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Resource dependency, costs and revenues of a street festival

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The financial position of a tourism-oriented street festival in Sweden is examined within the context of resource dependency and stakeholder management theory, focused on testing two hypotheses derived from this theoretical base. Data from a five-year period revealed how costs associated with the strongest stakeholders (that is, with the greatest bargaining power) greatly increased relative to costs associated with weak stakeholders. The festival was also more able to increase its revenues from weak stakeholders than from those in strong bargaining positions. Conclusions are drawn on how this case confirms and elaborates upon theory, particularly by applying it to the festival sector. Management implications are also drawn on how festival organizations should manage relationships when they hold strong or weak positions relative to stakeholders.

Keywords: festival costs and revenues; resource dependency; stakeholder management

This research paper applies resource dependency and stakeholder theory to the festival sector, specifically through an analysis of how power relationships and dependency on stakeholders influence the development of costs and revenues. This study looks for explanations to economic problems for festivals that are related to the structure of the festival's business network. Hypothetically, certain external collaborators of the festival may exercise bargaining power that is too

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strong for the festival, giving rise to financial difficulties. The main issue studied is whether the power structure within the festival's network influences how costs and revenues develop.

Festivals sometimes fail, and difficulties in generating adequate revenue to meet costs are typical. Because festivals and events are often important elements in a destination's attractiveness – particularly in small towns and resorts – their economic sustainability is an important tourism issue. In a study by Getz (2002), it was found that festival managers themselves regarded inadequate resources and poor financial management as possible causes of failure. In that research (Getz, 2002, p 212), 39 event organizers gave their opinions on problems that might lead to failure of their festival (all respondents were asked to think about issues or potential problems that they could relate to most closely). Out of 30 items that the respondents chose from, four of the top-ranked seven were financial in nature (that is, lack of corporate sponsorship; over-reliance on one source of money; not enough focus on making money or profit; poor control of costs). Many of the key threats pertained in some way to strategies for relationships with key stakeholders.

Stakeholder and resource dependency theories provide a useful framework for studying festival economics as it has been found that many festival organizations are financially dependent on one or more external sources, including corporate sponsorships and government grants. However, the festival sector has received very little attention in terms of economic and financial analysis, with the exception of studies devoted to assessing economic impacts (see the reviews in Allen *et al*, 2000).

Pertinent research published on festivals and events has been very limited, but includes a study of power relationships among stakeholders, employing the metaphor of a 'political market square' (Larson and Wikstrom, 2001; Larson 2002). An examination of marketing and branding the Goodwill Games through stakeholder analysis was undertaken by Merrilees *et al* (2005). Taking a broader perspective, Reid and Arcodia (undated) reviewed the types and overall importance of stakeholders in event management, including government policy.

Following a discussion of resource dependency and stakeholder theory, two specific hypotheses are formulated and applied to an in-depth case study of one street festival in Sweden. Analysis of financial data over a five-year period, combined with interviews to understand stakeholder relationships, reveals how power and dependency have affected the festival's financial position.

Conclusions are drawn on the applicability of stakeholder and resource dependency theories to economic analysis of events, including suggestions for future research. Also, practical management implications are drawn for handling stakeholders to ensure success, particularly when dealing with both weak and powerful stakeholders.

Resource dependency and stakeholder theory

A stakeholder is defined as '. . . any individual or group who can affect the firm's performance or who is affected by the achievement of the organization's objectives' (Freeman, 1984, p 25). Organizations are connected to a number of stakeholders, and the basis for each of these relationships is that both parties

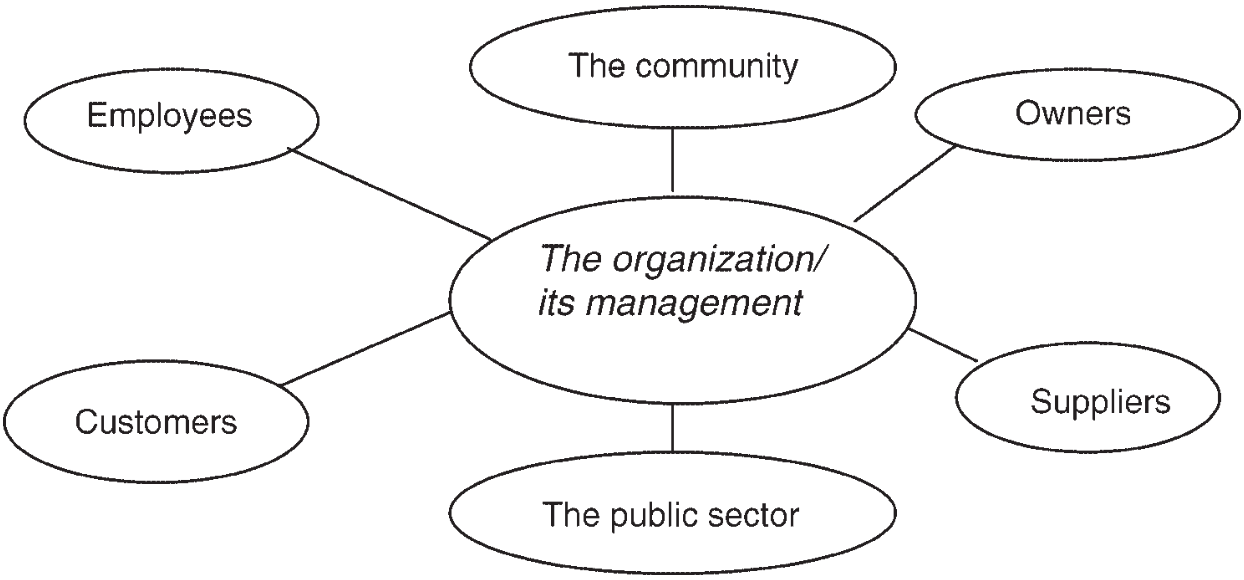

Figure 1. A simple stakeholder model.

assess the benefits of collaboration as larger than the costs (Pfeffer and Salanick, 1978). In early stakeholder models, six major stakeholders were focused on: owners, employees, suppliers, the community, customers and the public sector (that is, the municipality and the state). The role of management is to coordinate these relations and make sure that the balance of cost and revenue is as favourable as possible for the firm, yet still acceptable to the stakeholder. Cost and revenue should be understood in a wide sense here as, respectively, 'value used' and 'value generated'.

The definition naturally implies that there are many more stakeholders than the major ones identified in Figure 1. In a study of tour operators in New Zealand, more than 15 stakeholders were identified by Ryan (2002), who still regarded the analysis as '...simplistic'. Furthermore, the definition identifies two broad categories of stakeholder, namely those '. . . who can affect the firm's performance', who are called 'strategic stakeholders' and those '. . . affected by the achievement of the organization's objectives' (Freeman, 1984), who are called 'moral stakeholders' (Goodpastor, 1991). For example, many festivals and events are concerned about creating favourable relations with the local residents who may be disturbed by activities taking place at the event. A fair share of recent research on business ethics is making use of the stakeholder model and the concept of moral stakeholders (for example, Crane and Matten, 2004).

Savage *et al* (1991) emphasized that each stakeholder should be evaluated either for their potential to threaten the organization or for their cooperation, giving rise to four appropriate strategies: collaborate, defend, monitor, or involve. A 'mixed blessing' occurs when there is both a high potential to cooperate and a high potential to threaten, as in the case of resource dependency.

Mitchell *et al* (1997) stressed three stakeholder attributes: power, urgency and legitimacy. They developed a model in which the three attributes overlapped, yielding seven categories of stakeholder. The 'definitive' stakeholder has all three attributes of power, urgency and legitimacy. 'Dominant', 'dependent' and 'dangerous' stakeholders have two of the three attributes, while 'dormant', 'discretionary', or 'demanding' stakeholders hold only one of the three attributes. The 'definitive' stakeholder has the power to affect the organization immediately, and is recognized as being a legitimate stakeholder.

The stakeholder role played by the management of a festival is odd since, according to the definition, managers must be regarded as stakeholders. Yet at the same time, management has the task of coordinating all stakeholder relations of the festival to achieve the best end result. Williamson (1984, p 1,216) discussed this relationship at a general level, saying that it is '. . . complicated by the fact that managers apparently write their own contracts with one hand and sign them with the other'. However, in most studies, management is treated as the hub of the stakeholder model, as in Figure 1.

As mentioned above, festival organizers seek to create a surplus from each stakeholder relationship, and the festival must aim to pay as favourable a price as possible for festival resources, which is, at the same time, acceptable to the stakeholder who delivers the resource. Thus, it is often this bargaining situation that decides the outcome of the festival. Contracts, power and trust are important ingredients in this bargaining process.

If contracts are understood in a wider context, the festival can be regarded as '*a nexus of contracts*' (Jensen and Meckling, 1976) with its stakeholders. The power relationship is said to be asymmetric if one stakeholder is depending on another and this dependency is not reciprocal (that is, the latter is not dependent on the former). Power and dependency are often based on resource dependency if a stakeholder (supplier) has power over its customers. The degree of resource dependency, as explained by Sandoff (2002), is linked to the following conditions:

- market concentration (that is, the number of alternative suppliers);
- degree of substitutability of the resource; and
- how important the resource is to the final result.

Power based on resource dependency is exercised through direct control of resources or through indirect actions. A stakeholder in control of an important resource may refuse to supply the resource, or even withdraw it. Another way to exercise power is to lay down conditions for how the resource may be utilized. Both of these actions are normally unfavourable for a profit-maximizing firm since a decision not to deliver the resource reduces revenues, and a decision to deliver on certain conditions generates contractual costs associated with formulating, signing and controlling a contractual agreement.

A supplier who controls unique resources may also use these as an indirect power base, acting as an 'indirect stakeholder' (Rowley, 1997) who does not deliver directly to the festival, but who is a supplier to one of the festival stakeholders. The 'indirect stakeholder' may then exercise power; for example, by forcing the 'direct stakeholder' to not supply resources to the festival or to supply resources only on condition that certain requirements (dictated by the 'indirect stakeholder') are met by the festival.

Trust may carry a lot of weight in an ethical sense (Jones, 1995), and a lack of trust generates a number of costs related to contract writing, control and enforcement. The cost of lawyers and other outside expertise may be considerable, as well as costs within the firm. Trust may, therefore, be an important competitive advantage (Jones, 1995).

Research hypotheses

Based on the theoretical aspects discussed above, two hypotheses were formulated:

(1) A festival is more able to increase revenues from weak stakeholders than from strong stakeholders.
(2) A festival is able to keep a tighter check on the cost of resources supplied by weak stakeholders than it can control those supplied by strong stakeholders.

These hypotheses are tested by empirical data from one in-depth case study, and the case study method is described and justified in the ensuing section.

Method

A case study method was justified both for theory building, specifically by testing hypotheses derived from stakeholder and resource dependency theory, and as a way to explore the application of existing theory to the festival sector. As noted by Eisenhardt (1989), the case study method has two major theory building functions that are present in this research:

- to test for congruence with *a priori* constructs and hypotheses that have been derived from existing theory; in particular, to determine if the case study refutes existing theory or stands as an anomaly; and
- to generate new hypotheses (such as by applying existing theory to new contexts; to fill voids).

Case studies also can be used for inductive theory building, as in the tradition of grounded theory, and there is always the prospect of learning something completely new from a case study – especially in fields like the event sector, where there has been a paucity of theoretically oriented research. Subsequent and comparative case studies can determine if the results of this first festival studied (the 'archetype') are generalizable across cultures, organizational types and other variations.

By generating two hypotheses derived from existing theory, we have taken a deductive approach in this case study in the sense that we expected the hypotheses to be confirmed. In the conclusions, we seek to extend theory building into the festival sector.

Steps in developing the case study

Step 1: Background. To gain general information about the festival sector in Sweden, the managers of three street festivals (Storsjoyran, Skelleftefestivalen and Piteo is Dancing and Smiling (PDaS)) were interviewed during autumn 2003 and spring 2004. Each interview lasted about two hours and the managers were most helpful and willing to share their knowledge. The interviews covered relations with stakeholders, costs and revenues, and the development of costs and revenues over time.

The street festival concept in northern Scandinavia usually includes an open section as well as a fee-paying section. The municipality grants permission to fence off parts of the town where stages can be set up. During three or four evenings, popular artists attract 5,000–20,000 people per night into this fenced off part of the city, and the ticket price is around US$20 per evening. There are normally several stages within the area and performances by popular artists sometimes run simultaneously.

The open part of these festivals takes place during daytime and sometimes also one of the evenings, when less popular and local artists perform. The open programme usually gives more attention to children and the elderly than does the fee-paying programme, which is more commercial. There is an 'unwritten contract' between the festival organizer and the municipality that permits the organizer to fence off and use public space if they also provide culture and entertainment free of charge to the local community in the form of a high quality, open programme.

Step 2: Detailed analysis of financial data. The manager of PDaS was particularly generous and opened the accounting books to give access to detailed, five-year revenue and cost specifications (1998–2003). Most of the empirical data used in this study therefore refer to PDaS, but the other two case studies are useful as checks for similarities among the three festivals. Conclusions drawn from the case study of PDaS were, in general, corroborated by the answers received from the managers of the other two street festivals.

Case study: Piteo is dancing and smiling

Overview of the festival and its organization

Piteo is a town with a population of about 40,000, located in the north of Sweden on the Baltic Sea, only some 100 km from the Arctic Circle. Tourism is not its main employment generator but the long, sandy beaches, a water temperature that is more agreeable than that of the North Atlantic, and sunshine for 23 hours a day during a sunny midsummer all attract people from much of north Scandinavia for a beach holiday. Piteo also has a long tradition of street festivals. The 'Nightival' was held between 1964 and 1972, and since 1990 'PDaS' has been staged every summer over five days during the last week of July, with only one exception (1992). The normal attendance is around 40,000 paid visits and 100,000 visits to the free admission programme.

The main goal of the festival organizers is to produce a high quality festival aimed at a broad audience. However, tourism is also a major consideration. A public company was formed at its commencement in 1990, and this company is now the owner of the festival. The ownership of the company has, however, become broader. The original entrepreneurs and enthusiasts have been complemented by firms in the tourism industry of Piteo. The local taxi company, a travel agency and a local hotel are now shareholders. There is a clear advantage with this broader ownership in dealing with public authorities, which seem to listen to what the local industry has to say. Consequently, the public authorities, and particularly the municipality, have become supporters.

Festival organizers believe that their free-of-charge entertainment programme creates value for the local community and is highly appreciated by the municipality. Normally, all entertainment is free up to 6.00 pm, when the fenced-in area is cleared and visitors are asked to leave. At 7.00 pm, the turnstiles are opened again, but now visitors need to pay an entrance fee. At the 2003 festival, the organizers spent about US$40,000 on the open programme and had around 120,000 (free-of-charge) visits.

Media management is carried out mainly by press releases produced by an employed consultant/journalist. Local newspapers often print these without any changes. There is only one newspaper printed in Piteo and there are one or two journalists who sometimes write rather critical articles about PDaS. In a neighbouring town, there are two larger, local newspapers printed and these are almost always positive. PDaS believes that one or two critical articles are not harmful and that the local politicians are sensible enough to interpret press reports intelligently. Media management is not carried out pro-actively and, for example, no release party is arranged when the programme is presented.

Economic impacts of the festival

The managers estimate that local Piteo inhabitants generate about half of the paid visits. While it is logical and fair for festivals to benefit from the consumer demand created by the audience they attract, many of the benefits accrue to providers of accommodation and other services beyond the reach of the organizers. In Piteo, these tourism benefits justified direct involvement in the festival organization by some members of the tourist industry. This appears to be a most atypical but successful approach to funding festivals.

Figure 2 shows the main festival stakeholders and illustrates the financial flows discussed in the next section.

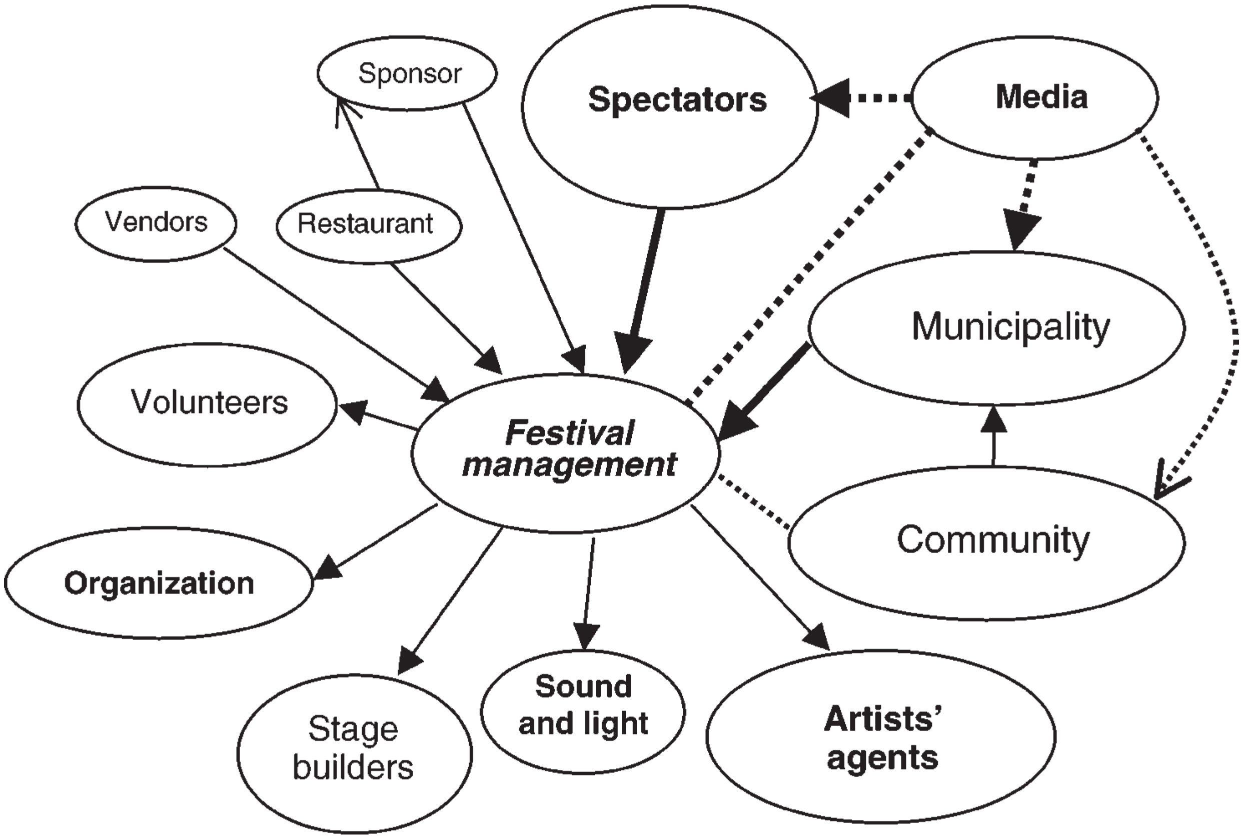

Figure 2. A stakeholder model of the street festival 'Piteo is Dancing and Smiling'.

Note: The direction of the arrows describes the direction of the financial flow. Dotted lines indicate non-financial relations.

Analysis of revenues

Data on revenues and costs for the period 1998–2002 are provided in Table 1, with the trends visually illustrated in Figures 3 and 4.

The business logic behind Swedish street festivals is to produce an attractive programme that will draw a large audience. This generates the majority of festival revenue through ticket sales, but there are additional revenue-generating opportunities. Food and beverage service is normally provided by local entrepreneurs who rent tents from the organizers, and sponsorship from the corporate sector (a beer company in the case of Piteo) is an important source.

Table 1 reveals the dominance of ticket sales (on average 67% for the period studied) for the revenue of PDaS. Sponsorship revenue was mainly from the beer company, and rent was obtained from restaurant tents, beer gardens and other vendors licensed to operate inside the festival area. Together, these three sources of revenue (ticket sales, rents and concessions) generated 90% of the total. The trend line for these three major sources of revenue is seen in Figure 3. Ticket sales were growing, whereas the rental income trend was flat. Sponsorships showed the largest relative increase, but took a considerable dip for the last year studied. Municipal grants were a minor source, and declining.

About half of the ticket revenues were from pre-festival sales. The festival offered a VIP ticket for US$150 per evening, and these were used mainly by companies that wished to sponsor the festival with a limited sum and get a number of free admissions in return. A VIP ticket also granted admission to a special VIP tent. During the Friday, Saturday and Sunday evenings, the 2003 festival had in total 39,000 visits. There were five stages inside the festival area and the programme was broad in scope.

While the statistics on ticket sales at the turnstiles are incomplete, data from pre-sales are complete. This information was continuously updated and used by

Table 1. Average revenue and cost of the street festival from 1998 to 2002.

Revenue	Average 1998–2002 US$ (thousand)		Cost	Average 1998–2002 US$ (thousand)	
Ticket sales	771.3	67%	Artists' fees	267.6	25%
Support from municipality	22.8	2%	Artists' travel & accommodation	59.3	6%
Sponsorship	153.8	13%	Light & sound	69.8	7%
Rents	117.1	10%	Construction	68.9	7%
Other revenue	82.8	7%	Public services	117.7	11%
Total revenue	*1,147.8*	*100%*	Other rents	3.8	0%
			Music royalties	19.3	2%
			Marketing	59.6	6%
			Overhead cost	34.8	3%
			Salaries & wages	183.7	17%
			Other cost	232.9	22%
			Total cost	*1,058.2*	*100%*
			(+/–) Result	*+89.6*	*+7%*

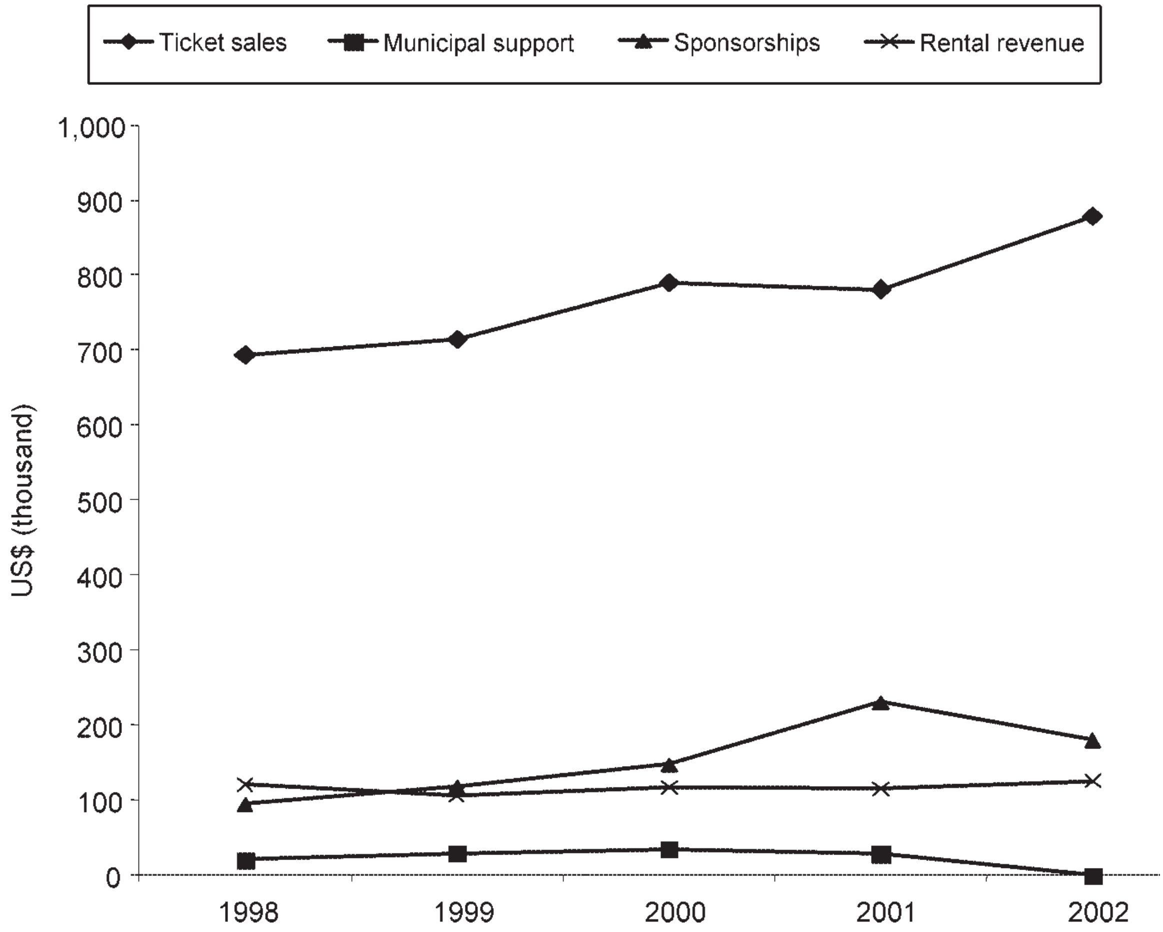

Figure 3. Revenue development of the street festival from 1998 to 2002.

the marketing team to spot the areas where more marketing was needed. Posters, combined with a good website, were considered to be the most cost efficient marketing strategy, and if an area was far below the previous year's pre-sales, one member of the marketing department went to that area to put up more posters. They travelled thousands of kilometres by car over north Scandinavia to put up posters that advertised the specific artist the marketing representative felt was most popular with people in that area. Advertising in newspapers and on radio, however, represents the major marketing costs.

PDaS has not developed substantial corporate sponsorship. A beer company contributed a percentage of its turnover during the festival on condition that the company was granted the right to be the sole supplier inside the festival area. A three-year agreement with this beer company was the only long-term sponsorship agreement for the festival. There was 'in-kind' sponsorship (that is, goods and services donated) from the private radio channel and the local newspaper, with advertising provided free of charge. It is a policy of PDaS, however, that its accounting should be transparent and therefore in-kind sponsorship services are also invoiced. The municipality donated US$35,000, but also charged for services produced for the festival. In total, the revenue from sponsors equals US$120,000, which includes the cash paid by the beer company.

Another important and stable source of revenue is rent paid by restaurants and vendors, which represents about US$110,000. PDaS has not raised the rent nor tried to assess how sensitive restaurants and vendors are regarding price increases.

Analysis of costs

Looking at the development of costs over time (see Figure 4) reveals a great increase in fees paid to artists and agents. These costs almost doubled during the five-year period. Construction costs, in stark contrast, had increased by a mere 7% during the same period. Salaries and wages, the next largest cost centre, had increased by 66%. This might be related to the fact that the festival was profitable during all five years, so that the temptation to raise salaries must have been hard to resist. Or, to look at it another way, management wages may act as a shock absorber – reduced during hard times and increased when the profitability of the festival allows.

The budget for the festival in 2003 was about US$1,200,000 and the major cost was for artists' fees (US$250,000). The multinational company, Clear Channel, recently bought the Swedish artists' agency, EMA-Telstar, which had earlier acquired two major competitors – Luger and Motor. One agency now has about 70% of the Swedish market, and more than that in certain segments. The PDaS management is of the opinion that payments to artists' agents have risen dramatically since the process of concentration and take-overs started five years ago. Today, PDaS has a cost for artists that is about 100% higher than it was five years ago, yet, according to PDaS, the quantity and quality of artists have not changed much during this period. The contracts are elaborate and often based on a standard form provided by the artists' agency. So far, there have not been any serious conflicts over these contracts.

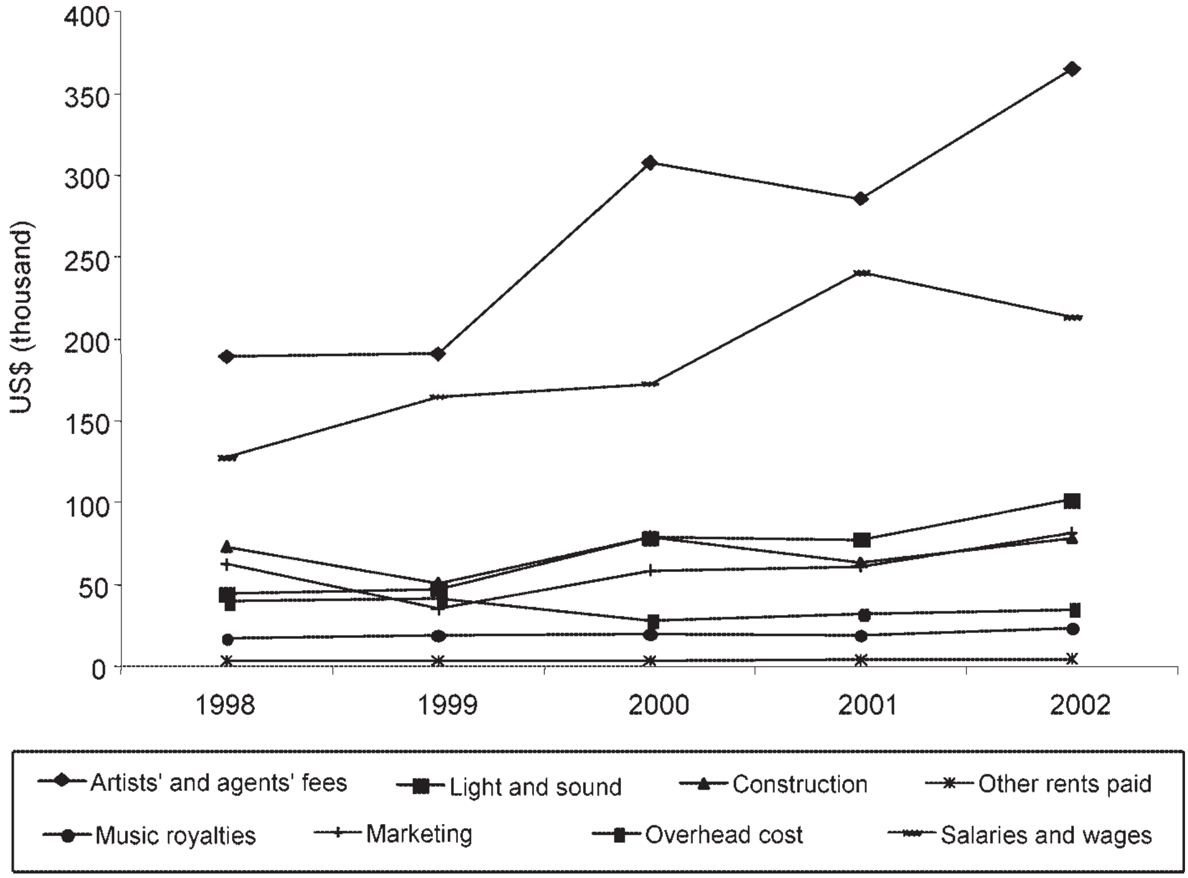

Figure 4. Cost development of the street festival from 1998 to 2002.

PDaS now has a clear strategy of using other artist agents in addition to the dominant Clear Channel. One problem, however, is that most of the popular artists that are needed to attract big crowds and generate revenue are associated with Clear Channel.

In addition to US$250,000 for artists' fees, there are further costs for their travel and accommodation that add another US$85,000. The travel agency, who is also one of the owners of PDaS, normally handles travel and accommodation.

Sound and light for the stages represent a considerable cost of US$110,000 and a successful local firm has been responsible for this during the past two years. Piteo is proud of this hi-tech company that has its roots in the Music School of Piteo, and the company, Live & Sound, not long ago won a national award – 'The Golden Mic'. PDaS recently signed a contract with the firm for the next two years. This collaboration is interesting in light of the fact that the dominant Clear Channel is closely associated with a competing firm that Clear Channel often recommends to festival organizers.

Construction work, particularly the erection of tents, costs US$75,000 and is handled by a local entrepreneur for whom this business is an important source of revenue.

Most of the workers that are employed during the summer festival are recruited locally and the cost is limited to US$35,000. There are close and trustful relations with a number of local sports clubs, and recruitment is often carried out through these organizations. PDaS believes that a large part of the 'soul' of the festival is associated with these long-term relationships with local clubs. Normally, PDaS pays a fixed amount to the club and only spells out what needs to be done (for example, operate a parking lot). Then, the sports club will recruit the necessary manpower and organize the work. A certain amount of the payment will be kept by the sports club to be used for future sports activities.

PDaS Limited has three full-time employees year round, and during the summer, another seven full-time employees. Wages and salaries amount to US$175,000, which includes security staff. The recruitment of security personnel is the only recruitment not being outsourced. With all the experience and address lists from previous years, this recruitment is easy to carry out.

Festival costs are associated mainly with the creation of entertainment. Artists, sound and light engineers, and stage builders need to be paid. Music royalties, marketing and administration represent overhead costs necessary to carry out the project. Fees for artists, music royalties and the cost of artists' travel and accommodation together represent a third of all costs. Salaries and wages represent about a fifth of the total cost.

Analysis of stakeholder relationships

The festival exists within an intricate network involving the media, the community, the municipality and the spectators but, for financial reasons, the paying audience represents the most important stakeholder group. The attitudes of the community and media are, nevertheless, important to the continuing success of the festival. The media is an important 'indirect stakeholder', and it is a delicate balancing act for the festival managers to keep up good relations without impinging upon the integrity of professional journalism. So far, it seems to work well for PDaS but, in the future, a more pro-active approach may be helpful.

As long as the management of PDaS is able to maintain its capital of local goodwill, there seems to be a future for the festival, but the spectators must be regarded as the strongest stakeholder with a power to make or break the festival. There might be rivalry for spectators between festivals in the north of Sweden, but the festivals are timed to avoid direct competition. Furthermore, ticket prices are surprisingly similar.

The other two stakeholders involved in generating revenue for the festival are considered to be weak. The beer monopoly inside the festival area should be attractive to a number of beer companies and therefore the festival can substitute one for another. The business opportunities available to pubs, restaurants and other vendors renting a tent on site should be attractive to many entrepreneurs, so they also can be substituted.

A more volatile stakeholder picture is revealed when considering the costs involved. The dominant artists' agency, Clear Channel, which controls about 70% of the Swedish market, has become a very strong stakeholder with the power to dictate terms of trade. It may be advantageous to have a strong actor who also is concerned about the development of the festival industry, for example by requiring a certain quality standard be met, but disadvantages are also evident. As Clear Channel controls most of the artists who draw big crowds, it is necessary that the festival deals with this agency in order to attract a sufficient number of spectators (and ticket sales).

On the other hand, the local contractor who builds stages and sets up tents must be regarded as a weak stakeholder since the festival could quite easily find a substitute. Also, the festival is an important source of income for this local firm.

Confirming the hypotheses

- H1: A festival is more able to increase revenues from weak stakeholders than from strong stakeholders.
- H2: A festival is able to keep a tighter check on the cost of resources supplied by weak stakeholders than it can control the cost of those supplied by strong stakeholders.

Revenues increased by 33% over the five-year period (1998–2003), which represents a considerable growth in real terms since the Consumer Price Index (CPI) during the same period increased by no more than 7.4%. The hypotheses state that all types of revenue do not increase at the same rate, but that revenue from weak stakeholders increases more than revenue from strong stakeholders.

Entrepreneurs who rent tents or booths and the beer company that pays for a monopoly on beer sales inside the festival area are considered as weak stakeholders since PDaS may choose among several candidates, and none controls a unique resource or a unique idea. The festival, on the other hand, controls access to this large crowd of people that represents a unique business opportunity for Piteo, and PDaS holds the stronger position in the bargaining. Although revenue from the beer company increased by 90% during the five years, rents rose by only 4%.

PDaS seems to be too generous to restaurants renting space and could possibly learn from another street festival, which stipulated in the contract that the entrepreneurs who rent tents should declare their festival turnover. This other festival soon found that there was considerable scope for rent increases. For this street festival, rents today represent about 25% of total revenue compared to only 10% for PDaS (cf Table 1). The large rent increases of course caused complaints from the restaurant entrepreneurs, but all of them still came back the following year; further rent increases therefore may be possible. Since the festival creates demand by staging an attractive and expensive entertainment programme, it can hardly be considered unethical if the festival forces the restaurant entrepreneurs to contribute towards covering the costs, particularly when the entrepreneurs have a choice to exit.

Spectators are considered to be a strong stakeholder since they have a choice of whether or not to attend the festival, and PDaS is not, whatever the marketing message says, a unique opportunity for entertainment. There are similar festivals every year in north Scandinavia, and products from the entertainment industry are flooding the market. Much of the marketing strategy aims at underlining a unique opportunity (for example, '. . . the once-in-a-lifetime chance to listen to Celine Dion live in Piteo'), and the art of marketing is to convince the spectators of just that. If successful, marketing will strengthen the bargaining position of the festival. Revenues from the weak stakeholders (the beer company and the entrepreneurs renting tents and booths) have increased by 44% (in nominal terms, that is, including inflation), whereas revenues from the strong stakeholder, the spectators, have increased by 27% (in nominal terms). See Table 2 for a summary of revenue and cost changes among strong and weak stakeholders.

On the cost side, the local contractor is considered to be a weak stakeholder since the festival represents an important customer to him. The festival certainly has alternative contractors for this job since the skills required are not unique. Thus, the bargaining power of the festival must be strong against the local contractor, and price increases have been controlled to 7% over the five-year period, which is equal to the inflation rate during the same period.

The strongest stakeholder that PDaS has to deal with seems to be the artists' agency. With domination of the market, especially for artists who are able to draw big crowds, the multinational company, Clear Channel, controls resources that are in short supply and that are crucial to the success of a festival. According to the manager of PDaS, the quantity or quality of artists have not changed much during the five-year period, although costs during the same period have almost doubled. Mergers and acquisitions during the same time have resulted in fewer agents and less choice.

Table 2. Change in revenue and cost of the street festival from 1998 to 2002.

Revenue generators	Change 1998–2003	Cost generators	Change 1998–2003
Weak stakeholders	+44%	Weak stakeholders	+7%
Strong stakeholders	+27%	Strong stakeholders	+93%

Statistical tests

Although the empirical material is limited to one case study, there are observations from five years. In order to compare changes both in costs and revenues over the five-year period, Table 3 illustrates a differential analysis; that is, an analysis where the differences in terms of percentage changes from one year to the other are calculated and compared. There are consequently only four differentials for each stakeholder.

It can be seen from a comparison of the four differentials for revenues from strong stakeholders and revenues from weak stakeholders that, in three out of four years, revenue from weak stakeholders annually has increased more than revenue from strong stakeholders. Thus, three out of four observations are in accordance with the first hypothesis; the exception being during 2002, when revenue from weak stakeholders decreased (-11.5%), whereas revenue from strong stakeholders increased by +12.6%. Furthermore, in all four differentials, cost from strong stakeholders has increased more than cost from weak stakeholders, which is in line with hypothesis 2.

Although there are only eight observations now, four comparisons of differentials from stakeholders generating revenue and four comparisons of differentials from stakeholders that are suppliers, the empirical support for the hypotheses is clear. Seven out of eight observations support the two hypotheses as illustrated in Table 4. The number of observations is too small to generate an expected frequency larger than three in any of the four cells, which should be kept in mind when considering the chi-square measure (Pearson's = 4.8; d.f. = 1), which is significant at 5% level. A better test, considering the small number of observations, is Fisher's exact test (Agresti, 1992), which gives a *p*-value for the same or a stronger association to 0.071.

Table 3. A comparison of yearly changes in revenues and costs.

Type of stakeholder	1999 v 1998	2000 v 1999	2001 v 2000	2002 v 2001	Average per year
Strong revenue generators	2.9%	10.6%	–1.1%	12.6%	6.3%
Weak revenue generators	4.5%	17.9%	30.4%	–11.5%	10.3%
Strong suppliers	0.9%	61.2%	–7.1%	27.7%	20.7%
Weak suppliers	–30.7%	56.2%	–20.0%	23.2%	7.2%

Note: The average per year is calculated as the arithmetic average of four observations.

Table 4. A cross-tabulation indicating the number of years a stakeholder category had the largest growth in revenue/cost (cf Table 3).

	Revenue generators	Suppliers
Strong stakeholders	1	4
Weak stakeholders	3	0

Note: A Pearson's chi-square measure (4.8; d.f. = 1) is significant (5%) but the expected frequencies for all cells are less than 5. Fisher's Exact Test gives a *p*-value for the same or a stronger association = 0.071.

Conclusions and implications

First, the theoretical implications of this research are discussed, including suggestions for future research, then a number of practical management implications are discussed, and some advice proffered to festival managers.

Theory building

The purpose of this research is to apply stakeholder and resource dependency theory to the festival sector, with a view to gaining understanding of how festivals might become more financially successful. Two specific hypotheses are derived from theory and tested by way of a single case study. Confirmation of the hypotheses gives support to the theory, but the case study also suggests possible extensions into the not-for-profit sector.

Although the empirical material is limited to one street festival, it seems safe to suggest that in the festival sector there are considerable differences in how various types of costs and revenues develop over time. Explanation of these differences is hypothesized to stem from stakeholder relations, especially relative power. If the festival can act strategically to become a strong stakeholder in dealing with its suppliers and customers, chances are much better that costs and revenues will develop more favorably than if the festival becomes a weak stakeholder. Thus, stakeholder theory and resource dependency theory offer an explanation for the differences.

The empirical material from the PDaS festival does not contradict this theory or the two hypotheses proposed in this article. Thus, it can be concluded that:

- a festival is more able to increase revenues from weak stakeholders than from strong stakeholders; and
- a festival is able to keep a tighter check on the cost of resources supplied by weak stakeholders compared to the cost of those supplied by strong stakeholders.

Confirmation of the hypotheses in this one case study adds support to the application of some basic tenets of resource dependency and stakeholder theories to the festival sector. Festivals are revealed to exist both within and because of their network of stakeholder relationships. Some stakeholders hold power because of the festival's dependency on them for resources or supplies, and that leads to higher, somewhat uncontrollable costs. This in turn imposes a threat and necessitates a strategic response.

Specifically referring to the Savage *et al* (1991) approach, it is clear from our case study that a festival organization can, and must, assess threats and decide on appropriate strategies of collaboration, defence, involvement, or monitoring. Their categorization of the 'mixed blessing' as an essential resource provider or supplier that can also threaten the organization was found to be, in our case, the artists' agency with a quasi-monopolistic position in Sweden. The Piteo festival had no choice but to pay higher prices, although it has to be concluded that indefinite continuance of that relationship appears to be untenable. This analysis of power relationships also confirms the applicability of the Mitchell *et al* (1997) model, as relative power was revealed to be a key factor in both costs and revenues.

This case study also helps to extend theory as it revealed a number of somewhat unique aspects of festival organizations in terms of their stakeholder networks and financing. Incorporating key stakeholders on to a festival board of directors, in effect having them become owners and/or managers (this is the 'involve' strategy), is not that unusual. But in the case of Piteo, there existed a unique type of involvement from the tourism industry, and that presents a possible model for other events and attractions that clearly generate tourist demand.

From an economics perspective, a festival is a strange creature. Like the private firm, it has a product to sell (more accurately a hedonistic, experiential service) in a competitive marketplace, with the necessity of ensuring that revenues equal or exceed costs. However, it does not aim to make a profit for owners, but for the community in which it resides – in the form of a consumer surplus (that is, enjoyment) and frequently in the form of tourism export earnings. Also, all the stakeholders involved in creating this value can participate in the organization, and in the case of Piteo, they do – either within as owners/managers or outside as resource providers.

A number of research lines emerge from this case study analysis. There is certainly a theoretical need for comparative case studies (ideally, cross-cultural and across different types of events and organizations in the festival sector) as this will strengthen our conclusions greatly and probably generate many new hypotheses specific to this sector. Also, there are many other possible hypotheses to be derived from resource dependency and stakeholder theories for testing in this sector, such as the concept of an organization finding a 'niche' in its environment (this being a managed network of stakeholder relationships). Resource dependency theory suggests that older, well-established organizations occupy a favoured place in their network that assures them of resources. But how do they get into that 'institutional' category?

Another, more applied line of research will be to examine the effectiveness of various stakeholder management strategies and practices in achieving festival goals and securing necessary resources, including adaptation within a changing environment.

Researchers have already identified as a 'political market square' shifts in the balance of power among stakeholders, and the ways in which negotiation takes place (Larson and Wikstrom, 2002), and the Piteo case study confirms the validity of that approach.

Management implications

Power relations among stakeholders have been demonstrated to be important for the development of costs and revenues of a festival. A relevant question, then, is how the festival ought to act in order to establish power relations and resource dependencies that are as favourable as possible for the development and sustainability of the festival.

Table 5. Four strategies for a festival to handle stakeholders.

	Customers or 'revenue generators'	Suppliers
The festival is a weak stakeholder	*Question to ask*: 'What needs can the festival satisfy?' *Strategic issue*: Create and present unique products	*Question to ask:* 'What common interests do we have?' *Strategic issue:* Work for less dependency
The festival is a strong stakeholder	*Question to ask*: 'What is a fair share?' *Strategic issue:* Charge for the opportunity you create for them	*Question to ask:* 'What makes them work with us?' *Strategic issue*: Keep them happy and loyal

The degree of resource dependency can be explained by three factors (Sandoff, 2002):

- market concentration (that is, the number of alternative suppliers);
- degree of substitutability of the resource; and
- how important the resource is to the final result.

Thus, in order to develop revenues, the festival must try to appear to its customers and resource providers to be unique, irreplaceable and very important, whereas suppliers to the festival should be given the impression that they are not unique, not necessary and not very important to the final result. Table 5 summarizes the ensuing discussion.

Strategies for dealing with customers and resource providers. An understanding of customer needs is the basis of a successful strategy. The first objective must be to deliver a product that fits customer needs and does this better than any competing product. Second, it is desirable to price this product close to the value it has to the customer.

For the paying audience it is, of course, the festival experience itself that must be attractive. A festival actually may be analysed as a price bundle of experiences. It is normal in Sweden to have a number of artists that perform every festival day and spectators pay only one price for all. Thus, a good policy should be to have artist performances every festival day that are diversified and together satisfy a wide spectrum of tastes. If every spectator considers at least one performance as unique and worth the ticket price, these will 'subsidize' the other performances that the spectator finds less interesting to attend. Thus, with a wide spectrum of tastes for each festival day, a larger audience will be attracted. It is, however, important that each performance is sufficiently attractive to its specific target group.

Other important 'customers' are the sponsors and the municipality, and they need to be dealt with professionally. The unique opportunity that the festival represents for tourism promotion, image enhancement, beer sales, goodwill and pride of the home town must be underlined. Particularly, the type of 'sponsorship' that includes a sales monopoly inside the festival area should be analysed carefully to determine the value it has to the sponsors. Likewise, the value of renting space inside the area for concessions (for example, food and beverage) provides them with a unique profit potential.

Once the festival has identified the unique opportunities it controls, the next step is to assess carefully the value this uniqueness represents. One way of doing this is to stipulate in the contract that each vendor and restaurant declares its turnover during the festival. One should not underestimate the need for festival organizers to keep good relations with colleagues in the hospitality industry of the region, and the objective of pricing should be based on the idea of a fair deal. The festival has attracted a large crowd to the area and this crowd generates business opportunities, but the festival also has considerable costs to cover and it is equitable that these costs are borne by all those that benefit from the crowd.

Strategies towards powerful stakeholders that generate revenue should focus on creating and presenting products that will be considered unique and attractive. Only then will the festival be able to maximize revenues through its pricing strategy. Creating and presenting products requires not only an understanding of customer needs, but also marketing and bargaining skills. Relationships with the municipality are important for financial support, and they must be persuaded to believe that the festival represents a unique opportunity to achieve their goals.

Strategies towards weak stakeholders that generate revenue should be guided by the idea of 'a fair deal'. It is often possible for the festival to increase revenue from these stakeholders, and price elasticity is a relevant concept. On the other hand, favourable long-term relations with stakeholders are also an asset, and unfair pricing may be costly in the long run.

Strategies in dealing with suppliers. Following from the three factors influencing resource dependency, a festival should act in a way in which a supplier is not the only alternative, a resource is not the only choice, and a resource is not too important to the final result. This is, of course, easier said than done, particularly for a festival manager in a small town. To keep this in mind may, however, be very important to the long-term development of costs.

In order to have alternatives, it may be necessary in the short term to use second-best suppliers, because otherwise the best supplier may be able to create a monopoly, which in the long term will put the festival in a difficult situation. A festival that is based on several attractive programme elements is also likely to stand strong against its suppliers since the festival has the option to drop one of the elements should the supplier exercise too much power and/or raise prices.

Strategies in dealing with strong suppliers should be based on an analysis of how the festival can be regarded as an important customer for the supplier. It is, of course, against business logic for a supplier to drop one of its customers, and even more so if the supplier realizes that customers are important not only because they pay the bills but also because they have common interests. An example could be that artists' agents are very powerful suppliers to rural festivals, but they must also be interested in the opportunity for artists to meet the audience at the festival and to generate record sales. The most important strategy is to avoid the situation of being too dependent on a supplier and to look constantly for alternative suppliers, alternative resources, and alternative business ideas.

Strategies in dealing with weak suppliers. Festivals must respect weak suppliers and recognize that sometimes they are indispensable assets. Volunteers are often essential to festivals, but fortunately they very seldom exercise the strong power they actually have. Likewise, local suppliers with whom a festival has trustful relations make administration easy and are usually very cost efficient.

Tourism benefits should be demonstrated to the community and efforts made to secure financial and marketing support from the destination marketing organization (DMO). In Piteo, a most atypical solution was the direct involvement of several members of the tourist industry in ownership of the event; to the extent that festivals and events can foster a positive destination image and attract new visitors (especially high-yield, off-peak event tourists) – and can demonstrate this through valid research – they can heighten their value and prestige. In effect, this creates both tangible 'brand equity' and 'goodwill'.

Provided the conclusions from the Piteo case study are valid for other festivals, it becomes important for festivals to think and plan very carefully about how to manage stakeholder relations. The advice offered above has to be internalized in good management and good bargaining skills. Successful managers certainly act, consciously or unconsciously, according to the strategic issues developed in this study. Thus, it is recommended that the strategic issues that have been explained and developed in this study by stakeholder theory and resource dependency theory should be part of the successful, long-term development of a festival.

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