

# Opportunities and Critical Points for the Introduction of Performance Measurement Systems in Theatres

**A Comparison between Theoretical Assumptions and Empirical Realities**

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## ABSTRACT

In recent years, cultural organisations have introduced and tested new management tools to achieve their institutional goals. The “Value for Money Approach” has played a relevant role in influencing these changes for non-profit cultural organisations. This paper specifically considers one kind of management tool: performance measurement (PM) systems. Their goal is to give to the management quantitative and qualitative information that can guide strategic choices in the long-term. We will analyze the possibilities of application of a good PM system in cultural organisations, with particular focus on theatres. More precisely, the aim of this work is to verify and discuss opportunities and critical points implied by the introduction of a PM system in theatres. Our research starts with an analysis of the theoretical framework of PM systems and theatre management. The theoretical approach is supported by the reference to a specific case study analysed in this paper, the Municipal Theatre of Ferrara (Italy), and to other case studies provided by the literature in arts and cultural management.

## Keywords:

Value for money

Management tools

Performance measurement

Theatres

Municipal Theatre of Ferrara

## Introduction

This work aims at analysing the possibilities of application of some management tools to cultural organisations, in particular to theatres. In recent years, the number of cultural organisations that have introduced new management approaches, systems and tools has constantly grown (Turbide and Hoskin 1999; Chatelain-Ponroy 2001; Basso and Funari 2004; McNicholas 2004). As a matter of fact, some important changes of the institutional context have highlighted the need for a more efficient and effective management for arts and cultural organisations (Gilhespy 1999; Cavenago et al. 2002; Dewey 2004; Last and Wetzel 2010).

More specifically, we aim to consider the following elements:

- The general difficult situation in public finance in Western countries in the last 10-15 years and the crisis of the financial system started from 2008, which has negatively impacted on the overall situation (Bonet and Donato 2011);
- The growth of cultural “consumptions” and the constant development of mass cultural events; these phenomena have extended on the one hand the economic impact of the cultural sector and on the other hand the general attention of media and general public to the quality of cultural services (Urrutiaguer 2002; Raajpoot et al. 2010);
- The increasing demands of transparency and accountability (Gray et al. 1996) to the management of cultural organisations (Rentschler and Potter 1996; Carnegie and Wolnizer 1996); this is a corollary of the previous points, because less financial resources and more attention to their use imply being responsible and transparent in the choices of allocation of those resources.

These three points are valid for every kind of cultural organisation, but their effect has been particularly strong for public sector organisations in the cultural field. The public sector, in a general context not related only to culture, has lived and is still experiencing an important period of changes, reforms and maybe even revolutions (Torres and Pina 2002; Pollitt and Bouckaert 2011). New Public Management (NPM) held a fundamental role in these processes (Stewart and Walsh 1992; Dunleavy and Hood 1994):

it could be considered their inspiring principle and theoretical substratum. The evolution of the NPM principles towards a post-NPM agenda (Polidano and Hulme 2001) – which is still an open subject of the current debate in the managerial sciences (Goldfinch and Wallis 2010, Christensen and Lægheid 2011) – has not changed the relevance and the impact of the NPM main topics, in particular of its “Value for Money” approach. This approach has had great importance not only for the public sector, but for all the non-profit organisations.

The aim of this work is to deeply analyse these aspects, in order to evaluate the real opportunities for the introduction of management tools in arts and cultural organisations. As shown in the following paragraphs, we develop our study on a specific management tool – performance measurement (PM) systems (Mayston 1985; Eccles 1991; Kaplan and Norton 1992; Simons 2000) – and on a specific type of cultural organisation – theatres.

From a methodological point of view, first we present some studies concerning the introduction of management systems and tools in the cultural sector and their links with NPM and concerning the basic points of PM (section 2); second, we analyse these points specifically for theatres and consider some empirical evidences of theatre emerging from managerial literature (section 3). Then, we present a specific case study related to these subjects, the Municipal Theatre of Ferrara (section 4). Finally, the conclusions (section 5) outline the main points emerging from this work. In particular, the concluding remarks try to answer to the following research questions:

1. What are the main advantages of the introduction of a PM system in general and, more specifically, in theatres?
2. What strategies should be introduced in order to implement a good PM system?
3. What are the difficulties and the critical points of the introduction of a PM system?

However, the answers to the research questions will not be included only in the last sections, but will be rather highlighted throughout the different parts of this paper. In particular, the answer to the research questions one and two will be addressed in the second section, while the third research question will be discussed in the sections three and four as well.

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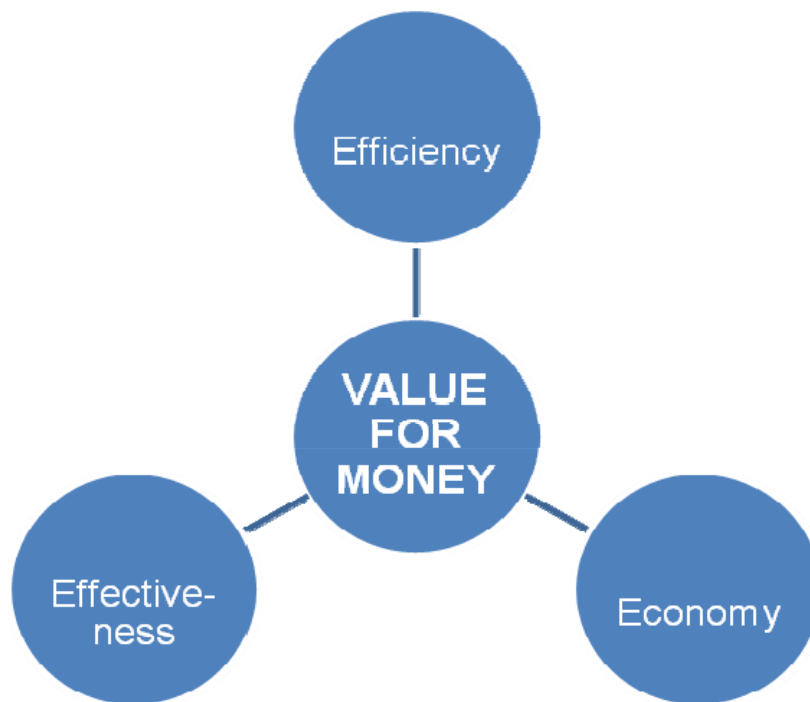


FIGURE 1. THE VALUE FOR MONEY APPROACH.

## New Management Tools for Cultural Organisations

Since the '80s, the public sector has experienced a crucial transformation, in almost the whole Western world, through a series of legislative initiatives of a number of National Governments. In every country involved in this kind of transformation, the reforms have been linked to the spread of the theoretical paradigm of NPM (Hood 1991; Stewart and Walsh 1992). NPM includes, among its basic features:

- The use of the managerial culture of private organisations rather than the traditional bureaucratic culture, typical of the public sector; this change of perspective brings a more complete use of principles, tools and methods of business and management sciences to public sector organisations; in some contexts, like the Italian one, this concept has been reproduced with a specific word, “aziendalizzazione” (Anselmi 1993), a term largely used in the managerial literature in Italy, that could be translated as “corporatisation”;
- As a consequence of the previous point, the promotion of the “Value for Money” approach (Glynn et al. 1992; Lee and Woodward 2002; Martin 2002), based on the “3 E’s” (efficiency, effectiveness and economy); in short they were defined (NAO 1988) as “spending less” (economy), “spending well” (efficiency) and “spending wisely” (effectiveness); the combination of the 3 E’s is considered the real guarantee for the pursuing of

the social interests linked to the existence of public sector organisations [see the Figure 1];

- A clearer call for subsidiarity (Hood 1991) both vertically and horizontally oriented; the first term means delegating and decentralising the decision-making process and promoting the autonomy of single bodies in the public administration, especially those most directly in contact with citizens (e.g., local authorities and other bodies supplying services directly to the community); horizontal subsidiarity regards instead the cooperation between public and private sectors for the provision of public services; it could be however promoted, where necessary, through forms of competition within the public sector;
- The focus on the satisfaction of the citizens, who should not be considered not as mere undifferentiated users of services, but rather as customers (Boyne et al. 2002), interested in the quality of the public services; this could be reached through a careful analysis of their needs, both expressed and unexpressed (hidden);
- The impressive change to public sector accounting systems, with (a) the introduction of accrual accounting, alongside or instead of the traditional cash accounting methods (McCulloch and Ball 1992; Pallot 1994; Lapsley 1999), (b) the development of new accounting standards (like IPSASs) (Sutcliffe 2003; Christiaens et al. 2010), and (c) the wide-scale use of the techniques of PM (Cave et al. 1990; Buschor and Schedler 1994;

Lapsley 1996); in particular, the introduction of PM should aim at giving a contribution to the managers and making them more responsible, by linking the performance with the remuneration system.

The adoption of the theories of NPM has promoted important changes to managerial functions and roles in public sector and to the procedures of provision of some public services. With reference to the provision of public services, policies of outsourcing, privatisation and liberalisation have been developed. Outsourcing policies consist in entrusting public services to external organisations that are usually private, while maintaining direct control over the achievement of the results expected by the public administration. Privatisation may assume two distinct features: the so-called 'formal' privatisation regards only a change of the juridical form, which turns into private law; the so-called 'substantial' privatisation is present when there is an actual concession of the (majority of) shares or of the entire public utility company to private investors. Liberalisation concerns the promotion of a competitive context in markets traditionally taken up by public sector organisations. Liberalisation could be analysed either focusing on the development of a system in which various producers deal directly to users-customers (competition in the market) or carrying out a public competition in a particular sector/market of public utility; the winner will be in charge of the monopolistic supply (competition for the market).

As first conclusion of this general part, we should consider that a real and definitive change in the public administration has not been completed yet (Minogue et al. 1998; Christensen and Lægred 2011), due to some difficulties in the implementation process and to the necessity to discuss some controversial points of the reforms (e.g., the weight of public expenditure on the GDP, the role of the civil servants, the choice about the public utilities to privatise and liberalise).

However, the above-mentioned reforms have regarded all the public administration sectors and markets, culture included. This consideration is important because the relevance of public sector organisations in the cultural sector is preeminent, particularly in Europe. One of the most important claims of NPM in the cultural field has been that of efficiency in the use of public resources (Turbide et al. 2008): historically cultural organisations were more

targeted on the artistic and cultural profiles rather than the economic profiles (Lafortune et al. 1999). Many practitioners consider this aspect a necessary and unavoidable consequence of the social value of culture, but probably in some cases the negligence about the economic and financial profiles was not sustainable, in particular in the light of the current context of financial crisis.

Some other aspects are worth mentioning beyond the quest for more "Value for Money" in public sector cultural organisations. However, they might be applied also to arts and cultural organisations in the private sector and could be summed up in the following points:

- The specific focus on the satisfaction of the "public" (visitors, audience, spectators) and the quality of the services (Soren 2000; Bourgeon-Renault et al. 2006);
- The promotion of horizontal subsidiarity, through the collaboration between public and private sectors and the use of contracting-out, out-sourcing and formal privatisation policies by the cultural institutions (Harrison 2000; Sicca and Zan 2005);
- The impact of marketing principles in the strategies and in the communication processes of cultural organisations (Kotler and Kotler 1998; Colbert 2001);
- The implementation of new and more advanced financial and management accounting systems, based on accrual accounting and PM (Chatelain-Ponroy 2001; Paulus 2003; Boerner and Renz 2008; Weinstein and Bukovinsky 2009).

Performance Measurement, the main subject of this paper, appears to be necessary in two

cases (Badia 2011):

- When the traditional economic-financial indicators do not give a complete set of information about the concrete results of the organisation and its "health status";
- When the economic and financial results are not measurable (or not expressible in a clear and irrefutable way). This point characterizes typically not-for-profit organisations.

In a few words, PM could be seen as a managerial process, whose goal is supporting the decision-making process (Simons 2000), linked to the strategic control (Lorange 1977), with reference to the pursuit of

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the pre-established goals. The implementation of a good PM system starts with the identification of the key points of the strategy of the organisation (or its “mission”). This requires relevant efforts in non-profit organisations (Sheehan 1996; Herman and Renz 1999), where managers are usually oriented to the short-term and the yearly aims, rather than to the long-term ones (i.e., strategic objectives). This is true also for arts and cultural organisations (Voss and Voss 2000; Weinstein et al. 2007).

The most common systems of PM, like the Balanced Scorecard (BSC) (Kaplan and Norton 1992) consider four basic principles for their application: 1) to harmonise short-term with long-term perspective for the management choices; 2) to consider not only the financial dimension, but also other quantitative and qualitative dimensions (e.g., attention to the customers/external stakeholders, quality of products/services, quality of internal processes, care of the human resources, etc.); 3) to implement (as a consequence of the previous point) a “multidimensional” indicators’ system; 4) to balance the orientation of the whole system between internal and external dimension.

“Balance” is a key word in the BSC model and, at the beginning of its application, BSC was a tool for the measurement of the achievement of balance in its different dimensions (between short-term and long-term, monetary and not-monetary indicators, internal and external perspective). At a later stage (Kaplan and Norton 2001), BSC becomes a complete system for supporting management in the decision-making process. With this orientation, BSC seems one of the best currently available models of PM system. The managerial literature offers some examples of application of the BSC to arts and cultural organisations (Weinstein and Bukovinsky 2009; Zorloni 2012).

In its basic model, the four perspectives of BSC (financial, customer, internal business, innovation and learning) are closely linked to each other by cause-effect relationships and each measurement has a final effect on the financial performance, which is therefore the last horizon, even if it is not the only dimension to

be considered (and measured). As a consequence, the management has not only a financial indicator, not always easily interpretable, but can observe all the process which has led to that result.

In the re-interpretation of the BSC model made by Kaplan and Norton (2001) for not-for-profit organisations, the last horizon is not the financial dimension, but the customer perspective, which represents the need for satisfying the interests of the “promoters” of the not-for-profit organisation, i.e., the community in the case of a public sector organisation. We could call this perspective a “social” perspective (although this is not the word adopted by the authors of the model). Nevertheless, since this “social” perspective is actually the final aim of a cultural organisation (Gilhespy 2001), it should be strongly developed in the implementation process of a PM system in organisations like theatres, which are the specific subjects of the next parts of this work. Moreover, the management literature in the cultural field shows an important debate (Turbide and Laurin 2009) about the most opportune ways to introduce performance indicators (PIs); in particular, the importance of considering a “system” of indicators is crucial because the evaluation of the results does not depend on a disconnected analysis of single indicators, but has to consider them in an unitary way.

## Main Topics on Theatre Management

As stated above, the process of application of managerial tools to theatre management may present some difficulties. Many articles on the application of performance measurement and management tools to theatres and the performing arts strive to justify the use of these means in the sector (Boerner and Renz 2008; Radbourne et al. 2009; Weinstein and Bukovinsky 2009).

On the one hand, the difficulties in using management tools for theatres rely in the intrinsic differences between economics and arts: as noted by

Doyle (2010, p. 246) *“economics is a discipline at the heart of which quantitative methods typically feature very strongly but, by contrast, the realm of arts and culture can be seen as ephemeral, porous and in many respects not easily subject to the ‘intrusion’ of scientific analysis. Yet, the field of cultural economics is thriving, and the appetite amongst potential end-users for economic research into cultural and creative industries is stronger today ever it has been in the past. Oddly, culture seems to both attract and resist economic analysis”*.

On the other hand, those difficulties are more evident for theatre management since they are even more challenging to manage, due to the complex nature of performing arts. Developing an effective performance measurement system for theatres, especially for quality evaluation, means taking into account their manifold stimuli and aspects, that include staging, setting, language, plot and sometimes also music and choreography, making performances some of the most complex aesthetic experiences (Boerner and Renz, 2008).

In order to analyze the different phases of the application of managerial tools to theatres, we will delineate the history of the application of cultural economics theories to theatre management. From the '60s onwards, economics studies have gradually entered the field of social sciences and there has been an increasing interest in management systems for museums, theatres and cultural institutions in general. It all started with the ground-breaking researches of Baumol and Bowen (1966): the publication of their studies in the mid-1960s made a relevant contribution to the development of cultural economics.

Baumol and Bowen identified a sort of syndrome implicit in cultural organisations, which they call “cost disease” or “income gap” (later called “Baumol Effect”), and which implies an increase in costs without a growth in productivity and incomes; as Chong explains, “performing arts organizations, as “patients”, had severe difficulties in achieving productivity advantages as achieved in manufacturing industries” (Chong 2002, p.102).

This income gap is experienced by theatres too, due especially to the high costs for productions and projects in the performing arts sector. Moreover, the performing arts are a sector that often experiences stagnation due to its traditional incapability to appropriately use technological innovation and improvements. In their analysis, Baumol and Bowen focused also on some facets of management that did not concern exclusively the economic and financial aspects of cultural organizations, nevertheless considering them as key issues for arts management. These studies were further developed by Peacock (1969). Starting from the studies of Baumol and Bowen, he elaborates a new theory based on the assumption that it is necessary to combine the financial needs of the cultural institution with the needs of its visitors or audiences. According to Peacock the key to better address issues related to the cost disease is to broaden the focus on the quality of the

overall experience. After Baumol, Bowen and Peacock, the link between economics and culture has been deepened by a number of other studies.

In the following years, a group of researchers, amongst whom Blaug, approached the cultural management field focusing on the reasons why public funding should be used for the cultural sector, and concluded that arts possess intrinsic value that justifies public expenditure. They then studied the ways to evaluate public expenditure on arts organizations (Blaug 1976). In the 1980s Mulcahy focused on the economic impact of the arts, trying to define the economic impact of arts on the economy – especially local economy; in particular he analysed the main quantifiable benefits, both direct, indirect or induced (Mulcahy 1986).

In the last twenty years, scholars concentrated on cultural “consumptions” (Colbert 2001) – exploring the relationships between the expenses in the education and those in the entertainment sectors and trying to define a possible balance between public and private funding – and on the forms of communication between the various stakeholders of the cultural sector.

All the above things considered PM could be a useful tool for the strategic management of theatres, especially when it is associated with quality, governance and accountability. Designing and effectively using good PM means also rationalizing and reinforcing the image of public control (Power 1994). Performance indicators are particularly helpful to analyse the already mentioned cost disease; management control techniques are important to ensure financial stability and to reach the objectives of economy, efficiency and effectiveness; auditing practices, as part of those techniques, could become a crucial passage to understand how a theatre could improve its performance in the long run. Accountability should not be sustained by informal relations but rather rationalised and managed according to the vision and mission statements of the cultural institution (Chong 2002, p. 107).

The above analysed “Value for Money (VFM)” model demands that effectiveness be quantifiable. This is an important issue for theatre management. PIs could offer benefits such as important information for measuring the progresses of the theatre (especially when the on-going results are compared with the past performance) or could be used to plan improvements to the overall strategy and to the organisational design. Indicators could give important data to assess strengths and weaknesses, thus aiding the management of the theatre in better allocating resources and better directing the decision-making process. PM in theatres could also be a mean to encourage and motivate staff, identifying the training necessary for the staff or the needs of the audience. Performance evaluation is a relevant part of management practices and processes; there is a strict relationship between mission, objectives, do-wells (or critical success factors) and PM (for each do-well). Theatre managers should attempt to link PM with the

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institution’s mission and objectives, in order to develop the institutional management talent and restructure the whole institution with less financial expenditure.

In recent years, management studies applied to performing arts have paid increasing attention to the relationship between PM and quality. Starting with the recognition of the peculiarities of live performance, Turbide and Laurin (2009) have pointed out that PM systems for performing arts should put more emphasis on the quality of the performances and on the satisfaction of the public rather than on the financial aspects, since the mission of that kind of organization is to enrich the cultural environment through arts. In particular, non-financial indicators seem to be the ones that most reflect the peculiarities of the cultural sector. As for this aspect of performance measurement, we will consider four case-studies analyzed in the literature on this subject: the first was made in the Province of Quebec, Canada (Turbide and Laurin 2009), the second at the Cologne Opera House, Germany (Boerner and Rend 2008), the third in Melbourne, Australia (Radbourne et al. 2009), and the fourth at the Boston Lyric Opera, United States (Weinstein and Bukovinsky 2009).

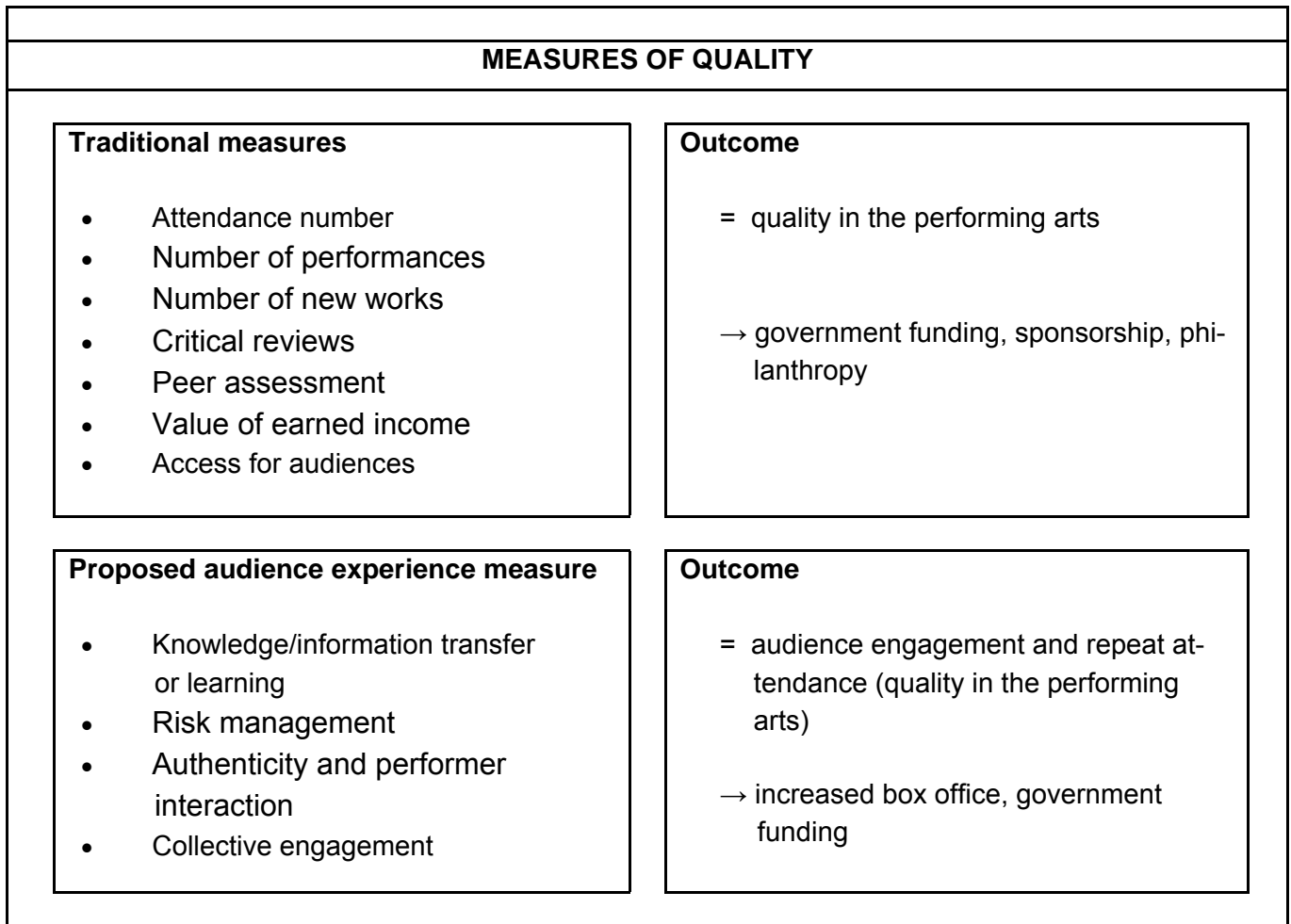
The first research (Turbide and Laurin 2009) is a further proof of the difficulties encountered by theatre managers in applying non-financial performance measurement indicators to assess the quality of their organization. The survey was conducted through a questionnaire given to more than 300 general managers of not-for-profit performing arts organizations in Quebec, among which approximately 30.5% were theatres. The research was meant to assess the use of multidimensional approaches in measuring the performance. The questionnaire was divided into 6 parts; part 4 examined performance indicators. The outcome of the survey highlighted that the most of organizations use multiple indicators and that financial performance was assessed at least as often as artistic achievement. Furthermore, although the organizations were mainly concerned with the artistic dimension in terms of mission and goals, they

tend to use mainly financial indicators to measure their performance. According to the authors, this outcome highlighted once again the difficulties of arts organizations in measuring qualitative results.

The second survey (Boerner and Renz 2008) aimed at underlining the role of audience in quality measurement of a particular kind of theatres, opera theatres. The authors started with the remark that performance measurement in professional opera companies had been often limited to quantitative indicators, using criteria such as attendance and subscribers’ levels, number of performances, number of new productions, and earned income and noted that these objective data are unsuitable for assessing quality. They argued that subjective judgments could be more appropriate, and that they should be based on the audience’s personal experience.

The study was realized during a live performance at Cologne Opera House. The authors developed a method for performance measurement that aimed at combining reviews published on national newspapers and qualitative analysis made through questionnaires distributed randomly among audience members. The authors showed that the audience experience of opera performance had been undervalued; the majority of opera goers are extremely specialized in the field and therefore could be good raters in order to ensure valid quality judgments. Audience members are therefore experienced evaluators who are able to be express reliable reviews on performances.

The last case study is a research undertaken in three performing arts organizations based in Melbourne, Australia: Musica Viva, Melbourne Theatre Company and Malthouse Theatre (Radbourne et al. 2009). The authors bore in mind the research of Boerner and Renz and highlighted how audience experience could be validated as a possible indicator of the quality of the performance, but they also went a step further; their study aimed at proving that knowledge, risk, authenticity and collective engagement are key elements of the subjective



**FIGURE 2. MEASURES OF QUALITY**  
(RADBOURNE ET AL., 2009, P.27 )

experience of the audience and proposed a new scheme of measures of quality, that is underlined in Figure 2. They stressed the link between the measures and their use for funding or monetary investment.

Their measurement model maximizes indicators derived from the most frequent audience expectations: collective engagement, risk management, authenticity and knowledge transfer or learning.

The last case (Weinstein and Bukovinsky, 2009) introduces another very controversial theme in performance measurement: the legitimization of the high costs of application of a performance measurement system such as BSC. The case of the Boston Lyric Opera (BLO) proves that BSC could be a determining factor to improve the performance of the theatre both in the long and in the short term.

In BLO, the implementation and use of a scorecard began in late 1999 and brought about a series of organizational changes that affected not only the redefinition of the strategic goals, but also the entire organizational structure of the theatre as well as the internal consensus building process. All full-time employees of the different departments of the BLO were involved in the formulation of scorecards for their own areas. Notwithstanding the complexity of the

process, the definition of a BSC helped each department to find its own direction and goals. Since the BSC was a constantly on-going process, it was implemented during the following years. The first review of the scorecard was performed in 2005 and it showed the high level of commitment reached through its use, since its completion implied that each member of the staff had to take responsibility for developing new goals and indicators.

The final results showed that BSC had provided both tactical and strategic benefits for the Boston Lyric Opera. On the tactical level, the scorecard had provided a framework that employees may use to evaluate how their activities sustain the strategies of the organization. From a strategic point of view, the scorecard had helped the whole organization to better center its activities. The authors quoted as example the fact that previously the company had no formal mechanism for choosing the ideas that were worthy of its resources; the BSC provided that mechanism as well as a structure for assessing the outcomes of its various projects.

As for the situation of theatres in Italy, some public theatres' managers have tried to introduce performance measurement systems in their institutions. This attempt has often been criticized as a



process that approaches theatres as for-profit companies, whereas it means simply that theatres should be analyzed within frameworks and logics of management sciences (Brunetti 2000). In some cases, priorities and objectives of performing arts organisations have been changed; hence, those changes have impacted on the management, the organisation and more generally the “culture” of Italian theatres.

Studies have also drawn attention to the opportunities and threats of such developments for theatres. Deeper analyses have been conducted in the field of project management for theatres (e.g. the various projects of opera production), in theatre communication and marketing (both inward and outward communication), cost analysis and fundraising techniques. The majority of the studies agree on the fact that PM systems might work as useful tools to improve theatre’s capacity to reach objective; the indicators in those systems should be adapted, to some extent event tailor-made, on the characteristics of the performing arts institutions and measure theatres’ performance both at the qualitative and at the quantitative level (Donato 2004). They should therefore be multi-dimensional, i.e. consider both monetary and non-monetary factors and qualitative variables, taking into account also management and strategy issues and including also indicators concerning the so-called “intellectual capital” or “intangibles”, quantities or factors that sometimes are determining the quality of theatres’ activities and their perceived value.

## **Performance Measurement for Theatres: the Case of the Municipal Theatre of Ferrara**

### ***Preliminary remarks***

The case of the Municipal Theatre of Ferrara, which will be described in this section, represents an interesting empirical evidence of the methods of implementation of PM systems, concretely adopted in theatres. Briefly, the main points of interest are:

- The need to implement a broad measurement system for an organisation with multiple activities and the difficulties to integrate financial dimensions with not-financial dimensions;
- The poor consideration of the artistic quality of the performances in the PM system, coherently with the evidences of the literature examined in the previous section, even though quality is considered the most important performance dimension;
- The critical points for the implementation of a PM system linked to the mission of the organisation and its strict dependence on the public funding system.

The analysis of these points, with specific reference to the case of the Municipal Theatre of Ferrara, confirms in practice the empirical evidences of the managerial literature presented in the section 3 of this work. The difficult balance between financial and non-financial dimensions, the poor consideration of quality in the PM system and the troubles in linking strategy and measurement systems are topics highlighted in the above mentioned works. A more complete analysis of the relationship between the case of Ferrara and the other cases will be possible after the examination of the Municipal Theatre of Ferrara presented in this section and therefore it will be developed in the Conclusions.

Some of the considerations arising from this section seem to be valid for the implementation of PM systems for theatres in a general context. However, some reflections appear more applicable to the specific Italian context: this is the case, for instance, of the great difficulty to get private funding and of the dichotomy between artistic and financial planning processes.

### ***Presentation of the main features and figures of the Theatre***

The Municipal Theatre of Ferrara can not be considered one of the primary theatres in Italy for its audience and prestige, even though it is one of the 28 Italian “teatri di tradizione” [literally “theatres of tradition”]. Teatri di tradizione are defined by the Italian law 800/1967 and the Ministerial Decree of November 9th, 2007 as theatres with the duty to “promote, favour and coordinate the musical activities, with particular reference to opera, in their local areas”; therefore, the Municipal Theatre of Ferrara could be reckoned quite important, at least at regional level and particularly for its opera season.

Its foundation dates back to 1798. During the last century, after a closed period caused by World War II, the Municipality of Ferrara acquired its property and reopened it in 1964. An important change of the juridical status occurred in 1994, with the transformation into “institution”, a juridical form which gave a little more autonomy to the Theatre. But the most important juridical change took place in 2009, with the adoption of the status of “foundation”. The purpose of this last change was to stimulate the participation of private subjects in the Municipal Theatre. This kind of participation – which implies financing – would entitle private subjects to be involved in the management of the Theatre. Actually, so far this goal has not been reached and the Municipality of Ferrara is still the only founder member. Therefore, the funding system of the Theatre is mainly based on the contributions allocated by the Municipality every year.

With reference to the size of the Municipal Theatre of Ferrara, it had 58 employees at November, 2010, among which 23 people have permanent contracts. Each year, from October to June, about 80

plays are staged, counting over 160 performances of dramas, ballets, operas, concerts, experimental theatre and theatre for children. The season ticket holders are over 4,000 and the yearly audience is more than 25,000 people. The seasons combine classic repertoire with international contemporary repertoire. In particular, the most important seasons are drama (October – April), ballet (October – April), opera (November – May) and concerts (October – May).

As “theatre of tradition”, the opera season requires a relevant financial and organisational engagement of the Municipal Theatre of Ferrara. The permanent collaboration of Maestro Abbado since the early 90’s is worth mentioning. Furthermore, orchestra leaders, soloists and orchestras of international relevance regularly participate in the concerts’ season. In particular, Ferrara has hosted for 13 years the Mahler Chamber Orchestra, composed of 15 well-known young musicians. The playbill is enriched by meetings, such as presentations of the companies, historical and literary workshops for teachers, students and general public. Finally, the Municipal Theatre of Ferrara has an archive and a library that are open to the public.

The Theatre has stable relationships with the Municipality of Ferrara (its founder member and owner), and the other companies owned by the Municipality of Ferrara: “Ferrara Musica”, co-responsible for the organisation of the concerts’ season, and “Ferrara Arte”, in charge of the organisation of the most important art exhibitions in Ferrara; the partnership with Ferrara Arte is prevalently oriented to the promotion of combined tickets and special offers for the public. The Theatre has further collaborations with the University of Ferrara and the Emilia-Romagna Region.

### ***Towards the definition of the PM system: the stakeholders and the accounting system***

Before introducing the details of the PM system of the Municipal Theatre of Ferrara, we should consider an important element for its implementation: the definition of the stakeholders of the organisation.

According to the management, the public is the main stakeholder, considered both as audience and as general community. The Municipality of Ferrara, the Theatre’s employees, the sponsors and the members, the local public administrations and the private firms are considered important stakeholders as well. The attention to the local community is proved by frequent initiatives, promoted during the seasons:

“CittàTeatro” (“CityTheatre”), oriented to the direct participation of the community in artistic and theatrical events:

- “Meetings with the public”, aimed at explaining the main plays of the seasons;
- “Young Area”, addressed to the under-30-public,

in order to favour their interest in the performances;

- “Theatre and School” and “Theatre and University”, promoting the activities of the Theatre among students.

The analysis of the PM system should not be addressed without a wide reference to the general accounting and information system, of which the PM system is a component.

The accounting and information system of the Municipal Theatre of Ferrara is based on the classical tools of financial and management accounting. The basic document of prior and final analysis is a profit and loss account, at opposing sections; in practice, this document functions as an economic budget. During the consumptive stage also the statement of financial position is produced, in conformity with the Italian laws.

The management accounting system is quite comprehensive; the charge criterion of the costs is direct costing, where every play is a cost (or profit) centre of first level, whereas the seasons are centres of cost (or profit) of second level. In this process the “general” costs are not subdivided, because the management considers too expensive and too discretionary their charge to the different cost centres.

The accounting system shows that the accounting method used for the Municipal Theatre of Ferrara is accrual. This is an important circumstance, because accrual accounting is necessary to implement a performance measurement system where the financial perspective is properly represented. This is remarkable, since in Italy and in the most part of the continental Europe a lot of public sector cultural organisations still adopt a cash accounting system, which is unfit to support the management in the long-term decision-making process. In the case of the Municipal Theatre of Ferrara, the use of accrual accounting is partially a direct consequence of the juridical status of “foundation”, but it is also the result of a precise managerial choice, since its adoption is preceding the change of juridical form.

### ***The “missing link” between strategy and PM system***

Important observations regarding the PM system could be deduced from the timetable of the accounting data gathering. In particular, in the previous paragraphs, we said that the link between strategy and PM system is absolutely essential. This is not possible in the situation of this theatre, which reflects however the general situation of theatres in Italy. Here below, we will further explain this point.

The first element which does not permit a good process of strategy definition is the misalignment between artistic and financial decisions: the financial year is the solar year; this choice is considered unavoidable by the Theatre managers, due to the connection between the management of the Theatre and Ferrara Municipality, which sets up its financial

system, by law, on the solar year. The artistic decisions are instead linked to the seasons, which run from October to May. As a consequence, there are obvious difficulties in the planning processes. The artistic planning starts every year in March, with the definition of the drama season. In the following months the decisions about the other seasons and the fringe activities are taken. The definition of the budget – through the estimated profit and loss account – is in October: this process is completed without any certainty about the real feasibility of the programme, because the extent of the funding from the Municipality remains unknown till March of the following year. The very high dependence, even of the ordinary administration, on the funding of the Municipality gives a high level of uncertainty about the future and the real possibility to implement the chosen artistic strategies. In this circumstance, the weak contribution of private subjects to the funding system highlights one of its most critical aspects. Unfortunately, this is a very common situation for the Italian public sector cultural organisations.

Moreover, the misalignment implies having an estimated document that is not only uncertain, but also incomplete, because during the summer months only the next season is planned and not the whole scheduling of the following solar year. The seasons' planning is rather fixed for its first part (the months from October to December, for which the funding is known), but this is not possible for the second part (from January to May), because it belongs to the future fiscal year for the Municipality.

***The critical points emerging from the development of the PM system***

The above discussed points of time-misalignment in the planning process are not the only critical points in the definition of the PM system. Other troubles are emerging from the analysis of the process of realisation and implementation of the PM system. First of all, the PM system has been created by the financial direction of the Theatre, without a full support by the artistic direction. Normally, a PM system should be implemented inside the strategic direction of the organisation; when two directions of the same importance are present, as in the case of the Municipal Theatre of Ferrara, a complete cooperation

between them would be necessary. Therefore, in our case we could note another misalignment which has an impact into the strategy implementation.

This lack of concordance is not the only critical organisational aspect in the process of implementation of the PM system. As Weinstein and Bukovinsky (2009) point out for the previously presented case of the Boston Lyric Opera, the implementation of a PM system necessarily needs the involvement of the

whole organisation in the definition of dimensions, goal and indicators. Consequently, the definition of the PM system should request the involvement also of the managers of every function and the employees. In this case, this aspect appeared to be incomplete, if not absent at all.

Finally, another requirement for the implementation of a PM system emerges when the funding flows of the organisation depend prevalently on a main financing subject: this is the case of the Municipality of Ferrara for the Theatre. In this circumstance the definition of the performance dimensions and of the lead PIs should consider the management priorities also for the financing subject, i.e. the Municipality. From the empirical analysis the definition of these variables seems to have been realized by the management of the Theatre in a separate way from the Municipality officers. So, neither this aspect has been considered in appropriately.

As a consequence of these points, i.e. the poor attention of the artistic direction to the PM system and the weak involvement of the whole organisation and the Municipality, the only measured

results are the financial-quantitative ones, while the qualitative and the non-financial-quantitative aspects are scarcely considered.

Another relevant point for the implementation of a good PM system is the balance between internal and external orientation. The attention to the internal aspects of the management is surely present – although in a not well defined picture of strategy definition. Unfortunately, the attention to the external dimension is poorly developed inside the PM system with proper measurements and indicators, in spite of the amount of previously described initiatives devoted to the local community. The only elements related to these profiles, inside the PM system, are some occasional analyses of customer satisfaction and the participation of the Theatre in the social reporting of the Municipality (this initiative, however, has been recently given up by the Municipality).

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All the critical points we have described are well-known by the management which is studying some possible corrections of the PM system for the future.

**First concluding remarks deduced from the case**

To sum up, this case is interesting for this paper because it analyses a cultural organisation which tries to implement a performance measurement system despite some difficulties, omissions and critical points. A positive aspect is surely the attention paid to the financial dimension, which is not common for a cultural organisation, particularly in Italy. Omissions and critical points are mainly due to the little collaboration between artistic and financial directions, to the weak organisational involvement, to the poor consideration of the external dimension of the performance and to the very modest use of qualitative and non-financial-quantitative measurements. Difficulties are primarily connected to the strategy implementation process, where a deep series of misalignments is present.

In our opinion, a shift of the fiscal year of the Theatre management in the direction of its alignment with the season would be a rather easy change to introduce, although the fiscal year of the Municipality has to be the solar year. The adoption of this perspective would allow the use of the funding of the Municipality for every calendar year to plan the events and the performances of the following season. In practice, this simple change (which, of course, would create some problems during the first year of its introduction) would allow the misalignments we have observed to be solved, except the one between artistic and financial directions: this misalignment could be corrected only with decisive and important changes in the organisation that are not directly linked to the implementation of the performance measurement system.

**Conclusions**

In the first section, we clarified the three research questions of this work: (a) the search for the main advantages of a PM system in general and, more

specifically, for a cultural organisation; (b) the attention to the strategies to be implemented to reach a good PM system; (c) the possible difficulties and critical points in the introduction of a PM system in a cultural organisation.

With reference to the research questions (a) and (b), we think that the picture emerging from sections 2 and 3 provide readers with a clear answer. However, we believe it might be useful to summarise the main points:

- A good PM system allows every kind of organisation to orient the management towards the strategic aims, considering the necessary balances between financial and non-financial perspectives, short-term and long-term horizons, financial and non-financial dimensions of the performance;
- For a cultural organisation, particularly in this period of financial crisis and public spending cuts, a PM system could contribute to reach the aims of efficiency and social effectiveness in a converging way;
- The implementation of an effective PM system requests the clarification of the strategic aims of the organisation, its circulation through the organisation structure and the consideration of a multidimensional system of PIs that should be able to catch all the crucial perspectives of the performance.

These points partially match with the instructions for the implementation of the BSC. Actually, they can be integrated with the new concepts introduced in two more recent works of the BSC's authors, regarding the "strategy maps" (Kaplan and Norton 2003) and the strategic alignment (Kaplan and Norton 2006). In brief, strategy maps aim at strengthening the integration of the strategic dimension in a performance measurement system based on the BSC. In this way, the BSC is not only a tool for the control, but becomes the basis of the corporate governance system of the organisation. The concept of strategic alignment regards instead the necessity of looking for the synchronisation of the managerial activities, in order to develop the internal synergies and to integrate them with the governance of the organisation.

The answer to the research question c) may be addressed with the support of the emerging evidences of the cases provided by the literature and analysed in section 3, in comparison with those arising from the

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analysis of the case of the Municipal Theatre of Ferrara, showed in section 4.

First of all, in comparison with the case of the Province of Quebec, the case of Ferrara confirms the difficulties to measure the performance linked to the quality. Theatres (and arts and cultural organisations in general) often have recourse only to financial measurements, although quality is considered more important. Therefore, the choice of dimensions and indicators of the PM system is subject not to the assumed utility of the measurements, but rather to the easiness of the measurement process.

For the case of Ferrara, this choice is also linked to the weak involvement of the artistic direction and of the whole organisation in the process of definition of the PM system. In this sense, we noticed a link with the points emerging from the case of the Boston Lyric Opera, where the process of implementation of the BSC has seen a long time, on-going process and multiple reviews made with a complete organisational support.

A last critical point, emerging in a coherent way between the case of Ferrara, on the one hand, and the cases of Cologne and Melbourne, on the other hand, is represented by the difficulty to make use of the judgements of the audiences in the PM system. This difficulty regards the consideration of the “social” dimension of the PM systems. In the current scenario, cultural organisations have to be accountable for their social performance, in order to give again credence to the role of cultural organisations in our society.

In this concluding part, we propose an analysis of some possible risks of an inappropriate adoption of performance measurement systems:

- PM is the means, not the end goal; if this concept is not properly taken into account, the risk is to create a self-referential system, not target-oriented to the needs of the organisation;
- The expectations of the different stakeholders should be carefully evaluated and balanced; too

much information is not only unnecessary but potentially harmful;

- Finally, another crucial requirement of the information system is the timeliness; to have the information too late is equivalent not to have the information.

Finally, we would like to propose some general conclusions. First of all, a good PM system can give a very important contribution to the decision-making process in a theatre and help its strategy implementation processes; second, a good PM system could also support the accountability of theatres and their external reporting. However, a good PM system is not so easy to implement; it could present high costs for the organisation and it should not be too rigidly connected to the strategy, but necessitates of a flexible “alignment” to it. Conclusively, a PM system, in particular for complex organisations like theatres, is not appropriate and could even be useless, if it is too complicated, with use of too many indicators, and if the involvement of the available human resources has not been taken into account during the phases of its planning and construction.

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