

MUSEUMS AND MINERVA

Adrian Ellis of AEA Consulting casts a critical eye over the huge expansion of the museums sector in recent years, and considers the multitude of new financial pressures that have come with it.

The worldwide growth in the number of new museums and museum wings over the past decade is without historical precedent. The impetus behind it has been analysed at length, with broad consensus emerging on four main issues.

First, building museums has always been an avenue for the conspicuous expression of personal, foundation, corporate and civic wealth and self-confidence. These were extraordinarily high through the decade to April 2000, when the stock market peaked, so QED.

Second, along with sports stadia and conference centres, architecturally distinctive cultural buildings have become one of the tools with which cities, regions and countries project a distinctive and attractive profile when competing for tourists, inward investment and 'brand identity'. They have become instruments of public policy valued as much for their contributions to wider agendas for social inclusion and economic regeneration as for their intrinsic worth.

The third point of consensus has been that, partly because of changing social values and partly in the process of accessing new sources of funding, museum boards and directors have widened their mission progressively from collection and preservation, through displays aimed at maximising visitors (a.k.a. blockbuster), to broader public education and entertainment, all of which are space hungry functions requiring annexes and wings.

Fourth, changing leisure patterns and values have made visiting museums an important aspect of individual psychic decompression and social interaction, their contemplative and aspirational aspects making a particular appeal to the harried middle classes.

Expansion has, after a while, built up a momentum of its own, as less well-placed museums seek to catch up with the front-runners in order that they too can secure the profile, and thus the good will and funding, enjoyed by the first movers – compete or die!

The aggregate impact of this cluster of factors has been the migration of museums from the back pages of the newspaper to the front, and the transformation of their architecture from the functional servant to the often dysfunctional master.

Undercapitalisation

To this fairly conventional wisdom should be added a less well-noticed dynamic. Many museums are undercapitalised. Their balance sheets are both weak and misshapen. They generally have insufficient working capital. Their reserves are insufficient to fund routine repairs or depreciation. They underinvest in the remuneration and development of human resources, making it difficult to attract and retain staff with transferable skills or develop those without them. Credit lines get used up and structural deficits are rolled forward cumulatively. They are for these reasons often less fun to work in than they should be, and less effective at doing the things that they are supposed to than they might be. It surprises the outsider that this general picture can coexist with the prominence and glamour that the sector appears to enjoy.

But coexist it does. This pattern of rubbing along without enough money is familiar to every museum director in the world bar those favoured few whose institutions have accumulated significant endowments or which have some tangential source of revenue (such as property in excess of requirements that can be rented out) or a windfall source of capital that bails them out (such as sale of air rights in areas where there is real pressure for space to develop).

The reason for under-capitalisation is very simple and lies in elementary museum economics: museums are a red-ink business and require subsidy in the form of contributed income or grants to survive. The percentage of their operating budget raised from government or philanthropic sources depends partly on the fiscal regime under which

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The Guggenheim, Bilbao: architecturally distinctive cultural buildings have become key tools in building brand profile for regions and countries

The sector as a whole is facing a systemic problem of under-capitalisation as its aggregate operational costs have grown faster than the contributed income and earned income needed to keep it adequately capitalised

they operate and partly on their capacity to generate income. This depends in turn on their charging philosophy, their attendance numbers, relevant entrepreneurial skills, and available physical space for ancillary retail, catering and so forth. But whatever the percentage, it is invariably significantly less than 100%.

Raising contributed income *in parallel* with the need for it and sufficient to fund the full difference between income and expenditure is extremely tough, even in the form of nominally 'core funding'. The easier costs to cover are direct programme costs – more visible, more attractive, more obviously mission-related. Fixed costs tend to get drafted around, talked down and deferred, not least because museums wish to present themselves to potential funders as efficient and therefore want to maximise, at least on paper, the ratio of direct to indirect costs. Neither public funders nor philanthropists are quite as thrilled by appeals to meet the costs of new drains as they are new outreach programmes, but new outreach programmes need new drains.

Winning new income

Periodically, therefore, museums need to recapitalise and, given the current attitude towards expedient de-accessioning, they are presented with only three alternatives.

One is the periodic blockbuster – the exhibition that is aimed at income maximisation through the choice of material, the way it is marketed and the ancillary retail that is bolted onto it (the Cezanne week etc, etc). The need for the periodic injections of the cash generated by these blockbusters is a more significant driver than any institutional infatuation with the numbers game for its own sake. They are usually approached with squeamish ambivalence by all involved.

The second is the expansion plan – the use of a galvanising building initiative as the context to raise funds, refinance, and move forward. The problem with this third strategy, of course, is that it is a form of pyramid selling or Ponzi scheme. Eventually, after the noise has died down, and the new building is completed, the logic of the weakening balance sheet kicks in again. Unless the scheme was so successful that it has generated a whole new set of contributed funding opportunities – the holy grail of 'taking the institution to a new level' – then the systemic under-financing reappears, and in a heightened form, given the larger facility and the more ambitious programming on which the facility is premised.

The third option is to run screaming into the street – the emergency appeal. This is generally a humiliating affair, requires heads to roll and is rightly regarded as a last resort.



One option for boosting income is the blockbuster exhibition

The museum again stands facing the three options of crisis appeal, more populist programming or obfuscatory expansion. (Why does the Guggenheim keep coming to mind here...?) The building boom is therefore in part cause and in part effect of a series of systemic changes in the role of the museum sector. It is also unsustainable.

UK and US scenarios

Much of the fuel for growth in the United Kingdom has been the availability of funding from the national lottery. The tap was turned on in 1995 and thirsty museum boards and directors stampeded towards it, the stronger trampling the weaker underfoot. However, a new Labour government in 1997, new lottery legislation, and a slowly dawning realisation that museum building is an inescapably loss-making business turned the flow down to a trickle four years later.

This has left some institutions physically bloated but operationally undernourished, and others as parched as ever, lacking even the liquidity necessary to wash down the bitter pill of envy at their more

canny or pushy peers. Some wonderful buildings have clearly emerged from some five years of lottery funding, but it will be another five before the longer-term structural impact of its rather arbitrary distributive procedures becomes clear. When the smoke from the fireworks of celebratory openings clears, the aggregate demands on contributed income and grant in aid will prove deeply problematic.

In the United States, meanwhile, the building boom has been longer and stronger, fed by the decade-long upward sweep of the Dow Jones and, toward the end, by the precipitous climb of the NASDAQ. The equally precipitous fall over the past year is having two effects. First, it is reigning in dramatically the forward plans for capital expansion that were drawn up on the long upswing but that are not yet executed. Throughout the United States one can hear the sound of fractious meetings between peeved and thwarted staff and chary chastened boards whose animal spirits are palpably dampened. Second, the sector as a whole is facing a systemic problem of under-capitalisation as its aggregate operational costs have grown faster than the contributed income and earned income needed to keep it adequately capitalised. Further

expansion plans are therefore likely to give way to more blockbusters, and blockbusters give way to more emergency appeals.

We are in for a bumpy ride.

This article was first published in *The Art Newspaper*, June 2001. AEA Consulting is a management consultancy that works with cultural institutions in Europe and the United States. AEA Consulting are on-line at www.aeaconsulting.com. Adrian Ellis can be contacted by e-mail at aellis@aeaconsulting.com, and also at the following numbers: tel. 001 (212) 226 5820, fax 001 (212) 226 5821.