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**ENTREPRENEURSHIP:
FROM DENIAL TO DISCOVERY IN
NONPROFIT ART MUSEUMS?**

Working Paper No. PONC98

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Abstract

This research explores the function of entrepreneurship in nonprofit art museums. Traditionally, entrepreneurship literature features debates on customer orientation and innovation. This paper reviews a tension in entrepreneurship: the relationship between limited funding and the need to innovate in nonprofit art museums. The paper develops a construct by which to explain the structure of entrepreneurship in nonprofit art museums in Australia and New Zealand since 1975. From this discussion, different strategies and tensions are highlighted that nonprofit art museum directors have used. The dynamics are explored in ten large art museums and the managerial implications are developed.

Acknowledgments

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Introduction

An aspect of the reforms to the Australian and New Zealand public sector of the late 1980s is the adoption of private sector philosophies on funding. This adoption is a manifestation of the belief that diversity of funding would ease the funding burdens of nonprofit art museums.

Most nonprofit art museums rely substantially on funding from federal, state or local government and are subject to management reforms. Hitherto, art museums did not participate in sponsorship or audience income making activities to a great extent, but relied mostly on government funding for their activities. Now, for the first time, directors are being asked to seek a diversity of funding sources to supplement government funding income. This has caused directors to seek entrepreneurial ways to earn income.

This paper describes the findings of a study of how these reforms have impacted on nonprofit art museums, focusing particularly on how museum directors endeavour to succeed. Entrepreneurship is conceived multidimensionally, along the lines of Rentschler and Geursen's (1999a) paper, which discusses an environment in which art museum directors have no option but to use entrepreneurial strategies to maintain sustainability. Their study was conducted longitudinally via analysis of annual reports of nonprofit art museums. The findings show the consequences for art museums and suggest avenues for improvement. This paper extends that study and discusses the issues arising from an analysis of annual reports of ten large art museums in Australia and New Zealand. It therefore addresses a fundamental question in government or philanthropically funded

organisations: given that there is constant growth in funds to nonprofit art museums in the period studied, what are the thematic changes that are entrepreneurial in nature?

Entrepreneurship and Nonprofit Art Museums

Searches have not revealed a substantial body of literature on nonprofit art museums and entrepreneurship. There are papers that cover the institutional tensions that emphasise the importance of the director (McQuade 1974; Shestack 1978; Weil 1987), with the result that literature is paying increasing attention to their role (Boyd 1995). It is the director who leads the organisation towards a refocussing of its vision. Further, it is the director who acts as change agent during times of significant change. Art museum directors must contend with demands of the organisation and the context without compromising the art museum's aesthetic mission. Given the tension in museums between professional curatorial preferences and external pressures to raise funds and increase attendance figures, it is directors who develop the appropriate balance for the organisation, making aesthetic and managerial choices as they manage art museums as organisations (Alexander 1990). It is these tensions that are evident in the entrepreneurial activities undertaken in art museums.

Australian and New Zealand art museums have characteristics in common due to their shared cultural heritage. Here the philanthropic role is one for government, as it is in a number of countries with traditional links to the United Kingdom and other European countries (Sauvanet 1999; Thompson 2000). The commonality of heritage creates a degree of isomorphism in approaches taken to entrepreneurial activity in both countries. This differs from the unique model of cultural funding in the United States, which is pluralist, highly fragmented and mostly supported by the private sector (Mulcahy 1999). The distinguishing characteristic of American cultural development is argued by Acs (1999) to differentiate American capitalism from all other forms of historical capitalism. He sees the historical focus on the creation of wealth as entrepreneurship and the distribution of wealth as philanthropy. Further, Acs sees philanthropy as playing a role in economic development and growth. It is argued in this paper that entrepreneurship includes government funding, philanthropy, and sponsorship. Further, this view sees philanthropy as part of social development, not economic development. The formal accountability required by these nonprofit art museums from patrons of the arts (Rentschler 1998) requires an extended view of entrepreneurship.

Research Scope and Hypotheses

The scope of this paper is to examine the research question in the art museum context. Two research hypotheses are formulated in order to do this:

- H1 that there is a level of balance between market-based activity and maintenance of different types of funding support
- H2 that there are differences in entrepreneurial focus between the largest art museums and the other art museums

Method

This paper extends the study by Rentschler and Geursen (1999a) on art museum annual reports and follows its methodology. It analyses annual reports from the ten major art museums in Australia and New Zealand from 1975/76 until 1997/98. The purpose of annual report analysis is to interpret change through practical art museum examples. The selection of ten cases follows arguments by Eisenhardt (1989) that theory development and the understanding of phenomena can best be achieved by case study methods. In case studies, data from respondents is considered soft data. In order to confirm observations from respondents used in earlier research (Rentschler 1999; Rentschler & Geursen 1999b), annual report analysis is extended as it is considered hard data. Taken together, the two approaches provide a robust basis for overall observations. The annual report ordinarily appears under the director's signature which establishes a direct link with key elements on strategic direction and issues uppermost in the director's mind. Even if someone drafts the annual report other than the director, the fact that the director signs it ensures it reflects the director's strategic intent. It is thus significant and valid research data.

The longitudinal dimension to case study analysis provides the possibility of examining what actually happened over time and around a crisis point. Annual reports from 1975 onwards were used as hard evidence of art museum history and as a key piece of information that enables interview validation. Annual reports were either provided by the art museums or were sourced by searching libraries for issues missing from art museum holdings. This entailed a detailed search and some annual reports are still to be located. Two types of analysis were undertaken. First, annual report financial data were analysed. Income was sorted into three categories: audience revenue, sponsorship revenue and government revenue. In cases where annual reports were unavailable for a particular year, the closest possible years were used. Data was analysed initially as total average income by source, and then in net present value terms.

Second, each annual report was examined to calculate the amount of available space devoted to both text and illustration. The number of square centimetres allocated to each topic was then measured and expressed as a percentage of available space. The approach taken was to allow the annual report to dictate the topics rather than to try to force the analysis into a predetermined pattern. The topics are grouped under management/administration, the collection, access, curatorial and staffing. Management/administration includes purpose, mission, strategy, financial

statements, grants, funding, patrons, and marketing. Collections includes acquisitions and works on loan. Access includes details of exhibitions, attendance, public education and information services. Curatorial includes storage, cataloguing, research and conservation. Staffing includes acknowledgments, scholarly activities and staff training.

Findings

The first hypothesis is initially examined by analysing the annual reports of the ten major art museums. As a group, these art museums have on average 111 staff and are located in the major cities of Australia and New Zealand. The art museums vary in age from those established in the early nineteenth century, to art museums established in the last few decades. Their collections focus on the Australian and New Zealand cultural heritage, with some of them also having significant Aboriginal, Asian and European works. **Figure 1** identifies the percentage of income derived from audience revenue, sponsorship revenue and government revenue from 1975/76 to 1997/98 in the ten major art museums in Australia and New Zealand.

Figure 1: Total Average Source of Income, all Art Museums, by Year 1975/76—1997/98

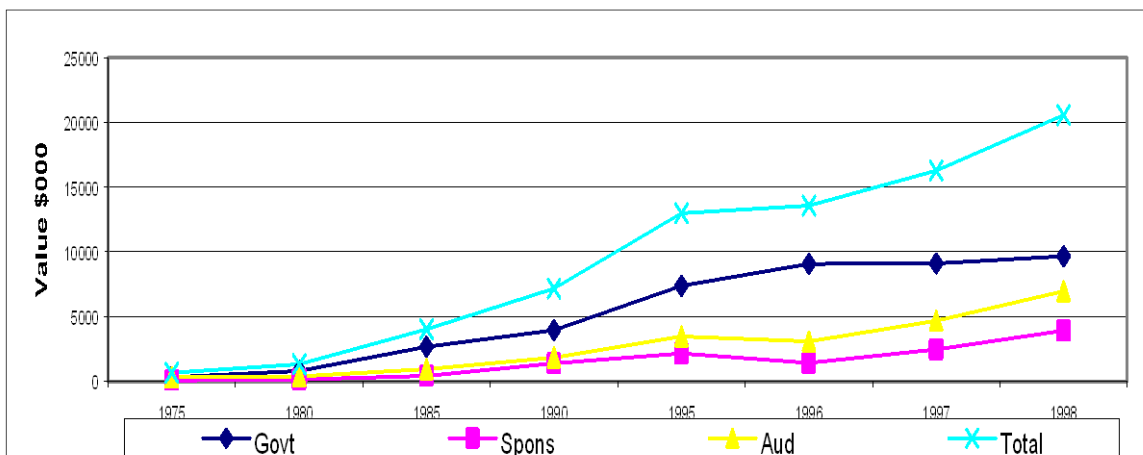
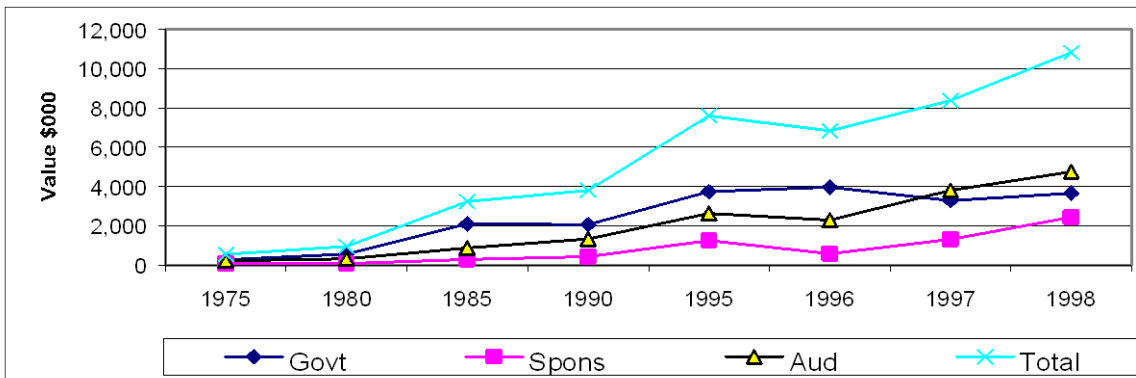


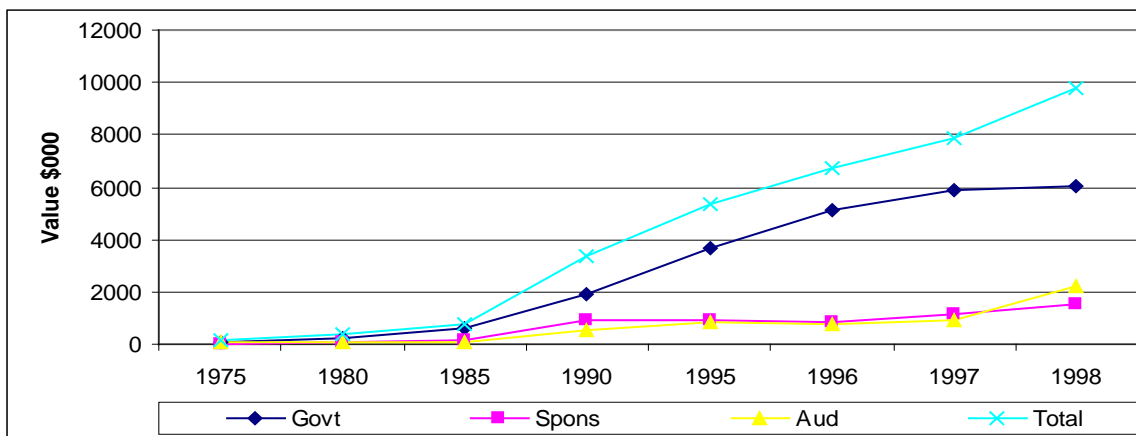
Figure 1 shows that the three sources of income have been maintained. There is constant growth in the total amount of income to the museums studied in real terms when net present value is calculated for the income sources. This suggests entrepreneurial behaviour. The graph illustrates that the mix of three income sources has changed over the decades studied, with government income growing rapidly until the early 1990s, after which it levels out. During this decade, sponsorship and audience income have increased; however, government income remains the dominant income source.

Figure 2: Total Average Source of Income, Large Art Museums, by Year 1975/76—1997/98



The four largest art museums studied have an average of 223 staff and the six smaller art museums have an average of 77 staff. There is a natural division between these two types of large art museum, which allows analysis to be made by comparing and contrasting the four large and six smaller art museums as groups. **Figures 2 and 3** show that while government income is a dominant source for both large and smaller art museums, the smaller art museums rely more on government funding and find accessing sponsorship and audience income more difficult.

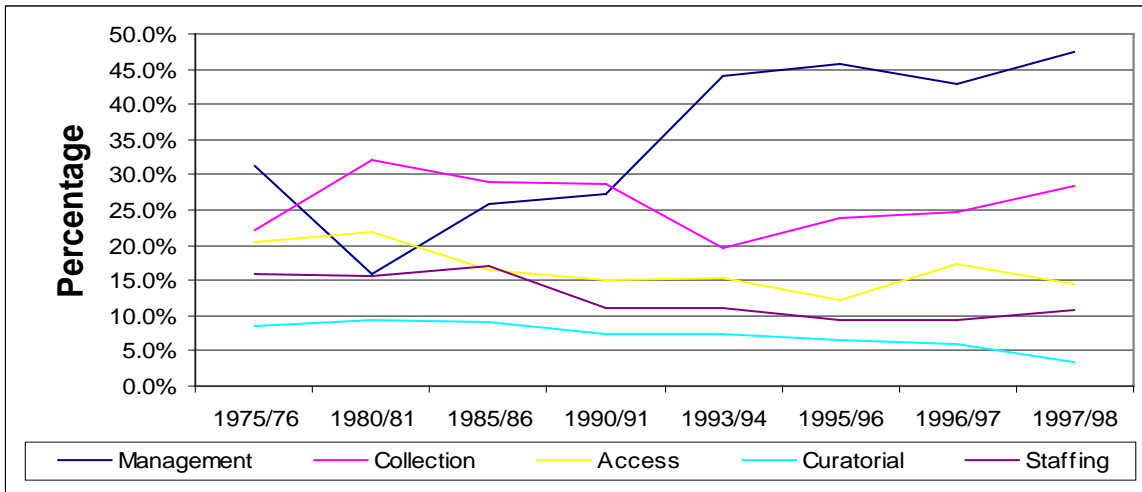
Figure 3: Total Average Source of Income, Smaller Art Museums, by Year 1975/76—1997/98



The annual report financial statements are similar in two relevant aspects. First, all art museums rely for much of their funding on government sources. Second, they all benefit from a change in strategies and a leap in sponsorship in the 1990s which some found hard to sustain. Within the context of these similarities, entrepreneurial activities differ. Sponsorship and exhibitions are becoming a key unit of art museum activity. Smaller art museums are often frustrated at not gaining access to the major touring exhibitions and therefore look to their own region for ideas for entrepreneurial activities. The Queensland Art Gallery in Brisbane has successfully conducted the Asian Triennial exhibition and the Museum and Art Gallery of the Northern Territory in Darwin has been looking to indigenous Australian art and Indonesia for stimulus for exhibitions and

sponsorship. The introduction of blockbuster exhibitions has made a difference to the major art museums as they draw large crowds and therefore attract major sponsors. Exhibitions are increasingly being viewed as cost-centres which make a net contribution to art museum income (Thompson 2000).

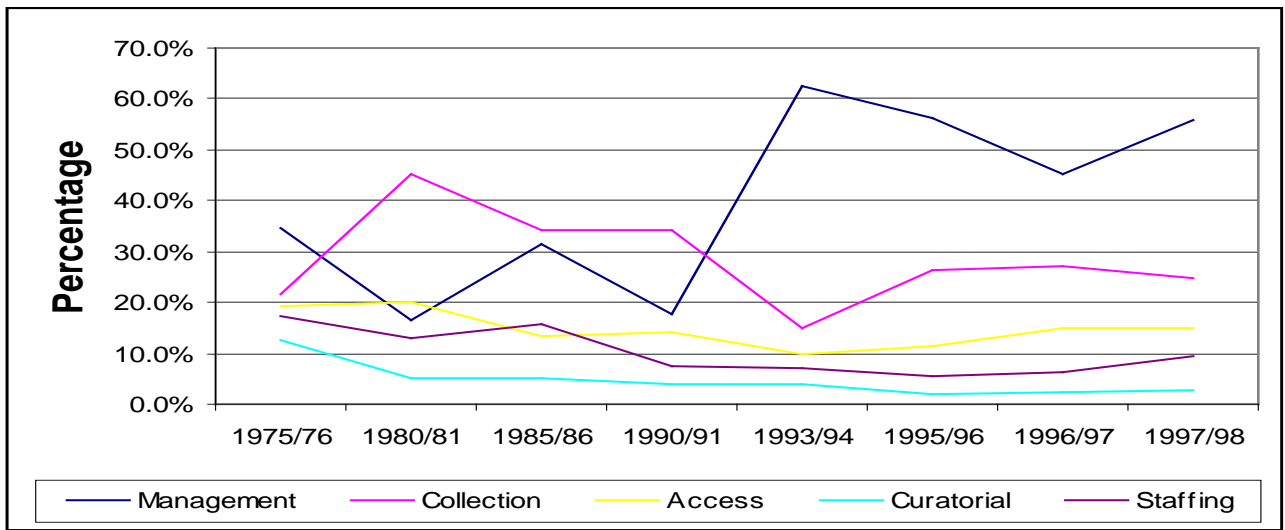
Figure 4: Annual Report Content, all Art Museums, by Year (Percentage)



Analysis of the content of the reports indicates that the growth in management comment is a recent phenomenon in all art museum annual reports studied (**Figure 4**). The collection has maintained its importance, as it is pertinent to the aesthetic mission. Exploration of the management aspect is relevant to the second hypothesis as change in revenue origin indicates the necessity for additional directorial effort to be applied to ensure a balance of funding sources.

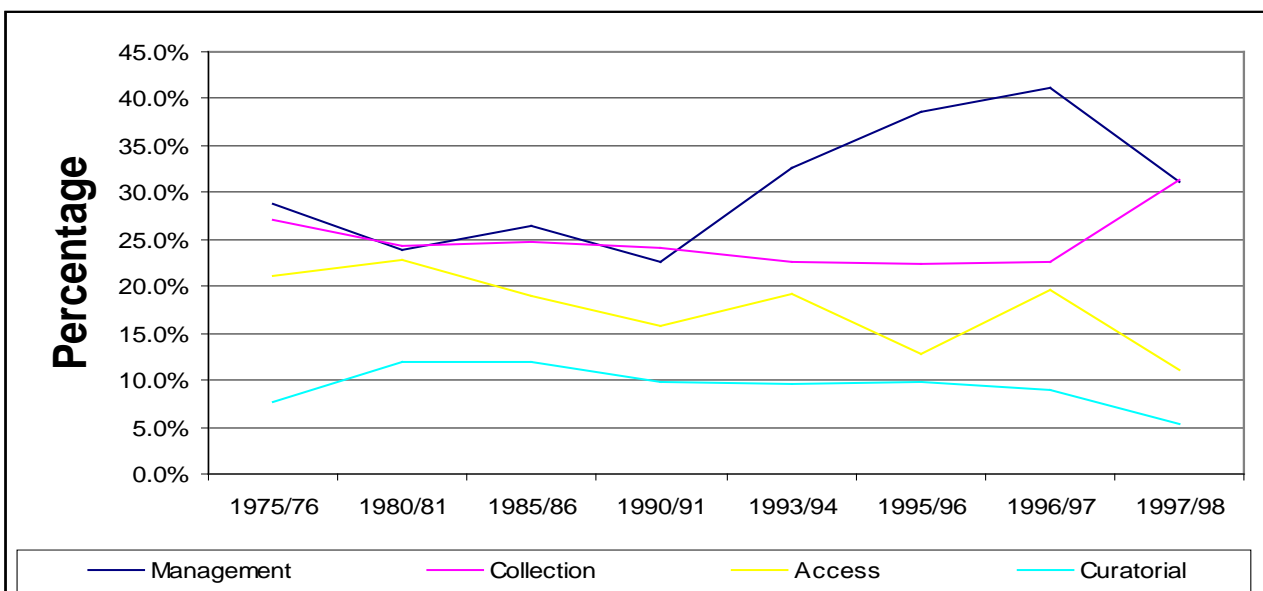
While the comment on matters to do with art museum access decline over the years, which may seem unusual, the functions of management and access are not always well enough differentiated. This is to be expected because access is about new programs and audiences at a time when directors have to react to changes in the environment. Once the changes are implemented, they become a management function and receive far less comment. In summary, entrepreneurial directors are achieving a balance of funding which overcomes the frustration associated with location and size differences.

Figure 5: Annual Report Content, Large Art Museums, by Year



Figures 5 and 6 divide art museum content analysis into large and smaller art museums for further analysis. While there is more variance in management comment in the large art museums—due to a focus on developing collections, building new facilities and centenary celebrations in one art museum in the 1970s—the trend line towards more management comment is similarly increasing in the two groups. In both large and smaller art museums, there is a dramatic increase in management comment in the early 1990s. This is due to a number of factors: the appointment of new directors, the setting of new strategic directions, the decline in government funding and the consolidating of government managerial accountabilities which demand a more corporate reporting focus. In other words, the similarities in direction and intent between the two art museum types are more interesting than their differences in this analysis. Differences are more evident in entrepreneurial behaviour identified in the annual reports. Two case studies illustrate the point.

Figure 6: Annual Report Content, Smaller Art Museums, by Year



It is interesting to make a comparison between the National Gallery of Australia (NGA) in Canberra and the Art Gallery of Western Australia (AGWA) in Perth as both galleries appointed new female Directors in 1990-91—Betty Churcher in Canberra and Paula Latos-Valier in Perth—as part of a general shift in entrepreneurial practice. The 1990s was the era of the blockbuster exhibition, the National Gallery of Australia leading the way in making these major international touring exhibitions the highlight of its calendar. In 1985, NGA's then Director, James Mollison, brought out *20th Century Masters from the Museum of Modern Art, New York*, attracting 127,000 visitors and effectively putting the NGA on the international map. The level of public relations was doubled from the last major exhibition and the first long-term corporate sponsorship deal established, marking the beginning of the development of concrete initiatives to expand private sector funding.

These proposals were greatly expanded by Betty Churcher who, despite taking up her position at a time of economic recession and facing the associated cuts in expenditure, managed to retain the support of NGA's growing list of companies who were building lasting relationships with the Gallery and increasing funding annually. One specific example of Churcher's achievements in combining ongoing sponsorship with her penchant for the blockbuster exhibition, was the offer of naming rights to companies, giving them a direct association with a particular exhibition, aided by related commercial activities through the in-house production of merchandise.

Internally, spurred by initial changes in industrial relations brought about by the economic downturn, the early 90s saw the implementation of high-level corporate and strategic planning. This was underpinned by an ideological shift away from the central aim of maintaining NGA's reputation as a collecting and research institute of excellence, towards access as the main priority, with the development of diverse programmes directed at the whole community. By 1995-96, Churcher had solidified this new style of creative management; non-government revenue exceeding \$9.5 million and three hugely popular blockbusters being held, including the *Turner* exhibition that boasted 240,000 visitors. It is this shift in emphasis that **Figures 4 to 6** conceptualise.

Churcher, as part of this shift in organisational focus onto the key role of senior management, changed the position of Deputy Director to that of Assistant Director in 1993-94, a change that AGWA had made much earlier in 1980-81, the same year the latter held its first large-scale travelling exhibition. In the early 80s, the AGWA was already implementing strategies to create diversity in its exhibitions in order to ensure broad appeal. It was at the forefront of a general shift in the profile of art museums from storage houses kept by and for an elite audience, to a popularisation of the gallery as public destination, providing public programmes beyond the purely educational and embracing its wider role as a venue for cultural entertainment. Sponsorship was vital in allowing the AGWA to enlarge its role as promoter of the arts, widening its scope to include film screenings, live music and other performances.

The appointment of Paula Latos-Valier saw a concretisation of these policies, strengthening the role of the sponsors beyond that of mere cash donors. In 1990-91, Latos-Valier devised a Five Year Business Plan similar to that implemented by the NGA in 1993-94, which instituted a culture oriented towards customer service and accountability. The AGWA managed to expand into a new adjoining gallery space within its existing funding base and celebrated its centennial year in 1995 as the culmination of “significant achievement across all areas of the corporate performance through the delivery of high quality and innovative programmes, improved operational efficiencies and continued sound management to achieve an improved financial outcome” (AGWA Annual Report 1995/96, p. 13). Performance Indicators, Marketing and Development and Corporate Performance became the focus of the AGWA’s Annual Reports, overtaking the specifics of collection and exhibition.

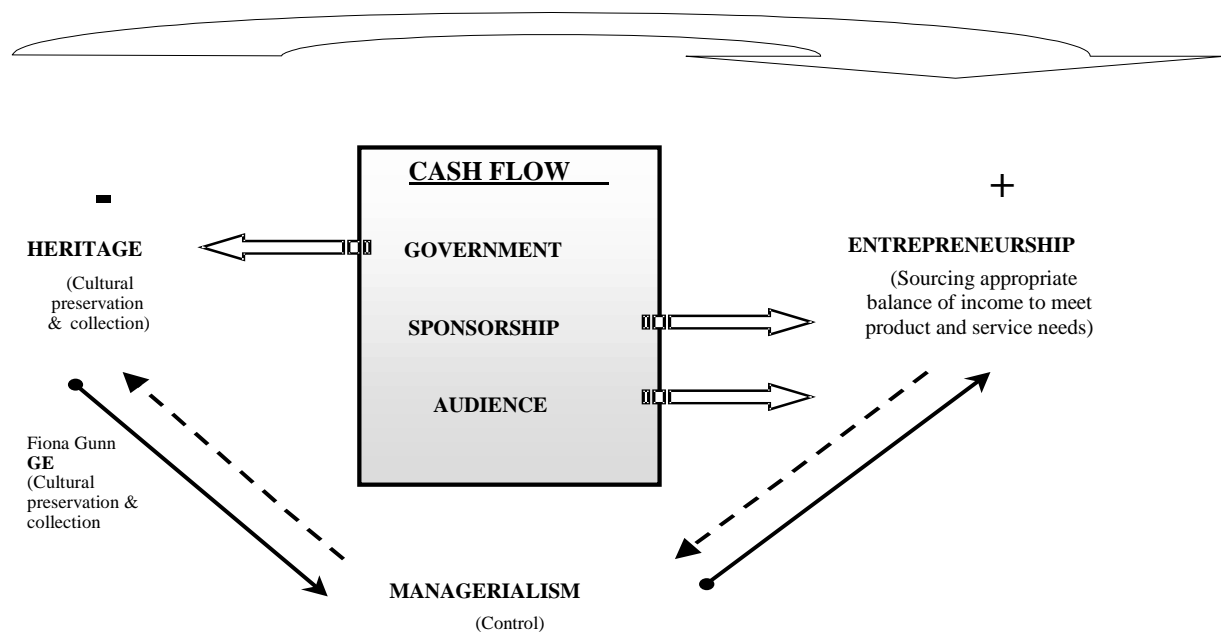
Despite this rapid development in strategic planning and corporatisation, which was similar to and largely preceding that of the NGA’s, the AGWA has continually struggled to remain an active player in Australia’s national art scene from the distance of Perth. Without the benefits of high-level tourism and a large population, the Gallery has found it difficult to procure the blockbuster exhibitions that tour the east coast and has been forced to look at alternative options to sustain its audience and attract the required sponsorship. More recently, the 1996 appointment of Director Alan Dodge has seen both a return to the emphasis on exhibitions and the collection and the development of specific ideas for overcoming this “tyranny of distance.” Central to Dodge’s plans is the forging of collaborative links with the Indian Ocean Rim, promoting cultural relationships with countries throughout the region. With the aim of discovering a sense of cultural placement, he proposed the construction of a Living Centre for Australia and the Indian Ocean Rim as a forum for the exchange of exhibitions, partnerships, special projects and providing the underpinning for business, trade, diplomacy and tourism.

Conclusions

Directors’ entrepreneurship in management over time can be inferred from annual report analysis. During the period from approximately 1975 to 1998, all ten art museums followed remarkably similar paths, albeit with differing emphases as a consequence of their origins and patterns of development. Ideologically, directors gradually moved away from elitism and connoisseurship to community access and audience development, with an increasing focus on diversity of income but maintenance of the income mix. The most significant problem in the art museums has been income uncertainty and the increased complexity in the context, which has seen volatility in funding over time.

A key issue has been the argument that entrepreneurship encompasses managing and maintaining the three income sources to ensure economic viability and creative vitality. It is not assumed that economic viability is the only type of entrepreneurship. Government income and market-earned income are not mutually exclusive objectives. What is being discussed essentially is market position. Directors in art museums studied have chosen a variety of market positions. The choices suggest that directors are nominating positions and are offering differentiated products and services for those markets. **Figure 7** constructs a framework to explain the structure of entrepreneurship in nonprofit art museums. The purpose of the model is that it allows identification of the interdependence between funding activities and pressure points.

Figure7: Nonprofit Art Museums Entrepreneurial Construct



The evidence reported in this paper suggests that the two hypotheses are valid. Data from the ten major art museums of Australia and New Zealand confirm that directors' entrepreneurial activity has achieved a level of balance between different funding types and that there are differences between large and smaller art museums in entrepreneurial focus. These conclusions are supported by the growth in managerial emphasis from 1975 to 1998.

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Abbreviations

AGNSW	Art Gallery of New South Wales
AGSA	Art Gallery of South Australia
AGWA	Art Gallery of Western Australia
MAGNT	Museum and Art Gallery of the Northern Territory
NGA	National Gallery of Australia
NGV	National Gallery of Victoria

QAG	Queensland Art Gallery
TMAG	Tasmanian Museum and Art Gallery
Te Papa	Museum of New Zealand Te Papa Tongarewa

Annual Reports

AGNSW Annual Reports 1975/76, 1980/81, 1984/85, 1990/91, 1993/94, 1994/95, 1995/96, 1997/98

AGSA Annual Reports 1975/76, 1980/81, 1984/85, 1990/91, 1993/94, 1994/95, 1995/96, 1997/98

AGWA Annual Reports 1974/75, 1980/81, 1985/86, 1990/91, 1994/95, 1995/96, 1997/98

Canterbury Museum Annual Reports 1974/76, 1977/82, 1985/86, 1990/91, 1993/94, 1996/97

MAGNT Annual Reports 1973/74, 1979/80, 1985/86, 1990/91, 1992/93, 1993/94, 1994/95, 1995/96

NGA Annual Reports 1975/76, 1980/81, 1985/86, 1990/91, 1993/94, 1995/96, 1997/98

NGA Annual Reports 1975/76, 1980/81, 1985/86, 1990/91, 1993/94, 1995/96, 1996/97, 1997/98

QAG Annual Reports 1985/86, 1990/91, 1993/94, 1995/96, 1996/97, 1997/98

TMAG Annual Reports 1975/76, 1980/81, 1984/85, 1990/91, 1993/94, 1995/96,

Te Papa Annual Reports 1974/75, 1979/80, 1984/85, 1989/90, 1994/95, 1996/97

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