

## Organizational Level Effectiveness of a State Funding Increase in Public and Private Arts Institutions

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### Introduction

In Nordic countries, arts and cultural institutions are largely financed by the state and municipalities. Previous research on public and private funding indicate that an increase in state funding influences the behavior and activities such as programming, adoption of technological innovation, and training of managerial staff in arts organizations (Alexander 1996; Bagdadli and Paolino 2006; Camarero et al. 2011; Luksetich and Hughes 2008; Pierce 2000; O'Hagan and Neligan 2005). Based on the model of nonprofit performance metrics proposed by Epstein and McFarlan (2011), the present paper investigates the impacts of a substantial increase in the state funding of professional theatres, orchestras and museums.

In Finland, professional theatres, orchestras and museums, owned and governed by municipalities or private entities (associations, foundations, and limited companies), recently received a substantial increase in the state funding in the context of a reform of the statutory system. Altogether, the increase was 50 million EUR in the three successive years from 2008 to 2010. The objective of the present paper is to investigate what the impacts of the increase were on the performance of public and private arts and cultural institutions respectively and how the management perceived the effects. The research question is: How does a substantial increase in funding influence the resources, activities, and output of public and private arts and cultural institutions?

The present study exploits both financial statement data of 205 Finnish arts and cultural institutions accepted into the statutory system of central government subsidies and data collected through two surveys addressed to their management. The state's share system came into effect in 1993. As the statutory state share did not react to the increase in the volume of activities or the increase in the costs of activities in 1997 – 2005, a revision to the system was needed. In 2007, the reform of the statutory system compensated for the cost deficit that had emerged in the statutory transfers to arts and cultural institutions.

### Theoretical Background

For analyzing the effects of the state funding increase, we lean on a framework model which is based on a model of causal links between the components of the performance of a nonprofit organization proposed by Epstein and McFarlan (2011). In the model, the organization's resource acquisitions and allocations that have an effect on internal and external effectiveness are grouped into five clusters: inputs, activities, outputs, outcomes, and impacts. *Inputs* are the key tangible and intangible resources such as cash, personnel, equipment, and other material items along with the mission statement and strategy that enable the organization to perform its tasks. *Activities* are the specific programs and tasks that the organization undertakes. *Outputs* are the internal and external results of the organization's activities: the tangible and intangible products and services. *Outcomes* are the specific changes in behaviors and individuals affected by the delivery of the organization's products and services. *Impacts* include benefits to communities and society as a whole as a result of the nonprofit organization's outcomes.

The present research question in mind, organizational level effects of the increase in state funding are tracked in the clusters of inputs, activities, and output of the model. Components relevant for the study are probable targets of a state subsidy increase and they will be specified. Previous studies demonstrating the effectiveness of funding (e.g., Belfiore and Bennett 2009, Hooper-Greenhill 2004, and Seaman 1987 among others) have focused on the society level clusters of outcomes and impacts on the measurement hierarchy of Epstein and McFarlan (2011), but there seems to be a dearth of empirical research on the levels of input, activities, and output clusters.

In this study we do not examine changes in behaviors and individuals affected by the delivery of an organization's services and products or the impacts of the organization's outcomes in communities and society. We do not either evaluate the effectiveness of an organization (see e.g., Pfeffer and Salancik 1978, 11, 89): in other words, how well the organization is fulfilling the objectives, demands and expectations of its stakeholders like customers, artists, and financiers. Instead, we are interested in the organizational level components of the performance of an arts organization: inputs, activities and internal and external outputs. We examine how the state funding increase was allocated to various uses and purposes on the inputs, activities, and outputs levels and try to find out what kind of changes a resource increase on the input level (a state funding increase) caused in activities (the production process) and outputs (productions, attendances, and income).

It is assumed that the management allocates funding for purposes that advance the attainment of organizational goals. Previous research on objectives and behavior of arts organizations in cultural economy literature has posited that those organizations try to maximize two main goals, artistic quality and audience size (DiMaggio 1987; Throsby 1994), but also the quantity of productions and size of budget (Hansmann 1980; 1981; 1987), expense, the prestige and well-being of those managing the organization (Luksetich and Lange 1995), and survival and legitimacy (DiMaggio 1987). Participants in nonprofit arts organizations also may try to use the organizations to achieve their own ends (Frey and Meier 2006; Frey and Pommerehne 1989). (See also Sorjonen 2012.)

Empirical studies related to the influences of government funding have often focused on the programming with mixed results. In the United States, Pompe et al. (2011) found that federal and state government funding did not have significant impact on programming of symphony orchestras. They assumed that the level of funding may have been too small to have an impact. Also Luksetich and Hughes (2008) found that while state lump-sum grants decreased the number of popular pieces performed by medium and small American symphony orchestras, the impact of government support on contemporary programming was rather weak. In his study seeking to determine how private and government support change the repertoire of American opera companies, Pierce (2000) found that local government funding encouraged program conventionality, while federal support such as the NEA (National Endowment for the Arts) funding encouraged program risk-taking.

O'Hagan and Neligan (2005) showed that in 40 grand-aided nonprofit English theatres, increases in state subsidies resulted in less conventionality. Camarero et al. (2011) analyzed how public funding impacts innovation and performance of 491 British, French, Italian, and Spanish museums. They found that public funding does not encourage innovation. Museums subsidized with more public funding seemed to have less of an incentive to adopt technological innovations and had a particularly restrictive effect on organizational change (training and progress of managerial staff) in museums. Instead, public funding helped museums to accomplish their social goals of preserving the collection, improvement and dissemination of culture within the local community. The findings of Alexander (1996) show that government support was associated with an increase in the number of three formats (travelling exhibitions, theme shows, and blockbuster exhibitions) and in the newer postmodern and contemporary styles of 15 large American art museum exhibitions.

From these findings, it can be concluded that a substantial increase of state funding changes the programming behavior and activities in arts and cultural institutions. In this study, for tracking changes produced by the use of the state funding increase, we examine the resources, tasks undertaken, and results of the organization's activities (products and services).

### **Data and Method**

The empirical data of the study was collected in three phases. First, financial statement data and annual reports for the years 2006 - 2010 were collected from 97 public and 108 private arts institutions accepted into the statutory system of central government subsidies. Second, an Internet survey was conducted among these arts and cultural institutions. A total of 180 arts managers filled in the questionnaire, yielding a response rate of 88 percent. The Internet survey focused especially on the changes in activities, use and perceived effects of the increase in funding. Third, an Internet survey addressed to the management of those 87 arts institutions that responded on a five point Likert scale in the first Internet survey that they had used a great deal or a rather great deal of the funding increase for improving the artistic quality or the quality of the contents and exhibits. The second survey included open ended questions related to the ways of improving quality and yielded a response rate of 75 percent. In the survey data analysis both quantitative and qualitative analysis methods (one-way ANOVA, t-test, factor analysis, cluster analysis, content analysis) were utilized.

### **Main Results**

The empirical study focused both on the resources, structure of finances, features of the activities and output of public and private arts organizations respectively. The most important changes are listed below.

*Resources* The state funding increase made possible a considerable increase in the personnel of arts and cultural institutions. In public institutions, the increase was 152 person years (+5 %) and in private institutions 275 person years (+11 %). Hence, also personnel costs increased substantially, 12 million euros altogether (+11 %) percent in public institutions and 18 million euros (+21 %) in private institutions. The rest of the increase was used in rents (an infrastructure cost), 12 million euros altogether (in public institutions +25 percent and in private institutions +26 percent) and other un-itemized expenses.

The funding structure of the institutions changed. The relative share of total government funding increased from 23 percent in 2007 to 34 percent in 2010, and the relative share on municipal subsidies shrank from 49 percent in 2007 to 42 percent in 2010. In 57 public institutions, the municipal support decreased.

Under the statutory system of central government subsidies, the statutory state share goes either directly to the recipient, e.g., to a private local or regional theatre, orchestra, or museum, or to the municipality which is supposed to but not obliged to pass it on to an assigned municipal cultural institution. The first survey uncovered a dissatisfaction of many public sector arts managers towards the state funding increase and the negative stance reflected in their responses throughout the questionnaire. Their view was that the owner of the organization (a municipality that receives the state share) did not deliver the full amount of the increase to their institution. This was the case in ten public institutions where the decrease of the municipal funding was larger than the increase of the state funding. Therefore, the resources of these public institutions remained on the same level as before the state funding increase.

*Activities* In the two surveys, the management of private institutions emphasized strongly artistic quality and the quality of contents, staging, and exhibition layouts, audience education and museum pedagogy as the targets of the increased funding. The new, more competent and educated personnel and visiting artists contributed considerably to the quality of productions which can be seen as an indirect effect of the

increase enabled more large-scale orchestra and theatre productions. Innovative programming was typical for private theatres. The main target of the state funding increase in public institutions was audience education, museum pedagogy, and artistic quality and the quality of contents.

*Output* From 2007 to 2010, the number of productions (theatre performances, concerts, exhibitions) increased by around 400: in public institutions by -74 (-2 %) and in private institutions by +473 (+4 %). The number of attendances decreased by around 191 000 (in public institutions -5 % and in private institutions -1 %). Only public and private orchestras were able to increase the number of productions (+14 and +36 % respectively) and only private orchestras were able to increase attendances (+23 %).

As a result in both public and private institutions with the exception of orchestras, the productivity (productions/person years; attendances/person years) eroded. Also the unit labor cost of production (personnel costs/productions) increased being 25.200 euros in public institutions and 8.800 in private institutions.

Furthermore, the results of the factor and cluster analysis indicated four different groups related to the views on the use of the state funding increase. There seemed to be a difference between the views of the management of public and private institutions. Likewise, our results indicated differences in the views of the theatre, orchestra, and museum managers.

## **Conclusion**

The present paper examined the use and effects of a state funding increase that professional theatres, orchestras and museums received in Finland. The results demonstrate that the effects of the state funding increase and the management perceptions of the effects differed notably between the public and private arts and cultural institutions. The dissatisfaction of the management of public institutions was related to the concurrent decrease of the municipal funding for their institutions.

Other internal and external factors that changed simultaneously complicate the identification of the effects of the state subsidy increase, and thus warrant further research. An implication of the findings for policy makers in municipalities is that privatization of an arts or cultural institution owned and governed by a municipality would clarify the funding, as the full amount of the state funding would then go directly to the recipient. Operational costs, the current base of the central government funding, encourages increasing costs as it is the only way to receive additional support. If the funding base would be quality or own income efforts would be made to increase them, not costs which would improve economic efficiency.

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