



PLANNING IN A COLD CLIMATE

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In this session I offered diagnoses and a tentative prognosis for cultural institutions in general and museums in particular in the current economic environment. I focused on three broad dimensions: (1) the underlying financial realities and basic economics of museums that we ignore at our peril, the difficulties we have in funding growth adequately, and the consequences of inadequately funded growth; (2) the larger social and political trends that are affecting the nonprofit sector—specifically democratization, the impact of globalization, and contractualization of relations with funders; and (3) the relationship between the current economic cycle and the museum building boom. The interaction of these three broad sets of factors makes for a fairly cold climate, although different institutions will be affected differently and will have different capacities for coping.

1. Some basic economics

Museums are usually loss-making enterprises and red-ink businesses. We too easily forget that the implications of this fact permeate every aspect of the financial dynamics and culture of nonprofit organizations.

Why museums are red-ink businesses

There are many kinds of goods and services for which the market does not generate enough demand at a sufficiently high price to stimulate supply, given the marginal cost of producing those goods or services. Much of what we think of as the business of nonprofits fits this category, from lobbying for human rights to providing live performances of symphonic

music to ensuring animal welfare to spearheading overseas aid initiatives. Left to the market, the costs of supply are either too high or the level of effective demand is too low for these activities to be priced in a way that is accessible to more than a very select band of consumers, if at all.

And the gap between supply and demand is not a static one—but a constantly widening one—at least for some art forms. On the supply side, for the reasons analyzed and articulated by the economists William Baumol and William Bowen nearly forty years ago, the impracticability of substituting capital for labor in many of the performing arts means that costs continue to rise in relation to other forms of economic activity.¹ Demand is meanwhile being blunted by the changing patterns of and pressure on leisure time and by the explosion of competing demands upon that time from commercial media. Furthermore, the demographic groups that have formed the traditional core audiences for cultural events are those for whom competition for the “leisure dollar” is most fierce and, indeed, leisure time most under assault.

Income generated by core, mission-related programming can and does offset costs, *but minimizing losses is not the same as maximizing surpluses*. Even with the most ingenious and entrepreneurial approaches to revenue maximization, earned income is significantly and systemically less than expenditure for most organizations concerned with traditional forms of nonprofit “product,” even without factoring in the adverse impact on the bottom line of any social agenda an organization may have for encouraging wider access to its activities.

Most museums therefore increasingly scan the horizon for opportunities to increase income through business streams that are not directly mission-related. For example, they seek licensing agreements, commercially exploit the cultural and social cachet they may enjoy, or acquire and subsequently sell or rent real estate or other property that is in excess of operational needs. But the exploitation of these opportunities, where they exist, requires specialized management skills, access to venture capital, and an ability to act in an entrepreneurial way that

¹ Baumol, W. and W. Bowen, *Performing Arts: The Economic Dilemma* (New York: Twentieth Century Fund, 1966).

often sits uncomfortably with the structures, resources, and skills base of museums. Strategic alliances with appropriate for-profit organizations or the establishment of for-profit subsidiaries can make it easier to exploit commercial opportunities. However, the opportunities themselves need to be there.

The inevitable difference between income and expenditure is made up through one or more of four routes:

- Governments are sometimes mandated (or at any rate consider themselves to be mandated) to supply funds directly, as is the case with national museums in most of Western Europe. This is a pattern of provision in historic decline for wider reasons related to the historic ascendancy of market-based economies—governments are pulling out of the business of direct provision of culture.
- Governments can provide direct financial aid in the form of grants. These are usually awarded to suppliers to stimulate supply, still the dominant method of nonprofit funding in Europe and a less significant but nevertheless important funding source in the United States. More rarely, grants in the form of voucher systems are made to consumers to stimulate demand among particular social groups.
- Governments can and do give suppliers and consumers tax advantages. In the United States these are usually bestowed through qualification under section 501(c)(3) of the federal tax code.
- Individuals and foundations can be persuaded to contribute on a voluntary philanthropic basis to the costs of an organization or a specific program.

For any given nonprofit organization, the balance of support between these four sources of market intervention is determined, on the one hand, by the legislative regime in which it operates (which obviously varies from country to country, and indeed from state to state), and, on the other, by the extent and depth of perception of social worth or vicarious social prestige that an individual organization can trigger in potential philanthropic contributors.

The skill with which the organization can persuade potential funders, public or private, that it is doing something worthwhile and that it is doing it well is, axiomatically, at the heart of all successful strategies for securing contributed income.

This thumbnail sketch of the economics of nonprofits is well understood by consumers, producers, and funders alike. But some of its ramifications are less well understood. Perhaps the most important is the impact of growth on the capital base of an organization.

The implications of loss-making for the sector

The main implication of the inherent economic dilemma of nonprofits is an inescapable tension in the short term between pursuit of mission and the programs that support an organization's mission and maintaining financial viability. All dynamic, mission-driven nonprofits live in the force field created by the tension between money and mission. The force field grows more powerful the greater the urge to expand programming. And given that there is usually a large gap between an organization's mission and the part of the mission realized through its current programs, the urge to grow is usually very powerful.

However, growth usually cannot be funded by retained surpluses—simply because generally there aren't any! Growth therefore needs to be funded externally. But debt-funded growth requires eventual repayment of both interest and principal and therefore assumes either that the investment will generate a positive rate of return or, more usually, that it will attract philanthropic funding to meet these repayment costs. Equity investment per se is not an option for nonprofits, although they may have opportunities either to create for-profit subsidiaries or strategic alliances with for-profit organizations that provide vehicles for investors. But equity investment, too, is premised on a positive rate of return on capital employed.

The primary source of funding for growth is therefore either contributed income or income from reserves and endowments that have themselves been created through contributed income. However, unless nonprofit organizations can articulate—and funders embrace—the idea that growth requires investment and that the *full* rather than *marginal* costs of growth need to be

covered by these sources of contributed income, the impact of growth is generally to stretch organizational and financial capacity more and more thinly. This leads to systemic underfunding of such areas as facilities maintenance, funded depreciation, working capital, staff development, competitive salaries, or training, all of which are required to support programs. Unfortunately, it is easier to raise money for the variable costs of programs than it is their full costs, and it is easier to raise money for programs than bricks and mortar; and it is easier to raise funds for bricks and mortar than it is for core operating expenses, and it is easier to raise money for core operating costs than it is for such items as routine maintenance or training—but programs must have bathrooms, and clean ones at that!

The reasons we tend to turn a blind eye to this simple logic run very deep. One is that, as a whole, the nonprofit sector relies heavily on the skills, energies, and enthusiasms of its executive and nonexecutive leadership. This reliance on leaders is often formidable, so formidable that it generates a belief that sheer energy, willpower, stamina, and enthusiasm can overcome all obstacles, and when it does not, failure is rooted in some sort of personal failing in the leadership. The idea that an inappropriate capital structure can somehow subvert an organization's ability to meet its objectives can seem overly deterministic, even fatalistic.

Another reason is that, as a whole, the sector tends to focus on organizational capacity building rather than financial capacity building. The sector needs both. No amount of attention to, say, strategic marketing is going to make things come out right if your organization is so fundamentally short of working capital that you cannot lift your head above the problems of meeting next week's payroll. Indeed, inadequate working capital is probably more corrosive to organizational effectiveness in the nonprofit sector than any other single factor. It means that the short term crowds out the longer term and that cash flow considerations dominate planning, with creditor management absorbing the time, money, and emotional reserves that are needed for longer-term planning.

The ability to take informed risks essential to the realization of the mission of most nonprofit organizations is similarly compromised, with the result that either conservative programming dominates (what is less risky and most likely to generate cash) or each risk involves the concomitant financial risk of “betting the house” on a successful outcome, conducive to graying hairs and ulcers for all involved.

Raising contributed income in parallel with program growth and sufficient to fund the full difference between income and expenditure is extremely tough. The easier costs to cover are direct program costs—they are more visible, more attractive, and more obviously mission-related. Fixed costs tend to get drafted around, talked down, and deferred, not least because organizations wishing to present themselves to potential funders as efficient want to maximize, at least on paper, the ratio of direct to indirect costs.

It takes determined leadership—with a long-term view of the organization, a good knowledge of an organization’s cost base, and a commitment to institutional stability—to ensure that growth in programs does not, over time, sap the organization. Without the knowledge of the organization’s cost base, the will to act on that knowledge, and a sophisticated or receptive funding community, a nonprofit organization will “hollow out” as its programming grows, the balance sheet will weaken, and short-term cash-flow issues will come to dominate long-term vision.

For this reason, many museums are something of a disappointment for the well-intentioned, competent, highly motivated people they recruit. The impetus to programmatic growth—spurred both by the ever-present gap between program and mission and by sheer entrepreneurial drive—tends to leave institutions increasingly hard-pressed, undermanaged, understaffed, “de-skilled,” foreshortened in their horizons, and generally ground down.

To expand programming effectively, museums therefore have to expand their financial capacity, not willy-nilly, but in specific ways that support their programming ambitions. Any given expansion in activity can be funded through different combinations of contributed and

earned income and debt, and these will make different demands on an organization's capital structure (on working capital, for example, or on the organization's reserves, lines of credit, or longer-term debt instruments). *Rarely does "spontaneous" unplanned growth have a positive impact on an organization's capital structure. Planned growth in programming requires planned growth in financial resources.*

What is true of individual museums is collectively true of the sector as a whole. As a museum expands, and in the absence of retained profits (or, more properly, *surpluses*) to fund that growth, it needs to increase contributed income *proportionately*, develop new sources of ancillary earned income, or to secure more fiscal concessions. The scope for the last two is limited for the reasons we have discussed. The alternative is systemic and progressive financial weakening of the sector over the longer term as growth in resources fails to keep pace with the aggregate need for them across the expanding sector.

Museum leaders can and should resist the temptation to try to trump capital with willpower. But a significant responsibility also lies with grant makers, which have a long-term commitment to the sector and its long-term health. Long-term funders are probably best positioned to ensure that programmatic growth, where it is implicitly (and often explicitly) encouraged by the funding ecology, is also adequately funded; that the corrosive temptation to fund only the marginal costs of programming is resisted; and that those funders engaged by specific programs but with a less profound commitment to the sector are encouraged to understand that *programs by themselves do not a sector make*. What might appear to be efficient funding in the short term should not be allowed to weaken the sector in the longer term.

2. Some relevant social and political trends

These are, in some senses, well-rehearsed issues. Indeed, there is a broadly paradigmatic pattern of common pressures typical of cultural organizations that runs as follows:

- Cultural organizations in general and museums in particular play—and are expected to play—an increasing number of roles in contemporary society, and their specifically cultural roles have been joined by, and to some extent overshadowed by, new, more “instrumental” roles as agents of economic development, tourism, and social cohesion.
- Attempts to fulfill these roles satisfactorily have placed overlapping demands on institutions for which they are not necessarily funded or staffed adequately, and the more recently articulated roles are generally the more easily funded.
- Many organizations therefore experience difficulty in advocating or indeed in some cases articulating certain core functions and responsibilities in a way that is sufficiently compelling to secure the funds to resource them.
- Cultural institutions therefore experience and can be expected to continue to experience increasing organizational and financial stress caused by a mismatch between the expectations placed upon them both internally and externally and their capacity to meet them.
- They respond to these stresses with a range of strategies based on their individual historic strengths and weaknesses (or assets and liabilities), the perceived agendas of their funders, and the quality of institutional leadership. But behind the wide variety of programming and funding strategies lies the same identifiable pattern of common pressures.

This pattern, or parts of it, has held true for symphony orchestras, museums, opera houses, and theaters in the United States, Great Britain, France, Germany, and Italy. Indeed, the traumatic events of September 11, 2001, and their aftermath provide a case in point. As commentators and practitioners have discussed the impact of the events, two responses in particular have been articulated:

- That there will be an adverse impact on inflows of both contributed and earned income, as other more immediately crisis-related philanthropic causes preempt available funding,

and as visitor and audience numbers decrease, at least temporarily (both effects compounded by a looming world recession). In parallel, the logistics of touring programs will be disrupted and programming costs therefore increased.

- That the events should or, in some variants, simply will precipitate a more fundamental reappraisal, or at least refinement, of the assumed responsibilities of cultural institutions. For example, cultural institutions will seek to assume a greater responsibility to encourage a deepening understanding of the richness and diversity of Islamic culture and values at a time when the dangers of religious intolerance and cultural prejudice are heightened.

The net result of these two reactions to the events, assuming the first is a correct assessment of the financial impact on cultural institutions and the second a correct assessment of the programmatic response by them, is a further layer of responsibility unmatched by identifiable resources or, in some cases, skills.

When a given art form in a given country is described as “in crisis,” as they periodically are, that crisis is, as often as not, a manifestation of the mismatch between resources and expectations and the inability or reluctance of cultural leaders to articulate in a compelling way their own institutional priorities and limitations.

This state of affairs could simply be attributed to a failure of effective leadership in the sector. This would, however, be both unfair and oversimplistic. There are at least four factors at work that would appear to have a profound impact on the modus operandi of the sector and that heighten the challenges of effective leadership: the changing climate of critical opinion in which cultural institutions operate; the impact of the rapid globalization of the world economy following the end of the Cold War; the increasingly contingent and contractualized relationships with funding bodies; and the changing social and political priorities reflected in those relationships.

The changing nature of critical debate about cultural institutions

The past twenty years have witnessed an unprecedented growth in academic reflection on the roles of cultural institutions as creators and repositories of particular values and hierarchies, rather than as passive repositories of the cultural legacy of the past or neutral commentators on the present and future. This has left many institutions, particularly those carrying a heavy historic legacy, tongue-tied as they have generally become more cautious about articulating unequivocal statements of purpose.

Received academic opinion has increasingly reflected a broadly sociological perspective that sees social and cultural institutions as products of and vehicles for the perpetuation of specific sets of values and beliefs. Institutions such as museums or theaters are, in other words, seen as serving to legitimate particular power structures and to make the unequal distributions of power that we see across the world appear as “just the way things are.” This is the broad thrust of the paradigm of cultural studies and critical theory.

National collections and the institutions that house them, for example, are now regarded by a significant body of opinion-formers as broadly imperial in their impact and ahistorical and naive in their own expression of that impact—or at least they are as often seen in this context as they are viewed as early expressions of political commitment to currently resonant beliefs in broad public access to life-long learning. This description would, however, be a reasonable late-twentieth-century gloss on the nineteenth- and early-twentieth-century ideals that informed the establishment of many public museums, opera companies, and theaters throughout Europe and the United States.

The debate about the relationship between cultural institutions and the institutionalization of values has generated extensive coverage. Exchanges conducted in academic circles and the cultural press have permeated the climate of opinion more generally, leading to more public discussion of the extent to which cultural institutions are vehicles of particular ideologies and propagators of particular sectional interests. Indeed, cultural leaders are aware of and sensitive to

these debates; in many cases they are active participants in them and grapple with their interpretive, programmatic, and curatorial implications.

Notwithstanding their professional engagement with the issues, the net impact of these phenomena has been to temper and undermine rather than to provide new ground for the intellectual confidence with which those in leadership positions articulate the place of their institutions in the contemporary world. In moving to safer ground and articulating the role of the cultural building as civic space (or icon), as generator of tourist income, or as an adjunct to the formal educational sector, the *core* of the institution—furnishing a cultural or historical experience—has often been downplayed. This reliance upon an “instrumental” perspective makes the value of the asset contingent upon whether it is an effective means to secondary purposes.

Parenthetically, science museums and children’s museums have found their task marginally less complex. The territory of mainstream science is generally less hotly contested and the sociology of science is less noisy than the sociology of culture (although this may change with the issues surrounding the handling of such topics as genetic engineering). These institutions have, as a result, found a firmer footing in society. Their expansion and organizational self-confidence have been one of the distinctive trends of the museum sector in the past twenty years. However, the status of evolutionary theory and the moral dilemmas surrounding genetic interventions have presented their own complexities.

Globalization and its discontents

Globalization comprises the lowering of international barriers to travel, trade, employment, and the flow of information, ideas, fashions, and values, together with the acceleration of these flows by technology-driven reductions in the cost of such traffic. Specific measures of the pace of globalization vary according to whether one is measuring the diffusion of ideas, capital, goods, or services. The general phenomenon and its exponential acceleration are, however, an unmistakable trait that is manifested in almost all facets of contemporary life.

As the pace of globalization accelerates, the social and economic value attached to things that are either unique or that excel on a global scale of measurement inevitably increases; in turn, institutions wishing to (or, more likely, needing to) be distinctive in a global context are forced to reflect on the sources of their own competitive advantage. Those institutions that do not have either distinctive assets or the capacity to develop distinctive sources of competitive advantage languish, as human and financial resources and public attention refocus on those that do have the assets and the capacities to exploit them.

As a result, there is an increasing polarization within the cultural sector itself, as in other sectors, between those institutions that have the assets with which to compete aggressively and those that do not. Those institutions with particular strengths—whether in their collections, programming, location, the distinctive characteristics of their performance style, the imagination applied to their display, or in the iconic distinctiveness of their architecture—have been the beneficiaries of “customer loyalty” in its many manifestations. The impact of globalization has been, and will continue to be, a polarization between the “haves” and the “have nots.”

Those that do not enjoy or have been unable to develop competitive advantages are in the process of falling noisily and painfully by the wayside. A recent review of the performing arts commissioned from the RAND Corporation produced convincing evidence of the hard times ahead for mid-size performing-arts organizations in the United States that have neither the cachet of the largest cultural institutions nor the maneuverability and niche constituencies of smaller organizations.² A trawl of European evidence would probably reveal a similar picture.

The sophistication of the comparative and evaluative standards of the publics for whose resources cultural institutions are competing is extremely high, as a result of lower travel costs, ready access to comparable products, and the sophistication of other organizations with which

² McCarthy, K., A. Brooks, J. Lowell, and L. Zakaras, *The Performing Arts in a New Era* (Santa Monica, CA: RAND Corporation, 2001).

they are explicitly competing. In addition to peer institutions nationally and internationally, these competitors include universities (for scholarship), the leisure and entertainment industries and competing cultural institutions (for visitors and audiences), the entire cultural sector as well as sports (for sponsors), and the charitable sector (for philanthropy).

For actual and potential audiences and visitors, live performance and artifacts on plinths are competing for attention with in situ audio and video, with artifacts visited by way of increasingly inexpensive travel, and with exhibitions, objects, and performances accessed virtually and enhanced electronically through inexpensive technology. The specific experiential, contextual, and locational advantages of being in a particular place at a particular time to “consume” culture may need to be made more readily apparent if audiences are to be sustained. (It is the “particular time” constraint that puts the performing arts at some disadvantage vis-à-vis the visual arts when making their respective pitches to increasingly harried and leisure-time-deprived audiences.)

Leading cultural institutions are located in a distinctive position with respect to globalization. On the one hand, the world-class and distinctive nature of their skills, assets, and locations has meant that they are beneficiaries of many aspects of globalization, at least in terms of visitor and audience numbers, profile, and scope for generating earned and contributed income. They are on an historic roll. On the other hand, they are forced, willy-nilly, to meet international standards in areas well beyond those where their natural advantages lie. They cannot “choose” to compete; they are forced to.

The contractualization of relationships with funders

Public sector funders and private foundations have tended increasingly to contractualize their funding relationships with cultural institutions and to emphasize in those implicit or explicit contracts the aspects of performance that are most readily quantifiable and that support directly their stated funding strategies, whether those strategies are government policies or foundation missions and programs. These funding agencies have, in turn, had the effect of de-emphasizing

those aspects of cultural institutions' activities that are more qualitative in nature or that are less obviously supportive of their own political or institutional agendas. This trend toward demonstrable proof of performance in pursuit of an externally set agenda has been accelerated by a general decline in the status of the public service vis-à-vis the values of the private sector and, in the case of public sector institutions, in the extent to which the actions and stated intentions of public servants are taken on trust.

The administrative and political revolution that swept western democracies in the 1980s and 1990s replaced a faltering postwar Keynesian consensus with a more ideologically polarized political culture. Managerial mechanisms such as privatization and outsourcing translated a broader philosophy about the relationship between the public and private sectors into detailed programs that had a profound impact on the operation and extent of the public sector in every advanced democracy. This managerial philosophy was, for the most part, introduced during a period of retrenchment rather than growth, creating an umbilical link in most people's minds between cuts in available funding and the introduction of private sector management tools and language.

The approach was informed by an emotional conviction, supported by a theoretical framework, that, all other things being equal, public sector management is less efficient and effective than private sector management, where the Darwinian operation of the market simultaneously encourages efficiency and punishes inefficiency. Nonprofit management has come under similar scrutiny in its wake. A recent review of management trends in the nonprofit sector in the United States put it succinctly: "The nonprofit sector has never been under greater pressure to improve its organizational performance.... Its funders...have never been so insistent about economy and results, while its clients...have never been more demanding about efficiency and responsiveness. How the nonprofit sector does its work is becoming almost as important to

fundors and clients as *what* the sector actually delivers by way of goods and services.”³ What is true for nonprofits in general is particularly true for nonprofit cultural organizations.

The “post-Keynesian” consensus (which, like Keynesianism itself, began in the United Kingdom, was picked up rapidly in the United States, and then diffused more gradually through the rest of Europe) has now extended deep into received wisdom about the public and nonprofit sectors. It has retained many of the instinctive values and analytical approaches that were considered objectionable when first articulated in the 1970s and first implemented in the 1980s. These changes are manifest in:

- a lower regard for the concept of public service and generally lower status accorded to working in the public sector than hitherto;
- a willingness by government and other funders to apply private sector management methods that were previously considered corrosive to the culture of the public and nonprofit sectors, such as the use of internal markets, merit pay, performance indicators, and other mechanisms of incentivization;
- a political agenda that gives a high priority to the introduction of private funding into the public sector, that is suspicious of activities where the benefits are not immediately quantifiable or monetized, and that is more willing to allow public sector jobs that are broadly comparable with the private sector in terms of responsibility and expertise to fall behind in terms of remuneration.

The post-Keynesian consensus has lost the slightly paranoid edge that could be found in public debate in the 1980s. But government and opposition in most of Europe and in North America remain broadly committed to mechanisms that systematize and numerate public sector and nonprofit accountability. These include corporate planning, systems of ongoing review and evaluation, and the use of performance indicators as measures of success.

³ Light, P. C., *Making Nonprofits Work: A Report on the Tides of Nonprofit Management Reform* (Washington, D.C.: Brookings Institute Press, 2000).

As a consequence, cultural institutions in receipt of public or foundation funds are under more and more pressure to explain what they do and why they do it and to articulate the ways in which they promote government priorities or meet the program goals of foundations. The relationship between government and national cultural institutions, for example, has become more contingent, more transparent, and more contractual in character, just as it has between central and local government on the one hand and many executive agencies in health, education, and welfare on the other. The impetus to articulate the “terms of the contract” has come from funders rather than cultural leaders, and the terms of the contract have tended to dwell on funders’ preoccupations rather than those of the sector: He who pays the piper at least tries to call the tune. The general trend has left much that is important to cultural institutions—but less important to those who fund them—either mute or bowdlerized.

The democratic imperative

Managerial efficiency is, of course, not the only goal of contractualization or even the primary one. The dialogue between the funder and the funded has also revolved around the issue of defining the constituencies that cultural institutions should serve and how these constituencies are best served. Every institution in the public domain—from hospitals to central banks to hereditary heads of state—has come under the pressure of growing public accountability over the past twenty-five years and has been forced to develop a more nuanced understanding of who its publics are and how they are best served. Cultural institutions are not exempt from either the general climate or, in many cases, the specific strictures of accountability, and the funding mechanism is only one context—albeit an important one—in which the relationship between a changing society and its cultural institutions is brokered.

Under external pressure, conceptions of good governance are changing, governing boards are growing more diverse, and, where they are not, this is viewed as a weakness rather than a strength. Most cultural institutions program with an eye (if not both eyes) on broadening the accessibility of their “offerings,” and they try to do this in a way that simultaneously seeks to

preserve the authenticity and integrity of their programming. The agenda of access informs—or interacts with—architectural and design values and the whole gamut of ways in which cultural institutions interact with their publics. There is a range of views as to how easily these circles of widening access and commitment to quality can be squared, and public statements on this issue are often more upbeat than private ones.

The drive toward broadening access is sometimes informed by marketing considerations. But, significantly, while long-term audience development and marketing are often lumped together both organizationally and rhetorically, they are often antithetical to each other in the short to medium term. Marketing is usually aimed at maximizing sales at minimum cost in the medium term, and at an operational level it generates strategies that often do little to broaden social access. Making the content of more established cultural institutions attractive to social groups that do not have the habit, context, or language to support at least passive attendance and, ideally, intellectually meaningful engagement is an expensive, long-term exercise. The methodologies for accomplishing this are in their adolescence, if not their infancy; hit and miss in the execution; and require deep pockets, organizational stamina, and collective action between institutions to pull off, none of which are distinguishing characteristics of the sector.

Again, in this process of accommodation, some of the sector's own criteria and organizations' own conceptions of what they are *about*—often difficult to express in even the most sympathetic of environments—have become obscure to the more casual observer. Indeed, whole areas of discourse that are central to the role of cultural institutions, such as overt judgments of aesthetic quality and public discussions of the precise character of what has broadly been conceived of as “high culture,” have become convoluted to the point of parody when they are not simply clandestine.

This constitutes a vulnerability. In an environment where definitions of access and interest are necessarily politicized, judgments of cultural value and what merits attention and

presentation are too. The ability of cultural organizations to play an authoritative leadership role in the stewardship of cultural heritage or heritages and their renewal may be compromised.

Implications

The arguments outlined above present at least a starting point for the discussion of important common ground between cultural institutions, as increasing complexity of mission is matched by complexity of environment, including:

- changes in the ecology of funding and in funders' conception of their responsibilities toward culture;
- shifts in the use of and pressures on leisure time;
- the impact of globalization and the technological and financial forces driving its spread;
- the changing relationships with the formal education sector and the entertainment industry;
- the changing demographics of both the desired and actual audience and visitor base.

There is equally a range of possible responses by both individual institutions and the sector in general. Some organizations have moved decisively toward greater commercialization and more aggressive exploitation of intellectual and physical assets, others to narrower specialization; still others are developing strategic alliances and even merging with organizations in adjacent sectors, whether for-profit or nonprofit. These are all emerging as responses to the growing competitive pressures that cultural institutions face, which is now the context for culture. Each in turn has an impact on the core mission of the institution, at least as traditionally conceived, leading ultimately to a need to re-examine the simple issue of whom and what cultural institutions are *for* at the beginning of the twenty-first century.

3. Oh...and the economy....

Finally, it is worth considering the odd relationship between the museum building boom and the wider economic cycle. It is a fraught one.

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 analyzed at length, the broad consensus being that:

- 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, so QED.
- Along with sports stadia and conference centers, 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.
- Partly because of changing social values and partly in the process of accessing these new sources of funding, museum boards and directors have widened their mission progressively from collection and preservation through displays aimed at maximizing visitors (a.k.a. blockbusters) to broader public education and entertainment—all space-hungry functions requiring annexes and wings. Changing leisure patterns and values have made visiting museums an important aspect of individual psychic decompression and social interaction. Their contemplative and inspirational aspects make 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 to the front-runners so 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 their architecture from the functional servant to the dysfunctional master.

To this fairly conventional wisdom should be added a less obvious dynamic. For the reasons discussed in section one, many museums are undercapitalized, and their balance sheets are generally 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. It often 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 favored 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) or windfall source of capital (such as sale of air rights) that bails them out.

Periodically, for the reasons discussed, museums need to recapitalize and, given the current attitude toward expedient de-accessioning, they are presented with only three alternatives:

- The first is to run screaming into the street—the emergency appeal. This is generally humiliating, requires heads to roll and is rightly regarded as a last resort.
- The second is the periodic blockbuster, the exhibition that is aimed at income maximization through the choice of material, the way it is marketed, and the ancillary retail that is bolted onto it (the Cezannewiches, etc., etc.). The need for the periodic injections of the cash they generate 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 third is the expansion plan, the use of a galvanizing 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, then the systemic underfinancing reappears, and in a heightened form, given the larger facility and the more ambitious programming on which the facility is premised. The museum stands faced, again, with 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 change in the role of the museum sector.

It is also unsustainable.

Much of the fuel for growth in the United Kingdom has been the availability of funding from the national lottery. The spigot was turned on in 1995 and thirsty museum boards and directors stampeded toward it, the stronger trampling the weaker underfoot. However, a new Labour government in 1997, recent lottery legislation, and a slowly dawning realization that museum building is an inescapably loss-making business turned the spigot 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. 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 cause deep problems.

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 two years is having two effects:

- It is reining in dramatically the forward plans for capital expansion that were drawn up on the long upswing but that are not yet executed. Throughout America one can hear the sound of fractious meetings between peeved and thwarted staff and chary, chastened boards whose animal spirits are palpably dampened.
- The sector as a whole is approaching a systemic problem of undercapitalization as its aggregate operational cost has grown faster than the contributed and earned income needed to keep it adequately capitalized. Further expansion plans are likely to give way to more blockbusters, and blockbusters give way to more emergency appeals.

Conclusion

We are probably in for a bumpy ride. What is clear is that the three broad sets of factors discussed above—the underlying economic logic of the sector, the broader social and political trends, and the current down cycle of the economy—will require institutional responses of maturity and insight. Leadership will be required because of the unpalatable nature of the situation that needs to be addressed, the complexity of the predicament, and the inevitability of difficult prioritizations and choices that will have to be made. It is to the nature and context of this leadership that the balance of the week's deliberations is devoted.

What can museums realistically do in the face of these rather dismal and deterministic observations? I would encourage organizations to:

- Look at the impact on their balance sheets as well as on their cash flow when considering program or facilities expansion.
- Avoid the solipsism into which “mission-driven” organizations can drift and to engage obsessively with their changing operational environment and the implications of those changes for the organization's own circumstances.

- Analyze and articulate the full cost rather than the marginal cost of program growth and to generate cost information in a format that allows this to be done and communicated effectively to the outside world.
- Remember that the reason they are nonprofit organizations is not just because they are mission driven. It's not just because their mission is valued by society. It's also because the pursuit of mission is an axiomatically unprofitable activity.
- Think about and articulate the requirements for institutional growth in parallel with program growth.
- Include goals for capital structure and investment as part of their strategic planning process.