CHINESE MODEL OF CULTURAL SYSTEM REFORM ON MID-SIZED PERFORMING ARTS ORGANIZATIONS

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By

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ABSTRACT

At the beginning of 21st century, China's cultural sector experienced a wave of cultural system reform that saw the transition of many cultural organizations from public institution to enterprise (shi zhuan qi), marketization and joint-stock entities. This thesis examines the idea and implementation of this cultural system reform on mid-sized Chinese performing arts organizations. The study explores how the model of "conglomerate" has worked in pilot reform cases, what particular reform approaches and strategies have been adopted, and what part reform plays in the hot "creative industry" discourse.

After an introduction of terms, background, and general history of China's cultural policy and cultural sector, four reform cases are analyzed, respectively, Beijing Children's Art Theatre Co. Ltd, Shenzhen Song & Dance Troupe Performing Arts Co. Ltd., Beijing Song & Dance Theater Co. Ltd., and Jiangsu Province Performing Arts Group. The findings from these cases indicate four possible reform stages of a cultural organization – subsidiary of public agency, shiye danwei (public institution), state-owned enterprise, and joint-stock company; and its possible three transition steps - separation of public administration and shiye danwei, transformation from shiye danwei to enterprise,
and the joint-stock reform. While reform approaches and result may vary, cultural organizations would experience at least one or two of these steps.

These pilot organizations adopted quite different reform approaches according to their internal and external circumstances; nevertheless, all follow a model of "conglomerate". This study further summarizes reform cases through analyzing two dimensions of an organization’s conglomerate effort - what it conglomerates and where this conglomerate happens. Through cases, this study also suggests that the reform of infrastructure might be an effective impetus for the creativity and innovation of the core.

The study concludes that in the process of broadening and deepening the system reform to the entire cultural sector, local government responsibility and strategic choices are crucial. It is intended to stimulate further investigation into the theory and practice of this cultural reform, especially potential reform problems such as how to relocate surplus personnel and how to reduce the loss of state-owned assets due to restructuring.
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CHAPTER 1

INTRODUCTION

In recent years, China’s new wave of cultural system reform has experienced a dramatic move from theory to action. The term “cultural industry” has been around for years, and the intent of system reform could date back to early 1980s. But until the new century have fundamental changes begin to spread in the Chinese film, media and performing arts industries. Cultural sector in China faces a new transition from a lagging social service sector to a self-sustaining market-oriented sector.

As with counterparts in United States and Europe, a major concern of cultural organizations is the relationship between public funding and sustainability. China has a long history of central control, support, and management of the cultural sector, which was rooted in the historical belief that the cultural sector served a social service function. The changing attitude of China towards the cultural sector is remarkable in recent years, especially after joining the World Trade Organization (WTO)\(^1\) in 2001 and a huge amount of private and foreign capital rushing into the cultural market. More aware of China’s position in an ever closer global and informational society and overflow cultural

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\(^1\) The World Trade Organization (WTO) is an international, multilateral organization, which sets the rules for the global trading system and resolves disputes between its member states, all of whom are signatories to its approximately 30 agreements.
ideas and phenomena, cultural organizations have felt unprecedented pressure. Facing
tensions in social relations and dramatic diversification within the cultural sector, recent
reforms reveal a firm determination of the government to marketize a huge part of the
sector. This study intends to examine the idea and implementation of cultural system
reform within China’s context.

Economists have put great efforts into building an Asian economy model and
Chinese reform model upon heavy industry, service industry and new technology
industry to explain the fast development of China’s economy in the past decades.
Considering the cultural sector, we could still sense that the core idea keeps the same
across industries. While the cultural reform follows a similar pattern, it also displays
particularities and unique application.

One officially claimed purpose of cultural system reform is to separate the
management of cultural organizations as shiye danwei² (public institution) from the
management of public agencies³, and, further, to transform some of these shiye danwei to
state-owned or multi-ownership enterprise. The intent is a limited marketization of the
cultural sector in which the state retains some power in the cultural sector. Clearly, the
government is trying to change its role from managing the cultural sector to guiding and
regulating the sector. Although much private or even foreign capital was and would be
drawn into the industry, marketizing cultural organizations does not amount to complete
privatization or contracting out. In China’s context, social reform is always and
preferably an incremental process. The China’s model is trying to raise the morale of the

² The term “shiye danwei”, translated as “public institution”, will be explained in the following chapter.
³ Cultural organizations as shiye danwei were originally directly under the management of public agencies.
lagging cultural organizations, introduce private investment and enterprise management to replace inefficient public administration, maintain some extent of state power, place the organizations which have potential to survive the market into a “conglomerates” industrial mode, and focus state support on the ones that need most.

The study focuses on current reform of mid-sized performing arts organizations, because those are considered very difficult to survive the market. The problem of sustainability has been a major concern of mid-sized performing arts organizations in many countries. For example, a recent RAND report (McCarthy, Brooks, Lowell, & Zakaras 2001) examined the forces of market failure, possible aesthetic compromises, and the impact of economic and technological changes on these mid-sized performing arts organizations in the United States. Other scholars have explained the effects of China’s cultural reform model on the media industry (Keane 2004). However, little research and analysis has been found covering the reform of mid-sized performing arts organizations. Following chapters will closely examine how the model works on this particular type of cultural organizations through four case studies.

In the changing social and economic environment, the concern of the study would be what difficulties Chinese cultural industries have to face within and after the reform process; whether the model can respond to the challenges and possibly be adapted to broader performing arts field in future; and fundamentally, what effective approaches the reform has shown us.
CHAPTER 2

BACKGROUND

Cultural organizations in China used to be fully run and supported by government. This was rooted in the basic belief of cultural sectors play a social service and ideological role, and even longer rooted in China's historical context.

The word “culture (wen hua)” in Chinese, like the Latin origin, traditionally means to cultivate, educate, instruct or to transform people. Confucian and Taoist thought are two major schools of Chinese philosophy since ancient times. Tao’s thought holds that the courtesy, custom, virtue system, and regulation of the society which inheres to classic canons and cultural heritage will civilize and transform the minds of people. (Liu 2002) In Confucian tradition, culture is a continuous process of self-civilizing and identification with the authenticity and the spiritual legacy. Culture was not only considered an effective tool to cultivate and educate people, but also something that was even more powerful than war or other forms of force to conquer or sustain a nation.

The emphasis on the social and ideological function of culture was not unique to ancient China, it also happened to the West and other Eastern countries as a tool to spread the idea of the dominate group through out the history. Traditionally, a major concern of cultural policies in either West or East was to “increase the prestige of the autocracy and
of the state, to mobilize the spirit and cultural resources of a country so as to consolidate its power and image.” (Liu 2002).

Historically, this social and ideological function worked quite well, however, the advent of the information age and growing globalization reduces this function gradually. Culture became much more abundant and much more diversified in both East and West society. There was hardly a single authority that could convince everyone, or a single philosophy that could shape people’s belief. The so-called “post modernism era” affects every aspect of social and political life. Even living in a small town, people have access to information and ideas from all over the world everyday and can develop their own judgment. As a result, it is no longer very effective to strictly control cultural activities for ideological purposes. It does not necessarily mean that cultural phenomena become more powerful, instead, the impact of a specific cultural activity might have decreased. Cultural phenomena become very hard to impact people in a long run, since new arrivals attract new interest everyday. It is no longer believed that cultural activities could compensate for the loss of political and economic influence. (Bennett 1995) It is not only hard to keep the control, but also the cultural phenomenon itself is not as powerful politically and ideologically as it used to be for ordinary people.

At the same time, the economic potential of the cultural sector has become evident. The cultural industries have become a significant force in the new economy and a hot issue on every country’s agenda. Lessening government control and marketizing the sector could be a smart move towards more effective social and economic policy. As a result, a wave of privatization spread through the whole world in the recent years, including China. Although the approach and character of privatization in different
countries might vary, some of the major concerns could be quite similar - effective government, sustainable cultural sector, and economic development.

2.1 Terms

Some of the important terms that are unique to understand Chinese cultural scene are introduced as follows.

2.1.1 Shiye Danwei (Public Institution)

One main purpose of the cultural system reform is to separate the management of cultural organizations as shiye danwei from the management of public agencies, and, further, to transform some of these shiye danwei to state-owned or multi-ownership enterprise. Although translated as “public service institution” or “public institution”, the meaning of shiye danwei is quite different from the American understanding of “public institution”. It is more like “quasi-public institution” in the American context.

The United States International Grantmaking (USIG)⁴ project translates shiye danwei as “public institution” and defines it as a quasi-government agency, formed by the government and generally staffed with government employees. “Public Institutions are social service organizations sponsored by state organs or other organizations using state-owned assets that engage in educational, science and technological, cultural, medical, and other activities for the purpose of social benefit.” Thus, they are very closely linked to the state. Public schools and universities, scientific research institutes, and public social care

⁴ United States International Grantmaking (USIG) is a project of the Council on Foundations in partnership with the International Center for Not-For-Profit Law. The USIG project facilitates effective and responsible international grantmaking by U.S. foundations.
institutions are generally public institutions. "Public Institutions are established with state-owned assets, so it is logical for the state to take remaining assets upon dissolution, even in the absence of explicit provisions for their return. A Public Institution is wholly controlled by its founder, ordinarily a government agency."

If we trace the history of shiye danwei back, the term was born under the planned economic system. Affiliated to government departments, these quasi-public institutions provide services in science, education, public health, culture, media, publishing, entertainment and sports. More than 70% of the country's scientific research personnel as well as 95% of teachers and medical workers are working in shiye danwei. Expenditure on shiye danwei accounts for more than 30% of government revenues. Many of them are considered heavy burden on the country due to their huge cost and inefficient operation. (China Daily) To avoid confusion, the following chapters will use "shiye danwei" instead of "public institution" to mean these quasi-public institutions.

Currently there are three types of shiye danwei. One type shoulders some administrative functions or serves government departments, mainly engaged in supervision, quality inspection, authorization or logistic services. Second type is serving the market and enterprises through consultation and co-ordination services. The third, which represents the majority, is engaged in public services, including education, public health, science and technology, culture and agricultural technology.

In practice, there are lots of problems existed in the operation of shiye danwei. While enjoying the benefits granted for shiye danwei, some of these institutions act like government agencies that control a great amount of administrative power or enterprises whose mission is not to provide service but earn profit. They have not performed their
duties to effectively provide public services, but distort market order with their administrative power or pursuit for enterprise interests. Some have even become hotbeds for corruption and led to great losses of state assets. Therefore, system reform on *shiye danwei* has become an urgent and important step of China’s economic reform.

2.1.2 Cultural Institutions as Shiye Danwei

Cultural institutions are divided into three types according to their characteristics as *shiye danwei*, and for each type, there is a particular reform strategy. Among these three types, the second and third types are experiencing marketization. This study would focus on the reform steps and strategies of the third type of *shiye danwei*.

The first type is public welfare *shiye danwei* (*gongyixing shiye danwei*), which includes library, museum, memorial and some other institutions that have no or very little earned income. These institutions were considered important for the development of “Socialist spiritual civilization” and playing purely the public service function. They were largely supported by government, and will expect to receive more public funding in the future.

The second type is semi-public welfare *shiye danwei* (*zhun gongyixing*), which includes national level performing art organization, some television/radio and other cultural institutions that have the potential to earn some income but still largely rely on governmental funding. Reform would also reach this type of organizations, not by attracting private capital but mainly by enhancing the operational capacity of these institutions through conglomeration and relocation of resources.
The third type is profitable or business-like *shiye danwei* (*jingyingxing shiye danwei*), which includes performing arts organization, theatre, television, exhibition, film, publishing, some museum and all other organizations that could possibly survive the market through privatization. This type was considered as playing of a less public welfare role and more of an entertainment function than the previous two types, and was the focus of the cultural system reform.

Two standards that are used to differentiate these three types are the amount of public value that the organization creates and its potential to earn income. If the organization creates important public value but little market value, it would be counted to the first type. If the organization creates less public value but has potential to sustain itself in the market, it is considered the third type. The organization in-between, which creates more public value than the third type and more market value than the first type is a semi-public welfare *shiye danwei*.

This study is researching the reform approaches and strategies of the third type of *shiye danwei*, the ones that have potential to earn income.

### 2.2 Development of Cultural Policy in 80s and 90s

When People’ Republic of China was born in 1949, the cultural system in China was based on the Soviet model of a planned economy system. There was a period of time when the morale of cultural sector was very high and many significant works were produced. Later on, during the ten years of the Cultural Revolution (1966-1975), this established system was destroyed. Cultural sector was in disaster until Deng Xiaoping led the country to economic reform in 1978, exemplified by one of his favorite sayings: “It
doesn’t matter if a cat is black or white, so long as it catches mice.” This marked China’s transition from a planned economy into a mixed economy. In late 1970s and early 1980s, the cultural sector generally went back to Soviet model of the Pre Cultural Revolution.

However, the disadvantages of the Soviet-style system were gradually exposed, it no longer fit the new wave of nationwide economic reform. Professional cultural organizations were overlapping, inefficient, and were totally supported by government regardless of quality and quantity of production. Administrators and artists were treated like public employees with fixed salary and therefore there was lack of competition. The development of cultural sector was slow and cumbersome. The foremost intention of system reform was brought forward in the National Cultural Officials’ Meeting as early as 1980s.

In 1985, the National Bureau of Statistics of China included “culture and arts” as part of service industry for the first time. This signaled that “culture and arts” could have some characteristics of industry besides its traditional social and ideological function.

Language used in cultural policy documents and conferences in China gradually merged with Euro-American usage. One important policy document of 1985 was “Opinion on reform of performing arts organizations”, which required the reduction and combination of professional performing arts organizations in cities. In 1980s’ cultural reform, arts administrators and artists were asked to take responsibility for their organization to enhance competition and solve their financial problems, meaning that government ceded management authority and the staff of organizations could get more if they earn profit.

“Dual-track system (shuang gui zhi)” is another important concept of 1980s. The policy documents “Opinion on expediting and deepening system reform on performing arts organizations” (1988) and “Opinion on further prosper arts and culture” brought
forward the idea of dual-track. One track was a few public owned cultural organizations that would continue to receive full governmental support. The other track was to achieve multiple-ownership for the majority of other organizations. However, the multiple ownership idea mainly stayed in theory.

In 1990s, along with a further complex social environment for the cultural sector, marketizing, privatizing, entrepreneurship and system reform became popular terms in the economic reform discourse. Fast growing cultural market called for a more comprehensive cultural policy. To meet the request of rapid development of the cultural market, the Ministry of Culture convened a conference in July 1991 to address the regulation of the cultural sector. Some 17 items of cultural legislation were passed pertaining to the production and distribution of cultural artifacts. These included administrative statutes such as “Regulations for the management of the cultural market”, “Regulations for the management of cultural performances” and “Regulations for the management of public books”. (Keane 2004)

After 1992, China’s economic reform moved into a new phase. In 1995’s Ninth Five-Year Plan (1996-2000), the Chinese government officially declared the cultural sector to be part of national development plan. “The decision of CPC on several issues on achievements of socialist spiritual civilization” of 1996 was a key document that indicated the determination of cultural system reform. This document stated that the reform should adapt to different industries in different situations; adjust the relationship among government, organizations and individuals; guarantee governmental support to major organizations; and encourage private investment for cultural sector.
In 1998, the Ministry of Culture formally instituted a Cultural Industries Department within its responsibilities. The term “cultural industry” first officially came out in China’s Tenth Five-Year Plan (2001-2006) on Oct 2000, after years of spreading in metropolis since the late 1990s. In the Plan, “cultural industry” is mentioned six times, including “accomplish cultural industry policy”, “strengthen the construction and management of the cultural market”, and “enhance the integration of information industry and cultural industry”. (Report on development of China’s cultural industry 2002) As a new member of the service sector, cultural industry was considered growing much faster than any other service industries. Developing cultural industry became a strategic policy that is believed to contribute to the growth of Chinese economy and to help China to adapt to fast industrial structure change in new technology era.

During the period 1993-2002, more than 200 statutes and regulations were enacted covering almost the entire cultural sector, including “Copyright Law”, “Radio and Television Regulations”, “Film Regulations”, “Publication Regulations”, “Regulations on Audio-Video Products”, and “Printing Regulation”. Also, “conglomerates” in media industry began to emerge.

China’s new sense of cultural industry combines both the old thinking that it bears social and ideological attributes and the new thinking that it provides cultural and entertainment products and service and is based on modern intellectual property. The intellectual property system in China was originated from and developed as a result of the policy of economic reform. China joined World Intellectual Property Organization (WIPO) in June 1980. In the same year, the Patent Office of the People’s Republic of China (CPO) was founded to “protect intellectual property, encourage invention and
creation, help popularize inventions and their exploitation, promote the progress and innovation in science and technology, and meet the needs of socialist modernization.” In March of 1998, the Chinese Patent Office was restructured and renamed the State Intellectual Property Office of the People’s Republic of China (SIPO), and became a government agency directly under the leadership of the State Council. This indicated that China has entered a new era in the development of intellectual property. The Legal system was established in 1985 when the Patent Law of the People’s Republic of China went into force. To accommodate new developments both in China and abroad, the Standing Committee of the National People’s Congress amended the Patent Law twice, respectively, on March 12, 1992 and August 25, 2000. China is now member state of the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty (PCT), the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Locarno Agreement Establishing an International Classification of Industrial Designs, the Strasbourg Agreement Concerning the International Patent Classification.\(^5\) In a recent meeting, which was held by the Political Bureau of the Central Committee of the Communist Party of China and was mainly about international Intellectual Property Rights (IPR) protection and construction of China’s IPR legal and policy system, President Hu Jintao emphasized that China should work out a national IPR strategy backed up by a sound legal and policy system. Construction of IPR legal and policy system is not only to response to pressure from international environment, but is also to help improve China’s intellectual capability.

\(^5\) http://www.sipo.gov.cn/sipo_English/default.htm
Before 2000s, majority of policy changes focus on the issues related to regulating
the emerging diversified cultural market, attracting private and foreign investment,
attracting charitable donations, and changing the public’s attitude towards cultural sector.
Moreover, initial attempts at system reform were taking place. However, if a more
essential transition of cultural sector is expected to be accomplished, more
comprehensive policy of system reform must come out, which aims at solving the
fundamental problems existing in the system. In 2003, a new phase of cultural system
reform was undertaken, which also involved the gradual change of government’s role in
the cultural sector.

2.3 Definition of Cultural Industry

“The first order of business must be to establish a working definition that could
help us see the scale, dimensions, variety, and interdependencies within the industry
sector and among its constituent parts.” (Wyszomirski 2004) The definition of cultural
industries has shifted from a Chinese originated understanding to the meaning used in
U.S. in recent years.

While in the U.S., cultural industry has dual meanings, China’s concept of
cultural industry before 2004 was used as an opposite to “cultural shiye (public
undertaking)”. Cultural industry in U.S. could mean the entire industry or a particular
business such as music industry, film industry, or performing arts industry, no matter if a
particular organization in the industry is for-profit or nonprofit, or a particular industry is
more for-profit or nonprofit. However, in China, “cultural shiye” which emphasizes the
public value side of cultural organizations was juxtaposed to “cultural industry” which
emphasized those cultural fields which have potential market value. Also, in Chinese, there are no plural nouns, so that we cannot easily differentiate “cultural industries” from “cultural industry”. Therefore in 2002, “Report on development of China’s cultural industry” defines entertainment, media and publishing, radio and film, audio and video, internet and computer services, tourism and education as the core of the cultural industry. Traditional literature, theater, music, fine arts, photography, dance, film and TV, industrial design, architecture, museum and library are fields that cultural industry is currently scrambling for. Advertising and consultant services are considered the border areas that are waiting to be explored. (Report on development of China’s cultural industry 2002) If we look at the sector from the perspective of the government agencies that they report to, the sector traditionally reports to The Ministry of Culture, General Administration of Press and Publication, The State Administration of Radio, Film and Television, Ministry of Information Industry, and China National Tourism Administration.

However, the official document “Culture and related industries classification” of 2004 shifts the concept “cultural industry” to the American understanding. This document was accomplished by Cultural Industry Statistic Research Task Force. The Task Force was established in 2003 to define the concept to cultural industry scientifically, establish cultural industry index and statistic system in order to provide reliable statistical data for cultural policy and system reform. The Task Force defines “cultural and related industries” to be “an aggregation of activities that could provide cultural, entertainment products and service for the public, and other activities that are related to the above activities”. This shift of concept could be seen in their effort of
reclassifying cultural sector. In the new classiﬁcation, “industry” clearly means a particular business. The new statistic system of cultural industries covers 80 speciﬁc categories from the current document “The industrial classiﬁcation for national economic activities”, and then divides them to nine big categories in three layers. The three layers are the core layer, the peripheral layer, and the interrelated layer. Directly translated from Chinese document, the core includes four traditionally recognized cultural industries, respectively, (1) news service, (2) publishing and copyright service, (3) Radio, TV and ﬁlm service, and (4) culture and arts service. The peripheral layer includes three categories, respectively, (1) internet culture service, (2) culture and entertainment service, and (3) other culture service. The interrelated layer includes two big categories including (1) production of cultural facility, equipment, and related cultural products, and (2) sale of cultural facility, equipment, and related cultural products. (Figure1)
Figure 1: Classification of Cultural and Related Industries

The mixed understanding of "cultural industry" exists in both government documents and media reports. Despite the new use in "Culture and related industries classification", the term "cultural industry" in Chinese sounds like and therefore often links to a for-profit market-driven side of understanding.

2.4 Facts, Challenges and Cultural System Reform at the Turn of the Century

At the turn of the new century, the overwhelming call for marketization of the cultural sector was driven by both economic trends and a growing potential for cultural consumption. In 1990, urbanites' spending on cultural products was 112.09 Yuan (US$ 14). This number was increased to 374.95 Yuan (US$ 46.87) in 1996, and was further
increased to 1283.9 Yuan (US$ 160.5) in 2000, which was 15.1% of average overall urbanites' expenditure. (2002: Report on development of China's cultural Industry)⁶

Cultural sector experienced fast growth in big cities such as Beijing and Shanghai. In both cities, the income of the cultural sector reached more than 4% of GDP by the late 1990s. The total income of the cultural sector and tourism reached 14% of GDP. Cities like Beijing, Shanghai, Guangzhou and Shenzhen each brought forward their own cultural planning in the early 2000s. Subsequently, many other big cities and even provinces initiated the process of developing similar planes. In most of these cultural plans, the expected cultural income of the region is about 5%-6% of GDP in the future five to ten years. (2002: Report on development of China's cultural industry) Two third of provinces advanced the idea of becoming a great cultural province, and almost all provinces list the development of the cultural industry as one important item of its province's “Eleventh Five-Year Plan”. In 2004, increment of cultural industry in Beijing was 29 billion Yuan (US$ 3.63 billion), 6.8% of total GDP. This number is also large in other regions, respectively, Shanghai 44.6 billion Yuan (US$ 5.6 billion), 6% of GDP, Zhejiang Province 67.0 billion Yuan (US$ 8.4 billion), 6% of GDP, Guangdong Province 112.3 billion Yuan (US$ 14.0 billion), 7% of GDP. (2006: Report on development of China's cultural industry)

From the perspective of supply and demand, the “2006: Report on development of China's cultural industry” provides an estimated number for the supply side. The new statistics method was claimed to be based on two basic documents of 2004, respectively,  

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⁶ These data could be used as a reference, but might not be complete and accurate. In the transitional process, statistic system of cultural products was under development in 2002. Still, we can sense the growing trend in the cultural market.
"Culture and related industries classification" and "Culture and related industries indicator framework". The supply side of cultural industry was estimated to be 393.5 billion Yuan in 2004 (US$ 49.2 billion), and 432.8 billion Yuan (US$ 54.1 billion) in 2005. From the demand side, there was no accurate indicator for cultural expense only. But the National Bureau of Statistics of China did provide statistics on cultural plus educational expense. In 2004, urbanites’ educational and cultural expense was 14.38% of the total spending, about 1032.77 Yuan (US$ 129.09). Rural residents’ cultural and educational spending took 11.3% of the expense pie, about 247.63 Yuan (US$ 30.95). The total spending on both culture and education categories reached 748.1 billion Yuan (US$ 93.5 billion).

The document "Culture and related industries classification" indicates the establishment of the statistic system of cultural industries in China. May 19 of 2006, on the China Cultural Development Strategy Forum of the 2nd China (Shenzhen) International Cultural Industry Fair (ICIF), the statistic data of cultural industries was published the first time based on the new classification. The data indicates that till 2004, the employment of cultural sector reached 9,960,000, which is 1.3% of total employment, and 3.8% of urban employment. The total increment of cultural industries in 2004 was 344 billion Yuan (US$ 43 billion), 2.15% of GDP. Asset in cultural sector was 1.83 trillion Yuan (US$ 228.75 billion). Total income of 2004 was 1.72 trillion Yuan (US$ 212.25 billion).

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7 China (Shenzhen) International Cultural Industry Fair (ICIF) is host by Ministry of Culture of the PRC, State Administration of Radio, Film and Television of the PRC, General Administration of Press and Publication of the PRC, Guangdong Provincial People's Government, Shenzhen Municipal People's Government; sponsor by Shenzhen Press Group, Shenzhen Media Group, Shenzhen Circulation Group and Shenzhen International Cultural Industry Fair Co. Ltd. It is an international cultural fair, held in Shenzhen every May.
215 billion). The Vice Director of National Bureau of Statistic of China said that according to the data, in cultural sector, average scale of cultural organization was comparatively small; many organizations were lack of highly educated human resource; and the ratio of expense and income was comparatively high. He also indicated that the economic impact of cultural industries was still low compared to advanced countries, and unbalanced regional development was very evident.

Although along the years, incremental changes in cultural policy were trying to adapt the cultural sector to the fast growing market for cultural products, there are problems which are unique to this sector that are difficult to solve without further and broader fundamental reform. The cultural sector faces challenges at the beginning of the new century.

First of all, demand shift is essential to a healthy cultural development in China. It is widely believed that supply does not meet the demand in China's cultural market, however the real relationship between supply and demand in the market is unclear and lack of evidence. Pirated cultural products are a huge part that is not easily estimated, especially in big cities. Informal, community and cultural activities in the school system are not counted. Also, generally, the capability of the National Bureau of Statistics of China is doubtful. Its statistic system regarding cultural sector is not fully developed. While many scholars in China are trying to analyze how the supply should increase to meet the demand, it seems to be more important to shift the demand from pirated products to the real market. In this aspect, industries such as TV and live performance experienced much less challenge than the film industry, publishing, computer software, and the music industry. However, considering the live performing arts industries,
throughout the years, low quality and quantity performing arts products had turned the audience to other cultural products. There could be a much larger potential performing arts demand. It is quite safe to say that considering performing arts market, there is a severe unbalance between supply and demand.

Secondly, contrary to the fast growth of cultural demand, cultural organizations, although great in number, were inefficient, heavily relied on state funding, and lacked both capital and human resources, which was due to the cumbersome administrative structure of the entire cultural sector and was not well solved by former reforms in 1990s. The whole system that was both run and supported by government had very low operational capacity. Until 1999, there were 330,700 cultural institutions subordinate to the Ministry of Culture, including performing arts organizations, theatres, libraries, and cultural heritage. Most of these institutions had quite small size and little influence. Cultural products of organizations were overlapping. Fundamental system reform is urgently needed to change the situation.

Thirdly, after China entered The World Trade Organization (WTO) and began expanding market access, foreign investment and private capital rushed into the cultural market. In 1990, the private cultural firms numbered less than government cultural units. By 1998, private cultural enterprises constituted 2.7 times the number of public units and the level of employment and the value of output was 1.5 times that of the official public cultural sector (Ministry of Culture 2003). More flexible policy is an inevitable trend; otherwise, traditional cultural organizations cannot be competitive in the new and crucial market. All levels of government agencies, which used to manage subordinate institutions through administrative authority for years, felt great pressure.
In 2002, the purposes, main tasks, and implementing focus of cultural system reform were further emphasized. “Decision on issues of improvement of socialist market economic system” of 2003 indicated the reform direction of cultural shiye danwei. It said that public welfare cultural institutions should reform their personnel, management, and social insurance system. Government should increase support for this type of cultural organizations. Profitable cultural organizations should enact organizational reform, increase operating capacity, and should be marketized and industrialized. This continues the basic idea of dual-track in 1980s and 1990s, but the social and economic circumstances have changed the terms and language. The decision also emphasized the accomplishment of comprehensive cultural industry policy, creating large cultural firms, encourage private and foreign capital, improve laws and regulations to manage the order of cultural market. For the first time, the Decision talked about creating large cultural groups which is an essential part of the model this study will discuss.

A dramatic breakthrough in June of 2003 pushed the cultural reform agenda from theory to action. Thirty five cultural organizations from nine provinces (Beijing, Shanghai, Chongqing, Guangdong, Zhejiang, Shenzhen, Shenyang, Xian, Lijiang), were selected as pilot institutions to participate in the first wave of system reform. The purpose of the pilot was to try to put theory into practice, explore innovative ways of reform, and learn lessons from success and failure in order to prepare for further broader nationwide reform. The key issue in this wave of reform process is how to transform a shiye danwei to an enterprise.

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8 Mainland China includes 22 provinces, 5 autonomous regions and 4 municipalities (Beijing, Shanghai, Tianjin, and Chongqing). These three types of region have equal administrative power.
Comparing 1990s' and 2003's reform, although the classification of organizations remains almost the same as 1990s' reform, the approach varies fundamentally. In 1990s, the reform simply asked the organizations to take care of themselves, and encouraged the capacity of the organizations by allowing them to keep their profits. The reform did not really address the fundamental question of ownership and state assets. However, in the 2003's reforms, the government, bearing the conglomerate model in mind, helped place organizations into a preferable position, either by giving them a rich parent company with diversified branches that can support its cultural productions or selling it to powerful companies sitting along the cultural value chain. This reform is more fundamental in the sense that ownership is changed and the operation is further toward modern enterprise management.

After two years of attempts, 2005 is considered an important year to document the reform based on experience of pilot institutions. The Eleventh Five-Year-Plan calls for a more accomplished cultural industry policy, deepening and broadening cultural system reform, and forming a complete public cultural service system that covers the whole nation. Several policy documents came out based on 2003's attempts, including "The State Council's notification on the issuance of two regulations on supporting cultural industry development and transition from business-like shiye danwei to enterprise of the cultural system reform pilots" (2003), "The State Council's decision on non-collectively owned (fei gongyou zhi) capital into cultural industry"(2005), "Opinions on introducing

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9 The value chain categorizes the generic value-adding activities of an organization. The "primary activities" include: inbound logistics, operations (production), outbound logistics, sales and marketing, and service (maintenance). The "support activities" include: administrative infrastructure management, human resources management, R&D, and procurement. (http://en.wikipedia.org/wiki/Value_chain)
foreign capital to the cultural field” (2005), “Notice on a number of tax policy issues of cultural institutions on its transition to enterprise in cultural system reform” (2005), “Notice on a number of tax issues on supporting the development of cultural industry in cultural system reform” (2005), and “Opinion on encouraging private cultural performing arts organizations” (2005).

In conclusion, although cultural system reform began almost at the same time as economic system reform, for a long time, the identity of cultural institutions was not clear under the dual-track model of “public institution enterprise management”. Only after the recent pilot reform has the model becomes more clear and definite. The fundamental principle is “classified reform”. During 2003 and 2004, all pilot institutions realized their transition through different approaches. However, most approaches followed a main logic of “conglomerates” which will be discussed in this study. The pilots are the prelude to larger scale, nationwide reform. 2006 is expected to be the first year of spreading this new reform model to the broader cultural field. Cultural sector faces both opportunities and challenges.
CHAPTER 3

CONCEPTUAL REVIEW

China’s approach to reform received much influence from European countries, especially in the 1980s and 1990s. Although China uses terms such as marketization and industrialization instead of privatization or denationalization, its reform approach was very similar to European countries’ privatization. The reform model of China in recent years, examined in this study, adopts relatively a new and unique approach, however, an overview of literature about theory and practice of European privatization wave at the end of last century would be helpful to understanding China’s idea in early days and how it has evolved today.

The new reform approach in cultural sector inherited and developed from the reform paradigm of other industrial sectors in China and other Eastern Asian countries. Nolan and other Western scholars have been researching on the economy model of “conglomerates” in China since 1990s. Keane has attempted to apply the model to the cultural sector, such as media industry and film industry. This chapter will also review some of their research accomplishments.

The major focus of this study is on how the new model works on mid-sized performing arts organizations. Theories on funding performing arts in the past decades
have indicated the challenges that the field has to face. Potential problems of mid-sized organizations and related issues would be important concerns in China’s cultural reform.

Both creative industry and public value are hot issues in recent cultural policy research. This study is interested in exploring the concept of “creative industry” and “creative workforce” in China’s cultural scope. Theory of public value would also be reviewed. As in many European countries, public value has been the core of China’s cultural policy concern for a very long time. While the United States is experiencing a reverse process, the effort of China’s reform is to move the cultural sector from public value to market value. While recognizing and developing cultural sector’s market value, a balance between market and public value is hoped to be achieved.

3.1 Privatization of Cultural Sector in European Countries in 1980s and 1990s

Smithuijsen attributes the initiative of the privatization wave to Great Britain’s Thatcher administration in early 1980s. Exhibiting various forms, privatization quickly spread to the rest of Europe beyond. Smithuijsen distinguishes the process in Eastern Europe from Western Europe. In Eastern Europe, privatization was not only tied with denationalization processes of former totalitarian countries, but also was considered the right direction towards a multi party democracy and a market economy. The image of privatization was always linked with the raise of working motivation and the implementation of technological innovation. In Western Europe, however, privatization was seen as a means to get rid of the high financial burden and administrative tasks of the
state. Technological development and international competition also led to a gradual prevalence of private enterprises since the late eighties. (Smithuijsen 1997)

CIRCLE\textsuperscript{10}—conference in Amsterdam, the Netherlands in 1997 explored the theory and practice of various forms of privatization in the cultural sector in European countries. The narrow definition of privatization is the transformation of property rights from the government to the market. In some countries, however, privatization has a broader definition, including not only the sale of government enterprises, but also the incorporation of public agencies into private organizations or semi-public organizations, and the introduction of contract management in public organizations. Boorsma distinguishes several forms of privatization that happened in Europe. Most of them have counterpart in China’s economic reform during the past two decades. These forms include the sale of stock on a capital market, a management buy-out (the sale of ownership rights to the manager), a management buy-in (the sale of ownership rights to an external buyer who becomes the owner-manager), the incorporation into a private (still public owned company), the incorporation into a public organization operating as a more independent organization, and the contracting out of specific activities of the production process or of a specific function. (Boorsma 1997)

Boorsma argues that the motive behind privatization in the cultural sector is to improve the efficiency of the organization, cut public expenditure, raise public income, foster economic growth, or stimulate democratic forces. Compared to other sectors, Boorsma acknowledges that the issue of ownership of cultural organizations is less crucial than the issue of funding because cultural organizations are largely dependent on

\textsuperscript{10} The Cultural Information and Research Centers Liaison (CIRCLE)
government subsidies, and their withdrawal can and does in many cases lead to such organizations being closed down entirely. (Boorsma 1997) Thus, funding issue is crucial if cultural life is to flourish and for reform to succeed.

The privatization of the cultural sector in European countries had led to various results due to their approach and social context. Some countries achieved a certain degree of success, while others suffered from their attempt of privatization.

Smithuijsen summarizes reports from twenty four European countries and provides us with an overview of successful and failing stories. In some Eastern European countries, the process of transition brought the social structure into a state of uncertainty and tension, and directly led to a decrease of state funding for cultural institutions and artistic creation. State-owned cultural institutions faced severe financial difficulties and cultural workers lost much of their traditional standing and job security. Survival of cultural enterprises was threatened by a decline in attendance while the costs of basic services have increased under inflationary pressure. Slovenia gave priority to national cultural institutions and the security of its personnel; there was no protection for new and smaller cultural organizations. In Ukraine’s privatization process, some companies proved to be successful; other companies did not survive. The shrinking of the public sector was not compensated for growth in the private sector. In Croatia, cuts in public sources caused a deficiency in development of cultural sector. Insufficient money could not guarantee the stability and quality in cultural life. Croatia summed up their experience as that privatization can widen cultural experiences, but only if the procedures will be carried out slowly and controlled.
According to Smithuijsen, in Western Europe, insecurity issue was also raised. Great Britain had some successful stories but also reported a museum having to sell a part of its collection to avoid bankruptcy. In Finland, the new cost-efficiency orientation and management by performance contract might have altered hierarchical relations with the state administration, but no evidence was found that public resources were used more accountably. Austria was looking for ‘mixed models’ that combine the advantages of public control and private initiative. Greece had many indications that the effectiveness of cultural organizations had been improved. Through sponsorship, private capital had been attracted. Privatization might have caused less job security and in the case of changing broadcasting from public to private, this had caused a decrease in governmental funding. (Smithuijsen 1997)

Based on the positive and negative results of the privatization, discussion focused on government’s responsibility, economic environment, reform approach, and all related issues due to the threats emerging in the privatization process. Cvetjicanin asks government to take up its cultural responsibility to preserve traditional values. (Cvetjicanin 1995) Dornberg emphasizes the fact that the success of the privatized art market will depend a great deal on the flourishing of the whole economy, and he also points out the threat of black market art. (Dornberg 1990) Eckstein also worries about the impact of the economic environment on earned income of arts organizations. (Eckstein 1993) Gibson further expresses his worry on general international economy depression which left the privatization in Central Europe in a precarious situation and threatens the existence of cultural institutions. He also believes that healthy legal and fiscal structures and incentives would be essential for the organizations to search for alternative sources of
financing. Gibson states that many of the former socialist countries have resorted to the privatization of cultural institutions as a way to solve their problems in the culture sector. However, this is simply proven to be transference of the economic problems of the government to other entities. (Gibson 1995) Lulanski and L.Varbanova point out that another problem is the fact that market principles entered the arts world too rapidly, leaving them no time to adjust. They also emphasize the importance of new and effective legislation in the cultural field, which could stimulate sponsorship and give freedom to arts managers to search for additional sources of income. They suggest that arts market should be linked to the tourism industry and educational program. (Lulanski, P. and L.Varbanova 1995)

Regarding the performing arts field, debate started up on how theatres can increase earning capacity and become less dependent on state subsidy. Smithuijsen notes that pressure to earn more income and achieve cost-efficiency is putting on the managers of performing arts institutions. He worries about the possibility of decreased supply of experimental and innovative performing arts in privatized theatres. (Smithuijsen 1997) In practice, Norway, The Netherlands and Flanders introduced a quota system to theatre companies, so that companies had to create earned income as a certain percentage of their budget. In all European countries, the demand for entertainment was growing. To meet this demand, joint ventures were made between subsidized performing arts, the private entertainment industry and commercial broadcasting companies. In Greece, national theatres changed their legal status from public to private in order to make it easy to combine state subsidy and private money, and also facilitated the delegation of responsibilities to the artistic director. In Italy, theatres were privatized for the reason of
cutting down their high cost, inflated by bureaucratic management and redundant personnel. However the implementation had not been successful because of the worry of loss of employment and broadening income gap between different regions. Both Britain and German’s model of privatization of orchestras was pluralistic funding. These orchestras tended to be more market-oriented and rooted in their community. They also tended to subject themselves to an internal reorganization. In countries that have a history of governmental support for the arts, such as Austria, the privatization process forced some expensive theatres to close. (Nkajima and Lovick 1997) Romanian was also searching a balance between public and private funding for its operas, which called for state institutions to transform into non-profit structures.

Many of the above attempts and concerns have greatly influenced China’s cultural policy of 1980s and 1990s, and these discussions and research accomplishments would have positive impact on China’s direction of reform in the new century.

3.2 The Reform Model of China’s Economy Development and Its Application on Cultural Sector

Nolan discusses China’s development strategy based on heavy industries, he points out that a key part of the Chinese government’s industrial reform program is “conglomerates”, or the use of industrial policies to nurture a group of large, modern corporations that could compete with the world’s leading firms based in the high-income economies, which is an important strategy also used by the West, Japan and the Four Little Tigers in their “catch-up” process. (Nolan 2001)
Nolan also indicates that diversification has been an important growth strategy in Eastern Asian large firms. In her book "the theory of the growth of the firm", Penrose notes that diversification could be in response to specific opportunities, to solve specific problems of demand, or as a general policy for growth. (Penrose 1995) The last one is what happened in many Eastern countries, including China. Nolan suggests that in the absence of a core technology or brand name, firms in late-industrializing countries have typically entered a wide range of related or unrelated industries. Basically, diversification often times happens with the conglomerate model.

This conglomerate approach is radically different from the policies advanced by the international institutions of the ‘Washington Consensus’, which is built around the notion that large enterprises should mostly be closed down and replaced with a sea of new, small and medium-scale enterprises. It also differs comprehensively from the industrial reform policies pursued in the former Soviet Union and in the Eastern Europe, which is guided by the powerful influence of the mainstream traditions of neoclassical economic theory. (Nolan 2001)

Nolan notes that the neoclassical economists believe that the key to understanding China’s rapid growth during the reform years is the fact that China has moved towards an industrial structure that reflects its comparative advantage. The most dynamic element in this growth is argued to be the small and medium-sized enterprises. However, Nolan believes that although small firms contribute to success, large firms also play a significant role in China’s fast development.

The effort of building large corporations is not unique to China and other “catch-up” countries; actually recently a simultaneous business system revolution is under way...
in the advanced economies too. Large firms have their own advantages that become very significant in the modern market. Nolan notes that industry powers actually have a tendency to concentrate, the driving force of which was "competition itself, which pressured firms to cheapen the cost of production by investing ever larger amounts of capital in new means of production and in 'the technological application of science', which in turn creates barriers to entry." (Nolan 2001) Also, large firms enjoy the benefit of effective management and technological innovation. Penrose terms these advantages 'technological economies' and 'managerial economies'. (Penrose 1995) Furthermore, large firms may act effectively through non-price competition "by carrying out processes of production and distribution more capably; by improving both product and process through systematic research and development; by identifying more suitable and sources of supply; by providing more effective marketing services; by product differentiation; and by moving more quickly into expanding markets and out of declining ones". (Chandler 1990)

When discussing China's reason of applying conglomerate model, Nolan suggests that, besides drawing its inspiration from non-mainstream economic theory and from empirical evidence of late-coming Eastern industrializing countries, national pride is a further powerful motive. "For almost on thousand years, China had been by far the most advanced part of the global economy. As late as the mid-eighteen century, China accounted for around one-third of total global industrial output. However, from the mid-nineteenth to the mid-twentieth century, China's political system disintegrated and China's economy advanced at a painfully slow rate. Progress was confined to a few pockets of treaty Ports along the coast. In 1949, when the Communist Party came to
power, China was extremely poor. It share of global industrial output had shrunk to under 3 per cent. " (Nolan 2001)

Conglomerates work in different ways. The integration could be horizontal or vertical. Within vertical integration, it could integrate ‘backward’ or ‘forward’. Backward integration will take place only if it is expected to reduce costs. Forward integration may draw the firm into new markets as well as into new types of production. (Penrose 1995)

Although Nolan based his research on heavy industries, this conglomerate and diversification model also had great impact on China’s new cultural reform initiative. The fundamental idea of conglomerate works the same in cultural sector; however, cultural sector has its own particularities and context.

In Chinese practice, the model of “conglomerate formation” is tested in many cultural industries, first in media and publishing industry, later in all other fields including the performing arts industry. Under this model, large cultural clusters are formed. Cultural sector is moving from cadre system of bureaucratic supervision that regulated standardized production, to “profit centers” that have greater autonomy as well as the capacity to outsource. (Keane 2004)

Keane calls this model a value chain, which did not exist in any cultural sector prior to the 1990s. He applied this model to the prosperous media industry, analyzing several huge media conglomerates in major cities. Efficiencies are to be gained from grouping that is not just about economy of scale. These efficiencies include network consolidation, research and development capacity, distribution management and joint venture management. Keane argues that the system grouping model is a deliberate attempt to refashion the Chinese Bureaucratic network (where functions and products
were systemically replicated and distributed to mass markets) into a new quasi-oligopoly that is informed by global business trends. (Keane 2004)

Just like in other industries in China, the reform approach used in the cultural sector is first implemented on several pilot institutions before its widespread application. Several mid-sized performing arts organizations are among these pilot projects.

3.3 Theory of Mid-size Performing Arts Organization

Different from media or the publishing industry, the performing arts industry is generally considered as one of the most difficult to survive the market without public support.

The argument about how to finance live performing arts has been going on for several decades. When Baumol and Bowen asked for government subsidies for the performing arts in 1960s, they argued that the performing arts can never entirely support themselves in the marketplace. (Baumol and Bowen 1966)

McCarthy points out that if earned income becomes the sole revenue source, organizations must spend heavily on marketing and promotions in order to attract large audiences. This strategy in turn requires an even bigger audience to support the resulting cost increases, and so on creating an upward spiral of audience and budget growth. Thus if simply let cultural sectors go without thoughtful strategies, the most possible outcome is that only largest organizations can survive. (McCarthy 2001)

Mulcahy notes that with the possibilities of further earned-income are limited in the long run, that mid-sized cultural institution must argue for increased, or at least
stabilized, public and private largesse if they are to survive as community assets.
(Mulcahy 2003)

McCarthy discusses and analyzes strategies of both cost and revenue used in American performing arts organizations. Reducing production size and eliminating guest stars are two of these strategies, but are very likely to end up shrinking audiences by more than they shrink costs. In contrast, some organizations try to produce lavish programs featuring celebrity artists to attract large audiences. However, McCarthy argues that only big budget organizations can afford high-cost productions. Most mid-sized lack the resource to put on blockbusters, it is not clear how well they can compete with respect to world-famous and celebrity heavy institutions. In mid-sized organizations, increasing reliance on warhorse programming and increasing the number of performances of the same production are two widespread revenue-building strategies, but these approaches may adversely impact artistic innovation. McCarthy also indicates that large nonprofits are increasingly adopting for-profit business models to stabilize revenues, and niche markets are strategies good for small commercial and nonprofit organizations, but both are not for midsized groups. (McCarthy 2001)

Mulcahy further argues that because marketing costs are substantial, for most cultural organizations, aesthetic compromises are inevitable in market-driven environments. Only the strongest organizations will be able to make the investments in casting, production values, and marketing necessary to succeed in the “entertainment business.” McCarthy also suggests that because nowadays, nonprofit organizations rely more and more on the market to pay their bills, they look more like for-profit organizations. This does not only raise issues about the appropriate distinction between
tax-exempt nonprofits and taxable for-profit, but also has implications for the type of art that will be produced.

The discussion in the past decade indicates many potential challenges that mid-sized performing arts organizations have to face. It shows that it is very difficult for mid-sized performing arts organizations to run from the bleakest future. Those are also the difficulties that Chinese officials tried to solve through the new round of reform.

3.4 Creative Industry

3.4.1 Term

"Today’s economy is fundamentally a creative economy", Florida said. Florida further indicates that the three components of "social structure of creativity" are new systems for technological creativity and entrepreneurship, new and more effective models for producing goods and services, and a broad social, cultural and geographic milieu conducive to creativity of all sorts. Florida’s theory has traveled across the ocean to many European and Asian countries; however so far the term “creative industry” seems not very much fit into China’s context, although some of the concepts have been adopted.

Hartley states that the idea “creative industries” is a product not of industry but of history. It has evolved from previous conceptualizations of the “creative arts” and “cultural industries”, and arose from recent changes in technology and the world economy. The term caught the imagination of politicians and policy-makers who want to promote “job and GDP”. Hartley distinguishes the idea geographically. In the USA, creativity is consumer- and market-driven, whereas in Europe it is caught up in traditions of national culture and cultural citizenship. He also notes that intermediate countries are
porous to both countries and therefore have seen the creative industries as a change to bring together the two extremes of public art and commercial market in order to move beyond them and grasp new possibilities. (Hartley 2005)

Hartley believes that the “creative industries” idea brought creativity from the back door of government, where it had sat for decades holding out the tin cup for arts subsidy around to the front door, where it was introduced to wealth. This is a huge change of attitude towards the arts and cultural sector. The idea traveled to countries and regions in Asia, such as Singapore, Taiwan, Hong Kong, and Korea, and indicated its expanding usefulness in describing changes and priorities not previously named.

Wang thinks that the mainland China would not and should not jump on the bandwagon of the new discursive movement of “creative industry” very soon, because she thinks that “cookie-cutter approach’ is applicable only to places that do now have a history and human geography.” Wang suggests that “instead of emptying the analytical content of creative industries understood in the Australian, British or Scottish contexts, let us keep all of them, but, at the same time, turn to infrastructural inquires about the other locales. Then and only then might a whole spectrum of complex local agendas and conditions begin to emerge and enable us to track the crisscrossing economies of culture, creativity, and content production all within a comparative trajectory better prepared to respond to the place-specific articulations spawned from the universal strategic thinking of writing ‘culture’ into policy lexicons.” (Wang 2004)

Although a forum of creative industry is newly formed in China, and the term becomes frequently used in Mayor’s speech in Beijing, Wang suggests that creative industries as a discourse is of little practical value to the mainland Chinese at this
moment. She argues that the meaning of cultural industry could not be taken for granted as understood in the western context. She argues that while the western term ‘cultural industry’ means what it says, its Chinese counterpart (wenhua chanye) implies at least three subtexts: “a state-owned sector undergoing the rugged process of partial commercialization; the tenacious hold of state monopoly even while it is pushing an agenda of commodifying public cultural goods; and the thorny issue of mixed ownership and the debate over the hidden process of privatization.” Compare the indigenous term “wenhua chanye (cultural industry)”, which alludes to all the crucial terms of the debate concerning the politics of Chinese cultural industries, with the hypothetical discourse of chuangyi gongye (creative industries). The double reference of the word chanye to chanquan (property ownership) and shiye (public institutions), together with the local agendas, would be totally lost were the neutral term chuangyi gongye (creative industry) to take its place. Therefore, the issue is both a terminology problem and a substantial information change.

3.4.2 Approaches

Leaving alone the term that different countries used, understanding the content and approaches would be very meaningful when we try to analyze the model within the cultural policy scene. Wyszomirski discusses two approaches to the creative sector – industrial cluster model and the societal sector model. The analysis of the latter one more or less corresponds to the conglomerate idea of China’s reform.

O’Connor implied that a creative sector would include “the full range of activities from ideas, primary creation, production, distribution, and consumption along with
ancillary functions such as management, accountancy, legal services, promotion, marketing, etc.” There are also soft infrastructure supporting the sector, which includes cultural intermediaries and cultural entrepreneurs who operate across networks and use knowledge of these networks to generate their business or advance their work. (O’Connor 2000, Wyszomirski 2004) In Wyszomirski’s mapping effort of the societal perspective of the creative sector, around the creative core is an infrastructure of related fields and services. The infrastructure could include supportive services, such as educational and legal services; supportive resource, such as funding, authority, facilities, and information resources; activities and organizations that regulate or foster the core sector, such as government policies and professional associations; and the parts of the industries that could apply the arts, such as advertising, design, therapy, and tourism. (Wyszomirski 2004, 2005)

This is very much like China’s approach which conglomerate all four types of infrastructure mentioned above into the core. Under the new reform model, the core organization no longer needs to outsource some of its necessary infrastructure; instead it could work more efficiently and effectively in-house. This would be further discussed in the model analysis chapter.

3.5 Public Value vs. Market Value

In the United States, where market value of cultural sector has been fully developed, the discourse has shifted to recognizing public value of the sector. Facing a changing landscape of public funding and policy direction, arts organizations can no longer simply rely on supply-demand model to ask for public funding, it becomes urgent
for them to demonstrate the public value they created in their community to legislators and citizens as a reason for public support. More and more contributors want evidence that their funds are spent in accordance with the needs and values of the organization’s community members.

Moore first brings out the concept of “public value” and its important role in strategic management of government agencies. (Moore 1995) This concept was later applied to nonprofit world. Later, Moore provides a transformational framework for arts organizations and state arts agencies to develop strategies through his model of the public value triangle. (Moore 2000) In this triangle, an organization, nonprofit or public, does not exist in a vacuum, but in relationship to an authorizing environment and perceptions of public value. The authorizing environment, which provides resources the organization needs to operate, includes those who grant authority and money, those who influence those who make these decisions, and the general public. Elected officials; foundations and arts participants; media, arts council members, special interest groups, unions, business groups, industries, and arts advocacy groups are all involved in the authorizing environment of an art organization. Public Value becomes the core of the triangle, which reflects the effect the organization has on people, its relationships with others and its communities. The organization itself has an internal operating environment, comprised of resources, partners and capacities that produce arts events. (Moore 2003, The Ohio Arts Council 2005)

This new model is very different from the proceeding transactional model, which bears the “if we provide it, they will come” way of thinking. In the old model, government, foundations, corporations, and individuals provide funds, support, or buys
tickets, in exchange, arts organizations produce arts events, provides report, and
documentation of numerical level of arts participation. Public value is neglected in the
old framework, which does not describe the important role participation plays in the
cultivation of organizational support and does not consider consumer demand. (Ohio Arts
Council’s New Capacity Building Program)

Public value could be created through people’s involvement at an arts
organization as consumers, volunteers, advisors, board members, of freeloaders. It is not
defined by the arts agency but something that exists within the community and created by
the citizens, businesses and organizations of that community. (The Ohio Arts Council) In
the new transformational framework, when participants assign value, positive or negative,
to their experiences, they are assessing the tangible or perceived benefits received form
the experience. The dynamics of the model is that if an organization could create the
connection between artistic products and community needs, and could meet community’s
goals and aspirations, then it would be capable of getting support from the community to
sustain its operation.

With regard to public value, China’s traditional attitude towards cultural sector
was very different from the United States, but more like European countries. Public value
had long been the dominant value of the cultural sector in China. Structure of cultural
system was to serve the public purpose of the sector. All cultural policies were around the
idea of cultural organizations’ role of providing public service. Contrary to the United
States, China’s new discourse is around market value of cultural sector. The potential
problem of this reform process could be that the market-oriented approach may force
some organizations to compromise their public purpose. While moving from public-
oriented to a market-oriented cultural sector, issues regarding accessibility, quality, and diversity of cultural organizations would be discussed in this study.

Just as Wyszomirski indicates, “cultural policy in the 21st century is no longer focused primarily on the one issue of funding/financial support. Rather it is a collection of many issues about the value and impact of the arts and culture, about their utility and effect in other policy arenas, about what role we want government to play with regard to the arts and culture, and recognition that policies other than funding distribution are important.” (Wyszomirski 2003). Cultural reform process is a complex phenomenon. All these aspects of consideration are essential for a comprehensive understanding of China’s cultural system reform.
CHAPTER 4

CASES

4.1 Methodology

This study examines the idea and implementation of cultural system reform on mid-sized performing arts organizations, and particularly, reform steps and the "conglomerate" model. This chapter describes and analyzes reform strategies of four cases which will be used in the following chapters to illustrate the theoretical analysis of the reform model. The case studies are not the purpose of this research, but are serving as a basis for the analysis of theoretical model.

Among mid-sized performing arts organizations that experience the first wave of system reform, these four cases were selected because they represent variations in conglomerate model. All other pilot performing arts organizations adopt very similar patterns.

Without first hand data, the description and analysis of cases mainly rely on company, government and media reports. The study describes the background, reform approach, strategies and accomplishments of these organizations, and then analyzes how the conglomerate model works in each case. The case studies focus on the general reform approaches and strategies, instead of detailed process and internal problems.
Finally, all cases are the third type of *shiyè danweī* explained in the second chapter – profitable or business-like *shiyè danweī*, which have potential earning capacity and are the leading actors in the marketization process.

4.2 Beijing Children’s Art Theatre Co. Ltd

4.2.1 Background

The predecessor of Beijing Children's Art Theatre Co. Ltd (BCAT) is Beijing Children’s Art Troupe (the Troupe), founded in 1986. January 16 of 2004, the new Beijing Children’s Art theatre was established, transforming from a *shiyè danweī* into a limited liability company with 40 million Yuan (US$ 5 million) registered funds. (China Daily)

For over a decade, the Troupe has presented approximately 2500 performances in rural and urban schools and kindergartens throughout the country, reaching three million audiences in total. It was also invited to perform in foreign countries such as Singapore, Japan and the United States. (China Daily) However, just as many other local performing arts groups, the Troupe lacked operational capacity. About 1 million Yuan (USD$ 125 thousand) earned income plus 3 million Yuan (US$ 375 thousand) government support barely kept the Troupe sustainable throughout the years.

4.2.2 Reform Approach

The Troupe is one of the 35 PIs that were appointed as reform pilot institution in 2003. In these 35 PIs, which involve publication, TV, radio, film and theatre,
government's role in their management is to be phased out. These pioneer organizations have to learn to survive in an arena of real and fierce market competition.

BCAT was sold to five major shareholders, respectively, Beijing Youth Daily Group, Beijing Cultural Facility Operation Management Center, Beijing TV Enterprise Development Group, Beijing Higher Education Real Estate Development Corporation, and Beijing Cultural Development Center.

Among these shareholders, Beijing Youth Daily Group, China's second biggest newspaper group after the Guangzhou Daily, is the holding company. The Group runs Beijing Youth Daily, a popular newspaper in Beijing covering general news, and was originally controlled by the Communist Youth League. Beijing Youth Daily was also experiencing official reform in 2004. Beijing Media Corp, formed from the newspaper's non-editorial operations (its business operations such as advertising and sales departments), had a successful IPO (Initial Public Offering)\(^\text{11}\) in Hong Kong. Beijing Youth Daily had earlier planned to list on a domestic Chinese market but has been given special permission to issue its shares overseas as part of a "trial" policy. The initial public offering, which will give international investors an unprecedented opportunity to invest in a Chinese newspaper, is part of a broad set of reforms aimed at commercializing China's media industry.

Beijing Cultural Facility Operation Management Center is operating under Beijing Municipal Culture Bureau; Beijing TV Enterprise Development Group is a

\(^{11}\) An initial public offering (IPO) is the first sale of a corporation's common shares to public investors. The main purpose of an IPO is to raise capital for the corporation. While IPOs are effective at raising capital, they also impose heavy legal compliance and reporting requirements. The term only refers to the first public issuance of a company's shares; any later public issuance of shares is referred to as a Secondary Market Offering. (http://en.wikipedia.org/wiki/IPO)
branch of Beijing Television Station; While Beijing Higher Education Real Estate Development Corporation is subsidiary of Beijing Municipal Education Commission. It is quite clear that these shareholders all have a tight relationship with government. They are sitting along the value chain of BCAT, and have the potential of becoming strong infrastructure supporters.

The reform of BCAT was guided by Beijing Municipal Committee and the People's Government of Beijing Municipality. A BCAT reform committee was formed by the city to research this initiative, especially ownership issues of BCAT beforehand, and had designed more than ten shareholder structure schemes. The committee put a lot of effort into choosing the right shareholders, and finally the current structure mentioned above was adopted.

4.2.3 Strategies and Major Accomishments

Mission and Goals

The reformed troupe has identified three development directions: First, to guarantee the company's leading position in the industry by creating high quality children's plays; Second, to develop and produce textbook plays, which intends to improve quality of the public and mold national spirit; Third, to forge a cultural industrial chain, including joining digital channels, film and TV production and game development, building Beijing Children's Art Center, developing merchandise of the plays, developing art training and educational program for the youth, and entering presenting and ticket
market. The company's target within the next five years is to forge a complete *chanye llian* (industrial chain)\(^{12}\) of children's culture with brand operation at core.

**Major Productions after Reform**

BCAT had a successful season after restructuring into the joint-stock company. Its new drama "Labyrinth", a tremendously successful spectacle which was said by one theater critic to "liberate its young audience through creative use of multimedia, and a whole-hearted surrender to absurd imagination", attracted an audience of 25,000 and won a box office of 2.52 million Yuan (US$ 302,716) in the first ten days of performance (Ticket prices are from 80 to 880 Yuan/ US$ 10-110). The income of box office plus merchandise of "Labyrinth" in total was about 6,930,000 Yuan (US$ 866, 250). First round of another major drama “Hi, Lovely” brought in 2,600,000 Yuan (US$ 325,000). Throughout 2004, the total earned income of BCAT reached 21,630,000 Yuan (US$ 2,704,000), which, for the first time in the history, met its balance with a little surplus.

In 2005, “Hi Lovely” brought in 3,930,000 Yuan (US$ 491,250) for thirteen performances together with merchandise. Besides, income of eighteen performances for June 1\(^{st}\) Children’s Day reached 1,800,000 Yuan (US$ 225,000). As the first textbook play of BCAT, “Happiness is from the textbook” was launched in April. BCAT also partnered with Taiwan and Hong Kong’s film directors and participated in two children’s movies. The estimate earned income of BCAT for 2005 was about 36,000,000 Yuan (US$ 4,500,000).

\(^{12}\) "Chanye llian" here in the mission means all children-related cultural products, such as drama, textbook play, children’s film and TV program, children’s art center, educational program, and so on.
2006 is BCAT's third year after reform. The new play "Ice Cream Mountain" (Moshan) created an even greater spectacle, claimed to be a children's play to top "Labyrinth", and to bring joy to children, parents, and investors. Ice Cream Mountain, the only children's play ever to be held in the vast Capital Gymnasium, featured an ice cream cake large enough to break a Guinness world record, and an earnings goal to match. The drama's promotional material cited the number of under-fourteen children in Beijing (roughly 2,030,000), wistfully described the structure of the modern Chinese household (one child, two parents, four grandparents), and chirped, "Bring the whole family!" (CRIENGLISH.com) As advertisement effort, Ice Cream Mountain was also unusual in that, as part of the promotional efforts prior to performance, the bears had been showing up in random locations around Beijing in the month and a half before opening night, ambushing kids at schools and supermarkets and getting them in the spirit. (Beijing Official Website International)

Building Industrial Chain

Besides its main drama productions, textbook play, movies and merchandise are new sources of BCAT's income. All new initiatives either targeted to increase income or to create the company's own "industrial chain" (chanye lian) for future development.

The money raised from their various commercial ventures allows them to develop new drama productions, and also helps to pay for the "social" side of their work - their mobile stage tours of rural areas which bring theatre to children who never have experienced it before. These tours are partly but not wholly supported by government. Their performances are linked to the "textbook plays" that complement the education
system, which are also used as an important tool of partnering with schools and communities.

During the production of “Labyrinth”, the company for the first time designed peripheral products including stuffed animals, key chains, music CDs, cell-phone ring tones, school bag, T-shirt, chess, hats and so on. The company also published children’s books based on the main character in the play. Integrated with the rehearsal of “Hi Lovely”, BCAT, partnered with professional institutions, provided services on acting training, children’s training camp, and children’s psychology consultation.

Besides, the company is trying to break into the entertainment market, sponsoring several pop music concerts, which also brought in a great amount of money.

Textbook plays, production merchandise, and income generated from children’s movies and presenting concerts all show the effort of the company to create its own “industrial chain” (chanye lian) of children’s culture and arts. The potential of the company partly comes from its confidence in shareholders, who have already been stably sitting along the value chain, and partly from fast expansion of their operational capacity, which largely relies on its creative workforce of both administrators and artists.

**Celebrity Strategy and Creative Workforce**

Internally, for the first time, the theatre established specialized departments devoted to marketing, public relations and performance management. The new company hired a professional consultant company to help plan its future. Beijing Pusher Management Consulting Company is one of the think tanks for BCAT. Entrepreneurship and creative workforce play an essential role in the new theatre. Wang Ying, who
originally was the vice president of Beijing Youth Daily, became the new director of Beijing's Children Art Theatre. Because of her leadership in managing BCAT, she was selected as 2004's top ten entertainment propellant by sohu.com, one of the most important internet portals in China.

The operational capacity of the management team is emphasized. BCAT is trying to adopt the entire system of modern enterprise management, including administrative infrastructure management and human resource management system. All employees were automatically transformed to social security system after the reform. The theatre also organized its administrators to visit Japanese and Hong Kong's theatres to learn management skills, and more importantly to change attitudes toward running a theatre.

Through a new round of recruitment, young and well educated people were absorbed into the management team. BCAT now employs four employees with MBA degrees and forty with Bachelor degree, with an average age of thirty. From the artists' side, some young artists were appointed as artistic director or assistant producer.

Externally, whereas previously all productions were done in-house, from scripting to marketing, the reform gave the theatre the freedom to hire outside professionals. On January 2004, the company initiated a call for scripts from all over the country, offering an award of 200,000 Yuan (US$ 25,000). This initiative not only aimed to locate a good script, but also to attract more artists and writers to engage in creating children's theatre. Marking its transformation into a completely market-oriented company, the new theatre finally gathered many talented script writers, directors, musicians, and choreographers it could find for the play "Labyrinth", and even managed to encourage TV stars to take part.
The 2006 new play “Ice Cream Mountain” is directed by Meng Jinghui, who also helmed Labyrinth, and who was one of the great avant-garde theater directors of the 1980s and 1990s in China. On board with him are playwrights Shi Hang and Liao Yimei, responsible for “Labyrinth” and “Rhinoceros in Love” (an experimental play directed by Meng Jinghui), respectively. Feng Jiangdan is creating the multimedia effects, and music design is done by Yao Qian, who produced the ubiquitous “Di Da Di” pop song on the radio. For textbook plays, BCAT invited several famous writers to adapt articles from textbook into textbook plays, and hired anime companies to create anime products based on the adapted plays.

Creating Image and Broadening Audience

To raise the image of BCAT, the theatre established cooperation with real estate companies to perform in communities, organized Children’s theatre competition and June 1st children’s theatre week, and offered free tickets to minority groups, children with disability, and low income families. The theatre also established a children’s art foundation with BMW to support its tour in underdeveloped areas. These approaches serve the educational side of the theatre and also help broaden their audience.

4.2.4 Analysis and Conclusion

BCAT’s 2004 reform is considered a very successful pilot project. The thoughtful “conglomerate” of shareholders plays a crucial role in its success. BCAT’s reform process is a one-step approach from a shiye danwei to a joint-stock enterprise. Its board of shareholders is composed of state-owned enterprises, public agencies and institutions.
Before letting it enter the market, the city government took great effort to position BCAT so that it could win a market advantage through the combination of its shareholders.

The funding capacity of BCAT has hugely increased thanks to its shareholders and their network. Personnel from its shareholders bring in modern management skills to the company. Both financial and human resources of BCAT are enhanced, which are the basis for the development of the company. The knowledgeable administrative personnel further explore and bring in talented artists in the competitive market, who become the creative core and profit guarantee of the company’s major productions.

The contribution of shareholders is not limited to enhancing the company’s funding capability and providing valuable human capital and management experience, they also provide infrastructure supports and are capable of helping the company to create the “industrial chain” of children’s art that the company desires. Upstream supports come from Beijing Youth Daily and Beijing TV Enterprise Development Group which could play a great role in advertising BCAT. Beijing Cultural Facility Operation Management Center provides facility support and Beijing Higher Education Real Estate Development Corporation could provide performing opportunities in communities; both contribute to the downstream value chain.

Shareholders of BCAT form a “conglomerate” containing various functions. Through supporting the upstream and downstream chain of the company, the combination save the cost of BCAT in employing talented administrators, marketing, public relations, community outreach, and even facility rental. The major expense of productions then is able to be spent on creative workforce which is the crucial factor that
brings back huge earned income. In other words, the assets of the company is focused and effectively used.

Through its shareholders and governmental regulations, government maintains the ability to oversee and supervise the organization. Meanwhile, the company has the whole authority to decide on its programming and operating strategies, therefore, major productions are almost purely profit-driven. Market potential of the children's theatre is huge in a metropolitan city like Beijing. The company tries its best to attract audience by its innovative blockbusters featuring modern technology and celebrity artists. Considering the public value vs. market value discourse, after years of only serving public value, the market value of the company is now explored and emphasized. To maintain some of its original social service function, the company is required by the government to tour underdeveloped area to fulfill its public responsibility. The company also actively emphasizes its educational function in its mission and has a preferential policy towards minority groups, children with disability, and low income families to sustain its social image. A balance between market and public value of the organization is hoped to be achieved.

4.3 Comparing Shenzhen Song & Dance Troupe Performing Arts Co. Ltd. and Beijing Song & Dance Theater Co. Ltd.

4.3.1 Shenzhen Song & Dance Troupe Performing Arts Co. Ltd.

Background

Shenzhen is another pilot city on the edge of cultural reform. Shenzhen announced strategies to develop its cultural industries, aim to increase the contribution of
cultural industries to 10 percent of the city's GDP by 2010. The city considers the cultural sector as one of its four pillar industrial sectors. The other three are high-tech, logistics and finance sectors. The local government named eight specific cultural aspects -- media, anime, publishing, creative design, printing, audiovisuals, entertainment and tourism -- as key industries to support and develop. (Shenzhen Daily)

Ten specific strategies were approved in order to develop city's cultural industries. (City’s cultural working conference, 2005) Promoting cultural system reform of professional cultural institutions -- including the Canton opera group, Shenzhen Symphony Orchestra and the Shenzhen Song & Dance Troupe -- is one important strategy. “Different strategy for different organization (yitian yicai)” is the reform principle adopted in many cities including Shenzhen. The city government plans to examine each organization’s circumstances and prepare reform strategies according to its particular situation.

Other strategies of the city include planning a series of cultural activities to celebrate the 25th anniversary of the founding of the Shenzhen Special Economic Zone; building a public cultural service system; holding Shenzhen cultural week in Washington and Houston and holding a French cultural week in Shenzhen; promoting the production of films, TV series and anime programs; clamping down on illegal publishing; establishing a cultural relics’ data bank and starting relic protection work; strengthening anti-porn campaigns by improving the cultural market monitoring network; establishing a cultural talent bank to make best use of the city’s cultural talents.

The Second China (Shenzhen) International Cultural Industry Fair, held in Shenzhen in 2006, is on the top of the agenda. The city also plans to increase spending in
constructing cultural facilities and improving cultural services for the public. Zhang Xiaohu, director of the Cultural Reform Office under the Publicity Department of the CPC Central Committee, said that the creative industries should become a highlight of Shenzhen’s future development, citing the Dafen Oil Painting Village in Longgang District\(^\text{13}\) as an example that the city's cultural industry is thriving. (Shenzhen Daily)

Shenzhen’s goal of the reform was that “reform is not for throwing away burden but for better development”. The city government further pointed out that their idea of transition is to change government’s role from managing the cultural undertaking (ban wenhua) to guiding and regulating the cultural undertaking (guan wenhua).

Shenzhen Song & Dance Troupe was established in 1987, directly under Shenzhen Municipal Cultural Bureau. Before the reform, the Troupe owned 87 employees, including administrators and artists. Its major function was to cooperate with the cultural work of Shenzhen Municipal Committee and the People’s Government of Shenzhen Municipality in promoting culture, creating outstanding song and dance performances, serving the public, developing traditional culture, undertaking not-for-profit and for-profit performances, and cultural exchange responsibility.

After its establishment, the troupe held more than a thousand performances, and won several national and province’s awards. Some of the performances have been sent to Beijing to participate in China’s Fifty Anniversary Celebration performance, and several programs of Central China TV. (Shenzhen News Net) However, managed by Shenzhen municipal cultural bureau, the mission of the Troupe was mainly to serve the city and

\(^{13}\) Dafen painting village located in Buji Town, Shenzhen city, Dafen Oil Painting Village now is a famous “Oil Painting Village” of China. More than 2000 artists and 200 painting-ateliers make it become the most concentrative base in the world to manufacture painting craftworks.
meet its performing responsibilities. Nationally, Shenzhen Song & Dance Troupe, as a mid-sized local performing arts organization, is not very competitive; locally its programming was generally to serve local public activities and celebration. There was very little motivation for the Troupe’s personnel to develop high quality productions and attract larger audiences.

Reform Approach

In August 2004, as one important action of Shenzhen’s cultural reform, as well as one of the pilot projects, Shenzhen Song & Dance Troupe was transformed from shiye damwei, formerly attached to Shenzhen Municipal Cultural Bureau, into an enterprise namely Shenzhen Song & Dance Troupe Performing Arts Co. Ltd. (The Troupe) under Overseas Chinese Town Group (OCT) (hua qiao cheng jituan), a giant state-owned enterprise group.

The original reform approach, planned by People’s Government of Shenzhen Municipality in 2003, was to transform the Troupe with all its employees to OCT. These former public employees would then become OCT’s employees. OCT cannot fire these employees for at least three years, and in return, the city government would support OCT with 15 million Yuan (about US$ 2 million). This plan was refused by OCT. OCT emphasized that what they want is the brand of the Troupe rather than government funding, and asked for total control on human resource decisions.

The city government was at first shocked by OCT’s decision, and realized the difference between their thought about marketization and the real market. Upon OCT’s request, city government reconsidered the reform plan and soon changed the contract to
allow OCT to own the total authority on regrouping and operating the Troupe; and
Shenzhen Cultural Bureau would take full responsibility of leftover problems such as
relocation of personnel, original assets and liabilities. Thus, the troupe was transformed
following OCT's management mode.

The final agreement authorizes OCT overall power on managing the Troupe
following market rules. When the city government needs to hold public performing arts
event and cultural exchange activity, it would, by means of government purchasing,
invite public bidding and choose the best troupe to perform. After the transition, the city
took the responsibility of adjusting personnel problem. Some of original employees were
assigned to community art centers to assist local educational program.

The reformed troupe was re-registered by OCT Group with registered fund
500,000 Yuan (US$ 62,500). Shenzhen Overseas Chinese Town Holding Co. Ltd (SOCT)
and Shenzhen Window of the World Co. Ltd (SWW) are two subsidiaries of the OCT
Group, and respectively take 70% and 30% of total shares of the new Troupe. SWW
takes responsibility of management, and guarantees its parent company a net yield of
more than 10% annually.

OCT Group was established in 1985 as a giant state-owned enterprise and
economic development zone directly under State-owned Assets Supervision and
Administration Commission of the State Council. Total asset of OCT is about 30 billion
Yuan (US$ 3.75 billion). OCT owns companies of household appliances, tourism, real
estate, hotels, and exporting business. Among them, tourism, real estate, and
electrommunication are the core of the Group and ranking top nationally.
In its tourism branch, OCT Group owns four theme parks. Based on these parks, cultural tourism resort areas were further expanded to combine tourism, shopping, culture, entertainment, and sports. On average, around 20,000 people visit these parks daily. On holidays, the number could reach as high as 150,000 visitors. The featured “tourism + real estate” is the business mode of OCT’s economic zone. In recent years, OCT created a new subsidiary, namely, OCT international media company, involving publishing and production of film and TV programs, presenting, advertisement, and media. In a word, OCT is a very diversified and powerful group.

Strategies and Accomplishments

One main strategy of the new Troupe is to combine performing arts with tourism. As a tourism company, SOCT already owns several tourist sites, which attract five million people every year, so that performing opportunities are abundant.

SOCT admitted that it was actually buying the brand of the troupe. The troupe’s new core was made of several performing arts groups originally owned by SOCT. The company owns total authority on the troupe including personnel management, so that it does not need to worry about “iron rice bowl” of personnel as public agencies do. Besides, as a listed company, SOCT could attract investment from the stock market to support its development of its new cultural branches. (xinhua.com)

The new troupe has created several great shows after the reform, many of which have been performed at the Universal Stage of SWW, which is a famous tourist site in Shenzhen. These shows have used high-class choreographist, playwright, musicians, and costume designers. One of the performances, called “qiangu fengliu”, based on five love
stories of different countries - respectively, Troy, Ramayana, Han Chu Soul, The Tale of Genji, and The Book of One Thousand and One Nights - shows folk costume and dance of different continents. More than three hundred dancers from both China and abroad participated in this show. Most dancers were drawn from dance departments of local colleges, and local dance troupes. Many of them were contract dancers from Russia.

Besides for-profit performances, the troupe continues attending and winning city dance competition to establish its image as the city’s biggest song & dance group and attract government purchasing. (Shenzhen Economic Daily)

4.3.2 Beijing Song & Dance Theater Co. Ltd.

Background and Reform Approach

Beijing Song & Dance Troupe was established in 1978. In 2002, the Troupe was renamed Beijing Song & Dance Theatre. The Theatre was transformed from a shiye danwei into a limited company - Beijing Song & Dance Theatre Co. Ltd. (The Theatre) on August 10 of 2004, with registered fund 62,423,200 Yuan (US$ 7,802,900). The reformed Theatre has four shareholders, respectively, Beijing Tourism Group, Beijing Gehua Cultural Development Group, Beijing TV Station, and Beijing Sanqi Advertisement Limited Company. Beijing Tourism Group is the holding company. It is one of China’s largest tourism groups, an enterprise with tourism as the main operation and simultaneously engaged in hotel, travel service, automobile, shopping, dining and cuisines, MICE, entertainment and scenic spots business.\(^\text{14}\) This is a mixed combination

\(^{14}\) Since BTG was founded, it has moved actively to accelerate its business process rebuilding, further improved the value chain connecting the six major elements of tourism including “dining and cuisines, accommodation, transporting, touring, shopping and entertainment”, introduced in a brand-new business
of public and private investment. Among these shareholders, Beijing Sanqi
Advertisement Limited Company is a private company.

Strategies and Accomplishments

The reformed Theatre's goal is to explore four markets: public performing service
arranged by government, including public activities and cultural exchange activities;
tourism and holiday performing market; business affairs performing market; and
international market. (Guangming Daily)

Before the reform, the Theatre was totally supported by government. They never
needed to worry about the Theatre's development and earning capacity. To shift to a
market attitude, the Theatre began to reform every aspects of its internal administrative
system. Production of art works and presenting management became the focus of the new
Theatre.

The fixed salary of public employees no longer exists, but is replaced by contract
system. The income of artists became directly linked to the profit of the company. The
Theatre's new personnel policy is to enhance performers they already have, cultivate new
performers and invite celebrity artists. To increase impact of the Theater, celebrity artists
outside of the Theatre are invited as honor performers to participate in performances. The
Theatre is also dedicated to promoting their in-house celebrities.
September of 2004, the Theatre came out with a new idea of listing a menu including more than 400 art works. The Theatre held a promotion event in the International Hotel in Beijing, to advertise its productions for holiday tourist market to senior managers from about fifty hotels in Beijing. The same day, fifteen hotels signed agreements with the Theatre. This was the first time that the Theatre used its business operating strategy to promote art works to market.

At the end of 2004, the Theatre bought out a famous night club - “Night of Beijing”. The Theatre’s classic productions, advanced light design and costume design help facilitate the operating of the club. In the first month of 2005, “Night of Beijing” attracted 6000 audience and earned 1,150,000 Yuan (US$ 143,750), which is the top record of the club since its opening.

In 2005, the Theatre arranged a promoting event of bigger scale, inviting 600 guests from performing arts companies, cultural companies, theatre venues, local and community cultural committees. There were even agents from other provinces. In 2005’s Christmas Eve, the Theatre organized 644 performers to give a five-hour performance for eleven hotels and seventeen performing venues, earning 1,000,000 Yuan (US$ 125,000) in two days. In total, the Theatre held 1158 performances throughout 2005, a 45.1% increase from previous year; and total income reached 32,330,000 Yuan (US$ 4,041,250), increasing 38.23%.

To hold its public value the Theatre has created during the past years, it maintains its public service function by touring campus and underdeveloped regions. Among its 1158 performances during 2005, 280 of them are held in schools or rural areas. Its
educational programs involve many students and other audience to their performances; pre-show and after-show talk are also welcome.

4.3.3 Analysis and Comparison

Shenzhen Song & Dance Troup Co. Ltd. and Beijing Song & Dance Theatre Co. Ltd. are very similar mid-sized local performing arts companies. Although both followed a conglomerate pattern and enhanced earning capacity by cultivating a combination of performing arts and tourism, they each adopted very different approaches.

The Shenzhen Song & Dance Troupe became a subsidiary of a powerful local conglomerate that runs numerous real estates and tourism projects. The upstream management, such as marketing, public relations, and community outreach, is integrated into the management of tourism sites, thus saves operating money for the Troupe. Also, the OCT Group owns many branches that relate to the cultural sector, which could support every aspect of the Troupe from advertising to providing facility. The entire operating principle of OCT is a model of “tourism-culture-real estate”. The Troupe very easily fits into this model.

As its two direct shareholders, Shenzhen Overseas Chinese Town Holding Co. Ltd (SOCT), who holds 70% shares of the Troupe, is a domestic listed company so that funding could be drawn from the market; Shenzhen Window of the World Co. Ltd (SWW), a tourism park owning several performing groups and holding 30% shares of the Troupe, is responsible for operations. Thus both the funding and operating issues are addressed.
From the perspective of OCT, obtaining the Troupe is a good strategy. It already owned many performing troupes attached to its numerous tourism sites. This reform enables OCT to put all these troupes under the brand of Shenzhen Song & Dance Troupe. Having no responsibility for the Troupe’s former employees and liability, OCT easily got what they desire – a famous brand without much cost.

Another advantage of this reform is that local government gradually learns to negotiate with a powerful local business group. Local government and state-owned enterprise have varied interests. Better understanding between the two helps enhance a win-win result in future reform. Compared to directly privatizing the troupe, transforming shiye danwei into state-owned enterprise could be a safer choice for the local government. Powerful state-owned enterprise has its distinguished advantages in this reform approach.

However, something seems missing in this case. Although the Troupe no longer needs to worry about its operating, it lost its former personnel. What survives the reform is not the Troupe, but the brand. Although many fired personnel were re-assigned to community art centers so that they can begin their new job that they could fit, the reform seems more like closing the old troupe and beginning a new one instead of reforming the system in order to better utilize the talent and capability of the original troupe. If the purpose of the reform is to use the resources that have potential value but not been used effectively, this reform is not a success.

In contrast, however, the Beijing Song & Dance Theatre Co. Ltd. adopted a different approach, which is similar as the approach of Beijing Children’s Theater – a conglomerate of shareholders.
In this case, shareholders contribute hugely to the development of the Theatre. Its major shareholder, Capital Tourism Group, has cashed in on its advantage of Beijing’s tourist market and the advertising campaign of Beijing TV Station helps to bring visitors to the theater by helping it sign performance contracts with over a dozen Beijing hotels.

While “conglomerate” also works well in this case, the highly motivated personnel are believed to be the key factor that brings fame to the Theatre. The passion of both administrators and artists is greatly elevated after the reform.

Some performers said that they never thought about market before the reform, at that time, they only needed to meet the requirement of the government, and created art works according to the theme given. Now they have to consider the need of the audience and keep creating new works in order to survive the market. The income of the performers was largely increased, which greatly motivates these artists. As they described it, once they create a new work, they cannot wait to report to the business department who takes responsibility of promoting their works.

Both companies followed a pattern of conglomerate. In the former case, the conglomerate exists in its parent company. The diverse branches of the parent group help create the value chain for the troupe. In the latter case, however, the conglomerate happens in its shareholders. Diverse shareholders paved the Theatre’s way to obtain a good position in its value chain. In both cases, “conglomerate” along the “value chain” is remarkable for the success of the performing arts organization.

However, different from its Shenzhen’s counterpart, who was totally absorbed by a state-owned group, Beijing Song & Dance Troupe’s success is based on the resources
they already own - it accomplished these achievements by reorganizing capital resource
and most importantly motivating its artists.

4.4 Jiangsu Province Performing Arts Group

4.4.1 Reform Approach

The transition process of Jiangsu Province Performing Arts Group (JPPAG) experienced three steps. In September of 2001, the first step of reform separated the management of many local performing arts organizations from public administration, and incorporated them into the biggest performing arts shiye danwei in the nation - Jiangsu Province Performing Arts Group. Second step in 2004 transformed JPPAG from shiye danwei into an enterprise. Finally, in March 2006, JPPAG and six private companies established Jiangsu Performing Arts Cultural Industry Co. Ltd. (JPACI), a presenting company linked with the Group, accomplished the joint-stock reform. This step finished the transition of the company from organizations attached to public agency through a state-owned performing arts company and into a multi-assets presenting company, which implemented the government’s policy of “with public ownership as the mainstay and various forms of ownership developing side by side”.

First Step: Separation of Public Agency and Shiye Danwei

Jiangsu Province Performing Arts Group (JPPAG) was established as a shiye danwei in 2001, as the first step of cultural reform and an important implementation of Jiangsu Province’s cultural policy. JPPAG was established by incorporating six major organizations and several other cultural institutions including former Jiangsu Province
Song and Dance Theatre, Jiangsu Province Peking Opera Theatre, Jiangsu Province Kun Opera Theatre, Jiangsu Province Xi Opera Theatre, Jiangsu Province Yang Opera Theatre, Jiangsu Province People’s Art theatre, Jiangsu Province People’s Theatre, Jiangsu Province Presenting Company, and several other smaller scale organizations. These organizations were formerly under Jiangsu Province Office of Culture. This action accomplished the first step of reform - separation of public agency and shiye danwei, and made JPPAG the largest performing arts group in China, owning 1200 personnel including administrators and artists.

Through reorganization of resources, the new Group owned performing organizations including Jiangsu Province Song and Dance Theatre, Peking Opera Theatre, Kun Opera Theatre, Local Opera Theatre, Drama Theatre, and Puppet Theatre; four functional department including arts creation sector, costume and design center, major activity sector, and industrial management department; three venues including Zijin Grant Theatre, People’s Theatre, and Jiangnan Theatre; four subsidiaries companies including presenting company, performing equipment company, video and audio publishing company, and stage equipment factory. Besides, the group also cooperated with Nanjing Academy of Art in creating an educational branch and cooperated with Nanjing Yema Co. Ltd. in establishing a film and TV performing arts company. Some mid-age and senior performers who were no longer suitable for stage performance were transformed to teach in the newly built performing arts school.

At the beginning, the reform was quite superficial and the group still experienced many problems of shiye danwei, such as awkward personnel system, inadequate facilities,

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\(^{15}\) Xi Opera, Yang Opera, and Pingtan Opera are all local traditional opera types.
and inefficient financing system, marketing capability, audience survey, and creative workforce. The ratio of government support and earned income was three to one. A huge group with 1200 personnel only held several hundreds performances every year. This could hardly meet the demand of Jiangsu Province's population of 76 million. Function of shiye danwei and enterprise were mixed together. JPPAG made the decision to further its reform to adapt to the cultural market of potential demand.

Second Step: Separation of Shiye Danwei and Enterprise

In August 2004, JPPAG began its second step when government document “Opinions on deepening the reform of JPPAG” was issued, and accomplished its transition form shiye danwei to a state-owned enterprise in January of 2005, establishing three subsidiaries. This step finished its transitional status as a combination of shiye danwei and enterprise, and paved the way for the joint-stock reform in the future.

Kun Opera is listed as world cultural heritage by UNESCO. Jiangsu Province Kun Opera Theatre -- a subsidiary of JPPAG that promotes Kun Opera -- was transformed into enterprise with JPPAG, which is the first case of this type of organization in the country. Kun Opera Theatre, which promotes traditional Chinese art and creates a lot of public value, is not considered the third type of shiye danwei -- profitable shiye danwei. The reformed Kun Opera Theatre continues receiving government support.

All personnel are no longer public employees but employees of the company. The income of artists is linked to profit of the company. Regarding the reform of personnel, the organization follows the rule of “old system for old personnel, new system for new personnel”, and guarantees not to fire staff and performers. A few surplus personnel are
absorbed by museum educational program and community centers, but their original salary and benefit will be with them even if they are transformed to other jobs.

In order to facilitate JPPAG market entry without burden, provincial government determined to “spend money on creating new system”. The provincial government provided strong support on related issues such as funding, tax benefit policy, benefit of retiring personnel and relocating personnel. Besides, the provincial government increased its support by means of government purchasing, performance subsidy, and investment to encourage JPPAG to provide public service, create innovative art works, organize public events, tour underdeveloped regions, and represent Jiangsu in national and international level. Moreover, special funding was established for the protection and development of Kun Opera, cultural research and educational program. Favorable policy, sufficient funding, and all other efforts of provincial government aimed at establishing a new cultural system in Jiangsu.

After the second reform, the parent company is responsible for managing funding and capital. Three subsidiaries are in charge of general operation and management. JPPAG restructured small and separate departments of its subsidiary organizations into specialized functional departments. However, eleven organizations under the parent companies still have their independent financing system. Each subsidiary organization is allowed to adopt its own development strategy and develop its own financing sources.

The Group tries to protect public service functions of some subsidiary organizations from being impaired, and applies different planning accordingly. The CEO of the group indicated that organizations such as Kun Opera Theatre, the Orchestra, and Jiangsu Folk Music Troupe would advance their artistic standard to try to maintain or
enter national level; Drama Theatre, Song and Dance Theatre would enhance their earning capability in the cultural market; Xi Opera Troupe, Yang Opera Troupe, Pingtan Troupe, and the Puppet Theatre would maintain their regional folk features, and at the same time extend their reputation internationally.

In 2005, JPPAG totally held 3398 performances, among which 1374 performances were in rural areas. The total performances were twice the number of 2004. Both Yang Opera Troupe and Xi Opera Troupe received a good size audience in Shanghai for their productions. Art Theatre's avant-garde drama successfully toured many big cities. Kun Opera Theatre changed their strategy to holding small scale performance with low price ticket in order to cultivate broader audience. In fact, it held 65 performances throughout the year and attracted a much broader and steadier audience. On the other hand, both provincial government and JPPAG provided strong support for Kun Opera.

In 2005, the earned income of all organizations under JPPAG reached 27,930,000 Yuan (US$ 3,491,250), third times the earned income before reform, increasing 62.23% from previous year. The income of artists grew 12%.

The President of JPPAG held that instead of earning profits from renting facility or managing real estate to feed cultural organizations, the performing art works should become the principal part of the market competition. He also emphasized the importance of establishing profitable value chain. The Group set its goal on holding more performances and promoting more outstanding artists in the future. The new emphasis was the production of art works and cultivating audience.
After the second phase of reform, JPPAG was searching for operating mode that could work well on cultural production. The group was exploring nationally for developing and cooperation opportunities. Through public bidding, the group won the contract of Opening of National High School Students Athletic Games. It also cooperated with Sanya, which is a famous tourism city, in performing in Sanya Grand Theatre. JPPAG strengthened its internal management by adopting project management system, hiring agents for performances, commissioning creative workforce and contracting with the principal artists. It also cooperated with schools and media companies in developing its industrial chain.

The industrialization of cultural organizations happened in the second step of reform is considered fundamental for absorbing private capitals through ways of joint-stock reform, financing from stock market or obtaining bank loan in the future.

**Third Step: The Joint-stock Reform**

In March of 2006, JPPAG accomplished the final step of its transformation by establishing a presenting company - Jiangsu Performing Arts Cultural Industry Co. Ltd. (JPACI) with investment from six private companies. The third step of this reform differs from previous cases in that its transition did not solely involve state-owned enterprise but many private companies. This is considered as an important step of joint-stock reform which allows private capital to enter state-owned cultural enterprises, and enhances the management of these enterprises by introducing private business mode.

The JPACI was registered by JPPAG and six private corporations from multiple regions and multiple industries, including Shanghai Tongda Energy Group Co. Ltd.,
Shanghai Spring International Art Salon Co. Ltd., Shanghai Tianqiang Investment Management Co. Ltd., Shanghai Zongheng Market Resources Development Co. Ltd., Nanjing Xianheng Music Record Co. Ltd., and Beijing Beisi Cultural Development Co. Ltd.. Registered fund is 50 million Yuan (US$ 6.25 million). Although JPPAG becomes the biggest shareholder with 41% of all shares, 59% of shares invested by private companies indicates JPACI’s mixed ownership. The second largest shareholder, Shanghai Tongda Energy Group Co. Ltd., is the largest private energy company in the nation with assets of 2 billion Yuan (US$ 0.25 billion). The interest of Tongda to invest a cultural company is due to CEO’s performance experience in early years and his belief in recent national cultural policy. It is also said that JPPAG’s successful productions, promotions, and sale mode in recent years attracted many investors.

JPACI hopes that the multiple capitals can advance the combination of cultural content with modern marketing, management and high-tech resources. (Economic Nanjing) The new presenting company is seeking to establish its own profitable value chain to enhance the productivity of performing arts organizations under JPPAG. The combination of private capitals in fact did strengthen the company’s potential of promotion, design, and marketing capability.

JPACI aims at becoming more international in their programming. The company is currently promoting its new musical “Records of Three Kingdoms” and a multi-countries Kun Opera production “Dream of the Red Chamber”. “Records of Three Kingdoms” and “Dream of the Red Chamber” are both based on the most famous Chinese traditional novels, but their entire production is very international. “Records of Three Kingdoms” is produced by artists from China, Japan and Korea. Many talented
artists from abroad are involved in the production process. Strengthening international cooperation is an important strategy of the company. Its current effort also includes cooperating with the Netherlands Opera Theatre to invest 20 million Yuan (US$ 2.5 million) on a theatre production “The Story of Forbidden City”.

Currently, JPACI is also planning to produce video and audio products of classic art works by famous artists of early days, and establish a “cultural industrial bay” to produce peripheral cultural products in the future three years.

March of 2006, Kun Opera “1699 Tao Hua Shan” (based on an ancient Chinese story) took its debut in Beijing Poly Theatre, which received warm welcome. Kun Opera was listed as “World Heritage” by UNESCO in 2001. The attempt of promoting it as a cultural product attracts many people’s interest. This Opera work again cooperated with Japanese and Korean production teams. Taiwan literature Master Yu Guangzhong, Korean famous director Sun Zhence and Japanese musician were involved. The production of this opera is trying to convey the idea that a traditional opera could be fashionable and international. And actually it did attract many young audience to come to the theater and enjoy this traditional opera.

6,000,000 Yuan (US$ 750,000) was invested in the production of the work, among which 50% was invested by government. This three billion Yuan was not pure government subsidy but a kind of investment. Money was not invested to the production until a contract of presenting more than 100 performances was signed. If JPACI cannot hold more than 100 performances of this work in two years, government would take back its investment. JPACI is appointed as the sole agency to market and present this Kun Opera and another drama. Its goal is to accomplish one hundred performances of these
two productions between 2006 and 2008. This joint-stock company takes full responsibility of the profit or loss. After the third step of reform, JPPAG is able to focus on the productions, and JPACI takes the part of marketing and presenting. Two companies work together to establish a complete value chain containing production, sales, and peripheral market.

4.4.2 Analysis and Conclusion

This case first follows “conglomerate” model to incorporate performing arts organizations of various kinds, to save administration expense, share resources and achieve economy of scale. Later, the newly established presenting company obtains a “conglomerate” of shareholders from both public and private sectors. All these efforts try to avoid the problems of mid-sized organization and create typical “aircraft carrier” promoted in current China’s cultural policy. Although this “conglomerate” is not to assemble companies along value chain, the increasing power of the huge group has monopoly impact on its upstream and downstream industries.

Because of its huge size, the reform of JPPAG is a great issue in the province’s agenda. Governmental supports of all kinds play an important role. It is claimed that the provincial government aims at developing cultural organizations to meet the need of both market and public service, encouraging organizations to produce a great amount of art works and increase income of artists and art administrators. The government is hoping that their support could be more effectively used, and could be in many forms such as investment and programming purchasing instead of pure subsidy.
Winning national awards is no longer the top issue of JPPAG. Market value is believed to be significant for the boom of cultural productions. To realize its market value, JPPAG adopted many strategies such as inviting international cooperation, introducing fresh concepts to ancient art forms, cultivating new audience, and building partnership with media and schools. While emphasizing market value, at the same time, JPPAG applied various strategies for its subsidiary organizations. For those who are deemed to have less market value and more public value, such as local opera theatres, the focus of the reform is to unload its management burden to the “aircraft carrier”, and effectively spend government funding to produce more art works, hold more performances, attract young audience, and promote talented young artists.

This is a typical case indicating three steps of the entire reform, respectively, separation of public administration and shiye danwei, separation of shiye danwei and enterprise, and finally joint-stock reform to involve private investment and build multiple ownerships. Many other cases experienced one or two steps, or jump from one phase to another. Various possibilities will be analyzed in the following chapter.
CHAPTER 5

REFORM MODEL ANALYSIS

5.1 Stages of the Reform

In the previous chapter, several cases of system reform on performing arts organizations were introduced. All these cases belong to the third type of cultural shiye danwei – profitable or business-like shiye danwei. These organizations adopted quite different approaches according to their internal and external circumstances; nevertheless, all follow a model of “conglomerate”. Before thoroughly analyzing the mechanism of the “conglomerate” model, we will first summarize a map of general reform route, which contains four stages and three steps that a profitable cultural shiye danwei could experience in its reform process.

The case of Jiangsu Province Performing Arts Group (JPPAG) is a very typical instance that indicates the four possible stages of a cultural organization – under the management of a public agency, independent shiye danwei, state-owned enterprise, and joint-stock company; and its possible three steps of reform - separation of public agency and shiye danwei, transformation from shiye danwei into enterprise, and finally the joint-stock reform. While reform approaches and result may vary, a cultural organization experiences at least one or two of these steps.
In JPPAG’s case, before the initial reform of 2001, mid-sized performing arts organizations in Jiangsu Province were directly under public administration of Jiangsu Province Office of Culture. The first step of reform separated these mid-sized organizations from the public agency, and conglomerated them into JPPAG, largest performing arts *shiye danwei* in the country. On its second stage, the Group, in some extent, had certain authority on its operation; however had characteristics of both *shiye danwei* and enterprise. Despite its nominal and superficial effects on improving operating capacity, this first period of reform is a fundamental step towards marketization. Three years later, the second step of reform transformed JPPAG completely into a state-owned enterprise. In its third stage, the goal and direction towards marketization was clearer. JPPAG obtained the authority on restructuring the group, facilitating operating capacity and innovating programming. Many market-oriented strategies came out in this stage. The first two steps are preparation for the third step of joint-stock reform, which is the ultimate objective of the entire reform. The third step took place two years later. In 2006, Jiangsu Performing Arts Cultural Industry Co. Ltd. (JPACI), a multi-ownership multi-asset presenting company was established by JPPAG and six private companies, which is a successful example of absorbing private capital into public cultural sector. The figure below illustrates three types of *shiye danwei*, and the four reform stages of the third type - - profitable or business-like *shiye danwei*. (Figure 2)
Figure 2: Three types of cultural shiye danwei and four reform stages

All cases analyzed in the previous chapter are profitable cultural shiye danwei. This chapter only analyzes profitable cultural shiye danwei. Before the reform, many cultural organizations were already separated from the management of public agencies and were at their second stage. Although very few companies follow the exactly same path in their transition, all are towards the same direction. Some companies directly jump from the second stage to the fourth, whereas some decide to stay at the third stage. Cases analyzed in the previous chapter involve various routes. In Beijing Song & Dance
Theatre’s case, the company was transformed directly from *shiyé danweí* into a multi-ownership stock company involving private capital – one of its shareholders is a private company. While Beijing Children’s Art Theatre also jumps from the second to the fourth stage and becomes a joint-stock company, its shareholding does not involve private capital. It takes JPPAG five years to complete the entire three steps. For those who jump directly to the final stage, it also takes them a couple of years to prepare for the jump and accommodate to its new structure after the jump.

5.2 Dimensions and Effects of the Conglomerate Model

Towards the direction of joint-stock reform, each case more or less adopted a model of conglomerate; however, their way of implementing the model varies in accordance with its unique circumstances and its city’s local cultural policy. There are basically two dimensions to analyze an organization’s conglomerate effort. The first dimension is to consider what it conglomerates. For some organizations, they conglomerate companies sitting along value chain. For others, organizations of similar type are conglomerated to form a performing arts cluster. The second dimension is where this conglomerate happens. Conglomerate could be formed in shareholder level, organizational level, or within the organization’s parent company. We can analyze and compare cases based on these two dimensions.

Beijing Children’s Art Theatre (BCAT) and Beijing Song & Dance Theatre (BSDT) are very similar cases. In both cases, the conglomerate happens to their board of shareholders. Both theatres select their shareholding companies carefully following the value chain. In this type of reform approach, media companies - TV, advertising
company or newspaper, and presenting companies are popular shareholder candidates. Facility companies, real estate companies, and tourism companies, who are capable of providing performing opportunities, are also welcome. At the same time, the selection of shareholders largely rests on profile of the cultural organization. For instance, a tourism company is often a good choice for Song & Dance companies.

In both cases, shareholding companies provide great support to the organization’s downstream infrastructure including marketing, advertising, facility renting, presenting, and community outreach. The common ground of this type of conglomerate is that after the reform, the cultural organization is able to keep its size down. This type of conglomerate does not try to avoid problems of the mid-sized by growing to a large-scale organization. Instead, since the size of the organization does not grow, the cultural organization has to arrange its shareholders properly to offer infrastructure support, so that general problems of mid-sized organizations could be solved internally. Thus, in conglomerate model, absorbing supportive power from diverse aspects of value chain is a major strategy for the mid-sized like BCAT and BSDT.

In the other hand, it seems that Beijing’s city cultural policy is more apt to push the cultural organizations directly from the second stage of shiye danwei to the final stage of joint-stock company. This policy preference of Beijing might be due to the fact that Beijing is the largest cultural center in China. Cultural demand is huge and cultural phenomena are very diverse, which is a seemingly environment for mid-sized to flourish. Moreover, Beijing owns a great amount of all kinds of cultural related companies, providing an abundant base for the selection of shareholding companies.
Comparing to Beijing Song & Dance Theatre, Shenzhen Song & Dance Troupe (SSDT) although shares the same trait, adopted a very different conglomerate approach. In SSDT, the conglomerate is within its parent company – Overseas Chinese Town Group (OCT). Becoming a subsidiary of OCT, SSDT enjoys the diverse support from several related branches of its parent company. As mentioned in the previous chapter, OCT is a powerful state-owned group in Shenzhen, owning numerous real estates, a media company, several tourism sets and hotels. This is also a conglomerate along value chain, but unlike its Beijing’s counterpart, SSDT becomes attached to its parent company, instead of maintaining its own identity. In this case, the problem of mid-sized organizations is solved by the fact that SSDT is restructured into everyday operation of OCT. While this is a feasible approach and somehow enhanced the collaboration between local government and state-owned enterprise, in this case, the independency of the cultural organization is largely impaired. Therefore, the local government needs to be careful and reconsider what is the outcome they really wish to achieve if they intend to take this action.

Different from all other three cases, JPPAG is an example of conglomerating into a performing arts cluster. Although it does not have shareholders or parent company to offer infrastructure support, JPPAG combines the power of almost all local mid-sized cultural organizations, and becoming one of the largest performing arts groups in the country. In this approach, although JPPAG does not take advantage of value chain model directly, it restructured human and capital resources, and indeed enjoys various forms of infrastructure support due to its local monopoly power. The problems of mid-sized are avoided not only by the fact that the mid-sized is growing to a huge size, but also by the
establishment of a multi-ownership presenting company that takes care of marketing issues.

Strong public funding is another advantage of JPPAG. JPPAG combines almost all former local cultural shiye danwei. Moreover, within the Group, several are considered public welfare shiye danwei, such as Kun opera theatre and other local opera theatres. As a result, local government continues supporting this conglomerated group greatly. While shifting towards a market-oriented operating, JPPAG at the same time obtains the capability of reorganizing and reallocating public funding more effectively. From the previous chapter we are aware that Jiangsu Province’s policy aims to increase the quantity and quality of the supply of performances, the operating capacity of the cultural organizations, and income of their personnel. Instead of cutting support, Jiangsu actually increases government support through various forms.

Two problems of mid-sized organizations that Mulcahy concerns are huge marketing cost and aesthetic compromises. As analyzed above, issue of marketing cost is minimized either by conglomerating the mid-sized to a huge group, or by shifting the responsibility of marketing to shareholding companies or parent company. If the organization intends to maintain its mid-sized traits while avoiding Cultural Darwinism, its shareholding companies or parent company has to be powerful enough to effectively support its infrastructure.

Regarding the second problem, we assume that aesthetic compromises include quality, creativity and diversity concerns so that this study could analyze these aspects separately. Firstly, quality and creativity would not be hurt in the conglomerate model. Just as in other industrial sectors, first-class companies not only keep their cost relatively
low, but more importantly produce reliable products. Excellent quality is the premise of profit that no entrepreneurs would risk, especially in competitive market. This rule works the same in cultural market, which is demonstrated in previous cases. In both BCAT’s and JPPAG’s cases, the improvement of quality and flourish of creativity in art works are remarkable after reform.

Another concern is diversity, which might be harmed since majority taste of arts and entertaining tendency would become constraint of artistic expression. The emphasis of market value inevitably has great negative impact on diversity of art works. In China’s “catch-up” phase, unavoidably, diversity is neglected by many mid-sized cultural organizations who just adapt its structure to a market-oriented operating, whereas without the reform, the problem of diversity would be even worse. Incorporated, community-based, and campus-based experimental organizations, which aim at exploring diversified art works, are struggling to survive. Some of them become well-known in the artistic community such as the College Theatre Festival. Contrary to experimental art groups, traditional art companies such as opera companies or folk art troupes are expecting to receive increased government support, which helps reduce the diversity problem. Cultural policy that encourages experimental cultural organizations to flourish should receive more attention by local government in the future to offset the passive impact of the market-oriented reform and cultivate cultural diversity in their community.

However, comparing to problems about marketing cost and aesthetic compromises, the cultural system reform is facing more severe challenges, such as how to solve the problem of relocating surplus personnel due to restructuring, and how to reduce the loss of State-owned assets during the reform. These problems are not unique
to cultural sector but appeared in the reform process of almost every industrial sector. These crucial problems raised a lot of debate among economists and policy researchers. This study would not analyze these two problems thoroughly but it is safe to say that whether these crucial problems could be solved would be significant for the success of the reform in the future.

5.3 Creativity at the Core

Keane suggests that most instances of innovation in China occur at the formatting and distribution stage of the value chain rather than core creativity at the conceptual stage. (Keane 2004) I would argue that innovation in the downstream infrastructure might be effective impetus for the innovation of the core. The motivation and morale of artistic workforce are demonstrated to be essential in this reform. The creative energy is in the hand of the artistic workforce and entrepreneurs who are motivated by the opportunities of reform.

Previous cases showed that creative workforce has increasing impact on the growth of cultural organizations. In JPPAG’s case, the organization was awakening potential creative force it already owned by forming a market-oriented attitude and organizational structure. While in SSDT’s case, the organization gave up its original workforce, recruited creative workforce from art schools and former performing troupes of its parent company. In all cases, celebrity artists are invited from all over the country and abroad. Furthermore, both BSDT and JPPAG are putting great effort on cultivating their own celebrities.
Although the term “creative workforce” is not widespread in China, it receives more and more attention since the intelligence of administrators and artists are significant in the competitive cultural market. The competitors of traditional public cultural organizations are not simply other public organizations but also a great number of private cultural companies that are growing quickly in recent years. The trend is that arts major graduates are no longer assigned to a particular cultural organization. Companies are competing with each other to attract the best artists, and artists are competing to enter a better company. Not only administrators and artists of the cultural organization, personnel who work in infrastructural industries are also experiencing the test of market. Motivating and taking advantage of creative workforce become important strategies for restructured cultural organizations. In sum, innovation at the formatting and distribution stage enhances the potential earning capability of the organization, which motivates the innovation of creative workforce.

5.4 Macroscopical Environment Analysis

Considering a bigger picture, joint-stock reform is the general direction. In China, the dramatic market-oriented economic system reform was unfolded after 1992. Major breakthrough was made in the fiscal, taxation, financial, investment, foreign exchange, foreign trade and pricing system. Up to 2000, a “socialist market economy system” was claimed to have already taken shape and China entered a new stage of improving the system. System reform on cultural sector, social security, hospitalization insurance and education took place in succession. The joint-stock reform is an important part of the entire reform, not only in cultural sector but also in other sectors. In February 2005, the
State Council issued “Opinions on encouraging, supporting and guiding the development of the non-public sectors of the economy such as the individual and private sectors”. It states explicitly that all market access barriers affecting non-public sectors should be removed; non-public sectors are encouraged to participate in the reorganization, restructuring and transformation of state-owned enterprises through merger and acquisition, share holding and controlling; their status as full market players should be consolidated and they should be entitled to fully equal treatment. All industries are following this direction to absorb non-public capital. The reform cases of cultural industries appropriately reflect the spirit of developing non-public sectors.

As some European scholars and practitioners indicated, general economic environment has crucial impact on the success of the cultural system reform. According to recent statistics report, China’s gross domestic products (GDP) rose from 10,965.5 billion Yuan (US$ 1,324.8 billion) in 2001 to 18,232.1 billion Yuan (US$ 2,225.7 billion) in 2005, scoring an annual average growth rate of 9.5% for five consecutive years.\(^{16}\) China’s robust economic growth in recent years provides a good basis for cultural system reform, which needs careful designing and great governmental support. As in JPPAG’s case, the local government considers the reform of JPPAG as a governmental investment on new structure. In the other hand, enlarged cultural demand due to economic growth also provides great opportunities for the transition of cultural organizations. The system reform of pilot cultural organizations benefits greatly from the general economic environment.

CHAPTER 6

CONCLUSION

The success of pilot organizations has, to some extent, demonstrated the effectiveness of conglomerate model on cultural sector, whereas there is no single type of conglomerate that fits all organizations. Cultural organization should choose its own way of conglomerate in accordance with the characteristics of its region, local policy, art form, and other variables. Conglomerate in shareholder’s level might be a good approach for organizations in metropolitan areas, but might not be feasible for cities that do not have abundant cultural resources. By the same token, cooperating with tourism companies is feasible for both Beijing Song & Dance Theatre and Shenzhen Song & Dance Troupe, but might be less effective if the city does not have prosperous tourism industry. A jump directly from 
shiye danwei to the stage of joint-stock reform might work for children’s theatre, but not very likely work for opera theatre. In the latter case, incorporating to a cluster of performing group might be a better approach due to the fact that opera theatre creates significant public value but is lack of earning capacity. In sum, although all following the conglomerate model, it is always a good attempt to first analyze the circumstances of a particular organization before deciding which reform approach to take.
Behind the model, government's responsibility is essential in this reform. Market-oriented cultural policy and reform determination of local government had great impact on the morale of cultural organizations. In early stage, the designing of reform approach received careful consideration from local government. In some cases, local government not only suggested reform plan after examining a particular cultural organization, but also took the job of negotiating with shareholder companies or parent company. In later stage of reform, government offered favorable taxation and other related policies to support the transition process of cultural organizations. In some cases, local government also offered huge funding support throughout the restructure process. In a word, local government plays a very important role on examining, designing, and supporting the reform of cultural organization in each case. These previous cases show us that it is crucial that government carefully fulfills its responsibility to place cultural organizations to a favorable position before letting them enter market, not only at the pilot stage, but more importantly after spreading the reform to the entire cultural sector.

All these efforts of local government are fundamentally based on its attitude towards reform. The local government should keep in mind that the goal of system reform is not to shift off government's responsibility on cultural organizations that lagged behind, but to explore a new way of development for these organizations in the ever enlarging cultural market. In another word, the purpose of the reform is not to cut back state support on the cultural sector, but to cultivate operating and earning capacity of cultural organizations. It is hoped that public money is no longer used to support futureless state-owned cultural organizations that only hold several performances throughout the year, but to support the ones that could realize and utilize its potential of
resources and creativity effectively. Local government should always bear this goal in mind when they implement their cultural policy. Furthermore, after the reform, the role of government is no longer to manage the organization, but to guide, regulate and provide services for the development of cultural sector. Within the reform, local government should begin to think about how to transfer its role to fit itself properly into the new market-oriented cultural system.

Deciding the goal of the reform is one thing, how to achieve the goal is another. Comparing to Shenzhen Song & Dance Troupe’s approach of changing the entire personnel and attaching to parent company, I would prefer approaches of other organizations that better utilize the talent and capability of the original troupe, and discover the resources that have potential value but have not been used in many years. Establishing a new organization in old name loses much of the reform value. Of course, when choosing general local reform approach, local government has its own concerns and every single region has its special challenges and opportunities. Still, it is hoped that current resources could be effectively utilized, so that the value of the reform could be better achieved.

After two years of attempts, 2005 is considered a key year to summarize the accomplishments of the system reform of pilot cultural organizations. Many policy documents came out according to the experience of pilot reforms and are prepared for 2006’s spreading of this reform model to a broader cultural field. According to the Ministry of Culture, a batch of art "aircraft carriers" are likely to sail to the market as the reform designed to boost "socialist cultural prosperity" proceeds. In the process of broadening and deepening the system reform on cultural sector, to guarantee the success
of the reform on more cultural originations, local government’s responsibility and choices of right strategies are both crucial.

In the following years, it is expected that a much deeper effect of general reform policy would emerge in the entire cultural sector. Future work in support of policy to benefit the entire cultural sector should involve how general reform policy could meet challenges and opportunities of specific cultural industries, and how to solve general problems of system reform such as relocating surplus personnel due to restructuring and the loss of State-owned assets. It would be also interesting to examine how the newly reformed mid-sized performing arts organizations would evolve in next five years, and how cultural market of China would change due to the system reform of cultural sector.
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