Michael Kaiser’s Keynote Address

Transcript

Friday, November 10, 2006

It is a great pleasure and honor to be asked to address you this evening.

I applaud TCG for holding this important conference because I appreciate the importance of boards of not-for-profit arts organizations. I have found that creating a strong and involved board is the most effective and efficient way to build fiscal strength. I learned this when I ran the Alvin Ailey organization.

When I arrived in 1991, we had a deficit of $1.5 million, our dancers were threatening to strike and we had to re-use Xerox paper since we could not afford to buy anything. I learned during my interviews for the job that my board believed the way to deal with this problem was to eliminate our school and our junior company. Half of our 36 board members were uninvolved, financially or otherwise. When we asked those 18 members to leave, and replaced them with strong, involved trustees, our fortunes began to change. The board we created in 1992 and 1993 continues to be the backbone of the organization.

Yet I also appreciate just how hard it is to serve on the board of an arts organization at this time. I have joined the boards of three performing arts organizations and failed each time! I simply did not have the combination of involvement and trust that characterize the best board members.

But even the best board members are facing a difficult environment in which to govern. Of course, the central difficulty we all face in the performing arts is the challenge of improving productivity. Unlike virtually every other industry, we cannot cover the costs of inflation with increases in productivity. There are the same number of performers in Hamlet as when Shakespeare wrote it 400 years ago. Costs go up but the number of performers does not change. This productivity challenge is matched by an earned income challenge:

Once we build a theatre we have literally set the earned revenue potential in concrete. We cannot increase true earned revenue since we cannot increase the number of seats in our theatres. I remember bringing the Ailey Company to the Herod Atticus—a beautiful Roman amphitheater built into the base of the acropolis in Athens, Greece. The entire company was awed by the setting—performing outdoors with the moon over the Acropolis. I only stood on stage and marveled that there were the same number of seats as when it was built 2,000 years ago.

These productivity and earned income constraints that the arts have been facing for centuries place great pressure on ticket prices, unless new sources of funding can be developed. And for most organizations, raising ticket prices simply means reducing audience size and diversity—hardly an attractive option. Many theatre companies have responded by producing smaller and smaller plays—clearly not a sustainable strategy.
These problems have faced the arts since the time of the ancient Greeks, but today we face other difficulties as well: there are a growing number of substitute products, mostly low-cost and electronic, that are competing for the attention and the entertainment dollars of our customers; in many communities, we are facing an oversupply of arts performances; the press is paying less and less attention to serious arts in favor of popular art forms and our public schools have reduced or eliminated the arts programming that brings us the audiences of the future. Taken together, these problems have created financial challenges for most arts organizations.

Having spent the better part of my career working with troubled arts organizations, I have observed that the actions taken by most boards and staffs to address financial challenges tend to make matters worse rather than better and initiate a vicious cycle that is powerful and difficult to escape. Most arts organizations that face fiscal shortfalls react to these crises by cutting back on expenditures. This makes sense. But the costs they most commonly cut are two discretionary expenditures—artistic initiatives and marketing. These cuts tend to create the least short-term disruption and do not require firing anyone. Yet it is these two activities that encourage income flow to the arts. Donors and ticket buyers are attracted to exciting artistic ventures via the marketing that explains these new initiatives. Organizations that cut back on these two areas typically see revenue shrink further. This leads to more cutbacks and worse fiscal results. This downward spiral affects arts organizations throughout the world. I have been involved in turnarounds at the Kansas City Ballet, the Alvin Ailey American Dance Theater, American Ballet Theatre and the Royal Opera House. In each case, the day I arrived I was faced with huge revenue shortfalls resulting from cutbacks in art and marketing. ABT, for example, had performed Romeo and Juliet for seven consecutive years during its season at the Metropolitan Opera. Needless to say, the audience and donors were growing restless. And the board of the Royal Opera House responded to its unprecedented problems—including a $30 million deficit—by canceling two opera and ballet seasons entirely! Many theatre companies, opera companies, ballet companies and symphonies are responding to fiscal challenges by reducing the number of weeks of performances, producing smaller works, becoming more conservative with their repertory and generally shrinking their offerings. Each is at risk of going down this slippery slope. I am unhappy to see so many boards and staffs reacting, predictably, in this dangerous manner. Of course some accommodations must be made for the problems associated with insufficient income. But what should they be? In working with troubled organizations, I have always found the cure to be saving on administrative expenditures: saving on all non-performance and non-marketing areas and putting as much money on the stage as possible. While ABT was at its sickest, we announced the first full length new ballet to a commissioned score in the company’s history—our production of Othello brought in far more money than it cost and helped revitalize our fortunes. We also created a high profile educational program in Harlem, added a series of master classes featuring important dancers from the company’s past and set up a series of summer institutes across America. And we paid off a $5.5 million dollar deficit in the process.

While creating important programming is essential, marketing also has to be bolstered and the public has to be enticed. Most arts organizations spend all of their marketing attention and dollars on selling tickets for individual performances and series. I call this programmatic marketing. And while this marketing is essential, most arts organizations
do not understand the importance and methods for the second form of marketing: institutional marketing that creates strong institutional identity. People go to the Royal Shakespeare Company regardless of the work being performed. The same is true for La Scala. These organizations have created strong images for excellence.

When I arrived at the Ailey Company, I received dozens of letters of condolence on the death of Alex Haley, the author of *Roots*. The public did not know that Alex Hailey and Alvin Ailey were two different people. We obviously had a very big institutional identity problem at Ailey.

We put in place a very aggressive marketing program including an episode of the Donahue Show focused on the company that reached 18 million viewers, an appearance at Bill Clinton’s first inaugural gala that reached 88 million viewers, an exhibition at the Smithsonian Institute, a free concert in Central Park and the publication of two books about the company. Everywhere you looked in New York City in 1993 you would see the Ailey Company. This institutional marketing program helped double contributions, increase ticket sales and tour revenues substantially and made it far easier to recruit new board members. And it didn’t cost us a dime!

It is essential that board members of arts organizations demand and support a vital artistic program matched by a dynamic marketing program. And board members must make sure that an institutional marketing program is initiated to improve visibility for the organization as a whole. Rather than place constraints on artistic initiatives, board members must understand that the health of their organization depends on increasing artistic creativity and license. When the Ailey board wanted to close the school and the junior company, they were falling into a dangerous trap.

I am fortunate that my board at the Kennedy Center understands this imperative. I joined the Center shortly before 9/11. Most arts organizations were reluctant to program expansively after this cataclysmic event. And many organizations believed that marketing and fundraising aggressively was somehow inappropriate at that difficult time. I could not have disagreed more. I found that my audiences were craving the inspiration and diversion offered by our work. And my board was willing to invest an extra $10 million in the largest project we had ever mounted—a major festival of the works of Stephen Sondheim.

This project attracted audiences from all 50 states and from 38 foreign countries. It changed the way the Kennedy Center was viewed by many people throughout the world. And the income it generated—both earned and contributed—paid for the entire festival. We have followed this project with programming focusing on the arts of Latin America, France and China, the plays of Tennessee Williams, American art from the 1940s, country music and African-American choreography. This programming, and the marketing that supports it, has allowed us to increase annual fundraising from $35 million a year in 2001 to $64 million last year.

But we do not measure our success by our fiscal performance. We must measure our performance against our mission statement. Mission statements for arts organizations can be difficult to formulate. Many of us have sat in endless board retreats arguing over where to put a comma. But mission statements are essential management tools—they tell us how we are to measure success.
It is easy to develop a mission statement for a for-profit corporation; it is in the words: "for-profit." every for-profit corporation has the same true mission regardless of the fancy words in their annual reports. And measuring success is simple for them. As long as they make as much money as possible for as long as possible, their share prices will be high and their owners will be happy.

But all we know about arts organizations, and indeed about all not-for-profit organizations, is what we are not for. But what are we for? This is a crucial issue and board members must attend to this discussion with great care and precision. Incomplete or unclear mission statements can result in waste as various members of staff and board work in differing directions. And the resulting arguments over which project deserves funding the most can be embittering and off-putting. And the leaders of all arts organizations must know that we cannot afford to waste anything and we must not lose the attention and good will of our board members and donors.

I run several programs at the Kennedy Center that train arts managers and board members of American and foreign arts organizations. An artistic director of one of these organizations, a DC-based theatre company, created a very bland mission statement that suggested that virtually anything she wanted to do was acceptable. I asked her why she created such a vague mission and her response was, "this way my board has to allow me to do anything I want." That was four years ago-today her company barely exists.

True success for an arts organization means achieving the aspirations of the mission statement—not getting good reviews, selling more tickets than budgeted or other auxiliary measures which may help to sustain achievement of the mission but are not the central goal of any not-for-profit arts organization I have ever encountered. If high levels of ticket sales were the true reason for existence, we would all be performing Cats or Phantom of the Opera every night.

And the good news is that focusing on accomplishing your true artistic mission is also the means to fiscal success. If art is interesting, important and vital, and if it is marketed aggressively and creatively, the fiscal results will be satisfactory, I promise you. This perspective addresses a central challenge inherent in the relationships between boards, executive management and artists. Boards and executive staffs are too frequently on opposite sides from their artistic leaders on so many issues with financial implications. Executives and boards frequently act like an angry parent with the artistic leadership in the role of the naughty child. The child asks: can I have this, can I do that. And the angry parent says: No. No. No.

I believe that the job of the board and the executive staff is to fulfill the vision of the artistic leadership, not to stifle them. And when this is done with careful planning, the fiscal results are better than when less expansive artistic plans are accepted. In fact, boards can help their organizations by encouraging larger, coherent projects. The heart of the Sondheim Festival I mentioned earlier was six new productions of his musicals. But we added a symposium with Mr. Sondheim and Frank Rich, a children's production of Into the Woods, one person shows by Barbara Cook and Mandy Patinkin and a Japanese version of Pacific Overtures. These additions gave the project more weight, the press more to write about, donors more to fund and, of course, delighted our
audiences. Board members should help the staff think in this expansive manner rather than restrict creative activity in an effort to minimize costs.

Recently I added a substantial new activity at the Kennedy Center. As the national cultural center, we have an obligation to play an international role as well. I expanded our international festival activity substantially. Just a year ago, we hosted a landmark festival of the arts of China. Over 900 performers from China came to the Center. Our performances of eastern and western music, Chinese opera, ballet, modern dance, puppetry and theatre were all sold out. This was a huge project, but my board believed as I do that we could do something important for America’s understanding of this vital country with this festival.

But simply bringing foreign artists to the United States is not enough. We also have to offer something back. But most countries believe that they see enough of American culture—it may not be high culture, but they see so many American movies and television shows and hear so much American pop music that they do not want to see more. So we have initiated a program to teach arts management skills in foreign countries. I have been teaching in China and Mexico and Pakistan. And just three days ago, I returned from a trip to Egypt, Saudi Arabia, Jordan and Syria. We are planning a major festival of Arab art in 2009 and will lead a series of arts management symposia in the Arab nations beginning next spring in Cairo. This new form of cultural exchange has become a major element of our activities at the Kennedy Center. And our board has embraced this new concept with more than tacit approval. They created a new committee—the Kennedy Venter International Committee on the Arts—that is responsible for raising funds for this activity. The members of this committee alone now contribute more than $2 million dollars a year to support our international work, and we raised over $5 million for our China festival.

To me, this is an example of a board working at its best—encouraging new, large and important projects, creating an infrastructure to support these projects and working as a team with executive and artistic leadership to achieve the organization’s mission while attending to its fiscal health. I believe this is a template for all successful arts organizations.

Thank you.