Performance indicators and cultural policy
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1. INTRODUCTION

Any organization designed to provide a service to the public and determined to survive and develop, must have before it, implicitly or explicitly, some measure of its degree of success in achieving its objectives. In the commercial world the rate of profit is widely used by owners of enterprises, though owners may now have to take account more and more of financial legislation which requires them to recognize other 'stakeholders' such as employees and consumers who are interested in measures of success. Annual company reports are now replete with statements which report their degree of success in meeting several criteria, though profit remains of prime interest to potential or actual shareholders. Criteria other than profit contain other non-monetary indicators such as stability in employment, protection of the environment etc. but aggregating these indicators with profit presents the familiar problem of non-additivity. 'One cannot add apples to pears' - to use the economist's favourite example - but, in principle, one should be able to determine the relative value, at the margin, of meeting one objective against another. However, in practice, this requires us to have a clear and unambiguous measure of each objective and also agreement on the trade-offs between them. Even if this is approximately realised, the resultant so-called 'true value added' of the organisation tells us very little about its efficiency, that is to say whether or not it is operating on its 'production frontier'.

The problem of defining and measuring 'success' is writ large in the case of that important institution, government, and particularly so in the case of cultural objectives. As Forte and Mantovani (2002 forthcoming) in a fundamental paper make clear, no one is willing to claim that they are against culture any more than they favour sin but defining its dimensions, agreeing on how to measure cultural 'improvement' and on the role of the state in promoting it must be matters of acute controversy. The most that one can expect is that some broad consensus of value judgments will enable governments to devise at least surrogate indices of cultural change which enlighten themselves and the public on whether policies are working in some desired direction. However, as Forte and
Mantovani point out, there is a long way to go in Italy - and for that matter in other
major countries supporting the arts and culture - in unearthing the basic information and
classifying it in suitable form

This contribution has a more modest and somewhat different though complementary
objective Any form of government financial support to cultural activities, whether to
private or to state-owned and operated organizations, requires procedures which
represent techniques of appraisal Indeed, the rationale of the collection and assimilation
of data representing the value and volume of cultural change lies in being able to use
these data to check on whether the performance of the grant-receiving bodies accords
with expectations

At the practical level this entails some form of contract between the government agency
offering finance and the recipient An important element in such a contract is some form
of monitoring of the recipient's performance

Performance indicators of varying degrees of sophistication are used by bodies such as
arts councils and commissions acting as agencies of government Assuming that these
can be delineated in some sensible form, then the difficulties in application are
recognized as of a technical nature [See the authoritative article by Schuster (1997). For
a comprehensive analysis of the use of indicators in comparing past performance in the
museum sector in Sicily, see Pignataro (2002)]

This provides a useful point of departure for a study of their practical application (see
part 2. below), but on examination of these difficulties one comes face to face with
philosophical and institutional problems which tend to be 'swept under the carpet'
Bringing these to the forefront of discussion forms a major purpose of this contribution
(See parts 3 and 4 below)

2. IDENTIFYING INDICATORS

The following is a list of the requirements that indicators must fulfil if they are to be of
practical use:

a. The indicator must be capable of quantitative expression, because the whole
   object is to measure changes in the activity of the arts organization There are
   many examples given in the literature of cultural economics, notably in the field
   of the performing arts, where number of performances and size of audience, box
   office receipts and ticket sales in a given time period are commonly used [See,
   for example, Towse (1994)]

b. The indicator must contain homogenous units, otherwise like is not being
   compared with like Consider the use of the number of orchestral performances
   as an indicator Each programme may contain a different number of works, be of
   differing lengths of time, and with differing orchestral inputs Clearly the
   indicator does not meet the test of homogeneity, and further refinement in the
indicator must be sought. A weighting might be introduced to reflect such differences provided that the components meet the first test of quantifiability (One notices already that the cost of refinement is the use of more statistical resources!)

c. The indicator must take account of quality changes. In the case of everyday goods within an index of a volume of trade, changes in quality take place so that over time the goods may no longer be comparable. Arriving at a definition of quality capable of being used as a component of the relevant indicator is essentially a subjective matter. In our example, there may be considerable disagreement about the variations in quality of performance from one period to another, depending on whether one asks the management of the orchestra, polls the audiences, or consults the critics who review its concerts, or the orchestral members themselves or their professional counterparts, and, if the orchestra receives public funds, the funding authorities. I once suggested that perhaps a consensus could be obtained for a measure of quality which I devised by weighting performances by the amount of rehearsal time devoted to their preparation. However, I decided it was not worth pursuing. In any case, I do not accept the labour theory of value! The fact remains that critics and others still make judgments about the progress of arts companies which imply quantitative change - "companies are improving; companies are declining in quantity, etc., etc." but argument by assertion and relying on authority is evidence of intellectual lassitude.

d. Where several forms of activity are delineated, a single measure of performance is impossible unless weights can be assigned to each activity. This does not apply, of course, when each level of activity is measured by the revenue obtained from it, in which case money values automatically are the appropriate weights. However, the precise reason why grants are given to artistic enterprises is to alter the pattern as well as the volume of their activities, in line with some perception of the uncovenanted benefits obtained. Pursuing the previous example, 'more weight' may be given to concert performances which have an educational content, are given in areas of 'cultural deprivation', present new works alongside the standard orchestral repertoire. As we shall observe later, there are particular difficulties associated with attempts to assign such weights which require attention to be paid to the institutional as well as the technical problems of arriving at them.

e. Performance indicators only acquire meaning if they show the relation between the volume of activity and the resources employed in producing them. Certainly, those providing such resources through some form of subsidization, not only government funding organisations but also private sponsors, are looking for some sort of 'value for money' indicator. Over time, this comparison of resource inputs with outputs offers a productivity index, provided that the inputs can also be expressed in volume terms. Thus inputs can generally be expressed in money values, even if some of these values, such as rent of own properties such as a concert hall and theatre, have to be imputed. A volume index requires that the money cost of current inputs can be deflated by an appropriate price index, e.g., the wage bill can be deflated by an earnings index. It is to be noted that the term 'cost' has different meanings for the different sponsors of arts organizations. For private sponsors, the financial cost expressed in 'real' terms is what concerns
them, given that the opportunity cost of funding is the next best alternative use of the funds to the private firm, person, or organizations offering financial support. In the case of government financing, the social opportunity cost may be considered the relevant concept. If musicians or actors were to be otherwise underemployed or unemployed and concert halls and theatres under-utilised, the cost index would have to be modified to take account of these factors. (For pragmatic reasons, these refinements are usually neglected).

3. USING PERFORMANCE INDICATORS A PRELIMINARY CANTER

Some of the uses and limitations of performance indicators can be demonstrated by the use of a simple example taken from an investigation of the author (See Peacock, 2000). In the following table covering England only, I show some calculations which identify both an indicator of performance (Visits to Museums) and the financial input from government sources (grant per visitor) for three recent years:

<table>
<thead>
<tr>
<th>Institution</th>
<th>1994-95</th>
<th>1998-99</th>
<th>2001-02</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>British Museum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visits (mns.)</td>
<td>6.4</td>
<td>5.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Grant (£ per head)</td>
<td>5.3</td>
<td>6.2</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Natural History Museum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visits (mns.)</td>
<td>1.6</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Grant (£ per head)</td>
<td>16.8</td>
<td>14.2</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>British Library</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visits (mns.)</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Grant (£ per head)</td>
<td>174.0</td>
<td>193.6</td>
<td>159.6</td>
</tr>
<tr>
<td><strong>National Gallery</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visits (Index)</td>
<td>100.0</td>
<td>109.0</td>
<td>110.0</td>
</tr>
</tbody>
</table>

Note: Data for 2001-02 are provisional only.

The first point to be noted is that even the presentation of a very simple indicator such as number of visits presents officials with problems of calculation. It must have been something of a revelation to the funding authorities that such an important institution as the National Gallery was not able to supply it with actual figures for those who visited it. (They believed that in 1994/5 the figure was somewhere 'between 4 and 5 million!') Why it was not apparently obliged to supply accurate figures raises an interesting question about the then financial relations between the National Gallery and the English Department of Culture, Media and Sport. We shall return to this matter of the government-arts organization inter-face a little later.
The second point of interest is the considerable disparity between the different institutions in regard to the input of grant per visitor and the output of visits. While having an intrinsic interest, the comparison is useful because those organizations who appear to be comparatively 'inefficient' because of their relatively high financial input per head are put in the position of having to offer explicit reasons for what appears to be relative generosity. If we take the British Library, for instance, its Trustees would no doubt be most upset at the idea that its employees do not provide a good service. Following our previous analysis, they could point out that any crude visitor numbers data would have to be adjusted by the quality of the visits. Readers go there not to look at objects but to conduct research. Visits would have to be weighted by the number of documents per head consulted and the length of time of visits. Moreover, the Library is a multi-product organization with an obligation to act as a 'library of last resort' to libraries throughout the country unable to track down research material for their readers. This leaves hanging in the air the obvious additional consideration of what arrangements are made between the funding authorities and the Library about the proposed weighting of one activity as against another.

The third point is barely illustrated with our simple data but is implicit in the movement of the input and output variables. Interest of funding organisations, as well as the organisations themselves, attaches to trends in the relationship between output and public financial support. The kind of questions that occur are: What kind of deflator would one use to express data in real terms? Are there economies of scale detectable in relationships between output and input such which could influence the financial provision made by government funding agencies? However, a more relevant consideration is whether or not the ex post data reflect the expectations of the funding authorities. To find this out entails a comparison between the 'corporate plans' of the galleries and museums relating to the time period in question and what subsequently happened to the indicators of their performance. This seems a minimum monitoring requirement even if the plans themselves may reveal little about the choice of performance indicators, if only to ensure that reasonable explanations can be offered for disparities between plans and outcomes. This is quite apart from ensuring that the financial accounts of recipients are drawn up in a form required by fiscal and accounting law (While these seem obvious parts of a monitoring system, in the author's experience, they are not pursued as vigorously as one might expect).

This last point suggests a more fundamental question about the use of performance indicators. Their use postulates some form of contractual arrangement between the funding authorities and subsidised arts organisations about the choice of indicators and expected movements in the value of indicators, provided, as is usual and sensible, subsidy is to be awarded currently to cover expected expenditure. This would not preclude some compromise of a kind common in commercial contracts, by which a final payment relating to past performance is only made on evidence of satisfactory completion of the agreed terms of the contract. This brings us into rather unfamiliar territory in cultural economics but one which it is essential to explore if one is to fully understand the process of financial control.
4. PERFORMANCE INDICATORS AND THE PRINCIPAL-AGENT PROBLEM

The analysis of performance indicators as a planning tool by government in providing funding to arts companies very much depends on the institutional and financial independence of the latter from the former [For discussion of this issue, see Ricketts (2002)]. While an arts organization might be formally independent as a legal and accounting entity, it could be claimed that if the large proportion of its current revenue takes the form of government grants it is virtually a part of the public administration. If that is the case, the ability to control subsidies so that they are efficiently used is meant to be guaranteed by the determination of the form and the magnitude of performance indicators chosen by the financing authorities.

That this is a naïve view is confirmed by both economic analysis and practical experience.

As soon as we build a simple model reflecting this assumed ability, this becomes clear. Economists would identify this situation as one where the arts organization in receipt of subsidy is a passive reactor to instructions by the funding authorities. If we take the simple case of the offer of a subsidy of per unit of output (however identified and measured) then the output of a non-profit-making recipient should increase and, given a horizontal marginal cost curve, should do so in proportion to the size of the subsidy per unit. Thus a contract might be drawn up which specifies what the 'output' target, e.g. number of theatrical or orchestral performances, is to be for a given period of time and for a given amount of subsidy per unit of output. If only life was as simple as this! The success of this exercise, which so far assumes one single performance indicator which meets the criterion of homogeneity, depends on the lack of any opportunity and will by the recipient to exercise discretionary behaviour. Even if we assume that the recipient is so dependent on government grants to be virtually an arm of the administration, then, as Ricketts (2002) points out, the economic theory of bureaucracy would indicate that there are considerable difficulties in the way of ensuring that costs are minimized.

A more apposite paradigm for examining the relationship between the funding authorities and the arts organization recognizes that, in any situation where the latter is not able to franchise the service and therefore operate a competitive tendering system, we have a classic case of the principal-agent problem with asymmetric information. The common relationship is no longer one of constrained maximization by the recipient but one where bargaining has to take place in order for an agreed solution to emerge [For a detailed analysis of bargaining theory applied to public sector institutions, see Forte and Powers (1994)] Thus established institutions of longstanding and high reputation, such as those represented in the above table, are the sole source of information about their costs and their trustees and management the accepted judges of the quality of their own products. This is not to say that detailed enquiry cannot be undertaken by the funding bodies into the financial affairs of such institutions and comparisons made with similar institutions either of a private character or with those of other countries; but close scrutiny of this kind is itself a costly procedure. Estimates of the costs of production have to be derived largely from information supplied by the party most affected by the results. In consequence, our use of a constrained maximisation model misses an
essential point, neatly expressed by West (1987) that: "there is an implicit assumption of zero interdependence between the granting of subsidy and reported costs" It has to be taken on trust that the unit subsidy would produce movement along a minimum marginal cost curve whereas there is an opportunity to accumulate 'rents' by disguising them as costs. Of course, being aware of this kind of challenge to information provided, institutions in this position are likely to strongly deny that this would happen. This kind of protest is associated with situations where there is pressure on the funding authorities to limit expenditure increases, in which case it is invariably claimed by those in receipt of public funds that a reduction in subsidy per unit of output will lower its quality. The classic case in the UK has been the British Broadcasting Corporation (BBC) which continually protested at having the bulk of its finance provided from a tax on television sets but tied to the consumer price index and, according to the BBC, reducing the quality of their output.

Thus the success of a funding authorities in establishing the use of performance indicators as a method for estimating and not merely recording arts expenditure ex post does not by itself guarantee effective financial control. The problem becomes even more complicated when arguments in favour of the positive external benefits from artistic activities are taken into account. This requires the identification of further performance indicators of the kind mentioned in section 2 above. Furthermore, it implies that funding reflects some kind of weighting system. There is a further difficulty of budgetary planning. The simple indicator of output bears some relation to the interests of the public for the prospect of some reduction in costs caused by subsidies should encourage more visits to cultural pursuits. However, even in this case what is on display in museums and galleries is not chosen by the public directly. The choice of artefacts offered for reasons other than display for the viewing public's direct benefit is even more dependent on the professional judgment of those who manage the very institutions employing them. There is a good case to be made for such an approach and for peer group assessment as a device for ensuring that professional judgments are well founded in deciding on the 'portfolio' of artistic collections. However, when it comes to financial control a major problem arises in trying to facilitate negotiation between funding bodies and arts organizations displaying and preserving historical artefacts where a judgment necessarily has to be made about the interests of future generations. Cognoscenti are notoriously unwilling to be faced with decisions which involve defining the opportunity cost of competing claims of artefacts which they claim are 'beyond price'. This patrician attitude, often presented in most persuasive terms, is, however, a convenient way of masking the profound differences amongst them about the aesthetic value of different schools of painting and architecture. The consequence is a determined resistance to attempts to identify and to quantify measures of performance and in extreme cases to try to embarrass funding authorities, and particularly their political masters, by public campaigns against their 'philistine attitude'. In other words, one way of strengthening their bargaining position as receivers of public money is to bring other players into the 'game' who will support their cause. For the personal experience of the author in the bargaining process involved in funding, see Peacock (1993).
I cannot speak about Italian practice, but in the UK, the funding authorities, notably the Department of Culture, Media and Sport (DCMS) for England, have had to rely on the development of monitoring techniques within the traditional framework of budgetary control. Thus the Annual Reviews of Public Expenditure offered by the Chancellor of the Exchequer submitted for Parliamentary approval are supplemented by a detailed annual report by DCMS displaying a considerable improvement in information flows compared with ten years ago.

As a cultural economist, I was amazed to find that until 1996 the British Museum published neither an Annual Report nor a Corporate Plan. Provision of these documents is now common practice, and these will contain detailed revenue and expenditure estimates, capital plans, and general accounts of strategic objectives. [For a good example see The Natural History Museum (1998)]. These documents do not conform to some rigid formula of exposition, and the cynics must regard them as often clever 'pre-emptive strikes' to instil the idea in government that they are grossly 'underfunded' - a term which I believe should be banned from the vocabulary of professional discourse. Of course, the British Treasury, noted for its longstanding attempts to impose general rules of budgetary control, has played an important part in the refinement of techniques of cost-benefit analysis which are now widely used in the appraisal of capital expenditure projects in the arts, including preservation of historic buildings. The final arm of financial control is exercised by the National Audit Commission which not only inspects and comments on accounting standards of all Ministries but can issue ad hoc reports on the efficiency and effectiveness of publicly-financed operations, including non-governmental bodies. Several of these relating to the arts have implicitly recognized that performance indicators have a role to play in financial control but recognize the difficulties already discussed.

The positioning of performance indicators within this traditional framework displays a rather tentative approach by the public authorities. No doubt spurred on by the National Audit Commission, in 1999 the DCMS published a commissioned report in several volumes on efficiency and effectiveness of Government-sponsored museums and galleries which was prepared by the well-known financial consultants, Deloitte and Touche. An economist is likely to be left with the impression that the consultants were 'captured' by the Directors and Staffs of our major museums and galleries whose views on such matters as inventory management, storage of artefacts, and security issues were treated with deference. In regard to these matters, no reference is made in the Reports to budget constraints as an important element in determining the allocation of resources. So far as performance indicators are concerned, it concludes that 'best practice' requires that there should be something euphemistically called 'iterative consultations' between the funding authorities and the national museums and galleries. In short, this was implicit recognition of the view that the asymmetric information problem was insoluble.

I have only come across one example of the outcome of such 'iterative consultations' which has been made known to the public. This appears in the annual reports of Historic Scotland, which is a government agency responsible for the public sector's role in...
preserving and restoring historic buildings and sites It publishes an annual table showing selected performance targets and the extent to which these are achieved with a given year These include (i) number of additional monuments scheduled for preservation ;(ii) number of repair projects ;(iii) proportion of visitors 'satisfied' with services (based on surveys) ; and (iv) average amount spent by visitors This body's annual reports may be commended as 'best practice' and the agency is quite open about the extent to which targets depend on negotiation although these are fixed by the funding authority , The Scottish Executive The success of negotiation may be judged by the fact that all targets are 'achieved' ( some 'over-achieved' !) or very nearly so over recent years!

6. CONCLUDING REMARKS

The critical analysis of the nature and significance of performance indicators presented above might suggest that they should be regarded as a subsidiary tool of appraisal The logical case may be impressive but , presented with the difficulties of implementation, the administrator may be tempted to recall the famous aphorism of the British Higher Civil Service that 'the best is the enemy of the good' However, this sweeping condemnation implies that policy measures can be subject to some absolute and final judgment This would be contrary to the teaching of economics that in allocation of resources, including those resources devoted to improving the allocation of resources, what matters is opportunity cost

The opportunity cost of performance indicators in the array of financial control techniques will vary with the circumstances facing the funding authorities Where clear and unequivocal indicators can be found and there is trust between the funding authority and the recipient , their opportunity cost would suggest that they can be at least a useful supplementary tool of control alongside the traditional ones associated with general government auditing and accounting rules The general point to be made is that one is searching for some kind of simulation of a pricing system which, in a free market, provides what Robbins was wont to call a 'continuous referendum' by the consumer What has to be kept in the forefront is the requirement of offering an incentive to the recipient to act efficiently, which a pricing system is meant to achieve This helps to explain why, although performance indicators may be used primarily to track past relationships between plans and outcomes , more direct methods may be employed to meet the incentive requirement An obvious example which is widely used is incentive funding by which the arts organization receives a matching grant based on its own efforts to raise funds from private sources , including ticket sales and similar charges paid by the public Any corporate plan must then embody a forecast of the sources of public and private revenues alongside expenditure and any contingency measures to allow for uncertainties in plan fulfilment This certainly does not remove the bargaining features already outlined and, Schuster (1997) offers graphic illustration of ways in which recipients may 'cook the books' in order to exaggerate the extent of private support However, a full consideration of this alternative is beyond the scope of this present investigation.
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