Chapter 9

Controls, Operations, and Budgeting
Chapter Overview

Just as there is a “behind the scenes” in a performing arts organization or museum, there are activities and functions that the public doesn’t see when it comes to managing and administering an arts organization. Organizations need effective control systems, efficient operational processes, and well-managed budgets that are up to date and accurate.

This chapter examines the topic of control as a management function. Control systems are embedded in all parts of an arts organization. Since there is always an element of risk involved in producing arts and culture programming, the arts manager needs a framework to help them quickly assess the status of multiple projects.

Coordinating and monitoring the many activities an arts organization undertakes in its operating cycle requires a detailed understanding of who needs to be doing what, where and with what resources to meet specified deadlines like an exhibit opening or festival opening night.
Operational control is defined as, “the process through which managers regulate the activities of individuals and units so they are consistent with the goals and standards of the organization." [Hill, McShane, p. 208]

### The Control Process

1. **Step 1. Establish performance objectives and targets**
   - Increase subscription sales by 8% in next year

2. **Step 2. Measure actual performance against targets**
   - Sales increased by 4% in the year

3. **Step 3. Assess causes for difference in performance**
   - A. Budget too low?
   - B. Insufficient help?
   - C. Poorly implemented plan?
   - D. Other?

4. **Step 4. Take action to improve performance**
   - A. Increase budget
   - B. Hire additional staff and telemarketers
   - C. Evaluate plan and adjust it
   - D. Take other actions as needed

### Factors that Impact Control Processes
- Clear objectives
- Degree of uncertainty
- Complexity of the tasks in a process
- Human limitations and the rate of errors
- How centralized the control system is

Monitor complexity and use the K.I.S. Principle: Keep It Simple where possible
Management by Exception (MBE) as a Control Process

Focus limited time and resources on systems or subsystems that are performing below or above expectations.

For MBE to work effectively the arts organization needs good internal control systems. Each department or area needs to develop performance standards that are widely understood by staff. Building a culture of quality assumes communication when standards are missed or met. Developing flexible decision making that allows for corrections in processes and procedures helps ensure the work product and service is consistent.
Performance Appraisal as a Control System

The people working at all levels in an arts organization are a significant capital investment that needs to be treated with respect and continually developed as an asset. The single largest budget expenditure in most arts organizations is salaries and benefits. The surest way to quality as an arts organization is to provide timely and meaningful feedback to the employees so they can continually improve.

An arts manager should approach the performance appraisal of staff in much the same way a director, choreography, or a vocal coach would help a performer sharpen and strengthen their performance. The key is ongoing performance feedback not annual reviews as is the case in most organizations. A constant feedback loop is established in support of goals and objectives. Timeliness is key to helping people improve.
Management Information System (MIS) as a Control

Information is the lifeblood of any organization. In order for information to be of value to an arts manager, it needs to be reliably gathered and consistently shared with the people who need it to make decisions. The project-driven and high risk environment in which arts organizations operate necessitates timely reporting of sales data, fundraising revenues, attendance figures, and budget balances.

In order for the MIS to function effectively an arts organization needs a Customer Relationship Management (CRM) system that collects, and then helps combine, compare, analyze and distribute information for use in decision making. Paired with well designed Business Intelligence (BI) system designed to report about the kind of data needed by arts managers, the MIS can overcome the staffing limitations faced by arts organization. Many small arts organizations can utilize spreadsheets to support their MIS, but as an organization grows in its complexity, the need for a more comprehensive system will become necessary.
Components of a Management Information System

A few of the basic parts of a MIS includes a network of computers using shared software across areas such as operations, finance, marketing, and fundraising. The flow of information through the organization should also help you understand how well you are meeting the goals and objectives of the planning process. Decisions are supported by the MIS.

Management Information System – Interdependencies

<table>
<thead>
<tr>
<th>I.T. System:</th>
<th>Software:</th>
<th>Decisions by staff &amp; board are supported by information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servers and/or Cloud</td>
<td><strong>CRM</strong> [ticketing, donor support, marketing, email, social media],</td>
<td>- <strong>Board</strong></td>
</tr>
<tr>
<td>storage plus laptops,</td>
<td><strong>Finances</strong> [accounting, budget management, inventory, reporting],</td>
<td>- <strong>Executive Director</strong></td>
</tr>
<tr>
<td>desktops, printers,</td>
<td><strong>Operations</strong> [scheduling, production support, venue management,</td>
<td>- <strong>Staff + Volunteers</strong></td>
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<tr>
<td>telephones</td>
<td>maintenance]</td>
<td></td>
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Planning Process

- Organizational Analysis
- Formulating Strategies
- Develop Goals & Objectives
- Execute plans
- Assess results
Budgets and the Control System

Budgets are quantitative expressions of an arts organization's operations and plans. In fact, a yearly budget demonstrates how an organization plans to allocate its resources based on its estimates of income. Whether intended or not, a budget is evidence of its short-term priorities.

Different Types of Budgets

**Fixed budget** – (also could be the operating budget) It is typically set up with allocations for the year ahead and reports are issued showing actual to estimated expense. Budget lines are not altered and show overages or shortages to help with future budget planning.

**Flexible budget** – (also could be the operating budget) Starts with fixed budget amounts but also shows revised budgets based on internal reallocations made during the year.

**Zero-based budget** – A process whereby each budget line is reset to $0 each year and budget manager's submit requests based on plans for the year ahead.

Other budgets – **Project budget** (short term specific project e.g. gala) and **Capital Budget** (could be a multi-year budget for the construction of a new facility)
Budget Structure

Budgets are typically created to integrate with the accounting system used by an organization. Chapter 10 will go into more detail on this, but there is a relationship between what is called the Chart of Accounts and the budget.

Elements of budget

- Income sources from sales other revenue streams
- Separate line item estimates for donations followed by grants
- Summary expenses are shown, but typically organized around chart of accounts and functional areas (e.g. marketing, production, etc.)
Budget with project areas

To better track programmatic expenses by functional or project areas, a budget can be created that shows revenue and cost allocations across the organization. This budget also has a variance section showing surpluses or (deficits).

Column for regular season revenue and expenses

Cost allocations by areas (touring, education, building, etc.)

Variance report shows (deficit) in education, but overall budget shows a surplus
Cash Flow Budget helps the organization track and anticipate budget problems based on when income is expected and expenses are likely to occur. In the example, problems with cash flow arise in February.