

Comparing Museums: Why Economics and Entrepreneurship Are Important to Art Museums

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## What This Study Will Tell You

As a research fellow at Rhodes College I partnered with the Memphis Brooks Museum of Art during the summer of 2012. My initial project was to conduct a comparative study between the Brooks and other art museums around the country in order to assess how the Brooks Museum compares in various areas of operation to similar institutions. The hope was that this study would help the Brooks and the other museums surveyed to understand in which areas they had a comparative advantage and in which areas they should invest more resources in the hopes of improving results. More broadly, I hoped to determine which museums in the field are the most successful, and why.

What I discovered through my research is that the word “success” in the museum and non-profit field is much more nuanced and non-specific than it is in the for-profit world. Success cannot be defined in the black and white terms of profits and losses. Non-profits also have the unique and overwhelming job of balancing the expectations of society, diverse constituencies, private donors, corporations, the board of directors, local governments, and their own staff. They must be concerned with fulfilling institutional purposes, balancing budgets, and directing funds to areas of operations donors are most interested in supporting, which are not always the areas in which the funds are most crucially needed.

Thus, the question became: What makes a museum successful? An abstract response might be the intangible outcome of a life that is changed through the power of art – the unquantifiable value of art. Other quantifiable responses might be based on high or increasing attendance, robust membership roles, the amount of scholarly publications generated, the quality or size of a permanent collection, the number of special exhibitions brought in or created, the diversity of the audience, the amount of earned income, or contributed income received. Some museums focus on the money spent directly on programming in comparison to that spent on administrative costs. In sum, “success metrics” are complex, not always easy to quantify, and do not tell the full picture of how much value, culture, and pride an art museum brings to a community.

The data I collected consisted of both hard data and more abstract measurements such as a museum’s public value. The data available in my study will show where a museum stands in comparison to other museums in a variety of areas, and provides an opportunity to look at this data in relation to the demographics of a specific community compared with other communities. However, it will still not prescribe the specific areas where one should best direct resources and efforts to in order to be “more successful”. As stated above, there are so many different factors that can correlate to success and so many different ways to define what constitutes success that it is difficult to pinpoint a particular factor or set of factors that not only affect, but cause success or failure. Nevertheless, I am confident that the research bellow provides some ideas relating to making progress in both the mission and market side of a museum’s operations.

## The Evolving Role of the Museum in a Changing Contemporary Society

Recently, the role of a museum in society has been put into question. The changing museum has “gone from being *about something* to being *for someone*” (Weil 30). In other words, the purpose of the museum has changed from an inward focus on researching and preserving art collections to an outward focus on serving the public and providing educational services. Preserving and collecting art are no longer ends in and of themselves, but have instead become the means to achieve the end of public service. This is why there has been an overwhelming shift in the mission statements of various art museums. The statements have changed to match the expectations of society. Museums are no longer purely dedicated to “collecting and preserving art”, but institutions committed to “transforming lives through the power of art”, as the Brooks Museum’s vision states.

In “Making Museums Matter”, Stephen Weil claims that “Museums (do not) deserve to be supported simply as an established tradition”. He asks, “if museums are *not* operated with the ultimate goal of improving the quality of people’s lives, on what (other) basis might (they) possibly ask for public funding?” (39). This question could be asked of any non-profit organization because a non-profit is defined by its ability to improve some aspect of people’s lives. In an art museum, this goal is accomplished through the power of art. Because the role of the museum in society has changed, the metrics with which the success of the museum is measured have also transformed. How do we measure whether a museum is actually accomplishing the goal of improving people’s lives through art? Many may argue that something as subjective as art and the power it has on an individual is impossible to measure, yet this is the outcome that the Brooks and other museums are aspiring to accomplish, and the one that

legitimizes their continued existence in contemporary society. It is that intangible factor that makes them invaluable to society.

### Success Metrics: How do you measure the success of a non-profit, particularly a museum?

What makes a museum successful? It may be impossible to put an exact figure on how a life is affected by an encounter with a beautiful piece of art at the Memphis Brooks Museum of Art. This is an intangible outcome. However, it is not impossible to measure more tangible aspects of a museum operation, such as output, which may be an indicator of this subjective component. Just like in a for-profit business, “the ability of a non-profit organization to achieve an intended end is what distinguishes success from failure” (Weil 38). The key difference between the two is that for-profits rely on economic relationships to provide the means that accomplish these ends, while non-profits rely on social relationships (Weil 38).

*In this paper, I will argue that a museum that engages in entrepreneurial business ventures for the purpose of furthering its mission will be successful in both the social and business sides of its operations, and will be more likely to fulfill its institutional purpose. An innovative museum is one that places itself in a position where it can easily adapt and respond to the changing demands of the community by engaging in entrepreneurial activities. Here we will define entrepreneurship as “the capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks” (Entrepreneurship). It can also be characterized as a business venture that involves risk-taking and innovation (Entrepreneurship). Innovation will be defined as an improvement in the way that goods and services are provided to society. These activities are what drive progress through the process of*

creative destruction in our capitalistic environment. A museum that is innovative and entrepreneurial will use its available resources in the most efficient way possible in order to further its public value in a meaningful way, so that an abstract purpose can turn into outcomes which are tangibly felt in a community. The only activities that a non-profit can justifiably engage in are those that further its institutional purpose. Because of this, many are under the impression that the “mission” side of a non-profit organization is in competition with the “market” side. Intuitively, it may seem that engaging in financially successful activities will detract from the purpose of the non-profit (Weil). This is a misconception – as Stephen Weil points out, the “market” side of a non-profit’s operations will actually work to further the “mission” side, *as long as the museum continues to use all of its resources with the end goal of accomplishing its mission.*

### What is the public value of an art museum?

Those in the museum field, the public government sector, and the private corporate sector are all struggling to define appropriate and uniform museum metrics. All three groups must address the question: what is a museum’s value to the public? What difference does a museum make in a community and is this difference valuable? In *Reinventing the Museum*, Gail Anderson claims that “the word ‘museum’ has little if any meaning...because it has acquired so many different connotations” (31). Because the institutional purpose of a museum is so intangible and multifaceted, museums may have trouble communicating their public value to their community. A museum will be unable to determine whether it is successful or not if there is not a clearly defined purpose.

Those in the museum community may claim that museums have an inherent value as institutions that preserve important historical and cultural objects. From an economist standpoint,

this claim does not hold ground. As human interaction has proven throughout history, no object has intrinsic value, because value is subjective by nature. According to economic philosophy, value is dependent on the subjective judgments of individuals. In order to take one course of action, a person inevitably has to give up another. Value of a commodity can therefore be described as what a person is willing to give up in order to gain that commodity. Therefore, the individual judgments of values are not precise measurements, but relative ones which establish a gradation or ordering. Valuation is therefore subject to the state of scarcity which is inherent to society. People's values are what create the supply and demand of an economic system. Supply and demand creates a price, which shows how much individuals as a whole value something in relation to something else. Although an individual subjective value cannot be measured, the amount of money they are willing to pay for a commodity can. Society does not have unlimited resources to expend on all the needs and wants that exist, but must allocate its funding in the best way possible

So how valuable is an art museum in relation to all of the other wants and needs in society? Resources are scarce and therefore in order to give them to one cause, society forgoes the opportunity to give them to a different cause. Why are society's resources best spent on an art museum and not on any other of the many areas of need? The only way to answer this question is to identify a valuable service which the museum is providing to the community. A museum's public value, just like any other institution in society, is not inherent in its existence, and therefore must be demonstrated through tangible and verifiable measurements.

### The need for accountability

The Brooks Museum's mission is to "enrich the lives of our diverse community through the Museum's expanding collection, varied exhibitions, and dynamic programs that reflect the art

of world cultures from antiquity to the present.” (<http://www.brooksmuseum.org/missionvision>). Is it successful in doing this, and how do we know? As already discussed, it is impossible to put an exact measure on something as subjective as a transformed life. However, museums use many other quantifiable metrics to measure their success. These measurements are demanded by potential donors, from private corporations to the local government, in order to answer the questions: to what extent is this art museum carrying out its mission? Metrics indicate whether a museum is deploying its resources in the areas of operation that will cause it to be the most effective in reaching that goal. They also show whether resources are being used in the most efficient way possible. Will donated funds be spent well, or will they be wasted?

In a for-profit business, profits and losses signal how efficiently resources are being used. If there is waste, it will be signaled by a loss in revenue. Conversely, if resources are being used in the best way possible, that will be signaled by an increase in revenue. Non-profit calculations are not as clearly measured, because the purposes of these institutions are much more qualitative in nature than those of for-profit institutions. It is therefore not as easy to tell if resources are being used in the best way possible. An unbalanced budget in a museum does not necessarily mean that the museum is failing. A non-profit's purpose is defined by the services it provides to society, and therefore has many more components that contribute to its success or failure than just economic ones. The public value provided by the museum cannot be measured purely by profits and losses.

This is where the need for non-profit metrics comes into play. These metrics are much more complex than those of for-profit organizations because the hard numbers of profits and losses do not show the full picture of a museum's accomplishments. Nonetheless, a museum must provide these measurements in order to ask for public funding. This is why these

comparative studies between museums and other non-profits are being conducted so much lately. As Maxwell Anderson of the Center for Arts and Cultural Policy Studies points out, “the root of the problem (in museum metrics) is that there is no longer an agreed upon method of measuring achievement. Half a century ago, art museums were largely measured by...the size and importance of their collections. But today, (this) is for the most part overlooked in informal rankings of museums” (Anderson). Anderson goes on to explain that it is crucial to define new metrics which are uniform and measurable. In today’s tight economy, funding for the arts is being cut across the board, expanding facilities are requiring more revenue, and funders (such as government agencies and corporations) are demanding to know how their past funding has been spent. What percentage of the funding went *directly* to the institution’s cause and what percentage was spent on administrative costs? Are questions like this one even important to determining whether a museum is successfully accomplishing its mission? Without defined metrics, comparisons between institutions will not have as much meaning because it will be more difficult to determine which one is actually more successful than the other.

### Defining a Framework of Success

First, success must be defined. According to Stephen Weil, a successful museum “accomplishes an articulated purpose with maximum effect and minimum waste” (Weil 2). Weil makes a compelling argument for a framework in which any museum may be judged independently from subjective opinions about the museum’s programming, collection, and other attributes. This framework has four components: purpose, resources, effectiveness, and efficiency. These four components are all interdependent.

The *purpose* of a museum is essential to the very existence of the museum. A museum must define its purpose, or it will not have a clear mission to aspire to be successful in. Without a



purpose, Weil argues that a museum staff and board could “claim that whatever outcomes were achieved were deliberate and constitute success” (Weil 10). That museum may never “serve any purpose beyond providing gratification to its creator” (Weil 10).

The *resource* component of the framework represents “the means and determination to accomplish a purpose” (Weil 11). This takes into account the endowment, grants, contributions, membership campaigns, admissions, shop and restaurant sales, and all other resources that provide the museum with the material means to accomplish its mission. It must be noted, however, that resources should be measured not in absolute terms, but relative to the *needs* of each museum, which will vary greatly depending on size, nature, and outside environment.

*Effectiveness* can be defined as the extent to which a museum is achieving its purpose, and is the most difficult of the components to measure, simply because the mission of a museum is so abstract and multifaceted. As discussed previously there is no single, all-encompassing number which can measure the extent to which a museum is carrying out its mission. However, this component is the most important because it shows how well a museum is fulfilling its institutional purpose, which the reason for a museum’s existence. It is also becoming the main standard to which art museums held accountable. “The most important question of accountability is ‘is this institution demonstrably using the resources entrusted to it to achieve what it said it intended to achieve when it requested and was given those resources?’” (Weil 47). He claims that “the only activities in which the museum can legitimately engage are those intended to further its institutional purpose” (Weil 47).

Weil claims that the proposed framework is something which an art museum can use to evaluate their program performance in every area of operation, because it addresses both the

financial/economic and the mission side of a non-profit. All of the components are interconnected: purpose and effectiveness indicate the extent to which a museum is successfully carrying out the “mission” side of its operations. However, a museum cannot carry out its purpose effectively if it is not using its resources in an efficient manner. This is where resources and efficiency come into play, representing the financial side of the non-profit. This framework is something that can be applied to changing metrics, such as attendance, membership, collection, or endowment. It can be used to place museums and other non-profits in a position where they can be ready to accept opportunities that they may otherwise view as being too risky. They can adapt to changing demands and create new and innovative ways to effectively implement their multi-faceted missions. If this happens, museums will never “cease to be relevant”, but continue to be an integral part of culture, society, and people’s lives.

## Entrepreneurship and Non-profits

### Social Entrepreneurship

Weil claims that many people on “the inside of non-profits may confuse the fact that they are not a for-profit business with the belief that they are free of obligation to be ‘businesslike’” (19). As mentioned previously, while for-profit organizations rely on economic relationships to achieve their intended ends, non-profits rely on social relationships. However, this does not excuse them from the responsibility to use these funds in the most economically efficient way possible. In fact, it is precisely because of this method of funding that they have this responsibility. If the public choosing to expend resources on an art museum, that are museum has a responsibility to use those resources in a way that will give the as much back to the public as

possible. The following section will discuss the possibility and implications of entrepreneurship in the non-profit sector.

The concept of social entrepreneurship began with the study of and relationship between non-profits, for-profits and the government. The notion was born that non-profit enterprises provide services to the public that are left out because of both government and market failures. Government failures occur “because the government only provides the level of public goods that is desired by the majority of voters” (Bielefeld 69). Market failures occur when supply and demand produce imperfect information. Non-profits were created to provide these services using donated funds. Recently, there has been an increasing focus on earned revenue as a source of income for non-profits. This has happened for a number of reasons, including government funding cuts. These cuts lead nonprofits to invest in market-based solutions to sustainability, which meant paying more attention to earned income (Beilefeld 70). These earned revenue ventures not only allow non-profits to be more self-reliant, but create a source of sustainable income instead of an influx of capital that will be gone once it is spent.

Bielefeld defines social entrepreneurship as “an individual, group, network, organization, or alliance of organizations that seek large-scale change through pattern-breaking ideas about how governments, nonprofits, and business can address significant social progress” (72, citing Light 2005, pp. 17-18). “Social enterprise” is a different term that can be applied to both non-profits, for-profits, and the public sector. A social enterprise is an organization that generates net positive externalities and makes a conscious effort to increase the positive externalities of its business, and reduce the negative externalities” (Beielefeld 73, citing Jamison, 2006, p.1)

Here we must be careful to specify the difference between social and economic entrepreneurship. “At one end of the spectrum are non-profits relying on philanthropic capital and concerned exclusively with social returns. At the other are for-profits relying on commercial capital and concerned with financial returns. Between these poles are a range of organizational forms that are concerned with both social and economic returns” (Beilefeld 72). I believe that a museum that engages in entrepreneurial business ventures *for the purpose* of furthering its furthering its mission will be successful in both the social and the business side of its operations.

We are living in what economist Deirdre McCloskey calls “the Age of Innovation” (McCloskey 3), which came around after the industrial revolution. Everything around us is in a constant state of changing and improving, through a process of creative destruction. Something new is created, and as a consequence something else ceases to be relevant. Success metrics also go through a process of change. They are in constant flux – yesterday a museum’s worth was measured by the size of its collection, today it may be measured by its attendance. As Stephen Weil points out, “tomorrow’s museums cannot be operated with yesterday’s skills” (Weil 46). This is the exact reason why museums should focus on their operations – how committed their governance is to commanding resources to areas that further their mission, how effectively they achieve their purpose, and how efficiently they use their resources. If museums do this, then when an opportunity to innovate presents itself, the museum will be in a position to recognize and act on it. From this, a logical conclusion would be that a successful museum will behave in a business-like manner in order to achieve its ultimate goal of making a difference in its community. Most people associate risk-taking with for-profit organizations, but this kind of entrepreneurship can be just as much applied to non-profits. Entrepreneurial behavior will improve both the “mission” and the “market” side of these organizations.

It is often difficult for non-profits to behave in a business-like way, precisely because their purpose is not to make a profit, but to make a different kind of difference in a community – one that is removed from economics. However, Susan Schadt, Executive Director of Arts Memphis, thinks that “being nimble and adaptive, and realizing that their role in the community is bigger and broader than presenting exhibitions” (Schadt) is something that is essential for museums to realize. “Making a difference” in a community is something that must be demonstrated through actual outcomes. An institution’s outcomes should reflect its intention. Good intent does not produce good outcomes on its own. A non-profit needs not only moral intent, but the necessary resources and operational skills to accomplish its goal.

Arts Memphis, a fundraising and grant making organization that supports arts organizations, arts education and outreach efforts ([www.artsmemphis.org](http://www.artsmemphis.org)), uses many metrics, such as resource utilization, clarity of purpose, fiscal accountability, attendance, board strength, and a number of other metrics when deciding where to best allocate their funds. However, Ms. Schadt believes that “sometimes (non-profits) get bogged down in the metrics” and fail to look at the larger picture. “One of the biggest hurdles for non-profits is that when innovation happens organically, (they) have to be able to act on these opportunities”, Ms. Schadt claims. And according to her, innovation is something that does happen organically. Non-profits are presented with these entrepreneurial opportunities all the time, but are usually too worried with meeting the bottom line of a balanced budget, high attendance numbers, and membership campaigns to take the risk and do something unconventional and new.

Ms. Schadt is somewhat of a pioneer in non-profit innovation. She recently created a partnership between Arts Memphis and Ducks, Unlimited. Under this unlikely partnership, she wrote a duck hunting coffee table book called “First Shooting Light”. Arts Memphis was

adaptable enough to take this risk, even though the idea of an arts fundraising non-profit producing a duck hunting book sounded crazy. “When I told the board that we just formed a partnership with Ducks, Unlimited, they laughed at me”, says Ms. Schadt.

“First Shooting Light”, along with the “Conservation through Arts” partnership with Ducks, Unlimited has generated \$3.2 million dollars for both Ducks, Unlimited and Arts Memphis. With 95% of their incoming funds used to fund arts organizations around Memphis, this is a huge success for the art community. 72% of the donors who have given money because of this partnership had never donated to the arts before. Many of these people did not think of themselves as art lovers, but Ms. Schadt recalls that all of them have nice art in their homes. “They are art lovers, they just don’t see themselves that way,” she says. Art is a subjective experience – it can be appreciated by anyone and everyone. It should not be limited to a small group of people. Corporate business workers with a passion for hunting can appreciate art just as much as an academic. By that same token, minority populations can and should also be able to use the services provided by an art museum. Art is not exclusive or elitist by nature, but society has caused many people to view it this way. By coming up with innovative ways to reach new markets and different demographics of people, art museums will be able to expand in both the business and the mission sides of their operations. As proven by Arts Memphis, by taking the risk of forming an unlikely and seemingly unrelated partnership, Arts Memphis was able to tap into a market of people who would normally not think to donate any money to the arts.

### Why doesn’t non-profit entrepreneurship happen more often?

These sorts of entrepreneurial opportunities get presented to non-profits all the time. As Ms. Schadt explained, the challenge is being “poised, nimble, and resilient enough to act on them”. Risk-taking is hard, and without the financial cushion that for-profit organizations have,

even harder. Ms. Schadt describes the boards of many non-profit organizations. These people are successful business leaders, but when they come into the boardroom, they seem to “forget how they build their business” (Schadt) just because they are now dealing with a non-profit. There is no profit incentive to motivate innovation - a wrong turn could mean an unbalanced budget and financial ruin, while a successful entrepreneurial decision will not necessarily be applauded. In general, non-profits are held to a different standard than for-profit organizations: they were created for some moral purpose and therefore held to higher moral standards. “We do everything a for-profit does, but we are expected to do it twice as well”, says one museum director (Butler).

Non-profits risk a lot when making economically entrepreneurial decisions, and therefore do not have much of an incentive to take these risks. However, entrepreneurship and the ability to adapt and innovate create opportunities for organizations to grow in both their finances and purpose. According to the economic thinker Deirdre McCloskey in her book *Bourgeois Dignity*, Innovation is made possible by alertness of these opportunities and “society is made better off by improvements in the way things are provided” (McCloskey 21). Innovation causes wealth creation, while rent-seeking activities cause wealth redistribution. Ms. Schadt maintains that every arts group in the world should be looking at how they can be in a more entrepreneurial role.

### Is entrepreneurial activity in the non-profit sector immoral?

Dan Pallotta is the inventor of the AIDS Rides and the Breast Cancer 3-Day walk, and a highly controversial public figure. Over a period of nine years, Pallotta’s fundraising events gave \$305 million dollars in unrestricted funding to charities. What would normally be considered a success, was instead largely criticized by the public. Pallotta TeamWorks was vilified for spending too much of the donated money on overhead and administrative costs, such as

marketing, advertising, branding, and salaries. Eventually, the negative press coverage caused non-profits to withdraw from PWT's services, causing PWT to close entirely (*The Economist*). Without the help of PWT, these breast cancer events went from raising \$71 million annually to \$11 million. Dan Pallotta's book "Uncharitable" claims that society has been conditioned to evaluate non-profit performance based on factors that are irrelevant. Society is too focused on looking at what percent of donations go directly to the cause in relation to administrative costs. The outcomes are ignored – society instead focuses on the means used to get there. If these means are found to be "unsuitable" for a non-profit, the organization could risk significant funding cuts and negative press. Worst of all, judging a non-profit in this manner prevents it from making progress, both financially and in its mission. Dan asks, "if you do not first analyze a fundraiser's results, how is it possible to judge whether what it spent was justified?" (*The Economist*) He claims that "we have been taught to judge morality by tactics without regard for the morality of the outcomes of these tactics" (Pallotta 8). The metrics with which society judges whether a charity "does good" actually prevents the charity from progressing in the scope and depth of its mission. How can a museum or non-profit make progress and invest in innovative and long-term solutions if it is not allowed to use the business tools that are what have made for-profit businesses so successful? Innovation is an improvement in the way goods are provided to society. Innovation does not just increase the amount of goods and services provided, but improves the quality by more efficiently producing these goods and services. Innovation decreases the inputs needed to create outputs, and increases the scope of these outputs as well.

Entrepreneurship through risk-taking ventures creates wealth. In a for-profit, this wealth will be distributed in the form of profits, but in a non-profit, it could be redirected into activities that have a larger social impact. A non-profit will be able to look past short-term hurdles and



invest in long-term solutions. An influx of capital – adding more resources – to an inefficient company will not lead to sustained growth. Eventually, the company will use these resources without accomplishing as much as it could have or engaging in activities that would create both a *sustained* increase in capital more efficiently deploy that capital to the best programs possible. I believe that entrepreneurial ventures in non-profits are not only possible, but necessary to making progress in both the mission and market sides of the organization and that investing in the market side for the purpose of expanding social impact will increase, not detract from, the mission of an organization.

One of the ways that potential donors generally judge the quality of a non-profit organization is by looking at their administrative costs in comparison to the amount of capital that goes directly to the cause. Part of the reason for this is that it is so difficult to put a measurement on public value and social outcomes. Evaluating a non-profit by comparing overhead costs to funds that are put into cause-related programming is a much easier variable to measure than the social outcomes that the non-profit creates. However, this type of measurement ignores the outcomes that come from those donated dollars. A company that spends 90% of its contributed and earned revenue “directly on the cause” may actually have worse quality programs because it is not run as well as a company that has the same mission but spends 70% of its revenue directly on the cause. The 70% company has the freedom to invest in areas such as human resources, which can bring in more talented staff, marketing, which will bring in more donations, volunteers. These activities can also increase the scope of its clientele and donors, especially when engaging in activities such as forming unlikely partnerships with corporations.

The public criticized Pallotta for making a salary that was disproportionately high in comparison to many other non-profit executive directors. But Pallotta argues that the extremely

low salaries in the non-profit field “reduce the supply of top talent”, and believes that “compensating people ‘according to the value they produce’ will attract better leaders to the field.” Why is it so bad that people that are concerned with making a positive difference in a community be decently compensated for it? In a real life case study, “Heather McLeod Grant and Leslie Crutchfield found that high-impact nonprofits tended to compensate their executives well. Investing more dollars in human resources increased the organizations’ social impact” (Brest).

The concept of earning revenue from activities that are not directly relevant to the mission of the organization is already something that many non-profits, including art museums, are familiar with. Gift shop sales, catering and restaurant services, and facility rentals, are among these earned revenue drivers that do not seem to be at all related to educating the public about art. However, sixteen out of the museums that I surveyed cited catering and rentals as being one of their top three earned revenue contributors. Do these operations detract from the overall mission of the organization? I would argue that they do not, because they earn revenue that can then be used for staff positions, programs, and other operations that are related to enriching lives through art.

Earlier, I claimed that the only activities that a non-profit can justifiably engage in are those that further its institutional purpose. In “Uncharitable”, Dan points out that “forcing charities to keep administrative costs excessively low may actually prevent them from achieving their missions”, because it prevents them from investing in techniques, such as marketing, which would cause them to raise more awareness and money for their cause than they could have. If they chose to simply spend their current donations on the cause, they would forgo the opportunity to invest in activities which would bring in more donations – donations that could allow them to expand the quality or quantity of their programming, increasing the services

provided to the public, and furthering their purpose in the community. Following this logic, Pallotta claims that “administrative costs are not only justified but mandated *if they contribute to an organization’s social impact*” (Brest).

Many non-profits may be unable to effectively achieve their purpose because they operate under expectations that do not allow them to expand their resources and efficiency. They run under the view that the “market” side of their operations are in competition with and detract from the “mission” side, when in fact, in order to effectively achieve an organization’s purpose, it uses its resources efficiently. The “market” side of an organization actually should work to *support* the “mission” side (Weil). Currently, non-profits are deprived of the money, techniques, and talents that they need to be successful. The expectation that donations should be immediately turned around and spent on serving the needy prevents these non-profits from engaging in innovative activities that will actually work toward a long term *solution* to social problems (Brest). Pallotta calls for non-profits to be freed from the constraints that prevent them from investing in long-term planning. With this freedom, non-profits will have an increased ability to have a long-term impact on the public (Brest).

### Survey analysis (see appendix for data and graphs)

The next section of this report will focus on specific case studies of museums across the United States. Each museum is unique, but they also have much in common. This report will explore the common themes between these museum’s purposes, how effectively they are achieving their purpose, and how efficiently they are using their resources to further their purpose.

### Old metrics and why they don't work

As discussed previously, museum success metrics are in constant flux. In the article “Metrics of Success in Art Museums”, Maxwell Anderson discusses the traditional success indicators of exhibitions, attendance and membership. The marketability of shows, the number of visitors, and the membership level are generally used to evaluate the success of a museum. However, these three indicators can be highly problematic and misleading. Maxwell explains that many times, museums feel pressure to create new exhibitions to increase publicity, attendance, and membership. However, creating and attracting block-buster type exhibits is problematic because museums do not usually take into consideration the full cost of putting the exhibit together, ignoring indirect costs. Later, I will also discuss how these costly shows do not always lead to a sustainable increase in membership or attendance.

Attendance is an equally tricky indicator because attendance does not always have a linear relationship with admissions income. High attendance can mislead one into thinking that a museum is doing well financially because attendance numbers do not account for factors like discounted tickets, lower group rates, and free tickets, which detract from overall income. Even if these problems are ignored, admissions income still only provides an average of 12-15% of most major art museums' revenue (Anderson).

Membership levels are an area that museums also expend resources on increasing and maintaining. However, Anderson points out that lower-level memberships are often “loss-leaders in financial terms, after factoring in staff, marketing, events, printing, postage, and forgone admissions revenue. Only at levels of \$150 and above to most museums begin to realize any net gain from memberships” (Anderson). Membership increases also tend to coincide with special exhibitions. “It is telling”, Anderson explains, “that the number of active members rises when

special ticketed exhibitions attach high prices, and drops off when there is no sense of urgency to belong. The membership rolls therefore grow in direct proportion to occasional events rather than reflecting loyalty to a museum and, by virtue of price point, are driven not by a philanthropic impulse but by a bargain-hunting one” (Anderson). One of the trends I noticed in my interviews was that many museums reported increased attendance during times of “block-buster” type exhibitions, accompanied by a significant decrease the following year. I believe that museums should instead focus on exhibitions that are not necessarily popular block-buster types, but ones that really relate to their community. I believe that this will expand their customer base in a more sustainable way and truly reflect loyalty to a museum.

Despite their problems, these three metrics are the most easily verifiable, quantifiable, and reported success metrics for museums. These, along with other quantifiable measures, are what museums use to judge their success and compare themselves to peer institutions. As one art museum director noted during our interview, quantitative measures do not even begin to tell the full picture of the intellectual quality of an experience, “but if your income (or attendance) is falling, that tells you that you are doing something wrong” (Butler). In the end, quantitative measurement should not be the end goals of the institution, but they are the means with which it achieves that end goal of making a difference in the community and in people’s lives.

While conducting my research, I used both a quantitative and a qualitative survey to compare museums to each other, benchmarking, and determining which areas certain museums had a comparative advantage in and why. The stated purpose of the survey was “to gain a better understanding of the areas of comparative advantage and disadvantage of the Brooks compared to similar institutions, particularly in the areas of attendance and building facilities”. I would accomplish this by gathering quantitative and qualitative data and placing them in the context of

metrics that are important in determining the success of a museum. My data was obtained through a two- part survey. The first (quantitative) part will be sent to museums in the form of an online survey. The second (qualitative) part will be conducted through phone interviews with the executive directors of each respective institution.

The results from this research will be discussed in the following section of the report. I will focus on building and facility projects, membership and attendance, and how demographics effect the operations of each museum.

### Membership and attendance

Although I gathered a variety of data from these institutions, I chose to focus on two key components. The first was the key drivers for membership and attendance. What can a museum do to reach its community? Increasing attendance numbers should benefit both the museum by having a way to show potential donors that it is successful, and the community. A community which values an art museum will visit that art museum. Although value is subjective on an individual level, these individual judgments come together to form the market interactions of supply and demand, which *can* be quantified. A museum that increases its attendance is participating in an activity which is mutually beneficial to itself and to society as a whole.

When I first started my research, I assumed that because of the recent economic downturn, most museums would reports decreased attendance. However, my survey found the opposite to be true. Thirteen (65%) of the museums surveyed reported that they have experienced an increase in attendance over the past five years, compared with only three (15%) who said they have experienced a decrease. Out of the fourteen museums that had recently expanded, eleven had experienced and increase in attendance. 55% of museums that reported an

increase in attendance had also recently expanded their facilities. Four museums (20%) attributed this increase to their expanded or renovated facilities. Four out of the nine museums that had recently undertaken building projects and also experienced an increase in attendance said that the initial increase in attendance was unsustainable, or that they would have liked to have seen a larger increase in attendance as a result of the expansion, and of these four museums, three of them had expanded over three years ago, meaning that they were past the “bubble effect”, and able to make a more accurate comparison between pre and post-expansion levels. 35% of all museums attributed the increase in attendance to recent special exhibitions or decrease in attendance to the lack of recent exhibitions. From this, one could conclude that special exhibitions drive attendance and membership in a more reliable way than building projects. However, each of these seem to produce a sort of “bubble effect”, meaning that the undertaking of either one of these drivers will cause an initial increase in attendance that will then gradually decrease. This is why when choosing to invest resources in a program or project, the museum should make sure that it does not rely on membership and attendance to boost income in a sustainable way.

A few museums are starting to take admissions income out of the equation entirely. Four museums surveyed did not have an admissions cost. Out of the museums that had recently dropped their admissions price (five out of twenty), two of them reported a decrease in their attendance over the past five years. This was surprising because eliminating the barrier of money should lead to an increase in attendance. Only one of these two museums was interviewed, and attributed this trend to and the lack of special exhibitions in recent years.

Surprising too was that although two museums reported the dropped admissions price as negatively effecting overall earned income, the other two reported that income had actually

increased because in the absence of an admissions price, visitors were more likely to spend on other amenities such as dining and gift shop purchases. Where one area of income decreased, many others increased. These are all areas that are innovative and outside of the traditional scope of a museum – but the earned income that are generated by them have allowed these museums to further their purpose of making their art genuinely available to the public by removing the barrier of an admissions cost.

When asked what they viewed as the most important drivers of attendance, museums responded with a range of answers and often listed many factors, including cost, special exhibitions and programming, PR and media mentions around new and exciting ventures, having a “good experience”, weather, outside events that are happening within a close proximity, and the relevancy of the exhibitions to the community. A common theme in the answers to this question was that many of the museums viewed the main driver of both attendance and membership as being special exhibitions. Based on this, it would be interesting to see if there was a correlation between the number of special exhibitions brought in over the past years and the attendance trends based on that. Many museum directors said that attendance and membership was particularly spurred by big “block-buster” type exhibitions. Among the examples of these exhibitions were Egyptian art, impressionism, and Picasso exhibitions. I found that although both of these ventures do increase attendance, this increase is not a sustainable one. Investing money in either of these areas must be done for the “right reasons”, which will be discussed in the following section.

### Building projects

My next question was: When should a museum expand its facilities, and when should it stay the same size and focus its resources on other areas of operation? Many of the museums I



surveyed who had recently expanded or renovated their facilities did so in the hope of bringing in more or better special exhibitions. Most museums that I surveyed saw special exhibitions as being the main drivers of attendance and membership. Therefore, having *more and better space* to bring in more and better exhibitions would not only lead to a better visitor experience, which would further the mission side of operations (effectively achieving the museum's purpose), but would also increase the level of attendance and memberships, which would further the financial side of operations (increasing resources).

There has been much research recently on the success of museum building projects, precisely because so many museums have either recently completed building projects or are in the midst of planning such projects. On this subject, Maxwell Anderson makes the point that “large expansions have, for some time now, been considered achievements in and of themselves. But vast halls...and architectural conceits may do nothing to advance the mission of an art museum”.

A recent study done by the University of Chicago called “Set in Stone: America's New Generation of Arts Facilities”, looks at the explosion of 1994-2008 arts facility expansions, coming to the conclusion that many of these projects were unsuccessful. It suggests that “civic leaders, arts organizations, donors and government officials can better plan new or expanded arts facilities by first focusing on the arts organizations' missions and assessing demand for the projects”. The study covered over 500 organizations and 700 building projects and claimed that “at least in the beginning, each of these projects was based on the assumption that a new facility would increase audience size, and indirectly help realize the institution's mission. In some cases, this worked. But in many instances, the experiences in these new and expanded facilities were much more difficult and challenging than predicted, and put enormous strain on the institutions”.

The study concluded that there was substantial evidence of overinvestment in building projects during the 1994-2008 period, with many projects running over budget (some by as much as 200%!).

In the sample of twenty museums that I studied, fourteen of them had undertaken building projects within the last seven years. Out of the sixteen museums that I interviewed, ten of them had participated in building projects. All of these museums reported an increase in their attendance from the pre to the post expansion period. Four of them reported a 5-25% increase in attendance, four of them reported a 26-50% increase, one of them reported a 100% increase (this museum just opened a year ago), and one of them reported a decrease in attendance. Here, it should be noted that organizations that participate in building projects generally experience a bubble effect in attendance and membership for one or two years after opening the new facility, due to the publicity and attention that the project generates. Four of the museums who reported experiencing an increase in their attendance had reopened their new facility more than two years ago, but three out of these four said that they either did not see as large of an increase in attendance as they would have liked or that attendance decreased after the first couple of years of being reopened. It should also be noted that out of the six museums who had not recently undertaken a building project, 50% of them reported an increase in attendance of 5-25%, 33% reported that attendance had remained the same, and one of them said that attendance varied by exhibition and that there had been no discernable trend (this museum does not have a permanent collection).

The museums who had recently undertaken building projects and who responded to the question “how much their operating expenses increased as a result of the building project?”

reported a 30%-50% increase in overall expenses. Some of these increases included the additional programming that was taken on as a result of the expansion.

Out of the museums who had recently undertaken building projects, ten cited the main motivation behind the projects as being increasing the amount of exhibition space in order to attract more and better quality exhibitions. However, two of the museum directors interviewed reported that at least part of the motivation behind expansion had either been “for the sake of expansion” or to increase attendance. These museums both ran a financial deficit because of the projects and were still having trouble managing the costs of the additional space and reported a decrease in attendance after the “bubble effect” of the expansion wore off. One of these directors reported that the museum should have looked at improving and renovating their existing space first before considering expansion, because they now had to spend millions of dollars on fixing technical problems in the original space, in addition to managing the financial burden of the facility addition. The director also attributed the lack of a sustainable increase in membership and attendance to the deficit. The museum was forced to lay off much of the staff that was in charge of membership cultivation and areas that related to attendance.

Building projects that are poorly planned are ones that see the expansion in and of itself as progress. Robert Solow discovered on a macroeconomic level that increasing capital does not create sustainable economic growth, but improving the *quality and efficiency* of capital will. This can be applied to organizations as well - giving more money to a financially indebted institution will not solve their financial woes if the way the organization is run is not fixed. To put it simply, increasing in financial scope, but not economic efficiency will just “throw money” into the problem. This is why focusing on organizational efficiency through innovative change will both

reaching out to a community in new and creative ways and improving the organization's overall financial wellbeing.

There are indeed many viable reasons to expand. Museums that expand in order to enhance the *quality* or increase the *efficiency* of a building are much more likely to experience success. Expanding museums must be careful to look at how much their operating expenses will increase and plan how they will cover this increase. Unless there is a verifiable *demand* in the community for more or better space, a museum should not expect ticket sales alone to cover the increased expense. This observation is consistent with the Chicago University study, which reported that "the supply of cultural facilities exceeded the demand for them, particularly during the building boom period" ("Set in Stone"). Engaging in a capital campaign to increase the endowment of the museum may work if the museum determines that this is a realistic goal, but the museum must keep in mind that when asking regular donors for significant one-time donation, this may detract from the donors willing to continue give the same annual amount of money to the museum. So where finances are increased in one area, they may decrease in another (Wilkening).

### Conclusions

Because there was not an identifiable strong correlation between demographic characteristics/population size and museum attendance or membership, I believe that although a museum's wellbeing may be affected by its environment on a case by case basis, internal operations are much more important. Regardless of the makeup of a community, a museum that finds innovative ways to connect with that particular community will be able to increase its attendance and membership. The museum must factor their environment into programs, exhibitions, marketing, and construction decisions. From the survey and interview results, I

speculate that museums who have come up with new and innovative ways of communicating and relating their public image to the community through either changes in exhibition content, the elimination of their admissions charge have experienced an increase in either attendance or revenue. For example, one museum that I interviewed increased their attendance in the past five years by 26-50%, and within that number had increased their minority attendance from ten to forty percent in the past three years. This is a significant increase, especially for a museum that has a little under the average income per capita, educational attainment, and poverty level out of the twenty museums surveyed. The museum director attributed this increase to a fundamental change in their missions and programming to something that aimed to expand the diversity of their audience. They expanded their family programming and developed exhibitions that were outside of traditional art to focus more on exhibits that reflected the community's interest.

The building of a new facility or renovation of existing facility could have either a negative or a positive effect on the overall well-being of an institution. The University of Chicago cited areas that affected the success of a building project. These were motivation behind the project, clear leadership, efficient project timelines, and effective revenue generation and expense control. The motivation behind the project should be driven by the organization's mission (not expansion for the sake of expansion or as a way to increase attendance). The leadership should be consistent and clear throughout the building process, the project timeline and costs incurred should be controlled, and the organizations should be innovative in their revenue-generating methods post expansion. The University of Chicago's study found that museums who were the most likely to experience successful expansion or renovation projects were also successful in these areas. These areas are similar to the categories in Stephen Weil's framework of success (purpose, resources, effectiveness, and efficiency).

Out of the museums I surveyed that had experienced with an increase in their operating expenses or a decrease in their earned income because of various decisions made regarding building projects or dropped admissions prices, the ones that were the most successful and had managed their budget well were ones that had come up with innovative ways to increase their income in other areas. Facility rentals, more efficient energy consumption, restaurant/catering services, were among these. These are not areas of a museum that directly “further its purpose”, but the income generated by them can be used to go into activities that do accomplish such things. An increase in admissions price, membership, or attendance was never cited as a way to cover increased expenses or lost income, although one museum did list a movement of members from lower to mid-level membership as a successful way of increasing income. Even though overall membership had not increased, the investments of already existing members did, causing income to increase. Since lower-level memberships are actually cited as being “loss-leader” in overall revenue (Anderson), it seems to be beneficial for museums to invest more resources in moving individuals up “the membership level” than in attracting new lower-level members. This will also lead to more committed members that are interested in the philanthropic aspect of membership, rather than being purely motivated by “bargain-hunting”. Some museums managed to actually decrease operating expenses as a result of the expansion because their facilities were now run more efficiently. Museums that did not focus on upgrading their energy consumption as a part of the renovation or expansion project were much more likely to run a deficit as a result of the increase to operating expenses.

### Next Steps

This report is qualitative in nature. The conclusions that can be drawn from the results of both the quantitative and qualitative parts of the survey can be used to speculate about overall

trends, but the sample of twenty museums was too small to perform a detailed statistical analysis. The margin of error would be too large to draw definite conclusions. In order to take the study a step further, a larger sample would need to be collected in order to statistically analyze the results.

### Why comparative measures are necessary to success

Stephen Weil claims the most important skill for the leadership of a museum to have is the ability to “envision how the community’s ongoing and emerging needs might be served by that institution” (48), but how can this happen without the motivation to take risks and engage in practices that are outside of tradition? How can a museum know if a practice is the most effective and efficient practice if it is unable to evaluate it economically and comparatively to the practices of other museums. Comparative measures between museums are essential to determining the extent to which a museum is successful.

Because the social impact (the effectiveness and purpose) of an organization is so difficult to measure, efficiency and resources are usually the measurements that are reported during comparative analyses. These components can most easily be compared because they can be put into quantitative terms. What level of resources is required to create a certain level of output? As Stephen Weil points out, while a museum may be successful in an area of operation, it must always consider the costs it incurs to achieve this success and the income that is generated as a result. Although a museum can always compare its costs from one time period to another, but it will be unable to determine whether it is truly using its resources in the best way possible without a comparative analysis.

### The problems with comparing museums and the need for uniform measurements

One of the biggest problems with comparing art museums or any other non-profits to one another is that many of the measurements are reported unaudited and therefore can be skewed by what each museum chooses to include in each category. For example, in my study I found that measurements that would seem to be straight forward, such as attendance, may be exaggerated if a particular museum chooses to include attendance to their off-site programs in the overall count.

Defining a uniform method of measuring areas of operation, so that it is possible to judge the success of an institution is so essential. This is one of the things that Arts Memphis is working on doing. Recently, many major corporations in Memphis who regularly make contributions to the arts community have made the decision to direct their funds through Arts Memphis. These funds are unrestricted, giving Arts Memphis the power to decide where they are best directed. Susan Schadt explained that many arts organizations are not happy with this decision, but that in the end it will actually benefit them. “(What this decision really does is create) opportunities for all of them because grants will be based on merit instead of relationships, which makes for competitive funding for organizations” (Schadt). This will cause arts organizations to become more economically competitive – instead of expending resources on rent-seeking activities, such as forming personal relationships with corporations, they will instead be compelled to expend those resources on actually improving the efficiency of their operations and programs. The criteria that Arts Memphis uses to evaluate these organizations are based on their own set of uniform success metrics, which cover activities relating to all aspects of a non-profit business discussed previously: purpose, resources, effectiveness, and efficiency. This will cause arts organizations to be compared to each other in a meaningful way. Funding from corporations will not be given to these organizations in an arbitrary manner, but because



there is a measured indication that these funds will be used in an efficient and effective way to fulfill a public purpose.

This change in funding method may give museums the opportunity to engage in entrepreneurial activity. Ms. Schadt believes that these types of business ventures might take some type of facilitator coming into the organization and providing workshops around the entrepreneurial side of the arts. Ideas generated through these activities could then be paired with venture philanthropists (much like venture capitalists, but for the non-profit sectors), who would provide the funding “cushion” that is needed in case the idea fails. I believe this is an idea that should be explored more in the future for any non-profit wishing to improve and expand its mission and finance related programming.

### What does success mean and why does it matter if a museum is successful?

The public criticized Dan Pallotta for his radical views on non-profit entrepreneurship, which went as far as to suggest that charity organizations actually become for-profit publically traded entities. However, Dan does bring up an issue worthy of discussion. It is considered the norm for a top executive in a for-profit company has relatively high compensation, so why is it so offensive that people who are working exclusively with the intent of helping others be decently compensated for it?

There is a fundamental question that must be answered: Is entrepreneurial activity in a non-profit fundamentally immoral, regardless of the social outcomes it may produce? Pallotta says that “after explaining to a friend that we need to let charities hire the most talented people in the world, he wholeheartedly agreed and then said something that didn’t logically flow: ‘It makes me angry to see people making high salaries in charity.’ ‘Even if they’re worth it? Why?’

I asked. ‘Because it’s supposed to be a non-profit’, he replied” (Pallotta xii). Even if spending a higher percentage of donated dollars on marketing, advertising and human resources causes a museum to increase the both the scope and depth of the organization’s social impact, are these practices morally suspect simply because the motivation behind them has changed? Pallotta asks, “what if a system that allows people to satisfy *their own* self-interest as well as the interests of others turns out to be a much more effective way of helping those in need?” (Pallotta xii).

The non-profit sector was created to provide a range of needed services which fail to be provided because of both government and market failure. Would entrepreneurial activity in a non-profit undermine the core values on which this sector of society was founded? Are the outcomes or the method of an organization more important? Do the achieved ends justify the means? On the other side, is an unfulfilled mission, or one that produces less impact than it could have, justified because the means used to get there were based on pure selflessness? Pallotta argues that costs are justified if they contribute to the non-profits overall mission. I would argue that the *only* costs that are justified are those that contribute to the non-profit’s overall mission. A non-profit has a responsibility to society to use its resources in a way that *accomplished its mission in the most effective way possible*. This is the sole reason for the existence of the non-profit. It therefore has a moral responsibility to reevaluate its current practices, and ask if there is a better way to operate.

A museum must always ask itself: is this area of operations worth expending society’s limited resources on? Is it an area that is working to further the museum’s mission? If the answer is no, then it does not matter whether a museum is successful in that area. It is wasting resources and therefore behaving in a socially irresponsible manner. First, we must define what exactly

constitutes as “furthering the museum’s mission”, and then ask ourselves whether this is accomplished by constraining the scope of a museum’s internal investment, or freeing it.

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