Managing Museums in Critical Times

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American art museums face challenges of a magnitude unsurpassed in recent history. They are overwhelmed by a confluence of contemporary internal and external events. Some are dramatically referring to the situation as the “Perfect Storm.” While this may be overstating the situation (and one hopes, not indicating a similar ending), it is a serious situation.

I have been the board President of a museum and today serve as Chairman of a visual arts organization, yet I have not had the position of the professional manager of an art museum. But I do consult with museum boards and directors and see first hand, some of the difficult issues they are facing today. In my view, museum managers' challenges are among the most difficult of any field, requiring a high level of efficiency and creativity. Today, with incomes diminishing and expenses rising, their tasks are more complicated and difficult then ever before.

Unlike a recently published McKinsey study, I will not recommend the obvious, that nonprofit executives concentrate on high-level donors or use the Internet for fundraising. Nor will I insult museum managers by suggesting that they may solve their organization’s problems by being more efficient or working smarter. I believe the solutions are not simple and tactical, but rather require broader strategic actions.

This paper covers four areas:

- The current situation in American art museums
- Some of the consequences, actual and inherent, that are the results of this situation;
- A series of recommendations on how to insure that museums emerge healthier and stronger;
- And finally, with the reader’s indulgence, my views about the long-term situation museums are likely to face, even after they have weathered this crisis.

First, the current situation:

The January 2002 AAMD (Association of Art Museum Directors) survey inaccurately predicted an optimistic future for art museums. The report stated, “Despite economic challenges and the aftereffects of September 11th, … the country’s art museums remain strong and stable. . .” The report presented a picture of the state of the country’s art museums at the beginning of 2002 and predicted future trends. The key findings of the study were:

1. Ninety-nine percent of the museums that were planning new buildings or expansions would follow through on those plans,

2. Almost ¾ of the museums saw no need for staff cutbacks, with some anticipating additional hiring, and…

3. Over ¾ of the respondents anticipated no cuts in government funding.

The responses were an expression of hope about the future, based on short-term trends following the devastation of September 11th and, I believe, based on the assumption those economic downturns are cyclical and that the recession of 2000-2001 had ended.

However, since that AAMD report 16 months ago, there has been considerable upheaval and increasing difficulty for museums. A number of countrywide economic and global political factors are negatively affecting museums in a particularly harsh fashion. For the purpose of further analysis, I will summarize the five major factors:

1. National unemployment at 6.1% is at its highest level in nine years. The unemployment rate for middle management and more senior-level employees (the demographics of museum members, visitors and patrons) is much higher. The unemployed members of this target group are more cautious about their support.

2. By the beginning of 2003 almost all stock indices had dropped at least 20% from highs in 2000. Museums suffer four serious consequences of this:

   a. Contributions of appreciated stock are no longer as appealing an option for individuals;

   b. While art museum endowments more than doubled in the ten year period of the 90's, the value of museum endowments has fallen over the last two years (we will return to this later)

   c. The assets of most private foundations that fund programmatic initiatives have also lost value and foundation grants have declined. (E.g., The Ford Foundation assets have gone from $15 billion in 2000 to $10 in May 2003.) Even if both stock indices and foundation assets increase significantly, with three year averaging increases in foundation funding will not be felt for at least another two years.

   d. The drop in the stock indices reflects a decline in corporate profits, which also affects museum funding. When corporations downsize or close facilities in cities where they traditionally supported culture, they also frequently reduce their contributions in those cities. The devastating dissolution of both Enron and Arthur Anderson has rippled through the arts communities in not only Houston, but also Chicago and many other cities throughout the US. And there are many other examples. The Lucent Corporation Foundation was a great supporter of innovative arts programs. Two years ago when the Lucent Foundation was planning its contributions, it made a "moral decision" to reduce grants because the stock price was dropping and employees were being fired. Today, Lucent has reduced its work force by the fifty thousand and its stock has dropped from the mid $70's to approximately $2 per share.

3. Government support of museums, both direct and implicit, is dropping significantly.

   a. Only a few years ago, most states had huge operating surpluses. New Jersey's surplus was in the billions of dollars, as was that of New York, Minnesota, Texas and Florida, to name a few. In New York City, many ambitious cultural expansions and new buildings were encouraged by the promise of the state and city's capital support. The waterfront Guggenheim, the New York Aquarium on Governors Island, and the Staten Island Museum atop the Ferry Terminal, are just a few of the grand plans that are now scrapped. Government operating support is also in jeopardy. At one of the largest museums on the east coast, the Newark Museum, the Governor is threatening to reduce the museum's operating income by over 25%.
   b. The proposed federal income tax revisions, if enacted, will lessen the incentives for individuals to contribute both to annual funds and, more significantly, to bequests.
   c. The recent proposals in congress to impose greater restrictions of foundations will weaken their ability to make grants to museums and other nonprofit organizations.

4. In the weeks following September 11th there was a significant drop in attendance at museums throughout most large American cities. The attendance at NYC museums and those at the Smithsonian dropped to virtually zero. There was a strong up tick in attendance in November and December of 2001, perhaps the reason for the positive response in the AAMD survey. Yet, absent blockbuster exhibitions, museum attendance has not reached its pre- September 11th levels. Although the threat of terrorism in the public conscious has lessened, it still affects tourism. Additionally, the country's most recent geopolitical activities (i.e. two wars) have had other negative effects on museums. A study I published on May 14, 2003 (The DHR Metropolitan Cultural Index) revealed that NYC region cultural leaders believe the present geopolitical situation will make it more difficult for foreign artists to obtain visas and for works of art to move internationally. Cultural leaders also believe that the increased threat of terrorism is having a negative effect on tourism, and therefore, museum attendance. A similar survey of Chicago area cultural executives also published in May 2003], showed similar results.

5. Museums' fixed costs are rising. The threat of terrorism has led to increased costs for security and insurance has risen dramatically. Additionally, personnel costs, which typically account for 55% to 65% of a museum's operating costs, are rising as the cost for employers to provide health insurance is increasing by as much as 100%.

So this may not be the Perfect Storm, but the confluence of these streams of lowered income and higher costs are joining to form an arroyo that is carving a deep scar in the landscape of American art museums.

What are some of the implications or outcomes of this situation?

First, there is a lack of confidence and optimism about the future. In the metropolitan cultural confidence survey referenced above, New York City cultural leaders' optimism was at its lowest since immediately after the terrorist attacks on September 11th, which was at an historic low. Through anecdotal evidence gathered from discussions with museum executives in other parts of the country, I have learned that that lack of confidence and optimism is widespread. Lack of confidence in the future means decisions about new exhibitions, publications, and innovative programs (those activities requiring 6 to 24 months of planning) will be deferred, and these deferments could affect museums long after the economic indicators have reversed. Witness the aborting of the already cited building projects and the cancellation of others, such as the Whitney expansion and a new Jewish Museum in San Francisco. And there will be many other proposed projects that will never proceed past the board committee.

Second, I believe there will be strained relations between boards and museum directors. Today, board members are more pessimistic then the directors, leading to strained relations. There is already evidence that the strain may become more rampant and public as boards, once giddy with great ambitions that were shared by the directors, are now panicking and looking for someone to blame. The executive director of a major US art museum recently told me in confidence that he and his board are no longer sharing the same vision for the museum and that the situation cannot be resolved. His tenure is soon to come to an end. Just as boards of public companies are exhibiting little patience with their CEOs, I believe we will see a substantial increase in the turnover of Museum Directors.

However, there is little benefit in assigning blame. We know that both boards and management share responsibility, and, later in this paper, I will recommend some methods for avoiding these strained relations.

This strain could result in the third situation: the end of the day of the Museum Director as a cult figure and personality, resulting in their high compensation levels being rolled back or increases slowed. Art museum directors' salaries rose meteorically during the 90's and today are higher than their counterparts at symphony orchestras, performing arts centers, science and history museums and zoos and aquariums. There are a number of reasons for this: the transparency brought about by TBR2; a willingness on the part of directors to be lured to a new institution by more money, and the willingness of trustees to offer such; lack of competition among search firms, to the point that one firm dominated most of the art museum recruiting and the pool of talent was rearranged, not replenished. (The museum director imports from the UK and other countries have not yet proved to be more adept at managing during these times and there has been little or no succession planning to identify and prepare the next generation of museum leadership.)

A diminished level of creativity and experimentation may be the fourth serious implication. With great turnover and with reactive approaches to the aforementioned crises, art museums could enter a period of creative drift and loss of identity. Museums, like their counterparts in the performing arts that rely on warhorses, may be tempted to program blockbuster exhibitions, those sure-fire, popular presentations that may draw audiences but provide no stimulation to staff or board, and dilute the mission of the institution.

So, what can be done?

Remember that the last decade was one of unlimited optimism; foundations, governments, individuals and communities encouraged growth through the support and encouragement of new programs, usually activities that would unfold over many years. Museums expanded education and community programs, broadened their missions to embrace new activities and entered into ancillary businesses. During this time, virtual zero unemployment and the creation of new museum positions raised salary levels of museum professionals creating larger fixed costs. New buildings increased capital costs and depreciation expenses; and those new buildings required more exciting and blockbuster exhibitions to justify the new spaces.

Now that all sources of income have decreased and expenses increased, the capital structure can no longer support these activities. It is incumbent upon the museum to communicate the new reality to its stakeholders and to re-calibrate expectations at all levels—Board and Director, Director and staff, Museum and outside stakeholders including foundations, government leaders, patrons, visitors, and the community.

This time could be considered an opportunity to review the strategic plan and to examine the mission of the museum to determine which programs and activities are core and which are “hobbies,” that is, programs that are expendable and non-essential. There will be resistance from many camps to protect favorite programs, but the key to survival and strength is to concentrate on the core activities, the mission, and to identify and concentrate on the core of that core. The strategic plan must be re-visited and revised. And the revised plan must be communicated to all of the stakeholders. And the stakeholders, to the extent possible, must be called upon to assist the museum executives through these critical times. Foundations may not require complete fulfillment of grant proposals, corporations may not require the same level of quid pro quo and individuals may be asked to provide flexibility to their restricted gifts.

Careful decisions on where to cut back must be made. Unfortunately, staff positions will be eliminated, hours of operations curtailed, admission fees raised and exhibitions cancelled. In view of the current situation, it is inevitable the museum must develop a short-term recovery plan that affects each of the stakeholders, and communicates the new reality –internally and externally. And it must be done swiftly, comprehensively, immediately, and it should be all encompassing so that it occurs only once. More importantly, for trustees and, by extension, management leaders of museums, the fundamental responsibility must be to protect the assets.

These assets are clearly identified: the endowment, the buildings, the collections, the professional staff and board, and the museum’s reputation or brand value.

During these difficult times the museum endowments are most vulnerable. At a recent conference of arts leaders, I learned that many of their organizations were looking for legal ways to extract additional income from their endowments without breaking established covenants – like spending all dividends and interest, or using an earlier asset value in the organization’s history as a baseline for three year averaging. More troubling, many were in the process of readjusting their portfolio by selling equities to buy interest-generating bonds –selling low and buying high. I recommend a disciplined, continual, conservative and long-term approach that places preservation of assets above income generation.

History tells us that during critical times like these, infrastructure and buildings are at risk. Funds are shifted away from repair and replacement, those that are less visible and painful, and these projects are delayed. This cycle occurred in the late 1970’s and early 1980’s, which lead to an era of significant remodeling and rebuilding of museums in the 1990’s. Fortunately, those renovations, rebuilding, and expansion projects were fueled by a robust economy, government support, and major increases of personal wealth combined with changes in the tax laws that encouraged contributions. I don’t believe the economic turnaround will be as rapid or as dramatic following this cycle; and the tax laws, as mentioned earlier, are less favorable than before. Therefore, museum buildings are once again at risk. The temptation to defer maintenance to save programs or positions is there; the consequences are there as well.

When the buildings are at risk, so are the collections. We need only to look at the case of the New York Historical Society, which neglected its infrastructure and allowed rain to leak in on its collections. And this time of smaller acquisition budgets can be considered an opportunity for introspection and analysis regarding the strengths and weaknesses of the collection. Understanding and redefining the core mission may be the stimulus for a revised accessions policy and a strengthening of the collection.

The professional staff of the museum is an important asset. The continuity of leadership and the institutional memory are great assets that could be at risk. The opportunity is twofold: to closely examine the strengths of the existing staff and use this time of downsizing to eliminate low performers and, because other museums, cultural institutions and businesses are reducing their workforce, to use the opportunity for selective, strategic hiring.

The board also is an asset. Board meetings and board participation could become less enjoyable during critical times. Also, with much more public scrutiny and potential liability, board membership is less appealing. But the board leadership must be engaged, a clear management plan presented and the boards’ roles defined so that the strength of the board is maintained while the weaknesses of the board are revealed and resolved.

Protecting the brand and the reputation of the museum is critical at this time. Many city museums, in an effort to diminish their parochialism and build a brand, changed their names to acronyms; the Brooklyn Museum (BMA), and the Baltimore Museum of Art (BMA), The Newark Museum (TNM), MassMoca, SFMOMA, etc. Beyond this surface level of branding, is the subtler emotional bond that a brand could create between the museum and the public. Strong brands support marketing, sales, and fundraising, and positions the business (or museum) to increase its earned and unearned income.

During this period when resources are scarce and earned revenue is even more important, many museums are resorting to so-called marketing techniques that in the long run, I contend, will weaken the brand.

Here are two recent examples, reported in the NY Times, of how museums are “being creative” to draw audiences and earned income. One example involves a museum that dressed marchers in a parade like grandmothers to promote its Grandma Moses exhibition. Another museum had curators dress like mummies and appear in shopping malls and on local television to promote an Egyptian Exhibition.

The issue, I believe, is not necessarily one of good or bad taste – we each have a different definition of taste. Rather, it is a question of protecting and re-enforcing the “brand” – the emotional connections, qualities and perceptions that a museum creates with its constituents – rather than diluting or confusing it. Again, understanding and reaffirming the core mission and what that mission means to the stakeholders is the “brand” that must be protected.

To conclude, there are three long-term trends that may affect museums well after the present financial situation is resolved:

Many museums were founded around the beginning of the 20th century in large, industrial population centers supported by individual largess and private collections: Buffalo, Cleveland, Baltimore, Newark, Omaha, Hartford, are just some examples of this phenomenon. For most of the 20th century, although the industrial base in these cities has changed, in large measure the cities and their museums remained stable, supported by the government and the philanthropic families of those cities.

These cities in particular, are now undergoing radical declines in population and shifts in demographics that are affecting their business base, their economies and their very identities. The governments are in deficit situation and the fourth and fifth generation family members have fewer resources and are less committed to their home cities. The demographic shifts may have the most impact on arts and culture in cities.

We know from the latest census data that Hispanics, not African Americans are the largest minority in America. Just as art museums were responding to African American populations in their collections and interpretations, new ethnic groups will become the a larger potential market. Seventeen percent of the population is Hispanic and growing. In New Jersey, the ethnic group with the highest median income, percentage growth and education level is not Caucasian, but Asian. Northern industrial cities are losing population to southern and western states and the median age in the southeastern cities is increasing. These shifts cannot be ignored and, one can be sure, are considered by other businesses in their long-term planning. The implications of these population and ethnic shifts have profound implications on museums, particularly art museums that, by their nature, have immovable locations and culture specific collections that cannot quickly adapt to a new audience.

The second trend is the convergence of art forms. Artists no longer considerer themselves visual artists or musicians, but rather they cross over many disciplines of live, electronic, performance and visual art creations. How museums and museum buildings, with large, static galleries and resources allocated to storage and conservation can respond and interpret these new genres, I believe, is the second challenge.

Finally, there is the complex challenge described so thoroughly by Robert Putnam, author of Bowling Alone and keynote speaker at the 2000 American Association of Museums conference. Putnam’s thesis is that the United States has lost much of the social glue that once allowed our society to cohere and that we are in danger of becoming a nation of strangers to one another without adequate social bonds. If his thesis is correct, then museums, whose implicit mission has been to create community, may become the victims. Or, they may become one of the engines that reverse this trend.

I am pleased to conclude on a more positive note. Among all the sectors of the cultural industry, museums are the strongest. Museums own buildings that physically anchor them - much more than most symphony orchestras, ballet or opera companies that rent either facilities or perform by touring. Museums have collections that are assembled over time and represent a continuous and permanent cultural resource.

Museums, as a group, have more endowment per organization than other arts sectors. And museums, more than any other cultural sector, have ingratiated themselves on many levels and for many generations into their local communities. These are strengths that will guarantee museums’ survival, despite the challenges they face.

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