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The income gap reporting framework in public not-for-profit organizations: the British Museum case

Paolo Ferri[1] · **Simone Napolitano**[1] · **Luca Zan**[1]

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Abstract
The income gap is the negative margin between earned income and operating expenses: this is the main financial concern for not-for-profit entities (both public sector and nongovernmental organizations). Despite this, all over the world these entities are forced to use the standard profit-centered income statements format, with its focus on net income generation (the bottom line). This paper proposes an income statement format that uses the income gap to understand/discuss/present the financial viability of a not-for-profit entity in the arts sector, specifically a museum. We apply the framework to the British Museum's income statements from 1999–2000 to 2018–2019. This allows us to analyze institutional narratives in the context of the evolution of the museum's financial viability over two decades, and to assess the performance of the museum's neoliberal reform agenda from the end of the 1990s. Enlarging the perspective, ad hoc adaptations of the framework can allow a better understanding of the financial viability of not-for-profit organizations, in the arts sector and possibly more broadly in public services and not-for-profit sector.

Keywords Income statement · Income gap · Public sector · Museums · Longitudinal analysis

> The Income and Expenditure accumulated balance of £507,000 reflects no more than the surplus for the year. *It is a modest sum in the context of a turnover £50 million*
>
> (Suzanna Taverne, The British Museum Annual Report, 98–99, p. 13).

✉ Simone Napolitano
simone.napolitano@unibo.it

1 Department of Management, University of Bologna, Via Capo di Lucca, 34, 40126 Bologna, Italy

1 Introduction

Although sensible in a commercial environment, Suzanna Taverne's complaint about the "modest" nature of a 1% net profit margin appears out of context in relation to the financial performance of a public and not-for-profit museum. Arguably, the British Museum's former managing Director was influenced by her own background in the finance sector, where profit generation is key to remunerate invested capital. However, the income statement format used by the British Museum perhaps played a role in Taverne's reading, as its structure is very similar to that used by commercial companies, which privileges a traditional (and misleading) interpretation focusing on the bottom line. Would a different narrative have appeared if the income statement had a different structure?

Indeed, there is a long tradition in commercial accounting that sees income statements structured according to users' needs and contexts, as any accounting textbook will attest (Weygandt et al., 2018). For instance, a first, basic distinction concerns the difference between T format (or single step) and multiple-step income statements, where the former is useful to quickly calculate net income, while the latter provides details about the performance of the business thanks to multiple sections, subsections and subtotals, and intermediate margins. In addition, focusing on cost of goods sold is appropriate for merchandising and manufacturing companies, but this measure is not relevant for service companies. There are many alternatives for income statements, ranging from contribution margin income statements to activity-based ones, or to structures highlighting prime and conversion costs. All of these are useful for private and for-profit organizations. However, in the context of new public management reforms that extend private sector accounting practices into the public sector (Olson et al., 2001), relatively few attempts have been made to tailor income statement formats to the needs of public organizations. In line with a sector-neutral approach, the illustrative financial performance statements developed by International Public Sector Accounting Standards Board (IPSASB) (2006) include revenues, expenses (classified by nature or function) and loss or surplus, thus mimicking commercial accounting practices and potentially leading to narratives like the one highlighted in the opening quote.

In this paper, we focus on a not-for-profit art organization, a museum operating within the public sector, and we propose an income statement format developed around the idea that, from a financial point of view, art organizations are normally unable to cover all operating expenses with earned revenue, which generates an income gap. Our format emphasizes, therefore, the negative margin between earned income and operating expenses—the income gap—that must be covered with nonoperating solutions. The existence of an income gap is an intrinsic feature of a public art museum (for an investigation of the causes, see Brooks, 2000).

The income statement format we propose can help reconcile narratives and numbers in annual reports, giving a better understanding of the financial viability of art organizations—that is, how the income gap is generated and dealt with, together with the main artistic options affecting these organizations' strategic conduct.

By adapting an income statement format to its context, we follow the tradition of "accounting for arts", in the words of a panel held at the European Accounting Association conference in 1999 (Zan et al., 2000). This means fostering a dialogue between accounting and the arts that "do[es] not impose excessive doses of the administrative culture, in contrast with the nature of these organisations". This is exactly what policymakers have done in this field by mandating the capitalization of heritage collections, which places undue attention on an aspect that is marginal to professional practice, and is also questionable from technical, social and moral points of view (Carnegie et al., 2022). On the other hand, we argue that accounting can be helpful in this context, so long as it does not uncritically impose its paradigms.

The paper is structured as follows. In Sect. 2, we review the available literature on accounting in the arts. We draw on this literature to outline the main characteristics of the income statement scheme that we present in Sect. 3. Section 4 provides a rationale for this choice and a description of sources and method. Section 5 first synthetizes the institutional narrative presented in the British Museum's annual reports from 1999–2000 to 2018–2019. It then reclassifies the museum's income statements using an income gap approach. We comment on the official narrative based on these numbers, highlighting how our format can contribute to an understanding of the financial viability of a cultural institution. Section 6 provides a discussion of our findings, while the final section discusses some of the limitations of our paper and possible extension and directions for future work.

2 The new neoliberal shift in the financial management of public art organizations

In the past 25 years, new public management reforms (Hood, 1995; Lapsley, 1999) have introduced radical changes in the field of public sector accounting. These have led to the adoption of private sector practices (Buhr, 2012; Hodges & Mellett, 2003). As Lapsley and Miller (2019) claim, "accrual accounting exemplifies this zealous attempt to align the public sector with the corporate world", seeking to imbue the public sector with the logic of the market (Ellwood & Newberry, 2007).

The diffusion of accrual accounting in the public sector—which is one of the components of new public financial management reform packages—has attracted three kinds of criticism. The first deals with the notion of an asset, and points to the fact that, in many cases, public organizations do not hold assets to earn a return on them and are not allowed to re-sell them (Carnegie & Wolnizer, 1995). The second relates to the informative potential of the 'bottom line' in a public setting. Buhr (2012, p. 289) claims that the meaning of the 'bottom line' differs between the private sector and the public sector: "because the public sector does not exist to maximize profits, the logic of interpreting a government's operating results is more complicated … Having a surplus is not necessarily 'good' (…) Similarly, having a deficit is not necessarily 'bad'." A surplus, for instance, may not indicate good performance but that the public organization is overcharging its users or generating savings by providing lower-quality services. Lastly, while financial results are effective at capturing performance in the private sector, authors like Guthrie and Martin-Sardesai (2020) argue that the presence of multiple stakeholders requires a much broader set of accountability forms. These go beyond the scope of financial dimensions, and include political (or democratic), public, managerial, bureaucratic, professional and personal accountability (Sinclair, 1995).

Accounting scholars dealing with the arts engage with these three criticisms, but pay unequal attention to them. On the one hand, the heritage capitalization issue attracts much scholarly interest. Moving from the seminal study of Rowles (1992) regarding the alleged relevance of capitalizing heritage assets in museums (see also Micallef & Peirson, 1997), a relatively large number of authors contest the practice theoretically (Anessi-Pessina et al., 2019; Biondi & Lapsley, 2014; Carnegie & Wolnizer, 1995, 1996; Carnegie et al., 2022; Stanton & Stanton, 1997; Woon et al., 2019) and empirically (Carnegie et al., 2013; Ellwood & Greenwood, 2016; Ferri et al., 2021; Hooper et al., 2005; West & Carnegie, 2010).

The need to go beyond financial accountability (Guthrie & Martin-Sardesai, 2020) is also present in the debate on accounting in the arts, but with different nuances. While some authors criticize government-imposed nonfinancial measures of performance for their inability to represent the richness of the activities and impacts of cultural organizations (Abdullah et al., 2018; Chiaravalloti, 2014; Gstraunthaler & Piber, 2007.), others propose alternative sets of indicators, drawing on vitality and viability (Carnegie & Wolnizer, 1996), UNESCO's operational guidelines (Woon et al., 2019), sustainable development goals (Magliacani, 2022), or following the more traditional balanced scorecard approach (Basso et al., 2018; Zorloni, 2012).

From the point of view of financial accountability, however, relatively less attention has been paid to conceiving alternatives to commercial accounting-inspired income statement formats, which are structured to focus the analyst's attention on the 'bottom line'. In other words, reactions to the 'colonization' (Oakes & Oakes, 2016) of private sector accounting in the arts deal with balance-sheet issues (that is, the evaluation of heritage assets) or look for alternatives outside financial accountability (that is, the nonfinancial indicators debate), without problematizing variables related to income statements. Although we agree with Carnegie and Wolnizer (1996, p. 88) when they say that in "the context of museums, a concentration on financial outputs is misplaced and restrictive", we acknowledge that financial data can illuminate crucial phenomena if they are structured in a way that is consistent with the institutional, organizational and social contexts in which such institutions operate.

3 Income focus, the income gap approach and financial viability: a proposal

Our proposal for an alternative income statement format for public museums has three pillars.

3.1 An income-centered approach

The first element of our approach is to look at income variables rather than asset-related dimensions. This choice draws on a view of income as the central phenomenon of business activities (see Zappa, 1937), considering capital as a consequence, in terms of surplus generated. Moving to the specific field of arts organizations, we share prior concerns about the capitalization of collections for accountability purposes (Carnegie & Wolnizer, 1995; Ferri et al., 2021): financial viability is already complicated without assuming the idea of remunerating—or sometimes even paying back—the initial investment.

In addition, our focus on income rather than asset-related dimensions aims to counterbalance the attention media and politicians often pay to the initial 'investment'—for example, the opening of a new museum or a new gallery—at the expense of ongoing operations—such as the daily activities of opening to the public and managing the collection. The idea of granting extraordinary funding to arts organizations through the National Lottery in the UK epitomizes this bias toward assets/investment against income/running conditions, with all the potential negative impacts.

3.2 The income gap

The 'income gap' is the second element we use to develop our framework. This gap, which most arts institutions systematically generate, is the negative margin that is left after subtracting operating expenses from earned income (for example, self-generated income directly related to a museum's ongoing operations: tickets, bookshop sales, cafeteria, et cetera):

$$\textit{earned income} - \textit{operating expenses} = \textit{income gap} \tag{1}$$

In fact, in almost every museum in the West, including in the US, revenue generated by operations does not cover operating expenses, leaving a negative margin—the 'income gap'—that has to be covered with outside resources, such as public grants or donations, discussed below.

Although the idea of a 'gap' could suggest that the difference between earned income and operating expenses must be eradicated, on the contrary, by making it visible and central we believe it will remain—indeed, it 'must' remain, in accordance with redistribution policies (Padovani & Young, 2011) of arts organizations. Instead, the crucial issue is to negotiate a politically acceptable level of 'intrinsic' gap. Here, conditions of sustainability are defined more in political terms (the level of gap that is tolerated, maybe in competition with other social services and goals) than in strictly economic ones (through self-generated resources). This involves acknowledging different layers of responsibilities and accountabilities—who is responsible for what—particularly in terms of a cultural institution's current administration versus its institutional and political design.

3.3 From the general to the particular: operationalizing the income gap approach in a museum

The third element of our approach concerns its case-specific adaptability to support an understanding of patterns of change at the organizational level (a museum in our case). Tailoring the income gap approach to a specific case requires understanding the distinct areas of activity performed by an organization, then structuring revenue and expenses to highlight margins by groups of activities that require distinct competencies. While this process replicates a more general activity-based cost approach, what matters here is the differentiation of activities that are more or less directly (and constitutively) associated with the core activity of the museum. While the notion of 'margin' is a characteristic of a multiple-step income statement, structuring margins according to layers of strategic action is not that obvious.

Without aiming to provide a universal solution, in principle, there are three main areas:

- The core, institutional activities of a museum, including care, research, conservation of collections and access to permanent exhibitions. This is the area that generates most of a museum's expenses, while producing little revenue in general. The difference between institutional-related revenue and expenses leads to a first-level income gap.
- Activities relating to temporary exhibitions are relevant on their own, as they often require ad hoc programming, logistics and a different pricing system compared with access to permanent collections. When a museum opts for blockbuster exhibitions, revenue generated from tickets and sponsorship may far exceed expenses. After calculating the margin from temporary exhibitions, a second-level income gap can be discerned, including margins from institutional activities and temporary exhibitions.
- Commercial activities relate to services offered to complement the cultural offer (bookshop, restaurant and the like) and should generate, in theory, a surplus. The third-level income gap includes margins from institutional activities, temporary exhibitions, and commercial activities.

Proceeding from this, other miscellaneous revenue and expenses can then be included, leading to the residual income gap. Considering how the residual income gap is generated and how it is covered is the first step toward understanding the financial viability of a cultural institution.

3.4 The income gap format as a tool to understand the financial viability of an arts organization

Building on the three pillars outlined above—an income-centered approach, an analysis of the income gap and case-specific operationalization of main activities—the financial viability of an art organization operating in the public sector can be tentatively analyzed by focusing on how the income gap is generated and covered, explained though narrative and financial data.

In terms of income gap generation, this approach highlights the drivers of the gap, looking at margins generated by different streams of (strategic) actions. This sheds light on attempts to control economic results without degrading the cultural and social meaning of core activities, or to underline more unbalanced situations in one direction or another.

Further insights on the financial viability can be gained by examining how the income gap is covered. General and case-specific dynamics may be relevant here. In general terms, there are differences between the US model, where donors play a huge role through direct contributions or rent of endowments, and the European one, where public subsidies have historically supported the financial viability of cultural institutions (Temin, 1991). The neoliberal agenda has interrupted these general and historical patterns, leading to increased competition in the US, and dramatic impacts during economic crises (e.g. Toepler, 2006); and an imperative to reduce the burden on the taxpayer in the European context by searching for alternative forms of funding in the pursuit of 'revenue diversification' (Chang & Tuckman, 1994). If historical and general patterns can be identified at the aggregate level, it is equally interesting to examine how the same pressure plays out at the organizational level. Here, the British Museum is a particularly useful example, both for the historical context of post-Thatcherism and its transformation in the past 20 years.

4 Research method

4.1 Case selection

We operationalized our analysis with respect to a single, representative case study (Yin, 2011) and in a longitudinal fashion, looking at data over long periods of time (Ployhart & Vandenberg, 2010). The British Museum is an excellent case study for examining our income statement format built around the income gap notion for two reasons. First, it has a policy of information disclosure and publishes annual reports about its activities and results, along with a review of its exhibitions, collections and audiences. These two types of documents provide the managing body's narratives and financial data about the museum's activities. Second, one of the authors of this paper analyzed the British Museum in the late 1990s (Zan, 2000). In particular, the author reconstructed the complex texture of events behind the deficit crisis that unfolded at the British Museum between 1995 and 2000, which led, among other things, to workers threatening to strike for the first time in the museum's history, in reaction to the announcement of workforce cuts in January 1999. Therefore, the longitudinal approach of the study takes advantage of an earlier understanding of the organizational context, and it acts as a sort of 'years after' analysis, where the researcher goes back to the field *ex-post* to understand current changes, stressing elements that were not anticipated, foreseen and understood at that time by organizational actors and the analyst as well (Ferri & Zan, 2016; Van de Ven & Huber, 1990).

4.2 Data sources

The sources of data for the study are the Trustees' annual reports and museum reviews published by the British Museum for the financial years 1999–2000 to 2018–2019 (which was the last available annual report at the time of writing). These documents, and in particular the annual reports, provide textual and accounting information for each year. Textual information is structured in paragraphs and expresses the institutional narrative on the museum activities: an introduction from the director (or Trustee's Chair) that usually gives an overview of the development of the museum's activities during the year, while the first paragraphs describe the structure, governance and management of the museum, strategic direction, performance against objectives, and plans for future periods. The second part reports on public benefit, sustainability, social and community issues, references and administrative details and results according to the performance indicators of the Department for Digital, Culture, Media & Sport (hereafter DCMS); the third and final section provides the financial statements along with notes for the accounts.

4.3 Data analysis

The method chosen for analyzing our case study is a mixed methods approach (Miles et al., 2018), where financial and textual data are combined.

We first analyzed the textual content of the annual reports. Following Weber (1990), we selected the information to be analyzed according to the presence and salience of the topic of interest. In our case, this was information regarding the financial viability of the museum's operations. Paragraphs or parts of the text where issues were present and salient were included, ranging from the director's introduction to parts devoted to "Income generation" (the annual report for year 2005–2006, p. 16), or "Trading" (the annual report for year 2011–2012, p. 18). We excluded text where information relevant to this topic was absent or negligible, such as those communicating partnerships with other museums or changes to a given committee. For each yearly report, we selected text that represented the institutional narrative on financial viability (Weber, 1990). We then compared these narratives on a year-by-year basis and performed an operation of "temporal bracketing" (Langley, 1999). Phases were identified considering the internal consistency of the institutional narrative for a given timespan and its discontinuities between periods (Langley, 1999). A phase is characterized by a consistent narrative spanning several years on a major issue or achievement. At the end of this process, after iterating this exercise many times, we divided the study period into three phases: 2000–2001 to 2004–2005; 2005–2006 to 2015–2016; and 2016–2017 to 2018–2019. To support this analysis, we aggregated information about expenses and revenues for the whole period into a single table (see Table 1), following the British Museum's income statement structure. Note that developing Table 1—in principle, merely a summary of the original data—required some changes to and assumptions about income or expenses items, their composition over time, and inconsistencies in data for individual years. The main assumptions used in this process are presented in the Appendix.

Then, we applied our income gap approach to the British Museum's financial data. Moving from Table 1, revenue and expenses items were re-aggregated using a multiple-step income statement structured according to an 'income gap' logic (Table 2), thus breaking down the income gap into different components (for example, institutional activities, temporary exhibitions, commercial activities). In reformulating the original items in Table 2, we had to split or aggregate revenue and expenses items, thus diverging from the presentation of data in the actual financial reports (see the Appendix).

The reformulation of the items from Tables 1 and 2 prompted us to develop our own narrative for each phase, and then interpret it through a detailed comparison. This resulted in a deeper, more fine-grained analysis of the issues of financial viability contained in the museum narratives (Miles et al., 2018, p. 55) and allowed us to achieve a focused and deep understanding of the complex financial context of the museum.

5 Findings

In this section, we first provide background information on the administrative history of the British Museum, focusing on discussion triggered by the publication of the Edwards Report in 1996, as explained in (self-quotation) (Sect. 5.1). In Sect. 5.2, we present the institutional narratives outlined in the annual reports of the museum from 2000–2001 to 2018–2019 in three phases. Next, in Sect. 5.3 we move to 'our' numbers, trying to structure a narrative that reflects changes in the museum's financial viability. This narrative follows the income statement scheme using the income gap concept, as in Table 2. We also consider additional data provided but not commented on in the reports, such as museum staffing levels for the whole study period, which allows us to make sense of year-by-year differences, for instance in terms of total staff (see Table 3). Finally, we use the framework to compare actual achievement with the neoliberal policy indications of the Edwards Report (5.4).

5.1 Background: Edwards Report

One of the most dramatic moments of the British Museum in its 260-year history occurred at the end of the 1990s, when it announced staff cuts to reduce expenses, which raised fierce resistance from employees. The austerity policy was included in the Edwards Report, issued in 1996.

The Edwards Report was initially commissioned by the Trustees to support a quest for additional government funding due to an expected 25% reduction in the total budget, and it turned out to be very critical of the museum's management. It had a strong focus on efficiency-related issues, with scant investigation of curatorial content, and it was perceived by the professional community as a 'cost-cutting exercise' (self-quotation: 233).

In fact, the report acknowledged the cause of the deficit—a reduction of government funding (− 10%) and inflation (− 15%)—and thus suggested a 25% reduction of expenses. However, it identified additional problems in poor management, causing a sort of 'hidden deficit' due to underspending in the modernization of the museum (in other words, bad policies were causing extensive underspending: thus, in a 'normal situation', the real deficit would have been even bigger).

Two options were presented at that time. Option A proposed a substantial reduction of staff (33%) and gallery closures as conditions to avoid the introduction of an admission fee. Option A, with a severe deficit attached to it, was already presented as a 'non-option' (self-quotation, 2000, p. 227) that could jeopardize the museum's activities while not adequately addressing the prospective deficit. Option B would instead introduce admission fees and an increase in expenses needed to solve the 'hidden deficit', which would be funded by minor reductions of staff ('only' 25% versus 33% in option A). According to option B, the museum would break even from the 3rd year.

The introduction of an admission fee was harshly opposed by professional communities and the UK cultural establishment. Free entry was a principle of the 'founding fathers' of the British Museum, part of its identity. The proposal to introduce a ticket was sarcastically defined by Smith (1996) as "madhouse economics": admission fees would reduce visitors, leading to an increase in marketing expenses to win them back, thus increasing the deficit.

In addition, the Edwards Report suggested crucial changes in less socially sensitive areas, namely:

- The management of key programs—exhibitions had to be reduced from 25 per year to 15–20 per year[1];
- Income opportunities—a further suggestion was to increase fundraising and revenue from commercial activities;

[1] Curiously, there is an inconsistency between the 'Executive summary' and 'Chapter 2', which on the contrary suggests an expansion of activities: self-quotation, 2000.

Table 1 Income Statements 1998–1999/2018–2019: original data (000£)

	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
Grant-in-aid	33,921	34,721	34,939	35,969	36,469	37,355	37,893	37,780	38,679	41,648
Sponsorship, donations & legacies	1769	2735	4236	4343	3737	1357	1602	2249	3677	4368
Core funding	**35,690**	**37,456**	**39,175**	**40,312**	**40,206**	**38,712**	**39,495**	**40,029**	**42,356**	**46,016**
Exhibition income	948	1992	1255	1215	576	1488	1553	2085	2857	9405
Loan of the collection	–	–	995	844	1015	–	–	1763	1467	1613
Public access, education and events	235	406	436	1459	–	2319	2421	294	245	129
Care, research and conservation	91	189	96	567	244	443	462	457	359	380
Income from charitable activities	**1274**	**2587**	**2782**	**4085**	**1835**	**4250**	**4436**	**4599**	**4928**	**11,527**
Income from commercial activities	8743	9117	10,721	15,564	15,848	15,850	14,732	14,173	12,458	15,138
Investment income and rent receivable	3012	3078	2969	1785	1839	1897	2337	2585	1945	1766
Total Income	**48,719**	**52,238**	**55,647**	**61,746**	**59,728**	**60,709**	**61,000**	**61,386**	**61,687**	**74,447**
Temporary exhibitions costs	7434	9422	12,612	2750	1851	3171	2552	2933	3173	4875
Public access, education and events costs	4921	5061	8611	18,962	17,082	15,876	17,205	15,854	16,642	15,019
Care, research and conservation costs	21,393	22,862	23,598	27,509	26,797	26,855	27,694	25,980	30,428	30,831
Costs in furtherance of the charity's objectives	**33,748**	**37,345**	**44,821**	**49,221**	**45,730**	**45,902**	**47,451**	**44,767**	**50,243**	**50,725**
Commercial trading costs	8636	9170	10,933	14,939	15,164	15,654	14,169	14,541	10,868	12,915
Investment management costs	283	274	253	17	20	13	–	–	213	271
Expenditures for fundraising & publicity	616	684	946	708	761	724	645	704	678	681
Governance costs	530	458	589	362	382	464	429	254	259	283
Charitable and other expenditures	**43,813**	**47,931**	**57,542**	**65,247**	**62,057**	**62,757**	**62,694**	**60,266**	**62,261**	**64,875**
Operating surplus/deficit	**4906**	**4307**	**−1895**	**−3501**	**−2329**	**−2048**	**−1694**	**1120**	**−574**	**9572**
Less income allocated to capital expenditure	–	–	–	−493	−655	−3786	−3223	–	–	–

Table 1 (continued)

	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
Less depreciation allocated to capital funds	3953	3224	6170	7454	8295	7563	7434	–	–	–
Income allocated to capital expenditure	−5434	−4750	−7326	–	–	–	–	–	–	–
Sales proceeds allocated to fund restructuring from income and eliminate operating deficits	–	–	–	4602	4209	–	–	–	–	–
Net (losses)/gains on investments	1508	3883	−350	−141	−997	690	1554	–	–	–
Actuarial gain on defined pension scheme	–	–	–	–	–	470	–	–	–	–
Exceptional item: early retirement costs	−334	−2553	–	–	−7182	–	−1138	–	–	–
Exceptional item: split of the Shaw Fund	–	–	–	−3458	−371	–	–	–	–	–
Exceptional item: profit on sale of properties	–	–	–	–	19,712	–	–	–	–	–
Exceptional item: VAT settlement	–	–	–	–	–	–	7374	–	–	–
Exceptional item: rates renegotiation	–	–	–	–	–	–	867	–	–	–
Other non operating income & expenditures subtotal	**−307**	**−196**	**−1506**	**7964**	**23,011**	**4937**	**12,868**	**–**	**–**	**–**
Net incoming resources before transfers	**4599**	**4111**	**−3401**	**4463**	**20,682**	**2889**	**11,174**	**1120**	**−574**	**9572**

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Grant-in-aid	43,763	44,848	43,433	44,489	42,686	41,170	40,223	39,165	39,719	40,220	39,440
Sponsorship, donations & legacies	2935	4417	5041	5832	6211	3885	5399	6019	6281	10,084	5037

Table 1 (continued)

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Core funding	**46,698**	**49,265**	**48,474**	**50,321**	**48,897**	**45,055**	**45,622**	**45,184**	**46,000**	**50,304**	**44,477**
Exhibition income	5068	5037	3722	6687	8579	22,594	18,208	16,011	16,845	17,386	17,988
Loan of the collection	–	–	–	–	–	–	–	–	–	–	–
Public access, education and events	1442	957	1311	914	718	828	374	961	1391	2400	2617
Care, research and conservation	1648	3278	3762	2195	4673	5664	5090	1932	2271	1434	743
Income from charitable activities	**8158**	**9272**	**8795**	**9796**	**13,970**	**29,086**	**23,672**	**18,904**	**20,507**	**21,220**	**21,348**
Income from commercial activities	14,585	16,221	24,930	25,304	26,435	24,209	22,796	23,713	20,444	12,997	13,033
Investment income and rent receivable	2510	431	2301	2349	2201	1280	853	257	314	228	641
Income	**71,951**	**75,189**	**84,500**	**87,770**	**91,503**	**99,630**	**92,943**	**88,058**	**87,265**	**84,749**	**79,499**
Temporary exhibitions costs	5552	4914	3535	4145	5820	10,337	10,144	8863	9715	10,183	10,956
Public access, education and events costs	15,719	14,433	13,772	13,438	12,164	12,402	14,178	17,213	17,012	15,946	16,068
Care, research and conservation costs	31,601	30,868	46,607	57,097	55,672	53,701	48,365	46,920	45,474	42,917	42,186
Costs in furtherance of the charity's objectives	**52,872**	**50,215**	**63,914**	**74,680**	**73,656**	**76,440**	**72,687**	**72,996**	**72,201**	**69,046**	**69,210**
Commercial trading costs	11,790	13,512	14,864	15,320	14,458	11,211	11,964	12,059	10,658	9609	9185
Investment management costs	230	60	170	240	323	171	43	–	–	–	–

Table 1 (continued)

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Expenditures for fund-raising & publicity	748	879	929	962	935	898	1143	1250	1422	1436	1264
Governance costs	314	377	357	344	408	411	415	8	3	83	123
Charitable and other expenditures	**65,954**	**65,043**	**80,234**	**91,546**	**89,780**	**89,131**	**86,252**	**86,313**	**84,284**	**80,174**	**79,782**
Operating surplus/deficit	**5997**	**10,146**	**4266**	**−3776**	**1723**	**10,499**	**6691**	**1745**	**2981**	**4575**	**−283**
Less income allocated to capital expenditure	–	–	–	–	–	–	–	–	–	–	–
Less depreciation allocated to capital funds	–	–	–	–	–	–	–	–	–	–	–
Income allocated to capital expenditure	–	–	–	–	–	–	–	–	–	–	–
Sales proceeds allocated to fund restructuring from income and eliminate operating deficits	–	–	–	–	–	–	–	–	–	–	–
Net (losses)/gains on investments	–	–	–	–	–	–	–	154	557	318	1449
Actuarial gain on defined pension scheme	–	–	–	–	–	–	–	–	–	–	–
Exceptional item: early retirement costs	–	–	–	–	–	–	–	–	–	–	–
Exceptional item: split of the Shaw Fund	–	–	–	–	–	–	–	–	–	–	–
Exceptional item: profit on sale of properties	–	–	–	–	–	–	–	–	–	–	–

Table 1 (continued)

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Exceptional item: VAT settlement	–	–	–	–	–	–	–	–	–	–	–
Exceptional item: rates renegotiation	–	–	–	–	–	–	–	–	–	–	–
Other non operating income & expenditures subtotal	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**154**	**557**	**318**	**1449**
Net incoming resources before transfers	**5997**	**10,146**	**4266**	**−3776**	**1723**	**10,499**	**6691**	**1899**	**3538**	**4893**	**1166**

Core funding

Income from charitable activities

Costs in furtherance of the charity's objectives

Charitable and otherexpenditures

Other non operating income & expenditures subtotal

Operatingsurplus/deficit

Net incoming resources before transfers

– The accounting system—a very old-fashioned accounting system needed substantial changes, with a better-defined distinction between ongoing operations and investments.

As reported by (self-quotation, 2000), although an admission fee was not introduced, and staff reduction was relatively marginal in the last years of the 1990s (40 people took voluntary redundancies), the museum showed a "modest" surplus in 1998–1999, according to the Managing Director at the time.

5.2 Twenty years of financial results in the British Museum's institutional narratives

Three phases can be identified in our documentary sources by the British Museum in the past two decades (see also Table 1). The first phase (2000–2001 to 2004–2005) is explicitly acknowledged in the annual reports as a period of identification and resolution of the deficit issue. The second phase (2005–2006 to 2015–2016) corresponds with the bulk of Neil McGregor's directorship, summarized in the 2015–2016 annual review. The third phase covers the remaining years of the study period (2016–2017 to 2018–2019), with Hartwig Fischer's appointment as director.

The reports of phase 1 focus on the museum's financial results, and in particular on the deficit issue. Despite the surpluses registered in 1998–1999 and 1999–2000, there are losses in 2000–2001 and 2001–2002. According to the reports, the deficit issue is allegedly solved in 2004–2005, thus marking the end of this phase.

The majority of comments in this phase deal with actions to reduce expenses, which we present here in the priority given to each of them in the report. The first action is the cancellation of the Study Centre project. This modern facility for curators and scholars was launched in 1995, but encountered serious technical problems. In addition to erasing investment commitments, canceling the project was meant to reduce operating expenses, as it "secures the early return of Ethnography, Prehistory and Early Europe and the Development Office to the Great Russell Street site, dispose[s] of surplus properties, improve[s] the efficiency of the use of resource, [and] secure[s] closer alignment between the public and curatorial programmes" (BM 2004–2005 annual report, p. 6).

Major exhibitions were also reduced, "as a contribution towards eliminating the deficit" (BM 2002–2003 annual report, p. 13). The generation of income during this phase is consistently seen as not sufficient or falling short of targets, such as in 2001 "as a result of reduced visitor numbers in the wake of the foot and mouth epidemic and the events of 11 September 2001" (BM 2000–2001 annual report, p. 8). Interestingly, reports in this phase allocate just a few lines to the "key requirement" to "reduce staffing by about 150" (BM 2004–2005 annual report, p. 6).

During phase 1, the reports also underline the museum's position on entry charges. This issue is central to the controversy about the Edwards Report and the general debate involving all UK national museums. Complying with the new DCMS national policy, the museum "has maintained its commitment to free admission and has been pleased that this has been extended to all national museums and galleries" (2001–2002 annual review, p. 42, emphasis added).

Eventually, the deficit issue is explicitly acknowledged as solved in 2004–2005, ending phase 1: "The actions have all been completed, and the target of returning to break even in 2004–2005 has been met" (BM 2004–2005 annual report, p. 2).

In phase 2 (2005–2006 to 2015–2016), the focus is on the museum's achievements and success in terms of attendance and exhibitions, under the directorship of Neil McGregor (for the major part of this period), thus marking a difference with phase 1.[2] The BM 2015–2016 annual review retrospectively acknowledges this period as a phase on its own, characterized by growth through a "wide-ranging model", whose key feature is "a consistent emphasis on scholarship and using the collection to communicate ideas to as wide an audience as possible" (p. 6).

Reports in phase 2 often highlight the success of temporary exhibitions, stressing related income from tickets and corporate support, and visitor numbers. Consider, for example, these illustrative quotations relating to the First Emperor (2007–2008) and Life and Death in Pompeii and Herculaneum (2012–2013) exhibitions:

> The First Emperor was the most successful UK exhibition since Tutankhamun in 1972. Admissions income in excess of £7 m was generated from 855,000 visits. In addition, the First Emperor attracted one of the largest sponsorships deals in the arts when Morgan Stanley generously agreed to support it (BM 2007–2008 annual report, p. 14).

Life and Death in Pompeii and Herculaneum, sponsored by Goldman Sachs, sold 70,000 tickets before opening. This is just the latest in a decade of 'scholarly' exhibitions at the BM that reached a mass public—from China's terracotta warriors to shows on Hadrian and Shakespeare (BM 2012–2013 annual report, p. 3).

In terms of visitors, success is also stressed at a more general level, such as in 2013 when:

> Annual visits to the BM rose to 6.8 million. It has been a huge change over the centuries and the 2013 figures were the best ever, beating the previous peak (5.9 million in 2008) and up 20% on 2012 (BM 2013–2014 annual report, p. 3).

Reports in this phase also emphasize the importance of corporate support for the museum's program of events, and the crucial role of the government grant-in-aid providing "a secure basis of longstanding funding, which alone can guarantee the care and research of the collection" (BM 2012–2013 annual report, p. 3). In terms of capital investment, the reports also focus on completing the World Conservation and Exhibition Centre, "the largest project the BM has undertaken recently" (BM 2013–2014 annual report, p. 3). The project is a £105 million hub in the north-west wing of the museum building with conservation studios, controlled object storage, loan facilities and state-of-the-art exhibition galleries. The opening of the center marks the narration of the last years of phase 2.

[2] Actually, the directorship started on 1 August 2002. In this sense, it would be imprecise to associate his name with phase 2 only.

Phase 3 covers the remaining years of the study period (2016–2017 to 2018–2019) and coincides with the new directorship of Mr. Fisher (ongoing). While narratives in phases 1 and 2 strongly reflect specific dynamics of change through a focus on distinctive quantitative elements—cost-cutting and expense-related data in phase 1, growth and income and visitor-related data in phase 2—narratives in phase 3 are less clearly characterized, and are, therefore, less telling. They comprise, in fact, general or vague acknowledgments to corporations and donors, such as:

> The British Museum relies on its generous partners and benefactors who share the Museum's vision and support its work (BM 2016–2017 annual report, p. 14).

> The BM's new Membership tiers—Corporate Members and Partners—enjoyed special access for their staff and clients. The BM is grateful to this growing community and indeed to all its supporters, who generously underpin the BM's wide-ranging activities (BM 2016–2017 annual report, p. 15).

In addition, relevant financial figures are presented but without commentary. For example, the admission income figure is provided, as part of the set of performance indicators required by DCMS of all national museums. However, no further information or comment is given beyond the raw number. This lack of characterization is perhaps related to a transitional phase, from Mr McGregor's longstanding directorship to the new one.

5.3 Twenty years of financial results at the British Museum: an income gap assessment

While the previous paragraph reports narratives and numbers as woven together in the BM reports, here we perform an income gap analysis of the museum to reflect on its financial viability in each phase. This allows us to determine when the institutional narratives and 'our' understanding differ. To be clear, the aim is not to spot mistakes or misinterpretations in the institutional narratives, but to highlight aspects that are not identified or commented upon due to different logics in making financial phenomena visible.

5.3.1 Phase 1 (2000–2001 to 2004–2005)

The British Museum's narrative depicts phase 1 as centered on identifying and resolving the deficit issue by reducing expenses. However, Table 2 suggests a different interpretation: expenses, particularly expenses connected to institutional activities, are not reduced, and fuel instead the first-level income gap, which grows from £25.3 million in 1999–2000 to £41.6 million in 2004–2005. Increases in expenses

Table 2 Income Statements 1998–1999/2018–2019: an income gap structure (000£)

	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
Public access, education and events + Loan of the collection	235	406	1431	2303	1015	2319	2421	2057	1712	1742
Care, research and conservation	91	189	96	567	244	443	462	457	359	380
Donations & legacies	1769	2735	4236	3260	3127	1064	1069	2249	3677	4368
Earned income—permanent collection	*2095*	*3330*	*5763*	*6130*	*4386*	*3826*	*3952*	*4763*	*5748*	*6490*
Care, research and conservation costs	−21,393	−22,862	−23,598	−27,509	−26,797	−26,855	−27,694	−25,980	−30,428	−30,831
Public access, education and events costs	−4921	−5061	−8611	−18,962	−17,082	−15,876	−17,205	−15,854	−16,642	−15,019
Expenditures for fundraising & publicity	−616	−684	−946	−708	−761	−724	−645	−704	−678	−681
Expenses—permanent collection	*−26,930*	*−28,607*	*−33,155*	*−47,179*	*−44,640*	*−43,455*	*−45,544*	*−42,538*	*−47,748*	*−46,531*
1st Income gap (from institutional activity)	**−24,835**	**−25,277**	**−27,392**	**−41,049**	**−40,254**	**−39,629**	**−41,592**	**−37,775**	**−42,000**	**−40,041**
Exhibition income + Sponsorship	948	1992	1255	2298	1186	1781	2086	2085	2857	9405
Temporary exhibitions costs	−7434	−9422	−12,612	−2750	−1851	−3171	−2552	−2933	−3173	−4875
Margin from Temporary exhibitions	**−6486**	**−7430**	**−11,357**	**−452**	**−665**	**−1390**	**−466**	**−848**	**−316**	**4530**
2nd income gap (from institutional activity & temporary exhibitions)	**−31,321**	**−32,707**	**−38,749**	**−41,501**	**−40,919**	**−41,019**	**−42,058**	**−38,623**	**−42,316**	**−35,511**
Income from commercial activities	8743	9117	10,721	15,564	15,848	15,850	14,732	14,173	12,458	15,138
Commercial trading costs	−8636	−9170	−10,933	−14,939	−15,164	−15,654	−14,169	−14,541	−10,868	−12,915
Margin from commercial activities	**107**	**−53**	**−212**	**625**	**684**	**196**	**563**	**−368**	**1590**	**2223**
3rd Income gap (from institutional, temporary and commercial activities)	**−31,214**	**−32,760**	**−38,961**	**−40,876**	**−40,235**	**−40,823**	**−41,495**	**−38,991**	**−40,726**	**−33,288**
Grant-in-aid	33,921	34,721	34,939	35,969	36,469	37,355	37,893	37,780	38,679	41,648
Investment income and rent receivable	3012	3078	2969	1785	1839	1897	2337	2585	1945	1766
Investment management costs	−283	−274	−253	−17	−20	−13	–	–	−213	−271

Table 2 (continued)

		1998–1999	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
Governance costs		−530	−458	−589	−362	−382	−464	−429	−254	−259	−283
Other non operating income & expenditures subtotal		−307	−196	−1506	7964	23,011	4937	12,868	–	–	–
Net incoming resources before transfers		**4599**	**4111**	**−3401**	**4463**	**20,682**	**2889**	**11,174**	**1120**	**−574**	**9572**
	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Public access, education and events + Loan of the collection	1442	957	1311	914	718	828	374	961	1391	2400	2617
Care, research and conservation	1648	3278	3762	2195	4673	5664	5090	1932	2271	1434	743
Donations & legacies	2935	4417	5041	5832	6211	3885	5399	6019	6281	10,084	5037
Earned income—permanent collection	*6025*	*8652*	*10,114*	*8941*	*11,602*	*10,377*	*10,863*	*8912*	*9943*	*13,918*	*8397*
Care, research and conservation costs	−31,601	−30,868	−46,607	−57,097	−55,672	−53,701	−48,365	−46,920	−45,474	−42,917	−42,186
Public access, education and events costs	−15,719	−14,433	−13,772	−13,438	−12,164	−12,402	−14,178	−17,213	−17,012	−15,946	−16,068
Expenditures for fundraising & publicity	−748	−879	−929	−962	−935	−898	−1143	−1250	−1422	−1436	−1264
Expenses—permanent collection	*−48,068*	*−46,180*	*−61,308*	*−71,497*	*−68,771*	*−67,001*	*−63,686*	*−65,383*	*−63,908*	*−60,299*	*−59,518*
1st Income gap (from institutional activity)	**−42,043**	**−37,528**	**−51,194**	**−62,556**	**−57,169**	**−56,624**	**−52,823**	**−56,471**	**−53,965**	**−46,381**	**−51,121**
Exhibition income + Sponsorship	5068	5037	3722	6687	8579	22,594	18,208	16,011	16,845	17,386	17,988

Table 2 (continued)

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Temporary exhibitions costs	−5552	−4914	−3535	−4145	−5820	−10,337	−10,144	−8863	−9715	−10,183	−10,956
Margin from Temporary exhibitions	**−484**	**123**	**187**	**2542**	**2759**	**12,257**	**8064**	**7148**	**7130**	**7203**	**7032**
2nd income gap (from institutional activity & temporary exhibitions)	**−42,527**	**−37,405**	**−51,007**	**−60,014**	**−54,410**	**−44,367**	**−44,759**	**−49,323**	**−46,835**	**−39,178**	**−44,089**
Income from commercial activities	14,585	16,221	24,930	25,304	26,435	24,209	22,796	23,713	20,444	12,997	13,033
Commercial trading costs	−11,790	−13,512	−14,864	−15,320	−14,458	−11,211	−11,964	−12,059	−10,658	−9609	−9185
Margin from commercial activities	**2795**	**2709**	**10,066**	**9984**	**11,977**	**12,998**	**10,832**	**11,654**	**9786**	**3388**	**3848**
3rd Income gap (from institutional, temporary and commercial activities)	**−39,732**	**−34,696**	**−40,941**	**−50,030**	**−42,433**	**−31,369**	**−33,927**	**−37,669**	**−37,049**	**−35,790**	**−40,241**
Grant-in-aid	43,763	44,848	43,433	44,489	42,686	41,170	40,223	39,165	39,719	40,220	39,440
Investment income and rent receivable	2510	431	2301	2349	2201	1280	853	257	314	228	641
Investment management costs	−230	−60	−170	−240	−323	−171	−43	–	–	–	–
Governance costs	−314	−377	−357	−344	−408	−411	−415	−8	−3	−83	−123
Other non operating income & expenditures subtotal	–	–	–	–	–	–	–	154	557	318	1449
Net incoming resources before transfers	**5997**	**10,146**	**4266**	**−3776**	**1723**	**10,499**	**6691**	**1899**	**3538**	**4893**	**1166**

for ‘care, research and conservation’ and ‘public access, education and events’ drive this trend. It is worth remembering that in this same period, 171 jobs were removed.[3]

Instead of a cost-cutting process, what emerges is a dynamic of substitution between different kinds of expenses, where savings on labor expenses fund improvements to institutional activities, including care, research, conservation of collections and access to permanent exhibitions.

The second income gap, calculated after accounting for temporary exhibitions’ margins, shows the negative impact, at least in financial terms, of temporary activities, which generated more expenses than income. Although not negative, margins from commercial activities are negligible, and ultimately reduce the income gap in very modest terms (see third-level income gap).

The positive results achieved between 2002–2003 and 2004–2005 are possible thanks to the margin obtained from items associated with non-operating activities, which compensate for an increase of about £2–£3 million of the residual income gap between 2000–2001 and 2004–2005; in particular, investment income and rent receivable (£3.0 million in 2000–2001) and funding capital expenses using the proceeds from the sale of surplus properties (£4.6 million in 2001–2002; £4.2 million in 2002–2003, see Table 1).

To sum up, during phase 1, the process of deficit resolution does not lead to savings, but rather to a substitution of expenses. Cutting jobs (Table 3) and the savings due to the reduction of temporary exhibitions are counter balanced by an increase of expenses on the permanent collection; the financial viability of the museum centers on using the grant-in-aid and extraordinary proceedings to cover this gap.

5.3.2 *Phase 2 (2005–2006 to 2015–2016)*

According to the museum’s reports, phase 2 demonstrates the success of temporary exhibitions within the general concept of a ‘wide-ranging model’, intended to present the collection through various means to various audiences.

In our view, the ‘wide-ranging model’ has implications for the financial viability of the museum, with elements of continuity and break compared with the previous period.

In line with phase 1, the income gap from institutional activities continues to grow, sometimes dramatically: at the end of phase 2, this gap is £56.5 million, more than double the gap at the beginning of phase 1 (£27.4 million in 2000–2001). The increase is driven by expenses in ‘Care, research and conservation’, which peaks in 2011–2012. However, unlike phase 1, income related to institutional activities shows a considerable increase. For instance, donations increase to £6.0 million in 2015–2016, although with substantive variations yearly.

What marks a difference in the financial viability of phase 2 compared with phase 1 is the impact of temporary exhibitions and commercial activities. Table 2 shows that, starting from 2006 to 2007, temporary exhibitions and commercial activities reduce the income gap, rather than increasing it, as in phase

[3] Note that the reduction of 150 jobs presented in the reports refers to the net effect. Table 3 shows how from 2000–2001 to 2004–2005, the actual reduction of personnel included 171 jobs.

Table 3 British Museum personnel by activity 1998–1999/2018–2019

	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
Care, research and conservation	574	576	532	536	536	480	490	468	457	489
Public access, education and events	255	242	307	488	440	401	378	397	394	405
Temporary exhibitions	160	171	190	24	23	31	21	22	42	42
Commercial trading activities	93	94	118	129	126	118	126	124	125	161
Other (fundraising, miscellaneous trading, governance)	56	50	28	18	17	17	14	14	16	19
Total	1138	1133	1175	1195	1142	1047	1029	1025	1034	1116
Year-by-year variation		−5	42	20	−53	−95	−18	−4	9	82
Reduction (by phase)							−171			

	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Care, research and conservation	489	500	490	469	446	424	430	428	415	431	429
Public access, education and events	405	385	331	330	331	338	368	387	392	357	345
Temporary exhibitions	42	50	26	30	42	114	102	90	89	100	97
Commercial trading activities	161	159	230	229	193	139	129	135	125	97	95
Other (fundraising, miscellaneous trading, governance)	19	21	19	20	21	26	30	24	23	24	21
Total	1116	1115	1096	1078	1033	1041	1059	1064	1044	1009	987
Year-by-year variation	0	−1	−19	−18	−45	8	18	5	−20	−35	−22
Reduction (by phase)								−87			−77

1. In other words, temporary exhibitions start generating positive and consistent margins,[4] and the contribution of commercial activities moves from being marginal to crucial. As a result, the residual income gap during phase 2 is consistently contained and kept at the same level as phase 1 (between £30 and £40 million, except in 2011–2012). Variations in staffing levels are consistent with these dynamics, reflecting a stronger orientation toward income-generating activities. Although this is less pronounced compared with phase 1, the loss of jobs is centered on the less ‘profitable’ activities, such as care, research and conservation (− 72 positions between 2009–2010 and 2015–2016). On the other side, temporary exhibitions and commercial activities display sudden variations during phase 2 (from £5.8 million to £10.3 million and from £14.5 million to £11.2 million respectively), suggesting an ongoing transfer/requalification of staff depending on the results of temporary mass exhibitions.

To sum up, although the official narrative is one of the ‘wide-ranging model’ leveraging temporary exhibitions, our analysis shows that this explanation is partial: while earned income from institutional activities increases, their expenses increase more than proportionally, boosting the first-level income gap. Overall, the positive results of phase 2 narrated by the museum’s reports on the income side are based on the ‘silent’ introduction of entrance fees for temporary exhibitions that are then used to cross-subsidize access to the permanent collection, thus safeguarding the museum’s founding principle of free entry to the permanent collection. In any case, financial viability rests on the robust support of the grant-in-aid that still plays a crucial role in covering the residual income gap and leads to a surplus in nine out of 11 years of phase 2).

5.3.3 *Phase 3 (2016–2017 to 2018–2019)*

The museum’s narrative depicts phase 3 as a period characterized by the success of fundraising activities, while scant or no attention/importance is given to financial streams of income or expenses.

In contrast, our analysis shows that the expansion in income and expenses across all areas slows down, sometimes dramatically, as in the case of expenses for care, research and conservation (− £4.7 million) and income from commercial activities, which halves between 2016–2017 and 2017–2018. Interestingly, our analysis shows that conservation expenses are reduced but sustainable because of fat margins on temporary and commercial activities. Our analysis highlights that when these margins are restrained, as in 2018–2019, the deficit can be covered only through income from other items: that is, gains on

[4] Although the original documents list the temporary exhibitions held during the year, often distinguishing free exhibitions from ticketed ones, it is unclear how much income is obtained through ticketing or through sponsorship for a given exhibition, due to the absence of comments in the reports. Similarly, we were not able to break down the income from commercial activities, given the absence in the reports of the contribution of specific activities constituting this item (restaurant, bookshop, merchandising, et cetera).

investments (see Table 1). While staff numbers are again reduced, with the loss of 77 positions, the residual income gap of phase 3 is similar to phase 2 because the two trends (reduction of both expenses and margins from commercial activities) cancel each other out, in the context of a stable grant-in-aid.

Rather than showing a different approach to financial viability, the income gap and how it is covered are driven by a similar logic to phase 2, although with a lower level of intensity. Temporary exhibitions are ticketed and supported by corporate sponsorships, cross-subsidizing institutional activities. Income from commercial activities decreases and has less-positive margins than phase 2.

5.4 A further use of the scheme: policy assessment

In addition to revisiting the narratives of the administrators by triangulating numbers and text, the income gap analysis can be used to assess a specific policy. In our case, this refers to the extent to which the recommendations of the Edwards Report in 1996 were followed.

These recommendations implicitly address the need to reduce the museum's income gap. While the reduction of public funding was not contested, the report recommended:

– Increasing earned income through introduction of entrance fees, and direct sponsorships of major projects;
– A 'cost-cutting exercise', to reduce the workforce by 25–33% (according to the two options), while also addressing the situation of 'hidden deficit', or underspending.

Our reconstruction based on the income gap framework helps understand the extent to which the actual strategies enacted at the British Museum followed these guidelines. In phase 1—resolving 'the deficit issue'—the Edwards' idea of leveraging revenue from access did not take place: voluntary contributions to the permanent collection were negligible, as was income from temporary exhibitions; revenue from commercial activities did not have an impact on margins in this phase (and indeed, expenses increased proportionally). In short, the implementation of Edwards' suggestions in this phase is softly concealed by numbers: the increase of expenses relating to permanent collections reflects an action directed toward the qualification of expenses, with the aim of reducing the underspending that characterized the 'hidden deficit' as defined by the Edwards Report. Regarding 'fairness' in disclosing information, the official narrative does not place much emphasis on the intervention in the labor force (171 people fired in the period, not counting new positions: see Table 3).

The ways in which phase 2 could be read from the perspective of the Edwards Report are particularly interesting. The 'wide-ranging model' launched in 2005–2006 largely departs from the 'cost-cutting' exercise suggested by the report, and all expenses for institutional, temporary and commercial activities increase. But then, in another aspect, Edwards is successful: using temporary exhibitions, the old taboo of not charging fees for entry could be bypassed. Moreover, thanks to the contribution of more aggressive commercial activities, a positive margin contributed in this phase to cover an increased institutional income gap of £56.5 million. The ongoing and slightly increasing role of the grant-in-aid also contradicts one of the main assumptions of the Edwards Report. Phase 3 confirms the departure from the report's main tenets, although in a weaker way compared with phase 2.

Overall, compared with the quite stark cost-cutting exercise suggested by the Edwards Report (which was criticized for its lack of understanding of curatorial aspects), what actually took place was a less radical neoliberal approach, more nuanced and contradictory in itself. The director and the Board defended some basic aspects of running a museum, including increasing conservation expenses rather than reducing them, maintaining free access to permanent exhibitions, deciding to charge visitors for blockbuster exhibitions and an increase of commercial activities—and to maintain/increase the covering of the overall income gap (with increased grant-in-aid).

The way in which financial viability was achieved in phase 2 succeeded in mediating between conflicting values that were involved in the Edwards controversy. Exhibitions at the British Museum are crucial because they accommodate a trade-off between identity and publicness on one side and sustainability on the other. Identity, in terms of founding principles such as access to knowledge and free entry, had to be preserved because it is connected with the public nature of the museum and the government funding it receives—the museum's glorious identity and prestige. Sustainability means being able to pursue its core activities (which also comprise curatorship, research into the collection and care of its objects) without being fragile and under constant risk of suffering cuts in government funding.

6 Discussion

This paper departs from a 'sector-neutral' approach (Bradbury & Baskerville, 2007; Ryan et al., 2007) to propose an income statement format that suits the specificities of art organizations operating within the public sector. This format makes visible the income gap and allows an understanding how different streams of action contribute to its generation and reduction. It stems from the idea that generating operating expenses that are higher than earned revenue is part of the constitutive nature of public cultural institutions, and that any analysis of financial viability should start from there.

Compared with a traditional, bottom-line focused income statement, our proposal acknowledges the distinct responsibilities of management and stakeholders (donors or public sector agencies). Although the origin of the income gap and how it is covered are interrelated—that is, decisions to increase expenses for conservation may relate to expectations regarding raising public funds or donations—the proposed income statement format outlines different levels of responsibility and accountability by analytically separating the two logics. It does this from both above and below the residual income gap, distinguishing between:

- Who is responsible for keeping the income gap at a certain level, following the bargaining processes that define it, managing effectively and efficiently, maneuvering degrees of freedom in running current operations.
- Who is responsible for covering the residual income gap.

Separating responsibilities for ongoing operations and covering the residual income gap provides relevant information for accountability purposes. It introduces a distinction between political responsibilities for setting up museums, including solutions for covering the intrinsic income gap, and managerial responsibilities for ongoing operations within the constraints of the agreed income gap. This is crucial to avoid ambiguity, misunderstanding and possible future failures. An acknowledgment of multiple and different responsibilities is seldom present in debates about the financial performance of cultural institutions, which tend to assume that the financial viability of a cultural organization exclusively depends on decisions made by its management. With reference to the British Museum case, the application of our income statement format shows quite clearly that the success of phase 2, the wide-ranging model period, rests on an increase in income generation activities, coupled with consistent support from the government.

Moreover, the tool can also be used to break down aggregate information in the case of multi-unit museums, or cultural policies at the local level that involve a variety of cultural institutions. This allows for a presentation of individual contributions to the overall income gap in a sort of sectional income statement, with possible cross-subsidizing phenomena between entities, before or in addition to the issue of funding the residual income gap. The example of Machu Picchu is typical, where ticket revenue earned on the site—which is not an autonomous entity, but part of the regional body in charge of culture—generously funds the recovery and daily operations of the heritage in the whole Vilcanota Valley (Zan & Lusiani, 2011).

We maintain that an income gap income statement allows a robust understanding of the impacts of strategic choices on financial results (in terms of income statement impacts); a consistent narrative based on numbers; and the possibility of linking an organization's trajectory of change to specific plans or policies designed at a higher level. This is something that is not always present in the institutional narratives produced by an organization, as can be seen in phase 3 at the British Museum, where little attention is paid to financial figures. Our proposal underlines the importance of exploiting the content of financial reports before moving to other tools that could improve the representation of performance, such as social reporting, balanced scorecard and the like (Basso et al., 2018; Magliacani, 2022; Woon et al., 2019; Zorloni, 2012). In other words, the proposed format exploits financial data to understand underlying economic phenomena, echoing Giannessi (1960),[5] and taking a strategic view into account. In a public and not-for-profit environment, this implies structuring a narrative account by first looking at the income gap's determinants, thus reading the scheme 'from above', identifying the main activities and their financial

[5] Giannessi (1960) defined accounting as the process of translating economic phenomena into numbers, and then re-converting numbers into economic phenomena.

impact, and then understanding the final institutional agreement on how to cover the income gap, therefore looking at the scheme 'from below'. The structure of revenue and expenses for areas of activity, the intermediate margins, and the overall notion of an income gap contribute, therefore, to a better understanding of financial viability, more than simply referring to 'streams of revenue and costs' as is usual in business-model related literature (Baden-Fuller & Morgan, 2010; Beattie & Smith, 2013; Haslam et al., 2018; ICAEW, 2010; Nielsen & Roslender, 2015; Page, 2014; Shafer et al., 2005; Singleton-Green, 2014; Teece, 2010).

In contrast with commercial-like income statement formats, a crucial aspect of the income gap approach is its ability to 'open a dialogue' (or indeed forms of resistance) with neoliberal policies (Lapsley & Miller, 2019). The latter can be read as an attempt to minimize the income gap, either by making the user pay or squeezing expenses, or both. Using the notion of income gap, we can, therefore, focus on the neoliberal assumption of a specific policy (remember the Edwards Report), in a sense assessing the 'degree of neoliberalism' that a specific policy incorporates. Therefore, the approach can be used to assess at what level and to what extent a neoliberal agenda affects the financial viability of an (art) organization, thus allowing contextual adaptations to emerge, as in the case of the British Museum, were the leadership was eventually able to resist the cost-cutting exercise suggested by the Edwards Report. In a nutshell, the income gap approach can be used to assess (cultural) polices, and to defend the very existence of the income gap as a constitutive element of not-for-profit culture organizations.

7 Concluding remarks

In this paper, we present the income gap framework as a tool for investigating the financial viability of a museum based on actual results (published reports and documents). This analysis can be improved when complemented with additional data, integrated with the informative system of an organization. It can also be adapted for organizations beyond the museum sector. Maintaining the focus on actual results, a richer narrative of how the financial model of the museum has evolved over time could be achieved by adding information gathered through interviews, internal documents, newspaper articles and other policy documents. Indeed, at a basic level, the scheme could be used to trigger questions and focus attention. The integration of the framework with other sources could provide more transparent narratives to external parties about a museum's strategies, particularly in relation to funding elements. This would be more than a descriptive illustration of fundraising actions, in that triangulation could help in falsifying some data, actions, and links between them on a substantive basis (something we did not do in our exercise). This should not necessarily be done on a yearly basis, where differences become minor and strategic discontinuity is hard to follow—we suggest a periodic effort every 3 or 5 years. The problems and costs of this kind of research could be very high, especially over such a long period of time, when relevant personnel move away, reports and documents are lost et cetera, as is well known in the oral history field.

In terms of actual results, integrating the logic of the framework with an organization's information system would provide more precise details about strategic actions, their financial impacts and the overall financial viability, avoiding the potentially ambiguous reaggregation of revenue and expenses under specific areas of activities from the outside, as reflected in the notes to Table 2.

In addition, applying the framework early, at the programming and budgeting stage, could provide a tool for internal analysts and consultants when negotiating the conditions of feasibility of a museum's development strategy.

From a theoretical point of view, interesting insights emerge when considering possible extensions of the income gap framework to other kinds of organizations, at different levels. First, it could be extended to other museums to avoid a Western-centric bias. The reader will note our focus on museums 'in the West'. Indeed, one limitation to the generalization of the proposed income statement format lies in the fact that while the phenomenon of the income gap is common in most western cultural organizations, it is much less so in the 'south' or 'east'. With Asian (or southern) expenses and Western ticket prices, cultural organizations in these parts of the world could easily get to the breakeven point and beyond (Zan et al., 2015). There is a risk of the paradox that museums and sites that are—by nature—not-for-profit organizations, but are managed toward profitability, may overexploit their potential with huge expenses and consequences. Avoiding a Western-centric view, then, we do not suggest the income gap approach can be applied in these situations. However, the format could be an instrument to learn from differences: searching for specific features of the financial model, which is relevant in each different situation.

Second, the framework could be extended outside the museum sector, to other not-for-profit arts institutions. This includes, for instance, opera houses, which do not break even with earned income anywhere in the (Western) world (Agid & Tarondeau, 2010). Of course, applying the framework outside the museum field would require adaptations to reflect the activities performed. Instead of the Baumol syndrome (the long-term impact of lack of productivity gains compared with other sectors: Baumol & Bowen, 1993),[6] what matters here is the redistributive function of cultural policy, according to which no one is asked to pay for the full cost of performances (or the ongoing survival of an opera house).

Following this line of thought, the income gap approach can be extended to public entities providing public services without profit, such as health care and education (of course, adapting the framework for specific activities and issues). Interestingly enough, the US Government's financial statement states that 'net cost' can be "computed by subtracting earned revenue from gross cost" (US Government, 2019, p. 46), presenting the breakdown of governmental service in terms of this notion. While the two notions will end up with the same number in any given context (income gap = net cost), their political flavor can, indeed, differ. And, above all,

[6] Put is simply, to play a Beethoven's symphony nowadays requires almost the same amount of man months than two centuries ago (number of musicians, time of the performance, time for rehearsing etc.), while any other product in this period would present enormous effects of productivity gains and price reduction.

the income gap provides a framework that can help in linking strategic actions and financial viability at the aggregate level of a specific institution, also focusing to different levels of accountability that we mentioned above.

Moreover, we believe that the general idea of an income gap could inspire different reporting practices in the not-for-profit sector. By their nature, not-for-profit organizations share the same constitutive conditions, with price policies acting according to a redistributive principle, without aiming to charge users for the whole expense of the service, and instead seeking funding from general tax policies, as forms of a mixed (non-market) economy with a variety of funding elements. In Italian not-for-profit organizations, for example, both revenue and expenses are divided into categories, including typical (operating) activities, fundraising, additional activities, financial gains and losses (Agenzia del Terzo Settore, 2009). These categories are at the same horizontal level inside an income statement, without presenting margins by activity, but with just a single difference between all expenses versus all revenues. It is not really an income gap approach, with intermediate margins that we would have developed, but something that echoes our approach, at least at the overall level. However, we were able to find an Italian institution applying a logic of the income gap (Ateneo Veneto, 2020), with margins and the income gap at different levels.

The problem of not-for-profit organizations that are then forced to adopt forms of financial representations—which means using standard accounting methods historically developed in the for-profit sector—is an open challenge. We hope that the income gap approach could contribute to developing this discussion.

Appendix

This appendix spells out major problems and solutions we faced in analyzing 20 years of income statements of the British Museum, as summed up in ‘Table 1: Income statements 1998–1999 to 2018–2019—original data’, and re-structured as in ‘Table 2: Income statements 1998–1999 to 2018–2019—an income gap structure’.

We performed two operations on data:

- In Table 1, revenues and expenses are presented following the British Museum’s income statement structure. We disaggregated revenues and expenses into sub-items as much as possible, according to the level of detail allowed by the original documents.
- In Table 2, the sub-items are reclassified per area of activity, as required by our income-gap approach. Therefore, Table 2 presents specific sub-items in positions that differ from Table 1.

While in many cases performing the aforementioned operations was uncomplicated, some items or sub-items were more problematic. Here we specify the main issues and solutions adopted when creating Tables 1 and 2:

Issues in preparing Table 1: income statements 1998–1999 to 2018–2019—original data

Item: Income from charitable activities

Problem 1: The make-up of the item in the notes changes over time. For instance: until 1999–2000, charity income appears in two sub-items: 'Sale of photographs and associated reproduction fees of objects from the collections' and 'Admission fees to temporary exhibitions and from educational and other activities'; in 2000–2001, another sub-item is added: 'Fees from loan exhibitions'.

Solution: We decided to reproduce in Table 1 the breakdown of 'Income from charitable activities' as shown in the notes; thus, depending on the year, it is articulated in various sub-items: 'Exhibition income', 'Loan of the collection', 'Public access, education and events', 'Care, research and conservation'.

Problem 2: Missing data on sub-items: for instance, in 2001–2002 the report provides the overall amount of 'Charity income' and the income coming from fees from temporary exhibitions; no information is provided on how the remaining income is distributed between 'Public access, education and events' and 'Care, research and conservation'. For 2003–2004 and 2004–2005, the information shown in the report is limited to the overall amount of 'Charity income'.

Solution: Assuming no relevant changes to the role and classification of the related activities (at least for these years), we used the 2002–2003 breakdown to calculate the proportions between these sub-items and used this to calculate the amounts for the two sub-items to obtain the 'Charity income' for 2001–2002. For 2003–2004 and 2004–2005 we used the average proportion of all three sub-items for 2000–2001, 2001–2002 and 2002–2003 to obtain the breakdown.

Problem 3: Inconsistencies over time: for some years (2000–2001, 2002–2003 and for years 2008–2009 and onwards) the amount of 'Charity income' shown in the income statements differs from the amount shown in the notes. For instance: for years 2000–2001 and 2002–2003, the aggregated item in the income statements is more than the sum of the sub-items shown by the note: these positive differences are respectively £96,000 and £244,000.

Solution: Concerning 2000–2001 and 2002–2003, we decided to post these amounts in 'Care, research and conservation' because while these are not negligible, they are very small in comparison to other items. Moreover, the item 'Other income', which in the following years is labelled 'Care, research and conservation', is also explicitly residual in the original documents produced by the museum. For years 2008–2009 onwards, we reconciled further differences between 'Income from charitable activities' as shown in the income statements and in the notes. Fortunately, the note also shows the breakdown of the item, so we used this proportion.

Item: Costs in furtherance of charity objectives

Problem 4: Inconsistencies over time: for instance, from 2008 to 2009 onwards the amount shown in the income statement is different from the amount shown in the note.

Solution: We reconciled differences taking advantage of the information provided: in the notes, the articulation in sub-items is further detailed in direct costs, support costs, depreciation, et cetera. For each year, we summed direct costs and support costs of each sub-item. We then used proportions between these three sub-items to break down the item as shown in Table 1.

Items: 'Exhibition Income', 'Public access, education and events', 'Care, research and conservation', 'Temporary exhibitions', 'Public access, education and events' (expenditures), 'Care, research and conservation' (expenditures), 'Governance'.

Problem 5: The labels of these items change over time: for instance, 'Exhibition income' is labelled 'Admission fees to temporary exhibitions and fees from educational activities' until 2000–2001, 'Admission fees to temporary exhibitions' until 2002–2003, 'Exhibition Income' from 2005 to 2006, and then 'Charitable trading' from 2008 to 2009.

Solution: We decided to assign to each of these items the label that we thought was mostly telling. Labels shown in Table 1 also appear as follows in the original income statements:

- 'Exhibition Income'—also referred to as 'Admission fees to temporary exhibitions and fees from educational activities', 'Admission fees to temporary exhibitions', 'Charitable trading'
- 'Public access, education and events'—also referred to as 'Sale of photographs and associated reproduction fees of objects form the collection'
- 'Care, research and conservation'—also referred to as 'Other Income'
- 'Public access, education and events (Expenditures)'—also referred to as 'Visitors services' and 'Education'
- 'Care, research and conservation'—also referred to as 'Care, research and authorship' and 'Collection purchases'
- 'Temporary exhibitions'—also referred to as 'Exhibiting the collections', 'Trading-Charitable objectives', 'Charitable activities', 'Charitable Trading'
- 'Governance' also referred to as 'Administration of the charity costs'.

Issues in preparing Table 2: income statements 1998–1999 to 2018–2019—an income gap structure

Item: Sponsorship, donations and legacies

Problem 6:	The make-up of the item 'Sponsorship' in the documents changes over time. For instance, until 2000–2001, 'Sponsorships' is aggregated with 'Donations and legacies'.
Solution:	Given that Table 2 focuses on margins per area, we decided to separate 'Sponsorships' from 'Donations and legacies'. Indeed, raising 'Donations and legacies' is part of the museum's institutional activity in relation to the permanent collection, while sponsorships are attached to specific events and temporary exhibitions. Accordingly, we included 'Sponsorships' in 'Exhibition income + Sponsorship' starting in 2001–2002, which is when this information was available.

Items forming income from charitable activities in the original income statements

Problem 7:	While in the income statements and in Table 1 these items are aggregated, according to our income gap approach, they must be separated because they refer to different areas of activity.
Solution:	In Table 2, we decided to reclassify 'Public access and events' and 'Care, research and conservation', because these belong to the institutional activity of the museum. On the other hand, 'Exhibition income + Sponsorship' represents income from specific activity related to temporary exhibitions. Thus, in Table 2, this contributes to the calculation of the margin from temporary exhibitions.

Item: Other non-operating income and expenditures subtotal

Problem 8:	The items aggregated into this subtotal refer to non-operating activities. In Table 1, they are shown to reconcile the operating surplus/deficit with the net result.
Solution:	In Table 2, we decided to include only the subtotal to show its contribution to the calculation of the final results. The items forming the subtotal are shown only in Table 1 because of their limited relevance to our approach.

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Paolo Ferri is an associate professor in Accounting and director of the Graduate degree in Innovation and Organization of Culture and the Arts (GIOCA) at the University of Bologna. His research explores the role of accounting in the arts.

Simone Napolitano is an assistant professor in Accounting at the Management Department, University of Bologna. His research studies practices of management in professional organizations and the role of power in industrial and cultural fields.

Luca Zan full professor, active in international research on Management and accounting history, and Management of arts and cultural organizations. He teaches Arts Management at GIOCA, and CAFA in Beijing, and has been adjunct faculty for several years at CMU, Pittsburgh.