

# FINANCING THE THEATRE: THE ROLE OF MANAGEMENT AND THE STATE

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# FINANCING THE THEATRE: THE ROLE OF MANAGEMENT AND THE STATE

## ABSTRACT

At a time when public funding of culture is being reduced and increasing attention is being paid to profitability, it is essential to apply an entrepreneurial mindset and management principles to the guidance and the financing of cultural institutions.

This paper focuses on the theatre funding scheme and presents a survey analysing the structure of funding theatres in Croatia by weighting budgetary and commercial funding, as well as analyses possible measures to be implemented in order to improve the theatre funding model. A survey was conducted in 2015, which found that public theatres are predominantly funded by budgetary resources (62.14%), while the most important part of the revenue and income section of private theatres originates from selling their own products and services (43.99%). Theatres believe that budgetary resources still need to remain the dominant sources of funding, but in order to increase the level of operational excellence, a change of direction would be necessary towards one's own resources, including donations and sponsorships. At the same time, better solutions in terms of increasing tax incentives and tax deductions for both donations and sponsorships would result in an increase in their importance in the financing of theatres.

The impact of state action on the funding and operation of theatres is unquestionable, but in theatres there is a need for developing a working knowledge in the fields of management and entrepreneurship in order to gradually reduce dependence, particularly of public theatres, on state action.

**Keywords:** Theatre funding, fundraising, budgetary funding, management

## 1. Preliminary considerations

Theatres are non-profit, legally regulated organisations, whose business is, *inter alia*, based on meeting the needs of users, i.e., the wider community within which they operate. Although profit is not their primary objective, the modern age that is led by market principles, requires theatres to operate as for-profit business entities.

Due to the global financial crisis and the reduction of public funding, finding additional sources of funding for cultural institutions<sup>1</sup> seems to be more necessary than ever before, and “the main task of arts managers is to secure the financial welfare of their art organisation” (Kuesters, 2010: 46). At such times, for the theatre to fulfil its mission and to establish the quality and quantity of its activities, theatre managers need to make more effort. Faced with this reality, theatres and cultural institutions must create and provide additional income and in some way become, as Krivošejev (2012) calls them, “organisations that make money” although profit is not the primary objective of the theatre.<sup>2</sup> The importance of developing fundraising skills is therefore evident as this could enable a productive and continuous operation of cultural organisations<sup>3</sup> and provide them with the necessary adjustments to rapid social changes. In doing so, theatres should also focus on funding from commercial sources (their own revenues, donations and sponsorships), and should not solely rely on budgetary resources. “This includes operating on the given financial budget as well as refunding a part of the budget through ticket sales, etc., as well as generating additional funds from private donors. These activities are highly linked with another important task: creating an impeccable image (e.g., *avant-garde*, independent, popular) of their arts institution in the eyes of actual or potential financiers, of the media, and of arts audiences to obtain legitimacy” (Kuesters, 2010: 46). By generating additional funds, theatres would ensure financial stability and sustainability, independence of one source of funding, but also certain control and a possibility of planning future operation on a long-term basis.

However, changing a long-standing business concept is not simple and without any difficulty in the implementation, which is evident from the experience of other countries. Wilson and Stokes (2005) conducted research in the UK music industry with

the aim to uncover the main problems experienced by music businesses with regard to access to finance, where they identified the problem in general understanding of the music business by financiers. The entrepreneurs in the music industry are often considered unprofessional and music enterprises themselves are reluctant to debt financing. “Such negative forces can be countered by cultural entrepreneurs with enhanced business communication skills, an external focus, and appropriate promotional strategies. In effect, successful cultural entrepreneurship demands managing creativity and managing innovation” (Wilson, Stokes, 2005: 374-375).

The aim of this paper is to determine the situation and identify prerequisites for the development of more diversifying funding for theatres in Croatia. To this end, a survey was conducted in 2015 on a sample of 41.6% (i.e., 52) of public and private theatres operating in Croatia. The basic starting assumption was that the theatres in Croatia are predominantly funded by budgetary resources, and that they are not focused on fundraising and funding by non-budgetary resources. Against this background, the following hypotheses were set up:

1. There is no significant difference in the scheme of funding public and private theatres since theatres are predominantly funded by budgetary resources;
2. Theatres believe that the state should encourage the theatre scene by increasing resource allocations and that theatres should be directed towards budget funding in the future as well;
3. A better legal framework and greater tax incentives and exemptions would lead to increased investment of donor and sponsor resources in theatres.

This paper is organised as follows. Section 2 gives a theoretical overview of the characteristics of the theatre and its financing while Sections 3 and 4 show research methodology, analysis and results, respectively. Section 5 provides a discussion and recommendations with regard to research results as well as recommendations for improving the state-business sector-theatre relationship. A conclusion is given in the last section, i.e., Section 6.

## 2. Theoretical considerations on theatre funding

According to the Theatres Act,<sup>4</sup> theatres may be either public and private, and they prepare, organise and carry out public performances of dramatic, musical and theatrical productions, puppetry and other stage productions (hereinafter referred to as: 'the performing arts'). Croatia and its local and regional self-government entities establish public theatres, which can be national, county, city and municipal theatres. Private theatres can be established by Croatian and foreign natural and legal persons and may be registered as a (private) institution, a company or an arts organisation.

A total of 160 theatres are currently registered in the Register of Theatres<sup>5</sup> of Croatia, of which 32 are public theatres (including five national theatres) and 128 private theatres. By the 2008 decision of the Ministry of Culture, financial resources within the framework of a tender for funding public needs in culture in Croatia can be allocated only to theatres officially registered in the Register of Theatres.

"The problems that exist in today's culture, especially great pressure on public finances and the lack of market dimensionality of cultural programmes, are the result of the system of financing culture in the previous periods, which was determined by the social and economic system of the country" (Mikić, 2011: 87). Countries in which the democratic system was implemented earlier have quickly introduced an open market and a larger share of private resources in the financing of culture. In view of the current system of cultural financing, it may be concluded that Croatia is in the transition process when it comes to culture management and market adjustment (Antolović, 2010; Balog, 2010; Lukić, 2005). Theatre funding in Croatia can be viewed in the context of the following sources of financing: budget funding (public funds), corporate support (donations and sponsorships) and theatre's own income.

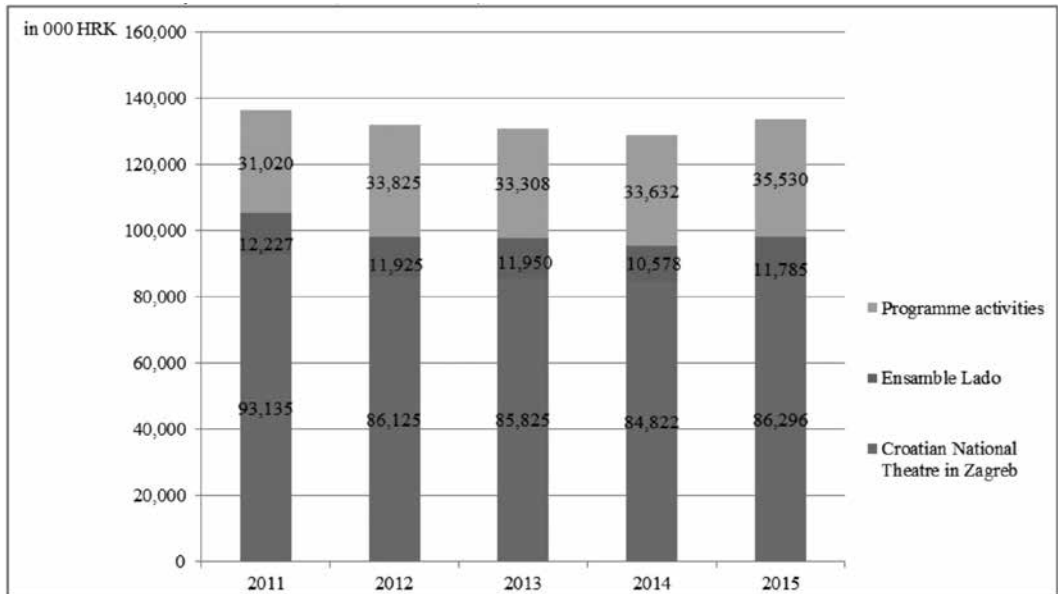
### 2.1 Budget funding

Culture is an area of public interest and as such it is part of the public sector, where many of the cultural institutions are owned by the state, counties or cities. Antolović (2013) states that an outdated system of financing culture and its activities is in force in Croatia, which year after year requires an increasing share of budgetary resources to cover the costs of public needs.<sup>6</sup> Where there exists this kind of dependence, there is a risk of suppressing the competitive spirit and the fight for market share. Most cultural activities in Croatia "live" outside markets and hence there is a need for implementation of modern principles of business operation and management, which includes strategic planning, financial management, quality marketing, market research, etc., that would contribute to funding based on market principles (their own income, developing a good relationship with the environment, i.e., mostly with economic operators with a view to obtaining donations and long-term sponsorship agreements) and ensure a mixed funding system as a useful foundation for further growth and development.

A drop in the budgetary resources available for the financing of culture was recorded in the period 2011-2015. In 2011, the budget of the Ministry of Culture was HRK 953 million, while in 2015, this amount was reduced by 3.6%, i.e., it was over HRK 2.8 million less and totalled HRK 867 million (i.e., 0.79% of the total budget of Croatia in 2015)<sup>7</sup>.

Graph 1 shows the structure and fluctuations in the financing of theatres and the performing arts in the past five years, where, despite a slight recovery in 2015, investment in culture has still not reached the total funding for culture in 2011.

**Graph 1** The structure of funding theatres and the performing arts from the budget of the Croatian Ministry of Culture (2011 – 2015)



Source: The authors, according to the data referring to the budget of the Ministry of Culture for the years 2011, 2012, 2013, 2014 and 2015, respectively.<sup>8</sup>

Graph 1 shows that the most significant part of the budget of the Croatian Ministry of Culture for theatres and the performing arts is directed towards funding the Croatian National Theatre in Zagreb<sup>9</sup>. With a share of 64.5%, it is the largest single beneficiary of funds allocated to theatres from the budget of the Ministry of Culture, and the funds allocated to this theatre are three times larger than those allocated to the overall programme activity.

Lončar (2013) believes that the financing of theatres in Croatia is sufficient and that the system, as it is today, would not substantially change even if funding were increased. She substantiates the aforementioned by the fact that the present funding system does not encourage programmes tailored to meet the needs of visitors and that greater financial resources would result in the same (average) theatre programme. Klaić (2008) believes that the criterion of excellence does not apply to public theatres and that many theatres have lost their prestige, vitality, and hence the audience.

Therefore, without establishing relevant criteria for funding programme activities, the existing approach to funding represents a constraint on achieving excellence on the cultural scene and developing programmes tailored to meet the needs of visitors.

Regarding the issue of funding culture and selecting programmes for funding in the United Kingdom “the fundamental problem is one of relating the aspiration of the DCMS<sup>10</sup> to increase access to the grant-aided arts and heritage organisations to the latter’s strong interest in promoting activities that satisfy the peer-group assessment of their managers and advisers as to what is in ‘the public interest’. This aspiration, if it has anything to do with taxpayer/voter interest in the arts, could logically entail a major shifting of funds between art forms, such as preventing the ‘top-slicing’ of the arts budgets by entrenched ‘national’ companies, museums and galleries and encouraging art forms that more directly involve those who are supposed to benefit from them” (Peacock, 2000: 201-202).

The former Minister of Culture, Mrs Zlatar Viočić, warned about an inadequate system of funding in Croatia and said: “It is a devastating situation in Croatia as a whole that more than 90 percent of all programmes funded in culture are funded by budgetary resources.

**Table 1 Public expenditure on culture by levels of public sector, 1999 – 2000 and 2009 – 2013 (expressed in %)**

Year							
Level of public sector	1999	2000	2009	2010	2011	2012	2013
Ministry of Culture	38%	43%	42%	43%	41%	37%	38%
Cities	30%	27%	25%	28%	29%	32%	32%
City of Zagreb	24%	22%	26%	22%	23%	22%	22%
Counties	5%	5%	4%	4%	4%	4%	4%
Municipalities	3%	3%	3%	3%	3%	5%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Primorac, J., Švob-Dokić, N., Obuljen, N. (2015), "Croatia / 6.2 Public cultural expenditure", *Compendium of Cultural Policies and Trends in Europe*, Available at: <http://www.culturalpolicies.net/web/croatia.php?aid=622&curln=104> (Accessed on: January 20, 2016)

It is also devastating that in Croatia there are only two sources of funding, i.e., at city and national level, since counties and municipalities participate in the total amount by only four percent.<sup>11</sup> This is confirmed by the following data:

According to Table 1, counties and municipalities have a low share in the financing of culture, up to 5%. Because of this, we can see the need for "regionalisation and decentralisation of the financing of culture as an important trend providing greater flexibility and management of cultural institutions and activities" (Varbanova, 2003: 1)<sup>12</sup>. An example of regionalisation of cultural financing is Germany: "The state distributes a given sum to the cultural regions, taking into consideration their individual size, financial strength and the existing cultural infrastructure of regional—in contrast to only local—importance" (Wolf-Csanády, 1999: 260). The same author also states the budget allocation criterion: "Not all the institutions and initiatives receive the same support but rather they are evaluated every year and categorised. The categorisation reflects the general performance of the individual institutions and initiatives with regard to appeal to the public, quality of services and user-friendliness, economic efficiency and innovative management, etc. as well as the strategic importance of the institution or project for the cultural life in the region. If a cultural

institution or initiative improves its general performance it may be put in a higher category—which means receiving a higher grant—the following year. If its general performance deteriorates, it may well end up in a lower category—receiving a smaller grant—or fall out of the support scheme altogether" (Wolf-Csanády, 1999: 263). This shows a regulated system of criteria established for the allocation of funds from the budget that could be applied in Croatia.

The basic regulation governing the Croatian system of financing culture is the Act on Financing Public Needs in Culture<sup>13</sup>. It stipulates that culture programmes falling within the scope of public needs whose funding is provided by the budgets of the state and local government and self-government units are established at national, local and regional levels. The Ministry of Culture has laid down the *Regulations on programmes of public needs in culture*<sup>14</sup> in which it is defined that the process of identifying cultural programmes of interest to Croatia and categorising them as programmes of public needs in culture is carried out through a call for proposals for programmes of public needs in culture. The programme of public needs in culture foresees the resources necessary for the operation of entities in the field of culture, which includes funding of the programme and overhead costs, as well as funding of investments and investment maintenance, ensured by the founder pursuant to the Theatres Act (Art. 12) based on the accepted draft programme and financial plan.<sup>15</sup>

The system of financing theatres in Croatia is based on an annual allocation of financial resources, with the obligation of sending the work plan for the upcoming fiscal year. Such a way of funding is often

uncertain, given that there is a degree of uncertainty as to the amount of funds approved to be disbursed from the budget to finance theatre operation and programmes. The budget is not tightly defined for the whole year, but it is subject to revisions and adjustments to the amount available for specific purposes, including the financing of cultural institutions. Because of this, it is necessary to take into account long-term financing and start making financial plans for longer periods of time (such as Scandinavian countries, with a period of four years)<sup>16</sup> in order to make not only theatres but also cultural institutions able to adopt a strategy aimed at acquiring additional resources to fund their planned programmes. In doing so, such approach requires the need to introduce strategic planning and recruitment of trained personnel.

## 2.2 Corporate support

One of the possible sources of theatre funding is corporate support or funding from the business sector where there are two basic forms, i.e., donations and sponsorships. Donation is a voluntary and unconditional gift (in the form of money, services or goods) for a socially beneficial purpose, where the donor neither asks for nor expects any service in return. Sponsorship is a mutually beneficial relationship in which the sponsor receives something in return (usually promotion) for the provision of support (in the form of money, goods or services).

The Civil Obligations Act lays down that “a donation agreement occurs when the donor agrees to pass a thing or a property right to the donee without anything given in return, and the donee accepts it.”<sup>17</sup> The tax status of donations or grants is defined by the Corporate Income Tax Act, where “donations or grants are tax deductible when they are made in the country for cultural, scientific, educational, health, humanitarian, sports, religious, environmental and other generally beneficial purposes to associations and other persons that perform these activities in accordance with special regulations and these may not exceed 2% of total income earned in the previous year.”<sup>18</sup>

To make a donation or grant tax deductible, the purpose it is given for or the activity of the donee must comply with acceptable purposes and activi-

ties defined by the Corporate Income Tax Act which also includes “other generally beneficial purposes”. The authors dealing with this topic (Milinović, 2008; Horvat Jurjec, 2014; Lončar-Galek, 2012) point out that this is an imprecise definition which necessitates approval and opinion of the Ministry of Finance on the recognition of tax deductible expenses for the activity or purpose that is generally beneficial.

However, in spite of the simple structure, the relationship between the donor and the donee is complex, which is confirmed by the following statement “... in the relationship between an arts institution and its donors, the deficit also becomes an important indicator. If an institution is reliant on private donations, it does not want its annual report to ever show a surplus because there would then be no reason to give. Conversely, the institution does not want to show a deficit that is too large, because then it might seem fiscally irresponsible” (Schuster, 1997: 259). Within this context, donors often ask for financial statements of cultural institutions to verify their financial position and the ability of the donee to implement the planned project.

Unlike donations, sponsorship implies a contractual business relationship in which the sponsor gives some funds (in the form of money, goods or services) in exchange for certain services returned by the beneficiary. Most of these services are related to marketing and promotion. Tax regulations of Croatia differentiate between sponsorship and donation. Pursuant to the Corporate Income Tax Regulations<sup>19</sup>, funding in return for which a company, a product or a sponsor logo is promoted, is not a donation. Advertising sponsorships are recorded as advertising costs and are tax deductible. In addition, evidence must be produced to prove that the promotion was actually made. This is usually the invoice for promotion services.

Donation and sponsorship funds are considered to be commercial funding sources that contribute to the financial viability of the theatre, as well as its community involvement. In addition to financial benefits, the income of a business entity allows certain non-financial benefits such as a partnership in community and environmental development, additional performances and guest appearances, “image transfer”,<sup>20</sup> greater freedom of action, creative development, credibility,<sup>21</sup> etc. In addition to increasing (high-quality) theatre offers, it has a positive effect on increasing employment of new production staff,

which, broadly speaking, means that, in addition to the theatre, corporate support as such also contributes to the economy, economic development and the community as a whole. Balog (2010) believes that mutual cooperation between a cultural institution and a business entity can contribute to a better mutual understanding of the activities and the mission as well as to correct corporate behaviour, i.e., he believes that the interaction of a cultural institution and entrepreneurship is likely to gradually implement some of the elements of market economy while entrepreneurs will become more aware of the importance of their social role and responsibility.

Morel (2005), who analysed corporate support of the arts in France, believes that tax incentives alone cannot induce the desired generous behaviour and that a minimum level of legitimacy is needed to boost private financing of the arts and culture. In order to attract business sector support, theatres (as well as other cultural institutions) must turn to entrepreneurial thinking<sup>22</sup> and apply management principles (Tomova, 2004; Krivošejev, 2012; Varbanova, 2003). Leading people in the cultural sector should have a dual role, i.e., artistic vision of the sense of art and business skills and competencies (Varbanova, 2003). "Principles of rationalisation and efficiency are unavoidable and today in Europe they are seen as the main principles of entrepreneurial management of the cultural sector. Entrepreneurial skills of managers who work in culture, their innovative capacity to solve business problems, ability to take risks, improvise, be flexible and find creative ways to generate the financial resources necessary for the growth and development of the organisation - all of these are the constituent elements of the cultural system funding reform" (Mikić, 2011: 101). Accordingly, the most important role in the financing and efficiency of theatres and culture in general is played by their managers, not the state.

### 2.3 Theatre's own income

The most comprehensive definition of a cultural institution's own income is given by Krivošejev (2012), who says that these are revenues generated by the institution, organisation or event by selling their primary and peripheral products. The main cultural and artistic product is an "artistic event" (theatre performances, concerts, museum exhibitions, festi-

vals), which is not sold, but the ticket is sold, which allows the audience to experience a work of art and therefore the tickets are purchased at the box office.

Here we can also include income generated by some additional services offered by cultural institutions (such as souvenir shops,<sup>23</sup> libraries, cafes, restaurants) and the provision of certain professional services. Acquiring funds through an audience is considered to be a real commercial source "... just like for any other product, people are the market in both cultural and theatre marketing. People, audiences, that is the market the theatre 'lives' and exists for, because if they did not exist, the theatre would not have its meaning. Therefore, it is up to the theatres to know/recognise the characteristics of their audiences, their desires, motives and interests, with the aim of attracting and retaining them. Theatre is considered to have the most flexible product for generating its own income, but also for getting corporate support, because there is an audience" (McIlroy, 2001: 23). Its own income arising from the sale of tickets should constitute the most important indicator of theatre business performance and be a criterion for the allocation of budget funding.

### 3. Research methodology

This paper presents the results of research conducted during 2015 on a sample of 41.6% of private and public theatres performing theatrical activity in Croatia. The aim of this research was to set up a distribution between public and commercial sources of financing theatrical activities (budget funding, corporate support and own income) and to determine necessary government activities to be carried out within the framework of funding and stimulating theatrical production.

The study was conducted through a questionnaire. The sample included 125 active theatres, i.e., 31 public and 94 private theatres.

Out of the total number of those theatres that responded to the questionnaire (i.e., 52), there are 13 public theatres and 39 private theatres. The response rate to the survey was as follows: 42% of public and 41.48% of private theatres took part in this research.



Table 2 shows the structure of surveyed theatres by their legal organisational structure and status.

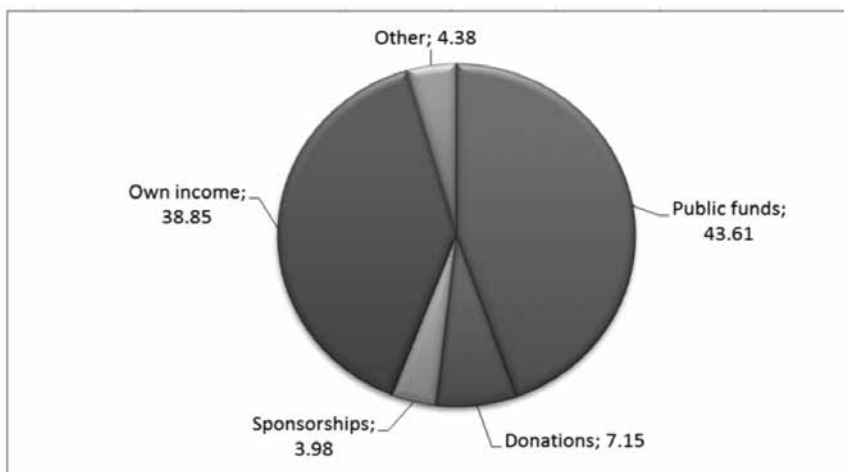
		Number of theatres (%)	C.I.	p*
Legal and organisational structure of the theatre	Arts organisation	39 (75%)	(61.05%-85.96%)	<0.001
	Institution	13 (25%)		
Status of the theatre	Private theatre	39 (75%)	(61.05%-85.96%)	<0.001
	Public theatre	13 (25%)		

\*Binomial test, C.I. - a 95% confidence interval

Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 176)

Statistical analysis was performed by the SPSS software using descriptive analysis, parametric and non-parametric tests. The level of statistical significance was accepted for  $p < 0.05$ , while the results are presented in tables and graphs.

Graph 2 The average value of individual sources of financing in total theatre revenues (expressed in %)



Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 179)

#### 4. Research results

This research analysed the share of theatre funding referring to public funding, donations, sponsorships, theatre's own income and other. Other sources of funding relate to e.g. EU funds. The structure of total revenues is shown in Graph 2.

It is clear from the graph that public funding is on average the major source of financing in all theatres surveyed and it makes up 43.61% of total theatre revenues. Then follow the theatre's own income (38.85%), donations (7.15%), sponsorships (3.98%) and other (4.38%). From the given structure, it can be noticed that theatres are least financed by sponsorships.

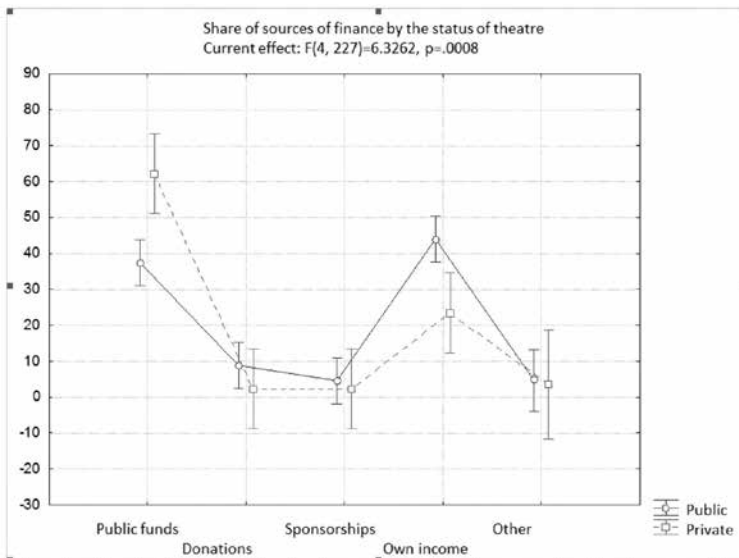
**Table 3** The share of individual sources of finance in total revenues by the status of theatre

	Private theatres		Public theatres		p*
	Arithmetic mean	Median (25% – 75%)	Arithmetic mean	Median (25% – 75%)	
Public funds	37.44	35 (5 – 60)	62.14	70 (43 – 80)	< 0.001
Donations	8.78	5 (0 – 10)	2.25	0.05 (0 – 5)	
Sponsorships	4.55	0 (0 – 5)	2.25	1 (0 – 3)	
Theatre's own income	43.99	50 (10 – 65)	23.44	20 (10 – 35)	
Other	4.68	0 (0 – 5)	3.43	0 (0 – 10)	

\* Two-way ANOVA

Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 181)

Within the framework of the research, the authors analysed the distribution of theatre funding sources depending on the ownership structure in order to determine individual sources of financing in total revenues of public and private theatres. The results are shown in Table 3.

**Graph 3** Two-way ANOVA analysis of the share of sources of finance by the status of theatre

Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 183)

**Table 4** The structure of response as to the ways culture and theatres are supported by the state

	Yes	No	C. I.	p*
By defining the priority sectors in developing a culture strategy	14 (26.9%)	38 (73.1%)	(15.5% – 41.02%)	0.001
By advocating the importance of culture for national identity and development	20 (38.5%)	32 (61.5%)	(25.3% – 52.98%)	0.126
By developing new alternative methods of financing (foundations, funds)	21 (40.4%)	31 (59.6%)	(27% – 54.9%)	0.212
By granting direct financial support from the budget	12 (23.1%)	40 (76.9%)	(12.53% – 36.84%)	< 0.001
Through indirect financing - tax incentives and exemptions for sponsorships and donations	30 (57.7%)	22 (42.3%)	(43.2% – 71.27%)	0.332
*Binomial test, C.I. - a 95% confidence interval				

Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 195)

0 and 1%. In the case of private theatres, according to the median score, the share of their own revenues of 50% of total revenue makes this a dominant funding source of these theatres. Public funds account for 35% of total revenue, whereas the share of other sources ranges between 0 and 5%.

In view of the above results, hypothesis 1 is rejected, which states that there is no significant difference in the structure of funding public and private theatres given that it was established that public theatres are predominantly funded by budgetary resources while private theatres are for the most part financed from their own revenues with public theatres generating half the income of private theatres (expressed in %). Also, it is evident that the proportions of donations and sponsorships are almost three and two times higher in private theatres than in public theatres, respectively.

Table 4 outlines the structure of theatre responses referring to the ways in which the state should provide support to culture and theatres in general.

A statistically significant difference was found in the opinion that the state should provide funding and support for culture and theatres by defining the priority sectors when creating a cultural strategy ( $p = 0.001$ ), where 73.1% (15.5% - 41.02%) of respondents, i.e. surveyed theatres, gave a negative answer. A statistically significant difference was also found in relation to direct financial support from the

budget ( $p = 0.001$ ), which is not supported by 76.9% (12.53% – 36.84%) of surveyed theatres. Furthermore, the majority of respondents (57.7%) believe that the state should support culture and theatres by indirect funding, i.e. by tax incentives and exemptions for sponsorships and donations. Negative response as a result of disapproval is also present in advocating the importance of culture for national identity and development (61.5%).

Table 5 gives respondents' opinions on issues related to the impact of tax incentives and exemptions to increase investments by donors and sponsors in theatre activity. According to the results of the chi-square test, a statistically significant difference was found in the responses to the question presented in the table below ( $p < 0.001$ ).

83.6% (i.e. 46) of the total number of surveyed theatres (52), believe that more tax incentives and exemptions would lead to an increase in donations and sponsorships of theatre activity, where 56.4% of respondents believe that greater tax incentives and exemptions would significantly influence an increase in donations and sponsorships. 10.9% could not assess what the impact of greater tax incentives and exemptions would be while none of the surveyed theatres claimed that an increase in tax incentives and exemptions would not have any impact on attracting sponsorships and donations to theatres.

According to research results, hypothesis 3 is accepted claiming that a better legal framework and an increase in tax incentives and exemptions would result in higher donation and sponsorship amounts made to the theatre industry.

**Table 5** The structure of responses to the question: "Do you think that greater tax incentives and exemptions would lead to greater financial support from donors and sponsors to the theatre?"

	Number of theatres (%)	p*
Yes, substantially	31 (56.4%)	< 0.001
Yes, to a lesser extent	15 (27.3%)	
I cannot tell	6 (10.9%)	
* $\chi^2$ test		

Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 192)

Table 6 shows the structure of absolute and relative frequency of respondents in relation to their opinion how theatres should be funded in the future. This multiple response question allows respondents to choose up to two answers to obtain views on the importance or orientation towards particular sources of funding.

According to the analysis of responses, a statistically significant response rate of *Yes* compared to *No* was noticed in relation to budgetary funding as a source of income, while the opposite, i.e., a statistically sig-

**Table 6** The structure of responses to the question on orientation toward individual sources of financing theatres in the future

	Yes	No	I.	p*
Budget	37 (71.15%)	15 (28.85%)	(56.92% – 82.87%)	0.003
EU funds	16 (30.77%)	36 (69.23%)	(18.71% – 45.1%)	0.008
Donations and sponsorships	25 (48.08%)	27 (51.92%)	(34.01% – 62.37%)	0.889
Theatre's own income (ticket sales and the like)	23 (44.23%)	29 (55.77%)	(30.47% – 58.67%)	0.488
*Binomial test, C.I. - a 95% confidence interval				

Source: Results of research conducted within the framework of a doctoral dissertation; Mihaljević (2015: 196)

nificant response rate of *No* compared to *Yes* was noticed in relation to EU funds as a theatre funding source. Neither donations and sponsorships nor theatre's own income were found statistically significant. Accordingly, the majority of respondents (37; 71.15% (56.92% – 82.87%),  $p = 0.003$ ) considers that theatres should be funded by the budget, then by donations and sponsorships (25; 48.08% (34.01% – 62.37%),  $p = 0.008$ ), and finally by theatre's own income (23; 44.23% (30.47% – 58.67%),  $p = 0.889$ ). Only 16 surveyed theatres (30.77% (18.71% - 45.1%,  $p = 0.488$ )) believe that in the future theatres should focus on EU funding, which is the lowest percentage in relation to other sources of funding.

In accordance with research results, hypothesis 2 is accepted, which states that theatres believe that the state should encourage the theatre scene by increasing financial resources allocated to theatres and that these resources should be oriented towards budgetary funding in the future as well.

## 5. Discussion

On the basis of the questionnaire and statistically processed data we may draw a conclusion that on average theatres in Croatia most frequently rely first on public funding, and then on their own income. The smallest share of funds in the financing structure comes from sponsorships. Since this is a highly attractive source of financing that involves mutual benefit, it is necessary to promote such cooperation as it is extraordinarily beneficial to the community. All theatre funding sources analysed (i.e., budget

funding, corporate support and theatre's own income) have their advantages and disadvantages. When theatres significantly rely on the state, they do not have the need for providing additional (market) sources of income, which might cause theatre programmes to become less oriented towards meeting audience needs and demands. Furthermore, when market sources of income are prevailing, theatre management sometimes believes that the state could interpret this positive fact as a reason for reducing or completely withdrawing its funding. In any case, when cultural organisations fail to diversify their sources of income, in case of losing one of the funding sources, there is a significant risk that the organisation in question will become insolvent and unable to continue its business. This is especially the case with large cultural institutions (e.g. national theatres) that are not sustainable within the given economic conditions without budget funding.

According to research, public theatres, as opposed to private theatres, are less oriented towards fundraising where the share of own income and corporate support in the income of public theatres is not sufficient. The aforementioned shows a lack of motivation or effort of public theatre employees to engage in raising funds from the market. In any case, "Artists need to find out which sphere suits them best at a particular point in time. ... For this reason, the arts thrive when other sources are available and when artists or their intermediaries are not only creative in terms of the arts, but also in the financing of the arts" (Klamer, Petrova, 2010: 255).

Taking into consideration this continuous reduction of public funding for theatres and culture in general, if they want to ensure stable operation, public theatres in Croatia should apply an entrepreneurial approach to management, which should result in an increase in actual commercial funds. This approach involves the implementation of management tools in the business (such as marketing, strategic planning, financial management, fundraising) which would ensure stable operation, including market success, cost-effectiveness and efficiency of theatre operation and market-oriented development. In order to accomplish this, in addition to artistic skills, leaders of cultural institutions also need managerial skills and competencies.

Education and professionalisation of employees in cultural institutions play an important role in relation to the aforementioned, because without participation in the process of education, we cannot

expect the application of management principles to either the cultural sector or theatres. In any case, it has been noticed that today cultural managers need to have a lot of similarities with managers of any business entity.

According to the respondents' attitudes, it was found that they believe that the state should support culture and theatre primarily by indirect financing (tax incentives for donations and sponsorships) and to the smallest extent by direct financial support from the budget. This is in accordance with what was mentioned before - direct budget funding does not necessarily fund programmes of high quality and it does not encourage excellence either, so it is therefore necessary to turn to indirect funding that can correct this weakness, because it depends primarily on access of theatres to the business sector, as well as on the motives of the business sector to provide financial support for theatres and culture in general. In this case, the state would need to appear in the role of the regulator, i.e., it should establish stimulating tax legislation that would encourage the development of indirect funding and reduce direct funding. The proof thereof is the statement that greater tax incentives and exemptions (in comparison to those that are currently in force in Croatia) would significantly contribute to an increase in funds provided to theatres by donors and sponsors. Thus, the trend should be to promote and improve indirect funding at the expense of direct funding that has already been continuously decreasing.<sup>24</sup>

Furthermore, according to survey results, respondents believe that theatres should primarily remain funded by budgetary resources, and thereafter through donations and sponsorships and finally by their own income.<sup>25</sup> Such a response was expected since culture and theatre are of public interest for Croatia and significant reducing of the role of the state and its responsibility for the financing of culture is not an option; however, an emphasis should certainly be placed on the role of theatre management in order to get theatres more involved in market trends enabling in this way social and economic sustainability.

## 6. Conclusion

This research has demonstrated that theatres are mostly financed by the state, which implies the traditional funding model relying on the dependence on public funds (the state).

Given the fact that budgetary allocations to cultural institutions are insufficient, they should not mainly rely on this source of funding. In order to be able to fulfil their mission and ensure quality in their work, theatres should be directed to other sources of funding, i.e., fundraising. It is necessary to undertake activities aimed at diversifying sources of funding and achieving financial stability by increasing the share of funding from businesses sources (through donations and sponsorships) and funds from the sale of theatre's own products and services (revenue). Although we confirmed the hypothesis that theatres believe that they should be supported by the state budget, the focus on the significance of indirect funding through donations and sponsorships was also identified in which, in addition to stimulating tax legislation established by the state, the most significant role is to be played by theatre management whose role is reflected in the development of fundraising. In this segment, there is a need to implement management tools in running theatres that would be directed towards achieving business efficiency, programme innovation and orientation towards audience development.

Within the framework of this paper, we emphasised the importance of education of people running theatres, because without proper education it is not possible to apply new business models. In this respect, it is proposed that the reform of the system of financing culture and theatres should start "from below", i.e., from the theatres themselves, where the emphasis is placed on education and training of theatre managers in the field of economics, as opposed to the reform of the financing of culture "from above", i.e., from the state. Namely, it is evident that the reform must include all stakeholders in culture. This certainly does not reduce the role and responsibility of the state, which should, according to research results, play the role of the regulator in terms of a more favourable tax treatment of donations and sponsorships in Croatia, which would influence the importance of these sources in the financing of culture. It is therefore necessary to consider and continue the search for new models of regulating the subject area to allow more efficient management and funding of institutions in culture.

Assuming that other cultural institutions do business in a similar way as the theatres, this paper makes a good basis for researching the financing of these institutions. Also, for the purpose of deepening and increasing the scientific knowledge in this field and this research subject, it is recommended to explore the application of modern management tools to theatre management, as well as to other cultural institutions, and carry out a more detailed analysis of the sources, structure and legality of funding in other cultural institutions.

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## (ENDNOTES)

- 1 Lindqvist (2012) talks about the impact of the financial crisis on the operation and financial structure of museums as institutions in culture. Also, by quoting other authors, the aforementioned author indicates that the economic crisis is not the only 'culprit' for decreased funding in culture: "Getzner (2002), in a study of public expenditures on culture in the last decade, notes that political decisions affect the cultural sector as much, or even more, than variations in the economic cycle. Around 2000, several European countries introduced cuts in public expenditures to the cultural sector (as well as cuts in other areas), in order to qualify for membership in the European Monetary Union. Furthermore, Moen (1997) has shown that changes in public support are dependent on political rather than economic priorities" (Lindqvist, 2012: 4). This demonstrates how, in addition to economic circumstances, the cultural sector is also dependent on political circumstances, and in most cases this sector is among the first ones where government spending is reduced.
- 2 Ellmeier (2003) and Mandel (1975) agree that cultural institutions are compared with the profit-making manufacturing sector. Mandel claims: "The profitability of universities, music academies and museums starts to be calculated in the same way as that of brickworks or screw factories" (Mandel, 1975: 387).
- 3 Balog (2010) writes about the importance of fundraising in libraries since on the one hand, libraries receive gradually smaller shares of funding, and on the other hand, customer needs and preferences are increasingly numerous and more demanding.
- 4 Theatres Act (OG 71/06, OG 121/13, OG 26/14)
- 5 The Register of Theatres contains basic information on all public and private theatres, theatre companies and theatre houses in the Republic of Croatia, performing theatre activity as independent legal entities or as separate organisational units within other legal persons. (Art. 2 of the Regulations on the Register of Theatres, (OG 35/2007), Available at: <http://narodnenovine.nn.hr/clanci/sluzbeni/297548.html>).
- 6 "What restricts Croatia at this moment is the Cultural Institutions Act that obliges cities and the state to entirely fund the operation of public institutions with more than 90 per cent of their budget". Public authorities appear as founders of public cultural institutions and as such they are obliged to finance them. (N.B. – Moderna vremena. (2013), "Ministrica Zlatar: Potraživanje privatne inicijative i poticaji poduzetnicima", Available at: <http://www.mvinfo.hr/clanak/ministrica-zlatar-potrazivanje-privatne-inicijative-i-poticaji-poduzetnicima>, Accessed on: January 15, 2016)
- 7 Arts and culture funding in the UK accounts for 1.5% of the total budget (Peacock, 2000).
- 8 Budget of the Ministry of Culture for the years 2011, 2012, 2013, 2014 and 2015, respectively. Available at: [http://www.min-kulture.hr/userdocsimages/odobreni%20programi%20u%202011.%20godini/proracun\\_2011.pdf](http://www.min-kulture.hr/userdocsimages/odobreni%20programi%20u%202011.%20godini/proracun_2011.pdf)  
<http://www.minkulture.hr/userdocsimages/MINISTARSTVO%20KULTURE/PRORA%C4%8CUN%202012%202011web.pdf>  
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<http://www.min-kulture.hr/financiranje/>  
<http://www.min-kulture.hr/userdocsimages/FINANCIRANJE/PRORA%C4%8CUN%20MINISTARSTVA%20KULTURE%202015.pdf> (Accessed on: February 8, 2016)
- 9 The Croatian National Theatre in Zagreb is the only national theatre with the state as the owner (the Republic of Croatia - 49%, Zagreb - 51%). Other national theatres (in Split, Rijeka and Varaždin) were established by the cities they are located in, while the Croatian National Theatre in Osijek has two founders with equal proportions, i.e., the City of Osijek and Osijek-Baranja County. The Institutions Act obliges the founders to finance these cultural institutions. A specific founding structure of the Croatian National Theatre in Osijek implies that both units are obliged to finance the theatre in the same proportion and that they have equal property rights. If one of the founders reduces funds for the Croatian National Theatre in Osijek, the other founder is obliged to do the same (regardless of its ability to provide financial support), as both founders must equally participate in the financing.
- 10 The Department for Culture, Media & Sport
- 11 N.B. – Moderna vremena. (2013), "Ministrica Zlatar: Potraživanje privatne inicijative i poticaji poduzetnicima", Available at: <http://www.mvinfo.hr/clanak/ministrica-zlatar-potrazivanje-privatne-inicijative-i-poticaji-poduzetnicima> (Accessed on: January 15, 2016)
- 12 Varbanova, L. (2003), "Financing cultural practices in South East Europe", Policies for Culture Publication Series, ECUMEST Association/European Cultural Foundation, Bucharest, pp. 2–12.
- 13 Act on Financing Public Needs in Culture (OG 47/90, OG 27/93, OG 38/09)
- 14 Regulations on programmes of public needs in culture (OG 69/12, 44/13, 91/13, 72/15)
- 15 Regulations on the criteria and standards for the provision of funds for national theatres (OG 116/08).
- 16 For more details, see: Mikić, H. (2011). Kulturna politika i savremeni izazovi finansiranja kulture: međunarodna iskustva i Srbija, Kultura, No. 130, pp. 75–103.
- 17 Article 479 of the Civil Obligations Act, OG 35/05, 41/08, 125/11, 78/15
- 18 Article 7 of the Corporate Income Tax Act, OG 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14
- 19 Article 30 of the Corporate Income Tax Regulations, OG 95/05, 133/07, 156/08, 146/09, 123/10, 137/11, 61/12, 146/12, 160/13, 12/14, 157/14, 137/15.

- 20 "When a company sponsors a significant undeniably valuable cultural project, then it indirectly wants 'surplus value' of that cultural good to be transferred to the company. This phenomenon is referred to as 'image transfer' by marketing experts, in which the atmosphere and the value of some cultural good are transferred to their company." (Kontrec-Goedecke, A. (2006), "Sponzorstvo u kulturi", Available at: <http://www.dw.com/hr/sponzorstvo-u-kulturi/a-2282102>, Accessed on: January 8, 2016)
- 21 Lidström (2004) states that sponsorship contracts increase credibility with banks and facilitate negotiation, allowing the acquisition of new opportunities for funding.
- 22 "Another point of contact of the economy and culture: in the modern society, cultural institutions - be it the museums, theatres, opera houses on the one hand, or individual artists on the other - should behave more like entrepreneurs who make their living by selling their cultural goods. Hence similar market conditions apply to them as the ones that apply to producers of other types of 'products'. (Kontrec-Goedecke, A. (2006), "Sponzorstvo u kulturi", Available at: <http://www.dw.com/hr/sponzorstvo-u-kulturi/a-2282102>, Accessed on: January 8, 2016)
- 23 After examining the official websites, we noticed that of all Croatian national theatres, only the National Theatre in Zagreb has a souvenir shop. (The official website of the Croatian National Theatre in Zagreb, Available at: <http://www.hnk.hr>; <http://www.hnk.hr/suvenirnica>, Accessed on: January 27, 2016)
- 24 On the importance of stimulating tax legislation in order to increase corporate support for the arts and culture, see Morel, 2006; Novković, 2011; Schuster, 1987. However, research indicates that tax benefits are not always the most significant motive for corporate support for the arts and culture. (Morel, 2006; Bežovan, 2002)

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## FINANCIRANJE KAZALIŠTA: ULOGA MENADŽMENTA I DRŽAVE

### SAŽETAK

U vremenu kada se smanjuju javna sredstva za kulturu, a sve veća pažnja usmjerava prema rezultatu poslovanja, neophodna je primjena poduzetničkog načina razmišljanja i menadžerskih principa u poslovanju i financiranju institucija u kulturi.

Ovaj rad u središte stavlja sustav financiranja kazališta te prikazuje istraživanje u kojemu je analizirana struktura financiranja kazališta na području Republike Hrvatske, stavljajući u odnos proračunsko i tržišno financiranje. Analizira moguće mjere koje je potrebno provesti s ciljem poboljšanja sustava financiranja kazališta. Istraživanje je provedeno 2015. te je utvrđeno da se javna kazališta dominantno financiraju iz proračunskih izvora (62,14% ukupnih prihoda i primitaka) dok privatna kazališta najznačajniji dio svojih prihoda i primitaka ostvaruju prodajom vlastitih proizvoda i usluga (43,99%). Kazališta smatraju da proračunski izvori i nadalje trebaju ostati dominantni izvori financiranja, no u svrhu povećanja izvrsnosti poslovanja, potrebno je usmjeravanje k izvorima vlastitih prihoda, uključujući sredstva donacija i sponzorstva. Istodobno bi kvalitetnija rješenja, u smislu povećanja poreznih poticaja i olakšica na donacije i sponzorstva, rezultirala i povećanjem njihova značenja u financiranju kazališta.

Neosporan je utjecaj djelovanja države na financiranje i rad kazališta, no kazalištima je potreban razvoj znanja iz područja menadžmenta i poduzetništva radi postupnoga smanjivanja ovisnosti, posebno javnih kazališta, o djelovanju države.

**Ključne riječi:** financiranje kazališta, *fundraising*, proračunsko financiranje, menadžment