

Summary of Findings from the Review of Literature on Financial Health

We found little literature on the financial health of the arts, and even less literature specific to the performing arts. The relationship between audience building and financial health is little studied. The major points to emerge from our review of the literature on financial health are:

Organizational financial health is a seemingly simple concept that is in actuality quite complicated and difficult to measure.

- The current academic literature has no agreed-upon definitions or measures.
- Tuckman and Chang measured risk using four indicators, and the worst performing nonprofits in each measure were deemed at risk.
- Practitioners have examined capitalization, which encourages nonprofits to accumulate savings or reserves rather than spend all resources in the current year.
- Bowman conceptualized a framework that focuses on organizational capacity and sustainability as measures of fiscal health
- In all cases, little direct application to performing arts organizations exists. The little there is tends to be fragmented and does not cover long periods of time.
- The recent recession seemed to have hurt the finances of performing arts organizations more than other nonprofits.

The “cost disease” theory (Baumol and Bowen) states that financial problems arise because the costs

for performing arts organizations increase faster than ticket prices. This gap requires other revenue sources—such as philanthropic dollars, contributions, or government grants—to offset operating losses.

- The literature focused on the cost disease finds mixed results.
- Different sized performing arts organizations seem affected by the cost disease differently, with small and large arts organizations essentially immunized and medium-sized ones most affected.

Audience building is little studied as it relates to finances in the performing arts. Audience building may not yield financial returns, however; it may only generate social returns. If this is the case, performing arts organizations need to know the cost of audience-building activities and secure funding so that the financial health of the organization is not further compromised.

Many important gaps remain in our understanding of performing arts organizations’ financial health and the link with audience building.

- Whether particular financial indicators better predict financial health than others in the performing arts domain is unknown.
- The literature also does not analyze how a performing arts organization in financial trouble might turn itself around. This advice is what many performing arts managers seek, and the literature is largely silent on the topic. The cost disease remains an important theory about the economics of the performing arts. However, this theory does not account for overhead costs that are not directly linked to performances.