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Size Matters

**Notes towards a Better
Understanding of the Value,
Operation and Potential of
Small Visual Arts Organisations**

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for Common Practice**

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Foreword

Size Matters: Notes towards a Better Understanding of the Value, Operation and Potential of Small Visual Arts Organisations is written by Sarah Thelwall, commissioned by Common Practice, London with support from Arts Council England.

The paper seeks to articulate the value of small visual arts organisations within the wider arts ecology. The paper explores the significant potential these organisations have in the present cultural landscape and economy, also detailing the operational and investment challenges they face in realising this. Finally, it advocates a reconsideration of present assessment and investment practices.

Published in July 2011, this paper will be presented in a variety of forums to stimulate discussion around its core questions, the urgency of which has increased in recent months. If you are interested in learning more about this work, please visit www.commonpractice.org.uk or email Common Practice members via info@commonpractice.org.uk

Common Practice, London is an advocacy group working for the recognition and fostering of the small-scale contemporary visual arts sector in London. The group aims to promote the value of the sector and its activities, act as a knowledge base and resource for members and affiliated organisations and develop a dialogue with other visual art organisations at a local, national and international level. The group's founding members are Afterall, Chisenhale Gallery, Electra, Gasworks, LUX, Matt's Gallery, Mute Publishing, The Showroom and Studio Voltaire – together representing a diverse range of activities including commissioning, production, publishing, research, exhibitions, residencies and artists' studios.

Sarah Thelwall is a researcher, strategist and consultant in the creative and cultural industries. Her work has resulted in the publishing of new models and approaches that enable arts organisations to reduce their dependence on grant funding through increases in earned income. As a result of a decade's work in this field, she has turned this into an online resource – the Culture Benchmark. This symbiosis between the Culture Benchmark and Thelwall's consulting work with clients such as Common Practice is intended not only to improve sustainability in the arts but also to improve understanding of the value and role of the arts in the economic terms understood by HM Treasury.

www.commonpractice.org.uk

The Showroom



Agency, Assembly (*The Showroom*), 2011, Installation view. Photo: Daniel Brooke

Executive Summary

1 Afterall, Chisenhale Gallery, Electra, Gasworks, LUX, Matt's Gallery, Mute Publishing, The Showroom and Studio Voltaire.

2 Like Common Practice, this group has received Arts Council England (ACE) support for its knowledge-sharing and strategic activities and includes representatives from larger London-based organisations and agencies, namely ACME Studios, Artangel, Barbican, British Film Institute, Camden Arts Centre, Cape Farewell, Central Saint Martins College of Art and Design, Cubitt, Engage, Frieze, Hayward Gallery, Iniva, Institute for Contemporary Art, Mayor's Office for Culture, National Portrait Gallery, The Photographers' Gallery, Royal Academy of Arts, Serpentine Gallery, South London Gallery, Tate, Whitechapel Gallery, as well as a changing representative of the Common Practice group.

3 See fig 4 for details.

Small visual arts organisations, such as the members of the Common Practice group,¹ fulfil a crucial role in the arts ecology, commissioning artistic works, developing new delivery formats and implementing highly participatory educational strategies. Their roles and methods of operation are focussed on collaboration and flexibility and their approaches are as vital to a healthy visual art ecosystem as those of larger institutions. An implicit understanding of the role and value of small organisations, both in the cultural sector and society as a whole, has long existed among arts professionals, yet it remains at odds with the metrics of government and many funders, whose measures for audience and income development serve to de-emphasise the potential of these organisations.

The nine members of the Common Practice group each have an average income of £250-300,000 per annum. Extensive financial analysis shows their level of dependence on core funding from Arts Council England to be around 63 percent. While this may seem high, a comparison with their larger institutional counterparts (such as members of Turning Point London, also known as the Visual Arts London Strategy group or VALS)² demonstrates that the Common Practice members are only 0.9 percent more dependent on public funding.³ Furthermore, it would seem that small organisations act as an unofficial support mechanism for larger organisations, by investing in risk-taking and the development of work; if the cost of this support were to be evaluated, the contribution of public funding to large organisations would, in fact, be higher than those to smaller organisations.

Added to this, small organisations have consistently lacked the investment in tangible assets that has been available to larger organisations. As a result, few small organisations with a turnover of less than £1m per annum achieve any substantial income from their buildings, archive or collection. Those which do so tend to be renting out space to other organisations. They also lack income from shops or cafés and have very little access to sponsorship and donor income.

An often unacknowledged resource is to be found in small organisations' accretion of intangible assets. These include: individual and organisational expertise and experience, intellectual property, research skills, professional methods and processes. With judicious investment, these hitherto unexploited assets – which organisations generate naturally as part of core activities – could be converted into earned income, offering small organisations a potential safeguard against economic uncertainty.

The intangible assets generated by small organisations as part of routine operations offer significant promise in this context, making them a focal point of this paper. Combined with the tangible assets that even non-building based organisations possess – archives, for example – they represent an important,

yet under-researched, area of enquiry. The advent of new digital modes of distribution, audience engagement and content remuneration increase the urgency of this project.

A consideration of the expenditure of the small organisations under discussion reveals spending to be concentrated in programme and staffing costs, which are closely linked to direct organisational outcomes. What this analysis reveals is the lack of scope for development that exists within small organisations. This reinforces the poverty trap in which many arts workers are caught, allowing scant possibilities for promotions and pension security. The remarkably low overheads on which these organisations are run also militate against their development in the key areas of training, marketing, research and development and the accumulation of reserves. This marks another key area for future investment.

In considering the value generated by small organisations beyond the fiscal realm, this paper demonstrates that artistic, social and societal value are often realised long after a commission has left the initiating organisation. By taking examples of the types of commissions made by members of the Common Practice group and following their trajectory through the art world, we see that value accrues over the lifetime of an object or idea, which is often capitalised upon by larger institutions and the commercial sector.

However, this research exposes the inapplicability of current metrics to measuring this 'deferred value', which means that smaller organisations will appear less successful, since the majority of the value that they create is not visible via these metrics. In lacking such points of differentiation, we also lack the means to evaluate the relationship between the delivery approaches of small organisations, the (often intangible) assets being created in the course of their work, and the artistic, social and societal contribution they make.

We conclude that we need to develop ways of measuring a wider variety of types of value being delivered by small visual arts organisations. In particular, we need approaches that take into consideration the structures in which a substantial proportion of the value created is deferred until later in the life of the work. This paper also outlines major growth areas and aims to identify ways in which the potential of small organisations could better be explored. Finally, in keeping with these revisions, this paper argues that we need to develop a better understanding of the variety of organisations themselves, articulating investment approaches that support them to maximise their potential within the system as a whole.



Ruth Ewan, *Dreadnoughts: Dreadnought No.2, Who Owns the City?*, 2010, Live performance. Photo: Davide Manone

Introduction

⁴ For the purposes of this research, small organisations are defined as having an annual turnover of below £1m and operating on a non-profit basis.

The role of small visual arts organisations has long been acknowledged by experts to be a vital component within the cultural field, delivering value to both the sector itself and to wider society.⁴ This perspective is implicitly acknowledged by funders and other professionals, thus far ensuring that small organisations continue to be subsidised, promoted and used.

Intuition tells us that there is a difference between the ways in which large and small organisations commission new work, negotiate relationships with artists, develop critical dialogue and formats for discussion and display. However, when pushed to express this difference in concrete and measurable terms, we struggle to reach a point at which both small and large organisations can agree on the different roles they play within the ecosystem. As such, the implicit consensus on the value delivered by small organisations is often at odds with government and funders' standard measurements, which tend to rely on audience figures and diversification of funding as the main indicators of performance.

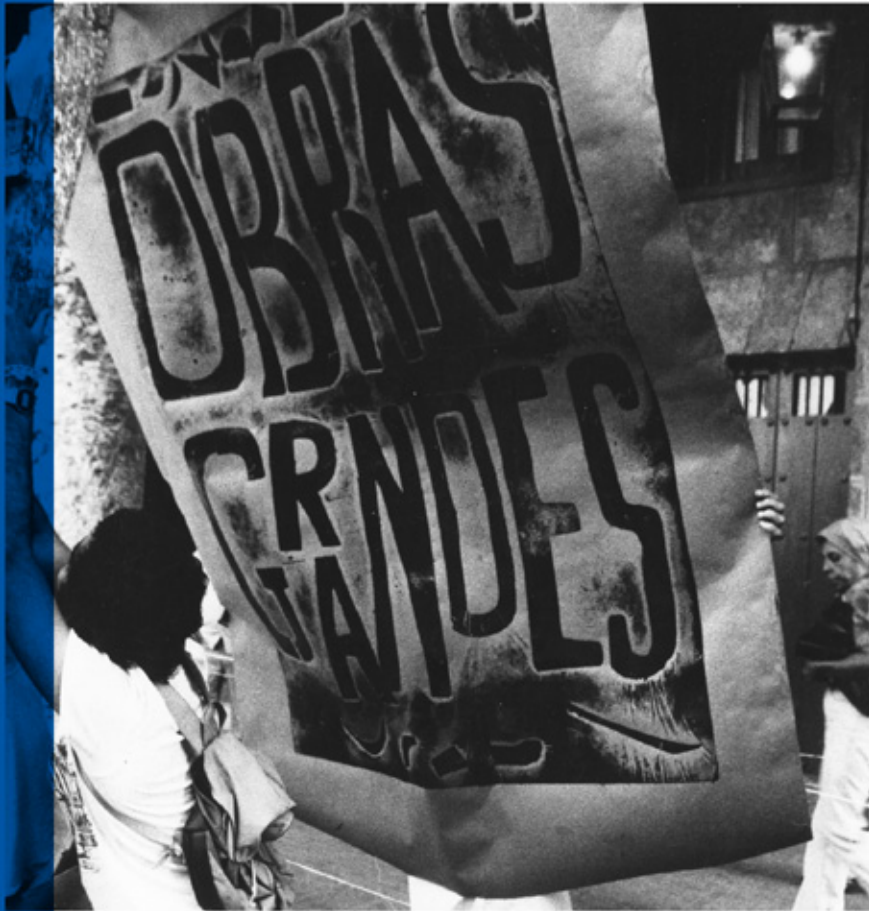
During times of national economic success and relatively abundant public funding, the gulf between qualitative understanding and quantitative approaches represents a relatively minor issue. But, now that funding cuts are forcing differentiation to be made, this disparity is a cause for concern, highlighting the need to find more appropriate ways of measuring the contribution of small organisations.

Common Practice, London, has sought to make an intervention into this situation by commissioning research into key questions associated with the evaluation and development of small visual arts organisations. As an affinity group – comprising Afterall, Chisenhale Gallery, Electra, Gasworks, LUX, Matt's Gallery, Mute Publishing, The Showroom and Studio Voltaire – Common Practice represents not only the variety of small organisations as they exist across the UK, but also the leading edge in the commissioning and dissemination of art, film and critical thought, with an impact that reaches far beyond the capital.

In the process of addressing the value of small arts organisations, this research seeks to demonstrate the strengths and weaknesses of the current system. It also identifies some immediate changes that could be made, and further work that is required if we are to enable small organisations to maximise their sustainability and contribution to the arts ecosystem and society at large. While centred on the Common Practice group, the findings of this research may be applied to other small arts organisations in the UK and beyond.

Making Art Global (Part 1)
The Third Havana Biennial 1989

Rachel Weiss and other authors



Exhibition Histories

Cover of *Making Art Global (Part 1): The Third Havana Biennial 1989* (London: Afterall Books, 2011), the second title in the Exhibition Histories series

Methodology

⁵ See Sarah Thelwall's three previous reports: *Capitalising Creativity*, Cultural Snapshot No. 14, Proboscis, 2007; *Cultivating Research*, Cultural Snapshot No. 16, Proboscis, 2009; and *Leveraging Leadership into Income Growth*, LUX, 2010.

⁶ Aside from the Common Practice group, senior arts professionals interviewed during the course of this research included Iwona Blazwick (Director, Whitechapel Gallery) and Julie Lomax (Head of Visual Arts, Arts Council England). All agreed on the constitutive value represented by this category of organisations.

⁷ Until the end of March 2012, ACE will maintain 900 Regularly Funded Organisations, at which point its new National Portfolio will commence, with 695 National Portfolio Organisations (NPOs) being maintained until 2015. Members of the Common Practice group have been affected by this contraction.

⁸ The Culture Benchmark was created to meet the need for better financial management and assessment of performance of the non-profit arts and culture sector in the UK. It is available through the financial management tool-kit, MyCake, at www.mycake.org. MyCake was founded by Sarah Thelwall.

⁹ While this is a relatively small sample compared to the total number of organisations regularly subsidised by ACE, these data nevertheless generate considerable detail with respect to ratios of income and expenditure. This pilot group contained a variety of non-profit arts organisations, most of which were not building-based and had an existing or potential focus on intangible asset development. A comprehensive list is available at www.mycakefinancialmanagement.co.uk/blog/?p=2459

¹⁰ As this group did not directly participate in this research, we were reliant upon the publicly available accounts of these organisations via the Charities Commission and/or Companies House. To re-iterate a note given in the Executive Summary, this group includes representatives from larger London-based organisations and agencies, namely ACME Studios, Artangel, Barbican, British Film Institute, Camden Arts Centre, Cape Farewell, Central Saint Martins College of Art and Design, Cubitt, Engage, Frieze, Hayward Gallery, Iniva, Institute for Contemporary Art, Mayor's office for Culture, National Portrait Gallery, The Photographers' Gallery, Royal Academy of Arts, Serpentine Gallery, South London Gallery, Tate, Whitechapel Gallery, as well as a changing representative of the Common Practice group. Like Common Practice, this group has received ACE support for its knowledge-sharing and strategic activities.

Building upon earlier work into new income streams in the arts,⁵ this research deployed a mixed methodology. This involved analysing the management accounts of participating organisations as well as conducting structured, one-to-one interviews with Common Practice members and unstructured conversations with associated experts and professionals in the visual arts.⁶

The first objective of this research was to define the value inherent in the Common Practice organisations and others like them. This was initially attempted in financial terms, by analysing the tangible assets of the organisations under consideration as compared to their (often larger) counterparts. Financial data used in this paper spanned four years, ending 2009-10, during which time most participants were Arts Council England (ACE) Regularly Funded Organisations (RFOs) and approaching the application process to become National Portfolio Organisations (NPOs).⁷

The Common Practice group also participated in the pilot of the Culture Benchmark,⁸ an online benchmarking system designed to enable arts organisations to anonymously compare their financial, audience and other data within the wider arts sector. This allowed us not only to gain an overview of the financial position of the Common Practice members but also to compare their finances to a broader group of small and medium-sized arts organisations (23 in total).⁹ These additional organisations were selected on the basis of their having made a commitment to exploring new earned income streams and utilising intangible assets. This was then extended into a representative group of larger organisations, specifically Turning Point London (also known as the Visual Arts London Strategy group or VALS),¹⁰ which provided a good level of detail, allowing us to make a set of headline comparisons on both income and expenditure for the year ending March 2009. This data is also held in the Culture Benchmark, enabling comparisons to be made between the Common Practice group and the VALS group.

Beyond fiscal value, small organisations were shown to generate artistic, social and societal value. This was expanded upon with reference to relevant theory. During prior work into the continuum between intrinsic and instrumental value on which this paper builds,¹¹ contingent valuation emerged as a compelling way of gaining more precise quantifications of public provision, including culture.¹² But our challenge with this paper has been more immediate, namely to take the existing consensus on the value of small organisations, ask how this is generated in practice, what its financial underpinnings are, and how activities with the greatest potential for growth might best be developed and supported. For this reason, financial analysis was followed by a consideration of the intangible assets retained by small organisations and the ways in which these might be converted into earned income.

¹¹ Representative examples include: John Holden, *Capturing Cultural Value*, Demos, 2004; Kevin F. McCarthy, Elizabeth Heneghan Ondaatje, Laura Zakaras and Arthur Brooks, *The Gifts of the Muse*, RAND, 2004; Hasan Bakshi, Alan Freeman and Graham Hitchens, *Measuring Intrinsic Value*, Mission Models Money, 2009; John Knell and Matthew Taylor, *Arts Funding, Austerity and the Big Society*, RSA, 2011.

¹² Contingent valuation involves determining the value of a public service, for example cultural provision, by surveying its users on how much they would be willing to pay for it were it to be withheld. It is discussed at length in *Measuring Intrinsic Value* (Ibid) and has been outlined in HM Treasury's *The Green Book*, which sets out the core principles on which public sector economic assessment is based.

This research seeks to deepen our understanding of the connection between the practical operation and long-term value creation of small organisations. Integral to this process was a thorough examination of the phenomenon of 'deferred value', whereby the value created by an initiating organisation is realised long after a commission has moved beyond its jurisdiction. By presenting examples of the types of commissions made by Common Practice members and following their trajectory through the art world ecosystem and economy, we examined how value accrues over the lifetime of an object or idea and investigated who the beneficiaries of this process might be.

This necessarily led us into a consideration of the measuring standards currently being used by public funding bodies – such as audience figures, the ratio of public vs. other income sources and 'pound per head' of audience. For reasons that will become clear, the concept of deferred value creation emerged as a central factor in understanding the role small arts organisations play.



Imogen Stidworthy (.), 2011, Installation view. Photo: Peter White. Courtesy the artist and Matt's Gallery London

The financial dynamics of small visual arts organisations

In order to better understand the financial models of small organisations and the extent to which they are currently able to convert assets into earned income streams, let us begin with a consideration of value as it is conventionally understood within accounting systems. This knowledge will also help us to identify current modes of operation and the points at which investment is required.

During the course of their core artistic activities, arts organisations may accumulate:

Tangible assets

- Buildings
- Archives
- Collections

Intangible assets

- Individual and organisational expertise and experience
- Reputation, brand and goodwill
- Intellectual property
- Research skills
- Audience and customer base
- Educational reputation and resources
- Methods and processes
- Network, partnerships and people

Development of a portfolio of tangible assets generally requires substantial investment in a publicly accessible building, collection or archive. Holding tangible assets also implies significant ongoing maintenance costs, which may seem disproportionate with respect to total turnover. The challenge for small organisations is to make the best use of assets without allowing this to consume all the energy of the team, thus allowing the focus to remain on the development and delivery of projects.

Closer analysis of the accounts of smaller organisations, through the Culture Benchmark, will better illustrate how this is achieved.

4.1 Tangible asset development

4.1.1 Data analysis of income figures from Common Practice accounts

In the first place, we collected profit and loss data for all members of Common Practice (see the blank form in Appendix 1). This demonstrated that the total income across all nine Common Practice members is in the region of £2.5m per annum according to the following pattern:

Organisation income	2006 – 7	2007 – 8	2008 – 9	2009 – 10
Minimum income	£76,727	£120,242	£117,840	£136,011
Average income	£248,376	£274,248	£286,045	£260,432
Maximum income	£589,867	£697,094	£516,567	£688,776
Income for the top quartile	£259,450	£309,903	£467,551	£248,244

Figure 1 – Total income per Common Practice member¹³

¹³ For the purposes of this study, all commissions are classed as income from intangible assets rather than grants, on the basis that the sources of funding for commissions will vary from grants to private funds, and that – without looking at this area in far more detail to establish the differences between arts monies being used to commission, for example, public sculpture vs. private funds commissioning – it is simplest to hold them under the general heading of ‘commissions’.

We see that, whilst certain organisations have a total income of more than £500,000, Common Practice members have an average income of some £250-300,000 per annum. This is a small budget for the delivery of new commissions and the management of substantial critical debate. What these data sets also show is that average incomes are contracting from a peak in 2008-9 and that the gulf between minimum and maximum income is widening.

Within the data, we were particularly interested in the split in income sources between grant funding, tangible and intangible assets. This allows us to show the range and variety of financial models in use and the vulnerability to cuts in grant funding.

Income sources – average splits	2006 – 7	2007 – 8	2008 – 9	2009 – 10
Grant income	65.3%	65.6%	63.6%	61.0%
Income from tangible assets	24.5%	21.9%	24.3%	22.8%
Income from intangible assets	31.9%	28.3%	32.4%	14.3%
Earned income as share of total income	30.2%	31.2%	37.7%	42.8%

Figure 2 – Average split of income across grant, tangible and intangible assets¹⁴

¹⁴ These averages are calculated only within a single row of figures, e.g. grant income, but are not designed to be added up vertically and will not, therefore, add up to 100 percent.

The first point to note here is that, on average, grant income, as a percentage of total, for all Common Practice members is in the region of 63 percent and that this is largely consistent over time. This figure is considerably higher than the national average across the ACE portfolio, in which grant income is below 50 percent and usually closer to 35 percent.

If we look at those unusual small organisations which manage to achieve the highest level of income from earned sources, we find that there are some key income types:

Space hire – amongst organisations with a venue in the Common Practice group, it is those with studios that are achieving the greatest income. The maximum income achieved by any single member is 44.5 percent of total income.

Commissions – the maximum income achieved by any single Common Practice member is 23.1 percent of total income. Certain forms of commissioning may attract external funds from the public sector; however, it may be argued that this is simply another form of subsidy.

Sales – the products being sold vary dramatically from books and magazines to large-scale installations and sculptures. The maximum achieved by any single Common Practice member is 55.3 percent of total income.

¹⁵ We are assuming that the overall trend is one of growth even though the 2009-10 data show a drop. If 2010-11 data also show a reduced level of income from these intangible assets, then we would suggest that this would be an area worth supporting on the understanding that, as a less mature income stream, it is more sensitive to broader economic conditions.

Averages across income lines suggest that, whilst grant dependence is high, growth in earned income is helping to improve the overall sustainability of these organisations.¹⁵ It is worth noting that these are maximum levels which may not be achievable every year and vary so much across organisations that they cannot be set as standards. Closer analysis shows that venue-based members tend to demonstrate greater income from tangible assets, leading to higher overall income and lower grant dependence. For those organisations that do not have tangible assets from which to earn income, grant dependence goes up to around 75 percent, which drives the average level of grant-based income up in the above table.

When we look at the data individually, we see that, on the whole, organisations either have income from tangible assets or from intangible assets but rarely from both. In the only organisation from the wider Culture Benchmark pilot in which substantial income from both these sources is achieved, the ratio is approximately 40 percent grant : 50 percent tangible : 10 percent intangible assets.

4.1.2 Data analysis of expenditure figures from Common Practice accounts

A closer examination of expenditure shows just how finely balanced the finances of small arts organisations are.

The largest area of expenditure is split between production costs (including fees to artists), staff salaries and overheads:

Costs – average splits	2006 – 7	2007 – 8	2008 – 9	2009 – 10
Production ¹⁶	39.6%	35.7%	33.0%	33.2%
Staff	32.8%	31.6%	37.1%	33.5%
Overheads	25.1%	27.4%	25.1%	27.8%
Reserves contribution	5.2%	5.3%	0.5%	8.0%

Figure 3 – Average cost allocations as a percentage of total income

¹⁶ In the pilot, we did not separate out artists' fees from the costs of producing work, so we are not in a position to comment upon the breakdown into materials : fees : freelancers : other production costs.

Production and staffing costs form the majority of annual expenditure, with production budgets ranging between 30 and 40 percent of total turnover. A salary bill in the region of 30 to 40 percent of total turnover gives a 1:1 ratio between production and staff costs, which is to be expected in organisations of this size. As staff numbers are small and the majority of staff intimately involved in the delivery of exhibitions and publications, these costs might appropriately be considered integral to the commissioning of work. Thus, one of the main tensions small organisations face, is that of maintaining an appropriate balance in programming costs with respect to staff time.

While the staffing bill seems appropriate to levels of engagement, further investigation into remuneration across the 23 organisations that participated in the arts benchmark pilot (of which nine are Common Practice members) demonstrated that the average director's salary is only £33,135. A salary of this level is not appropriate to the substantial operational and legal responsibilities, qualifications and experience required to meet the demands of the post. But, when the director's pay accounts for up to 10 percent of the total running costs of the organisation, it is clear that there is little room for increase. This compounds the problems, felt within many arts organisations, of low-paid staff and reliance on interns, and it creates few opportunities for substantial pay rises within small organisations.

Turning our attention to overheads, we find that the majority of expenditure in this area – including rent, rates, utilities and insurance – is unlikely to add to the overall value delivered by the organisation. Of the overheads regularly incurred by Common Practice members, the following could potentially deliver greatest additional value:

Training – the average spend on this in 2008 was 0.4 percent of turnover. One of the benefits of working for a small organisation is the speed with which responsibility is acquired. However, if this is not backed up by a degree of formal training, there is no certainty that bad habits are not being acquired as quickly as good ones. Training also represents a demonstrable commitment by the employer to the employee, which increases loyalty and decreases staff turnover. For these reasons, this level of investment is too low at present.

Marketing – with an average spend in 2008 of 2.8 percent of turnover, this is an area of significant concern. No organisation can be expected to maintain and develop its position and reputation in the sector without a realistic marketing budget (5-10 percent of turnover). The current figure is simply too low, and it is preventing organisations from capitalising on the quality of their outputs, either in the form of reputational development or in terms of attracting sponsors, donors and patrons.

Research and Development (R&D) – the average spend in 2008 would appear to be only 0.6 percent. However, we suspect that the actual costs of R&D are hidden in production and travel budgets. While contributions in this area should undoubtedly be increased, it would be easier to demonstrate the impact and effectiveness of such spend, via both standard measures and deferred value approaches, if this figure was more clearly demonstrated by organisations.¹⁷

Reserves – with an annual contribution in the region of 5 percent, there is a clear commitment to the accumulation of reserves, which allow organisations to meet short-term crisis costs or to provide severance packages in line with legal minimums. However, reserves of this level are not sufficient to enable these organisations to make cash investments into new ideas, products or services.¹⁸

Total expenditure on overheads hovers around 20 percent of turnover, which is very lean for organisations of this size.¹⁹ This begs questions as to whether leanness serves smaller organisations if they are seeking to grow. In studying overheads, it becomes evident that there is no surplus with which to fund new income-generating initiatives. At current budget levels, there is no obvious way in which overhead costs could be redirected into these growth areas without significant risk to stability and functionality. It is thus recommended that funders consider making targeted contributions which permit increased investment in these areas.

The figures demonstrate that the members of Common Practice operate within very tight and finely balanced budgets which are focussed on the delivery of activities over the short- to medium-term. All available funds are necessarily focussed on achieving a balance between programme costs and staff salaries. Indeed, the finances are so tight that there is no provision for staff training, promotions or pensions – which are considered normal,

¹⁷ It would be worthwhile for small organisations to consider itemising research and development costs as a separate line in the accounts as they are an important indicator of commitment to the future sustainability of the organisation, both in terms of programming development and investment in income-generating activities.

¹⁸ For examples of how arts organisations are using funds, such as the Technology Strategy Board (TSB), to make investments in developing new income streams from their intangible assets, see: Sarah Thelwall, *Leveraging Leadership into Income Growth*, op cit. The TSB operates a series of funds designed to support innovation in commercial contexts and has a specialist Creative Industries fund which has been successfully used by a number of non-profit arts organisations to develop intangible asset-based income streams, an example of which would be Watershed's iShed venture.

¹⁹ While we might expect a larger non-profit organisation, with turnover in the tens of millions, to drop overheads to, say, 15 percent, small organisations could realistically reduce the percentage of overheads only by increasing their total turnover, and the scale of growth required to achieve proportional efficiencies is beyond the reach of most small organisations.

rather than luxury, expenditure in many larger arts organisations and non-profit sectors.

The overheads of small organisations are being kept to a minimum to such an extent that this has a negative impact upon current development and overall sustainability. There is little or no money available for inward investment in activities which might, in the longer term, make organisations more self-sustaining. Strategic short-term investments by public funders in the areas of training, marketing and R&D would help growth, thus protecting a vital part of the ecosystem.

4.1.3 Comparisons within the Turning Point London group

Before elaborating on other ways in which organisations like those of the Common Practice group might be encouraged to grow, let us turn to a consideration of how this picture compares to the visual arts organisations belonging to the Turning Point London (also known as the Visual Arts London Strategy group or VALS). While there are some overlaps between the two groups, the latter tends to include larger organisations, and comparison will enable us to identify differences in the financial models employed.

	Common Practice	VALS
Regular (core) funding from ACE	50.0%	43.6%
Other ACE funding	7.40%	17.2%
Trusts and foundations	18.0%	12.5%
Local authorities	* ²⁰	6.8%
Grant in aid	Nil ²¹	39.5%
Other revenue grants	7.1%	16.3%
Total revenue grant income	63.6%	62.7%

Figure 4 – Grant sources as an average percentage of turnover

²⁰ If there are less than three data points contributing to an aggregate figure, then they are withheld for data confidentiality purposes. In this case, then, less than three Common Practice members receive local authority funding.

²¹ None of the members of Common Practice receive government grants in the form of grant in aid, which prevents comparison in this area.

²² The total over these two sources is 28.8 percent for VALS as compared to 25.1 percent for Common Practice. This may simply be due to greater detail on the Common Practice group being available, which leads to figures for the VALS group being classified as 'other' when they should be allocated elsewhere.

In the above table, we see that VALS members show an approximately seven percent lower level of core funding than the Common Practice group, to fall broadly in line with the average across the current ACE portfolio. However, if we take account of additional project funding grants made to the VALS group by ACE, we see a marked increase in income from ACE sources. Furthermore, the VALS group receives an average of 6.8 percent of public funding from local authorities, further boosting funding from grants in real terms. Also on the subject of grant funding, whilst Common Practice members are slightly better at securing contributions from trusts and foundations, this is balanced by 'other' revenue grants, which sees the VALS members doing better. ²² It is interesting to note that the average level of total grant income is remarkably similar for Common Practice and VALS members. With the exception of local authority funding, Common Practice members are almost as good at diversifying their non-ACE grant successes as VALS members. The relevance of this will become clear when we consider the metrics that are currently used for measuring the performance of visual arts organisations.

Another way in which large organisations might actually be more dependent on public subsidy than headline figures suggest is through their use of the resources or smaller, publicly funded organisations. An article by Charlotte Higgins for *The Guardian* clearly articulates that, without smaller

organisations, larger organisations would be unable to run on the levels of public funding they receive.²³

Turning now to a consideration of earned income, we find the following picture:

	Common Practice	VALS
Ticket sales	Nil	14.8%
Shop and retail	*	20.5%
Catering and café	Nil	3.9%
Space hire	*	8.1%
Venue-based income	41.5%	33.3%

Figure 5 – Average income from tangible assets

As already outlined, very few of the Common Practice members achieve any income from their venues. So, whilst the maximum income from venue-based sources is some 65.1 percent, the minimum is 3.2 percent, thus skewing average figures. Common Practice members tend to achieve any external income in this area by focusing on space hire and sales of artworks rather than maintaining a café or shop. By comparison, venue-based income is the norm amongst VALS members alongside ticket sales and retail activity. It is interesting to note that cafés and catering are only worth 3.9 percent on average across the group, with a 7.7 percent maximum. However, given that the largest organisations in the group have a turnover of just under £54m, this is still worth an average of £2.1m in unrestricted income per annum.

	Common Practice	VALS
Corporate sponsorship	*	6.1%
Private donations	1.7%	5.2%
Other sponsorship and donations	1.0%	12.2%

Figure 6 – The value of sponsorship and donations

This table assesses the ability of organisations to leverage corporate and private giving, which, as we have seen, is dependent on brand values and linked to marketing. While VALS members often maintain separate sponsorship and donations departments, the significant fixed cost associated with this and the highly variable nature of returns mean that small organisations cannot afford to dedicate staff in this area.

Turning to a consideration of expenditure within the two groups, at first glance there seems to be rough parity across staffing and direct costs (exhibitions for the commissioners, agencies and galleries; publications for the publishers). As we do not have a full breakdown of the direct and indirect costs borne by VALS members, it would be rash to assume that these are allocated in exactly the same way. There are, however, a couple of points that we can draw out. Firstly, we see regular references to the pension funds of VALS members, compared to the negligible provision in this area by Common Practice members. Secondly, marketing costs amongst VALS members are unlikely to be less than 5 percent and may rise as high as 13.7 percent of

turnover, which leads to amplified brand recognition that can be converted into sponsorship income. By contrast, as we have seen, marketing spend for Common Practice members is, on average, 2.8 percent and only reaches a maximum of 7.1 percent.

In making comparisons between the financial models of the VALS group and Common Practice members, it is the similarities, rather than the differences, that strike one immediately. In particular, we note that average revenue grant funding across all sources is very similar (63.6 percent CP, 62.7 percent VALS).

The data sets begin to demonstrate what many experts have known intuitively for some time, which is that the financial models that work for large building-based and/or ticket-based organisations cannot be set as universal standards to be adopted by smaller organisations which currently lack the tangible assets and infrastructure to be able to rely on external income generation.

While venue hire is relevant to only a handful of the Common Practice members, VALS members are much more likely to generate earned income from tangible assets through a range of commercial activities and opportunities to attract sponsorship through greater recognition of their brand.

4.2 Income diversification – the imperative of getting beyond grant funding

As outlined in section 4.1.1, the average total income from grant funding (from both public and private sources) across the Common Practice group was between 60 and 65 percent from 2006 to 2010. Organisations in the top quartile only just manage to obtain more than 50 percent of their income from non-grant sources. Indeed, there are organisations, both within the Common Practice group and the wider pilot, for which grant funding represents in excess of 95 percent of total income. Anecdotal evidence, based on a wide range of conversations, suggests that, for non-venue based or non-ticket based organisations, income from non-grant, non-commission sources in excess of 20 percent is an exception to the rule. As we have seen, there is currently little scope for smaller organisations to develop other sources of income through training, research and development and marketing activities.

The continued dependence of small organisations on grant income goes against received wisdom, which suggests that arts organisations are achieving income diversification that has reduced their dependence on grant funding to below 50 percent of total income. As income diversification is a key measure of success within current measuring models, this puts pressure on small organisations to try and achieve the unachievable. With this in mind, let us turn now to a consideration of the ways in which the intangible assets of small organisations might better be exploited.

4.2.1 Intangible asset development

As we have seen, small organisations make informal investments in the development of their intangible assets, through routes such as the development of their staff skills base and the processes for the deployment of these skills. However, on the basis of the sample organisations taking part in the Culture Benchmark, it would appear that income-generation from intangible assets is not yet equal to that being achieved from tangible assets in either small or large arts organisations.

Whilst successes in the creative industries indicate a growing set of markets for intangible asset-based products and services, these markets have not yet received the substantial levels of investment that have been evident in tangible assets, through capital lottery programmes, to large organisations. The challenge for non-profit arts organisations, then, particularly in the current economic climate, is to capitalise on their *intangible* assets in order to improve their financial sustainability. For the purposes of this paper, we will split this point into two parts to ask:

1. How can intangible assets be converted into earned income streams?
2. How can the value created by these organisations be more appropriately articulated, recognised and measured?

The first of these questions is answered below; the second will be covered in section 7.

4.2.2 Converting intangible assets into earned income streams

Despite the barriers to reducing grant dependency outlined above, small organisations, such as the members of Common Practice, demonstrate an ongoing commitment to delivering earned income from their intangible assets. Examples already exist in the development of online resources and apps, in the wider creative economy (where their assets and skill sets are proving to be of value in a growing market for consultancy and comparable expert services) and in the contracts they sign with commissioned artists, which make provision for recouping funding in commercially successful projects. Judicious investment in this area, on the part of public sector funders, would enable small organisations to grow, while providing a unique measure of success for organisations of this size.

In order to examine how intangible assets might increasingly be converted into income, we need to distinguish between:

1. First order activities, which are intrinsically connected to the expert labour force within the organisation, thus forming the creative core of activities. These are not usually expected to deliver an immediate financial return and tend, therefore, to be grant funded.²⁴
2. Second order activities, which take the assets accrued as a result of first order activities and develop them into products and services that have commercial value. In so doing, they disconnect these products and services from labour costs and create activities which are more scalable.

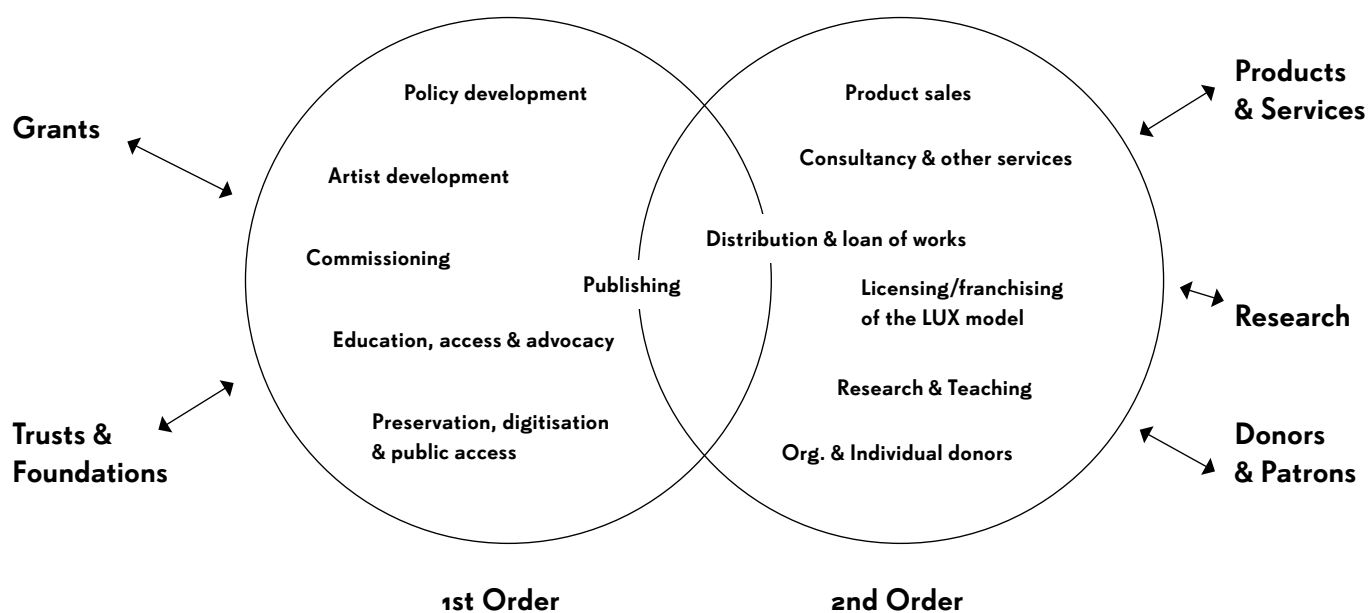
So, whilst the delivery of an exhibition is a first order activity, the development and sale of merchandise is a second order activity; whilst the publication of a book or magazine of new writing is a first order activity, a piece of consultancy surrounding print-on-demand technology used in publishing processes is second order. For example, Common Practice member, LUX, manages the loans and distribution of a portfolio of artists' moving image work, handles the fees charged to institutions and the resulting monies paid to artists.

A mapping of the activities of LUX,²⁵ below, indicates how these activities separate out in practice as well as the income streams attached to them.

²⁴ This subject is treated at greater length in Sarah Thelwall, *Capitalising Creativity*, Cultural Snapshot No. 14, op cit.

²⁵ This is taken from a more extensive analysis of LUX's potential growth model in Sarah Thelwall, *Leveraging Leadership into Income Growth*, op cit.

The LUX mix



In cases where goods and services have a clear commercial value and where the sales of these services would not reduce access to the public, such value may be realised by small organisations.

As the creative industries expand, we can foresee a growth in, and increased sophistication of, the markets for a wide range of intangible assets. Whilst these are currently no substitute for revenues derived from tangible assets, intangible assets contain a growth potential that might, in the long term, cause them to outstrip the tangible asset-based income streams which are necessarily limited by square footage and footfall they can attract.



Catherine Sullivan and Farhad Sharmini, *The Last Days of British Honduras*. Commissioned by LUX as part of Artists Cinema 2010

Small arts organisations and the creation of value

Before we can address the main questions framing this research, we need to be clearer on the concept of value. We are interested in the following types of value:

Artistic value – the intrinsic value of the objects and ideas being commissioned.

Social value – within the art ecosystem, this refers to the processes through which art is evaluated and through which individuals and organisations ‘subscribe’²⁶ to the art, ideas and artists in the ecosystem; this process may result in artworks entering the established canon and in organisations changing place within a hierarchy, depending on the quality of outputs they produce.

Societal value – this refers to broader social value, as made tangible through audiences, education and participation. This value to society – through engagement, experience, critical thinking, etc. – overlaps with what is defined as ‘instrumental’ value.

Fiscal value – this changes over the lifetime of an art object, from the initial cost of its production to its sale value in the primary market followed by its resale value in the secondary market. It could also be said to encompass the increase in the daily rate charged for an artist’s or writer’s time. Income from secondary products – such as monographs, editions and other ephemera – also plays a role.²⁷

The creation of artistic and societal value forms the backbone of the vision articulated by ACE in November 2010 in its ten-year strategic framework, *Achieving Great Art for Everyone*. Apart from bringing the core output of excellence to the largest possible proportion of the public, this document presents an imperative to build resilient organisations. Furthermore, this is predicated on the idea that the business models, reach and sustainability of organisations are developed in active dialogue with the creative industries and embrace the ‘digital opportunity’.

Let us turn now to a consideration of the ways in which the four types of value apply to the Common Practice group.

In 2005, Studio Voltaire commissioned Spartacus Chetwynd to make *The Walk to Dover*, a seven-day journey on foot from London to Dover in which Chetwynd led a small group of ‘urchins’ to retrace the fictitious walk undertaken by Dickens’s David Copperfield to the sanctuary of his aunt, Betsy Trotwood’s house. Building on the artist’s earlier work,

²⁶ This perspective on the accrual of value, and, in particular, the notion of ‘subscription’ to an individual, idea or object, is supported by the works of academics such as Dominique Sagot-Duvaurox. Her model of subscription is explained in detail in Dominique Sagot-Duvaurox, ‘Le Valeur de L’Art’, *L’Art Aujourd’hui*, 1993.

²⁷ Whilst there are clearly issues with taking the market price of art objects as the single definition of the fiscal value of the work, many of the other transactions listed above are even more difficult to measure and are beyond the remit of this paper.

²⁸ Venues included White Columns, New York (2007); Studio Voltaire/Zoo Art Fair, London (2007); Studio Voltaire/Open Space – Cologne Art Fair, Cologne (2008); Migros Museum, Zurich (2008); Le Consortium, Dijon (2008); Tate Britain (2009); Whitechapel Gallery, London (2010); CCA, Glasgow (2010), Arnolfini, Bristol (2010); Duke of York's Picturehouse, Brighton (2010) and in Now Showing 2: New Film and Video from the Arts Council Collection, touring ten venues across England (2010 – 2011).

²⁹ CCA is funded by Creative Scotland and other sources. The involvement of this venue in the commission reduced the funding that Chisenhale needed to commit to the project while strengthening the application for foundation funding.

³⁰ Based on typical audience figures.

³¹ The text was later also published in print in Volume II, No. 15 of *Mute*.

The Walk to Dover drew comparisons between Victorian debtors' prisons and our contemporary credit system. A film, produced and screened by Studio Voltaire, toured nationally and internationally and was produced as a limited edition.²⁸ As Chetwynd's first off-site commission, *The Walk to Dover* came at a pivotal point in the artist's career, leading to a number of large-scale commissions from international institutions (Migros Museum, Tate Britain, Creative Time, Frieze Projects), and limited edition film purchases by private and public collections (Arts Council Collection, Migros Museum, Le Consortium). Chetwynd now enjoys commercial representation by Sadie Coles HQ. Whereas the audience for the original commission and film was 720, subsequent viewer numbers have exceeded 18,000.

In this example, we see all four types of value at work. The commission facilitated the creation of artistic value in the work itself and had a pivotal role in increasing the social value of the artist within the art ecosystem. It also had societal value, as seen in the growth in audience figures, and it provided an opportunity for the realisation of fiscal value through commercial representation.

In 2009, Chisenhale Gallery commissioned *The Last Days of Jack Shepard* by Anja Kirschner and David Panos. Collaboration with the Centre for Contemporary Arts (CCA) in Glasgow involved a contribution of £6,000 to the £25,000 production budget and partnership in an application to the Henry Moore Foundation.²⁹ The initial presentation at Chisenhale achieved an audience of 3,000; inclusion in the first stage of the British Art Show 2010 increased this to around 300,000, which stands to grow as the exhibition tours Britain.³⁰

On the strength of this commission, the artists were invited to present a solo exhibition at Badischer Kunstverein in Karlsruhe, a direct outcome of which is this venue's further institutional collaboration with Chisenhale in 2011. Both exhibitions garnered significant press coverage and the artists were nominated for the Jarman Award in 2009. *The Last Days of Jack Shepard* helped the artists to make a significant step change in their careers, also contributing to their securing a FLAMIN grant from Film London towards their next film, *The Empty Plan* (2010), which is currently touring in the UK and internationally. Increases in both the social and societal value of this commission are visible here.

The journey of Electra commission, *Reverse Karaoke*, by Kim Gordon and Jutta Koether, again shows comparable traits. Originally part of Electra-curated group exhibition, *Her Noise*, at South London Gallery (2005), it shared audiences of 4,500. The piece then toured for five years to nine different international museums and arts centres and was seen by audiences of over 70,000.

A similar trajectory of re-presentation, increased audiences and recognition within the sector can be seen in the commissioning of analytical texts by *Mute* and *Afterall*. For example, JJ Charlesworth's 'Crisis at the ICA: Ekow Eshun's Experiment in De-institutionalisation', published on *Mute*'s website, *Metamute*, in February 2010,³¹ has acquired 23,000 unique reads since publication, in a recursive process between this specialist journal and larger circulation entities. Aided by Twitter and Facebook, its initial publication on the web led to references in the blogs of the *New Statesman*, *The Guardian* and *Frieze*, as well as discussion in the mainstream printed media (*Evening Standard*, *The Guardian*). The article has since become a standard text on the subject, routinely cited when the topic of the ICA's crisis is discussed. An increase in the value of this work to the art ecosystem is

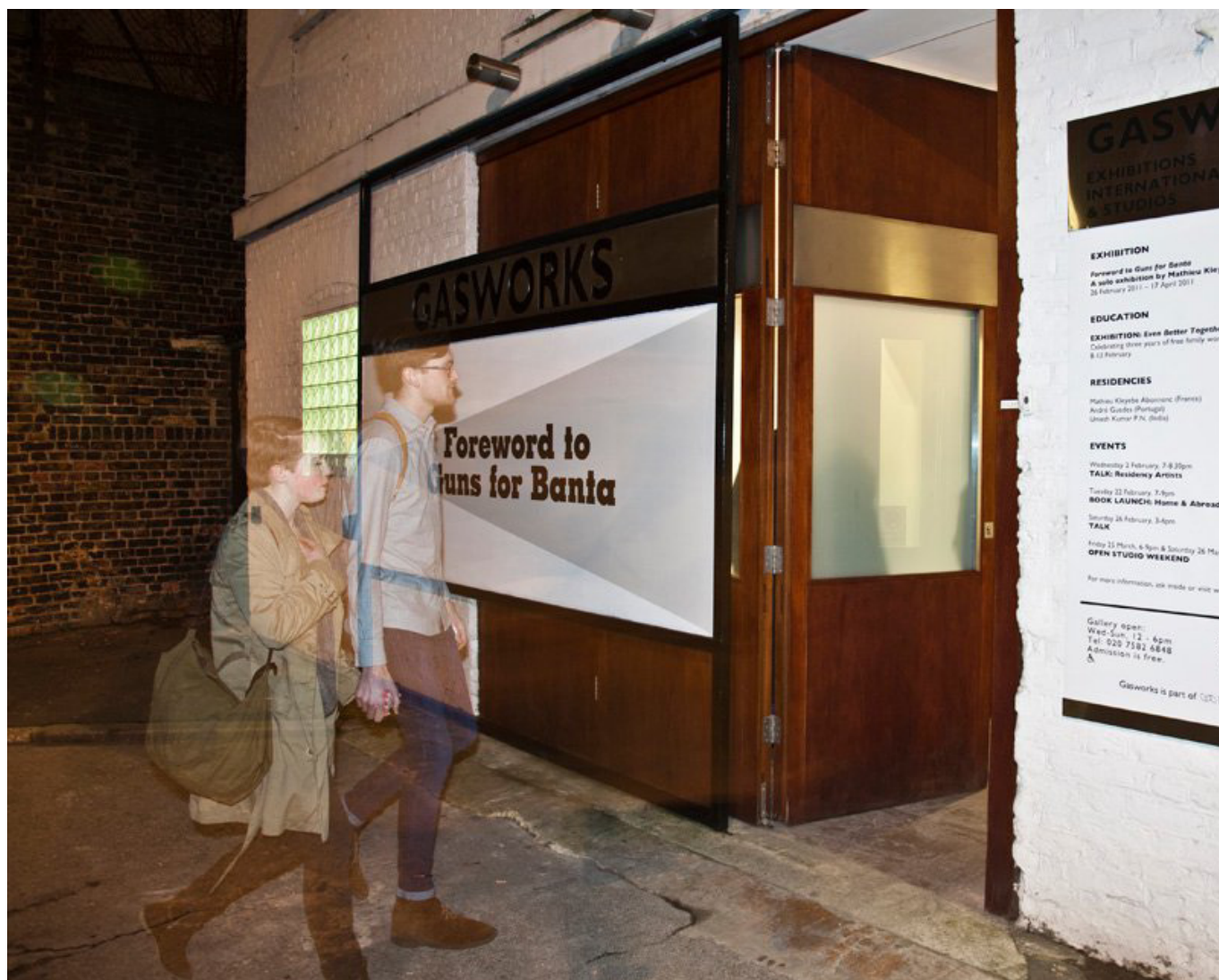
evident in this example (the social value of public awareness), as is an increase in Charlesworth's profile (and concomitant fiscal value).

Examples like these span the members of Common Practice and the lifetimes of their organisations, from Matt's Gallery's commissioning of *20:50* by Richard Wilson in 1987 and Chisenhale Gallery's work with Rachel Whiteread on *Ghost* in 1990 to the successful co-commissioning of the Otolith Group by Gasworks and The Showroom in 2009, which contributed to the group's nomination for the Turner Prize in 2010.

The wider societal value created by small organisations, such as the members of Common Practice, can most easily be seen in the approach taken to education and participation. If we look at the activities of organisations such as Gasworks, Chisenhale and The Showroom, we see that they have not only a strong international reputation within the art world but also a highly localised reputation as a connected element within, and positive contributor to, the communities in which they operate. The integration of educational activities – as a key element in the main programme rather than a parallel, or minor, activity – can be seen in commissioning structures. Over a three-year period, Gasworks has built up a set of relationships, via their Even Better Together scheme (supported by the Big Lottery Fund), which has increased the participation of local communities. These activities are not limited to the utilisation of the Gasworks spaces, but also extend to the programming of a public space run by a tenants' association (which would not otherwise have an events programme).

By presenting its programme of residencies to local community partners at the start of a year, Gasworks is able to initiate strategic conversations around artist-led activities that will be relevant for both community and practitioner. This set of very direct relationships, between resident artists and the local community, has led to the participation of the community in a number of the artworks produced during residencies and there will be an exhibition of these outputs in 2011, curated by the local community and totally integrated into the main programme. We could describe this as an increase in the societal value of the artists and their work.

What we immediately see from these descriptions is that value accrues over the lifetime of an object or idea and that it does so in the four areas of artistic, social, societal and fiscal value in ways which are hard to separate out; indeed, it is the fact that they are intertwined that is key to understanding how value accrues in an artwork.



Mathieu Kleye Abonnenc, *Foreword to Guns For Banta*, 2011. Photo: Kristel Raesaar

Deferred value creation

As we can see from the examples given in section 5, significant value is contributed by small organisations, both through the communities that interconnect with them through participatory activities and within the visual arts ecosystem. However, there is very little in the way of a clearly defined feedback loop, enabling these organisations to benefit directly from the value they create as it accrues over the lifetime of the work they commission. The only return on this investment at the time of production is a reputational one and even this is limited to whether the publication or exhibition is interesting and of high quality. Thus, while being skilled creators of deferred value, small organisations are not realising this value in support of their long-term sustainability.

Before continuing, we need to be clear about who realises the value generated by the Common Practice group and whether there is a connection to its members.

6.1 In the public sector

Just as the insurance value of an artwork defaults to the cost of production unless clear market valuation can be proven, so the value of work created in, by and for small visual arts organisations is evaluated in profit and loss accounts in terms of its production costs.

Larger public institutions, which develop the ideas or re-exhibit the works first commissioned by smaller organisations, are unlikely to have contributed to these initial production costs, but they are well placed to realise the deferred value in the work through:

Audience figures, ticket income and associated secondary spend

Larger readership and related advertising income

One solution for smaller organisations would be for them to expand into larger ones, allowing them to partake in the realisation of value. A handful of organisations in every generation do, indeed, make this transition, demonstrating that their contribution to the art ecosystem and societal value surpasses the interests of the founding director and any short-term need in the sector. However, the manner in which small organisations take risks and create artistic value is not easily extended to a larger scale, meaning that such growth is often regarded as antithetical to the organisation's founding mission.

In summary, larger public sector organisations depend on the output of smaller organisations and these inter-relationships would benefit from being much more clearly defined.

6.2 In the private sector

When artwork has been recognised to a sufficient degree as to enable its sale, fiscal value is accrued by the author or artist – the former through further commissions for articles and books; the latter through the sale of the original and related works. There may also be related secondary income streams in the form of talks, monographs, etc.

In the case of art objects, whilst *droit de suite*, or artists' resale rights, have a part to play in repeatedly delivering a fiscal return to the artist, the majority of the return on the initial investment of small organisations is accrued by a succession of collectors buying and selling the work, with a cut being taken by the commercial gallery or auction house facilitating such transactions. While Chisenhale makes recoupment agreements, based on sales of work, for every project it produces,³² this way of working rarely generates returns and has yet to be generalised across the group. The main method for returning any of the original investment to the commissioning organisation tends to be through informal contributions made by artists, via the donation of works for fundraising purposes, or the meeting of publication or other costs by commercial galleries. Whilst these are very valuable inputs, they are far from being an assured income stream and are, in the main, linked to direct costs for new productions. Indeed, these types of income are based on old-style patronage models which rely on the discretion of a benefactor, leaving small organisations beholden to a gift economy.

³² These recoupment arrangements vary according to the nature of the work, but they are a key element of negotiations with artists. Chisenhale does not speculate on the work but actively seeks to ensure that, in the case of sales, recoupment would be made according to the organisation's input. As the gallery tends to work with emerging artists and the work is often – although not always – 'difficult' (e.g. films or performances), recoupment is not often seen, but it does happen.

However, there is another issue here. By focussing on fiscal value, we are, by and large, dependent upon yardsticks determined by the commercial art market, which finds it easier to attach a price tag to tangible art objects – such as paintings, sculpture, drawings and installations – than it does to the more intangible elements of an artist's practice – such as performance, film, video and other often experience-based pieces, of the kind frequently commissioned by the Common Practice group. Furthermore, by making fiscal value synonymous with market price, we are giving precedence to the strand of artistic production that is most easily assimilated into the commercial art market, which discriminates against more risky, less immediately saleable, work.

Artworks accumulate value throughout their lifetimes in both the public and private sectors, but the small organisations which originated them are not the ultimate beneficiaries of these processes. In order for the members of Common Practice and similar small organisations to maximise the processes of artistic value creation to which they are dedicated, they currently relinquish much of the value that is eventually realised over the lifetime of the work. In particular, they forfeit two of the most measurable types of value created – the realisation of social value through the development of audiences and of fiscal value through sales via the art market. Whilst changes are certainly occurring in the contracts and relationships between these value creators and larger organisations and artists within the art ecosystem, we need to better understand how these revised approaches impact on the financial sustainability of organisations.



Phyllida Barlow, *Bluff*, 2010, Mixed media installation.
A Studio Voltaire commission. Courtesy of the artist and Hauser & Wirth, London / Zurich / New York

Measurement – methods vs. needs

The measurement methods currently in use are designed to monitor the channelling of subsidy from the public purse into organisations that are deemed to be valuable to the nation. At present, all organisations in ACE's portfolio complete the same yearly return of data in the form of their Annual Submission. Looking at the results of this survey for 2010, we see that the main areas of measurement are audience-related and financial – via attendance figures, £/head subsidy and annual turnover.

With several years of reduced public subsidy for the arts ahead of us, there is an expectation that organisations which are not considered 'successful' will see significant reductions in their funding. Thus, by considering each of the current metrics in turn, this section aims to investigate the applicability of current measures to small arts organisations. The question, therefore, is how appropriate existing measurement approaches are to the types of value being delivered and how these might be improved. At the same time, it is acknowledged that the role of small organisations needs to be measurable in the here and now, even if the value they create is deferred across a twenty year period. Having elaborated a crucial and ongoing role for small arts organisations and outlined the challenges faced by them in maintaining that role as deferred value creators, we need to devise and define tools for measuring this subset of the art ecosystem more carefully in order to support them in a manner more appropriate to their role.

As evidenced by the Annual Submission procedure, measurement approaches have, until now, been based on a single set of universal metrics applied across all art forms and sizes of organisation. With the announcement, in November 2010, of ACE's new ten-year strategic framework, *Achieving Great Art for Everyone*, five key goals were defined, namely: Excellence, Reach, Engagement, Diversity and Innovation.³³ Although there has not yet been an indication as to whether the Annual Submissions process will change as part of the framework's implementation (or the transition into an NPO, rather than RFO, framework), we contend that it will be important for these goals to become more nuanced in relation to different sectors and sizes of organisation if we are to see improvements in the utility of the metrics and their results.

³³ The full document, and explanation, of *Achieving Great Art for Everyone*, including a lengthier detailing of these goals, is available at: <http://www.artscouncil.org.uk/our-work/achieving-great-art-everyone/>

7.1 Audience figures

One element of the Annual Survey focuses on audience numbers. Unlike the Big Lottery Fund, which takes account of audience experience (return rates, visits by families or local community members, depth of engagement), the survey focuses only on the volume of visitors. Whilst this data is used by the DCMS, Treasury and other government departments as a tool for gauging tourism volumes and spending, these metrics do not serve artists, local communities or small organisations. An alternative or additional set of

metrics that might be more useful would be those that looked at the depth and longevity of engagement and ongoing social and societal impact. Furthermore, for those organisations which have a strong, ongoing connection to research, particularly those with academic partners, the ability to demonstrate academic value would be a useful supplement. In addition to this, the roles played by small arts organisations in developing international critical debate and in serving highly localised communities both demand appropriate means of valuation and measurement.

7.2 Ratio of ACE grants to other income sources

As section 4 demonstrated, there is some merit in making financial comparisons between organisations' income types and cost allocations. However, the mechanisms currently employed are not granular enough to highlight the different approaches to income diversification demonstrated by small and large organisations. Problems arise when comparisons are made across a group in which the differences are greater than the similarities. There would be little point, for example, in comparing Common Practice members to the whole ACE portfolio, as the business models employed are discipline-specific. By contrast, there would be some merit in comparing Common Practice members to other organisations with low tangible asset-based incomes in which the intangible asset base offers significant development opportunities; even better would be a comparison against best practice in intangible asset exploitation.

Of particular concern is the fact that our key finding from section 4 – that the average level of total grant income is remarkably similar for Common Practice and VALS members – is not reflected in the current metrics. Similarly, the reliance by larger organisations on the productions of their smaller counterparts is nowhere reflected in existing measurement systems.

7.3 £ per head ACE funding

While its popularity fluctuates, this measure has become something of a pragmatic assessment tool for ACE officers. However, there are a number of difficulties with this approach:

The method for calculating audience figures changes over the years; most notably, this has seen the inclusion or exclusion of web-based audiences and fluctuations in their relative value as compared to footfall.

There is an assumption that a low spend per audience member is a desirable target. This does not take any account of the depth of engagement, quality of experience or diversity of audience.

The target levels of £ per head are not necessarily set with art forms or size in mind and, in the case of smaller organisations, tend to be based on comparisons with much larger institutions which have significant marketing budgets and brand awareness.

With the £ per head measure, there is an expectation that subsidy provided can be directly translated into benefits being delivered to members of the public using these services. If we simply indexed ACE funding to the audiences delivered by small organisations, they would appear to be delivering poor value. But, as we have seen, small organisations aim for the widest possible audiences in the communities they serve while attempting to engender the deepest possible engagement. As such, they need continued financial

support in achieving this, in recognition of a more holistic way of working which generates societal value.

The value of small organisations can and should be measured. There are, however, a number of issues with the measurement methods currently being employed. The metric for audiences is limited to the number of audience members attracted without taking account of the depth of engagement or the number of repeat visits made. Similarly, offsetting ratios of ACE grants to other income sources has been proven to distort reality to the detriment of smaller organisations. At the same time, £/head calculations are too crude and variable to be useful, particularly when comparisons are made across the whole ACE portfolio rather than specific slices of the data set.

Given the significance of the deferred value being created in small organisations, we would strongly advise the development of methods that measure the artistic, social and societal value being created. This is not an argument for exceptionalism. On the contrary, if we were to study the variety of value being delivered, we would expect to achieve a more nuanced understanding of the ways in which small organisations contribute so much from such scant resources. We would also be in a better position to argue both the core and additional benefits in terms that would carry more weight than an 'art for art's sake' approach which achieves little traction beyond the culture sector. ACE's commitment to the five key goals of *Achieving Great Art for Everyone* presents a clear opportunity for revising and improving measurement methods.



Santiago Sierra, *DEATH COUNTER*, 2009. Commissioned by Electra as part of the Offer & Exchange series

Omissions and the ways in which we might address them

As we have seen, deferred value creators make an investment in the visual arts ecosystem that may take up to twenty years to mature. This time lag means that it is not appropriate to seek to balance the public funds provided against the audiences or income streams being achieved on an immediate basis. In order to measure the value of small visual arts organisations, an *investment model* would be far more appropriate as it would allow for assessments to be made of the:

- tangible and intangible assets that have been created,
- timeframe for the return on these investments to be realised,
- likely level of return on investment that could be expected to be delivered over the lifetime of the assets.

While this represents a challenge, particularly when working with emerging artists, it would nonetheless be possible to establish metrics for the above. In doing so, the greatest task will be the change of mindset needed, away from annual comparisons towards lifecycle-based assessments. It is worth noting that, unlike larger institutions, there is no expectation that small organisations will continue indefinitely or in the same form. While a shift from founding directors to subsequent generations of directors may extend the active period of an individual organisation, further research would be needed before we could be clear on the ‘average’ lifecycle of a deferred value-creating visual arts organisation.

In the short term, there are a number of changes we can make to metrics and measurement approaches that will aid this overall shift, as outlined here.

8.1 Establishing norms

In the first instance, we need to set new parameters to define the operations of ‘normal’ small visual arts organisations, focussing on the creation of deferred value. By establishing a baseline for this specific sub-sector, we can distinguish them from larger organisations with respect to audience and fiscal expectations. This will allow for the easier identification of organisations which fit into this category than has been possible to date. In agreeing norms, we can also expect to shift the emphasis of conversations between key funders and organisations. Instead of operating in a climate of uncertainty, based on never achieving the same financial sustainability as larger organisations, new and more appropriate targets could be agreed for this group, which would allow trust and dialogue to be built.

8.2 Improve usability of data to assist planning and assessment

Presently, the data collected on ACE's portfolio of organisations via their Annual Submission are fed back to the sector in a very limited set of aggregate results. This overview pre-empts the questions that will be asked of the data, to generate a single set of answers. As such, this uniform approach prevents arts organisations from determining the reference group against which they would wish to be compared. By changing the ways in which data are presented and accessed, we could assist small organisations in their self-analysis, enabling them to draw useful conclusions for their own development. By establishing collaborations between clusters of organisations and key funders, the sector would be well placed to establish new ways of modelling lifecycles and, therefore, of devising new methods for analysing individual organisations. This exercise would also permit the inclusion of organisations which are either wholly unfunded by ACE or which receive intermittent project grants.

8.3 How a lifecycle investment approach might work

As already discussed, we currently lack mechanisms for attaching value to commissioned work which reflects deferred returns. Attempting to develop metrics in this area may negatively impact upon the deferred value of an artist, writer, object or idea, and care should be taken that these measures, once developed, are not allowed to influence the choice of commissioned artists. These organisations rely on risk-taking, and their unpredictability is a strength.

How, then, might we develop an approach to lifecycle investment that would support curatorial independence whilst better connecting activities to the lifetime value of individuals and collaborative groups? Here are a few indications of the ways in which we might develop such an approach:

If we are clearer about what the norms are, then we can more accurately determine whether an organisation is above or below par.

If we have views on the 'typical' lifecycle of a small organisation, then we can provide investment appropriate to the phase – start up, development, reputational return, intangible asset development, etc. Whilst organisational paths are individual, it is reasonable to suggest that there are similarities.

The type of investment being made by government funders and private trusts and foundations may vary during the lifecycle of the organisation to reflect the changing skills, modes of delivery and leadership.

As the organisation matures, we will be able to discuss the means by which we determine whether an organisation has fulfilled the purpose it was established to achieve (and, therefore, how it might be wound down). Alternatively, if there is an ongoing reason for the existence of the organisation, then it will be possible to determine the extent to which it needs to renew itself in order to continue creating deferred value in line with the level of investment.

If we can improve our methods for tracking the ways in which value is accrued by an object or idea across its lifetime, then we can also explore ways in which a return on the investment could be secured, so that there is a feedback loop which benefits commissioners.

If we can improve measurement tools which determine the value that audiences and communities place on the work of small organisations, through new systems such as contingent evaluation, then, along with the suggestions above, we can develop a more complete picture of non-fiscal value created.

These are early ideas; they may change radically as they are developed. But the urgent need is to develop systems of support and measurement which reflect the very different way in which small visual arts organisations contribute to the overall wealth, diversity and value of the visual arts sector.

Work in these areas is likely to take some years to complete; in the meantime, small visual arts organisations need a route through which they can grow financially and improve their sustainability and viability.

8.4 Rebalancing the value types we measure

Having looked at the challenges involved in achieving a more nuanced and appropriate measurement of fiscal value, related to the financial sustainability of small visual arts organisations, one could be forgiven for thinking that we are arguing that this is the only type of value with which we should concern ourselves. We are equally interested in improving the articulation of cultural value, be it artistic and intrinsic or social, societal, instrumental or institutional. Based on the research interviews conducted for this paper, there is a strong understanding that small organisations offer something different from, and complementary to, that offered by larger institutions.

It would be possible to articulate the role that small organisations play in commissioning and supporting new work and in developing the formats of display and exhibition. Further, it would be possible to elaborate upon their role in developing the highly participatory education programmes that we touched upon in section 5. A desirable goal would be to rebalance our measurement of value so that, in addition to devising appropriate metrics for fiscal and audience parameters, we can also measure the artistic, social and societal value.

We propose that two key changes are required if we are to fully recognise the value of small visual arts organisations. Firstly, measurement approaches need to evolve from their current general format into structures that allow for more nuanced analysis of the different roles played, and the different business models used, by small and large visual arts organisations. The idea of lifecycle investment is one that merits further development.

Secondly, we need to translate our implicit understanding of the differences in the cultural value of small arts organisations into an explicit articulation, and thence measurement, of the varied modes of value creation which, where appropriate, distinguishes between the roles of small and large organisations.



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Conclusions

Qualitative interview-based research with sector professionals continues to underline the implicit understanding that small visual arts organisations play a crucial role in the wider art ecosystem. In seeking to establish the value of small visual arts organisations, it has been necessary to distinguish between tangible and intangible assets. In the first category, we find that buildings, archives and collections – which have substantial income-generating potential through space hire and sales – are generally the result of sustained investment and confined to organisations larger than those making up the Common Practice group. The consequence of this for smaller organisations is that it diminishes the possibilities for accumulating earned income. The nine members of Common Practice have, on average, a total income in the region of £250-300,000 per annum. Within this, around 63 percent is made up of grant income, which is above the national average.

As diversification of funding sources forms one of the major metrics against which the success of organisations is measured, more detailed analysis on this point was required. Taking account of other public funding sources, including project and local authority contributions, this revealed that larger organisations demonstrate a much higher dependence on public funding than headline figures for revenue funding demonstrate. Combined with the fact that small organisations indirectly sustain the programmes of larger organisations through their commissioning activities, this serves to alter our perception of the relative success of larger organisations. The analysis presented here demonstrates that, contrary to previous assumptions, small organisations compare very favourably to large visual art institutions when it comes to grant subsidy levels. This key message needs to be shouted not whispered!

Moving on to a consideration of the expenditure undertaken by small organisations, we find that the majority of funds are committed to production and salary costs, themselves intimately linked. While this has important implications for the financial security of arts workers and their opportunities to increase their income, it also implies a relatively small contribution being made to overheads. The knock-on effect of this is that small organisations are systematically under-investing in the areas of training, marketing, the accumulation of reserves and research and development. This seriously limits the growth of smaller organisations by forcing them to de-prioritise their development activities.

In considering the potential for growth within smaller organisations, we find the greatest unexplored area to lie in their intangible assets. Immense scope exists for the organisations in question to develop their second order activities, by taking the assets accrued as a result of core creative activities and turning them into products and services that have commercial value. Thus, it is recommended that judicious investment in this area is made by

funders in the coming years. Such strategic investment would not only level the playing field; it would also provide an inexpensive route for exploring the opportunities expected to arise over the next decade as the digital and technology sectors enable the growth of markets for experience-based products and services.

In further elaborating the value of small organisations, we find that artistic, social, societal and fiscal forms of value are accrued over the lifetime of creative projects. This exposes the process through which small organisations create deferred value, which is realised by artists and writers and by larger public sector organisations, private collectors and dealers. At present, few mechanisms exist to ensure that deferred value is fed back into the commissioning organisations. With this in mind, an attempt has been made to visualise the mechanisms of deferred value creation in order to establish a feedback loop.

Another important consequence that the recognition of deferred value has to any consideration of small organisations is in relation to the measurement of their relative successes. The existing system arguably prioritises revenues and audiences associated with tangible assets – which many small organisations either do not possess, or are not in a position to leverage, having not enjoyed the investment of their larger counterparts to develop this area. This research not only identifies the main omissions in the current measurement methods, it also proposes some early steps in rectifying them. This will involve moving beyond balance sheets and audience numbers in order to look in detail at the deferred value created by small organisations. Furthermore, it will distinguish between annual and lifecycle investments, which will bring long-term benefits to small organisations and to the rest of the art ecosystem.

In summary, then, we need to move from an implicit understanding of the value of small visual arts organisations to an explicit demonstration of their significant value. As a sector, this will enable us to improve the ways in which this key element of the ecosystem is supported and nurtured, which will have long-term benefits for artists, audiences, larger institutions, the art market and the wider creative and cultural sectors. In this endeavour, small arts organisations will need to take more active control of the ways in which they deliver value and the ways in which their activities are measured. There is clearly much work to be done, but those who have dedicated themselves to working in small organisations have done so because of the challenges and the rewards this kind of work can offer.

Colophon

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by Sarah Thelwall

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