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Confluence: Leadership, Collegiality, Good Fortune

by

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Many *Harmony* readers know something of the Saint Louis Symphony Orchestra's (SLSO) recent history: a brush with bankruptcy and an outpouring of community support; an extraordinary challenge gift to build the orchestra's endowment; the illness and sudden departure of the orchestra's music director. We at the Institute had observed the Saint Louis organization from afar, but recognized that the time had come to learn more about the organization and the processes it has developed to regain its health.

In June of this year, Fred Zenone, Marilyn Scholl, and David Scholl spent two days in Saint Louis, engaged in lively conversations with representatives from all orchestra constituencies. I am pleased to be able to share what we learned.

Background

To the outside world, the SLSO was an orchestra of international artistic repute. The musicians toured regularly and their recordings had garnered six Grammy awards. In addition to performing both classical and pops series, the SLSO operated a music school, conducted nationally recognized community outreach and education programs, and provided seven weeks of music services to the local opera.

But behind the doors of Powell Symphony Hall, financial duress was a constant reality. For nearly 20 years, the organization had been quietly overspending as it expanded its arena of artistic activity. Annual operating losses, when analyzed to exclude nonrecurring revenues, had grown from \$500,000 in the early 1980s to more than \$7 million in 2000-2001, making it impossible to approach an "angel" benefactor to balance the books at the end of each year. The endowment had been raided often to cover operating expenses and stood at only \$18 million (compared with \$120 million or more for peer orchestras).

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Compounding the financial woes were \$9 million in underfunded pension liabilities, a \$6 million bank loan, a multimillion-dollar liability to donors of annuity gifts, and an estimated \$10 million in deferred maintenance to Powell—a gem of a building which dates to 1926, and which the SLSO has owned since 1966.

Looking to assess blame, many in the community questioned the decisions made by prior boards of directors, staff members, and music directors. The current organization answers that criticism with the observation that had those charged with responsibility not had the highest artistic goals, there would have been far less worth saving. Those who held the high artistic ambitions built a great orchestra, one the community wanted to save. The organization had also dealt with the defeat of a 1989 tax referendum, one from which it would have benefited substantially, by making concerted efforts to be more responsive to the community. They built strong programs, such as the community outreach program that serves as a model for the field and is widely imitated.

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In 1999, the SLSO engaged a new chief financial officer whose initial assignments were to install new accounting software and to address potential Y2K issues. In 2000, his charge was broadened to include a review of the SLSO's financials using a conservative audit model. Late that year, his efforts provided some stunning information to the finance committee and to the board as a whole.

- ◆ The music school was losing \$500,000 to \$700,000 each year.
- ◆ The summer pops programs were losing \$160,000 per year on a marginal basis.
- ◆ A single performance at Carnegie Hall lost \$150,000; international tours had posted losses of more than \$1 million each.
- ◆ The SLSO was paid \$500,000 per season to provide services to the opera, but the cost of those musicians' services was \$1.3 million.
- ◆ The symphony's own recording label lost \$500,000 over two years.
- ◆ Perhaps most importantly, projected cash flow for the organization was permanently negative after December 2001.

Parallel Tracks

The year 2000 will be remembered as a watershed for the SLSO. Early in the year, the board engaged Henry Fogel (then president of the Chicago Symphony Orchestra Association) as a consultant to analyze the current situation. Fogel's advice was terse: “You need a transformational gift.”

At the same time, a group of senior Saint Louis business leaders were reviewing what they considered to be the important elements of a quality lifestyle for area residents. SLSO board member John Jordan, a retired vice chairman of Price Waterhouse, was executive director of this group, and he reports that the symphony was identified as a “distressed organization which should receive special understanding.” Andy Taylor, chairman and CEO of Saint Louis-based Enterprise Rent-A-Car, was also a member of this civic committee, as well as a trustee of the SLSO.

Even as the business leaders’ group analyzed the needs of the Saint Louis community, the Taylor family itself was considering ways in which it could contribute significantly to its hometown, and in December 2000, the Taylors made a \$40 million one-to-one challenge grant to the SLSO, at the time the largest grant ever made to an orchestra. If successful, the challenge would add \$70 million to the orchestra’s endowment and \$10 million for operating expenses. Ironically, it soon became apparent that this gift alone would not save the institution.

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In early 2001, the SLSO engaged Randy Adams as a consultant to develop a long-term business plan for the troubled organization. Adams’s analysis and advice sparked considerable interest from the board: he was asked to serve as interim executive director of the SLSO when the then ED resigned, and he is now president and executive director of the organization.

It is instructive to review the options that Adams developed and presented to the executive committee of the board during his consultancy. And it is also instructive to know a bit about Adams’s background. He had served in several senior executive positions with the Saint Louis-based Mercantile Bancorporation (now U.S. Bancorp), including as chairman and CEO of both Mercantile Bank of Saint Louis and Mercantile Trust Company. Prior to joining Mercantile, he was a senior partner with a Chicago-based management consulting firm for 17 years. In that capacity, he dealt with planning and strategy issues for both corporations and nonprofit organizations. He was well-known and respected among Saint Louis business leaders.

Adams candidly admits that although he had extensive experience on nonprofit boards of directors and holds a master’s degree in public policy, as well as an MBA, his only relationship with the SLSO at the time he was engaged to develop a long-range plan was as a season subscriber.

Hard Landing or Soft?

Upon completion of his assessment of the organization’s condition, Adams, in July 2001, presented to the executive committee of the board two options, which he described as “hard” and “soft” landings, because it was now

apparent that the SLSO was regularly attempting to do more than it could afford. The organization needed to find a way to balance artistic ambition with fiscal responsibility.

The hard landing called for expense reductions over six months to balance known revenue with expenses. Among the steps required were:

- ◆ Impose 20 to 30 percent pay reductions for musicians.
- ◆ Reverse previously agreed upon retirement pay increases.
- ◆ Shorten the season from 52 weeks to 35 weeks.
- ◆ Eliminate all pops and opera performances, as well as most special events.
- ◆ Reduce the music director's salary by 20 percent.
- ◆ Reduce administrative expenses by 20 percent.
- ◆ Sell the music school to a third party.
- ◆ Eliminate major portions of the education/outreach programs.
- ◆ Eliminate all out-of-region tours.

The soft landing called for reduction of losses from \$7.5 million to \$1.7 million in one year, followed by a gradual elimination of losses as endowment earnings increased, reaching break-even by 2008-2009. Among the steps required were:

- ◆ Obtain voluntary agreement from the musicians to pay reductions of 10 to 15 percent.
- ◆ Restructure the musicians' retirement plans and defer retirement pay increases.
- ◆ Shorten the season from 52 weeks to 42 weeks.
- ◆ Sell the music school to a third party.
- ◆ Preserve the relationship with the opera, but eliminate nearly all pops concerts.
- ◆ Pay down commercial bank debt and create reserves for unfunded pension liabilities.
- ◆ Raise \$29 million from the community—in cash—within six months (beyond the funds being raised for the Taylor challenge). These funds would be used for debt repayment and to subsidize planned losses in future years.

It is worth noting that after much discussion, the soft landing also preserved the organization's education and outreach programs. As Adams explains, "We came to a very deliberate decision that the SLSO needed to continue to

connect to a broad base of our community, one that goes well beyond simply our patrons and donors.”

Board Action

Even as analysis and option setting were under way within the SLSO’s administration, there was forward-thinking activity afoot within the board of directors. The current board chair, Virginia Weldon, a retired physician, had previously served on the finance committee and as the board’s chair-elect. In 2001, one of her first acts as chair was to oversee the paring of board size from 88 members to 49. This was accomplished through a combination of attrition and creation of a Board of Overseers.

The board also undertook writing of a board-expectation document which clearly delineates trustee expectations for commitment, advocacy, fundraising, and vision. Under Weldon’s leadership, the number of board committees has also been reduced, and the format of board meetings has been changed to reserve time to teach about the organization. Among those teachings have been explanations of the audition process for musicians, staff explanations of the myriad elements that go into presenting a performance, and extensive tours of the hall to assure that trustees were aware of the maintenance needs of the physical plant.

Further, two musicians had been named to the board as full voting members, one to serve on the executive committee, one to serve on the finance committee.

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It was against this backdrop of self-assessment and change that the executive committee received Adams’s options of hard and soft landings. Our conversations in Saint Louis revealed that the executive committee was initially divided in its reactions to the options. There were concerns about a loss of “world class” status and the potential loss of talented musicians. Most daunting, however, was the thought of raising \$29 million in cash in six months, an unprecedented goal for a Saint Louis cultural organization. However, the board ultimately opted for the soft landing and went to work. As Weldon puts it, “I was not going to preside over the downfall of the Saint Louis Symphony Orchestra.”

Weldon explains that it quickly became apparent that the \$29 million would need to come from individuals, not corporations, because the orchestra needed immediate cash, not pledges to be paid over several years. Though aspects of “fessing up” to the orchestra’s true financial condition were potentially embarrassing, both board members and senior managers concluded that they needed to be very forthright and candid with the community. “We needed to convince our prospective supporters that we were serious about doing

business in a different way,” she says. Andy Taylor, along with Randy Adams, convened a small group of wealthy individuals to make their case, and a convincing case it was.

In stark contrast to prior efforts to raise significant sums, and reflecting the organization’s efforts to become more responsive to the community coupled with a business plan that cut costs significantly (cutting \$7 million from a budget of \$28 million), individuals responded strongly, and ultimately the SLSO reached its goal, raising more than \$29 million within the allotted time frame.

Musician Response

In November 2001, the musicians formed a five-member negotiating team to tackle the difficult issues they faced in light of the board’s adoption of the soft landing business plan. The members of this team describe their initial reactions as ones of shock. As one team member told us, “We were initially stuck and wrangling among ourselves. We couldn’t find a consensus.” Another observed that, based on past experience, the musicians had to convince themselves that the numbers they had been given were accurate. “We sought outside audit and actuarial advice as we worked on our response to pay and retirement issues.”

But here, too, board and administration leadership changes were beginning to pay off. “We learned that we did have comprehensive, believable numbers. We knew that the financial data was honest,” said one team member. There was also a growing trust of the executive director’s intentions. Another team member told us, “Initially, we weren’t sure about this guy who had no background with orchestras, but his door was always open and he answered every question we asked.”

After much thought and discussion, the musicians and the board agreed to a restructured contract that met the requirements of the soft landing. To reach agreement, the musicians’ negotiating team and senior managers held 14 sessions to work jointly toward solutions. These were not negotiating sessions; the work was done without the presence of lawyers and accountants; and the organization did not reopen the current collective bargaining agreement.

Though musicians express some sadness about the shorter season, and the loss of touring, recording, and radio broadcasts, they express confidence in the future of their organization. One team member summed it up: “We needed to develop trust. It happened. We needed to work without lawyers. It happened. We needed all parties to work at the same table. It happened.”

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Staff Response

By the time the soft landing plan received approval, staff size had already been reduced and remains small today, especially when compared with similar-budget orchestras. But during our conversations, staff members, too, expressed enthusiasm for the future of the SLSO. “We have had amazing opportunities to reconnect with all segments of our community,” said one. “It has been refreshing to be able to deal openly and honestly with our executive director and our board members,” observed another.

There is no question that a smaller budget, shorter season, and lack of a music director have affected operations at the SLSO. As the vice president and director of artistic administration, Kathleen van Bergen, expresses it, “We must match our artistic planning to the realities of our budget, which does present challenges. But everyone in the organization is learning to take responsibility for what we do. Our experiences of the past two years have taught us a lot about our community and what the community will support. That is very positive.”

Stephen Duncan, the vice president and director of marketing, concurs and adds, “One important thing that has changed around here is that Randy Adams makes sure we get credit as individuals for what we do.”

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A Sidebar on Music Direction

At the time of our visit, the SLSO had just completed a season without a music director and will do so again in the 2003-2004 season. Put another way, during a 31-week classical season, the SLSO hosted 29 guest conductors. That reality has been an added stress for an organization that already had a great deal on its plate. But in the same way that the organization is working its way through financial challenges, so, too, is it defining what it seeks in a music director.

A 12-member committee composed of equal numbers of musicians, trustees, and staff members is conducting the search. They readily admit that they need the artistic leadership of a music director, but also agree that they are seeking a leader who will be a participant in the organization. As one member of the committee phrased it, “We are seeking the active participation of an envisioned leader.”

Looking Ahead

The Saint Louis Symphony story is still very much a work in progress and serious challenges remain. But the major players bring to the table spunk and determination. Are there lessons to be learned here? We think so.

Lesson number one comes from board chair Virginia Weldon, who describes very succinctly the reasons for paring the board from 80-plus members to 49. “With the large board, we needed to ‘invent’ committees to give volunteer trustees something to do. Many of those ‘somethings’ were busywork which was annoying to both volunteers and staff.” She explains that the board is now very focused on the primary mission and vision of the organization. “Our board committees now understand fiduciary responsibility, governance and nominations, and the points at which our entry into continuing artistic excellence count.”

Lesson number two comes from executive director Randy Adams. “To function effectively, orchestra organizations must put fiscal responsibility and financial planning hand-in-hand with artistic planning.” He cites a need for active participants throughout the organization to have full information and a current understanding of the issues. “It is only when we all work with honesty, candor, and full access to information that trust can develop and progress be made.” Further, he acknowledges that there are outside forces within the orchestra industry that can affect the rate of progress for an individual organization. “We must always make our case clearly and deal with perceptions of our orchestra which may not be accurate.”

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The musicians themselves offer lesson number three. They wholeheartedly salute the honesty with which they have been dealt. Among our interviewees, to a person they acknowledge that Weldon, Adams, and senior staff members have given them “straight stuff.” And although they still worry about the future, they are vociferously on board to participate in finding solutions. As one said, “We have watched both trustees and staff members take risks, and we realize that for this orchestra to survive and thrive, we need to take some risks ourselves.”

The final lesson comes from the senior staff. When the “near death experience” reared its ugly head, several staff members resigned. Adams was determined to build a lean and flat organization. And he has. Staff members acknowledge that they work hard and long. But they make those statements with pride. In his or her own way, each expressed the importance of open communication. One put it this way, “We are all working to learn to give and take criticism, to make a point of acknowledging others’ contributions, and to think of this as one organization, not a collection of departments and committees.”

In Saint Louis, the confluence of leadership, collegiality, and good fortune has led to a renewed energy at Powell Symphony Hall. When faced with a choice, the community said “yes, it is important that Saint Louis have an

artistically adept orchestra.” Over the past two years, more than 10,000 individuals have made gifts to the orchestra, ranging in size from \$5 to the Taylors’ \$40 million. When offered the community’s support, those on the inside—both staff and musicians—said we will work enormously hard to earn your trust. And they continue to do so.

A number of questions have not yet been answered. Although Itzhak Perlman has provided a steadying hand as an artistic advisor, entering a second season without a music director raises questions about the orchestra’s ability to maintain its artistic quality. The Taylor challenge is not yet fulfilled and remains an item of concern. The organization has currently matched \$31 million and has until December 2004 to raise a final \$9 million to meet the \$40 million challenge. And the economic forces that have taken a toll on nearly every U.S. orchestra have not exempted Saint Louis. Annual giving for the fiscal year that ended this past August 31 fell short of its target. That shortfall has necessitated expense adjustments to the 2003-2004 budget.

But the Institute considers the Saint Louis story an important one. This story is about an organization that said, “Let’s not just cut expenses; let’s restructure and focus on what we do best.” The story is about an organization that took deliberate steps to make itself an entity in which the community was eager to invest. The story is about an organization that has opened lines of communication in every direction. We will continue to follow the Saint Louis story and will report again in future issues.

We extend a special thanks to the members of the SLSO organization who graciously participated in our conversations.

Marilyn D. Scholl is president of Scholl Communications Incorporated and the editor of Harmony.