

POSSIBILITIES OF APPLICATION OF BEHAVIORAL ECONOMY TO THE ART SECTOR OF THE CREATIVE INDUSTRY

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Abstract

A relatively new scientific discipline that finds its primary source in psychology, better known as behavioural economics, is attracting the attention of many authors. It is increasingly applied for the purpose of better understanding consumers, especially in decision making, including personal feelings and limitations in a realistic way. This paper aims to present a model of application of behavioural economics in the sectors of the creative industry. The creative industry has great potential in the role of regional development, accordingly the application of behavioural economy in its sectors can have a positive impact on the further development of the economy of the Republic of Croatia. The paper proposes a model for applying mental accounting to increase the number of visitors in the arts and culture sector to increase the attendance at events of projects funded by EU projects and which must be free.

Keywords: Behavioural economics, Creative industry, mental accounting, cultural events

Received: 24.9.2021

Accepted: 22.12.2021

DOI: 10.2478/crdj-2022-0002

Introduction

This paper describes the proposal for the implementation of one of the theories of behavioural economics to increase the number of visitors and users in the creative industry sector - Art. The first part of the paper describes the concept of creative industry and its share in the economy of the Republic of Croatia, which indicates that

the creative industry is one of the main drivers of regional development. Furthermore, the paper describes the basics of behavioural economics and some of the theories it includes, which are relevant to the aim of this paper. The paper proposes a model for applying mental accounting to increase the number of visitors in the arts and culture sector in order to increase the attendance at events of projects funded by EU projects and which must be free. The traditional view of economics is now rich in knowledge and challenges because behavioural economics has a broader spectrum that respects cognitive psychology, anthropology, evolution, neurology, neuroeconomics, neuromarketing. (Saraf, 2018) The aim of this paper is to offer a proposal for better results of the implementation of EU projects in the arts and culture sector and to give guidelines for other organisations to implement Behavioural economics into marketing activities.

CREATIVE INDUSTRY IN CROATIA

This paper gives a brief overview and share of the creative industry in the Croatian economy to show the real potential for economic development and regional development of the Republic of Croatia. In the early 2000s, creative potential possessed by each, and every individual started to be seen as a separate area of research (Florida, 2004), whereas the creative industry is the engine of national economies in developed countries. The first definition considered credible for promoting the creative industry concept dates to 1997 and the UK when the British Office for Creative Industries, Department of Culture, Media and Sports (DCMS). In his first Creative Industries Mapping Document, 1998, he gave a universally accepted definition of the creative industry: "Those activities that stem from the creativity, skills and talents of individuals and have the potential to create wealth and jobs through production and exploitation of intellectual property" (Rašić Bakarić et al., 2015: 24). The creative industry implies copyrighted production covered by the projects generating non-material products and services intended for market exchange. (Horvat, 2018). Creative and cultural industries are recognized at EU policy level as one of the drivers of social and territorial cohesion, creativity, and innovation, with positive spill over effects on the rest of the economy and society. We can define them as cycles of creating, producing, and distributing goods and services that use creativity and intellectual capital as primary inputs. They include a set of knowledge-based activities that produce material goods and intangible intellectual or artistic services with creative content, economic value, and market objectives. (UNCITAD, 2018) Different cultures have different divisions as to which sectors are involved. In this paper, the project study "Mapping of creative and cultural industries in the Republic of Croatia" from 2015 was taken as a reference point, which defines the total sector of cultural and creative industries through 12 subsectors and consists of sectors visualised in Table 1.:

Table 1

Creative industry sectors in the Republic of Croatia

Architecture	Film	Museums, libraries and heritage
Design (fashion, graphics, interior design and product)	Music and performing arts	Art (writing, visual and performing arts)
Publishing	Electronic media	Advertising and marketing communications
Crafts (traditional arts and crafts)	Computer games and new media	Photography

Source: Ante Vekić, according to the proposed mapping of the creative and cultural industries in the Republic of Croatia

For this paper Art (as sector of CI) for a sector in which behavioural economics can be applied. The creative industry (CI) contributes to economic development in general, has an export potential and is based on knowledge, science, technological and art innovation, development of talents and preservation of national cultural heritage through its implementation into contemporary products and services. The authenticity of creative products and services is based on the use of cultural and historical contents, whereby artistic and productive innovation ensures diversification and market recognition. (Bakarić, Bačić, Božić, 2015) The results of the study - Mapping of the creative and cultural industries in the Republic of Croatia indicate a significant economic potential of cultural and creative industries in the Republic of Croatia: the gross value added of these industries in 2012 amounted to HRK 6.3 billion or 2.3 percent of the gross domestic product (GDP) of the Republic of Croatia. The importance of the contribution of creative and cultural industries to the Croatian economy is also confirmed by employment data. At the end of 2014, the creative and cultural industries employed 42,212 people or 3.0 percent of the total number of employees (Bakarić, Bačić, Božić, 2015, 188). The results of the study clearly indicated the specifics of cultural and creative industries in Croatia. The study shows that there is significant room for sector expansion and dynamization of activities and thus for increasing employment, as it is a sector characterized by a fragmented economic structure, dominated by micro-enterprises and an above-average number of self-employed. The study identified the needs and potentials of the sector and how the sector can be a leader in strengthening the "culture of creation" and "creative economy" in the Croatian economy; the sector can be the bearer of innovations, participate in the innovation and development processes of other sectors and participate in the modernization of the Croatian economic structure; in some sub-sectors, the potential for competition in foreign markets based on price competitiveness has been identified (Bakarić, Bačić, Božić, 2015) These data show that the creative industry is ideal for the regional development of the Republic of Croatia because it does not require large initial investments and has a large opportunity to export products and services. Creative

industry in 2020 was disrupted due to the impacts of Covid-19 and interventions intended to limit its spread, which led to a large shock to demand in a range of sectors (See, *The Future of the Creative Economy*, 2021., for more). Many economic impacts were either estimated in advance or have been observed in practice. There are several reasons to expect that the creative economy will recover to its trend of growing faster than the wider economy:

First one is the expectation that the economy will recover towards trend. While this is not certain and could be undone if, for example, the Covid-19 economic shock leads to financial crises, most economic forecasters continue to expect a robust recovery to take place between now and 2025 (even if some scarring remains). (The European Commission, 2021.) As per capita incomes rise, beyond a certain level of development people satisfy their other demands and have more disposable income with which to purchase outputs from the creative economy (and more leisure time in which to enjoy them). (*The Future of the Creative Economy*, 2021) Second one is the cyclical nature of advertising revenues. Advertising tends to exaggerate the business cycle. (Deleersnyder, B. et al, 2019.) While this means the shock has been more pronounced than for the economy, it also implies that advertising is likely to recover faster as economies begin to grow again. (*The Future of the Creative Economy*, 2021) Third one is resilience in other income streams, including: Public sector support is likely to continue where it reflects a view that creative industries provide public goods. The software industry is likely to recover and grow with digitalisation across the economy. (*The Future of the Creative Economy*, 2021) Fourth reason is the diversity of the creative economy. While some parts of the creative economy might take longer to recover, we can expect consumers to substitute for this, at least in part, with other creative economy output – as alternative means to satisfy a desire for more rewarding leisure time. (*The Future of the Creative Economy*, 2021) In this paper, the creative industry sectors can be observed through EU projects implemented in the Republic of Croatia through the call "Participation spaces - development of public space revitalization programs through partnership of NGOs and local communities" that often implement the art sector in revitalization of unused public spaces and in which the events and activities carried out must be free of charge.

THE CONCEPT OF BIOBEHAVIORAL ECONOMY

Behavioural economics (BE) is a discipline that deals with the limits of rationality of economic entities that make decisions under the influence of limiting cognitive and social factors. Behavioural economics is defined as the discipline of cognition of social, cognitive, and emotional phenomena that influence people's economic behaviour. Although the behavioural economic school of thought has been present in economics for some time, behavioural economists are still strongly motivated to develop the potential of behavioural economics. They constantly point to the limits and shortcomings of the mainstream economy (ME) and work to make BE a relatively more important part of the traditional economy (Tomer, 2007). The basis on which

behavioural economics is based in psychology. There are various names for behavioural economics in the literature. Somewhere the term "behavioural economics" is used, somewhere in some literature the term "psychological economics" is used. It is evident that behavioural economics explores the effect of human psychology on its economic decision-making. In this regard, it can be said that behavioural economics is an interdisciplinary field because its starting point is psychology, and its application is economics (Šarganović, 2019). Previous theories have explained how man behaves and what can influence his behaviour, but behavioural economics has a step forward and through numerous experiments showed a completely different view of human behaviour and the most common mistakes they make in certain conditions (Saraf, 2018) Until recently, models prevailed that assumed that people make decisions guided solely by reason and that accordingly the final decision to purchase products is determined by the expected benefit that consumers have from it. New research has shown several factors (human, emotional, psychological), both related and unrelated to the product itself, often purchase probability modules because processing product information and subsequent decision-making reflects human limitations: deficiencies in knowledge, available time or cognitive abilities to make an ideal decision. Economists since Adam Smith and Jeremy Bentham have traditionally described consumers driven by a selfish desire (need) for self-interested satisfaction of needs, and the market provides them with all the necessary measures to achieve their own well-being. Consumer choice theory is empirically successful and provides a fundamental basis as a basis for many economic policies. The traditional view of economics is now rich in knowledge and challenges because behavioural economics has a broader spectrum that respects cognitive psychology, anthropology, evolution, neurology, neuroeconomics, neuromarketing. (Saraf, 2018) Behavioural economics uses evidence from the social sciences, mostly psychology. It uses psychology's evidence of limited human rationality, individual differences in rationality, and learning by linking them to social and economic developments. For now, Behavioural Economics is not a special area of economics. Behavioural economists prefer to say that it is a school of thought (i.e., an economic school of thought) that applies to consumers, finance, tax policy, organizational economics, neuroeconomics, the influence of the individual on economic decision-making, etc. (Camerer and Loewenstein, 2002). Behavioural economics has made significant progress in the world in the last twenty years - research centres have been opened in the USA and Canada, while in Croatia it is being researched at the Ivo Pilar Institute of Social Sciences and is in the form of opening the first laboratory for neuromarketing research, which would be established in cooperation with the Economic and Medical Faculty in Zagreb. It should be noted that the father of behavioural economics is Nobel laureate Daniel Kahneman. (Saraf, 2018)

THEORETICAL POSSIBILITIES OF APPLYING MENTAL ACCOUNTING TO INCREASE THE NUMBER OF VISITORS IN THE ARTS AND CULTURE SECTOR

Due to the growth of interdisciplinary science that explains and analyses different decision-making behaviours in many areas, it is realized that people behave irrationally, and the concept of mental accounting is introduced. (Saraf, 2018) According to Thaler, people think of value in relative rather than absolute terms. They derive pleasure not just from an object's value, but also the quality of the deal - its transaction utility. In addition, humans often fail to fully consider opportunity costs (trade-offs) and are susceptible to the sunk cost fallacy. According to the theory of mental accounting, people treat money differently, depending on factors such as money's origin and intended use, rather than thinking of it in terms of the "bottom line" as in formal accounting (Thaler, 1999). An important term underlying the theory is fungibility, the fact that all money is interchangeable and has no labels. In mental accounting, people treat assets as less fungible than they really are. Individuals commit the sunk cost fallacy when they continue a behaviour or endeavour because of previously invested resources (time, money, or effort) (Arkes & Blumer, 1985). This fallacy, which is related to loss aversion and status quo bias, can also be viewed as bias resulting from an ongoing commitment. Based on the conclusions of the conducted research, this paper proposes two theoretical models for increasing the attendance of events that are free. Namely, in the implementation of projects from the European Social Fund, cultural and artistic activities are often free according to the rules, i.e. tickets cannot be charged for them. Therefore, organizations implementing projects face the problem of fewer visitors because users perceive free events as less valuable. Although this is not the only and exclusive reason for the smaller number of visitors, this paper proposes testing the following model - free tickets as an added value of paid services. To reduce the perception of free events as less valuable in the context of the quality of performance, production, or organization, it is proposed to connect with local government and entrepreneurs. It is proposed that - with the payment of regular utilities such as electricity, water or parking tickets, users will receive a ticket with for free cultural and artistic events. This model aims to offer users a free ticket related to the paid product / service. The goal is to use the theory of loss aversion so that users perceive the ticket not as a slightly lower value for which it is not important for them not to use it, but just the opposite. According to the theory of behavioural economics, this test should increase the number of users who have not thought about attending free events so far. A similar model can be replicated in collaboration with catering businesses that bring together the target audience of the event to get their customer with a paid free ticket bill. The key item is that tickets can be redeemed within a specific period and for a specific event to combine the loss aversion concept with the scarcity concept. Loss aversion is an important concept associated with prospect theory (model that shows how people decide between alternatives that involve risk and uncertainty) and is encapsulated in the expression "losses loom larger than gains" (Kahneman & Tversky, 1979). It is thought that the pain of losing is psychologically about twice as powerful as the pleasure of gaining. People are more willing to take risks (or behave dishonestly, e.g. Schindler & Pfattheicher, 2016) to avoid a loss than to make a gain. The basic principle of loss aversion can explain why penalties are sometimes more effective than rewards in motivating people (Gächter et al., 2009) and has been applied in behaviour change strategies. People's cultural background may influence the extent

to which they are averse to losses (e.g., Wang et al., 2017). Second concept is scarcity or idea that when an object or resource is less readily available, we tend to perceive it as more valuable (Cialdini, 2008). Scarcity appeals are often used in marketing to induce purchases. Marketing messages with limited quantity appeals are thought to be more effective than limited time appeals because they create a sense of competition among consumers (Aggarwal et al., 2011). An experiment (Lee & Seidle, 2012) that used wristwatch advertisements as stimuli exposed participants to one of two different product descriptions "Exclusive limited edition. Hurry, limited stocks" or "New edition. Many items in stock". They then had to indicate how much they would be willing to pay for the product. The average consumer was willing to pay an additional 50% if the watch was advertised as scarce. Scarcity can be used as an effective strategy by choice architects to get people who put off decisions (myopic procrastinators) to act (Johnson et al., 2012). By applying and testing both described strategies in practice, it is proposed to measure the impact on increasing the number of visitors to cultural and artistic events in the creative industry.

Conclusion

The paper proposes the application of behavioural economics strategies in the creative industry because, according to available analyses, it is one of the growing industries of the 21st century. The creative industry sectors can be generators of the regional development of the Republic of Croatia. In the available literature, there is no systematic testing of behavioural economics strategies on the arts and culture sector that this paper proposes. The significance and importance of behavioural economics is reflected in the fact that with its methods a person can make an economic decision noticeably more precisely and simply based on social, cognitive, and emotional factors. Behavioural economics is still an under-explored area that has not received enough attention because the ranges of human behaviour have not yet been sufficiently explored, and it correlates economics and psychology in a correlative way and provides an answer to the question of how decision makers make choices.

The paper highlights two such strategies and a proposal for their application to free events funded by EU projects as part of the creative industry. This proposal proposes to use loss aversion and scarcity to increase the number of visitors by changing the perception of visitors of free events. It is important to emphasize that the proposed model has not yet been tested and needs to be confirmed through future research. It is suggested that organizations conduct market research on target group habits before offering free events to offer an appropriate marketing mix that includes behavioural economics strategies. It is proposed to distribute limited free tickets (with prior reservation) and compare with the number of visitors when there are none.

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