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Arts Management serves students at both the undergraduate and graduate levels in the Introduction to Arts Management course. The text combines both theory and practical approaches, and addresses major issues including incorporating new technology and research into management programs; new information on fundraising by using programs like Kickstarter; effectively using “futuring” exercises in organizational planning; and addressing issues of diversity and inclusion. Case studies on the COVID-19 pandemic, Black Lives Matter, and their effect on practices of arts management are new to the Second Edition.

ABOUT THE AUTHOR

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ARTS

MANAGEMENT

SECOND
EDITION

OXFORD

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UNITING ARTS AND AUDIENCES IN THE 21ST CENTURY

ELLEN ROSEWALL

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in the 21st Century*

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ELLEN ROSEWALL

Professor Emerita

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SECOND EDITION

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DEDICATION

Make good art.

I'm serious. Leg crushed and then eaten by mutated boa constrictor? Make good art. IRS on your trail? Make good art. Cat exploded? Make good art. Somebody on the Internet thinks what you do is stupid or evil or it's all been done before? Make good art.

Make it on the good days too.

—Author Neil Gaiman, in a commencement address to graduates of the University of the Arts, Philadelphia, May 17, 2012

This book is dedicated to those who make good art, on good days and bad days, and to those who, on good days and bad, work hard to share art with as many people as they can.

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Introduction

In the introduction to the first edition, I made a comment that writers never know if their work will be outdated as soon as it is published. That has never been truer than in 2020.

As of this writing, it's not possible to know how the COVID-19 pandemic or the protests against police brutality will permanently affect the arts. I'm grateful to my editors at Oxford University Press, Olivia Clark and Justin Hoffman, for allowing me some extra time to incorporate these issues into the book. I am also grateful to Brea Heidelberg for going through the revised manuscript and making suggestions for how my language and examples could avoid inherent racism, elitism, and exclusion.

I also appreciate the feedback from the following reviewers, whose thoughts and comments helped inform this new edition: Richard Andrews (University of California, Berkeley), Jeremy Fiebig (Fayetteville State University), Kimberly K. Harding (Florida A&M University), Elise Kieffer (Florida State University), William Craig Krause (Hollins University), David Tanner (Albright College), John Wagoner (Bossier Parish Community College), and three anonymous reviewers.

In the first edition we discussed how social media and digital technology are affecting consumer habits from shopping to entertainment choices. But the pandemic, which closed all arts venues, forced us all to think creatively about how we might keep audiences engaged and keep revenue flowing until we were able to reopen. The result has been, in my opinion, exciting. In the past several months I have personally had opportunities to virtually tour a variety of gallery and museum exhibits; “walk” through museums and heritage sites around the world; attend lectures and webinars; watch concerts filmed by artists in their homes (or empty venues); and learn about the work of dozens of artists via popup Facebook groups like Cabin Fever Creative Community and Pandemic Poetry. I've seen venues adopt programs like “The Show Must Go On . . . line,” scheduling

conversations and informal concerts with the performers who would have been live on their stages.

One of the most amazing developments is that pandemic programming allowed people to participate in ways that would not have been possible if we had to physically travel to the venues. On June 20, English Heritage livestreamed the Summer Solstice sunset at Stonehenge for the first time ever. Even through a cloudy evening, the magic of the event shone through, and it was enhanced by chat posts from people watching all over the globe and wishing healing for the earth and its people. I might not have had the time to travel 150 miles to see the indigo-dyed quilt exhibit at the Wisconsin Museum of Quilts and Fiber Arts, but I sure enjoyed the lunchtime curator tour. I would not have been able to afford the cost of a trip to New York and a ticket to Stephen Sondheim's birthday celebration, but I was able to enjoy it from the comfort of my couch. One of the benefits of online programming is that it eliminates barriers of time, transportation, cost, and accessibility. I'm really looking forward to seeing how arts organizations continue to explore the possibilities.

At the same time, losing the revenue from live visits and performances has been devastating for many arts and cultural organizations. Large institutions like the Lyric Opera of Chicago and Los Angeles Philharmonic have had to dip into endowments to stay afloat. Many smaller organizations have not survived. Artists have been among the hardest hit by the pandemic, as their performing, exhibit, and sales opportunities have cratered. Even when venues reopen, they will need to operate at reduced capacity to ensure safety. You don't need to be an economist to know that a 25 percent capacity won't pay the bills for a Broadway show, much less a community theater. Arts organizations are also facing the reality that the innovative programming that has reached new audiences will also require developing revenue streams from activities that consumers have grown used to receiving for free. There are many reasons that arts organizations have started to strain at the seams of the traditional not-for-profit system, so perhaps this is an opportunity, again, to think creatively and develop new avenues for funding and delivering the arts.

The protests that followed the killing of George Floyd in Minneapolis also are rippling through society in ways that (I hope) will result in permanent changes. I have rejoiced to see people using art to memorialize Mr. Floyd and other victims of police brutality. I have also rejoiced that many are taking this opportunity to dive more deeply into the systemic racism and other forms of discrimination that are inherent in our society. As I worked on this edition, it was really hard to avoid the unpleasant truth that much of my writing assumed an arts culture that overwhelmingly caters to upper-class White audiences and uses upper-class White people as primary decision makers. In fact, much of what we consider the traditional "high" arts are in reality carried forth from entertainments that emerged from the European nobility. We've assumed that new audiences need to be educated in order to fully appreciate these art forms, when the reality is that they are not inherently better, but they remain unfamiliar and inaccessible to many because they simply don't resonate with their preferences or life experiences.

I have made a number of changes in this edition that I hope will reflect language that is more inclusive and respectful than before, and have included some new case studies representing some of the responses to the COVID pandemic and our need to look at arts management with different eyes. Still, it's hard to ignore the fact that much of our common practice is irrevocably tied to structures and methods that are rooted in assumptions that will need to change in order for the arts to truly reflect the creative expressions of all of our citizens. I'm looking forward to being a part of this conversation.

Now for a couple of more mundane issues. One of the criticisms I received for the first edition was that the material was repetitive. I admit this is true, but it is intentional. I know that many readers will not read every word of the book, and so if an issue I felt important touched more than one subject area, I repeated it to make sure it wasn't overlooked (I hope this is what my critic meant ... I do have a reputation from my students for telling my stories over and over because I can't remember which class has already heard them).

A propos to this, I discussed in an endnote my decision to use the spelling "theater" instead of "theatre" in this edition. I know feelings are strong about this, but opinions, even among professionals, differ. The discrepancy dates from when Noah Webster pushed in the 1820s to create an American language by changing common British spellings. We also lost the "u" in "honour" and "colour," changed "centre" to "center" and "grey" to "gray." At the time, the American stage was still dominated by British actors and directors who clung to the spelling "theatre" to emphasize that it was a high-class art. Some today differentiate the use of "theatre" for the art form and "theater" for the building (or vice versa). Because there is no clear consensus, I am choosing to use "theater" as a way to affirm our American theatrical heritage and eliminate the perceived elitism of the British spelling.

Since the first edition was published in 2013, so many of you have approached me with generous compliments about the book. I am eternally grateful for your support. I have had countless encounters with teachers, students, and practitioners who have found the book useful and have shared thoughts about how to make it stronger. I thank my students, first at University of Wisconsin-Green Bay and more recently at Le Moyne College and the University of Kentucky, who have found errors, questioned conclusions, and shared incredible ideas. Our future is bright. I also thank Tamasine Anne Frost, who sent me her marked-up copy with typos that I still can't believe got through me, my assistant, and an army of editors. Thanks to the reviewers of the proposal for the second edition, who had great suggestions for improvement, many of which I was able to incorporate. Thanks to Travis Newton, Rachel Shane, Andrew Taylor, Ximena Varela, Susan Badger Booth, Jim O'Connell, Patrick Kelsey, Woong Jo Chang, and so many other arts administration faculty who championed this book, used it with their students, and in so many ways made me feel worthwhile. These and other dear friends in the Association of Arts Administration Educators have been some of the most valuable of my life.

In February, I listened as former National Endowment for the Arts chair Jane Chu told an audience of arts administration students that they were entering the

field at just the right time, and that their excitement and creativity is just what the arts needs right now. This was B.C. (Before COVID), but I still believe her words are apt. We are living through a time when many of the ideas and assumptions we've internalized for years are going to be upended. I'm an optimist. I look forward to that.

Ellen Rosewall

July 2020

CHAPTER 1



What Is Arts Management?

Go into the arts. I'm not kidding. The arts are not a way to make a living. They are a very human way of making life more bearable. Practicing an art, no matter how well or badly, is a way to make your soul grow, for heaven's sake. Sing in the shower. Dance to the radio. Tell stories. Write a poem to a friend, even a lousy poem. Do it as well as you possibly can. You will get an enormous reward. You will have created something.

—KURT VONNEGUT, *A MAN WITHOUT A COUNTRY*, 2007

With all due respect to Mr. Vonnegut, this book is dedicated to the idea that the arts are a wonderful way to make both a life *and* a living. Many others think so too; in fact, the amount of arts activity in the United States has exploded over the past 40 years. According to the 2016 National Arts Index, in 2013 there were 2.21 million artists in the U.S. workforce, 766,000 self-employed artists, 95,000 nonprofit arts organizations, and 656,000 arts businesses, as well as millions of consumers, who spent \$151 billion on the arts.¹ This does not include arts activity that is facilitated by non-arts groups such as government agencies, economic development organizations, and educational institutions.

The arts are an important part of our lives—nearly everyone we meet in a day will come into contact with the arts in some form. People may choose to listen to music while working out, attend a gallery opening after work, take their children to music lessons, or choose a print for their home at an art fair. They may attend concerts, clubs, plays, museums, or festivals. They may describe themselves as “into” the arts, or they may not identify themselves as arts participants. But participate they do . . . in record numbers.

All of this arts activity needs to be organized, which is where arts managers come in. With the growth in arts activity, there has come a need for specialized information on how to manage the arts industry.

After finishing this chapter, you should be able to:

- Describe the role of the arts in individual and community life
- Discuss the way the arts have been managed throughout history and how that affects arts management today
- Understand the need for management techniques that are specific to the arts industry

DEFINING THE ARTS

The arts are generally defined as a set of activities involving human creativity, divided into various disciplines such as visual arts, music, literature, and dance. When people talk about “the arts,” they are most often talking about what we might define as the “fine” or “high” arts: symphonic music, serious drama, concert dance, and museum-worthy visual art, as opposed to mass-produced and widely distributed products such as movies, recorded music, and television, which are more often classified as entertainment.² The line between arts and entertainment has traditionally looked something like the chart below.

ARTS	ENTERTAINMENT
Produced individually or on small scale	Mass-produced and widely distributed
Produced by artists trained in a traditional manner, primarily in university arts programs	Produced by artists and artisans from a variety of backgrounds, including self-taught and apprenticed
Seen live in traditional venues such as concert halls and museums	Live participation can include more casual venues such as bars, nightclubs, outdoor festivals, and movie houses
Artistic merit has priority over popularity	Popularity has priority over artistic merit
Organized as not-for-profit organizations	Organized as for-profit businesses

Today, however, the traditional lines between fine arts and entertainment have blurred to the point that they are barely recognizable. We’ll discuss the factors behind these changes throughout this book. Some of them include:

- An entrepreneurial movement that encourages individual artists and organizations to think outside the traditional methods of program development and delivery
- The relaxation of traditional rules for “qualification” due to the ready availability of information about the arts and artists
- Accessible delivery methods and fluid pricing that allows a broader spectrum of society to participate in the arts
- Increased visibility of the voices of traditionally marginalized and **underserved** communities
- Social and digital media, which allow for mass distribution of even the most obscure art
- Online and nontraditional education, which allows artists to explore their media even if they cannot attend a traditional art, music, or theater degree program
- Organizational structures that transcend the for-profit/non-for-profit divide

The **National Endowment for the Arts** (NEA) has tracked American participation in the arts every five years since 1982. These results are published in the NEA's Survey of Public Participation in the Arts (SPPA).³ In the early years of the SPPA, the survey primarily tracked live attendance at benchmark activities such as classical music concerts, jazz, opera, plays, ballet, and visits to museums and galleries. Not surprisingly, considering the limited scope of activities, participation in benchmark activities has traditionally stayed under 40 percent of the American public, only reaching 41 percent in 1992.⁴

In recent years, however, the NEA has expanded the scope of its research, acknowledging the changing nature of arts participation in America. In 2011 the NEA took a fresh look at the 2008 SPPA data in light of changing patterns of arts participation. The resulting report, *Beyond Attendance*, acknowledged that art forms are changing to reflect the use of technology, infusion of diverse cultural traditions, and a less rigid division among artistic disciplines. In addition, arts participation has moved out of arts-specific venues like concert halls and museums and into bookstores, community centers, homes, and city streets. According to the report, "Arts participation can be understood as occurring in multiple modes, sometimes overlapping; arts attendance, personal creation and performance, and participation in the arts through electronic media."⁵ When the criteria for participation were expanded beyond attendance to include creating art and accessing the arts via the Internet or electronic media, the data already collected for the 2008 study showed that close to 75 percent of American adults participate in one way or another. The 2017 study, released in January 2020, continued the *Beyond Attendance* model, dividing the survey into several broad categories: attending arts and cultural events; personally performing or creating art; reading books and literature; and consuming art through electronic media. The results were encouraging: between 53 and 54 percent participated via the first three categories, with a whopping 74 percent consuming art via electronic media.

As this edition is being written in early 2020, America is experiencing a public health crisis that has the potential of reshaping the artistic landscape as dramatically as did the rise of technologies like radio, film, and television did in the twentieth century. Already we are seeing artists and arts organizations find creative ways to deliver content to audiences, including livestreaming of concerts and plays, virtual museum tours, online educational activities for children and adults, and a host of opportunities for personal artistic creation.

In this book, we are going to use the concept of "the arts" in its broadest possible sense. As the *Beyond Attendance* study and subsequent audience participation research has noted, technology, particularly the Internet and social media, has democratized the arts to the point of effectively eliminating the division between the fine arts and entertainment. This does not mean, however, that anyone is advocating for a lower standard of quality in the arts. Instead, the conversation needs to be shifted a bit. Instead of centering the discussion on the difference between arts and entertainment, we can now concentrate on defining and promoting artistic quality—wherever it may be found.

DEFINING CULTURE

The word *culture* comes from the Latin *cultura*, meaning cultivation.⁶ The term is used in two basic ways: (1) to define the habits, norms, and accumulated knowledge of a group of people and (2) to imply the growth or improvement of something. Both these concepts are used in conjunction with the arts.

The concept of culture as the growth of individuals and society has its roots in the scientific usage of the concept of culture as cultivation, as in horticulture (the growth of plant life) or agriculture (cultivation of animals and crops). As plants, animals, and bacteria can be cultivated and improved, so can the human brain. Education is related to this concept of culture, and so are the arts. Since the nineteenth century, the arts have been considered to be such an important part of the development of a “cultured” human being that the words “arts” and “culture” are sometimes used interchangeably.

The other concept of culture also has important meaning for the arts. The norms of a group of people are communicated and passed down to succeeding generations through creative expression, and so we can also refer to the collection of songs, dances, writing, and visual art that is unique to a group of people as part of their culture. In this sense, though, culture has a somewhat broader meaning than simply artistic expression. Culture may also include costume, habits, traditions, history, and even food, all of which also inform and affect creative expression.

Many in the arts industry include both meanings of “culture” within the circle of the arts, and we increasingly hear the term “arts and culture” when people refer to creative activity. This trend not only acknowledges the cultivation aspect of culture and the idea that the arts are an important part of what makes us human, but it also reflects an awareness that we live in a world with a rich diversity of different cultures and traditions whose creative expression is worthy of communication. Some in the industry, however, are wary of the use of *culture* in the sense of improvement of a human being, as it implies that some people are “cultured” and some are not, and that “culture” is a privilege reserved for people who are educated enough to understand it (or wealthy enough to access it). In its common usage now, the word is understood to include the social norms and traditions of socioeconomic, social, gender, and interest-based groups.

DEFINING ARTS MANAGEMENT

We use **arts management** in this book to mean the management and organization of arts and cultural organizations of all kinds. The terms “arts administration” and “cultural management” are also commonly used to mean essentially the same thing. Arts management can apply to both the not-for-profit and for-profit arts, although it is more commonly used within the not-for-profit arts.

Within the field, several important subcategories are developing, including the following:

- **Cultural policy:** the study and practice of legal, legislative, and public policy issues related to the arts and culture

- **Arts advocacy:** the attempt to change public and political conditions surrounding arts and culture
- **Arts entrepreneurship:** the encouragement of the growth of arts small businesses, the careers of individual artists, and innovation in existing businesses
- **Artist management:** the management of careers and promotion of individual performing, visual, and literary artists
- **Cultural planning:** the practice of working within communities to coordinate the growth and maintenance of arts and culture
- **Public art:** the management and maintenance of art in the public realm, including (but not limited to) art supported by tax dollars
- **Creative placemaking:** the intentional use of arts and culture to beautify, engage, and create change in communities
- **Entertainment/media management:** the concentration on for-profit arts activities such as music and film promotion and distribution, touring productions, broadcast media (radio and television), and new media
- **Community arts:** the practice of engaging communities in culturally democratic, community-specific, and socially active arts and culture
- **Discipline-specific management:** including museum management, performing arts management, and festival management

Management of arts and cultural organizations generally includes such functions as marketing, fundraising, budgeting and financial management, board relations, management of staff and volunteers, program planning and evaluation, and education—all of which are discussed in this book. In a small not-for-profit organization, one arts manager may be expected to work directly in several of these areas; in larger organizations, it is more likely to see these areas split into separate departments with specialized staff.

Case 1-1

Case Study: New Orleans

The city of New Orleans, Louisiana, is an interesting case study of how community and culture are intertwined. The culture of New Orleans has always been diverse and unique, given its location at the mouth of the Mississippi River, with its strategic port that has served everything from the slave trade to the fur trade to commercial fishing and oil tankers. The interaction of Europeans, enslaved Africans, Acadian ("Cajun") settlers, and indigenous people over the years led to a rich mixture of traditions, including the birth of jazz and blues, several distinct culinary styles, and of course the world-famous Mardi Gras festival.

When Hurricane Katrina hit New Orleans and the Gulf Coast in 2005, a big part of the discussion of restoring New Orleans had to do with its culture. How do you restore a culture that has grown up in a community? Do you replace what is lost, or do you allow new traditions to emerge? And what about the practicalities of

(continued)



Figure 1-1 Photo courtesy New Orleans Habitat for Humanity.

SOURCE: © New Orleans Habitat Musicians' Village, Inc. Photographer: Ruth Stefanides.

cultural activity? Restoring the jazz scene in the French Quarter, to use just one example, meant not only cleaning and restoring bars and nightclubs but trying to find musicians who were scattered by the storm, replacing lost or damaged instruments and sound equipment, and even persuading residents who had relocated to come back. It also meant taking a hard look at systemic inequities that existed even among artists who were considered essential to the city's culture and image.

One of the most successful examples of the restoration and preservation of New Orleans culture following Katrina can be found in the New Orleans Musicians' Village, part of the New Orleans Area Habitat for Humanity. The brainchild of New Orleans residents Harry Connick Jr. and Ellis Marsalis, Musicians' Village has as its twin goals the establishment of a community for musicians and others displaced by the storm (particularly those who had inadequate housing prior to Katrina) and the provision of resources to preserve and encourage the unique musical traditions of the area. Musicians' Village offers low-cost housing, a toddler park, and elder-friendly units. The Ellis Marsalis Center for Music, which opened in 2010, makes available lessons, rehearsal space, and performance space for students and professional musicians.

In August, 2020, the New Orleans area was hit by Hurricane Laura. This time, recovery from the hurricane is taking place at the same time as the COVID-19 pandemic, with most cultural activity curtailed or significantly changed. As the city emerges from this double devastation, it will be interesting to see how the recovery relates to post-Katrina activities. What needed to be rebuilt? What have they done differently?

ORGANIZING THE ARTS THROUGH HISTORY

Where there are humans, there is art. This has always been so; indeed, some scholars feel as though the urge to create art is one of the things that defines us as human. Because art and culture have functioned differently in different societies, however, the

role of the arts manager has changed. The modern field of arts management, encompassing the variety of tasks listed earlier and charged with bringing arts and audiences together, has arisen relatively recently. Although the modern field of arts management looks very different from related practices in ancient Greece or medieval Europe, there are remnants of many different systems in arts management today.

Arts and cultural management are affected significantly by political and economic systems, which is why it's also important to note that the American system for supporting arts and culture is different from other systems around the world. This system is affected by our tax structure, which defines the different types of businesses that deliver the arts, as well as incentives for arts support.

From the beginning of human history, the arts have held a place of importance in society. In many **indigenous** societies, **artisans** are the keepers of tradition and custom and thus hold an exalted position within the tribe. Sometimes, as we shall see, the impetus for creating art and presenting it to the public begins with an artist, in the attempt to gain visibility for works of art. Other times, art is facilitated by a community in the attempt to provide communal experiences, beautify the community, or create a better quality of life for citizens.

The arts have been organized by a variety of institutions and organizations throughout history, including governments, religious institutions, wealthy individuals, artists themselves, and art institutions.

The Government

Ever since humans have been gathering in communities, the governments of cities, regions, states, and nations have been involved in organizing arts activities. The city-states of Greece organized play festivals, administered by city magistrates and supported by the citizens of the community. City magistrates in Rome were also responsible for organizing the Roman play festivals, and for displaying treasures brought home from military campaigns.

Although the arts continued to flourish in the courts of rulers and the nobility throughout the Renaissance, the concept of state sponsorship of arts institutions in Western culture began in 1767 with the creation of a German state theater.⁷ Government-run museums, theaters, opera companies, and symphonies have been common in Europe since the nineteenth century. In America, this concept has continued, both at the federal level with the Smithsonian Institution, and at the state and local level with county museums, state historical societies, and city-owned performing arts facilities.

Religious Institutions

The role of religious institutions in collecting, preserving, displaying, and commissioning art is vast and multilayered. Artistic objects have always enhanced worship and the spiritual experience in most of the world's religions and cultural traditions.

Because the arts use symbolism and creation to express what sometimes seems inexpressible, the link between spirituality and the arts has been a part of human existence for many thousands of years. Artifacts from religious rituals have been preserved from nearly every culture and time period. These range



Figure 1-2 The Smithsonian Institution is one of the public museums supported by the federal government.

SOURCE: © jiawangkun.

from iconic images to sculpture to items used in religious ceremonies, as well as sacred texts.

Religious institutions have also been influential in the development of architecture, music, and theater. For example, in the Middle Ages in Europe, Catholic churches (and eventually cathedrals in Romanesque and Gothic style) were built in gradually growing towns and urban areas. Morality plays and allegories were organized by the church during the Middle Ages for the education of the populace. Well into the nineteenth century, the Catholic Church was one of the most influential commissioners of choral and instrumental music. Starting in the 1930s, Black gospel music, which had its roots in the merging of African musical forms with Western Christianity, became a strong influence on American blues, jazz, and popular music as it moved from southern black churches into northern urban areas.⁸

Wealthy Citizens

The need to seek patronage for the arts is not unique to today's culture. Throughout history, we see the artistic activity made possible by wealthy citizens and nobility—some just amassing private collections and others using wealth to improve their communities. Even if we look only at Western culture, we can find examples from the Medici family in Renaissance Italy to Emperor Joseph II of Austria, who was Mozart's patron, to Andrew Carnegie in nineteenth-century America, who used wealth from the steel industry to establish a series of free libraries across the country.

The Artists Themselves

The concept of the artist who has a creative idea and works to compile whatever forces are necessary to present his or her art to the public is as old as ancient Greece and as contemporary as the modern-day jazz musician who puts together a band and seeks a place to perform. Until the nineteenth century, however, there was no such thing as a market-driven artist.

Prior to the Romantic period, most artists, musicians, and playwrights were under the patronage of nobility, the state, or the church. Our stereotype of the “starving artist” had its roots in the Romantic period, when it began to be much more common for artists to create art first and seek venues later.

The advent in twentieth-century America of the not-for-profit system and incentives for creation of new businesses has led to a proliferation of self-employed artists (and musicians and theatrical professionals), touring performers, and arts organizations.

Arts Institutions

The first independent symphony orchestra in America was the New York Philharmonic, established with the support of wealthy patrons in 1842.⁹ The Metropolitan Opera Company was founded in 1883, and other growing American cities began to establish their own independent museums, symphonies, opera companies, and theaters late in the nineteenth century and through the twentieth.



Figure 1-3 Avery Fisher Hall at Lincoln Center, New York, home of the New York Philharmonic, one of America's first independent arts institutions.

When the income tax system was initiated in America in 1913, Congress also established a system to allow some businesses that provide services for the common good to remain exempt from paying federal income tax. Allowance for a deduction for contributions to charitable organizations was established in 1917.¹⁰ Arts organizations in America have traditionally been granted not-for-profit charitable status, which has allowed such organizations to flourish without being beholden to government or religious sponsors.

THE ARTS IN AMERICA

I must study politics and war that my sons may have liberty to study mathematics and philosophy. My sons ought to study mathematics and philosophy, geography, natural history, naval architecture, navigation, commerce and agriculture in order to give their children a right to study painting, poetry, music, architecture, statuary, tapestry and porcelain.

—President John Adams, in a letter to his wife

America has always had a love–hate relationship with the arts. In the early days of the United States, many (including Thomas Jefferson and John Adams) felt as though establishing the arts as a priority would provide a powerful legitimacy for the new country. Others condemned the arts as being representative of the wealthy, decadent societies they had come to America to avoid; they feared that governmental control of the arts would inhibit individual creativity and innovation and perhaps even lead to censorship and state control of artists.

Because of this duality, there has never been an overarching, cabinet-level agency in the United States dealing with arts and culture. As support systems for the arts developed, they have been designed according to American practices of distrust of government interference, support for the individual, and desire for local control. Through policies at the federal, state, and local level, direct government involvement in the arts has been minimal. Instead, the government has preferred to provide incentives for the creation of new business, and federal funds are often passed to local and state governments to be distributed.

As early as 1827, a formal system of federal support for the arts was proposed by John Trumbull (to President John Adams).¹¹ It wasn't until 1965, however, that the National Endowment for the Arts was formed to provide direct funding for arts organizations around the country.¹²

Today, the arts in America rely on support from a variety of sources, including the government, individual and institutional patrons, and partnerships with other community organizations, religious institutions, and schools. As we shall see, they are sometimes managed by trained professional staff, sometimes with volunteers, and many times with a combination of the two. Not-for-profit organizations are governed by volunteer boards of directors in a checks-and-balances system that provides not only support but also protection for the artistic mission of the organization.

THE ARTS IN CONTEMPORARY SOCIETY

Despite the extraordinary growth of arts activity, their popular involvement and domestic and international esteem, it appears that most Americans view the arts as marginal activities. As a consequence, educators and lawmakers often fail to recognize the embeddedness of the arts in American life—their economic value and symbolic importance, and benefits for individual communities and personal well-being.

—Joni M. Cherbo, in *The Public Life of the Arts in America*,
Cherbo and Wyszomirski, eds., 2000

For at least twenty years, the arts industry has been battered by round after round of cuts to governmental arts funding and arts education programs in schools. The rationale often given is that limited funds must be directed to “more important” programs, like math or science, or that cuts won’t matter because fewer people are affected by the arts than other activities in society.

In a society that often judges the worth of things by their monetary value, the arts sometimes have an uphill battle. Those whose lives have been deeply affected by the arts often have difficulty explaining their feelings to legislators or school board members who are charged with using limited resources in the way they feel will help the most citizens. It is possible to value the arts in both tangible and intangible ways. In recent years, the arts industry has developed statistics that prove the worth of the arts to the economy, tourism, health, and the mitigation of social problems as well as the value of arts to individual lives. We’ll discuss these benefits throughout the book. It’s important for every arts manager to understand how arts and culture are viewed, and to be able to develop persuasive arguments for support.

We are living in a time of great transition for arts and culture. Shifting patterns of governmental support, reductions in funding for arts education in schools, and the marginalization of the arts as described in the quotation that begins this section combine with a great democratization of arts and culture brought about by the massive increase in numbers of arts organizations and distribution of arts and culture via film, television, recordings, and the Internet. Audience participation in the arts today is very different from the practices of fifty years ago. Today’s arts managers not only need to learn the traditional skills of grant writing and program management but also need to understand how diverse audiences are accessing the arts and how to negotiate new technologies for both delivery of the arts and marketing.

What will the twenty-first century bring for arts and culture? The only thing certain is change.

IN CONCLUSION

The twenty-first-century world of arts and culture is a world of both challenge and opportunity. We are challenged to shape society and encourage the growth of high-quality art in an environment of competing entertainment enterprises, an

often indifferent public, and budget cuts to government programs and school arts activities. We have an opportunity to take the enormous cultural forces and technologies that are reshaping the world as we know it, and to use them to share art with the world.

DISCUSSION QUESTIONS

1. How would you respond to these views:
 - “In times of economic hardship, there are more important things to worry about than the arts.”
 - “We need to cut back on the arts in schools and concentrate on math and science so our children will be competitive in the world.”
 - “It’s more important to spend money on feeding the hungry and housing the homeless than it is to support the arts.”
 - “The arts shouldn’t be propped up with tax dollars; they should succeed or fail in the marketplace like any other business.”

After you have finished this book, come back and try these questions again!

2. John Adams’s quote implies that he considered the presence of the arts a sign that America had reached the status of a civilized country. What is your assessment?
3. How would you define “art” and “culture”? What characteristics do they share? Where do they differ?
4. How many of the forms of support for the arts that have been present throughout history still exist today?

CHAPTER 2



Management in the Arts Organization

What if, in the end, the arts organization is not a problem to be managed, but an instrument to be played?

—ANDREW TAYLOR, “THE ARTFUL MANAGER,” *ARTSJOURNAL*

Although the word “management” has been in use since at least 1598, the many attempts throughout history to devise the perfect management system have for the most part been unsuccessful. At its heart, management is as much an art as a science.

The most skilled managers are able to understand the needs of the organization, develop plans to achieve these needs, and direct people in the duties that will accomplish organizational goals in the most efficient and productive way possible.

For some, the idea of management is not separate from the idea of leadership. In fact, as we shall see, leadership is considered one of the four functions of management. To be a good manager, you can’t be just an efficient worker; you must also understand how to inspire and direct others to work for the good of the organization as a whole.

In this chapter, we will talk about the functions of management and leadership, as well as some of the different management theories that have guided management practice throughout history. Then, we will look at the unique environment of the arts organization and examine the management needs of arts and cultural businesses.

Finally, we will discuss the development of an individual management or leadership style. Part of learning what it means to be a manager or a leader consists of understanding what styles, preferences, and communications skills you bring to the workplace and how you prefer to interact with others.

After finishing this chapter, you should be able to:

- Describe the concept of management and its historical applications
- Explain how an arts management culture may be the same as or different than a corporate culture
- Analyze what management styles and techniques work within an arts organization
- Discuss the difference between management and leadership
- Begin to develop your own management and leadership style

MANAGEMENT TODAY

Management is often defined as the process of organizing and directing the various resources (human, financial, and material) of a business or organization. Sometimes the definition of management focuses on the act of supervising other people: managers coordinate the interactions of people carrying out designated tasks, assign duties, and evaluate performance. Both definitions imply that through management, the goals of the organization or business are achieved. Therefore, good management is often seen as a key component of an organization's ability to accomplish its goals.

Historically, management theory has often concentrated on efficiency: how to get the most productivity from the fewest resources. This traditional view of management, however, is based on assumptions that may or may not apply to all businesses in the twenty-first century. For many businesses, efficiency alone may not be enough to cope with an increasingly complex competitive environment, which may include global forces, online shopping, and businesses crossing traditional boundaries that previously had separated them (e.g., grocery products

Case 2-1

Case Study: Innovation and Change in the Publishing Industry

The past fifteen years have been turbulent for the publishing industry. Industry giant Borders had revolutionized the bookstore in 1971, combining large inventories with a sophisticated computer tracking system, and eventually adding music products and coffee shops. Although Borders went bankrupt in 2011, rival Barnes and Noble weathered the storm (at least for now).

The biggest change in the publishing industry by far has been the addition of ebooks. Although Amazon didn't invent ebooks or ebook readers, their introduction of the Kindle in 2007 helped sales of ebooks to soar, and experts predicted the end of the book industry as we know it. A little over a decade later, there are some surprising trends. Ebook sales seem to have peaked, and the biggest winners in the changing industry now seem to have been independent booksellers, which expanded more than 50 percent between 2009 and 2019.² These "indies," assisted by successful marketing and rebranding from the American Booksellers Association, capitalized on their customers' love of the printed page and community events, such as author talks and signings, book clubs, and children's story hours.

Increasingly, the discussion of management theory has turned from efficiency to innovation. Rapid changes in technology, social values, and the workplace have created a turbulent and unpredictable environment in which the most important managerial skill is the ability to effectively manage change and stay ahead of the curve. Some of the most successful businesses today are those that manage change by creating a new path.

Another aspect of contemporary management is the realization that while some management theory can apply to all businesses, differences in industries require specialized management techniques. This has led to the subdivision of management into specialty areas such as sports management, healthcare management, hospitality management—and arts management.

now found in discount stores). Management experts also concede that in some businesses, especially not-for-profit organizations, the ultimate goal may not be to maximize profit; therefore, merely accomplishing efficiencies may not be sufficient.¹

THE FOUR FUNCTIONS OF MANAGEMENT

Even though management theory is evolving, there are many aspects that remain constant. One way we might look at management is to see it as creative problem solving. In order to solve the problem of carrying out the business of the organization, four basic activities, or functions, are necessary.

The four functions of management are **planning, organizing, leading, and controlling**. For goals to be achieved, all four functions must operate smoothly and must be integrated with the other functions.

Planning

Planning is the ongoing process of developing the mission and objectives of a business and determining how these will be accomplished. Planning includes both the broadest view of the organization (its mission) and the narrowest (a specific tactic for achieving a specific objective).

In many ways, planning is the hardest function of management. Anticipating and responding to changes requires constant attention, as well as input from multiple people, from leaders of the organization to individual workers, on both the administrative and artistic sides of the aisle. Most arts organizations are continually updating a variety of plans that serve the organization, including long-range and strategic plans, program plans, marketing plans, and budgets.

As noted earlier, innovation is often one of the most important aspects of planning. To accomplish the planning function, managers must be able to see the “big picture” and put together the various aspects of the situation at hand, including the opinions and input of various employees, volunteers, and board members. After analyzing a situation, an effective manager will be able to understand how different actions might cause different results. Part of managerial training is learning about **best practices** in other organizations that can help with development of options. Another aspect is the development of creative thinking skills, which can help the manager generate ideas, obtain inspiration from diverse sources, and adapt plans to current environments.

Organizing

Organizing is the process of converting plans into action. Organizing can include creating a list of duties, developing deadlines and timetables for work, assigning tasks, determining and assembling the necessary resources, and carrying out the plan. It is the organizing function that most people think about when they think of management. The organizing function is also the locus of the process of supervising others and assigning authority.

In an arts organization, the organizing function might include such activities as hiring staff, recruiting volunteers, marketing, soliciting contributions, writing grants, and facilitating events. A good manager can develop a structure for the tasks that need to be done, assign appropriate people to those tasks, and determine a timetable for work.

Leading

Leading is the act of directing the behavior of all personnel to accomplish the organization's mission and goals. In order for the goals to be achieved, a shared vision and a clear understanding of everyone's role in the process must be developed. Those in charge of the organization's mission or individual goals and objectives are functioning as leaders when they diplomatically inspire all personnel involved in the task to work together for the best result.

Managers are often called upon to be leaders, in the sense that all of the workers involved in a situation need to be encouraged to do their best toward the achievement of the goal. We will talk more about leadership later.

Controlling

Controlling is an aspect of management that is frequently underestimated. Like planning, it is a continual process; like organizing, it involves translation (although this time from actions into evaluations); and like leading, it involves diplomacy. Controlling is the function of monitoring work to check progress against goals and taking corrective action when required. Once a plan has been put into place, the manager must continue to monitor the situation, communicate with those doing the work, and be prepared to change course if necessary.

Controlling may include such activities as providing updated financial reports to the board of directors, studying attendance figures from the last season, evaluating employees and volunteers, and distributing a satisfaction survey following a program.

HISTORICAL DEVELOPMENT OF MANAGEMENT:

1776-1920

If the most important aspect of contemporary management is change and innovation, why is the historical development of management important? And, if the arts are not managed like other industries, why is it necessary to learn about how factories were managed a century ago?

Organizational management has been a part of business since ancient times. The practice of management can be traced to government organizations developed by the Sumerians and Egyptians.³ Some management practices have changed as conditions in the workplace changed, but many have remained constant. A short examination of the historical development of management in Western culture will help us determine which management practices are appropriate for today's arts organization.

The discovery and development of new political and social theories from the **Reformation** until the **Enlightenment** led to theories about management from such philosophers as Hobbes, Locke, and Machiavelli. Following the political revolutions in France and America in the late eighteenth century, economists such as Adam Smith initiated the idea of the marketplace as an entity independent of government and the mercantile system. Smith's 1776 book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, laid out the philosophy that has guided economic theory ever since.⁴ According to Smith's concept of the **invisible hand of the marketplace**, each individual strives to become wealthy intending only personal gain, but to this end, individuals must exchange with others who sufficiently value what they have to offer. Because of this, Smith theorized, the forces that guide the marketplace, though unseen, will ensure that a free market will ultimately serve the public interest.

The extensive study of management became more prevalent after the start of the **Industrial Revolution** in the late nineteenth century, when the presence of more workers working on a single task or for a single company necessitated the development of systems of labor management. The Industrial Revolution was also significant because of the mechanization of human labor, which meant that the worker was no longer viewed as an individual but as an extension of a machine. The creation of the factory line led to the creation of a labor class and to the creation of managerial jobs supervising workers on the line.

The prevalent management theory in the early twentieth century was **scientific management**. In the 1880s, Frederick Winslow Taylor, known as the father of scientific management, proposed that human beings could be thought of as extensions of machines and, therefore, could be made more efficient through the use of carefully applied scientific principles of motion and thought. Perhaps the best-known proponents of scientific management to the general public were Frank and Lillian Gilbreth, whose practice of testing time and motion studies on their twelve children was described by two of their children, Frank Jr. and Ernestine, in their popular book *Cheaper By the Dozen*.⁵

In 1917 Henri Fayol proposed the theory of **administrative management**. This theory was based on the principle that workers had different skills that could be matched with the various needs of the organization. Work specializations, designed in a **hierarchical** system, could result in efficiencies in both management and production. In order to make administrative management work, workers needed to acknowledge the authority of supervisors; they were also required to subordinate their individual interests to the interests of the business and to work within a system of rules and discipline. In return, they could expect appropriate compensation for the work they did, a chance to move "up the ladder" to a job higher in the company structure, and a workplace atmosphere of fairness and justice.

Administrative management was a groundbreaking theory in 1917, and many aspects of this theory remain today. Some of these are given below.

PRINCIPLES OF FAYOL'S ADMINISTRATIVE MANAGEMENT COMMONLY PRACTICED TODAY

1. *Division of work*: When workers are specialized, efficiency is increased as each specialist grows more skilled.
2. *Authority*: Managers have authority to make decisions, but the responsibility to make them with knowledge.
3. *Unity of direction*: Each team should be working under the direction of one manager, using the same plan as every other manager.
4. *Subordination of individual interests to the common interest*
5. *Scalar chain*: Each employee should understand his or her role within the hierarchy of the organization.

When you look at the list of Fayol's principles, you can see some of the management characteristics that are a part of modern arts organizations, just as in businesses of other types. Division of labor, for example, is obvious in arts organizations when we look at the work done by artistic and administrative staff. The scene designer in a theater is (usually) not responsible for entering names into the database or printing the financial reports. The marketing director is (usually) not responsible for hanging an exhibit in a gallery. The use of a strict hierarchy, however, is not always a comfortable system for arts organizations. In contrast to a "typical" corporate hierarchy, the division between administrative and artistic decision making is more layered. Arts organizations also have different types of workers than are found in businesses of other types. William Byrnes, in his book *Management and the Arts*, describes a common situation for an arts organization: volunteers in an arts organization are not required to be there; if they are ordered to work beyond what they believe they agreed to do, they can simply not return.⁶ It is clear that the management of arts organizations calls for innovative approaches.

HISTORICAL DEVELOPMENT OF MANAGEMENT: 1920–2000

By the 1920s, management theory had evolved because of the need to consider the human factor. Adherents of the scientific management and the administrative management theories were sometimes confounded by the stubborn inability of workers to react strictly as predicted. Scientific management also uncovered the pesky truth that humans treated like machines were subject to injury and abuse.

The **humanistic perspective** of management emphasized the importance of understanding human behaviors, social interaction, and group processes. In 1924 a groundbreaking study at the Hawthorne Wire Works examined the effect of lighting on productivity. Workers were tested under a variety of lighting conditions and monitored for every possible change. The scientists were astonished to

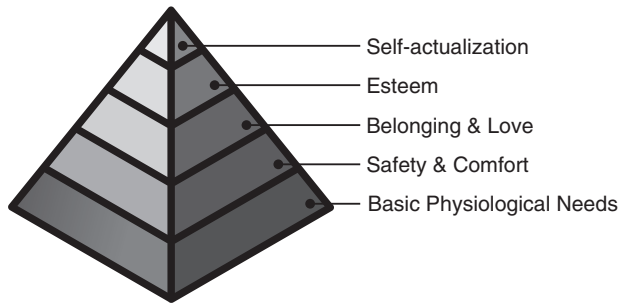


Figure 2-1 Maslow's hierarchy of needs.

SOURCE: © Zern Liew.

discover that no matter what conditions were in effect, productivity in the test group kept increasing. Their conclusion was that it was the attention paid to the workers, not the specific conditions, that led to the desirable results.⁷

The idea that humans have basic needs that must be met before their jobs can be accomplished was advanced by Abraham Maslow in his 1943 paper “A Theory of Human Motivation.”⁸ The author proposed what is now referred to as **Maslow's hierarchy of needs**. Maslow suggested that the most basic human needs, such as shelter and food, must be satisfied before people can concentrate on other, “higher” functions like **self-actualization**.

Maslow's hierarchy is sometimes used as an argument against funding the arts, viewing art as relating more to the higher functions like self-actualization than lower functions like safety and security. We'll discuss this in more detail later.

As the midpoint of the twentieth century arrived, management study began to diverge, presenting a number of theories that attempted to deal with the many work situations facing the American economy. Some of the theories that have application to the arts are as follows:

- **Theory X and Theory Y**

Douglas MacGregor in 1957 proposed **Theory X**,⁹ which assumes that workers generally dislike work and must be coerced into performing well; and **Theory Y**, which assumes that workers are predisposed to be creative and cooperative, and should be encouraged rather than threatened.

- **Total Quality Management (TQM)**

Toward the end of the twentieth century, management scholars looked to Japanese management systems and experimented with **Total Quality Management**, a system that embraces both the commitment to continual product/service improvement and the role of the individual “associate” in facilitating that improvement.

- **Systems thinking**

Systems thinking assumes that the business is a complex organism with many seemingly unrelated parts and activities. Understanding the way the system works is key to understanding how to manage it. In many ways, systems thinking is a reaction to administrative management, which broke each

business down into several parts arranged in a hierarchy. Systems thinking recognizes that the organization of a business may not be as simple as a set hierarchy and that influences and inputs can come from many sources.

- **Contingency**

A **contingency** approach to management is based on the idea that different organizations under different conditions may need to be managed in different ways. One of the important contingencies, as we've noted, is the nature of the industry. General Motors, which sells products made on factory assembly lines, may differ greatly from Google, which is engaged in marketing both an online search engine and the opportunity to advertise to those who search.

Contingency management also assumes that some industries and types of businesses have common characteristics. This view is useful to us in arts management as we study how the management of arts and cultural organizations differs from managing retail businesses, or how the **for-profit** arts industry shares characteristics with the **not-for-profit** arts industry.

MANAGEMENT AND THE ARTS ORGANIZATION

Arts managers, board members, staff, and volunteers often instinctively realize that what works in a non-arts business doesn't always work when it comes to the arts. Yet often the differences are chalked up to the inefficiencies or inexperience of the people working within the organization. Many well-meaning supporters of the arts have encouraged arts organizations to adopt a more "businesslike" attitude, tightening up management practices and producing results that could be quantitatively analyzed. If we understand the rules of contingency management, however, we know that what works in one industry can't necessarily be successfully transferred into another. Here are some of the unique aspects of the arts industry that must be taken into consideration when developing management plans.

- **Arts organizations have both artistic and administrative workers.**

While other businesses may have different departments working together to support a single goal, the arts business has a unique construction comprising both artistic functions and administrative functions. It is not uncommon in an arts organization to have an artistic director and an administrative director with equal authority in the enterprise. In an arts organization, the artistic function must work cooperatively with the administrative function. Neither function will be successful without the other.

- **Arts organizations have many types of employees.**

Unlike a typical corporation or small business, arts organizations typically have a diversity of employees working together toward a common goal. In addition to artistic and administrative employees, paid staff may work side by side with volunteers, permanent employees may team with contracted and seasonal workers, and members of the board of directors that governs the organization at times will be found working as volunteers on individual organizational functions.

- **Arts organizations often have untrained workers.**

In a business environment, workers usually are hired because they have some kind of qualifications or training. In an arts organization, as in other nonprofits, well-meaning volunteers are often assigned to tasks for which they have had no formal training. Members of a board of directors who come from for-profit situations may have had little experience with arts organizations. Paul DiMaggio¹⁰ also describes a generation of arts managers who came to the field via training in a specific artistic discipline, such as music or theater. While acknowledging that their energy and enthusiasm for the field was one of the driving factors in the expansion of the arts in the second half of the twentieth century, many arts managers also are working to train the next generation of arts leaders in the practices that will allow them to avoid having to “learn on the job” as many of their predecessors did.

- **Arts organizations often work in isolation, reinventing the wheel and not taking advantage of best practices.**

Because there often is only one symphony orchestra or one arts council in a single community, arts organizations tend to have access to fewer support services directly applicable to their needs. Many Chambers of Commerce and other business groups neglect the needs of not-for-profit arts organizations in favor of programs for the more traditional businesses (e.g., retail, leisure, manufacturing). And, while arts councils and service organizations are increasing in number, geographical and time restrictions often limit their ability to take advantage of those resources. This is especially true of smaller organizations.

- **Arts organizations often have an informal operating structure.**

Many arts organizations operate in a more informal corporate culture than traditional businesses. This is partly because of the variety of types of workers that inhabit an arts organization (including volunteers coming from other jobs or from home), hours that spill over into evenings and weekends, and the diversity of tasks that need to be performed. Some organizations believe that an informal, cooperative atmosphere is more conducive to attracting and retaining volunteers; others believe that a hierarchical structure or a rigid adherence to policy works against the cooperative nature of creating art.

- **Arts organizations often operate in a not-for-profit environment but have similarities with for-profit companies.**

Management guru Peter Drucker sums up the difference between a for-profit environment and a not-for-profit environment this way: “The product [of the not-for-profit] is neither a pair of shoes nor an effective regulation. Its product is a changed human being.”¹¹ In not-for-profit organizations, the mission of the organization is the bottom line, not profit, but this distinction is often difficult for the public to discern because many arts organizations sell tickets and market to the public (unlike many other not-for-profits, which serve specific populations, like hospitals or human service organizations) and because some arts organizations (like the film and recording industries) *are* for-profits.

So, what management practices should arts organizations adopt? That is the focus of the rest of this book. Because of the unique atmosphere and needs of the arts, many arts organizations have deliberately scorned traditional management theories in favor of a much looser structure. While this practice may preserve a creative atmosphere, it may be less than ideal from a management perspective. Without structure, consistency is lost and the organization can change drastically from project to project and from administration to administration. Without knowledge of best practices developed by the industry over the years, each organization can waste valuable time figuring out policies and procedures, perhaps burning out employees and volunteers as it searches for the best solution to its needs.

In order to have the best opportunity to accomplish the mission and goals of the business, an arts organization needs a management structure that allows the organization to absorb the knowledge of the industry, communicate among the different functions of the organization, carry institutional memory from season to season, and change with the times.

While arts organizations do not advocate a single system of management, most are beginning to understand the value of working on their internal systems to develop management structures that work for them. The most successful arts organizations adopt policies that allow them to transition seamlessly from season to season and through changes in administration, artistic staff, or boards.

Case 2-2

Case Study: The Learning Organization

In the book *The Fifth Discipline: The Art and Practice of the Learning Organization*,¹² management expert Peter M. Senge presents a management theory that is geared toward the specific needs of contemporary society. Senge says that if the only thing we can count on is change, then the most important function of management is to manage change.

The goal of the Fifth Discipline is to create an organization that is capable of learning and growing, dealing with the changes that are inevitable. What Senge calls the learning organization has some of the following characteristics.

Shared Vision

- A learning organization has a common sense of purpose and commitment to developing shared images of a desired future. This necessitates communicating this vision to all members of the organization—employees, staff, board, and donors—as well as audiences. For a change to be successful, it must be communicated to all.

Systems Thinking

- The organization is a complex system with many variables. To be successful, more people should be able to see the business as a whole, not just its parts.

High-Leverage Interventions

- With any problem, there are many solutions. The best one is the one that will create the most change with the smallest amount of effort.

Testing Assumptions

- Before the age of exploration, all scientists KNEW the world was flat. Now is the time to test our assumptions and make sure what we “know” is actually true.

Unfortunately, many organizations have “learning disabilities” that prevent them from growing and changing. Some of these are as follows.

I Am My Position

- Most people will say what they are, not how they function within the whole. They then feel little responsibility for what happens: when things go wrong, it is someone else’s fault.

The Enemy Is Out There

- It’s always easy to blame an external agent—it’s the economy, or that theater built down the road, or the local newspaper that never runs stories about us.

Fixation on Events

- We usually are fixated on finding the one event that is the cause of the problem. Unfortunately, most serious problems are caused by gradual accumulation of many problems, which we often don’t notice until they get too big to ignore. Instead of focusing on fixing one problem, we should be trying to understand the bigger picture.

I Will Work Harder

- The illusion of working harder is simple: if we don’t know what caused the problem in the first place, simply working harder at the same thing isn’t going to solve the problem.

Dividing the Elephant

- Like the old Sufi proverb says, dividing an elephant in half does not create two small elephants. We are so used to administrative management that we are not trained to look at anything other than our part of the elephant.

An Arts Management Situation

Is the theory of the learning organization applicable to arts management situations? Read about the following situation and answer the questions at the end to see for yourself.

For ten years, an arts organization has held a silent auction to raise money. The first eight years, the event raised over \$10,000. In the ninth year, it raised \$8,000, and the tenth year, \$7,000. The auction committee got together to decide what to do about the decline in funds. The first assumption they made was that the auction was still a good way to raise funds—they just needed to improve the event so that it would once again raise \$10,000. They came up with the following possible reasons for the drop in income:

1. The local hospital had just started a silent auction, so now the arts group had competition.
2. Too much money was being spent on advertising, cutting into profits.
3. There weren’t enough volunteers soliciting auction donations.

The committee proposed the following solutions:

1. Change the date of the auction so that it won’t compete with the hospital’s auction.
2. Reduce the budget for advertising and ask the marketing committee to come up with a plan to get more free publicity.

(continued)

3. Increase the number of volunteers.
4. Increase the number of items on the auction table.

This is what happened:

1. The date was changed.
2. More volunteers were recruited and more auction items were secured.
3. The marketing committee was able to get some advertising donated, but not as much as they had hoped. However, the members were told not to spend money, so they did not.
4. The attendance stayed about the same.
5. The income stayed about the same, spread out among more auction items.
6. The net proceeds were slightly higher because of the decrease in advertising costs.

Questions

1. What “learning disabilities” did the organization use to try to solve these problems?
2. Using the principles of the learning organization, how might the decisions have been improved?
3. What would you recommend for the future? Why?

Case 2-3

Case Study: What Kind of Manager Are You?

What management skills do you possess? Are you the type of person who will shape the vision of an organization or carry it out? When you have the opportunity to supervise others, organize a project, or plan for the future, what work habits, personality traits, and interaction styles do you bring to the situation?

Part of developing your skills as an arts manager consists of understanding your personal work style and character so that you will understand what their effects are as you interact with others. One of the tools you can use to determine how your personality type affects your work is a personality inventory. The Myers–Briggs Type Indicator®, developed by Katharine Briggs and her daughter Isabel Briggs Myers during World War II,¹³ is one of the earliest and most widely used personality tests. In the Myers–Briggs, a series of questions prompts the respondent to choose which of two situations feels more comfortable (e.g., having a pre-determined outcome or leaving things up in the air). The answers determine whether the respondent is extroverted or introverted, sensitive or intuitive, thinking or feeling, and judging or perceiving. Other psychologists and social scientists have developed personality tests that attempt to simplify Myers–Briggs or use other systems.

Personality tests were developed for use with individuals, but they can also be used in group situations. Often, comparing the results of coworkers’ personality tests can lead to new understandings about how the members of the group can work as a team.

LEADERSHIP VERSUS MANAGEMENT

I used to think that leadership was like conducting a symphony orchestra. But it's more like jazz. There's more improvisation.

—Warren Bennis, “Organizational Consultant and Leadership Expert,”
On Becoming a Leader, 1989

One of the four functions of management is leadership, an activity so important that it is often considered by itself. Like management, leadership has also been described as having four functions: vision, communication, motivation, and innovation.

Vision

A leader must clearly be able to envision the future of the organization. Whether leaders have developed their own vision or are working with another's vision, they must articulate that vision clearly and believe it thoroughly. Contrast this with management, which is primarily focused on carrying out a vision.

John Kotter puts it this way:

Leadership is the development of visions and strategies . . . [while] management involves keeping the current system operating through planning, budgeting, organizing, staffing, controlling and problem solving.¹⁴

Communication

It's not enough to possess a vision; a leader must be able to communicate that vision to others in a way that will induce people not only to buy into the vision but also to work together to achieve it. This is in contrast to an organizing function of management, where the emphasis lies more heavily on assigning tasks and facilitating plans.

Motivation

Leaders must be able to encourage and motivate all members of the organization to buy into a shared vision and work together to achieve it. Motivation is especially key in times of stress or challenge, and at times of change.

Innovation

As Kotter says, “The fundamental purpose of management is to keep the current system functioning. The fundamental purpose of leadership is to produce useful change.”¹⁵ Innovation, coping with change, and guiding the organization into the future are functions of leadership.

While the arts industry is constantly searching for skilled managers, the industry as a whole is equally concerned with encouraging the development of the next generation of leaders. As DiMaggio has observed, many of the current leaders of the arts industry came to power in the arts boom period of the 1970s and 1980s; these men and women will be retiring within the next ten to twenty years. The leaders who take over from them will face a world that is dramatically different; arts participation and delivery have undergone massive changes owing to technological advances, competition, and changing political and economic conditions.

Case 2-4**Case Study: Characteristics of Leadership**

Who do you consider a leader? What characteristics make people leaders? Listed below are several characteristics often cited as important for leaders. Which ones do you share?

Sense of mission: Leaders are able to formulate a vision and communicate it to others.

Mentorship: Leaders mentor and train others rather than taking credit for themselves.

Courage: Leaders are willing to justify their vision even in the face of opposition or even danger.

Competency: Leaders are seen as knowledgeable about their field of expertise.

Flexibility: Leaders can deal with more than one problem at a time. Leaders change course when the situation warrants it.

Integrity: Leaders do what is morally and ethically right and do not abuse their position of power by belittling the opinions or work of others.

A 2007 study, *Involving Youth in Nonprofit Arts Organizations: A Call for Action*,¹⁶ describes the need for new leadership this way: “The issue of generational succession in the arts industry looms ever larger as the exodus of baby boomers begins. All of us will need to marshal our best ideas if we are to compete successfully for the next generation of leaders and patrons in an increasingly competitive marketplace.” In other words, to provide leadership in this changing world, arts leaders of the future must be able to embrace change; moreover, they must be comfortable with both traditional and innovative arts participation and be able to maintain artistic standards while experimenting with new forms of programming. It’s up to you!

IN CONCLUSION

In any arts organization, the **four functions of management** and the **four functions of leadership** play a part in helping accomplish the mission of the organization. A successful organization will be able to develop a management philosophy that is appropriate to the organization, its personnel, and its mission. Successful arts managers understand their personality traits, work habits, and leadership/management skills and see how they can be useful within the arts organization.

DISCUSSION QUESTIONS

1. Think of a company you feel is innovative. What is the nature of its innovation? Do you think this innovation will allow the organization to survive new competition? Why or why not?
2. What are some ways that arts organizations fail to take advantage of innovative management? Why do you think this might be so?
3. Which aspects of scientific management, humanistic management, or other twentieth-century management theories do you see in arts organizations today? Are these being effectively used, or are they outdated?
4. Have you ever taken a personality test? What did it reveal about your work style? There are several places online where you can take a simplified version of Myers–Briggs or another personality test. If you have never taken a test like this, try searching online and see what this process may be able to teach you about the way you work, learn, and interact with others.
5. Think of a person you consider to be a leader. What characteristics led you to think this? What leadership characteristics do you possess?

CHAPTER 3



Organizational Structure

If you want to change a culture, you will have to start by changing the organization.

—BRITISH SCIENTIST MARY DOUGLAS,
*MEASURING CULTURE: A PARADIGM FOR
THE ANALYSIS OF SOCIAL ORGANIZATION*, 1985

The last time you attended a play, did you think about whether the theater was a commercial business or not-for-profit organization? When you perused an exhibit at an art gallery, was it clear whether the gallery was operated by a single owner or governed by a board of directors? Like most people who attend arts events, your primary concern probably was the art itself, not the organization—but the structure of the organization had everything to do with the final product you saw. What goes on behind the scenes of an arts activity is an essential part of the success of the art, even though it's important to keep remembering that the organization isn't an end in itself!

The arts are a unique industry in that they can be organized as for-profits, not-for-profits, or government agencies, or as small businesses with single owners or as large corporations. This diversity of structure is less common in other industries. It would be hard, for example, to imagine a car dealership structured in any other way than as a for-profit business. To understand why arts businesses choose various structures, it is necessary to understand the business structures that are present in our current economic system and the characteristics of each one.

After finishing this chapter, you should be able to:

- Distinguish among not-for-profit, for-profit, and governmental organizations and identify their unique characteristics
- Describe the Internal Revenue Service criteria for tax exemption and how it applies to arts organizations
- Explain what factors contribute to decisions about organizational structure
- Analyze the pros and cons of various structures for arts organizations and the unique structural challenges facing arts businesses

PHILOSOPHY OF ORGANIZATIONAL STRUCTURE

Imagine that you had the opportunity to start from scratch and form a society. How would you do it? You would have to consider the various needs of the individuals in the society and the society as a whole and devise systems to meet those needs.

For example, you would want to figure out how the citizens of the society could obtain the materials and staples they would need to survive. Thus, you might design a system of trade so that the people who grew crops could exchange their produce for other supplies owned or made by someone else.

If your citizens needed to be educated or trained in particular skills, you would have to figure out how they would receive that training. You would need to find ways to provide services required by everyone, including protection and health-care, and to establish and maintain a suitable **infrastructure**. And you would also need to develop systematic means of providing for those who are unable, for one reason or another, to provide for themselves.

Throughout history, civilizations have developed many different ways to deal with the needs of society. Within the current American economic system, there are three basic legal structures: for-profit businesses, not-for-profit businesses, and governmental agencies. There are some types of businesses that straddle the line between these basic structural types or do not fall into any of the structures, and there are some emerging structures that cross boundaries. We will discuss some of those a bit later. All business structure types operate differently, and each has advantages and disadvantages for both the businesses and the public. But with them, most of the vital functions of society can be accomplished.

Arts and cultural organizations can be part of any of the three sectors. Each organization will choose the structure that best allows it to accomplish its goals, given the resources to hand or reasonably anticipated. Most of the “high” art forms, such as classical music, fine art, and ballet, have traditionally been organized within the not-for-profit sector. Industries such as the film industry and the music recording industry are usually for-profits because of their ability and desire to mass-market their products to a broad audience. But there are other artistic and cultural activities that more properly fall under the umbrella of government, **collaborative** structures, or alternative structures.

The chart that follows shows how many of the common types of arts organizations are likely to be structured. Note that some types appear in more than one category: you can see theater produced by a not-for-profit company or a for-profit Broadway producer, for example. A performing arts center can be an independent not-for-profit or housed in a building on a state university campus.

Before we discuss more how arts organizations function within the different types of businesses, or sectors, we must take a closer look at the characteristics of each sector.

ARTS ORGANIZATION STRUCTURE CHART

	Not-for-Profit Corporations	For-Profit Businesses	Government Agencies
PRODUCERS	Theater ¹ company Symphony orchestra Community chorus Summer theater Dance company	Private galleries Recording studios Individual artists/ bands Broadway theater Touring companies Film industry	School music, drama, art programs Jobs programs with art focus
PRESENTERS	Performing arts centers Arts festivals Arts and lecture series	Arenas and stadiums Movie theaters Theme parks Rock/country festivals	Performing arts centers located at state universities or at high schools
CURATORS	Museums Historical sites Public galleries Botanical gardens	Some touring art exhibits Private collections Private galleries	City/county museums College art galleries Zoos Libraries The Smithsonian Institution
SERVICE	Local arts councils State arts service organizations Discipline-specific organizations Some arts-resource websites	Some arts-resource websites Some industry-specific groups Booking agents	National Endowment for the Arts State arts boards/ councils City/county arts agencies

FOR-PROFIT BUSINESS (AKA “THE PRIVATE SECTOR”)

The basic function of a for-profit business is implied in its name: to create profit. The other name for this sector, the **private sector**, means that all of the businesses in the for-profit sector are owned privately; that is, not by the government.

The primary goal of any for-profit business is to create **profit** for its owner or owners, whether a single person in a small business or shareholders in a large

corporation. A system of for-profit businesses assumes that individual members of society will make money by creating and selling products and services that others want, and that the incentive of creating profit for those individuals (rather than for a king, feudal lord, or government) will lead to competition, better products, and more choices. For-profits are the most common form of business; approximately 90 percent of employed Americans are working in for-profit businesses.²

For-profit businesses may be either **unincorporated** or **incorporated**. Within these two basic forms there are several kinds of structures, each with advantages and disadvantages.

Unincorporated Businesses

Most small for-profit businesses are unincorporated. An unincorporated business can operate either as a **sole proprietorship** or a **partnership**. Sole proprietorships are businesses that have a single (sole) owner (proprietor), while partnerships have two or more owners. In a sole proprietorship, the government essentially considers the company and its owner to be one and the same entity. Sole proprietors (everything from private physicians to family farmers to retail store owners) file their business tax statements along with their personal income tax, and they are liable and responsible for every part of the business. Partners are liable for only the percentage of their partnerships.

The advantage of sole proprietorships and partnerships is that the owner(s) have total control over business decisions and can keep all of the profits. There is no limit to the amount of profit that can be made, and those who have the skills and ambition to work independently can do very well. The disadvantage is that if the business does not do well, the owner's personal assets are in jeopardy.

Corporations

A **corporation** is a legal entity that is separate from any single owner but has many of the legal rights of an individual. A corporation may be privately or publicly held. A privately or closely held corporation is owned by a small group of individuals, each having control in proportion to the number of shares of stock owned. A publicly traded corporation sells shares of stock in the corporation to the public. Profits are then split proportionally between all shareholders; the payments are called **dividends**. The operations of a corporation are governed by a **board of directors**, but these people are not considered owners of the business unless they also own stock.³

The advantage of incorporating a business is that it protects individuals from the **liabilities** (debts and financial responsibilities) of the business. Incorporating also allows the business to continue after the death of the original owner.

Limited Liability Corporation

The **limited liability corporation (LLC)** is a relatively new form of business structure that combines some of the advantages of a corporation (minimal personal liability) with the advantages of a sole proprietorship or partnership (the ability to make management decisions and keep profits). More and more businesses are

choosing this option. As with any business decision, however, it is always wise to seek the counsel of experts before deciding on a business structure.

Benefit Corporations and Other Emerging Structures

A **benefit corporation** is a corporate entity that legally has a social benefit mission in addition to its profit mission. This means that in creating goals, a benefit corporation must take into consideration its stated social benefit. It is not the same as a not-for-profit, because profit is still a part of the mission. This structure emerged in 2010, and by 2020, thirty-five states had passed benefit corporation legislation.⁴ Some of the companies that have adopted benefit corporation structures are Kickstarter, King Arthur Flour, and Patagonia.

A company can also become a certified **B-corp**, which is not the same thing. A B-corporation receives certification from a company called B-Lab by agreeing to uphold standards of sustainability, social performance, transparency, and financial accountability. B-corporations pay an annual fee to maintain their certification.⁵

Another relatively new structure is the LLP, or **limited liability partnership**. This gives the benefits of an LLC to unincorporated partnerships.

For-profit businesses have the same advantages for the arts as they do for other types of businesses. Organizing as a for-profit business works well for independent artists as well as businesses that provide the kinds of goods and services that can be mass-marketed. As many artists have found, however, sometimes the act of making art and the act of making a profit can come into conflict. If you've ever read an interview with an actress who made several million dollars on one film but then accepted a much smaller fee for appearing in a movie that more closely reflected her personal beliefs, you know what this means. Inherent in the for-profit concept is the idea that to consistently make a profit, you need to sell the kinds of products that people will buy. For some, this means that making art purely "for art's sake" isn't always an option. On the other hand, there are many musicians, actors, filmmakers, directors, and other kinds of artists who have made a very good living by creating works that conform to their deepest artistic beliefs.

On a small scale, then, any individual artist making a living by selling work or performing is operating a sole proprietorship. Individual painters, sculptors, graphic designers, actors, stagehands, and musicians are all considered sole proprietors of arts small businesses.

Other arts small businesses include music stores, booking agents, art galleries (particularly galleries selling the work of one or a small group of artists), architecture firms, graphic design companies, and bookstores.

For-profit arts corporations are generally the kinds of businesses that market their products nationally and internationally. The category includes record production companies, film producers and distributors, theme parks, and some Broadway and touring theatrical companies. Media companies, like the owners of radio and television stations, are sometimes involved in the distribution of products like music, films, touring theatrical productions, and even blockbuster art shows.

Case 3-1**Case Study: Disney**

One of the world's largest and most successful arts and entertainment corporations is the Walt Disney Company (www.disney.com). Founded in 1923 as an animation studio for Disney's cartoon characters, the business gradually expanded to include a theme park and some feature-length movies; its shares have been publicly traded since 1957. Today, the Disney empire includes one of the biggest Hollywood studios, eleven theme parks, and dozens of television stations, including ABC, ESPN, the Disney Channel, Lifetime, and A&E. Disney is also involved in live theatrical events, having produced several successful Broadway and touring productions of its most popular movies, including *Beauty and the Beast* and *The Lion King*. The success of the company from the very beginning has been attributed to the founder's aggressiveness, independence, and innovations. Even critics of Disney's aggressive business practices acknowledge that the company has insisted on high artistic standards throughout its history, bringing many innovations to its ventures, including the first feature-length animated film and the first feature-length film to use digital animation.⁶

One example of a Disney venture that has been commercially successful as well as artistically praised is the theatrical production of *The Lion King*, which opened on Broadway in 1997. To stage this animated story, whose characters were all animals, Disney hired Julie Taymor, a director who had made her name in avant-garde theater. Taymor envisioned the characters as stylized puppets, with the human actors visible under elaborate headdresses or wire cages. Even she was surprised at the amount of artistic freedom she received during the preparation of the show: "The Lion King is a very commercial work, but what they've let me do is very experimental. I was totally delighted and surprised."⁷

We often think of commercial art as incompatible with artistic freedom. Certainly, if an artist or corporation desires to mass-market an artistic product, decisions about content and format need to be made with as much attention to the bottom line as to artistic potential. However, we can all think of many examples, from paintings that sell for millions at auction to commercially successful Broadway shows like *The Lion King*, that represent the successful coexistence of art and commerce.

Discussion Questions

1. Can you think of examples of art or artists that have been both commercially successful and artistically innovative? How do you think these artists were able to straddle the line between art and profit?
2. What is your definition of the difference between art and entertainment? If one work of art can, like *The Lion King*, be both, why is it necessary to maintain a not-for-profit sector for the arts?

GOVERNMENT (AKA "THE PUBLIC SECTOR")

Even though our modern American system places a great deal of faith in the marketplace to create products and services that provide citizens what they need to survive, there are some functions of society that cannot be performed by

individual citizens or businesses. These include making and enforcing rules and laws, providing defense and security for citizens, and operating services needed and used by all citizens equally. Governments are entities that provide these services and fund them by collecting taxes and fees. Governmental agencies are also referred to as the **public sector**—paid for with public (taxpayer) funds.

The arts have been operating within the public sector for thousands of years. Governments have traditionally understood that the organization of artistic activities, support of artists, and maintenance of collections of artwork and historical artifacts important to the state is an essential function of government, and citizens have throughout history supported having their tax dollars subsidize such activities.

In many European countries, the government operates or provides significant subsidies to state museums, galleries, symphony orchestras, theater companies, opera companies, and radio and television stations. In America, the federal government operates venues such as the Smithsonian Institution, historical parks and monuments, and agencies dealing with specific artistic and cultural activities such as the National Trust for Historic Preservation, as well as providing direct support via the National Endowment for the Arts. At a local level, many communities have museums, monuments, and historical landmarks that are operated by city or county governments.

NOT-FOR-PROFIT BUSINESS (AKA “THE PHILANTHROPIC SECTOR”)

Suppose you asked someone, “What is an elephant?” and the person answered, “An elephant is a nonhorse.” You would probably find the answer unsatisfactory. The term nonprofit . . . suggests a business enterprise not organized to make a profit. But it tells us very little about the essential characteristics of this type of entity.

—Thomas Wolf, *Managing a Nonprofit Organization
in the Twenty-First Century*, 1999

The not-for-profit sector is the collective name used to describe institutions and organizations in American society that are neither government nor for-profit businesses. Although the term “nonprofit” is commonly used, as the preceding quotation suggests it can be misleading. We’re going to use “not-for-profit” because many believe that the expression more accurately and positively describes this kind of business.

The concept of a not-for-profit the way we understand it today is actually a relatively modern one. When the income tax system was instituted in 1913, the U.S. government also included a program to **exempt** some organizations from paying income tax. The determining factor in receiving a **tax-exempt status** was what the organization did. If it was performing a service that was for the public good, defined primarily as services the government did not or could not perform on behalf of citizens, exemption was granted. From the founding of our country, Americans’ preference for individual **entrepreneurship** over governmental control has led to



Figure 3-1 Art fair. Many people are not aware that some of their favorite community activities are, in fact, not-for-profits. Artstreet, Green Bay WI.

SOURCE: Photo courtesy Mosaic Arts, Inc.

the belief that many aspects of society would function more efficiently if they were organized as private businesses but were given incentives by the government to perform services that would benefit society as a whole.

In his book *Managing a Nonprofit Organization in the Twenty-First Century*, Thomas Wolf describes a day in the life of a typical American family. It starts with a parent dropping one kid off at day care and reminding the other children about field trips to the YMCA, history museum, and symphony; it also includes visiting a relative at a nursing home and receiving a pledge call from the local public radio affiliate.⁸ There are over a million not-for-profit organizations in the United States, and we encounter them every day; yet many of us are not aware of how they operate or the importance they play in our lives.

Not-for-profit status is an Internal Revenue Service designation. The specific section of the Internal Revenue Code defining not-for-profits is **501(c)(3)**, which is why you'll hear this designation sometimes used to describe not-for-profits. A 501(c)(3) charitable status carries with it the implication that the organization is in business to further its public service mission, not to create a profit for owners. Therefore, all decisions made in a not-for-profit are made with the mission in mind, not profit.

A common misconception is that an organization of this type is not allowed to make a profit. The definition of a not-for-profit has nothing to do with how much money the organization does (or does not) make. The essential difference between a not-for-profit and a for-profit business is that any profits (often called

surplus funds in not-for-profits to avoid the impression that profit is a motive or goal) must return to the organization to support its public service mission, as opposed to being paid out to owners or shareholders. Thus, it isn't true that a not-for-profit can only break even or lose money.

Characteristics of Not-for-Profit Businesses

We're going to spend a little more time discussing specifics of not-for-profit businesses—partly because this type of business is often misunderstood, and partly because so many arts organizations are organized as not-for-profits.

Listed next are some common misconceptions about not-for-profits. It's not uncommon to hear these thoughts even from those who volunteer or work for not-for-profits. It's important, however, that all of those involved with not-for-profit organizations learn about the unique nature of this type of business so that they will be able to make appropriate decisions on behalf of the organization.

- **A not-for-profit is so named because it is not capable of making a profit.**

This idea assumes that profit is or should be the primary aim of any business. A not-for-profit has just as much chance of turning a profit as any other business. The difference is the purpose of the funds: in a for-profit, there is the incentive to make decisions that create more profit for the owners, and in a not-for-profit, the incentive is to create resources that will allow the organization to serve its mission.

- **Not-for-profits use volunteers because they can't afford to hire employees.**

Not exactly. Not-for-profits use **volunteers** so that more resources can be directed toward the charitable mission. Take, for example, a theater whose mission is to keep ticket prices low enough that children can afford to attend. This theater would likely use volunteer ushers so more children could be served. At the same time, using volunteers helps a not-for-profit involve the community in its mission.

- **Not-for-profits are just businesses that are managed poorly or provide products nobody wants. If a business is any good, it will survive in the marketplace.**

Successful not-for-profit businesses are surviving in the marketplace . . . but it's a marketplace whose sources of income are different from those of a for-profit business. A not-for-profit business has to be just as well managed to attract contributions and grants as it does to attract paying audiences. Poorly managed not-for-profits will struggle just like poorly managed for-profits.

Requirements for Not-for-Profit Status

As noted earlier, part of the definition of a not-for-profit business is its mission: the organization is in business to serve the mission, not to create profit for owners. Another part of the definition is the not-for-profit's status with the federal

government. Businesses that wish to be not-for-profits can apply for **charitable** status according to section 501(c)(3) of the Internal Revenue Code. According to the IRS, the following criteria must be met in order for a business to be granted charitable status:⁹

- **They must be organized and operated exclusively for one of the purposes set forth in section 501(c)(3).**

The exempt purposes set forth in the IRS code include charitable, religious, educational, scientific, literary, testing for public safety, amateur sports competition, and the prevention of cruelty to children or animals. The term “charitable” is used in its generally accepted sense and includes “relief of the poor, erection of public buildings, monuments or works, lessening of neighborhood tensions, elimination of prejudice and discrimination, defense of human and civil rights, and combating community deterioration and juvenile delinquency.”

- **The business must not be organized or operated for the benefit of private interests, and none of the earnings of the organization may benefit any private shareholder or individual.**

This aspect of the code does not mean that a not-for-profit cannot pay employees. **Earnings** in this context means any funds left over when expenses have been paid, what we generally call “profit.” If a charitable organization has money left over at the end of the year, that money stays with the organization to continue to support the organization’s charitable purpose. Surplus funds can be invested, used to purchase buildings or capital equipment, or simply carried over into the next year’s budget, whichever is most appropriate for the organization. Such funds cannot be paid to members of the board of directors or distributed to members of the organization as dividends. In keeping with the spirit of this rule, most charitable organizations even refrain from paying bonuses to employees.

- **The organization must not attempt to influence legislation as a substantial part of its activities or participate in political campaigns for or against political candidates.**

This rule is a sticky one. Most arts organizations today acknowledge the need to inform elected officials about the needs of our industry, and to inform our **constituents** about upcoming legislation and elections that may affect the organization. One of the keys to understanding how this rule affects not-for-profits is the phrase “as a substantial part of its activities.” We’ll discuss the particulars of what does and does not constitute improper political activity later. In general, however, an organization that sticks to general voter education (such as informing constituents about issues without taking a side, or telling constituents to vote without endorsing a candidate) is safe on this part of the code.

- **It must not engage in illegal activities.**

It may seem obvious that businesses that receive government benefits may not engage in illegal activities. Yet we seem to hear every day of fraudulent

and illegal activities on the part of even the largest corporations. The key here is that illegal activities that occur in the context of operating a not-for-profit may cause the organization to lose its charitable status and to incur other penalties if found guilty.

Not-for-Profit Privileges

In return for following the rules just listed, the IRS grants the following privileges to charitable organizations:

- **Not-for-profit organizations are exempt from paying federal income tax.** Not-for-profit is a federal statute and applies only to federal income tax. Most states also honor the exemption from income and property taxes, but other taxes may be applicable, including payroll tax, sales tax, and worker's compensation.

Even though not-for-profit businesses are exempt from paying income tax, the IRS has reporting requirements for exempt organizations to help ensure that they are complying with regulations and properly disclosing their financial and donor information. The IRS document called **Form 990** requires basic information from smaller charitable businesses and increasingly complex information for those with larger budgets. In addition, several mandatory supplemental schedules, including conflict-of-interest policies and whistleblower policies, were added to guard against corporate malfeasance. Even though no income taxes are due from not-for-profits, reporting on Form 990 is nothing to mess around with. Organizations should consult with an accountant or tax attorney to make sure they are keeping up with the latest regulations.¹⁰

- **Not-for-profit organizations may accept contributions and offer a tax deduction in return.**

Tax-exempt organizations may accept charitable contributions from donors, and those donors may receive a **deduction** from their own income taxes for those contributions. These deductions are subject to some limitations; for example, a donor must exclude the value of any goods or services received from the charity in exchange for the contribution.

Informally, for-profits can receive contributions. For example, a retail store that is going out of business might choose to donate its supplies and equipment to another business. The difference is that a person donating anything to a for-profit business cannot receive a tax deduction in return for the contribution.

- **Not-for-profit organizations may receive other financial benefits granted by federal, state, and local governments and businesses.**

Not-for-profits are eligible for lower postage rates, and in many states they do not have to pay sales tax either on their own revenue or when they purchase goods and supplies. Many businesses provide discounts or free services to schools and not-for-profit organizations, sometimes as a part of a donation or sponsorship and some as a matter of policy.