BUILDING SUSTAINABLE OPERA HOUSES' FUNDING SYSTEM: AN ISSUE OF GOVERNANCE?

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ABSTRACT

Swinging cuts in government funding and increased competitions to access private funds are putting the Italian opera houses at stake. In this scenario opera houses are called to develop new strategies to achieve economic sustainability, as a way of supporting their artistic activities and create value for their referenced community. As a matter of fact, opera houses are externally justified as their reason for existence is related to what they do to satisfy a variety of stakeholders' needs whose support is vital to ensure opera houses' legitimacy, resources, viability and effectiveness. This paper is aimed at analyzing how opera houses can build long term relationships with a diversified mix of stakeholders and how the governance structure may influence their ability to build a multi-stakeholder system of financial support. Data on the revenue structure of 14 lyric and symphonic foundations are analyzed and results are triangulated with in depth interviews with the managing directors of four opera houses.

Keywords: fundraising, Italian opera houses, governance, multi-stakeholders, relationship management

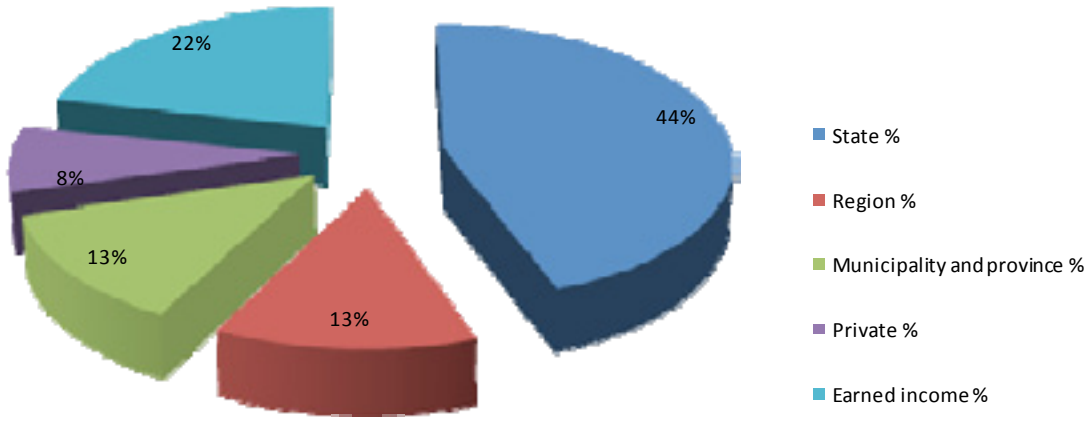
INTRODUCTION

The current severe economic crisis and the rapid decrease in pubic funding are strongly affecting the cultural field and might compromise the sustainability of cultural institutions. Moreover, the parallel reduction of private contributions, or even, in some cases, their total absence, is making the competition among cultural institutions to access funds tougher. The uncertainty of funding pushes institutions to find new ways to reach an economic equilibrium and to reinforce their capabilities to differentiate their revenue sources. In this scenario, fundraising cannot be considered only as a tool to get money but rather, as a strategic activity able to shape the identity of an institution, with relevant implications on its managerial and cultural autonomy. Although this problem can be referred to all cultural institutions, in this paper it has been analysed for what concerns the opera houses and in particular the Italian scenario.

Italy has 14 Opera Houses called Lyric and Symphonic Foundations (LSFs) (Cori, 2004). Diversification of the revenue sources for the opera houses has been faced for the first time in 1996 with the reform of the Italian opera system. The Decreto Legislativo 29/06/1996 n. 367, forced the Italian opera houses to change their legal form into foundations, in order to reduce the role of public support in funding culture and offering and to involve private players in the management of these institutions. Opera houses have found it difficult to involve other stakeholders in their governance and are struggling to diversify their revenue base, given a progressive decrease in State funding. Seventeen years after the reform came into force, the State is still the major source of funding even if it is decreasing, and this decline is mainly offset by local public funding since the private support is very marginal. As figure 1 shows, LSFs in 2010 received on average 44% of their total income as national government

funds and only 8% as private gifts from corporations, individuals and donors. LSFs are also funded by local government grants and by earned incomes (e.g. box office, rentals of spaces and theatrical equipment) which covered respectively 26% and 22% of their total revenues. Local government funds are mainly provided by the region (13%), the province and the municipality (13%).

FIGURE.1 COMPOSITION OF LSFS' TOTAL REVENUES (YEAR 2010)



Sources: Elaborations on Theatres' 2010 annual reports

The choice to subsidize LSFs in such substantial way is connected to their role of guardianship of an Italian operatic tradition. However, this principle has never been elaborated in an organic arts policy and the State has always been called to bail out theatres whenever they have gone to red. This has generated a situation of structural 'inertia' and a lack of management culture that has got even worse over time (Casari et al, 2010; Sicca, 1997). Given the current policies of cost reduction at the State and local level on the one hand, a progressive diffusion of a deétatisation policies (Zan, Baraldi Gordon 2007), it is of the utmost importance for cultural institutions and opera houses in particular to address a wider variety of stakeholders to strengthen its institutional base and grant sustainability.

This paper looks at the relationship between the sustainability of opera houses and their networking strategies analysing, in particular, the constraints, posed by the governance and by the management, to achieve the balance. This paper aims at describing the diversification level of the revenues sources of the Italian LSFs; at analysing their ability to use fundraising as a tool for relationship management; at verifying what are the strategies, the activities and the results the opera houses are pursuing and achieving; eventually, at highlighting the implications of a multi-stakeholder system on the managerial, cultural and artistic autonomy of an institution.

Relationship Management Strategies. Literature Review
As other non profit cultural institutions (Hansmann, 1986) opera houses serve a number of stakeholders — audiences, individual donors, other cultural institutions, corporations, performers and governments (Hansmann, 1986; Gainer, 1989). These institutions are externally justified (Bryson et.al, 2011) as their reason for existence is related to what they do to

address social needs and, in particular, the interests of key stakeholders, whose satisfaction is crucial to the generation of sufficient support, legitimacy and resources to ensure the organization's viability and effectiveness (Bryson et. al. 2011). At the same time the satisfaction of key stakeholders' interests and social needs is essential to accomplish the mission of these institutions and to provide a sense of purpose (Oster, 1995; Bryson, 1995). Non - profit organizations are open to their environments; have relatively permeable boundaries and are called upon to do work that is deeply affected by formal and informal coalitions and networks (Scott, 1987; Stone and Bryson, 2000). For this reason non profit organizations need to establish trustworthy relationships with different actors in their referenced community as a way of providing increased value and commitment. This raises the interesting point on how to strengthen their existing connections with key stakeholders, while opening the debate on the development of a positive dialogue with them. The establishment of ongoing relationships with external constituents allows nonprofit cultural firms greater freedom to enact their values and pursue their artistic goals (Voss et.al 2000) but, at the same time, the multiplicity of relationships also can create tensions between the firm's intrinsic values and the disparate values and demands of the external constituencies, generating possible conflicts between different dimensions (e.g. artistic vs. commercial orientations) (Voss et. al, 2000).

Members of the non profit board of directors play a critical role in developing and maintaining relationships outside the institutions as well as in gathering and interpreting information provided by external constituencies (Miller & Millesen, 2003). Brown and Iverson (2004) suggest boards have the ability to decentralize decision making and interpret environmental opportunities. As a consequence, they are essential to maintain resource streams. Research suggests that effective boards are characterized by the presence of highly committed members who share a common vision, values and understanding of the non profit organization mission (Mc Adams & Giems, 1985). By contrast, a lack of shared mission and effective communication among board members may result in ineffective activities with negative consequences on the institutions' ability to mobilize resources from the external environment. As a matter of fact, there are studies showing that board characteristics and activities have a direct impact on non profit institutions' performance, measured as their ability to raise support from a diversified mix of sources. Lai (2009) found that organization's performance improved when board members included business and community leaders, participated directly in fundraising activities and had reporting committees. Diversification of funding sources is an appropriate measure of performance for non - profit organizations because it is a proxy of their ability to raise the support of a heterogeneous mix of stakeholders while achieving higher sustainability (Tuckman & Chang, 1991). Building a multi-stakeholder system of financial support is not only a measure of fundraising success but also a proxy of the institutions' ability to build a diversified network of connection inside their community.

Relationship management and cultivation is often identified as a critical component of fundraising success (Waters, 2009). Relationship marketing and fundraising may help opera houses to think in a more strategic sense and help to remove short term tactical focus that characterizes publicly funded arts organizations (Conway & Whitelock, 2004). Research highlights that arts organizations sometimes face problems in undertaking planning processes (Conway & Whitelock, 2004). As a result there is either an overemphasis on short term planning while marketing planning is often ignored. Applying a relationship fundraising and marketing perspective may be a possible way of overcoming a lack of stakeholder orientation, confusions over who key stakeholders are and a short term tactical focus. Relationship marketing involves the development of continuous relationships between parties that are usually long term, dynamic and that entail acquiring information based on proactive communication.

Hunt (1994) stresses that the central focus of relationship marketing is "whatever distinguishes productive, effective, relational exchanges from those that are unproductive and ineffective" (p. 22). Relationship fundraising is a variant of relationship marketing that deals mainly with donors. Burnett (1992) was the first to recognize the need for what he termed relationship fundraising and to champion a move toward dealing with donors individually, recognizing each donor as unique in terms of giving history and motivation for giving. The entire relationship with a donor, he argued, should be viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship. Commitment and trust are central to the success of these relationships, and they are the foundation for the nonprofit organization-donor relationship. Donors make charitable contributions to organizations that address social issues to which they are personally committed. As the demand for increased transparency and accountability from nonprofit organizations grows, trust and commitment emerges as a key component to establishing long-term relationships with supporters. In this regard, fundraisers should work to build

awareness and interest as well as to identify events, people, programs that are consistent with potential donors' attitudes, beliefs, emotions and motivations to donate. These activities should not only be appealing for potential donors but also be consistent with the mission, vision and resources of the nonprofit.

Internal and external researches can be conducted in order to choose which relationship strategy to implement. However, this choice cannot be made without an understanding of potential conflicts among contrasting stakeholders' values. Managing these conflicts may require that organizations either compromise their own values in an attempt to satisfy all external constituents or focus on developing and maintaining successful relationships with those external constituents that possess congruent values (Voss et.al, 2000).

METHODOLOGY

The research is set on the 14 Italian LSFs, on data collected from 2001 to 2009. LSFs are the most prestigious Italian operatic institutions located into the largest Italian towns. Data on the governance and financial situations of the 14 sampled institutions were gathered respectively from the statutes of the foundations and the *Corte dei Conti* reports. Interviews were carried with top management in four opera houses in order to gather information on the governance structure and the relationship with fundraising effectiveness.

Concerning the elaboration of data, the paper is divided in three parts. First, economical data from the Italian scenario are used to describe how the budget of each theatre is composed distinguishing between public and private funding sources; moreover, the wideness of the temporal axis allows to observe how this composition varies over years. Data are elaborated to create an index that represents the level of diversification of opera houses' funding sources. This index defines a positioning map of Italian theatres that represents their level of openness to a multi or mono stakeholders network. In particular the index is a proxy of the opera houses' ability to build relationships with a variety of public and private stakeholders who are involved in the continual survival and development of these organizations. It is measured by summing the squares of the revenue source share of total income. The revenue diversification index is expressed as:

$$DI = \sum_{i=1}^{n} (S_i^2)$$

where S_i is the revenue source share of organization i, and n is the number of revenue sources of organization i. Revenue source share is calculated as:

$$\frac{\text{Revenue source amount}_i}{\text{Total revenue}_i}$$

Data available consist of the following revenue sources: (1) national funds; (2) local government funds (regions); (3) local government funds (municipalities and provinces); (4) audience; (5) private funders. The index varies from 0 to 1 where 0 corresponds to the minimum level of concentration (maximum level of diversification) while 1 is the maximum level of concentration (minimum level of diversification).

We also analysed the theatres' governance structures (i.e. board members composition and activities), trying to understand if it may influence opera houses' ability to build relationships with different stakeholders inside their local community, thus mobilizing resources and external commitment. Quantitative data on opera houses' revenue sources were triangulated with an in depth interview with the managing director of four Italian opera institutions: Teatro Regio in Turin, Teatro alla Scala in Milan, Maggio Fiorentino in Florence and Teatro Comunale in Bologna.

Data triangulation allowed us to combine a quantitative analysis of the Italian opera houses' funding system with an examination of the qualitative aspects concerning the relationship between an opera house and its financial stakeholders, shedding light on the factors that may encourage their long term involvement and support. In particular, the interviewee was asked to answer questions concerning how the governance influences the possibility to create a multi-stakeholder system of financial support and which strategies the lyric and symphonic foundations can pursue in order to build relationships with a wide network of stakeholders.

The Italian Panorama: the utopia of a multi-stakeholders funding system

The theoretical analysis shows that flexibility to the fluctuations of the market and of the public funding is obtained not much by structuring a powerful fundraising strategy but rather by adopting an approach to fundraising which puts the potential supporters in a relation of mutual exchange with the cultural institution. This means to move from an instrumental approach to fundraising that aims at collecting more funds in the short period, to a relational approach that aims at building lasting relationships with a variety of subjects, to be maintained over the time.

This part of the analysis aims at describing the financial asset of the Italian opera houses, at verifying the attitude of the opera houses to develop a multi-stakeholders system of supports and at highlighting the constrains, the opportunities and the implications that the governance asset has for the success (or the failure) of fundraising strategies.

Traditionally the funders of cultural activities are:

- public contributors: the State and the local administrations (Municipality, Province, Region);
- private contributors: this category includes the main sponsors, other private sponsors and individual donors. The main sponsors are private companies that sustain the general activity of an institution and that are involved in the governance. In Italy, these funders are big companies that provide public services or bank foundations. They often are located in the same area as the theatre, thus raising the issue that theatres located in more affluent territories with a lively business community enjoy a broader potential market for private funds. In addition to institutional corporate sponsors, theatres may account on commercial sponsors, that have more flexibility in deciding whether to support the theatre, commit for a lower amount of money and typically sponsor individual seasons or activities. Then there are private companies that support specific projects (i.e. special event, single works, etc.). Finally, the individual donors, single citizen that sustain the activities through the direct participation and the economic support of the institution. In the Anglo-Saxon context they represent the most relevant part of the private funding, while in Italy they are marginal.

For the representation of the financial asset of the Italian opera houses, we have distinguished between *market value* and *institutional value*. They represent the value created by a theatre both as:

- a global economic player that operates on short-term markets through the exchange of goods and services;
- a cultural institution that works for the conservation and enhancement of a common heritage.

The market value includes all the revenues that come from the artistic and commercial activities and from the sponsors; the institutional value includes the public and private contributions given, not in an economic return logic but rather in view of supporting the cultural role of the institution. By comparing these two forms of value (table 1), we observe a very heterogeneous scenario that confirm the big diversity existing among theatres in terms of size, contextual opportunities and approaches to fundraising.

TABLE 1. MARKET VALUE VS. INSTITUTIONAL VALUE

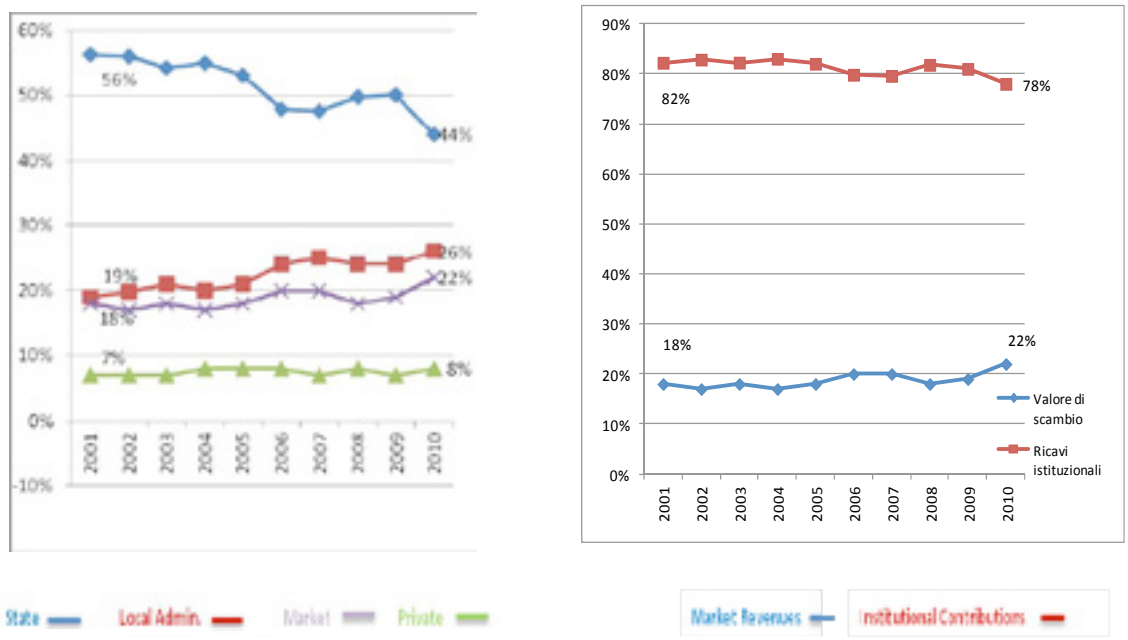
OPERA HOUSE - YEAR 2011	MARKET VALUE	INSTITUTIONAL VALUE	TOTAL REVENUES
Teatro alla Scala Milano	40%	60%	113.847.000
Arena di Verona	55%	45%	55.843.742
Teatro dell'Opera Roma *	14%	86%	53.570.767
Teatro Regio Torino	26%	74%	39.874.866
Teatro San Carlo Napoli *	24%	76%	36.813.377
Teatro del Maggio Fiorentino Musicale	28%	72%	39.004.946
Teatro Massimo Palermo	8%	92%	35.461.000
Teatro la Fenice Venezia	24%	76%	33.337.389
Teatro Lirico Cagliari	7%	93%	24.582.025
Teatro Comunale Bologna	24%	76%	23.626.636
Teatro Carlo Felice Genova	12%	88%	23.032.482
Teatro lirico Verdi Trieste *	16%	84%	18.927.943

Sources: *Teatro alla Scala*: Annual Report 2010/2011. *Other Theatres*: Annual Report 2011/2010, by Registro delle Imprese. *Maggio Fiorentino*: preliminary costs 2011. *FY 2010.

Analyzing data from 2001 to 2010 (see figure 2) relative to the composition of the LSF's revenues per typology of support, we observe that:

- even if the role of State is decreasing (from 56% to 44%), it is still the major source of funds;
- the decline of the State contribution is offset mainly by the local public administrations (26%) and partly by the market (22%). The role of private sponsors is still marginal (8%);
- theatres have to improve financial autonomy achieving better results on the market of services (figure 2b; 22% vs. 78%).

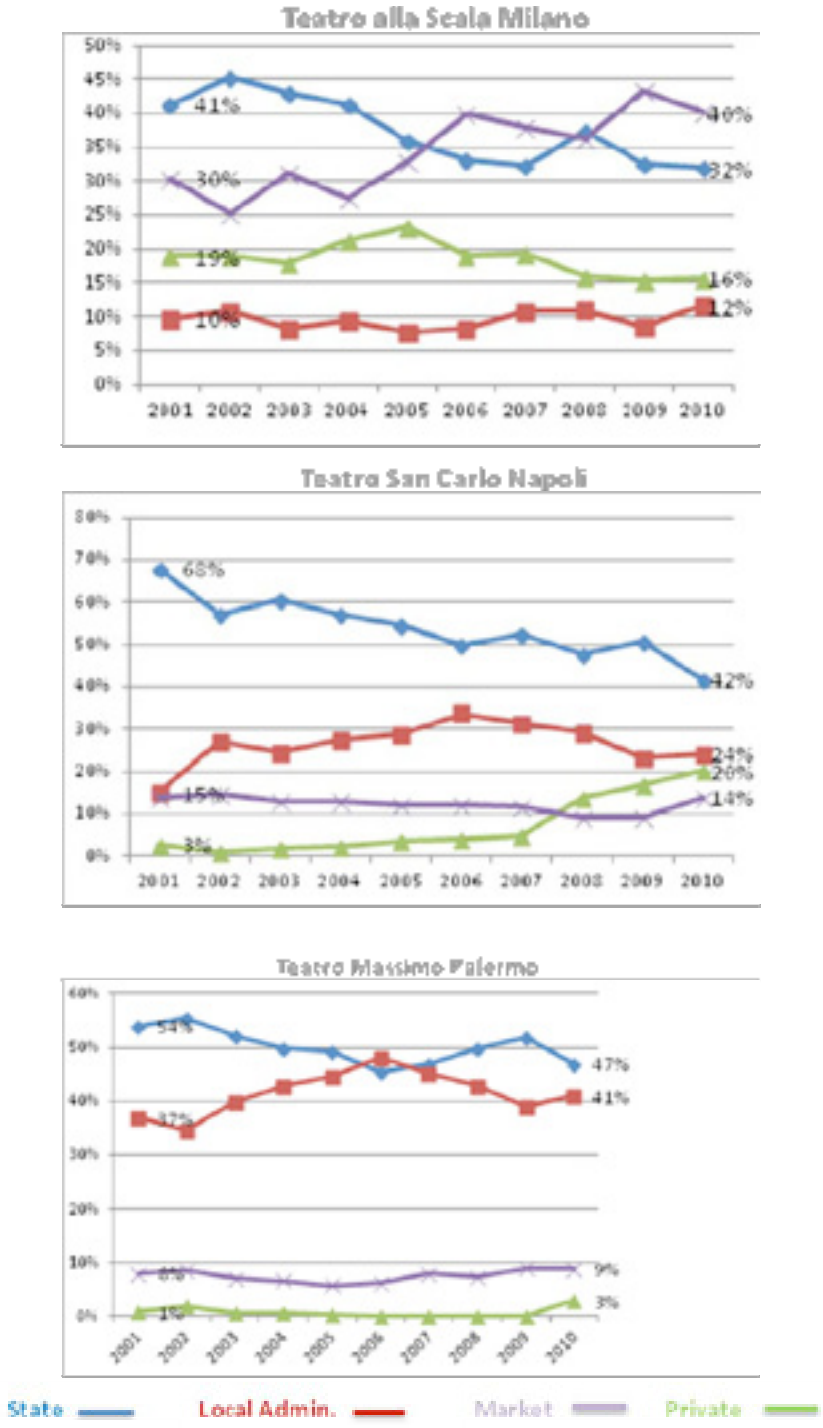
FIGURE 2. COMPOSITION OF LSF'S REVENUES: FROM 2001 TO 2010



Sources: Elaborations on *Corte dei Conti* reports and Theatres' Annual reports

The diversity among theatres and the complexity to define a common policy for the sector is evident if we compare the revenues, at least of three of LSFs. The cases (see figure 3) frame three situations very different from each other. In the case of Teatro alla Scala, the decline of State contribution is counterbalanced by a good capacity to be in the market (40%). The case of Naples is interesting for the relevance of private contribution. The case of Palermo shows the central role that the local administrations play in context where the access to private sponsor is more complex.

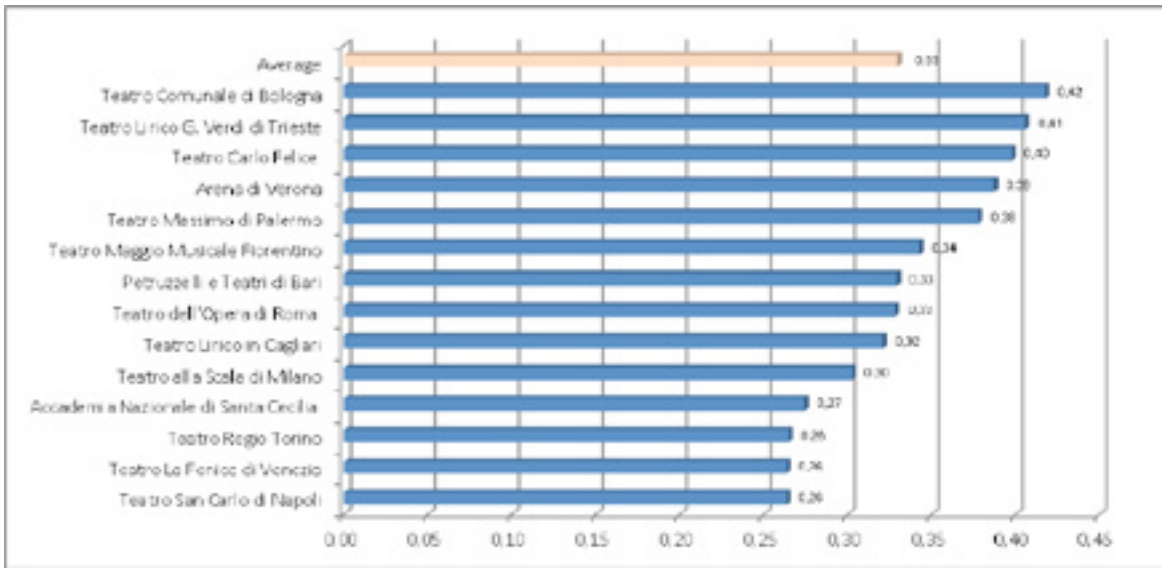
FIGURE 3: COMPOSITION OF LSF'S REVENUES: THREE EXAMPLES



Sources: Elaborations on *Corte dei Conti* reports and Theatres' Annual reports

Eventually, we have calculated the Herfindahl index to represent the ability of LSFs to diversify their financial resources. A more diversified mix of funding sources is a sign of the theatres' openness to a multi-stakeholder system of financial support. This index is a proxy of the opera houses' capability to build relationships with a variety of public and private stakeholders. The lower the index the higher the diversification of LSFs' funding sources. In 2010 Teatro San Carlo in Naples, Teatro La Fenice in Venice and Teatro Regio in Turin had the lowest Herfindahl index (0.26) (See figure 4). When an organization's funding sources become more diversified, the organization's financial situation becomes more flexible.

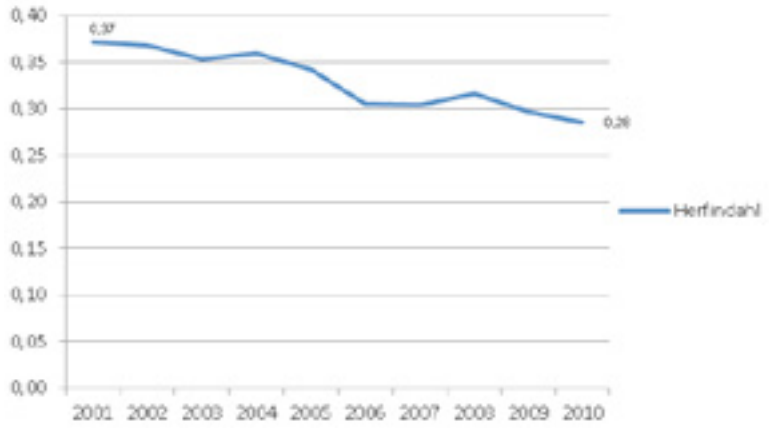
FIGURE 4. DIVERSIFICATION OF THE OPERA HOUSES' FUNDING SOURCES (YEAR 2010)



Sources: Elaborations on *Corte dei Conti* reports and Theatres' Annual reports

Figure 5 shows the evolution of the Herfindahl index from 2001 to 2010. In this period of time the level of concentration of LSFs funding sources has decreased moving from 0.37 to 0.28 and the mix of sources have become more heterogeneous.

FIGURE 5. HERFINDAHL INDEX (2001-2010)



Sources: Elaborations on *Corte dei Conti* reports and Theatres' Annual reports

This reduction was mainly due to an increase in the local government supports (+33%) that still had a fluctuating trend over the years (Table 2). This volatility should encourage LSFs to diversify their pool of funding sources by building long term relationships with a variety of private stakeholders (e.g. different types of individual donors, corporations, banking foundations), strengthening their commitment in the long run.

TABLE 2. COMPOSITION OF LSFS' TOTAL REVENUES (2001-2010)

	TOTAL INCOME	NATIONAL FUNDS	LOCAL GOVERNMENT FUNDS	PRIVATE FUNDS	EARNED INCOME
2001	38.060.087	20.370.962	6.642.357	3.036.710	8.010.058
2010	35.280.533	14.427.071	8.847.000	3.366.923	8.639.538
2001-2010 (%)	-7%	-29%	33%	11%	8%

Average values per year (€)
Sources: Corte dei Conti reports

The analysis of the financial sustainability of the Italian opera system shows the difficulties of LSFs in accessing a variety of revenue sources; one of the purposes of this work is to verify if this phenomenon is correlated to the governance asset of the opera houses. Interesting and unexpected results raise from the study of the charts of the fourteen LSFs. The charts, that define the governance of the theatres, have a similar structure and adhere to the model designed by law; they can be placed on a sort of continuous axis ranging from a restrictive interpretation oriented to a public model of support to a more extensive interpretation oriented towards a privatistic model. This is for example the case of Teatro Regio: the only constrain for the composition of the board is the presence of three representative of the public funders (Ministry, Municipality and Region), against which there can be up to four other representatives, freely chosen from the public or the private sector. The case of Turin is peculiar and demonstrates that where the charts are consistent with the characteristics of the institution and the context, the governance is not an obstacle to the creation of a multi-stakeholder system but rather a potential support. At national level, the panorama is different: there are other positive examples but also many situations that are compromised. The analysis of the charts shows that the criteria of involvement of private actors are not always clear, as well as the form of access and participation to the governance of the institutions, with the effect of a strong disincentive to economic participation that tends to remain mostly public.

All these elements, concerning both the economical asset and the governance of the Italian opera houses, opens several issues about the real possibilities LSFs have to create multi-stakeholders strategies. The managing directors of the Italian opera houses, we interviewed, confirm the idea that several reasons explain the differences existing among theatres, both exogenous and endogenous. The former are due to the economic, political and cultural characteristics of the contexts in which each single opera house is based; the latter are attributable to the will and the force to face the crisis assuming a direct responsibility which requires to question the traditional management processes and to renewal the policies and the strategies.

The analysis of the case of Teatro Regio in Turin, made possible to highlight some of the critical elements of a strategy that approaches fundraising as an opportunity for relationship management. Teatro Regio is one of those theatres that better faced the crisis, by adopting an approach of openness to a wide system of stakeholders. While the State contribution has decreased from 59% to 40% of the total budget, since 2001, the level of diversification of funding sources has been increasing: Teatro Regio has shown a good capacity to raise funds on the market (20%), among local authorities (30%) and private funders (8%), thus creating a network of supporters that produce evidences in terms of economic results, whose strength is rooted in a solid share of the theatre identity and purposes. Teatro Regio's strategy consists of:

- a constant search for collaborations with the leading institutions of the city, both public and private, for the creation of a joint project that aims at making Turin a better place to live, where the contribution of cultural policies is central.
- Openness to the community, in order to be recognised as a place belonging to people, a place of culture and participation. This goal is achieved by opening the doors of the theatre as much as possible, hosting some very important events for the city and for the local community and, at the same time, by bringing the theatre out of its historic building, in schools, for example, through a very rich training program for young people.
- Ensuring a proper management of the institution in order to achieve the expectations of the supporters and in particular of the members of the board.
- Creating specific opportunities of involvement for private sponsors, whose ambition is to have visibility but at the same time to participate in the life of the community in a unique way.
- Sharing with the staff a common vision of the theatre, to stimulate a sense of affiliation and participation that goes beyond the contractual commitment.

Teatro Regio boasts a good stability despite the crisis. In particular, the analysis of the economic asset shows a growth of all sources of revenues , as percentage, a stable demand and the the maintaining of a constant level of production. This case proves that a relationship management of fundraising does not affect the autonomy of a theatre nor by an institutional point of view, nor artistic. Concerning the governance, it is provided by the chart of the Theatre that the board of directors is in charge of the definition of the policies of the institution, but this role is exercised mainly in terms of good management. Moreover, this power has no effects on the artistic choices: the interference of the economic supporters would have a negative impact on their image because the authority of the management in defining the artistic identity of the theatre is universally recognised. However, the link between positive managerial results and artistic programming is very tight and can lead to a mutual conditioning but it is only partially related to the pressures of the board. The risk of orienting the artistic programming choices towards a mainstream system is stronger in the case of private sponsors that aspire to get visibility; however, the way to pass this limit is to define a common interest between the institution and the sponsor, not around a single work but moreover around a shared vision.

The issue of governance, that has been the starting point of this analysis, appears to be less relevant than what we had assumed, while the emphasis should be stressed on the capacity of the management to share a common vision, internally and externally, among all the stakeholders. At the same time it is evident that, even in prestigious institutions such as those studied, there is a tendency to attribute the responsibility of the sustainability of the cultural institutions mainly to the public bodies (and the financial uncertainty to the lack of a cultural policy at central level), whereas the possibilities and the responsibilities of the management are limited.

CONCLUSIONS

After seventeen years from the reform, the analysis of the opera scene in Italy shows some of its limits:

- the role of private supporters is still marginal; the private contribution does not integrate the public funding (as stated by law) but rather replaces it. Because of this, private funders' role changes: they are no longer responsible for the development of the institution but rather for its survival, with the consequence to be discouraged with regard to the involvement and to the economic support.

- The centrality of public role in funding culture is due to a cultural tradition that transcends the possibility of private support. At the same time, the reduction of public funding inhibits the contribution of private donors who recognises the choices of intervention of the public administrations as a criterion of merit.

- Fund raising is not very developed in the Italian cultural institutions. Frequently it is not recognise as core business and the number of people involved in this activity is small. In Italy the Anglo-Saxon model remains a theoretical approach.

- The public support is going to be reduced every year because of the absence of a cultural policy, with the effect of a global failure of the public intervention.

To conclude, it is useful to identify some of the causes of rigidity of the Italian system to a multi- stakeholder funding approach. This situation is only partially generated by the governance asset. Even if the reform would leave each institution free to set its own organisational structure, the governance chosen by the fourteen LSFs is similar one each other, with the effect of a standardisation of the business model that does not take into consideration their financial specificities. A revision of the charts could make easier the access to private sponsors but it cannot significantly change the situation because under a legislative perspective the freedom of action has been already guaranteed.

The rigidity of the system is not even attributable to the risk of a limitation of the artistic autonomy because the interests of private funders can be oriented toward other objectives and quite often this already happens spontaneously. Rather, the dependence on few sources of funding reduces the autonomy of the institutions making them less flexible to economic contractions (Lai, 2009).

Instead, the stiffness depends mainly on the management resistance to reconsider the role of public funding, which is doomed to shrink independently from any matter of principle, and to reinvent the strategies. Managers are struggling to make their institutions distinctive in a highly competitive panorama, both in terms of funding and of artistic production; managers have to position the institutions clearly in the map of the opera system, both at institutional level and on the market.

In the Italian scenario, where fourteen LSFs coexist, it is essential to pursue a goal of diversification. The debate about the possibility of closing some of the LSFs is legitimate and useful because it forces the institutions to reconsider the meaning and the value of their existence. The survival of the LSFs depends on the capability to enhance their own peculiarities: none of them can be considered indispensable in a time of economic and cultural crisis.

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