

Covid-19: Financial Impact on Theaters in Czech Republic

Jakub Grosman

Assistant Professor, Prague University of Economics and Business

Grosman Jakub is an Assistant Professor in Arts Management at the Prague University of Economics and Business. His research interest lies in performing arts funding and management. Beyond his academic work, Jakub is a founder and organizer of music and dance festivals and active in several cultural projects in Prague.

ABSTRACT

The Covid-19 pandemic had a significant impact on the performing arts, particularly on theatre, which resilience to crises has been severely tested. The study analyzed the financial impact on 146 theatres in the Czech Republic during the first wave of Covid-19 measures. The study identified different levels of impact depending on theater type. The study examined the relationships between the variables of theatres' health performance prior the crisis in year 2019 and the impact variables of the Covid-19 measures on theatres' operations by applying correlation analysis. Independent theatres were more likely to face the impact of the Covid-19 measures than public theatres, which were backed by their founders. The freelance workers were among the most affected group due to their legal ambiguity.

Theatre, funding, Covid-19, impact, resilience

Introduction

On March 11th, 2020, the World Health Organization declared the spreading of the Covid-19 virus as a global pandemic. The government of the Czech Republic followed and on March 16th, 2020, announced first measures to avoid further spreading of Covid-19. Measures against the spread of the Covid-19 virus restricted public gatherings and de facto prevented participation in live performances. The measures adopted by the Czech government were strict and most theatres were forced to significantly reduce their activities from March 2020. In the first stage, theatres were obliged to limit the number of attendees at individual performances, and in the second stage they had to close their premises completely.

Crises often have the potential to expose systemic weaknesses, to change the status quo and lead to innovation. The pandemic situation has opened a debate on the resilience of arts and cultural organizations to external crises, as well as on the effectiveness of the governance and funding system of arts and cultural organizations. This study is a contribution to the discourse and its main purpose is to analyze the financial impact on different types of theatre organization in response to an external crisis (in this case, the Covid-19 virus pandemic). The study examines the different types of responses of defined theatre types in the Czech Republic in the context of economic, employment and artistic performance before the crisis (during 2019) and during the crisis period (March-May 2020). Although most researched theatre organizations were affected

by the Covid-19 measures, their response was very different.

Resilience in Not-for-profit segment and application to Czech theatres

Each organization type is answering the external crisis depending on their governance, resources and resilience. The Latin term refers to the ability to recover from difficulties or cope with abnormal events such as crises, external shocks or increased intensity of competition. Resilience, according to Andrea Ovans (2015), can be defined as the ability to recover from setbacks, adapt well to change and to persist in the face of adversity. Sebastian Raetz (2021) in his systematic literature review divides the concept of resilience into three facets: a) resilience as the ability to bounce back from a low point, b) adaptation to current circumstances, and c) anticipation of crisis. Suman Gupta and Ayan-Yue Gupta (2022) understands resilience as a governance and policy approach in conjunction with significant reductions in public funding for culture. According to the research of Andy C. Pratt (2015) the creative and cultural industries (CCI) were one of the few sectors in the UK that were able to overcome the financial crisis of 2008 and 2009 thanks to its multifaceted, complex forms of organization and diversified funding. This study focused on ability to recover from crisis based on the different approaches and reactions.

Organizations in CCI are often in the form of nonprofit organizations (NPOs), therefore the study adopts concepts from disciplines researching not-for-profit segment. Elizabeth Searing (2021) distinguishes key factors shaping the resilience and health of NPOs: a) financial resources, b) human resources, c) audience relationship, d) artistic programme, e) management. In our study, we limit the analysis to a) funding, b) human resources and c) artistic programme. Mirae Kim and Dyana P. Mason (2020) analyzed secondary data from a comprehensive survey of U.S. nonprofit organizations and examined the impact of economic parameters, such as rainy day funds before the crisis on organizational response during the crisis. Their study confirms that NPOs with financial reserves were less likely to have to reduce their operations and reduces spending compared to NPOs with lower financial reserves. They also concluded that cultural NPOs were more impacted by the crisis and were forced to reduce their operations and cut their expenditures compared to NPOs in other sectors. In study of French cultural NPOs Guillaume Plaisance (2022) analyzed the relationship between Covid-19's impact on funding and human resources and the need for management change. Our study modified the approach of above-mentioned studies to reflect local environment.

A review of studies and reports published to date shows that European CCI have been significantly affected by the Covid-19 pandemic (Culture Action Europe & Damaso, 2021; Prokúpek & Grosman, 2021; UNESCO, 2021). German performing arts experienced more severe impact than other CCI sectors (Kompetenzzentrum Kultur-und Kreativwirtschaft des Bundes, 2020).

In the Czech Republic there are three major types of theatres: a) theatres established by central or local government (hereafter referred to as public theaters), b) nonprofit independent theatres

(hereafter referred to as independent theaters) and c) commercial theaters (Nekolný et al., 2018). The public theatres are directly funded by the local or central government. Where independent theatres, which are established by independent founders, rely on own income and could be funded by government indirectly through granting system. Due to less direct access to public funding the Czech independent theaters could be expected as less stable in terms of financial resources than public theaters.

The literature review highlighted high share of freelancers in the European CCI, where Czech Republic CCI ranked third highest in the EU with freelancer share of 39% (Eurostat, 2021). On top the reviewed studies have confirmed that the human resources in the European CCI was one of the most affected by the Covid-19 pandemics (Comunian & England, 2020; Culture Action Europe & Damaso, 2021; OECD, 2020; Searing et al., 2021). We can assume that independent theatres as they are less stable were forced to dismiss more employees and freelancers. The research questions based on the vision are following:

RQ1: Independent theatres are more likely to encounter the financial impact of a crisis compared to public theatres.

RQ2: Independent theatres were more likely to dismiss more employees and freelancers compared to public theatres.

Data and methods

The first survey of the imminent impact of the Covid-19 measures on performing arts in the Czech Republic was conducted by the University of Economics in Prague together with the Academy of Performing Arts in Prague with the support of the Institute of Arts - Theatre Institute (IDU, 2020). This survey, which was initiated by the author of the study and was used as source of data. The primary objective of the research was to quantify the economic impact on CCI organizations and individuals. The broader ambition of the study is to uncover further context and run additional analysis. In an effort to be as complete and relevant as possible data for year 2019 has been collected for later comparison. The survey was a combination of quantitative and qualitative research. The survey covered time period from March to May 2020 (from the total shutdown until the reopening). The survey was collected and subsequently analyzed on regular monthly basis in three waves of data collections.

The data collection took place online using Google Forms questionnaire. The form consisted of four sections: a) interviewer identification and socio-demographic characteristics, b) overview of 2019 performance, c) Covid-19 impact for previous month, d) support and reimbursement. The interviewer identification contained basic data such as name, legal form, founder, date of establishment, region, zip code, membership in professional organizations, genre, public funding and more. Full-year 2019, performance indicators were collected such as income structure, cost structure, employment cost (separately for employees and freelancers) artistic performance (audience development). For time period of Covid-19 measures there were several

variables collected each month such as: a) income structure, b) costs structure, c) employment cost and development (separately for employees and freelancers), d) lost income, e) lost and new performances and f) support reached and needed.

In the case of theatre organizations, 146 valid responses were received. The National Information and Advisory Centre for Culture (NIPOS) registers 299 theatres (as of 2021). According to independent estimations there could be about 300-400 active theatres in the Czech Republic (Nekolný et al., 2018). By comparing the valid responses obtained with the data available: 48% of all theatres were included in the survey. The theatres were further segmented based on organization size¹, founder type (public, independent and commercial) and public funding (received in last two years).

In this study we analyze the relationship between selected indicators during business-as-usual operations in 2019 (prior the crisis) and the impact of the Covid-19 pandemic (during the crisis) in the period March-May 2020. The analysis consists of individual Pearson linear correlation coefficients of the defined variables. The variables were defined as indicators selected in accordance with similar studies (Kim & Mason, 2020; Plaisance, 2022; Searing et al., 2021). The defined variables allow analysis of the impact of performance prior the crisis during 2019 and the actual impact of the Covid-19 measures taken in period of April-May 2020. For the purpose of this study, the level of association is defined as significant if $r \geq 0.7$. The output of the analysis is correlation matrix in the form of heat map for the defined theatre segments. The correlation matrix shows no statistical problems.

The indicators used in this study are a combination of the Balanced Scorecard (BSC) and the 3E (Economy, Efficiency, Effectiveness) indicators that are often used in the CCI (Weinstein & Bukovinsky, 2009). The 3E (Economy, Efficiency, Effectiveness) model has numerous limitations, but is widely used in CCI as a management tool. These indicators are modified in relation to the key focus areas and local environment. Extended BSC model of Robert S. Kaplan and David P. Norton (1996) was used with a multidimensional set of indicators to better captures the operations of NPOs and reduces the dominance of economic parameters.

The independent variables are describing the performance and size of the theatres prior the crisis during the full year 2019. The independent variables of performance and size include four variables: a) the seniority of the organization in years, b) total annual costs in 2019, c) number of employees at the end of 2019 and d) artistic performance and audience in 2019. The dependent variables are tracking the impact the Covid-19 measures on the performance of the theatres and response to it. The dependent variables include the financial performance, impact on staff and audiences, and artistic performance.

Income loss, realized savings, and financial support analyze the impact of the Covid-19 measures on the performance of theatres. Variables describing change in employment structure

¹ For the purpose of the study the EU Commission segmentation was used with adjustment to local environment: a micro organization up to 10 employees and an annual turnover of up to 400 thousands EUR, a small organization with 10-30 employees and an annual turnover of 2 million EUR, a medium organization up to 100 employees and an annual turnover of 2-6 million EUR, and a large organization with more than 100 employees and a turnover of more than 6 million EUR.

analyze the impact on employees and freelancers. Loss of attendance, number of cancelled and new performances analysis the impact of the Covid-19 measures on the artistic performance. Mirae Kim and Dyana P. Mason (2020) draw on similar variables and go beyond the scope of this study to analyze the variables of impact on volunteers working in cultural organizations.

Results: descriptive statistics

The first analysis of the short-term impact for the period of March and May 2020 have revealed the following findings for surveyed theatres in the Czech Republic:

- A. The theatres faced a drop in audience of 1.080 million visitors
- B. The theatres were forced to cancel 5.949 performances
- C. The theatres reported a income shortfall of 11 million EUR
- D. The theatres reported savings of 4,48 million EUR
- E. The theatres reported the dismissal of 227 full-time employees and termination of 4,392 contracts with freelancers
- F. The theatres staged 941 new performances

A drop in audience attendance worth of 1.080 million visitors, which represents roughly 20% of reported annual attendance, which is in accordance to the seasonality of Czech theatres. The figure is similar for both the independent and public theatres. Consistently, NIPOS (2021) reports a drop in attendance of 75% in its statistics for the full year 2020 compared to 2019. The surveyed theatres cancelled performances amount approximately to 17% of all performances performed in 2019, and this figure is identical for both public and independent theatres. On the other hand, the theatres surveyed responded to the situation and realized 941 new performances mostly in the online environment.

The loss of income from own activities (admission fees and accompanying activities), amounting to 11 million EUR represented less than 5% of the total annual income for the theatres surveyed. This disproportion is due to the high level of dependence of the Czech theatres on public funding. The impact on independent theatres is roughly twice as high as on public theatres, which have the financial backing of their founder. The theatres surveyed realized savings of 4,48 million EUR for the reported period. Independent theatres were able to save roughly 50% more than public theatres. During the first months of the pandemic, independent theatres were able to react more quickly to the situation and activate their supporters and implement several fundraising and crowdfunding activities, which resulted more in moral than financial support.

The researched theatres were forced to react to the situation in terms of human resources: 277 employment contracts were terminated. The independent theatres had to lay off around 50% more than public theatres. Surprisingly the public theatres had to terminate 23% more contracts with freelancers than independent theatres, where the proportion of freelancers is highest. On

average, the sample of theatres surveyed showed a 60% share of freelancers in all theatres, with independent theatres showing the highest share of 83% of freelance workers. The paradoxical higher dismissal of freelancers in public theatres can be explained by the aim to retain own staff at the expense of freelance workers.

Findings

Individual correlation matrixes in the form of heat maps examined the relationships between the theatre performance prior to the 2019 crisis and the impact of Covid-19 measures in 2020. Different types of theatres showed different dynamics. Based on the analysis following partial conclusions can be drawn for the variables associations:

A. Income and attendance decline during the Covid-19 pandemic shows association with the pre-crisis theatre organization performance variables, particularly for public and larger theatres.

B. The termination of employment contracts variable did not show many associations with pre-crisis organizational performance variables. Surprisingly, higher level of association was observed for independent theatres.

C. The variable termination of contracts with freelancers showed association with the pre-crisis theatre performance variable only for public and medium to large theatres. For independent theatres, the association rate is significantly lower.

D. There was limited association between the variable of realized financial donations during the C-19 pandemic and the variables of organizational performance prior to the crisis

E. The organization seniority variable was not critical to most of the impact variables of the Covid-19 measures

Public theatres showed clear correlation of pre-crisis organization health and performance and impact of Covid-19 measures. The correlation coefficient of the variables of income loss for public theatres during the Covid-19 pandemic and the number of visitors in 2019 reached the highest value for all segments examined. This can be confirmed again by the characteristics of public theatres: these are generally larger and more established theatres. On the other hand, the income loss of public theatres was compensated by subsidies and support packages from public funding, for which there was a clear preference towards them. The variable of attendance loss confirmed a significant level of association to three variables of theatre organization performance before the crisis (total annual costs, total number of employees and total number of visitors in 2019).

The independent theatres showed a different dynamic and surprisingly did not show any defined significant level of association compared to public theatres. The variable of income loss during the Covid-19 measures showed only limited association to pre-crisis performance. It is an overstatement to say that uncertainty and instability are part of the normal operation, management and planning of independent theatres.

The variable termination of employment contract showed a negative degree of association on

the pre-crisis performance variables for public theatres, confirming their stability and backing of founders. In the subsequent qualitative research, public theatres confirmed the fact that they prefer to terminate contract with freelancers in an effort to retain their employees.

The variable of termination of contracts with freelancers, compared to public theatres, did not reach defined level of significant association for any of the pre-crisis performance variables of independent theatres. This confirms the fact that independent theatres operate more on a project basis.

Conclusion

In this study, we examined the impact of the Covid-19 measures taken in first stage in period of April-May 2020 on the Czech theatres in the context of their pre-crisis organizational resilience and performance. The main objective of the study was to examine the impact of the Covid-19 measures on different segments of theatres and to determine if there are significant associations between the variables of the impact of the Covid-19 measures and the performance of the theatre organization prior to the crisis. The study focused on two main groups: public and independent theatres. The analyses conducted found different response to the Covid-19 measures.

The results of the descriptive statistics confirmed that independent theatres were more affected by economic losses due to the Covid-19 pandemic in comparison with public theatres. The independent theatres are lacking a stable base, tend to be smaller organizations and are more dependent on their own income.

The analysis confirmed a high degree of association between the income loss variable and organizational health for public theatres. For independent theatres, the degree of association did not reach as high values as for public theatres, where overall income loss was lower due to the use of support packages. Public theatres, as more established organizations, showed high degree of association between the Covid-19 impact variables and the pre-crisis organizational health variables. For independent theatres, no significant associations were recognized between variables of the impact of the Covid-19 measures and the pre-crisis health and performance. For independent theatres, uncertainty is part of reality, which also reflects the state of organizations, which was not comparable to public theatres even before the crisis. The findings confirm the research question RQ1 and are also in line with the research of Mirae Kim and Dyana P. Mason (2020): independent cultural organizations are more sensitive to external threads and crises. In the event of a prolonged crisis, independent theatres are more vulnerable due to the lack of financial reserves.

The research found that the group most affected by the Covid-19 measures was the group of freelancers, who faced the highest termination rates. The freelance workers group is a driving force for both independent and public theatres, where they are hired on a per project basis or for the reason of tax optimization. This group is the most vulnerable as they are incapable of receiving the same social security coverage as regular employees. The study surprisingly

revealed that the public theaters terminated more contracts with freelancers than independent theatres. The reason behind this finding was the effort of retaining own employees on cost of freelance workers. The research question RQ2 was not confirmed as the public theatres in total dismissed more employees and freelancers in comparison to independent theatres.

The study confirmed that the stability of a theatre in terms of the size and the founder of the has a major impact on its resilience during a possible crisis. Consistent with Guillaume Plaisance (2022), the study highlighted the importance of backing of the founder during a crisis. Public support and financial support aid solved the short-term financial problems of Czech theatres. The crisis has highlighted long-term problems related to the legal ambiguity of the CCI workers and unequal position of independent theatres in the Czech theater environment.

The findings of the study have its limits: despite the relatively high response rate, it is only a sample of the entire Czech theatre environment in a relatively short period of time. Despite these limitations, the study could be beneficial for further discussion on the resilience of cultural organizations.

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