UTAH SYMPHONY & OPERA MERGER

HARVARD BUSINESS REVIEW

ORGANIZATIONAL MANAGEMENT

JFT2: Task 2

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A1: Utah Symphony Strengths and Weaknesses

Utah Symphony

Horizontial Analysis

	Historical	Projected	Change	% Change
Revenue and Contribution				
Performance Revenues	3,836,513	4,516,308	679,795	17.7%
Government Grants	3,124,999	2,904,312	(220,687)	-7.1%
Contributions (a)	4,460,268	5,080,040	619,772	13.9%
Investment Income (b)	817,505	910,013	92,508	11.3%
Guild Income	155,434	110,001	(45,433)	-29.2%
Other (c)	3,829	243,000	239,171	6246.3%
Total	12,398,548	13,763,674	1,365,126	11.0%
Expenses				
Program (d)	10,447,382	11,851,541	1,404,159	13.4%
Management and General	670,832	722,110	51,278	7.6%
Fund-raising (e)	1,164,026	1,187,980	23,954	2.1%
Other (f)	0	0	0	N/A
Total	12,282,240	13,761,631	1,479,391	12.0%
Surpulus (Deficit)	116,308	2,042	(114,266)	-98.2%

Vertical Analysis

	Historical	%	Projected	%
Revenue and Contribution				
Performance Revenues	3,836,513	30.9%	4,516,308	32.81%
Government Grants	3,124,999	25.2%	2,904,312	21.10%
Contributions (a)	4,460,268	36.0%	5,080,040	36.91%
Investment Income (b)	817,505	6.6%	910,013	6.61%
Guild Income	155,434	1.3%	110,001	0.80%
Other (c)	3,829	0.0%	243,000	1.77%
Total	12,398,548	100.0%	13,763,674	100.00%
Expenses				
Program (d)	10,447,382	84.3%	11,851,541	86.11%
Management and General	670,832	5.4%	722,110	5.25%
Fund-raising (e)	1,164,026	9.4%	1,187,980	8.63%
Other (f)	0	0.0%	0	0.00%
Total	12,282,240	99.1%	13,761,631	99.99%
Surpulus (Deficit)	116,308	0.9%	2,042	0.01%

Financial Strengths and Weaknesses

The Utah Symphony is well respected as one of the top symphonies in the Western states. Financially, the symphony has several strengths that will be potential assets to the merger. Of the total revenue for the symphony, 30.9 percent of that comes from performance revenues. This is a good percentage and speaks highly of the popularity of the symphony. The projected increase for performance revenues in the next year is 17.7 percent, which will increase the symphony budget by almost $700,000. Total revenue is projected to increase 11 percent due to increase in box office fees and rentals. Looking at overall projections for symphony revenue over the next year, all revenues are projected to have substantial increase.

Although revenues are projected to increase substantially and should create more budget flexibility for the symphony, poor management of finances have the symphony spending almost all of what it makes every year, regardless of increasing revenues. Projections for the coming year have the symphony increasing expenses around $3 million. These increases are mainly due to increase in musician and management salary increases. The percentage of increase in salaries will likely not be sustainable and has the symphony spending over 98 percent of its revenue. The planned budget leaves no wiggle room for unexpected expenses and disables the symphony to further distribute working capital in finding ways to expand programming. The symphony also did not meet its strategic goals last year, the first of which was to increase profitability from $116,000 to $500,000. Rather than meeting this goal, the symphony's profitability decreased $114,266. Another unmet goal was for the symphony to be financially stable with sufficient annual profitability. With a net income of only $2,042 in an organization with a multi-million dollar budget, this goal was also left unmet. For the symphony to meet its strategic goals, the symphony would have needed to secure greater fundraising or increase ticket prices. By the numbers, it is obvious that many expenses were increased, but ticket prices were not. At this time, the symphony is on track for a deficit in the next year.

Leadership Strengths and Weaknesses

Keith Lockhart is a loyal leader for the Utah Symphony. His experience in composition and conducting gives him credibility and respect in the arts community. He has the best interests of the musicians at heart, which makes them loyal to him in turn. The board greatly respects him and will not go through with the merger unless he consents to it. Because of his expertise and loyalty, Keith holds a lot of sway with key players who can make or break the merger. He is concerned with the symphony audience, understands their concerns, and knows how best to capture the continued interest of the audience.

Although Lockhart has many strengths, there are also weaknesses in his leadership that could threaten his ability to support the merger. His concern for keeping the musicians happy could keep him from doing what is best for the organization as a whole. Lockhart is a respected and professional conductor, but obviously does not have great control over the financials of the symphony. Another potential weakness comes into play as the merger takes place. Lockhart has no opera experience and there could be hard feelings as he goes from being the leader of the symphony to "second in command" reporting to Ewers.

Steps to Address Weaknesses

Much of the increase in expenses for the symphony comes from musician and management salaries. Salaries constitute 60 percent of program expenses, which adds up to about $6.3 million. The planned increase in salaries and benefits in the coming year would cost the program $1.4 million. Because the economy is currently down, it would be wise for the symphony to consider only increasing benefits and leaving salaries the same. This would save the program between $800,000-$900,000 in payroll and payroll taxes, as payroll taxes do not increase if increased benefits are related to healthcare. It satisfies the musicians by giving them a raise without busting the symphony budget.

To help with leadership weaknesses in the symphony, Ewers will first want to address the possibility of hard feelings as Lockhart is asked to figuratively play second fiddle in the merger. She should solicit his advice and ask in what parts of symphony operations he sees potential for improvement. He should never be blindsided with administrative decisions and, if decisions are at odds with what he thinks, a logical, well-founded argument for the decision should be presented. She can help educate him on the ins and outs of the opera's operations and solicit his perspective on improvements there as well to create a more synergistic and united leadership team.

A2. Utah Opera Strengths and Weaknesses

Utah Opera									
Horizontial Analysis					Vertical Analysis				
	Historical	Projected	Change	% Change		Historical	%	Projected	%
Revenue and Contribution					**Revenue and Contribution**				
Performance Revenues	1,028,177	733,900	(294,277)	-28.6%	Performance Revenues	1,028,177	21.7%	733,900	14.35%
Government Grants	977,322	958,882	(18,440)	-1.9%	Government Grants	977,322	20.6%	958,882	18.74%
Contributions (a)	2,189,987	2,843,941	653,954	29.9%	Contributions (a)	2,189,987	46.2%	2,843,941	55.59%
Investment Income (b)	177,730	183,327	5,597	3.1%	Investment Income (b)	177,730	3.7%	183,327	3.58%
Guild Income	40,000	30,000	(10,000)	-25.0%	Guild Income	40,000	0.8%	30,000	0.59%
Other (c)	327,900	365,999	38,099	11.6%	Other (c)	327,900	6.9%	365,999	7.15%
Total	4,741,206	5,116,049	374,843	7.9%	**Total**	4,741,206	100.0%	5,116,049	100.00%
Expenses					**Expenses**				
Program (d)	3,017,069	3,337,968	320,899	10.6%	Program (d)	3,017,069	63.6%	3,337,968	65.25%
Management and General	583,358	612,705	29,347	5.0%	Management and General	583,358	12.3%	612,705	11.98%
Fund-raising (e)	210,031	217,702	7,671	3.7%	Fund-raising (e)	210,031	4.4%	217,702	4.26%
Other (f)	348,339	474,672	126,333	36.3%	Other (f)	348,339	7.3%	474,672	9.28%
Total	4,158,797	4,643,047	484,250	11.6%	**Total**	4,158,797	87.7%	4,643,047	90.75%
Surpulus (Deficit)	582,409	473,002	(109,407)	-18.8%	**Surpulus (Deficit)**	582,409	12.3%	473,002	9.25%

Financial Strengths and Weaknesses

The Utah Opera has several financial strengths that will help bring success to the merger. The opera brings in just under $600,000 in net profit and has relatively low and flexible expenses compared to the symphony. When the opera doesn't reach a fundraising goal, they adjust size of the opera or eliminate projects. The opera also owns assets in the form of 2.9 acres of land and 17 sets, and 38 productions of costumes valued at $4.8 million.

The opera's financial weaknesses undercut some of the strengths. The assets that they currently own in sets, costumes, props, etc. are being rented out in an attempt to generate additional revenue. However, expenses incurred in the rental part of the program exceed the revenue generated by 0.4 percent. Management of wages is also a weakness for the opera. In a financially down year, management and general wages were still increased. Program costs also increase with expenses related to production costs and vary according to the performance schedule.

Leadership Strengths and Weaknesses

Anne Ewers is well liked by those she works with and is known for her energy, enthusiasm, and ability to listen to the ideas and concerns of others. Her fundraising efforts are extremely successful and have been able to eliminate deficits and increase profits for opera companies over the years. She has had great success in her past endeavors with the opera and is respected for her past and current knowledge and abilities.

Although she has been very successful with operas across the country, Ewers is about to take on a very large project with the merger. Her unfamiliarity with the ins and outs of symphony operations decreases her credibility as CEO of the joint Utah Opera and Symphony program.

Steps to Address Weaknesses

It iscurrently costing the opera more than they make to rent out costumes, etc. Prices should be increased for the opera company to make profit on its rental operation. The performance schedule should also incorporate high-revenue, low-cost performances. Revenues are currently projected to decrease $294,277 in the coming year. Adjustments should be made to increase these revenues. With the great availability of sets and costumes for 38 productions, even if the opera put shows into rotation, with its current schedule of three-four shows/year, shows would only be redone every 8-12 years, which is more than reasonable to recapture an audience. By using the assets they already have, the opera can save on production costs and increase revenue. Rather than give straight salary increases, in down years it is a great time to motivate with incentives. If management can meet strategic goals, they get incentive packages. People should be rewarded for positive performance. Strategic goals such as financial stability, increased reserve funds, and realizing endowments should be set in motion and incentives contingent upon the meeting of these goals.

To make up for her leadership weaknesses in lack of knowledge, Ewers should set goals to educate herself on the operations of the symphony. Changes that she attempts to make will likely be resisted if symphony employees and supporters think she is not qualified or does not truly understand the needs of the program. She should rely on the expertise of Lockhart and symphony board members in striving to completely understand the impact of decisions before attempting to implement change in symphony operations or combine symphony efforts with those of the opera.

A3. Scorecard Aspects

Symphony Scorecard

The financial goal of the symphony was financial stability with sufficient annual profitability. Profitability dropped in the past year $114,266, which starts this goal off on a bad note, as profitability was intended to increase to $500,000 in "coming years." Because of unsuccessful fundraising, the symphony will have to increase ticket prices to cover expenses.

The strategic goal in reference to customers involves having world-class performances and hiring top quality talent. It can be assumed that, because of increase in ticket sales, the performances were appreciated by audiences.As a result of unbalanced budget, the symphony's expenses are not sustainable.If the symphony wants to continue hiring top quality musicians to please its customer base, expenses will need to be controlled.

Internal process goals were also not met due to lack of financial controls. Profitability decreased and contracts were not renegotiated. Although overall revenue increased, the downward spiral of the symphony's increasing expenses made it impossible for the organization to meet its goal of increased profitability.

For learning and growth, the symphony appears to be meeting its goals. Reaching a wider audience and having those audience members return is evidenced by increase in box office revenues and ticket sales. Performance revenues do not increase if a wider audience is not reached. Once again, the symphony will need to gain control of its finances in order to continue meeting this goal.

The strategic goals outlined on the scorecard align with the vision of the Utah Symphony to be a world-class symphony and provide sufficient quality concerts to sustain its 83 full-time musicians. The vision and strategic goals combined support a clan culture, which means everything is about taking care of employees.Because the needs of employees come before those of the company in a clan culture, net profit is declining, the business model will eventually fail and there is a possibility that the symphony will cease to exist.

Opera Scorecard

The opera's financial goals involve being financially stable with an increasing reserve fund. Increased contribution and investment income indicates that the opera is meeting those goals. The reserve fund was increased by contribution and investment income, which was the required measure.

The opera's goals in regards to its customer base involved giving quality performances and selling out or nearly selling out of performances. The past year shows a decline in performance revenues, which indicates that this goal is not being met. Offering quality performances needs to be revisited to see where the disconnect is between the opera and its audience.

The internal process goals for the opera involve financial stability and attracting top talent. Part of this goal has been met, as the opera is financially stable regardless of its declining ticket sales. However, declining tickets sales can also indicate less quality in performances, which is not attractive to the most talented performers. In order to attract top talent, the opera needs to evaluate performances and how it can use its financial stability to increase quality.

For learning and growth, the opera once again did not meet its goals. The opera is performing 3-4 productions, where the strategic goal was hopeful for ensuring the production of 5 yearly. Although capital need was met, it was not met by ticket sales. Revenue from ticket sales decreased, but the endowment fund grew, which means the opera once again only half-met this goal.

The strategic goals outlined on the scorecard align with the vision of the Utah Opera to become a nationally renowned opera, improve quality of performances, and increase endowment funds. The vision and strategic goals combined support a mixture of market and adhocracy culture, which means putting on a great show is about adapting to produce the needed revenue. If predetermined fundraising goals are not met, performances are cancelled, which means the good of the company is put above that of the individuals. Although the market/adhocracy culture has enabled the opera to be financially stable, the quality of performances has decreased. To continue in its success and meet goals, the opera needs to find a balance between meeting financial and performance quality goals.

B. Balanced Scorecard – Merged Company

UTAH OPERA AND SYMPHONY BALANCED SCORECARD

	Strategic Goal	Critical Success Factor	Measure
Financial	Combine strengths of Opera and Symphony to achieve combined financial stability and growth	Decrease expenses and increase revenue through ticket sales and fundraising	Have capital need covered by revenue from ticket sales
Customer	Give world-class performances to maintain audience base and obtain	Utilize strengths of opera and symphony, respectively, to provide quality performances	Maintain ticket sales and obtain reviews and exit surveys from patrons regarding customer

	regional and national acclaim		satisfaction
Internal Process	Enable opera and symphony to continue operating as independent programs, while slowly implementing combined processes	Create management structure for merged company that creates governing body, but maintains ability of opera and symphony as independent programs	Retain key employees and maintain 52-week symphony performance schedule for symphony
Learning and Growth	Introduce the new face of the Utah Symphony and Opera to the community	Create at least one new performance in which the symphony and opera work together synergistically	Sell out of this performance for all available shows

C. Merged Strengths and Weaknesses

The financial goal of the Utah Symphony and Opera combines the issues and strengths of both symphony and opera in an attempt to mitigate issues that both organizations bring to the merger. The opera has strengths in fundraising and financial management, but struggles in delivering quality performances and selling tickets. The symphony is renowned and has an amazing ability to increase ticket sales year after year, but has such poor management of expenses that its high ticket sales still result in almost no net profit for the organization. By combining the strengths of the two operations, expenses can be lowered and sales increased with the hope that ticket sales will cover capital need.

Maintaining and expanding the customer base for the Utah Symphony and Opera is crucial to organizational success. For the new company to succeed, it needs to analyze the response of its audience to productions post-merger. This response will be partly apparent through ticket sales, but to identify needs of the audience, more specific feedback can be obtained through reviews and surveys. By analyzing specific responses of audience members, the Utah Symphony and Opera can pinpoint ways in which each organization can play to its strengths to contribute to the success of the merged company.

To succeed in combining the two companies, a step by step process will be required. For the first year, the two entities should be allowed to function externally, in programming, etc., much the way they have in the past. i,e., This means allowing the current conductor to continue working with the symphony in rehearsal, performance, etc. Key players will maintain control over their respective areas with regards to independent logistics of the symphony and opera. The symphony will retain its 52-week performance schedule to allow its musicians to keep their contracts. However, combining efforts must also begin in this crucial first year. The new management structure needs to allow Ewers to implement some new programming in which the two organizations work together for the good of the whole, but individual programming and operation must also take place. Ewers will also manage fundraising efforts and finances for the organization as a whole to capitalize on strengths and lessen effects of weaknesses. By combining some necessary areas and leaving others to be managed as they currently are, the merger will be less of a shock to the organizational system and have greater chance for success.

To grow the identity of the new company, the Utah Symphony and Opera needs to do something to capture the attention of the public. A well-marketed, new production with fresh ideas is what this merger and its public needs. By doing something big to introduce the combined efforts of the merger, the new company sends a message to its public that it is here to stay and that it was worth the effort. A fresh production utilizing the strengths of both opera and symphony will set the tone for future success fort the Utah Symphony and Opera.

D. Probable Issues

Finance

The symphony currently turns a very small amount of net profit compared to the opera. When the two programs are combined, resources will need to be allocated to help each program find greatest possible success. It would seem like the easiest solution to take the surplus generated by the opera and redistribute it to the symphony. However, this would allow the symphony to continue operating with poor financial management and upset personnel and trustees from the opera who would want to see the money put back into the opera. To avoid this issue, financial operations in the symphony need to be cleaned up and net profit increased. Possible areas on which the symphony could focus financially are salary and benefit costs and fundraising. By obtaining additional funding and avoiding dramatic increase in salary costs in coming years, the symphony will become more profitable and the question of reallocating opera funds to the symphony will no longer be a problem.

Human Resources

Compensation and benefits could become an issue as the opera and symphony merge. If the pay and/or benefits offered by one are more than the other, the newly merged program must find ways to strike a balance between the two programs. This can be expensive, but will be necessary for employee satisfaction. Ewers will need to meet with the heads of the respective organizations to determine what compensation and benefits are most important to each. After several months of operation as a merged program, she should conduct employee evaluations and surveys to analyze whether or not employees perceive inequalities in the way they are compensated compared to those from the other side of the merger. Once evaluations and surveys are conducted, if inequalities are perceived, she can work with the two halves of the organization to make changes and find balance as necessary.

Customer Satisfaction

Mergers often incur expenses for a company or program, and the opera and symphony merger will be no exception. To cover expenses that arise in the early days of the merger, a possible source of additional income would be increased ticket prices. To keep a positive outlook for the new program's customer base, it is important that the opera and symphony find ways to balance budgets and create revenue without increasing ticket prices. Increasing ticket prices right at the birth of the new program will brand it as being more expensive, which could make both sides of the merged program lose customers. By following previously made recommendations such as increasing benefits instead of pay, increasing price of opera rentals, offering goal-driven incentives, and utilizing current assets in productions, the opera and symphony can avoid raising ticket prices and retain a satisfied customer base in pricing.