DETERMINANTS OF CORPORATE SUPPORT FOR THE ARTS: EMPIRICAL EVIDENCE FROM CANADA

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I. INTRODUCTION

While performing arts organizations (PAOs) desire artistic autonomy, they also need adequate resources to effectively make art happen. Rarely do box office receipts cover costs, and while foundations, individuals, and governments do their part, financial pressures persistently loom. As governments continue to reduce spending, and the relative costs of arts inputs rise, the greater the need for alternative sources of funding; many turn to private sector support to fill the gap. On the other side of the relationship, corporations have a wide range of discretionary expenditures which may or may not take priority over supporting performing arts organizations. A wide conceptual range of theories have been put forward trying to explain corporate motivations for supporting the performing arts (Martorella 1996a). Potential rationales run the gamut from pure altruistic philanthropy, to calculated product promotion, to pet projects for managers (Martorella 1996b; Useem & Kutner 1986).

The purpose of this paper is to empirically examine patterns of corporate support for PAOs, considering why these relationships exist. Deriving specific research hypotheses from an existing theoretical model, we look in the data for patterns of corporate support of the arts consistent with the hypotheses. The hope is that both corporations and arts groups will benefit from greater knowledge of current patterns of giving, thereby helping to understand and shape expectations for future relationships.

II. LITERATURE AND HYPOTHESES

Substantial attention has been paid to various aspects of the relationship between business and the arts. As the modern corporation emerged, early texts espoused active arts philanthropy, with a particular focus on 'good citizenship' (Eells 1967, Gingrich 1969). Others dismissed corporate philanthropy as being at odds with profit-driven firms (Friedman 1972), though Kushner (1996) rebuts with five 'positive rationales' arguing that corporate arts support can be in line with corporate best interests. O'Hagan & Harvey (2000) surveyed over 100 known sponsors of arts events and found the predominant motivation for their sponsorship to be 'promotion of corporate image' (with over 75 % of respondents listing it first over such items as 'media coverage', 'promoting brand image', 'corporate hospitality', and 'improved employee relations').

While corporate support for the arts is often set up as a dichotomy between targeted business marketing versus altruistic philanthropy (Colbert 2000: 187), many see either a more blurred distinction between the two, or at least a more complex conceptual framework being necessary to explain the pattern of inter-relationship (O'Hagan & Harvey 2000). Drawing from a theoretical model proposed by Young and Burlingame (1996), this paper considers a range of possible motivations for corporate giving. Empirical data from performing arts organizations in Canada are used to test support for the specific models in this framework. Each of these four models are now described along with their hypotheses

1. Neoclassical/Corporate Productivity Model

The neoclassical/corporate productivity model suggests the motivation for corporate giving is based on the improved ability to increase profits for the firm. The most direct application of this motivation would be to view audience members as potential customers (broadly interpreted as those influencing purchase decisions), and that corporate support for a given performance/organization would help to encourage patronage for the firm's products/services.

With increased profits in mind, corporations will arguably be looking for the most appropriate vehicles for their corporate giving. One argument is that firms will be attracted to performing arts groups which demonstrate an appropriate degree of success, aligning their products/services with organizations which are viewed positively by their audience. One indicator of organizational health for a performing arts organization is the degree to which it can sustain itself based on box office receipts. This indicator of fitness can be considered an important signal to corporate decision makers that the arts organization is healthy, that its offerings are valued by its audience, and that it is worthy as a recipient for corporate support.

> *H1: Corporate support for the performing arts is positively related to box office revenues.*

A further consideration for corporations motivated by increased profits would be to align themselves with arts organizations that demonstrate appropriate audience exposure for their efforts. Arts organizations which do not draw sufficient audience are unlikely to be considered for corporate support which is profit motivated.

> *H2: Corporate support for the performing arts is positively related to audience size as measured by*
>
> *H2a Total audience exposure in a given year*
> *H2b Total number of performances in a given year*
> *H2c Average performance size*

2. Ethical/Altruistic Model

In contrast to the neoclassical/corporate productivity model, the ethical/altruistic model is based on the concept of corporate social responsibility and the ethic of giving back to the community. In this case, corporate decision makers are assumed to be operating in a philanthropic mindset, pursuing goals not directly related to corporate interests. As such, one would expect not to find the relationships stated for the variables in the profit-seeking model (H1 and H2)—suggesting an absence of evidence supporting corporate goals. An even stronger position, however, would be to find evidence suggesting a reverse relationship. From an altruistic position, the most robust case would be for corporations to be found supporting those arts organizations which demonstrate a greater need. Following this logic, those organizations with lower box office support and smaller audience size would be worthy candidates for altruistically-motivated corporate support.

3. Political Model

Young and Burlingame (1996) describe the political model as one "to preserve corporate power and autonomy by building private initiatives as an alternative to the growth of governmental authority and limiting government interference in the free enterprise system" (p. 161). Here the corporation is trying to generate goodwill with government in attempts to maintain a positive operating environment for business. While much of the corporate efforts in this regard will be more directly related to their own fields of operation (e.g., environmental clean-up for polluting manufacturers), contributing to the social/cultural/political fabric more broadly can also be a means to this end. It is assumed that the benefits of efforts under this motivation accrue more to the overall industry than to individual firms (O'Hagan & Harvey 2000). Under the political model, corporations may view their participation as a substitute for government support—firms picking up the slack to maintain political goodwill.

> *H3: Corporate support for the performing arts is negatively associated with government support*

O'Hagan & Harvey (2000) suggest a more narrow interpretation of the political model proposing that a more specific reputational benefit may accrue to an individual firm for being a 'good company'. Its aspiration would be to be seen as behaving responsibly as a public citizen without directly trying to increase sales of its products/services. With this more targeted goal, it can be anticipated that firms would be more attracted to arts organizations that do a superior job of publicizing themselves (and their corporate supporters) to the general public.

> *H4: Corporate support for the performing arts is positively associated with spending on advertising and promotion*

4. Stakeholder Model

O'Hagan & Harvey (2000) describe the stakeholder model as one where "the corporation is a complex entity that influences, and is influenced by, various groups, such as workers, managers, customers, suppliers, community groups and policymakers" (p. 207). In this case the firm is trying align itself with the interests of individual community members who influence corporate operations in a variety of ways. Within the stakeholder model, a corporation will be more inclined to support organizations that can demonstrate community interest and involvement.

> *H5: Corporate support for the performing arts is positively associated with greater individual involvement:*
>
> *H5a Individual donations as a percent of total revenue*
> *H5b Number of volunteers and board members*

A further indicator of stakeholder intensity are the activities an arts group participates in beyond its regular performance schedule.

> *H6: Corporate support for the performing arts is positively related to organizational outreach as measured by:*
>
> *H6a Organizational services (artist talks, newsletters, classes/workshops/seminars)*
> *H6b Activities geared towards young people*

III. METHODS

To evaluate the hypotheses, we use a confidential data set of reports filed annually by Canadian performing arts organizations, with agreement from the provider that only aggregate statistics will be disclosed. The data base contains specific financial and operating information, such as revenues, expenses, number of performances, attendance, number of artists, administration, support staff, volunteers, and so on. Drawing from the 1999-2000 fiscal year (ending April 30), the complete data set comprises 236 separate organizations from the following disciplines: music, choral, opera, theatre, dance, spoken word, and interdisciplinary. Due to missing data on key series (e.g., number of performances), the final data set contains information from 205 Canadian performing arts organizations.

The dependent variable in our analysis is the ratio of corporate support, which is defined as the sum of corporate donations and sponsorships, to an organization's total revenue from all sources. The empirical strategy is to use multivariate regression analysis to control for all the factors that theoretically could explain variations in corporate support across the 205 organizations. We then can use t (and F) tests to judge which variables are statistically significant and, hence, which of the theoretical explanations are supported by the data.

The explanatory variables for the neoclassical/corporate productivity model are: total audience for the year, total number of performances for the year, and average audience size per performance. As explained in the previous section, the variables representing the ethical model are the same as for the neoclassical model, but the expectation is that the coefficients will be the opposite sign if the ethical model is correct. The explanatory variables for the political model are: the ratio of government support, which is defined as funds from all municipal, provincial, and federal sources, to total revenue; and the ratio of the organization's spending on advertising and promotion to total expenditure. Lastly, the variables for the stakeholder model are: the ratio of individual donations to total revenue, the number of board members and volunteers; whether the organization performs any community outreach, such as artist lectures, newsletters, classes, workshops, or seminars; and whether any of the organization's performances are specifically designed to appeal to young people.

To get a sense for the data, Table 1 contains descriptive statistics for the dependent variable and all the explanatory variables. The mean value for corporate support is 0.085, or 8.5 percent, and ranges from a low of zero to almost 85 percent of total revenue in one organization. Box office revenue accounts for 37.1 percent of revenue on average. The mean value for total annual attendance is much higher than one might expect—over 22 thousand—but the very high standard deviation (almost four times larger than the mean) indicates that this is because the data contain a small number of organizations (like festivals) that attract very large audiences. The largest event attracted an audience of 700,000. In order to mitigate the effect of variables containing extreme values such as this, logarithmic transformations for some variables are used in the regression analysis.

Another independent variable with substantial variation is the number of performances, which averaged 43 for the sample as a whole, given that one organization had over 750 performances in the 1999-2000 season. The average attendance (total attendance divided by number of performances) for the sample as a whole is just over 474. Government support averages 31.2 percent of total revenue for the 205 arts organizations in the sample. Expenditure on marketing and promotion averages around 11 percent of total expenditure. Individual donations account for an average of 7 percent of total revenue. The average organization has just over 117 board members and volunteers, although clearly again this figure is affected by a small number of organizations with a huge number of volunteers. Over 80 percent of organizations have some form of community outreach and almost 63 percent of performing arts organizations in the sample offer performances specifically geared for young people.

In Canada, some very large performing arts organizations, referred to as the "Big 29" (Canada Council 2001), are present in the arts scene and some are present in the data. We control for their influence in the regression analysis using dummy variables. Another control issue is the artistic sector of the arts organizations. A possible concern is that there are structural differences between sectors. We control for arts sectors using dummy variables for each performing arts sector (music, choral, etc.) in the regression.

IV. RESULTS

The results in Table 2 suggest support for the ethical model rather than for the neoclassical/corporate productivity model. A negative relationship exists between box office and corporate giving (*H1*). This finding dispels the notion that corporations are only interested in supporting PAOs with greater proportions of box office revenues: the results show firms giving greater assistance to PAOs less able to support their operations through box office receipts. The ethical model is further supported by the results of the next set of hypotheses (*H2a, H2b, H2c*) which show no relationship between total attendance, number of performances, or average attendance at performances. These results counter the idea that arts organizations with a greater audience will get a larger boost from corporate donors. If corporations were directly interested in selling products or services, support for bigger audiences and more performances would be a natural. However, this pattern does not appear in the data.

Both hypotheses in the political model receive support in the data. The negative relationship between government and corporate support (*H3*) is compatible with the idea that firm contributions may be viewed as substitutes to government support. In their efforts to broadly derive goodwill from public officials, corporate giving may decrease the proportional level of government support necessary for individual PAOs. More directly, the positive relationship with spending on advertising and promotion (*H4*) suggests that private firms are favorably predisposed towards PAOs who seek more intense exposure, presumably with the potential for directing the public eye to the 'good works' of the corporation.

While the number of volunteers/board members received positive support as predicted (*H5b*), the direction of relationship for individual donations was the opposite of what was expected (*H5a*). These results suggest that while corporations may be sympathetic to PAOs receiving community support through volunteer efforts, the same is not true for a track record of individual donations. In fact, corporations may view PAOs with greater success in individual giving to be less in need for their private sector support. However, an alternative interpretation would be that PAOs themselves view individual donations as a substitute for corporate support, perhaps in the interest of maintaining a less intrusive—strings attached—relationship. More research needs to investigate the explanation for this pattern.

Finally, the lack of relationship between other services and children's performances was unexpected (*H6a* and *H6b*). PAOs that devote time, energy and resources to efforts such as newsletters, artist talks, and workshops for kids, were expected to attract more proportional corporate funding. The data show no difference in corporate support between those PAOs that do these types of activities and those that do not. One interpretation of this result would be that those who perceive outreach activities to be a tool for impressing corporate sponsors/donors may not have empirical support for this claim. It may also be that PAOs are not doing a good enough job of communicating their community efforts in such a way that it makes a difference in attracting corporate money. One caution with these results would be the possibility for some measurement error based on the format of the survey and its interpretation. In any event, further research is necessary to better understand these findings.

V. DISCUSSION AND CONCLUSION

The overall results of this research suggest that corporate support is present where other categories of support are lower (either box office, government, or individual). In line with the ethical model this pattern shows corporations helping in the performing arts sector where there is an apparent need. Along with the positive relationship to PAO advertising & promotion, we can say that corporations are also more prone to assist when such support is in the public eye—in line with the political model. It is also apparent that a larger number of volunteers & board members is related to proportionately greater corporate funds (the one significant relationship in our measures for the stakeholder model), but that other outreach activities don't appear to make a difference in this area.

The implications to performing arts managers suggest that PAOs may be more successful communicating their need for corporate support as an integral source of funds, emphasizing the relative benefits to society, rather than a direct sales vehicle for the firm. Further, PAO managers should recognize the need to dedicate resources towards advertising and promotion to be sure that a wide audience is aware of their activities and the support being given by the firm. Finally, while outreach activities show no relationship with corporate giving, further research is necessary to better understand why this is the case.

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Table 1
Descriptive statistics for the variables

Variable	Mean	Std. dev.	Minimum	Maximum
Corporate support/Total revenue	0.085	0.112	0.000	0.849
Box office/Total revenue	0.371	0.208	0.000	1.000
Total attendance	22,229.000	79,116.000	0.000	700000.000
Number of performances	43.000	94.862	1.000	755.000
Average attendance	474.370	687.830	0.000	5403.000
Government support/Total revenue	0.312	0.228	0.000	0.880
Marketing and promotion/Total expenditure	0.114	0.088	0.000	0.736
Individual support/Total revenue	0.070	0.092	0.000	0.707
Number of board members and volunteers	117.220	147.210	0.000	1017.000
Other services (dummy)	0.805	0.397	0.000	1.000
Performances for young people (dummy)	0.629	0.484	0.000	1.000
Big 29 organization (dummy)	0.044	0.205	0.000	1.000
Music (dummy)	0.415	0.494	0.000	1.000
Choral (dummy)	0.107	0.310	0.000	1.000
Opera (dummy)	0.039	0.194	0.000	1.000
Interdisciplinary (dummy)	0.059	0.235	0.000	1.000
Dance (dummy)	0.127	0.334	0.000	1.000
Spoken Word (dummy)	0.020	0.139	0.000	1.000

Table 2							
Regression results							
Dependent variable	Corporate support/Total revenue				Corporate support/Total revenue		
Independent variable	*coefficient*	*t-ratio*	*p-value*		*coefficient*	*t-ratio*	*p-value*
Constant	0.206	3.17	0.002		0.205	3.25	0.001
Box office/Total revenue	-0.229	-5.18	0		-0.230	-5.29	0
Total attendance (log)	-0.009	-0.35	0.726		-0.001	-0.03	0.980
Number of performances (log)	0.014	0.50	0.616		0.007	0.26	0.796
Average attendance (log)	0.005	0.16	0.875		-0.002	-0.08	0.937
Government support/Total revenue	-0.280	-5.51	0		-0.271	-5.72	0
Marketing and promotion/Total expenditure	0.261	3.16	0.002		0.281	3.57	0
Individual support/Total revenue	-0.271	-3.20	0.002		-0.266	-3.13	0.002
Number of board members and volunteers (log)	0.020	2.93	0.004		0.015	2.34	0.021
Other services (dummy)	-0.027	-1.51	0.133		-0.023	-1.29	0.2
Performances for young people (dummy)	-0.011	-0.73	0.464		-0.006	-0.38	0.708
Big 29 organization (dummy)	-0.036	-0.99	0.325		-0.030	-0.83	0.407
Music (dummy)	0.020	0.87	0.385		arts category variables omitted		
Choral (dummy)	-0.050	-1.53	0.127				
Opera (dummy)	0.016	0.42	0.672				
Interdisciplinary (dummy)	-0.020	-0.59	0.556				
Dance (dummy)	0.010	0.38	0.707				
Spoken Word (dummy)	0.011	0.21	0.832				
Number of observations	205				205		
R^2	0.4095				0.3767		