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BUILDING SUSTAINABLE SUCCESS IN ART GALLERIES: AN EXPLORATORY STUDY OF ADAPTIVE STRATEGIES

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ABSTRACT

Historically, art galleries have operated in a cottage industry that placed a premium on building unique relations with artists and clients. Recent economic and technological trends threaten the viability of this model. Art galleries now face a very challenging environment, demanding careful attention to strategy formulation and execution. However, more questions than answers can be found in the literature about management practices, art gallery performance, and factors affecting gallery success. This paper reports findings on these issues from an exploratory survey of Colorado art galleries. Results suggest that art gallery owners and mangers are not overly concerned about external pressures influencing their organizations. This attitude could adversely affect efforts to build sustainable success and value through adaptive strategies.

INTRODUCTION

In order to survive, organizations must create distinct sustainable value for shareholders (Elkington, 1994; Gladwin, Kennelly & Krause, 1995). The key to building shareholder value is found in the careful orchestration of strategy and its execution – strategic leadership (Vera & Crossan, 2004). Internal and external factors must be addressed when creating intelligent strategies that move an organization forward from where it is today to where it will be tomorrow (Thompson, 1967). Particularly challenging is the task of leading organizations past their inherent tendencies to become rigid, relative to strategy formulation and execution (Leonard-Barton, 1992; Teece, Pisano & Shuen, 1997).

Many small businesses experience great difficulty in coping with their changing competitive environments. Owners and managers are busy overseeing operations in order to attain sustainable value for their enterprises. Consequently, limited time is available for reviewing strategy and addressing significant shifts emanating from new trends and pressures (Ireland & Hitt, 1999). Small business leaders may also be reluctant to be first-movers in their economic sector because of inherently higher risk associated with first-mover initiatives (Bachmann, 2002).

Art galleries represent a perfect case-in-point. They exemplify small businesses that face a revolution in how commerce is conducted, yet they are benignly passive in their strategic responsiveness. In this respect, many art galleries seemingly serve as poster-children for how not to manage strategically. Art galleries continue to operate as though they exist in a cottage industry immune from driving forces such as high technology and consolidation that affect so many other economic sectors (Frankel, 1999).

Details of operating an art gallery tend to drown out, or overwhelm, strategic considerations. Short-term crises cause longer-run projects such as planning, information systems development, and marketing strategy formulation to wait for another day,. In many respects, art galleries appear to resemble other small businesses in their pressing demands and the lack of resources for addressing operating and strategic issues.

This paper reports on a study of external driving forces, adaptive strategy, and performance among 132 art galleries in Colorado using data collected through mail surveys. The art gallery marketplace has many similarities with market environments facing other small businesses; that is, a setting which demands careful attention to competitive trends. Consequently, this research context is fruitful for exploring the association between gallery owners'/ managers' perceptions of external forces and gallery performance and the association between adaptive responses and performance.

A BUSINESS MODEL UNDER PRESSURE

The fine arts market is an $18 billion industry with the potential for continued strong growth. There are approximately 5,000 independent art galleries in the U.S., accounting for over 60 percent of the fine art sold (Clarke & Flaherty, 2002). Throughout the past century, most companies, collectors, and individuals purchased art through galleries and their published catalogues. These consumers typically bought from local sources, chose from restricted selections, paid full retail prices, and arranged suitable framing and transportation. Most lacked expertise and experience for this time-intensive and costly experience (Smith, 1998). Only clients receiving personalized attention due to purchasing upper-end artwork were exempt from these trends.

Today, the art market is characteristically risky and a difficult place to trade because selection is limited and galleries usually represent just a few artists (Bernadette, 2003). The market is inefficient according to Hans Neuendorf, Chairman of ArtNet Worldwide who concludes that "if you want to sell or buy artwork, not only do you lose an average of 25 percent from when you bought it, but you take half a year or more to get rid of it when you decide to sell it" (Stern, 1996). In part, this inefficiency stems from the traditional conservatism of the industry. New technology elicits skepticism from artists and galleries, possibly reflecting a historical mistrust of reproductions sold fraudulently as originals. Despite these philosophical underpinnings, there are many opportunities for galleries to improve their efficiency in marketing art (Fase, 1996).

The traditional business model that art galleries have followed is under intense pressure from globalization and electronic commerce eroding operating premises, marketing channels, client relations, and the structure of the industry. Yet, a cottage industry mentality prevails (Meyer & Evan, 1998). Galleries tend not to employ professionals who have cross-functional education in business disciplines or extensive prior business experience. In part, this is the result of an ingrained culture among artists and the arts. It also reflects a naiveté that the traditional business model has been good enough and will persevere.

Like most business sectors, the pressures art galleries face cannot simply be ignored or superficially addressed if they intend to succeed in the future (Amis, Slack & Hinings, 2004). Instead, bold new strategies for marketing art and cultivating client relations are needed (Fillis, 2002). Other industries have already experienced extensive consolidation and the prospects for this occurring in the art world are robust. Whether gallery owners and managers are cognizant of it or not, their business model is changing, due to powerful external environmental pressures (Grant, 1999; Lucas, 2001).

External pressures are especially significant when considering how the growth of the Internet is transforming the way art is marketed and sold. Some authorities predict that in the future, 90 percent of the art business will be conducted over the Internet (Klebinikov, 1999). More than 20,000 sites showcase art online (Sullivan, 2000). Galleries have reported significantly more Internet accesses (i.e., "hits") than visitors through their physical doors (Vadon, 1995). Growth of online galleries has the potential to reshape the channels by which artists reach consumers. According to one study, 82 percent of artists have been contacted about placing art on the Internet and 42 percent expect to eventually sell on the Internet (Feliciano, 1995). The Internet allows artists to reach millions of people and spend little money doing so.

Nonetheless, artists remain skeptical about over-reliance on technology. Dealers who understand artists' unique perceptions and preferences can use this knowledge in conjunction with electronic technologies to improve fine arts distribution. New technology enables galleries to turn over inventories faster than traditional once-a-year shows. Increased volume, with associated cost advantages, can improve margins as well as artist and gallery profits. Improving the availability of art and providing in depth knowledge to consumers may enhance interest in art as a commercial commodity. These actions could motivate more people to collect art and to expand their holdings.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

This research study draws from the strategic management literature regarding strategic change (Ireland & Hitt, 1999). According to this literature, organizations will formulate and implement new strategies as a response to changes in performance influenced by the external environment (Porter, 1979; 1985). Driving forces function as the chief basis for change in the external environment. Therefore, three sets of variables were examined in this study: economic and technological driving forces affecting art galleries' success, changes in performance, and strategic level responses – or adaptive strategic responses – to performance change. The terms adaptive strategic responses and adaptive strategies are used interchangeably in this paper.

Whenever driving forces in the external environment intensify, organizations can expect changes in performance, unless business and functional strategies are also changed. With respect to art galleries and their historic cottage industry, it is plausible that they are not cognizant of the need to monitor the impact of driving forces. Consequently, we hypothesize that:

> *H1: art gallery owners and managers will not perceive that driving forces have an extensive impact on their firms' success, and their perceptions (of driving forces) are not related to changes in performance.*

Performance is the primary concern of every manager. Although art gallery owners and managers may not be sensitive to the impact of driving forces, they should be acutely aware of deteriorations in gallery performance and of the need to implement adaptive strategic responses (to improve deteriorating performance). In particular, those owners and managers with poorly performing art galleries should be more sensitive to performance change than galleries that are performing well (Hart & Milstein, 2003). Consequently, we hypothesize that:

> *H2: art galleries with poor performance will be more likely to implement adaptive strategic responses in an effort to build better performance and long-run sustainable value.*

METHODOLOGY

Adaptive strategic responses can occur anywhere within a business' strategy hierarchy – business-level (i.e., plans for competing), functional-level (i.e., marketing, human resource management, and financial strategies), and operating-level (i.e., activities and tactics that fulfill business and functional strategies) (Thompson, Strickland & Gamble, 2005). In this study of art galleries, feasible adaptive strategies (e.g., marketing specific events, financial management, inventory management, cultivating new artists, etc.) were defined with the assistance of two art professionals who also participated in a pre-test of the research instrument.

Our study presents the results of a mail survey completed by private art gallery managers in Colorado. Colorado has approximately 700 galleries, most of which specialize in the works of living artists. It is a good state in which to conduct a study of this nature, due to thriving art communities and art-centered businesses found in metropolitan Denver and state-wide tourist destinations. A 2004 study (CBCA, 2005) indicates that culture (including art sales) in metropolitan Denver generated $1.311 billion in economic activity during 2003, with $500 million of direct economic impact.

A one-page survey instrument was drafted, incorporating information available from the few published research articles and limited trade association reports. Pre-testing the instrument suggested that only a few wording changes were needed. Five sets of questions sought to identify gallery characteristics, owner/manager characteristics, driving forces affecting gallery success in the preceding two years, strategic responses that should receive attention in the coming year, and recent percentage changes in performance. Specific measures incorporated under each question are reviewed along with the statistical results in Tables 1 to 5.

A mailing list obtained from a respected commercial source in the industry identified 736 art galleries in Colorado. Questionnaires were sent to each gallery along with a stamped, self-addressed return envelope. A total of 65 questionnaires were returned, indicating incorrect addresses or businesses no longer operating, suggesting a viable population of 671 galleries. From this sample population, 132 returns were received representing a 20 percent response rate.

FINDINGS

Descriptive Statistics for Study Variables

Table 1 presents descriptive statistics on responses from the Colorado art galleries participating in this study. The average Colorado art gallery represents 31 artists and exclusively represents nine artists. The average respondent in this study charges a retail price of $894.55 per artistic work and has been in operation for 13 years. The average gallery participating in the survey maintains 633 pieces of art in stock, with 57 percent of inventory held on consignment. The type of art carried by the galleries is quite variable. The highest percentage of the respondents (29%) reports an eclectic mixture of art types followed by ethnic/primal art (25%), Southwestern art (20%), avant-garde (18%), and European art (12%). The typical respondent in this study is an owner (70%), followed by managers (27%) and assistants (3%). Respondents have been at their gallery for an average of 10 years and in the art gallery business for an average of 13 years. The owners of the respondents' art galleries have been in the business for an average of 17 years.

Changes in Performance

Table 2 presents results for changes in key performance variables comparing the galleries' most recent fiscal year to the prior fiscal year. Respondents indicate that their sales grew on average 12.7 percent and net income grew 12.8 percent. These results suggest that the Colorado art galleries experienced a favorable economic environment in their latest fiscal year. Further confirmation surfaces from data associated with net income and the number of clients the galleries serve. Sixty-nine percent of the respondents indicated an increase in total sales, and 56.2 percent indicated an increase in net income over the previous fiscal year. In contrast, only 20.5 percent experienced a decrease in total sales, and 19.2 percent saw a decrease in net income. Finally, 10.2 percent indicated no change in total sales, while 24.6 percent indicated no change in net income had occurred.

Table 1 – Descriptive Statistics for Research Variables

Gallery Characteristics	**N**	**Mean**	**SD**
# of artists represented by the gallery	110	31	32
# of artists exclusively represented by the gallery	72	9	12
Average retail price per work/piece	112	$894.55	$1,319.56
# of years gallery in operation	120	13	12
# of works/pieces maintained in stock	101	633	1,045
% inventory on consignment	89	57	37
Respondent Characteristics			
# of years at this gallery	122	10	8
# of years in the art gallery business	122	13	9
# of years owner has been in the art gallery business	24	17	13
Respondent Titles	**n**	**%**	
Owner	86	70[a]	
Manager	33	27	
Assistant	3	3	
Type of Art Primarily Carried by Gallery			
European	16	12	
Avant Garde	24	18	
Southwestern	26	20	
Ethnic/Primal	32	25	
Eclectic	38	29	

[a] Percentages may not total to 100% due to rounding

Table 2 – Changes in Performance from Prior Fiscal Year

Measure	**n**	**Mean**	**SD**	**Increase**	**Decrease**	**No Change**
Total sales	129	12.7	33.9	69.3[a]	20.5	10.2
Net income	130	12.8	46.2	56.2	19.2	24.6
# Clients/Customers	130	8.7	20.1	54.6	14.6	30.7
Computer Software & Equipment Costs	129	6.3	17.1	32.6	3.1	64.3
Web/Internet Costs	130	12.9	29.9	33.0	3.8	63.0
Marketing and Advertising Expenses	129	7.1	30.3	49.6	14.7	35.6
Employee Expenses	130	4.8	19.6	37.6	6.1	56.1

[a] Percentages; rows may not total 100% due to rounding

The favorable report on total sales and net income occurs, despite only modest increases in the number of clients or customers. The average respondent in this survey reported an
increase of 8.7 percent in the number of clients. Thirty percent of the respondents indicated no change in the number of clients or customers that they served. These results imply that a higher level of sales occurred per customer than in the preceding fiscal year.

Turning to the expense side of art galleries, respondents were asked about their experiences on technology, marketing, and employee expenses. Table 2 shows that the galleries increased expenditures on computer software and equipment by 6.3 percent. Expenditures on web/internet development increased 12.9 percent over the previous fiscal year. It is interesting to note that relatively high percentages of the respondents indicated no change in expenditures for computing (64.3%) and web/Internet development (63.0%). Thus, about one-third (32.6% and 33.0% respectively) of the respondents invested significantly in com-I and the Internet over the previous fiscal year.

Marketing and advertising expenses have increased on average 7.1 percent according to the respondents, while employee expenses have only increased 4.8 percent on average. Fairly sizable percentages of the respondents (35.6% and 56.1% respectively) indicate no change in these expense categories. Half of the respondents increased their marketing expenditures over the previous fiscal year, an action that may be related to the increase in total sales and total number of clients/ customers.

T-tests (Table 3) were also run for all of the performance indicators to compare responses from firms that experienced increased sales with those reporting decreased sales. Art galleries with increased sales reported statistically higher ($p < .0001$) net income (mean = +28.4%) than galleries reporting decreased sales (net income mean = -19.2%). Firms with increased sales also reported a statistically higher ($p < .0001$) number of clients/customers (mean = +16.3%) than galleries with decreased sales (# of clients mean = -7.4%).

Driving Forces Affecting Success

Table 4 presents the respondents' perspectives about how much impact various driving forces had on art gallery success in the prior two years. The most significant driving forces included tourism/visitors to Colorado (36%), discretionary consumer spending (35%), the state of the economy (30%), and reliability of artists and art suppliers (24%). These findings suggest that external economic forces are perceived as having the biggest impact on art gallery success, followed by supply(ier) factors.

Those driving forces perceived as having a very limited effect on art gallery success in the prior two years included competition from web/Internet sales (48%), ability to market the gallery via the web (34%), donations to charitable causes (29%), competition from other galleries (25%), and the state's promotion of Colorado as a destination (23%). These results are intriguing because they suggest that electronic commerce is not viewed as a strong competitive factor by the Colorado art galleries. Furthermore it is surprising that more than half of the respondents do not see other galleries, donations, business taxes, or fees as influential in affecting performance.

Driving forces that were viewed as having only a modest impact included proximity to other galleries and museums, the State's promotion of Colorado as a destination, the ability to market their gallery via advertising or direct mail, and respondent involvement in the community (e.g., governing boards).

Respondents were asked to identify (in writing) which single force would have the most positive impact and the most negative impact on their galleries in the next two years. Thirty percent of the respondents indicated that tourism and visitors to Colorado would produce the most positive impact. The second most often mentioned driving forces (a tie) were the state of the economy (17%) and discretionary spending (17%). Fifty-two percent of the respondents view the state of the economy as the force most likely to have a negative impact on their gallery in the next two years. The next most important force with a negative impact is discretionary spending (18%).

T-tests (cf. Table 3) were run for all of the driving forces to compare responses from firms that experienced increased sales with those reporting decreased sales. No statistically significant differences surfaced in this analysis.

Table 3 – T-tests on Study Variables Comparing Respondents that Report Sales Increases with Respondents that Report Sales Decreases

	Increasing Sales	Decreasing Sales	t value	Probability
Performance				
Net income	28.4	-19.2	4.37	0.0001
# of clients/customer	16.3	-7.4	5.45	0.0001
Computer costs	6.6	-119	1.77	0.08
Web/internet costs	12.8	-18.6	0.81	0.42
Marketing expenses	16.8	-9.8	0.40	0.45
Employee expenses	5.4	-4.8	0.22	0.82
Driving Forces				
Competition	2.2	2.4	0.63	0.57
Proximity to galleries	2.7	2.9	0.86	0.39
Web competition	1.7	1.8	0.41	0.69
Tourism	3.6	3.9	0.93	0.35
State promotion of Colorado	2.7	3.1	1.52	0.13
Marketing gallery via web	2.1	2.1	0.02	0.98
Marketing gallery via advertising	2.8	2.7	0.35	0.72
Supply of art	3.1	3.1	0.17	0.86
Reliability of artists	3.4	3.1	0.97	0.33
State of economy	3.6	3.8	0.82	0.42
Discretionary spending	3.8	3.9	0.55	0.58
Business taxes/fees	2.6	2.7	0.26	0.79
Community involvement	2.7	2.9	0.70	0.50
Gallery donations	2.4	2.4	0.08	0.94
Adaptive Responses				
Event planning	1.4	1.3	1.71	0.09
Staff management	1.4	1.5	0.78	0.44
Electronic commerce	1.2	1.3	0.67	0.50
Upgrading computer system	1	1.3	1.76	0.08
Marketing gallery	1.6	1.5	0.68	0.50
Marketing events	1.4	1.3	0.74	0.46
Financial management	1.4	1.5	0.99	0.32
Inventory management	1.4	1.4	0.48	0.63
Customer service	1.7	1.8	0.64	0.52
Artist relationships	1.6	1.5	0.78	0.44
Cultivating new artists	1.5	1.3	1.25	0.21
Theft/security management	1.1	1.2	0.74	0.46
Scaling for Driving Forces: 1 = very limited extent; 5 = very great extent **Scaling for Adaptive Responses: 1 = extensive attention; 3 = no attention**				

Table 4 – Driving Forces Affecting Art Gallery Success in the Past Two Years

Extent of Effect on Gallery Success								
		Very Limited Extent	Limited Extent	To Some Extent	Great Extent	Very Great Extent		
Forces Affecting Success	**n**	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
Competition from other galleries	125	25a	32	27	6	6	2.3	1.1
Proximity to other galleries and museums	124	19	17	29	22	9	2.9	1.3
Competition from web/ Internet sales	124	48	30	18	1	3	1.8	0.9
Tourism/ visitors to Colorado	124	9	8	19	29	36	3.7	1.3
State's promotion of Colorado as a destination	123	23	18	27	15	17	2.9	1.4
Ability to market gallery via web	124	34	25	27	11	3	2.3	1.1
Ability to market gallery via advertising/ direct mail	124	19	17	35	14	15	2.9	1.3
Supply of marketable art	124	14	13	26	31	17	3.2	1.3
Reliability of artists and art suppliers	124	15	6	22	33	24	3.5	1.3
State of the economy	124	1	9	31	30	30	3.8	1
Discretionary consumer spending	124	0	5	27	33	35	4	0.9
Business taxes/fees	124	18	27	27	21	7	2.7	1.1
Your involvement in the community (boards)	124	20	20	27	23	11	2.8	1.3
Gallery's donations to charitable causes	124	29	26	24	14	7	2.4	1.2

[a] Percentages; rows may not total 100% due to rounding

Relative Importance of Adaptive Responses

Table 5 reports the relative importance of various adaptive strategic responses for the galleries' coming fiscal year. Respondents were requested to indicate how much attention each adaptive response will receive in the next fiscal year. Eighty-three percent of the respondents indicated that they will devote extensive attention to customer service. This adaptive response was clearly the most important among those presented to the survey participants. However, two other adaptive responses also were identified by a large percentage of the respondents as a target of extensive attention in the next year. Sixty-eight percent of the respondents indicated that they will devote extensive attention to marketing their gallery while 63 percent replied that they will direct extensive attention to managing continuing relationships with artists.

Table 5 – The Relative Importance of Adaptive Strategic Responses

		Amount of Attention for the Next Fiscal Year				
		Extensive Attention	Modest Attention	No Attention		
Adaptive Response	**n**	**1**	**2**	**3**	**Mean**	**SD**
Event planning (e.g., openings)	124	34[a]	56	11	1.8	0.6
Personnel/staff management	124	43	37	20	1.8	0.8
Electronic commerce	123	27	52	20	1.9	0.7
Upgrading computer systems	124	14	45	41	2.3	0.7
Marketing your gallery	123	68	29	2	1.4	0.5
Marketing specific events and artists	124	48	44	8	1.6	0.6
Financial management	124	48	47	6	1.6	0.6
Inventory management	124	46	44	11	1.7	0.7
Customer service	124	83	14	3	1.2	0.5
Continuing artist relations	123	63	29	9	1.5	0.7
Cultivating new artists	124	42	36	23	1.8	0.8
Theft/security management	124	12	54	34	2.2	0.6

[a] Percentages; rows may not total to 100% due to rounding

Five other adaptive responses also received support as a target for extensive attention in the coming year. Financial management and marketing of specific events and artists are each identified by 48 percent of the respondents as targets for extensive attention. Inventory management (46%), personnel and staff management (43%), and cultivating new artists (42%) are recognized as adaptive responses for extensive attention in the coming fiscal year. In contrast, strategic responses involving upgrading computer systems and theft/security management are less important, according to the respondents. Forty-one percent of the respondents indicated they would not devote attention to upgrading their computer system, while thirty-one percent of the respondents would not devote attention to theft/security management.

T-tests (cf. Table 3) were run for all of the adaptive strategies to compare responses from art galleries that experienced increased sales with those firms reporting decreased sales. Art galleries with increased sales reported a statistically higher ($p < .10$) intention to undertake event planning (mean

= 1.44) than galleries reporting decreased sales (event planning mean = 1.26). Galleries with increased sales also reported a statistically lower ($p < .10$) intention to upgrade their computer systems (mean = 1.05) versus those firms with decreased sales (computer system mean = 1.31). It is possible that galleries with increased sales may already have upgraded their computer systems, which could explain this result.

DISCUSSION AND IMPLICATIONS

Driving Forces and Performance (Hypothesis 1)

This survey's results for Colorado art galleries clearly indicate that the gallery business is very complicated with a mix of driving forces (cf. Table 4). It possesses characteristics of a cottage industry within the context of global competition. The results suggest that art galleries are relatively unconcerned about key economic and technological pressures affecting many businesses. In this regard, the first hypothesis of this study was supported: art gallery owners and managers do not perceive that driving forces have an extensive impact on their firms' success. Few statistically significant relationships were observed between perceptions of industry driving forces and gallery performance. This also supports the first hypothesis that perceptions of gallery owners and managers are not related to changes in performance.

These findings may be explained by the fact that art is still a very personal product, and high price tags require customers to see a piece of artwork in person before making purchase decisions. Art gallery owners and managers may be counting on consumers to seek a visual confirmation of artwork firsthand – to experience the fine granularity and clarity of art before reaching a purchase decision. These consumer expectations run counter to new technological and market pressures accompanying the Internet. Thus, gallery owners and managers may not perceive that external environmental forces – driving forces – have much impact on their firms' success. It's all about building close personal client/customer relationships.

For all businesses, including the art market, use of the Internet is expected to grow at an accelerating rate during the next few years (Violino, 2001). Worldwide consumer usage of the Internet was predicted to reach 640 million by 2004. This is approximately 14 percent of the world's adult population (Enos, 2000). In terms of dollars, the amount spent in 2000 over the Internet was $42 billion and in 2001 it rose to $65.9 billion (Weisman, 2001). The Internet's significance will continue to grow for fine art. Artists using this approach are likely to attain long-term repeat purchases from buyers. Properly managed and nurtured, an Internet-assisted relationship can become a mutually profitable and symbolic association for both the art buyer and seller over the long term.

The Internet possesses numerous implications for art media as well. Digitizing art enables galleries to reduce theft and fraud. Art theft is estimated to be in excess of one billion dollars a year (Wagner, 1996). Nonetheless, respondents in this study do not anticipate investing much attention to security in the coming year. Keeping art in secure locations and limiting shipment to the time of purchase could reduce theft. Sellers receive greater protection, since a buyer must escrow the sales price of a piece into a deposit account prior to receiving the property. Thus, galleries can utilize the Internet to reduce the risk for all parties involved with a transaction. At its full extension, an electronic art market could emulate an online stock exchange with a guarantor serving as intermediary between buyer and the seller (Klebinikov, 1999). The major question is whether smaller buyers, sellers, and collectors are willing to use this non-traditional means as a way to merchandise art products.

Performance and Adaptive Responses (Hypothesis 2)

Despite a highly competitive environment that is pitting local art galleries against stiff competition from regional, national, and international players, respondents indicated that they will continue to emphasize adaptive strategies that have historically received focus in this industry (cf. Table 5). Perhaps these perceptions are the result of recent positive financial and sales performance (cf. Table 2). Almost 70 percent of the respondents indicated an increase in sales growth from the prior year, while 56 percent reported an increase in net income. The respondents may not perceive value in substantially changing their strategies, in view of recent performance.

With respect to Hypothesis 2, firms reporting an increase in total sales did indicate a statistically higher intention to undertake more event planning as an adaptive strategy. In this case Hypothesis 2 is not supported. It was predicted that better performance is less likely to elicit adaptive strategy responses.

On the other hand, galleries reporting an increase in total sales indicated a statistically lower intention to upgrade their computer systems compared to firms with decreased sales. This finding seems to support Hypothesis 2 in the sense that firms with lower sales intend to implement a strategic response that galleries with higher sales do not intend to implement. However, it is plausible that art galleries reporting high sales have recently initiated changes in their computer systems, which render further strategy adjustments unnecessary.

In sum, mixed support was found for Hypothesis 2. Despite these statistical vagaries when accounting for prior performance, the gallery owners and managers clearly express the intention to implement adaptive responses in customer service, marketing, and managing artist relationships (cf. Table 5). Not addressed in this study is the question of whether these strategy changes will actually occur because the respondents were asked to indicate which strategies they *intend* to implement over the next two years. What the respondents say they intend to do may be inconsistent with the strategic responses they actually implement.

Implications for Small Business

These survey findings for art galleries have important applicability to other small businesses in several respects. First, small businesses, like art galleries, may tend to ignore the nature of their competitive situation. Consumed by the daily operating demands of their business, it is easy for small business owners and managers to rationalize that larger competitors of regional, national, or international scope are not concerned about limited local markets. Nothing could be farther from the truth. As a result, all small businesses including art galleries, should remain vigilant about market penetration from larger enterprises. Periodically scanning the environment is an essential prelude to creating responsive competitive strategies.

Second, the World Wide Web can become a competitive advantage for small businesses by leveling the competitive playing field to some degree. McLaughlin's (1996) study of 47 commercial art websites concluded that despite intense competition, online sites offer substantial sales growth potential for small art galleries, especially considering the low overhead costs. Respondents in our study appeared to be somewhat reluctant to fully explore online selling. They, as well as other small business owners who define their markets narrowly, may be missing one of the best strategies to grow their firms into larger businesses.

Third, art galleries cling to a strategy of high-touch personal service for their clientele. In many respects, this intense customer focus is driven by art products which require intimate personal appraisal prior to purchase. Focused customer service will undoubtedly remain critical in selling art, but galleries may be overlooking an important market development. Customers are increasingly willing to complete transactions without personally seeing or laying hands on a product. Online selling is creating a greater willingness by customers to try products, so long as there is a guarantee of uncomplicated returns.

This finding has significant implications for small businesses that think they possess a unique product or service that is difficult to market electronically. Personal service may be important, but customers will also consider trade-offs relating to the value of their time. Effective competitive strategy may require building options for high touch, *as well as* ease of purchase.

Suggestions for Future Research

No prior research has been published regarding driving forces, performance change, and adaptive strategic responses in art galleries. As a result, this study is viewed as exploratory and an essential first-step from which future research can explore more complex issues and relationships surrounding driving forces, performance, and strategy.

This study has established an important baseline upon which future research can build. Ideally, a diverse sample with more galleries participating would enhance the generalizability of the findings. A broader exploration of driving forces affecting gallery success would shed more light on the challenge before gallery owners and managers. Larger sample sizes will also enable the use of multivariate statistics and hence, analysis of causal associations among variables.

Taking a deeper look at art market players in this economically complex market could offer greater insights on management knowledge and practice. Future research, using a broader sampling framework and refined measurement instruments, will enable greater exploration of the motivation, behavior, and strategies of gallery management. By achieving an improved understanding of the overall art buying process, strategies can be developed to overcome marketplace inefficiencies. Enlightened gallery managers will then be more likely to strategically pursue leading positions within this growing competitive marketplace.

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