



Evaluating local government costs and revenues: The case of an Italian privately owned for-profit event

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ARTICLE INFO

Article history:

Received 24 July 2013

Accepted 20 August 2013

Keywords:

Local government

Event

Ownership

Stakeholder

ABSTRACT

In recent years, events have increasingly been used as a powerful marketing tool, in order to attract tourists. The aim of this paper is to present an accurate and generalizable method with which to classify and quantify the additional costs and revenues accrued by local government as a direct consequence of hosting a special event. This is of particular interest when applied to the case of privately owned and profit oriented events, as local stakeholders may question their legitimacy. The proposed method will be tested on one of the best known privately owned hallmark events in Italy: the Eurochocolate festival, held every year in Perugia. The analysis demonstrates that the commonly held public opinion which supposes that this event generates high public spending is unfounded, and suggests the suitability of implementing such an analysis in cases where a debate exists regarding the legitimacy of a privately owned event.

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1. Introduction

In recent years, the organization of events has increasingly been used as an instrument in local economic development strategies (Dwyer, Mellor, Mistilis, & Mules, 2000; Getz, 2008; O'Sullivan & Jackson, 2002; Whitford, 2009). It is clear that events, and in particular, hallmark events, can act as powerful attraction for tourists (Faulkner et al., 2001; Felsenstein & Fleischer, 2003; Fourie & Santana-Gallego, 2011; Getz, 2005, 2008), whose expenditure on hotels, restaurants, shopping, etc., typically generates a positive impact for the local economy (Bracalente et al., 2011a; Burgan & Mules, 1992; Thomo, 2005; Tyrrell & Johnston, 2001).

While public opinion, in general, does not question the legitimacy of non-profit public events, local community support for privately owned, profit oriented events can be thin on the ground, as local residents may believe such activities only result in private gains and public costs (Andersson & Getz, 2009; Carlsen & Andersson, 2011).

Aside from a positive economic impact, special events, and hallmark events in particular, can also generate negative consequences. Many of these, such as inconveniences in the everyday life of local inhabitants during the course of the event, are to a large extent unquantifiable, while other consequences can, with some difficulty, be quantified, such as the explicit and implicit costs for local government, and therefore for the collectivity (Barker, Page, & Meyer, 2002; Bowdin,

McDonnell, Allen, & O'Toole, 2001; Crompton & McKay, 1994; Dwyer et al., 2000; Hall, 1992).

An evaluation and, if possible, a quantification, of the positive and negative effects caused by the organization of an event is therefore essential for the purposes of an effective assessment by private and public policy makers (Andersson & Lundberg, 2013; Hall, 1992; Pugh & Wood, 2004; Whitford, 2009; Wood, 2005), and in terms of stakeholder management strategies for the event organizers (Andersson & Getz, 2008). This also holds true for privately owned events that are produced by a for-profit business, whose primary objective may not be in the interest of the welfare of the local community (Andersson & Getz, 2009; Sawicki, 1989).

Given this framework, the main objective of this paper is to create a precise method to classify and quantify the costs and revenues accumulated by a municipality as a direct consequence of hosting a special event. Due to undeniable methodological difficulties, this issue is often ignored by the case studies presented in literature, which typically focus exclusively on the measurement of the direct expenditure of visitors and organizers, and the resulting indirect and induced effects on the local economy (Burgan & Mules, 2000; Crompton, Lee, & Schuster, 2001; Daniels, Norman, & Henry, 2004; Herrero, Sanz, Devesa, Bedade, & del Barrio, 2007; Jackson, Houghton, Russell, & Triandos, 2005; Scottish Tourist Board, 1996; Thomo, 2005).

The proposed method will be tested, in order to evaluate the potential for generalized use, on one of the best known privately owned hallmark events in Italy: Eurochocolate, an annual festival dedicated entirely to chocolate "culture", which takes place in a typical medium-sized Italian city of art, Perugia, during the third week of October, attracting over 100,000 annual visitors. The relevance of this case study is due to the fact that the festival faces widespread

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hostile public opinion, as a result of the supposition that it generates high public spending. This has given rise to a debate regarding the legitimacy of the event.

The paper is organized as follows.

Section 2 includes a brief summary of the literature, and focuses on the relevance of the quantification of public expenditure, particularly in the case of profit oriented events.

Section 3 presents the case study, and outlines the main points that led to hostile public opinion.

Section 4 proposes a method to analyze the costs and revenues incurred by the local government as a direct consequence of the organization of an event, and presents the results of the empirical analysis of the case study.

Section 5 presents the conclusions that have been reached and makes suggestions for further research.

2. Literature review

In recent years, events have increasingly been used as a powerful marketing tool, in order to attract tourists. This has led to a process of *festivalization* in society (Hitters, 2007; Richards, 2007). Event tourism is developing rapidly, at both a local and a global level (Getz, 1989, 2005, 2008; Hall, 1992; Ritchie, 1984; Walsh-Heron & Stevens, 1990), as it allows a destination to become more competitive, and to manage a more profitable distribution of tourist flows, in terms of seasonality and average length of stay (Butler, 1998; Getz, 1989; Ritchie & Beliveau, 1974).

The interest of public policy makers in this argument is due to the evidence that staging an event can, directly or indirectly, generate a positive economic impact, thanks to both the expenditure of tourists on goods and services in various sectors (retail, transport, arts and crafts, dining, etc.), and the expenditure of the organizers of the event at a local level (regional suppliers, labor costs, etc.). Such direct expenditure, besides its indirect and induced multiplicative effects, can generate an increase in employment, and benefit wealth creation and distribution, with a positive impact on the local economy. Accordingly, impact studies use valid and rigorous methodologies that aim to precisely quantify the local level economic flows that derive from the organization of an event (Bracalente et al., 2011b; Burgan & Mules, 1992; Burgan & Mules, 2000; Crompton et al., 2001; Daniels et al., 2004; Formica & Uysal, 1998; Herrero et al., 2007; Jackson et al., 2005; Long & Perdue, 1990; Scottish Tourist Board, 1996; Thomo, 2005).

Moreover, special events generate further benefits that are, to a large extent, immaterial and economically unquantifiable, such as a long term improvement in the visibility and distinctiveness of a territory (Boo & Busser, 2006; Hitters, 2007; Jago, Chalip, Brown, Mules, & Ali, 2003; Richards & Wilson, 2004; Ritchie, 1984; Ritchie & Smith, 1991), the enhancement of the reputation of the host city, and the social and cultural impact on residents, such as increased pride in the local community, greater social cohesion, and enhanced community identity (Acordia & Whitford, 2006; Andersson & Lundberg, 2013; Delamere, Wankel, & Hinch, 2001; Fredline & Faulkner, 2001; Fredline, Yago, & Deery, 2003; Small, Edwards, & Sheridan, 2005).

Just as an event benefits not only its organizers, but also, indirectly, the host community, it is also true that costs are borne not only by the organizers, but also by the collectivity (Bowdin et al., 2001; Dwyer et al., 2000; Felsenstein & Fleischer, 2003; Hall, 1992; Prayag, Hosany, Nunkoo, & Alders, 2013; Small, 2007; Small et al., 2005).

Among the inconveniences and costs incurred by the local community (displacement effects, crowding, crime and vandalism, traffic congestion, pressure on services and infrastructure, pollution, an increase in noise and litter, etc.), most are to a great extent unquantifiable in monetary terms, while others can be quantified, albeit with some difficulty (Andersson & Lundberg, 2013; Barker et al., 2002; Brannas &

Nordstrom, 2006; Collins, Jones, & Munday, 2009; Hall, 1992; Jones, 2008; Kim & Petrick, 2005; Waite, 2003). How such costs are perceived in the local community greatly influence local involvement and support, which is a critical factor in the success and long-term sustainability of the event itself (Fredline & Faulkner, 2001; Gursoy & Kendall, 2006; Kim & Petrick, 2005; Lindberg, Andersson, & Dellaert, 2001; Prayag et al., 2013; Small, 2007; Zhou & Ap, 2009).

2.1. The quantification of public expenditure on events

Any increase in municipal expenses due to the hosting of an event is to be counted among the quantifiable costs for the local community. This applies to public funds granted to the event organizers, as well as all costs incurred in guaranteeing that the event runs smoothly, such as extra wages for policing, refuse collection and cleaning costs, assistance and aid. Moreover, while subsidies involving public funds are generally transparent and quite easily identifiable in municipal financial statements, other increases in public expenditure are difficult to measure, also for the public administration (Sawicki, 1989). The increased revenues resulting from an event, such as fees for the temporary use of public areas and income from advertising, should also be calculated, as the sums involved may be substantial and indeed largely capable of counterbalancing expenses.

The growing scarcity of public funds imposes selective choices on the public policy maker, favoring those events that are useful in attracting tourists and developing a sustainable local development strategy (Dwyer & Forsyth, 2009; Pugh & Wood, 2004; Whitford, 2009). This process implies not only a careful analysis of the positive impact an event may have, but also an evaluation of any potentially negative consequences. It is important to correctly quantify negatives for the local community, at least those that can be expressed in currency, in terms of both direct and the indirect public subsidies (Wood, 2005).

Nevertheless, while a number of studies focus on the positive impact an event may have, and the methodology of such assessments has been thoroughly dealt within the literature (Bracalente et al., 2011a, 2011b; Burgan & Mules, 2000; Çela et al., 2007; Crompton et al., 2001; Daniels et al., 2004; Dwyer et al., 2000; Felsenstein & Fleischer, 2003; Herrero et al., 2007; Jackson et al., 2005; Kang & Perdue, 1994; Scottish Tourist Board, 1996; Thomo, 2005; Tyrrell & Johnston, 2001), there remains a surprising lack of research into the costs and revenues incurred by the involvement of a municipality in the organization of an event (Getz, 2010). The typical impact analysis, in fact, generally omits such an analysis of the costs of an event for the local community (Crompton, 1995; Crompton & McKay, 1994; Crompton et al., 2001). Expressing such costs in economic terms is quite challenging, and this may account for the absence of such a discussion in the case studies (Walo, Bull, & Breen, 1996).

Total public net expenditure should be considered in a cost–benefit analysis, as well as the enhancement of the welfare of the local community (Burgan & Mules, 2001; Dwyer & Forsyth, 2009; Mules & Dwyer, 2006). Given that the resources a community dedicates to an event are not available for alternative activities, any social, cultural, economic or welfare effects should be compared with those that might be derived from an alternative investment (Burgan & Mules, 2001; Dwyer & Forsyth, 2009; Felsenstein & Fleischer, 2003; Mills & Rosentraub, 2013; Whitford, 2009). However, due to undeniable quantification difficulties, even in such a theoretical assessment, unrecoverable grants at most are taken into consideration (Andersson & Lundberg, 2013; Dwyer et al., 2000; Fredline et al., 2003; Lindberg et al., 2001; Mules & Dwyer, 2006; Small et al., 2005).

2.2. Privately owned events and the support of local residents

In recent years, studies have emerged that focus on significant differences between events, depending on ownership models, in terms of

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