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Short Paper submitted to track

**ORGANIZATION:**

Theory and Design

## **Board of directors' profile and organizational performance in the cultural sector: the case of Italian opera houses**

### **Short Paper**

The importance of the Italian opera in the cultural scene is undisputed; in a country where heritage is protected by the Constitution, it is not surprising that opera houses are an important part of the Italian cultural landscape, with 14 lyric sinfonic foundations, 28 local opera houses, 6 opera festivals, 3 festivals performing also opera. While still representing one of the main characteristics of the Italian identity worldwide, viewed from Italy, the present of opera is much less shining than its past. Many theatres are struggling: State and local financing is reducing, as a consequence of both austerity measures and an overall strategy of “deétatisation” (Tajtakova, 2006; Zan, Baraldi, Gordon 2007). Additionally, contributions from private donors are constrained by lack of incentives and complex policies while the well-know problems related to the complexity and economic viability of opera are still present (Baumol and Bowens, 1966; Towse, 2002; King, 2002).

Both the cultural policy reforms of the last governments, that foster a greater autonomy and managerialization of the Opera Houses (see Cerrina and Ferroni, 2012, for an account of the last reforms and their aims), and the general news press echoing recent scandals in the management of such institutions point to the need to understand the role and impact of the board of directors in the performance of such hybrid organizational forms. Beside the practical and timely relevance of the topic, the need to study such link is also highlighted in the academic field. Although in the last decades researchers have dedicated attention to the board of directors both in the corporate and in the non-profit sector (e.g., Cornforth, 2001; Hillman and Dalziel, 2003; Miller, 2002; Miller-Millesen, 2003; Turbide, 2011), such a relationship has never been examined in the performing arts industry. This work, therefore, represents a first step in the direction of analysing such impact and a contribution to this literature.

The most important theories applied to this topic are agency theory and resource dependence theory (Boyd, 1990; Pfeffer and Salancick, 1974; see for a review Hillman, Cannella and Paetzold 2000; Miller, 2002), with respect to the two

important roles that directors perform in the organization, namely monitoring the activity of the management and providing critical resources. As recent research suggests, an integration of agency theory and resource dependence theory is more useful to fully understand the dynamics of board of directors' activity. Integrating agency and resource dependence perspectives is important because it may help to overcome "a current myopia within the two streams of research" (Hillman and Dalziel, 2003, p.383). Since directors in reality engage in both functions, monitoring and provision of resources, an integrative theoretical framework will not only reflect more accurately the real world, but also may overcome theoretical weaknesses in choosing one approach over another.

According to existing literature, a change in the external environment makes specific types of directors more or less valuable for the organization. Particularly in the literature on corporate board of directors, there is a consensus on the fact that the composition of the board reflects the environment where the firm is embedded (Hillman et al., 2000). Therefore, research has proceeded in the identification of specific types of directors who address various environmental needs, by bringing different resources at the board table. Furthermore, research on the relationship between board composition and firm performance suggests that a firm may improve its effectiveness by selecting different types of directors on the board according to the types of resources that are most important considering the external environment. Thus, scholars recognize that "it's not just the number, but the type of directors on the board that matters" (Hillman, Withers and Collins, 2009, p.1408).

Moreover, literature on this topic stresses the importance of conceptualizing governance "as an ongoing evolutionary process" (Gabrielsson and Huse, 2004, p.25), suggesting that future studies should take "a longitudinal perspective by comparing and contrasting data and analyses over time" (p.25). Because of the idiosyncratic nature of firms, board resource and monitoring needs tend to change over time. Thus, scholars tend to agree on the fact that "longitudinal studies that explore these changes will provide significant contributions" (Hillman and Dalziel, 2003, p.394).

Similarly, the literature on non-profit organizations gives prescriptive advice on specific activities that should be performed by the board. Empirical studies of non-profit board performance have been concerned with the relationship between board composition and organizational effectiveness as well. Of course, the application of

agency and resource dependence perspectives to non-profit boards requires some specific considerations, due to the different nature of the governance structure of these organizations. The agency role of directors in non-profit organizations does not only regard monitoring ethical and financial behavior, as it is for corporate boards, but it refers also to the board's role to ensure adherence to the organization's mission and values (Brown, 2005). The resource dependence role, instead, is referred mainly to the development of exchange relationship with external constituencies, gathering information from the external environment, representing the organization to external stakeholders and foster the organization's legitimacy. For organizations of this type, indeed, networking represents a fundamental function (Paulus and Lejeune, 2012; see table 1 for a synthesis of the theories).

We build on these recent evidences and call for a deeper understanding of the role of board of directors in influencing organizational performance to answer the question: how does board composition impact on the performance of opera houses? In particular, we explore the impact of different types of directors on theatres' revenue structure, assuming that the composition of revenues will reflect the different directors' contributions.

Since such a relationship has never been examined in performing arts organizations, we draw on existing literature on both corporate and non-profit boards in order to develop a specific typology applicable to this type of directors. Thus a contribution of the paper is the integration of both agency and resource dependence theory, to develop a classification of board members' profiles, applicable to this specific context and based on the critical resources they are expected to bring at the board table. Five directors' profiles are identified, on the basis of what in the literature is called "board capital" (for example Hillman and Dalziel, 2003), that is the mix of the individual's previous experiences, education, background and personal relationships and affiliations. The underlying idea is that, although all the board functions are performed at the group level, at the individual level we can observe a specialization: different directors with different profiles will contribute to the board activity in different ways (see table 2 for the typology).

This typology is based on information on opera houses' board members collected for the complete population of the 14 Italian Fondazioni Lirico Sinfoniche (FLS) for a period of time ranging from 2004 to 2012. Additionally, of revenues structures, programming and theatres characteristics were also collected.

In order to test empirically the impact, if any, of the different board members' profiles on the revenue structure of FLS, a panel data analysis was performed. The results, although not conclusive, indicate that board capital composition matter and has an impact both on total revenues and their structural compositions.

As for board profiles, all of them but the artists profile (type 2) resulted to be positively significant on total revenues (see Table 3). We would expect different profiles to impact on different revenue sources. For example, we would expect board profile type 3 ("cultural managers") to positively influence earned income, since directors were assigned this profile if they possessed specific knowledge and experience in the management of similar cultural organizations. However, this assumption was not confirmed because the number of individuals with profile 3 was not significant in determining earned income. Similarly, we would expect profile types 4 and 5 ("other specialists" and "influential people") to impact on private contributions, because among the resources they are expected to bring at the board table there are their professional and personal relationships and networking experience. Again, this assumption did not find validation since the related variables were not significant in determining the amount of private contribution. On the other hand, profile type 2 ("artists") resulted having a negative impact on private contributions. This can be explained by considering that people with a neat artistic education tend to prioritize artistic quality, even at the expense of popularity of the product and economic sustainability. As highlighted this is referred to what Lampel, Lant and Shamsie (2000) identify as one of the five polarities that shape organizational practices in cultural industries: "artistic values versus mass entertainment" (p.265). On the contrary, private contributors tend to prefer more traditional choices, at the expenses of artistic innovation (see Table 4 for a summary of the results). Finally, the managerial implications of such an analysis regard the possibility to identify for each profile what is the impact on the different revenue streams, so that an opera house could select its directors according to its strategic objectives.

**Table 1. Summary of the two major theoretical approaches to the study of board of directors and their impact on performance**

	<b>Best practices</b>	<b>Private Sector</b>	<b>Non-profit sector</b>
<p><b>Agency theory</b></p> <p>Board of directors as a control mechanism over management actions</p>	<ul style="list-style-type: none"> <li>• determine the mission;</li> <li>• approve programs and services;</li> <li>• ensure effective planning;</li> <li>• establish policies and financial controls.</li> </ul>	<ul style="list-style-type: none"> <li>• monitoring managerial action;</li> <li>• monitor financial indicators;</li> <li>• increase shareholder wealth.</li> </ul>	<ul style="list-style-type: none"> <li>• board's participation in developing mission and purpose;</li> <li>• establishing measurable goals and objectives;</li> <li>• assure congruence with mission-related priorities.</li> </ul>
<p><b>Resource dependence theory</b></p> <p>Board of directors as a mechanism to gain access to scarce resources and information</p>	<ul style="list-style-type: none"> <li>• identify the best candidates;</li> <li>• provide valuable resources;</li> <li>• access information;</li> <li>• foster firm's legitimacy.</li> </ul>	<ul style="list-style-type: none"> <li>• improve coordination among firms;</li> <li>• establishing board interlocks.</li> </ul>	<ul style="list-style-type: none"> <li>• establishing links with constituent groups;</li> <li>• boundary-spanning to increase flow of critical resources.</li> </ul>

**Note:** Elaborated on the basis of Miller-Millesen, 2003.

**Table 2. Typology of profiles in the FLS**

<b>1. Controllers</b>
These are directors who perform the agency role. They are typically representatives of the government and do not necessarily possess specific competences in the performing arts field. Instead, they monitor the management conduct in response of the need of accountability that is more and more related to the provision of public resources.
<b>2. Artists</b>
These are directors with specific artistic competences, typically with a musical education and a successful career as performers or conductors, or as theatre and stage directors. Directors with such a background can provide expertise on the musical field, thus advising and/or challenging the superintended (and artistic director) on artistic issues. This profile draws on the artistic profile described by Turbide (2011) as “held by a person who knows the artistic field and is able to challenge the executive director when necessary” (p.14).
<b>3. Cultural managers</b>
This profile is assigned to directors with managerial competences and experience specific to the performing arts sector. They provide an expertise on decision-making and problem solving which is directly applicable to the management of performing arts organizations. In this sense, cultural managers are in non-profit performing arts boards what Hillman and colleagues’ “business experts” (2000) are in corporate ones.
<b>4. Other specialists</b>
These are directors who provide specialized knowledge in other fields. They are typically business managers with an economic and financial background, lawyers, bankers, but also engineers, marketing and communication experts and so on. Beyond their personal expertise, they provide links with the external environment.
<b>5. Influential people</b>
These are directors who do not provide specific knowledge or expertise, but are illustrious members of the society and possess a valuable network of links with the external environment. Furthermore, their reputation fosters the prestige of the foundation. This profile is in line with Turbide’s (2011) fundraising profile, held by someone who “is acquainted with influential people in a position to enhance the financial capabilities of the organization” (p.14). It is also similar to Hillman and colleagues’ “community influentials” category.

**Note:** based on Hillman et al., (2000) and Turbinde (2011)

**Table.3 Fixed effect panel regression on the impact of different profiles on the performance**

<b>Total revenues</b>	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
PR1 Controllers	1858227	1114196	1.67	0.099	-356004.6	4072458
PR2 Artists	147231.2	907334.8	0.16	0.871	-1655906	1950368
PR3 Cultural managers	2171493	1184577	1.83	0.070	-182604.6	4525590
PR4 Other specialists	1963263	1047894	1.87	0.064	-119205.3	4045731
PR5 Influential people	3171129	925826.2	3.43	0.001	1331244	5011014
President change	-11949.3	74563.79	-0.16	0.873	-160129.2	136230.6
Superintendent change	-25279.01	1330265	-0.02	0.985	-2668902	2618344
AD change	178894.6	59498.81	3.01	0.003	60653.22	297136
Superintendent Past experience	64529.18	1320051	0.05	0.961	-2558794	2687853
AD Past experience	-176908.5	62953.6	-2.81	0.006	-302015.6	-51801.46
Board number	-1790547	1302966	-1.37	0.173	-4379919	798824.2
Compulsory administration	3679594	7198223	0.51	0.611	-1.06e+07	1.80e+07
Constant	3.51e+07	4077764	8.61	0.000	2.70e+07	4.32e+07

**Table.4 Summary of the typology, hypotheses and results**

<b>Profile</b>	<b>Critical resources</b>	<b>Expected impact</b>	<b>Observed impact</b>
Controllers	Monitor the adherence to accountability principles related to the provision of public resources	Public funds (+)	Earned income (+) Private funds (-)
Artists	Specific artistic competences	Earned income (+/-) Public funds (+)	Private funds (-)
Cultural managers	Specific knowledge and experience in the management of similar cultural organizations	Earned income (+)	none
Other specialists	Professional and personal relationships, networking experience	Private funds (+)	none
Influential people	Personal relationships, networking experience, legitimacy and prestige	Private funds (+)	Earned income (+)

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