

# The Financial Crisis and its Impact on the Current Models of Governance and Management of the Cultural Sector in Europe

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## ABSTRACT

The objective of this paper is to promote a critical debate among scholars and professionals on the impact of the crisis on the European cultural sector. The world is living a structural crisis, a crisis that is based on the lack of reliability of the current social, economic and political systems. The majority of the cultural actors, as well as the majority of the other social stakeholders, are not entirely aware of the changes that the crisis will provoke on the future. However, deep crises offer a great opportunity for improvement when people and institutions are fully conscious of their potential for a change. Hence, the crisis could be a great opportunity for a structural change of the cultural sector, both at the policy and at the organizational level. This paper aims at analysing some strategies for an improvement of the governance and management models in the cultural sector. Some relevant modifications of the governance and management approaches are suggested.

## Keywords:

Management models

Governance systems

Financial crisis

## Introduction

Nowadays, no one ignores the huge importance of the current economic crisis for the whole society, both in Europe and in most developed countries. It has had not only economic effects (on the financial, production, consumption and labour markets) but also political and social consequences. National governments are becoming unable to solve by themselves events beyond their possibilities of action. Also the European institutions are having difficulties reaching a consensus and efficiently working together. Most social groups are frustrated by the implications of the crisis in their everyday lives.

Some very specific economic characteristics of the cultural production sector and markets explain, to some extent, some of the opportunities, threats and difficulties they are facing in relation to the economic crisis. This is a risky sector of prototype products, most of them with a high but subjective symbolic value (Throsby, 1994). At the same time, the sector is living a huge transformation of its business models as a consequence of the impact of the digital communication technologies (Rifkin, 2000). A great part of the cultural initiatives and activities survive thanks to the generous support of public funding (and in some cases also of additional philanthropic contributions), as a result of a historical process of social valuation. The crucial importance of governmental policies might explain why the transformation of the welfare state and the new socio-economic trends have been affecting this sector in particular.

Our goals when writing this article are: a) to explain what kind of crisis we are facing and how it would have an impact on the cultural sector; b) to promote a collective reflection on the systemic framework and the priorities of the cultural sector; c) to strengthen the awareness of the future viability of the models of management and financing for culture and to raise the debate on these issues. Therefore, we will not talk about the effects of the economic crisis on the cultural values or on the contents of arts and heritage production. In this article, our aim is to stimulate the debate - among cultural professionals and cultural and economic academic communities - on the impact of the economic crisis on the current models of governance and management of the cultural sector in Europe.

This paper is permeated by our responsibilities as cultural management educators and academic economists. We believe in the importance of sharing visions, especially in a sector which is sometimes too self-referential.

The article begins by describing the milestones of the on-going process and giving an interpretation of the current economic crisis. We argue that we are facing a structural crisis that will radically transform the current economic, social and political context. However, beyond the obvious and implicit threats there is a huge opportunity to restructure the whole system. In the second part, we analyse the consequences of the economic crisis on the cultural

sector and its short-term reactions, focusing our reflections on the outcomes of the crisis for the weakest cultural actors. In the third section, we highlight the fact that cultural organizations must overcome some of their serious traditional weaknesses if they want to survive the crisis. Basically the Achilles' heels of cultural organizations are their close and self-referential vision, their incapacity to measure and communicate their performances and their social impact, and finally their inappropriate models of management and governance.

## A structural crisis

From 2008 onwards, when the financial crisis began, we have been living a rapidly increasing process of bad news. Below, a synthetic description of the steps of the crisis is displayed:

- The Social Welfare Department, and within it, the Buenavista Social Centre, the Repélega Social Centre, the Villanueva Social Centre, the Gure Bakea Social Centre and the San Roque Social Centre.
- A wrong and aggressive mortgage strategy in the US generated toxic assets on the balance sheets of American banks. Since the whole financial system had an excess of self-confidence, the toxic assets spread worldwide through the mechanism of derivatives.
- In order to solve this financial situation, central banks and major countries' governments agreed on decreasing interest rates, giving liquidity to the system and creating warranty funds.
- Banks used the liquidity provided by central banks mainly to solve their own balance sheet problems. Companies' investments decreased as a result of the contraction of bank credits. As a consequence, the production levels declined and that was followed by the crunch of the labour and consumption markets, especially in the field of long terms goods and services. Hence, the difficulties shifted from the financial system to the real economy.
- In order to stimulate the economy, some governments decided to increase public expenditure (i.e. infrastructures, strategic sectors, new technologies). However, this action had a positive effect only in the very short term. Actually, it was performed in a situation of structural disequilibrium - the real estate bubble in some countries, a lack of productivity or a huge accumulated debt in others. As a result, the overall economic crisis has accentuated. Most European countries have registered a falling (decrease) of tax incomes and at the same time an increase of the costs of the welfare state. That provoked a relevant increase of the deficits of the governmental budgets.

“WE ARGUE THAT IT SHOULD BE INTERPRETED AS A RELEVANT OPPORTUNITY, SINCE ONLY IN PERIODS OF GENERAL CRISIS STRUCTURAL CHANGES ARE POSSIBLE.”

- In the weakest countries the level of the state debt became no longer sustainable under a financial perspective: the interest rate of state bonds has increased and the concern about the capacity of these states to reimburse them has grown (Greece, Ireland, Portugal, and also bigger countries like Spain and Italy). The United States' difficulties in balancing their governmental deficit deepened and further spread the crisis all around the world.
- Thus, most countries have started a process of spending review aimed at rebalancing their deficits. This led to relevant cuts on governmental investments and on traditional welfare state policies, which include cultural contributions. Nowadays, this is producing growing social diseases and is de-stimulating the economy.

This is not a temporary but rather a structural economic crisis that would probably affect not only the current economic system, but also the political and social ones. The welfare state model built in Europe during the last fifty years is moving to a different form. It would be difficult to go back to the pre-crisis situation and to the same level of welfare state, even when a new equilibrium will be reached. This is a global crisis although it initially affected mainly the developed countries. The new-comers (for instance China, India, Brazil or Indonesia), the providers of primary goods and even the major investors will be affected, because they are the main suppliers of our markets.

Dealing with this crisis is difficult because it is a structural crisis and, in addition, it is embedded by a lack of reliability of the overall system. There is a lack of confidence in the economic and financial system, as well as in the model of governance and in the mechanisms of the current social system. This is the biggest crisis ever experienced by our generation and

most of the actors are not completely conscious of its implications. The different governance levels are trying to face the current challenges either alone or in cooperation but unsuccessfully. Thus, a systemic reaction at the European and world level is necessary in order to answer to the global financial forces and stakeholders.

In this context, the European Union represents a leading inter-governmental model, a quite effective system to share common challenges, strategies and values. However, its decision-making structures are too bureaucratic and too oriented towards national interests. Indeed, the members of the European Council and of the Council of the European Union feel they are primarily accountable to the constituencies of the individual countries. The European Commission and the Parliament, that should represent the European common interests, cannot counterbalance national pressures. The overall situation is further accentuated by the differences in the degree of economic development of the individual countries, that make it difficult to react using a single strategy. Moreover, in the European countries there are different traditional social values and a diverse perception of the severity of the crisis. Mostly in the case of the richest countries, where the percentage of elderly people is higher and where people are used to live with a good and stable quality of life, the fear of the future is increasing more and more. Nationalist forces dream on isolationist solutions although everybody knows (even them) that we live in an interdependent global society.

This situation is perceived as a threat for the development of Europe. On the contrary, we argue that it should be interpreted as a relevant opportunity, since only in periods of general crisis structural changes are possible<sup>1</sup>. In times of crisis modifications of the institutional, financial and social structures are legitimated and citizens are more likely to accept

<sup>1</sup> Europe experienced a similar situation in war times.

socio-economic sacrifices and risks (Anselmi, 1995). Hence, the crisis should be considered as an opportunity both at a national and at a European level. At a national level it allows to develop large scale reforms (Guthrie et al, 2005). For instance, countries like Italy and Spain are changing some articles of their Constitution, thus making the balance of their state budget mandatory. This decision has been taken to counteract financial speculative forces. At a European level, the crisis gives the opportunity to renovate the Europe Union's institutional framework moving towards a more incisive and less bureaucratic system. Thus, nowadays the crisis should be interpreted with a different attitude. A systemic vision and a long term orientation are necessary for shaping a better Europe (Osborne, 2006).

## **The impact of the crisis on the cultural sector**

During the last fifty years, Western European countries have developed relevant welfare policies. Cultural policies have played an important role in this process. The number of cultural activities and facilities (i.e. museums, libraries, theatres, festivals, films) has significantly increased together with the expansion of public expenditures. Thus, the cultural sector depends deeply on governmental policies. Directly, regarding public funding; indirectly, regarding the regulatory system and public policies. In Eastern and Central Europe, the situation has been more complex. During the communist regimes, culture (like sports) was supported as part of a "prestige policy". After the fall of the Berlin wall, they needed to entirely restructure their cultural system and policies. Nowadays, this is paradoxically an advantage for them, since they know how to face processes of radical change better than Western European countries. They are more aware of how to deal with instability and how to move to a very different political, social and economic system.

In the cultural sector, the majority of the European countries have reacted to the crisis with a process of gradual adjustment without structural changes of their cultural policies. From 2009 to 2011 some governments have reduced the level of public funding, while others have strived to maintain the previous amounts of contributions (Council of Europe, 2011). However, it is predictable that the degree of public contributions might significantly decrease in the next years, due to the deepening of the crisis and its impact on public budgets.

The cuts of public contributions have directly caused a reduction of cultural productions and activities, and indirectly a decrease of cultural consumptions (Eurostat, 2011). Cultural organizations have tried to replace these cuts through two main behaviours: 1) marketing strategies (Colbert, 2001)

and more popular artistic and cultural programming to increase the box office incomes; 2) partnership strategies for drawing private donations and sponsorships.

The first strategy has had a good impact, although the duration of the crisis is causing a fall down of private consumptions. The second strategy has not succeeded because the level of private donations and sponsorships usually collapses in times of crisis (Bertacchini et al, 2011).

The reduction of financial resources has generated a clearly negative effect on the weakest actors of the cultural sectors, such as the youngest generation of professionals, independent organizations and projects promoting experimental works and artists.

The situation of the labour market is increasingly difficult for young cultural professionals. So far, they have tried to find a job in established cultural organizations (i.e. museums, theatres, publishing houses, audiovisual companies), or to set up their own business after getting some work experience in this sector. As a result of the crisis, the possibilities to get a job have been dramatically reduced. New occupations are not created, young professionals are often employed only as freelancers, and even the current employees are in some cases dismissed (Lloyd, 2010).

The independent sector organizations are trying to survive the public funding cuts by mainly striving to reduce costs and increase productivity. In some cases they succeed using volunteers to replace full time employees; in other cases the organizations disappear after a few attempts to survive. This is more frequently the case of the youngest companies.

In order to avoid economic risks, many organizations are promoting well-known artists or popular and traditional cultural activities. Therefore, those projects that focus on avant-garde, innovative or experimental works have the greatest difficulties in surviving.

In addition, part of the public opinion is questioning the value of the public funds devoted to the cultural sector. The cultural community reacted with campaigns both at the national and the European level (e.g. the "we-are-more" campaign promoted by ACE and ECF<sup>2</sup>) to highlight the public value of culture. These campaigns and street demonstrations organized in a few big cities received only the support of the cultural community. Only few citizens have taken part in these initiatives, whereas there had been a greater participation in the campaigns and protests against cuts to other public services, such as health and education.

Concluding, in most European countries, culture is struggling to keep its position in the welfare state. However, only a minority of people do really believe in the strategic role of culture as a key factor of social development. In the last decades, a broad cultural system has been created, and nowadays its financial sustainability is questionable. In the same period of

<sup>2</sup> <http://www.wearemore.eu>

time, the ever largest and best trained generation of professionals is ready to apply its knowledge and competences. But the crisis makes it impossible to hire most of them in cultural organisations.

This has had highly negative economic, personal and social consequences. The economic consequences derive from the waste of the public money invested in their educative process (i.e. arts schools and universities, grants at the national and European level, and so on). Furthermore, these young people will pay a huge personal price if they will not find any possibility to develop in some way their vocation. So far, even if a young professional could not get the job of his dreams, he could nevertheless find a different occupation in the cultural sector. Nowadays, this is increasingly difficult. Thus, social problems like unemployment, identity misperception and lack of social cohesion have been constantly rising.

**Perspectives and challenges**

Our society is not yet fully aware of the implications of the current economic crisis on its future. This breaks its capacity for dealing with the global challenges through long term strategies. In this context, the cultural sector is a weak actor. Artists, curators and even cultural administrators frequently behave in a self-referential way, pursuing their mission with an autonomous approach. They justify any financial deficit on the basis of the importance of artistic quality, of creativity and of heritage conservation. Hence, the crisis is perceived as a temporary and external constraint. They are waiting for the end of the crisis and for the recovery of the previous levels of public funding. Instead, this is a structural crisis, and we should face it through a radical change of the strategies and management systems.

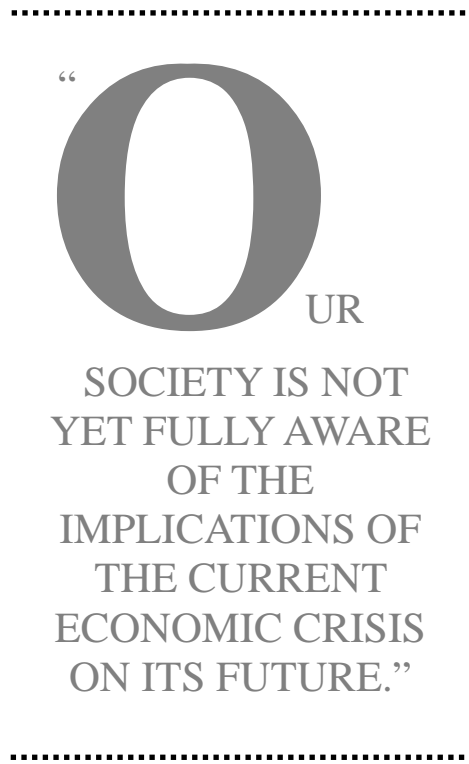
The history of cultural policies is deeply related to an elite of professionals and scholars who have saved our common heritage and created and promoted artistic projects and organizations. They lobbied for the development of cultural policies in their countries and, due to their vision and interests, focused basically on the advance of activities and initiatives in the field of arts and heritage. Nowadays, the main stakeholders of public cultural agencies are the representatives of the different sectors involved. Some artistic directors, curators and producers do not take into great consideration the needs and the requests of

the community when they decide their cultural programs. This clarifies the lack of citizens' involvement in defining the priorities of the potential cultural activities. Furthermore, this might explain the low perception of the public value of culture by large parts of the population, who declare only a rhetorical support to arts and heritage.

In general, cultural organizations have not developed advanced performance measurement systems that highlight both cultural/economic performances and the external impact on the territory (Turbide and Laurin, 2009). This is particularly evident in the case of not-for-profit and public cultural organizations. This attitude could be explained by different factors: a) the intrinsic difficulties in measuring a symbolic value (Donato, 2008); b) the frequent inability to define the mission and the strategic goals, and consequently the difficulties in setting up a consistent performance measurement system (Kaplan, 2001); c) the presence of governance systems that are little oriented to the stakeholders, resulting in less attention to the external communication of the performances (Freeman, 1984). Furthermore, some curators and artists believe that their cultural productions are so innovative or excellent that their value could

never be caught by any standard performance measurement system. In some cases, the situation is even worse. Sometimes the measurement is not carried out in order to avoid signalling a balance deficit. Indeed, in such cases the personal interests (prestige, career, salary and so on) are related to the magnificence of the projects, even though the available financial resources are not sufficient. However, we must admit that the conventional performance measurement systems have been designed bearing in mind for-profit industrial companies. Thus, there are difficulties in making them consistent with the characteristics and information needs of cultural organizations (Ames, 1991). Therefore, there are responsibilities, as well as big challenges, for cultural politicians and for cultural management researchers.

To summarize, the crisis could be overcome only through a radical change in the current governance and management models. As for the governance models, they vary in each country on the basis of the institutional and legislative frameworks, the social values and the organizational cultures. A leading role is played by the financial funding mechanisms that strongly influence the behaviour of the single actors. Nowadays, the decrease of the public contributions



makes it necessary to restructure the size and the priorities of the cultural sector (Merlo, 2011). However, this collides with the current governance models and values. The different subjects (organizations and artists; not-for-profit institutions and for-profit companies) use their traditional strengths and connections only to defend their individual positions and interests.

Hence, a change is requested both at an institutional level (policy) and at an organizational level (management). As for the cultural policy level, some decisions have to be taken urgently. There is an on-going tension between contrasting forces: centralization versus decentralization; organizations' dependence versus autonomy; general objectives versus specific objectives; extrinsic goals versus intrinsic goals. In this context, the key factors to successfully overcoming the crisis are: a) building decision-making processes that should be fluent, non-bureaucratic and participatory, and at the same time able to combine responsibility with autonomy; b) moving towards a long term strategic approach defining policy and organizational priorities.

Traditionally, the total amount of the public resources invested in arts and heritage depends on the perceived value of the activities and projects proposed by the cultural sector. In times of general reduction of the welfare state, and consequently of the public funds to this sector, each community needs to (re-)evaluate the role of culture for its development (Sen, 2001). Before the crisis the cultural sector was in an overall financial sustainable condition since the public contributions (together with other revenues) were enough for the existing cultural activities and projects<sup>3</sup>. Nowadays, the cultural sector is no longer in a financial sustainable condition, and it is strongly unlikely that it will be in the future. However, even though the public contributions are deeply decreasing, the cultural sector is trying to maintain its dimension.

Adaptation to less financial resources could be reached in two opposite ways: competing or cooperating. In the first option, each actor fights to survive trying to keep its funds at the expense of the others (as a result, the weakest ones will disappear). In the second option, the aim is to establish priorities and to look for the best strategies to increase productivity and non-public revenues. In this case, a participatory approach should be sought to decide on the level of priorities. Furthermore, a change of the governance system would be requested in order to reduce the costs of each project and of each organization (and consequently the whole costs of the sector) and to enhance their revenues. We believe that this could be reached only moving from the current micro-perspective approach to a multi-scale approach capable of combining the "micro" and the "meso" level. That would mean that cooperative and network systems should be promoted both at a territorial and at a sectorial level in order to share the

structural and operational costs of single organizations. Moreover, the cooperative system would allow the cultural organisations to reach the critical mass necessary to increase the non-public revenues (commercial, fundraising, membership, box office, target related projects, etc...). We are fully aware of the difficulties implied by these institutional and managerial changes, but new structural frameworks can be accepted only in situations of severe difficulties, as this one is.

Hence, in a multi-scale approach the "meso" level allows reducing costs and increasing revenues. Nonetheless, the change should occur at the "micro" level too. The main challenge is to build the management system around knowledge and competences instead of around tools and techniques. In this perspective, some possible actions should be encouraged:

a) Improving the decision-making process. In this respect, the focus should be on designing adequate internal responsibility structures, developing performance measurement systems, promoting participatory approaches towards the local communities and the other involved stakeholders.

b) Stimulating organizations to cooperate with other subjects. Referring to this point, a networking culture should be promoted, public-private partnership should be increased and higher transparency should be pursued.

c) Addressing the on-going process of technological innovation using these innovations to develop new business models that could be shaped around market opportunities and challenges, as well as around people's expectations.

The improvement of the European cultural sector will derive from its ability to exploit its enormous potential. The creative industry is already generating the 2.6% of the European GDP (European Commission, 2010). The production and distribution of cultural contents through digital platforms could be a great opportunity to develop new markets and to improve the occupation levels (KEA, 2006). Moreover, culture plays a fundamental role for strengthening social cohesion and for developing local identities by means of participation processes. Thus, culture could acquire growing importance both at the economic and at the social extrinsic side. These sides are interconnected and could generate a multiplier effect.

## Conclusions

We are living a structural crisis, a crisis that is based on the lack of reliability of the current social, economic and political systems. The majority of the cultural actors, as well as the majority of the other social stakeholders, are not entirely aware of the changes that the crisis will provoke on our future.

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<sup>3</sup> Even if it could be questionable whether all the cultural projects were worth public contributions or not.

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However, deep crises offer a great opportunity for improvement when people and institutions are fully conscious of their potential for change.

A pessimistic approach interprets the cultural sector as a weak and inefficient one, unable to create shared collective values. The downsizing of the welfare state will decrease cultural public funds and will probably not allow for the survival and development of many interesting arts and heritage initiatives. Many organizations are suffering from myopic vision and internal operational inefficiencies. This could lead to a smaller cultural sector, composed of a mix of commercial and elitist cultural organizations. Unless a multi-scale approach based on cooperation and joint strategies is established, only the biggest and most connected organizations will survive (i.e. already settled institutions, market-oriented projects, and experienced professionals). Besides, the youngest generation of professionals and the avant-garde organizations will disappear.

An optimistic approach interprets the crisis as a great opportunity for a structural change of the cultural sector, both at the policy and at the organizational level. A real improvement of the governance and management models is necessary to overcome traditional inefficiencies. Moreover, trans-sector and international cooperation could lead to a new development of the sector. However, some relevant modifications of the management approach are needed: to get over the traditional ego centrism, to implement non-bureaucratic and participatory decision making mechanisms, to build the management system around knowledge, transparency and competences, and to adopt long term strategic thinking.

Our goal is to promote a critical debate among professionals and scholars on the crisis’ impact on the European cultural sector. Nowadays the sector is facing a very relevant challenge. The main actors of the sector should interpret the crisis as an opportunity instead of a threat, in order to continue to be the forth pillar of development (Hawkes, 2001). More focused research on this sector and on the performances of

cultural organizations are requested. In times of crisis, understanding present conditions and the on-going trends are crucial points for positively facing the current and future challenges. As part of the research community, this is one of our main responsibilities towards the cultural sectors.

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