

## **The Pittsfield Symphony: managing the arts in tough times**

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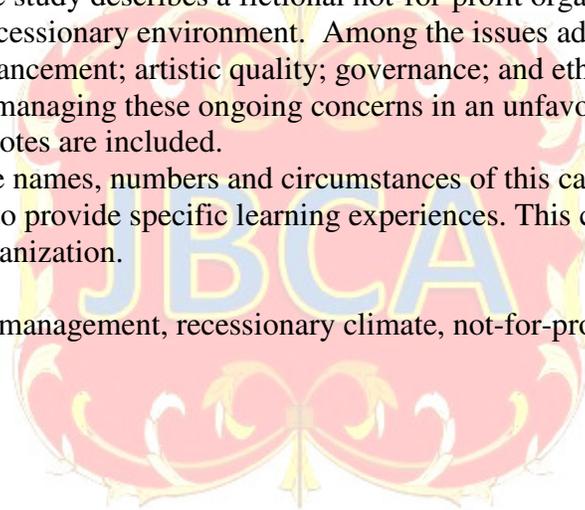
### **ABSTRACT**

The Pittsfield Symphony Orchestra is balancing its need to maintain a high quality product against the necessity of cutting costs. A major benefactor has mandated three consecutive fiscal-year operating surpluses to ensure the continuation of a multi-million dollar challenge grant. The symphony has not achieved operating surpluses in the past three years and it is concerned about meeting the time constraint of the grant.

This teaching case study describes a fictional not-for-profit organization that faces several challenges in a recessionary environment. Among the issues addressed in this case are cost control; revenue enhancement; artistic quality; governance; and ethics. Students must deal with the complexities of managing these ongoing concerns in an unfavorable economic climate. Teaching questions and notes are included.

While some of the names, numbers and circumstances of this case are factual, others have been changed or created to provide specific learning experiences. This case study is not intended to depict any existing organization.

Keywords: not-for profit management, recessionary climate, not-for-profit accounting, ethics



## **BACKGROUND**

Pittsfield is a mid-west city of approximately 350,000 residents in a Metropolitan Statistical Area (MSA) of about 1.7 million people with a median age nearing forty (see Exhibit A). Once a rust-belt manufacturing center, the city and environs have been evolving into a high-tech, entrepreneurial region. The city's infrastructure encompasses several highly-rated universities, a population with a strong work ethic, family-friendly neighborhoods, a relatively low cost of living, and a strong culture of support for business, the arts and sports. Pittsfield is proud of its wide assortment of museums, dance and theater companies and, in particular, it's internationally acclaimed Pittsfield Symphony Orchestra (PSO).

The PSO with a 100 talented musicians and an annual operating budget of about \$30 million artistically rivals the orchestras of the nation's larger cities. The orchestra's domestic and international tours have resulted in broad recognition and critical acclaim. In addition to its brand, the PSO's assets include a multi-million dollar endowment and a centrally-located, in-town concert hall. But competition in the arts has been intense in Pittsfield. The symphony competes with five museums of varying size, three large theater groups, and opera and ballet companies.

In the recent national, economic recession Pittsfield managed to maintain a jobless rate below the national average with fewer home foreclosures and business closings than comparable cities. This, in part, was due to the historically lower white collar wage structure of the region, the lack of a housing bubble, and the desires of residents to stay in a city which has often been described as a "great place to live". The PSO has fared less well than the region. To trim costs, the organization, in early 2009, eliminated 9 administrative positions and 2 staff vacancies as well as its popular chamber orchestra. A \$1,000,000 deficit was projected for the 2008-2009 fiscal year. Fortunately ticket sales in 2009 rose slightly.

Many arts organizations have recently experienced difficult circumstances. New York's Philharmonic Orchestra, for example, expected deficits in both 2009 and 2010. Musicians of the Cleveland Orchestra, thought by many to be the country's best, refused a 5% pay cut in early 2010. While both their staff personnel and music director took pay cuts, the musicians prepared to strike. Their base pay level of over \$115,000 for 2008-2009, ranked them only seventh among U.S. symphonies and they balked at allowing that ranking to fall. An eleventh hour agreement averted the strike and provided for a two-year wage freeze followed by semiannual increases (Druckenbrod, 2009).

## **THE ORCHESTRA'S CONTRACT**

Near the end of the PSO's 2008 fiscal year, the musicians ratified their current 3-year contract. According to the area's top newspaper, The Pittsfield People's Gazette (PPG), negotiations had broken down on several occasions. The musician's union firmly demanded that base salaries match those of the top ten orchestras, that there be no musician layoffs and that the artists have final say in the hiring of new musicians. These demands followed on the heels of previous contract concessions. The musicians were successful on all three issues and they did not give up health or pension benefits. The contract also specified \$1000 per person for live recordings of a concert. This outcome was true to the orchestra's mission statement (see Exhibit B) which stated, in part, that all stakeholders would cooperate to create a long-term future for the organization (Druckenbrod, 2008, September 20).

For the contract base year of 2008-2009 salaries rose 4% to approximately \$105,000. In the two remaining years there would be 4% raises. While the salaries would not approach the \$130,000 base of the highest paid orchestra, the Los Angeles Symphony, they were competitive with salaries of other orchestras ranked in the top ten. That is even truer when respective costs of living are taken into account. Concomitantly in 2008, the symphony's renowned European conductor, Wolfgang Hahn, inked a new contract and agreed to remain in Pittsfield through the 2015-2016 season (Druckenbrod, 2008, September 20); Anonymous, 2009).

A recent article in The Wall Street Journal argued that in cities with relatively low or declining populations, the current business model where most of an orchestra's revenue goes to musician compensation is unsustainable. The Atlanta Symphony had begun to break the mold by reducing operating costs through a collaborative dialogue among all the orchestra's stakeholders (Manshel, 2010). Of course, issues of quality can be contentious and difficult to negotiate.

## **DONOR LARGESSE**

A long-time symphony supporter and PSO board chairperson, Rachel Smith, offered a family gift of nearly \$30 million provided that certain acceptance criteria were met. About 25% of the gift was granted in 2005; an additional \$5 million will be granted if the orchestra can raise \$25 million from other sources; and the remainder, about \$17 million, will be awarded when the PSO balances its budget for three consecutive years. No more than \$500,000 of the initial gift was to be used for balancing the budget in any year. The \$17 million will ultimately be added to the PSO's endowment which reached \$130 million prior to the recession but stood near \$70 million in September 2009. The orchestra has until 2016 to achieve its consecutive balanced budgets. But at the end of the 2007-2008 fiscal year, the operating budget was still at a deficit thus making a quick turnaround urgent if the terms on the benefactor were to be met. Deficits were also projected for the ensuing two years (Druckenbrod, 2008, October 17; Kanny, 2008; Philanthropy, 2006).

While fundraising had increased to \$7 million by the end of fiscal 2007-2008, and a musician's contract was ratified, and subscriptions rose, the PSO was still about \$31 million short of its ongoing capital campaign goal of \$80 million. The approximately \$49 million raised to date counted the \$30 million gift and about \$6 million from another board member's foundation. Most of the remainder came from other board members' contributions. The orchestra also expected to receive \$1 million in 2009 from special county taxes. About \$60 million of the capital campaign is earmarked for the PSO endowment (Druckenbrod, 2008, October 17; Kanny, 2008).

## **ORGANIZATION AND MARKETING**

The PSO historically employed an administrative staff of between 70 and 90 persons. Exhibit C contains the departments and administrative positions as of the fall of 2009 (Pittsburgh Symphony, 2009). The PSO's sales personnel have continuously conducted promotional efforts within the MSA. To boost recognition of its well-received Pops Concerts, a mixture of classical and popular music, some tickets were given away to previous Pops-goers to reignite their interest. This promotion proved to be moderately successful in that many of the patrons proved willing to pay for at least one more concert after the free one. Innovative events including a concert with circus acts attracted a relatively young audience. During summer months telephone

calls were made in an attempt to solicit new subscribers and a cultural committee comprised of all the downtown arts organizations repeatedly advertised upcoming events.

Yet problems remained. For instance, senior management personnel were said to be receiving complaints about delays in confirmation from customers who had ordered tickets online from the group sales department. Some of these confirmation delays were nearly three weeks. When prospective symphony-goers phoned the box office to obtain confirmations, they were often told that the appropriate salesperson was unavailable and were then directed to voice mailboxes. Calls were not returned. Another long-standing concern was the observed preponderance of gray-haired concert-goers. The President called senior staff to a series of meetings to discuss marketing and customer relations issues.

## **TEACHING AIDS**

### **Learning goals**

The primary learning goals for using this case study are:

- To comprehend management and decision-making theories in a nonprofit setting
- To manage change in a dynamic organizational environment
- To apply accounting and finance concepts to a nonprofit organization
- To consider the ethical and strategic implications/obligations of an organization

### **Recommended classes**

This case is germane to an advanced management, marketing, nonprofit management, or strategy course. Elements of accounting and finance are also evident.

### **Why students will be interested**

This case study reflects the economic realities that arts organizations face in the United States today. Additionally, most students are familiar with the products of a symphony orchestra.

### **Discussion questions and notes**

1. Is there any conflict of interest in the granting and/or acceptance of Smith's gift? Apply what you know about ethical decision making.

Notes: Students could apply historical ethical decision-making approaches such as utilitarianism, justice theories and rights theories. It would appear that concertgoers, musicians and the community derive significant benefits from the Smith's generosity and that no stakeholder's rights are violated. An important point to consider is whether or not undue benefits accrue to the Smith family. Their influence could conceivably move the orchestra in a direction antithetical to the predilections of the artists or the public.

2. Is the symphony overly reliant on the largesse of board members? If so, suggest ways to increase the donor base.

Notes: In the current capital campaign over 60% of the pledged contributions were from board members. For this trend to continue, the PSO will have to continually cultivate new board members. Students may wish to research other symphonies to compare donor sources. Given the fortunes that were lost in the recession, attracting large, individual donations will be difficult. Students need to consider the pros and cons of other sources.

3. Examine Exhibit C. Do you see any potential duplication of tasks/functions? What would you suggest to clarify lines of authority and responsibility? What structural and functional suggestions may be made to address this issue?

Notes: Question 3 provides an opportunity to ponder the organizational structure as it currently exists and as it could be. Some students will conclude that there is an overlap and/or duplication of positions and therefore a potential to trim costs. Sales and donor relations are two areas that might attract student focus. As the case points out, there is a problem with online ordering. As an added assignment, students could be asked to write basic job descriptions of selected executives.

4. It is not unknown for boards to include company employees. Should the board of trustees consider putting musicians on the board? What are the advantages to the board, the musicians and the community?

Notes: An organization must consider all of its stakeholders. Students may cite potential conflicts or improvements in communication.

5. The PSO derives about 30% of its operating revenues from program services (see Exhibit D). This amount largely reflects concert attendance which is growing very slowly. One challenge for arts organizations today is to develop a younger, more ethnically diverse clientele. Suggest ways in which the PSO can accomplish this without violating its stated mission (see question 9 below).

Notes: This question allows students to apply marketing knowledge. Obviously, there is no one best approach. Students should be evaluated on the thoroughness and logic of their response.

6. When confronted with declining revenues, many organizations downsize and cut costs. Salaries and benefits make up over 50% of the PSO's operating budget and therefore are targets for cost reduction. Would this be feasible for the PSO? How would you increase revenues/contributions?

Notes: This question forces students to consider artistic and financial issues as well as to think about the Pittsfield Symphony both strategically and tactically. Any well-defended creative ideas should be considered. What are the qualitative issues involved with 'down-sizing' an orchestra?

7. Deferred revenue is where cash is received prior to performing a service (e.g., season ticket sales in the previous year). The revenue should be booked in the time period of the service. For the PSO deferred revenue amounts to \$5 million or more than one-half of all programming revenues. The general manager would like to book some of this revenue when received to cover the projected deficit and help meet the benefactor's challenge grant. When confronted by the

accounting manager as to the appropriateness of this request, the general manager replies “It’s not like we’re stealing money. We’ll just show less after the grant is procured. Besides, we may all be out of a job if we don’t do it”. What are the consequences of this action? Who benefits and who gets hurt? What should the manager of accounting do?

Notes: This question provides an opportunity for students to resolve an ethical dilemma when management and accountants collide over an accounting issue. Should the books be distorted to serve the organization’s objective? Students may wish to apply the ethical decision-making approaches as described in the Notes to Question 1.

8. Many organizations, including the arts, are paring back travel in an attempt to reduce discretionary costs. The public often views these trips as junkets that aren’t necessary particularly when the symphony is operating at a deficit. Several musicians make the counter argument that traveling abroad not only showcases the symphony but also garners attention for Pittsfield as a cultural venue and is worth the cost. Should the symphony travel in difficult financial times? Why or why not?

Notes: This query asks the student to conceive of the broader purposes of an arts organization. Students may realize that there are revenue generating reasons to travel. They should think within the context of the mission statement. One member of the symphony recently opined that international travel helped procure the G-20 economic summit recently held in Pittsfield.

9. Pianist Dirk Dover described in the PPG as a “nerd-rock icon” recently played with the PSO to a sold-out audience. The concert was well received by those attending but some in the audience thought “the orchestra looked as bored and uninvolved as the audience was excited”. Addressing this issue of artistic perspective in an interview, Dover noted that rock music and symphony compositions are arranged differently. Dover added that I’m in this is to help the institution of the symphony orchestra survive and thrive. Given the commercial success of concerts like this coupled with the need for additional revenues should the PSO be involved in events such as this or does it deviate too much from its stated mission?

Notes: This question forces the student to consider financial v. artistic values in conjunction with the PSO’s stated mission of providing “highly artistic, music-based entertainment”.

## EXHIBITS

### Exhibit A

#### Pittsfield Population by Age

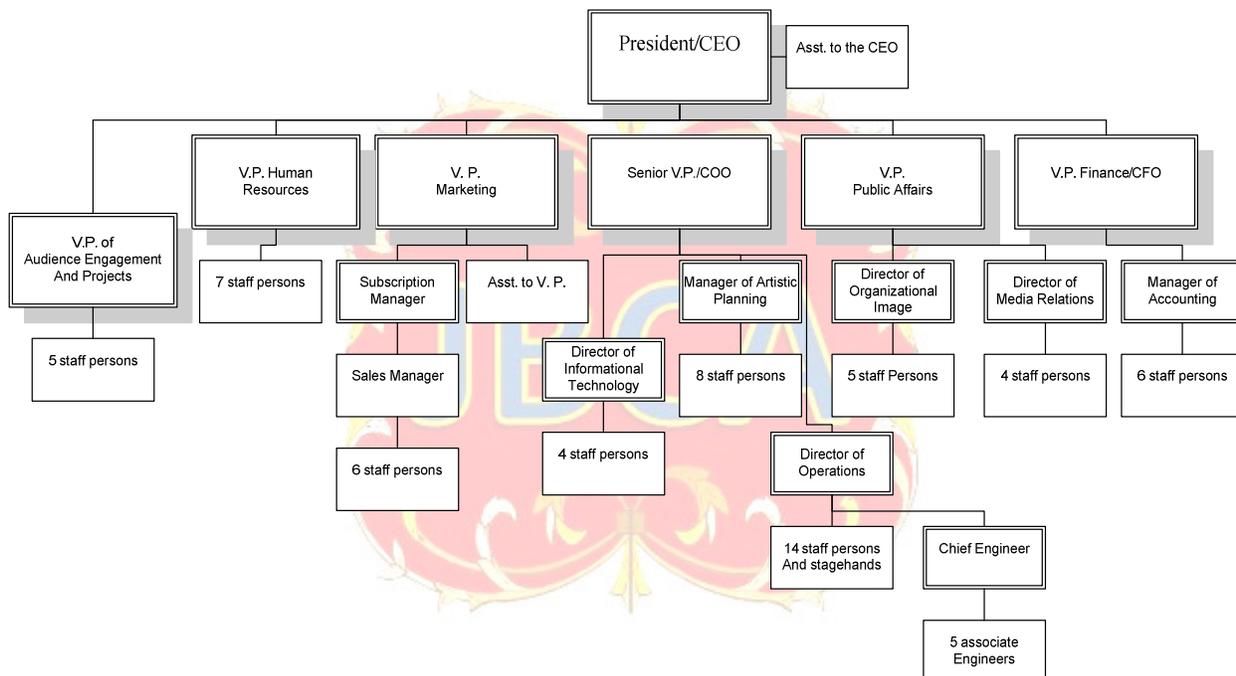
Under 18 years old	22%
18-24	9%
25-44	28%
45-64	23%
65 and older	18%

**Exhibit B**  
Pittsfield Symphony Orchestra Mission Statement

The primary mission of the Pittsfield Symphony Orchestra is to provide highly artistic, music-based entertainment experiences that satisfy the needs of our stakeholders. We work together to create a long-term future for the organization; to satisfy our audiences; and to continue to build a world class orchestra.

**Exhibit C**

**Exhibit C**  
**Org. Chart**



**Exhibit D**

PSO Financial Data  
In thousands of dollars

	<b>07-08</b>	<b>06-07</b>	<b>05-06</b>
Direct Public Support	17,300	16,100	8,900
Gov't. Contributions	4,100	3,900	3,700
Program Services Rev.	8,900	9,200	9,300
<b>TOTAL OPER. REV.</b>	<b>30,300</b>	<b>29,200</b>	<b>21,900</b>
Program Services	27,600	27,000	27,800
Mgmt. & General	2,800	2,700	2,500
Fundraising	1,900	2,100	1,900
<b>TOTAL OPER. EXP.</b>	<b>32,300</b>	<b>31,800</b>	<b>32,200</b>
Operating Income (Loss)	<b>(2,000)</b>	<b>(2,600)</b>	<b>(10,300)</b>
Salaries & Wages:			
Program Services	14,800	14,200	15,200
Mgmt. & Gen.	1,000	940	960
Fundraising	940	870	700
<b>TOTAL</b>	<b>16,740</b>	<b>16,010</b>	<b>16,860</b>

(Guidestar Report, 2008)

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