

Phoenix In Calgary: How the Calgary Philharmonic Survived Bankruptcy and Flourished

by Donna S. Finley, Alana Gralen, and Larry Fichtner

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Editors' Note: *This is the story of a turnaround. And as with any turnaround situation, the organization was near death, with many in favor of a do-not-resuscitate order. What struck us as important in this story, among other things, was the primary strategy employed—to engage as many stakeholders as possible in the development of a cohesive plan for the future. This plan had to be produced quickly and had to pass muster with the court-appointed receiver, because the organization had already filed for bankruptcy protection.*

The enormous energy and wisdom that this strategy drew to the situation should tell us something about the resources available to us that may not typically be used in our own organizations. The high-engagement strategy is transferable, but it requires a deep shared passion and a willingness to work together to co-create a solution for the thing that is to be saved and given new life.

WHEN THE CALGARY PHILHARMONIC Orchestra (CPO), Canada's fifth largest orchestra, sought bankruptcy protection on October 15, 2002, the predominant view of both funders and the public was that the orchestra should not be saved.

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Giuseppe Mazzini once wrote, "Music is the harmonious voice of creation; an echo of the invisible world." In other words, music is there to be made and it has a will to be realized. In this case, that will exerted itself through those involved with this orchestra.

The Storm

The 2002/03 season was already under way when the CPO called for bankruptcy protection. Contracts with guest artists were signed or verbally committed to, and subscribers were paid up and expecting to attend scheduled concerts. Calling for bankruptcy protection gave the CPO only seven weeks to come up with a viable business plan that would have to be approved by receivers. So what had prompted such a move?

In fact, behind a thin patina of business as usual, the picture was quite dire. The CPO had never wholly recovered from reductions in government funding two decades before and had already and repeatedly been rescued from finan-



“Music has to
breathe and sweat.
You have to
play it live.”

JAMES BROWN

cial ruin. And now it had painted itself into another corner with a plan to fund a large portion of its current year's operations with its next season's subscription funds. After all, most of the subscription funds for the 2002/03 season had already been spent. On top of this, unsecured creditors were owed approximately \$400,000, and liabilities to the musicians and other employees were estimated at over \$1 million.

Immediately before and after the CPO filed for bankruptcy protection, the president and CEO, and the entire fund development staff of six resigned or were terminated, leaving only a third-year university student fulfilling his four-month practicum. The temporary artistic operations manager fulfilled her short-term contract, and the music director completed his tenure with the orchestra with no immediate replacement identified.

Numerous financial crises over the years had led to staff lay-offs or staff leaving to find more stable employment elsewhere. Salaries were cut, and staff quality declined. High staff turnover and temporary or transient staff adversely affected customer service, fund raising, and administrative infrastructure. Records and files were inadequate and office decorum became sloppy. Redundant approval points were required to double check the work of inexperienced staff, resulting in duplication of effort and unnecessary time delays. Crises management was well entrenched. Pride in the organization plummeted.

Finally, unable to cover payroll, the CPO was forced to lay off all 65 musicians and reduce its staff to ten.

The administration offices were piled high with close to 300 boxes of old files. Ten half-ton truckloads of garbage and dilapidated furniture were disposed of, and hundreds of boxes of files were archived.

A House Divided

Even before things came to a head, the relationship between the musicians, board, and staff had been strained, having deteriorated to such an extent that the various parties could not abide sitting together in the same room. Communication at the CPO was a “top down” affair and, despite the fact that the musicians have a high level of education and creativity, they had mostly served in token roles in operational and fund

development activities.

Thus the symphony's core asset, its musicians, had been substantially disengaged from its course setting, despite having five voting seats on the board. While this was an outcome of the history and traditions of the symphony, where musicians follow the directions of the conductor and section principals without asking questions, it was a disaster when it came to planning or acting in concert as a whole organization.



Sixty-Five or Bust

Luckily, there was a flash point issue symbolizing the differences between the musicians and other parts of the organization: the size of the orchestra. A contentious debate had been raging between musicians, board, and funders on this issue for several years. Positions were sharply divided. Musicians wanted to maintain the orchestra size at 65, while the funders felt the only sensible course was to reduce the orchestra size to 55 or fewer and possibly to combine it with the Edmonton Symphony Orchestra, 300 kilometers to the north. The board's decision on this issue turned out to be the leverage point for change.

The musicians were angry, frustrated, and demoralized, but they were also totally committed to retaining the ensemble at 65 in order to preserve artistic integrity. When the board made the decision, over funder objections, to maintain the size of the orchestra if a sustainable business model could be put in place, it constituted a watershed moment in the organization's turnaround. The decision drew in and galvanized the musicians. In exchange for the board's conditional act of faith, they agreed to support the ongoing leadership of the board chair, despite their initial belief that he was responsible for the current state of affairs. Finally, a real collaborative effort rose out of the ashes of past conflicts and mistakes.

Suddenly, there was a will to pull together as a whole. Teams that cut across stakeholder groups were quickly assembled to address the following strategic issues:

- customer demographics, including current and potential new markets

- immediate and long-term revenue opportunities
- artistic visioning and programming alternatives
- the competitive landscape
- organizational structure and governance
- examination of fundraising practices and opportunities
- communications and branding
- partnerships
- alternative facilities and venues

The teams were required to collect information, compare and contrast alternatives, identify trends and opportunities, identify and address issues, and co-create solutions, within a predefined time period.

Not for the Weak of Heart

Despite this now-united will to create a viable future for the CPO together, the road ahead would be very long and laborious. Specifically, the time commitment for the work of the teams was daunting. They generally met daily for the seven weeks allotted for development of the plan. During this time, the teams donated an estimated 8,000 hours, with team meetings often beginning at 7:00 am and running until midnight, seven days a week, for seven weeks. Most were comprised of volunteers since almost no one was on staff, so there was a real possibility of burnout. To keep the groups focused and flexible, the teams started or completed their tasks at different times. This staged approach enabled each group to hand off concepts to others in a logical progression.

An overall strategy integration team, which consisted of the chairs of each task team along with the local union representative, worked to synthesize all the information and recommendations forwarded by the other teams to form a comprehensive renewal plan. This team met for two to three hours every other day for seven weeks.

Research and Shared Information

Given the time commitment, it was important to ensure that each team member was fully vested in decision-making. A fact-based approach leveled the playing field and allowed the group to achieve consensus. The task teams researched, analyzed, and shared a wide variety of information, including:

- research studies
- benchmarks from at least 45 orchestras of various sizes worldwide
- interviews and discussions with key stakeholders
- significant community input, including 1,000 telephone interviews and a survey of more than 1,250 patrons
- current and historical market research
- collective knowledge and experience of musicians, staff, board, and external facilitators

Rebuilding Bridge to the Community

In order to reestablish the first connection back to the community, the CPO crafted a deliberate media strategy to announce the return of the orchestra. They conducted individual negotiations with close to 9,000 patrons to address the value of cancelled concerts and surveyed customers to ensure the changes being made were consistent with market needs.

Reframing the Crisis

Early in the process, the CPO made a concerted effort to shift the language commonly used by the organization. Embracing the adage that “every challenge is an opportunity,” they replaced negative words with more positive ones: “restructuring” shifted to “renewal”; “challenges” became “opportunities”; and “but” became “and.” This positive perspective produced new possibilities and renewed energy in the discussions and search for solutions.

Investment by Professional Firms

But all of the volunteer energy that was going toward crafting a vision had to be matched with careful reconstructive work. The CPO managed to attract the support of six firms that worked collaboratively to provide essential skills and leadership until such time that a new and better qualified administrative team could be hired. These firms provided strategic planning, project management, fund raising, legal assistance, market research, governance, branding, public relations, financial, and human resource management support so that the CPO’s interrupted season and simultaneous restructuring could proceed. Much of this support was provided voluntarily, with the collective donation of professional fees by these firms totaling about \$750,000.

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Results

The plan was accepted by the court on February 6, 2003. As the CPO resumed operations, there was a noticeable change of attitudes and relationships inside the organization. The process of developing the renewal plan had demanded intensive collaboration and instilled honesty between musicians, staff, and board as they attempted to achieve a collective vision, resulting in a clear understanding of the motivations for each of these key stakeholders and how they contributed to the overall success of the organization. The CPO recognized that each partner had a critical role to play.

Substantively, the turnaround resulted in three major accomplishments which met and even exceeded the expectations of the board, the organization, and the community:

- A *financially viable business model* with aligned, measurable goals and a greater awareness of financial milestones;
- A *more engaged, energized, and focused orchestra* passionate about blending its artistic talents with the community's desire for more varied musical performances; and
- *No change in the number of musicians*, which astounded the funders.

Strategic Focus and Market Position

Over the years, the CPO had become solely focused on only 2% of the available market in Calgary: the "classical music lover." To achieve sustainability, the organization recognized the need to broaden its market to reach an additional 13% of the population that also enjoyed classical music, but in nontraditional ways. Marketing focus was redefined and implemented through re-branding, using a different approach to packaging and selling tickets and targeting new audiences and communities.

In addition, the CPO began surveying current and evolving customer needs on an ongoing basis. The information gleaned from the surveys led to the piloting of several new programming initiatives such as *Mozart on the Mountain* and *Beethoven in the Badlands*, and outreach programs like *Asian Heritage Month*. This level of programming began to reestablish the link between the organization and specific communities.

Financial Structure and Sustainability

When public funding was reduced in Canada in the mid-80s, the CPO did not successfully alter its operating model, cost structure, or market penetration. As a result, it hit bottom several times and underwent a number of "recapitalizations." This amounted to more than \$5 million of extraordinary capital being injected into the organization over the years. The CPO was not alone facing this predicament: most of its peer group shared this dangerous under-capitalization. Many nonprofit arts organizations cannot break the cycle of capital injection followed by capital erosion through operations. Typically, as in the case of the CPO, the root causes of the problem are never adequately addressed.

This time was different. The CPO tackled their working capital deficit by:

- raising \$1.5 million in restart capital, half of which came from generous individuals and half from the three levels of government;
- reducing the relative percentage of fixed costs to variable costs primarily through a 20% reduction in musician and staff wages and a decrease in the number of concerts;
- approving a policy to allocate the first \$250,000 of an annual surplus to a reserve pool and then follow a surplus sharing formula with musicians and staff thereafter in order to better handle fluctuating market conditions;
- approving a policy not to "borrow" cash from deferred revenue to meet the current year's needs and setting up a trust account to hold and protect these revenues from the advance sale of the following year's subscriptions;
- introducing a membership fee for chorus members to help offset costs associated with rehearsal hall and music rentals, and conductor and accompanist wages;
- negotiating a three-year collective agreement with the musicians, which helped to restore labor stability;
- soliciting multi-year fundraising commitments, rather than yearly;
- strengthening inadequate financial systems, policies, practices, and structures; and
- changing the structure of the top leadership and hiring a president and CEO, artistic director, fund development director, and a CFO to address the fundamental business issues of the organization.

Organizational Alignment

Of primary significance was the effort to encourage a collaborative organizational culture. This involved engaging the musicians in the marketing, fundraising, community outreach, governance, and programming restructuring initiatives. In addition, the CPO created a deliberate strategy for identifying and hiring a more qualified administrative leadership team. They did board development work as well: the board was significantly reduced in size from about 33 directors to approximately 15, and all board committees except finance and audit and governance were eliminated, including the executive committee. Several prominent community leaders were recruited to the board, and board focus shifted to increasing its involvement and understanding of the business and strategic decision-making.

Communication

The CPO’s messaging suffered from poor style, frequency, and content. Communication was hierarchical, reactionary, and narrow. To address this situation, the CPO implemented a “step-by-step” media strategy to communicate the organization’s progress to stakeholders and the public. This resulted in progressively positive messaging. In addition, through the restructuring period the CPO limited key spokespersons to the board chair and a select

number of musicians, as all administrative leadership positions were anticipated to change. Finally, the CPO, in a critical move, organized regular town hall meetings where musicians, staff, and board could raise issues, and feedback could be collected on restructuring before plans were implemented. These extensive efforts to communicate honestly, openly, frequently, and consistently resulted in a restoration of trust between the three parties.

A Redefined Vision

Before bankruptcy protection, the CPO had always considered and marketed itself as a “traditional symphony orchestra.” However, this outdated notion had only served to distance the organization from the community it strove to serve. The orchestra was seen as an impersonal entity rather than a group of individual artists, and customers sought more interaction.

In response, the CPO developed a new vision that ensured the preservation of high-quality artistry. This updated vision aimed to transform and engage audiences and communities while meeting their evolving needs, to engage musicians in the “business,” and to provide appropriate compensation to attract and retain the high quality of musicians and staff needed to excel. To achieve this direction, the CPO articulated and implemented a sustain-

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ESSENCE OF RENEWAL PLAN

CORE BUSINESS	NEW BUSINESS
47 CONCERTS (DOWN FROM 65)	9 CONCERTS, GROWING AS MARKET DICTATES AND FINANCES PERMIT
50% SEATS SOLD 02/03; GROWING TO 61% IN 03/04	65% SEATS SOLD 02/03; 80% IN SUBSEQUENT YEARS
TRADITIONAL VENUES	DIFFERENT VENUES
TRADITIONAL MARKET	NEW MARKET SEGMENTS
FIXED COMPENSATION FOR 3 YEARS	20% VARIABLE COMPENSATION
RESTORE FULL COMPLEMENT OF 65 MUSICIANS	SPLIT ORCHESTRA
SERIES-BASED TICKET SALES	SINGLE TICKET FOCUSED

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able business model characterized by “core” and “new” business components.

The “core” business was redesigned to preserve the existing customer base (that is, the “traditional classical music lover”) by:

- continuing to offer traditional concert series in traditional concert venues,
- continuing conservative funding generated primarily from public sources and promoting the more profitable series-based ticket sales,
- attributing the majority of the organization’s fixed costs, including 80% of the 65 musicians and 20 staff salaries for a period of three years, to “core” business, and
- cutting back the number of series concerts from 65 to 47 and extending the season from 38 weeks to 41, growing by one week per year.

The “new” business was designed to expand the CPO’s overall market reach and community relevance by enticing new customers (attracted by the flexibility of single ticket sales) to enjoy classical music in nontraditional environments. The CPO achieved this by reaching outside the traditional concert hall and directly into the community where various community voices, values, heritage, and sense of place could be better reflected; it also used new and unusual settings to enable easier introduction to new works.

The CPO also focused on new joint community programming initiatives where revenues and expenses could be shared with other community groups, thus encouraging community members to connect in innovative ways with the orchestra. This also created the opportunity to target nontraditional sponsors, thereby expanding its fund development base (for example, the Asian Heritage Month concert attracted close to 80% new audience members, many of whom had never heard the CPO perform before, and a full slate of new sponsors).

Further, the new business model was based on aggressive assumptions (coupled with greater cancellation flexibility if the concert was not “selling” well) including 65% of seats sold in 2002/03 growing to 80% in subsequent years. The new model also provided musicians and staff the opportunity to derive unlimited variable compensation that could more than make up for the 20% of base salary decreases inherent in the traditional core business component.



Indicators of Sustainability

Three years after the CPO’s restructuring, several leading indicators suggest sustainable healthy performance.

The community responded positively to the CPO’s renewal, providing the organization with an injection of significant new funding at the end of the 2004/05 season. A donation of \$6.3 million to the Calgary Philharmonic Orchestra Foundation, the largest single donation in its 50 year history, boosted the endowment fund to almost \$13 million. Just prior to bankruptcy protection this fund stood at \$900,000, as the organization had to dip into it to provide necessary operating capital. Under the guidelines of the federal Canadian Arts and Heritage Sustainability Program, this generous donation, along with other, smaller donations received in 2005, qualified for a matching grant of \$1.5 million to the endowment fund. The CPO also received a large single donor gift of \$1 million directed toward the 2005/06 season operating budget.

Subsequent to the CPO emerging from bankruptcy protection in February 2003, it has posted three operational surpluses. In August 2005, despite suffering a revenue loss of \$300,000 due to the closure of a primary venue for restoration, the organization was able to post a modest surplus of \$35,000 on revenues of \$7.3 million. During the past three years the CPO successfully met the renewal plan objective of not “borrowing” cash from deferred revenues generated from subscription sales. Box office revenues in 2004/05 jumped to 40% from their 2001/02 level of about 33%. In this same fiscal period government grants went down about 10% to a total of 23% of revenues, and with increased efforts in fundraising, sponsorship, and special events, this total rose to 37%. Using these positive financial indicators as the measure of success, there is no doubt that the CPO’s refocused energies on the customer and community was, and continues to be, the right strategy.

Another unqualified success for the CPO is the Beethoven in the Badlands concerts. Since its inception, this innovative community initiative between the CPO and the local Rotary Club of Drumheller has played to sell-out crowds every year. For the first time in years, the CPO enjoyed eight sold-out performances in the 2005/06 season.

The successful recruitment of world-renowned conductor Roberto Minczuk in 2005 as music director was possible due to the superior artistic quality of the orchestra and a viable operation. Continuing to build on its successes, the CPO recently announced the four-year appointment of Ann Lewis as president and CEO, at a time when the endowment reached a new height of almost \$15.5 million, with an additional \$5 million in trust accounts where interest or distribution from money and/or securities flows to the benefit of the society.

Strategies to Share

The CPO desperately needed to fundamentally reevaluate and refocus every aspect of its operations if the renewal process was to succeed. The organization learned much from its experience, and several strategies are worth sharing.

First, the outdated approach of addressing key issues in a top-down, hierarchical manner had to be replaced with participatory consensus decision-making, and full disclosure of all information (including finances) had to include the musicians.

In addition, task teams needed to include all three stakeholder groups: musicians, staff, and board. In this way, different perspectives could be shared and understood and stronger solutions could be co-created. The task teams were directed to co-create and articulate a renewed vision and how it would be implemented over five years. A similar successful engagement and planning process would:

- build a common fact base
- include diverse views
- evoke emotion and passion
- deeply understand customer/client/constituent needs
- transfer skills to build new organizational capacity
- be iterative. It is better to evolve concepts over time. Focus should initially be: “get it written” more than “get it right.”

Another critical aspect of the turnaround was the realization that financial performance indicators are, in themselves, not sufficient. As David Park of the Alberta Stabilization Fund notes, “. . . Arts companies need to manage to a triple bottom line of artistic quality, community relevance and financial responsibility.”¹ Boards need to refocus their attention on leading per-

formance indicators (indicators that give an indication of the future likelihood of success). A balanced scorecard approach would have provided the board with a clearer view of all aspects of relevant performance.

In times of crisis, it is imperative to recognize the need for external project management and leadership. The musicians provide breadth of knowledge and experience, and can be highly credible spokespersons for the organization, but external expertise can provide tools and techniques for designing and managing the transformational process. They can challenge assumptions and provide objectivity, focusing on the process so that the people directly connected to the organization can focus on the core issues.

Nonprofit organizations need to plan for and be disciplined about building up a surplus so that they can weather the ups and downs of the market. By setting aside resources for an operating reserve, the CPO worked to build the endowment fund to \$25 million. This was accomplished by reorganizing the corporate structure to separate the endowment from the operating society so that, in the future, funds could not be drawn from the endowment.

An additional strategy was the major re-branding that would better reflect the significant changes undertaken within the CPO (see below). Gone was the black and white, stuffy, rigid image that emphasized the letters “CPO”—initials that were unfamiliar to the new market segments. It was replaced by a fluid, colorful, and recognizable image that more clearly emphasized the orchestra. Finally, split orchestra arrangements that offered more flexible operating structures were introduced.



ABOVE: RE-BRANDING SIGNALS A FRESH START

The learnings from this process can be summarized as follows:

As Peter Drucker has noted, “Focus on your strengths, not your weaknesses. Focus on the opportunities, not your problems. And put your best people on your biggest opportunities, not your biggest problems.” In the case of the CPO, the largest opportunity for the orchestra was to dramatically shift its focus from fundraising to

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satisfying customer needs. In addition, because the artistic integrity of the orchestra was never in question, emphasis needed to be placed on significantly improving the back office and administrative support. In your own organization, focus deliberately and fully on a chosen customer segment(s) that the organization can best serve; funding will follow.

Focus on achieving good results—not perfection—remembering that activity does not equate to results. The CPO's renewal team and subsequent transition management team did not attempt to do everything; they were very selective and deliberate in the problems they chose to address. In this way, they were able to finally resolve longstanding issues and clear them off the board so that other issues could be tackled.

Co-create solutions. The CPO's ability to overcome bankruptcy protection, successfully resume an interrupted season, and realize a position of sustainability are attributable to the organization's powerful commitment to working together to co-create solutions. Through intensive collaborative efforts by the board, administration, volunteers, and especially the musicians, the organization was able to fundamentally and objectively examine, understand, and in the end, agree on how to jointly resolve complex issues.

Be open to anything—change agents and strategic ideas can come from surprising places. By investigating other sectors, proven ideas can be identified and migrated into your situation. The perspectives of people not as familiar to your sector and situation can have the most profound suggestions for improvements or new ways of doing things. The trick is to ask for their input and to listen carefully to their response.

Endnote

1. David Park, Chair, Alberta Stabilization Fund, 2002.

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