The American Way: Culture and Entrepreneurship in the USA

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I am so pleased to be, once again, in the wonderful, culturally rich city of Berlin. Thank you Professor Seibenharr for the invitation and Director Elitz for the hospitality and sponsorship. Over the last four years I have had the opportunity to work with many Berliners from the intellectual, government and arts communities to better understand the issues, challenges and opportunities facing your cultural community and, indeed, the cultural community of much of Northern Europe. I have also had the pleasure to meet many artists, to hear and see many events and to add to my collection of German art works.

Throughout that period I have presented a number of speeches, participated in conferences, met with innumerable arts and media management students, conducted informal chats with arts leaders and developed and led an arts consulting project. I have not only had an opportunity to understand you, but to better understand the American Way as I reflect on the similarities and differences of our two "ways."

In a 1998 speech to cultural managers, here in Berlin, I made the mistake of introducing very detailed and tactical prescriptions for change – as if copying American marketing and fundraising techniques out of context could have any relevance or usefulness to my audience. There could be some lessons to be learned at the tactical level. However, the usefulness is outweighed by a combination of impracticality, inadaptability or, more egregiously, a severe case of an American patronizing the audience. For example, I remember describing in that speech an earned income scheme of an American theater company in Cleveland. The theater company earned a significant portion of its income from charging a fee to its patrons for automobile parking. I have come to learn that Berliners are not used to paying for the privilege of parking when attending a theatrical event.

So today, I submit my remarks within what I hope is a broader strategic context, with more recognition of the economic systems within which you and we, Americans, operate. I also trust that my remarks will continue to be met with a healthy dose of skepticism and that you will feel free to challenge both my premises and my conclusions. In any case, should I inadvertently commit the error of patronizing my audience, I apologize in advance.

Entrepreneurship is a highly valued American characteristic. Its mention raises associations with traits like independence, creativity, assertive behavior, ingenuity, stubbornness, long hours and hard work and the promise of great wealth. It is usually associated with individuals or small groups of individuals. The distinguishing characteristic of most successful American entrepreneurs is that they failed many times before realizing great success.

To understand American entrepreneurship in culture it is instructive to understand the reasons for its development. So, I will present an overview of the economic forces that led American cultural institutions to change and react in a way that makes them today different from those in Germany. I will provide four case studies that demonstrate American entrepreneurship in culture. I will also provide an American's view of the German cultural management system, and for the purpose of discussion, contrast and compare the pros and cons of each. Finally, I will move from the somewhat turgid task of diagnosis to one of contemplating therapies. What can be learned from American cultural entrepreneurship and how can it be adapted to a different cultural system.

Over the last twenty years, a period in which I have had the good fortune to work, the arts in America have grown and thrived. Today, most major and mid-sized American cities boast a theater company, a performing arts center, a symphony orchestra and opera company, at least one art museum and museums of history, science and industry. Most have zoos and aquariums. The citizens of these cities take great pride in their city's culture (even, ironically, if they themselves do not partake in it). During this same time period, a trend developed that is noteworthy and instructive; the institutions transformed themselves from government driven to a more market driven structure.

For example, in New York City since 1982, the amount of funding from all government sources provided to cultural institutions has dropped from almost 30% to about 10%. It is important to note, the direct support from government as a percentage of support decreased significantly yet these institutions grew dramatically. In just four years between 1995 and 1998 the 34 major New York City funded institutions (called the CIG) grew by nearly 57%. At the same time, government funding decreased. Where did the increase income come from? The percentage of contributions from all other sources (private, corporate and foundations), increased from 26% to 28%. Earned income, or ticket sales, concessions, restaurant profits, and yes, parking fees were increasing from 34% to 52%. The major change therefore, was the increase in the earned income, generated from the marketing and sales departments.

The picture is even more dramatic when examining three major New York City cultural institutions. The Metropolitan Opera receives less than 1% of its funding from government. The New York City Opera, less than 4% and Carnegie Hall, approximately 3%. And the balance of earned to unearned income is simple and straightforward, for Carnegie and the City Opera, approximately half of the non-government funding is earned and half is contributed.

I know that many of you are now calculating the differences between your own organization's funding and these dramatic numbers. A few years ago, the average amount of government funding for Berlin cultural institutions was approximately 78%. And of the remaining 22%, 3 % was contributed. Later, I would like to return to the profound differences between these two systems, the role of the government in funding in these two systems, and relate the differences to the cause and effects of American entrepreneruialism.

I would like to turn now to a more subtle point about the role of the government in Culture and Entrepreneurship in America. We have seen the government's direct contributions diminished significantly since 1982 and how, in major arts organizations it is all but inconsequential. However, the government's indirect contribution to culture, through the tax code is significant. This subtle shift of the role of the government in funding is in large part the result, or the cause, of the entrepreneurial way in American culture. Allow me to explain.

Because of the federal, state and city tax laws, a well-off New Yorker may make a contribution to a cultural institution, without any government interference, and receive a significant tax incentive. For example, if an individual makes a gift of $1,000 to Carnegie Hall, the governments (city, state and federal) together return approximately $470 to that person. In effect, the government is passively contributing 47% of that gift. If an individual make a gift of art or stocks or land that has increased in value, the amount of indirect government subsidy is greater. The government, in effect, is leveraging an individual's contribution in a completely passive manner. Likewise with gifts from corporations and foundations, the government provides somewhere between 30% and 40% passive contributions of the unearned income.

The American governments also exempt arts organizations from taxes due the state. Taxes such as sales tax, tax on real estate, and tax on investments and profits are not paid by arts organizations. If a sports team sells a ticket, it must pay 8.5% tax to the city. Carnegie Hall pays no tax on ticket sales, on real estate, on sponsorship income and no tax when it buys office supplies, music stands or theater lighting. With these incentives, independent of quality or any artistic control, the government becomes complicit in the entrepreneurial drive of arts organization. Carnegie Hall's 3% direct government funding is only part of the approximately 30% of the total government funding it receives.

And, the government agencies go even further in rewarding profits for financially healthy organizations by continuing to provide both direct support and tax incentives to those organizations that don't seem to need the funding. Many successful nonprofit arts organizations end the business year with a "profit" that they may save and invest (and pay no taxes on the investments) or invest in a fund for new works, or a new building, or they may increase the salaries of their management team, etc.

The governments, in effect, encourage and promote entrepreneurship in the arts.

Now, with these powerful incentives to raise money and sell tickets and save and invest profits, the arts organizations must compete with each other for audiences, contributions, patrons, sponsorships, and likewise, each is encouraged to maximize cost savings, efficiencies in management and profits. And from this competition comes innovation. It is perhaps because of the intensification of this competition that we have seen a balance and leveling off of funding sources that are diverse and where no one source is so powerful as to make the organization vulnerable.

I believe that it is this balanced array of economic drivers, together with a continual diminution of government arts funding over the last twenty years that have led the way toward American entrepreneurship in the arts.

These forces had also led to an American model of management structure. What is the American Way?

An independent, volunteer board of directors oversees the American arts organization. This group, self-elected and governed, have full and ultimate authority over the artistic and management decision making of the organization. The group is usually composed of leading citizens, business leaders, sometimes artists, and each has a responsibility to personally contribute funds (an entry fee and annual dues, if you will).

There is usually a correlation between the prestige of the arts organization and the prestige of the board, although most board members actually love the work presented by organization on which they serve.

The board's other important role is to hire and evaluate the artistic and managing directors and to let them run the organization. This is most important, once the team is selected; the board's role is not to second guess, to suggest programs, to criticize, but to support and protect. The board also, made up of business leaders who themselves may be entrepreneurial, frequently work with the management team on committees to develop new sources of income, cost savings techniques, and so on.

The managing director (I will use that term for the highest paid and most senior management person) will work very closely with the artistic director sharing the same goals and purpose. Of course, there is some creative tension between the two, but in the best organizations there is mutual support. And the artistic director is sometimes responsible for playing an important management role. [I remember a conductor of an American orchestra once telling me that he was reluctant to ask the board's permission to engage two additional cellist for the orchestra because, he said, ' they will probably give me approval, but we can't afford the eight we already have.']

Many of you are familiar with this structure so forgive the redundancy. The more interesting, and less visible aspects of the organization are the other key “stakeholders.” The other groups that play an important part in the structure- The audience members, the corporations and foundation who fund the organization, and of course, the government. Because the funding sources, as we have seen above, are more balanced (and the government’s role is passive and implicit) the remaining forces are in concert and therefore the organization is compelled to compete for the most funding, the highest ticket prices from the most audience members, the most restaurant sales, the most gift shop sales, the best sponsorships and the best return on its investments. And the organization is compelled to be as financially efficient as possible and to create a financial base that makes it strong and independent.

I know and sympathize with the argument that with these multiple allegiances to the customer, the reliance on the market and with the need to sell tickets, the ability of the American arts institution to experiment is retarded. That artistic freedom is restricted, and that perhaps the quality of the art suffers. I would like to relay to you to four anecdotes that, I believe, demonstrate the opposite and provide case studies of Culture and Entrepreneurship in America.

First is a short story regarding the San Francisco Ballet, one of America’s great ballet companies and arguably a world-class ensemble. The chairman of the board once stated publicly that it is the board’s responsibility not only to assure that the company is financially stable, but also to provide ample funding and support so that artistic director may make some mistakes and that some of his works may be critical failures.

Harvey Lichtenstein, the former President of the Brooklyn Academy of Music, was supported by his board through three failed theater companies before he developed the very successful Next Wave Festival. These first two anecdotes exemplify one of the characteristics of American entrepreneurship, the persistence in the face of failure; the successful American entrepreneur is one who has failed many times before achieving great success. The best arts institutions are led by those willing to take chances and are supported by boards with a tolerance for failure.

The third case study is about the Brooklyn Museum and the “Sensation Exhibition” that traveled from the Royal Academy in London, then here in Germany to the Hamburger Bannhoff and then to New York. You may be surprised to learn that the very successful and much admired Mayor of NYC, Rudolf Giuliani, was so outraged by the content of the exhibition that he threatened to stop city funding the museum if it preceded with the exhibition. In the case of the Brooklyn Museum, more than 30% of the operating income comes from the city, and it is paid in two large installments. Suspending the city funding would have forced the museum to close its doors and cancel the exhibition. The Director, with the support of his board of Directors, and his other powerful stakeholders (like foundations, corporate contributors, and others – including local politicians and voters) resisted the Mayor and ultimately challenged his ruling in court. The museum won the case and the results were that the city was forced to continue its funding and the exhibition was presented as planned. Part of the reason for the Brooklyn Museum’s success was its broad array of stakeholders, the great power (financial and political) held by the members of the board, and its absolute resolution to fight this imposition of unjust and unjustified government influence. This too is an example of American entrepreneurism, the instinct for independence from the rules and local customs – almost combativeness in the face of authority.

The fourth example is from a company that is close to me personally, the Alvin Ailey American Dance Theater(I am a member of the board), a company that many of you in Germany know from its performances here. Seven years ago the company was unable to pay the salaries of management or dancers, the organization owed agents money to presenters, dance shoemakers and even taxes to the government. The situation was dire and although the company received some funding from the state and city, it was only a small percentage of the total. The board and staff were demoralized and the company’s future looked doubtful.

An entrepreneurial manager, Michael Kaiser, was hired. The board turned to one of its key stakeholders, the Ford Foundation, for emergency support. The support, a few hundred thousand dollars allowed the company to survive while in developed a new business plan.

Artistic excellence was never compromised, but every activity was analyzed for its profitability. If the activity wasn't profitable and wasn't essential to the core business activities it was deferred. Relationships between the presenting houses were reevaluated and new contracts were negotiated that shared the risk but provided additional income for successful performances. The long-standing arrangement with its American agent was reevaluated and terminated and a new agency, with a new contract was negotiated. The pricing of tickets was restructured so that the most desirable tickets sold above the market price (and sold completely) and the least desirable seats were reduced to attract a broad audience. The board was encouraged to contribute to a fund for new choreography. A board member contributed funds for a new traveling dance floor that reduced the number of dancer injuries significantly and therefore the cost of touring. As the finances began to improve the extra funds were poured into additional weeks of rehearsals and more new works and the company's success led to increased funding from foundations, corporations and individuals. Then governments began to fund the company and only two weeks ago the City of New York pledge $7.5 million toward a new home for the company.

In seven seasons, the company went from the brink of termination to unqualified business and artistic strength. It was no one person, one bold stroke, no government bailout, but the best example American entrepreneurial spirit – a hopefulness, a blind faith in the ability to succeed independently, creativity and a belief in the quality and uniqueness of the product. And of course, good business practices.

These anecdotes demonstrate three traits: openness to fail on the way to great success; antiauthoritarianism and an understanding of the broad stakeholder base; independence; and faith in one's ingenuity. These are the cornerstones of American entrepreneurship in Culture.

Allow me now to turn to the situation in Northern Europe and, more specifically, in Germany. We know that philanthropy in America is unique. Although there are examples of philanthropy in Germany (for example, individual giving per capita and in total to UNICEF is higher in Germany than in the United States), there is neither tradition nor encouragement for contributions to the arts. We also know that there are cultural prejudices against high prices for tickets for culture, or even for paying for tickets for culture, when the government (meaning an individual's taxes) is supporting the arts.

I approach the issue of comparison with America within the broader context of the Third Sector in Europe. The Third Sector is commonly defined as those social service, health care, educational and cultural industries that have been supported almost fully by government. The sector has grown significantly. According to the Johns Hopkins Project - growth rates of 20-30% over five years - rates that are well above what has been observed in the European economy as a whole. And with this growth, the competition among the industries that comprise the sectors intensifies for government funding. At the same time, the ability of governments to fund is compromised by a slowing economy. One recent economic study forecasts the overall German economy will grow at a rate ½ that of the average of Europe for the next ten years. Our own studies have shown that in the recession of 1995, government funding to performing arts organizations throughout Europe were cut, in some cases drastically.

There is a relationship between government funding for the arts and the overall health of the economy. With these forces in place, a growing Third Sector and a shrinking overall economy, the potential for increased government support for culture in Northern Europe is slim. There are, of course, extraordinary, short-term circumstances, like the Lottery Fund in Great Britain or the relocation of the German capital to Berlin, but the long-term trend points to less funding from government for the arts. You are all familiar with this trend and some of the symptoms:

> The closing of some theaters and the threat of combining so-called redundant organizations
> The elimination of programs
> The threat of interference on a program level from government funding agencies
> The belief, on the part of government, that arts organization are not operating in an efficient manner
> The belief, on the part of some arts organizations, that the government is against them

Overall, there is a possibility that the relationship between the government and the arts could deteriorate.

Combined with economic policies that emphasize privatization of state corporations and holding, recent years have seen a pan European movement that puts virtually all non essential state functions and public agencies under political pressure. To quote Helmut Anheier of the London School of Economics, "The political and institutional consensus of the late industrial society is breaking up." In essence, because of the significant growth of the middle class over the last decades, and the parallel value shift that no longer lodges responsibility for social security, cultural activities, educational programs and environmental concerns exclusively with the state. Of course, we still expect the state to do much, but certainly less than we did in the past. And we do so not because we necessarily distrust the state more; no, we trust ourselves, our societies more."

Now we have seen how the role of the government in the arts in the United States has changed over the last twenty years. My proposition is that perhaps, there are some lessons that can be learned by looking at how American arts organizations reacted when faced with a drastic reduction in government funding. As stated in my opening, I will not now recite a series of tactical initiatives, but rather, attempt to provide a more strategic overview.

First, since the government plays such an overwhelming role in the arts economy in Germany, the government can take the lead in affecting change. There is evidence that a change in tax policy can have a significant beneficial effect. For example, now that sponsorships are no longer taxed, the amount of sponsorships provided to the arts has risen dramatically in Germany.

There is also evidence from other countries, particularly the United States, that private philanthropy is affected by tax rates. Immediately prior to radical changes of the US tax laws in 1986, contributions to the arts spiked up and then fell. Encouraging individuals, corporations and foundations to contribute to the arts through tax incentives is a way for the government to indirectly re-distribute funds.

Finally, and most importantly, the government can encourage entrepreneurship and commercial success. I have heard from many German arts managers that if they should end the season with a surplus the government would provide less funding for next season.

The government can play an influential role in encouraging efficient financial practices by rewarding success rather than punishing a good season by providing fewer funds for the next. One way to do this for example might be to match surpluses with more public funding. In this ideal scenario, a stronger, more open partnership is developed between the arts organization and the government.

Arts managers, artistic directors and artists could also take independent actions together. Without compromising the art, there are ways in which these three parties can cooperate toward more cost efficient management. The management and artistic directors in successful American cultural organizations work together on solutions. I remember hearing a telephone conversation between a managing director and music director of an orchestra that is instructive: The managing director said: "Yes, I can hire the string quartet you requested. However, there are two members of our orchestra who, combined with two other soloist who are visiting, can perform this short solo piece and the cost would be almost 1/3 less. What do you think?" The point of the story was that the Managing director was not dictating artistic decision-making, rather offering options that had financial implications. And when it comes to non-core costs, like administrative overhead, supplies, and travel, our studies demonstrate that 10 to 20% of these costs can be eliminated through more efficient management practices.

Finally, the American arts management business has become global. The arts were always global, with traveling orchestras, dance companies and exhibitions. Now there are global partnerships. The George Eastman House and the International Center of Photography have partnered with the new Photography Center here in Berlin, to create a three-city, two-continent joint venture. The Guggenheim Museum is using its global brand to develop new museums and joint ventures, including the gallery space in Berlin with Deutsche Bank. American orchestras fund raise in from European corporations to support their European tours. And British arts institutions, like the Royal Academy and the British Museum have developed fund raising operations in the United States to take advantage of their strong reputation for quality and the Americans' penchant for philanthropy.

German cultural institutions have great global brand recognition and, by virtue of their touring could have the ability to establish fund raising bases in America or other global partnerships. To date, most of these partnerships have come from America eastward. It may be a propitious time for some German cultural institutions to adopt the entrepreneurial drive to become global partners.