

# **The Bull & the Ballot Box: Art Museum Economic Strategies**

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Researched by:

Penn IUR Consultant

Matthew Kwatinetz, Managing Partner

QBL Partners

**This is a working draft prepared for review by the Penn Institute for Urban Research Roundtable on Anchor Institutions (PRAI).**

**Your comments, criticisms and suggestions are extremely valuable, and we encourage you to submit those to us by contacting our research consultant, Matthew Kwatinetz, at [matthew@qblre.com](mailto:matthew@qblre.com)**

**Once we receive your feedback and review, we will revise the paper for further circulation.**

## The Bull & the Ballot Box: Art Museum Economic Strategies

### Executive Summary

Art museums in the U.S. today are experiencing one of the most turbulent times in an already bumpy history, inspiring an evolution in their perceived purpose. For most of their history, American art museums held close to the concept that they embodied a timeless ideal, serving society through preserving that ideal despite changes in contemporary taste. But now, the tenet is shifting, suggesting that those museums that will thrive into the future are focused on how to best serve their constituents, public and private.<sup>1</sup> A shift from an internal “ideal” to an external, “market research”-based focus, this new mandate should not be underestimated. It presages a revolution in how we think about the museum, which has been summarized by the pioneering idea that “the museum is *for* somebody rather than *about* something.”<sup>2</sup> This paper first fleshes out that conclusion and then moves on to ask exactly *how* museums can combine their public service missions with market-derived strategies without compromising their integrity.

Some would call this heresy. After all, the grounding museum mandate of the (admittedly distant) past was to provide “pleasure and delight”<sup>3</sup> to the wider, culture-starved public by exposing them to treasures beyond their everyday understanding—so the idea of getting direction from that same mass of plebeians does not digest well. The grounding mandate was accomplished alongside the museum’s traditional activities of preservation, interpretation and scholarly inquiry which stewarded society’s cultural treasures and insured their survival for future generations.<sup>4</sup> But from the 1970’s through the 1990’s, this view was refined and then eclipsed by the notion that the primary purpose of museums was education.<sup>5</sup> In a subtle but crucial shift, the museum was tasked with tailoring its traditional activities to educate the general population: that it existed *primarily to provide this education*. This was a foundational and ground-breaking move away from an abstract ideal and toward a practical one. Despite this cultural repositioning that inspired a brief honeymoon of increased philanthropic support in the 1990’s, change marches on.

Today, as a result of mounting external pressures including the decreasing support and attendance of the museum’s constituents, museums are once again in molt. What began as a worrisome murmur has grown quickly to a cry of epic proportions as the effect of the financial collapse of recent years has sharply impacted an already decreasing base of support. Social and cultural influences notwithstanding, economic factors clearly point to the necessity for immediate change. Some potential directions for that change are what this paper explores.

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<sup>1</sup> This conclusion owes significant debt to the arguments of Weil, Dobrynski, Franco, Hudson and Whitaker.

<sup>2</sup> Quoted from Weil (43) as Joanne Cleaver quoting Michael Spock. Debt in this argument is owed to Weil’s excellent article by the same name (see Bibliography).

<sup>3</sup> The Belmont Report (1968).

<sup>4</sup> In this view, museums are a bastion of culture, a towering ideal preserving society’s legacy as a whole. As time and experience passed, the ideal shifted to align the museum with the university, existing as an end in and of itself, a higher purpose which both intentionally and incidentally shines brightly upon those who experience it, “uplifting” them through exposure—but primarily concerned with the higher purpose.

<sup>5</sup> American Association of Museums (1991).

A helpful framework for understanding the trends in museum philanthropy comes from Victoria Alexander, who traced the support of museums through three “periods” of museum funding: a “philanthropic” period characterized by the exclusive support of wealthy individuals; a “transition” period in which increasingly professional management diversified the funding base and grew earned revenues; and a “funding” phase in which institutions such as corporations and foundations picked up the work previously ascribed to wealthy philanthropists and amplified the pressure toward populism and large scale exhibitions.<sup>6</sup>

Almost 25 years later, we can discern a new pattern emerging: a shift beyond populism into “market” forces. On one hand, private institutions are increasingly holding museums accountable to “best practices” in management: maximizing earned revenues and providing strategic market justifications for philanthropic support.<sup>7</sup> On the other hand, the public and not-for-profit sectors have established similar “outcome based” approaches that approximate the discipline of a market but are accountable to a public purpose rather than the individual’s purse strings.<sup>8</sup> Such a focus on organizational performance and concrete evaluative techniques balances economics with both mission and external context.<sup>9</sup>

Really though, this is not a new pattern, but a return to the relevance of the individual as the ultimate arbiter of the museum’s value. In the truest sense of the word, it is a revolution back to the initial genesis of the museum. In particular, American art museums have their roots primarily in the vision and resources of a single (wealthy) individual who donated the initial collection. During what Alexander calls the Transition and Funding phases, art museum economics were bolstered first by government, then by foundation and corporate support—in all cases moving to an institutional rather than individual ideal. But the forces of populism and the market have grown strong, saddling the museum with a reliance on individual donations and earned revenues from exhibitions and sponsorship. Ironically, each individual patron and supporter desires a similar relationship with the museum as that received by the original endower. But just as the endowers had a variety of ideas that engendered the veritable coterie of museums that survive today, so too does each potential patron come to the art museum with their own ideas for its purpose and structure. However, in this new world, each patron desires to retain this privileged relationship while giving far less dollars per capita to the museum. Museums must therefore evolve in their methods of servicing such patrons or face a rapidly decreasing mind-share and financial support.

The crux of the conclusion of this study is that the new era offers museum directors two sustainable strategic paths which can be blended to achieve the mix that best fits each museum.<sup>10</sup> Both are strategies for *positioning* the museum in the eyes of its supporters and stakeholders. I will refer to these as the “Bull” and the “Ballot Box”. Though these two are not necessarily

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<sup>6</sup> Alexander, 1996.

<sup>7</sup> This shift is not always popular and some even view it as unethical. When questioned by the *Chronicle of Philanthropy* about the shift toward “strategic” giving on the part of corporations and corporate foundations, GE Foundation President Bob Corcoran replied: “that’s crass, that’s not philanthropy” (Barton & Preston).

<sup>8</sup> Cf. Government Performance and results Act (GRPA) 1993 and the United Way publication “Measuring Program Outcomes: A Practical Approach.” Arlington, VA: United Way of America, 1996.

<sup>9</sup> AAM and ILAM, “Summit of the Museums of the Americas” (1998).

<sup>10</sup> This is not to claim they are mutually exclusive, but best practice in strategy recommends focus.

disjunctive, they will cast a long shadow over the mission and purpose that constitute a museum's identity. The use of these two terms is meant to illustrate an analytic framework for evaluating potential strategic direction. The paper examines and then accepts that the museum's purpose must now be increasingly focused toward the service of its constituents. The Bull and Ballot Box framework takes that one step further and asks *how* and *what form* that focus will take. Like it or not, consistency of identity is a strong determinant of fundraising success, and so the most successful museums will focus their activities to best harvest these positioning actions.

The Bull is the call of market forces. From an institutional funding perspective, it is the demand for philanthropic strategies that justify the bottom line impact; from an individual patron's view, it is the desire to receive a compelling value proposition for their dollar as compared to other contemporary leisure and educational offerings. Satisfying the Bull implies that American art museums will be able to capture at least their fair share of corporate and individual support, both of which appear to be increasing at a sufficient pace to insure the successful museum's prosperity.<sup>11</sup> In essence, the Bull indicates a not-for-profit brand position that *competes within the for-profit marketplace*. That is, the museum supporter justifies their museum-directed spending based on market comparison with other opportunities for how to spend their money, and the relative utility/happiness/payback they get on the money. In a purely market-based context, the museum out-competes its rivals for support.

In contrast, the Ballot Box is a demand for public purpose that is relevant and measurable on social criteria divorced from economics. With an increasing number of not-for-profits, social enterprises and public/private partnerships, both the individual and institutional charitable dollar pursue those opportunities that can justify investment on a social returns basis. Starting from the view that museums have the power to "change what people may know or think or feel...to influence what values they form" (Weil, 39) the Ballot Box encapsulates the demand: "if our museums are *not* being operated with the ultimate goal of improving the quality of people's lives, on what [other] basis might we possibly ask for public support?"<sup>12</sup> In the Ballot Box, *populism* justifies the museum supporter's spend. In fact, it is in those very cases in which the market place is broken that the Ballot Box has its most persuasive ask. Its purpose is to live outside the market. Ballot Box strategies out-compete purely market-based competitors on the aggregate by combining services with a socially persuasive mission: supporting the museum allows the patron to do well and do good all at the same time. Each individual price point may be inflated (with a nod toward the higher purpose) or deflated (as a direct demonstration of that purpose) as appropriate, in aggregate, to support the overall strategic position.

The choice between the Bull and the Ballot Box is one of strategy, and there is no single correct path. A successful Bull-based approach will harness the power of market forces by creating the most attractive offering available to individuals and institutions, as measured on a "bang for the buck" basis. The essential difference between the two is that filling the Ballot Box, unlike satisfying the Bull, is non-transactional. Choosing a Ballot Box based approach will trigger a host of activities that, in aggregate, will draw a larger share of contributed dollars and in-kind support that fundamentally alter a museum's economics—even if each individual transaction is

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<sup>11</sup> Corporate and individual support are increasing sufficiently when looking at the long-term trend. The short term effect of the recession is discussed in section II below.

<sup>12</sup> Weil 1997.

*made despite prevailing market wisdom and/or comparables.* The Ballot Box strategy seeks to once again assert the social necessity of the museum’s role, thereby attracting support for its existence as opposed to competing for dollars on each potential transaction.<sup>13</sup>

This paper is an initial study into an extraordinarily rich history and topic. It was commissioned as a part of the Penn Roundtable on Anchor Institutions, a program of the University of Pennsylvania Institute for Urban Research. While its impetus was a dual exploration of the combined impact of the financial downturn and the changing nature of corporate support on museum finances, in investigation it proved impossible to fully explain these phenomena without drawing reference to a broader context. Regardless, the paper pursues that original aim, examining three main influences affecting art museum finances, with particular reference to the role of corporate arts philanthropy. These three include: the business cycle, recent trends in corporate arts philanthropy and socio-demographic factors affecting the fiscal health of art museums. But along the way, where possible, reflections and best practices are added to suggest further relevant research.

Section II of the paper presents the **background** to the work, a brief historical context of the economic development of American art museums. It then provides a snapshot of the current state of philanthropy for the museums, with a focus on corporate-derived giving. Those extremely familiar with museum economics may want to skip this section.

**The business cycle** and its inevitable fluctuations are the cause of the most visible challenge facing corporate philanthropy in American art museums today, and are explored in Section III. The impact of the recent recession has caused one of the deepest cuts to corporate arts philanthropy in recorded history. Since American art museums have steadily grown to rely more on private (and corporate) donations over the last three decades, the sudden shock of economic collapse has hit them hard. But this is a temporary effect, with arts giving expected to bounce back as it has following past recessions. Notwithstanding the severity of the recent financial collapse, the business cycle is a reliably repeating phenomenon for which museum directors can prepare. Therefore, we recommend that museums implement financial management practices that utilize surpluses at the top of the cycle to fund shortfalls at the bottom—this is known as consumption smoothing. Bull inclined museums should consider stringent “rolling average” budgeting, whereas the Ballot Box inclined might instead undertake the issuance of tax-exempt bonds as this latter option provides for increased service to its constituents at the most crucial times (i.e., “counter-cyclical”). In either case, museums will have to work to restore corporate philanthropy to previous levels—or increase those levels—but we expect to see an improvement in the overall corporate philanthropic environment as the US comes out of recession into recovery.

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<sup>13</sup> Transactions here refer to each grant application, admission charge, concession/merchandising sale, or single donation. A Ballot Box approach, when successful, will attract dollars on a “for a good cause” basis, otherwise known as traditional *contributed* income. A Bull approach instead recognizes prevailing winds casting every dollar as an “earned” one, even donations, sponsorships and other previously “non-market” transactions. In this Bull view, the best single offer always wins. In the Ballot view, the organization that “does the most *for me*” most often wins. These are not so far apart, but they do dictate different strategies for interaction with patrons.

**Corporate giving** as a whole is going up across all philanthropic categories, but down for the arts, on average. Section IV suggests an increasingly competitive development environment. The American art museum segment on average also is losing its “fair share” of corporate support.<sup>14</sup> Based on research done by Giving USA, the Conference Board and Americans for the Arts, it is not a mystery as to why this is happening. Corporations have steadily moved from generally supporting the arts “for arts’ sake” to a more targeted (i.e., focused on fewer organizations at a deeper level) and strategic (aligned with corporate goals) approach. In general, corporate philanthropic officers are finding arts organizations to be less than ideal partners for this shift, stating that either arts organizations are reluctant partners with corporations—viewing them as a necessary evil—or that arts organizations are less educated and strategic about their partnerships with corporations, and thus are not satisfying the goals evinced by the corporations to the degree of other philanthropic organizations. We find that art museums are well positioned to compete for these dollars, but must educate themselves and adapt to the changing needs of corporations if they are to be successful. Bull-ish directors need to refocus their strategies around the sponsorship offering, targeting long-term partnerships in the form of deeper relationships with fewer corporations, each a highly customized set of offerings.

Those directors attracted to the Ballot Box should instead refocus their strategies more directly on **small business giving** (with revenues of less than \$50M). These small businesses differ from corporations and do not seek strategic outcomes—and provide over 75% of total corporate arts spending nationally, with 90% of that spend done in their locale.<sup>15</sup> Ballot Box strategies will court emerging business leaders and deeply penetrate local chambers of commerce and business networking groups. Whether leaning toward Bull or Ballot, museum directors should also concentrate on the development of employee involvement with the museum, which is steadily becoming the dominant factor influencing business engagement.

**Changing demographics and emerging technology platforms** provide the backdrop complementing the foreground of rapid economic change and are explored in Section V. In combination, the economic, demographic and technological factors create a perfect storm of opportunity for art museum directors who have long considered fundamental changes to their operations. Social and demographic changes have impinged upon traditional operating and development models of art museums even as the old guard of funders, staffers and board members may have maintained resistance to underlying assumptions of how museums “should” operate. Most significantly, productivity advancement, technology exploitation and the demographics of the Generation Y (“Gen Y”) have impacted, or have the potential to impact, art museum organizational/business models.<sup>16</sup>

Productivity advancements in most industries allow organizations to compensate for inflation (and therefore rising price levels) by reducing the cost of labor: this has not been the case for museums, which have sought alternate methods for offsetting economic growth without

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<sup>14</sup> “Fair Share” refers to the amount of support that art museums would receive if support were divided equally on a pro-rata basis amongst all potential organizational participants.

<sup>15</sup> *Chronicle of Philanthropy* 2008 survey.

<sup>16</sup> “Generation Y combines the can-do attitude of Veterans, the teamwork ethic of Boomers and the technological savvy of Generation X. For this group, the preferred learning environment combines teamwork and technology.” from *Generational Learning Styles* by Julie Coates

alienating their patrons by raising prices excessively. **New technology platforms**, often responsible for productivity advancement, create some options for savvy exploitation of new potential revenue streams by museums. Bulls should focus on utilizing technology to harvest the intellectual property (IP) value of the collection to increase earned revenues. Such tactics could include: creating smart phone applications, shared museum technology platforms and other methods of distributing content-rich products to museum patrons. Ballot Box technological solutions should focus on “crowd sourcing” to steward the involvement of Gen Y, which has disrupted the traditional value system of both for-profit corporations and not-for-profit art museums. In both cases, Gen Y seeks an increased level of participation, team-work and transparency to motivate their involvement and giving. Ballot Box-focused art museums can take advantage of this shift through exploring programs that expand the opportunities for involvement by this steadily increasing demographic. It bears mentioning that the population of Gen Y exceeds that of the boomers, and we can expect a corresponding “echo” in the social order that has a large effect on our collective value systems structuring market and non-market transactions.<sup>17</sup>

As a brief introduction to the likely next steps in adjusting the fundamental economic assumptions of American art museums, we advocate in the appendix for particularly brave Bullish and Ballot Box-oriented directors to examine ethical and mission-based monetization possibilities around the two largest assets of most museums: the art collection and the physical building of the museum. While large-scale Deaccession is not recommended, several techniques for harvesting some value out of the collection while following Association of Art Museum Directors (AAMD)<sup>18</sup> policies are suggested. In addition, the basics of real estate exploitation are explored as a means of lowering cost while improving impact on local communities (Ballot-Box) and corporations (Bull).

Ultimately, in this study we find good news for the future of the American art museum. While challenges are legion, this is no different than has been the case throughout their colorful history. The opportunities presented by the trends outlined above illuminate many previously unavailable options that can be pursued by disciplined museum staff: we recommend using the analytic framework for the Bull and Ballot-Box to root that discipline. This will allow art museum directors to reinvigorate first the perception of the art museum segment as a whole, and then the particular differentiated quality that forms the identity of their museum—which is the spine required to create the healthy body of long-term support. While any paradigm shift can be challenging and controversial, American museums have continually proven themselves up to the task of evolution for survival and growth. If art museums are to enter a new phase of fiscal health, museum directors and staff must be fearless in examining all possibilities. American art museums, since their inception, have been organizational trail-blazers, achieving their current well-respected status by embracing change, while maintaining careful attention to both mission

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<sup>17</sup> *Bloomberg Businessweek*. 2010 Year in Review. December, 2010.

<sup>18</sup> The Association of Art Museum Directors promotes the vital role of art museums throughout North America and advances the profession by cultivating leadership and communicating standards of excellence in museum practice.



and organizational development. Our outlook for museums that continue this approach is extremely positive.<sup>19</sup>

## I. Background<sup>20</sup>

The financial picture of art museums has always been one fraught with challenge. But throughout history, art museums have found a way not only to survive, but to grow and thrive. Even in 2010, the AAMD<sup>21</sup> reports that a majority of art museums will actually expand program offerings in the face of one of the most difficult economic climates in history. The lesson is clear: art museums, through persistence, creativity and dedication to their missions, have managed to surmount difficult obstacles and continue to serve as a cultural bastion of society. Today, in the face of rapidly changing demographics, social demands for art and the greatest economic collapse in recent history, museums are faced one again with an exciting proposition to re-examine their essential structure and make changes that will define their passage as enduring institutions into the 21<sup>st</sup> century.

The unique history of art museums should be a source of pride. Museums have been forerunners in the establishment of arts not-for-profits<sup>22</sup> throughout the US. However, this history comes at a price, including tight fiscal strictures. When combined with a general pattern of limited arts philanthropy, and a seemingly declining share of corporate philanthropy going to museums, art museums are in a constant struggle for economic stability. If we dig into this financial distress, we unearth a seeming paradox: art museums are extremely capital asset-rich in their collections and buildings, but are operating cash-poor. The value of the collection is often multiple orders of magnitude beyond operating cash needs, but the use of artistic assets to fund operations is taboo.

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<sup>19</sup> In preparation of this paper, we were able to collect a great deal of relevant data to begin the conversation. While we hope this paper is useful, more in-depth research is recommended as potentially fruitful. A logical next step would be to deepen the exploration in several ways: examining the correlation between museum philanthropy and their local economies; profiling individual museum data to create “like groups” based on economic characteristics (a good complement to museum topic and size divisions); quantifying the effect of museums on real estate values in their surrounding districts; and delving into corporate philanthropic data to disaggregate trends in corporate foundation giving, direct corporate giving and earned income of museums through corporate sales.

<sup>20</sup> This section sets the context for the study and is primarily targeted at non-museum workers. Feel free to skip ahead as appropriate.

<sup>21</sup> Association of Art Museum Directors

<sup>22</sup> Throughout, I reluctantly use the term “not-for-profit” versus the also commonly used “nonprofit”. Reluctantly because both of these terms are increasingly misleading to organizational managers as descriptors of anything beyond tax status. The choice is to reflect the understanding that museums should make profits—when possible—to both build endowments and “rainy day funds”—but their activities are not based around the sole end of making profit—rather they answer to multiple bottom lines beyond just the economic. The American Association of Museums (AAM) and Institute of Latin American Museums (ILAM) adopted “economic growth, environment, equity and cultural diversity” as their four “bottom lines” in the Summit of the museums of the Americas in 1998. This may be seen as strikingly similar to the general “Quadruple Bottom Line” theory of value: economic growth, social equity, environmental sustainability and cultural vitality (Fawkes). As Art Museums have entered into the discussion of long-term sustainability and their role in improving quality of life in society, the discussion has quite rightly turned from what they are not (ie, “for profit”) and more toward what their purpose is and could be. This paper touches briefly on those topics.

This makes sense historically.<sup>23</sup> But ironically as a result, an art museum with a multi-billion dollar collection can be bankrupted (or compromised) by a cash short fall in the single digit millions.<sup>24</sup> While there is a general consensus that art museums have “always” been dancing on the brink of fiscal crisis, the Great Recession has exacerbated financial woes, exposing deep challenges in the immediate funding environment for museums, and raising what seem to be perennial questions about sustainability.<sup>25</sup>

Arts funding as a whole in the United States is described by insiders as a “three-legged stool” composed of earned income, contributions from individuals and contributions from institutions (government/public, foundations and businesses). Government (“public”) funding for arts has remained fixed or declining even as the total number of applicants for it has increased. Privately contributed income (encompassing individuals, corporations and foundations) is proportional to the wealth of the contributor—whether measured as a foundation’s endowment, a corporation’s capitalized value or a private citizen’s net worth. In every case, these measurements are intricately linked to the performance of the macro-economy, and therefore fluctuate with it—taking monies out of reach just when most needed.

One strategy considered by management and/or recommended by management consultants to address the shortfall is to raise the proportion of earned income, which in 2008 averaged 22% of total income of art museums versus 28% for museums generally and 44% for all not-for-profit arts organizations (Katz & Merritt; NEA).<sup>26</sup> But the seemingly low share of earned income is no management mishap—there are many strategic reasons guiding the differential, whether it is justified by recognizing museums as a “public good” (Temin, Feldstein) or based on the not-for-profit’s mission to expand access (Alexander, Temin, Feldstein, Katz & Merritt). While art museums may be able to modestly increase earned revenues through raising admission charges, there is a trade-off between improving financials and providing equitable access making this no easy road to ramble down.

The result is a financial picture that is dependent on contributions from private sources (including individuals, foundations and businesses) as well as proceeds earned through extensive investment strategies. Since all of these sources are intricately tied to the ups and downs of the economy, art museums are highly susceptible to market forces, what is referred to in economics as “cyclical.”<sup>27</sup>

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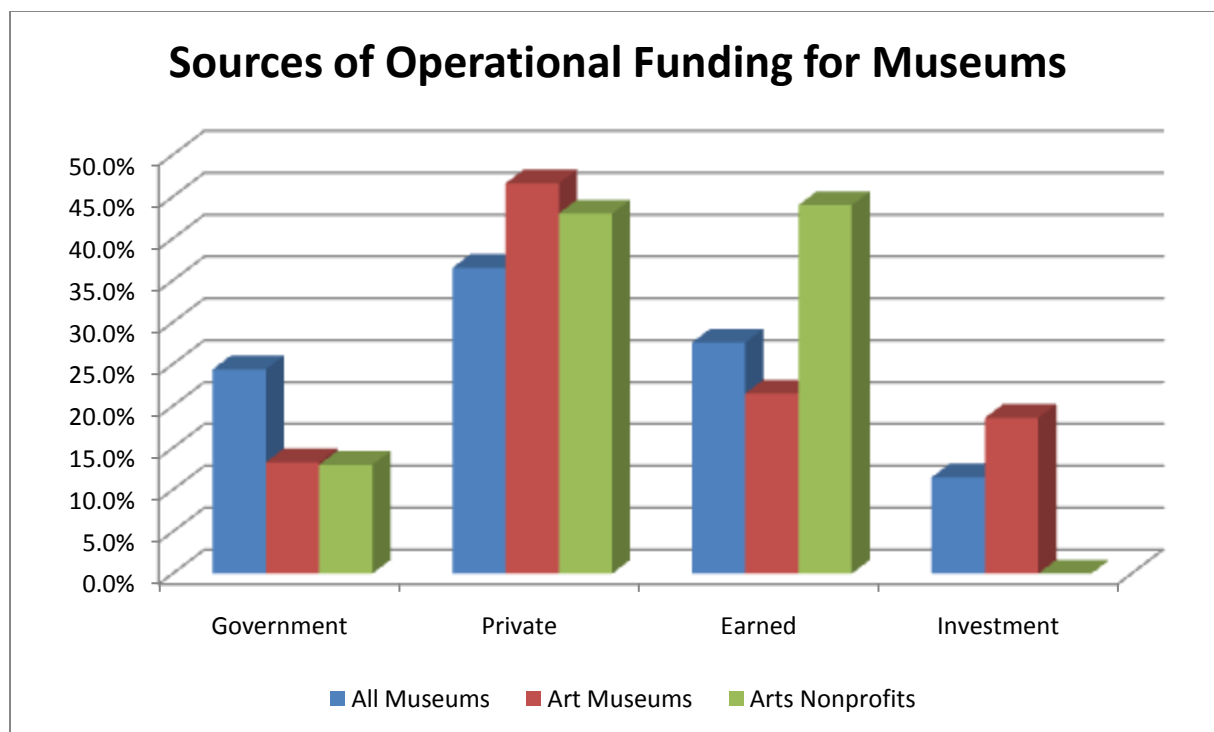
<sup>23</sup> See Dobrynski, for instance.

<sup>24</sup> One of the more interesting recent struggles in this arena has been the movement of the Barnes Foundation from its historic chartered home in Lower Merion to downtown Philadelphia. For further discussion of the Barnes controversy, see Maneker and Maroney.

<sup>25</sup> “In terms of operating funds, [American Museums] are—for the most part—broke” (Thompson) Quote from the Deputy Director of the Hirshhorn Museum. This is true even in a normal economy. So, in the present climate, art museums can be even more strapped than their “normal,” often precarious state.

<sup>26</sup> For the purposes of this study, earned income for art museums includes admission fees (if any), interest from investments (unless specifically broken out as in chart below), sales from restaurants/concessions, sales in gift shops and other market-similar exchanges.

<sup>27</sup> Investment income, reported distinctly from other earned income for museums (but not in the NEA study cited for all arts organizations), was 11.5% of income for all museums, and a significant 18.6% for art museums, almost a fifth of their annual total income (Ibid.). Since the source for the “Arts Nonprofits” data does not separate



A bright light in this otherwise dismal picture is the increasing role of corporate foundations,<sup>28</sup> as they are often created with stipulations to smooth giving across recession years—or even increase as need demands. But the picture for museums in 2008 is the opposite: they received only 4.9% of total corporate foundation philanthropic dollars, representing, on average, 1.3% of operating income—with only 47%, or less than half, receiving any income at all from corporate foundations. In 2006, direct corporate giving to museums comprised 2.5% of operating income (compared to 3% across all arts organizations, and 4% across philanthropic organizations more generally). If anything, we can conclude that museums are receiving less than their needed share of corporate giving.<sup>29</sup>

In fact, 2008 and 2009 data from the AAMD indicate that 60% of (all) museums experienced a reduction in corporate giving in both years, almost double the decade’s mean. Is this a temporary effect or the sharpening of a trend? Historically, the funding goals of corporations have matched the funding needs of art museums, creating a virtuous cycle of increasing support. If this alignment is now fundamentally changing, art museums and their directors need to determine

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investment income from earned income, we can assume that all investment income is included in earned income for Arts Nonprofits—this essentially equates Art Museums with the Arts Nonprofit average. Our contention would be that most Arts Nonprofits are far below the average percentage of Art Museums in investment.

<sup>28</sup> The foundation sector is composed of community foundations, independent foundations and corporate foundations. For our purposes, corporate foundations are not-for-profits created by a corporation to manage a program of giving. We call it “direct corporate giving” when a corporation or business contributes without this intermediary, and “corporate foundation giving” when there is one. All of the sources listed in this note are private sources.

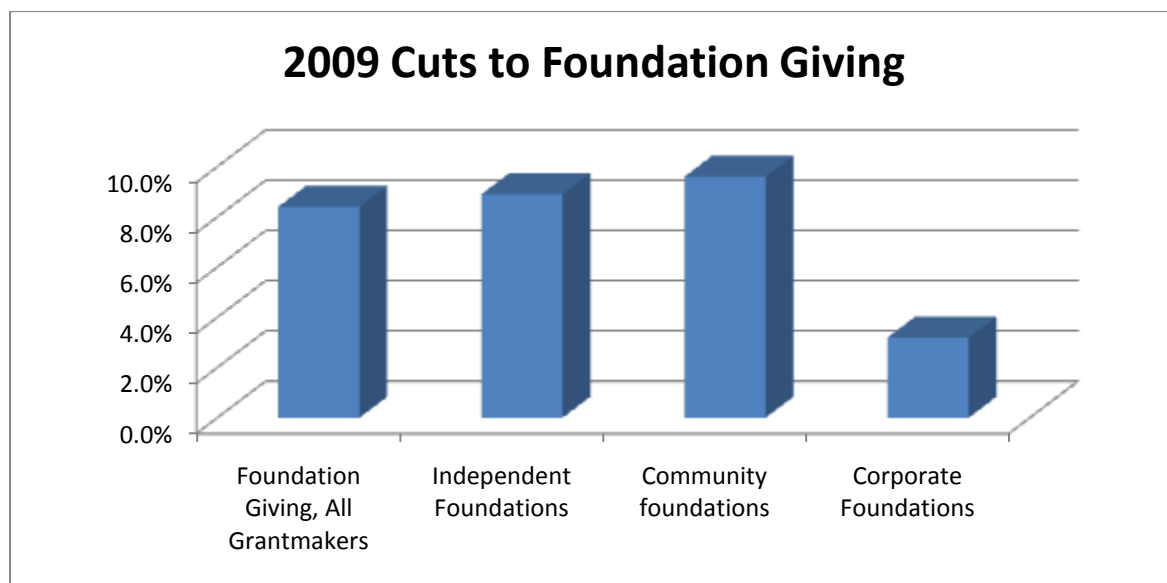
<sup>29</sup> Our definition of corporate giving includes both direct gifts from corporations as well as gifts from corporate foundations (but does not include gifts to those foundations from corporations), unless otherwise specified.

why this shift has occurred, and whether there may be a method by which to realign their requests to recapture their needed share of corporate philanthropy. Alternatively, is this just another swing in the cyclical roller-coaster of museums—i.e., an artifact of the financial collapse?

## II. The Effect of Recession

In December 2007, the US economy entered the most severe economic crisis since the Great Depression. The year 2008 saw companies in most key sectors of the economy reporting losses, with GDP anemic at 1.1% and corporate profits decreasing almost 18% (in inflation-adjusted dollars), according to the Bureau of Economic Analysis.<sup>30</sup> Median corporate contributions to US-based charities were 1.48% of pre-tax income in 2007, with the pharmaceutical and banking industries being the largest givers. In the annual corporate contributions report done by The Conference Board, corporate giving at the 197 firms surveyed totaled \$10.97B for 2007 (up from \$10.21B in 2006), with approximately 4.6% (\$400M) of that going to arts and culture. Corporate foundation giving, as estimated by the Foundation Center, was approximately \$2.1B in 2007, with 12% (\$250M) going to arts and culture.<sup>31</sup> The aggregate corporate giving in 2007 suggested by these two surveys is approximately \$13B.

But 2009 saw the biggest reduction in US foundation giving on record (Foundation Growth and Giving Estimates, 2010 edition), including the largest decline in foundation giving ever tracked by the Foundation Center.



Corporate foundations were an outlier. Corporate foundation giving, after rising in 2008, was reduced by an estimated 3.3%, to \$4.4B across all philanthropic recipients. Independent and community foundations cut far more severely at 8.9% and 9.6%, respectively, bringing the

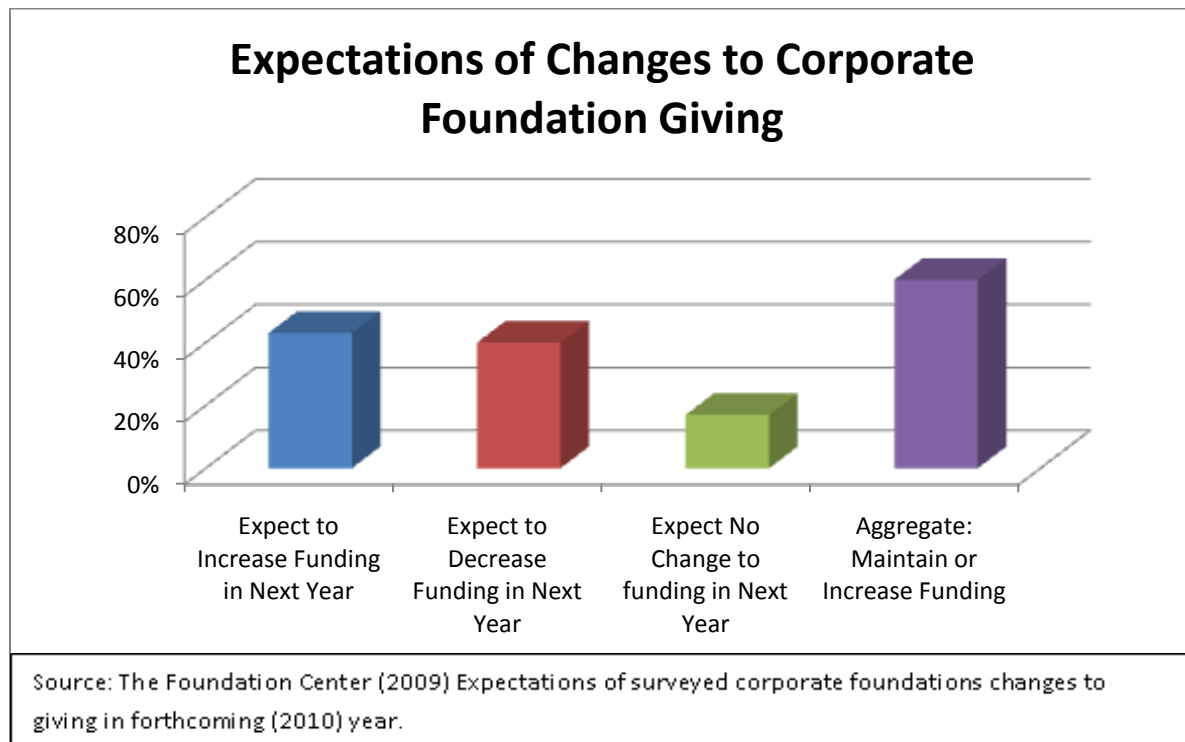
<sup>30</sup> Gross Domestic Product: Fourth Quarter 2008 (Final), Corporate profits, Four Quarter 2008, US Bureau of Economic Analysis, March 2009, [www.bea.gov](http://www.bea.gov).

<sup>31</sup> Based on all grants of \$10,000 or more awarded by a sample of 1,339 larger foundations. The Foundation Center, Foundation Giving Trends: update on Funding Priorities, 2009 edition.

average cut across all foundation types to 8.4%. In other words, in 2009 corporate foundations were a relatively bright light in the landscape of foundation giving.<sup>32</sup>

It was also a banner negative year for direct corporate cash giving, in which the *Chronicle of Philanthropy* survey reported a drop in combined cash giving from \$4.3B in 2008 to \$3.9B in 2009, which was the first time since 2003 that the *Chronicle's* survey saw a drop in cash contributions from companies.<sup>33</sup>

The median change in total donations by big companies from 2008 to 2009 was negative 1.4%. There was some silver lining: first, there were still 11 companies that gave \$100M or more in cash to charities in 2009 (including Pfizer, Oracle, Merck, Wal-Mart, AT&T and Bank of America). Moreover, donations overall increased by 5% as companies compensated for a reduction in cash with an increase in in-kind support.



<sup>32</sup> The Foundation Center, while it does not directly address this gap, suggests that some foundations were able to moderate the decline in their giving through reducing operating expenses, utilizing their endowments to increase giving, and/or because of asset-averaging practices of determining annual giving amounts (to reduce the effect of cyclicity). Further, it estimates that the results may be due to the “surprisingly rapid return to profitability” in the corporate sector.

<sup>33</sup> Note that since many corporations do not report direct giving statistics, the data presented by The Conference Board and the *Chronicle* represent unique sampling sets, and not an aggregate of the total. Trends can be compared between the two sets, but absolute dollar figures will not agree.

A 2009 survey conducted by the Johns Hopkins Listening Post Project reported 44% of not-for-profits experiencing a decrease in corporate support, with 28% reporting revenues from corporate donations down 10% or more.<sup>34</sup> Companies still gave a median of 1.2% of their 2008 profits to charity in 2009 (down from 1.48%), with 11 companies giving more than 5% of their profits. While we would expect domestic corporate gifts to be correlated with US pretax income, we can see from the chart below that this is not the case. Our hypothesis, absent the data, would be that corporations maximize their charitable benefit given the deductibility of that benefit against pretax income. Were that to be true, we would expect to see US contributions as a percentage of pretax income to be constant. Instead, we find a relationship between US contributions and consolidated pre-tax income, which includes the income from international subsidiaries.

<b>Giving USA</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
US Contributions as % US pretax income (Median)	1.48%	1.16%	1.01%
US Contributions as % of Consolidated pretax income (Median)	0.71%	0.71%	0.71%
Share from Corporate Cash	25.30%	24.90%	23.20%
Share in-kind	54.20%	50.40%	52.90%
Share from Foundation Grants	20.50%	24.70%	23.90%

In response to the bad economy, companies struggled to maintain their philanthropic support, even if ready cash was not as available. “If companies are in trouble, corporate philanthropy is one of the first things to get cut,” said Tom Pollak, program director at the National Center for Charitable Statistics at the Urban Institute in Washington (Cole & Lazaroff). The dominant strategy was through encouraging employees to volunteer more (56% of respondents). Major positive responses also included increasing giving to narrower list of targeted organizations (26%), increasing donated products and services (17%) and offering more pro bono assistance (13%). The negative responses included cutting cash gifts (14%), and dropping at least one grant program (2%).

Corporate giving was up overall in 2009 by 5.5%, despite a 3.6% reduction to all philanthropy, bringing corporate giving to within 1% of pre-recession levels (Giving USA 2010). Based on a survey of 162 of the country’s largest corporations, the *Chronicle of Philanthropy* projects that 73% of corporations will maintain 2009 giving levels in 2010, with 13% of corporations planning to increase funding, and 13% planning to decrease funding (Merritt & Katz).

In 2008, Giving USA estimates that the arts, culture and humanities subsector received \$12.79B in total contributions (individuals and institutions), a drop of 6.4% from the estimated 2007 total (-9.9% inflation-adjusted).<sup>35</sup> The top 50 museum recipients received \$743M of that or 57%, with

<sup>34</sup> Johns Hopkins Nonprofit Listening Post Project Economic Downturn Sounding, 2009, pg 5

<sup>35</sup> Note that over 75% of corporate arts spending comes from smaller companies with revenues of less than \$50M, with 90% of that money going to local arts organizations.

the top 10 of those capturing 54%.<sup>36</sup> Note that the top 50 corporate foundations giving \$683M to museums alone,<sup>37</sup> an order of magnitude beyond the total given by the federal government.

The year was particularly hard on arts organizations due to the increasing gap between revenues and expenses as fundraising sharply decreased—many closures were registered, including the Lincoln Museum in Fort Wayne, IN. Total giving has consistently varied in response to recession since 1969 (see chart). In prior recession years from 1968 to 2006, giving to arts, culture and humanities averaged an inflation-adjusted increase of 1.8% from the prior year, ranging from a decrease of 13% (1970) to a growth of nearly 14% (1969), and with giving increasing in seven of 11 recession years over the period.<sup>38</sup>

In 2010, the Association of Art Museum Directors released the results of the ninth annual State of America’s Art Museums (SNAAM) Survey for calendar year 2009,<sup>39</sup> to which 149 of their 193 members responded. Of respondents, only 16% saw corporate support increase in 2009, while 60% saw a decrease. The average for the five years preceding was closer to 33% reporting an increase, with a reported low of 8% in the 2002 survey, likely representing the 2001 recession.



**Changes to Corporate Support**

	Mean	2010	2009	2008	2007	2006	2005	2004	2003	2002
Increase	25%	16%	14%	31%	33%	34%	38%	32%	21%	8%
Decrease	36%	60%	60%	31%	18%	20%	22%	34%	42%	33%
No Change	35%	24%	26%	38%	49%	46%	40%	34%	37%	24%
Too Early to Tell										35%

Percentage of respondents reporting increases, decreases and flat levels of corporate support, by year. Association of Art Museums SNAAM 2010.

The recession has made already pressing issues even more urgent. Total estimated giving has risen every year since 1969 except for two years: 1987 and 2009. In the chart we can see that

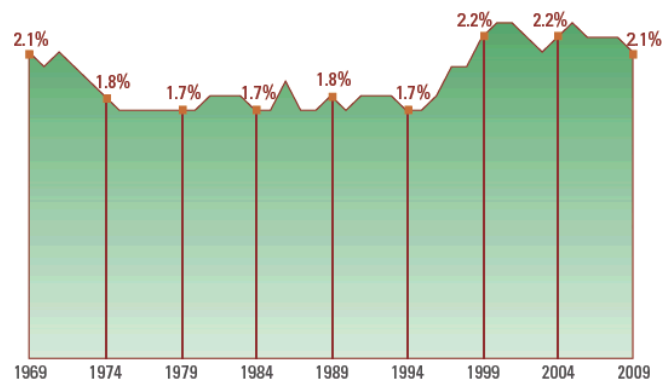
<sup>36</sup> This is discussed further in the Corporate Arts Philanthropy section.

<sup>37</sup> The Foundation Center, 2010. Based on all grants of \$10,000 or more awarded by a national sample of 1,490 US foundations (including 800 of the 1,000 largest ranked by total giving).

<sup>38</sup> Giving during recessions, Giving USA Spotlight, #3, 2008, available from [www.givingusa.org](http://www.givingusa.org)

<sup>39</sup> The responses under each year in the chart represent the response of the museum in that year, regarding what occurred the previous year. Where the “increase” row intersects the “2010” column, it should be read as: 16% of museums saw corporate giving increase in the previous year (i.e., 2009).

Total giving as a percentage of gross domestic product, 1969–2009



there is some relationship historically between the recession and overall giving. It seems likely that this is based on a relationship with GDP (see chart above).

In observation of the historical data, comparing giving as a percentage of GDP with the timing of recessions (above), we see that giving has tended to decrease, stay flat or be of lesser amplitude not only in the recession year, but in several years following the recession. We interpret this to mean that giving is a lagging indicator

of recessions, similar to unemployment figures.

Therefore, we would expect that corporate giving would return to a more general trend line following the end of the recession (but lagging that end by at least a year). In other words, while art museums have seen a drastic cut to funding during the recession, this in itself does not indicate a larger trend of decreasing corporate support to art museums, but rather is expected behavior in a recession, based on what we have seen in previous recessions. The question remains, though: what is that more general trend line? Are contributions to art museums on a downward trend? If so, is there something that art museums can do to reverse that trend?

### *Recommendations*

Given that historical cyclicity of museum revenues, meaning that revenues vary with the economic cycle of booms and recessions, museums should employ budgeting techniques utilizing consumption smoothing. While we cannot predict when the next recession or boom time will be, we do know with high certainty that there will be a next time in both cases. With that information in hand, museum directors can choose one of many techniques to smooth expenditures across good times and bad.

*Bulls:* One possibility is to average revenues and expenses across all times, good and bad, and then “set aside” revenues in good times, applying these as needed in recessionary times: this takes an extremely high level of discipline, as well as sophisticated analysis and strong buy-in from board, donors and other stakeholders. This is a Bull-based strategy as it will require cutting back services (social and mission metrics) to satisfy financial goals (economic metrics).

*Ballot Box:* Another option is to consider issuing tax-free bonds to partially fund operations in bad times: this has the likely advantage of low bond yield expectations, meaning that money can be borrowed for very low rates relative to good times, in addition to the subsidy provided by the tax-exempt nature of the bonds. Then, in good times, these monies can be paid back. Bond issuance does have at least two main disadvantages. First, directors must be extremely careful in how much debt burden is taken on, and avoid the possibility of defaults, which could do significant financial and reputational damage to the museum. Second, though museums can typically access debt at extremely low rates, issuing bonds and paying their interest does raise overall costs by creating interest expense, and so the benefits of “cash now” should be weighed



against the overall added expense of debt. However, this is a classic Ballot Box strategy: it will allow the museum to perform in a counter-cyclical way, increasing services (social and mission metrics) at the very time that they are in highest demand. The net effect will be an increase in social impact paid for by higher overall economic costs.

*Both:* Practicing consumption smoothing in any form, and communicating the practice to corporate partners, is likely to raise the level of respect that corporations have for museums, in addition to preventing the “emergency ask” which often rubs partners in a negative way and suggests to them faulty management practice. Consumption smoothing should be thought of as a subset of a “rainy day fund” strategy. Consumption smoothing, like “rainy day funds”, sets aside money for future use, but utilizes a more sophisticated analysis to specifically allocate limits now (as opposed to only putting away “extra” or unanticipated monies) as well as pre-setting spending and saving levels for the future.

In the course of this study, we found corporations describing changes to their giving patterns which, though perhaps prompted or accelerated by the recession, are likely to persist beyond it. It is to these strategies, and corporate patterns of giving in general, that we turn to next.

### III. Corporate Arts Philanthropy

As we saw in the previous section, the data presented here indicate that corporate philanthropy on the whole is cyclical: the dollar amount given to charities varies with the growth rate of the economy. Looking from a higher level, beyond the windows of recession, corporate philanthropy seems to be increasing but it is unclear if corporate philanthropy specifically to museums is increasing or decreasing. Evidence suggests that the arts command a relatively constant share of corporate philanthropy, but that there are some disproportionate “winners” amongst museums. More troubling, the goal behind corporate philanthropy in general is changing. At one time, corporate philanthropy to the arts was viewed as “a highbrow form of advertising” inspiring support from both sides of the aisle, and even causing conservative opinion leader Newt Gingrich to comment that “culture is the business of business.” Now, corporate philanthropy is shifting to a more strategic motivation. In this shift, corporations are generally finding arts organizations lacking as adequate partners—though again, there seem to be clear exceptions in a minority of high performing museums. The following is divided into three sections: the current environment; trends for the future; and recommendations.

#### *Current Environment*

As described earlier, this paper focuses on corporate philanthropy in two main vehicles: direct corporate giving and giving from corporate-sponsored foundations.<sup>40</sup> In general, corporate philanthropy occurs through multiple vehicles: cash donations/grants, in-kind assistance (such as pro-bono services, employee volunteer programs or donated products), sponsor/marketing relationships, salary gift programs and matching programs. These categories can be further broken down into: direct cash given to arts funds/councils which then redistribute those monies; direct cash to arts organizations; indirect cash to arts organizations (such as purchasing tickets or tables at fundraisers); tailored sponsorship relationships; in-kind support; product donations; volunteerism; and bringing arts into the workplace. The exact balance of strategies utilized depends on the culture and strategic priorities of the donating corporation.

Based on 2003 data, the NEA estimates that 36% of all businesses surveyed gave money to the arts, with an average of 19% of total corporate philanthropic budgets dedicated to the arts. Surprisingly, three quarters of arts spending comes from smaller companies with revenues of less than \$50M.<sup>41</sup> Larger corporations often establish a not-for-profit foundation to which they donate annually—the foundation then redistributes those monies based on programmatic goals and financial metrics. The chart below shows the top 25 corporate foundations that donated to

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<sup>40</sup> Note that this excludes a major category of corporate purchasing of event space, memberships, or other direct products. While technically that is not strict philanthropy, often corporations purchase goods and services from a not-for-profit as a means of supporting that not-for-profit. However, the not-for-profit would classify this as earned revenues (versus philanthropy). A next step to this paper would be to analyze this type of support rigorously.

<sup>41</sup> This is a vital point that deserves a study all its own, as most corporate philanthropy research is focused on the larger corporations. Note that 90% of this small business money is spent locally, meaning that even if all large companies consolidated and spent no money locally, still 68% of total corporate spend would be done by small companies on a local basis for non-strategic reasons. Note that this thought experiment is hyperbolic as all corporate headquarters are local to some place.

museums, in descending order from top philanthropic givers (to all charitable categories, not just museums) in 2008.

<b>Grantmaker Name</b>	<b>City</b>	<b>Total Assets</b>	<b>Total Giving</b>
JPMorgan Chase Foundation, The	New York	\$77,079,283	\$77,145,399
Lucasfilm Foundation	San Francisco	\$80,464,319	\$63,694,178
Verizon Foundation	Basking Ridge	\$253,726,601	\$56,953,706
MetLife Foundation	New York	\$110,366,885	\$39,465,498
BP Foundation, Inc.	Houston	\$115,121,028	\$37,210,977
Ford Motor Company Fund	Dearborn	\$51,275,883	\$34,261,532
Emerson Charitable Trust	St. Louis	\$26,373,619	\$25,082,095
Capital Group Companies Charitable Foundation, The	Los Angeles	\$199,376,226	\$22,095,559
Allstate Foundation, The	Northbrook	\$33,473,181	\$20,763,015
Valero Energy Foundation	San Antonio	\$30,122,894	\$20,194,160
MLI, Inc.	Augusta	\$14,645	\$13,945,880
Simmons Foundation, Harold	Dallas	\$15,254,539	\$13,741,092
Dunard Fund USA, Ltd.	Wilmington	\$25,028,205	\$13,218,167
Anheuser-Busch Foundation	St. Louis	\$39,869,940	\$11,301,886
Target Foundation	Minneapolis	\$10,815,374	\$9,750,000
AEGON Transamerica Foundation	Cedar Rapids	\$82,515,336	\$9,474,326
First Horizon Foundation	Memphis	\$46,550,726	\$9,056,950
SunTrust Foundation	Richmond	\$199,402,053	\$8,765,464
UBS Foundation U.S.A.	Weehawken	\$1,809,472	\$8,300,839
BNSF Foundation	Fort Worth	\$69,581	\$7,887,876
Freeport-McMoRan Copper & Gold Foundation	Phoenix	\$24,673,531	\$7,237,073
Applied Materials Foundation, The	Santa Clara	\$16,743,711	\$6,984,327
Union Pacific Foundation	Omaha	\$582,841	\$6,872,645
Boston Scientific Foundation, Inc.	Natick	\$19,001,064	\$6,510,124

Source: The Foundation Center. Top 50 Foundations Giving to Museums, Circa 2008.

There does not seem to be any correlation between top givers and type of parent corporation, although there is a large representation of financial firms such as banks and insurance companies. No other pattern is in obvious evidence. In aggregate, the top 50 foundations that gave to museums in 2008 distributed \$723M to all philanthropic organizations, according to The Foundation Center. This is out of a total of approximately \$46B given by all foundations as estimated by The Foundation Center. How much of this went to the arts, and to museums?

The chart below splits out 2008 donations of foundations by foundation type (independent, corporate, community) and recipient type (museums, arts & culture and total giving).<sup>42</sup> The percentages listed are the percentage of total grants in each column. The chart can be read as: museums and historical societies received 4.9% of total corporate foundation dollars in 2008 (as

<sup>42</sup> We were not able to obtain art museum specific corporate foundation and corporate direct giving figures in time for the publication of this paper. This data is available, and a follow-up analysis could be done to further refine conclusions.

reported by the sampling done by The Foundation Center). On the whole, museums and historical societies are receiving a larger share of corporate foundation dollars than that of community and independent foundation dollars.

**Distribution of Grants by Field-Specific Recipient Type and Foundation Type, circa 2008**  
*The Foundation Center* (\$ in '000s)

Recipient Type	Independent Foundations		Corporate Foundations		Community Foundations		Total	
	\$	%	\$	%	\$	%	\$	%
Museums & Historical Societies	\$966,554	4.8%	\$111,491	4.9%	\$98,354	4.0%	\$1,176,399	4.7%
Arts & Culture	\$2,092,519	10.4%	\$292,094	12.8%	\$374,790	15.4%	\$2,759,403	11.1%
Total Grants	\$20,055,641	100%	\$2,286,654	100%	\$2,436,037	100%	\$24,778,332	100%

This statistic can be deceiving for at least two reasons. First, it aggregates art museums with all types of museums as well as historical societies. Second, there is no objective benchmark to judge if this 4.9% is a high performance metric. It is slightly above the average across all foundation types (4.7%), but it is unclear if museums are receiving their pro rata share of community and independent foundations: perhaps they are under (or over) performing in the foundation category more generally. If we refer back to the NEA study from the previous section, we can observe that on the whole museums are receiving less from corporate foundations than other arts organizations as a percentage of total income.

In closer analysis of more data, an additional dynamic becomes clear. This is a “winner takes all” dynamic in which the more successful museums are garnering a larger share of the pie (and also, therefore, pushing the average across all museums higher). In fact, the top 10 museums receiving corporate foundation support garnered a disproportionate share of the top 50 corporate foundations aggregate dollars given to museums.<sup>43</sup>

**Top 50 Museum Recipients of Foundation Grants, circa 2008**  
*The Foundation Center*

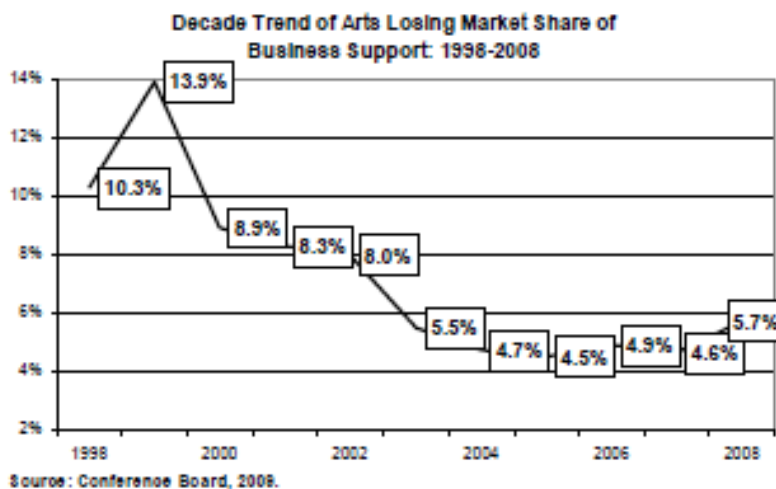
	<u>State</u>	<u>\$ Amt</u>
Newseum	DC	73,347,872
Crystal Bridges Museum	AR	60,000,000
Georgia O'Keefe Museum	NM	45,375,497
LA County Museum of Art	CA	39,242,734
Sterling and Francine Clark	MA	38,441,000
Discovery World	WI	34,993,863
Whitney	NY	32,620,766
Brookfield	MA	26,000,000
Smithsonian	DC	25,092,696
Metropolitan Museum of Art	NY	24,352,607
<b>Top 50 Recipients Total</b>		<b>742,769,299</b>

<sup>43</sup> These figures are for 2008, but casual inspection revealed a similar pattern in earlier years. We have no data for later years as of the publication of this paper, but that data is being collected and conclusions could be updated.

The table above lists the top ten museum recipients of foundation dollars (across all foundation and museum types), as well as the total gifts received by the top 50 recipients. The first recipient, Newseum, composes almost 10% of the total given to the top 50. If the distribution were even, this number should be closer to 2%. Further, the top ten receive over half of the total distributed, whereas a pro rata share would be closer to 20%. This reinforces the “winner takes all” nature of the foundation grant distribution. While the conclusion is still anecdotal with this level of data, the observation is further supported by a 2000 RAND study. The study revealed a similar pattern: the top 5% of U.S. visual arts institutions control almost 4/5ths, or 80% of donations and revenues across the entire sector.<sup>44</sup>

The data above is aggregated based on samplings done of a subset of corporate foundations. Moving beyond the question of the internal split of corporate donations amongst museums, the question remains as to whether the total amount coming from corporations to museums is changing. It is generally agreed across industry associations, museums and corporations themselves that the pattern is changing. But opinions vary on whether aggregate corporate giving is going up, down or remaining the same. Answering the question is challenging, given that many corporations do not even track their giving internally, and therefore cannot provide exact figures to bear out or disprove the thesis. Of those that do track giving, many refuse to report it publicly even in aggregate, and certainly not broken down by recipient category.

Giving USA shows support for arts, culture and humanities remaining steady as a percentage of the annual corporate giving total (4%) and rank against other charitable recipients (7<sup>th</sup> overall) for the last decade. This would suggest that the priority of arts giving—as a category—has remained steady. Dips in giving to the arts should therefore be matched by dips across all philanthropy, and would match the cyclicity of the economy. According to their surveys, corporate giving decreased by 9.6% (inflation-adjusted) in 2008, but increased 5.9% (inflation-adjusted) in 2009, driven primarily by increases in in-kind giving across all companies, and by



increased cash donations from several of the largest companies. The two year aggregated change is estimated as -4.3%.

The arts, culture and humanities sector received a decrease (in overall philanthropy, inflation-adjusted) of -10.1% in 2008 and -2.0% in 2009, for an accumulated -11.9% decline. The change in 2008

<sup>44</sup> Note that this same pattern repeated in 2009, with the top museum (the Whitney) receiving over 20% (\$114M) of the total foundation grants tracked and given to the top 50 recipient museums (\$557M). reinforcing the idea of “winner takes all”, of the top 10 in 2009, fully half were also in the top 10 in 2008: Whitney, Newseum, LA County Museum of Art, Smithsonian and Metropolitan Museum of Art.

in arts giving is significantly close to the change across all categories. But the change in 2009 is problematic: it is divergent in both quantity and direction from the more general movement. Since this is just one year, it is hard to draw conclusions. The Giving USA average, therefore, suggests a constant priority for corporate arts giving.

In contrast, Americans for the Arts (AFTA) data shows a steady trend downward of the share of corporate philanthropy directed to the arts over the last decade, with a slight uptick in 2008 (see chart) to 5.7%. The AFTA data, which comes from The Conference Board, likely includes a more representative sample for museums than does the Giving USA data, which aggregates arts, culture and humanities in a single category. This would suggest a steady loss in share by arts organizations generally.

Referring back to the “Changes in Corporate Support” table reproduced in the previous section, we can see that a decreasing percentage of museums have seen an increasing level of corporate support from 2005 through 2008.<sup>45</sup> In those years, an increasing majority of museum directors saw corporate support either flatten or decrease. Since every museum is weighed equally, this is not itself an indication that the dollar amount of corporate support went down, as individual museums could be receiving an increased quantity of donations—in other words, there could be a Darwinian effect of the museums that are most attractive to businesses receiving more of the dollars, as we observed earlier.

Interestingly, the percentage showing decrease or no change is remarkably constant except in years 2002 (represented by column 2003) and 2008, which are the years following major economic shocks. This chart could again be a representative of cyclical conservatism on the part of corporations waiting to see the direction of future economic growth.

The one conclusion that can be drawn from these data sources is that the total giving represented by corporate support fluctuates with the overall economy, though the percentage of that total given to museums and arts more generally seems to remain relatively constant. A further possibility is that some museums are out-competing their brethren for corporate dollars, evidenced by the RAND data and potentially supported by the AAMD data. All of this suggests that the strategies of art museums in approaching corporations are crucial. Corporate philanthropic dollars are still plentiful, though cyclical, and in fact seem to be trending upwards. The question for art museums is how to be among the few that claim an outsized portion of the larger corporate philanthropic dollars.

### *Trends Moving Forward*

Corporate Consolidation: Consolidation occurs as companies go through mergers and acquisitions. This consolidation can effect giving through both changes in corporate headquarters location and/or conflicting giving policies in the previously separate organizations. Giving from corporations is highly correlated with the location of their main headquarters, and a shift in location often means a loss of philanthropy for what were previously local charities. As companies consolidate, what previously constituted two independent sources of funding for

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<sup>45</sup> See earlier footnote: the columns in this chart are retrospective. So the 2010 column represents what museum directors experienced in 2009.

museums are now housed in a single corporation—but this, in general, has not reduced giving. The *Chronicle* finds that the new organization generally has an aggregated philanthropic budget equal to the sum of the two previously separated organizational budgets, and keeps staff and giving “more or less the same” (Barton & Preston). Charities, on the other hand, experience two negative effects. First, they can be demoralized by the change, and decrease their development activities while waiting for a “steady state” (Ibid.). Second, if a corporate headquarters relocates, a charity that was previously local may no longer be—conversely, there will be an opportunity for charities in the new headquarters location to solicit additional support.<sup>46</sup>

How Corporations Think About Arts Philanthropy: AFTA examined the sources of business support to the arts in 2003 and 2006, to evaluate which budgets inside the

Sources of Business Contributions to the Arts		
	2003	2006
Marketing/Sponsorship Budget	30%	43%
Annual Contributions Budget	51%	39%
Advertising Budget	42%	35%
Executive Budget	22%	16%
Company Foundation	12%	11%

Source: Americans for the Arts' Business Committee for the Arts, 2007.

corporation were targeted at arts support. The results of this survey are shown in the chart on right. The figures indicate a shift in corporate support of the arts from general charitable giving to a more targeted approach embracing marketing and sponsorship activities. This research from AFTA supports qualitative observations that businesses are increasingly seeking to achieve strategic objectives through their giving strategy. According to a 2010 survey done by the *Chronicle of Philanthropy*, companies are changing their approach to giving. The changes include:

- Decreasing the number of different causes that they support to focus on “social issues that align with their business goals and expertise”;
- Narrowing giving to achieve specific goals, or “single-focus giving” which rarely focuses on the arts;
- Requesting charities to improve reporting and performance measurement metrics;
- Developing closer, longer-term relationships with the funded organizations; and
- Requiring volunteer opportunities for their employees as a condition of grant-making to target organizations.

In its 2009 report, Giving USA surveyed 340 corporate CFO’s in early December 2008, and **33% cited a shift in their giving toward strategies that align philanthropy with business goals.** The LBG survey reported in the same publication indicated that 80% of businesses planned the same shift.<sup>47</sup>

External pressures on businesses likewise affect their giving patterns. Mergers and acquisitions are resulting in negative impacts to local giving as corporate headquarters relocate or are reduced

<sup>46</sup> See Note 34. This is only true for large corporations that have HQ. Small companies, composing 75% of total corporate giving, concentrate 90% of giving locally.

<sup>47</sup> Again, these surveys focus on large corporations, not all businesses. Small business gives locally.

overall, resulting in more national level giving on causes such as health, education and the environment. However, as the competition to attract workers becomes ever more fierce, companies have a renewed interest in supporting the arts as a means to promote innovation in building the 21<sup>st</sup> century workforce. This latter trend is a form of strategic giving, by “creating communities where employees will want to live, improving the organization’s ability to recruit and retain employees, and supporting platforms that are consistent with the organization’s core values” (Prescott).

Among business owners surveyed by AFTA, the strategic motivations for philanthropy were summarized with the idea of the “four R’s”:

- **Reputation**
- **Recruiting**
- **Retention** *and*
- **Relationships**

Clearly recruiting and retention are completely focused on employees, and reputation and relationships also have no small effect on human resource functions. Indeed, employees were repeatedly mentioned as major drivers for selecting both causes to support and the scope of that support. Arts support ranked highly among priorities for organizations, with “most participants” stating that they supported the arts for both charitable and strategic reasons. In some cases, companies indicated that their arts support stemmed from several other common areas: historic commitment to the arts; CEO/founder passion for the arts; positive brand association; and a fit with corporate “personality”. Access and education were among the highest priorities for arts funders. These priorities led companies to support capital and physical structures, which were believed to lead to increased access.

The survey of corporate arts funders done by AFTA in 2007 contains interesting qualitative data on corporate arts philanthropy, and is recommended reading for museum development staff. In summary, there were several key issues mentioned as barriers to corporate support for the arts. Some, such as geography and focus area, are difficult to surmount. Others may require increased cost to implement: improved performance measurement and financial management. But three other issues recurred repeatedly and bear mentioning: employee involvement in the program, company representation on the organization’s board and quality of relationship.

Employee involvement in a particular arts organization seemed to have a high effect on a company supporting that organization in additional ways. The involvement of the employees was felt to be an important indicator of the value of the relationship to the company. Ideally, companies sought to support arts organizations that both had employee volunteers as well as company representation on the board of the arts organization.

The quality of relationship between the company and the arts organization was described as lacking, and therefore creating a barrier to continued or increased funding of the arts. Issues mentioned included crowding/exclusivity, longevity, true partnership and misunderstandings of corporate priorities. Companies did not appreciate being just “one of many” sponsors of activities, rather than having a specific and exclusive relationship. They sought longevity in both



the specific activity that they supported (i.e., the length of an exhibition) as well as with the organization with whom they partnered. True partnership was seen as lacking with arts organizations, which sometimes made corporate supporters feel they were viewed opportunistically as “just check-writers.” Finally, corporate supporters felt that arts organizations did not do enough to understand their specific company and to tailor proposals to meet both the culture and strategic objectives of the corporate partner.

Additional items cited in the survey that were perceived as causing decreased corporate support for the arts included: increased desire for measurement and accountability, the push from headquarters to focus on a single area of giving, corporate globalization spreading resources across a larger area and a lack of consumer relevance. In general, the corporate funders surveyed felt that their arts partners took corporate support for granted, and did not spend enough time making the case for why their cause should be supported beyond just “for art’s sake.” This was compounded by the lack of research that arts organizations seemed to have done on their corporate partners, which led to unreasonable expectations of the size, scope and motivation for corporate giving.

### *Recommendations*

The recommendation we have from research to date is that art museums should seriously examine and likely overhaul the assumptions underlying their relationships with each corporate partner. A frank, mutual evaluation of corporate and museum goals should be conducted to determine if these can be better aligned, within the constraints of the missions of both organizations: note that this should be done on an organization by organization basis, not for corporate philanthropy in general. **Based on the balance of funding received by art museums versus other arts organization types, the financial stability of art museums could clearly and significantly improve by increasing their share of corporate philanthropy.** The data suggests that there are sufficient dollars available to increase the art museums’ share. Further, this is not necessarily at the expense of other philanthropic organizations, since the overall contributions of corporations seem to be increasing (outside of economic cycle fluctuations).

### *Bulls:*

Invest in More Long Term Relationships: Research confirms a desire by corporations to be involved with fewer charitable organizations at a deeper and more long-term level. AFTA conducted a qualitative study of corporate giving to the arts in which multiple corporate philanthropy officers confirmed a desire for longevity in relationship, true partnership (rather than just “check writers”), and exclusivity. Multiple quotes point at the viewpoint of many corporate officers that arts organizations do not see corporate relationships as actual partnerships, and often view corporate involvement as a “necessary evil”. Furthermore, officers revealed that they felt arts organizations were significantly short on diligence in understanding their corporate funder’s organization, motivation and goals (Prescott).

Directors should adopt an approach seeking a smaller number of more meaningful partnerships, educating themselves fully about each existing and potential corporate partner, and tailoring each ask to a specific corporation, rather than applying a general corporate strategy to a host of potential supporters. Delivering on few partnerships well suggests receiving an increasing share of corporate giving from those partnerships, as well as taking advantage of efficiencies in

labor distribution. This is a long-term strategy that is unlikely to show short-term results, but raises itself as an important take-away of shifting trends in corporate philanthropy to the arts.

Help Build the 21<sup>st</sup> Century Workforce: Surveys by AFTA indicate an increasing desire by corporations to attract and retain a competitive workforce, as well as the linkages being made between arts participation and human resource strategies. This dialogue is pervasive, and includes such prominent work as that by Richard Florida in his Creative Economy research as well as more traditional analyses such as that pioneered by Harvard professor Michael Porter on regional competitiveness. Directors should familiarize themselves with the literature and arguments, and then develop targeted programs, with measurable outcomes, that show corporations better alignment of giving to museums with strategic objectives around the workforce. Bull-based pitches will focus on employee retention and “bang for the buck” programs that help companies compete against their rivals for employees by providing unique lifestyle choices and self-development opportunities.

*Ballot-Box:*

Increase Educational Activities: Education spending was by far the highest category of giving mentioned as a priority by corporations. This is an old song to art museums since the ‘70s as well as to most not-for-profit arts organizations: education has likewise been a federal and state priority for grant-making in recent decades. But museum directors would do well to continue to examine the opportunities for expanded and targeted education programs. In particular, the potential to access low to moderate income (LMI) populations through arts education programs seems to be a winning strategy for obtaining corporate support. This also opens access to additional funding from non-arts sources such as economic development and HUD monies.

*Both:*

Educate Corporations to Give More: Corporate gifts and sponsorships have several competing motivations, as we have seen throughout this paper. Gifts, in particular, are often supported based on policy that allows corporations to receive tax deductions and/or credits based upon their contributions to charitable organizations. Given a particular level of profits, there is an optimal level of giving at which corporations take full advantage of all available tax benefits: but it is not clear that all corporations are currently reaching that optimal point with their level of giving. Corporate giving seems to hover around 1.48% of pre-tax operating profits, according to the Conference Board. Former President George Bush raised deductibility limits to qualified 501c3 organizations by corporations to 10% of pre-tax profits. The total allowable amount is not necessarily the optimal amount for a corporation, but the spread between the allowed and the observed is significant. At the very least, if corporations are maximizing their allowable deductions against profits, then the level of giving should remain constant as a percentage of pre-tax operating profits.

Instead, we find this level more strongly correlated with consolidated pre-tax profits, which include international subsidiaries, and do not necessarily include all tax deductible profits in the domestic entity. This suggests an “ingrained habit” of giving from corporations, rather than a strategic and reasoned approach. Given the monumental shifts noted earlier in this section, that ingrained habit has a high likelihood of being cut if not justified on strategic grounds. Directors should familiarize themselves with local, state and federal tax policy, and educate their

corporate partners as to the full extent of deductibility for both charitable donations and marketing expenses. Directors then need to make the argument to corporate partners as to why their museum deserves a larger slice of the (possibly increased) pie utilizing market-based value propositions (ie, Bull).

Split the Strategy to Focus on the Small: While trends amongst larger corporations point toward increased focus on fewer causes and strategic alignment, smaller corporations do not evince this trend. In fact, there is a significant split in outcomes of corporate giving between the small and large. The Institute for Higher Education Policy did a survey of Fortune 100 companies. In the survey, they found that 90% supported education as a target goal. The Fortune 100 had four kinds of giving strategies: align decision with corporate and industry goals; adopt data-driven decision-making; build ongoing and reciprocal partnerships; and seek sustainability and wider impact rather than simply providing general support. Bulls should take note.

In contrast, a 2008 *Chronicle of Philanthropy* survey of 1000 small businesses, found that these businesses give because of local connections and personal interest, not strategic priorities: in other words, a perfect match for Ballot Box strategists. In addition, most of these businesses do not believe that their donations will promote business. Larger corporations (revenue > \$10M) do have more money, and on average give more, with a median gift of \$100,000 compared to median gifts of \$10,000 for medium corporations (revenue between \$1M and \$10M) and \$3,500 for small businesses (revenue < \$1M). More surprising, however, is that small businesses are far more likely to give to charities than are medium or large businesses: 93.8% of small businesses donate, compared to 87.4% for medium and 77.7% for large.

All of this suggests a bifurcated strategy. Museums should follow the strategic alignment and deep partnership approach for the large organizations, making market-based arguments for support (Bulls). But museums should also seek to tap the ongoing giving support of small businesses, arguing for community impact as well as trying to “get in early” for growing businesses to develop long-term partnerships (Ballot Box). At the least, it is likely possible to achieve a higher conversion rate in giving as companies grow from small businesses to larger corporations. Similar to developing long-term donor support, museums should help to educate small businesses about the concrete values of giving, and establish a pattern of relationship that will last far into the future as these smaller organizations grow.

Meaningfully Involve Corporate Employees: Corporations are in a constant struggle to maintain a high level of employee satisfaction. Having employees involved with a charity is a high determinant of corporate giving to that charity. Employees of a corporation can be skilled and high impact additions to a charity’s effectiveness, if managed properly, as many not-for-profits with corporate employees on their Boards will attest. The same AFTA business study confirmed that “funders want their employees to become involved in programs in meaningful ways and take pride in the types of programs the company supports” (Ibid). Funders view this involvement by employees both as “eyes and ears” and as a means of developing deeper relationships with arts organizations that can therefore be more mutually beneficial. The challenge moving forward is how to meaningfully involve more employees, at more levels of the organization, targeting the few potential or existing corporate partners that have the most strategic alignment with the museum.

As evidenced by the changing dynamic in the workplace, this involvement must be actual, with museum staff listening and giving access to employees. Successful programs can be an attraction for employees to work at the corporate partner’s organization. As more charities

pursue this strategy, it would not be surprising if charitable opportunities became an “amenity” that employees expect from their employer: similar to a gym, corporate socials or even health coverage. Truly significant programs could train employees as leaders within the volunteer pool, allowing those leaders to then turn and attract and train additional recruits. With the appropriate cost and benefit structure, and effective management, the program can become a critical part of the corporation’s recruitment and retention strategy (Bull). Ballot box pitches will instead point out the relationship between employee satisfaction and quality of life with company image and brand positioning—showing how a company with locally involved employees is one that reaps social rewards while contributing to a greater society (small business argument).

We turn finally to examine the general trends affecting the financial inflows of art museums, ask how they relate to corporate philanthropy and address some strategies for art museums to respond to the trends positively to improve their share of corporate philanthropy.

## IV. Demographics, Psychographics and Innovation

### *Current Trends*

Several major trends affecting corporate philanthropy to art museums, and museum revenues in general, became evident in the preparation of this paper. From a broad social perspective, art museums are now challenged to adjust their behavior in light of the impact of technology, the increasing democratization of culture and the growing influence of a changing values system for both for-profit and not-for-profits in our society. Bull-based strategists should focus on technological innovation and its potential for increasing earned revenues and alignment with for-profit companies. Ballot-based strategists should consider the use of technology to better outreach to and address the needs of their Gen Y patrons.

### *Technology and the Cost of Labor*

Technology has had an enormous impact across industries: on both organizational models and the expectations of consumers. In an economy such as the US, which is generally growing, prices also are generally rising as are labor costs. Business models allowing organizations to capture productivity gains<sup>48</sup> create an opportunity to offset labor costs whose rise often exceeds that of the general price level. For-profit organizations such as corporations have the option to either raise prices to cover increasing costs and/or utilize technology and other productivity gains to lower their cost basis, thereby maintaining sustainable business models. Not-for-profits, and museums in particular, do not have as many options. Historically, museums have not seen productivity gains to offset rising price and wage levels (Feldstein). Because such a low percentage of museum revenues (22%) are derived from earned income (which should move with price levels) art museums find it doubly difficult to compensate for these movements. Moreover, due to an art museum's desire to continually increase accessibility, there are built in pressures to maintain lower price levels even for this small percentage of earned revenues that could benefit from the natural uptick of pricing.

Technology offers museums new approaches to explore in increasing earned revenues. Social media strategies such as the use of Facebook and Twitter are at this moment labor intensive and have difficulties with measuring effectiveness, and therefore have most often been additive to existing strategies: in other words they add additional labor and cost without knowing if their use pays for itself, let alone contributing to the bottom line. However, there are other opportunities for the utilization of technology.

One new revenue-generating scheme has been increasingly adopted: an application that helps individual patrons navigate a particular museum or even navigate a city's cultural offerings as a whole. In the last year, several museums released free apps for this purpose. Some of those museums include the Museum of Modern Art (NY), the American Museum of Natural History, the Los Angeles Museum of the Holocaust and the San Francisco Museum of Modern Art. These applications can provide tailored tours, explain exhibits or even find the closest bathrooms; they

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<sup>48</sup> Productivity gains are the ability for a given worker to do the same work in less time, thereby reducing the labor cost to an organization of creating products and services. Productivity gains are most often linked to technological development: better measurement tools, ability to automate, more efficient communication, etc.

also have the advantage of not requiring queuing for an audio device, and provide a richer user experience. The interface allows for extra functionality: for example, MoMA's app allows users to email a snapshot of a particular work to a friend—who will receive the shot branded with MoMA's logo. These are all opportunities for expanding revenue.

Simultaneously, smart phone developers have been releasing complementary (sic) apps and charging for them—this is an area that museums (especially Bull-strategists) should defend as their own. These apps range in functionality, and include such features as navigation assistance in finding museums and exhibits (iPhone), the NY Art iPhone app and Diana Curran's interactive art museum tour. The apps range from \$1-\$5 in cost.

This is only the beginning. Technological strategies that would improve the fiscal outlook for art museums would involve making content or programs available to an increased number of patrons without adding significant cost per user of the service—exactly similar to the type of apps described above, but not limited to that type of functionality. If art museums can create a technology platform with a one-time development cost, and then be able to offer that service to existing and new patrons—even at an extremely low price—it would add positively to operating income, offsetting other recurring operating costs.

#### *Technology Recommendations:*

Museums should seek technological programs and services that, once developed, can be sold without additional marginal cost. In ideal scenarios, museums may be able to find corporate funders and/or sponsors to shoulder the burden of development as well as provide the technical expertise needed for success. These strategies should go beyond typical social media outreach. “We really have to stop thinking about the web as an add-on, and think about it as a virtual museum almost in and of itself,” says Lynn Zelevansky, director of the Carnegie Museum in Pittsburgh (Azanto). Some examples might include interactive virtual tours, digital subscription rights, digital distribution to members' digital photo-frames or screen savers and specialized “on demand” educational video streams, lectures and tours (see phone app discussion above). Other means for utilizing technology may include techniques for reducing operating cost expenses through sharing with other, similar organizations.<sup>49</sup>

*Bulls:* In the vein of partnering with corporations, this avenue might be an ideal one for creating new types of marketing and sponsorship partnerships. While ethical lines must be closely observed, corporations could sponsor particular technological development ideas, paying for the creation of the platform in exchange for some access to the web traffic that is generated: either through advertising included on a museum controlled site or through museum content featured on a corporation controlled site (with appropriate guidelines, restrictions and licenses in place).

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<sup>49</sup> Again, this small paragraph could be expanded to a study in and of itself. This is a point of departure for discussion, and each avenue—as well as many more not mentioned—could be considered by museum staff.

*Demographics of Democracy: Democratization of Culture and Generation Y*

The increasing democratization of culture has its roots in the cultural revolution of the 70's and the spread of technology, and refers to the idea that there is an increased desire for access to cultural assets across the socio-demographic spectrum. The trend has affected a large variety of businesses, which are slow to respond, as described by arts expert Diane Ragsdale in the Stanford Social Innovation Review: "Not unlike newspapers, automotive companies and record labels, many fine arts organizations have failed to adjust to the radical social, cultural, and technological changes that have taken place in the United States during the last few decades."

And adjust the art museums must. This manifests itself both in a desire to provide appropriate programs/options to potential patrons as well as those patrons' desire to be a part of the life of the museum—in other words, be something more than just another patron. Osvaldo Sánchez, director of the Museum of Modern Art in Mexico City, advocates for a bottom-up approach to programming, "from a kind of historical academic field to something that would understand curatorial practice as a more interactive discipline" (Azanto). This is text book Ballot Box strategy.

This trend was noted by Alexander in 1996 and is continuing today, according to anecdotal evidence. There is a balancing act between the canon, trends toward populist orientation, the service of diversity and the demographic shifts in how the next generation views their relationship to art. The tension between satisfying the needs of curators, museum directors and audience is a defining characteristic of the evolution of museums. Simultaneously, as the minority population increases in the US, there will be a need to address changes to both exhibitions and staffing needs. Currently, about 9% of museum visitors are minorities, yet minorities constitute over 30% of the population. Says Timothy Rub, of the Philadelphia Art Museum: "Diversity is a real issue, not only among visitors, but also in museum leadership ranks."

Generation Y, more broadly, has made its presence known throughout the for-profit and not-for-profit worlds, causing a disruption in both human resource management and business models in general. As a partial response to a trend that began far before Gen Y, the business world has increasingly admitted categories between the for-profit and not-for-profit: double bottom line businesses, net impact businesses, not-just-for-profit organizations and social enterprises. These new structures are both positively and negatively motivated. Positively in the sense that a new generation has a vision for how organizations should interact with society in order to create sustainable outcomes. The negative motivation comes from a growing sense that the traditional corporation does not do "enough" to support society.

Consumers have long felt this way: the 1993 Cone Cause Evolution Study<sup>50</sup> found that 85% of consumers would feel more positively about a company that supports a cause. Interestingly, in 2008 the study was repeated, producing the same outcome: 85%. What has changed, however, is how consumers would like to see corporations implementing this dictum: in 1993, 66% of consumers felt that it would be appropriate for a corporation to utilize a cause in its marketing efforts—but by 2008, this figure had risen to 85%. Even more telling, 78% of consumers felt that corporations should maintain (52%) or increase (26%) giving during recession years. But will

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<sup>50</sup> Cone, LLC, Past. Present. Future. The 25<sup>th</sup> anniversary of cause branding, October 1, 2008, [www.coneinc.com](http://www.coneinc.com).

consumers put their wallets on the line? Of those surveyed, 70% said that they would maintain loyalty to a brand during a recession if it continued supporting a cause.<sup>51</sup>

These are powerful numbers that give marketing directors reason to closely examine their giving strategies: an opening for art museums to increase their leverage. As of 2008, 67% of companies surveyed had a cause marketing program, with 97% finding that their program was an effective business strategy, and 72% maintaining that program despite the recession.<sup>52</sup> Museum directors should target increased participation in these programs, both through existing corporate relationships and toward the 33% of companies that currently do not have such a program.

#### *Demographics Recommendations:*

There is significant historical weight behind current curatorial and programming thinking; and these practices have arisen for good reason. The challenge now faces curators and directors: how to appeal to a broader demographic through an evolution that does not compromise the museum's core values. Museums should consider strategies that harness the "crowd sourcing" impetus and desire for "ownership" in the younger generations. Numerous not-for-profits and for-profits have captured this generation's support through providing them with opportunities to meaningfully participate and integrate the museum into their daily life and sense of personal identity.

*Bulls:* These strategists will focus on activities that directly drive earned revenues. From our research in corporate support, the likely push here is toward employee involvement programs. These can utilize technology and social media platforms to create customized new media platforms as an exclusive offering for particular sponsorship levels.

*Ballot Box:* In contrast, Ballot-based strategists will focus on programs that meaningfully involve the local community and in particular Gen Y, which seems to demonstrate an alienation from current museum practice. Examples of possible programs here are vast, but might include a specialized membership level, docent training, late night events appealing to youth and midnight tours, restorers-in-training, curators-in-training, allowing exhibitions of local artists work curated by local Gen Y but managed by professional curators, regional advocacy groups, etc. Says Azanto: "reaching the young, the underserved and the disinclined requires a change in ingrained museum habits" (Azanto).

*Special Note:* During the Penn Roundtable discussions in Philadelphia, several museum directors raised the issue of Gen Y involvement in museums, lamenting what they viewed as decreased involvement from that population segment due to an assumed reduced interest in art. The limited investigative follow-up pursued after that discussion suggested the opposite conclusion: that Gen Y interest in the arts actually exceeds that of previous generations. The explanation for why Gen Y is not participating with museums more regularly seems to be that there are a multitude of offerings that are more targeted to their interests, needs and modalities of interaction.

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<sup>51</sup>Edelman, Despite economic crisis, consumers value brands' commitment to social purpose, November 17, 2008, [www.goodpurposecommunity.com](http://www.goodpurposecommunity.com)

<sup>52</sup>Cause Survey 2008: A good time to give, *PR Week*, October 27, 2008, [www.prweek.com](http://www.prweek.com)



A literal explosion of artistic activity has spread across the US in the last two decades, and the pace of genesis appears to be increasing. Even as the number of traditional museums multiplied in the 90s, so too did the non-traditional: to celebrate ethnic diversity, ending of historical oppression or the uniqueness of a particular community. Simultaneous with this movement many smaller community galleries and “outsider” galleries were created to service the needs of artists who felt increasingly alienated from what they viewed as the “establishment”. These small galleries banded together in downtowns to create art walks (often without participation of any museum), festivals and interactive community events in partnership with civic organizations. The leaders of these movements increasingly are younger than one might expect to be possible, and utilize social media to spontaneously assemble crowds in the tens of thousands of which many museums would be jealous. To a generation that, rightly or wrongly, feels overly patronized by its predecessors, the methods of apprenticeship and “junior boards” that are predominantly used today are unlikely to appeal to any but a small minority of art-interested youth; the majority are engaged in the same sort of entrepreneurial efforts that this study is recommending for museums, efforts that focus on creating either a persuasive value offering (Bulls) or expression of community meaning and public service (Ballots).

Perhaps the most high impact and useful example of Gen Y’s predilections can be found at Burning Man, an event that occurs once a year in the Nevada desert. Approximately 50,000 people come each year, at their own expense, to celebrate artistic creation. Some claim that this is the largest display of public art in the world. Primarily, the creation of these works is supported by cash donations of Gen X and Gen Y individuals, who on average spend \$1500-\$3000 just to participate for the week. One of the curators of the multi-million dollar event has been known to comment on the “institutionalization” of art schools and art industry that creates an exclusionary “complex of corporations, museums, and private dealers” that she feels systematically exclude the younger generation of artists and arts-donors coming up now.<sup>53</sup> For this group, Burning Man is often the only outlet in which they feel welcome to participate in art generation, donation/contribution, and appreciation—they feel welcomed and at home, that this is a “place for them” and not a place in which they feel “less worthy” to be present.

While the feeling may be somewhat hyperbolic, it is a sentiment shared commonly amongst this demographic. So, whether “accurate” or not, it defines the dominant paradigm understood by an entire generation of artists, which, simply stated expresses the idea that museums are not “for them” but rather represent a historical system of empowerment that is no longer relevant. The same individual comments more modestly:

I do believe that Burning Man will have some kind of effect on how we think about art. I'm not suggesting that it's the future of art but I do think something important is going on out in the desert.<sup>54</sup>

Any museum director seeking inspiration that the youth of tomorrow embrace the creation and financial support of art *for itself*, outside the marketplace, need to go no further than Nevada to find hope and vision for the future. What is lacking in that environment, and in most of the casual environments described, is the expertise and formal education of generations, embodied in

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<sup>53</sup> [http://www.burningman.com/art\\_of\\_burningman/art\\_of\\_bm.html](http://www.burningman.com/art_of_burningman/art_of_bm.html) accessed March 2011.

<sup>54</sup> Christine Kristen. “Curator’s Statement: How I Fell from the Art World and Landed at Burning Man”. [http://www.burningman.com/art\\_of\\_burningman/curator\\_statement.html](http://www.burningman.com/art_of_burningman/curator_statement.html) accessed April 2011.

the professional staff of museums, to turn this energy into something that can appeal beyond the insider group and serve the wider public. Currently, in this world, its leaders are struggling with such issues as preservation, nation-wide exhibition, curation, etc.: all paths well-traveled by museum staff. This activity in the desert, like many Gen Y activities (and earlier “outsider art” movements) are certainly challenges to the established order: but they are the very challenges that throughout history have reinvigorated our old models with new relevance, structures and passion. Upon examination of the values underlying the activity, we expect museum directors to find more commonality than difference, and similar aims expressed in hauntingly familiar mission statements.

## V. Conclusion

Despite the pressures imposed on art museums in the current economy, one of the worst on record for corporate philanthropy to the arts, opportunities abound to engage evolutionary tactics that will ultimately place art museums on a path toward increased financial stability. The strategies broadly cover financial management, social/demographic factors and corporate relationship and engagement. Economic cyclicity is to be expected now and in the future, and art museums can mitigate the negative shock of cyclicity through employing financial management techniques such as consumption smoothing. Social and demographic factors have shifted to prominence the potential role of technology in museum management, and have simultaneously highlighted the desire of a new generation to have more tangible involvement in museums—savvy museum directors will take advantage of both of these trends in designing targeted volunteer and product offerings to both corporate employees and the general public. Finally, while corporate philanthropy in general is going up, arts organizations as a whole have experienced a decrease in corporate support. Qualitative factors obtained through interviews of corporate philanthropy officers explain in detail the possible causes of this trend: the good news is that there are actionable steps art museums can take to recapture (or increase) their share of corporate philanthropy. These suggestions revolve around developing deep, meaningful and aligned partnerships that are developed patiently for the long-term and with high involvement of corporate employees. In each year of corporate philanthropy, some museums have seemed to buck the trend of decreasing support: presumably by addressing successfully the needs of businesses.

All of these decisions must be made in the context of a changing view of the museum which has both institutions and individuals evaluating its performance based on “market” forces. But not all markets are created equal, and museum directors should select a disciplined strategy that reflects both their core competencies and their mission. On the one hand, corporations and some individuals are pushing for an actual economic justification for supporting museums—this is the mentality we have referred to throughout as the Bull strategy—and in this case museums should pitch offerings on a *value proposition* basis: that the benefit received is equal to the monies spent to receive it. On the other hand, smaller businesses, foundations and individuals are looking for results based on social markets—this is the mentality we have called the Ballot Box strategy. With the Ballot Box strategy, museums should focus on evolving the museum from an internal to a fully external focus, serving the greater good as that is perceived by its local constituents.

Whether Bull, Ballot Box or something different, museum directors are charged now with outlining a visionary strategy and correspondingly disciplined tactics as they move into the 21<sup>st</sup>

century. The Recession provides the perfect opportunity for redefinition and renewal. While funding is temporarily down due to the economic cycle, all evidence suggests that philanthropic dollars will return and then continue to grow. Much of these dollars will be in the hands of corporations, small businesses and individuals—disproportionately so as compared to historical giving trends. Each of these groups is increasingly particular about how and to whom dollars are gifted and stringent about results being measured and sufficient. The most successful museums will recognize this, align with the most appropriate partners, and deliver. The opportunity now is for each art museum to evaluate its practices on the basis of financial management, social/demographic changes and corporate needs in order to harness what seems to be a growing pool of corporate dollars that can place art museums on a path to ever-increasing financial stability.

APPENDIX A: LIST OF SUGGESTED ARTICLES FOR REVIEW

- Alexander, Victoria D. "From Philanthropy to Funding: The effects of corporate and public support on American art museums." Poetics. Museum Research Vol 24, Issues 2-4, Nov 1996, Pp. 87-129
- Americans for the Arts. "Arts Facts: Business Support for the Arts." [www.AmericansForTheArts.org](http://www.AmericansForTheArts.org). AFTA: 2010.
- Azanto, Andras. "Will US museums succeed in reinventing themselves? *The recession is forcing North American institutions to reconsider every aspect of what they do.*" The Art Newspaper. Issue 209, January 2010. Published online 11 Jan 2010. Accessed 8/10/2010: <http://www.theartnewspaper.com/articles/Will-US-museums-succeed-in-reinventing-themselves?%20/20030>
- Barton, Noelle and Preston, Caroline. "America's Biggest Businesses Set Flat Giving Budgets" *The Chronicle of Philanthropy*. Volume XXII, No. 16: August 12, 2010.
- Dobrzynski, Judith. "The Art of the Deal" *NY Times*. January 1, 2010
- Prescott, Kate. "Monograph: The Quality and Nature of Corporate Support for the Arts—A Pilot Study." Americans for the Arts: April 2007.
- Weil, Stephen E. "From Being *about* Something to Being *for* Somebody: The Ongoing Transformation of the American Museum." Making Museums Matter. Smithsonian Books: 2002.
- Whitaker, Amy. "Why Museums Matter." Museum Legs. Hol Art Books: 2009.

## APPENDIX B:

### Creative Asset Monetization

For reasons mentioned in the introduction, museums have a strict division between the art and operating budgets, with prohibitions against utilizing the art budget for operating and capital expenses. In addition, museums often qualify for one-time and special grants to build signature buildings and facility expansions. In some cases, civic money is donated from economic development budgets to commission world famous architects (aka, “star-architects”) to create a signature building for the city. Perhaps most well-known of these is Frank Gehry’s Guggenheim Museum in Bilbao, funded primarily as a (successful) effort to increase tourism and economic development in the city. This strategy has become widespread and is often known as the “Bilbao Effect”—in some instances working better than others. Some museum boards and staff have additionally and understandably grown enamored of the idea that the museum housing the finest in artistic creation be created itself by a well-respected artist. Unfortunately, neither of these two motivations contribute directly to the financial stability of the museum itself—in many cases they undermine it through taxing the museum’s ability to support the operating expenses necessary to maintain such monumental facilities.

Further, corporate partners might question why museums deserve a “bail-out” with so many valuable assets (building, collections) on their books. According to FASB rules, these assets, while they may appreciate, are not listed on the balance sheet of museums and, in fact, exist in a sense outside market forces. This can be viewed as a vast untapped resource with potential to help stabilize museum finances: but more often, it is viewed as absolute taboo.

#### *Monetization of Artistic Assets*

Yet, in times of financial crisis, some museums have attempted to reinterpret their deaccession policies. Deaccession is the opposite of art acquisition, and is defined as the divesting of a work from a museum’s collection. Deaccession policy is set by the Association of Art Museum Directors, which provides stringent penalties for any museum found in violation. Despite this, there has been spirited discussion, including by David Gordon, former head of the Milwaukee Art Museum, and Richard Armstrong, director of the Solomon R. Guggenheim Museum, protesting that the deaccession policy should be revised or removed. But not all agree, and two recent examples caused significant outrage: first, last year, when Brandeis University considered selling some works from its Rose Art Museum—the University eventually backed down, with the university president prompted to step down from office. Prior to that, the National Academy Museum resorted to selling work in order to pay operating bills, which caused immediate sanction from the AAMD.

In response to these incidents and continued discussion, the AAMD published an official policy statement on deaccession in June 2010. The policy mainly reiterates the norm: funds from deaccession and divestiture of any art work can only be used for the expansion of the art collection, and not for operating or capital needs. This policy is in place for good reason, but there have been several suggestions for modifications to the policy made recently. The premise behind many of these suggestions is that museums have an asset on the books which can and should be monetized somehow, for the benefit of the museum’s long-term survival and growth.

The counter-argument is that the museum's assets exist outside of generational difficulties, and should therefore be maintained outside of the market to preserve them for future generations.

Museums should examine their deaccession policy, and consider whether there might be some ethical compromise that can both satisfy their mission and provide needed working capital in times of recessionary pressure. This is extremely dangerous ground, and should be tread carefully. We agree with Ms. Dobrzynski that “deaccessioning shouldn't be impossible—just nearly so” (Dobrzynski). Some of the more interesting arguments are summarized below:

Dobrzynski Plan: In her January 2010 NY Times OpEd, Judith Dobrzynski proposed an amendment to the policy allowing for the creation of a neutral arbiter, “schooled in art, art law and nonprofit regulations” to manage requests by museums to employ deaccessioning to bolster their finances. In her system, the museum must satisfy a financial audit, exhaust other means of raising money, demonstrate that the loss of the work would not compromise the collection, contact relevant donors, and offer the work to other museums first.

Coaccession<sup>TM</sup>: Created by Dr. Mark White, Coaccession<sup>TM</sup> is a means for museums to mobilize the financial value of their cultural assets, and is premised on the idea that generations of capital appreciation have endowed larger art museums with significant untapped financial resources. The strategy is to share ownership with the museum's communities, trading the future capital appreciation of their permanent collections for a current stream of interest and dividend income that would let art works in the collection support operating expenses. The museum would retain rights through shared ownership, in a scalable system that could be applied and generalized across cities. While a full analysis of this strategy is beyond the scope of this paper, before considering implementation, care would have to be made that the transfer of ownership interest would comply with the current strictures of deaccessioning policy.

Maroney Plan for the Barnes: As a part of the court case surrounding the move of the Barnes Collection from its founding suburban location to downtown Philadelphia, James Maroney offered a plan to Barnes' director Kimberly Camp in 2001 which he later posted as Amicus Curiae to the trial. The plan describes a means for selling partial undivided interests in the titles to selected paintings, which would confer possession to private buyers for the remainder of their lives. These buyers would be obligated, as a condition of sale, to return these partial interests to the Barnes prior to or at the time of their last will and testament. Maroney's argument is that this would have been permissible under the terms of the case, adhere to the AAMD policy, and build the Barnes Foundation endowment by \$400M while retaining its entire collection as well as its location. The Barnes case is especially interesting, due to the fact that collection founder Dr. Barnes specifically prohibited both deaccession and the movement of the collection, but something had to give. Ultimately, the court decided to dismantle and move the collection from its historic and highly intentional home, rather than allow deaccession or the partial ownership plan described by Maroney.

Art Clubs: Alongside the options mentioned above, we suggest another strategy for consideration by museums. This strategy would involve a specialized club with corporate and high net-worth members who buy-in to a significantly priced membership program. The program would allow these groups to participate in a larger curatorial network, in which works that were not currently on exhibition could rotate through private display in homes and corporations. The most likely

method for creating such a system would involve the chartering of a non-profit or quasi-public organization that could steward such a system ethically. The individual museum could sell a partial (minority) ownership in the art work to the non-profit, who would then manage the logistics and maintenance of sharing the collection more broadly. While a direct rental method might seem more straightforward, current deaccessioning policy prohibits partial sale of interest in a museum-owned work to a private entity or corporation—therefore the intermediate non-profit entity can insure both the care and ethical use of the work as well as allowing a museum to abide by policy.

### *Increase Monetization of Building Assets*

Another much less controversial area in which museums are holding particularly valuable assets that could be further monetized is their physical plant. Acquiring support for building exciting new spaces has traditionally been more easily achieved than obtaining grants for general operating funds. Some museums have used this constant upgrading of facility to set-aside some “leftover” dollars to feed the operations (Alexander). Be that as it may, there are additional possibilities for monetizing part or all of the value resident in the building itself, without giving away any interest in the organization or the collection. Some ideas are detailed below.

Increase Utilization: As in any recession, there is the possibility of a loss of some of the smaller or less financially sound museums during the recession. In boom times, new organizations are constantly seeking to be formed. There is a chance to harness this energy into revenue for the museum by engaging with these other organizations through tenancies, partnerships and shared use of some portion of the facility (or use of the facility at some currently lightly trafficked time). Generally speaking, the overhead cost of the facility (beyond the marginal cost of each use) goes down as utilization of the facility increases. There are several limitations to this strategy: the danger of brand mixing; the safety and maintenance of facilities and collection; and the desire to keep attendance low enough to allow for contemplative viewing and reflection. Even given those strictures, initial analysis suggests that there could be a significant improvement in museum financials through increasing utilization—if not by attendees, per se—by museum-compatible organizations. One possibility to specifically consider in light of this paper is the idea of creating or expanding the use by corporations of some portions of the museum facility itself at times when it is not otherwise in significant use, and would not compromise access to the public.

Partial Sale of Building Ownership: In cases in which the museum organization owns its own building, there is an opportunity to sell a partial ownership of that facility to the community or to a corporate partner. Sale of partial ownership of the building would not imply any sale of interest in either the collection or the organization itself. Studies have shown that museums can improve the value of surrounding real estate—as well as of their own real estate.<sup>55</sup> Savvy corporate partners will be interested in exploring this possibility not only for the potential revenue, but for the status implied by being in a private “club” that has some special relationship to the building. This is clearly the call of a market force, but one which can be contained to a physical asset that does not hinder the satisfaction of the museum’s mission. Some financing schemes allow the community to purchase individual shares of the building to afford construction. One can easily

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<sup>55</sup> Kwatinetz, Fadule, Mehta and Saffer. “Capital Transaction Premiums Attributed to Real Estate Proximate to Arts and Entertainment Anchors” (Working Title). Unpublished Manuscript. 2010.

see a similar plan of a “public offering” of the building to the community in which it resides—this type of plan might allow an entirely different response to situations similar to the recent Barnes conflict.

A more indirect means of accomplishing a similar goal would be to expand event/rental activities, bring in new tenants for a portion of the facility or performing a sale/lease-back with a new building owner. Each of these situations could be supported with a tax-exempt bond issuance, thereby boosting proceeds. Of all these scenarios, we recommend exploring those which allow the museum to retain a controlling interest in the building.



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