




Cultural institutions in Poland: the nature of their organisation and financing

MAŁGORZATA GALECKA

Wrocław University of Economics and Business, Faculty of Economics and Finance,
Department of Finance, Poland

✉ malgorzta.galecka@ue.wroc.pl

 orcid.org/0000-0003-1986-3140

KATARZYNA SMOLNY

corresponding author

Wrocław University of Economics and Business, Faculty of Economics and Finance,
Department of Finance, ul. Komandorska 118/120, 53-345 Wrocław, Poland

✉ katarzyna.smolny@ue.wroc.pl

 orcid.org/0000-0001-5048-8372

Abstract

Motivation: Previous research regarding the external conditions of public cultural institutions inspired us to analyse the internal conditions of individual institutions.

Aim: The purpose of the current study is to answer the question of whether and how the internal regulations pertaining to theatres based on financial, organisational, and creative autonomy affect the financial and substantive performance of public cultural institutions. In order to achieve the aim of the study and answer the research question, we analysed cultural institutions in terms of their system. Additionally, the financial and substantive situation of the studied theatres was analysed.

Results: The lack of clear process and entity requirements affects the dependence of the performance of public cultural institutions on individual, internal organisational arrangements, suggesting the need to unify these processes through a reform of these institutions. Attention should be paid to the transparency of public spending, organisational culture and effectiveness of public cultural institutions. In the current legal status, the conducted showed a large discrepancy in the results of the theatres studied.



Keywords: economic efficiency; public expenditures; cultural institutions; financing rules
JEL: G28; H77; K48

1. Introduction

Cultural institutions in Poland fulfil through their activities the constitutional role of the state, consisting in providing access to culture for all citizens. Considering the importance of this assignment, methods that would prove successful in efficient management of cultural institutions should be unceasingly sought.

The concept of “culture” is one of the toughest and most capacious concepts. The eighteenth-century philosopher Herder (1964, p. 4) summarized already that: “there is nothing more indeterminate than the word culture”. Owing to the fact that culture has long been a problem of public funding, more precise attributes, that cultural activity should be characterised by, have appeared as well. Theatres alongside concert halls, operas and operettas are an important group of facilities of culture-production nature.

From an economic point of view, the financial analysis of cultural institutions indicates that all institutions are economically inefficient. For the most part, these are entities that subsist on the organiser’s subsidy, generating little of their own revenue relative to their costs. The nature of cultural activity and even its definition adopts the paradigm of non-profit operation (Law Insider, 2023). In earlier research (Galecka & Smolny, 2019a, pp. 96–113), we focused on the external determinants pertaining to theatres as public cultural institutions. We studied the amount of the organiser’s subsidy in relation to the problem of accessibility. We also studied the efficiency and productivity of theatres (Galecka & Smolny, 2019b, pp. 119–136). In line with Baumol’s and Bowen’s (1966) well-established cost disease theory, in the previous study, we confirmed the hypothesis that the amount of statutory subsidy awarded to theatres should be determined by the theatre’s salary-related costs. The verification was carried out with respect to the productivity of performing art organisations, understood as the product of the number of annual performances and the number of spectators at the theatre’s own performances, and was based on the Malmquist TFP index method (Galecka & Smolny, 2021b, pp. 847–860). We are currently focusing on the issues of institutional construction in relation to the internal organisation of cultural institutions using the example of public theatres in Poland. At the same time, the current study focuses more on cost management and not on the sheer amount of revenue. The purpose of the current study is to answer the question: if and how do the internal regulations pertaining to theatres based on financial, organisational, and creative autonomy affect the financial and substantive performance of public cultural institutions? The research question is: how to systemically organise cultural institutions to better fulfil their statutory tasks? This question is particularly timely in light of the many personal disputes, discrepancies in the performance of individual entities. Criticism of the performance of individual entities affects managers individually. However, it is impor-

tant to remember that personnel changes are not the goal of the change process (Porter et al., 1975). Any analysis of problems should entail systemic changes.

2. Literature review

From the point of view of institutionalism, economic reality can only be properly interpreted through a sound statistical-empirical analysis of the changing structure of existing social institutions (Veblen, 1904). This author was also the first to define the concept of “leisure time” (Veblen, 2008). Mitchell strongly criticised the abstract models of theoretical economics, accusing them of being too far removed from reality, adopting a hedonistic psychology and focusing too much on market equilibrium.

From a procedural perspective “institutions are durable systems of established and embedded social rules and conventions that structure social interactions’ (Hodgson, 2001, p. 295) or “institutions are rules, enforcement characteristics of rules, and norms of behaviour that structure repeated human interaction” (North, 1989, pp. 1319–32). In North’s (1990) theory, formal rules are created by the polity, whereas informal norms are “part of the heritage that we call culture”. In wide sense institutions are: “persistent groups of norms of behaviour which serve collectively valued purposes; or in narrow sense of, a set of rules to facilitate co-ordination via allowing expectations to form” (Nabli & Nugent, 1989, pp. 1333–1347). Public cultural institutions meet these criteria. We can say in Poland like in whole Europe theater has evolved from culture to a formal institution (Alesina & Giuliano, 2015). In general economical organization is likely to be more effective and efficient, delivering the benefits of specialisation and economies of scale where they apply, when institutions facilitate transactions and co-operation between individuals, whether in formal companies or less formal co-operatives (Wiggins & Davis, 2006).

Constructivism in organisation theory assumes that “people build institutions”, and the process of creating them can be long and complicated (Czarniawska, 2010, p. 15). The process of change in public cultural institutions requires additional attention (Karna, 2008).

Looking at cultural institutions as entities, we can document with regulations (Act on organising and conducting cultural activities, 1991) and an EU definition (Riches Resources, 2014). It is a well-established position in the literature that a cultural institution is an entity (Pluszyńska et al., 2020). “The institution of theatre formed in the eighteenth and nineteenth centuries has not significantly changed its organisational model and internal structure to this day, regardless of the technological and social changes that have taken place in the current era” (Dragičević-Šešić & Stojković, 2010, p. 83). Although theatre in Poland primarily includes institutional repertory theatres, they do not always operate in an efficient manner (Frąckowiak, 2012, p. 22; Hasitschka et al., 2005, pp. 147–158).

There is a view in the literature, that the concept of culture is identified with “industries” of culture subsidised from public funds, such as theatre, opera, concert hall, etc., and this understanding of culture does not include so-called lucrative industries of culture, which could include among others media, cinema, recording industry, and especially products of new technologies (Głowacki et al., 2009, p. 3). This view is becoming more and more common and it results, for example, from the definition of the EU in which there are elements of the definition of a cultural institution such as public funding or non-profit activity (Riches Resources, 2014). The analysis of the public expenditure efficiency is not any new problem in the literature. Significance, amount and range of financing particular benefits from public funds is a persisting dilemma not only of scientists and of the circles interested themselves, but also of the socio-political debate. As already Samuelson (1954, pp. 387–389) was the author of the theory of public goods, disposer of those is the collective consumer. Also the universal accessibility justifies government intervention regarding financing culture because culture, no matter what its demand is, is a socially acceptable good due to positive externalities (merit goods) (Baumol & Bowen, 1966, p. 582). The importance of culture as a prerequisite for sustainable development has been emphasized many times, what also justifies the subsidising of cultural institutions (Thorsby, 2000, p. 31). Bendixen (2001, p. 13), looking for links and relations between market-driven economies and culture, concluded that modern economies could not develop without the contribution of culture. On the other hand, the great importance of culture for the economy and societies (Engberg-Pedersen, & Zwart, 2018; Fukuyama, 2003; Sanetra-Szeliga, 2018, pp. 50–58), especially local (Kurowska-Pysz, 2014, p. 43) justifies analysing costs and institutions in general. At the same time emphasized that, due to the specific nature of cultural institutions and their social mission, it was extremely difficult to determine the boundary between effective spending of money for cultural activities and wasting of them (Bendixen, 2001, p. 11).

Cultural institutions studies focuses on the analysis of cultural practices and their institutional frames, which constitute and regulate the formation of cultural goods and services; or/ and the examination of specific characteristics of cultural institutions as organizational settings. Although the literature generally considers the subsidising of cultural activities justified, again and again a need for further development of tools and guidelines to evaluate activities of cultural institutions and thereby to determine the efficiency of public expenditure is arising (see: Hasitschka et al., 2005, p. 147–158; Thorsby, 2010, p. 44; Wavell et al. 2002; Wnuczak & Osiichuk, 2020, pp. 3166–3184). The authors also point out the possibility of implementation in cultural institutions controlling tools used in companies (Wnuczak, 2014, p. 6). Such controlling instruments include, among others, widely understood reporting systems, cost accounting, and budgeting. Budgeting as an element of managing cultural institutions appears also in Byrnes’ (2009, pp. 284–297) publications, who emphasizes the great importance of creating budgets for cultural institutions.

Also, increasingly, the management of cultural institutions in Europe becomes similar to business management (Ilczuk, 2002), although in Poland there are still claims that “excellent organisation should be the opposite of management” (Kocój et al., 2019). This approach is the same as the view on this subject back in the 1990. (Adorno, 1991).

A discussion is also developing between institutional theory and organizational culture theory, emphasizing that institutions are “dead cultures” (Hatch & Zilber, 2012, pp. 94–97). However, we will not develop this approach.

3. Methods

In order to achieve the purpose of the study and answer the research questions, we analysed cultural institutions in terms of their management system resulting from, among other legislation, the *Act on organising and conducting cultural activities* (1991), the *Regulation of the Minister of Culture and National Heritage on the competition for a candidate for the position of director of a cultural institution* (2019) and the *Regulation of the Minister of Culture and National Heritage on the list of local government cultural institutions in which the selection of a candidate for the position of director is carried out through a competition* (2015). The selected research method is a case study with a broad description of the phenomenon in question, focusing on in-depth analysis and evaluation. It is a qualitative study that, through the use of multiple techniques of data collection and analysis, allows to solve academic and practical problems (Grzegorzczuk, 2015, pp. 9–16). This method is often used in economics (Pizło, 2015, pp. 246–251) management science (Czarniawska, 2010), analysis of cultural institutions (Ilczuk, 2022; Kocój et al., 2019; Pluszyńska et al., 2020; Sieroń-Galusek, 2006, pp. 11–14; Wróblewski, 2014).

For observation, we selected 4 drama theatres for which the organiser is the capital city of Warsaw. We were particularly interested in the Rozmaitosci Theatre (RT) as it had shown problems, particularly in the area of cost management — a 2017 audit report at TR showed arrears of payments, the director’s failure to settle debit card accounts, and personnel problems (Zielińska, 2022). Inadequate management of financial resources and planning of the theatre’s activities were cited as causes of the problems. The audit of the Supreme Audit Office for the period of 2018–2020 (first half of the year) found several issues, but the scale was already incomparably smaller than before. Problems at this theatre have been commented on in the media. As a result of the difficulties, the theatre underwent personnel and organisational changes. Among other measures, the new director introduced the *Policy for determining the remuneration...* as an appendix to the *Order No. 1/2020 of the Director of Rozmaitosci Theatre in Warsaw* (2020) in the 2020–23 horizon.

In addition to the Rozmaitosci Theatre, the financial and substantive situation of 3 other theatres in Warsaw was analysed: Syrena Theatre, Powszechny Theatre and Ateneum Theatre. The selection of theatres was dictated by consid-

erations of homogeneity of the group, using the level of total revenue as a starting point. Theatres in the same neighbourhood, engaged in the same activities and with the same budget were selected for the study. The research period was 2011–2020. The year 2020 as the year of the pandemic is not fully representative. We discuss the nature of theatre operations in the era of the COVID-19 pandemic in another study (Gałęcka & Smolny, 2021a, p. 667–678). The data comes from the annual reports on the implementation of the financial plans of cultural institutions for 2011–2020 and the substantive reports on the artistic activities of theatres for 2011–2020. In addition, the documents were examined: The audit statement of the Supreme Audit Office Regional Branch in Warsaw in accordance with the content of the resolution of the Disputes Committee at the Supreme Audit Office dated 26.04.2021, the Results of the 2016 audit of the City of Warsaw at the Rozmaitosci Theatre, the amended Statute of the Rozmaitosci Theatre dated 17.11.2017, the *Order No. 1/2020 of the Director of Rozmaitosci Theatre in Warsaw* (2020), and Annex No. 1 to this Order: *The Policy for determining the remuneration of artists working on the production of performances and artistic events at Rozmaitosci Theatre Warsaw*, the *Order No. 4/2020 of the Director of Rozmaitosci Theatre in Warsaw* (2020) on amending the Policy for determining the remuneration of artists working on the production of performances and artistic events at Rozmaitosci Theatre Warsaw. The documents of the Syrena Theatre were also examined: the *Order No. 33/2020 of the Director of the Syrena Theater* (2020), the *Order No. 34/2020 of the Director of the Syrena Theater* (2020), the *Order No. 35/2020 of the Director of the Syrena Theater* (2020), the *Order No. 35/2021 of the Director of the Syrena Theater* (2021). The statutes and organisational by-laws of all the surveyed theatres were also examined.

4. Results

An analysis of the financial data of the surveyed theatres, and in particular an analysis of the level of total revenues, shows progressive divergences (Chart. 1). Particularly noteworthy is the drastic increase in total revenues in 2017 — a sensitive year in terms of demonstrated issues.

An analysis of revenue sources shows that as of 2015, the Rozmaitosci Theatre had the highest share of statutory subsidy in total revenue among the surveyed theatres (Chart. 2). With the exception of 2018–2019, the share remained above 80%.

The Rozmaitosci Theatre, compared to other theatres, was characterised by a very favourable financial situation, which was mainly due to the high subsidy received in relation to the costs incurred. Among the surveyed entities, it was the Rozmaitosci Theatre that had the highest ratio of statutory subsidy to full-time salary costs throughout the research period (Chart. 3). In 2017, it was as high as 235%. In the remaining theatres surveyed, the analysed ratio was higher than 100%. This means that the statutory subsidy received fully covered full-time employee costs (with the exception of the Syrena Theatre in 2019).

For three of the four surveyed theatres, the statutory subsidy also fully covered non-full time employee costs: impresario contracts, performance contracts and commissions (Chart. 4).

When interpreting the results, one should wonder whether the subsidy received reflects the substantive activities of the theatres. A high number of performances and/or spectators in audience as a result of numerous performances would justify a high subsidy. This is due to the fact that actors receive extra bonuses for the performances they give and a large stage may require multiple actors simultaneously. As a result, salary costs are rising (Chart 5). Comparing the theatres, it was noted that in RT, the amount of subsidy per spectator exceeds the amount of subsidy per spectator at the Syrena Theatre by a factor of ten over almost the entire research period.

Rozmaitosci Theatre performs the worst in terms of space utilisation rate — number of spectators per seat (Chart 6). The low rate was particularly evident between 2011 and 2015. The situation improved slightly in subsequent years. The highest number of spectators per seat was found at the Syrena Theatre.

An examination of financial and substantive indicators showed a wide disparity in Rozmaitosci Theatre's performance compared to other theatres in the surveyed group. It is clear that the media reports, the organiser's audit and the subsequent audit by the Supreme Audit Office were not unfounded and the responses to the audit findings have brought positive changes to the audited entity. These changes, however, are not significant enough to bring the Rozmaitosci Theatre's results closer to other entities in the study group. Perhaps it still requires time and the pandemic period was not conducive to increasing efficiency and cutting costs. However, an analysis of the internal regulations of the surveyed theatres indicates organisational discrepancies between these entities. Only the Syrena Theatre has a consistent internal system of policies and procedures. The theatre has well-developed internal procedures including anti-corruption procedures and procedures for responding to identified cases of fraud including corruption. The reports of proceedings conducted in responding to identified cases of fraud — including corruption — at the Syrena Theatre are also published. This theatre has the best indicators in the surveyed group. Transparency of spending at the Rozmaitosci Theatre has actually only been observable since 2018. However, it is worth noting that salary regulations are also in force exclusively at the Rozmaitosci Theatre. After the introduction of changes in the position of director (first, since 13.12.2017, it was an acting position) and thus organisational changes, a positive change in financial indicators is noticeable: the share of salary costs in relation to the statutory grant, the share of the statutory grant in total income. A slight improvement in the substantive indicator is also evident — an increase in the number of spectators per theatre seat.

5. Conclusion

In conclusion, the analysis of the case of the Rozmaitosci Theatre and, indirectly, the Syrena Theatre over a period of 10 years indicates the positive impact of internal procedures on the financial and substantive performance of the audited entity. Only negligence and loss of liquidity despite the organiser's high subsidy prompted both the organiser and other bodies to intervene, resulting in improvements in the organisation of the activities of the entity. These conclusions are logical and consistent with the literature.

Cultural institutions in terms of process and entity aspects meet the requirements of the framework — a product of the past and require constant change (Kangas & Vestheim, 2011, pp. 267–284). They require institutional reform that takes care of the transparency of public spending, organisational culture, and efficiency of public cultural institutions. Changing the attitudes, skills, and competencies of individuals responsible for the institution should be systemic, then it will affect behavioural changes (Czarniawska, 2010). Currently, there are no precise regulations in force. The *Regulation of the Minister of Culture and National Heritage on the competition for a candidate for the position of director of a cultural institution* (2019) does not specify any formal requirements for an original programme for the implementation of activities in the ongoing operation and development of the cultural institution. This programme is frequently called in proceedings the operational programme of the institution and is often, but not always, a formal requirement for the candidate. These programmes, if required at all, do not have mandatory credits, and while space must be left for creative activities in the artistic programme, the management of personnel and public funds requires more attention. A competition for the position of the director is also not always required. This is because the law provides opportunities to bypass the competition procedure. The law says that the director can be selected through a competition (Act on organising and conducting cultural activities, 1991, art. 16(1)). The lack of a proper planning process, the lack of understanding of the essence and role of certain instruments, as well as the insufficient connection between all elements of the plan and the mission of individual cultural institutions (Wróblewski, 2014) leaves room for individual improvisations and disputes (Kamiński, 2021) regarding the qualifications and experience of candidates for directors. This, combined with the political legitimacy of the organiser, yields varying results depending on the individual predisposition of the potential candidates and the overlap between their objectives and those of the organisation (Porter et al., 1975/1981). The current statutory solutions date back to the time of systemic transformation (1991), when the transfer of cultural institutions to local governments brought about hopes but also fears (Ilczuk, 2002). Decentralisation and the ability to raise funds from other sources are affecting the development of cultural institutions across Europe, however they are tied with the need to systematise these processes. Without denying decentralisation, but caring about the mission of cultural in-

stitutions, the quality of management of public funds and creative staff, we call for changing/elaborating the regulations on public cultural institutions by increasing precise formal requirements for the management of the cultural entity and its finances.

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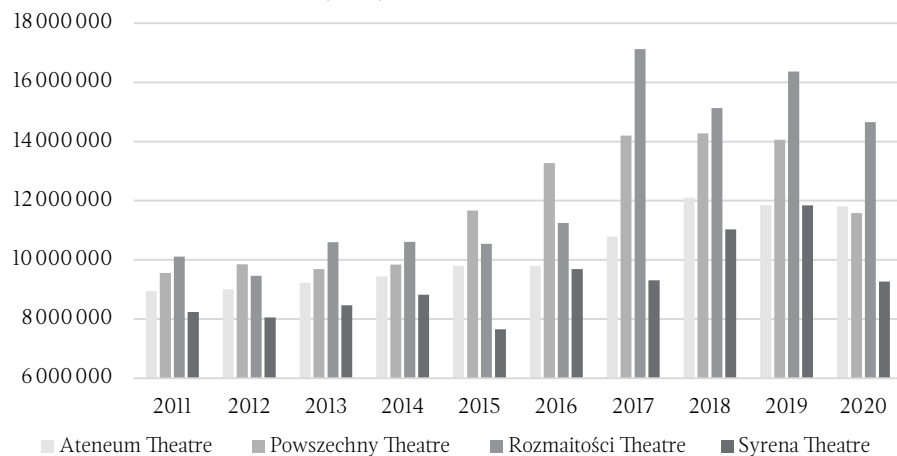
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Note: the results of this study were presented at the *5th Scientific Conference 'Institutions: theory and practice'* (15–16 September, 2022, Toruń, Poland).

Appendix

Chart 1.

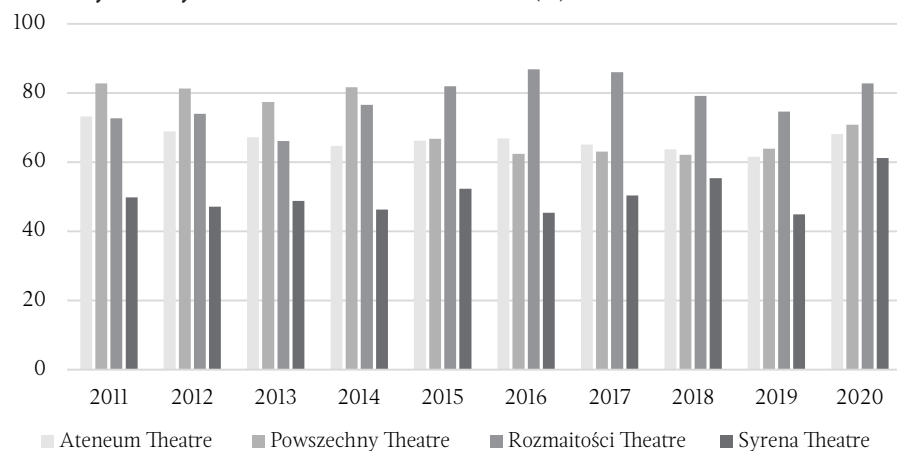
Total revenues in 2011–2020 (PLN)



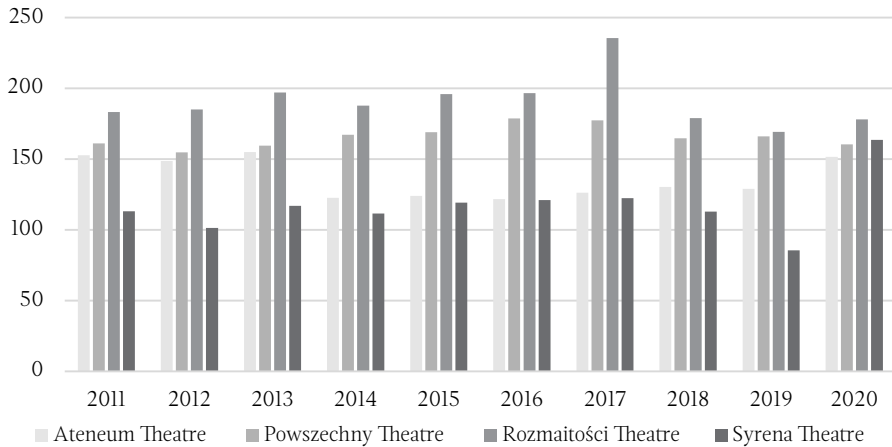
Source: Own research based on reports on the implementation of theatre's financial plans for 2011–2020.

Chart 2.

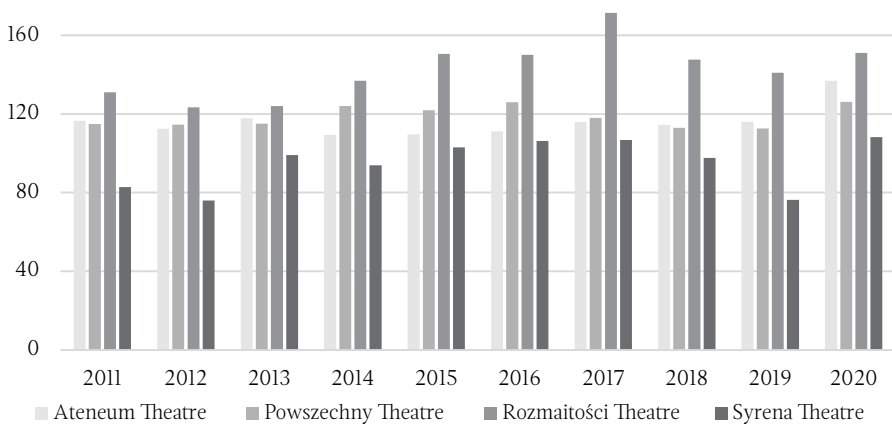
Statutory subsidy in total revenues in 2011–2020 (%)



Source: Own research based on reports on the implementation of theatre's financial plans for 2011–2020.

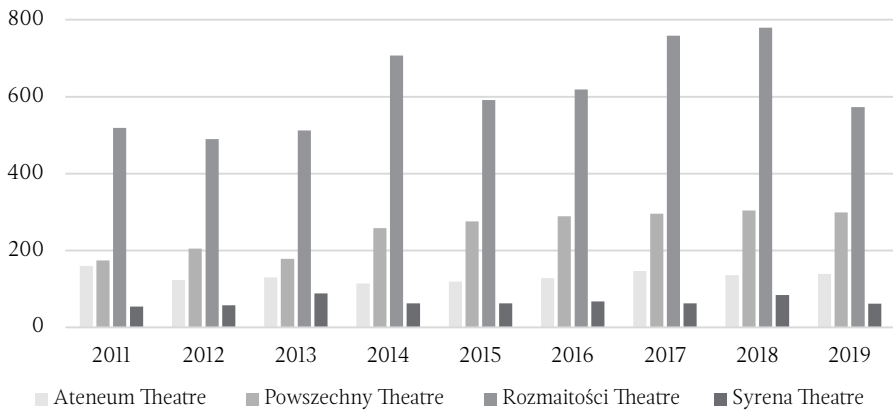
Chart 3.**The ratio of the statutory subsidy to the costs of full-time salaries (%)**

Source: Own research based on reports on the implementation of theatre's financial plans for 2011–2020.

Chart 4.**Statutory subsidy to total wage costs (%)**

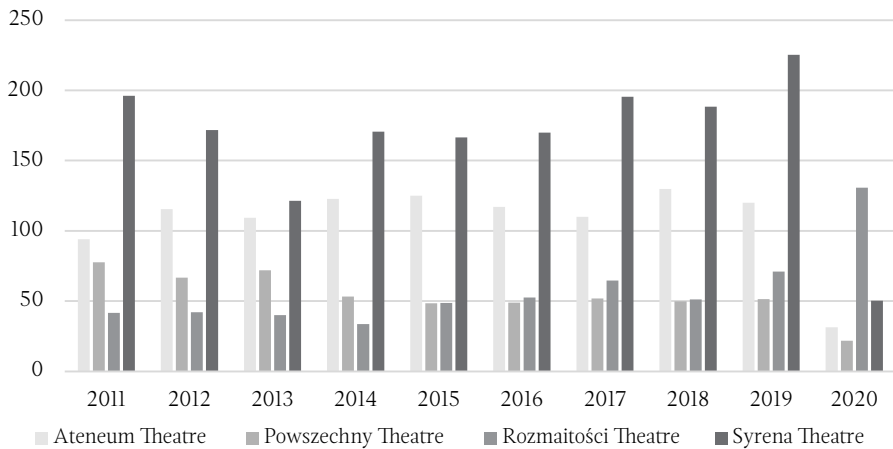
Source: Own research based on reports on the implementation of theatre's financial plans for 2011–2020.

Chart 5.
The amount of the statutory subsidy per viewer (PLN)



Source: Own research based on reports on the implementation of theatre's financial plans for 2011–2019.

Chart 6.
Number of viewers per seat in the theater



Source: Own research based on reports on the implementation of theatre's financial plans for 2011–2020.

