RESEARCH NOTE

Setting parameters: operational budget size and allocation of resources

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Abstract

Purpose – The purpose of this paper is to determine how festivals allocated their funds among various expense categories.

Design/methodology/approach – Festival managers from across North and South Carolina were asked to specify the percentages of their expense budgets allocated to each of the following categories: marketing, administrative, entertainment and operations.

Findings – It was found that "smaller" festivals spend a significantly greater proportion of their budgets on marketing (23 percent) and a far smaller share on administrative expenditures (5 percent) than do their "larger" counterparts that spend only 15 percent on marketing and triple the "smaller" festival's administrative costs (15 percent). The differences related to their spending for entertainment (35 versus 28 percent) and operations (36 versus 41 percent) are not as dramatic in relation to their proportion of total spending. The data herein suggest that festival size plays an important role when it comes to such allocations.

Originality/value – The paper has provided benchmarks that hopefully will assist festival directors' budget-decision-making strategies as they allow a measure with which to evaluate those decisions. While the research needs to be interpreted with great care due to its relatively small sample size and broad budgetary categorizations, the findings provide a guide to assist festival organizers as they manage their events for the benefit of their stakeholders and the communities that support them. The paper also provides a starting point for future research in this area, much of which is needed.

Keywords Budgets, Financial management, Costs, Benchmarking, Operations management, Festivals

Paper type Research paper

Given the current world wide financial situation, many festivals planners are facing difficulty in gaining monetary support. Government grants, sponsorships and ticket revenues all have become more significant challenges in these difficult financial times. As a result of financial resources becoming scare, budgetary decisions are increasingly more important as planners are asked "to do more with less," making it perhaps more important than ever that an organization be efficient with the use of its resources. An important consideration for gaining efficiency is an understanding and examination of the organization's allocation of funds, i.e. the percentage of total budget spent on given categories of expenses. Unsurprisingly, Betzig (2006) suggested that an organization's budgetary allocations should reflect the priorities established for the festival, i.e. the greater the priority the greater the percentage of the budget it receives.

Proper-to-the-circumstances budgeting, per Livingstone and Gunn (1974), can result in cost savings, risk reduction to operators, enhanced benefits to attendees, and increase

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the confidence and commitment of the festival's stakeholders. By maximizing one's budget, festival organizers therefore not only enhance the likelihood of their financial success, they also improve the likelihood of the general success of their event.

Getz (2007) however, recognizing that each event is unique unto itself, has noted that festial size has a significant impact on the way such events are organized and managed. For instance, larger festivals require more human resources to implement than do smaller ones (which are often volunteer driven), a distinction which should be reflected in the budgeted allocation percentage for administrative costs. Similarly, festivals that attract a large, often public domain audiences, require more planning and control, and present greater operational challenges than do those produced for a smaller, more private spectrum of attendees.

A review of the literature notes a lack of benchmarking that could assist festival organizers as they evaluate their budgets and seek to determine whether their expenditure allocations are in line with the decisions being made by similar events elsewhere. There is no indication, in the public domain, that budgetary benchmark data have been published and shared with organizers and academics who study these events. This research, addresses this missing link in the festival literature, while addressing the issue of festival size so as to provide findings of value to organizers of festivals across a range of size. The results presented will allow festivals to compare their budget allocations to those of their peers, and provide benchmarks that should assist them in the challenging task of organizing successful events for their visitors and their stakeholders. A discussion of the findings then follows.

Research method

This research was conducted with the cooperation of the South Carolina Festival and Event Association and the North Carolina Association of Festival and Events. Lists of festivals in the two states were obtained from the associations. Managers of these events were then sent a request to complete an online survey. A total of 550 initial e-mails were sent, followed by two reminders during the subsequent three-week period. A total of 121 responses were received, two of which were unusable. Association members, per the organizations, manage approximately 2.3 festivals each. Per agreement with the Associations, and so as to avoid survey fatigue, the instructions provided were that the organizer completes a survey for only one festival among those managed. This reduced the effective maximum responses to approximately 240 festivals. Thus, 121 responses reflected a strong effective acceptance rate, reflecting approximately 50 percent of Association member organizers in the two states.

The survey instrument asked festival organizers a variety of questions related to the size and type of the festival they managed, the financial structure of their festival, and the festival's budgetary/expenditure patterns. In addition, questions related to tangential issues of interest to the Associations, such as environmental practices and food and beverage vendor policies, but not germane to this paper, were asked of respondents, with responses provided to the Associations.

Results

There was a good mix of festival size and types from across the Carolinas included in the data set. The average festival length in the sample was 3.5 days. The norm was that these events were partnered with their local Chamber or Commerce and/or Convention and Visitors Bureau (93 percent). Collaboration with local government was almost as prevalent (82 percent). Virtually all of the events (94 percent) reported the use of some donated or subsidized city/town services, such as policing or emergency medical services coverage. Further, 21 percent of the festivals received state grants, and 33 percent received financial support from a state agency. The median operating budget of the festivals was $85,000. The smallest had a budget less than $100, the largest $6,000,000. Median attendance was 12,000 and ranged from 200 to 430,000. Approximately one-third of the festivals had paid directors, with salaries that ranged from $800 to $100,000. Median salary of the paid directors was approximately $38,000.

The above describes the sample in total. However, given the comments in the literature regarding festival size, the additional reported findings reported below discuss two distinct groups of events, segmented by size. These findings clearly reflect, as suggested by the literature, that small and large festivals truly are very different in many important ways. It was determined that the most meaningful findings that could be extracted from the data set would exclude the very largest festivals (those with operating budgets in excess of $1,000,000) and the very smallest (those with operating budgets less than $10,000). (Also excluded from the following analysis were those respondents who withheld disclosure of their total expenditures.) The reason for exclusion of the very small ($n = 12$) and very large festivals ($n = 9$) was that these events are likely to be uniquely idiosyncratic and as outliers skew the data, limiting the finding's usefulness for most festival organizers. The remaining festivals were then divided into "smaller" festivals, those with budgets between $10,000 and $100,000 ($n = 39$), and "larger" festivals, comprising those events with budgets in the range from $100,000 to $1,000,000 ($n = 30$).

"Smaller" festivals were on average (all averages reported are medians) two days in length, had budgets of $40,000 and attracted an average of 12,000 attendees. Approximately two-thirds were not-for-profit entities. About 41 percent classified themselves as arts and crafts events, followed by 13 percent as cultural/heritage events. About 28 percent employed a paid director who received an average salary of $21,000 (low of $800; high of $58,000). A minority (41 percent) had paid staff.

The "larger" festivals were somewhat longer in duration, averaging three days. Their median budget was $205,000. On average they attracted 37,000 visitors. About 80 percent of these festivals had non-profit tax status. Their event-types were more evenly split than were the "smaller" festivals. The largest number (20 percent) were arts and crafts festivals, followed by music festivals (13 percent) and culinary/gastronomy and cultural/heritage events (10 percent each). Paid directors were more prevalent for the "larger" festivals (40 percent). These directors received an average salary of $39,000 (range from $10,000 to $58,000). (For interest sake, it should be noted that the highest paid director in the full data set, managing a festival with a budget in excess of $1,000,000 earned a salary of $100,000.) The gap between the "smaller" and "larger" festival categories related to their use of paid staff was surprisingly small, with only 52 percent of "larger" events reporting employment of paid staff, versus the 41 percent noted above for the "smaller" festival segment.

When the financial performance of the two segments was analyzed, it was noted that cost-per-visitor had a significant relationship with event size, but not in the manner one might expect. To determine this variable, the festival's total operating budget was divided by their number of attendees. Stark differences emerged, with the "smaller" festivals having spent on average $3.44 per visitor, while the “larger” festivals spent more than double this amount, $7.90 per visitor. One would have expected that economies-of-scale would work in favor of larger events, but instead, as is reflected in the following expense allocation analysis, it would seem that the increased complexity of these larger events result in dramatically higher per-visitor costs. (The above findings are summarized in Table I).

The above data provide useful benchmarks for festival organizers and their management stakeholders. The key intent of this paper, however, was to determine how festivals allocated their funds among various expense categories. Respondents were asked to specify the percentages of their expense budgets allocated to each of the following categories:

- marketing;
- administrative;
- entertainment; and
- operations.

The question required the respondents’ answer to sum to 100 percent. Figure 1 shows the budget split among the four categories for both the “smaller” and “larger” festivals. Table II provides the findings in detail.

When examining budgetary spending by category, the key finding is that “smaller” festivals spend a significantly greater proportion of their budgets on marketing (23 percent) and a far smaller share on administrative expenditures (5 percent) than do their “larger” counterparts that spend only 15 percent on marketing and triple the

	“Smaller” festivals $10,000-$100,000 ($n = 39$)	“Larger” festivals $100,000-$1,00,000 ($n = 30$)
Average (median) budget $	40,000	205,000
Average attendance	12,000	37,000
Spending per festival attendee $	3.44	7.90

Table I. Comparison of events by budget size

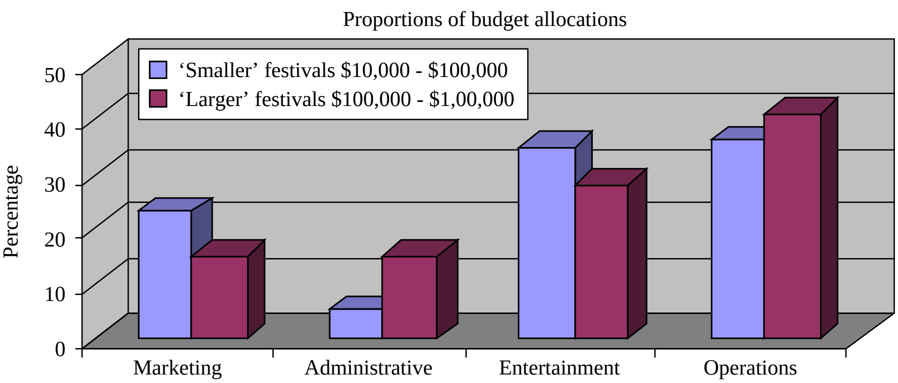

Figure 1. Overall category spending by percentage of budget

"smaller" festival's administrative costs (15 percent). The differences related to their spending for entertainment (35 versus 28 percent) and operations (36 versus 41 percent) are not as dramatic in relation to their proportion of total spending. In fact, when these two categories, both related to the actual delivery of the product, are summed, we find they are virtually identical regardless of event size, with "smaller" events spending 71 percent for entertainment and operations combined, versus 69 percent for the "larger" events.

Discussion and conclusion

Managing festivals in these difficult economic times is no doubt a challenge. Perhaps more than ever, effective allocation of a festival's limited resources is a critical managerial decision that must be addressed by all organizers. The data herein suggest that size plays an important role when it comes to such allocations. "Smaller" festivals are required to, or perhaps elect to, spend a larger percentage of their resources on marketing their event. Conversely, "larger" festivals find they must spend more for administration, likely given the human resources needed to plan for these larger events. Interesting, once the events are under way, operating costs as an overall percentage of the budget is virtually the same regardless of size. However, the cost-per-attendee served is dramatically higher for "larger" events than it is for "smaller" events. The apparent explanation is that "smaller" events, with a greater dependence upon volunteer staff and volunteer management are simply "cheaper" to organize and operate as a result of these savings. Further, they likely are less complex events targeted to a more defined market. In addition, they likely have fewer safety issues with fewer attendees over a shorter duration.

Besides providing some benchmarks for festival managers, the major issue that the above raises is whether small festivals should strive for growth. The benefits that accrue to the community from providing larger events likely makes growth a worthwhile goal, particularly for the vast majority of festivals in the sample, regardless of size, that are non-profit entities tasked with doing good. But growth will clearly come with costs and challenges. The data herein has confirmed, as the literature has suggested, that the way festivals are managed changes with size. An interesting contribution to this literature is the finding that the cost-per-attendee is related to size, with "larger" festivals in fact more costly to run than are their "smaller" counterparts. With size, paid staff is added and a paid director, with his/her salary correlated with festival size, is generally required to manage the added employees and oversee the increased complexity of the event. Growth, therefore, is expensive, with the normally expected economies-of-scale not the norm.

Such a finding is in line with an earlier study by Litvin (1999) that noted the significant problems faced by tourism providers as they attempted to grow their organizations. For many organizations, size is a surrogate for success; and while most see growth as

	"Smaller" festivals $10,000-$100,000 ($n = 39$)	"Larger" festivals $100,000-$1,00,000 ($n = 30$)
Marketing (%)	23	15
Administrative (%)	5	15
Entertainment (%)	35	28
Operations (%)	36	41

Table II.
Proportions of budget allocation

desirable, one must understand the challenges that accompany the transition. Litvin (1999, p. 118) particularly warned of the obstacles faced by mid-size organizations, at which point, he noted, they are most vulnerable as they face not previously encountered challenges, finding themselves "too small to be large and too large to be small." "Smaller" festival organizers, it would seem from the data herein, face very similar challenges, and perhaps should be wary of the challenges as they face, as coined by Litvin, "the minefield of the middle."

Further research should study an expanded group of festivals, particularly those over $1000,000 in size. The current data collection effort, limited to North and South Carolina festivals, included only nine such events, too small a number to yield meaningful results and thus were excluded from analysis. Studies outside the limited geographic area of this paper are suggested. Further, as the economy hopefully improves, it is not inconceivable that budgetary decisions will change, and organizers will need current data to help them to navigate their current economic reality.

This study has provided benchmarks that hopefully will assist festival directors' budget-decision-making strategies as they allow a measure with which to evaluate those decisions. While the research needs to be interpreted with great care due to its relatively small sample size and broad budgetary categorizations, the finding provide a guide to assist festival organizers as they manage their events for the benefit of their stakeholders and the communities that support them. We hope that the work also provides a starting point for future research in this area, much of which is needed.

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