The impact of the recent economic crisis on the arts

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Abstract

Many researchers have analyzed the impact of the recent economic crisis on the creative economy (Dubina et coll., 2012) and the arts sector (Alliance for the Arts, 2009), some pointing out that this impact may vary according to revenue sources (Madden, 2009; Nicholls, 2011). However, no research has been done on the impact of an economic crisis for a constant set of arts organizations over a multi-year period, analyzing both their business models and their asset structures.

The present paper aims at measuring how the recent economic crisis impacted the different revenue streams of Canadian arts organizations, their expenses and their net assets from 2007 to 2012. Data collected from 942 organizations through a public funders' database was analyzed. Data shows that, following the 2008 recession, private sector revenues dropped earlier (-1.9% from 2008-2009 to 2009-2010), whereas earned revenues dropped one year later and for two consecutive years (totaling -4.1% from 2009-2010 to 2011-2012), while public funding hardly decreased in constant terms over the period (-1 %).

This research underlines how an economic crisis may influence differently arts consumers, business partners and funders. In showing how the recent economic crisis had a rippled impact on arts organizations, the research highlights how their business model and asset structure influenced how they fared during the recession: organizations with a larger share of private revenues experienced a larger decline of these revenue sources, those with the largest unrestricted net assets were the most affected, while arts organizations with large capital assets did not experience a similar downfall, but saw their facility expenses grew significantly during the period observed.

[1] The opinions and interpretations in this paper are those of the authors and do not necessarily reflect those of the Canada Council for the Arts or HEC Montreal.

Introduction

According to numerous recent research reports, the arts and culture sector across the world was impacted by the recent economic crisis. Since the summer of 2007, a major financial crisis hit the markets following a sharp devaluation of sub-prime mortgage-related financial products. In September 2008, Lehman Brothers filed for bankruptcy protection and a number of countries were impacted by the largest recession since the Great Depression. In the following years, the credit crunch affected differently a number of countries, as well as their arts and culture sector. At the end of 2013, Canada was growing at the rate of 2%, according to its Gross Domestic Product (GDP) after one year of recession in 2008-2009, while its unemployment rate is still below its pre-crisis level.

Even if Canada did not experience a recession as profound as other industrialized countries, due to its more regulated banking system, balanced federal budget and abundance of natural resources, it is still relying heavily on resource exportation to the USA and its manufacturing sector has not rebounded yet to pre-crisis level (The Economist, 2014). As this research will show, the contraction of 2.8% of GDP in 2008-2009 had a profound, multi-layered and lasting impact on Canadian arts organizations which, three years later, still did not reach back to their pre-crisis level. Before detailing the results of the analysis, the article will briefly review the recent literature on the topic.

Literature Review

In March 2009, *Arts Quarter* has published in England a first research paper on the impact of the recession on cultural and not-for-profit organizations (Nicholls, 2009). The electronic survey was sent to 1,230 arts managers and 306 questionnaires were completed, representing a 25 % response rate. Overall, for the fiscal year 2008, the British cultural sector has seen a decline in private support (sponsorships) and in donations of less than £ 1,000 from individuals;

however, ticket and admission income was projected at the same level or higher than the previous year, while café/bar and on-site merchandizing revenue, as well as commercial hire of space, were projected at a lower level.

In regards to the evolution of their earned and private revenues for the following year (2009-2010), two thirds of respondents foresee the same level or more earned revenues while 71 % of them project the same level or less private revenues than the previous year. In March 2009, the *Arts Council of England* (2009) carried out a telephone survey with 50 regularly funded organizations to identify the specific impact of the crisis on their revenues. Results were showing a major impact on box office, sponsorships and donations, for both arts organizations and artists in 2009 and 2010; this impact varies according to the business model of arts organizations. The report also indicates that arts organizations wish to maintain a high level of quality but that, if one of their revenue sources is decreasing, this could have an impact on the quality of their activities, resulting in a spiraling decline in attendance and earned revenues.

In the following years, *Arts Quarter* has continued to survey English arts organizations and reported that these organizations witness for the first time in 2011 modest improvements in their private revenue since 2009; however, earned revenue varied, due to declining disposable incomes, and public funding decreased, due to parliamentary cuts, raising the hypothesis that the impact of the recent recession may have ripple effects (Nicholls, 2011).

In Australia, the *Australia Business Arts Foundation* (2009) did a survey of 39 private enterprises which revealed that their private investment in the arts would decrease in 2009 (41 %) and during the first trimester of 2010 (49 %). The research indicated that 49% of enterprises were considering substituting their cash sponsorships by in-kind sponsorships.

In the United States, a research from the *Association of Art Museum Directors* (2009) indicates that 61% of 140 art museum directors project a decrease of their revenues. In New York, a survey of one hundred performing, visual and other arts organizations of the *Alliance for the Arts* (2009) indicates that 78% of them have reduced their expenses or plan to do so, that 50% have fired employees and that 45% will cancel or delay some of their activities.

In Canada, *Prairie Research Associates* undertook a survey for the *Performing Arts Alliance* (2009) of 89 performing arts organizations, out of a total of 300 dance, theatre, opera and music organizations. Almost 75% of organizations predict lower corporate support and 60%, lower fundraising and foundation revenues, while nearly 40% of respondents mentioned decreasing regular tickets and subscription sales. In order to address the economic downturn, 52% of organizations project a freeze or a decrease of their salaries, 37 %, a reduction in travel budgets and 27 %, in the number of productions. 58% of mid-size organizations and 50% of large organizations forecast a decrease in their revenues, in comparison to 36% of small organizations.

In Quebec, an electronic survey was conducted as well in 2009 among 259 arts organizations across the disciplines by HEC Montreal (Courchesne et Turbide, 2009); over 36% anticipate an increase in their private and public revenue sources, while nearly 27 % forecast a decline and 29% expect these revenues to remain stable. Montreal-based organizations and those with a budget of over one million dollars are predicting the most significant drop in their revenues from earned income and private contributions.

The results of the survey revealed that the greatest perceived impact would be on private revenues (income from foundations, sponsorships and donations). Revenues from cash sponsorships were the most severely affected, with a shift from cash sponsorships to in-kind sponsorships. On a short-term basis, 61% of respondents plan to reduce their expenses in response to a decline in one of their revenue sources. The long-term solutions suggested relate to increasing audience, increasing touring and producing more activities.

Finally, Christopher Madden (2009) wrote a research paper for the *International Federation of Arts Councils and Culture Agencies (IFACCA)* on the impact of the recession on the arts in 12 countries[2]. The survey is a compilation of the forecasts of these countries' arts councils. The main conclusion is based on the assumption that the impact of the financial crisis will vary according to the business model of each country: the impact will be larger and the risk higher for countries with large private support, such as the United States, and much lower for countries with less private support, such as Spain; however, these countries may suffer from a larger impact on their earned revenues (ticket sales, subscriptions, membership fees). As well, the report anticipates a larger impact on performing and visual arts, and a smaller one on the literary and the community sectors.

In summary, the major negative foreseen impacts of the recent economic crisis identified in these reports are as follows:

- A larger impact in private revenues (sponsorships, donations, foundations), according to the organizations' business model;
- An important decrease in arts organizations′ endowment assets and therefore in their returns;
- A variable impact on earned revenues (ticket and admission income, sales of goods and services, hiring of spaces, bar sales, merchandizing, etc.);
- A modest impact in public revenues at the early stage of the recession.

In order to address the economic downturn, the main solutions suggested by arts organizations were:

- On the expense side: freezing and decreasing of salary, postponement of hiring, reduction of activities and adjustment to programming;
- On the revenue side: adjustment of marketing strategies (discounting, new types of subscription, etc.) and increase in fundraising efforts.

[2] Australia, Canada, Cuba, Denmark, England, New Zeeland, Northern Ireland, Salomon Islands, Scotland, Spain, United States of America and Wales.

Hypotheses

Based on the work of Pfeffer and Salancik (1978), Froelich (1999) has identified nonprofit organizations as resource-based organizations dependent on three major sources of revenues: private revenue (gifts from individuals, corporate contributions and foundation donations), which is associated with the highest volatility; commercial revenue (earned from operations), which has a moderate volatility; and government funding (grants), which has a low volatility.

Therefore, in a recessionary context, the financial impact on nonprofit organizations would vary according to the volatility of these revenue sources: government revenues would show low volatility (due to the stability and long-term commitment of public funders), while earned revenue would be associated with moderate volatility and private revenue, with high volatility. Froelich (1999) considers that reliance on private contribution increases dependence and volatility in nonprofit organizations.

We propose that, in a recession and because of the higher volatility of private revenues, these revenues would decline earlier than earned revenues.

H1: In a recessionary period, Canadian arts organizations' private revenues will decline earlier than their earned revenues.

As Di Maggio (1986: 114) reports that "most foundations arts dollars go quietly to major established institutions", large organizations are more dependent on private foundations' decisions and the impact of such a decrease would be more pronounced in large organizations.

Gronbjerg (1992) has also researched the predictability and controllability of private and earned revenues for nonprofit organizations. She believes that private revenues are more volatile than earned revenues, especially for large organizations, because managers have a better control on the quality and provision of their services and are able to secure loyal clients in order to increase organizational control over earned revenues. She also considers that private revenues increase an organization's volatility and dependency on external agencies' decisions, while earned revenues increase its autonomy.

This proposal has been verified in Canada where cultural organizations relied on a hybrid funding structure with a mix of public, private and earned revenues[3]; as a rule, Canadian large organizations rely more heavily on earned and private revenues as a share of their total revenue than smaller organizations[4]. As public subsidy enhances a winner-takes-all tendency in the market (Rengers et Plug, 2001), the impact of a financial crisis would be greater on large organizations than on smaller ones.

We propose that, because of the higher volatility of private revenues, arts organizations with a larger share of private revenues will have, in a recessionary period, a larger decline in their private revenues than organizations with a smaller share of private revenues.

H2: Following a recessionary period, the higher the share of private revenues, the lower will be the increase in these revenue sources for Canadian arts organizations.

Teece, Pisano and Schuen (1997) have proposed that, in turbulent environmental conditions, a firm must rely on the ability to create, maintain and renew its bases of competitive advantage. This is achieved through its dynamic capabilities which consist in "the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments" (Teece et coll., 1997: 516).

Three types of capabilities have been identified by Collis (1994): operational capabilities (or routines) are used in the daily operations of the organizations (e.g. running a marketing campaign); dynamic capabilities are dedicated to the modification of operational routines (e.g. adapting a strategy to adjust to market

[3] In 2011-12, Canadian arts organizations raised 40% of their revenue from earned sources, 24% from private sources and 36% from government subsidies.

[4] In 2011-12, large arts organizations (with budget over C$ 1 million) raised 44% of their revenue from earned revenues (compared to 22% for small-scale organizations, with budget of less than C$ 250 K) and 26% from private sources (compared to 17% for small-scale organizations).

trends); learning capabilities facilitate the creation and modification of dynamic capabilities (e.g. developing novel strategies before competitors). In a period of economic turbulence, organizations are forced to review not only their operational routines (like increasing their marketing efforts to generate revenue), but also extend their learning capabilities (like modifying their fundraising strategies).

Eisenhardt and Martin (2000) have established a relationship between 'high velocity environments' and dynamic capabilities. In moderately dynamic markets, dynamic capabilities rely on existing knowledge because change is predictable; therefore managers adjust daily operations through changes to routines. However, in "high velocity environments", change is less predictable and business models are unclear; managers may not be able to increase their learning capabilities rapidly and, therefore, their results will vary, in the short term, in relation to the absolute level of their resources, instead of their learning abilities.

H3: In a recessionary period, the larger the unrestricted net assets of Canadian arts organizations, the larger will be the decline of these assets, and this decline would be closely related, time wise, to the recessionary period.

In the United States, Nelson (2009) predicted in her study of the financial health of 158 arts and culture organizations located in the Greater Philadelphia region, that "depending on the soundness of an organization's capital structure and the quality of the board and management, the recession means something very different for different organizations. For one group, this is the rainy day for which they have prudently prepared. They have options. While belt-tightening will be painful, it won't change the fact that they will make it through the downturn with their core missions intact. For a second group, the recession will have a profound impact on an organization's growth and development. For those in the middle of a lifecycle change, the economic downturn increases the risk factor tremendously."

Even if most analysts would agree that, without adequate capitalization, cultural organizations are at risk of failure of not meeting their mission (Nelson, 2009), little research has been done on the capital structure of arts organizations and how differently it could be impacted during a recession. For instance, in Canada, a number of matching grants' programs have encouraged arts organizations to build up of endowments to provide them with long-term stability. A large majority of these funds were invested in financial assets whose return is directly correlated to capital markets. Therefore, arts organizations with larger unrestricted net assets would see a larger decline in the value of their net assets during a recession, and this decline would be closely related, time wise, to the recessionary period.

Otherwise, a significant number of Canadian arts organizations choose instead to invest in their capital assets to buy or build venues, audio and video equipment, instruments or computers, etc. Even if this type of investment is planned in advance and part of its funding is secured from private and public contributions, it is often dependent on current mortgage rates; as recessionary periods induce lower interest rates, they also generate capital investments. Even if these investments reinforce the arts organizations' dynamic capabilities, they have a significant impact on operating expenses related to facilities and equipment, as well as on amortization costs which impact directly their operating surplus.

H 4: In a recessionary period, the larger the investment in capital assets of Canadian arts organizations, the larger will be the impact of the related facility expenses and on the accumulated surplus.

As more and more key players, such as public funders, arts managers and advocacy groups, are concerned about the financial health of arts organizations, their resiliency and capacity to adapt to changing circumstances, this analysis provides an overview of the main indicators to watch during a recessionary period, both for the arts organizations' business model and their asset structure.

Methodology

The four hypotheses were tested among 942 organizations non-profit subsidized arts organizations in Canada (Table 1), based on the revenues, expenses, surplus and assets they declared annually. These data were verified and validated by the CADAC (Canadian Arts Database/Données sur les arts au Canada)[5]. As shown in Table 1, a wide range of disciplines and regions are represented.

Table 1

Number of Arts Organizations by Region and Discipline, Canada 2012

	Atlantic Provinces	Quebec	Ontario	Prairies	British Columbia	Total	%
Dance	4	28	50	10	17	109	11%
Music	8	24	122	29	28	211	22%
Theatre	16	58	80	45	31	230	25%
Literary Arts	3	11	20	9	6	49	5%
Visual Arts	11	20	79	32	26	168	18%
Media Arts	4	17	33	12	11	77	8%
Multidisciplinary	4	8	62	14	10	98	11%
Total	**50**	**166**	**446**	**151**	**129**	**942**	**100%**
%	*5%*	*18%*	*47%*	*16%*	*14%*	*100%*	

In order to compare the evolution of revenues, expenses and assets over a 5-year span, all data was converted into constant 2012 Canadian dollars. The first fiscal year of consideration is 2007-2008, and the last year is 2011-2012. In the analyses, we will refer to the years as Y1 to Y5.

As a point of comparison to better assess the relationship between the economic crisis and arts organizations' revenues and expenses, we based our analysis on the national Gross Domestic Product (GDP). Data came from the annual percentage growth rate of GDP provided by the World Bank (2014). GDP has been considered as a valid indicator of national economic wealth as it represents

[5] CADAC is a web-based financial and statistical application for arts organizations across Canada, used by a majority of municipal, provincial and national arts funders. The interpretation of the data reflects the perspective of authors and not of the CADAC. For more information on the CADAC, please see https://www.lecadac.ca.

"the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products" (World Bank, 2014).

Results

Hypothesis 1 stated that private revenues decline earlier than earned revenues in a recessionary period. Analyses show that between Y1 and Y2, although the national GDP fell (-2.8%), both earned revenues and private revenues of Canadian arts organizations significantly grew (respectively by 4.5% - from $420M to $439M - and by 2.3% - from $248M to $254M) (Table 2). However, the next year, private revenues fell by 1.9%, whereas the evolution of earned revenues kept a steady growth (4.5%). Earned revenues only fell between Y3 and Y4 (-2%).

It is important to notice that the evolution of earned revenues remained negative between Y4 and Y5 (-2.1%) whereas private revenues regain a slight positive growth (0.6%) between Y3 and Y4 confirmed by an important growth between Y4 and Y5. In comparison, the national GPD only fell between Y1 and Y2 (-2.8%) and presents a positive evolution the following years (Y2/Y3: 3.2%; Y3/Y4: 2.5%; Y4/Y5: 6.6%). Moreover, it is worth noting that although earned revenues increased between Y1 and Y5 ($420M - $440M), their evolution did not make up for the earned revenues in Y3 ($459M), which remains the peak year with the highest revenues in the period analyzed. Thus H1 is supported.

Table 2

Evolution of Revenues of Canadian Arts Organizations, 2007-2012

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Earned revenues	420 988 392 $	439 770 010 $	459 566 538 $	450 345 451 $	440 786 265 $
Evolution		*4,46%*	*4,50%*	*-2,01%*	*-2,12%*
Private revenues	248 783 588 $	254 610 412 $	249 886 746 $	251 475 566 $	268 139 187 $
Evolution		*2,34%*	*-1,86%*	*0,64%*	*6,63%*
Public revenues	404 892 288 $	402 691 819 $	416 399 050 $	400 451 880 $	400 862 704 $
Evolution		*-0,54%*	*3,40%*	*-3,83%*	*0,10%*
Total	1 074 664 268 $	1 097 072 241 $	1 125 852 334 $	1 102 272 897 $	1 109 788 156 $
Evolution		*2,09%*	*2,62%*	*-2,09%*	*0,68%*
GDP		*-2,77%*	*3,21%*	*2,53%*	*1,71%*

It was expected that organizations with a larger share of private revenues would experience a larger decline of these revenue sources than other organizations. In order to test this assumption, the sample was divided into four quartiles containing a similar number of organizations according to their share of private revenues: the first group consisted of 234 organizations whose private revenues represented less than 5% of their total revenues; the second group included 237 organizations whose private revenues represented between 5% and 15% of their total revenues; the third group included 236 organizations whose private revenues represented between 15% and 31%; the fourth group consisted of 235 organizations whose private revenues represented more than 31% of their total revenues.

We compared the annual evolution of their private revenues, as well as the 5-year evolution of these revenues (Table 3). Results show that the evolution of private revenues dramatically differs according to the share of private revenues. Over the 5-year span considered in this study, private revenues of group 1 grew from 100%, whereas they grew from 32% for the second group, and only 7% for the third group. The fourth group, whose private revenues count for more than 31%, these revenue sources' evolution was +2%. Thus H2 is supported.

Table 3

Evolution of Revenues of Canadian Arts Organizations, according to their share of private revenues, 2007-2012

Share of less than 5% - 234 organizations	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 YEARS
Earned revenues	55 237 302 $	56 279 587 $	55 833 979 $	58 654 303 $	60 334 859 $	
Evolution		1,89%	-0,79%	5,05%	2,87%	9,23%
Private revenues	2 602 676 $	3 746 694 $	4 161 758 $	5 163 548 $	5 225 319 $	
Evolution		43,96%	11,08%	24,07%	1,20%	100,77%
Public revenues	68 189 744 $	70 087 505 $	69 169 805 $	67 659 773 $	65 340 649 $	
Evolution		2,78%	-1,31%	-2,18%	-3,43%	-4,18%
Total	126 029 722 $	130 113 786 $	129 165 542 $	131 477 624 $	130 900 827 $	
Evolution		3,24%	-0,73%	1,79%	-0,44%	3,87%

Share of 5 - 15.02% - 237 organizations	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 YEARS
Earned revenues	91 950 206 $	95 484 320 $	95 771 621 $	91 666 840 $	89 639 086 $	
Evolution		3,84%	0,30%	-4,29%	-2,21%	-2,51%
Private revenues	25 605 895 $	30 289 121 $	32 480 967 $	30 526 065 $	33 719 089 $	
Evolution		18,29%	7,24%	-6,02%	10,46%	31,68%
Public revenues	107 423 237 $	110 042 993 $	109 048 836 $	107 206 379 $	106 015 299 $	
Evolution		2,44%	-0,90%	-1,69%	-1,11%	-1,31%
Total	224 979 338 $	235 816 434 $	237 301 424 $	229 399 284 $	229 373 474 $	
Evolution		4,82%	0,63%	-3,33%	-0,01%	1,95%

Share of 15.07 - 30.73% - 236 organizations	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 YEARS
Earned revenues	173 028 175 $	182 007 610 $	198 490 391 $	189 404 113 $	183 397 580 $	
Evolution		5,19%	9,06%	-4,58%	-3,17%	5,99%
Private revenues	94 956 804 $	101 455 538 $	92 588 374 $	96 549 112 $	101 186 656 $	
Evolution		6,84%	-8,74%	4,28%	4,80%	6,56%
Public revenues	151 369 978 $	137 072 499 $	154 740 911 $	140 316 710 $	139 943 811 $	
Evolution		-9,45%	12,89%	-9,32%	-0,27%	-7,55%
Total	419 354 957 $	420 535 647 $	445 819 676 $	426 269 935 $	424 528 047 $	
Evolution		0,28%	6,01%	-4,39%	-0,41%	1,23%

Share of more than 31% - 235 organizations	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	5 YEARS
Earned revenues	100 772 709 $	105 998 493 $	109 470 547 $	110 620 195 $	107 414 740 $	
Evolution		5,19%	3,28%	1,05%	-2,90%	6,59%
Private revenues	125 618 213 $	119 119 059 $	120 655 647 $	119 236 841 $	128 008 123 $	
Evolution		-5,17%	1,29%	-1,18%	7,36%	1,90%
Public revenues	77 909 329 $	85 488 822 $	83 439 498 $	85 269 018 $	89 562 945 $	
Evolution		9,73%	-2,40%	2,19%	5,04%	14,96%
Total	304 300 251 $	310 606 374 $	313 565 692 $	315 126 054 $	324 985 808 $	
Evolution		2,07%	0,95%	0,50%	3,13%	6,80%

Unlike the results of hypotheses 1 and 2, when the economic crisis impacted arts organizations in a ripple effect, hypothesis 3 stated that unrestricted net assets[6] will be impacted as the GDP declined in Y2. As shown in Table 4, the total unrestricted net assets of Canadian arts organizations declined from - C$ 30.9M in Y1 to - C$ 51.9M in Y5, the largest decline of all assets classes, and that decline started in Y2.

Table 4

Evolution of Net Assets of Canadian Arts Organizations, 2007-2012

Unrestricted net assets (total): 942 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2008 - 2012
Unrestricted net assets	$ (30,996,698)	$ (48,650,845)	$ (38,363,004)	$ (39,814,706)	$ (51,902,099)	**$ (20,905,401)**
Change (%)		*56.95%*	*-21.15%*	*3.78%*	*30.36%*	**67.44%**
Invested in Capital / fixed assets	$ 276,962,312	$ 326,489,310	$ 350,988,741	$ 363,327,880	$ 360,975,181	**$ 84,012,869**
Change (%)		*17.88%*	*7.50%*	*3.52%*	*-0.65%*	**30.33%**
Internally designated or restricted funds	$ 160,713,688	$ 141,698,858	$ 143,134,060	$ 134,218,101	$ 132,476,826	**$ (28,236,862)**
Change (%)		*-11.83%*	*1.01%*	*-6.23%*	*-1.30%*	**-17.57%**
Externally designated or restricted funds	$ 79,723,291	$ 93,154,506	$ 98,077,174	$ 100,458,768	$ 93,040,440	**$ 13,317,149**
Change (%)		*16.85%*	*5.28%*	*2.43%*	*-7.38%*	**16.70%**
Other net assets, including Cash Reserve	$ 37,321,785	$ 33,719,089	$ 34,030,241	$ 39,098,091	$ 44,081,162	**$ 6,759,377**
		-9.65%	*0.92%*	*14.89%*	*12.75%*	**18.11%**
Total Net Assets	**$ 523,724,378**	**$ 546,410,918**	**$ 587,867,212**	**$ 597,288,134**	**$ 578,671,510**	**$ 54,947,132**
		4.33%	*7.59%*	*1.60%*	*-3.12%*	**10.49%**

H3 stated as well that the larger the unrestricted net assets of Canadian arts organizations, the larger will be the decline of these assets. To validate H3, the sample was divided into two comparable groups based on Y1 unrestricted net assets' median, i.e. C$ 6,500, the first group including 471 organizations with values less than the median and, the second group, 471 organizations with values greater than the median.

Results show, for the first group, a reduction of 6% of unrestricted net assets over the period, from -C$ 64.9M in Y1 to -C$ 60.3M in Y5. For the second group, a decrease of 74.7% of unrestricted net assets resulted in a reduction from C$ 33.4M in Y1 to C$ 8.5M in Y5 (Table 5). Therefore, the larger the unrestricted net assets, the larger has been the impact of the recession on these assets. Thus H3 is supported.

6 According to CADAC guidelines, unrestricted net assets may also be called accumulated surplus or deficit, net asset surplus or deficiency, or unrestricted fund balance.

Table 5

Evolution of Unrestricted Net Assets, according to their size, 2007-2012

Unrestricted net assets less than $ 6,500: 471 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2008 - 2012
Unrestricted net assets	$ (64,438,260)	$ (70,795,337)	$ (51,258,333)	$ (53,885,652)	$ (60,354,745)	**$ 4,083,515**
Change (%)		*9.87%*	*-27.60%*	*5.13%*	*12.01%*	**-6.34%**
Total Net Assets	**$ 295,005,410**	**$ 297,301,016**	**$ 326,686,288**	**$ 341,202,541**	**$ 334,741,361**	**$ 39,735,951**
		0.78%	*9.88%*	*4.44%*	*-1.89%*	**13.47%**

Unrestricted net assets greater than $ 6,500: 471 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2008 - 2012
Unrestricted net assets	$ 33,441,562	$ 22,144,492	$ 12,895,329	$ 14,070,946	$ 8,452,646	**$ (24,988,916)**
Change (%)		*-33.78%*	*-41.77%*	*9.12%*	*-39.93%*	**-74.72%**
Total Net Assets	**$ 228,718,968**	**$ 249,109,902**	**$ 261,180,924**	**$ 256,085,593**	**$ 243,930,149**	**$ 15,211,181**
		8.92%	*4.85%*	*-1.95%*	*-4.75%*	**6.65%**

H4 stated that the larger the investment in capital assets of Canadian arts organizations, the larger will be the impact of the recession on the related facility expenses and on the accumulated surplus. Table 4 shows that Canadian arts organizations' capital assets grew by 30.3% between Y1 and Y5, from C$ 276.9 M to C$ 360.9 M. To validate H4, we excluded organizations without any capital assets and divided the remainder into two comparable groups based on Y1 capital asset values. The first group included 234 organizations with values less than the median of C$15,750 and the second group of 237 organizations included values greater than the median.

As shown in Table 6, for the first group, the facility operating expenses increased by 6.8% between Y2 and Y5. During the same period, the total surplus decreased by C$ 2M, from a surplus of C$ 1.6 M to a deficit of C$ 398,563.

Table 6

Evolution of Facility Operating Expenses, according to Capital Assets, 2007-2012

Invested in Capital Assets less than $15,750: 234 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2009-12
Total Facility Operating Expenses	$ 7,824,164	$ 8,405,316	$ 8,586,533	$ 8,751,618	$ 8,977,756	**$ 572,440**
Change (%)		*7%*	*2%*	*2%*	*3%*	***6.81%***
(%) in Total expenses	*6%*	*6%*	*6%*	*6%*	*6%*	

Invested in Capital Assets less than $15,750: 234 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2009-12
Total Surplus (Deficit) for the year, including capital and other costs	$ 4,287,820	$ 1,626,918	$ 378,489	$ 618,249	$ (398,563)	**$ (2,025,481)**
Change (%)		*-62.06%*	*-76.74%*	*63.35%*	*-164.47%*	**-124.50%**
Accumulated Surplus (Deficit)	$ 12,589,948	$ 13,414,285	$ 13,541,635	$ 13,975,128	$ 12,940,689	**$ (473,596)**
Change (%)		*6.55%*	*0.95%*	*3.20%*	*-7.40%*	**-3.53%**

For the second group, the facility operating expenses increased by 11 % between Y2 and Y5 and the total surplus decreased from a surplus of $C 9.7 M to a deficit of C 3.2 M (Table 7). Thus H4 is supported.

Table 7

Evolution of Facility Operating Expenses, according to Capital Assets, 2007-2012

Invested in Capital Assets greater than $15,750: 237 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2009-12
Total Facility Operating Expenses	$ 62,896,344	$ 70,347,396	$ 77,290,283	$ 75,435,994	$ 77,839,803	**$ 7,492,407**
Change (%)		*12%*	*10%*	*-2%*	*3%*	***11%***
(%) in Total expenses	*10%*	*11%*	*12%*	*12%*	*12%*	

Invested in Capital Assets greater than $15,750: 237 orgs.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Trend 2009-12
Total Surplus (Deficit) for the year, including capital and other costs	$ 4,265,878	$ 9,710,655	$ 4,503,088	$ 3,572,833	$ (3,183,524)	**$ (12,894,179)**
Change (%)		*127.64%*	*-53.63%*	*-20.66%*	*-189.10%*	**-132.78%**
Accumulated Surplus (Deficit)	$ 53,537,132	$ 22,747,479	$ 26,838,623	$ 29,236,110	$ 25,675,657	**$ 2,928,178**
Change (%)		*-57.51%*	*17.99%*	*8.93%*	*-12.18%*	**12.87%**

Discussion

The present paper offers the first empirical support of how Canadian arts organizations were impacted by the recent economic crisis. Despite the perceived importance of this impact on arts organizations and the attention brought to it in the media, the lack of academic research on this phenomenon stands in sharp contrast. Based on the analysis of revenues, expenses and assets of 942 Canadian organizations, this study answers the call for empirical support. It identifies a rippled impact of the economic crisis on arts organizations: private revenues were the first to drop, followed by earned revenues, one year later. The economic crisis had also a lasting impact on Canadian arts organizations: they have not regained the pre-crisis level of their total revenues.

This paper also sheds light on how the arts organizations’ business model and asset structure may affect and contribute to the impact of the crisis. Even if total private revenues have regained their pre-crisis level, earned and public revenues are still lagging behind their peak level, revealing that consumers and governments may have cut down in their expenses in the arts and cultural sectors. As well, organizations with a larger share of private revenues experienced a larger decline of these revenue sources. It was also shown how the asset structure of arts organizations had a significant impact on how they fared during a recession: the organizations with the largest unrestricted net assets were the most affected by the economic downturn, since these assets were invested in capital markets: they lost almost $C 25M, which had a significant impact on their capitalization and on the future revenue generated by these investments. Meanwhile, arts organizations with large capital assets did not experience a similar downfall, but their facility expenses grew significantly ($C 7.5M) reducing their total surplus of $C 9.7M to a deficit of $C 3M. This is an important contribution to better grasp how the impact of the economic crisis differed between organizations, according to their revenue sources and asset structure.

As this study is a first attempt to empirically measure the effect of the crisis on arts organizations, several limitations and research avenues are worth noting. First, as the economic crisis had different effects on domestic economies, any generalization to arts organizations of other countries should be avoided. Secondly, because of the availability of the data, we only analyzed revenues, expenses and assets over a 5-year period, from 2007-2008 to 2011-2012. A longer period of time may complete our knowledge of the phenomenon studied and help identify larger patterns and trends that were undetectable with this dataset. Thirdly, many questions regarding how the economic crisis impacted different disciplines, regions, size of arts organizations remain unanswered. Future research should analyze in more details these variables in order to complete the present study.

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