

Bridging the Gap: Accountability at the San Francisco Symphony

TEACHER NOTES

Learning Objectives

- Recognize financial headwinds at a large arts organization and understand solutions for improving organizational health.
- Implement measures for accountability and transparency in an organization.
- Propose ways to ensure stakeholder commitment to organizational goals.

Topics For Discussion

Financial Dilemmas

The San Francisco Symphony (SFS) is more than a century old and has an outstanding artistic history. The case explains however that the finances at the SFS had been shaky for a decade preceding the arrival of CEO Mark Hanson. A \$6 million gap in the budget was projected for the 2017-18 fiscal year. Each year, the operating deficits were covered by borrowing funds obtained through a line of credit offered by the symphony's lender, Wells Fargo.

- How did the SFS communicate its deficits during the years of operating losses? How did the board interact with the senior leaders of the SFS at that time? Do students think the strategy was to the symphony's advantage?
- Before Hanson's arrival, what measures were taken by the board and the SFS leadership to reverse the operating shortfalls year to year? How did staff and musicians react to the annual operating deficits? What voids in the symphony's leadership accompanied the budget trauma?
- Describe the circumstances with the SFS's line of credit from Wells Fargo. What changed with the lender when the SFS sought borrowed funds to manage the 2017-18 budget? What effect did this response have on the organization?
- Invite students to evaluate the options that the SFS considered in light of the changes at Wells Fargo. What were the risks of the strategy to eliminate debt? What might have been the advantages of the SFS retaining debt?

Organizational Accountability and Transparency

In the early months of 2018, CEO Mark Hanson, the leadership team, and the SFS board finance committee developed scenarios that would slow and ultimately halt its trend of annual operating deficits. They needed to revise the overly rosy revenue projections that had plagued the symphony in the past and propose cuts to balance the budget in a sustainable way. Leaders and staff prepared for all parts of the SFS to be affected by reductions, most especially a workforce reduction. They examined other areas of the business for savings, including the artistic programming itself. Income-generating strategies were also entertained, and an endowment campaign was also in the works at the SFS. As the case details, the turnaround plan that Hanson led was originally spread over a five-year timeframe and required an outside gesture of support (“bridge funding”) in the amount of \$15 million to ensure the organization would re-emerge stronger than ever from dire financial conditions.

- Using **Appendix 1**, ask students how bridge funding was to work in the original five-year financial plan. The board recommended that the SFS further produce a plan that achieved targets of 35%, 35%, and 30% for earned revenue (ticket sales), contributed income (donations from foundations, corporations, grants, and individual donors), and endowment funds, respectively. Does the five-year plan deliver on these goals?
- The case reveals that a few members of the Board of Governors were unconvinced by the five-year plan. Why was the proposition “too long of a leash”? What solution did the leadership team recommend? What were the upsides and downsides of this revised plan?
- With the new four-year plan (**Appendix 2**), the bridge funding goal was set at \$10 million and the SFS secured two anonymous donors to support the effort. How was the bridge funding to be disbursed?
 - ♦ The donors put two conditions in place in exchange for their gift to the SFS: (1) the organization had to achieve the designated bottom-line results in each year of the four-year plan, and (2) it had to maintain the designated ratio of earned income to expenses. Why were both of these metrics crucial for the success of the plan? What if only one were achieved?
 - ♦ Students may recognize that the revenue and expense targets are not met in the four-year plan given in **Appendix 2**. From what is known about the organization, where should adjustments be made most realistically?
- With bridge funding in place, there was pressure to deliver the annual numbers. Morale was already low and spending cuts were fast approaching. More than 10% of the administrative staff (18 positions) were to be eliminated immediately. What details does the case give about how remaining staff were handled following the job cuts? Can students think of other ways to transition into a new organizational model and address employee concerns at the SFS? Consider ideas about communicating “who does what” in a new administrative arrangement.
- What effect did the newfound transparency of the organization have on staff, senior leadership, musicians, and board members?

Ensuring Long-Term Commitment

The revised financial plan became a guiding star for the SFS. In presentations to staff, musicians, and board members, Mark Hanson explained the new plan and the accompanying bridge funding that would bolster the organization. These parties each had a role to play in contributing to the path of success charted for the SFS. The bridge funders ensured that annual targets

would be achieved with their gifts. If goals were not met, planned bridge funding would be withdrawn, which could send the organization back to perilous operating deficits. Therefore, the CEO, CFO, and board finance committee monitored organizational performance metrics much more urgently than in the past. Discuss with the class the nature of this financial plan as a motivator for organizational and individual success.

- After targets were acceptably met for 2018-19 with the help of \$5 million of bridge funding, another disbursement of \$3.5 million was released to balance the 2019-20 budget. The SFS was emerging as much healthier and agile organization, operating on a lean budget and driven to meet short-term financial goals. Almost daily attention to financial numbers appeared to drain some of the SFS's long-term thinking. Essentially playing the role of Mark Hanson, students are asked to consider how the SFS will operate as an organization in the absence of the bridge funding. Should there be consequences for not meeting quarterly or annual financial goals? What would consequences look like and who should hand down those consequences?
 - ♦ SFS Board president Sakurako Fisher wondered if, instead of consequences, incentives could be put in place for achieving financial targets (the "carrot" approach). What kind of rewards could be put in place at the SFS for meeting or exceeding targets?
 - ♦ As a formal assignment, students may draft a letter to the board president Sakurako Fisher recommending a course of action when bridge funding expires in the fourth year of the financial plan. Solicit student letters in advance and separate into "camps." Structure a debate between the camps on the merits of the recommended approaches.
- Meeting financial goals in the future is crucial for the SFS but also cannot be pinned on the performance of a single individual. The case asks the reader to consider how much each staff member, board member, and musician impacts the financial performance of the organization as a whole. Propose a scenario for class discussion in which annual targets fall short but can be largely attributed to an economic downturn.