ORGANIZATIONAL LEVEL EFFECTIVENESS OF A STATE FUNDING INCREASE TO ARTS ORGANIZATIONS

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ABSTRACT
Previous research on government and private funding indicate that an increase in state funding influences the behavior and activities in arts organizations. Based on the model of nonprofit performance metrics proposed by Epstein and McFarlan (2011), the present paper investigates the effects of a substantial increase in the state funding of professional theatres, orchestras, and museums. The empirical data consisted of financial statement data, annual reports, and an Internet survey. The data was analyzed using the factor and cluster analysis methods. The preliminary results indicate that the effects differ noticeably between the public and private arts organizations.
Key words: arts management, arts funding, performance metrics, public and private funding

INTRODUCTION

In many countries, arts organizations are financed more or less by the state and local government. Several empirical studies address the effects of government support for arts organizations. O'Hagan and Neligan (2005) showed that in grand-aided nonprofit English theatres, increases in state subsidies resulted in less program conventionality. In studying 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. Luksetich and Hughes (2008) examined the effect of lump-sum subsidies (unrestricted government grants) on the repertoire of the symphony orchestras and found that while state lump-sum grants decreased the number of popular pieces performed by medium and small symphony orchestras, the impact of government support on contemporary programming was rather weak.

Further, the findings of Alexander (1996) show that in arts museums, 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 the exhibitions. Camarero et al. (2011) analyzed how public funding impacts innovation and performance of museums and found that public funding does not encourage innovation. Museums subsidized with increased public funding seemed to have less of an incentive to adopt technological innovations. Public funding had a particularly restrictive effect on organizational change (training and progress of managerial staff). Instead, it helped museums to accomplish their social goals of preserving the collection and disseminating culture within the local community.

In Finland, professional theatres, orchestras and museums recently received a substantial increase in the state funding. Altogether, the increase was 50 million EUR in the three successive years from 2008 to 2010.
The findings of previous research show that an increase in public funding influences the behavior and activities of arts organizations. The present study contributes to this research through examining the effects of the state funding increase in Finland. The research question is: How does a substantial increase in funding influence the resources, activities, and output of arts organizations and how does the management perceive the effects of the increase? The study uses both objective and perceptual or subjective measures for analyzing the effects. The empirical data consisted of financial statement data and annual reports of the arts organizations and an Internet survey of their management.

The paper is organized as follows. The next section presents the theoretical background and model of the study. Then, the method and data of the study are presented. Next, our preliminary findings are discussed and the implications of the study considered.

THEORETICAL BACKGROUND

For tracking the uses and targets of a state funding increase, we reviewed literature on goals and objectives of arts organizations. It is assumed that the management allocates funding for purposes that advance the attainment of organizational goals. To sum up the objectives of arts organizations identified in the economic models of the behavior of nonprofit cultural organizations, we list the following: artistic quality maximization and quantity or attendance maximization (DiMaggio, 1987; Hansmann, 1981; Throsby, 1994), budget maximization (Hansmann, 1981), maximization of the prestige and well-being (personal utility) of those managing the organization (Frey and Meier, 2006; Luksetich and Lange, 1995; Throsby, 1994), expense maximization (Luksetich and Lange, 1995), survival and legitimacy (DiMaggio, 1987). Other related aspects are the managers' diminished incentive to minimize costs and earn profits (Hansmann, 1980).

In addition to the objectives proposed by cultural economists, areas important for the success of an arts organization and therefore potential targets for a funding increase have also been identified in the empirical arts management studies. Gilhespy (1999) proposes, based on interviews with the managers of arts organizations, access maximization, diversity/multiculturalism, education, innovation, revenue maximization, and service quality maximization as strategic options for arts organizations. Zorloni (2012) identified several specific goals for visual art museums in her interview study: preserving collections, strengthening research, increasing public engagement, maximizing collaboration, serving the mission through organizational excellence, attracting and developing staff capacity, enhancing competitor intelligence, advancing museum governance and accountability, and managing and increasing financial support.

As an analysis tool for the effects of the state funding increase, we lean on a model of nonprofit performance metrics proposed by Epstein and McFarlan (2011). Their model demonstrates the various organizational acquisitions and allocations that have an effect on internal and external effectiveness. In the model, the organization's resource acquisition and allocation are grouped into five clusters: inputs, activities, outputs, outcomes, and impacts**.** *Inputs* are, along with the mission statement and strategy, the key tangible and intangible resources that enable the organization to perform its tasks: cash, personnel, competencies and capabilities, equipment, and other material items. *Activities* are the specific programs and tasks that the organization undertakes. *Outputs* are the 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 these products and services. *Impacts* include benefits to communities and society as a whole.
Particularly, changes in the input, activities, and output clusters of the model of Epstein and McFarlan (2011) are related to organizational level effectiveness. Components relevant for the study (probable targets for a state subsidy increase) in these clusters should be specified and measured. As the impacts on the individual and community levels are outside the scope of the study, we do not further the discussion on those impacts. Among others, the studies of Belfiore and Bennett (2009), Hooper-Greenhill (2004), and Seaman (1987), demonstrating the effectiveness of funding, have focused on the clusters of outcomes and impacts on the measurement hierarchy of Epstein and McFarlan (2011).

DATA AND METHODS

The empirical data of the study was collected in two phases. First, financial statement data and annual reports for the years 2006 - 2010 were collected from 205 arts organizations representing both public and private sector. Second, an Internet survey was conducted among the managers of these arts organizations. A total of 177 arts managers filled in the questionnaire, yielding a response rate of 86 percent.

The empirical study focused on the resources, structure of finances, volume and features of the activities, output of theatres, orchestras and museums, and the perceived effects of the increase in state funding. For example, changes of the relationship between governmental and municipal subsidies and changes of the various items of income and expenditure were identified. As an aspect of effects, e.g., changes in audience development activities and the collaborative initiatives with artistic groups outside the state's subsidy system were examined. The variables explaining the use and perceived effects of the state funding increase were measured on a 5-point Likert scale and the measures obtained were treated as interval scaled. We had a total of 156 usable responses when having screened out the respondents whose organizations had not received the state funding increase according to the survey responses. The present paper focuses on the data of 156 arts organizations collected through the survey.

We analyzed the data using the factor analysis method for examining the respondents' views on the use of increased state funding. Based on the results of the factor analysis, the respondents were further categorized into groups using the cluster analysis method.

RESULTS

In general, our preliminary results indicate that the state funding increase was perceived as having significantly improved the arts organizations' economy and eased their tackling through economically difficult times in 2008 - 2010. The investigated arts organizations had different positions regarding the use of the increase. First, the different views may reflect tensions met when resources are allocated and decisions made whether to focus outward (towards audiences) or inwards (towards personnel and infrastructure). The dimensions identified also reflect previous theoretical discussion on funding of arts organizations. For example, artistic quality and the quality of staging, contents, and exhibition layouts were strongly emphasized as the targets of the increased funding.

Furthermore, the preliminary results of the cluster analysis indicate four different arts organization groups related to the views on the use of the state funding increase. There seems to be a difference between the views of the management of public and private arts organizations. Likewise, our results indicate differences in the views of the theatre, orchestra, and museum managers. One interesting finding was the critical stance of some public sector arts managers towards the state funding increase. They had the view that the owner of the organization (a municipality that receives the allowance) did not deliver the full amount of the increase to their organization.

SUMMARY AND CONCLUSION

Several empirical studies address the effects of government support for arts organizations. The present paper investigated the use and effects of a state funding increase that professional theatres, orchestras and museums received in Finland. Altogether, the increase was 50 million EUR in the three successive years from 2008 to 2010. The main research question asked how a substantial increase in funding influences the resources, activities, and output of arts organizations and how the management perceives the effects of the increase.
The impact of the funding increase was investigated using a survey among the managers of arts organizations. The data was analyzed using the factor analysis and cluster analysis methods. Preliminary results reported in this paper shed light on the different views of the arts managers. Especially interesting were the differences in views of the managers of public and private arts organizations and the theatres, orchestras, and museums.

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