This is the published version (version of record) of:


Available from Deakin Research Online:

http://hdl.handle.net/10536/DRO/DU:30004790

Reproduced with the specific permission of the copyright owner.

Copyright : 2002, ANZMAC
Entrepreneurship in the Markets of Nonprofit Performing Arts Organisations

Ruth Rentschler, Deakin University
Gus Geursen, University of South Australia

Abstract

This paper explores how managers in nonprofit performing arts organizations balance the interests of the various funding sources and market opportunities to service their revenue requirements. It reviews a tension in nonprofit performing arts organizations: the relationship between limited funding and the subsequent need to act entrepreneurially and innovatively amongst the various funding sources. Using a longitudinal analysis of annual reports in six major nonprofit performing arts organisations in Australia since 1975, the paper uncovers some of the interplay essential to entrepreneurship. From this discussion, different strategies and tensions are highlighted that nonprofit general managers have used. Comparisons are made with nonprofit art museums which previous research has shown have the same funding tensions.

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. Nonprofit 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 nonprofit performing arts organizations to become an issue in need of urgent attention.

Nonprofit performing arts organizations (NPAO) 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, a government study (Nugent 1999) investigated the causes of the cost disease 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 managemen. These solutions are seen in the report to ensure the necessary balance between artistic vibrancy and financial viability.
Entrepreneurship and Nonprofit 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, it is first mentioned in relation to the arts. 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 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. Entrepreneurship in NPAOs 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 developing a market relevance 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.

Research Scope and Hypotheses

The scope of this paper is to examine the research question in the performing arts organization context. Two 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.

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 document 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.
Findings

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 NPAOs. 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 and 2 the data for government grants and audience revenue is analyzed to reflect the similarities between performing art institutions and art museums. A comparative figure for sponsorship was not produced as the nature of sponsorship for the two types of organizations is fundamentally different. An art museum often raised substantial sponsorships to fund additions to the collection, such large amounts are not present in non art museums sponsorships. Hence a direct comparison becomes invalid and beyond the scope of this paper.

Figure 1: Government grants as percentage of total revenue

![Figure 1: Government grants as percentage of total revenue](image1)

Figure 2: Audience revenue as percentage of total revenue

![Figure 2: Audience revenue as percentage of total revenue](image2)

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 the 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.

Further support for the second hypothesis was found in the individual annual reports. There was a clear distinction between activities which were clearly creatively entrepreneurial, for example The Australian Opera (between 1962 and 1981) and Australian Ballet (1975, 1976 1980 and 1981). These are typical examples of evidence in the reports of creative programming positively effecting financial outcomes. This further supports the first hypothesis. Furthermore, if the data is examined on an individual organizational basis the patterns for individual institutions reflected some differences between NPAOs in the same interest area and across the different interest areas. Creative programming as distinct from other managerial funding initiatives in all NPAOs had positive links to financial performance.

Conclusions

Implications for the future of PAOs seem clear. There is a clear trend to funding diversification, which will continue, and a requirement on managers exists to be entrepreneurial. As the funding sources are divers the different source stakeholders will require careful nurturing. This will require 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, NPAOs do face a threat that if government funding falls too low and other income sources cannot be found to bridge the gap, that artistic innovation will suffer. 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 is also affected. 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 which provides values, which are both measurable, and of aesthetic worth.
References


Rentschler, R. 2002 The Entrepreneurial Arts Leader: Cultural Policy, Change and Reinvention. Brisbane: UQP.


Annual Reports 1975-2000:

Australian Ballet
Opera Australia
Queensland Theatre Company
Queensland Ballet
State Opera of South Australian
Sydney Theatre Company