Gauging Financial Performance in a Public Services Industry: An Analysis of the Museums and Galleries Industry in the South West of England

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Abstract

This paper aims to examine the financial performance of the museums and galleries industry by means of a survey-based analysis of 202 such entities in the South West of England. Firstly, the paper derives aggregate financial performance statistics such as GDP for the industry. Secondly it engages in some inter-industry benchmarking of average earnings, wage structure, and labour productivity. Thirdly, the paper presents a thorough analysis of income and expenditure data, as well as a detailed examination of wage structures, comparing Local Authority and private concerns as well as examining the impact of scale on these flows. The salient results are then drawn together towards some strategic prescriptions for the industry which have some important implications for the wider public services sector.

Introduction

According to Middleton (1998),

> "there are serious gaps in information on all the important criteria that measure the role of museums in society and their use of public funding. Apart from the obvious difficulty with quantifying just how many museums there are, the gaps include accurate estimates of the number of visitors, understanding different visitor types, the motivation for visiting or not visiting by the different sectors of the population, financial comparisons, staffing comparisons and the use and effectiveness of marketing… it is a knowledge deficit that defeats strategic thinking about museums."

Similarly Shepherd (1999) points to serious deficiencies in information relating to museums' economic role and identifies among the specific research needs "the development of better information on the financing, cost structures and resource uses of institutions".

While not answering all the questions raised by this literature, this study seeks to examine the financial performance of the museums and galleries industry by the careful exploitation of existing economic data, industry benchmarking and a detailed analysis of intra-industry financial performance data. The study is a development of the work of Creigh-Tyte and Selwood (1998) as there are some innovations in the method employed. However, our study is more limited in some respect as it has a regional rather than a national focus as the data derives from an economic impact analysis study commissioned by the South West Museums Council. It is noted, however, that the strategic planning of most public services is conducted predominantly at a regional level and thus the approach is of great value to public services professionals and academics alike. Further, the statistics and indicators developed are of course applicable at any spatial level.

The structure of the paper is as follows. Firstly, the paper derives aggregate economic statistics such as GDP for the industry. Secondly, it engages in some inter-industry benchmarking of average earnings, wage structure, and labour productivity. Thirdly, the paper presents a thorough analysis of income statement components, including income and expenditure analyses, and a detailed examination of wage structures, comparing Local Authority and private concerns as well as examining the impact of scale on these flows. Finally, the salient results are then drawn together to provide some strategic prescriptions for the industry which have some important implications for the wider public services sector.

Methodology

This paper employs a survey-based methodology to generate primary data. A postal survey was undertaken of the members or associate members of the South West Museums Council (SWMC) – including Local Authority (LA) museums services. National Trust properties are not counted amongst this membership and are therefore excluded from the definition of the museums and galleries industry used in this study. The total number of workers (excluding volunteers) covered by SWMC membership in 1999 was estimated to be 1,300 out of an estimated total South West workforce in SIC 92.52 ('museum activities and preservation of historical sites and buildings') of around 3,500-4,000, the latter range deriving from the Labour Force Survey of 1999. Our definition of the museums and galleries industry therefore represents around one-third of the total activity in the 4-digit industry classification.

The questionnaire asked respondents to provide detailed information on income, visitor numbers, operating costs and capital expenditure for the financial year 1998/9 or calendar year 1998. Questionnaires were distributed to cover a total of 202 sites. Given the detailed information requested, the response rate was excellent. In total, survey information relating to 153 sites, or 76% of the total sample, was obtained. Information on non-respondents, available from museum accounts, suggested that there was some bias in the responses obtained. Table 1 illustrates that, whilst virtually all LA museums supplied information, only 68% of the 101 private sites returned a response. This bias can also be interpreted as one of size, with only 68% of museums with a total annual turnover (or operating income) of less than £50,000 responding whilst virtually all museums with turnover greater than £250,000 responded. Combining information from published accounts and the survey responses however provided a solid base for deriving a range of descriptive statistics for the sector.

Table 1
Break-down of responses to the postal survey

	Responses	
	Number	**Percentage**
All	153	76
Local Authority	52	98
Other	101	68
Small (<£50k)	73	68
Medium (£50k-£250k)	45	76
Large (>£250k)	35	97

Financial performance of the museums and galleries industry

Table 2 summarises the financial performance of the industry in the South West for the year 1998. Museums and galleries attracted over 4.8 million visitors in 1998, with economic gross output (turnover less cost of goods bought for resale) estimated at £29.1 million. The figures suggest that, for every £1 of gross output (or from an accounting perspective this is an input) received by museums and galleries around 35p was spent on goods and services. Almost all of the remaining income was paid to factors of production (or what economists would label GDP). Wage and salary payments represented 46p of each £1 of gross output, with wage payments representing around 72% of the sector's GDP.

Table 2
Summary financial performance statistics for the South West museums and galleries industry, 1998

Number of museums	202
Total visits (000s)	4,847
	£m
Gross output	29.1
Expenditure on goods and services	10.3
GDP	18.6
Of which wage cost	13.3
Of which capital expenditure	4.9

As the industry is extremely labour-intensive, as clearly demonstrated by the significance of wage costs to GDP, it is useful to analyse a break-down of this factor of production. Table 3 gives such a break-down, but includes also volunteer labour to examine the importance of this vital, though generally uncosted component of labour input. The sector employed around 1,300 paid staff and over 3,500 unpaid workers. Over half the number of paid staff and virtually all volunteers worked on a part-time basis. To derive an approximate figure for an average annual salary, we apply the standard assumption of 2 part-time paid workers to 1 full-time paid worker. This gives an estimate of 954 paid full-time equivalent workers in the sector thereby implying an average annual salary of £13,940.

Table 3
Labour input statistics for the museums and galleries industry, 1998

Paid full-time employees	608
Paid part-time employees	692
Full-time equivalents (FTEs)	954
Volunteers full-time	25
Volunteers part-time	3,508

As Johnson and Thomas (1998) point out, important issues surround the role of volunteer workers in the industry - in particular how to place a value on their contribution. One economic approach here would be to take the average salary of £13,940 as a shadow price of labour and apply this to the number of full-time equivalent volunteers. However, estimating the full-time equivalent of part-time volunteers is problematic because the hours worked undoubtedly vary considerably from person to person and therefore would have to be measured carefully. Unfortunately, however, the survey made only a crude distinction between full-time and part-time voluntary workers. Nevertheless, reasonable assumptions can be applied in order to derive an estimate of the number of full-time equivalent volunteers. Table 4 considers three possibilities. Assuming a full-time worker works 40 hours per week (this is a crude assumption as LA conditions of employment dictate 37 hours), the three possibilities are that the average volunteer works 8 hours (or one day) per week; 4 hours per week; and 2 hours per week. This first of these is probably a little optimistic with the third scenario – where the average volunteer works approximately a-day-a-month – being perhaps the most realistic. The estimate of FTE volunteers therefore ranges from around 200 to 730. This implies that voluntary work made up between 17% and 43% of the total labour input to the sector. Applying the average salary to the estimate of full-time equivalent volunteers gives a total value of voluntary employment of between £2.8 and £10.1 million. The importance of this generally uncosted expense is thus significant. Indeed, in the absence of volunteers the industry would clearly not be financially viable or at least likely to be seriously curtailed in scope.

Table 4
Estimated volume and value of voluntary employment, 1998

	Hours worked by part-time volunteers		
	8 hours per week	**4 hours per week**	**2 hours per week**
Part-time FTE	701.6	350.8	175.4
Total FTE	726.6	375.8	200.4
Estimated value of voluntary work (£m)	10.1	5.2	2.8

Table 5 shows the summary statistics on a per museum and per visit basis. The table suggests that the average site had a gross output of over £140,000, employed 4.7 paid full-time equivalents and had around 17 part-time volunteers. On a per visit comparison, each visit generated £6 in gross output. Museums spent £2.13 per visit on non-labour costs and £1 on capital goods. There were 2 full-time employees and about 7 part-time volunteers per 10,000 visitors. Again, the importance of volunteers is highlighted by these summary statistics. The value of voluntary labour is quantified further later in this paper.

Table 5
Summary financial statistics per museum and per museum visit, 1998

	£ per	
	Museum	**Visit**
Gross output	144,059	6.00
Expenditure on goods and services	50,990	2.13
GDP	92,079	3.84
Capital expenditure	24,257	1.01
	Per museum	**Per 10,000 visits**
Paid full-time employees	3.0	1.3
Paid part-time employees	3.4	1.4
Full-time equivalents	4.7	2.0
Volunteers full-time	0.1	0.1
Volunteers part-time	17.4	7.2

Inter-industry benchmarking of earnings and productivity

This section draws comparisons between museums and galleries and information from other knowledge-based industries.

Inter-industry analysis is limited by data availability. However, average annual earnings provide a useful comparative measure. Average earnings data for 2000 are available from the New Earnings Survey. Table 6 places South West museums and galleries against several national industries which could be considered as either knowledge-based or characteristic of the South West economy. An estimate of earnings in South West museums for the year 2000 has been derived by applying a 2.5% growth rate to the 1998 figure.

The table reveals that average earnings in South West museums and galleries are lower than all the comparative industries. Compared to the national libraries and museums sector, wages were about 20% lower and similarly lower than national tourist-related industries such as recreation, hotels and catering and retail. Earnings in knowledge-based industries such as broadcast media and software development are over double those in museums and galleries.

Table 6
Average earnings in the South West museums and galleries industry and selected UK industries, 1998

Industry	Average earnings in £
South West museums and galleries (2000 estimated)	14,604
Radio and television	32,200
Library and museums	17,600
Other recreation	16,600
Education	21,900
Human health	20,300
Software consultancy	32,600
Architecture and civil engineering	25,700
Telecommunications	27,800
Retail	16,300
Hotels and catering	15,100
Manufacture of TV and radio equipment	20,400
Motor	26,300
Aerospace	25,100

Source: New Earnings Survey, 2000

One problem with making these comparisons, however, is that the New Earnings Survey data only reports the earnings of *full-time* employees. The estimate of the average museum wage in South West however is sensitive to the assumed number of part-time workers that make up one full-time equivalent. Assuming, for example, that 3 part-time workers are equivalent to 1 full-time worker gives an estimate of 840 FTEs in the sector and an average earnings estimate (for 2000) of £16,700. It can be seen that this places the salary paid by South West museums more in line with the general recreation and tourist sectors, a little lower than the wider libraries and museums industry, though still much lower when compared to other knowledge-based industries. Since it would seem unlikely that the number of full-time equivalent part-time workers would number many more than 3, one can conclude that salaries in the South West museums are *at best* comparable with national museums and recreation averages – with a strong probability that salaries are somewhat lower than national averages. What is clear however is that South West museums salaries are considerably lower than in other knowledge-based industries. Intuitively, workers in this industry supply their labour to the market for rewards only one component of which is monetary.

Further comparison is provided by Bryan *et al*. (1998; 2000) who examine the arts and cultural industry in Wales in 1996. The study considers six arts industries – performing arts; visual arts, craft and design (including art galleries); literature and publishing; media (broadcasting, cinemas *etc*); libraries, museums and heritage; and a miscellaneous cultural industry which includes art festivals and education. Table 7 summarises the useful comparisons between the studies.

Table 7
Benchmarking of salaries and productivity rates of the South West museums and galleries and the Welsh cultural industries, 1998

	% FT in paid employees	Gross output per head (£)	Average salary (£)
South West museums and galleries	46.8	30,500	13,900
Performing arts	26.5	40,295	17,251
Visual arts, craft and design	12.6	29,672	14,625
Literature and publishing	32.9	45,135	14,541
Media	65.4	125,236	22,677
Libraries and museums	70.9	30,694	18,880
Miscellaneous arts	31.8	35,456	13,437

The first column shows the percentage number of full-time workers in the head-count of paid employment. This reveals quite a substantial difference between the South West museums and Welsh libraries, museum and heritage sectors with 7 in 10 people in the Welsh sector in full-time employment compared to under 5 in 10 in the South West. Since the Welsh sector includes libraries and heritage sites, the difference may well be due to higher rates of full-time employment in these sectors. Indeed, there is some evidence of this since the ratio for the combined museums, libraries and heritage sector in the South West, taken from the 1999 Labour Force Survey, is a comparable 66%. The South West museums sector defined in this study however can be seen to have a higher rate of full-time employment than the ‘traditional arts’ sectors in Wales and a lower rate to its media industry.

The table shows that labour productivity, defined in terms of gross output per head, between the museum industries in each region was approximately the same. Note here that the Welsh figures have been inflated to 1998 values by applying a 2.5 per cent growth rate. However average salaries were markedly lower in the South West. When taken alongside the evidence on full-time employment rates in the two regional sectors, there is a suggestion that the difference may be due to higher wages in libraries and heritage sites.

What is more notable about labour productivity and remuneration here, however, is that in the South West museums and galleries industry they appear lower than virtually all the other sectors in the Welsh analysis. Note that the Welsh study employed similar assumptions over the full-time equivalent of part-time work and therefore observed differences are likely to be more substantive than those in Table 6.

The impact of ownership and scale on financial performance

This section draws comparison between groups of firms within the museums and galleries industry – between museums under public and private control and between three different size categories of museum. The boundaries for each size category were determined on the basis of each museum's turnover – three fairly natural boundaries emerged. Small museums were defined as those with turnover below £50,000; £50-250,000 defined a medium-sized museum; and large museums were those with turnover greater than £250,000. The analysis is broken into three sections: firstly by demand and income, then by costs and finally by employment.

An analysis of industry demand

Table 8 gives a breakdown of income to the South West museums and galleries industry in 1998. The table reveals that the majority of museums were privately owned and were relatively small. However, LA museums, whilst only making up a quarter of the museum numbers, accounted for nearly two-thirds of the industry's GDP. Similarly, the small museums, whilst accounting for over 50% of numbers in the industry produced just 3% of its GDP.

An analysis of industry funding sources

There were some interesting differences in the sources of museum funding. As would be expected, LA museums obtained over half their funds from UK public sector grants. However, even private museums still relied on a substantial subsidy to their operations with over 20% of output coming from public sources. Perhaps the most revealing comparison concerns admission. The figures suggest that LA museums generated a slightly higher proportion of their gross output from admission than privately run museums. Museums under private control relied more heavily on donations which accounted for over 10% of their funds, compared with less than 1% for LA museums. Private museums relied on retail sales, investment income and subscriptions more so than their public counterparts. The analysis of visitor figures suggests that there was a considerable difference in the pattern of demand between public and private museums. Notably, over 20% of visits to LA museums come from overseas, compared to under 10% for private museums. Thus, private museums were much more dependent on UK visitors from outside the South West. The reason for this is unclear though may be related to location, for example, with most LA museums being located in prime city/town centre locations.

When broken down by size of business, the figures reveal further insights. Compared to small museums, large museums appear considerably more able to raise funds from commercial sources – in admissions, subscription, retail and other trading activities (such as corporate event-hosting). Small museums seem able only to net a 25% mark-up on their retail sales, compared to nearly 90% for large museums. Small museums are much more reliant on benevolent funds with over 15% of revenues coming from visitor donations and 11% from miscellaneous sources (largely charitable fundraising) compared to under 5% in both cases for large museums. There are considerable differences in the pattern of visitor demand. The visitor profile of large museums is more oriented to overseas demand compared to small and medium museums. Over 60% of visits to medium-sized museums came from within the South West compared to around 40% for other museums.

Table 8
A breakdown of income to the South West museums and galleries industry in 1998

	LA	Private	Small	Medium	Large	All
Number of museums	53	149	107	59	36	202
As a percentage of gross output:-						
Educational visits	1.5	1.8	1.0	3.5	1.0	1.7
General admission	31.6	28.6	28.5	12.1	37.2	30.3
Subscription	0.4	6.3	2.8	1.2	3.5	2.9
Net retail (excl. VAT)	6.2	11.1	4.2	6.5	9.1	8.3
Other trading	4.0	5.1	2.3	2.6	5.3	4.5
Lottery	0.4	1.9	1.4	0.2	1.3	1.0
UK public sector grants	52.2	21.4	28.5	59.6	32.4	39.3
EU grants	0.1	0.2	0.1	0.5	0.0	0.2
Donations etc.	0.9	11.4	15.5	4.9	4.9	5.3
Investment income etc.	0.5	7.2	4.2	4.5	2.9	3.3
Miscellaneous	1.5	3.5	11.0	3.5	1.5	2.4
% retail mark-up	87	83	25	90	89	85
GDP % gross output	69.9	55.3	49.6	58.7	66.4	63.8
Share of industry GDP	63	37	3	24	73	100
% visitors from:-						
South West	46.1	48.5	43.9	61.7	40.8	47.2
UK	31.0	43.2	46.6	32.6	36.5	36.9
Overseas	22.9	8.3	9.5	5.7	22.7	15.8

Table 9 gives an analysis of income per museum visit and visits per museum. Examining the gross output figures, the table shows that LA museums generated around £1.50 more per visit than private sector museums. LA museums charged an average of £2.14 per visit, compared to £1.48 for private museums, and received around £3.50 per visit in subsidy – three times that of the private museum. Comparison by size reveals that the small museums charged an average of £0.44 per visit compared to £2.79 for large museums. Similar differences existed in the amount of subsidy per visit received. It is also interesting to note that, whilst the revenue stream of the small museum was relatively reliant on donations, each visit to a large museum was associated with an average donation over 50% greater than that given on average to a small museum. In total, whilst the average large museum attracted over 75,000 visits per year, generating £7.50 per visit in gross output, the average small museum attracted around 7,000 visits per year, generating around £1.50 per visit.

Table 9
A breakdown of income per visit and per museum in 1998 for the South West museums and galleries industry

	LA	Private	Small	Medium	Large	All
Per visit:-						
Educational visits	0.10	0.10	0.01	0.19	0.08	0.10
General admission	2.14	1.48	0.44	0.66	2.79	1.82
Subscription	0.03	0.33	0.04	0.06	0.26	0.17
Net retail (excl. VAT)	0.42	0.58	0.06	0.36	0.68	0.50
Other trading	0.27	0.26	0.03	0.14	0.39	0.27
Lottery	0.03	0.10	0.02	0.01	0.10	0.06
UK public sector grants	3.53	1.11	0.44	3.27	2.43	2.36
EU grants	0.01	0.01	0.00	0.03	0.00	0.01
Donations etc.	0.06	0.59	0.24	0.27	0.37	0.32
Investment income etc.	0.04	0.38	0.06	0.25	0.21	0.20
Miscellaneous	0.10	0.18	0.17	0.19	0.11	0.14
Gross output	*6.77*	*5.19*	*1.53*	*5.48*	*7.50*	*6.01*
GDP	*4.73*	*2.87*	*0.76*	*3.22*	*4.99*	*3.83*
Per museum:-						
South West	21,708	7,644	3,071	14,395	30,877	11,334
UK	14,629	6,816	3,258	7,606	27,600	8,866
Overseas	10,797	1,307	665	1,334	17,145	3,797
Total	*47,135*	*15,767*	*6,994*	*23,335*	*75,621*	*23,997*

An analysis of non-wage costs

Table 10 analyses museum non-wage operating costs by scale and ownership of operation. The table shows each cost item as a percentage of total output. The analysis reveals that whilst LA museums paid around 30% of revenues in non-wage costs, for private museums this proportion was much higher at over 40%. Private museums spent proportionately more on most items of expenditure – though, as one would expect, public museums made greater use of LA services. Perhaps the most significant difference was in publicity expenditure with private museums spending proportionately four times more than LA museums on this item. The differences between small and large museums were equably marked. Whilst large museums maintained costs at around 30% of income, for the average small museum they were 50%. Notably, small museums spent a much higher proportion of their revenue on finance costs – 6% compared to under 2% for large museums.

Table 10
A breakdown of non-wage operating costs by scale and ownership of operation in 1998 for the South West museums and galleries industry

	LA	Private	Small	Medium	Large	All
Running costs	9.9	12.6	14.9	14.1	9.7	11.0
Maintenance	4.5	7.9	8.5	6.3	5.6	5.9
Bank charges	1.9	3.0	6.0	3.4	1.7	2.3
Publicity	1.7	6.6	7.7	5.3	2.9	3.7
Local authority services	4.4	0.4	0.5	4.7	2.1	2.7
Other professional services	1.3	3.6	3.9	3.0	1.9	2.3
Other services	1.8	6.0	1.9	1.4	4.4	3.5
Miscellaneous costs	4.0	3.4	6.6	2.4	4.1	3.8
Total	*29.5*	*43.4*	*50.0*	*40.6*	*32.5*	*35.3*

Table 11 places these cost figures on a per visit basis. Cost per visit was slightly higher for private museums at £2.25 compared with £2.00 for LA museums. Small museums however managed to keep costs per visit down to £0.76 compared to £2.44 for the larger museums. Small museums made substantial savings across all items. They had notably lower running and maintenance costs than larger museums - £0.36 compared to £1.15 per visit for the largest museums. Bank charges and publicity costs per visit were however more similar between groups.

Table 11
A breakdown of non-wage operating costs per visit in 1998 for the South West museums and galleries industry

	LA	Private	Small	Medium	Large	All
Running costs	0.67	0.65	0.23	0.77	0.73	0.66
Maintenance	0.31	0.41	0.13	0.35	0.42	0.36
Bank charges	0.13	0.15	0.09	0.18	0.13	0.14
Publicity	0.11	0.34	0.12	0.29	0.22	0.22
Local authority services	0.30	0.02	0.01	0.26	0.16	0.16
Other professional services	0.09	0.19	0.06	0.16	0.14	0.14
Other services	0.12	0.31	0.03	0.08	0.33	0.21
Miscellaneous costs	0.27	0.18	0.10	0.13	0.31	0.23
Total	*2.00*	*2.25*	*0.76*	*2.22*	*2.44*	*2.12*

An analysis of wage structures

Table 12 provides an analysis of employment by scale and ownership type. The table shows that the nearly 60% of the paid workforce in private museums was made up of part-time employees, whilst for LA museums this was approximately one-half. There were substantial differences in wage payments to employees from each of these groups, with LA museums paying around £16,800 p.a. – 50% more than their private counterparts. This result proves interesting when viewed within the context of the inter-industry comparisons. From this, the estimated salary for 2000 for LA museums is £17,680 which is in line with the national average for the wider libraries, museum and heritage sector. It appears, then, that the industry generally pays wages commensurate with their revenue capacity to do so rather than in relation to the market rate for that industry. Again, the non-financial rewards or 'psychic income' associated with such an industry can compensate for such a wage differential.

The 'unit labour cost' is the wage and salary bill as a proportion of gross output. The table shows that, despite the large differences in rates of pay between private and public sector museums, wage cost represented approximately the same proportion of output for the two types of museum, at around 45%. Furthermore, whilst LA salaries were 50% higher than private museums, their employment cost per visit were only one-third higher.

Once again there were marked differences between museums of different sizes. Firstly, workers in small museums were much more likely to have been employed on a part-time basis, representing over 80% of the workforce compared to around 50% for larger museums. In this respect, the small museums compare with the performing and visual arts sectors in Wales which are predominantly part-time. There was a wide difference in average salary between small and larger museums – small museums paid around half the salary of other museums. Again, one possibility could be that the part-time workers of small museums are rather 'more part-time' than their counterparts at other sites. However, even assuming that 4 rather than 2 part-time workers make up a full-time equivalent in a small museum, the average salary estimate rises to around £11,000 – still 25% lower than the estimated salary at the largest museums and considerably lower that of comparable industries. The table reveals a very substantial difference in the labour cost per visit. Whilst each visit incurs a labour cost of around £0.50 for a small museum, the cost approaches £3.30 for the largest museums.

Table 12
An analysis of employment by scale and ownership type in 1998 for the South West museums and galleries industry

	LA	**Private**	**Small**	**Medium**	**Large**	**All**
FT	312	296	15	192	401	608
PT	303	389	70	192	431	692
FT as % of workers	50.7	43.2	17.5	50.0	48.2	46.8
FTE	464	490	50	288	616	954
Average FTE wage (£)	16,781	11,227	7,205	13,856	14,501	13,927
Unit labour cost (%)	46.0	45.1	31.1	52.9	43.7	45.6
Wages and salaries cost per visit (£)	3.11	2.34	0.48	2.90	3.28	2.74
FT	1	24	9	12	4	25
PT	277	3,231	2,128	843	537	3,508
FTE	15	186	115	54	31	200
FTEs, paid and unpaid, per museum	9.0	4.5	1.5	5.8	18.0	5.7
Voluntary FTE as % of all FTE	3.1	27.5	70.0	15.8	4.8	17.4
Value of voluntary labour	0.2	2.1	0.8	0.8	0.4	2.8
Total value for industry	----2.3----		----------2.0----------			
Value of voluntary labour per visit	0.10	0.89	1.11	0.54	0.16	0.58

The table derives estimates of voluntary labour contribution. Using the most parsimonious of the above assumptions regarding the hours of part-time volunteers, the table shows that whilst the average LA museums employed 9 FTEs, including volunteers, the average private museum employed half this number. The smaller museums employed just 1.5 FTE on average compared to 18 for the largest. Nearly 30% of private sector FTEs were volunteers – and they made up 70% of the number in small museums. However, fewer than 1 in 20 FTE workers in a public sector or a large museum were volunteers. The table estimates the value of voluntary labour. Once the differences in salary and the pattern of voluntary employment between types of museum are accounted for, the estimate of the value falls from £2.80 to £2.00 if calculated by museum size. When interpreted on a per-visitor basis, it could be implied that voluntary work saved small museums £1.11 per visit in labour cost. It is useful to note that the actual average total cost per visit to the small museum was just £1.24. Thus, voluntary labour contributes significantly to the financial viability of the industry. Indeed, many smaller concerns would not be able to operate without this important contribution.

Summary and Conclusions

This paper set out to examine the financial performance of the museums and galleries industry in the South West of England. There are some interesting implications to be drawn from the study deriving not only from the results themselves, but also from the methodology applied to generate them.

The paper identified an information gap at the individual site level, such that the information required to build a clear picture of financial (and economic) performance in the museums industry was largely unavailable, thus rendering a strategic overview of this interesting public/private public services industry almost impossible. One key innovation of this paper was to carefully exploit information from a wide range of sources, including economic statistics and industry comparators, the remaining gaps being filled by means of a questionnaire survey.

The industry is clearly an extremely labour intensive one, with volunteers contributing a significant component of that input. Indeed, on the basis of FTE calculations employing on a shadow price for labour, the value of volunteer labour could be as much as £10m for the South West industry. Clearly, this provides a significant unpaid input to activity, particularly when compared with an annual gross output for the industry of less than £30m. With museums and galleries benefiting from an average of 17 part-time volunteers, and given the proportion of wages to gross output, it is extremely unlikely that many such institutions would survive in the absence of volunteer goodwill.

An important framework for any strategic analysis of an industry is that of inter-industry benchmarking. Comparing the South West museums and galleries industry with similar knowledge-based or South-West-orientated industries, it is readily apparent that the former pays significantly less than *all* comparative industries. However, adjusting for a ‘full-time bias’ in the statistics reveals that the industry is merely at the lower end of the salaries range. Further benchmarking with respect to cultural industries in Wales also reveals not only lower salaries in the South West industry but also lower productivity than most of its comparators. Thus, whilst lower wages may be partly justifiable on the basis of lower productivity, it is clear that the industry pays at the low end of salaries compared both to similar industries and other regions. There are two important strategic implications of this result when taken together with the statistics revealing the labour-intensive nature of the industry. Firstly, whilst the industry could be considered 'under-paid' compared with other similar industries, there is little additional capacity for higher wages. Secondly, the relative importance of part-time volunteer labour is symptomatic of the cash-constrained position of the industry, without which the industry would not be financially viable. Part-time volunteer labour, then, cannot be underestimated in its effect on this particular public service, being of central importance to its continued existence.

If we examine the impact of public/private status and size of operation on financial performance, some interesting results are obtained. LA museums not only receive more in public subsidy than small museums but also seem much more able to generate funds from 'commercial' sources such as admission, corporate events and retailing. Indeed, the a small museum nets just 6 pence in retail revenue from the average visitor, one seventh of that gained by LA museums. Small private museums are instead reliant upon donations and miscellaneous sources of revenue such as charitable fundraising. Moreover they are heavily dependent upon voluntary and low-paid part-time work. Full-time equivalent workers employed by small museums get paid at best two-thirds of their equivalent in the public sector, and at worst around two-fifths. These employment terms play a key role in keeping the operating costs of the small museum down. For example, using fairly prudent assumptions regarding the extent and value of voluntary work in these museums, it is estimated that volunteers may almost halve the average cost-per-visit to the small museum.

It would seem therefore that the existence of many small museums hangs very much in the balance. Whilst this may seem like an obvious statement, it is only through the kind of industry analysis presented in this paper that the nature and extent of any differences within the industry can be established and the relative strengths and weaknesses of the sector identified. The value of the analysis therefore is that it provides a platform for the strategic-thinking that Middleton (ibid.) identifies as 'defeated' by the current information set. For example, can small museums learn anything from more commercially successful sites? What reasons lie behind the low rates of pay observed in small museums? If this were to be remedied by increased public subsidy, what impact would it have on, for example, average admission charges in the LA museums?

Whilst this analysis provides a foundation for strategic-thinking it is difficult if not impossible from the information provided in this paper to identify the underlying causal factors that shape the nature of the industry. If, for example, the determinants of output (*i.e.* the industry production function) and costs (see, for example, Jackson, 1988; Lange *et al.*, 1985) could be established this would further enhance the understanding of the industry and therefore provide greater potential for strategic insight.

The implications of this analysis for the wider public services are as follows. Firstly, before strategic plans may be properly evaluated, financial performance must be gauged within a regional inter-industry and a national intra-industry perspective. Benchmarking thus fulfils an essential role here, as does a careful consideration of all financial and economic information available. Secondly, alternative funding models should be continuously examined, with public/private comparisons an essential activity here. Thirdly, where public services can draw on goodwill in terms of volunteer labour then this can be a direct means of sustaining services in the face of constrained resources. Given the importance of this impact on the provision of such services, and the lack of any financially viable alternative in some public services, ways of attracting and maintaining volunteer labour should be considered of some priority. In particular, further study appears warranted of the personal rationale underpinning unpaid labour contribution to better understand and reward such labour.

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