

# The Income Standard for the Performing and Visual Arts in the Netherlands

A Simple Indicator of Financial Performance or a Transition to Another Mode of Supporting Non-profit Organizations?<sup>1</sup>

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## 1. Introduction

In the past three to four decades, phenomena such as privatization, diminished levels of state support and increasingly intense accountability claims have been a red thread throughout arts policy in many European countries. A results-based management style has become the norm by which non-profit organizations in the arts are funded, to the extent that the systematic measurement of the performance of arts organizations in economic and managerial terms has become a characteristic of the state's relationship with arts producers (EVANS 2000). Performance indicators are the primary tools for measuring the compliance of organizations to government's implicit demands and explicit requests. In this regard, the International Federation of Arts Councils and Culture Agencies (IFACCA) even referred to a 'cultural indicators agenda' (IFACCA 2005). At the backdrop of New Public Management (NPM), arts policy has often been devised around regimes of monitoring and evaluation; frequently, this is because, in this manner, claims of the impact of the arts can be substantiated (BELFIORI 2002; JOHANSON et al. 2014). Regardless of their preoccupation with the economic and social value of the arts, or its value for money, central governments in many countries are preoccupied with the financial performance of the recipients of public funds. Probably the most prevalent indicator of the financial performance of arts organizations is their ability to attract private funding. Substantial mixed financing has become a formal requirement of many governments for arts institutions and organizations:

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Government agencies that support the activities of non-profit organizations are increasingly turning to funding mechanisms designed to leverage increased private support as an important component of the government's public policy vis-à-vis the non-profit sector.

However pertinent this expression may appear to be today, Mark Schuster phrased it as an introduction to an article he published 25 years ago about the effectiveness of matching grants (SCHUSTER 1989: 1). Whereas the matching grant became the dominant mode of distributing government resources in the US, continental Europe has never shown much proclivity toward the principle. Recently, however, the Dutch government introduced the so-called 'income standard' that may be a precursor of a different mode of financing non-profits in Europe.

In the present contribution we explore the income standard as a mechanism to leverage private support for the arts and discuss some of its potential implications. Our discussion proceeds along the following lines: after framing the inclination to use performance evaluations of non-profits as the consequence of New Public Management and neo-liberalism, we develop a hands-on conceptual scheme of performance indicators in the arts; then we explain the mechanism underlying the income standard, specifically in relation to the matching principle, and we identify some of its implications for non-profit arts organizations. The article is based on the premise that the Dutch income standard is an indicator of financial performance in the eyes of its developer, the central government of the Netherlands. Although the Dutch developer has made explicit part of its rationale with regard to the introduction of this new instrument, we have had to infer the underlying principles and the consequences of the mechanism.<sup>2</sup> As such, the present writing is a critical, interpretative approach to policy, and specifically to 'the discourse of measurement and public accountability' (JOHANSON et al. 2014: 44).

## 2. The introduction of performance measurement against the background of New Public Management

In the 1980s an increasing emphasis on performance assessment coincided with structural and administrative changes in the public sector of many Western countries. This far-reaching administrative reform, in-

2 Our approach resembles that of Schuster (1989), a manuscript that has been a major source of inspiration.

troduced in order to ameliorate government bureaucracy and reduce public spending, became known as 'New Public Management' (NPM) (DUNLEAVY/ HOOD 1994). A major premise of NPM was that policy development and policy implementation should be separated, and that the latter should be left to the market or to (semi-)autonomous organizations operating in a quasi-market environment. Underlying this was the idea that these parties would be better able to achieve three ultimate goals: efficiency, effectiveness and economy (VAN THIEL/LEEUEW 2002: 177). Ever since this reform, in many domains of the public sector, a results-based orientation replaced input management. Private-sector techniques for measuring and evaluating performance were adopted by the public sector, with the aim of rendering policy implementation more effective and efficient (VAN THIEL/LEEUEW 2002). The performance of public administration would, from that time, commonly be expressed in terms of performance measures such as the number of goods produced or services offered (VAN THIEL/LEEUEW 2002).

Two broad trends prevail in the explanations for the growing promotion and use of performance measures in the public sector (TOWNLEY/COOPER/OAKES 2003): one explanation sees performance measurements as a means of achieving a managerialist rationality through steps such as the introduction of market principles into government bureaucracy, consumer orientation, entrepreneurial management, a reduction in the size of the public sector and cutting its expenditure (POLLITT/BOUCKAERT 2011; TOWNLEY et al. 2003). The second line of reasoning explains recent reforms as a reflection of the rationalizing of government through 'planning'. By introducing performance measurement in accordance with systematic planning, it was thought that transparency and objectivity in politics would prevail over arbitrariness and nepotism.

Both the managerialist and the planning rationale may reflect the political mentality of neoliberalism. After several decades of welfarism, some liberal principles were reactivated, including scepticism over the capacity of political authorities to govern, and vigilance over their attempts to govern (ROSE/MILLER 1992). From the 1980s onwards this political rationality would adhere to programme accountability and control, in order to optimize resource allocation processes and furnish external users with information about the outputs and outcomes of public-sector organization (COLCLOUGH/MANOR 1993; LITTLE 1982; SMITH 1993; POWER 1997). In neoliberal modes of government much attention would be given to 'numbers' that may have a 'privileged status in political decisions' by purporting to act as objective mechanisms

for prioritizing problems, making judgements and allocating scarce resources (ROSE 1991: 673); and to ‘measures’ that are considered more powerful than words due to their reproducibility, durability and communicability (TOWNLEY et al. 2003).

### 3. Specific transitions in the arts

Influenced by the NPM movement, aspects of government that in welfare states had traditionally been a political responsibility were transformed into commodified forms and became regulated according to market principles (ROSE/MILLER 1992). Hospitals and the healthcare sector typically are featured as examples of these privatization programmes, but the arts, traditionally regarded as embroiling an antithetical relationship between creativity and management (TOWNLEY/BEECH 2010), have in the past three to four decades also become subject to efficiency, effectiveness and economic criteria. The provision of major theaters, concert halls and museums with a more independent ‘agency’ status is one illustration of the policy of privatization that has been implemented in many European countries: a cultural facility that used to be a part of public administration and governed by state functionaries came to be reorganized into a semi-autonomous non-profit organization with managerial control. Windey, Bouckaert and Verhoest (2008) find that these cultural amenities were traditionally not managed but administered, and that this previous regime was merely based on trust in professionals within a classical administration or bureaucracy. Nowadays, however, these cultural amenities, more independent as they are, continue, to a large extent, to function upon taxpayers’ money. They are still considered to be delivering services to the community; but they are also believed to be encouraged to set higher standards of service at a more competitive price (BELFIORE 2004). In order to hold them accountable for public funding, against the background of the NPM developments, they have been subjected to a shift from input- to output-oriented controls (WINDEY et al. 2008).

In addition to these (mostly large) cultural institutions, smaller organizations under private, non-profit auspices foresee cultural supply. These arts providers may also receive state support. In continental Europe, a large part of the cultural offering is developed in this way: at arm’s length, with subsidies covering a substantial share of general exploitation costs. Against the liberalisation and privatisation trends of

NPM, with reductions in public provision and public spending, many non-profit providers of the arts have seen their subsidies evolve into a form of contract or a 'service level agreement' (EVANS 2000). Furthermore, they have become subjected to the data collection liabilities required by evidence-based policy making (BELFIORE 2004).

#### **4. Performance indicators in the arts**

The preference for numbers and measurements in decision-making and planning has led different sectors of society to introduce statistics and indicators as measures of performance. Whereas statistics merely 'describe', an indicator 'implies' something. The array of possible indicators of performance is wide: they can relate to a macro-level (sector, industry, country, etc.) or a micro-level (organizational, individual) of analysis; to distinct parts of the range of performance; and they may have different goals.

##### **4.1 Indicator types**

Major stakeholders such as funding bodies frequently prioritize accountability and economic performance, at both the sectorial and the individual level of organizational activity. A distinction can thus be made between indicators at the macro-level of analysis and indicators at a micro-level. At the macro-level, these indicators can comprise the positive external effects that are generated by arts and cultural activity in general, or measures of the income and value added value-add by cultural industries, or of the rate of employment in cultural and creative occupations. Also, household preferences and spending patterns in these fields come to mind as examples. These data are typically collected in studies that quantify the impact of the arts and creative industries to the economies, workforces and tourism markets by means of Keynesian multipliers of income and job creation (HUGHES 1989). Official statistics and the results of participation surveys at the national or local level also provide data at a macro-level of analysis. These are, by convention, referred to as 'cultural indicators' (SCHUSTER 1997).

The focus of the present text, however, is on the performance of individual organizations. At this micro-level of analysis, indicators typically address the effectiveness, efficiency or other performance dimensions of individual organizations. A characteristic of indicators in general, and

specifically of micro-level indicators, is that they can be related to the entire range of performance: from inputs over activities and outputs to outcomes (LAND 2001; WINDEY et al. 2008; see table 1).

First, at the input level, indicators include the resources needed to produce goods or services, such as capital, labour and technology. A typical performance indicator then reflects the accountability of an organization, which can be conceived of as acquiring and managing resources in a legal and financially correct way. This may also imply that resources are managed in an economical way, avoiding waste and diseconomies (WINDEY et al. 2008).

Second, at the activities or throughput level, indicators refer to the ways in which activities are organized and resources are managed. Here they may refer to the efficiency of back office. In cultural disciplines they will say something about the ways in which the arts are produced, distributed and presented.

Furthermore, at the output level, indicators of both the output produced and the output sold can be determined. As an example, performing arts organizations combine labour and capital inputs with a certain technology to produce output (THROSBY 1994). The output of these performing arts organizations can be conceived of as productions (the setting up and integration of various components such as people, props and dramaturgical decisions into the single interpretation of a script) or as performances (the repetitive process of staging the same production). All numbers of new productions, numbers of visitors, sales figures and the circulation of artistic productions are potential output indicators.

The last category related to the outcome is the most difficult to grasp. It is clear that the outcome of an organization's services, activities or mission may stretch beyond the mere use or consumption of goods. Outcome indicators may focus on the characteristics of clients and their satisfaction with the cultural experience (LAND 2001). They may also reflect the effect of an organization in, and on, society. This effect or impact has been labelled the 'social performance' of an organization and can be indicated by means such as population coverage, reputation levels and the size of donations (WINDEY et al. 2008). Land (2001) further discerns 'side-effect indicators' that relate to the impact of a non-profit service delivery on users' overall subjective well-being or quality of life, of which the measurement is a task fraught with difficulties (see e.g. BELFIORE 2002).

level of analysis dimension of organizational activity	<b>micro</b> (organization)	<b>macro</b> (society, nation...)
<b>Inputs</b>	capital labour technology	
<b>Activities</b>	production distribution presentation	
<b>Outputs</b>	goods services (number of productions, performances...)	
<b>Outcomes</b>	user satisfaction social performance side-effects	

Table 1: *Scheme of the dimensions to which performance indicators can relate.*

Generally, the inputs to non-profits are much easier to capture and assess compared to their outputs or outcomes (WOLPERT 2001). The outputs and outcomes of organizations that are for-profit are more clear-cut compared with the outputs and outcomes of non-profits (DiMAGGIO 2001; BOGAERT et al. 2014). Indicators can come as clear numbers, but regularly they take the form of ‘ratios’ (WINDEY et al. 2008). A ratio is a proportion measure of proportions, in which two or more facts (that often stem from financial reports) are related to each other. In profit settings, typical ratios are ROA (return on total assets), ROE (return on equity) and labour productivity (added value divided by the number of employees). These are less informative in a non-profit setting. In the cultural field, cost indicators such as cost per audience member, cost per performance and the like could be more instructive ratios. The advantage of ratios is that they make absolute numbers more explanatory by relating them to other numbers; they win informative power because they can be compared both across subsequent years and across similar or competing organizations.

#### 4.2 The purposes of indicators

Indicators are mostly purposive: they are developed for a specific reason. Their developers are often the management of the organization itself, but more often the legislator or a major financier. Indicators typically come with a target, as a floor (a required minimum) or a ceiling (a re-

quired maximum), or else as a range within which measures need to fall (SCHUSTER 1997). The use of indicators stretches over the following applications:

- 1) for description, for the sake of collecting information;
- 2) for monitoring, to track any outcomes that may require policy intervention;
- 3) for goal-setting, in terms of establishing quantifiable thresholds to be met within a specific timeframe;
- 4) for outcome-based accountability, which holds managers, agencies, governments and communities accountable for improving social well-being and for meeting established goals; and
- 5) for evaluation, to determine which programs and policies are effective (or not), and why (BROWN/CORBETT 1997; IFACCA 2005).

Schuster (1997) has articulated that indicators are sometimes also designed to affect and contaminate the behavior of organizations, whilst Belfiore (2012) has suggested that they may be used in both 'positive' and 'defensive' 'instrumental' ways.

##### **5. A new performance indicator in the Netherlands: the income standard**

In the Netherlands, the central government has recently developed a so-called 'income standard'. This indicator of financial performance at first sight reflects the ambition of policy administration to sustain a cultural offering, but at a low cost. Politics related to arts and culture not only involve the 'advocacy' of public intervention for the arts, but also consider the 'size' of the support.

As a principle, co-financing has been defended with different arguments by a 'swelling chorus of advocates of earned income as a solution to the arts' ills' (DiMAGGIO 1986: 84). From the vantage point of the government, concern may surround the premises: first, that public support may supplant private money that would otherwise have been given in the absence of government support (the idea of 'crowding out') and, second, that government involvement in the arts would lead to unlimited financial demands unless its financial engagement could be limited (SCHUSTER 1989). An alternative view is that the diversity of funding is supported because of its aptitude to minimize political involvement

in the arts and because it may increase organizational survival (SCHUSTER 1989).

Political attitudes of the day, and crises, such as the Global Financial Crisis of 2008, may move towards a critical allocation of public funds and eventually budget cuts, to which cultural and artistic suppliers commonly raise little opposition. Many non-profit providers of the arts have come to rely heavily on public support, with proportions of subsidies amounting to 70% to 90% of total income, as shown not only for the Netherlands, but also for countries such as Germany, Austria, Switzerland and the United Kingdom (KREBS/POMMEREHNE 1995; LAST/WETZEL 2010; VAN KLINK/VAN DER BORN/VAN WITTELOOSTUIJN 2011; ZIEBA 2011). In many different countries during the past few decades, arts organizations have been urged to increase their market income. That is, they are expected to rely increasingly on earned income and the economic marketplace, and less on public subsidies. In order to realize these objectives, the Dutch central government has introduced a performance indicator.

The offspring of this Dutch NIBIS-standard<sup>3</sup> that stipulates that a minimum percentage of self-earned revenue should be raised goes back to the early 1990s, when the former social democrat Minister of Culture introduced the so-called ‘profit principle’:<sup>4</sup> performing arts organizations that would claim structural subsidies should be able to achieve self-earned income of at least 15 %. They must be able to do so by selling additional seats, raising ticket prices and closing commercial deals, as with radio and television (VAN MAANEN 1997). Up to 2009 the proposition to introduce standards recurrently upset the Dutch cultural field, which always led to considerable contestation. Eventually, in 2009, the central government resolved to support structurally only those cultural institutions in the performing arts whose existence would be sustained by substantial mixed financing. In 2013, the regulation was extended beyond the performing arts, and the self-earned revenue of all eligible organizations should, by then, be 17.5 %. A standard consisting of two components was negotiated between the government and the cultural sphere: a minimum standard and a growth standard. The minimum threshold of 17.5 % became a formal barrier to entry into the subsidy

3 NIBIS (in Dutch: *Nieuwe Inkomstennormen Basis Infrastructuur* [New Income Standard Basis Infrastructure]) is the name of both the standards and the working group that has developed them.

4 *Het profijtbeginsel* [the profit principle] as exposed in the *Nota Cultuurbeleid 1993-1996* (WVC 1992).

system for the basic infrastructure 2013-2016 (HOEVEN 2012). This ratio reflects a minimum proportion of income that organizations should realize themselves, including audience revenue and sponsorship. Absolute minimum standards require that organizations below the minimum make an effort. A growth standard of 1 % per year accompanied this minimum standard. By these relative standards, organizations were forced to improve their market earnings annually. The regulation includes that by 2016 institutions are expected to make an effort to obtain a level between 21.5 % and 30 % of self-earned income. This corresponds to a growth, on average, of 1 % per year, or at least 4 % during the subsidy scheme of 2013-2016; institutions that attained 17.5 % in 2013 will have to attain 21.5 %, whereas institutions with self-earned revenue of 26 % will have to see an increase to 30 %. Institutions that have been able to realize 30 % self-earned revenue in 2013 are exempted from the growth standard.

The NIBIS-standards are compulsory for all culture-producing institutions within the *Basic Infrastructure*. These are organizations for the management of which the Dutch nation feels, in part, accountable; until 2013 they included theater, opera and dance companies, festivals with an international appeal, production stages (for theater, music, dance, etc.) and centers for the visual arts and exhibitions. In addition, some organizations that focus on the ‘development’ of the arts<sup>5</sup> were covered by the early regulation. In 2013 museums and orchestras also became subjected to the regulation, leading to a total number of approximately 140 organizations.

## 6. The political rationale underlying the Dutch income standard

The income standards in the Netherlands are explicitly considered as indicators of cultural entrepreneurship (CULTUURPROFIJT 2008: 13). The standards belong to a bundle of measures that is intended to ‘stimulate cultural institutions to strengthen their connections with their audiences and other societal domains, to find new sources of financing and by this to improve their support from society’ (PLASTERK 2009). The elaboration of additional policy instruments – that were for a long time restricted to subsidies – is a priority of the current Dutch ministry

5 Their focus is on innovation, the development of the discipline and talent development.

of Culture. The NIBIS standards have been developed in a difficult economic period. The central cultural government needed to yield a saving of € 10m in the cultural sphere. But instead of an instant reduction of subsidies, it focused on extra earnings from private sources. The calculation had been made that a yearly injection of €10m would lead to a growth of the sector, targeted at € 160m (of aggregate market income) per year (CULTUURPROFIJT 2008: 17).

On the one hand, then, the Dutch proposition illustrates the tendency towards withdrawing direct ministerial intervention. On the other hand, it clearly reflects not only the expectations of the government vis-à-vis the cultural field but also its commitment. A recent theme of the political agenda in the Netherlands has been *Culture and Economies*, which aims to reinforce the economic potential of culture and creativity by providing impulses to the creative capacity of the nation (OCW/BOEKMAN-STUDIES 2007: 165). One dimension of this agenda has been to provide the cultural sector with a 'larger awareness of market opportunities'. The income standard may therefore be considered to be an instrument with which to leverage additional non-public resources. Also, leaving out a direct reduction of subsidies illustrates the belief in the capacity of the cultural sphere to generate (more) value for money.

## 7. The composition of income standards

The Dutch income standard is a ratio. A ratio is a fraction that consists of a numerator and a denominator. The numerator of the Dutch ratio is 'earned income'. For non-profit organizations in the arts, four main categories of income can be discerned. The first consists of revenue directly related to core activities (sales of tickets, books and recordings, drinks during performances, co-productions, etc.) and sponsorship; a second category comprises indirect revenue that has no relationship, or only an indirect one, to core activities (as in the rental of real estate); third are public (structural) subsidies from government; and fourth are other subsidies or contributions, such as those stemming from public or private foundations or the European Union, gifts, donations and legacies. Earned income (categories 1 and 2) is total income minus subsidies (categories 3 and 4). There is a natural liaison between the magnitude of public support and the level of earned income, because together they make up the total income of an arts organization.

A ratio implies a denominator, too. The most intuitive denominator for an income standard would be ‘turnover’.<sup>6</sup> As such, the self-earned revenue would be expressed as a share of total revenue (CULTUURPROFIJT 2008: 17). The standard then would indicate the percentage of earnings that organizations would have to realize themselves and, conversely, how much, at most, the government would contribute. However, with the total amount of structural subsidies as the basis for the ratio, the Dutch income standard indicates how much organizations will have to realize themselves in relation to subsidies, regularly expressed as an amount per Euro subsidy (CULTUURPROFIJT 2008: 17). Where the latter ratio can be labeled a ‘market income match’, the former is best understood as a ‘market income share’ (see table 2).

	<b>ratio</b>	<b>description</b>
<b>market income share</b>	Market income/total income	The proportion of the budget carried by the market
<b>market income match</b>	Market income/subsidies	The match from market origin to government support

Table 2: *two types of income ratios.*

Given a stable subsidy amount over a four-year time frame, the only way for Dutch organizations to perform according to their commitment with the government would be by raising their own income.<sup>7</sup> The government has put this forward very clearly through the introduction of an absolute and a growth standard. If the government were to reduce its financial support to each single organization, those actors with either a stable or an increasing market income would still comply with the imposed regulation. In this way, a ‘punishing’ mechanism is intrinsically part of the standard: by lowering the subsidies to an organization that does not succeed in accumulating market revenue, it will still reach the threshold of the income standard. By developing a dynamic standard, and by injecting a one-time additional sum in arts policy, several organizations are being forced to find additional market resources. This can be illustrated by the following example. Imagine an organization complying with the norm, by being granted 100, to which is added 17.50 of market revenue. If this organization would receive an increase in public funds, such as

6 Turnover is here used an equivalent for total revenue, and for the sake of simplicity also for total expenses.

7 The principle of matching grants is typically explained by reversing the two budget parts: the government agrees to match at a specific ratio contributions to the arts from other sources of funding (SCHUSTER 1989).

110, this would mean that it would have to realize 19.25 own income to maintain the standard of 17.5 %. So by this dynamic perspective, to which an accrued budget is dedicated, the Dutch government has developed a measure that not only aims at the complementarity of government expenditures and market-financed contributions, but also includes a mechanism to realize a gradual change in an endowed organization's income distribution.

### 8. Has the Dutch government, through its income standard, introduced a matching principle?

Most subsidies to non-profit arts providers in continental Europe are what Throsby and Withers (1979) term 'revenue grants'. The magnitude of these grants can be determined in different ways, but mostly lump-sum grants are path-dependent and not unambiguously related to an organization's level of production or output, even though their effect would be to raise the quantity and/or quality of the output (THROSBY/WITHERS 1979). Schuster (1997) speaks of 'deficit financing', in which government picks up the difference between costs and revenues, a gap that in many Western European countries has become as high as 90 % of total costs. A drawback of the funding through revenue grants is that recipient organizations may be discouraged from seeking alternative sources of funding (THROSBY/WITHERS 1979).

Matching grants, conversely, do relate to the output. The subsidy amount is here a match to revenues based on ticket sales or the total amount of money that was tapped from the marketplace or from private donations.<sup>8</sup> In the case of matching grants incentives are created that are absent in the case of a lump sum subsidy (HANSMANN 1981): organizations have a stronger incentive to attract market income by raising ticket prices or addressing additional market parties that are not per se visitors (e.g. sponsors).<sup>9</sup>

The new Dutch income standard can be conceived of as a market income match of self-earned income to subsidies. The switch from allocating lump-sum subsidies to matching grants can be considered as a

8 Hansmann (1981) refers to it as 'admission subsidies'. The number of tickets sold (or of seats taken) could be considered as the output of an organization; however, in this context, we prefer to approach it as an input of resources that stem from the market.

9 Matching grants are often related to projects or programs, rather than to the financing of structural operations of organizations.

step towards realizing the economizing aims of the Dutch policy maker. The income standard can be understood as a ‘co-financing mechanism’ that, according to Schuster (1989), was the first, albeit implicit, form of a matching grant. The idea of a co-financing agreement is that private funding sources are expected to match or complement a federal grant. So the total budget of an organization is composed of one fraction stemming from private resources and another fraction stemming from public sources. It is commonly expressed as a euro-to-euro match, or as a ratio of public to private money (or the inverse). As revealed earlier, the Dutch government simultaneously installed a minimum and a temporary growth standard. The mechanism underlying the latter resembles what Schuster (1989) has labeled a ‘challenge grant’. Programs developed around challenge grants are targeted at rising private support, so contrary to co-financing they will only match new or increased support. In these programs, the government will more or less automatically match an organization’s newly-attained resources (SCHUSTER 1989).

It has been asserted that the arts had been the first sector to experience the movement of government intervention towards the matching principle. The reason for this is that it was believed that the appeal of the arts to private donors could be exploited by installing a matching mechanism (SCHUSTER 1989). The matching principle became the dominant mode of distributing government resources to the arts in the US, where private giving and tax exemptions are commonplace, whereas many European countries – where the government remains the major supporter of the arts – adhered to the lump-sum subsidy. The main principle behind a matching grant is that the mechanism underlying it can cause a multiplication of limited resources. In the case of donors that already have the incentive to invest in the arts, in the presence of a match from government they are triggered to do so, because the marginal benefit of each monetary unit invested would (through to the match) exceed this monetary unit (SCHUSTER 1989). In this view, matching grants are likely to be more effective in attracting contributions from corporations or lower levels of government, because the matching benefit may be delivering more direct returns to these parties and may be easier to communicate.<sup>10</sup> Matching grants are less likely to increase earned income from audience fees, because they do not provide any incentive for consumers to consume either more or more often (SCHUSTER 1989).

10 The matching principle makes an investment in the arts more attractive than it would be without the match, because the attractiveness and/or quality of the artistic supply is thought to improve by additional money from the government.

The Dutch standard is then devised to primarily suit the receivers or pursuers of money and not the (potential) supporters of the arts: it has not been developed to maximize the attractiveness of contributions by private parties or other levels of government – as a pull –, but rather to minimize state contribution by coercion – as a push. So it may not meet its potential to generate additional private support, owing to the lack of a clear, stimulating rhetoric directed toward private donors. Even more, the climate in which the standards have been introduced and the tenor of media reports on the budget cuts that have penalized the arts, have doubtfully encouraged private parties to save the arts' ship from sinking.

So, an essential dissimilarity between US challenge grants and the Dutch matching grants is that the latter have been developed to challenge arts organizations to find contributions from the market space, without encouraging private parties to give. Another distinction is found in the relative magnitude of the proportions of government and market contributions. Where a match typically comes as a one-to-one contribution (SCHUSTER 1989), the co-financing principle in the Netherlands comprises a € 10 federal contribution to between € 1.75 and € 3 self-earned income.

### **9. To conclude: Income standards and the non-profit form**

In the Netherlands, income ratios have been created to encourage cultural entrepreneurship among subsidized amenities. Underlying this are the points of view that market opportunities for supporting the arts are, by far, not exhausted, that audience contributions can be further exploited and that a means of succeeding against these challenges is the exertion of some pressure by the government. Dutch policy-makers have stressed their proclivity for stimulating organizations, not only to find additional market income, but also to 'strengthen the connections with the audience and other societal domains' (PLASTERK 2009).

The combination of these two distinct goals may be counter-productive, if by raising audience fees and installing additional costs to users organizations ward off their usual customers who may not have either the capacity or the willingness to pay higher prices. Moreover, by waiving audience development these arts organizations may forego new potential users. Since the Dutch government does not stipulate the ways in which organizations can or should achieve the threshold of the income

standard, arts organizations can follow one of three strategies to comply with its economizing claims:

- 1) By an increase of income from activities related to their core missions: museum admissions, membership fees, single-ticket sales or subscription formulas, or television and recording projects.
- 2) By an increase in unrelated business income: sales of gifts and consumer goods, even real estate business.
- 3) By a reduction on the cost side: downsizing cast sizes, alleviating production standards and reducing performer salaries (DiMAGGIO 1986).

The Dutch income standard is very explicit in its claims to increase earned income. Increasing market revenue solely at the expense of the user may not be the preferred strategy of non-profits. For many arts providers, uncertainty about the effects on demand of an increase in admission prices remains a persistent obstacle to price changes. Indeed, customers may be sensitive to price changes or be confined to competitors in the narrow or broad sense of the word. User fees have been called a 'double-edged sword': the revenue may help to solve the finance problem, but higher prices may keep away individuals or social groups whose participation is significant to the mission of the organization (WEISBROD 1998). In this manner, a performance indicator that is related to the inputs of an organization may still have implications for its outcomes.

Input-based performance indicators may affect the range of activities by endowed organizations, too. A promising avenue for some organizations may become the installation of ancillary profit centers, even in unrelated business activities. The setting up of bookshops in museums has been encouraged by government, and nowadays customers expect major theaters to quench their thirst by installing a bar or a cafeteria. When the latest model of the luxury car segment is on display in a museum, many eyebrows are raised.<sup>11</sup> Yet it is common knowledge that when goals are difficult to achieve, they ought to be replaced by goals that can be achieved (DiMAGGIO 1986). This form of 'goal displacement' or the neglect of the major objectives of organizations in favor of the means as ends in themselves (MERTON 1968; WARNER/HAVENS 1968), may endanger the existence of the non-profit form, which occurs precisely because government and citizens support the conviction that some vital

11 The *Stedelijk Museum Amsterdam* with its space sponsored by a German car manufacturer is an example.

social goals should not be left to the market to determine (DiMAGGIO 1986). This is no better explained than by Weisbrod (1998):

New commercial activities are the major path open to nonprofits to generate additional revenue; and once nonprofits enter the realm of finding salable outputs, they are in the domain of private enterprise, where selling goods and services is the preeminent source of private-sector revenue. Nonprofits that pursue revenue in the same ways that private firms do are likely to emulate those firms, and by becoming more like them may undermine the fundamental justification for their own special social and economic role. To what extent this occurs is important for public policy, since the justification for the subsidies and tax exemptions to nonprofit organizations hinges on nonprofits' differentiation from private firms (WEISBROD 1998: 9).

It has long been acknowledged that performance assessments of nonprofit organizations pose particular problems, the most persistent of which are the lack of consensus as to the output and objectives of these organizations, and the difficulty of measuring and interpreting outputs and outcomes (SMITH 1993; BELFIORE 2002). The Dutch income standard is an indicator of income distribution, and, at present, the only indicator of the financial performance of subsidized art organizations in the Netherlands. Schuster (1997) has advanced the view that indicators, which are implemented in order to change behavior, may provoke an entrepreneurial response. Only in the best of all possible worlds would that response be exactly the behavior that the developer would prompt. As a stand-alone quantitative performance measure related to inputs, the income standard may lead Dutch art providers to find solutions by developing strategies that also alter activities, outputs and outcomes, and, in the worst case scenario, that transgress the borders of ethical non-profit behavior. Furthermore, the income standard is a ratio and as such a mechanism, which typically sets things in motion.

Notwithstanding opportunities to study the strategic responses by organizations to the coercive pressures by government (enacted by the introduction of the ratio), in this text, we restrict our focus to the instrument that provokes such behavior. Future research may concentrate on the strategic behavior of arts organizations in reaction to the income standard as an indicator of financial performance in the eyes of its developer. From the vantage point of the Dutch government, mixed financing is a prime prerequisite for support. The pair of income standards, consisting of a minimum threshold and a growth standard, is the avenue along which the authorities in the Netherlands wish to proceed, as indicated by the proclamation of new minima from 2017 onward, of 25.5 % for the performing arts organizations, and 21.5 % for other or-

ganizations belonging to the BIS. A preliminary study of Dutch cultural statistics suggests that, on the aggregate level, the relative proportion of market revenue in the cultural sphere has indeed increased. Even more, the organizations that are subjected to the regulation seem to still show some financial breathing space, in that they have made efforts so that, currently, they do not hover too closely around the present and future thresholds: all dance companies, theaters, operas, orchestras and visual art centers on the average exceeded 30 % as a standard in 2011; museums oscillated around 60 %; and music organizations other than operas and orchestras had surpassed the one-to-one euro (100 %) value (OCW 2012a). Some remarks are necessary. First, these are average values; insights in standard deviations could show more about the earning capacity at the sectorial level of analysis. Second, the volatility of earned income has been recognized. As an example, museums go from 63 % in 2009, over 59 % in 2010, to 66 % of earned income in 2011, mainly contingent upon the exhibition program (OCW 2012a). These (and other) numbers suggest that a gradual linear increase of the income standard should not be taken for granted. Third, the income standards engender a selection effect. The minimum threshold excludes from support those organizations that have not been able to achieve the minimum threshold at the introduction date of a new subsidy term. So the overall picture may be distorted due to the growing average values at the transition from one subsidy term to the next.

Performance indicators are typically used for monitoring and evaluation (IFACCA 2005). At the micro-level of analysis, they could provoke changes in behavior (SCHUSTER 1997), as suggested earlier.<sup>12</sup> At the macro-level of analysis, they have been frequently used for advocacy-reasons, as for establishing the contribution of the arts to the economic and social well-being of society (BELFIORE 2004). Our analysis of the Dutch case reveals that this specific indicator of the financial performance of arts organizations may enact at least one more shift at the macro-level. By acting as a verdict, it excludes some organizations from further support, from the lack of which they perish. By creating an entry barrier to cultural production, the Dutch government instigates

12 Despite our neglect of the cost structure of the organizations under scope, it is not unlikely that organizations will become smaller if they have problems to attain the minimum threshold. This could be checked in future studies; as soon as recent data become available (OCW 2012b provides data until 2011).

an institutional selection process.<sup>13</sup> As such, government engenders ecological transitions in an arts field, by imparting to the field structural and compositional transitions. Whereas in the past several of the focal organizations had been part of the public sector and were as such sheltered from dissolution, they now need resilience and resistance to the density reduction processes that were initiated by the central government and are now at play in the arts field (BOGAERT et al. 2014; VAN DER MANDELE/VAN WITTELOOSTUIJN 2013). Future research may create insights in the profiles of organizational casualties – and in the correlations between survival and organizational characteristics; with an income standard that only considers monetary inputs, it is unlikely that the organizations that are forced to stop are those with the lowest levels of productivity or effectiveness. This brings us to another point to which future research may provide better understanding: the magnitude and composition of the audience. New modes of art participation and community involvement in the arts typify concurrent artistic production – occurrences that cannot simply be measured by box office data (JOHANSON et al. 2014). While the Dutch government seeks a larger and different audience for the cultural supply and for more involvement of these audiences (OCW 2012a; PLASTERK 2008), the organizations that are subjected to the income standard may need to raise participation fees – which suggests a goal conflict.

More profound conclusions about the salience and effectiveness of the Dutch income standard are best postponed until insights in the nature of the ‘new’ artistic supply, its producers and its users become readily available. Nonetheless, the authorities that espouse economic efficiency and encourage increased box office income in the arts may want to consider a more balanced set of indicators – or at least contemplate potential shifts in organizational behaviour and outcomes – provided that they recognize the public or merit good characteristics of an arts sector to society.

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13 Although other extant subsidy schemes may be complementary, the process remains in place.

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