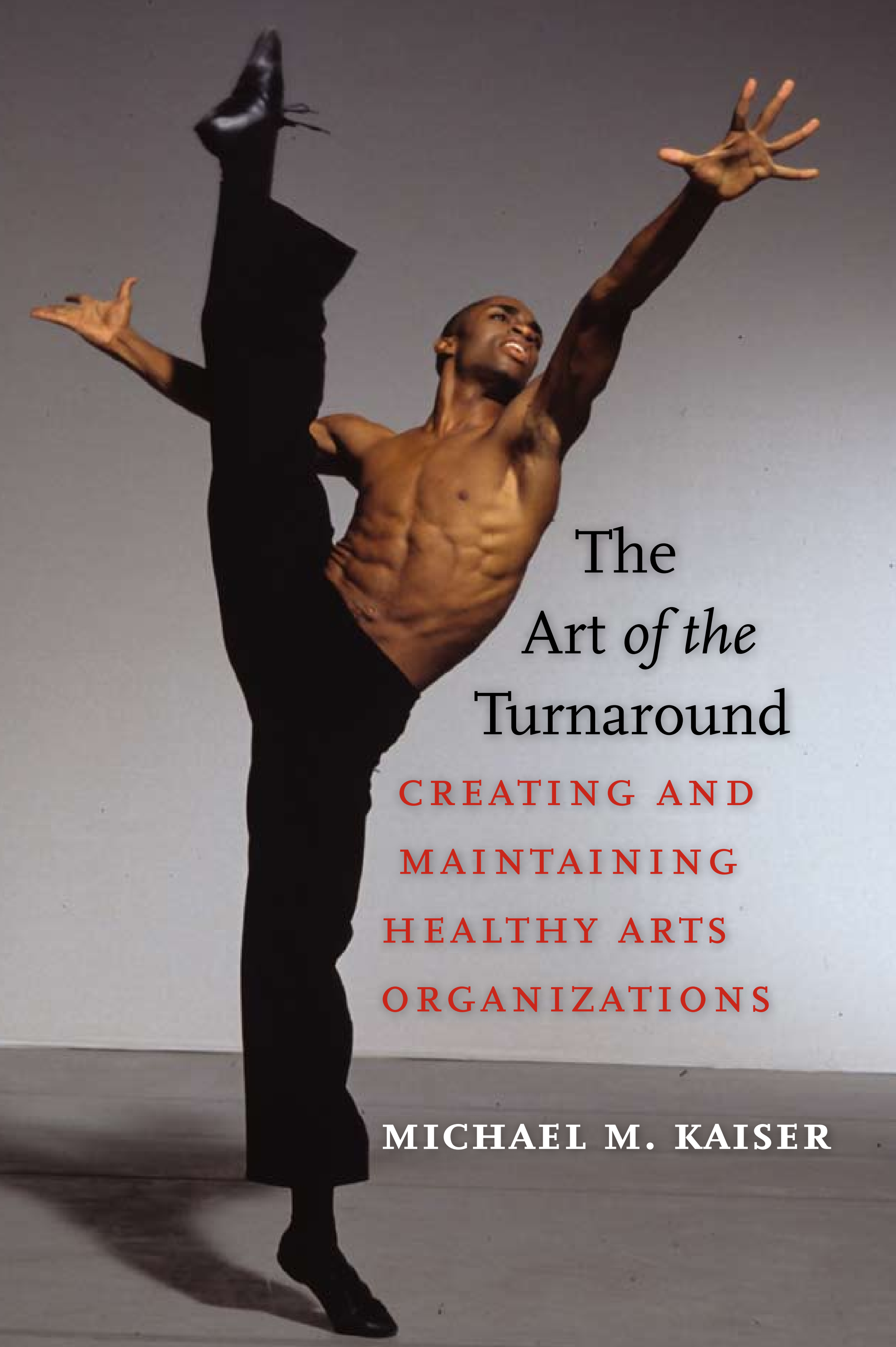

The Art *of the* Turnaround

CREATING AND MAINTAINING HEALTHY ARTS ORGANIZATIONS

MICHAEL M. KAISER

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There is one person who has been with me, on and off, for my entire arts career. The careful reader will see Claudette Donlon mentioned several times—at the Kansas City Ballet, at American Ballet Theatre, and at the Kennedy Center. Claudette has always been willing to play bad cop to my good cop. I would have accomplished nothing without her and she knows it. Now it is time for others to know this as well.

M.M.K.

INTRODUCTION

My father wanted me to be a dentist because he said I would always be in demand. I have a different suggestion for those seeking a secure profession: make a career of turning around troubled performing arts organizations. In my twenty-plus-year career, I have found no shortage of job opportunities.

So many arts organizations find themselves in difficulty because the "industry" has built-in economic problems.

The primary and underlying problem of the performing arts is that it is very difficult to improve productivity. While other industries cover the cost of inflation by increasing worker productivity through the use of computers, new technologies, and better systems, these approaches are not available in the arts. There are the same number of performers in *Hamlet* as when Shakespeare wrote it centuries ago and the same number of musicians in the New York Philharmonic as when Tchaikovsky conducted it more than one hundred years ago. Costs go up, but we cannot reduce the labor content.

This challenge is compounded by a limitation on ticket sales. Once we select a theater, our real income is bounded. We only have so many seats to sell for a given performance. Once we sell out our theater, we have no ability to increase earned revenue. Where other industries can expand markets, in our peculiar industry we cannot.

I remember taking the Alvin Ailey American Dance Theater to perform at the Herod Atticus, a beautiful Roman amphitheater built into the base of the Acropolis in Athens, Greece. The audience sat on stone bleachers with the Acropolis lit up by moonlight just behind. It was a magical site and my dancers were thrilled to be there. I simply stood on stage and remarked that the number of seats had not increased in two thousand years!

With limited productivity improvement and no ability to expand ticket sales the performing arts industry faces a severe gap between earnings and expenses. And this gap continues to widen as expenses rise and revenue is bounded. The four major approaches to filling this gap are all fraught with difficulty.

Most organizations have tried to fill the "income gap" by raising ticket prices. This has resulted in substantial loss of audience for many arts organizations. Much of our audience is very price sensitive, and there are so many substitute forms of entertainment, especially with the advent of Internet technology that puts entertainment in the home at almost no cost. The price of opera tickets has risen so fast that one can now buy an entire computer for the cost of two tickets to major opera houses around the world.

As we lose our audiences, there are many cries that the arts have become irrelevant. I do not believe that is the case. Simply look at the Fall for Dance series at City Center in New York, the new pricing structure for the Pittsburgh Symphony, or programs for new audiences at the Royal Opera House, and you will see huge interest in serious performing arts at reasonable prices.

Pricing in a reasonable manner typically demands the second gap-filling technique: raising contribution levels from private or public sources. But the competition for these funds has grown increasingly intense. While one or a few people traditionally served as angels for a given organization it now takes hundreds and thousands of donors. (The Kennedy Center now has thirty thousand contributors on an annual basis, a requirement to balance our books.) This search for new donors places arts organizations in direct competition with each other; it favors the stronger, more accessible organizations particularly in those countries without well-developed cultures of philanthropy.

As a result of the difficulty wooing new donors, many arts organizations are hoping to fill the income gap with new sources of earned revenue—food service, parking fees, electronic distribution, and merchandise. In my observation very few arts organizations have enough demand for their products and services to create truly profitable businesses. Frequently these ventures serve the public and the organization's mission, but rarely do they provide much extra revenue for their coffers.

In the face of increasing costs, bounded revenues, and stagnating fund-raising most arts organizations turn eventually to cutting expenses. This makes sense. But the choice of where to cut has huge implications for the organization. It appears easiest to cut those areas that do not require massive reorganization or staff cuts: artistic initiative and marketing. One can mount one less production, mount smaller productions, cut a bit on advertising or public relations expenses, and no one will be the wiser. Wrong.

When one cuts artistic initiative and marketing, one cuts the very reason people supply revenue to the arts organization. Audience members and donors are attracted to exciting, important work; their interest is confirmed by attention generated by marketing efforts. When art and marketing are sacrificed to balance budgets, the organization virtually always suffers a loss in revenue. This results in more cutting, more "saving," more losses, and a vicious spiral is created that has damaged more arts organizations than one can count.

I have spent my career addressing these situations. I have been invited to help numerous organizations that had fallen into the trap of cutting artistic and marketing spending and suffering the consequences. As both chief executive and a consultant I have worked to overcome the challenges imposed by poor spending decisions. I have been associated with so many turnarounds that the press, beginning with Sid Smith in the *Chicago Tribune*, have dubbed me "the Turnaround King."

This book addresses both the theory and the practice of creating a turnaround in the performing arts. The first chapter reviews the major theoretical approaches to changing the fortunes of a performing arts organization. The following chapters present case studies of four of the organizations I have helped to fix: Kansas City Ballet, Alvin Ailey Dance Theater Foundation, American Ballet Theatre, and the Royal Opera House.

The approaches I have developed over the past twenty years are also applicable to "healthy" arts organizations. The sad fact of life is that there is a very slim line between sickness and health in the arts. Organizations that appear robust can suffer dramatic losses quickly and can be thrust into the turnaround position quickly.

So it is imperative that even organizations not facing critical issues behave in ways that prevent future artistic and financial difficulties. For this reason I have included a fifth case study, of the John F. Kennedy Center for the Performing Arts. The management techniques and strategies I have employed in my most recent position are the same ones I have used in more critical situations. And the impact has been as dramatic.

Ultimately, it is not the financial health of an arts organization that is of prime concern. It is the ability of the organization to address its mission. But I have yet to see a performing arts organization that can consistently and vigorously pursue its mission if it is in immediate danger of closing its doors.

While there may never be a shortage of employment for those who fix troubled arts organizations, this is not always happy work. The pain of the troubled arts organization can be intense; angry creditors, disappointed audience members, and disaffected donors create an environment for those within the organization that is compounded by fears of not being paid and the frustration of not pursuing the mission with vigor.

In fact, the reason most arts professionals forgo the higher wages at for-profit ventures is to have some control over the mission of their organizations. When this ability is diminished, job satisfaction plummets.

Therefore, troubled arts organizations are angry, sad, and defeated. It is extremely painful to become involved with them. The entire organization focuses on the size of the problem, the cause of the problem, and whom to blame. Since the manifestation of the problem is frequently centered on how to pay past-due bills, a great deal of effort is spent looking backward. The conversation inside the organization, and too frequently outside as well, is about the problems faced by the company. This very often spills over into the press. Questions about blame, debt, and despair fill the newspapers, doing nothing to encourage anyone to come to the rescue. Well-meaning board members try to take over to solve the problems they believe are caused by an incompetent staff. Staff members complain that if the board gave or raised more money the problems would not exist. The staff is concerned that they will not be paid on time and the board believes that given the crisis the staff should not expect to receive full payment. The staff can't believe that the wealthy board members are so cavalier about their livelihoods. The artistic staff is fighting with the administrators, who are frightened to spend anything and try to dampen the dreams of the artists. The artists are convinced that if only the administrators did a better job of fund-raising and marketing, all would be well. Each department begins to hoard its own supplies and fights for its own small piece of available resources so coordination between departments is virtually impossible. Donors start to pull away, as do board members who become embarrassed about the public problems of the organization. Fixing these organizations is not for the faint of heart.

But in the end, it is all worth it, of course. The power and energy and excitement when a troubled arts organization truly turns the corner and can look to the future rather than dwell on the past create as intensely satisfying a moment as I have experienced. The Alvin Ailey organization recently opened a new facility, a world-class dance building in Midtown Manhattan. Who could have imagined that just fifteen years ago? Even more surprising, just ten years after it almost closed, the Royal Opera House is considered the model of performing arts management in England.

When I began my career, I found turning around arts organizations challenging, rewarding, and something of an ego boost. Today the feelings are far less personal. In 1994 I was fortunate to meet and be a consultant for a remarkable man, Barney Simon, who created the most important theater in South Africa, the Market Theatre. Barney used theater to teach the world about the horrors of apartheid. Barney taught me the difference between producing art and producing change. He believed fervently that those of us who are fortunate enough to be a part of the arts world have an obligation to see past our own successes and to look to the needs of society. He made me understand that turning around arts organizations had less to do with putting another feather in my own cap than with making sure the world was a better place.

It is to Barney's memory I dedicate this book.

THE ART OF THE TURNAROUND

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TEN RULES

All turnarounds are different and yet all turnarounds are the same. While the size of the problem, the organization's visibility, the involvement of government agencies, and the personalities of the key players may vary, in almost every case, one enters an organization that is suffering from poor cash flow, negative press, and angry artists, staff, donors, and board members. The specific strategies that will solve the problem will depend upon the characteristics of the organization, but I have found that there are ten rules that apply to every turnaround. Ignore any one of them at your peril!

1. SOMEONE MUST LEAD

In most troubled arts organizations, the role of leader has become divided into two or more (usually warring) camps. Rather than the "strong volunteer chairperson supporting a dynamic and committed staff head" model that healthy arts organizations enjoy, troubled organizations typically suffer from a diffused leadership structure as numerous parties try to "help." Often board members come to believe that the staff is not competent and begin to poach on the staff's territory. When I arrived at the Royal Opera House, for example, the board met *weekly* for several hours. A portion of this time was devoted to editing press releases and performing other mundane tasks that are truly the work of the staff. But if board members are scared about the future of the organization and doubt the capabilities of the staff, they tend to jump in to fill the breach.

At the same time, the staff is often making decisions without board involvement because "the board has not been as helpful as it should be" and because the board, without the day-to-day knowledge of the staff, typically does not develop reasonable solutions. When several different people feel empowered to make crucial decisions, there can be no real progress as the various parties pursue their own priorities and waste scarce resources.

Someone must be selected to run the turnaround. This person must have a single unified vision for the organization, have the courage to make difficult decisions in the face of controversy, possess strong negotiating skills, respect all parties including artists, work incredibly hard, and have an obsessive focus on solving the problem. This person must also understand marketing, fund-raising, and financial management. It is a hard job description to meet but the job cannot be divided among many people.

I have been asked to play this role numerous times in my career. I have found that entering from the outside made it easier to succeed since I had no history with any organization I have managed; I had no preconceived notions, no embedded allies or enemies, and no motive except to see the organization prosper.

I was fortunate that in every case my board gave me the authority I needed to preside over the turnaround. Had this not been the case, I would not have succeeded. Before a board can cede authority to one individual, especially an outsider, it must truly understand that it needs a turnaround. One would think that this should not be a problem since so many people—staff, board, donors, press—talk about the many failings and cash concerns are so prominent. And yet, I have observed many organizations that are not willing to make the dramatic changes necessary to fix their central problems. It is only when the organization reaches a true crisis point that they recognize a major change is required. This is typically the point at which I am hired.

2. THE LEADER MUST HAVE A PLAN

The leader needs a plan, and fast. The leader cannot simply be strong, determined, and charming. The leader must have a tangible road map that suggests how the organization will become a functioning and stable organism once again. And this plan must be communicated early and often to all the various stakeholders: artists, staff, board, volunteers, press, government agencies, and audience.

The plan must set priorities: it need not focus on every shortcoming of the organization. In almost every turnaround there are three or four key issues that must be addressed. While the result of a period of poor performance typically is that many areas are neglected, not every area is of equal strategic importance. Rarely have I seen a new computer system produce a turnaround, for example.

The plan must include

- An explicit discussion of the mission of the organization. If the goals of the organization are not clearly delineated, and priorities clearly set, it will be impossible to develop a suitable plan.
- A cogent review of the environment in which the organization operates. Without an understanding of the constraints and opportunities presented by the outside world, it is difficult to create a strong game plan.
- An honest evaluation of the strengths and weaknesses of the organization. This must give due credit to the assets of the organization while maturely and forthrightly delineating the weaknesses.
- A coherent set of strategies that will help the organization achieve its mission given the environment in which it operates and its own assets and liabilities.
- A detailed implementation plan that assigns responsibility for every strategy to one or several stakeholders.
- A financial plan that reveals the fiscal implications of the plan.

While plans will differ and be specific to individual organizations, I have found that there are many similarities across organizations. The underlying economic problems of the performing arts suggest that those who provide revenue to arts organizations possess a great deal of power. Audience members have numerous entertainment choices, and the options keep growing every day. And donors have many opportunities to give away their funds since there is no shortage of arts and other not-for-profit organizations competing for these funds. As a result, arts organizations find themselves in the position of supplicant—begging people to buy tickets or donate money.

Any business strategist would tell you that the way to handle strong buyers is to find ways to weaken them. Luckily, in the arts, we have two levers to push to help weaken our buyers: creating unique and exciting programming and marketing this programming very aggressively. Despite the glut of entertainment options, when audience members and donors are excited about a particular performance, that performance will sell tickets and receive funding. This excitement arises from a great idea that is intelligently marketed. For this reason, my mantra for running successful arts organizations is, *Good art, well marketed*. It is really as simple as that. I have yet to see an arts organization that produces excellent art and knows how to market that art aggressively that does not create the financial strength needed to pursue its mission in a consistent manner.

And, ironically, troubled arts organizations must focus on art more than healthy ones. When I arrived at American Ballet Theatre (ABT), we literally had to loosen every second light bulb because we could not afford electricity and we asked all staff to reuse paper by turning it over and using the blank side. And yet, shortly after my arrival, we announced the largest artistic project in our history—a new full-length ballet of *Othello* to a commissioned score. This was one of the most important things we did to turn around ABT. By announcing this project we convinced many people that we had a plan, that we were confident about our future, and that we were a vital, interesting arts organization.

I recently visited a new performing arts organization that is having financial challenges because its artistic product is not strong enough. In an effort to balance the budget for next year, the staff has cut back on the art even further. One does not need to be a turnaround expert to know what is going to happen to this organization.

But this is not a unique case. Just before I arrived at the Royal Opera House my Board had cancelled every performance for the next year and a half! You can imagine the message this delivered to anyone still caring about the institution.

Even healthy organizations must focus on programming. The Kennedy Center was not a sick organization when I arrived in 2001, but the programming was not important enough to generate widespread interest and support. We now spend more than $100 million each year on performing arts programming and education. As a result our contributed income has doubled over six years and we have earned an operating surplus every one of those years.