

FINANCE MANAGEMENT IN ARTS ORGANIZATIONS IN BULGARIA

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Abstract: Arts organizations are a major factor in the Bulgarian economic. Good management of Art organizations is also associated with good financial management and control in order to achieve their goals and objectives. The delegated budgets, the small scale of most of the Arts organizations, are a prerequisite for saving money or imposing the appointment of a financial controller. The lack of such a specialist in turn leads to poor control, inefficient spending of funds, violations and failure to verify costs, which can sometimes lead to bankruptcy. The objective of the report is two-sided - on the one hand, preventing the repetition of mistakes perceived as unsuccessful practices and, on the other hand, emphasizing the place and role of controlling the financial execution of a project and its importance for optimizing the effectiveness of the implementation as well as in the overall activity of Art organizations.

JEL Classification Numbers: M21, O22, Z11, **DOI:** 10.12955/cbup.v7.1356

Keywords: Finance, management, Arts organizations

Introduction

The sector of cultural and creative industries represents 10% of the economically active enterprises in the Bulgarian economy, in particular the city of Plovdiv.

More than 7 million people work in Europe in the sector of Cultural and Creative industries.

In Italy is defined as the „third sector” (Berlinguer, 2012).

Globally, the economy that covers this sector is called the „Orange Economy” in Latin America and the Caribbean (Buitrago and Duque, 2013).

The UNESCO Institute for Statistics (UIS) conducts and publishes the only global survey on employment in the field of culture, and also provides training for national statistical institutes. It offers a unique selection of indicators that countries can use to answer questions such as: What is employment in the cultural sector and useful findings and directions for development (UNESCO-Global Report, 2018).

The UNESCO report entitled "Reshaping cultural policies" (2018) aims to ensure the preservation of cultural heritage and ensure sustainable development by 2030. Worldwide exports of cultural goods are estimated at 253 billion USD dollars, with half of those employed in the sector being women. The findings highlighted by the institute are related to increased cultural product exchange between developing countries and northern markets, growth in global commerce in cultural goods by 20% in 2014 compared to 2005, accentuation and development of digital platforms, the creation of internal quotas for increasing audiovisual production, and new policies and commercial contracts for trade in cultural products.

In his report "Cultural Policies in the Age of Platforms" Octavio Kulesz draws some key findings:

- The cultural value chain is rapidly transforming, similar to a network model, but few countries have the resources to address these changes.
- Many countries apply digital culture policies that go beyond the initiatives to strengthen nodes.
- The Global South, despite the benefits of mass acceptance in many countries, lack the infrastructure to consolidate the market for cultural goods and services.
- The bulk of data disseminated on the Internet is steadily rising and revenue too. In 2016, revenue in the music market grew by 17.7%, due to the rise in streaming revenue.
- Digital revenue accounts for 50% of the recorded music market.
- The public sector may lose its entire creative scene completely unless a new approach is adopted to tackle the growth of market concentration on large platforms or the monopoly of artificial intelligence.
- There is no new type of relationship between the public sector, private companies and civil society based on interactivity, cooperation and co-building of policy frameworks (Kulesz, 2018).

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In this context, trust between the creator, public sector arts organizations, private sector arts organizations and the consumer of products is very important. The consumer not only excites, enjoys, buys and consumes cultural products, but also through his taxes supports the cultural industries that work with public funds. For this reason, it is important public funds for culture and art are spent as they are intended, legitimately and expediently.

Creators and managers of creative products work in a rapidly developing environment that is particularly pretentious in terms of the purpose it has - to excite and influence the user, to create emotions and to cultivate a taste for beauty, good, and sustainability.

This article is based on empirical research conducted in 2018. The subject of the study was art organizations from the city of Plovdiv, Bulgaria, and the empirical research was the management profile - forms of management, financial management and control, and project management. The profiles of the art organizations in the city were examined with the help of an expert map for depth research. 105 art organizations were interviewed through their managers. This research approach allows us to expand the knowledge and potential of art organizations, to evaluate and select appropriate tools to finance and improve financial control in organizations. Respondents met the following three criteria: 1. they are companies registered in Plovdiv; 2. they carry out activities related to creative work or are a cultural industry; 3. they perform activities that are related and subject to copyright.

The aim of the research was to analyze the management features of the arts organizations thorough analysis, while at the same time identifying the difficulties related to their financial management, control and realization of projects.

The article presents the results obtained, complements it with new ideas and develops the topic of financial management and control at the national level.

The effect that arts organizations have on the quality of life besides social, cultural and economic. The Arts organizations have a great impact on the cultural and social life and in addition to that they also have an economic impact. In this context, the development and upgrading of financial skills and opportunities to cope with the financial crisis, the use of financial capabilities and the use of financial mechanisms for the development of arts organizations is of particular importance. Not only knowledge of financial engineering, but also effective and efficient use of resources is needed. Achieving the goals of arts organizations and giving reasonable assurance to management is achieved through sound financial management and control based on economy, efficiency and efficacy, consistent with constant internal and external changes in the environment.

Economics is the acquisition of the goods, materials and services at the least cost of the resources needed to carry out the activity and to achieve the goals of arts organizations. Efficiency and efficacy in spending money depend on the competence, the awareness of art managers.

Effective spending of resources (human, material, financial) involves the use of a minimum amount of resources to achieve maximum results. In order to have a balance, it is necessary to increase the results obtained by increasing the expended resources. When increasing resources, but preserving the size and quality of results, the effectiveness is decreasing (Seykova, 2018).

From the point of view of financial management and control, effectiveness reflects the degree of achievement of the objectives when referring to actual and expected results.

Efficiency is determined by achieving the goals regardless of the resources invested.

Efficacy is to achieve maximum results from the resources used in carrying out the activity of arts organizations.

An example of efficiency may be the timely firefighting of a gallery that would save a cultural heritage of a state, in this sense the value of the money invested is not important, but the achievement of the goals is. Or, the inputs for security systems, in which case the achievement of the goals of arts organizations is more important and it is necessary to achieve maximum and guaranteed efficiency and efficacy.

Spending public funds also requires transparency, so that the public is confident about where, how and why public money is spent.

Practical examples and consideration

According to Anna Veleva and Margarita Ruseva, in their book "The aggregate approach in statistics": "Statistics is an open system of rules (scientific macroknowledge and macroskills) that serves the human information system (HIS) in searching, finding and using the truth in a given problem situation - the truth as it exists in the reality. They are convinced that the HIS is self-organizing, self-controlling, self-governing and self-developing biological integrity, unity and synchronicity of matter, knowledge and energy (Veleva and Ruseva, 2016).

Dr. Vasil Kolev, in his article "Government subsidies in Bulgaria granted by the Ministry of Culture for creative projects for the period 2007-2018", notes that: "The state policy for the development and protection of culture and the preservation of cultural heritage in the Republic of Bulgaria is implemented by the Ministry of Culture. With the admission of Bulgaria to the European Union and the reform of the budget system in 2007, the budgetary expenditures of the ministries, including the Ministry of Culture, is structured in program format and funding is provided for separate policies and programs, rather than providing total budget divided by type of revenue, expenditure, transfers and indicators as it was until 2006. By the state budget decree from the same year, the Ministry's expenditures are presented in three policies and twelve programs. "The policy in the field of preservation of the cultural and historical heritage and support for the creation and distribution of art and cultural products and services" is structured with eight programs: "Preservation of the immovable cultural and historical heritage", "Preservation of the movable cultural and historical heritage" , "National Culture Fund", "Film Art", "Theater Art", "Music and Dance Art", "Ensuring the Protection of Intellectual Property" and "Supporting the Development of Bulgarian Culture and Art, the Bulgarian Book sector, libraries and community centers". In the framework of the approved costs of the program in section two " administered budget expenditures "subsidies for the preservation of cultural values, art projects and other activities are provided." (Kolev, 2018).

The Audit Office of the Republic of Bulgaria conducts an audit in 2018 of the Ministry of Culture for the period 01.01.2013 - 31.12.2014 and gave recommendations that needed to be addressed in due course. The audit is in connection with the implementation of the annual program of the Court of Auditors, the scope of the audit task includes the areas of Cultural Heritage, Museums and Fine Arts (NMNI); "Performing arts and arts education" (CITES); "Copyright and Related Rights" (APPS); "Control over the organization and efficiency of the administrative activity of the Ministry of Culture and the Secondary Authorities"; "Internal audit"; "Public Procurement" and "Property Management"(Audit for the Financial Management of the Ministry of Culture, 2018).

As a result of the audit, recommendations were given to the Minister of Culture. The recommendations are related to updating the rules, analyzing the rules, putting in place adequate control activities. In summary, the recommendations can be presented as follows:

- Verifying and analyzing the internal rules related to financial management and the control of state funding.
- Reviewing and analyzing the rules for financial support and targeted funding of creative projects as well as the ex-post control over the implementation of the concluded contracts.
- Introducing adequate control activities to ensure compliance with the legal framework, including, but not limited to, intellectual property rights.
- A similar need for introducing new rules or for updating the old ones is also observed in the Arts organizations. Practice shows that many managers underestimate or do not know good financial management and control, and this leads to poor spending of public funds, which in turn leads to financial sanctions on the part of funders and is often a real prerequisite for bankruptcy. The high requirements imposed by funding organizations, in the absence of a system of financial management and control in arts organizations often prove to be an obstacle to applying for and absorbing project funds.
- The main elements of financial management and control are related to planning processes, the provision of resources, and access to information and control. Financial control and management is implemented through interrelated elements: control environment, risk assessment, control activities, information and communication and monitoring that are tailored to the specific profile of each organization and are implemented through activities that ensure compliance, accountability and protection of resources. The below examples of omissions and

breaches are based on the preparation, implementation and reporting of arts organizations projects as well as the implementation of the main objectives and activities.

- Audits are the actions that identify, correct and control operations to ensure that the funding body or budget spending officer is assured that the signs of violation, error or fraud will be identified accordingly. In the presence of such signs, the check is deepened.
- The main deficiencies identified by the reviewing organizations - managing authorities under Operational Programs, the State Financial Inspection Agency, the Court of Auditors over the years can be formulated in several groups presented below.

If we look at the gaps without the reasons for their occurrence, we risk them not being removed but instead deepening. In this context, it is important to note that there is a need for an adequate state policy on art and culture. And at this stage, the state is the main source of funding for arts organizations. As noted by the Director of the State Puppet Theater in Plovdiv, Mr. Victor Boytchev: "The distortion of the" delegated budgets "in the direction of" money at all costs and minimal costs "acquires a grotesque dimension with tragic shades ... the retention of specialists in the theater is an unpredictable process, and the service of spectacles of the required quality will be like "amateur"" (Boytchev, 2018)

A bottom-up change of law, consistent with the expert opinion of professionals in the sphere, is a prerequisite for solving problems. Of course, this is not an easy job and a process that will take place in a short time. But state politics in recent years has led to the "McDonaldization" of art and science, and the relationship between the artist and the audience is at the buyer-seller level. State and European policies must ensure freedom of the creator and manager within the law to find additional financial resources and make them effective and efficient. For example, the lack of a policy related to the provision of pre-financing or non-interest-bearing use of working capital for arts organizations that have made external projects an obstacle to the development and realization of such projects. Also, the provision of own funding for projects is an overwhelming task for many arts organizations and the reason why they cannot participate in national and European funding competitions. Looking back and forth to the arts organizations, we will see that they also need reform and upgrading. Leaders of creative and cultural organizations, though defined as "art directors", are often not prepared for financial management but are prominent artists. There is, of course, the other option - the art manager, besides the creator, is also a good manager, but there is definitely no politics or financial opportunity in the management to participate as a creative and financial manager, not to mention that most state foundations have hired financial controllers. This makes his work inconsistent, inefficient and does not guarantee maximum results.

As a result of these and other preconditions, violations of the arts organizations are found by the competent authorities. The most common examples of poor financial management and control are due to shortage of funds, time and staff and can be summarized as follows:

- Incorrect evaluation by the managers of the arts organizations of "working capital" or inability to obtain them.
- The lack of sufficient own funds and art organizations policy to create background co-financing or pre-financing is often the reason why arts-industry cannot take advantage of the opportunity to apply for external financing with European funds.
- Poor judgment at the planning stage of funds and activities. A lack of pre-marketing research leads to the planning of lower values of materials, services, consumables. The limitations on the amount of planning by the primary spending officer or so-called "budget cuts" are also a prerequisite for poor financial management and control, which in turn leads to the low efficiency of the arts organizations itself.
- Formalism in respecting inferior and obnoxious objects and tangible fixed assets (tangible assets) - costumes, musical instruments, requisites and others. Periodic inspections are recorded in protocols without registering the status of the actual assets.
- A large part of the assets is stored in an unsuitable environment, resulting in their damage or theft. The art is not properly packaged.
- No validated financial management and control rules are in place, or employees are not aware of them in detail or they are not respected. Often, arts organizations are small businesses with a turnover of up to € 25,000 and up to 10 employees, and do not have specialists in preparing

financial management and control rules on a permanent employment contract. The lack of ex-ante control is a prerequisite for incurring ineligible and irrelevant costs that are not verified and a financial correction of the organization's or project's budget will be required.

- Information links between separate accounting systems are not accurate. Small business accounting is maintained by accountancy offices that receive the information in the form of documents that they process and are unable to exercise control or be corrective to managers.
- Incorrect payment of missions. Incorrect calculation of travel, subsistence and accommodation of the posted person without supporting additional documents - roadmaps, technical characteristics of the vehicle for missions, etc.
- No good set of financial documents. The financial and accounting service is provided by one person - a cashier, an accountant, a host who does not have the necessary qualifications nor the time to arrange, classify and keep the documentation in due order. Contracts, invoices in a foreign language are not translated into Bulgarian, as is the requirement of the law on accounting.
- Checks on cash availability are not performed regularly. The omissions that artists often do because they are engaged in creative work or have delegated these rights to an accountant who also neglects them because they have a limited resource of time.
- Violations of the Public Procurement Act (PPL). There is a division of orders, no records are kept with full documentation and contracts, poor marketing research and the selection of inappropriate companies for the supply of services and goods.

Conclusion

The results of the inspection of the Public Financial Inspection Agency (PFIA) in 2017 show that the procurement and performance of public procurement continue to be high risk, but with a downward trend. Verified public procurement is 8.9% of the average annual number of public procurement contracts opened between 2015 and 2017, with foundations of 270 contracts open during the same period or 2.5% of the average annual number of public procurement contracts. The inspections carried out by the PFIA and the National Audit Office show and guarantee the effective use of public funds. According to a PFIA report, as a result of the agency's control activities in 2017, inspections have recovered and prevented damages of four times more than in the previous reporting period of 2016, with which PFIA contributes to a timely real recovery and to prevent unlawful spending of public funds (Report on the activity of the PFIA, 2017).

In conclusion - a two-way change is needed. On the one hand, there is a need to change art funding schemes, which should be better aligned with the priorities of European policies, such as supporting sustainability, being driven by innovative growth and creating quality jobs. It is necessary to assess the state of play of the programs and their budgetary needs to provide a solid and coherent basis for the future architecture of the EU post-2020 program. National and European policies are needed that go from "McDonaldization" to art and are focused on the creative act and the creative beginning.

On the other hand, artists who run creative organizations should also take on the role of messengers, although this role is quite different from their previous creative role. Therefore alternatively, the budget of the organization might be great enough to hire art managers instead. They hence need to increase the availability and access to financing of arts organizations through the development of expert skills related to risk assessment, valuation of assets, effective and efficient spending of funds. This expertise is needed both within micro, small and medium-sized enterprises as well as in larger industries.

The human factor remains the most important, in the creative composition, the management team of arts organizations and at the political and European level - the people who depend on art finance to know the process in detail. Writing laws and regulations should be done on a bottom-up basis. The lack of funds must be overcome and financial controllers appointed to work who will improve the state of the arts organizations and will help to achieve their goals. The benefit of their work will exceed the costs many times because it will bring financial stability and new opportunities.

In order to overcome gaps and problems with financial management and control, I recommend that sectoral meetings be held involving European organizations. To form working groups to analyze the state of the financial management and control systems in arts organizations in the country and the EU,

to identify the problems and to identify measures to overcome them, to share good practices and to prepare a proposal for changes in the legislation.

Acknowledgment

The article is founded by the project DM05/2/2016 “Art management: Plovdiv – new tendencies and classical art (ART)”, Bulgarian Science Fund, Ministry of Education and Science.

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