The CEO of Culture Inc.

Controversial Guggenheim director Thomas Krens is changing the way the world's art museums operate

By ALEX PRUD'HOMME

In 1988 New York City's Solomon R. Guggenheim Museum was in trouble. Money was tight; the museum's famous Frank Lloyd Wright–designed building was falling apart; exhibitions were uninspired; donors were losing interest. Enter Thomas Krens, armed with a degree in nonprofit management from Yale. As the Guggenheim's new director, he offered the board of trustees a stark choice: Preserve funds and run the museum conservatively, or attack. "If you want a vital institution," he said, "change has to take place on so many fronts that it's likely to be bewildering."

That turned out to be an understatement. Today the museum has projects going in New York, Massachusetts, Italy, Austria and Spain, and a Guggenheim exhibit has just wound up a four-month tour of Australia. Using aggressive financial and marketing strategies normally applied to commercial enterprises, Krens, 45, may be reinventing the way museums do business—and in the process creating the art world's first multinational. He is the most outspoken and controversial of a growing number of museum directors who are fusing hard-edged business acumen with classic connoisseurship.

"He's really a visionary," says Arthur Levitt Jr., former head of the American Stock Exchange and a Guggenheim board member. "But he's breaking some eggs in the art community." Krens' business-school jargon and management style offend many in the traditionally genteel, nonprofit world of museums. Says Hilton Kramer, editor of the *New Criterion,* a monthly arts review: "Krens has so far proven himself to be a complete disaster. His conception of a museum is all about expansion. He's a perfect example of what happens to a major cultural institution when it is given over to a bureaucrat."

HARRY BENSON

Krens shakes up the art world

After a 20-year boom in the museum business, the costs of acquiring, insuring, transporting and storing art are spiraling beyond the means of many institutions. As tax breaks that encouraged the rich to donate to museums are eliminated in the U.S. (roughly 80% of all the objects in American museums are gifts), corporate and individual contributions are drying up. Public funding for art is shrinking dramatically. According to the American Association of Museums, as many as 29 states are contemplating reductions of 50% or more in art funding. And the recession has dampened Americans' interest in visiting museums, buying gift-shop tchotchkes and becoming members.

Krens' solution is a three-pronged attack that traditionalists consider radical:

Construction and Financing. The museum's spiral-shaped building on Fifth Avenue will reopen in May after two years of restoration and expansion. The $48 million project will increase exhibition space by two-thirds, even though critics charge that a new, 10-story annex designed by Gwathmey & Siegel detracts from the Wright building's architecture. At the same time, the Guggenheim will unveil a fully funded $5.5 million exhibition and office space in New York's SoHo district, designed by Arata Isozaki. To help pay for the flagship expansion—and additional storage facilities—the Guggenheim floated $54.9 million in tax-exempt bonds in 1989. Other museums issue bonds to finance projects, but typically use their endowments as collateral. The Guggenheim has an endowment of only $30 million and its loans are secured with a letter of credit from the Swiss Bank Corp.

De-accessioning. In May 1990 the Guggenheim auctioned three paintings from its extraordinary collection of 19th and 20th century art—a Kandinsky, a Chagall and a Modigliani. The purpose was to raise $30 million for a deal to acquire more than 300 pieces of American Minimal art owned by Italian collector Count Giuseppe Panza di Biumo. It was the first step in Krens' plan to become a world-class presence in postwar art. Although such sell-offs—"de-accessioning," in museum jargon—are not unprecedented, cognoscenti complained that Krens was callously treating masterpieces as "assets." Maybe so. But each of the paintings went for more than 40%

J. DAVID AKE—AFP

chairman Eiji Toyoda shows at a Tokyo breakfast

whose stock is publicly traded was 3.7% a year since 1988, in contrast to 9.4% for the 500 largest U.S. corporations. "Bush couldn't have picked a less stellar group of business executives," says Graef Crystal, a leading compensation consultant and author of the book *In Search of Excess*. "They're overpaid and underperforming and represent all that's wrong with corporate America."

Yet even a more representative group would have been vulnerable to criticism on the pay issue. By Crystal's calculation, the average chief executive officer at a major U.S. corporation received about $2 million last year, counting base salary, bonuses and stock options. The average Japanese top executive earns $550,000, including bonuses, while the typical German CEO makes $800,000 in salary and benefits. On top of the rich pay, U.S. executives are awarded perks, like corporate jets and interest-free or low-interest loans, that are virtually unheard of anywhere else. Says Peter Chingos, director of compensation practices at the accounting firm KPMG Peat Marwick: "For American CEOs, the road to power and status is paved by compensation."

Meanwhile, as a growing number of critics are pointing out, the competitive position of U.S. industry is eroding and the overall economy sagging. Since January, American companies have laid off an average of 2,600 workers a day. And though corporate profits slipped last year an estimated 21%, to $133 billion, the average base pay—minus bonuses and stock incentives—of American top executives increased about 6%, to $690,000. Even though the outlook for U.S. companies remains bleak, CEO pay is expected to increase at least 5% this year, while bonuses are expected to jump as much as 10%. Such an anomaly has given rise to a sense that while American executives make more than European and Asian CEOs, they have done less to earn their pay.

Critics argue that excessive pay is just another indication of Detroit's financial shortsightedness. Analysts charge that the Big Three squandered a golden opportunity to catch up with their overseas rivals during the past 10 years as Japanese car companies—under pressure by the Americans—agreed to limit exports voluntarily. Rather than invest in new plant and equipment, the U.S. companies went shopping. GM spent $8 billion on nonautomotive acquisitions, including $5.3 billion to purchase Hughes Aircraft and $2.5 billion to buy EDS, a computer-services concern. Ford plunked down $500 million to buy a savings and loan, and Chrysler invested $1.6 billion on Gulfstream and American Motors. Says Ronald Glantz, an analyst at Dean Witter Reynolds: "If the Big Three didn't go on an acquisition binge, they might not be in the shape they're in today."

No one questions that the trade deficit with Japan is serious business. And automobiles and car parts account for 75% of the current $41 billion gap. To reduce the deficit, U.S. executives have called for several remedies, including greater access to Japanese markets and a limit on Japanese auto exports to the U.S.

In a speech before the Economic Club of Detroit immediately upon his return last Friday, Iacocca, citing an unnamed American financial company as his source, claimed that, between 1987 and 1990, Japan's automakers lost an astonishing $11.7 billion selling cars in America. Those losses were effectively subsidized, charged Iacocca, by profits of more than $36 billion made in their home market. Wall Street, however, expressed bafflement at Iacocca's claims. One analyst, Maryann Keller of Furman Selz, questioned whether the Chrysler chief was referring to the Japanese companies' start-up costs rather than actual losses, which "have nothing to do with dumping."

In a larger context, Iacocca had a point when he labeled the pay issue "a red herring." Even if the outspoken Chrysler chairman were stripped of all compensation, the savings would amount to only a few dollars per car. And for many industries in which American companies have a far stronger case than do the automakers for claiming they are competitive in both price and quality, the spat was an unfortunate diversion from their substantive complaints.

But the dispute is not entirely irrelevant. According to the Hay Group, Washington-based compensation consultants, about a third of the CEOs at major U.S. corporations saw their compensation cut last year as the recession pushed down company profits. Citicorp CEO John Reed took a 22% cut because of his company's flagging fortunes. Some management experts, like Donald Hambrick, a professor at Columbia University Business School, suggest that such sacrifices by CEOs might even help boost sagging employee morale. It might also avoid the kind of public relations debacle Detroit's fat cats endured last week. ***—With reporting by Kumiko Makihara/Tokyo and Joseph R. Szczesny/Detroit***

WHAT COMES WITH THE JOB

ROBERT STEMPEL, General Motors: $1.6 million in compensation, counting base salary, bonuses and stock incentives; access to corporate jet as well as first-class air travel for self and spouse, private executive dining room, free security for home and person, legal counseling, free car every six months, stock options.

HAROLD POLING, Ford Motors: $1.2 million, financial counseling, private-club membership, free car at least once a year, free spouse travel, home security, free home fax machines and telephones, corporate jet, chauffeur service.

LEE IACOCCA, Chrysler: $4.5 million, access to corporate jet, legal counseling, reserved parking, new company car every year, Waldorf Towers suite, stock incentives.

SHOICHIRO TOYODA, Toyota: $690,000, golf-club membership, season tickets (also used by other executives entertaining clients).

YUTAKA KUME, Nissan: $550,000, chauffeur service, executive dining room, vacation home shared with board members, company-rented house in a prime real estate area of Tokyo.

NOBUHIKO KAWAMOTO, Honda: $550,000, sporting club (also available to other employees), executive dining room.

above Sotheby's highest estimate, bringing in $47.3 million. Krens insists that he does not have a policy of de-accessioning and sold only to obtain the Panza collection.

Franchising. Because of space limitations, the Guggenheim can show only about 3% of its 6,000 works at any one time. To air out its collection and raise the museum's profile, Krens hopes to create what amounts to Guggenheim franchises. While the Whitney Museum of American Art has branches around New York and Connecticut, the Guggenheim is the first museum to think of opening international satellites.

Critics mock Krens for creating a "McGuggenheim" chain and contend that constant travel will endanger fragile art. But the museum insists that every precaution is taken to ensure quality. Krens argues that overhead would be kept to a minimum by planning exhibitions years in advance and lining up international companies as sponsors. The key element is that host governments would bear the cost of building and operating the franchises, benefiting from the cachet (and tourist dollars) generated by the visiting collection.

In the U.S., Krens has been involved in planning an $87 million satellite museum in North Adams, Mass. If the long-delayed project gains enough financial backing—most importantly from the state—the Guggenheim would operate its new art outpost much as it has the Peggy Guggenheim Collection, housed in a neo-Palladian palazzo on Venice's Grand Canal since 1979. And Krens is making moves in Europe. In December representatives from Bilbao signed an agreement for a $100 million Spanish Guggenheim to be designed by architect Frank Gehry. In 1989 Salzburg proposed an $80 million Austrian branch to be built inside a mountain. But many in Salzburg—resentful of the huge cost and what they see as Krens' imperious ways—oppose the project. In Paris, meanwhile, three of Peggy's grandchildren are threatening to sue the Guggenheim over the way the Venetian palazzo is run. "Krens has robbed the museum of all its originality and personality," says one of the Guggenheim grandchildren, art dealer Sandro Rumney. "He's just a businessman." Replies Krens: "We believe we've been faithful to what Peggy wanted in every way."

"What cost success?" wonders a museum director. "He's very smart and ambitious, but how many projects can you do and keep your focus?" Krens is unapologetic. "My colleagues know what I'm doing, and it makes them apprehensive," he says. "Are we becoming a tough institution? I'd be a little bit concerned if I were not on this side of the picture. I believe, culturally speaking, that we're going to blow people's minds."

Other young directors are watching Krens carefully to see how his initiatives fare. Says Ned Rifkin, 42, the new director of Atlanta's High Museum: "If Krens succeeds, we can truly say there is a new way to foster and nourish these institutions that are the lifeblood of our country." If not, Krens may be remembered for little more than reaping the whirlwind of his aggressive tactics. ***—With reporting by Alexandra Tuttle/Paris***