

CULTURAL SUSTAINABILITY: SOME REFLECTIONS ON THE FINANCIAL ROLE OF THE ITALIAN LOCAL GOVERNMENTS¹

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***Abstract:** Considering the indisputable cultural vocation of the Italian context and, in general, given the prominence of the cultural aspect as a factor of influence on many other elements that interact with human actions, this paper considers a fourth pillar joining the three traditional sustainability dimensions (environment, economic, social): cultural sustainability. Local governments have a specific role in implementing sustainability (as highlighted in the Local Agenda 21) and the expense represents an important financial indicator to understand public commitment to sustainability. These elements (the financial role of local government and cultural sustainability) are the starting point for this paper that analyzes the financial commitment of Italian local governments in the cultural sector. The models used shows that cultural expenses are related to the average income of the residents, while they are not related to the cultural heritage of the municipality territory. The empirical results allow the Author to draw some conclusions and to identify some aspects that form the basis for further research.*

1. SUSTAINABILITY MANAGEMENT AND LOCAL GOVERNMENT: THE ROLE OF FINANCIAL INFORMATION

¹ This article was prepared jointly by the Authors. However, it is possible to assign paragraph 1 to Daniela Preite, paragraphs 2 and 4 to Fabio De Matteis, paragraph 3 to Fabrizio Striani.

In this paper we move away from the traditional concept of sustainable development contained in the Brundtland Report of the United Nations World Commission on Environment and Development (WCED 1987). This definition – considered as the main reference for subsequent proposals – defines the sustainable development as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Moreover, sustainable development “is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs” (WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT (1987), *Our Common Future*, Oxford University Press, Oxford, U.K.).

Therefore, sustainability is a prerequisite of sustainable development for the implementation of social and intergenerational equity both inside and outside of each local community. This reveals the role of local governments as institutionally appointed to the implementation of sustainable development. Their contribution is officially recognized in the Local Agenda 21, a declaration at a local level of Agenda 21 (a document signed by 170 countries in Rio de Janeiro in 1992 at the United Nations Conference on Environment and Development containing the resolutions and policy objectives on environment, economy and society).

Traditionally, sustainability is declined in three dimensions:

- environmental sustainability, as the ability to preserve long-term quality and reproducibility of natural resources;
- economic sustainability, as the ability to produce durable income and work without compromising non-renewable resources;
- social sustainability, as the ability to provide access to all the essential services and the conditions of well-being.

Since 1987, the academic and institutional world has raised the level of awareness on issues relating to sustainability that have been assigned a special place for political agendas of many countries (BEBBINGTON J. and GRAY R. (2001) “An Account of Sustainability: Failure, Success and a Reconceptualisation”, in *Critical Perspectives on Accounting*, 12, (5), pp. 557-605).

Policy makers were invited to combine, in the preparation of their agenda, the protection of the natural environment with the economic and social needs of the community (ROGERS P.P., JALAL K.F., BOYD J.A. (2008), *An introduction to sustainable development*, Earthscan, London).

However, to achieve a concrete result from this combination, the principle of sustainability must be present across policy-making at all levels of government, from international to local (STRANGE T., BAYLEY A. (2008), *Sustainable development. Linking economy, society, environment*, OECD Publishing, Paris).

Otherwise, the achievement of a sustainable development remains a mere utopia.

The literature on sustainability has also highlighted the lack of specific research related to the sustainable approach of public institutions (BALL A., GRUBNIC S. (2007), “Sustainability accounting and accountability in the public sector”, in UNERMAN J., BEBBINGTON J., O'DWYER B., *Sustainability Accounting and Accountability*, Routledge, London).

For this reason, the paper, representing a first analysis on a specific area of sustainability, can be considered as a contribution to the scientific debate and, above all, as a vehicle for further research and analysis on the subject.

Whatever the scope of sustainability taken into account, it is fundamental to highlight the role of the financial component as a tool for sustainability. In other words, in pursuing and applying sustainability as a management approach, it is necessary to consider several aspects that are related to sustainability.

Among these, the financial aspect is relevant and common to the three pillars of sustainability previously mentioned: the availability and use of financial resources are factors that influence the implementation of sustainability (environmental, social and economic).

With specific reference to the local government, on which this paper is focused, it is interesting to note that accounting (PREITE D. (2015), *La contabilità pubblica come sistema di governo*, CEDAM, Padova) still has a predominantly financial connotation; therefore, this should lead to a more natural attention towards the financial aspects of sustainability. The financial balance is tied to the ability to deal with outgoing cash flows with adequate revenues, or the possibility of financing investments in the short, medium and long term with appropriate funding arrangements (for example, multi-year investments financed with sources of medium-long period).

This balance can obviously affect, over time, the public institution's ability to contribute, in the long-term, to social welfare, economic development and environmental protection through adequate supervision of the financial aspects of sustainability (along with non-accounting elements).

2. CULTURAL SUSTAINABILITY: LITERATURE REVIEW AND RESEARCH QUESTIONS

Both Italian and international literature (DUMAY J., GUTHRIE J., FARNETI F., (2010), "GRI Sustainability Reporting Guidelines for Public and Third Sector Organizations", in *Public Management Review*, Vol. 12, Issue 4, pp. 531-548; WILLIAMS B., WILMSHURT T., CLIFT R., (2011), "Sustainability reporting by local government in Australia: Current and future prospects", in *Accounting Forum*, Vol. 35, pp. 176-186) is more focused on aspects related to sustainability reporting (A different approach - that considers the whole planning and control cycle - is followed in: DE MATTEIS F., PREITE D., (2015), *Il ciclo di sostenibilità negli enti locali*, Giappichelli Editore, Torino).

In fact, national and local Public administration, having to abide by the different recommendations and numerous controls, appear to be more facilitated and directed to report on action taken and, consequently, on the performance achieved in terms of sustainability.

But several scholars have shown the existence of other factors that have contributed to the proliferation of papers on sustainability reporting in the local authorities.

For example, some authors (KAUR, A and LODHIA S. (2014) "The state of disclosures on stakeholder engagement in sustainability reporting in Australian local councils", in *Pacific Accounting Review: Special issue on Sustainability Accounting and Reporting*, 26, (1/2), pp. 54-74) consider stakeholder involvement an essential motivation for the development of sustainability

reporting. Other authors (FARNETI, F. & GUTHRIE, J. (2009), "Sustainability Reporting by Australian Public Sector Organizations: Why They Report", in *Accounting Forum*, 33, (2), pp. 89-98) have the same approach with reference to the Australian public sector: they found that sustainability reporting is justified by the need to inform those who are interested in the organization's activities.

In addition, in the case of public sector organizations, transparency on sustainability is an essential variable linked to their nature (BALL A. and BEBBINGTON J., (2008), "Accounting and Reporting for Sustainable development in Public Service Organizations: issues and emerging directions", in *Public Money and Management*, 28(6), pp. 323-325).

In this paper, considered the indisputable cultural vocation of the Italian context and, in general, given the prominence of this aspect as a factor of influence on many other elements that interact with human action (culture as the basis of actions and people's way of thinking), the cultural dimension of sustainability is taken into consideration. Therefore, next to the three traditional sustainability dimensions (social, economic and environmental), here cultural sustainability is added and analyzed.

The concepts of "sustainability" and "sustainable development" were first explained to highlight that a healthy economy depends on a healthy biosphere and vice versa, and to introduce the approach of sustainability as a means of integrating economic and ecological concerns in long-term development strategies. This approach, as defined in ecological terms, can be extended and applied to the realm of culture by recognizing parallels between the concepts of natural and cultural capital (THROSBY D., (2005), *On the Sustainability of Cultural Capital*, Sidney, Macquire University Department of Economics, Research Paper 10/2005).

There has been growing interest among scholars to consider culture as an aspect of sustainable development together with the three traditional pillars of sustainability (environment, social, economic). However, only recently, the understanding of culture within the scientific framework of sustainable development has become a focus of analysis. An interesting study (SOINI K., BIRKELAND I., (2014), "Exploring the scientific discourse on cultural sustainability", in *Geoforum*, Vol. 51, pp. 213-223) investigates the scientific discourse on cultural sustainability - by analyzing the different meanings applied to the concept in scientific publications – and highlights that the scientific discourse on cultural sustainability is developed on seven storylines: heritage, vitality, economic viability, diversity, locality, eco-cultural resilience, and eco-cultural civilization. These approaches are partly interlinked and overlapping, but they differ in terms of some contextualized aspects: some of the storylines define the fourth pillar of sustainability (culture), while others can be considered as instrumental, contributing to the achievement of the social, economic, or ecological goals of sustainability. This highlights the absence of a managerial approach deriving from different elements, among which the lack of managerial literature on cultural sustainability.

From this situation stems the opportunity for this paper to become a first contribution on the development of a managerial debate on cultural sustainability. In other words, the research presented in this paper aims to start a scientific debate that can contribute to the definition of both theoretical/defining aspects and empirical elements for

the drawing up of managerial tools related to the planning, management, measurement and evaluation of cultural sustainability.

Some authors (AXELSSON R., ANDERSSON K., (2013), “Social and Cultural Sustainability: Criteria, Indicators, Verifier Variables for Measurement and Maps for Visualization to Support Planning”, in *Ambio*, Vol. 42, pp. 215-228) also analyzed cultural sustainability in terms of indicators that can be useful to define the cultural sustainability profile of municipalities. We find relevant that among the indicators highlighted, there are none of financial origin considering (as said in the previous paragraph) that financial efforts are an important element for sustainability development.

The literature review leads to the identification of the following research questions:

- 1 - What is the extent of the financial commitment of local authorities in the current management of the cultural heritage sustainability?;
- 2 - In order to understand if there is some sort of financial subsidiarity between local authorities and citizens in ensuring cultural sustainability, is there a correlation between cultural current expenditure of local authorities and average income of the residents?;
- 3 - Is the current management of culture (in financial terms) related to the size of the cultural heritage present in the municipal area?

3. METHODOLOGY AND RESULTS

Model. The research examines the current expenditure of Italian local authorities expressed in per capita terms and aggregated by region. For this first empirical research on the financial effort of the local governments in cultural sustainability, we consider current expenses, because in the cultural field, investments (both for extent and frequency) can often be of the extraordinary type.

We suppose that the cultural current expenditures depend on:

- the regional average disposal income per capita, because it is assumed that there is a financial subsidiarity between local residents and authorities (local government spends more on culture if the average income per capita is lower, in order to compensate the residents' limited funding available);
- the population, considering that local governments with greater populations have higher financial commitment to cultural sustainability;
- the cultural heritage, because it is assumed that local governments with greater cultural heritage have a larger cultural current expenditure.

We developed two different models; the first model does not consider cultural heritage, whereas in the second model we insert this variable. Following model I and II:

$$s_{it} = k + y_{it} + pop_{it} + u_{it} \quad (\text{model I})$$

$$s_{it} = k + y_{it} + pop_{it} + pat_{it} + u_{it} \quad (\text{model II})$$

Where:

s_{it} is the local government cultural current expenditure;

y_{it} is the regional average disposal income per capita;

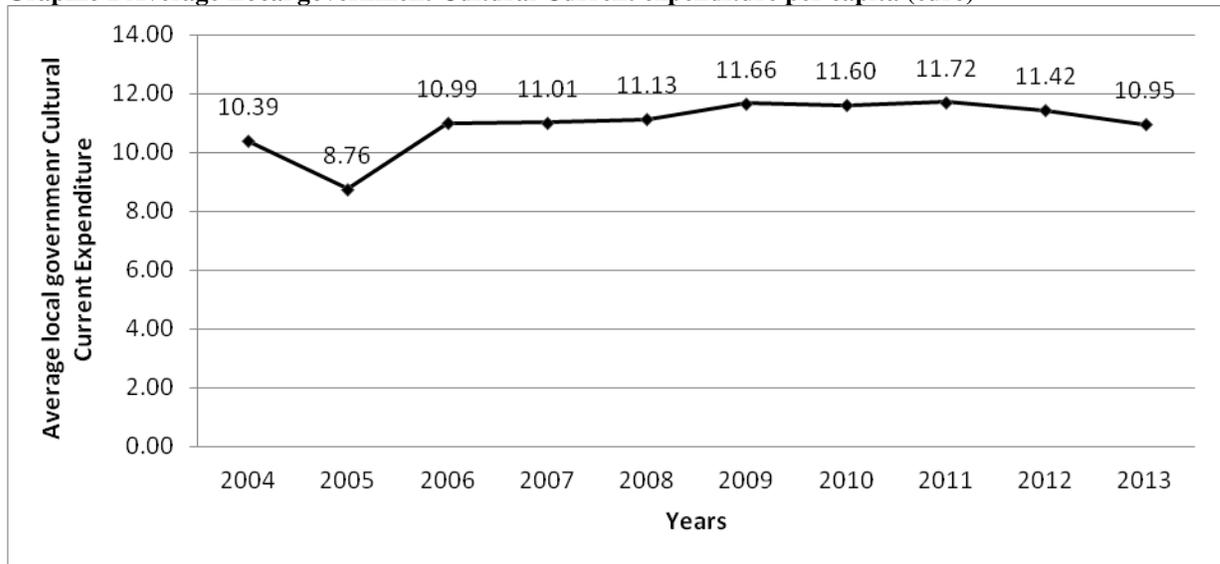
pop is the population;

pat_{it} is the cultural patrimony.

The choice to use two different models depends to the possibility to do a short period analysis and a long period analysis, because of the availability of official reliable data. In fact, for the first model we use the temporal period 2004-2013, whereas for the second model we use the temporal period 2012-2013. The use of more periods allows for a comparative analysis, which corresponds to the intrinsic temporal element of the concept of sustainability.

Data Analysis. First of all we show the trend of the regional cultural currency expenditure. To do this we calculate the mean of the aforementioned variable per each years that we consider (2004-2013). We obtain the following graphics:

Graphic 1 Average Local government Cultural Current expenditure per capita (euro)



The graph allows us to answer the first research question on the trend of current expenses of Italian local government for the cultural sector. In this graph we denote that the current expenditure is a sufficiently linear trend even if in the year 2005 we have a sharp decrease.

In the following table, instead, we show the most significant statistics of the variable “current expenditure”.

Table 1 Statistics of Local government cultural currency expenditure

Year	Mean	Median	Standard Deviation
2004	10,4	9,3	6,484614264
2005	8,8	8,4	6,777021466
2006	11,0	10,6	7,058630424
2007	11,0	10,9	7,238915401
2008	11,1	10,9	7,487574047
2009	11,7	11,3	7,565774962
2010	11,6	11,1	7,777218186
2011	11,7	10,9	8,104524992
2012	11,4	10,2	8,038611184
2013	11,0	11,0	7,671146563

Source ISTAT – own elaborations

The above data show a low variability, compared to the average, of the expenditure for the decade considered. To verify this it is sufficient to note that the standard deviation has sufficiently low values. At the same we can see that the standard deviation value is significant if compared to the average: this means that there can be important differences in the current per capita expenditure for culture from entity to entity. Therefore, it is useful to analyze the correlation between that expenditure and the other elements investigated (average income and cultural heritage).

Below, the data we used for the econometric analysis:

Table 2 Variables definition

Code	Variable	Source
s_{it}	Local government current expenditure per capita for culture	ISTAT
y_{it}	Regional average disposal income per capita	ISTAT
pop_{it}	Population	ISTAT
pat_{it}	Cultural patrimony	ISTAT

All data were collected from the ISTAT (Italian Statistics National Institute) website. In this website we find, in the period 2004-2013, all data for the variables s_{it} , y_{it} and pop_{it} whereas the variable pat_{it} is available only for the period 2012-2013. With this sample, however, we create two balanced data panels for the two used models.

Methodology. The methodology that we use to estimate the two previous panels is the OLS (Ordinary Least Square) method. In this case, we can use this method because we do not have a lagged dependent variable and so the estimator is correct and consistent.

In our models we insert the temporal dummy variables, through which we can capture the cyclical variations of the periods. Then:

$$s_{it} = \beta_0 + \tau_t + y_{it} + pop_{it} + u_{it} \text{ (Model I)}$$

$$s_{it} = \beta_0 + \tau_t + y_{it} + pop_{it} + pat_{it} + u_{it} \text{ (Model II)}$$

At this point we can proceed with the estimation of the two models. To do this we use the econometric program STATA and we obtain Table II.

In the model I, we test if the cultural expenditure depends on the citizen income (research question 2). Then we extend this analysis using the cultural patrimony (model II) to test how the latter variable impacts cultural expenditure (research question 3).

Table 3 Estimation

Variable	Model I	Model II
Const	-17.209*** (5.480)	-13.645** (6.387)
tau2004	0.984 (0.77)	-
tau2005	-1.125 (0.748)	-
tau2006	0.235 (0.723)	-
tau2007	-0.673 (0.733)	-
tau2008	-0.906 (0.746)	-
tau2009	0.373 (0.724)	-
tau2010	0.449 (0.723)	-
tau2011	-0.001 (0.733)	-
tau2012	0.577 (0.721)	0.567*** (0.161)
tau2013	-	-
<i>y</i>	0.002*** (0.001)	0.001*** (0.001)
<i>pop</i>	-	-
<i>pat</i>	-	-0.022 (0.054)

Notes: standard errors (in bracket). *** denotes a level of significance at 1%, ** denotes a level of significance at 5%, * denotes a level of significance at 10%.

In order to answer research question 2, we can underline that, in models I and II, the variable *y* is always significant. The answer to research question 3 arises from the analysis on the variable *pat* that is not significant (model II).

Moreover, the dummy variable tau2012, in model II, is significant. This probably depends on the events that happened in the year 2012, like the terrible earthquake that struck the Emilia-Romagna, which had an impact on expenditure in general and on cultural expenditure in particular.

CONCLUSION AND FUTURE RESEARCH OPPORTUNITIES

Cultural sustainability is a matter of particular importance for Italian local authorities (considered the extent of the Italian cultural heritage) and at the same time is a little discussed aspect in management literature. Therefore, this paper can represent a first attempt to contributing to the scientific discussion on the topic.

In particular, we have considered current expenses of the Italian local authorities and the empirical analysis showed that their trend was fairly constant in the decade considered (except for 2005) while highlighting, at the same time, disparities among the different local governments (grouped by Region). Hence, the interest in two variables that can affect these expenses: the average income of residents and the cultural heritage present in the local government area.

The first variable has been taken into consideration in order to understand if, where current expense is contained, there is a high average income of residents that allows them to spend on culture, which compensates for the limited financial commitment of the local governments and vice versa.

In other words, the possibility of subsidiarity between Local Governments and citizens in contributing to the cultural sustainability has been investigated.

The analysis shows a high correlation between current expense on culture and average income, but the data highlight a situation opposite to that hypothesized: where we see local authorities with low levels of current expense on culture, we also find that residents have lower incomes.

This implies different reasonable conclusions:

1. there is an inequality between local governments which spend more on culture and those that spend less (for the which the citizen does not have its own resources to compensate for this lower expenditure). This hypothesis would require further research to understand the reason for this difference: different amounts of financial resources available? Different spending policies?
2. there is an apparent inequality if (through further analysis) it could be demonstrated that the contained current expense on culture for some municipalities is offset by public spending from higher levels of government.

With reference to the second analyzed variable (cultural heritage in the municipal territory), the model demonstrates that it is not significant compared to the current expense on culture. This is particularly unusual and can be explained, at first, only by assuming that much of the cultural heritage is not owned by the local government but by higher levels of government and by private entities. But even this hypothesis represents a further element of disclosure for the development of future research in order to understand the link between expense level for cultural sustainability and ownership of cultural heritage.

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