GUGGENHEIM FOUNDATION AND ITS GLOBAL NETWORK

A Thesis

Presented to

The Graduate Faculty of The University of Akron

In Partial Fulfillment

of the Requirements for the Degree

Masters of Arts

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December, 2012
GUGGENHEIM FOUNDATION AND ITS GLOBAL NETWORK

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ABSTRACT

This work deals with the Guggenheim Foundation’s “Global Museum Network” and its international collaborations with a variety of partners. It also includes a look at the global business management model that has been developed by the Guggenheim Foundation administrators. The main purpose of this work is to examine the “branding system” which was created and utilized by the Guggenheim Foundation and to analyze the system’s advantages and disadvantages within their global operation. The Guggenheim brand system depends on the multination art policies, the development of foreign funding sources, and dealing with international partners and sponsors.
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CHAPTER I

INTRODUCTION

In 1937, the first Guggenheim Museum, The Museum of “Non-Objective Art,” was
opened in a rented space on Park Avenue in New York City. Since then, the
Guggenheim Foundation has built a global network of museums. These include the
Solomon R. Guggenheim Museum in New York, the Peggy Guggenheim Collection in
Venice, the Guggenheim Museum Bilbao in Spain, and the Deutsche Guggenheim in
Berlin. An arts and business miracle was created in the 20th century.

The development of these entities has created a new model for students of arts
administration studies—a model that includes the operation of a “chain” of museums, the
globalization of that chain, and, ultimately, a new set of international arts administrative
policies. This thesis aims to present a picture of the global arts business development
strategies of the Guggenheim museums.

The “branded chain” system has been a part of American business for decades,
but non-profit organizations have tended to avoid this kind of “commercialization.” The
Guggenheim Museum—under the leadership of Thomas Krens, who holds an M.B.A.
rather than a more tradition degree related to the visual arts held by most museum
directors—was a leader in exploring the model for a new model for a non-profit museums
in the United States, and ultimately around the world. Exploring how the Guggenheim created and executed this new model is the subject of this work. It will explore how the Guggenheim Museums integrate both business goals with their non-profit missions. It will also present insights into why some of these museums were not successful, and why the one opened in Las Vegas failed completely.

The second major topic is to look at the challenges of setting up a chain of non-profit museums. The operation of non-profit corporations in the United States (U.S.) must follow statues appearing in the Internal Revenue Service Code. For arts organizations these appear in section 501(c)(3). But as a non-profit organization doing business in a variety of countries, another layer of policies and practices related to individual governments comes into play. The creation of satellite museums in Venice, Bilbao, Berlin, and now, Abu Dubai, makes it essential to understand a adhere to a variety of international legal systems, while still adhering to the authority of the laws governing the parent organization in the U.S. It is useful to explore how the Guggenheim has resolved the challenges of running the foundation and the diverse museums successfully.
CHAPTER II

CULTURAL LEGACY OF AN AMERICAN PHILATHROPIST

When people think of early philanthropy in America, a few great names and their families, as well as the institutions they created, come to mind. Among these are Rockefeller and libraries, Carnegie and universities, Guggenheim and museums. This work will focus on one of those families—the Guggenheims.

Solomon R. Guggenheim came from a wealthy Pennsylvania family that made its fortune in the mining industry. His grandfather, Simon Guggenheim, and his father, Myer Guggenheim, arrived in Philadelphia in 1848 from Lenna, Switzerland when the family joined the great nineteenth-century European exodus to America. Their plan was to pursue the American dream by selling stove polish to farmers and miners in the Pennsylvania Dutch country. After Meyer Guggenheim turned his business to the highly profitable mining industry in 1881, and in the years prior to World War I, before Solomon Guggenheim was born, the family had secured control over as much as eighty percent of the world’s copper, lead, and silver mines. For a single transaction, one of the Guggenheim copper mines in Chile sold to Anaconda Company for $70 million that was more than $700 million in today’s dollars. (Johnson 9)

Solomon R. Guggenheim was born to wealth, and had the luxury of indulging his interests. In 1927 he became fascinated by contemporary art, and began to collect in a
major way. At that time, he became acquainted a successful French abstract artist named Hilla Rebay. She advised and encouraged Guggenheim with his collection, which included works by Kandinsky, Gleizes, Delaunay and Leger. He hung these paintings in his New York apartment, and as the numbers increased, he decided to open his house to the public so that they could see his “Non-Objective” collection. Eventually he held weekly two-hour open-houses to allow the public to visit the apartment exhibition.

By the 1930s, his collection included hundreds of pieces—so many that the “apartment exhibition” could no longer accommodate them. At that time, Guggenheim decided to create a non-profit corporation to manage his collection. The Solomon R. Guggenheim Foundation was registered as an educational institution in the state of New York in 1937. Two years later, a Gallery of Non-objective Paintings was created in a midtown car showroom. This was the first independent Guggenheim art facility.

It was not very long until Guggenheim began to think about creating a permanent museum for modern art in New York. He acquired a property on Fifth Avenue opposite Central Park and both Guggenheims’ wife, Irene Lloyd Wright, and Hilla Rebay, urged him to bring Frank Lloyd Wright, one of America’s most famous architects of the 20th century to design the museum. The new Guggenheim Museum, set in a well-established and affluent upper eastside neighborhood of traditional late 19th and early 20th century architecture, and designed by Wright was immediately controversial. Its spiral structure is considered an icon of “modern” design today, but it was considered garish and out-of-place when it opened in October 21st 1959. The current tradition of creating museums which are, themselves, works of contemporary art has its roots in the collaboration of
Solomon Guggenheim and Frank Lloyd Wright. The building itself is a New York
tourist attraction—drawing people who know nothing of the Guggenheim collection it
was built to house.
CHAPTER III

BRAND, BRANDING, AND BRAND VALUE

The American Marketing Association defines a brand as “a name, term, design, symbol and any other feature that identifies one seller’s good or service as distinct from those of other sellers; A brand may identify one item, a family of items or all items of that seller.” (“Resource Library”) The concept of brand can be divided into two elements. The first are the extrinsic elements. These are often thought of as “logos” or “physical symbols.” Examples might include the red script “COKE” logo, the McDonalds “Golden Arches,” or even the unique and immediately identifiable shape of the Manhattan Guggenheim Museum.

Intrinsic features of a brand are more complicated to understand. Kotler and Scheff describe intrinsic features of a brand as “a perpetual entity that is rooted in reality, but reflects the perception and perhaps even the idiosyncrasies of consumers” (Kotler, 222). Building this element of a brand makes use of marketing tools, but it is actually quite different from simple marketing. On the subject of museum brand development, Margot A. Wallace points out that “each museum already has [an intrinsic] brand identity, and this is communicated through how the public views the museum (Wallace
24) That is to say that the concept of “museum” has an intrinsic value that has nothing to do with any specific museum.

Richard Armstrong, the current director of the Guggenheim Foundation is “not a big fan” of the word “brand” in relationship to the word “Guggenheim.” The reason he cites is that Guggenheim museums exchange feelings and impressions rather than tangible goods. Visitors come to these places to experience culture as an open-ended exchange rather than as places to make specific transactions (“Richard Armstrong on the Future of the Solomon R. Guggenheim Foundation”).

Nonetheless, it can be stated that “Guggenheim” has been a brand since the moment the museum was opened to the public, and has become an international brand since it launched its first foreign outpost in Italy. If someone comes to New York City and wants to visit a museum, there are great choices to be made. Tourists make decisions quickly and often based on personally held “perceptions.” These perceptions, whether true or not, are based on “feelings” acquired over time, and feelings about an organization developed over time is exactly what branding is about.

According to Scott, branding is “an engineered perception made up of the name of an organization and the personality that goes with it. The personality is “a combination of the organization’s projects, services and perceived attributes” (Scott, 2000, p. 36). Central to current theories about branding has been the rise of new intrinsic features of the brand definition. Wallace says that branding “has to reflect the perception of the consumers, which means that identification (extrinsic) is not enough. (Wallace 36)
Branding is also a process which attracts long-term attention of targeted audiences. Margot A. Wallace says that museum branding is about building complex relationships, and the process of improving brand value involves activities that use business strategies to develop and keep audiences, customers, and other supporters. For any non-profit organization, the brand must correspond with the mission statement (Wallace 35-39).

According to Wallace’s work “branding a museum gives it an image and personality that supporters can identify with, and an institutional ally to whom they want to contribute funds (Wallace 35-39). When a brand has been built, there has to be an invisible or visible agreement between the supporters and the museum administrators to limit institutional behavior in order to reach the standard of the brand. In short, branding also includes a standard of services offered by the institution and relates to the amount supporters may be willing to invest.

In conclusion, the noun “brand” and the verb “branding” are distinct, but are always connected. In an institution, branding is a process to reach the ideal “brand value” or “brand image.” In the literature of Niall G. Caldwell, this ideal is referred to as “brand equity.” Based on Caldwell, “brand equity” includes three main components: leadership, partnership, and architecture. Each factor has a greater or lesser role, depending on the institution, but most institutions make use of all three to some extent. In the example of the Guggenheim Foundation, each of the three factors is well-developed. Perhaps this balance is at the center of the success of the Guggenheim brand. Caldwell says that in the case of the Guggenheim, “These three components are all integrally
linked together as a recipe for a successful brand identity, where its essence is its high level of name awareness and the positive associations which attach to the name and are called to mind by the name (Caldwell, 29).
CHAPTER IV

GUGGENHEIM MUSEUMS

Solomon R. Guggenheim Museum

The original Guggenheim museum was created as a home to exhibit the growing size of the Non-Objective Painting Exhibition housed in Solomon Guggenheim’s Manhattan home. Though it may have functioned as a tradition museum—that is to say a single venue managing a private collection—when it opened, today the Guggenheim New York’s function is more complex. It incorporates an art museum and is the headquarters for all of the Guggenheim’s locations worldwide. Jennifer Blei Stockman, President of the Guggenheim Board of Directors in 2010 has said, “The New York museum is at the center of [the Guggenheim] universe” (Vogel)

This sentiment is echoed by Executive Director Richard Armstrong though he warns of the danger of not understanding the implications of being a global corporation. Armstrong said that the original museum is “clearly the captain and cheerleader of the team….” (Future of the Solomon R. Guggenheim Foundation) However, he adds that “Some people here still believe there is such a thing as the center of the universe, and that
they happen to be in it” (Future of the Solomon R. Guggenheim Foundation) His comments indicate an awareness that New York, and the museum world can be quite insular. The New York headquarters is responsible for many significant decisions for all Guggenheim museums. These decisions include appointing curators, negotiating exhibition arrangements, and gallery planning. More importantly, Armstrong says, is that the New York staff is critical in establishing the “culture” of the museums—setting standards and policies that strongly influence the satellite museums, while allowing them to exist successfully in their own environments.

Peggy Guggenheim Collection Venice

The agreement between the New York Guggenheim and the Peggy Guggenheim Collection Venice inaugurated its first international location. As well as being the first international museum in this chain, it has a unique relationship to the parent organization in that this is the single venue and collection which the Guggenheim Foundation owns outright.

Peggy Guggenheim, a New York born European art collector, was the second of three daughters of Benjamin Guggenheim, one of Solomon Guggenheim’s brothers. In 1919, at the age of twenty-one, Peggy Guggenheim inherited $2.5 million, a fortune equivalent to $20 million in today’s money. In 1920 she arrived in Paris, and married Laurence Vail, a French-born American playwright. In 1937 the value of her estate doubled upon the death of her mother. This influx of wealth made it possible for Guggenheim to establish a gallery in London, which opened in 1938 under the name
“Guggenheim Jeune.” Guggenheim Jeune was generally considered to be the first private museum in Europe, though it more closely resembled a private exhibition (Johnson 99). The real importance of Guggenheim Jeune, which closed after only one year so that Peggy Guggenheim could concentrate her efforts on expanding her growing collection, is that it laid the foundation for the Peggy Guggenheim Collection of Venice.

In 1942, Peggy Guggenheim returned to New York. In that year she married for a second time, this time to the German artist Max Ernst. Ernst was one of the leading artists of the Surrealist and Dada movements. Ernst, and Peggy Guggenheim’s friend Hilla Rebay were instrumental in shaping Guggenheim’s collection of contemporary art.

While in New York, she established a second museum and established an artistic relationship with her uncle, Solomon, ultimately lending work for exhibition at his Non-Objective Exhibition. This may be counted as the first collection collaborations that eventually became an element of the Guggenheim brand.

Ultimately Guggenheim’s marriage to Ernst ended in divorce, and she moved back to Europe, settling in Venice, where she bought an unfinished eighteenth-century palazzo, Veniere dei Leoni, on the Grand Canal. Here she established a permanent home for her collection, as well as a home for herself.

After her death in 1979, her home and all of her collection was bequeathed to the Guggenheim Foundation with the condition that the collection should be kept in Italy permanently. In 1980, the Peggy Guggenheim Collection reopened to the public under the auspices of the Guggenheim Foundation. Although the Foundation owns her
collection, her will also stipulated that the works could not be moved to any other location—including the New York Guggenheim.

The Guggenheim Venice is the only venue besides the New York museum owned by the Foundation. This arrangement resulted in the clarification of some of the legal aspects of an international non-profit corporation. Of particular note is that contributed income, coming either from the United States or from foreign sources, fall under American tax law for exemption from income tax, as well as for Internal Revenue Laws relating to charitable deduction, even though those funds may be designated for use for programs or general operations of the foreign venue. This point was clarified Amy Marrian when she reported that “We do get some [money] for the PGC Venice. We do not pay tax on these contributions received in the US. We do ensure that we abide by the donor’s restrictions and use these contributions in support of PGC operations” (Marrian).

Guggenheim Museum Bilbao

The building of the Guggenheim Museum Bilbao was the first step in the process to develop a unique international network of museums. International expansion was a major part of the agenda of Thomas Krens—the director at the time in 1997—an agenda supported by the Guggenheim Foundation president and well-known art collector Peter B. Lewis.

The city of Bilbao, located in the Basque section of Spain, is the country’s fourth largest city. In the 1997s the City of Bilbao had committed to spending approximately
$25 million to build a world-class museum. This museum was to be a critical part of a plan to rebrand the city from being a stodgy industrial city into one that could attract the lucrative tourist market. Thomas Krens recognized an opportunity to launch a plan for international expansion. After negotiations with the City of Bilbao, an agreement was approved by the Basque government outlining the conditions that the city and the foundation would enter into a joint venture to build and operate this contemporary museum in Bilbao.

The Basque government committed to providing $100 million toward construction of the museum, and $50 million to support acquisitions. The final element was that an additional $20 million was to be paid for the “Guggenheim brand” franchise and service fees.

The influence of the Guggenheim “culture” is also clear from the selection of architect Frank Gehry to design the structure. Peter Lewis, long a student of contemporary architecture, was instrumental in the selection of Gehry for the project. The national attention surrounding the building of a museum which is now as iconic and well-known as the original Frank Lloyd Wright Manhattan museum, clearly reflects the Guggenheim commitment to buildings which themselves are considered works of contemporary art.

According to international accounting firm KPMG, by 1998 Guggenheim Bilbao had generated 920 million Euros in economic activity in the Basque region, created 4,137 permanent new jobs, and generated media coverage worth in excess of 250 million Euros. The New York Times reported that in the first five years period, “The Guggenheim Bilbao
generated more than $1 billion for the Basque region and some $183.4 million in local tax revenue (Vogel “Helsinki”) Art in America pointed out that as of 2005 “The Foundation estimates that about 7.1 million people have visited the museum since it opened” (Bradley 85). The Guggenheim Bilbao not only brought huge financial advantages to the city of Bilbao, it also brought the Guggenheim Foundation considerable benefits and brand value in Europe.

Deutche Guggenheim Berlin

In 1997, not long after the Bilbao Museum opened to the public, the Guggenheim Foundation entered into a joint venture with Deutche Bank, which had offices in Berlin’s historical cultural district. The ground floor of the Deutche Bank headquarters was to be the home of a new Deutsche Guggenheim. The 17x20 square foot space, designed by American architect Richard Gluckman “hosts a dynamic modern and contemporary art exhibition program which frequently draws from the extensive art holding of both organizations”(Johnson 120)

The agreement between the two entities is somewhat similar to the one with the City of Bilbao. The Foundation is responsible for museum operation, including providing curatorial expertise and exhibition design. The Foundation also took responsibility for identifying, promoting, and exhibiting the work of living artists in Germany and Europe (Bradley, Marain).
Deutsche Bank is responsible for all expenses associated with the museum, including all exhibition costs, costs for original commissions (though the art that is the product of these commissions ultimately are jointly owned), as well as for out-of-pocket expenses incurred by the Guggenheim Foundation. The ownership of artwork and the division of income from exhibitions are negotiated under separate agreements for each program (Johnson 120; Marain).

Because the Deutsche Bank is responsible for all the expenses of the museum, German opponents of this plan have spoken out about what they feel is a very one-sided contract. An article summarized the opposition case saying, “Why turn over an estimated $1.3 million a year to an American institution when, just a few blocks from the bank’s Berlin office, the historic museum island desperately needs funds for restoration” (Phillips 29). This argument does not acknowledge the value of the Guggenheim brand to the image of Berlin as a cultural center in Europe.

An effort to explore details of this interesting agreement between the Foundation and the Bank resulted in a brief e-mail from a Foundation official saying, “the agreement with the bank is confidential, please do not go into details” (Marain). In a *New York Times* article it was revealed that in one exhibition some of the pieces exhibited were owned jointly by the Foundation and the Bank; but some pieces, including some very famous impressionist paintings eventually became part of the permanent collection of the Guggenheim Foundation. The article stated that: In 1989 Mr. Krens negotiated a gift of impressionist paintings from the widow of Justin K. Thannhauser, acquired the Panza Di Biumo collection of minimalist art and oversaw the commission of major artworks by
Jeff Koons, James Rosenquist, Rachel Whiteread and Gerhard Richer at Deutsche Bank Berlin. These works later became part of the Guggenheim’s collection (Vogel “Step Down”).

One reason for this situation is that even if a donor of artwork stipulates that it is to be part of the Guggenheim Berlin collection, it is still given to the Guggenheim Foundation, making the value of the gift tax deductible by US law, and making it possible not to count the value of the work as taxable income. The German tax code does not allow tax advantages for “charitable contributions,” even if the work is to remain in Berlin. In fact, because there is no official non-profit designation, the fair market value of donated artwork is considered taxable income (Marian).
PARTNERSHIPS AND SPONSORSHIPS

The Guggenheim foundation has created six museums worldwide with its partners. These international collaborations are not limited to the building of museums. In some cases they involve shared programs rather than shared facilities.

Partnership with the State Hermitage Museum

Although the Hermitage Guggenheim museum established in Las Vegas was closed due to administrative problems in 2008, the partnership between the Guggenheim Foundation and the Hermitage Museum has resulted in successful collaborations on other projects.

In June, 2000, the Guggenheim Foundation and the State Guggenheim Museum entered into an agreement in which each committed to the development and realization of long-term projects. This agreement includes the following elements:

• Presenting exhibitions of works from the collection of the Hermitage in the galleries of the Guggenheim and exhibitions of Guggenheim work in the galleries of the Hermitage,
• Presenting joint exhibitions of works from the collections of the Hermitage, the
  Guggenheim and other institutions at other museums and exhibition spaces,
• Exploring the feasibility of the institutions jointly developing new museum locations
  and exhibition spaces,
• Developing new joint museum locations and exhibition spaces where deemed
  feasible,
• Developing joint educational programs,
• Developing join publications,
• Implementing advanced staff training and exchange programs,
• And developing programs for members of the institutions and their Friends’
  organizations (“Hermitage”)

In addition to these activities, a new construction project was initiated in 2001. This
project involved the Guggenheim Foundation’s partnership with the Hermitage Museum
in the development of the east wing of the former General Staff Building in Moscow, a
structure originally designed and built in the early 19th century by the architect Carlo
Rossi. The purpose of this addition was to, “be the home for a major new initiative in
20th-century art that is a centerpiece of the Hermitage-Guggenheim collaboration”
(Ennis).

The first installation in this space named the Center for Art and Technology, included
postwar contemporary art, multi-media installations, and photography from the
Guggenheim collection. Although the building is not owned by the Guggenheim
Foundation, the high-profile relationship with the Hermitage is a part of the
Guggenheim’s long-term international brand development, and laid the groundwork for further collaborations.

Hermitage Guggenheim Foundation

In June, 2002, the Board of Trustees of the Guggenheim Foundation and officials of the State Hermitage Museum held a meeting in St Petersburg, Russia, where they established a U.S. based philanthropic foundation—the Hermitage Guggenheim Foundation (HGF). This collaboration was announced by Guggenheim Director Thomas Krens and the new Hermitage Guggenheim Foundation Chairman Vladimire Potanin. Mr. Potanin is the executive officer and owner of Interros Holding, a Moscow-based Russian private company with large stakes in mining, metals, energy, finance, retail, and realestate.

The Hermitage Guggenheim Foundation was registered as a non-profit corporation in the United States at the same New York address as the Solomon R. Guggenheim Foundation. The mission of the new foundation is to serve as a fiscal agent to support arts and cultural exchange programs between the United States and Russia. Its first task was to raise funds for the “Greater Hermitage Project,” the first phase of which was the renovation of the General Staff building into “a multi-functional museum complex that will house museum galleries as well as entertainment an commercial centers for residents and visitors of St. Petersburg.” Although the HGF was also involved in the Hermitage Las Vegas project, the quick closing of that museum caused the foundation to focus more on general cultural exchange programs between the two nations.
Connecting Museums

As the relationship between the Guggenheim the Hermitage matured, a plan was devised to revisit their missions with a plan to create “Connecting Museums.” The idea was to plan unique projects by bringing together works from three separate institutions—the Solomon R. Guggenheime Foundation, the State Hermitage Museum, and the Kunsthistoriches Museum in Austria. The works would be curated in such a way that masterpieces from a single historical period, rather than from a single collection, would be exhibited to explore in some depth the European style of specific ages.

Funding for this initiative came from the Guggenheim Foundation and from the Deutsche Bank, Berlin. Although the Guggenheim had established strong relationships with the Hermitage and Deutsche Bank, but this was a first endeavor with the Kunsthistoriches Museum. The partnership succeeded in terms of generating funding, as well as presenting exceptional works in a relatively unique exhibition as well as in an extensive catalogue.

Sponsorships

Unlike partnerships, which may include program or exhibition collaborations, sponsorships are generally limited to financial arrangements. In October, 2010, Richard Armstrong, Guggenheim Director, and Frank-Peter Arndt, member of the Board of Management, BMW AG, announced the creation of the BMW Guggenheim Lab. The press release accompanying this announcement state that, … [the lab] will span six years of program activities, engage people in major cities around the globe, and inspire the
creation of forward-looking concepts and designs for urban living. The initiative was to engage a new generation of leaders in architecture, art, science, design, technology, and education, who will address the challenges of the cities of tomorrow by examining the realities of the cities today (Boeriu “BMW Blog”).

One month later, Armstrong announced another program—this one with Samsung. This Korean-based technology company had agreed to fund a named curatorial position. The result was the 2006 appointment of Alexandra Munroe as the first Samsung Senior Curator of Asian Art.

Although it is not unusual for museums to give naming rights in exchange for substantial financial support, the arrangements between BMW and Samsung are unusual in that they are based on advertising rather than charity. In most ways, the sponsorship of the BMW Guggenheim Lab is no different from BMW’s involvement in race car competitions. Both corporations have expanded their own brands by aligning themselves with a world renowned museum chain, improving their images as good citizens in the world. At the same time the museum has connected with highly regarded for-profit entities that reinforce its position in the world.

A more complicated arrangement is the one between the Guggenheim and Deutsche Bank. These two entities were partners in the operation of the Berlin Guggenheim Museum—developing programs and exhibition in collaboration. However, Deutsche Bank has assumed a sponsor role, not only as the fourth member of the Connecting Museum (providing financial support but not participating with the loan of works of art), but in the establishment in 1995 of the Deutsche Guggenheim Gallery in
the New York facility. In this gallery an exhibition is mounted each year which features contemporary art resulting from commissions. Funded by Deutsche Bank, this annual exhibition enables the Guggenheim to act as a catalyst for artistic production.

The participants in the series include both established and younger artists of various nationalities, working in diverse media. Many of these works have been exhibited in New York and Bilbao and have entered the Guggenheim Foundation’s permanent collection. A brochure from the 2011 exhibition, called “Found in Translation” brought together recent works by eleven artists who look to translation as both a model and a metaphor to critically comment on the past and to produce richly imagined possibilities for the present. For these artists, converting a text from one language to another exposes a discursive field in which the terms of identity—class, race, religion, sexuality—are negotiated and meaning is generated (Guggenheim Brochure).
CHAPTER VI

FOREIGN-RELATED POLICIES

Worldwide Revenue

In most cases, non-profit organizations incorporated in the United States make income in this country and are not required to pay tax on income as long as the revenue is related to their missions. In some cases, income that is not directly related to the mission of the corporation is taxed. This type of income might be for something such as space rental and is referred to as “unrelated business income.” According to Sheila Simhan, Professor of Law at Northwestern University,

A business activity is not substantially related to an organization’s exempt purpose if it does not contribute importantly to accomplishing that purpose (other than through the production of funds) (Simhan).

The same set of laws determines U.S. taxes on the Guggenheim Foundation’s foreign locations. The same standard is used to determine what is “related” or “unrelated” income, whether the activities transpire in the U.S. or overseas. The specific Internal Revenue Service statute states, “An exempt organization that derives income
from activities directly related to its exempt purpose in foreign countries is not taxed on that income…."

A major question for consideration is the nature of income derived from the Guggenheim’s relationship with various partners and sponsors. Professor Simhan says,

It is unclear whether an exempt organization like the Guggenheim would have to pay taxes on the management fee they receive from foreign museums. [Finding these fees to be unrelated business income] is a remote risk, as I would assume that managing overseas museums would be considered to be part of the Guggenheim’s charitable and educational mission.

The Guggenheim responded to a question regarding this status by decisively indicating that they do not pay taxes on the fees received from those foreign locations, paying income tax only as a result of selling certain types of merchandise in their retail store, and for income they receive from corporate events. The 2007 990T US tax form filed by the museum foundation confirmed this fact. All other activities, including the curatorial operation and franchising fees paid by local museum owners, were considered mission-related activities.

Nonetheless, there are international tax issues to consider. Tax laws are specific to specific countries, and the amount of tax paid depends on the local government and arts policies, as well as the ownership of the museums themselves. If the Guggenheim Foundation owns a foreign museum or holds full ownership of a foreign activity, it is usual for the Foundation to be responsible to pay income taxes to the foreign government as long as the foundation has made profits in that country.
For instance, the Peggy Guggenheim Venice pays income tax to the Italian
government each year in compliance with the Italian tax code. There is no non-profit
corporate status in either Italy or the European Union. The Italian branch is simply
considered to be a foreign corporation. Tax arrangements for the Bilbao Museum or the
Berlin Museum vary due to the fact that neither venue is owned by the Guggenheim
Foundation.

Donations

When donations are received from foreign donors making contributions
designated for museums, collections, or programs in the United States or overseas, the
Foundation has to ensure that the use of those gifts abides by the designations of the
donor. If there is a failure to comply with the donors’ wishes, there is a risk of having to
pay taxes on the gift. Occasionally these restrictions create a dilemma for the
Foundation. For example, if, one day, the Berlin Guggenheim were to be closed, there
would be legal issues arising from the fact that some gifts of art have been given to the
parent foundation specifically for display in Berlin. A question might arise about
whether bringing these works back to the United States would prompt a tax bill based on
the value of the work. This situation might arise for any of the overseas branches.
“Art Institutions are not really different from other businesses, at least not when they act like them. They are just vulnerable.”
-Thomas Krens

THOMAS KRENS AND THE GUGGENHEIM MODEL

Is the Guggenheim Museum’s global development strategy, developed in large part by Thomas Krens during his years as Director of the Guggenheim Foundation, a model appropriate for the American museum industry in the twenty-first century? As in most cases, such a question has no simple answer. It is interesting to explore the opinions expressed by both Guggenheim insiders and “outsiders” who have expressed opinions on the subject of the mission and management style of the Guggenheim over the last ten years.

Thomas Krens, the former director of the Guggenheim Foundation holds a B.A. in from Williams College and an M.B.A. in Management from Yale University. He also holds a Master’s degree in Studio Arts from the State University of New York in Albany. Although he taught Art History at Williams College, he is primarily known as a business person, and may have developed his concept of museum management from another
course he taught at Williams—Contemporary Strategies for Art and Criticism (Johnson 109).

In 1988, following the recommendation of Thomas Messer, who had served as director of the Guggenheim Foundation, Krens was selected as the new Director when he was the director of Williams College Museum (Johnson 111). At the time he took over, the Guggenheim was facing some major problems, including the need to finance building renovation and to address weak donor commitment. Faced with these issues, he took an aggressive position, being quoted as saying, “If you want a vital institution, change has to take place on so many fronts that it’s likely to be bewildering” (Tuttle). Krens’s approach to solving these problems was to position himself as a high profile figure in the arts industry, building partnerships, creating new locations, and leading the museum into the “real” market. A major tactic was to develop a constituency for the museum by developing a high level of customer trust. As he said, “If you buy a BMW or a Mercedes, or stay at a Four Seasons hotel or go to the Louvre, you can pretty much be guaranteed of a quality experience” (Mahoney 8). His goal was to raise public awareness of the Guggenheim, and to brand the institution as one of the most exciting museums in the world.

To this end, he initiated exhibitions that were among the best attended in America. These included “Africa, The Arts of a Continent,” “Brazil: Body & Soul,” and “The Aztec Empire.” Also under his leadership retrospective exhibitions, including those focusing on the works of Claes Oldenburg, James Rosenquist, Roy Lichtenstein,
Ellsworth Kelly, Roni Horn, Richard Prince, and Matthew Barney, were ranked among the most highly attended shows in the history of the Guggenheim. (Vogel “vionary”)

Every museum director is evaluated by the development of resources. Krens also excelled in this area, negotiating a gift of Impressionist paintings from the widow of Justin K Thannhauser, as well as a substantial gift of Minimalist art from the Panza Collection. During his tenure, the Museum commissioned works by Jeff Koons, James Rosenquist, Rachel Whiteread, and Gerhard Richter. All of these works became part of the Guggenheim permanent collection. As part of the Bilbao project, Krens led an acquisitions program that included major installations of works by Richard Serra, Jeff Koons, Jenny Holzer and Louise Bourgeois.

In spite of these successes, there are those in the museum and art criticism community who consider many of Krens’ initiatives as “vulgar,” and entirely motivated by business interests. (Schmatterer 146-147) For instance, critics generally considered the exhibition of motorcycles which opened (and closed) the Las Vegas Guggenheim, and the Giorgio Armani exhibition of fashion design, for which the designer paid $15 million, as artistic disasters.

By some accounts, the most controversial exhibition organized by Krens was the Aztec Exhibition. This exhibition which had been a substantial success for Norman Rosenthal at the Royal Academy the year before it was installed at the Manhatten Guggenheim, was apparently financed by Mexican sponsors. An article in The Guardian indicated that “…it is far from coincidental that he is in the middle of negotiating a deal with the city of Guadalajara to open a branch of the [Guggenheim] museum there”
(Sudjic). This intersection of commerce and art resulted in similar criticism voiced by critics in New York City and Sydney, Australia. Ultimately the Mexican museum project was deemed illegal.

Management Style, Expansion, and Peter B. Lewis

It appears that there was always a controversy among Guggenheim “insiders” about the direction Krens was taking the institution. Primary among those who were uneasy about the path the Guggenheim was on was Peter B. Lewis, President of Progressive Insurance Company, who had served on the board and as President of the Guggenheim Foundation for over twenty years. Mr. Lewis, a noted philanthropist on many fronts, was also by far the largest donor to the organization, having ultimately contributed approximately $77 million (Carol Vogel). Lewis had questioned the Bilbao project, asking: “If franchising all these international museums is such a good idea, then why isn’t MoMA (Museum of Modern Art) doing it? Why isn’t the Whitney doing it” (Sudjic).

Krens apparently did not respond to this challenge, however board member Peter Lawson Johnston said that Krens rightly understood that members of the board had noted MoMA had just undergone expansion with the support of substantial support from David Rockefeller and the Whitney enjoyed the support Leonard Lauder (Johnson). At that time the Guggenheim had no readily available resources to cover the additional costs of Kren’s ideas. Johnson also acknowledged that, unlike museums in other countries which enjoy substantial government subsidies, American museums had to behave as business enterprises in order to flourish. In other words, they need to grow.
Even with concerns over the direction the museum was going, there was no denying the public success of the Bilbao project. *The Guardian* stated, “Opening the Bilbao Guggenheim netted the museum a $20 million fee from the Basque government” (Subjit). Less public was the fact that the year of the museum’s opening (2001-2002) the Guggenheim spent money from its endowment and “sold $14 million worth of its art holdings to pay its bills (Ibid). In spite of Board President Peter Lewis’s efforts to push Krens into concentrating on his primary job rather than on expansion, Krens gave up day-to-day control of the New York museum in 2005, while continuing to develop the international program in his new position as director of the Solomon R. Guggenheim Foundation. The Board of Directors supported Krens in this argument with the result that Lewis resigned, leaving the institution without its major donor.

The other argument against Krens’ ideas were artistic. The *New York Observer* indicated that “In sixteen years at the Guggenheim, Krens has turned a modestly scaled museum—with an endowment and a collection a fraction the size of much less well-known institutions—into a global art circus, positioned conceptually somewhere between a casino and a department store” (Sudjic), Hilton Kramer, art critic for the *New York Times* and writing in the *New York Observer* wrote in response to the Guggenheim’s plan to build a new facility in lower Manhattan:

> The Guggenheim Museum is itself no longer a serious art institution. It has no aesthetic standards and no aesthetic agenda. It has completely sold out to a mass-market mentality that regards the museum’s own art collection as an asset to be exploited for commercial purposes. What the Guggenheim is proposing . . . isn’t really a new art museum. from what we have so far been told about it, the new Guggenheim bears more of a resemblance to a kind of up-market Disneyland—a Disneyland, say, for yuppies, tourists and others who consume the products of culture.
high and low the way movie-goers consume popcorn and soft drinks .

Ellison

Ultimately, for both financial and artistic reasons, the Board of Directors of the Guggenheim Foundation reached an agreement with Krens that resulted in his stepping down from leadership of the Foundation and being named Senior Advisor for International Affairs in 2008. It appears that this was a mutual decision, but one initiated by the Board of Directors, marking an apparent change in the direction of the Guggenheim (Vogel “Step Down”). The ultimate results of this change are yet unknown.
CHAPTER VIII

SUMMARY

While some see the recent history of the international evolution of the Guggenheim Museum and the activities of the Guggenheim Museum as a courageous leap into a 21st century model for non-profit management, others find them distastefully commercial—abandoning the traditional museum model for one driven by high profile branding techniques. Some important elements to consider include the following:

• First, the Guggenheim Foundation and its global museum network provide a pattern for dealing with the complexities of international law. Each of the satellite museums, taking advantage of the Guggenheim brand, has been able to enjoy the charitable privileges outlined in IRS statute 501(c)(3), making it possible for donors of both money and real property to take charitable deduction for contributions to 501(c)(3) institutions whether they exist in the US, or operate under a US corporate umbrella.

• Second, the Guggenheim Foundation has created a unique control center for its global operations. This model is similar to international for-profit corporations. No matter who owns a “Guggenheim” museum, or the collection it exhibits, the New York
based Guggenheim Foundation controls the curatorial events, programming, and marketing activities of every museum carrying this brand.

- Third, as an international brand, the Guggenheim model has cultivated an enviable body of cultural exchange programs. These programs, unlike the more typical model of mounting and acquiring traveling individual exhibitions are on-going collaborations, and have lead to some extraordinary opportunities to see work from foreign museums. These collaborations also appear to have increased the level of cultural exchange between the peoples of the countries involved.

- This model also has resulted in noteworthy development of facilities around the world. Currently the Guggenheim has three family museums in the European Union, two long-term partners in Germany and Russia. Also anticipated is the opening of a new Abu Dubai Guggenheim Museum in the richest city in the Middle East. Just this year the Guggenheim Finland Museum project was announced. Although these museums currently exhibit or will exhibit the works of their national artists, the exhibitions will be supervised by curatorial departments in New York City.

Not everyone shares enthusiasm for these developments. While international expansion has brought profits and an enhanced international reputation to the Foundation and the museums with which it partners, these expansions have not been without cost—in terms of money, in terms of diffusing focus, and ultimately in the alienation of the institution’s most generous donor. These concerns are joined by concerns in other countries, most notable Germany, that agreements struck with the Guggenheim
Foundation are one-sided, definitely favoring the American museum. Perhaps the Guggenheim brand is simply not worth its cost. Only the future will tell if this model is sustainable; however a study of the Guggenheim provides a model for a new way of thinking about non-profit institutions in the United States.
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