

## **Analysis of Market Environment in the Field of Music Agencies**

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## **1 Introduction**

Public institutions and orchestras are shown as teaching examples and models for students of Music Management at JAMU. The situation is the same in Music and Arts management study programs of other Czech universities as well. The main research activities in the field are driven by public service definition and interest in public financed organizations and the non-profit sector overall. The commercial side of music management is often represented by small-scale enterprises, but their activities have received insufficient attention. *Analysis of market environment in the field of music agencies* aims to carry out a pilot, multiparametric market survey in the field of market-oriented music agencies (promoting and representing) – the South Moravian region of the Czech Republic.

Since 1989 the environment has radically changed, and the available data is not relevant to the current situation and research. No market environment study regarding Czech music agencies has been carried out you and there is lack of such information also throughout Europe and other parts of the world. The field of music economy provides a wide range of career and

learning opportunities for music managers. Students have to develop their social understanding and altruistic work, as well as understanding the hardships of a privately-owned agency in the same field. Until the political changes in the 90s there was a single Czech Music agency, Pragokonzert (Barančicová, 2009; 30).

The opening of the market was followed by a rapid growth of new agencies, but this specific change and the resulting situation has never been described before. The study aims to review and describe actual situation with regard to music agencies.

The analysis shall further encourage young music managers to follow up and better understand one part of commercial side of the music business and to provide them with the first comprehensive set of information which could be useful in starting up a business, making improvements or just as a tool for better orientation with regard to commercial sector possibilities and obstacles. The ability to manage ones business might be proved as crucial in the near future, not only for privately-owned companies. However, in a short while this ability will play the most crucial role in the public sector, as there is obviously a significant decrease in governmental subsidies and there is little chance of a rise in public financing in the near future (Za Česko kulturní, 2013).

The analysis's focus on the South Moravian region has been chosen because of Janáček Academy's location in Brno which is the region's commercial hub. During their studies, students of music management are encouraged to participate in internships thus the region is the closest environment where they can gain such experience.

### **1.1 Basic facts about the South Moravian region**

The South Moravian region is one of the thirteen regions and is located in the south-eastern part of the Czech Republic. "The location of the region is rather favourable from a geographical point of view as it lies on a historical connection between the south and north of Europe." (Czech Statistical Office, 2012; 22) The region also borders two other European countries – Austria and Slovakia. "With its area of 719,479 hectares and population of more than 1,166 thousand inhabitants the region ranks fourth in the Czech Republic." (ibid)

The centre of the region is located in the city of Brno which is the second biggest city in the Czech Republic. Brno is the seat of a regional authority and institutions of national importance too. The city is also a natural attraction zone because of its many cultural institutions such as museums, orchestras, opera, theatres etc. Also it is known as a City of Universities because almost ninety thousand students study at thirteen institutions of higher education there. This high concentration of young people leads to the ongoing development of a club scene. The South Moravian region is also well-known for its living folk tradition (folk

celebrations such as carnivals, the erecting of maypoles, banquets and fairs). With lots of cultural heritage, a pleasant climate and tradition of viniculture the region is a popular touristic destination.

From an economical point of view "the gross domestic product (GDP) of the Region accounts for almost 10.3 % of the CR's gross domestic product. " (ibid) Despite its economic potential and favourable location "the average wage CZK 22,026 per natural persons ranks the Region well below the national average (CZK 23,123)" (ibid) and also "the registered unemployment rate of 9.81 % is still amongst the highest in the CR." (ibid)

## **1.2 A brief history of music agencies' development in the 20<sup>th</sup> century in the Czech Republic**

The development of music agencies in the Czech Republic is connected with a global expansion of the music industry during the post-WW1 period. At this time, music agencies in the then Czechoslovakia were called concert offices and their focus extended from classical music to jazz and popular music (Macek, 1997). The promising development of private enterprises in the field of music was discontinued in 1948, when, under the influence of communist ideology and following the Soviet Union's model, entire private sector was liquidated. The activities of private music agencies were taken over by a newly formed state Musical and Artistic Bureau (Czech: Hudební a artistická ústředna), which brought together musicians, poets, variety artists, dancers and entertainers (ibid).

The nationalization of the art sector was, from the perspective of government, the basic prerequisite for making culture accessible to the whole society (Szántó, 1985). In the following years it became clear that the state monopoly of Music and Artistic Bureau was not able to reflect all the needs of society and thus many reforms to existing institutions, and establishment of new ones, were made during the communist era (Štěpánek, 1965).

In the late fifties, there was a significant increase in demand for Czech artists abroad and also for foreign artists in the country. Business relations in the arts were made not only with socialist but also with capitalist countries. Following the example of other socialist countries, Musical and Theatrical Agency (Hudební a divadelní agentura) was established (Szántó, 1985). The agency had a monopoly on all kinds of international cooperation in music sector. The Communist regime thus secured the supervision of all business transactions and contacts with foreign countries and also the implementation of its policy on foreign economic relations. (ibid)

In 1961, the Musical and theatrical agency was renamed as Pragokonzert (Barančicová, 2009) and, at the beginning of 1968, its activities in the area of professional musicians was appropriated and the new organization Tóncentrum established (Szántó, 1985).

In the late sixties, there were efforts to democratize the political situation in Czechoslovakia but this era of liberalization, the so-called Prague Spring, was abruptly ended by an invasion of Warsaw Pact troops. These events were followed by a repressive period called "normalization", the intention of which was to bring back the social and political situation before 1968 (Marjánko, 2012). The following years were an era of purges in the Communist Party and the restoration and tightening of censorship (Barančicová, 2009).

Popular music came to the forefront of the Communist Party's ways of finding favour with the younger generation (Marjánko, 2012). Song lyrics were subjected to strict censorship and artists were also put under supervision. They had to pass a professional examination as well as tests of Marxism and Leninism (ibid). Many singers and groups were banned from performing. Genres such as jazz, swing, rock, folk and country were not supported by the regime, but were tolerated in later years (ibid). This situation led to an increase in the number of small music clubs, which focused on these minority genres; some music festivals also emerged.

Despite all the reorganizations that had been carried out in government agencies, at the end of the eighties Telec highlights the inadequacy of administrative directive management of artistic activity, which led to an excessive bureaucratisation. Dissonance between the real needs and bureaucratic structures subsequently led to the formation of a parallel agency structure. Finally, the state agency commonly employed an unofficial network of agents in their activities. Telec sees this situation as a result of "the liquidation of historical tradition and the professions of working impresarios, artists' agents, etc." (Telec, 1990; 23) without taking into account their role in the socialist system. Even though it was an unofficial system of agents and agencies it worked quite satisfactorily. Musicians got used to it which later helped in the expansion of private agencies in the nineties.

For the entire music economy in the Czech Republic the nineties meant a radical turnaround from a centrally planned economy of state monopolies to an expansion of private businesses and the entry of international companies. In 1994, the state agency Pragokonzert was privatized (Barančicová, 2009) and began focusing only on the organization of big concerts by international stars. Great development in a festival organizing and production also took place.

In 2008, ASUMA - the Czech Association of Arts Managements was founded. The association connects four the biggest music agencies in the field of classical music (ASUMA, 2008). The purposes of its existence and its aims are: "the assertion and defence of ethical principles and norms, and of correct business dealings..., the organization and promotion of joint projects, assertion of common interests in relation to all organs and institutions..., the joint definition of representative and objective artistic quality, obtaining grants for joint projects..." (ASUMA, 2008) However, ASUMA does not unite substantial number of industry participants, does not collect statistical data about its members and the industry, and does not engage in research activities.

With regard to the absence of any statistics about music agencies, it is impossible to determine the specific number of agencies which were founded during the first half of the nineties. The only data resource is the commercial database Albertina. There, it is apparent that more than a half (55 %) of music agencies in the South Moravian region were founded in the nineties. Namely from 1990 to 1995 almost half of all subjects (45,50 %) was founded, from 1996 to 2000 there was a decline to 18,20 per cent followed by small boost in period from 2001 to 2005 when 21,20 per cent of subject was established. The years 2006 to 2010 saw another decline to 12,10 per cent and situation is not getting any better as only 3 per cent of agencies have founded from 2011 the present. There is an assumption that the development of recent years correlates with the general economic climate in the Czech Republic and the Europe as a whole.

## **2 Research methodology**

Due to the descriptive nature of the research objectives, the quantitative methods of research have been used – documents analysis and a questionnaire survey. Business entities were included according to the main criterion which was their active ongoing commercial activity in the fields of the representation of musicians and production of music events in the South Moravian region.

### **2.1 Terms definition**

#### **2.1.1 Music economy, music industry, music services, music production**

The European Commission's Study on the Economy of Culture in Europe distinguishes the terms "music industry" and "music" as two parts of the overall music economy. "Music industry" comprises all business activities which are connected with recording and subsequent distribution while music services comprise activities connected with live production (Dohnalová, 2011). Willnauer also distinguishes two parts of the music economy according to the nature of its business activity - music industry and music production – in the same way as the European Commission.

However, in praxis these terms are mixed-up as the term music industry is commonly used for all business activities in music (Dohnalová, 2011). Furthermore, most music companies merge many activities together, so it is unclear to which part of the music economy they belong. Leyshon eliminates this doubt by using a model of the music economy as a system of mutually overlapping networks. He distinguishes networks of creativity, within which "music is made and performed, before it is stabilized within networks of reproduction," (Leyshon, 2005; 186) then networks of distribution and consumption. According to Leyshon's model of the music economy, music agencies are located in an area where networks of creativity and reproduction overlap.

#### **2.1.2 Music agency**

The origin of the word agency is in the Latin verb *agere* - to act. Most dictionary definitions of music agency are based on the sense of the verb to act. *The musical vocabulary for everyone* (Hudební slovník pro každého) designated a music agency generally as every "office, which negotiates and organizes artists' performances." (Vysloužil, 1995; 15) On the contrary, the *Brief musical vocabulary* (Stručný hudební slovník) define agency by listing its activities: "arranging concerts, drawing up and signings contracts with artists etc." (Barvík, 1960; 22) Macek specifies the position of agencies on the market as "offering services to both the organizers and to other agencies." (Macek, 1997; 21)

From the definitions given above, a music agency can be characterized as a business entity that provides musical performances, either acting as an artist's agent, or as an event organizer.

## **2.2 Secondary data collecting**

The commercial database Albertina, which collects data from state registers about every registered company in the Czech Republic, was used to find names and contacts of all business entities from the South Moravian region which are involved in at least one activity from the category 90.0 – "*Creative, arts and entertainment activities*" according to the economical classification of business activities CZ-NACE.

Entities focusing on the management of musicians and producing of music events were selected and further data about these subjects was obtained from Albertina database. Namely, it was information about an agency's legal entity, year of foundation, and number of employees.

Research was interested in currently active agencies, operating on the local market and the activities could be verified and followed online (web pages – provided by business contacts in the database). Thus, the crucial criterion for the analysis was the ongoing commercial activities in field of musicians' representation or music events' production in the Region. These activities were verified by thorough research of their web pages.

## **2.3 Questionnaire survey**

The last phase of research was questionnaire survey which was held among subjects selected by the criteria described above. The main aim of the survey was to gain descriptive information about the market. The respondents were asked fifteen questions about their agency's length of existence, legal entity, number of employees, music genre specialisation, main and supplementary activities, activities' share on any profits made, outsourcing, sources of finance and subsidies, long-term economic results, internationalisation, cooperation with foreign subjects and the impact of the financial crisis.

Assumptions about connections and influences between each researched facts were also formulated and verified. The questionnaire was available on-line and a link was sent to respondents via email. This method ensured respondents the highest possible anonymity because the on-line questioner did not collect any respondent's identification data. The factor of anonymity was very important while the research aimed at commercial subjects which are very cautious about giving out any information about their business.

### **3 Results**

Using the Albertina database, 37 entities focusing on musician's management and the production of music events were selected. After a research of their on-line presentation, 33 of them were selected as currently active and were included in the questionnaire survey. Regrettably, one subject has no working email address or other contact. 44 per cent of the subjects filled in the questionnaire which is very satisfactory considering that participation in the research were voluntary with no reward.

#### **3.1 Length of existence**

A full 50 per cent of subjects in the field of music agencies have existed for fifteen or more years. The length of existence from the opposite end of the scale (less than two years, or from 2 to 6 years) was stated by only 7,1 per cent of respondents.

The considerable number of agencies which have existed fifteen or more years is probably influenced by the era of their founding because the nineties' were years of entrepreneurial enthusiasm caused by transformation of a national economy into a market oriented one in the Czech Republic. The urge for new distribution channels and organisations arose particularly in the field of music which had been subjected to state monopoly (Barančicová, 2009).

On the contrary, it is possible to ascribe the short existence of a small number of agencies to the global financial crisis and subsequent economic recession. Nowadays in the Czech Republic, where unemployment is constantly on the rise, politicians urge people to save (Marek, 2012), and reduction of financial resources also leads to a reduction in state subsidies so it is no easy to run a business in the field of cultural services. Also culture is considered by consumers as a kind of supplementary service, so it is the first field where households and municipalities look for an opportunity to make savings.

Even if it seems logical that agencies with a longer length of existence do have much more experience and a more stable market position there is no evidence connecting the length of a subject's existence and its profits.

Also a long existence is not a necessity when it comes to agencies' expansion into other regions and countries.

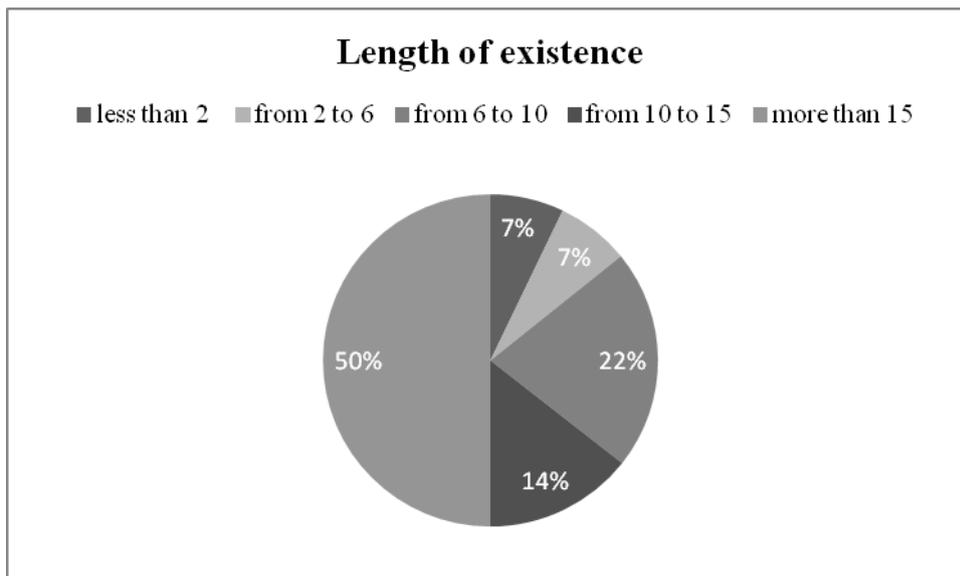


Figure 1: Length of existence

### 3.2 Legal entity

The current Czech legal system distinguishes two types of entrepreneurship: self-employment as a natural person or commercial company with its own legal status as an artificial entity. Commercial companies are further divided into personal ones, where "the owners of the company are responsible for the company's obligations indefinitely" (Kubátová, 2008, 34), and capital ones, in which "owners are involved in the business only by defined capital." (Kubátová, 2008; 37) Public Companies and Limited Partnership Companies are types of personal companies while Limited Liability Companies and Joint-Stock Companies are the capital ones (Obchodní zákoník, 1991). According to the Albertina database, there are only two types of legal entities used for the purpose of music agencies in the South Moravian region. These two are "*self-employment*" and "*Limited Liability Company*".

The main characteristic of an entrepreneur as a natural person is the fact that a company is owned by only one person. The most frequent form is a self-employed who use a trade licence to run a business (Kubátová, 2008). Trade licences are divided according to the amount of demands which are placed on applicants. The running of a music agency falls into the category of free trade licences where no certificate of education is required (Živnostenský zákon, 1991). An applicant has to meet only the subsidiary conditions of being eighteen or more years old, being legally capable and having no criminal record (ibid).

The main advantages of self-employment are minimal administrative demands on business' foundation and no requirement for registered capital. Another advantage is a single taxation of income at a rate of 15 %. Low demands are also placed on accounting; self-employed businesses are only required to keep simple tax records only (Kubátová, 2008).

A significant downside of a sole proprietorship is that the self-employed persons are liable to pay their obligations with their own property. The self-employed also "very often face difficulties in obtaining capital (external sources). Banks are very cautious in providing loans to individuals." (Kubátová, 2008; 20) However, sole proprietorship is the most common form of entrepreneurship in the Czech Republic. In 2012 there were 1 903 871 self-employed and 201 872 of them were in the South Moravian region (Czech Statistical Office, 2012).

A Limited Liability Company (Czech abbreviation s. r. o.) can be founded by from one to fifty natural persons or legal entities and it is also obligated to pay a registered amount of 200 000 CZK (almost 7 700 EUR) (Obchodní zákoník, 1991) . The negatives of this legal entity are the demanding process of establishment and double taxation as well. At first the company's profit is subject to corporate income tax (19 %), then it is divided between shareholders, and they have to pay personal income tax (15 %). A Limited Liability Company is also obliged to keep double-entry bookkeeping and publicly disclose its business results (Kubátová, 2008).

These negatives are balanced by its main positive - limited liability. The company is liable for its obligations only up to the amount of outstanding deposits; individual shareholder's private property remains untouchable in the case of a company experiencing financial problems (Suchánek, Špaček, 2009).

The questionnaire survey has revealed that self-employment is more popular than the Limited Liability Company form. More than a half of investigated subjects (71 %) are run by self-employed while there are 29 per cent run as Limited Liability Companies. This finding is slightly inconsistent with data from the Albertina database research, which revealed a more balanced ratio of self-employed (58 %) to Limited Liability Company (42 %). This disproportion is caused by the fact that the database provides information about all investigated subjects while the number of questionnaire survey respondents is limited by the number of returned questionnaires.

### **3.3 Number of employees**

A natural person who is doing business using trade licence as a self-employed (if the person does not employ anybody else) is their own employer. That situation brings a significant simplification of administration in the field of employment relations and also lowers statutory social security and health insurance contributions. A self-employed is obliged to pay contributions to health and social insurance (pension insurance, and contributions to the state employment policy), and of course income tax too. For health insurance is statutory rate is 13,50 % of an assessment base, for social insurance the rate is currently 29,20% of an

assessment base (Zákon č. 592/1992 Sb., 1992; Zákon č. 589/1992 Sb., 1992). In cases where the self-employed has a share in a pension fund the rate is only 26,20 % of an assessment base (ibid). A payment of sickness insurance is voluntary for self-employed while it is mandatory for employees. For sickness insurance the statutory rate is 2,30 % of an assessment base (ibid). A certain disadvantage of self-employment is the absence of paid vacation which an employees would have (employees are entitled to gain a wage compensation). If the self-employed decide to go on holiday, they have to get along without income they would have earned when working.

Also employees and employers are obligated to pay health, sickness and social insurance. On top of that, an employer has to pay employer liability insurance for work injuries or occupational diseases. The activity of running a music agency fall under the category "Other economic activities NACE" where the rate is set on 5.60 ‰ of the assessment base (Vyhláška MF č. 125/ 1993 Sb., 1993). The amount of health insurance contributions is set at 4.50 % for employees and 9 % for an employer; the amount of social insurance contributions (pension insurance and contribution to the state employment policy) is 6.50 % for employees and 22.70 % for employers (Zákon č. 592/1992 Sb., 1992; Zákon č. 589/1992 Sb., 1992). Sickness insurance is paid by the employer at a rate of 1.20 %. In total, an employee pays the state 11% of the assessment base and an employer a full 34 % of the assessment base (ibid).

Nowadays, the Czech Republic holds fifth place (in the category of low and middle incomes and seventh place in the category of high incomes) in a global comparison of the amount of statutory contributions which employers have to pay for their employees (UHY International, 2012). This comparison was carried out by UHY International (International Association of Independent Accountant and Consultants) based on data from 25 countries.

Another expense is connected with an employer's duty to care for employees which is established by the Labour Code. This contains the area of work safety, employee care (personal development, catering) and protection of the personal rights of employees, which includes invasion of their privacy or discriminatory behaviour. It is in the employer's own interests to take care of employees especially when providing services. The success of its business depends especially on skills and commitment of staff. Of course, music agencies fall under this type of business.

As mentioned above, most of the agencies in the South Moravian region are run by self-employed individuals. The reason for the small number of agencies which employ somebody could be that self-employed owners of agencies are capable of doing all the work on their own. The other reason is a kind of irregularity in agency's workload which is typical for this

type of business. Most of the agencies do not have the same volume of work during the whole year because most of their work is connected with demand for artists and the frequency of organised events. For agencies, a budget-wise solution to cover a temporary increase of workload is by short-term part-time staff, especially because current Czech law orders employers to pay a high levy for employees.

It is evident, there is an expected correlation between legal entity and the number of its employees. A full 80 % of self-employed do not employ anybody else. On the other hand every agency run as a Limited Liability Company has employees. The self-employed ones also work on their own even if their agency has existed for fifteen or more years which indicates that it is possible to run a music agency successfully with no need to change its legal entity or hire any employees.

Data from agencies' websites also shows a trend of one self-employed cooperating with another in managing bigger projects. According to the results of the questionnaire survey, there is no connection between the number of employees and the business activities provided by an agency. The assumption that the production of festivals and concerts requires more staff to ensure organization was not proven. The number of employees also does not have any influence on the number of activities which are outsourced by agencies. Despite the fact that Limited Liability Companies have higher number of employees, they use outsourcing at the same level as self-employed ones.

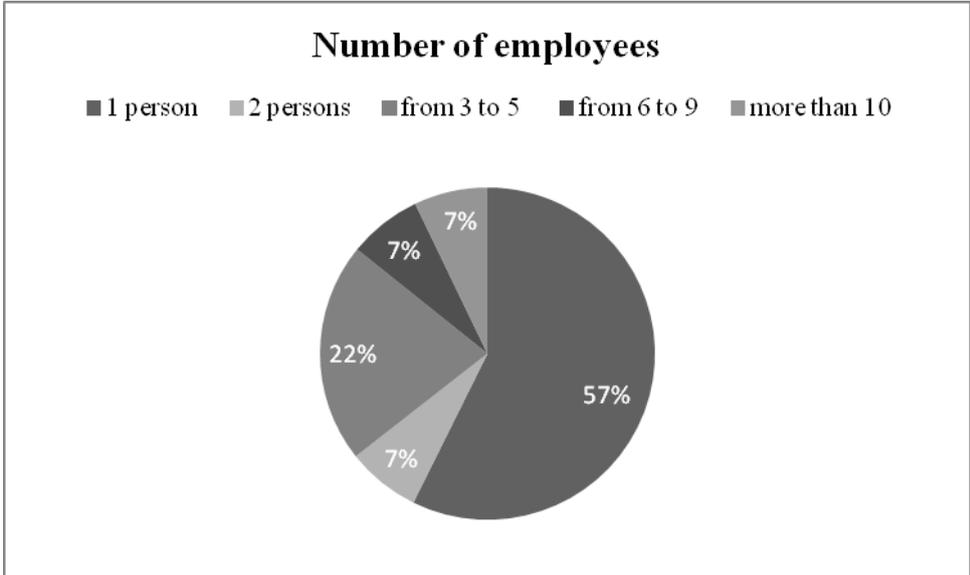


Figure 2: Number of employees

**3.4 Music genre specialisation**

Almost every responding agency had a specific combination of music genres on which it focused. Only 14 per cent of agencies specialized on only one genre and this being classical

music. The most popular genres among agencies are jazz, rock and folk music which are provided by 50 per cent of agencies; popular music is covered by 43 per cent. These three genres are usually accompanied by popular music, Czech traditional music or some genre which has been specified by respondents in other category (world music, cross-over, dance music).

According to the research results classical music seems to be the music genre which requires a higher level of specialization because half of the agencies which have classical music in their portfolio specialize only in this genre. This higher level of specialization is probably caused by specific distribution channels which are appropriate for classical music.

Also there is certain connection between chosen genres and the main business activity provided by an agency. Of 36 per cent of agencies which have representation as their main business activity, 80 per cent specialized on a maximum of two genres. On the contrary, all of the 29 per cent of agencies whose main business activity comprised the production of social events have four and more genres in their portfolio, which is probably due to their effort to attract the widest possible range of clients.

### **3.5 Main and supplementary activity**

The respondents chose from five categories: representation of artists, production of concerts for represented artists, concerts, festivals and social events and also the category "other". The most frequent main business activity of music agencies in the South Moravian region is representing artists (64 % of them), followed by the significantly less-favoured production of concerts (43 %) and social event production (29 %). More than a half of the subjects (57 %) have at least two or more main business activities while a minority (43 %) have only one main business activity which for 83 per cent of them is artist representation. All questioned subjects with the Limited Liability Company legal entity have the production of concerts, festivals or social events as one of their main activity. By contrast full 50 % of agencies run by self-employed have only artist's representing as their main activity.

When classifying music agencies according to their main business activities, the 36 % have just representation as their main activity and the same proportion have just production, 28 % consider both types their main activity. Considering supplementary business activities it is necessary to say that there is no strictly representative agency because every representative agency mentioned production as their supplementary activity.

A higher number of business activities has no influence on an agency's profit, this despite the fact that agency with wider activity portfolio should be able to attract more potential clients than a specialized one.

### 3.6 Activities' share of profit

As mentioned above, every agency provides some level of production services while 21 per cent of them only do production. Also, 80 per cent of agencies which have representation as their main activity and production as supplementary gain their profit mainly from representation. This trend is evident as representation is responsible for the entire profit of 21 per cent of the subjects, and for 21 per cent represents the main source of profit. Counting all production activities together, they represent the entire profit for 21 per cent of agencies and the main source of profit for another 21 per cent. The popularity of production as a supplementary business activity for representative agencies is evident in its frequency in the "less than a half" and "negligible" share of profit categories. It is clear that, despite the fact that all agencies have more business activities, the major part of their work is based in representation or production.

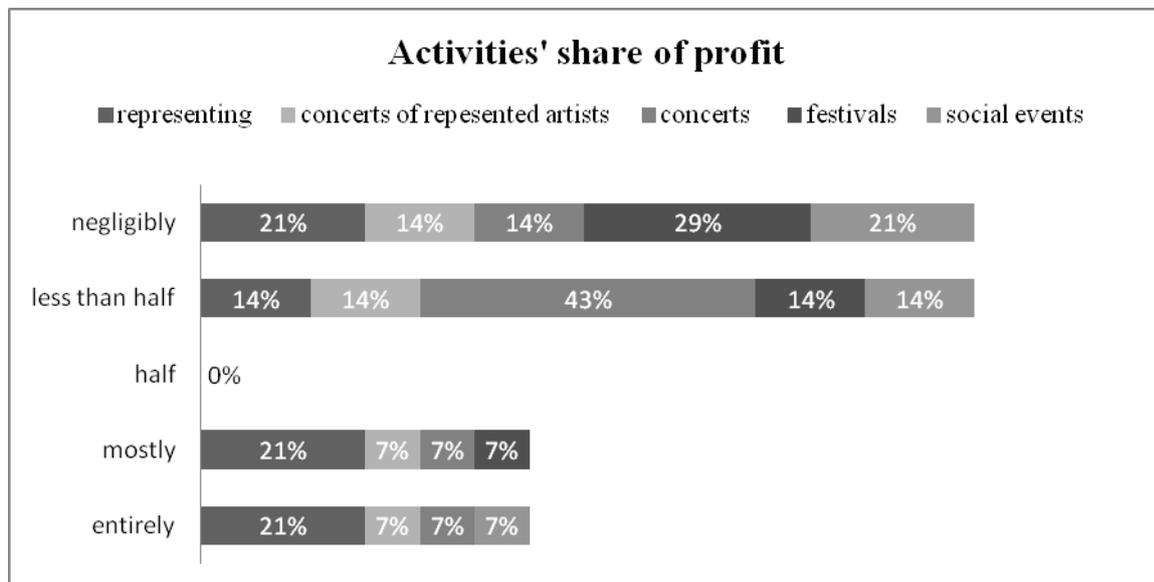


Figure 3: Activities' share of profit

### 3.7 Outsourcing

The term outsourcing is used to describe a situation where one enterprise contracts out some of the activities which do not represent the core of its business (Brown, Wilson, 2005). These activities are "afterwards bought from external suppliers as a service or a product." (Kislingerová, 2010; 26) The main contribution of outsourcing is its ability to let enterprises focus exclusively on these business activities which represent its competitive advantage and which guarantee them their market share. A profit of enterprise is created solely by these core activities (Brown, Wilson, 2005). Czech and foreign authors are in consensus that today outsourcing is a global phenomenon whose expansion is supported particularly by globalization and the growth of new communication technologies.

The possibility of outsourcing is used by all 100 per cent of respondents. The most frequently outsourced activity is the technical arrangement of produced events (86 %) because this field requires specific technical know-how and a large investment in equipment as well. Outsourcing of accounting is also very common (64 %) among self-employed despite the fact that Czech accounting laws require them to keep only simple tax records. Other commonly outsourced services are graphic design, web design and web administration.

A higher number of employees does not result in less outsourced activities. Every agency with employees outsources at least three activities which indicates that employees are hired to carry out the agency's core activity and not for the purpose of providing other services (cleaning, accounting etc.).

### **3.8 Sources of finance**

"Every business activity has two sides – a material and a financial one" (Synek and Co., 2007; 320) which leads to the conclusion that every enterprise's activities have to be ensured by financial sources. There are plenty of types of financial sources and, for better orientation they are usually categorized according to their place of origin (Veber, Srpová and Co., 2008)

Using ownership as a criterion, there are two commonly used categories: internal and external. Synek also distinguishes a third category: self-financing.

We term financial sources which are owned by enterprise itself (Souček, 2005) as internal sources. They are mainly represented by owners' shares, "gifts and subsidies, investments from professional investors" (Režňáková, 2012; 24) and share issues in the case of the Joint-Stock Company.

External sources are financial means which are owned by some other subject and are loaned to an enterprise (Souček, 2005). Namely, these are loans provided by banks and other financial institutions, plus bonds and deposits from customers (ibid).

The last category of self-financing is represented by financial sources which are made by an enterprise's own business activities. Namely, these are profit, depreciations, reserves and potential income from selling off long-term property or supplies (Synek and Co., 2007).

According to the research, the majority of agencies were founded using significant amount of their own sources (43 per cent entirely, 29 per cent mainly). Other common sources of funding are donations and sponsorship which often represent less than a half of their financial sources. Subsidies from public funds are used by 57 per cent of respondents but their share of agencies' financial sources is minimal. On the other hand only 7 per cent of agencies use loans provided by financial institutions; this is consistent with the long-term trend in the

Czech Republic, where banks are not very keen on providing loans to small entrepreneurs (Kubátová, 2008).

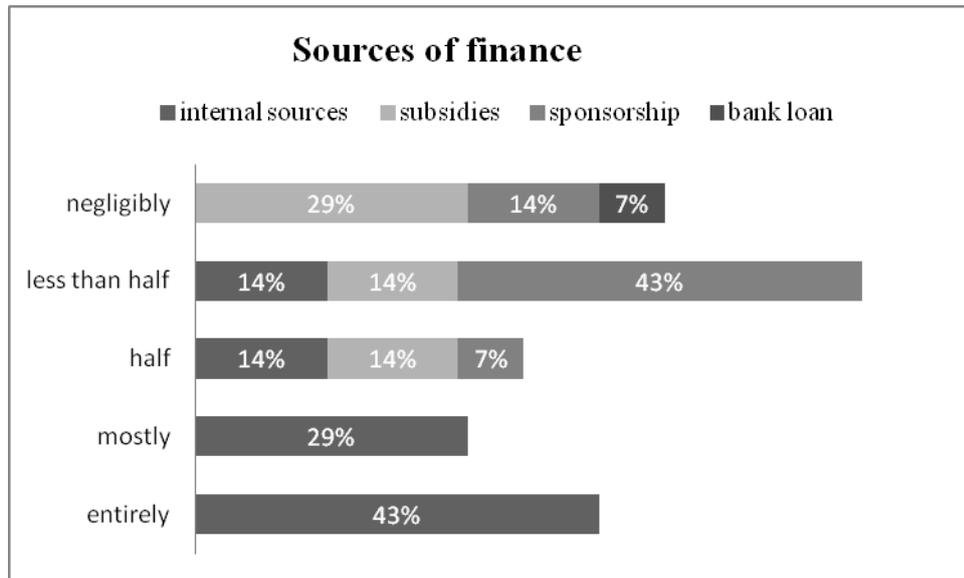


Figure 4: Sources of finance

### 3.9 Sources of subsidies

Music agencies could apply for subsidies which are meant to support culture and for subsidies which are given to support entrepreneurship.

Subsidies for cultural projects are provided by regional municipalities, by each regional authority and by the Ministry of Culture. Every municipality has its own rules and criteria according to which project or organizations to received financial support are chosen. In general, they always put emphasis on the regional impact of the project. Namely, it should enrich and improve the quality of cultural life of its citizens, or represent a city or region elsewhere (Magistrát města Brna, 2013).

The South Moravian region authority grants subsidies in program "Support for Development in the Fields of Culture and Preservation of Historic Monuments". Supported projects need to meet the basic requirement which is that they must have a positive impact on the South Moravian Region. An applicant could be a private person, a self-employed person, a municipality, a citizens association, church or any legal entity (Krajský úřad Jihomoravského kraje, 2013).

The Ministry of Culture annually grants subsidies in their program which is divided into thirteen areas – Churches and Religious Societies, Literature and Libraries, Media and Audio Vision – Cinematography and Media, Media and Audio Vision – Minority Support, Museum, Galleries and Monuments Preservation, Foreign Relations, Cultural Heritage, Professional Arts, Regional and National Culture, European Union Department, The State Fund of the

Czech Republic for Support and Development of Czech Cinematography, The State Fund of Culture of the Czech Republic and Research and Development (Ministerstvo kultury, 2007). None of these areas is specialised on music so it is essential to choose the one whose requirements are the most suited for the purpose of the project.

The subsidy program, which is operated by The Department of Foreign Relations is focused on support for Czech project which are run in foreign countries. The subsidy program in The Professional Arts area is aimed at support for professional theatres, orchestras and choirs. It is possible to apply for a subsidy in the name of an agency's client. The area of Regional and National Culture is comprised of subsidy programs which are aimed at supporting the preserving of traditions, non-professional cultural activities and the involvement of ethnic minorities in cultural life. To apply for a subsidy in those programs, it is convenient for music agencies which are also interested in the field of non-professional arts, non-profit sphere or ethnic music. Unlike the subsidy program operated by the Department of Foreign Relations, the subsidy provided by the European Union Department is focused on projects which are supported by the European program Culture. Private persons and legal entities can also apply for financial support from the State Fund of Culture of the Czech Republic which recognises nine types of project from every cultural sphere (ibid).

The main source of subsidies for culture on the European level is long-term program "Culture" which has been established by the European Parliament and the European Council. This program replaced the "Culture 2000" program and has been running since 2007. "The main objective is to enhance the cultural area shared by Europeans, which is based on a common cultural heritage, through the development of cooperative activities among cultural operators from eligible countries, with a view to encouraging the emergence of European citizenship" (Česká kancelář programu Kultura, 2013) The main objective is further specified via specific aims: promotion of the trans-national mobility of people working in the cultural sector, support for the trans-national circulation of cultural and artistic works and products, and the promotion of inter-cultural dialogue. The program is open to entrepreneurs, non-profit organizations and to organizations which are established by states and municipalities (ibid). The crucial requirement is that the supported project should be non-profit making.

Other European sources of subsidies are mostly one-time grants which are declared by The Education, Audio-Visual and Culture Executive Agency of The European Commission (European Commission, 2012).

As business entities, music agencies are also able to apply for a subsidy for business support. In the Czech Republic, there are programs aimed on support of small and medium-sized

enterprises which are organised by the Ministry of Industry and Trade or European Structural Funds operational programs, which are mainly coordinated by the Ministry of Regional Development (Ministerstvo pro místní rozvoj ČR, 2013). Business support for small and medium-sized enterprises is also provided in the form of professional consultation for entrepreneurs and expert support in the realization of businesses plan.

Respondents were asked about the sources of subsidies which they had gained. Subsidies from the public sources were used by 57 per cent of subjects. The public institution which provides them subsidies most often is Brno City Municipality (providing subsidies for 43 % of agencies), subsidies from The Ministry of Culture and the South Moravian regional authority are given less often (29 %). An agency gaining subsidies from more than one institution is very common 88 per cent of the subjects receiving subsidies do this.

There is no evident connection between musical genre on which music agency focuses and their ability to gain a subsidy. Among subsidized agencies, there are ones specializing in alternative or minority genres (jazz, classical music) and those specializing in popular music, rock and folk.

There is also no difference in the ability to gain a subsidy between agencies which generate profit and those which just cover their expenses. Profit is not an obstacle in the majority of subsidy programs (if they a priori do not exclude business entities) because subsidies are commonly granted to individual projects. Agencies are allowed to request a subsidy for their non-profit project while their business activity as a whole makes a profit.

### **3.10 Long-term economic results**

"Incomes, expenses and primarily an economic result are the most important characteristic of business activities." (Synek and Co., 2007; 72) An economic result shows if a company is capable of covering its costs through its business activity. In a case where incomes are higher than expenses a company makes a profit, otherwise it is in the red. A profit is generally accepted as the main goal of business which is also evident in the definition of entrepreneurship in the Czech Commercial Code which defines it as "systematic activity pursued independently by an entrepreneur in their own name and on their own responsibility, in order to make a profit." (§ 2 Zákon č. 513/1991 Sb.,) Vochozka and Mulač also state that "a profit is considered as a main criterion of success in a business sphere." (Vochozka, Mulač and Co., 2012; 22)

However, it is important to keep in mind that "profit is an aim and impulse of all business, but it is not the only one." (Synek and Co. 2007; 130) Besides ensuring the financial stability of an enterprise and the rising of personal financial sources, entrepreneurs also pursue what is

called non-financial goals which are represented by self-fulfilment, development of goodwill, satisfied and loyal customers and employees etc. Synek mentions that these goals "for small producers often outweigh the profit factor." (ibid) When assessing enterprise's prosperity, it is necessary to take into consideration more factors than just an economic result.

Another reason economic results why should be considered carefully is the fact they are a tax base for the calculation of income tax. Enterprises often use a tax optimization<sup>1</sup> to reduce the sum of their economic result. The level of the economic result itself does not always reflect the enterprise's real situation (Pelc, 2011).

Long-term profit is the financial result of business activity by more than a half of subjects (57 per cent). No connection between the length of existence and ability to make a profit has been proven. Among profit-making agencies there are 50 per cent which have existed for fifteen or more years, 12,50 per cent which have existed between ten and fifteen years, 25 per cent which have existed from six to nine years and 12,50 per cent which have existed from two to six years. While among the agencies which just cover their expenses, more than a half (60 per cent) have existed for fifteen and more years.

There is also no connection between agencies' focus on mainstream genres and profit. On the one hand, there are 75 per cent of agencies which offer popular music, rock and folk, but on the other hand also 75 per cent of them also have minority genres like jazz, classical music or Czech traditional music.

The business activity with the biggest share on agencies' profit is the representation of artists which represents the source of the total profit for 25 per cent of agencies and most of the profit for another 25 per cent. The organising of concerts of agencies clients/artists is in a minority, while it represents the source of total profit for 12,50 per cent, and also most of the profit for 12,50 per cent. 12,50 per cent of agencies also gain the total profit from organising social events, and the same number gain all their profit from organising festivals.

As with the majority of all respondent, the majority of profitable subject are funded by their owners own financial sources. Specifically, 75 per cent of them finance their business entirely using their own sources and only 12,50 per cent fund their business mostly using personal sources; the same amount of subjects fund their business using less than a half from their resources.

As mentioned above profitability of an agency is not an obstacle in the drawing of subsidies. Subsidies are drawn by half of the profitable subjects, but for 75 per cent of them they represent a minimal part of their income, for 25 per cent less than a half of their income.

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<sup>1</sup> Pelc define tax optimization as „ a systematic and legal reduction of tax burden.“ (Pelc, 2011; 197)

Every profitable agency which is subsidized draws support from Brno City Municipality, 75 per cent of them have subsidies from local municipality and from the South Moravian region authority, and just 25 per cent of them draw financial sources from the European Union and the Ministry of Culture.

The evident connection is between the profitability of a subject and the extend of the region in which it operates. 62,50 per cent of profitable subjects also do their business abroad but in this case from the results is not possible to determine causality of this effect, whether the profitability is caused by business abroad or if the profitability is an condition which enables subject to make expand.

In the category of subject which do not make a profit (43 %) only 17 per cent make a loss which is covered by another business activity. Agencies which do not make a profit but just cover their expenses are not necessarily unsuccessful because in the case of Limited Liability Companies, payroll costs are included in the economic result. It is also evident from the websites of some self-employed that they have other regular employment besides their agency activities.

### **3.11 Internationalization**

According to the survey South Moravian music agencies are open to internationalisation of their business. Almost half of them (43 per cent) also run their business abroad. On the other hand the second most common location is Brno where 36 per cent of agencies operate and also 21 per cent of them operate throughout the Czech Republic. There is no evident connection between the chosen legal entity and an agency's ability to do business in a foreign country. 25 per cent of agencies with the Limited Liability Company entity and 50 per cent of self-employed do business abroad which indicates that legal entity does nit represent an obstacle to an agency's international expansion. Having a higher number of employees does not have any considerable influence on agency's ability to expand into foreign countries. From the whole 42, 70 per cent of agencies which employ somebody, 50 per cent actively work internationally; while 17 per cent do their business only in the Czech Republic and 33 per cent just in Brno.

### **3.12 Cooperation with foreign subjects**

The transformation of the Czech Republic to a democratic country led to its opening up to "Western" capitalist countries. There was a hunger for everything from "the West". This trend was also reflected in music, where it was suddenly possible to organize live concerts by artists that people know only from secretly distributed copies of copies of foreign records. Given the

small size of the Czech music industry, this trend of high popularity of foreign artists persists to the present day (Fiala, Kaláb, 2008).

In the field of cooperation with foreign subjects, an assumption that agencies cooperate in activities which brings them a larger share of income has been proved. 83 per cent of subjects whose main source of income comes from representation cooperate with foreign agencies right in the field of representing. But the intensity of cooperation varies a lot in the categories "permanently" (43 %), "occasionally" (40 %) and "on rare occasion" (20 %). Contrarily agencies whose main income is created by the production of their artists' concerts (14 % of all subjects) never cooperate with foreign agencies (50 %) or they cooperate on rare occasions (50 %).

Cooperation with foreign agencies is also common among agencies which do not do their business abroad. For example, from 36 per cent of agencies which work only in Brno a full 60 per cent of them cooperate permanently with a foreign agencies in the field of concerts and festivals organisation and representation. 20 per cent of them cooperate occasionally in the field of concert organisation and concerts by their artists', and only 20 per cent of them do not cooperate with foreign agencies at all. On the other hand of 21 per cent of agencies which work throughout the Czech Republic, one third does not cooperate with foreign subjects at all, another third only occasionally in the field of representation, and the last third in the field of social event organisation.

### **3.13 Impacts of the financial crisis**

The global financial crisis, which was fully manifested in Europe in 2009 did not dramatically affect the Czech Republic, but it did plunge it, along with other European countries, into protracted recession, which the Czech economy still faces today. According to the macroeconomic forecasts of international institutions and the Czech Ministry of Finance and the Czech National Bank, the Czech economy reached the lowest point in 2012 and in the following years will gradually recover (Němec, 2013). From 2014, it will again assume its slow growth (ibid).

The poor economic situation is reflected in people's living standards. In recent years efforts to make savings and concerns about employment have been particularly noticeable. This situation is understandable due to the fact that by the end of 2012 the unemployment rate in the Czech Republic reached the record number of 7,40 per cent (Dubská, Kamenický, 2012).

The most often stated impact of the financial crisis and recession on agencies is the decrease in the number of people attending festivals and concerts; 64 per cent of subjects have experienced this decrease, representing 90 per cent of all agencies which had noticed an

impact of the recession. Another impact experienced is the reduction or entire cancellation of sponsorship which was mentioned by 43 per cent of subjects. On the contrary, 29 per cent of all agencies have not experienced any negative impact on their business. One respondent also expressed his worry about the rising level of value added tax in the Czech Republic which caused a reduction in his business activity.

Even though 71 per cent of all respondents had experienced some of the previously mentioned negative crisis impacts, only 70 per cent of these had reacted to this situation. The most frequent reaction was the reduction of ticket prices for organised events and a reduction of royalties for represented artists. On the other hand, no subject increased its prices in an endeavour to compensate for a decrease in attendance. In the "other" category, an increase in work intensity and higher financial flexibility was mentioned.

#### **4 Conclusions:**

The research focuses on the Czech music agency market. The article describes the historical evolution of music agencies in the Czech Republic as well as their development after 1989. For a systematic description of the structure of the market we used 15 criteria and we focused on the South Moravian region of the Czech Republic.

The research has discovered that there are 33 active music agencies in the South Moravian region. These are mostly small local or national agencies operating mainly in the Czech Republic. The following were the main conclusions which emerged from the research:

1. The golden era for the establishment of a music agency in the Czech Republic was the 90's.

Half of the subjects have existed for fifteen or more years. In contrast, nowadays the number of emerging agencies has dropped sharply. The long length of an agency's existence, however, has no evident positive effect on its ability to generate profit or opportunities to expand into foreign countries.

2. Agencies which are predominantly engaged in representation use self-employment as their form of business. A Limited Liability Company is often used by those which are mainly engaged in the organization of music events. These two forms are the only types for running a music agency in the South Moravian region.
3. The majority of agencies have more than one main business activity, which is often artist representation. All agencies have the organisation of music or social events as their main or supplementary activity. Music agencies also widely use outsourcing, especially to arrange the technical aspect of events or for accounting.
4. Most of the music agencies have experienced a negative impact from the financial crisis. The most frequently mentioned problem was the declining attendance of music events. The agencies dealt with the unfavourable conditions by reducing prizes.

The results showed that after 1989, there was a big passion for cultural activities in the Czech Republic. This "golden era" led into the current situation which is influenced by the financial crisis.

Certainly, it would be beneficial to continue with the research in the other thirteen regions of the Czech Republic, which would allow us to make a comparison and analysis of different regional conditions and their impact on the functioning of music agencies.

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