



# Audience Building and Financial Health in the Nonprofit Performing Arts

## Current Literature and Unanswered Questions

Francie Ostrower, Ph.D.  
Thad Calabrese, Ph.D.

A report of the  
*Building Audiences for Sustainability:  
Research and Evaluation* study




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## About the Authors

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### Executive Summary

**N**ATIONAL STATISTICS SHOW STAGNANT OR declining attendance across many art forms associated with the nonprofit performing arts. Newspaper headlines report financial crises at established arts organizations. These reflect the significant challenges nonprofit performing arts organizations face today when it comes to engaging audiences and achieving financial sustainability. Although there is a widespread acknowledgement that a problem exists, there is less consensus or confidence about how to address the problem. In this report, we review recent literature on audience building, financial health in the nonprofit performing arts, and the relationship between the two, to see what it tells us about the current state of attendance and finances, how organizations are responding, and which approaches have proven more or less successful.

This essay is the first in a series of publications to be released as part of a study of the audience-building efforts of the 25 performing arts organizations in The Wallace Foundation's \$52 million Building Audiences for Sustainability initiative. The initiative awarded grants to the organizations to try to engage new audiences while retaining existing ones and to see whether these audience-building efforts contribute to organizations' financial health. The foundation then commissioned and funded The University of Texas at Austin to conduct an independent evaluation of these audience-building efforts. The lead author of this essay is the study's principal investigator. Future publications will present findings from this research.

This report reviews an extensive amount of literature and presents its major themes and arguments, identifies gaps in the literature, and suggests areas for future research to address unanswered questions. We provide extensive references for the reader who wishes to pursue individual publications in greater depth. In the case of the audience-building literature we found many relevant publications but not a

cohesive line of inquiry whose studies reference and build upon one another. In the case of financial health, we found so little literature specifically on the performing arts that we considered other potentially relevant literature on nonprofit financial health more generally. With respect to the relationship between audience building and financial sustainability, we found virtually no literature.

Our purpose is not only to summarize the literature, but to assess what it has to say about a set of issues that we view as key to understanding audience building and financial health. We bring the following orienting questions to this review:

- *What is the definition and scope of "audience building" and "financial health" addressed in the literature?*
- *What does the literature say about the current state of attendance and financial health?*
- *What does the literature say about why nonprofit performing arts organizations are experiencing declines in audience? What does it say about why nonprofit performing arts organizations are experiencing financial problems?*
- *What does the literature say about how organizations are responding, and which approaches are more successful or less successful?*
- *What are the major gaps and unanswered questions?*

These questions structure the presentation of literature in this essay and help us to identify not only what the literature addresses, but what is missing. Since the audience-building and financial health literatures are distinct (with virtually no exploration of the relationship between the two), we present the reviews of each separately. The small amount of literature that addresses the relationship between audience building and financial health is includ-

ed under the section on financial health. The major points from our reviews are summarized below.

### Summary of Findings from the Review of Literature on Audience Building

While many relevant publications exist, there is not a cohesive line of inquiry about audience-building efforts among performing arts organizations whose authors cite one another and build on each other's work, or even necessarily address similar questions. By contrast, there is a more dedicated and distinct line of inquiry on individuals' engagement in the arts. Taking together the wide array of literature reviewed, the following major points and themes emerge:

- Attendance at multiple performing arts forms has declined. The National Endowment for the Arts' Survey of Public Participation in the Arts indicates that fewer people are attending, and those that do attend are attending less often. Less is known about the reasons for these declines.
- Among the hypothesized drivers of the above declines are declines in school-based arts education, technological changes, generational shifts, an overemphasis on policies promoting supply rather than demand for the arts, and outmoded ways of operating on the part of arts organizations themselves. The literature offers suggestive links for some of these drivers, but raises doubts about others.
- The literature proposes a wide array of audience-building techniques, but is inconclusive with respect to their results. One problem is that empirical support is often slim. To expand that empirical base, we need more studies that collect outcome data, follow audience-building efforts over time, and use larger samples to determine which audience-building approaches are more or less likely to achieve intended results under different circumstances and which are sustainable over the long term. We also need studies about the costs and benefits (both financial and mission-related) of implementing and sustaining different audience-building strategies.
- A widespread theme in the literature is that audiences do not attend solely, or even primarily, for the art presented, but for an *arts experience*, and that arts organizations are not currently responsive to this desire. Answers vary, however, as to what experiences audiences seek and how organizations could provide these. Among the strategies proposed are providing opportunities for more active audience engagement; performing in non-traditional venues; creating a more welcoming, social, and/or informal environment; making increased use of technology and digital media; and better understanding audiences through market research.
- The literature suggests that audience building is not an isolated endeavor, but an undertaking that is related to other

aspects of organizational culture and operations. Efforts at audience building may place pressures on conducting business as usual and require shifts in culture and operations. Therefore, more research is needed on the organizational conditions for successful audience-building activities. The audience-building literature would therefore benefit from forging more bridges with the general literature on organizational learning and change.

- While some literature speaks about "audiences" in general, other literature observes that neither audiences nor the world of arts organizations are homogenous. This implies that different approaches may be better suited to engaging different audiences and serve different goals, and that organizations may need to make tradeoffs in their audience-building efforts depending on what goals they prioritize. One intriguing observation, made by Wiggins, is that audience-building efforts aimed at attracting one target audience may deter attendance by other audiences. This implies that organizations and research need to consider the unintended consequences of audience-building projects. Research is needed to see whether and how this conceptual point is borne out in practice.
- One underexplored question is the extent to which audience declines, and challenges in audience building, are a response to *what* arts organizations are presenting (the art forms), or to aspects of arts organizations themselves, such as *how* arts organizations present the art.

### 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. As noted, we therefore also explore aspects of the broader nonprofit financial health literature that might prove relevant for research on performing arts, particularly with respect to definitions and metrics of financial health. Although this report focuses on publications after 2000, we also discuss Baumol and Bowen's classic work on "cost disease." While written over 50 years ago, it continues to exert significant influence on the more recent discussion of the economics of nonprofit performing arts. The major points to emerge from our review of the literature on financial health are the following:

*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.

## Current Literature and Unanswered Questions

- 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.



# Audience Building and Financial Health in the Nonprofit Performing Arts:

## Current Literature and Unanswered Questions

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**N**ATIONAL STATISTICS SHOW DECLINING attendance across many art forms associated with the nonprofit performing arts. Newspaper headlines report financial crises at established arts organizations. These reflect the significant challenges nonprofit performing arts organizations face today when it comes to engaging audiences and financial sustainability. As one performing arts leader said, “[Our organization] famously was selling out its seasons on subscriptions. An organization that sells out its seasons . . . has no need to worry about broadening our demographic. No need to worry about marketing single tickets . . . Then the world started changing.” He was reflecting on his own organization’s experience, but his comments reflect a more widespread perception in the performing arts field. Although there is a widespread acknowledgement that a problem exists, there is less consensus or confidence about how to address the problem.

**The literature proposes various approaches to audience building, but is inconclusive about their impact.**

In this essay, we review the current literature on audience building and financial health in the nonprofit performing arts to see what it tells us about the current state of attendance and finances, whether and how organizations are responding, and which approaches have proven more or less successful. The literature proposes various approaches to audience building, but is inconclusive about their impact. In the case of financial health there is little literature—and when it comes to exploring the relationship between audience-building efforts and financial health the literature is virtually silent. We discuss these gaps in the current literature and identify areas for future research.

This essay is the first in a series of planned publications to be released as part of a study of the audience-

building efforts of the 25 performing arts organizations in The Wallace Foundation’s \$52 million Building Audiences for Sustainability initiative. The initiative awarded grants to the organizations to try to engage new audiences while retaining existing ones, and to see whether these audience-building efforts contribute to organizations’ financial health. The foundation then commissioned and funded The University of Texas at Austin to conduct an independent evaluation of these audience-building efforts. The lead author of this essay is the study’s principal investigator. Future publications will present the empirical findings from this research. We hope these efforts will contribute to a better understanding of how performing arts organizations develop approaches to attracting new audiences, the opportunities and challenges associated with organizational efforts at audience building, and which approaches are more or less well-suited to particular goals.

### Scope and Structure of this Review

We review current literatures on nonprofit performing arts organizations’ audience building, financial health, and the relationship between the two. We focus on literature written after 2000. Our focus is on literature on performing arts organizations, including any type of performing arts form—be it music, dance, theater, or multi-disciplinary organizations. We include literature that discusses performing and other types of arts organizations, but exclude literature that only deals with nonperforming arts organizations.

**When it comes to exploring the relationship between audience-building efforts and financial health the literature is virtually silent.**



This report provides a summary of an extensive amount of literature, presenting its major themes and arguments, identifying gaps in the literature, and suggesting areas for future research. We provide extensive references for the reader who wishes to pursue individual publications in greater depth. In the case of the audience-building literature, we found many relevant publications,

**There is not a cohesive body of research specifically on audience building by organizations where authors reference and build on one another, use common terminology, or even necessarily address similar questions.**

but generally not a developed and defined line of inquiry with studies that reference and build upon one another, although there are certainly exceptions. One further (and initially unanticipated) purpose of this essay is to bring together these publications that have

common interests but do not necessarily speak to one another in one place and to consider them as a whole. In the case of financial health and sustainability, we found so little literature that we went outside of the nonprofit performing arts field specifically to identify other potentially relevant literature on nonprofit financial health. With respect to the relationship between audience building and financial sustainability, we found virtually no literature.

Our purpose is not only to summarize the literature, but to assess what it has to say about a set of issues that we view as key to understanding audience building and financial health. We bring the following orienting questions to this review:

- *What is the definition and scope of “audience building” and “financial health” addressed in the literature?*
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These questions structure the presentation of literature in this essay and help us to identify not only what the literature addresses, but what is missing. Since the audience-building and financial health literatures are distinct

(with virtually no exploration of the relationship between the two), we present the reviews of each separately below, starting with the audience-building literature and then turning to the literature on financial health. Discussion of the little literature that does exist about the relationship between audience building and financial health is found in the section on financial health.<sup>1</sup>

## The Literature on Audience Building

We used multiple methods to identify literature on audience building. These included searching online publication databases and catalogues, reviewing library shelves under relevant call numbers, searching Google Scholar, following up on citations in works as they were identified, consulting online blogs to see if these referenced additional literature, and searching websites of key institutions in the field such as the National Endowment for the Arts. Focusing on current literature, we searched for material published after 2000 (for a review of earlier literature, see McCarthy and Jinnett 2001).

As noted previously, we found that there is not a cohesive body of research specifically on audience building by organizations where authors reference and build on one another, use common terminology, or even necessarily address similar questions. Accordingly, we not only sought out literature that was squarely focused on enlarging and engaging audiences but other related literature as well. By contrast, there is a more focused and developed body of literature on the determinants and characteristics of individuals' arts participation. That literature has been reviewed elsewhere (see McCarthy and Jinnett 2001; Novak-Leonard, Baach, Schultz, Farrell, Anderson, and Rabkin 2014; Stallings and Mauldin 2016). We reference that literature, but our focus is on audience building by organizations.

Our initial focus was on studies about nonprofit performing arts organizations in the United States, and that remains our point of reference. However, we soon found there are many international studies of audience building by performing arts organizations, especially about organizations in the United Kingdom, Australia, and New Zealand, but also in other countries such as France and Romania. Indeed, the journal with the largest number of articles on audience building was the *International Journal of Arts Management*, followed by the *International Journal of Cultural Policy*. As this literature indicates, audience building is also a concern of researchers, organizations, and policymakers in other countries (for a recent report

1. Many of the works reviewed here received funding from a variety of foundations and government sources. In the interest of transparency, we specifically note those we are aware of that received funding from The Wallace Foundation, which funded this literature review. These include: Grams and Farrell 2008 (citations in the review are to individual chapters in that volume); Harlow 2014; McCarthy and Jinnett 2001; McCarthy, Ondaatje, Zakaras, and Brooks 2004; Ostrower 2003, 2005, and 2008; Tepper and Ivey 2008; Walker, Scott-Melnyk, and Sherwood 2002; Walker and Sherwood 2003; and Zakaras and Lowell 2008.

## Summary of Findings from the Review of Literature on Audience Building

While many relevant publications exist, there is not a distinct line of inquiry about audience-building efforts among performing arts organizations whose authors cite one another and build on each other's work, or even necessarily address similar questions. Major points from our review of this wide array of literature include:

- Attendance at multiple performing arts forms has declined, but less is known about the reasons for these declines. The literature offers suggestive links for some of these drivers but raises doubts about others.
- The literature proposes a wide array of audience-building techniques, but is inconclusive with respect to their results. One problem is that the empirical support presented is often slim. To expand the empirical base of support, we need more studies that collect outcomes data, follow audience-building efforts over time, and use larger samples to determine what audience-building approaches are more or less likely to achieve intended results under different circumstances and to determine which are sustainable over the long term. We also need studies about the costs and benefits (both financial and mission-related) of implementing different audience-building strategies.
- A widespread theme in the literature is that audiences do not attend solely, or even primarily, for the art presented, but for an *arts experience*, and that arts organizations are not currently responsive to this desire. Answers vary, however, as to what experiences audiences seek and how organizations could provide these.
- The literature suggests that audience building is not an isolated endeavor, but is related to other aspects of organizational culture and operations. Additional research is needed on the organizational conditions for successful audience-building activities, and audience-building research would benefit from forging more bridges with the general literature on organizational learning and change.
- One subtheme in the literature is that neither audiences nor the world of arts organizations are monolithic. This implies that different audience-building approaches may be better suited to engaging different audiences and may serve different goals, and that organizations may need to make tradeoffs in their audience-building efforts. One intriguing observation that bears further research is Wiggins's (2004) contention that audience-building efforts aimed at attracting one target audience may deter attendance by other audiences. This implies that organizations (and research on them) need to consider the unintended consequences of audience-building projects.
- An underexplored question is the extent to which audience declines are a response to *what* arts organizations are presenting (the art forms), versus *how* arts organizations present the art or other organizational characteristics.

and bibliography about audience development efforts in and by the European Union, see Bollo et al. 2017). Although we recognize that national contexts differ, these studies also asked how performing arts organizations can attract new audiences, and sometimes referenced challenges similar to those identified for performing arts organizations in the United States. Therefore, we expanded our scope to encompass international studies.

Our search yielded academic articles, books published by academic or commercial presses, and multiple research reports published or distributed outside of academic and commercial distribution channels.

### Audience Building in the Literature: Definitions and Terms

Various terms are used in the literature to describe practices to engage and expand audiences. The same term is sometimes used in different ways, and sometimes different terms are used to mean the same thing. Some literature does not address audience building in general, but examines a subset

of relevant issues, such as arts marketing or a single organization, and may not use any term.

The way that audience building is described is not solely about terminological differences, but reflects varied interests and approaches. The term "audience building" used in this essay is not widely used in the literature. We use it because it is a broader term that encompasses the variety of work described under the other various terms, and because it avoids the connotations sometimes associated with other terms. A brief review of the various terms is a useful point of entry into the literature.

**The way that audience building is described is not solely about terminological differences, but reflects varied interests and approaches.**

## Different Terms, Different Emphases

Terms often encountered in the literature are “arts participation,” “audience development,” “audience engagement,” and “audience enrichment.”

“Arts participation” is frequently used, but generally in relation to individuals’ engagement with the arts. This literature explicitly rejects limiting the term “arts participation” to attendance at formal arts organizations. It has increasingly called for widening the scope of “arts participation” to encompass multiple modes of individual

**Attendance at multiple performing art forms has declined or is stagnant.**

participation (such as arts creation as well as attendance) that may or may not occur in arts organizations, including a variety of formal and informal ven-

ues (see for instance, McCarthy and Jinnett 2001; Novak-Leonard and Brown 2011; Ostrower 2013; Tepper and Gao 2008; Walker, Scott-Melnyk, and Sherwood 2002). As noted earlier, while we reference the arts participation literature, much of it focuses in a different direction than our focus, which is on audience building by arts organizations. Sometimes, however, the two overlap as when arguments about how arts organizations build audiences – or fail to do so – rest on ideas about what motivates individual participation.

“Audience development,” “audience engagement,” and “audience enrichment” are used to characterize organizational efforts to attract and involve audiences. In principle, “audience development” can, and sometimes does, encompass organizational efforts to broaden, deepen, and diversify audiences,<sup>2</sup> as well as methods to achieve those goals. “Audience engagement” generally refers to efforts at deepening or enriching the audience experience and building relationships with audiences. Some who write about “audience engagement” see it as a very different enterprise than “audience development,” a term they explicitly eschew. They criticize “audience development” for treating audiences as consumers to be marketed to, and overly focused on increasing audience size. According to this perspective, “audience development” actually perpetuates, rather than alleviates, arts organizations’ audience engagement problems (see e.g., Borwick 2012; Conner 2013).

We employ “audience building” as an overarching and relatively more neutral term that captures an array of current and potential organizational approaches to broadening, deepening, and diversifying audiences and that avoids the connotations of audience development and engagement, allowing us to discuss both.

One additional approach deliberately avoids the term “audiences,” instead discussing “community building” and “community engagement” (Borwick 2012; Glow 2013).

2. These terms, drawn from McCarthy and Jinnett (2001), refer to three types of audience-building goals, including attracting additional audience members who are similar to current ones, deepening the engagement of the current audience, and attracting new audience members who differ from the current ones.

According to this perspective, arts organizations’ current problems are exacerbated rather than alleviated by focusing on building audiences for their own organizations. Instead, organizations are encouraged to ask how they can be more connected and responsive to their communities (Borwick 2012, 195). Although the community-building approach eschews organizational audience building as an end goal, it sometimes suggests that audience expansion and greater financial health may be a consequence of greater community engagement. Thus while this literature does not focus on audience building, it is still relevant in certain respects.

## Current Attendance at Live Performances in the Nonprofit Performing Arts

National statistics show that attendance at multiple performing art forms has declined or is stagnant. Fewer people are attending, and those who do attend are attending less frequently (National Endowment for the Arts 2015a). These findings provide the context and tone for much of the literature, which characterizes audience building as a matter of some urgency and possibly organizational survival in light of audience declines. These widely cited findings come from the National Endowment for the Arts’ Survey of Public Participation in the Arts (SPPA). Tracking arts attendance since 1982, this survey is the largest ongoing survey of arts participation in the United States.

Previous SPPA analyses reveal declines in attendance at opera, jazz, classical music, theater, musical theater, and ballet performances. Declines generally occurred between 2002 and 2008, then stabilized. Attendance at theater and musical theater, however, was lower in both 2008 and 2012 than in 2002. Among the art forms queried in the 2008 and 2012 SPPA surveys, only dance (other than ballet) did not experience declines (National Endowment for the Arts 2015a, 7-9, 2018). Furthermore, attendance declined across multiple demographic groups, although it remained stable among African-Americans and even increased among those over 75 years of age (National Endowment for the Arts 2015a, 2 and 5). Attendance even declined among those with high levels of education, the group most likely to attend

**What accounts for declining attendance? Here, less is known.**

arts events (National Endowment for the Arts 2015a, 5). International studies suggest that comparable art forms in countries outside the United States may also be experiencing declining attendance (Lindelof 2015; Pulh, Marteaux, and Mencarelli 2008; Radbourne 2013; Scollen 2009).

Preliminary findings from the most recent (2017) SPPA survey indicate stable attendance at the six performing arts forms mentioned above (National Endowment for the Arts 2018). In an unusual instance, attendance at outdoor performing arts festivals increased between

2008 and 2017. Since the survey did not ask about attendance at outdoor performing arts festivals until 2008, however, we do not know whether or not attendance had declined before that period (National Endowment for the Arts 2018, 6). As of 2012, the SPPA asked respondents about attendance at “other” performing arts events (i.e., not specifically queried in other SPPA questions), which also increased in 2017 (2018, 7). The National Endowment report on the preliminary findings observes that the unusual cases of increased attendance between 2012 and 2017 occurred in areas (such as outdoor performing arts festivals) that “have drawn a broader cross-section of the U.S. adult population—one that is demographically more diverse—than have some other types of arts events” (National Endowment for the Arts 2018, 2).

### Reasons for Declining Attendance: What the Literature Says

What accounts for declining attendance? Here, less is known and the question as a whole has not been the focus

of much sustained research in its own right. The research offers some suggestive links while raising doubts about others. The literature proposes an array of potential factors such as declines in arts education, technological developments, generational shifts, public and private policies for building arts participation that have overly focused on enlarging the supply

of arts organizations without enough attention to demand, and outmoded ways of acting on the part of arts organizations themselves.

A decline in arts education has been seen as one likely contributor to declines in attendance (see Brown and Novak-Leonard 2011; National Endowment for the Arts 2009; Zakaras and Lowell 2008). Research consistently finds a strong association between individuals’ exposure to arts education and their level of arts attendance, and indicates a parallel between the timing of declines in school-based arts education and declines in arts attendance (Rabkin and Hedberg 2011). While they do not claim to establish a causal relationship and caution that much remains to be learned about which types of arts education are more or less related to arts participation, Rabkin and Hedberg (2011) as well as others conclude that stemming the decline in arts education is one key to addressing declining audiences (see also Zakaras and Lowell 2008).

The rise of new technologies, particularly the internet,

has also been cited as a contributor to declining attendance. Some believe that as people spend more time with technology, they devote less time to other endeavors, including arts attendance.

However, some research suggests that technology and live attendance can be mutually reinforcing (National Endowment for the Arts 2010). Using SPPA data, Robinson (2011) found that rates of attendance were actually somewhat higher among heavier internet users. Analyses of SPPA data also raise questions about oft-heard assumptions that generational shifts are driving audience declines. Stern (2011) concludes that age and generational cohort actually explain little about changes in arts participation, and points instead to broader changes in personal life and preferences.

Other literature calls attention to trends in the supply of arts organizations, as well as demand for what they provide. Some authors point out that the number of arts organizations has increased, thereby exacerbating the problem of declining demand (Kushner and Cohen 2016; Tepper 2008; Zakaras and Lowell 2008). Zakaras and Lowell (2008), for instance, argue that public policies seeking to enlarge arts participation focused on increasing the supply of available arts without attending adequately to policies to stimulate demand for this supply.

Some literature argues that arts organizations themselves, if not the cause of declines in attendance, have exacerbated the situation. In this view, the problems stem from the way arts organizations function, which is seen as increasingly out of step with expectations of current audiences. For instance, Nytch (2013, 89-90) writes that classical music organizations “continue to present concerts in a paradigm that was established in the 19<sup>th</sup> century—and then wonder why 21<sup>st</sup> century audiences are less and less interested in what they have to offer.” He contends that arts organizations in the United States misperceive their problem, believing that all they need to do to attract people is create greater awareness about themselves, when they are really facing a fundamental loss in value and relevance, especially among the young. Borwick (2012) cites a lack of programmatic relevance. He writes that traditional arts organizations mostly present art that reflects eighteenth and nineteenth-century European forms that “are rooted in a cultural language that is increasingly foreign in the twenty-first century U.S.” (2012, 20; see also Stallings and Mauldin 2016). Another point made is that organizations perpetuate a paradigm for thinking about audiences as passive spectators, which does not sit well with present-day audiences’ desire for more active forms of participation—and expectations for it in a digital era (Conner 2013; Brown and Novak-Leonard 2011; Pulh, Marteaux, and Mencarelli 2008; Reidy 2014).

One fundamental but underexplored question is the extent to which audience declines and challenges in

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audience building are a response to *what* arts organizations are presenting (the art forms), or to aspects of arts organizations themselves, such as *how* arts organizations present the art.

The research above addresses declines in performing arts attendance and contributing factors. Some literature follows a different direction, with a theme of this literature being that even if attendance at some art forms has declined, arts participation as a whole is thriving with people participating in other ways (Stallings and Mauldin 2016). The arts participation literature has increasingly called for broadening research to study other modes of individual expression and engagement (such as arts creation), involvement in other art forms, and participation in settings other than formal arts organizations (Novak-Leonard and Brown 2011; Pulh, Marteaux, and Mencarelli 2008; Reidy 2014; Tepper and Ivey 2008; Wali, Severson, and Longoni 2002; Walker, Scott-Melnyk, and Sherwood 2002; for reviews see Novak-Leonard, Baach, Schultz, Farrell, Anderson, and Rabkin 2014; Stallings and Mauldin 2016).

For arts organizations and research about them, however, the statistics on decline provide a context for thinking about arts organizations and their relationship to current and future audiences.

## Organizational Responses to Declining Attendance and Approaches to Audience Building

A widespread theme in the literature is that successful audience building will require arts organizations to be more

responsive to their audiences (Conner 2013; Kemp and Poole 2016; Lee 2005; McCarthy and Jinnett 2001; Mencarelli and Pulh 2006; Radbourne 2013;

Rentschler, Radbourne, Carr, and Rickard 2002; Scollen 2009). In this view, people are seeking different things than arts organizations have traditionally provided but that no longer resonate with a growing number of people. The question this raises, however, is what audiences are seeking, and what changes organizations would need to make to respond. While some literature calls for adding or adapting individual programs, marketing techniques, or ancillary events, other literature sees a need for organizations to fundamentally rethink how they relate to their audiences and communities. We review a number of the arguments, and the literature offers many areas for further investigation. At this stage, however, the literature as a whole is generally inconclusive as to the impact of the various audience-building strategies. Some of the literature is conceptual or normative and does not present em-

pirical support. Sometimes, individual cases are presented to illustrate successful applications of proposed strategies. Additional research and empirical data are needed to permit us to systematically determine the sustainability of these individual strategies, their costs and benefits (both financial and mission-related), and the conditions under which they are more or less successful.

## Thinking About Audiences

As noted, a theme of the audience-building literature is that arts organizations need to pay more attention to their audiences. Some literature speaks about “audiences” in general, while other literature emphasizes that audiences comprise a variety of people with different experiences and expectations. For this latter approach, different audiences may seek different things, and therefore different audience-building strategies may resonate with different audiences. For instance, the importance of some motivations for attendance varies among different forms and even subgenres of the same form (Ostrower 2008; NEA 2015b). The idea that audiences are heterogeneous implies that audience building is not a “one size fits all” endeavor, but a complex undertaking in which particular approaches and strategies will resonate with some groups but not others.

This perspective that audiences are not homogeneous, however, raises the question of what differentiates current or potential audience members. RAND researchers McCarthy and Jinnett (2001) argue that earlier research gave too much attention to demographic characteristics. They propose a conceptual framework that distinguishes those who are already inclined to participate in the arts from those who are disinclined to participate, and argues that different barriers need to be overcome to attract these two groups. They argue that audience-building efforts aimed at inclined groups need to address practical barriers to attendance, for instance by providing information about programming and pricing—while the disinclined need to be convinced of the benefits of participation in the first place, requiring perceptual barriers to be addressed.

Wiggins (2004) sees two shortcomings with the RAND model. She argues that perceptual and practical barriers can simultaneously be at work, and contends that audience-building activities aimed at one audience may impact other audiences in unintended, and even negative, ways. Drawing on consumer research, she proposes a model of

**The idea that audiences are heterogeneous implies that audience building is not a “one size fits all” endeavor, but a complex undertaking in which particular approaches and strategies will resonate with some groups but not others.**

**At this stage, however, the literature as a whole is generally inconclusive as to the impact of the various audience-building strategies.**

audience segmentation based on various combinations of the motivations, abilities, and opportunities (MAO) that individuals have to participate. Kemp and Poole (2016) find that motivations, ability, and opportunity are related in their research on a jazz organization (see also Kemp and White 2013). If it is true that audience-building efforts aimed at one group may impact other target groups, then a major implication is that organizations need to consider the potential unintended consequences of audience-building efforts aimed at one group on other audience members. Empirical research is needed to see whether this intriguing concept is borne out and to better understand how these multiple and unanticipated impacts may happen in practice.

Harlow (2014), presenting case studies from 10 out of 54 organizations engaged in audience-building efforts, concurs with Wiggins's observations about multiple barriers, but concludes that the RAND model is generally supported. One example provided is the Boston Lyric Opera. The organization sought to broaden its audience of young suburban parents by addressing practical barriers like time and geography by presenting family performances of abridged operas nearby in the community. He reports that the strategy was successful in suburbs with a presence of those already inclined to participate, but not in suburbs lacking an inclined group. Still, Harlow proposes that the general distinction between those inclined and disinclined to participate in art be further refined to distinguish those inclined or disinclined to participate in a particular art form, since reasons for participation in different forms may also differ.

The above literature suggests not only that different approaches may be necessary for engaging different audiences, but also that different audience-building efforts may serve different organizational and policy goals. Writing in the British context, Hayes and Slater (2002) distinguish between "mainstream" audience-building efforts aimed at traditional audiences and "missionary" audience-building efforts aimed at attracting non-attenders. They argue that missionary efforts, driven by goals of social inclusion, are important, but have received disproportionate attention by comparison with mainstream efforts, which are critical to achieving financial sustainability. More generally, one area for future research is the relationship between financial and mission-related considerations and goals in audience-building efforts.

**If different audiences and goals require different audience-building approaches, then organizations may need to make tradeoffs in their audience-building efforts depending on which goals they prioritize.**

If different audiences and goals require different audience-building approaches, then organizations may

need to make tradeoffs in their audience-building efforts depending on which goals they prioritize. This is particularly true since audience-building efforts can require a substantial and long-term commitment and dedication of staff and financial resources. This would mean that it is unlikely that an organization can seek to attract all audiences at the same time. McCarthy and Jinnett's (2001) observation that organizations need to define their target audience and tailor audience-building efforts accordingly is consistent with this view. So too is Brown and Novak-Leonard's (2011) contention that it has become harder for arts organizations to satisfy different constituencies with a single experience because cultural tastes have become more diverse and fragmented. The tradeoffs involved are further implied by Wiggins's (2004) observation that efforts at attracting one target audience may have an unintended and even negative impact on other audiences.

**One theme in the literature is that audiences do not attend arts events solely (and not even necessarily primarily) for the art presented, but for an arts experience.**

As noted earlier, some of the literature calls for organizations to fundamentally modify the way they think about and relate to audiences. One subtheme in some of the literature is a criticism that arts organizations treat audience members as consumers to whom they want to sell tickets rather than as partners with whom they seek to build relationships. Radbourne (2013) calls on organizations to view their audiences as a participant or partner, and employ a "convergence marketing" approach that responds to audience desires for personal involvement and actualization through arts experiences (see also Glow 2013). Borwick (2012) argues that rather than approach communities as market segments to be sold to, arts organizations should seek to establish substantive community partnerships.

### Audience-Building Approaches

One theme in the literature is that audiences do not attend arts events solely (and not even necessarily primarily) for the art presented, but for an *arts experience*, and that arts organizations need to better understand and respond to this desire. Another theme is that arts organizations continue to act in ways that may have been adequate or successful in the past, but that are out of step with the expectations of current audiences. Accordingly, a further theme is that organizations need to make changes in order to build audiences. Here too, answers vary as to what experiences audiences seek and how much and how arts organizations need to change to respond. While some point to desires for social opportunities around the performance, others believe that audiences are looking for a deeper and more active en-

agement with the art and opportunities for self-actualization. Some strategies would directly impact artistic programming, while others would not. As noted, further complicating the situation is that different audiences for different types of art forms may be seeking different things (Conner 2013; Farrell 2008; Fred and Farrell 2008; Glow 2013; Harlow 2014; McCarthy and Jinnett 2001; McCarthy, Ondaatje, Zakaras, and Brooks 2004; National Endowment for the Arts 2015b; Nytch 2013; Ostrower 2008). Some of the approaches and vehicles more often discussed in recent literature are:

- Providing opportunities for more active audience engagement;
- Presenting art in non-traditional venues outside the home venue;
- Creating a more welcoming environment;
- Creating a more informal and social environment;
- Making use of technology and digital media; and
- Better understanding audiences through market research.

As already noted, the literature is generally inconclusive as to the impact, sustainability, and costs and benefits

of these various audience-building strategies.

One line of thought in the literature is that audiences today are not content to be passive spectators of professional

performances, but seek active engagement (Brown and Novak-Leonard 2011; Conner 2013; Glow 2013; Pulh, Marteaux, and Mencarelli 2008; Radbourne, Johansen, Glow, and White 2017). What this means in terms of organizational response, however, can range from rethinking the structure of talkbacks to engaging audiences in artistic co-programming. Brown and Novak-Leonard predict that arts groups that rely solely on a “consumption model of program delivery will slowly lose ground in a competitive marketplace” (2011, 4). They present an “audience involvement spectrum” that distinguishes between “receptive” and “participatory” modes of engagement. Examples of the latter include engaging the audience as “co-creators” (where the audience contributes to something curated by a professional artist) and audiences as artist (where audience members have significant control over the artistic experience). One illustration of co-creation that is provided is a Headlong Dance Theater performance tour,

where performers guided a single audience/participant through performance encounters on city streets. Still, while some literature proposes giving audiences more authority over programming as way to meet desires for active engagement, Voss and Voss (2000) report that some theater subscribers do not want their preferences to determine programming, but instead want the theater to expose them to innovative works.

Active engagement as described in the literature, may, but does not necessarily, mean proposing that audiences impact the creation of the artistic product. Conner (2004; 2013) argues that arts participation activities should not interfere with programming, but create opportunities for audiences to engage in activities that allow them to talk, interpret art, and thus participate as co-creators of meaning. She distinguishes the type of facilitated discussion she has in mind from scenarios in which experts tell audiences the correct interpretation (see also Farrell 2008).

Some research has focused on how altering the nature and location of performance spaces contribute to building audiences. Walker and Sherwood (2003) reported considerable success among arts organizations that presented in community venues such as schools and community centers. Reidy (2014) argues that a process of “sacralization” moved many art forms into “separate” spaces, but that many organizations are now looking for ways to return to “usual” spaces. One example illustrates an audience-building strategy that incorporates both use of non-traditional venues and opportunities for audience co-creation: the San Diego Symphony engaged community members in a co-creation, soliciting residents of underserved neighborhoods to submit songs, stories, and dance, from which a selection were integrated into a final orchestral composition. The composition was then performed in the symphony’s home music center, but also at an outdoor marina park and a Salvation Army community center to reach new and more diverse audiences. Reidy reports that performances were filled to capacity.

Other literature reports on organizational efforts to make their own home performing space more inviting and appealing to current audiences. Brown and Ratzkin (2013) describe how the New World Symphony performed in a late-night club format, which permitted people to move around freely during a performance that combined live classical music with a DJ playing electronic dance music and that attracted new attendees. As this example illustrates, some audience-building efforts cross traditional and often hierarchical boundaries to bring together “high” and popular art forms. Pulh, Marteaux, and Mencarelli (2008) also report examples of classical music performances in France and Britain that create a party atmosphere that discards “conventional rituals of classical music concerts” (5). For instance,

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audiences were able to sit or stand, and drink, rendering the environment more informal and social.

This last example also exemplifies the practice of introducing a social component into the arts experience, either before, during, or after performances. In this view, audiences seek a communal and social experience as part of the art experience, a finding consistent with survey data on individual motives for participation (Ostrower 2008; National Endowment for the Arts 2015b). Social experiences, however, need not refer only to parties, but encompass a broader range of collective interactions and communication, including opportunities for interaction between audience and performers and among audience members (Nytych 2013; Radbourne, Johansen, Glow and White 2017).

One theme receiving increasing attention in the literature is the importance of technology, both in offering new options for interacting with audiences externally and for building internal capacity to support audience-building efforts. For instance, while acknowledging that these efforts are in early stages, Preece (2011) argues that the creation and use of web-delivered previews (analogous to film previews) is a promising strategy for symphony orchestras. He observes that new digital technologies and internet capabilities permit

orchestras to directly communicate with current and potential audiences, rather than relying on media critics or spending large amounts on scattered marketing efforts (see also Bakhshi and Throsby 2012; Turrini, Soscia, and Maulini 2012; Walmsley 2016). With respect to building internal organizational capacity, others highlight the significance of the development of *Tessitura*, a customer relationship management (CRM) system for arts organizations (see Ravanas 2007; Norris and Grams 2008). The system, originally devel-

oped at the Metropolitan Opera, integrates several functions and information from multiple departments, permitting the organization a comprehensive view of its customer interactions and facilitating inter-departmental coordination.

As this suggests, the collection and management of information about audiences may be a key resource in audience-building efforts. Furthermore, it is important for tracking many types of audience-building outcomes. Is audience size expanding? Are new audiences being engaged? Do people who attend return? To answer such questions that relate to both audience expansion and engagement, organizations and researchers need to know about their audiences.

Market research is presented in some of the literature as an important tool for audience building that helps organizations understand their intended audiences (Grams 2008; Harlow 2014). For instance, Grams (2008)

describes how Old Town Music School learned through market research that distance and time were key factors for its target audience for programs for mothers and children, and integrated this knowledge to expand offerings around the city and suburbs. Harlow (2014) reports that focus group research helped the San Francisco Girls Chorus discover perceptual barriers to attendance among classical music patrons who saw the group as “a glee club singing Disney tunes in a church basement” (Harlow 2014, 34). He reports that the organization revised its marketing and concert presentation to better project an image of artistic excellence that helped achieve its audience-building goal.

Others are more critical of market research, however, and the underlying outlook they associate with it. For instance, Connors (2008) criticizes “audience development” approaches for equating the collection of marketing information with enabling the creation of meaningful enrichment activities. She argues that successful audience enrichment requires that organizations treat the audience as a collection of individual subjects who think and feel, rather than as demographic groups who consume (see also Borwick 2012).

Along these lines, Grams (2008) identifies two different approaches to audience building. One is a “transactional” approach that is consumer-oriented and that aims to develop new markets and increase sales. The second is a “humanist” approach that focuses on building more personal relationships, especially with communities not generally served in the past. Interestingly, however, Grams concludes that both of these approaches can be successful, and can even be used simultaneously within an organization.

### Organizational Considerations

As suggested above, one theme in the literature is that arts organizations face a potential loss of relevance and interest that requires a concerted response—but that they are failing to recognize the nature and depth of the problems and adequately respond. If that is the case, one question that

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arises is “why”? One factor may be that arts organizations are uncertain as to how to respond. But this also raises questions about the organizational factors that either promote or inhibit organizational learning and openness to innovation and change, and successful design and implementation of audience-building strategies. While these issues are not extensively explored in the literature, some publications do address the significance of organizational characteristics and procedures for successful audience building.

The literature suggests that to implement and achieve successful audience building, arts organizations will need to change how they operate in some way. The extent and nature of the changes required vary, but may include such areas as training staff, dedicating more staff to audience-building activities, cultivating a culture that sees audience building as a key activity, altering marketing strategies and vehicles, overcoming internal organizational silos to facilitate inter-departmental coordination, and re-designing physical space (see e.g., Borwick 2012; Conner 2013; Farrell 2008; Grams 2008; Harlow 2014).

There has been some recognition in the literature that to be successful, audience-building initiatives need to fit

**Arts organizations also differ from one another, and may therefore have different audience-building goals and challenges.**

with the organization’s priorities and values, have widespread support in the organization, and be supported by strong leadership. McCarthy and Jinnett (2001) propose an integrative

approach to audience building that calls for organizations to assess audience-building efforts in relation to their organizational purposes, mission, resources, and community context. Harlow (2014) emphasizes the importance of organizational alignment, in which there is a widespread staff commitment to audience-building efforts, and a belief that the effort is critical to the organization’s future—but also reports that organizations too often fail to put in the time to build cross-departmental support and coordination. He identifies organizational leadership as a key, but often missing, element to achieving such alignment. Ostrower (2003) found that one contributing factor to less successful audience-building partnerships was a perception within one or more partnering organizations that audience-building goals were tangential to mission. Grams (2008) argues that “leadership for change” (10) is critical, not only at the executive level but to build support throughout the organization.

As we have seen, some literature addresses heterogeneity among audiences. Another theme, but one that is less often discussed, is that arts organizations also differ from one another, and may therefore have different audience-building goals and challenges. One differentiation, for instance, is between organizations focused on presenting the canons of a particular art form, those that promote art as an avenue for community improvement, and those

focused on training artists and promoting engagement in creative processes (McCarthy and Jinnett 2001; see also Grams 2008). McCarthy and Jinnett (2001) argue that there is a relationship between organizational type (canon, community, and creative-focused organizations) and different audience-building goals. Joynes and Grams (2008) argue that canon-focused organizations face different challenges than other arts organizations, and have greater difficulty in building institutional commitment to change. Farrell (2008) contends that while some arts organizations, such as community cultural centers, may have had participation-building goals incorporated into the core of their mission, for others, such as canon-focused organizations, moving into participation-building projects represents more of a stretch from their core.

Audience-building strategies may also call for redistribution of resources, require staff training and augmenting different sets of staff skills, challenge traditional organizational hierarchies, and provoke anxiety and even resistance among staff. Conner (2004; 2013) argues that audience enrichment efforts will require investing resources in staff dedicated to audience enrichment, and writes that enabling audiences to be more active redistributes power away from artists and experts. Harlow (2014) writes that targeting a new audience may raise fears about job security for staff members whose responsibilities are to serve current audiences. He contends that successful audience building requires a broad and concerted commitment across multiple parts of the organization at all levels—but that bringing such alignment about requires deliberate efforts by organizational leaders.

## Looking Forward: Unanswered Questions and Gaps in the Current Literature

We have reviewed the literature to ask what it tells us about audience building in the nonprofit performing arts. We now turn to draw some more general observations and to identify gaps and issues in need of future research.

The consensus in the literature is that many nonprofit performing arts organizations are facing major challenges. Attendance is declining or stagnant, supply has seemingly outstripped demand, and there is reason to believe that audiences are seeking experiences that differ in some way from what established institutions offer. Unfortunately, there is less clarity on what is driving the largescale trends. Some drivers are beyond the control of individual arts organizations, and the situations of particular arts organizations may vary. Therefore, individual organizations will need to move ahead in an uncertain and still-evolving environment by making decisions about what seems to be most appropriate for their institutions.

The literature offers a wide array of audience-building techniques, but is inconclusive with respect to their results. One problem is that the empirical support about the success of these strategies is often slim. The conviction with which certain approaches are advocated is not commensurate with

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the available empirical base of support. There is a need for more studies that collect outcome data, that follow audience-building efforts over time, and that use larger samples to determine what types of audience-building techniques are more or less likely to actually recognize intended results under differ-

ent circumstances and promote long-term change rather than one-time successes. If audiences and organizations are heterogeneous then we need to be particularly open to the possibility that outcomes are going to vary depending on the organization and intended audiences. Here one helpful line of inquiry would be to look at groups of organizations that aim at similar audience-building goals and/or audiences and consider which approaches seem to be more or less efficacious in achieving those goals. Additional research is also needed to understand the costs and benefits (both financial and mission-related) and requirements for implementing and sustaining various types of audience-building efforts over time.

Surveys of individuals have identified declines in attendance among the population, but we know less about which performing arts organizations have experienced greater or lesser declines. If variations exist, what explains these? Why do some organizations within the same artistic discipline attract and engage audiences more successfully than others? Studies of larger samples of organizations within the same art form, as well as comparative case studies of organizations within the same form, could shed light on this question and help to better isolate factors that promote or inhibit audience expansion and engagement.

The literature indicates that audience building is more than a series of isolated efforts or steps to be followed, but an undertaking that is related to other aspects of organizational culture and operations. Efforts at audience building may place pressures on conducting business as usual, and require shifts

**Efforts at audience building may place pressures on conducting business as usual, and require shifts in culture and operations.**

in culture and operations. Therefore, more attention needs to be given to the organizational conditions for successful audience-building activities. For instance, Harlow (2014) observes that organizational alignment is key to audience building. Such alignment is not an audience-building technique, but an organizational characteristic that transcends

particular audience-building techniques. Telling organizations that they need to better understand and respond to audiences may be accurate advice, but it will not be possible unless organizations can recognize and make the changes that actually enable them to do this in an ongoing way. We believe that the audience-building literature would benefit from forging more bridges with the general literature on organizational learning and change. The need to adapt in the face of changing environments is an organizational problem that is not limited to the arts, and there may be a great deal to be learned from the organizational literature about the circumstances that promote or inhibit successful adaptation.

To revisit the comments of the performing arts leader cited in the opening of this review: the literature supports the widespread perception that the world has been changing, and performing arts organizations are worried about how to attract and engage audiences. Reviewing the literature on audience building has led us to questions about how performing arts organizations today are perceived, how they relate to current and potential audiences, and the organizational culture and structures that form the context for their work. The literature suggests that these are also questions that arts organizations will need to engage as they consider and pursue efforts to attract and engage audiences.

## Literature on Financial Health

We now turn to review the literature on financial health in the nonprofit performing arts sector. The performing arts sector includes both for-profits and nonprofits, with the relative proportions varying by art form. Thus, nonprofit organizations comprise 75% of total dance organizations, close to 60% of all theaters, and one-third of all music organizations. Within music, opera companies, symphony orchestras, and chamber music groups are virtually exclusively organized as nonprofits, with nonprofits also comprising the majority of choral groups (Toepler and Wyszomirski 2012, 232-234).

**We found relatively little literature on the financial health of the arts, and even less literature specific to the performing arts.**

We found relatively little literature on the financial health of the arts, and even less literature specific to the performing arts. We also explored aspects of the broader nonprofit financial health literature that might prove relevant for research on performing arts, particularly with respect to definitions and metrics of financial health.

Multiple methods were used to identify literature. We initially reviewed some well-known and widely cited literatures. Additional sources were identified by searching online publication databases and catalogues, searching Google Scholar, following up on literature from citations in works as they were identified, reviewing relevant journal indexes in detail, and searching websites of key institu-

## 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.

tions in the field such as the Americans for the Arts and various performing arts professional associations. As with the literature on audience building, we concentrated on locating work published since 2000, since our focus is on the current literature. However, we also discuss Baumol and Bowen’s classic work (1965; 1966). While written over 50 years ago, it continues to exert significant influence on the discussion of the economics of nonprofit performing arts.

We present the findings organized according to the orienting questions presented at the beginning of this report.

## Definition and Scope of Fiscal Health Addressed in the Literature

We found relatively little literature on defining the financial health of the arts, and even less literature specific to the performing arts. Thus, we also examine the broader nonprofit financial literature for its relevance, including cases in which it has already been applied to the nonprofit performing arts. Hendrick (2004, 1) notes that fiscal health is a “multidimensional concept with varying time frames.” As this suggests, fiscal health is a complex concept, and the literature uses multiple measures to capture different aspects of fiscal health.

**Fiscal health is a complex concept.**

Indeed, there is not even a consensus on what financial/fiscal health means. We begin by reviewing major theories and measures of nonprofit financial health. While these are distinct, they share common themes such as a focus on the availability of resources to manage financial shocks or unforeseen events, the ability to react to potential opportunities, and the sustainability of programs over time.

A major stream within the general nonprofit finance literature emerged from Tuckman and Chang's focus on financial vulnerability, or risk. Tuckman and Chang (1991) define risk as the inability of an organization to with-

stand financial shocks without cutting back on program services immediately. Their measures are designed to determine the degree of vulnerability each nonprofit faces based on its metrics compared to other nonprofits.

**Correlates of financial health may vary even among subgroups of arts organizations.**

This line of research focuses on a set of financial ratios believed to predict financial vulnerability. Tuckman and Chang contrast financially vulnerable organizations with those that have financial flexibility, as evidenced by factors such as diversity of revenues sources, net asset balances (accumulated from operating surpluses in the past), and, interestingly, high administrative costs (because these costs—such as information technology, accounting, finance, and evaluation—can be reduced before program costs directed at mission-oriented programs and services are). For example, an organization with a single revenue source will have little flexibility if that revenue source dries up. Further, an organization that has operated at a profit in the past can draw on these profits during times of financial difficulty, whereas an unprofitable organization cannot. Finally, organizations that can reduce administrative costs before program costs have flexibility because they do not need to directly imperil those services that actually generate revenues.

The Tuckman and Chang risk measures are designed to determine the degree of vulnerability each nonprofit faces compared to other nonprofits based on its metrics. An organization with one financial measure in the lowest quintile is determined to be “at risk,” and is determined to be severely at risk if all measures are in the lowest quintile. In this framework, having financial health means a nonprofit has measures that are not in the bottom quintile. Nonprofits found to be severely at risk using this approach tended to be small (measured by revenues), had few to no net assets (implying that over time, the organization never or infrequently ran operating surpluses), had high debt-to-asset ratios, and had low revenue-to-asset ratios.

Subsequent research that built on Tuckman and Chang's work found that the applicability of these metrics varied depending upon the type or subsector of the organizations being analyzed. Hager (2001) examined whether Tuckman and Chang's ratios could successfully predict closures among a population of nonprofit arts organizations. He found that the applicability of the

measures varied across the arts subsectors. Thus, while all the measures were applicable to theaters, different ratios were more or less useful in predicting successes and failures in other types of arts organizations. This suggests that the correlates of financial health may vary even among subgroups of arts organizations. Greenlee and Tuckman (2007) provide an extensive review of the literature for the broad nonprofit sector that has built on Tuckman and Chang's analysis and the measures they use to predict financial risk. As part of that review, they note that what is important is not the values of the predictors at any moment in time, but rather the *trends* of these predictors over time. Tuckman and Chang acknowledged that appropriate measures would differ across nonprofit subsectors (for example, arts versus health). Greenlee and Tuckman (2007) suggest that financial health be analyzed within nonprofit sectors to improve comparison groups. Hager's (2001) analysis and results are consistent with this approach.

The above is primarily an academic line of work. Another more practice-oriented body of work is the capitalization literature, which focuses on the accumulation and use of resources to achieve a nonprofit's mission over time (Nonprofit Finance Fund 2001). The capitalization literature, like the academic financial health literature, generally focuses broadly on the nonprofit sector rather than specifically on performing arts organizations. Resource accumulations are created by earning annual surpluses (revenues in excess of expenses) and from external infusions of capital (for example, capital campaigns). Organizations can use these not only for responding to revenue uncertainty, but also to allow the nonprofit to engage in risk taking (for example, by developing a new program or new facility). These resource accumulations include working capital, reserves, endowments, facility replacement funds, and debt capacity. Of note, capitalization implies that organizations need resources that are not restricted by donors or by purpose in order to allow managerial flexibility in responding to a changing environment.

By contrast with the first stream of work discussed above, the capitalization literature also addresses the financial goals of nonprofit organizations. Capitalization seeks to elevate nonprofit financial operations from settling for breakeven goals and from spending all resources on current services, which dissuades nonprofits from saving money for emergencies. This literature observes that fiscally weak nonprofits exist in a perpetual crisis mode that poses challenges to the efficiency and effectiveness of service delivery. Zietlow, Hankin, and Seidner (2007) found that a significant percentage of nonprofit CEOs surveyed had a financial goal of only breaking even. A more recent study (The Center on Philanthropy at Indiana

**Capitalization seeks to elevate nonprofit financial operations from settling for breakeven goals... which dissuades nonprofits from saving money for emergencies.**

University 2012, 22) found a lower percentage, but still finds that nearly a quarter of organizations surveyed state that breaking even is their primary goal, and just slightly more believe an annual surplus is the goal. The literature summarized here does not focus specifically on performing arts organizations, however.

With respect to arts organizations, Voss, Voss, Rose, and Baskin (2014) find that theater companies on average have insufficient liquidity (that is, are undercapitalized), which leads to financial problems. This finding is buttressed by the Nonprofit Finance Fund's (NFF) 2015 annual survey that found arts nonprofits in general are liquidity-starved in many cases. In particular, NFF found that over one-half the theater groups, 44 percent of performing arts presenters, 44 percent of multi-discipline groups, and nearly one-third of non-orchestra music groups report less than three months of cash reserves (NFF 2015, 19). In a study of Philadelphia nonprofit arts organizations, Nelson, Koo, Crump, and Woolworth

(2014) find that most organizations analyzed had weak business models and low unrestricted cash balances, yet strong financial literacy among executives. That is, the fiscal health problems discovered were not simply the results of managers not knowing what behaviors would lead to good or bad outcomes. Rather, managers in the arts were knowledgeable and yet

this had no correlation with financial health. Parenthetically, a higher percentage of performing arts organizations than museums were at risk.

A third line of research is found in the work of Bowman (2011), although it is not directed specifically at performing arts nonprofits. Bowman sees maintaining or expanding services as the primary long-term objective of nonprofits. He presents a framework for assessing financial health that considers nonprofits in relation to their financial capacity and financial sustainability over time, consistent with Hendrick's (2004) concept of financial health multidimensionality over time. In Bowman's approach, financial capacity refers to having the resources required to respond to unexpected challenges or opportunities, while sustainability is the ability to maintain this capacity over time. Bowman's (2011) framework includes three critical timeframes for organizations: 1) the current period—with a goal of maintaining or increasing cash for paying operating costs; 2) the short-term period—with a goal of solvency over the next several years; and 3) the long-term period—with a goal of maintaining or expanding services by the organization. He offers ratios that permit nonprofits to calculate their capacity and sustainability over the framework's various time periods. Bowman also presents a slightly modified framework for nonprofits with endowments. His framework offers specific measures

for calculating capacity and sustainability currently and over the short and long terms.

Bowman's analysis and the capitalization literature both have a shared focus on financial health as including the ability to achieve mission rather than simply responding to fiscal shocks, which is the primary focus of the fiscal health literature. Likewise, Bowman's (2011) framework considers nonprofit goals (which should include surplus profit accumulation as well as programmatic goals) so that organizations can survive and thrive over time.

## Current State of Nonprofit Performing Arts Fiscal Health

There is not a great deal of research about the current state of nonprofit performing arts organizations' fiscal health, and the existing information is somewhat fragmented. One challenge is that many reports do not distinguish performing arts organizations from the broader arts community, though a few sources do focus on subsets of performing arts organizations.

The nonprofit arts sector is populated primarily with small organizations. According to a recent NFF (2015) study, about 60 percent of arts nonprofits had annual operating budgets below \$1 million, and only 13 percent had budgets larger than \$5 million annually (NFF, 2015, 5). As noted earlier, Nelson, Koo, Crump, and Woolworth (2014) found undercapitalization in Philadelphia nonprofits in general. In a recent study, Keating and Pradhan (2012, 15) find that nearly 40 percent of Massachusetts' arts nonprofits were only breaking even or reporting a loss between 2003 and 2007—before the financial crisis of 2008 even began. By 2010, this had increased to more than 43 percent (Keating and Pradhan 2012, 19). The recession impacted arts organizations especially hard, with arts nonprofits seeing revenues drop more than other nonprofit sectors and more organizations closing than any other nonprofit sector (McKeever and Pettijohn 2014). The past ten years have taken a financial toll on arts organizations in general.

Specifically looking at symphony orchestras, Pompe and Tamburri (2016) document that these organizations have experienced declines in financial condition as well since the 1980s. While contributions and investment income have offset some of the decline, depressed ticket sales are one of the primary causes of poor financial condition.

Some studies point to some improvements in financial health. The NFF (2015) survey finds that while 37 percent of arts organizations reported an operating

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deficit in 2009, only 24 percent did in 2014 (NFF 2015, 17), although this still remains problematic.<sup>3</sup> Further, 51 percent of arts organizations reported a surplus in 2014, up from 32 percent in 2009 (NFF 2015, 17). These numbers do not address performing arts separately. However, many report that these surpluses are restricted as to purpose, limiting

their ability to serve as reserves. Further, many report that program funding fails to cover the full costs of running these programs, and arts nonprofits overwhelmingly report that funders are more interested in program expansion than helping support long-term needs such as building reserves or cash

**Arts nonprofits overwhelmingly report that funders are more interested in program expansion than helping support long-term needs such as building reserves or cash flow needs.**

flow needs. Two-thirds of theater organizations in a Theatre Communications Group survey of its members reported fiscal operations in 2014 that were on budget or better than planned (Rose 2014, 2).

Long-term financial sustainability is still the top challenge facing many arts organizations (40 percent). Opera America (2016/2017, 53, 48) reports ongoing operating deficits between 2011 and 2014 for organizations with \$3-15 million in annual revenues (but not for those with over \$15 million); further, smaller organizations also experienced deficits. All levels also report significant proportions of restricted net assets, which limits how organizations might respond to fiscal shocks. Hence, financial health still remains a challenge for the arts sector in general despite some improvements in reported operations. Flanagan (2012, 32) highlights that performance income has declined from nearly half of all symphony orchestra revenues in 1987 to only 37 percent by 2005, suggesting nonperformance income is increasingly crucial for their financial health.

The National Arts Index (NAI) notes that the arts sector in general tracks the national economy, but with a lag (Kushner and Cohen 2016). NAI, like NFF, finds some improvements in financial health in arts organizations in general since 2008. While 45 percent had an operating deficit in 2009, 42 percent still were operating in the red by 2013 (Kushner and Cohen 2016, 102). Major funding sources, such as foundation grants and state funds, are still below 2007 levels. Others, such as private contributions and local grants, are at, or close to, 2007 levels. In spite of revenue fluctuations and a tough market, capital investment has increased in real and nominal terms in the

arts, increasing from \$35 million in 2007 to \$43 million in 2013 (Kushner and Cohen 2016, 46). The number of employees is still significantly down since 2007—from more than 2.1 million to 1.7 million (Kushner and Cohen 2016, 35). NAI also notes that the number of nonprofit arts organizations has fallen from 113,000 registered corporations in 2010 to less than 95,000 in 2013 (Kushner and Cohen 2016, 43).

## Factors Contributing to Fiscal Problems in Performing Arts Organizations

One of the seminal works on the economics of performing arts organizations is Baumol and Bowen (1965; 1966) in which the authors theorize that the cost structure of performing arts services leads to economic problems. This work remains one of the most cited, studied, and applied theories that examines the long-term economic and financial problems that performing arts organizations face. Therefore, we begin by discussing their work and the literature that builds on it, and then turn to look at other literature on factors contributing to financial problems in the performing arts. From their work comes two overarching themes in the literature:

- Financial problems are virtually inherent to performing arts organizations because of the very way that they must operate, and
- Nonprofit performing arts organizations cannot generate enough earned income to cover their costs—even when ticket sales are strong.

**In their classic work, Baumol and Bowen argue that the performing arts suffer from a “cost disease” where costs increase at a faster rate than ticket prices.**

Baumol and Bowen argue that unlike many other industries, the performing arts suffer from what they term “cost disease”—where input costs (such as musicians’ salaries) increase at a faster rate than ticket prices.<sup>4</sup> At the same time, outputs (such as performances) require the same amount of these inputs and cannot be reduced over time. For example, a play requires the same number of actors as in the past; a symphony requires the same number of musicians as in the past; performances cannot be finished more quickly than in the past, etc. In other words, inputs per performance remain constant but the cost of the inputs (such as labor) increases, and it increases faster than ticket prices because of the lack of efficiency gains. The result is that the rate of increase of costs increases

3. The NFF report does not directly address how these deficits were reduced. However, 56 percent of respondents added or expanded programs, and more than half collaborated with other organizations to increase programs (22). Only 16 percent noted using a reserve during the last year (23).

4. Baumol and Bowen did not limit the cost disease notion to performing arts only. They also suggest that health care and higher education may similarly face such fiscal issues.

faster than earned revenues and this leads to a decline in profits (or even to growth in operating deficits in which costs exceed revenues) for the organization. As a result, performing arts organizations need to make up the gap between what they actually earn from patrons and what they need (for instance, through donations and grants) to effectively operate the organization.

Some literature confirms the existence of this cost disease, some does not, and some additional research also questions whether the hypothesized growth in the gap between earned income

**Some literature confirms the existence of this cost disease, some does not, and some additional research also questions whether the hypothesized growth in the gap between earned income and expenses as envisioned by the cost disease is inevitable.**

and expenses as envisioned by the cost disease is inevitable. Other literatures also discuss key components that cause the cost disease (changing price, inputs, etc.), and how performing arts organizations might address them.

Last and Wetzel (2011) find evidence of this cost disease in German public theaters, with increasing labor costs even with some efficiency

gains to offset these costs. Economic theory suggests that the “solution” to this problem is to freeze wages, which is a relative decline in costs because of inflationary effects; however, this course of action would eventually reduce the supply of performing artists and quality of the supply, potentially leading to the loss of the performing arts in general. Flanagan (2012) notes that wages have increased slower than inflation in the symphony subsector, and yet the cost disease does not seem tamed.

Rich (2012) contends that the cost disease explanation only explains the problems in performing arts if the size of the “gap” between earned income from performances and expenses kept expanding over time. Here, findings have been mixed. Brooks (2000) documents the growth of the income gap between revenues and expenses between 1985 and 1991. By contrast, in an analysis of U.S. Census bureau data McCarthy, Brooks, Lowell, and Zakaras (2001) find that the income gap does exist but that it has been fairly stable over time. Similarly, Heilbrun and Gray (2001) measure the “earnings gap” in several performing arts industries and find that earned income is relatively stable across several years. How one defines “earned income” in studying the earnings gap is critical. For example, Rich (2012) shows that earned income as a share of revenues for orchestras increased between 1964 and 2004, and this finding would be inconsistent with cost disease explanations; however, when earned income is limited to revenues earned from performances and excludes investment income generated by endowments, then the percentage of earned income has declined as a share of total income (which would support the cost disease). Rich

(2012), however, notes that earned income (however measured) as a share of total income has in fact declined for theater, dance, and opera organizations between 1964 and 2004. He further argues large and small entities are essentially immune from the disease or have learned to manage it successfully, and it is the medium-sized organizations at most risk. Baumol and Bowen’s cost disease conception, then, seems more nuanced than initially theorized—different performing arts organizations may be affected differently and even within artistic disciplines, different sized organizations are affected differently.

Brooks (2000) argues that the assumption that productivity growth is impossible in the performing arts as articulated by Baumol and Bowen (1965) is not entirely accurate. For example, he argues that output could grow through the use of electronic recordings of performances, or that input costs can be reduced through less practice time by hiring better artists or presenting less-demanding performances that sell more tickets. In fact, disruptions in the sector through technological innovation could create growth in certain organizations, but may reduce the supply of organizations overall—and this would be consistent with Baumol and Bowen (1965). Brooks (2000), however, finds little empirical evidence of performing arts organizations employing these strategies.

Relatedly, McCarthy, Brooks, Lowell, and Zakaras (2001) note that large performing arts nonprofits are increasingly adopting for-profit business models to increase earned revenues, merchandising, and use of celebrity performers. Small performing arts nonprofits, on the other hand, pursue niche market strategies in which targeted audiences are sought and experimental art is used more. However, both strategies used by small and large performing arts entities are unavailable to medium-sized nonprofits—leaving them financially at-risk and exposed to the cost disease. Flanagan (2012) emphasizes the need for contributed income (philanthropy, investment income, and government subsidies) to close the income gap from the cost disease.

Pompe and Tamburri (2016) note that the increased unionization of symphony performers since the 1960s has contributed to or exacerbated the cost disease because these agreements limit organizational flexibility to manage or alter input costs. They point out that union contracts limit the ability of symphony orchestras to use smaller ensembles and expand output while keeping input costs constant.

While the literature to this point has focused on the cost disease theory, whether it exists, and how it might be managed, there are other underlying issues as well that are associated with fiscal health. These include excess supply, governance problems, and capital investment.

**The “cost disease” may affect different performing arts organizations differently, depending on their size and artistic discipline.**

Pompe, Tamburri, and Munn (2013) note that musical performances tend to rely on pre-20<sup>th</sup> century composers. They observe that while this may be an effective short-term strategy, it may have negative long-term effects since greater innovation may be needed to interest younger audience members (that is, encourage increases in demand). The authors also find that increasing advertising does have a positive effect on attendance, but only up to a point. Pompe and Tamburri (2016) also note an excess number of symphony concerts exists that is not matched by audience demand. Further, the authors note that financial changes in the wider economy or the industry itself can affect revenues (e.g., a recession).

Relatedly, Pierce (2000) finds lower-risk (and lower-cost) operas are more frequently produced compared to higher-risk (and higher-cost) operas. These lower-risk operas are the standard performances later taken up by Pompe, Tamburri, and Munn (2013) and Pompe and Tamburri (2016).

Turbide, Laurin, Lapierre, and Morissette (2008) note that governance problems may lead to financial problems in performing arts organizations, highlighting the importance of organizational management in the financial health of nonprofit arts organizations. For example, a settlement house that includes the oldest African-American theater company lost its tax-exempt status in 2016 because the organization failed to file the proper tax forms to the IRS; major philanthropic funders, therefore, may suspend pledged grants (Malcolm 2016). Kushner and Poole (1996) link organizational effectiveness to financial health in performing arts organizations. The authors find that micromanagement leads to worse outcomes than distributed influence.

Woronkowicz (2016) finds that performing arts organizations that invest in facilities tend to see expenses grow but revenues remain flat. In this case, facilities investment may be viewed as a means to reduce other expenses (such as rental or occupancy expenses), increase quality, or increase demand (via improved physical spaces), yet the empirical results suggest that it only adds costs (interest, maintenance, etc.). Changes in quality are not measured in this analysis, however.

## Approaches to Improving Financial Health

While the prior section analyzed potential reasons for fiscal troubles in performing arts organizations, we now turn to what the literature says about how to improve financial operations and health. Much of the literature does not directly address this question. Even less common are discussions of how to improve financially weak organizations. Mainly, authors focus on specific aspects of financial health and how these relate to other organizational characteristics. Because audiences pay for performances, make contributions, and in some cases volunteer time to nonprofit arts organizations, understanding audience building implicitly relates to financial health and strategies for its improvement. Yet the literature offers little discussion of

the links between financial health and audience building. We review the relevant literature on these subjects below.

The larger academic literature is largely diagnostic—offering approaches to assess financial health rather than strategies for improving it. For instance, Tuckman and Chang (1991) and those building on their work focus on how to assess financial vulnerability, with the implication being that organizations should minimize that vulnerability (see above). Similarly, Bowman (2011) offers diagnostics aimed at assessing financial capacity (e.g., availability of assets that are in excess of liabilities) for ongoing service provision. Turning to the capitalization literature, they emphasize that “nonprofit organizations require adequate levels of capital to fulfill their goals, feasible strategies to access that capital, and control over how to spend it” (Nelson, Koo, Crump and Woolworth 2014, 1).

Kaiser (2008), drawing on case studies from his personal experience, does present views on what financially failing performing arts organizations should do to try to remedy their situations. He argues that cutting costs is not the path to financial health in most situations. Rather, when performing arts organizations reduce programmatic or strategic spending, their revenues tend to decline even more. Further, while cutting costs may be advisable, it is rarely sufficient for fiscal health. Instead, Kaiser proposes that to create sustainable organizations requires a focus on significant programming and positive visibility that highlights the importance of the organization. Indeed, Kaiser states “my mantra for running successful arts organizations is, *Good art, well marketed*. It is really as simple as that.” (2008, 4). He further contends there are a set of rules that can help financially failing arts organizations turn themselves around, such as implementing strong leadership, having a specific plan, evaluating and restructuring the board as needed, creating an aggressive marketing program, increased fundraising, and engaging in long-term artistic planning.

There is little literature relating audience building and financial health. Oliver Wyman (2009) addressed the link in the case of orchestras. The study finds that orchestras draw in new attendees to performances, but have difficulty retaining these new audience members. The result is that orchestras are unable to build and maintain the steady audience base required for fiscal stability. Another study by Oliver Wyman (2015) finds that season subscriptions, a traditional mainstay of orchestras, appeal considerably less to audiences today, and finds a decline in revenues from subscriptions. Still, the study proposes that today’s consumers are interested in modified forms of subscription packages that permit purchasers to customize their subscriptions (e.g., by offering different package sizes and allowing for greater choice of what is in them). As such, future fiscal health may rely upon determining how to reach

**The literature offers little discussion of the links between financial health and audience building.**



these potential repeat customers best through adapting the traditional subscription model.

A recent survey by the Nonprofit Finance Fund (2015, 12) asked participating arts organizations (it does not differentiate performing arts organizations) about the impact

of their top three audience development investments. While most reported growth in “some audience/visitor segments,” only 15% reported that their “surplus/deficit improved.” Twenty-seven percent reported that ticket revenue grew, but keep in mind that there may

**Whether revenue diversity reduces risk, however, is still an unsettled matter in the general nonprofit literature.**

be overlap between those reporting surplus improvement and increased ticket growth. As the Nonprofit Finance Fund notes, financial returns from audience development may take additional time to realize and not all audience development activities yield financial returns. The results from this survey illustrate that the link between audience development and improved financial health is yet to be determined, and requires further examination. Grisolia and Willis (2012), in a study of a theater in England, identify different audience segments of theater-goers (for example, with different preferences and attentiveness to reviews). These segments have different concerns about price. Hence, not just the number of audience members is relevant for financial health, but also an arts organization’s audience composition.

Audience building often seeks to create not just patrons, but donors as well. One of the more interesting questions to emerge is whether increasing revenue diversity actually leads to improvements in fiscal health. The basis for this prediction comes from portfolio theory, which advises individuals to diversify types of financial investments to minimize overall risk. Similarly, diversifying revenues is thought to reduce risk and improve the finances of organizations. One potential option, for example, is to expand into government grants; however, Kirchner, Markowski, and Ford (2007) find government support for performing arts organizations is actually associated with declines in financial health. On the other hand, Smith (2003) found that National Endowment for the Arts (NEA) grants drew in more donations, suggesting an improvement in fiscal health. Kim and Van Ryzin (2014) conducted an experiment and found that performing arts organizations that receive government grants see significant reductions of private donations, although the effect is much weaker for large arts organizations. Brooks (2003) finds that public funding increases the number of donors, but weakens the average size of the donation. Public money, then, may be an additional revenue source for performing arts organizations to pursue, but the current literature finds that obtaining such revenues might actually decrease others. Whether public money improves or worsens financial health for performing arts organizations is an unsettled question in the current literature.

A more efficient new revenue source, then, might be additional private dollars. Ensuring contributions from private donors to performing arts organizations in need of these subsidies is difficult, however, given the voluntary nature of these donations. Almost counter-intuitively, Charles and Kim (2016) find that arts and cultural organizations that attract larger audiences and visitors to their programs raise less in voluntary contributions. Donors may feel that audience building reduces the organizations’ financial vulnerability, making them less in need of such donations. Alternately, perhaps donors feel that these arts organizations are too commercialized and not as charitable (and deserving) as other organizations. Charles and Kim (2016) demonstrate that audience building may reduce one revenue stream (donations) while increasing another (program revenue). Kim (2017) shows that revenue diversity (reducing dependence on donations specifically) improves financial stability; however, Kim finds no relationship between improving financial stability and program attendance.

Whether revenue diversity reduces risk, however, is still an unsettled matter in the general nonprofit literature. Examining the nonprofit sector as a whole and not specifically performing arts organizations, Frumkin and Keating (2011) find revenue concentration is correlated with financial capacity and sustainability because revenue concentration reduces required administrative overhead and fundraising, which increases profitability. In other words, revenue concentration may actually increase profitability and financial health because nonprofits can reduce overhead spending and fundraising with no concurrent reduction in revenues.

Other literature, however, points to the merits of revenue diversity. Carroll and Stater (2009) find revenue diversity for the nonprofit sector as a whole leads to less revenue volatility. Yan, Denison, and Butler (2009) find that revenue diversification leads arts organizations to borrow more frequently, also suggesting that revenue diversity improves financial health (by serving as a signal that they are seen by lenders as more financially sound). Fundamentally, whether or not revenue diversity improves financial health as compared to revenue concentration remains an open question.

Additional work analyzes other organizational factors that relate to specific financial behavior that may improve the financial health of performing arts organizations. Hughes and Luksetich (2004) find that performing arts organizations tend to save as revenues increase, and these balances are then consumed over time on program

**Recent concerns about commercialization of nonprofit performing arts organizations (that is, an increased focus on fundraising and management spending rather than program services spending) may be overstated.**

spending. Hence, recent concerns about commercialization of nonprofit performing arts organizations (that is, an increased focus on fundraising and management spending rather than program services spending) may be overstated, and in fact might be an option for the improvement of financial health. In addition to increasing outputs (per-

formances), another option open to performing arts organizations is to increase prices for performances. However, economic theory suggests increasing prices might dampen demand. Pompe, Tamburri, and Munn (2013, 226) find that although price increases would result

are most relevant for performing arts organizations, and these might be very different from other nonprofits. Few if any studies have systematically analyzed the financial health of the performing arts nonprofit sector. Most of the relevant reports on fiscal trends and health come from trade organizations that examine only a limited area of the performing arts sector. As such, we really cannot ascertain whether certain performing arts subsectors' financial health is better than others; whether different or the same financial problems plague different performing arts subsectors; what trends in financial health between these performing arts subsectors reveal, if anything; or whether the financial challenges facing performing arts organizations are unique to this particular subsector or are common across nonprofit industries.

To date, we do not know which predictors are most relevant and important for analyzing the financial health of performing arts organizations. Should we focus on revenue diversity? Or should we increase financial flexibility by reducing input costs and adding to financial reserves? Should we borrow more or less? Should we direct funds towards buildings or endowments, or spend it currently?

We cannot answer these questions currently, nor can we provide meaningful advice to improve the fiscal health of struggling performing arts organizations, because these organizations have not been the focus of research necessary to determine what predicts a financially healthy firm in this subsector.

What is also clear is that the literature does not adequately explore how nonprofits in general or performing arts groups in particular can turn around financial vulnerability and become fiscally healthy. The sole exception is Kaiser (2008), through a series of case studies. The nonprofit fiscal health literature focuses on risks and demise of organizations, but leaves recovery relatively unexplored. It might be implied that the opposite factors that lead to vulnerability and bankruptcy are the steps to take towards financial health. But this is an empirical question that is left relatively unanswered at this point.

Just as the effects of revenue diversity are not known with certainty in the nonprofit literature, the same is true for performing arts organizations. Do more revenues reduce risk? Or does it stretch management thin and increase transaction costs to the point of making the organization worse off?

The theory of Baumol and Bowen's cost disease still remains relevant if not entirely proven for analyzing the financial performance and health of the performing arts sector. The current literature finds mixed results for its existence in particular contexts. Despite not being categorically proven or disproven, cost disease remains a power-

**We do not know which predictors are most relevant and important for analyzing the financial health of performing arts organizations.**

in more ticket revenue, they would also result in fewer audience participants, which they expect to lead to lower donations and ultimately in a decrease in revenue over time. Interestingly, they find the causes of operating deficits are declines in contributions during slower economic times, not increasing ticket prices. They document that some performing arts organizations have increased the use of different price levels for different tickets to maintain or increase audience attendance while also increasing revenues. Owen and Shibli (1998), however, find that contemporary dance audience members are segmented and these different types of audience participants respond to changes in prices differently. In this sample, only one-quarter of audience members were willing to pay more for their tickets, which is significantly lower than other art forms, such as plays (touring or repertoire), opera, or ballet. Therefore, how audiences react to price changes is likely dependent upon the product or market demand, as well as on the segment of the audience surveyed.

## Looking Forward: Unanswered Questions and Gaps in the Current Literature

We have reviewed the literature to determine what it tells us about measuring and pursuing financial health in the nonprofit performing arts. We now identify areas that we see as gaps and issues in need of future research and discuss some observations about the current state of the literature.

The fiscal health frameworks focus broadly on the nonprofit sector. The literature also finds differences in fiscal health between nonprofit subsectors. Fiscal health indicators from the broader nonprofit literature might be relevant and appropriate, but should be carefully considered given the unique characteristics of performing arts organizations. More specifically, organizations must pay attention to which measures of financial health

**The literature does not adequately explore how nonprofits in general or performing arts groups in particular can turn around financial vulnerability and become fiscally healthy.**

ful and common explanation for the long-term financial health problems in the performing arts sector.

Cost disease and much of the subsequent literature focuses only on the direct costs of programs for perform-

**Cost disease remains a powerful and common explanation for the long-term financial health problems in the performing arts sector.**

ing arts (inputs per performance such as musicians' compensation, for example), and, by extension, setting prices based on these direct costs. The concept of indirect costs is not discussed at all in the literature, nor is how indirect costs might relate to

prices. Yet a performing arts organization must devote resources to indirect costs such as fundraising, marketing, accounting, and general management. These costs must be supported by revenues earned through performances or contributions. Even if a performing arts nonprofit were able to set prices to equal program costs, the nonprofit

would operate at a deficit and have fiscal health problems because it would not cover its full costs due to indirect costs. Interestingly, the favored solution to these financial problems seems to be increased public and private subsidies—which require fundraising and finance functions that are accounted for separately from programs. As mentioned already, revenue diversification itself is an unsettled issue for improving performing arts organizations' financial health as well.

Further, the issue of nonprofits adequately recouping overhead costs is currently a key issue identified in promoting the financial health of nonprofit organizations in general (see, for example, Knowlton 2016), and seems appropriate for nonprofit performing arts companies in particular. NFF (2015, 29) identifies this issue of funding the full cost of programs as an important issue for arts nonprofits; because over half of funders never or rarely cover the full cost, nonprofits must find revenues elsewhere or consume reserves to maintain operations. Understanding how overhead costs are used and financed by performing arts organizations and the implications on financial health is useful for the entire nonprofit sector facing similar concerns.

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