of the symphony. As then-North Carolina Symphony Vice President for Patron Service Michael Guillot explained in an interview with *Philanthropy Journal*, "Most [organizations] probably don't do a good job at all training trustees in

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[183] North Carolina Symphony, "Music Director Set to lead Orchestra through 2018 Season."
[184] United States, Department of Treasury, Internal Revenue Service. "2011 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 35.
[185] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, 18.

how to do their jobs and then supporting them. It's about honoring the role trustees can play and giving them the support they need. We need that at all times."[186]

Leveraging its people is a crucial component to the link between an orchestra's fiscal sustainability and community engagement. In a *Harmony* magazine article, Paul R. Judy states, "The performance, advancement, and preservation of classical symphonic music in America depends on a broad and growing audience base and the existence of many healthy symphony orchestra organizations providing orchestral performances accessible to many communities. To ensure this scenario, we need to be concerned about *the human makeup* of these organizations. . . . We need to be concerned about the effectiveness and value they are providing *to the communities they serve*." [emphasis added].[187] The North Carolina Symphony leverages its leaders to engage with its community: its administrative and artistic leaders travel all over the state to connect with the people of North Carolina, and it invests in its board members and recruits them from a variety of North Carolina communities. It also provides its musicians with opportunities to interact with audience members. Thus, the North Carolina symphony relationally engages its community, leveraging its leaders, musicians, and volunteers as the face of its community engagement.

The community engagement of the North Carolina Symphony is a two-way, interactive relationship between the organization and its community: the people of the North Carolina Symphony connect with the North Carolina community and draw them into their product. As the North Carolina Symphony website explains, "the staff, at its

[186] Boney, "Role of Boards Critical During Crisis."
[187] Judy, "The Uniqueness and Commonality of American Symphony Orchestras Organizations," 35.

essence, is charged with drawing patrons as close to the music and organization as possible."[188] The symphony harnesses its people as a valuable commodity and also uses them to draw in and connect with the audience members. Notably, the North Carolina Symphony does not seem to expect community members to be inherently attracted to its product, nor to come flocking to its product. Instead, it charges its people with the task of relationally drawing in the people of the state.

As previously noted, the North Carolina Symphony also cultivates a large volunteer base comprised of community members: over 418 volunteers that log over 16,400 hours per year in approximately a dozen volunteer chapters across the state. The organization also has easily accessible information through its website about how community citizens can get involved. On its webpage "Contribute: How You Can Help," the orchestra describes different methods through which audience members can contribute monetarily to the organization, but it concludes the list with "Volunteer Your Time." As it explains, "Your North Carolina Symphony depends on contributions of time and talent to continue our mission of statewide service and music education." On the Volunteer page, the organization explains that in addition to assisting with operational needs, volunteers serve as ambassadors between the symphony and North Carolina community, thus strengthening the relationship and bridging the gap between the two entities. The Volunteer page also points out through time contributions, volunteers "have fun" and "get to know" symphony staff and musicians—essentially, the volunteer program allows the orchestra to interact directly with community members, and as a

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[188] United States, Department of Treasury, Internal Revenue Service. "2009 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 36.

result, the volunteers become a part of the North Carolina Symphony community.[189] Thus, the organization connects relationally its volunteers.

A healthy volunteer base is a key strategy in fiscal sustainability. As Sontag-Padilla points out, "volunteers can complement existing staff, offer expertise that nonprofits may not have readily accessible, and enhance productivity and program delivery." They are also an essential resource in times of economic downturn,[190] when revenue and staff resources are low. As the symphony's Society Chair, Catharine Arrowood pointed out in an interview, "Running an orchestra is a complex thing. Being able to draw on a deep pool of passionate and knowledgeable volunteers has been crucial to building a sustainable organization."[191] A large volunteer base cuts administration costs, and volunteers serve as advocates for the symphony, attracting audiences and recruiting donors. Volunteers also have the potential to turn into donors. A healthy volunteer base can also be a factor that leads to foundation and government funding–a large volunteer base demonstrates community ownership, an element that funders often taken into consideration before committing their support. A healthy volunteer base also ties into the "time" component within Collins' resource engine, which "refers to how well you attract people willing to contribute their efforts for free."[192]

A Service Mentality

Notably, the symphony also appears to have organizationally adopted a mentality of service. One crucial facet of its mission is to provide statewide *service* to North

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[189] North Carolina Symphony. "Volunteer Your Time."
[190] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, "Financial Sustainability for Nonprofit Organizations," 18.
[191] Zane.
[192] Collins, *Good to Great and the Social Sectors*, 18.

Carolina, which it accomplishes through "bringing the music to the people" of North Carolina, wherever they are. This language choice demonstrates a sense of humility: rather than existing to "enlighten" or "bestow musical wisdom" upon its audience members (i.e., an "elitist, product-centered viewpoint"[193]), the symphony's mission statement indicates that it exists to *help* them through musical service. Additionally, rather than expecting the audience members to join the orchestra in its Raleigh concert hall, the symphony tours the state and brings its music to the North Carolinians in their home communities. Both nonprofit and for-profit literature suggests that a "servant-leader" mentality positively impacts financial performance. Collins argues that sustainable organizations have what he terms as "Level 5 leaders"–that is, leaders with a "compelling combination of personal *humility* and professional will" [*emphasis* added].[194] Likewise, Popeye's Louisiana Kitchen CEO Cheryl Bachelder credits the company's adoption of a servant-leader mentality as the cause of its recent financial turnaround.[195] In *Standing Room Only*, Kotler and Scheff argue for an audience-centric marketing strategy that focuses on the concerns and needs of the target audience.[196]

Government Funding

Without question, the North Carolina state government has played a significant role in the symphony's long-term fiscal sustainability. As mentioned previously, the North Carolina Symphony has had a historical reliance on the state government, stemming back to the recurring subsidy it has received from the state since the 1940s, and

[193] Kotler and Scheff, 533.
[194] Collins, *Good to Great and the Social Sectors*, 11.
[195] Bachelder, *Dare to Serve: How to Drive Superior Results by Serving Others*, 8.
[196] Kotler and Scheff, 533.

during the case study's time period, the North Carolina DCR funding comprised a significant portion of the symphony's annual revenue at 20% to over 34% of its annual revenue, an extremely high ratio for the American field (in recent decades, government funds have comprised less than 5% of the field's total revenue). Historically and within the studied time period, the state subsidy has also provided benefits beyond the immediate financial gains. The symphony's "*officially recognized* importance" [*italics* original] provided the symphony with credibility in the community,[197] and bills passed in the 1950s allowed the symphony to receive tax-free donations and gave small, rural communities incentives to buy subscriptions to North Carolina Symphony concerts,[198] helping to stimulate private support from the North Carolina community. The symphony's close relationship with the state also spurred state legislators to advocate for the symphony and encourage the North Carolina community to develop an interest in the symphony's artistic product.[199]

Although government funding is part of the North Carolina Symphony's current and historical legacy, an intimate relationship with the state government is not necessarily ideal. As Pfeffer and Salancik point out, a reliance on government funds can lead to resource dependency in which "the demands for certainty" limit an organization's autonomy and control over its activities.[200] While the government funds do not directly pay for the North Carolina Symphony's educational and outreach concerts, the theory of resource dependence suggests that the stability brought by the recurring government

[197] Swalin and North Carolina Symphony Society, *Hard-Circus Road*, 21.
[198] Ibid., 69–70.
[199] Ibid., 75.
[200] Pfeffer and Salancik, 261.

subsidies have the potential to influence the symphony's internal decisions about the centrality and role of the programs within the organization. Notably, the North Carolina Symphony crafted its organizational identity as a touring, community-oriented orchestra for the state of North Carolina in the 1930s and before it attained recurring government subsidies in the 1940s. However, viewed through the framework of resource dependency, it is possible the prospect of government subsidy influenced the symphony to mold its organizational identity to encourage higher levels of government support.

An additional difficulty is the fact that the symphony's expenses appear to rise faster than the government funding. For instance, the orchestra had a $2.37 million annual budget in 1983 and received $1.65 million in government subsidy. As such, state support comprised 70% of the orchestra's total revenue $2.37 million budget.[201] However, as denoted in Table 4.4, the orchestra's budget ranged from $9.7 million to $10.5 million from 2005 through 2011 while the recurring government subsidy ranged from $2.6 million to $2.86 million (note: because Table 4.4 denotes recurring grant-in-aid from the North Carolina Department of Cultural Resources, the 2010 $1.5 million grant challenge was excluded from calculation). Thus, over a thirty-year time period, the orchestra's expenses increased by a factor of approximately five while the recurring government subsidy increased by less than a factor of two.

[201] Craven, 287.

Table 4.4

The North Carolina Symphony's NC DCR Funding and Annual Expenses, 2005–2011

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
NC DCR Funding	$2.6 million	$2.8 million	$2.8 million	$2.8 million	$2.86 million	$2.65 million	Not Available
Total Expenses	$9.7 million	$9.5 million	$9.8 million	$10.4 million	$10.5 million	$9.8 million	$9.9 million

It also seems that the government is willing to conditionally invest in the orchestra because the orchestra demonstrates that it provides value to the community. For instance, the $1.5 million "grant challenges" significantly bolstered the symphony's state funding in 2010 and 2011. However, the grant challenges were contingent on the orchestra's abilities to raise specified levels of private support.[202] Essentially, the North Carolina government required the orchestra to demonstrate that it had the *support of and investment from the community* before the state was willing to invest additional funds in the symphony. Additionally, while the music education concerts and the concerts throughout the state were not directly "purchased" or "required" by the government, they did provide incentive for the government to support the symphony, because the North Carolina Symphony and the North Carolina DCR have a common purpose to make the arts (in this case, orchestral music) available to every North Carolina Citizen.

Reciprocally, the North Carolina Symphony does not seem to view government support as one of its primary fiscal sustainability strategies. *Strategy 2017*, its most recent strategic plan, did not mention increasing government revenue or strengthening

[202] Christensen.

government relations as one of its initiatives. Instead, it focused on strengthening its relationship with the North Carolina community. Additionally, one of its executive summaries from the studied time period stated, "DCR funding represented 27% of the symphony total expenses [this fiscal year]. **73% of symphony expenses are funded by private revenue**" [emphasis in original].[203] Through the use of the bold font, the symphony drew emphasis to its private funding levels. Ironically, its level of private funding is quite low for the field while its level of government support is extremely high for the field. However, the symphony overview intentionally chose to draw attention away from the unusual fact of high government funding levels and instead emphasized private support. Thus, the symphony demonstrated the value it placed on support from the community. Likewise, every symphony Executive Overview from 2005 through 2010 emphatically stated that the orchestra was "singularly unique" from other American orchestras due to its high levels of statewide service and music education. The symphony could have easily stated that it was "singularly unique" due to its high levels of government funding, but instead chose to draw attention to the importance of its mission.

Perhaps most revealing is the "State of the Symphony" in the North Carolina Symphony's 2011 Report to the Community. The section acknowledged government support as an essential component of its ability to reduce its $2.5 million operational deficit, but it concluded with the following statement: "the North Carolina Symphony's statewide commitment is essential. And, in these times of fiscal restraint, our commitment has not diminished. In fact, our diminished resources have caused us to

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[203] United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 20.

focus squarely on *our mission statement* . . . We feel confident that with *your continued support* and our prudent financial management, the Symphony will be able to eliminate its cumulative deficit in the foreseeable future" [emphasis added].[204] Thus, while the North Carolina Symphony acknowledged the government's role in its fiscal sustainability, it viewed its mission statement and community engagement as the key factors that would continue to ground its fiscal sustainability.

Conclusion

Through a qualitative single-case study approach, Chapter IV examined the role of government funding in the North Carolina Symphony's financial stability and investigated other factors that contributed to its fiscal sustainability from 2005 through 2011. I applied Robert K. Yin's essential components for collecting data as follows:

1. Research Questions: What factors contributed to the North Carolina Symphony's fiscal consistency from 2005 to 2011, and what were its fiscal sustainability strategies?
2. Proposition: Government funding played a prominent role in the orchestra's fiscal stability and fiscal sustainability strategies.
3. Unit of Analysis: The North Carolina Symphony, with a specific time boundary of 2005–2011.[205]

In the data collection for the unit of analysis, sources of evidence include documentation and archival records such as tax form-990s, annual executive and community reports, and

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[204] United States, Department of Treasury, Internal Revenue Service. "2005 Return of Organization Exempt from Income Tax (Form 990): North Carolina Symphony," 35.
[205] Ibid., 24.

media articles. To interpret the findings, I employed the theoretical frameworks of dynamic capabilities and resource dependency.

After analyzing the culled data, I concluded that while state government funding is a critical source of funding for the North Carolina Symphony, government funding does not lie at the core of the orchestra's fiscal sustainability. Historically as well as within the studied time period, the orchestra's expenses rose at a faster rate than the state government funding, and as a result, the orchestra was required to find other revenues to fill its income gap. Additionally, in the orchestra's documents (i.e., executive summaries, community report, and strategic plan), state government funding was never cited as a fiscal sustainability strategy.

While government funding was a crucial income source for the North Carolina Symphony, the orchestra's primary fiscal sustainability strategy can be summarized as community engagement, which was derived from the organization's clarity of mission that translated into community-oriented program activities. As evidenced by the symphony's executive summaries, the North Carolina Symphony viewed its dual mission of statewide service and music education as its area of expertise and the defining feature that distinguished it from other orchestras. Additionally, as evidenced by its 2011 Report to the Community and *Strategy 2017*, the North Carolina Symphony viewed mission focus and community engagement as drivers for its fiscal sustainability strategy. The orchestra's mission directly translated into two community-oriented program activities, music education and community concerts throughout the state of North Carolina, which served as economic drivers for the orchestra. To deepen its community engagement, the symphony also utilized practices of transparency, leveraging people (symphony administration, artistic leaders, board members, and volunteers), and service mindset, each of which served as secondary fiscal sustainability strategies.

Future research might include additional case studies on fiscal sustainability strategies of large American orchestras, including the other four orchestras identified as fiscally consistent from 2005 through 2011. Future research might also examine the role of clear mission statements and community engagement as economic drivers in large American orchestras.

CHAPTER V

IMPLICATIONS FOR PRACTITIONERS

Introduction

Chapter V presents implications for practitioners derived from the single-case study of the North Carolina Symphony presented in Chapter IV. As mentioned previously, there is a dearth of scholarly sources that provide concrete fiscal sustainability strategies for orchestra managers. This paper offers its contribution to the literature through the suggestions presented in this chapter.

Chapter V is organized by the following sections:

- A Clear Mission that Fosters Relational Community Engagement
- The Importance of a Music Education Program
- The Role of Government Funding

A Clear Mission that Fosters Relational Community Engagement

The North Carolina Symphony can be characterized as employing dynamic capabilities in order to maximize its financial performance.[206] Its primary fiscal sustainability strategy can be summarized as having and executing a clear mission that translates into clear program activities that foster relational community engagement. Based on the findings Chapter IV's case study as well as nonprofit literature, orchestra

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[206] Pablo et al., 688.

leaders are encouraged to closely scrutinize their orchestra's mission statement. The mission statement should clearly and specifically articulate the following:

- What the organization does (i.e., program activities)
- Why it does what it does (i.e., justification for existence)
- For whom (i.e., the population it serves)

The mission should also identify what separates and distinguishes it from other large American orchestras (i.e., its area of expertise). In the case of the North Carolina Symphony, it intends to provide statewide service and music education on a deeper level than any other orchestra in America. Other orchestras can follow its example by identifying what they can do better than every other orchestra in America. The most literal translation of this is for an orchestra to deepen its relationship with its own state– because most states have just one or two large orchestras, there is less inherent competition in this program model.

However, an orchestra's area of expertise is by no means limited to statewide service. For instance, The Cleveland Orchestra avouches that its core competency is artistic excellence. In *Good to Great and the Social Sectors*, Collins cites the orchestra's profoundly moving performance of Mahler's Symphony No. 5 two days after the September 11th terrorist attacks. Although there was initially debate regarding whether or not the performance would be appropriate, the orchestra's executive and music directors concluded that "perhaps more than any other week in history, people needed the orchestra to do the one thing that it does supremely well: play the most powerful music ever created by the human race."[207] After the concert, the orchestra's executive director asserted, "There is absolutely nothing we could have done to be of better service at the moment than to stick with what we do best, standing firm behind our core values of great music with uncompromising artistic excellence." In his own commentary of the event, Collins writes, "It didn't matter that some patrons might want a rousing sing-along…or that the media might criticize. What mattered is that the orchestra remained true to its core values and Hedgehog concept, doing for the people of Cleveland *only* what it could do better than any other organization in the world." [emphasis in original].[208]

Of course, it is not necessarily an easy task for an orchestra to pinpoint what it does better than every other orchestra. Notably, the organization must have the potential to be the best in the area that it identifies. As Collins cautions, an organization cannot simply have a "goal to be the best, a strategy to be the best, an intention to be the best, a place to be the best. It [must have] an *understanding* of what it *can* be the best at. The distinction is absolutely crucial" [*italics* original].[209] For this reason, it is probably not reasonable for the majority of large American orchestras to identify artistic excellence as their defining characteristic. An orchestra can (and likely should) aim to raise its artistic level, but it would probably be more feasible for it to choose some other arena that it can excel in beyond that of other American orchestras. Potential areas might include:

- Performing music from a particular era or specific geographic area
- Innovative programming

[207] Collins, *Good to Great and the Social Sectors*, 27.
[208] Ibid., 28.
[209] Collins, *Good to Great*, 98.

- Multimedia concert experiences
- Community and audience engagement activities

Regardless of what an orchestra chooses as its core competency, the area should be one that the orchestra is deeply passionate about[210] and capable of achieving.[211]

After identifying its defining characteristic that separates it from other American orchestras, an orchestra should ascertain how to link its resource engine to its area of expertise.[212] In the case of the North Carolina Symphony, its mission translated into two broad categories of program activities that fostered relational community engagement. The symphony's legacy of annually playing for 50,000–100,000 school children each season steadily grew its future audience members, donors, and arts leaders; likewise, the adult concerts throughout the state widened the symphony's donor and audience base. As evidenced in Chapter IV, the cultivation of donors, audience members, and arts leaders translated into economic drivers for the orchestra. In this way, the North Carolina Symphony linked its resource engine to its core competencies.

Other large American orchestras can link their resource engines to their area of expertise in a variety of ways. However, it should be noted that the research of Arthur C. Brooks indicates that large orchestras (i.e., orchestras with annual budgets over $5 million) have better success with fiscal sustainability if they focus on expanding their audience and patron base with "previously uninitiated consumers," versus promoting "the elite image of orchestra products," which his research indicated as being more beneficial

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[210] Collins, *Good to Great and the Social Sectors*, 19.
[211] Collins, *Good to Great*, 98.
[212] Collins, *Good to Great and the Social Sectors*, 18.

for orchestras with budgets under $5 million.[213] In light of this research, the leaders of large American orchestras may want to consider crafting a resource engine that concentrates on concert experiences that are likely to bring in large numbers of previously uninitiated concertgoers, such as community concerts or innovative concert experiences.

Notably, the North Carolina Symphony's linkage between its area of expertise and its resource engine did not happen overnight. Instead, a long and careful cultivation of its core competency resulted in an economic driver after the course of several decades. For example, 50,000 school children hear the symphony, many for the first time, every year. However, the children will not be potential donors, arts leaders, or paying audience members until several years after the initial event. As such, this particular facet of the symphony's community engagement is a long-term investment. As a result, as other orchestras evolve how they can create and link a resource engine to their area of expertise, they should be aware that the linkage and economic drivers will likely not happen overnight.

As orchestra leaders craft their resource engines, they should also focus on leveraging their people (symphony administration, artistic leaders, board members, and volunteers) to advance their organizational mission as well as serve as economic drivers. Following the example set by the North Carolina Symphony, other orchestras can invest in artistic and administrative leaders willing to forge relational connections with their orchestras' communities and people groups. Likewise, orchestras should cultivate a large

[213] Brooks and Symphony Orchestra Institute, *Improving the Orchestra's Revenue Position*, 13.

system of community volunteers.[214] The North Carolina Symphony has a unique and extensive volunteer system of hubs and auxiliary chapters that extends throughout the entire state. If an orchestra serves more than one city or geographic region, it can emulate the North Carolina Symphony's model by establishing volunteer chapters in each city or geographic area outside of its "home" base. Additionally, orchestras should cultivate an engaged and involved board of directors that is rich in occupational diversity.[215] In addition to providing the organization with a wealth of expertise, nonprofit research indicates that involved community board members lead to "a sense of ownership" positively correlated with fiscal sustainability.[216]

As orchestras execute their mission through program activities, they are highly encouraged to emulate the North Carolina Symphony's practice of transparency through published Executives Summaries and easily accessible Reports to the Community, which nonprofit literature indicates as being linked to fiscal sustainability. The documents can detail annual financial summaries, but they should also detail nonfinancial performance details, such as program activities, objectives, evaluations, success stories, and information that is "relevant to any decision to support a nonprofit through donations and volunteering."[217]

Music Education and Service

While many American symphony orchestras have a music education program and a community outreach program, the North Carolina Symphony encompasses these

[214] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, 18.
[215] Ibid.
[216] Ibid., 17.
[217] Ibid., 16–17.

programs as core tenants of its mission. As stated in the previous section, the broadest practical implication that can be gleaned from these practices is for an orchestra to have a clear, focused mission that distinguishes it from other American orchestras as well as engages its community. However, orchestras might also choose to apply a more specific implication derived from the case study by reconsidering the relative importance of their music education and community engagement programs. Results in a study by Paul DiMaggio and Toqir Mukhtar suggested that cultural arts participation declined in the United States from 1982 to 2002. Researchers concluded, "We suspect that if [arts] attendance continues to decline, at some point such art forms will become irrelevant to the shared culture of families and social groups whose life chances are most dependent upon their command of cultural capital."[218] Kotler and Sheff suggest that community outreach efforts have the potential to increase arts attendance, arguing that "such efforts will weave the arts into the very fabric of our community. Each of these activities will create new opportunities for exposing people to art and showing them how art is integral to our everyday lives…which in turn will make the artistic experience compelling to a broader number of people."[219]

In a 2012 article for the Huffington Post, Tony Woodcock pointed to the orchestra financial crises of the previous decade and advocated that it called for a reinvention of the field's "interface" with the community. Woodcock posed the question: "Could we redirect the orchestra from an almost-exclusive focus on performance to a multi-faceted education mission?" To accomplish this, Woodcock advocated for an "exponential

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[218] DiMaggio and Mukhtar, *Arts Participation as Cultural Capital in the Unites States, 1982–2002,* 191.
[219] Kotler and Scheff, 536–537.

development" of American orchestras' music education and community outreach programs that would take place outside of the traditional concert hall in easily accessibly community venues, such as parks and gymnasiums. Orchestral musicians would become "teaching artists" for school children, and orchestras would provide continuous free community concerts. He explained, "This would redefine in one bound the relationship of an orchestra to its community, by actually beginning to address the needs of that community."[220] Woodcock's article did not cite any empirical evidence or specific orchestras to support his theories, but his underlying concept of the linkage between fiscal sustainability and music education and community engagement are blatantly manifested in the case study of the North Carolina Symphony.

In light of this, leaders and administrators of large orchestras without a heavy emphasis on community engagement and music education may wish to reevaluate the role of those programs within the organization. Notably, the Orchestra Forum's Elephant Task Force challenged American orchestras to "see community engagement as [their] *core mission*" [*emphasis* added], posing the question: "What if an orchestra behaved as if it believed that artistic excellence and activities inside the traditional concert hall space were essential but incomplete parts of the community?"[221] Like Woodcock, the Orchestra Forum did not have empirical evidence to support this theory. Rather, it had empirical evidence (supplied by Robert Flanagan) that action needed to be taken to address the financial challenges of American orchestras, and "community relationships" was one of several suggestions provided to address the issues. Regardless, the North Carolina

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[220] Woodcock.
[221] The Orchestra Forum, 4.

Symphony certainly manifested the Forum's concept of having community engagement as the "core" of its mission and a large component of its fiscal sustainability strategy.

Large American orchestras can also emulate the North Carolina Symphony's model by adopting a mindset of service. As noted in Chapter IV, research as well as the experience of practitioners has indicated a positive correlation between a servant-leader mentality and fiscal sustainability. Woodcock's article and "The Elephant Taskforce" also emphasize the theoretical concept of service to the community. Woodcock argues that "in order not to [fail, orchestras] will need to listen to their communities and provide *service* that everyone recognizes as essential" [*emphasis* added].[222] Likewise, the Elephant Task Force recommends that orchestras "be responsible first to the community—move from a delivery system to a *service* culture" [*emphasis* added].[223] To apply a service mindset in the fashion of the North Carolina, orchestras can explore opportunities to "bring the music to the people" and serve their communities by delivering concerts in familiar (perhaps non-concert hall) venues throughout their communities.

Nonprofit literature heavily cautions against "mission drift." As RAND's nonprofit fiscal sustainability literature review explains, "it is essential to operations and sustainability to periodically revisit the mission and ensure that programs and services remain in line with the identity of the organization."[224] As a result, leaders of large orchestras without a heavy community engagement or music education emphasis may

[222] Woodcock.
[223] The Orchestra Forum, 5.
[224] Sontag-Padilla, Staplefoote, and Gonzalez Morganti, 11.

fear that a large or sudden program expansion could lead to “mission drift.” If a leader’s orchestra is already financially stable, he or she is probably wise to question the necessity of a large organizational shift. However, if the leader’s orchestra is not financially stable (but has an annual budget of over $5 million), the organization may need to consider shifting to community-minded service model in order to remain financially viable.

Government Funding

As previously noted, orchestra management scholars and practitioners tend to have strong opinions regarding government funding–they often regard it either as something to be feared and avoided at all costs, or as the solution that will resolve the income gap. However, these polar viewpoints carry inherent problems. As a whole, scholarly literature does not indicate that government funding is detrimental to an orchestra’s organizational and financial health. While economic theory implies that government support should “crowd out” private giving, research does not support this theory. Studies have indicated that government support can provide a neutral, [225] modest[226] or significant[227] “crowd-in” effect for private giving. Additionally, while many orchestra practitioners have historically feared that heavy reliance on government funding will lead to “mission drift,” symphony researchers point out that the opposite can occur, that “by lessening the need for fundraising, [orchestras] can dedicate more of their time and resources to promoting the mission of the organization.”[228]

[225] Brooks and Rand Graduate School, *Arts, Markets, and Governments*, 79.
[226] Smith.
[227] Hughes, Luksetich, and Rooney.
[228] Ibid., 16.

On the other end of the spectrum, the literature also does not indicate that government funding has the potential to be the final solution to resolve the financial difficulties of American symphony orchestras. Historically, the American government has never served in this capacity for the field as a whole. Although the level of government support for American orchestras has varied throughout the last century, government funding generally has not exceeded more than 10% of an American orchestra's operating expenses,[229] and as of 2011, government funding comprised less than 5% of the field's revenue as a whole.[230] It is also improbable that this level of giving will increase in the near future. As Flanagan notes in *The Perilous Life of Symphony Orchestras*, "in [this] era of large structural government deficits, long-term direct government support to orchestras seems unlikely in the United States."[231] As such, it seems unrealistic and inadvisable for American orchestras to attempt shift to a funding model relying heavily on government support.

The case study of the North Carolina Symphony implies that orchestra leaders and managers can take a middle ground in regards to government funding: they can leverage government funding as part of a balanced revenue portfolio. Although the symphony displayed high levels of government funding for the orchestra field, the government funds were more or less evenly balanced with private giving and ticket sale revenue. While a revenue stream that comprises roughly a third of an orchestra's operating budget certainly constitutes a critical source of funding, it is a far cry from "complete reliance on

[229] Brooks and Rand Graduate School, *Arts, Markets, and Governments*, 74.
[230] League of American Orchestras, "Quick Orchestra Facts 2015 (Data from 2011–12)," 1.
[231] Flanagan, *The Perilous Life of Symphony Orchestras*, 110–111.

the government." Furthermore, research has indicated that revenue diversification is a viable financial strategy for American symphony orchestras.[232] As such, orchestra managers and leaders can regard government funding as part of a revenue diversification strategy.

As orchestra leaders seek to increase their organization's level of government funding, it is recommended that they first seek to increase local and state funding before increasing federal funding. As demonstrated in 1987 and 2005 surveys of government funding distributions for American orchestras, federal funding decreased from 28% to 15% of all government funding for the American orchestra field, while state support remained constant (40%) and local support increased from 32% to 45%.[233] Furthermore, the case study revealed that the North Carolina Symphony and the North Carolina state government are natural allies because the two organizations serve the same people group. As other orchestras form natural alliances with government groups, they are more likely to find these allies at the local and state level rather than at the federal level. If an orchestra serves a city, it can seek to strengthen its relationship with city government agencies and ultimately seek higher levels of funding. Likewise, if an orchestra serves an entire county, it can seek to increase funding from the county government agencies. By strategically allying themselves with government agencies that serve their constituents, orchestras can decrease their chances of encountering "mission drift" and the phenomenon of "chasing the funding."

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[232] Besana, "Alternative Resources: Revenue Diversification in the Not–for–Profit USA Symphony Orchestra."
[233] Flanagan, *The Perilous Life of Symphony Orchestras*, 98.

Conclusion

Based on the findings in Chapter IV, orchestras that seek to improve their fiscal sustainability are encouraged to create and execute a clear mission that fosters relational community engagement. Orchestra leaders should closely scrutinize their organization's mission statement, making sure that it clearly and specifically articulates what the organization does (i.e., program activities), why it does what it does (i.e., justification for existence), and for whom (i.e., the population it serves). The mission should also identify what separates and distinguishes the organization from other large American orchestras and should subsequently be linked to its resource engine. As orchestra leaders craft their resource engines, they should also focus on leveraging their people (symphony administration, artistic leaders, board members, and volunteers) to advance their organizational mission as well as serve as economic drivers. Orchestras are also encouraged to publish an annual Executive Summary or Report to the community. Leaders of orchestras without a heavy emphasis on music education and community engagement are encouraged to reevaluate the role of those programs within their organization, and to consider adopting a "service" or servant leader mindset.

Government funding can also be leveraged as a fiscal sustainability strategy, although it should not be regarded as a standalone solution. Instead, it should be considered as an essential component of a balanced revenue portfolio. Orchestra practitioners are advised to seek to increase government funding first at the local and state levels, allying themselves with government groups that their constituents to lower chances of incurring "mission drift."

CHAPTER VI

CONCLUSION

Orchestra literature thoroughly documents that American symphony orchestras face inherent financial difficulties due to the phenomena of cost disease and the income gap, but as economist Douglas Dempster points out, "the key to understanding the economics of symphony orchestras . . . is not in understanding productivity lags. . . . The key is to understand how [financially successful symphony orchestras] control the perceived value of their service in order to keep pace with highly inflationary costs so as to sustain growth in earned income, as well as in public and private subsidies. How and why this is happening needs an explanation."[234] However, the "how and why" of successful orchestral fiscal sustainability practices are not thoroughly documented in academic orchestra literature. As such, this document intends to contribute to the literature by identifying concrete fiscal strategies that have been successfully employed by a large American symphony orchestra with the hope that other orchestra managers can incorporate the strategies into the practices of their organizations.

In order to identify the large American orchestras that are fiscally consistent, I surveyed twenty-five orchestras with budgets of over $5 million, calculating each orchestra's annual Total Income/Total Expense ratio over a seven-year period (2005–2011). Of the twenty-five orchestras, five consistently achieved an income ratio of over

[234] Dempster, 21.

100%. In *The Perilous Life of Symphony Orchestras*, Flanagan notes that "individual orchestras do not follow a common financial model," meaning that while virtually every orchestra has the same revenue categories, the proportional makeup of each orchestra's revenue package varies widely.[235] This proved to be true in the resultant revenue ratios of the five top-performing financial orchestras of my study, each of which had extremely varied revenue packages.

In order to identify the factors that contribute to an orchestra's fiscal sustainability, I chose a qualitative single case-study approach. While any of the five identified orchestras might have been selected as a case-study subject, I selected the North Carolina Symphony because that it displayed an abnormally high level of government support. After analyzing the culled data, I concluded that while state government funding is a critical source of funding for the North Carolina Symphony, government funding does not lie at the core of the orchestra's fiscal sustainability. Historically as well as within the studied time period, the orchestra's expenses escalated at a faster rate than the state government funding, requiring the orchestra find other revenues to fill its income gap. State government funding was also never cited as a fiscal sustainability strategy in the organization's internal documents.

The North Carolina Symphony's primary fiscal sustainability strategy can be summarized as community engagement derived from the organization's clarity of mission that translated into community-oriented program activities. As evidenced by the symphony's executive summaries, the North Carolina Symphony viewed its dual mission

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[235] Flanagan, *The Perilous Life of Symphony Orchestras*, 35.

of statewide service and music education as its area of expertise and the defining feature that distinguished it from other orchestras. Additionally, as evidenced by its 2011 Report to the Community and *Strategy 2017*, the North Carolina Symphony viewed mission focus and community engagement as drivers for its fiscal sustainability strategy. The orchestra's mission also directly translated into two community-oriented program activities, music education and community concerts throughout the state of North Carolina, which served as economic drivers for the orchestra by expanding its current and future audience and donor bases. The symphony also utilized practices of transparency, leveraging people, and a service mindset, each of which deepened its community engagement and served as secondary fiscal sustainability strategies.

Orchestras that seek to improve their fiscal sustainability are encouraged to create and execute a clear mission that fosters relational community engagement. Orchestra leaders should closely scrutinize their organization's mission statement, making sure that it clearly and specifically articulates what the organization does, why it does what it does, and for whom. The mission should also identify what separates and distinguishes the organization from other large American orchestras. As orchestra leaders craft their resource engines, they should also focus on leveraging their people to advance their organizational mission as well as serve as economic drivers. To enhance their transparency and accountability to their constituents, orchestras are also encouraged to publish an annual Executive Summary or Report to the Community. Leaders of orchestras without a heavy emphasis on music education and community engagement are encouraged to reevaluate the role of those programs within their organization, and to consider adopting a mindset of service toward their community. To further enhance their fiscal sustainability, orchestras can seek to increase government funding at the local and state levels as part a balanced revenue portfolio.

One of Jim Collin's defining features of a "great" nonprofit organization is one that "delivers superior performance and makes a distinctive impact over a long period of time."[236] In other words, a great nonprofit organization is an organization that manages to simultaneously fulfill its mission while generating the resources to do so over a long period of time. As previously discussed, American orchestras have historically struggled as a field to maintain solid financial grounding. In times of financial strain, it can be tempting for an orchestra to use its external circumstances as a scapegoat for the current internal condition of its organization, assuming that revenue is down due to a rough economic climate, and concert attendance is down because classical music is losing favor in American culture. However, as Collins points out, "we can find pockets of greatness in nearly every difficult environment. . . . Every institution has its unique set of irrational and difficult constraints, yet some make a leap while others *facing the same set of environmental challenges* do not. . . . Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline."[237]

Similarly, while American symphony orchestras face inherent challenges due to the income gap and cost disease, some orchestras manage to overcome their external environments and inherent limitations in order to achieve fiscal sustainability for their organization. Notably, the five fiscally consistent orchestras identified in Chapter III

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[236] Collins, *Good to Great and the Social Sectors,* 5.
[237] Ibid., 31.

came from a variety of regions, city sizes, and budget sizes. By studying and implementing the successful practices of peer organizations, other orchestras can also learn to combat the income gap and cost disease and thus improve their organization's fiscal sustainability.

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APPENDIX A

SURVEYED ORCHESTRAS BY BUDGETARY EXPENSE

Orchestras, Budgets Over $50 million

1. Boston Symphony
2. Chicago Symphony
3. Philadelphia Orchestra
4. New York Philharmonic
5. Atlanta Symphony
6. Los Angeles Philharmonic
7. San Francisco Symphony
8. Cleveland Orchestra

Orchestras, Budgets $20 million to $50 million

9. Baltimore Symphony
10. St. Louis Symphony
11. Houston Symphony
12. Pittsburg Symphony
13. Detroit Symphony
14. Dallas Symphony
15. Cincinnati Symphony
16. San Diego Symphony
17. Seattle Symphony

Orchestras, Budgets $5 million to $20 million

18. Colorado Symphony
19. Oregon Symphony
20. Buffalo Philharmonic
21. North Carolina Symphony
22. Alabama Symphony
23. Jacksonville Symphony
24. Charlotte Symphony
25. Toledo Symphony

APPENDIX B

REPORTED REVENUES AND EXPENSES FOR FIVE LARGE AMERICAN ORCHESTRAS, 2005–2011

		2005	2006	2007	2008	2009	2010	2011
Los Angeles Philharmonic	Total Revenue	$ 88,977,310	$ 91,494,734	$ 100,661,463	$ 103,246,603	$ 84,052,500	$ 113,775,295	$ 109,995,084
	Total Expense	$ 82,004,143	$ 79,111,158	$ 83,785,836	$ 89,029,795	$ 90,448,029	$ 96,932,388	$ 103,925,230
Cincinnati Symphony	Total Revenue	$ 36,204,574	$ 36,815,194	$ 38,721,237	$ 43,771,329	$ 35,783,680	$ 40,965,757	$ 42,557,698
	Total Expense	$ 34,757,372	$ 33,685,852	$ 37,011,352	$ 45,184,545	$ 39,008,488	$ 38,784,889	$ 38,064,211
St. Louis Symphony	Total Revenue	$ 42,881,194	$ 26,706,819	$ 26,814,285	$ 24,921,680	$ 31,990,272	$ 26,527,657	$ 27,006,947
	Total Expense	$ 18,705,063	$ 21,668,833	$ 23,056,633	$ 23,457,115	$ 25,290,204	$ 25,727,043	$ 26,306,728
North Carolina Symphony	Total Revenue	$ 10,124,701	$ 11,678,581	$ 12,033,672	$ 13,285,473	$ 11,355,552	$ 11,986,978	$ 11,832,424
	Total Expense	$ 9,703,429	$ 11,054,339	$ 11,575,290	$ 13,421,958	$ 13,426,018	$ 10,981,883	$ 11,472,722
Buffalo Philharmonic	Total Revenue	$ 9,893,204	$ 9,871,993	$ 11,110,338	$ 11,700,900	$ 10,862,595	$ 9,964,966	$ 9,981,170
	Total Expense	$ 9,704,365	$ 9,527,025	$ 9,878,847	$ 10,442,638	$ 10,566,992	$ 9,828,331	$ 9,944,361

APPENDIX C

REPORTED REVENUE STREAMS OF FIVE LARGE AMERICAN ORCHESTRAS, 2005–2011

		2005	2006	2007	2008	2009	2010	2011
Los Angeles Philharmonic	**Private Contributions**	$ 25,774,336	$ 22,835,361	$ 28,069,354	$ 31,582,527	$ 22,840,847	$ 37,612,694	$ 32,376,918
	Government Support	$ 412,374	$ 1,466,964	$ 1,023,752	$ 1,279,729	$ 552,406	$ 873,793	$ 765,448
	Program Service Revenue	$ 60,151,937	$ 63,683,668	$ 64,898,669	$ 68,879,125	$ 67,705,595	$ 72,688,355	$ 73,712,103
	Investment Income	$ 1,177,854	$ 2,040,911	$ 2,578,951	$ 1,967,193	$ (6,602,137)	$ 2,885,848	$ 3,347,658
	Other	$ 1,460,809	$ 1,467,830	$ 4,090,737	$ (461,971)	$ (444,211)	$ (285,395)	$ (207,043)
	TOTAL REVENUE	**$ 88,977,310**	**$ 91,494,734**	**$ 100,661,463**	**$ 103,246,603**	**$ 84,052,500**	**$ 113,775,295**	**$ 109,995,084**

		2005	2006	2007	2008	2009	2010	2011
Cincinnati Symphony	**Private Contributions**	$ 10,922,278	$ 12,433,238	$ 11,723,170	$ 13,871,662	$ 12,961,183	$ 10,757,703	$ 14,185,804
	Government Support	$ 377,827	$ 534,336	$ 455,386	$ 3,693,498	$ 316,362	$ 195,494	$ 393,519
	Program Service Revenue	$ 21,041,455	$ 18,983,941	$ 22,717,136	$ 26,738,440	$ 24,461,943	$ 24,559,239	$ 24,235,842
	Investment Income	$ 891,245	$ 1,153,717	$ 1,134,857	$ (617,539)	$ (2,009,823)	$ 5,389,617	$ 3,703,292
	Other	$ 2,971,769	$ 3,709,962	$ 2,690,688	$ 85,268	$ 54,015	$ 63,704	$ 39,241
	TOTAL REVENUE	**$ 36,204,574**	**$ 36,815,194**	**$ 38,721,237**	**$ 43,771,329**	**$ 35,783,680**	**$ 40,965,757**	**$ 42,557,698**

		2005	2006	2007	2008	2009	2010	2011
St. Louis Symphony	**Private Contributions**	$ 31,207,505	$ 14,585,200	$ 12,877,914	$ 10,911,779	$ 16,401,885	$ 11,143,410	$ 11,020,005
	Government Support	$ 1,479,073	$ 264,919	$ 1,589,579	$ 306,800	$ 1,332,120	$ 454,564	$ 1,283,349
	Program Service Revenue	$ 4,949,359	$ 5,734,001	$ 5,936,419	$ 6,122,786	$ 7,251,570	$ 8,314,542	$ 8,276,909
	Investment Income	$ 1,207,751	$ 572,776	$ 444,183	$ 342,914	$ 165,417	$ 64,582	$ 102,073
	Other	$ 4,037,506	$ 5,549,923	$ 5,966,190	$ 7,237,401	$ 6,839,280	$ 6,550,559	$ 6,324,611
	TOTAL REVENUE	**$ 42,881,194**	**$ 26,706,819**	**$ 26,814,285**	**$ 24,921,680**	**$ 31,990,272**	**$ 26,527,657**	**$ 27,006,947**

		2005	2006	2007	2008	2009	2010	2011
North Carolina Symphony	**Private Contributions**	$ 3,334,344	$ 4,307,784	$ 4,494,726	$ 5,360,300	$ 3,556,329	$ 3,644,645	$ 3,951,022
	Government Support	$ 2,810,238	$ 2,970,791	$ 3,059,376	$ 3,130,963	$ 3,349,240	$ 4,436,946	$ 4,496,433
	Program Service Revenue	$ 3,494,442	$ 3,739,581	$ 3,723,649	$ 3,941,838	$ 3,777,797	$ 3,185,918	$ 3,260,295
	Investment Income	$ 323,739	$ 344,012	$ 533,754	$ 604,381	$ 11,927	$ 9,308	$ 3,631
	Other	$ 161,938	$ 316,413	$ 222,167	$ 247,991	$ 660,259	$ 710,161	$ 121,043
	TOTAL REVENUE	**$ 10,124,701**	**$ 11,678,581**	**$ 12,033,672**	**$ 13,285,473**	**$ 11,355,552**	**$ 11,986,978**	**$ 11,832,424**

		2005	2006	2007	2008	2009	2010	2011
Buffalo Philharmonic	**Private Contributions**	$ 5,617,358	$ 5,132,889	$ 6,290,271	$ 6,242,662	$ 5,952,358	$ 4,809,732	$ 5,098,680
	Government Support	$ 1,157,200	$ 1,221,200	$ 1,276,858	$ 1,248,098	$ 1,205,643	$ 1,452,500	$ 1,008,350
	Program Service Revenue	$ 3,109,200	$ 3,379,492	$ 3,283,875	$ 3,772,571	$ 3,381,997	$ 3,487,696	$ 3,515,257
	Investment Income	$ 1,016	$ 1,428	$ 26,453	$ 12,675	$ 231	$ 461	$ 937
	Other	$ 8,430	$ 136,984	$ 232,881	$ 424,894	$ 322,366	$ 214,577	$ 357,946
	TOTAL REVENUE	**$ 9,893,204**	**$ 9,871,993**	**$ 11,110,338**	**$ 11,700,900**	**$ 10,862,595**	**$ 9,964,966**	**$ 9,981,170**