

# **Entrepreneurial Leadership in Non-profit Performing Arts Organisations**

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## **Abstract**

This paper argues that the entrepreneurial leader in non-profit PAOs has received too little attention in literature pertaining to these organisations. This criticism also applies to museums. The paper explores how leaders in non-profit performing arts organizations balance the interests of the various funding sources and market opportunities to service their revenue requirements. It reviews a tension in non-profit performing arts organisations: the relationship between limited funding and the subsequent need to act entrepreneurially and innovatively among the various funding sources. Using longitudinal analysis of annual reports, the paper uncovers interplay essential to entrepreneurship. Hence, strategies and tensions are highlighted that non-profit leaders have used. Comparisons are made with non-profit art museums which previous research has shown have the same funding tensions.

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# **Entrepreneurial Leadership in Non-profit Performing Arts Organisations**

## **Introduction**

The last decade of the twentieth century saw performing arts organizations in Australia under great stress. Expenditure was exceeding income, government funding was in decline, demands for services were increasing and the environment was volatile, more competitive and dominated by the views of neo classic economic rationalists. Non-profit performing arts organizations cannot escape the changes occurring in modern society, contributing to political and economic uncertainty. These issues have caused the relationship between limited funding and the need to innovate in non-profit performing arts organizations to become an issue in need of urgent attention.

Non-profit performing arts organizations (PAO) in Australia have often been marginalized and considered peripheral by government policy makers as they do not directly contribute to economic growth. This view is beginning to change. In 1999, an Australian government study (Nugent 1999) investigated the causes of the “cost disease” (Baumol and Baumol (1985) and the results saw an injection of A\$49m in funding to the major performing arts organizations in Australia. It was stated that: ‘Financial dynamics are unsustainable’ as costs are rising at a rate that is ‘not matched by the growth in earned income from box office and the private sector or by government funding’ (p. 12). Further, it cites the fact that government funding has declined in real terms in the late 1990s and that ‘performing arts companies in the less populous states are experiencing more severe financial pressures’ (p. 12). Solutions were seen to encompass addressing the sector’s artistic vibrancy by securing their funding base; and changing their existing financial dynamics. This was to be achieved by implementing best practice management and governance, through increases in private sector philanthropy, sponsorship and through audience revenue management. These solutions are seen in the report to ensure the necessary balance between artistic vibrancy and financial viability.

## **Entrepreneurship and Non-profit Performing Arts Organisations**

Understanding entrepreneurship has long been attempted from a number of perspectives but it remains substantially unresolved. While entrepreneurship is often considered an economic term (for example Schumpeter 1934), its entry into the arts discussion has been quite recent (Rentschler and Geursen 1999). The Shorter Oxford dictionary definition of the term first links entrepreneurship with entertainment and performance: an entrepreneur derives from the French term ‘entreprendre’—to undertake—and is a director or manager of a public music institution; one who gets up entertainments; and only latterly is seen as a contractor acting as intermediary between capital and labour, which is the classic economic sense of the term. This discussion of entrepreneurship therefore returns the entrepreneurial concept to its roots, but also benefits from the economic development of the term. Hence we revert to Schumpeter’s (1934) discussion in which he argues entrepreneurship is centred around innovation regardless of whether

it is associated with production of goods or services, market sources of supply or organizational structures and bringing about new but more relevant combinations.

Entrepreneurship in PAOs consists of innovation in two activity areas: funding diversity and creative programming. Funding diversity is defined as obtaining funding from a variety of sources—government, sponsors, and audience activities. Creative programming is defined as leaders developing a market edge in programming activities such as performances, merchandising and so on, which allows a balance between elite and more popular outputs (Rentschler 2002). Each of these activities has the salient dimensions of autonomy, innovation, risk-taking, proactiveness and competitive aggressiveness, as identified by Lumpkin and Dess (1996). However, it also provides for entrepreneurial activity in the broad funding areas to take account of increased market competition. The characteristics of museums are similar to those of non-profit organisations (Morris and Jones 1999). Rentschler and Geursen (1999) have extended this definition to include Schumpeter's notion of creative destruction, which encompasses market turbulence and market change as contextual activities required for entrepreneurship. This aspect produces a key line with the work of DiMaggio (1987), who argues that economic rationalism must become more sensitive to a broader social environment when applied to the arts. Hence, the definition of PAO entrepreneurship used in this study is:

*the process of creating value for the community by bringing together unique combinations of public and private resources to exploit social and cultural opportunities in an environment of change and to increase the quality of the PAO audience experience.*

It is in this respect that entrepreneurship is applicable to non-profit performing arts organisations.

### **Research Scope and Hypotheses**

The scope of this paper is to examine the research question in the performing arts organization context. The question is: How do leaders in non-profit performing arts organizations balance the interests of the various funding sources and market opportunities to service their revenue requirements? Three research hypotheses are formulated in order to do this:

- H1 There is a level of balance between creative programming activity and activity directed towards maintenance of the other different types of funding support.
- H2 The entrepreneurial activity focus in between different types of performing arts organizations is not homogenous.
- H3 that there are similarities in entrepreneurial issues between PAOs and museums, even though the level of government support differs markedly.

### **Method**

This paper extends the study by Rentschler and Geursen (1999) on art museum annual reports and follows its methodology. It analyses annual reports from six performing arts organizations in Australia from 1975/76 until 2000. First, annual report financial data were analyzed. Income was sorted into three categories: audience income, sponsorship income and government income. Second, the researchers examined each annual report's

publicly available chairman's' and general managers' reports between 1975 and 2000. This information provided rich data for case study analysis. The annual report is used as it appears under the signature of the general manager who establishes organization strategy. The limitation in this study is the convenience sample of PAOs in Australia. However, there are few other studies in the field and few other organizations of this size in Australia, which supports the approach taken. Further, the museum study which preceded this study was conducted with the major non-profit museum population in Australia and New Zealand. As results are comparable, it reinforces the validity of the approach taken.

## Findings

### Entrepreneurial Leadership interpreted through financial analysis

An initial interesting finding of this paper is that a twenty-five year set of data is available for theatre, ballet and opera companies in Australia which lends itself to comparison with art museum data. These sets of data were analyzed for their implications of entrepreneurship in PAOs. The data indicates that there is a tendency for audience income to rise as government grants taper off in the 1990s. These trends are similar to the findings in art museums (Rentschler and Geursen 1999). In Figures 1, 2 and 3, the data for government grants, audience revenue and sponsorship is analyzed to reflect similar issues between performing arts organizations and art museums.

Figure 1: Government grants as percentage of total revenue

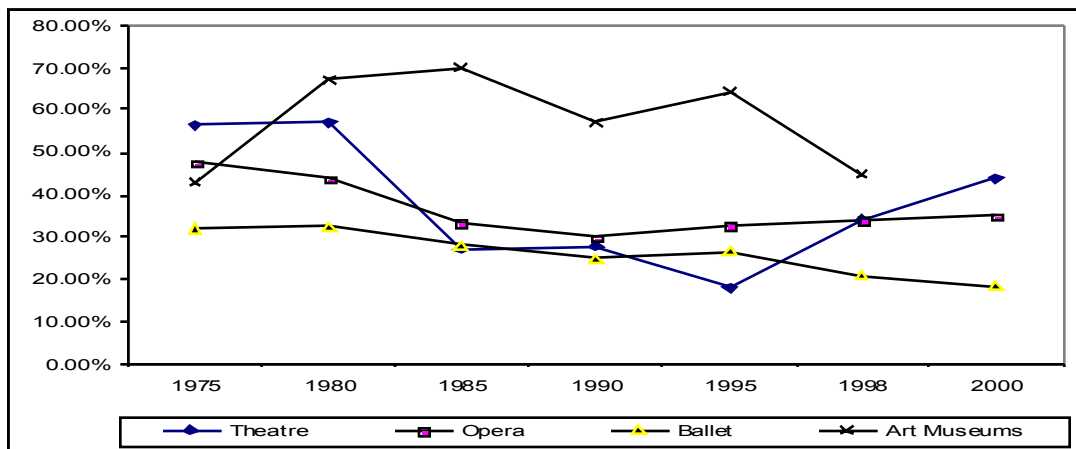
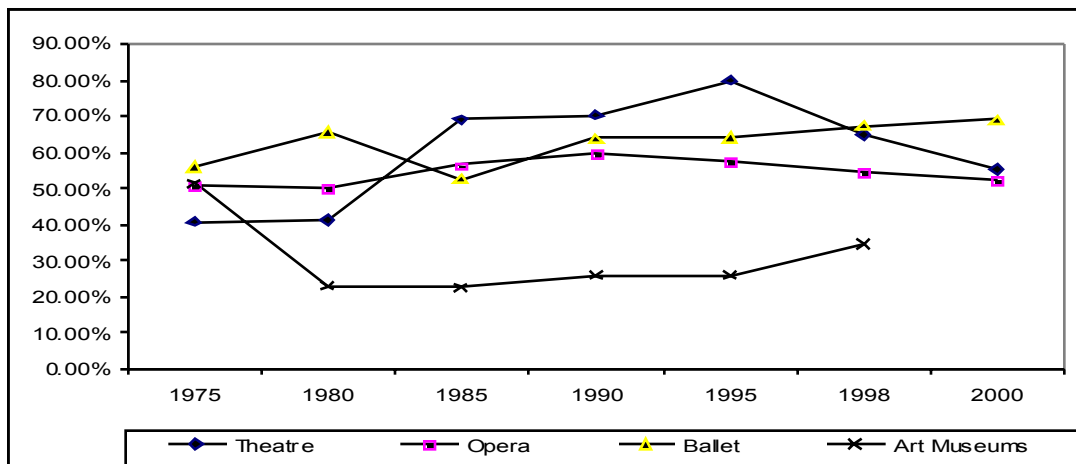
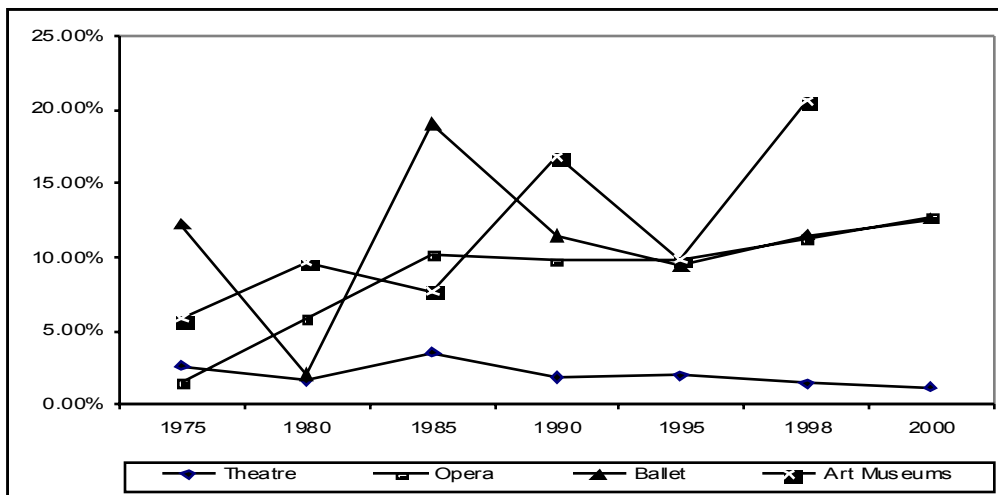


Figure 2: Audience revenue as percentage of total revenue



Figures 1-2 provide the trend in revenue sources from 1975 to 2000 in performing arts organizations and museums. For example, theatres examined indicated a strong growth in government grants between 1995 and 2000 with some leveling of audience revenues. Similar observations can be made about the opera but not about the ballet. As all these organizations were offered considerable funding from government as part of the Nugent Report 'package', it is concluded that ballet revenues have not been identified in these figures. Entrepreneurship theory suggests the time is 'ripe' to increase government contribution, as the entrepreneurial opportunity existed. This concept is supported by the fact that there was a rise in government support subsequent to the 1999/2000 annual report. Figure 1 indicates that the different sources vary as a proportion of the total revenue received for the purposes of comparing entrepreneurship between the different cultural organizations. Figure 1 indicates (with the exception of theatre where government funding has risen sharply as a proportion of total revenue and opera where the proportion of revenue has been stable) that government involvement has reduced. This is an indication that entrepreneurial activity by managers has been more successful in other areas of the revenue opportunity than in government grant areas. Figure 2 indicates that there was a growth in audience revenue for art museums and for ballet. Overall Figures 1–2 indicate fluidity in revenue sources and the extensive movement in proportions of total revenue indicates the critical importance of entrepreneurial activity by managers, carefully balancing efforts to maximize the total outcome. The data therefore support both hypotheses.

Figure 3: Sponsorship as percentage of total revenue



A comparative figure for sponsorship indicates different patterns for each of the groups, as the nature of sponsorship for the different types of PAO's is fundamentally different. Overall sponsorship data can be grouped into art museums, opera/ballet and the theatre. The proportion sponsorship contributes to funding is particularly high for art museums because these institutions require substantial funds for acquisition of the collection. They also have large building requirements to house the collection. The opera and the ballet also have substantial staging costs. Relatively, these costs are less for the theatre. These

aspects are reflected in the data as leaders of these various organisations entrepreneurially select a mix or combination which best responds to their funding requirements. This supports the third hypothesis.

### **Entrepreneurial Leadership interpreted through case studies**

Further contextual support for the hypotheses was found in the individual annual reports. Making a comparison between two performing arts organisations and one art museum thus provides grounded support. There was a clear distinction between activities which were creatively entrepreneurial, for example The Australian Opera (between 1962 and 1981), Australian Ballet (1975, 1976 1980 and 1981) and the National Gallery of Victoria (between 1981-1987 and 1999-present) and those which were managerially entrepreneurial. Both PAOs are typical examples of evidence in the reports of entrepreneurial leadership positively effecting financial outcomes. This further supports the first hypothesis. Furthermore, if the data is examined on an individual case study basis the patterns for individual institutions reflected some differences between PAOs in the same interest area and across the different interest areas, and museums. Creative programming as distinct from other managerial funding initiatives in all PAOs and museums had positive links to financial performance.

The Australian Ballet (AB) and Opera Australia (OA), are worthwhile exemplars of entrepreneurship, as both organisations are national in focus and both show distinctions in entrepreneurial activities at various times. The AB (established 1962) is an ideal study of the development of the global arts organisation led by far-sighted administrators and creative artistic directors. But the path has not always been an easy one. In the early years, entrepreneurship resided in the administrative leadership of Peter Bahen, until the dancers' strike of 1981, soon after which he left the organisation. The entrepreneurial role then shifted to the artistic leadership under Maina Gielgud until she, too, was embroiled in industrial trouble in the mid-1990s. She too eventually left in 1996. While Bahen and Gielgud may have left under a cloud because of their management style, their contribution should not be underestimated. Herd (2001: 19) cites Gielgud as a 'notable innovator', who challenged dancers and audiences alike, introducing more than forty classical and modern works to the repertoire. Bahen established the financial security which has enabled later artistic directors the creative freedom to position the AB on the world stage.

Bahen (1962-1983) built up reserve funds and used them wisely to build a home for the AB in Melbourne and a car park to boost income (other than government income). Expansion of audiences through the television medium was also far-sighted (see, for example, 1975 and 1976 AB Annual Reports) and later emulated by other performing arts leaders. Its purpose was to extend audience reach and justify to government the expenditure of public money on a not-for-profit organisation. At a time when most performing arts companies were largely parochial in outlook, his vision was global and international: 'The Australian Ballet's most important production of 1975 or indeed any other year, was *The Merry Widow*. Through it, the Company ... aroused enormous interest overseas' (P. Bahen, AB Annual Report 1975 p. 4). Bahen argues that 'good relations between countries are fostered by more than trade. An important part of our foreign policy must be ... the Australian Ballet' (P. Bahen, AB Annual Report 1980 p. 6).

On the issue of funding, the AB shows leadership in its early realisation that funding diversity would lead to sustainability and allow artistic creativity: 'Australian Ballet follows the world trend of moving from subsidised 'poor relation' to full participation in the entertainment field where only the financially strong seem to survive' (P. Bahen, AB Annual Report 1975 p. 6). Bahen was operating with a more business-like model than was typical for arts organisations of the time. He was also operating under considerable duress, with threats to eliminate government subsidy hanging over his head.

After Bahen left the AB, leadership dynamism shifted from the administrative to the artistic sphere under van Praagh, Gielgud, Stretton and McAllister. This was facilitated by the AB being restructured after the dancers' strike in 1981, so that the artistic director and administrator both reported directly to the board. Before that time, the administrator had reported to the board and the artistic director to the administrator. These entrepreneurial activities enabled the AB to build reserves and gain a sound financial footing which underpinned its artistic development in later years.

Unlike the Australian Ballet, OA (established 1956 as a 'parent' organisation) has not had the opportunity to create financial and personnel reserves to enable self-help and sometimes has had difficulty fulfilling its mission as a touring company. This dilemma, as experienced by the traditional performing arts organisation, was identified in the 1975 annual report: 'Even with a determined effort to save costs and to introduce economies, it is not possible to reduce expenditure below a certain minimum whilst discharging our responsibility as an ensemble Opera Company in Australia with an acceptable standard of quality' (Chairman's Report, Annual Report 1975, p. 1). By 1980, OA leadership under Patrick Veitch, recognised what the Australian Ballet had started five years earlier: 'that new initiatives must be undertaken if the Company's artistic growth and financial security are to be consolidated'. The methods to achieve this were to be audience growth through 'regular telecasts' and 'the presentation of opera in non-traditional venues' (General Manager's Report, Annual Report 1980: 6) as well as diversifying funding beyond government reliance and box office revenue: 'contributions from individuals and from business firms will be relied upon increasingly to fill a crucial gap in our operating revenues'. The need to increase community access and diversify funding is an on-going theme in subsequent annual reports, thus reflecting debates and issues in government cultural policy being implemented.

By 1985, OA was still operating with a deficit, but was described as 'innovative, entrepreneurial and predominantly cost-effective' in its new commercial activities which resulted in considerable increases in income. In particular, the leadership of OA's general manager, Patrick Veitch, was singled out for steadily increasing OA's stature in the five years since he took leadership of the company.

The National Gallery of Victoria (NGV) is an appropriate example of entrepreneurship in the museum world, as the new facility on Federation Square has attracted one million visitors in the first five months since opening and entrepreneurial leadership has seen sponsorship leap in the last three years. The last years of the twentieth century reinforce the contention that a new building program rouses the public and supporters to cultural institutions. It is also evidence of the architectural interest generated in art museums, where internationally recognised firms are appointed to design an art work to contain the

art works of the collection. This emphasis on museum architecture is part of the argument that identity distinguishes museums and cities one from another (Chong 1999). The NGV (established 1861) has a long history for an Australian cultural institution. In July 1997, Victorian state government announced creation of the Museum of Australian Art on Federation Square, to be administered by the NGV as a second campus. Opened in 2002, it shows off the NGV's 20,000 Australian artworks. Victoria boasts the world's most comprehensive display of Australian art and in the proposed design the Gallery's Aboriginal and Torres Strait Islander collections have been given a prominent display space. In 2003 the NGV's St Kilda Road building will reopen after its \$136 million renovation.

It is important to view the two NGV galleries as part of a longstanding plan to position itself as pre-eminent in Australian art collection and display. The renovation and extension of the second site answers the call for Melbourne to refashion its gallery's founding aim as a national institution. The Federation Square project, of constructing a museum of Australian art, is, thus, a response to pressures on two fronts: positioning Melbourne as a major cultural centre which needs to be properly represented by its gallery; and better recognising the achievements of Australian artists, not least of all contemporary ones. Moreover, the project provides the opportunity to reinterpret the site, which once housed ugly twin towers, pulled down to make way for this new cultural expression.

Throughout the 1980s, directors of the NGV considered innovative ways of increasing audiences and the significance of institutional initiatives. Institutionalising marketing was one of the changes introduced. Adequate promotion was considered the key to attracting new visitors, so the position of marketing and publicity manager was created with funds from the Business Council. Business plans for the shop and publications department were developed with an emphasis on producing merchandise to complement exhibitions. Further, an organisation chart was introduced into the annual report in 1989. In this and subsequent years into the early 1990s, it discussed restructuring. Restructuring of the public sector was symptomatic changes occurring from the 1980s, and art museums were not exempt from it (Johanson and Rentschler 2002).

In 1998, the media entrepreneur Steve Vizard is made president of the Council of Trustees, while in 1999 Dr Gerard Vaughan is appointed director of the NGV. Vaughan comes to the NGV with impeccable credentials earned at the British Museum as director of development, where he raised many millions of pounds. Together they form an entrepreneurial team, launching a major three-year fundraising campaign in 2000 for the rebirth of the NGV. A body of professional staff was recruited to deal with fundraising, sponsorship, media and public relations. A new branding campaign has been implemented, to differentiate between the NGV: National Gallery of Victoria at 180 St Kilda Rd and the NGV Australian Art at Federation Square.

In mid 2001, a two page colour spread in the Australian newspaper appeared profiling the Federation Square development. Links are made to the regeneration of the central city district: 'It links the gallery-rich area of Flinders Lane with Southbank and really gives the city a heart' (McCullough-Uehlin 2001 p. R19). This focus is reinforced in other documents. For example, Vizard states in his 1999-2000 president's report that the



materialising of the NGV at Federation Square is ‘already changing the way we view the centre of our city’ and that ‘slowly and steadily our ambitious visions for the Gallery’s future are becoming a reality’ (NGV annual report 1999-2000:4). Further, it sees its role as engaging with contemporary art and life, so that ‘we can tell the Australian story in many different ways and engage constantly with art of its time’ (McCullough-Uehlin 2001 p. R19). Finally, the importance of the building is made in the context of mission, management and leadership: ‘There is internationally a huge emphasis on big buildings, of which we are now one. But they need to be followed through with a strong plan, which includes a five-year exhibition program of intellectual rigour yet presented with flair and imagination; successful marketing; care of the collection; publications; acquisitions; and creating an environment [that] is attractive to its owners—the people—its staff and visitors’ says Vaughan (McCullough-Uehlin 2001 p. R20). With McCaughey as director, emphasis had been placed on a shift in the way the gallery is perceived by its viewing audience – not anymore as a ‘treasure house’ but instead as a ‘communicative instrument’. Aspects of the permanent collection were thus re-organised and re-installed with a focus on the particular phase in human development they are seen to demonstrate’ from an educational or academic point of view. This emphasis had been extended and expanded under subsequent directors, culminating in Vaughan.

As these brief, recent case studies show, the AB, OA and the NGV fulfill several expectations: to their audience; their government and private sector sponsors and philanthropists; and their leaders who hold our heritage in trust and perform or exhibit it for the community benefit. The discussion indicates the important changes in arts leadership. It is an example of Schumpeter (1934 p 132), when he argues that the art and action of the entrepreneur is to employ ‘existing means...more appropriately, more advantageously’ and to carry out ‘new combinations’. Entrepreneurial arts leadership has been facilitated by funding security and compromised by its absence. Contemporary arts managers are now clearly required to be focused entrepreneurs in a Schumpeterian sense within a clearly defined cultural environment.

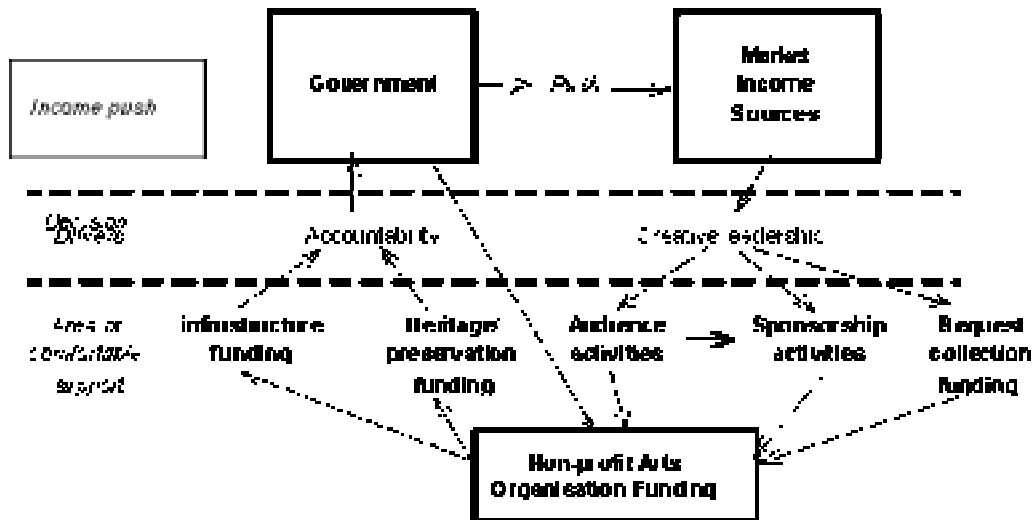
## **Conclusions**

This paper argued that the entrepreneurial leader in non-profit PAOs has received too little attention in literature pertaining to these organisations. This criticism applies to the Australian Ballet and Opera Australia as well as to the National Gallery of Victoria, where annual reports are used to monitor entrepreneurship longitudinally. There are four implications of this study. First, there is the emergence of the non-profit PAO and museum as organisations that needs to be managed entrepreneurially. Second, entrepreneurship is seen as an important concept for understanding non-profit development. Third, this study has implications for the various debates about entrepreneurship within arts management, as well as accepting a definition appropriate to the arts, as it examines the interplay between the tripartite funding sources in determining entrepreneurial forms. Finally, it is shown how annual reports contribute an important perspective on the role of the non-profit organisation in society.

Implications for the future of PAOs seem clear. There is a clear trend to funding diversification, which will continue, and a requirement on leaders to be entrepreneurial. As funding sources are diverse, the different sources stakeholders need require careful

nurturing. This entails substantial efforts in internal marketing aimed at governing boards, management and staff to assure all funding opportunities are optimised. It is the argument of this paper that funding diversity allows greater innovation in artistic product development and performance bridges the gap caused by declining government funding. However, PAOs do face a threat that if government funding falls too low and other income sources cannot be found to bridge the gap, artistic innovation suffers. This is modeled in Figure 4 as managerial activities in non-profit PAOs and museums which require entrepreneurial leadership. The model shows the income push, the decision drivers and the area of comfortable support to ensure organisational sustainability. It also shows the managerial activities needed to provide benefits. In the centre, it shows how arts leaders need to act entrepreneurially to persuade stakeholders of the necessity of the tripartite funding model, which not only improves product but also organization reputation and the attributed values evoked from the organisational image.

**Figure 4: Managerial activities in non-profit PAOs and museums which require entrepreneurial leadership**



Artistic innovation can be restricted in areas such as experimental works, newly commissioned works and content innovation when funding is too low. Further, quality of artist, length of rehearsals and program balance are also affected. These threats have been identified by other eminent researchers in the field (Baumol and Baumol 1985; DiMaggio and Stenberg 1985). These are serious threats as they ultimately affect audience revenue and viability. Those who support the arts cannot ignore this threat to our cultural life that provides values, which are both measurable, and of aesthetic worth.

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