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Entrepreneurship, Marketing and Leadership in Non-Profit Performing Arts Organisations

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**ABSTRACT**

This paper argues that the entrepreneurial leader in non-profit Performing Arts Organisations (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 organisations 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.

**KeyWords**  
Entrepreneurship, marketing, leadership, performing arts organisations, Australia, museums

**INTRODUCTION**

While entrepreneurship is well developed in economics (Schumpeter, 1934), and a broad definitional scope (Chrisman, Bauerschmidt & Hofer, 1998; Sharma & Chrisman, 1999) indicates that a wide range of entrepreneurial activity has been studied, its recent entry into the arts discussion has been inevitable (Fillis, 2000; Rentschler & Geursen, 1999a). For this reason, the position of entrepreneurship in the arts requires further study.

The last decade of the twentieth century saw performing arts organisations 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 organisations 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 organisations to become an issue in need of urgent attention.

There are a number of factors in the history of non-profit performing arts organisations (PAO) which indicate a need for entrepreneurship. In Australia PAOs 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 & Baumol, 1985) and the results saw an injection of $49m in funding to the major performing arts organisations 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, and generated a range of entrepreneurial activities by PAO management.

**Entrepreneurship and Non-Profit Performing Arts Organisations**

Understanding entrepreneurship has long been attempted from a number of perspectives but it remains substantially unresolved. The Shorter Oxford dictionary definition of the term first links entrepreneurship with entertainment and performance: an entrepreneur derives from the French term ‘entreprendere’- 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 labor, which is the classic economic sense of the term. This discussion of entrepreneurship therefore returns the entrepreneurial concept to it 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 centered around innovation regardless of whether it is associated with production of goods or services, market sources of supply, or organisational structures, and bringing about new but more relevant combinations. In this sense this study links the non-profit arts sector to entrepreneurship as well as marketing.

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. The need for balance in the three funding sources is an entrepreneurial juggling act, requiring considerable leadership skill by arts managers (Rentschler, 2002). 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 & Jones, 1999), although the balance of funding between the three sources varies considerably both from museums to PAOs and over time. For example, up to the mid 1970s, most nonprofit arts organisations relied substantially on government funding and were not subject to management reforms. Non-government income has grown rapidly since the 1990s, when it has been supplemented by sponsorship and audience income (Geursen & Rentschler, 2003). Consequently, the 1970s set the scene for changing the understanding of the means of justifying public assistance in a political context of financial constraint and insecurity (see, for example, Commonwealth of Australia 1976). Government policy emphasized goals of low inflation, reduction or slow growth in the size of the public sector, less government intervention in the market, greater responsiveness to the international market, and residualist social policies that encouraged self-reliance rather than universal assistance. In keeping with these trends, arts organizations sought reformist ways to lead (Johanson & Rentschler, 2002).

Rentschler and Geursen (1999) have extended the entrepreneurship 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. The definition also takes into account the need for alternative experiences and interpretations in researching at the marketing/entrepreneurship interface (Carson, 1995; Fillis, 2000).
RESEARCH SCOPE AND HYPOTHESES

The scope of this paper is to examine the research question in the performing arts organisation context. The question is: How do leaders in non-profit performing arts organisations 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: There is not a homogenous entrepreneurial activity focus in between different types of performing arts organisations.

H3: There are similarities in entrepreneurial issues between PAOs and museums, even though the level of government support differs markedly.

This paper first presents longitudinal data obtained from annual reports across performing arts organisations and then detailed evidence from particular performing arts areas in order to examine the above hypotheses.

METHOD

This paper extends the study by Rentschler and Geursen (1999a) on art museum annual reports and follows its methodology. The former paper analysed annual reports from the ten major art museums in Australia and New Zealand from 1975/1976 until 1997/1998, whereas this paper brings the data up to the year 2000 and adds performing arts organisations. An initial interesting data observation 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.

The purpose of annual report analysis is to interpret change through practical examples as cases. The selection of cases follows arguments by Eisenhardt (1989) that theory development and the understanding of phenomena can best be achieved by case study methods. In order to confirm observations from respondents used in earlier research (Rentschler, 1999; Rentschler & Geursen, 1999b), annual report analysis is extended from financial analysis to include reports by the chairman and chief executive. Taken together, the two approaches provide a robust basis for overall observations. The annual report ordinarily appears under the chief executive’s signature which establishes a direct link with key elements on strategic direction and issues uppermost in that person’s mind. Even if someone drafts the annual report other than the executive, the fact that the executive signs it ensures it reflects their strategic intent. It is thus significant and valid research data.

The longitudinal dimension to case study analysis provides the possibility of examining what actually happened over time and around a crisis point. Annual reports from 1975 onwards were used as hard evidence of PAO and art museum history and as a key piece of information that enables data validation. Annual reports were either provided by the PAOs/art museums or were sourced by searching libraries for issues missing from holdings. There were some gaps in the data source, as odd annual reports for the years studied were not available. To cover these gaps in the data, growth indexes were calculated for each year for all PAOs/museums for which complete data was available. These indexes were then used to calculate the amount for the particular missing years in those PAOs/museums with incomplete data.

This paper draws upon the Fillis (2000) argument that new theory generation can benefit from embracing non-traditional modes of enquiry. The approach outlined here analyzed annual reports from six performing arts organisations in Australia from 1975/1976 until 2000. Annual report financial data were analyzed. Income was sorted into three categories: audience income, sponsorship income, and government income. Amounts per year were totaled for each category. Data presented in this paper were converted to net present values so that the effects of inflation did not distort the analysis. 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 organisations of this size in Australia, which supports the approach taken. Further, the preceding museum study was conducted with the
major non-profit museum population in Australia and New Zealand. As results are comparable, it reinforces at least the reliability of the approach taken.

**FINDINGS**

Entrepreneurial Leadership Interpreted Through Financial Analysis

The annual report data sets were analyzed for their implications of entrepreneurship in PAOs in order to examine the hypothesis. The data indicates an interaction between the various revenue sources and 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 & Geursen, 1999a). In Exhibits 1, 2 and 3, the data for government grants, audience revenue, and sponsorship is analyzed to reflect similar issues between performing arts organisations and art museums.

Exhibit 1

**Government Grants as Percentage of Total Revenue**

Exhibits 1-2 provide the trend in revenue sources from 1975 to 2000 in performing arts organisations and museums. Examined theatres data indicated a strong growth in government grants between 1995 and 2000, with some levelling of audience revenue. Similar observations can be made about the opera, but not about the ballet which suffered a continued decline in government funding as a proportion of revenue. As all these organisations were offered considerable funding from government as part of the Nugent Report ‘package’ in 1999 (Nugent, 1999), our data indicates that ballet grant revenues percentages declined over this period. Museums show a similar increase in government revenue with a decline in audience and sponsorship revenue, due to large capital works programs in several museums requiring closure for up to four years to enable rebuilding. This reflected negatively on overall revenue growth figures. Thus, audience revenue growth in operating museums was stronger than the consolidated figures indicate. Entrepreneurship theory suggests the time is ‘ripe’ in 1999 for museum managers to push for an increase in government contributions, as the arguments that gain greater government funding have generated funding growth from audience sources. This concept evidenced in the 1998/1999 annual reports, and fact that there was a rise in government support subsequent to the 1999/2000 annual report.

Exhibit 2

**Audience Revenue as Percentage of Total Revenue**
Exhibit 1 indicates that the different sources vary as a proportion of the total revenue received, which is useful for comparing entrepreneurship between the different cultural organisations. Exhibit 1 shows (with the exception of theatre and museums 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. Exhibit 2 displays a growth in audience revenue for art museums and for ballet. Overall Exhibits 1-2 indicate fluidity in revenue sources and the extensive movement in proportions of total revenue reveals the critical importance of entrepreneurial activity by managers, carefully balancing efforts to maximize the total outcome. The data therefore support both hypotheses 1 and 2.

Exhibit 3 indicates different patterns for sponsorship in each of the groups, as the nature of sponsorship for each of the different PAOs services fundamentally different requirements. The proportion sponsorship contributes to funding is particularly high for art museums because these institutions require generous 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 the various organisations entrepreneurially select a mix or combination which best responds to their funding requirements. This supports the third hypothesis.

**Exhibit 3**
Sponsorship as Percentage of Total Revenue

![Sponsorship as Percentage of Total Revenue](image)

**PRACTICAL IMPLICATIONS OF THE STUDY**

There are four practical implications of this study. First, there is the emergence of the non-profit PAO and museum as organisations that need 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 the marketing/entrepreneurship interface, in that it identifies the need for opportunity recognition to be across the various revenue opportunities. Opportunity recognition is thus broadened from the simple product/service market dimension to an integrated requirement, where the manager becomes cognizant and works with opportunities across the broad range of initiatives and activities in an organisation. The entrepreneurship definition appropriate to the arts is one that covers all aspects of interplay between the tripartite funding sources if we are to determine the entrepreneurial form. 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 optimized. 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. Exhibit 4 models 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 organisation reputation and the attributed values evoked from the organisational image.

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 & Baumol1985; DiMaggio & 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.

Exhibit 4
Managerial Activities in Non-Profit PAOs and Museums Which Require Entrepreneurial Leaders

CONCLUSIONS

This paper argued that the entrepreneurship 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. It reviewed 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. Marketing and leadership are part of the entrepreneurial mix vital to sustainability of performing arts organisations and museums in Australia. Using new theory generation by embracing non-traditional modes of enquiry through longitudinal analysis of annual reports, the paper uncovered interplay essential to entrepreneurship, marketing and leadership. The issues uncovered in this study have caused the relationship between limited funding and the need to innovate in non-profit performing arts organisations to become an issue in need of urgent attention. Further research should extend this work to encompass further management marketing literature to survey the populations of museums and PAOs internationally and extend the search for innovative and entrepreneurial marketing and leadership initiatives in non-profit organisations.

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