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ARE LESS PUBLIC FUNDS BAD? NEW STRATEGIES FOR CULTURAL OPERATORS^o

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Abstract

Harsh public budget constraints which reduce the public funding available to cultural operators, are likely to impose radical changes in their strategies. However, this “bad news” may give cultural operators the chance to re-think their mission in line with the new set of incentives they face: they might try to exploit new market opportunities, enlarging the scope of their cultural production as well as incorporating other non market-oriented objectives. These strategies range from an additional supply of a specific type of cultural product (live artistic performances, visual arts exhibitions, etc.) to the supply of a larger variety of cultural products and services, including artistic educational activities for social inclusion. Along these lines they can also take advantage of the opportunity in order to make their business more profitable as well as to generate positive externalities which can be appreciated by a larger part of the local community and favour the social cohesion.

JEL: Z10; Z18; Z1

Keywords: public funding, arts production, multi-product

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1. Introduction

In this paper, we aim at analysing the strategies that can be designed by cultural producers¹ in the face of public funding cut-backs which invariably result in their resort to different sources of financing.

From an economic perspective, cultural producers use inputs to produce one or more outputs, with any major differences depending on size, reputation and institutional features. Their mission and performance are severely affected by the set of incentives they face, which derive mainly from institutional and governmental sources. Observing the effects of the public budgets crisis on cultural production from such a perspective might provide some policy indications and useful hints for defining the future strategies of cultural providers.

Depending on the context, cultural producers face different incentives and, therefore, behave in different ways. The final output mix is chosen by the cultural organisation and, to what extent it reflects managers' priorities or is demand-oriented, depends on the ownership pattern (public, non-profit or private organizations) and also on the different incentives characterizing the different institutional contexts. An analysis of the reactions of organizations facing public cut-backs in funding may offer some evidence in this respect and provide some useful hints for the future.

As we show in a few case studies selected for Catania (Sicily), local cultural operators have reacted to the uncertain and unstable financial scenario, with more or less awareness, widening the range of cultural (or partially cultural) products they supply. We suggest that, in most cases, they have developed not only multi-product but also multi-function strategies, with a clear emphasis on the social aspects of their activities. This change in the social role of cultural operators reinforces the existing reasons for public funding of the arts. Moreover, if we consider the shortcomings of public intervention in the arts, the reduction of public resources rather than being negative could also be interpreted adopting a positive perspective. In section 2 the reasons for public funding of cultural activities and the shortcomings of public intervention are briefly presented. In section 3 some figures for public financing of culture in the European countries and in Italy, with a particular focus

¹ We use the term 'cultural producers' using a very general definition which refers to the different types of organizations – regardless whether they are private or public – with activities in the cultural field. Our analysis is mainly orientated towards private and no-profit cultural producers mainly operating at local level (see, below, section 3).

on Sicily, are reported. Section 4 focuses on the analysis of the strategic behaviour adopted by our case studies, referring to local cultural operators of small dimension, to underline challenges and opportunities deriving from the changing scenario. Some concluding remarks will be offered in section 5.

2. Public funding of cultural activities: motivations and shortcomings

2.1. The rationale for public support

In the economic literature it is widely agreed that public intervention in the market is justified by the presence of market ‘failures’ that prevent the fulfilment of allocative efficiency. The most widely accepted government approach to the cultural sector recognises that art activities are socially relevant, that markets are imperfect and need to be corrected.

What kind of market failures occur in the case of culture? Among the causes of market failures, positive externalities are usually put forward to justify public intervention;² they consist in increasing the level of education of the society, especially of the young, contributing towards taste formation and to the creation of a community identity (i.e., regional, national or European). Because of these positive effects, if policy-makers do not intervene directly and/or indirectly, e.g. through subsidies and/or tax expenditures,³ the optimal quantity of cultural activities supplied by private cultural producers would be lower than the quantity of cultural services necessary to maximize social welfare.

According to the ‘merit good’ approach, which is usually mentioned in the case of public financing of arts, policy-makers have to “force” or, better to say, give people the opportunity (for example, at school) to develop the knowledge required to appreciate arts and to develop those habits which will eventually make them consume the social optimal quantity of arts. In other words, there is an asymmetric distribution of the information between the consumers and the suppliers: the ones that have never attended any type of cultural event are unlikely to request something that they do not

² As Frey (2011) outlines, other well-known arguments developed in the literature are: option demand, bequest demand, national prestige, public goods.

³ Regulation is another public tool to affect the level and the composition of cultural activities (see, Rizzo, 2011).

know. However, the merit good argument is controversial. It shows a “paternalistic” philosophy which is difficult to justify on rational grounds although it might be argued that if a concept of multiple individual preferences is adopted, then the contrast between merit goods and the consumer’s sovereignty becomes an open question. According to Musgrave (1987), the conservation of art and culture may be considered a merit good in the sense that the consumer’s sovereignty is substituted by another rule; individuals support and finance culture and arts because they accept the “community preference”, even though their personal preferences may diverge.

Moreover, equity issues are usually put forward to justify public funding of cultural activities, mainly referring to the notion of accessibility (Towse, 1994). Different definitions of accessibility can be used – social, economic, geographical– and, of course, the form of the suitable public subsidy will depend on the definition which is adopted. However, the perverse redistributive effects of public funding in the arts field cannot be disregarded: in fact, the empirical evidence on socio-economic features of audiences for the arts shows that they very often belong to upper-income groups. Thus, financing cultural organizations through public revenues could produce regressive effects: the ones that largely consume cultural services are a low percentage of the population and their willingness to pay for cultural services is higher than the price they actually pay, while the majority of citizens do not consume almost any kind of cultural services.

2.2. Public ‘failures’

The above-mentioned normative approach focuses on the ability of the public sector to correct ‘market failures’ but it is criticised because it disregards the occurrence of ‘state failures’ as well as the related negative effects on the efficiency of the resources allocated in the arts.

To offer a more realistic view of public intervention, a closer analysis of the collective decision-making process is called for. In such a perspective, the public sector can be described as a complex system of principal–agent relationships,⁴ characterized by asymmetrical information.

⁴ The political decision-makers are considered as an agent of society and, at the same time, the principal of bureaucratic agents. Cultural operators are the final agents, at the end of this chain of principal-agent relationships.

As Mazza (2011) outlines, public agents are usually self-interested and enjoy informational advantages; therefore, the fulfilment of public interest cannot be taken for granted but it crucially depends on the set of incentives and constraints which agents face.

Asymmetrical information is severe in the cultural field, the consequence being that a powerful role is assigned to experts. Broadly speaking, it might be assumed that the decisions regarding what should be financed and the related priorities are taken at a political level basing themselves on the judgements of experts, while the decisions on how to finance belong to those in charge of implementing policies, usually bureaucracies. In most cases, as it happens, for instance, in Italy, bureaucrats in cultural departments are experts themselves with subjective opinions on the different expressions of arts that can influence financing criteria. It is widely agreed that these public agents are self-interested and, therefore, that the fulfilment of public interest requires that incentives/constraints are imposed upon them. Moreover, cultural producers, as final agents, enjoy asymmetric information on their activity – both in quantitative and qualitative terms - and tend to behave strategically to pursue their personal goals which may well be contradictory to the public ones. Hence, the success of public policies largely depends upon the design of proper incentives to obtain the desired outcome.

‘Failures’ are therefore likely to occur in cultural policies. On the one hand, we know how difficult it is to identify objective criteria on which to base the allocation of public funds for cultural productions: a discretionary aspect is always present (and probably it is even more severe than in other fields of public intervention). As Mazza (2011) stresses, in the cultural field even the identification of the content of cultural policies and the range of intervention are highly discretionary; for example, the definition of the kinds of visual and performing arts to be supported is hardly codified. Therefore, experts act as ‘gatekeepers’.

On the other hand, apart from the discretionary judgement expressed by experts, other reasons can be concealed, such as, for instance, a preferential relationship between the politicians and the cultural operators based on a common geographical and/or political origin, which can be better explained through a public choice approach.⁵ Politicians might support the arts to obtain a political gain and, at the same time, might be influenced by lobbies, interested in obtaining specific benefits which are financed by society at large. In other words, the differing interests are unlikely to be

⁵ Guccio-Mazza (2014) find that the allocation of funding for cultural heritage conservation activities in Sicily for the period 1992–2002 was politically motivated and influenced by the prominence of representatives of the ruling coalition in a district and the loyalty of voters to the main party.

equally represented by public policies and, at the same time, because of information asymmetries, there is no guarantee that cultural producers will fulfil public interest objectives. Therefore, without denying the need for correcting market failures, the scope of such intervention as well as the choice of instruments requires careful evaluation.

Such an evaluation is especially relevant nowadays, as the tightening of public budget constraints is likely to affect the priorities of the policy-makers' agenda thereby increasing the 'opportunity cost' for the public funding of cultural activities. It is also more difficult to justify the support to cultural producers in situations where a trade-off exists with other socially relevant services such as, for instance, education or health. In fact, public subsidies – at European, national or sub-central level - can be only justified if cultural operators emerge from their 'ivory tower' and make their social role more visible: cultural operators have to engage in enlarging their audiences, play an active role in the local community and generate positive externalities which benefit all the community, not only a restricted and already educated audience.

3. Public funding of cultural activities: an overview

Traditionally, the supply of cultural services has in the main been publicly financed. In recent years, the differences across European countries in public expenditure on culture have been enhanced because of the financial crisis and severe public budget constraints (Council of Europe, 2014). On average, the public expenditure on culture is about 1.1 per cent of GDP in EU-27; this percentage has been rather stable in the period 2000-2011 in most of the European countries, with the exception of Italy, that cut public expenditure on culture more than the other European countries suffering from sovereign debt crisis, such as Portugal, Ireland, Greece, Spain (AA.VV, 2013). However, considering the harsh reduction in GDP registered by all the European countries in period 2009-2011, due to the international financial crisis, we can affirm that in absolute values the common cut on public funding on culture is more severe than the percentage shows. Generally, the cut on cultural public budgets has been registered more at the central level of government than at the local level, where a large part of public cultural expenditure is allocated, particularly on those European countries characterised by a higher degree of decentralization of the political decision process (Copic *et al.*, 2013).

Focusing on Italy, we observe that in the period 1996-2012 the amount of resources devoted to cultural and leisure activities has been drastically reduced.⁶ At national level, the percentage of public resources devoted to “culture and leisure activities” was 1.5 per cent in 1996 and, after a peak in 2004 (2.2 per cent), it sharply declined with a minimum in 2012 (less than 1 per cent).

If we consider the role played by the different levels of Government we observe that the Central Government (CG) (i.e. the Ministry of Cultural goods and activities - *Ministero per i Beni e le Attività Culturali, MiBac*) structurally plays the main role. However, after the maximum peak registered in 2004 (68 per cent), the CG covered a decreasing percentage share of the public funds for culture that has in recent years stabilized at around 40 per cent. In fact, the financing of culture and leisure activities became more decentralized. Local Government (LG) (i.e. Provinces and Municipalities) and Local Public Non-Government (LPNG) entities now play an increasing role: in 2012, about 30 per cent and 16 per cent, respectively. In 2012, the share of the LPNG funds was four times as much as in 1996. The Regional Government (RG) always accounts for less than 10 per cent of total public funds which in recent years has become stable at around 7-8 per cent.⁷

In Sicily (the Region where our study is focused), the trend for the share of public expenditure for culture and leisure activities as a percentage of Total Public Sector expenditure is very similar to the trend at national level.⁸ There is, however, a significant difference in the role played by the different levels of government.

Central Government is still relevant in Sicily (almost stable at around 40 per cent of public funds), while the regional level of government is the second public financier, supplying about 20-25 per cent of total public funds.⁹ As far as Regional funding is concerned, in the last five years differences occurred within the performing arts sector: funds have been rather stable for the theatre while the music sector has experienced a drastic reduction,¹⁰ a tentative explanation being that the latter are able to exert a stronger role in the political debate.

⁶ For other recent studies on central and local government spending for cultural activities see, AA.VV. (2013) and Domenichini (2013).

⁷ All data are from “Conti Pubblici Territoriali” (CPT) (Regional Public Accounts) database.

⁸ For a detailed analysis of the financing flows for culture and leisure activities in Sicily, see AA.VV (2013a).

⁹ Sicily is one of the Italian regions denominated “*Regioni a Statuto Speciale*” that historically benefit from a larger political autonomy in specific fields like the management of Cultural Heritage. The other Italian “*Regioni a Statuto speciale*” are: Sardinia, Valle d’Aosta, Friuli-Venezia-Giulia and Trentino-Alto-Adige.

¹⁰ Such a reduction has mainly affected small and younger operators (labeled as ‘local’ by Regional legislation).

Therefore, cultural producers interact with different public funding bodies and are likely to face different institutional rules and procedures when they apply for public funds.

Different criteria of evaluation can be adopted by different levels of government and the quantitative and qualitative criteria change over time and according to the kind of cultural activities which has to be supported (i.e. theatre or music).

In Sicily, in 2013, as a result of the Regional Law 11/2010, criteria and procedures for assignment have been specifically defined and the regional funding of theatres and music is not in the form of a block grant; it is differentiated into several items, responding to heterogeneous quantitative and qualitative criteria that still leave a quite high level of discretion to the Regional Department that can be also supported in its assessment procedure by consultants, even external ones, as advisors.

Such institutional features should not be disregarded as they can increase the transaction costs and the uncertainty that cultural producers have to bear when gaining access to public funds.

In Sicily, very rarely funds are allocated in advance, which would allow cultural operators the definition of plans of activity. Therefore, cultural operators cannot really count on public funds, as they normally receive the assignment in an amount and at a time different to those specified in the terms of the agreement. Thus, uncertain and unstable public funds should not be the only source for any sustainable planning of artistic activities, although it is not easy to reduce this somewhat “vicious” link and to design different strategies of fundraising. This very strong and rooted relationship with political actors has not stimulated cultural operators to become experts in market strategies and has instead encouraged most of them to remain within their “ivory tower”, without any incentive to enhance their potential public role as vehicle for the transmission of different cultural expressions.

However, the scope of private financing for non-profit cultural activities should also be taken in account. At national level, according to the returns of the latest census in the cultural field carried out by ISTAT, the Italian Institute of Statistics, the largest share of financing in the non-profit sector derives from the private contributions of members (31%) and from the receipts of market goods and services (30, 2%). Public subsidies account for only a small share (9, 6%).¹¹

¹¹The 9,9% of no-profit organizations in the cultural field at national level indicates the public sector as the main source of financing while the 90,1% relies mainly on private financing. Only 20% of no-profit organizations in the cultural field operate fundraising activities.

Finally, among the private funders institutionally devoted to the support of cultural activities, Bank Foundations deserve to be mentioned. “Arts, cultural goods and activities” is the sector that structurally receives the highest percentage share of the Bank Foundations resources, more than 30 per cent. However, over the last few years, the total amount of Bank Foundation resources has been reduced and therefore even if the percentage share is stable, the total amount received by the cultural operators has decreased (-1.8 per cent from 2011 to 2012) (see, Aciri, 2013).

4. New funding strategies for cultural operators

4.1. The European and Italian framework

The scenario described above, about the generalized cut in public funding on culture, registered both in Europe and particularly in Italy, should urge cultural producers on looking for more diversified private and public sources of financing. New strategies have been adopted by cultural producers at the European level that take in account the recent evolution of the cultural policies in different European countries (see Council of Europe, 2014).

A few examples that concern European case studies presented in the PUCK meetings deserve to be mentioned.

In UK, the National Endowment for Science, Technology and the Arts (NESTA), established in 1998 as a public body, funded by the National Lottery and designed to promote “creativity, talent and innovation across a wide spectrum of areas and interests” (www.nesta.org.uk), has been transformed in an independent charity in 2012. Now, Nesta is a hub for innovators: it offers consultancy to individual creators and supports arts and creative projects not only in UK but everywhere.

In Spain, the political decision of outsourcing the management of cultural services (see, Council of Europe, 2014) opens new market opportunities for private companies, like Magma Cultura (www.Magmaculture.com), that now offers several cultural services (i.e. consultancy, visitor management and communication) to a large array of customers (i.e. museums, heritage sites, foundations, etc.) not only in Spain but also abroad.

These two examples demonstrate that institutional changes, due to public budgets constraints, can give market opportunities but just to a few private companies specialized on cultural services that have such a large dimension that allows them to operate in domestic and international markets.

In Ireland, a small-size example of this strategy is represented by BlockT, a non-profit organisation in Dublin, located in a building in a previously degraded area (Smithfield area in Dublin) that offers a large array of services to artists and creative people and give them the opportunity of sharing costs and artistic experiences that favours the contamination process of different arts expressions (www.blockt.ie). Moreover, BlockT responds to the stimulus coming from the Irish cultural policies that properly, after the recent economic crisis, encourage cooperation among artists and enhance the role that cultural operators can play in the regeneration of degraded quarters.

In Italy, a recent research¹² based on the analysis of over 2,000 cultural proposals submitted to funding calls issued by several no-profit subjects, offers an interesting picture of what is labelled “the eco-system of cultural entrepreneurship”. The main characteristics of the picture are that most of the proposals for cultural entrepreneurial activities rely on a network approach, and they are characterized by a strong identity; overall they do not have big size (average value is around 500,000 euro) and face sustainability problems.¹³

A research carried out in Lombardy by Gallina *et al.* (2013), on the main features of cultural production after the crisis¹⁴ shows that young theatre cultural producers tend to differentiate their activities, exhibit a strong social responsiveness and attention for the territorial dimension. Differences emerge across cultural producers, also depending on differences in the ownership and governance structure, with a difficult dialogue between the more traditional and well established organizations and the younger and more innovative ones. The latter face the most severe sustainability problems. An interesting experience is the one offered by the activity of the so-called

¹² The research has been carried out by ASK Bocconi, which analyses several calls of Fondazione Accenture and Edison Start.

¹³ Some successful examples, such as Cascina Roccafranca, operating in Torino since 2007, points not only toward the provision of traditional cultural activities (music, performing arts, etc.) but also to specific activities, such as operating as hub to support the development of small projects. The sustainability issue is addressed through fundraising and membership (more than 1,000 members).

¹⁴ The research is supported by Cariplo, a bank foundation mainly operating in the Region, to obtain useful hints for the design of its funding policy in the cultural sector.

Independent Centers of Cultural Production (*Centri Indipendenti di Produzione Culturale* - CIPC) in Turin which are closely investigated by Bertacchini - Pazzola (2015). These Centers operate not only in the performing arts but also in other fields, such as design, visual arts, publishing, etc. and pursue the mission of promoting innovative creative and cultural activities. At the same time, most of them are located in peripheral areas and are involved in urban regeneration and social inclusion projects. In terms of sustainability, their activity is mainly based on self-financing closely related to the artistic mission but a relevant share is also obtained by commercial activities. The search for public funding, however, is not dismissed, the claimed reason being to maintain lower prices to enlarge the audience.

The strategies adopted by our case studies of cultural operators in Catania (Sicily), that we describe in details in the next section, can be only partially associated to the strategies mentioned above to face the reduction of public funding, though similarities seem to occur with respect to the Turin case.

On the one hand, the cultural associations of larger size (*CentroZo* and *Scenario Pubblico*) embrace the multi-product strategy and, in particular, we can say that *CentroZo* nowadays plays in Catania the role that *BlockT* plays in Dublin (taking obviously in account the different size and political role of the two cities: Catania is a middle-size city in the South of Italy and Dublin is the capital of Ireland).

On the other hand, the cultural associations selected are located in the historical centre of Catania and participate to the regeneration process of the historical centre of Catania that started in the Nineties of the last century. However, cultural activities cannot be considered fully integrated in the urban planning strategy oriented to the recovery of the historical centre; some cultural operators decided their location only for economic convenience without any public support. According to the taxonomy described by Evans and Shaw (2004), the regeneration process of the historical centre of Catania recalls a “culture and regeneration” plan that so far has not had a relevant social impact on the local community. Promoting local networks of cultural operators and the participation of the residents at the cultural activities is one of the main proposal of this study: it can change the present “culture and regeneration” state in a “cultural regeneration” plan where cultural activities are fully integrated in the urban regeneration process.

Unfortunately, Italy discovered the important role that cultural operators can play to favour cultural regeneration processes, comprehending social inclusion and cohesion goals, only very recently, compared to other European countries. The regeneration of Birmingham in UK, of Barcelona in Spain are examples of what happened in Europe in the Nineties (Evans and Shaw, 2004, p.6). Probably, Italy has been too much involved in the conservative approach to its cultural heritage and only recently started to use culture to address the social fragmentation of urban communities. Different European experiences based on the positive social impact of the cultural initiatives on the local communities can be mentioned: the community arts in UK, the animation *socio-culturelle* in France and *Soziokultur* in Germany (Bodo et al. 2009). In Italy, really we have a long tradition of *Social Theatre* but it is mainly devoted to specific segments of the population (i.e. disabled and prisoners).

The cultural regeneration of a deprived quarter is something different, requiring the participation of the locals. In Italy, we can mentioned just a few best practices that have been carried on in Torino (San Salvario quarter), in Naples (the theatrical project in the deprived suburb of Scampia) and also in Catania (the cultural projects of Fondazione Presti in the deprived suburb of Librino) - (Council of Europe, 2014, Italy country report).

However, even if it is still lacking a national institutional framework to support these initiatives, Bank Foundations (i.e., Fondazione Cariplo in Milan and Fondazione Banca Intesa San Paolo in Turin) launched proposals to support cultural networks able to promote the local community empowerment (Council of Europe, 2014, Italy report, p.47).

In this perspective, we aim at promoting the common and coordinate action of the small-size cultural operators in Catania; their social responsibility can allow them to access new lines of financing.

4.2. Case studies in Catania (Sicily)

On the grounds of the above considerations, we analyse some case studies of local cultural operators in Catania involved in the PUCK project, in order to investigate their reaction to the changing scenario and whether they have developed new strategies aimed at market survival. In line with this perspective, we take into account their dependency on public subsidies, their capacity to

loosen said dependency by developing new strategies based on a multi-product supply and the promotion of a new awareness of the social role they can play.

4.2.1. Multiproduct strategies.

The large majority of private cultural producers, involved in the PUCK project, operate in the cultural field (performing arts, visual arts, heritage) and provide a wide range of diversified activities, often including non-cultural services. Differentiating the cultural services supplied is a strategy that many cultural operators have pursued in recent years: it is an appropriate strategy for the purpose of reducing entrepreneurial risk and maximizing profit. Usually the differentiation concerns cultural services that can be privately supplied in the market. As soon as the amount of public subsidies declines, the role of such complementary activities increases and in many cases revenues from market activities represent the first source of funding for the local cultural enterprises.

However, the multiproduct strategy is not positively considered by cultural operators given that they consider it as a “last resort”, following the failure of an attempt to obtain public financing, and additionally because they fear a loss of their identity. They undervalue the positive aspects that can derive from a multiproduct strategy: independency from the influence of local policy and from the business and political cycles that create unstable patterns of public spending.

In many cases, cultural operators started as mono-product activities and then developed multiproduct strategies in order to increase market penetration by expanding into new market segments and stabilize cash flows, often as a response to a declined role of the public sector in promoting culture. Such a process, however, has to be governed carefully since it might challenge the cultural identity of producers: therefore, they need to develop sustainable strategies to balance financial needs with their cultural/business mission.

The process of enlarging the scope of activities is common to all the participants; however, it is interesting that strategies are not homogeneous. Differences occur in relation to the specific field of activity as well as to the type of organization. Under this perspective, in the case studies under consideration, at least three groups can be identified.

A first group includes those producers that started as cultural associations (*Scenario Pubblico*, *Centro Zo*, *Brass Jazz Club*) mainly with the relevant support of the public sector, subsequently developing a range of non-cultural activities and services such as: food and restaurant, event

organization, location rent, etc. With the decrease of public subsidies, the role of such support activities has been increasing over time and can now be considered the primary source of funding. In some cases, these producers have designed a governance system based on a specialized organizational structure: *Scenario Pubblico* is organized in *Metaarte* (location manager), *Compagnia Zappalà* (contemporary dance), *Modem* and *Scenario Pubblico*; *Zo*'s activities are organized into five autonomous areas: *Zo-Culture Contemporanee* is concerned with planning and organization of multidisciplinary cultural activities; *ZoMeeting* organizes company meetings and conventions; *ZoMedia* is a creative agency specialized in visual design and multimedia; *ZoSound*'s activities involve audio-production and post-production; *ZoFood* operates bar and restaurant on site as well catering services.¹⁵

A second group includes those cultural producers, operating in the visual arts sector, who perform only activities which are closely related to their cultural mission. Such a strategy is adopted by cultural operators which are different as far as size and governance are concerned. *Fondazione Presti* and *Fondazione Brodbeck* are organized as foundations; financial autonomy allows such cultural operators to supply a range of services that are all closely related to their core cultural business.

A quite different approach has been adopted by *Bocs*, whose support activities are integrated in the cultural mission. Sources of funding have been developed within the artistic view of *Bocs* and cannot be separated from its core activities. Indeed, the association promotes projects in order to get small financial donations from private sources. Such activities are 'micro-collecting' (*microcollezionismo*) and 'contemporary dinner' (*cena contemporanea*). With respect to the former action, each supporter contributes 2,500 Euros a year to set up five projects; in return, supporters receive five works of the artists involved in the projects. Thus, donors evolve into small collectors. The latter project is a dinner/exhibition party; in order to participate in the event guests pay an entrance fee, a half for the dinner, a half as a voluntary contribution to the cultural association. A third method of private funding involves the artists who operate with the association; *Bocs* ask them to donate works which will then be sold.

A third type includes cultural operators providing services to the public sector related with the promotion and valorisation of cultural and environmental heritage (*Officine culturali*). These operators supply a range of cultural services including educational activities, book readings, activities to raise awareness towards environmental sustainability and fundraising events.

¹⁵ A detailed analysis of *Zo*'s organization is developed in Cellini *et al.* (2014).

A rather peculiar example is offered by *Teatro Coppola*. Being an “occupied” theatre, it operates in a formally illegal status but with the implicit acceptance of public institutions. Occupants claim to pursue cultural and social objectives having rescued an historical place from negligence and oblivion.

4.2.2.3. Network and partnership.

As mentioned above, some cultural operators developed an internal organizational structure in order to manage more efficiently a wide range of non-related activities. However, cultural producers also work in connection with other private or public partners. Partnerships involve sponsorship, direct cooperation in cultural programs and sharing of professional capacity. With such a strategy operators can share costs on core activities, and/or widen the range of services provided so expanding their activities to other market segments. For instance, the *Brass Jazz Club* developed the *Palco-Off* drama festival jointly with *Ingresso Libero*, a local theatre company; *Fondazione Brodbeck* has been involved in the development of a tourist network with both private and public companies, such as *Ursino Recupero Library*, *Biscari Palace*, *Valle Palace* and *BOCS*.

Cultural operators are also moving toward more formalized external networks. To this respect, a group of music and theatre operators¹⁶ has recently established a committee named Postal Code 95131- Performing Arts Committee Catania Historic Centre (*C.A.P. 95131 – Comitato Arti Performative Catania Centro*). The committee aims at creating a network oriented both to rehabilitate the historic centre of Catania, as well as to enlarge cultural participation to the artistic activities.

At the moment, there is no evidence of networks among private operators aimed at applying for EU funds or of stable cooperation with public producers operating in the same fields such as music, theatre or visual arts.¹⁷

¹⁶Brass Jazz Club – La Cartiera, Teatro del Canovaccio, Scenario Pubblico, Sala Chaplin, Sala Harpago – Il gatto blu, Sala Hernandez, Teatro Tezzano.

¹⁷ In Catania cultural supply includes, among the others, public institutions operating in the music field – the Opera House (*Teatro Bellini*) with its symphonic orchestra, in the theatre field (*Teatro Stabile*), in the visual arts (*Civic Museum Emilio Greco*) and also the Civic ‘V. Bellini’ Museum, located in Bellini’s house.

4.2.3.4. Multifunction strategy

Almost all the cultural operators involved in the PUCK project are located in some quarters of the historical centre of Catania that for many years have been almost abandoned and which, since the Nineties have been regenerated thanks also to the presence of these cultural activities (even if the degree of interaction with the local community is not fully exploited yet).

In any case, they have contributed to the regeneration of urban areas, though in different ways: in some cases, such as *Centro Zo* and *Fondazione Brodbeck*, cultural activities have given a chance for an alternative use of abandoned former industrial buildings; in the case of *Teatro Coppola*, an ancient abandoned building has been restored (and it is still illegally occupied); *Officine Culturali* promotes the valorisation of one of the most important monument in Catania, the Benedettini Monastery.

The choice of the location of cultural operators can in itself be a way to generate positive externalities that deserve the allocation of public subsidies. Their presence in degraded urban areas of the historical centre could, in fact, allow them to play an active role in the local community, interacting with the children and the other residents by involving them in cultural activities (i.e. educational laboratories, arts seminars) and, thus, contributing both to transforming the area into a creative one and to promoting social cohesion. In other words, cultural operators can play a multifunction role: the joint production of both market-oriented and other cultural services -which typically generate positive externalities - and, therefore, deserve to be supported by public transfers.

We can distinguish a multiproduct strategy from a multifunction strategy, according to the kind of product supplied. In a multiproduct strategy the private component of the cultural product supplied prevails (i.e. a music or a theatre performance, food and drinks, etc.); in a multifunction strategy the public component of the cultural services supplied prevails (i.e. stimulating the participation and education of the locals, renewing abandoned buildings, participating in the enhancement of local creativity, promoting upcoming artists, offering location for start-up incubators, etc.).

However, these two strategies are not substitutable but they can co-exist; each operator, depending on his/her type of activity, organization, priorities and other contextual features, can decide to what extent the above strategies should be pursued and combined. Moreover, a degree of interaction is required to make the strategies effective. A multiproduct strategy is pursued by each cultural operator on its own. For a multifunction strategy to be really effective, the cooperation of different

cultural operators is necessary: the contribution of a single cultural operator will not be sufficient to renovate a quarter; a critical mass of cultural operators is required.

The lack of structural cooperation among the cultural operators has to date proved to be a weakness; the cultural operators interviewed have so far pursued limited forms of cooperation for the production of specific services, without fully exploiting the potentialities of cooperation in the credit market and in the final market for cultural services. Indeed, such a narrow approach implies private and social costs: it reduces their contractual power for bargaining with the political decision-maker to obtain funds and, at the same time, the effectiveness of the social role they can play in terms of renovation and valorisation of historical quarters or suburbs.

However, as it has been pointed out above, things are changing slightly in the direction of increasing cooperation and creating networks among cultural operators.

4.3. The relations with the public sector

In the 1990s, cultural and artistic activities spread in Catania as a consequence of public investments, especially by local government that aimed at supporting cultural operators by providing both administrative support and public-owned buildings (*Centro Zo*).

The public-private relation has changed in recent years. As it has been pointed out above, the role of the public sector in subsidizing cultural activities has declined without compensating the subsequent decrease with other types of support.

Consequently, cultural operators started to perceive the role of the public sector as a bureaucratic obstacle and criticized the absence of policies focused on enhancing cultural and artistic activities (*Bocs, Brass Jazz Club*). In some cases, the perceived lack of public policies as well as the effect of the economic crisis on the cultural sector, led to a somewhat conflicting relationship between the private and public sector. In many parts of Italy and in Catania as well, groups of artists occupied abandoned public-owned buildings and reopened them as theatres (*Teatro Coppola*).¹⁸ Although such experiences are formally illegal and denounce the absence of effective public intervention and/or the negligence of local governments, their relationship with the local community has not resulted altogether hostile. Nonetheless, the declining role of the public sector opens up new

¹⁸ In Rome, Teatro Valle has been occupied for three years until June 2014. On this experience as an example of Cultural responsibility, see Salvan (2013).

opportunities to the private sector in the management of services for public cultural sites. As mentioned above, *Officine Culturali* directly provides services to the public sector, such as guided tours and info-points, and develops private-public projects, thereby shaping a new perspective for the public/private partnership in the context of Catania's culture.

4.4. The sources of funding

The source of funding of the cultural operators examined is both public and private and sees varying combinations depending on the kind of activity which is carried out and also on the governance structure.

Some organizations have obtained funds from the central level (MiBac) and from the Regional and local level (Province and Municipality) which have declined through time, on the brink of disappearing.

The shortage of public funds can be faced by differentiating funding sources and trying to compensate the decrease of domestic ones with European funds: such a strategy, however, requires specific skills that usually cultural operators, especially small ones, do not have (i.e. international relations and network, international tendency, knowledge of the procedures for accessing EU programs, etc.).¹⁹ Indeed, in the near future, public intervention could be redirected from financial to in-kind support, thus assisting cultural operators to apply for EU programs which allow access to EU funds and other benefits (i.e. guarantee facilities) that make the private credit market more accessible to cultural operators.

The above mentioned progressive contraction of public funds has affected the composition of cultural operators' revenues dramatically. Cultural institutions have been forced to seek private sponsors and to develop multiproduct strategies so reducing the role of core activities and redirecting efforts to support activities.

¹⁹*Officine Culturali* developed two projects to stimulate knowledge about culture and science in schools, and has submitted four projects to export the model to other towns/sites. *Compagnia Zappalà Danza (Scenario Pubblico)* participated P.O.M. *Sviluppo locale – Patti Territoriali per l'occupazione - Sottoprogramma n. 4 – Catania Sud*, to receive European grants, managed by the Municipality of Catania.

With respect to *Centro Zo*, the composition of revenues shows a remarkable trend with the inversion of the weighting of public and private revenues.²⁰

A similar phenomenon occurred in *Scenario Pubblico*. Over time, the artistic and cultural activities, which represent its identity, have been complemented with business activities such as locations rental, food, wine and entertainment, and event organization for third parties. In general, the above-mentioned business activities represent the support activities of a multiproduct firm, but in fact, since their related revenues tend to guarantee some degree of financial sustainability, such activities have started to assume a rather substantial role.²¹

Over the last years, *Brass Jazz Club* was affected by a heavy cut in public grants. As a consequence, while in the past most of financial resources had come from the Regional government, nowadays this source of funding is definitely very small.²²

The composition of the revenues of *Officine Culturali* is somewhat different. Revenues from the core activity are relevant (82% in 2012) and show a progressive growth. In 2010, revenues from guided tours (main activity) accounted for 62.4% of the total; in 2012, revenues from guided tours and other core activities represented 90.4% of the total, while merchandising (support activities) was just 6.3% of the total. Private funding comprises revenues from core activities (tickets), from support activities (i.e. bar, restaurant, catering) and merchandising (*Officine Culturali*). Donations account for 3% of *Officine Culturali*'s total revenues.

Some cultural operators are mainly self-financing, such as *Fondazione Brodbeck*, *Fondazione Presti* and *Bocs*. A further source of funding is represented by donations from private sources and sponsors, with marked differences across the examined cultural operators. Thus, with respect to *Fondazione Brodbeck*, almost all funds (90%) are provided by the President of the foundation,

²⁰In 2002, public funds were 36.6% of the total revenues; revenues from bar and restaurant were 12.2%, while revenues from the supply of cultural services and from tickets were, respectively, 41.5% and 9.8% of the total. In 2011, the situation appears to be completely reversed. Public grants were 8.3% of the revenues; revenues from bar, restaurants and catering services were 54.3% of the total, cultural services accounted for 14.9% and entry fees comprised 25.4% of the total revenues – for more details see chapter Cellini *et al.* (2014).

²¹ The company is mostly financed by MiBac (63%) and regional government (30%); other funds are assigned by local government (4%), 'Centro Culturale Svizzero' (1.2%) and the Embassy of the Netherlands (0.8%). With respect to regional grants, among the different companies that are part of *Scenario pubblico*, *Compagnia Zappalà* is assigned a substantial share, about 80% per year, while a less significant amount of funds is given to *Metaarte* and *Scenario Pubblico*. *Modem* does not receive public funds and in terms of private funding, it is financed mainly by the annual fees paid by students.

²² In the face of a cut in regional funds of almost 80% during the period 2008 -2013, revenues for the main activity were 55% of the total, whilst catering and American bar produced, 30% and 15% respectively, of the total proceeds.

while 10% is given by sponsors; *Fondazione Presti* is also largely financed by the President of the foundation (80%); further funds are granted by Regional government (10%) and private sponsors (10%).²³ Most of the funds of *Bocs* come from self-financing. Nonetheless, as it was outlined before, the association is promoting various donations programs to support activity.²⁴ Finally, *Teatro Coppola* perceives entry-donations (contributed by the audience of the shows) instead of entry tickets; this peculiar kind of donation represents more than 89% of total revenues.

At the same time other available potential sources of private funding such as crowdfunding have recently become more popular in this sector, although they have not been exploited so far in terms of implementation.

5. Concluding remarks

On the grounds of the above analysis some tentative conclusions can be drawn.

First of all, it has to be pointed out that the features of the strategic behaviours of the local cultural operators are such that generalization is not advisable. The funding strategies are highly diversified: they concern different activities in many fields and for operators differing in size and structure, although the majority are small in size with a marked local scope.

The different local experiences reported do however transmit a positive message: namely, that the cultural operators involved in the project generally show strong motivation which in turn generates a strong desire to 'survive' albeit in the absence of a long term strategy.

From this perspective, a common strategy that can be suggested is to reinforce the role of networks in order to enhance the economies of scale and scope.

²³<http://www.ilgiornaledellarte.com/fondazioni/scheda/c76>

²⁴ We refer both to donations *stricto sensu*, as well as to membership programs and donations connected to support activities.

Firstly, in the interaction with the political counterpart to negotiate support – not necessarily in financial terms but also in-kind (such as spaces, training for internationalization, applications to EU funds, etc.).

Secondly, in the interaction with private credit markets: a consortium of cultural operators could reduce the individual administrative costs of designing business and financial plans and thus increase the rate of success of banking loan applications (EU, 2013); Bank Foundations prefer financing projects for the creation of cultural synergies that benefit the areas where they operate (Acri, 2013).

Thirdly, in the search for alternative sources of public funds, such as EU funds (for example, Creative Europe Programme).

This cooperative strategy can be combined at the same time with traditional market competition in the final market where each cultural operator will continue to supply his/her differentiated cultural product or a bundle of cultural services that will compete with those supplied by competitors.

A larger variety of local cultural supply will also increase the social benefits of this double-side strategy where the cultural operators cooperate in the input markets and compete in the output markets.

More effort should be made to develop focused projects, allowing for different sources of private funding, such as crowd-funding which at the moment is not implemented.

A stronger commitment toward social goals- such as social inclusion, urban regeneration, promotion of young artists – is needed to legitimate public support and promote advocacy.

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