

Local Communities and Management of Cultural Heritage of the Inner Areas. An Application of Break-Even Analysis

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Abstract. This paper describes an application of Break-Even Analysis (BEA) as an instrument to support public decision-makers in identifying the type of entity to be entrusted with the management of architectural heritage, in the case of absence of public resources for this purpose. The case study is localized in Gerace, a Calabrian small town, in the South of Italy. In particular, in this case, the BEA verifies the economic sustainability of the management of such assets; BEA compares the implications of the entrusting to two different types of entity, private for-profit and private not-for-profit, which have different structures of operating costs. The application of BEA allows us to understand how the expected levels of demand generate sufficient revenue to allow a balanced budget, when the management entity is a private not-for-profit; but they are not sufficient to ensure the profitability needed when the management will be entrusted to a private for profit entity. This implies the need to involve the local community in the management of cultural heritage, through a direct commitment: this role is crucial, for example, in the Inner Areas, when the tourist's flows are insufficient to guarantee the profitability for private for profit subjects. However, if the heritage is a relevant tourist attractor, profits are not directly generated by the management of the asset, but significant impacts are still produced on the local economy. This is the reason because the local community have to guarantee anyway the enjoyment of its heritage.

Keywords: Inner areas · Local communities · Management models · Economic sustainability · Break-Even Analysis

1 Introduction

The sustainability of the management of cultural heritage is today one of the most difficult challenges for the transmission to future generations of the set of knowledge, values, traditions incorporated therein [1, 2].

The condition of progressive contraction of available public resources, far from being one of the known cyclical phases, looks more and more like a structural condition to deal with, even in the future, as highlighted by numerous authors, including: [3, 4].

The long phase of public debt expansion that characterized the period after the Second World War brought the precarious equilibrium conditions for public finances [5, 6]. The economic crisis has a two-way cause-effect relationship with the public finances:

the level of public debt makes it essential a progressive reduction in government spending; in turn, this leads to a reduction in aggregate demand, with detrimental effects on the entire economy, with a consequent decline in state revenues derived from fees, etc. [7], among others.

These are the reasons that lead to assess as structural the condition of progressive contraction of available public resources, as for the conservation and enhancement of cultural heritage, as is the case for other sectors [8].

This condition leads to the search for innovative solutions to pursue the objectives of conservation and enhancement of heritage, nevertheless [9]: this contribution aims the deepening of the economic estimation and assessment instruments capable of verifying the economic viability and sustainability of innovative solutions for the management of cultural heritage, with particular reference to the architectural and landscape heritage.

The need to ensure the financial viability of the cultural heritage in the process is even more felt in the presence of forms of public-private partnership: subjects of different nature, they have different cost structures, whereas it can be considered invariable the structure of revenues.

In particular, this paper illustrates, through a case study, a technique, Break Even Analysis (BEA), which can help in decision-making, in the phase of intervention planning: it can assist in identifying the most suitable type of management's subject for the examined case and the consequent definition of the management model.

2 The Cultural Heritage Effects on Local Economies

Literature, Italian and foreign, which deals with the effects of cultural heritage in the local economic systems is really vast [10–14], only to mention a few. It is one of the fundamental principles of sustainable development as well as one of the cornerstones of European policies for regional development [15, 16], etc.

Among the various aspects highlighted in the literature, of particular interest for the purpose of this paper it is the turistic fruition of the cultural heritage, which can be considered a particular form of export.

Cultural tourism, in fact, may constitute a prospect of great interest for the most disadvantaged areas: if properly organized, it can generate significant effects on local economies. It is not only interested the system of receptivity but, more generally, the entire production system: the particular type of tourist, in fact, particularly appreciates the specificities of the territories, including the products and culinary preparations [17].

2.1 Local Communities of the Inland Areas for the Enhancement of Cultural Heritage

The less developed regions, such as Calabria, are often characterized by contradictory phenomena, even more accentuated in the Inner Areas: on the one hand a significant budget in cultural heritage, slightly or anything enjoyed; by the other the weakening of

the productive system, with the consequent gradual abandonment of agricultural activity and anthropogenic desertification of large areas [18].

There are many factors that determine the short competitiveness of the productive systems of these areas and the difficulties of their products to penetrate markets; among them, we can mention, for example: the lack of sufficient critical mass of product, the high production costs, insufficient efficiency in the public administration, insufficient qualification and characterization of the products, etc.

Even more so in these areas, cultural tourism can be a significant opportunity; for those territories, therefore, it is vital to allow the use of their cultural heritage also to activate tourist flows and, through them, rebuild the economic systems and fight depopulation trend.

In this direction, the local communities have a fundamental role [19]: in a condition of absence of public resources for the management of cultural heritage, the effects that can generate their use are nevertheless evident; in these cases, local communities must become aware that only through their direct engagement is possible to stop the regressive phenomena and trigger development processes based on the enhancement of local resources [20, 21].

3 A Classification of Subjects' Nature, Activities and Costs

As pointed out before, to overcome the known limits of the public entities in the management phase, there are many reminders of the Code of Cultural Heritage and Landscape [22], to the need to involve private entities in the development of cultural heritage, distinguishing between profit and not-for-profit entities [23].

In fact, to the purpose of this Article, the most relevant distinction is related to the nature of the activity, not of the subject: there are, in fact, numerous cases of subject with not-for-profit nature but that carry out economic activities. In such cases does not change the cost structure between a not-for-profit or profit subject, but the tax regime to which they are subject, in addition, of course, the prohibition for not-for-profit organizations to distribute profits [24, 25].

Each of types of the subject identified has different characteristics. In the case of public bodies is known the rigidity in the management phase, due to procedural constraints imposed by current legislation, which is often associated with the difficulties to acquire the necessary skills. The private entities for profit normally are characterized by greater operational efficiency, which, however, must match an adequate return on investment, with the risk to overshadow the public interests, prominent in the case of the management of cultural heritage; furthermore, this type of subjects has a cost structure characterized by high fixed costs for human resources. The not-for-profit organizations arise from determined values shared by the members: usually, these subjects carry out volunteer activities without economic relevance, but also have the opportunity to manage economic activities linked to its objectives. In organizational terms, they are characterized by an intermediate level of efficiency between public entities and private for-profit, due on the one hand by the absence of the procedural constraints typical of

public bodies, the other hand by the voluntary nature of participation of members, when it comes without economic returns activities [26].

The involvement of private entities for the purpose of enhancement of cultural heritage focuses attention on the economic dimension of these processes, since it entail the need for such subjects to maintain the financial viability of any business and, in the case for-profit activities, to ensure adequate levels of profit.

The purpose of this paper is precisely to verify the conditions that ensure the economic and financial balance in the enhancement processes in the public-private partnership, in relation to managing entities with different nature, which are associated with different management models: for that aim, therefore, it is particularly important to understand how the cost structure change if change the management models, while we can consider invariable the structure of revenues.

3.1 Nature of Entities and of Activities

Basing on the nature of the activities and of the managing entity, it is possible to hypothesize the following three models (Table 1):

Table 1. Managing models by type of subject

Managing model	Nature of entity and activities
Model P - Profit	Entity profit, activities profit
Model NP - Not-for-profit	Entity not-for-profit, activities not-for-profit
Model M - Mixed	Entity not-for-profit, activities profit

The first model requires no special in-depth: it responds to the classical model of business entities, for which the economic and financial balance occurs only if is guaranteed an adequate level of profit. Given the fixed costs for human resources that characterize it, this model is inapplicable where the visitor flows are not so significant as to generate substantial revenues.

In not-for-profit model, the managing entity, carrying out not-for-profit activities, benefits from the volunteer commitment of the members and other parties at no charge. Them for those activities do not receive any compensation, except possibly an occasional form, in addition to the reimbursement of any costs incurred. Another significant cost item for human resources absent in this model, is the one for management, that is, the organization of production factors [27]. In this way, the fixed cost of human resources is greatly reduced, sometimes transforming this type in variable cost (being occasional performances), significantly reducing the operating costs in the presence of limited flows of users. It is a usable model when a community attaches particular importance to a given asset, the management of which, however, does not generate revenue sufficient to allow coverage of the operating costs of entity for profit or similar entities.

In the mixed model, however, the subject not-for-profit, conducts activities from which it draws significant revenues, such as to be regarded as economic activities in all respects. In this case, it can be equated to a subject for profit in terms of the cost structure, because the involved human resources must be paid as provided in the legislation for

those particular tasks. The only differences are that: there is not-for-profit; any surpluses are reinvested in the same activity and can not be distributed among the members; sometimes it goes also considered the cost for the managerial duties, but is not a constant of the model.

It is to highlight that the management model, for the same asset, it can also change over time: it can happen that, in the start-up phase, a subject not-for-profit undertakes the management as volunteer activities. Thereafter, if the demand reaches adequate levels, the same subject can turn the activity in business or act as a start-up for the birth of a subject of entrepreneurial nature.

In any case, the choice of the management model does not depend solely by economic and financial equilibrium: even in the presence of potential adequate profits, is necessary to verify what actually is able to express a territory under the profile of the managing subject. May occur, for example, the absence of subjects of entrepreneurial circles concerned to take over the management of an asset, or can prevail political reasons, which argue in favour of a particular model.

The verification of the economic and financial equilibrium of an asset management, however, allows the decision maker to make informed choices, thereby reducing the possibility of error, and by bringing more transparency in decision-making.

3.2 The Nature of Costs

First, it serves a distinction among the different types of cost that private entities can incur with respect to the enhancement of the architectural heritage, essentially referable to two macro categories [28]: investment costs and management costs.

In fact, the enhancement of heritage requires, first, an initial investment to make usable the asset, and includes the masonry work for its fitness for use, and equipment and furnishings to its usability. In relation to the intrinsic characteristics, the state of preservation and the future use, such investment may be more unbalanced towards the building work or, conversely, to equipment and furnishings.

Initial investment completed, begins the management, which involves a number of costs including: human resources, utilities, maintenance, depreciation and amortization, other goods and services [29]. It is to point out that, among the management costs, the depreciation of equipment and furnishings and the provisions for extraordinary maintenance are particularly significant, for the purposes of assessing the economic sustainability of the projects: this guarantees the replacement of equipment and furniture and the usability of the asset over time, thereby allowing the sustainability of the initiative.

In turn, the operating costs can be divided into two categories, fixed costs and variable costs. As you know, the fixed costs are not related to production volumes, as is the case for the variable costs. Some of the items listed above are characterized by the presence of a fixed component and a variable, such as the utilities or some kinds of human resources.

As seen above, it is precisely the heading Human resources, usually among those with higher incidence, to vary significantly with the several management models: in the case of for-profit activities, in fact, it constitutes one of the major fixed costs of management.

In the case of subjects for profit, the economic-financial balance occurred only in the presence of an adequate level of profit: for this reason, in tests for financial sustainability, this item can also be treated as an operating cost and subtracted from revenue.

4 Profitability and Public-Private Partnership Forms

In relation to the capacity of the asset in question to generate revenue, in theory it can be hypothesized five (six) different conditions of profitability:

- Band A. High profitability
- Band B. Medium to high profitability
- Band C. Average profitability
- Band D. Lower-middle profitability
- Band E. Low profitability

Then, there is the case of insufficient profitability or nothing (sixth profitability assumptions), which implies the absence of the minimum conditions for any form of public-private partnership and entrusts exclusively to public bodies the responsibility to make available the particular case of asset. This assumption, however, is less and less feasible in reality, due to the progressive decline of available resources in the delivery of public services [30–32].

Each of the first five of profitability conditions it can be associated with five different forms of public-private partnership, with the consequent management models (Fig. 1).

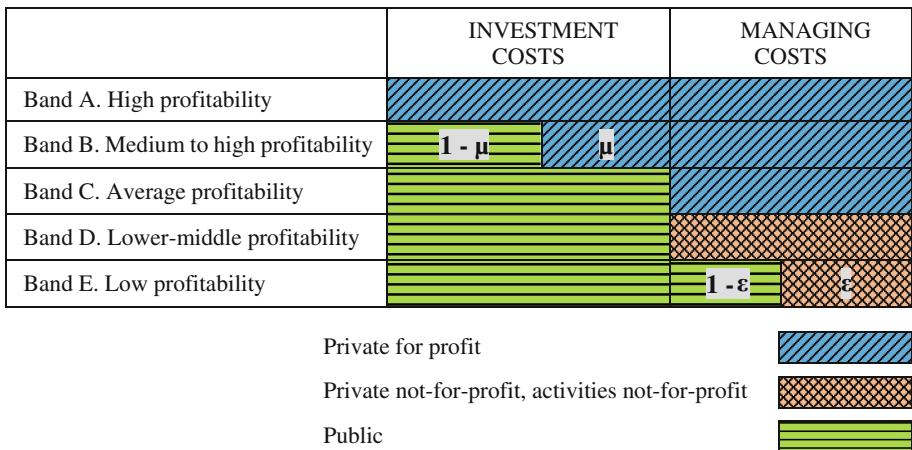


Fig. 1. Distribution of investment and managing costs between public and private entities

Band A. High profitability

This condition occurs when the discounted revenues that can be generated from the use of a certain asset, are greater than the sum of the investment costs necessary to make it accessible and of the operating costs, related to the life cycle of the intervention:

$$\Sigma Ra > \Sigma CI + \Sigma CGa$$

Where:

ΣRa = summation of discounted revenues

ΣCI = summation of the investment costs

ΣCGa = summation of discounted operating costs

In this case, the function of public entity is to govern the way of intervention, to ensure the conservation of the identifying characteristics of the asset, and the modalities of management, to ensure a proper use of the good. During the managing phase, also paid by the public entity is the burden of monitoring in order to ensure the compliance with the contract terms and, more generally, to maintain an adequate usability of the good.

This condition can be found in other types of works of public interest, and it is the basis of project financing; in the reality of cultural heritage is more difficult to find, first because of the high initial investment required for the proper physical recovery of the artefacts, that is, in respect of their identifying characteristics.

Band B. Medium to high profitability

This condition occurs when the discounted revenues that can be generated from the use of certain property, allow full coverage of discounted operating costs, related to the life cycle of the intervention, and the recovery of an aliquot μ of the initial investment:

$$\Sigma Ra > \Sigma \mu CI + \Sigma CGa$$

Where:

ΣRa = summation of discounted revenues

$\Sigma \mu CI$ = aliquot of initial investment costs covered by the discounted revenues

ΣCGa = summation of discounted operating costs

In this case, the public entity, in addition to its functions provided for the case A (which are however applicants in all cases), has the burden of covering the aliquot $(1 - \mu)$ of the investment costs, in order to ensure the intervention economic feasibility.

Band C. Average profitability

For average profitability we can consider the condition under which the revenue generated from the management of the asset exceeds the operating cost, although the managing entity is a private for profit:

$$\Sigma Ra > \Sigma CGa$$

In this case, the asset can be recovered only to the condition that the public entity assume for the entire the initial investment costs. It is this, for example, a case possible if the interventions are carried out by public entities making use of the European funds.

Band D. Lower-middle profitability

For medium to low profitability, we can consider the condition under which the revenue generated from the management of the asset exceed or equalize the operating costs, provided, however, that the managing entity is a private not-for-profit:

$$\Sigma Ra \geq \Sigma CGa$$

Even in this case, the asset can be recovered only on condition that the public partner takes for the entire the initial investment costs: this case is even more frequent (potentially) of the previous in the cases of operations carried out by public entities making use of the European funds.

Band E. Low profitability

For low profitability we mean the condition in which the revenue generated from the management of the asset are able to cover only a rate ϵ of the operating costs, although the managing entity is a private not-for-profit:

$$\Sigma Ra > \Sigma \epsilon CGa$$

In this case, the asset can be recovered and made available only on the condition that the public entity assume an aliquot $(1 - \epsilon)$ of the management costs, over the total of the initial investment costs. Even this may be a recurring case when the interventions are carried out by public entities making use of the European funds.

For the assessment of the economic and financial sustainability of projects, in this case it is of great interest to understand if the rate of costs, covered from the revenue, includes or less the extraordinary maintenance costs and depreciation of equipment and furnishings. In this case, in fact, the public contribution may be limited, for example, to few kind of costs, so for example for utilities and cleaning, but would safeguard the maintenance over time of the usability of the good and functional services.

5 The Economic and Financial Sustainability of Projects of Enhancement

Of particular interest appears, for the purpose of enhancement of the architectural heritage, the verification of profitability band in which they fall; this allows the identification of the most suitable type of managing entity, for which it is verified the economic and financial sustainability. It happens often, especially in Italian regions Convergence objective, that the public authorities are in receipt of EU funding for the physical recovery of buildings and their furnishings and equipment, but then are not able to ensure the management directly and have to resort to the indirect management [33]. Often, the assets remain unavailable because there are not conditions of adequate profitability for entrepreneurial entities. It must to verify, so, if the asset fall in the C Band (Investment by public, managing by private for profit), in the D Band (Investment by public, managing by private not-for-profit) or, even in the E Band (Investment by public, managing by private not-for-profit with public contribution to the managing).

In these cases, the verification of the economic and financial sustainability of enhancement projects in public-private partnership is done taking into account the operating costs and revenues [34]. This analysis allows to verify the relationship between the revenues generated from the use of the asset and the costs incurred by the managing subject: the overall balance obviously depends not only on the cost structure but also by the level of revenues. The revenues will be considered virtually independent of the management model, while, as we have seen, the cost structure is heavily dependent by it [35].

It is clear that the revenues that can be generated by the projects are a function of the demand, in turn dependent on a number of factors, some independent of the asset or the project [36, 37], such as, for example:

- The catchment area of potential users (an asset placed in a big city or in a town with strong tourist presence, for example, has a higher potential of one located in a small town or in town not frequented by tourists);
- The intended use of the asset and related functions that are localized within it;
- The presence of assets and/or similar functions in the vicinity;
- The inherent attractiveness of the asset in question;
- The effectiveness of the communication and marketing strategies and the availability of resources for such activities.

5.1 The Break-Even Analysis

The break-even analysis (BEA) is a decision support tool used for different purposes in the field of validation, in economic terms, of the various types of investment projects [38].

In the present case, the use of break-even analysis allows to identify the management model most appropriate to the level of estimated presences. In other words, considering the different cost structures of the alternative management models, the BEA allows to identify for which level of demand they reach the minimum condition of equilibrium, giving the possibility to see which model is applicable to the estimated level of demand in the specific case. In terms of costs, the subjects for profit have a structure of fixed costs, mainly due to the costs for human resources, other than the entities not-for-profit, when they perform not-for-profit activities, while is very similar in the case of for-profit activities.

6 The Case Study: The Cultural Park of the “Geracese” History and Memory

The case study in which it was tested the approach described above concerns the realization of the “Cultural Park of “Geracese” History and Memory” in the centre of Gerace, a small town in Calabria, in southern Italy, of early-medieval origins [39].

The project includes a series of actions aimed at achieving full usability of three religious buildings in public ownership, through the completion of their recovery and their reuse; the three assets will be destined to the localization of cultural functions that

make perceptible the main features of the geracese cultural heritage: the religious traditions, the settlement layering, and the medieval culture.

Specifically, there is the localization: in the St. Martino's church, a museum dedicated to the ancient history of the diocese of Gerace; in the St. Maria del Mastro's church, a documentation centre on the historical layering of the city centre; in the St. Caterina's church, a medieval study centre and documentation.

For all three actions are planned interventions of physical recovery of artifacts and upgrading work with the mounting of exhibition areas and the provision of equipment and furnishings required. The planned investment is € 1,500,000.00, fully covered by the POR Calabria 2007–2013 funds.



Pictures. St. Caterina's church, St. Maria del Mastro's church, St. Martino's church

Currently about 13,000 visitors throughout the year visit Gerace: it is, in Calabria, a major destination for cultural tourism, attracted by the rich historical and architectural heritage still present and in fairly good condition. One of the main shortcomings is the lack of services for full enjoyment and understanding of the heritage; through the planned intervention, you want to work on this very weakness, thus reinforcing the attractiveness of the village and its ability to generate economic flows.

On the basis of currently detectable tourists in Gerace and assuming an increase of 25%, can be generated by marketing actions planned to support the project, it is conceivable for the Park an annual flow of visitors, in the fully operational year (the third) of about 16,000 units.

The question asked is: given the assumed functions and the flow of visitors estimated, in which profitability condition is the intervention in question. It is conceivable to place in foster care the management to privates or it must to be managed by a public body? In the first case, what type of subject must be, for profit or not-for-profit?

6.1 The Application of Break-Even Analysis

The trial was held simulating the cash flows associated with two different management models: one of type P (for profit) and one of type NP (not-for-profit), identifying for both, through successive iterations, the breakeven point between costs and revenues.

The starting point was an estimate of the revenues, hypothesized the same for both models, and linked to the type of services provided, which consist of:

- Entrance to the Park
- Guided tours
- Supply of audio guides
- Sale informational material such as monographs etc.
- Sale gadgets

The whole of services provided and products sold produces annual revenues estimated at € 160,000.00 [40].

In terms of costs, the managing entity, of whatever nature, will have to bear:

- Fixed costs for human resources
- Other fixed costs (provisions for extraordinary maintenance, depreciation, etc.)
- Variable costs (gadgets and editorial material purchase, consumables etc.).

6.2 The Costs of the Managing Entity in the Model P – for Profit

To ensure the delivery of services foreseen by the project it is required a series of figures, between which at least one person that ensures the simultaneous opening of each of the three poles in which is articulated the park, for a total of three units, over to at least one guide and the director. The whole of human resources employed involves an annual fixed cost of € 134,600.00.

Other fixed costs (provisions for extraordinary maintenance, depreciation etc.) amount to € 21,200, while the variable costs (gadgets and editorial material purchase, consumables etc.) amount to 2.80 €/visitor.

In the presence of this cost structure, the break even point is obtained in the presence of 21,640 visitors a year (Tables 2 and 3), far above the estimated flow.

Table 2. Estimate of managing costs for the break-even point of the Model P – for Profit

Service	Variable unit cost for visitor	Visitors	Costs
Fixed costs for human resources			134.600 €
Other fixed costs			21.200 €
Variable costs	2,80 €/visitor	21.640	60.600 €
Total of costs			216.400 €

Table 3. Estimate of revenues for the break-even point of the Model P – for Profit

Service	Percentage of users on the total number of visitors	Quantities sold	Unit price	Revenues
Entrance to the park	100%	21.640	4,50 €	97.380 €
Guided tours	30%	6.492	4,00 €	25.968 €
Supply of audio guides	20%	4.328	5,00 €	21.640 €
Sale informational material	30%	6.492	6,00 €	38.952 €
Sale gadgets	50%	10.820	3,00 €	32.460 €
Total of revenues				216.400 €

6.3 The Costs of the Managing Entity in the Model NP – Not-for-Profit

The eventual not-for-profit entity may limit the use of employees through the voluntary commitment of the members that could provide some services for free, such as the one to allow the opening of the poles, especially in periods with lower turnout; in the summer months, however, the volume of activity could require the temporary employment of personnel.

Some costs for human resources, in addition, may also be attributed to variable costs, such as the one of the guides, because are occasional services directly related to the influx of visitors. Furthermore, it would not be necessary the compensation of the general activity of management: under these conditions, the annual fixed costs for human resources would amount to € 55,300.00. Other fixed costs (provisions for extraordinary maintenance, depreciation etc.) amount again to € 21,200, while the variable costs (guides, gadgets and editorial material purchase, consumables etc.) amount to € 4.80/visitor.

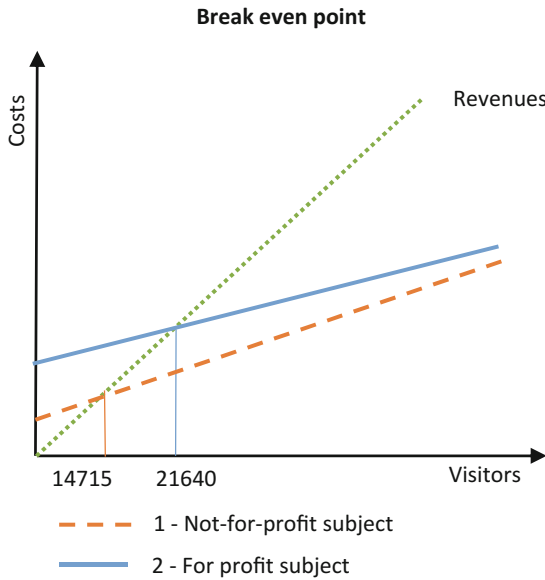
In presence of this costs structure, the break-even point is obtained at 14,715 visitors a year, enough below the estimated flow (Tables 4 and 5).

Table 4. Estimate of managing costs for the break-even point of the Model NP – Not-for-Profit

Service	Variable unit cost for visitor	Visitors	Costs
Fixed costs for human resources			55.300 €
Other fixed costs			21.200 €
Variable costs	4,80 €/visitor	14.715	70.630 €
Total of costs			147.130 €

Table 5. Estimate of revenues for the break-even point of the Model NP – Not-for-Profit

Service	Percentage of users on the total number of visitors	Quantities sold	Unit price	Revenues
Entrance to the park	100%	14.715	4,50 €	66.215 €
Guided tours	30%	4.415	4,00 €	17.650 €
Supply of audio guides	20%	2.943	5,00 €	14.715 €
Sale informational material	30%	4.415	6,00 €	26.480 €
Sale gadgets	50%	7.358	3,00 €	22.070 €
Total of revenues				147.130 €



7 Conclusions

The use of break-even analysis in the illustrated case study has allowed us to verify that the managing of the particular cultural asset in question is referable to the profitability hypothesis “D” - medium-low. The managing can be entrusted to a private entity, type not-for-profit, on condition that the members contribute voluntarily and freely in the activities, while there are no conditions for business profit.

It is now a case very recurrent, especially in smaller towns and in the presence of limited flows of visitors, since public resources to ensure the management of the assets is increasingly constrained, insufficient to ensure the provision of such services.

If local communities recognize the fundamental role that cultural heritage can play in the economic development of their territory, they must to take upon oneself the burden

of the managing of this heritage, through the direct commitment, voluntary and free. Only to these conditions can be guaranteed the usability of the assets, when the visitor flows are not sufficient to ensure at least an average level of profitability.

It is necessary to point out, however, that in this case the break-even analysis made it possible to verify that the financial and economic sustainability of the intervention is fully guaranteed, since the revenues allow the full coverage of the operating costs, including the extraordinary maintenance and depreciation, at no additional cost to the public sector.

Involvement of no profit entities, however, it is relevant not only about the economic sustainability of the project, but also for the empowerment of the local communities and the re-appropriation of their identity, indispensable to trigger virtuous processes of local development.

The research in this field will continue, applying the methodology to other cases study, verifying, in particular, the variations in the distribution of costs in different situations. Another aspect that deserves attention, always in terms of costs structure, it is as varies the incidence of human resources if the subject for profit recourse to new forms of contractualization provided by the innovations in the field [41, 42].

It is necessary to point out, however, that it is a field that has many risks in terms of social sustainability: we need to clearly distinguish what is a voluntary commitment, for free, from what is work. The enhancement of cultural resources must to be for the territories an opportunity for development and not an additional ground of job insecurity or worse, the incentive of forms of illegal labour.

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