



University of Navarra

P-0964-E
0-699-025
Rev. 5/99

Guggenheim Museum (A)

“We must get this project. If we do, it will be a big step forward for us. We have an outstanding team, outstanding as individuals and as professionals. I’m convinced that we’ll win.” Felipe Prósper, President of IDOM, was talking to Fernando Querejeta, the company’s General Manager. In November 1992, the two were waiting to hear whether their company had been chosen to manage what would be its most important project to date: the Guggenheim Museum Bilbao.

The decision lay in the hands of the Guggenheim Bilbao Project Consortium, a body created jointly by the Basque Government, the Vizcaya Provincial Council, and Bilbao City Council¹. The Consortium was headed by Juan Ignacio Vidarte, formerly Director of Fiscal and Financial Policy in the Vizcaya Provincial Council.

One month earlier, Vidarte had telephoned Fernando Querejeta, IDOM’s General Manager, to invite his company to tender for the contract to manage the construction of the Guggenheim Museum Bilbao, the investment in which was initially estimated at more than 10,000 million pesetas. In its favour, IDOM had exceptional experience and prestige in the management of industrial and civil engineering projects. For the company, winning the contract would mean working on a large-scale project with the Solomon R. Guggenheim Foundation and collaborating with one of the most famous architects in the world, Frank O. Gehry.

¹ Bilbao is the capital of the Basque province of Vizcaya.

This case was prepared by Cristina Pallàs, Research Associate, under the supervision of Professor Pedro Nuño, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. March 1999. Revised in May 1999.

Copyright © 1999 IESE. To order copies or request permission to reproduce materials, contact IESE PUBLISHING via the website, www.iesep.com. Alternatively, call +34 932 534 200, send a fax to +34 932 534 343, or write IESEP, C/ Juan de Alós, 43 - 08034 Barcelona, Spain, or iesep@iesep.com.

No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means – electronic, mechanical, photocopying, recording, or otherwise – without the permission of IESE.

Last edited: 9/12/01



P-0964-E

Guggenheim Museum (A)

Company Background

The professional services firm IDOM was formed in September 1957, when the company Basconia placed Rafael Escolà, a young engineer from Barcelona, in charge of the “Cold Strip Rolling Project”, a cold rolling plant located in Vizcaya. The assignment had a budget of 1,000 million pesetas and was one of the first examples of the outsourcing of engineering services in industrial plants in Spain.

For internal purposes, IDOM can be considered to have been founded in 1959. The start-up capital was 100,000 pesetas, and Rafael Escolà figured as sole proprietor. At that time, IDOM could not be described as a traditional company. As Rafael himself put it, the idea behind IDOM was “more that of an association of professionals than of a conventional limited company”.

In 1965 two new groups were created, one in Barcelona and the other in Saragossa. They were referred to as “groupings” and were headed by engineers trusted by Escolà. Later, the company opened more sales offices (in Madrid, San Sebastián, Valencia, Gijón and Logroño), each of which covered a particular geographical area.

The 1973 oil crisis and the decline in industrial investment in Spain put a brake on IDOM’s growth. Luis Olaortúa took over from Escolà and, with Felipe Prósper as General Manager, implemented a diversification strategy, creating new business areas.

Professional Service Areas

From 1991, the inclusion of new professional services in its offering forced IDOM to modify its organizational structure –previously based exclusively on geographical areas– combining the geographical areas with eight areas of professional services:

- Industrial engineering.
- Architecture and construction.
- Civil engineering.
- Research and consultancy.
- Territorial management.
- Energy.
- Environmental engineering consultancy.
- Electronic systems and telecommunications.

IDOM, a Service Company

In 1992 IDOM employed 450 people, 32% of whom were fully qualified engineers and architects. It had a sales turnover of 3,300 million pesetas, which put it twelfth among Spanish engineering firms.

A company like IDOM did not have products, but clients. IDOM tailored its services to the needs of each individual client. As Felipe Prósper put it: “The ability to correctly

interpret our clients' needs and demands has been one of the main factors in getting a precise measure of the success or failure of a project."

As a professional services firm, IDOM had encapsulated the objectives it pursued in undertaking projects in the following three points: first, to provide a real service and real value to client companies; second, to offer work opportunities and demonstrate its commitment to professional development; and third, to create and distribute wealth.

In the years since it was founded, IDOM had successfully completed a large number of highly complex projects that had won it considerable recognition and prestige and had brought consistently profitable growth. One of the success factors had been the excellent training of all its professionals. Among the major projects that IDOM had been involved in were: the infrastructure for the Barcelona Olympics, the Bilbao sewer network, the Cerdà Towers in Barcelona, Guardian Industries' flat glass factories in Spain, and INESPAL's sheet aluminium rolling plant.

Regenerating a City

The atmosphere in the Basque Country in the early 1990s, and in Bilbao in particular, reflected the economic crisis that had forced many companies to close down. What was more, the Basque Country had been bypassed by the investments that accompanied the grand events that took place in Spain during 1992 (Barcelona Olympics, Universal Exhibition in Seville, and Madrid's term as European cultural capital).

The Basque authorities decided to join forces in the search for a solution that would galvanize the economy. A change of attitude and outlook was needed on the part of politicians and business people alike to revive the city of Bilbao. The surveys conducted by universities and research centres painted a picture of a post-industrial city that needed to be transformed into a centre for services.

The Guggenheim Museum Bilbao project took shape in 1991 as a result of the confluence of a variety of different interests. The museum was to be the centrepiece that would define Bilbao's new image, and the image of the Basque Country in general. The Basque authorities (Basque Government and Vizcaya Provincial Council) recognized the need to find a solution to the rapid deindustrialization of the Bilbao area, due mainly to the decline of traditional industries (iron and steel, shipbuilding). During the 1970s and '80s, the citizens of Bilbao had witnessed the disappearance of many of the Basque companies that had grown up on the banks of the River Nervión during the nineteenth century (see **Exhibit 1**).

At the end of the 1980s, the Basque government had launched the Bilbao Metropoli 30 plan, a joint public and private initiative designed to promote projects for revitalizing Bilbao:

- Changes and improvements to the communications network (Metro, Sondika airport, Superport).



P-0964-E

Guggenheim Museum (A)

- Support for the establishment of high value added companies with a promising future (Zamudio Technology Park).
- Efforts to broaden the cultural offering (Palace of Congress and Concert Hall).

In a word, what was needed was a wide-ranging programme of economic reactivation for the whole of the Basque Country, and of urban renewal for Bilbao. This plan would entail spending 20 billion pesetas of public funds. Despite the crisis and the risks involved in any large-scale transformation of this kind, there was confidence that the situation could be overcome.

The Solomon R. Guggenheim Foundation

The Guggenheim Foundation, for its part, was facing financial difficulties, and found itself unable to exhibit 94% of its magnificent collection of modern and contemporary art for lack of space. It had recently invested heavily in extending its museum on Fifth Avenue in New York and renovating its SoHo headquarters. These changes were the work of the Foundation's director, Thomas Krens, whose goal was to make the art collection more profitable and overcome the financial difficulties. From the moment he was appointed director in 1988, Krens strove to reach agreements that would allow him in one way or another to achieve these objectives. His idea was to build a network of museums in Europe modelled on the Foundation's existing museums.

Krens, who had a solid and extensive academic background, repeatedly denied being a polemical and controversial figure with a narrow business mentality. He defined his concept of a museum in the following terms: "In the 20th century, the concept of the museum hits a ceiling and becomes obsolete, because the museums are already full and in art it's impossible to cover everything. My task is to find an answer to the question of how you can expand your physical space and at the same time continue to be hospitable to a contemporary audience. One solution is not to build an extension onto an extension, but to create a constellation of cultural institutions."

After an unsuccessful attempt to establish a Guggenheim Museum in Salzburg, a Spanish curator who worked in the New York Guggenheim suggested to Krens that it might be a good idea to get in touch with Fundación BBV in Spain. The response from the Spanish foundation was negative, as its directors felt that Krens's project was "too big" for them. However, they advised Krens to approach the Basque political authorities. From that point on, Thomas Krens' interest in the idea grew. He soon realised that the political organization of the Basque Country, with its historical privileges, its own taxes, and the possibility of having direct access to the top politicians and all the parties concerned when it came to establishing agreements, provided the ideal framework in which to carry out his plans.

In February 1991 the Vizcaya Provincial Council met with Thomas Krens in Madrid and proposed to him that the Solomon R. Guggenheim Foundation take part in the programme to revitalize Bilbao. The Basque authorities expressed their interest in the possibility of the Foundation's collaborating in the construction of a museum of



modern and contemporary art in the Vizcayan capital. Two months later, at the invitation of the Basque Government, Thomas Krens and Carmen Giménez, then Director of Exhibitions at the Spanish Ministry of Culture, visited a possible site and had a meeting with the Basque President, José Antonio Ardanza. The two sides agreed that the ideal thing would be to carry out a feasibility study, before the end of 1991, that would allow them to appraise the project and start looking for an architect. This study was commissioned from the Bilbao engineering firm SENER-GESTEC and the consultants KPMG Peat Marwick. It would involve analyzing the artistic programming and service management needs facing the Guggenheim Foundation, the demographic and economic impact of the museum, and a possible estimate of the cost of the project.

In May 1991, a delegation of Basque government representatives travelled to New York to see the Solomon R. Guggenheim Foundation's facilities there. During this visit the two parties agreed that the person commissioned to design the new museum should be an architect of international repute. Krens seized the opportunity to try to persuade the Basques that the best thing for Bilbao would be to construct a building that would make the city famous around the world.

The Selection of Frank O. Gehry

According to the Consortium's estimate, the costs were broadly divided up as follows:

- 8,200 million pesetas for the construction of the building.
- 2,600 million pesetas for the remodelling and landscaping of the surrounding area.
- 6,000 million pesetas for the acquisition of works of art.
- 1,600 million pesetas to pay the Design Architect's fees.

Three architects of international prestige (the North American Frank O. Gehry, Arata Isozaki of Japan, and the Viennese team of Wolfgang Prix and Helmut Swinzky, known as Coop Himmelblau) were invited to submit proposals for the new museum. Within a period of three weeks, these three teams had to present their design proposals, on the understanding that it should be an emblematic building for Bilbao.

At the beginning of July 1991, the decision was taken. The firm Frank O. Gehry & Associates (FOG/A) was chosen to design the future museum and quickly launched into an intensive design development process. Frank O. Gehry visited Bilbao and proposed a site on the bank of the Nervión estuary to locate the museum (see **Exhibit 2**). During this visit he made the first sketches for the future museum (see **Exhibit 3**).

A Singular Architect

"I consider myself fortunate to have received the support of living painters and sculptors. I have never believed that what artists do is so very different. I have always felt that there is a moment of truth when you decide what colour, what size, what composition...



P-0964-E

Guggenheim Museum (A)

“Solving all the functional problems is an intellectual exercise. That’s one part of my brain. I create value by solving all those problems, by negotiating in the context with the client, and then by finding the moment of truth after I have studied the problem.”

Frank O. Gehry

These words sum up the concept of art that inspired this bold Canadian architect and admirer of Le Corbusier. Radical and innovative, to many a late 20th century revolutionary, Gehry was born in Toronto, Canada, in 1928 and studied Architecture at California Southern University. In 1962 he formed the architectural studio Frank O. Gehry & Associates. Since then, he had acquired a reputation as a singular architect who used innovative forms and new materials in his buildings.

For Gehry “architecture and the plastic arts must learn from one another”. This son of Jewish immigrants of Polish origin settled in Canada became one of the most highly praised and at the same time most reviled architects of the 20th century. The project that did most to catapult him to fame was perhaps the renovation of his house in Santa Monica (1978), which gave him an opportunity to revolutionize the most avant-garde architectural ideas of the day.

Gehry had left samples of his work scattered around the globe, buildings that excited attention with their calculated simplicity of form and mastery of materials. Prominent among them were, in the Old Continent, the controversial American Centre in Paris and the monumental sculpture in the form of a golden fish in the Olympic Village in Barcelona, which Gehry designed for the 1992 Olympic Games.

Preliminary Meeting

At the beginning of October 1991, Joseba Arregui, the Councillor for Cultural Affairs of the Basque Government, and Juan Luís Laskurain, Deputy for Treasury and Finance in the Vizcaya Provincial Council, signed a preliminary agreement with Thomas Krens for the development of the museum. At the end of that same year, Gianni de Michelis, a member of the Board of the Guggenheim Foundation and at that time Italian Foreign Minister, José Alberto Pradera, head of the Vizcaya Provincial Council, and Joseba Arregui signed the definitive agreement that allowed work on the future Guggenheim Museum Bilbao to begin.

For the Basque authorities this agreement signified an investment estimated at that time at 12,000 million pesetas for the construction of the building. A further 6,000 million pesetas would be provided for the acquisition of works of art. And as owners of the future museum, they would shoulder the operating deficit, which was expected to be 60% in the first year.

The Guggenheim Foundation, meanwhile, would contribute its curatorial expertise, take responsibility for artistic management, provide the majority of the works of art to be exhibited, and advise the new museum on future acquisitions. For all this, the Guggenheim Foundation would receive a lump sum payment of 2,000 million pesetas



as a commission. Finally, for the Foundation the agreement would mean opening another museum in Europe and being able to exhibit more of its collection.

The Consortium's Decision

After the signing of the agreement, in July 1992, the Basque Government, the Vizcaya Provincial Council and Bilbao City Council set up the Guggenheim Bilbao Project Consortium, which would be the client in the project and would oversee the construction of the museum. The Consortium would choose the engineering company best qualified to manage the project. To head this body, the Basque Government had appointed Juan Ignacio Vidarte, who was assisted by a small team consisting of a lawyer, an economist, a secretary and an architect on part-time secondment from the Vizcaya Provincial Council.

It was the Consortium's wish that the firm that eventually took on the function of Executive Architect should also be responsible for project management. The chosen firm's mission would be threefold:

- It would be responsible for execution and therefore for quality.
- It would be responsible for meeting deadlines and working to budget.
- It would have to guarantee that the project could actually be constructed in Bilbao by local contractors under the coordination of a prestigious local architect.

The company that was selected would be paid a lump sum roughly equivalent to 5.5% of the construction cost estimated at that time for the project.

In July 1992, the Consortium had contacted various architects and prominent local firms, including SENER-GESTEC and IDOM, to make its selection. FOG/A had declared its intention to take a hand in the selection of the Executive Architect and Project Manager, and had asked to meet with all the candidates to assess their capabilities. In other words, whoever was chosen would have to have FOG/A's approval.

The Consortium would choose the company based on its experience of managing large-scale projects, the professional qualifications of its team, and its ability to present a reasonable budget for the project.

IDOM's Candidacy

Although IDOM had successfully managed much larger investments in industry, Felipe Prósper, the company's President, knew very well that it had never taken part in a project of this size in the field of architecture, nor in collaboration with a world-famous architect. If it was selected, it would be an opportunity to execute a project that would have international visibility. If the project was a success, it would bring considerable prestige. And if it was properly managed, it would bring an interesting contribution margin. But, by its very nature, the project involved serious risks.



P-0964-E

Guggenheim Museum (A)

The Consortium invited IDOM to a meeting in October 1992 to show its capabilities. The meeting took place in IDOM's offices, and was attended by Fernando Querejeta and José M^a Asumendi, IDOM's General Manager and Engineering Manager respectively, Juan Ignacio Vidarte, Carlos Iturriaga, the Consortium's architect, and members of FOG/A. A number of IDOM's specialists in architecture, structures, and electrical and mechanical installations also took part. They presented a document, in English, setting out IDOM's main references in construction and the professional backgrounds of the specialists who could take part in the project. The subjects discussed ranged from the project itself and its requirements to the content of IDOM's document.

When the meeting ended, Juan Ignacio Vidarte told IDOM's representatives that he would let them know the decision within one week. He also asked them to put in a formal bid that should include a budget for each of the following items: construction and architectural elements, structures, permits and licences, architecture and engineering, and contingencies. To calculate its bid price, IDOM consulted the rates in its data base, made estimates of the time its professionals would have to devote to the project, and consulted the official schedule of architects' fees. According to Vidarte, the budget had to be based on three premises: the cost estimate established by the client, the fact that the museum would have to be completed sometime in 1997, and the demand that the building conform to a high standard of architectural quality. After studying the project with the uncertain preliminary data it had at its disposal, IDOM submitted a budget that was higher than its client's most recent estimate (see **Exhibit 4**). The fees to be earned by IDOM were however a fixed amount, previously established.



P-0964-E

Guggenheim Museum (A)

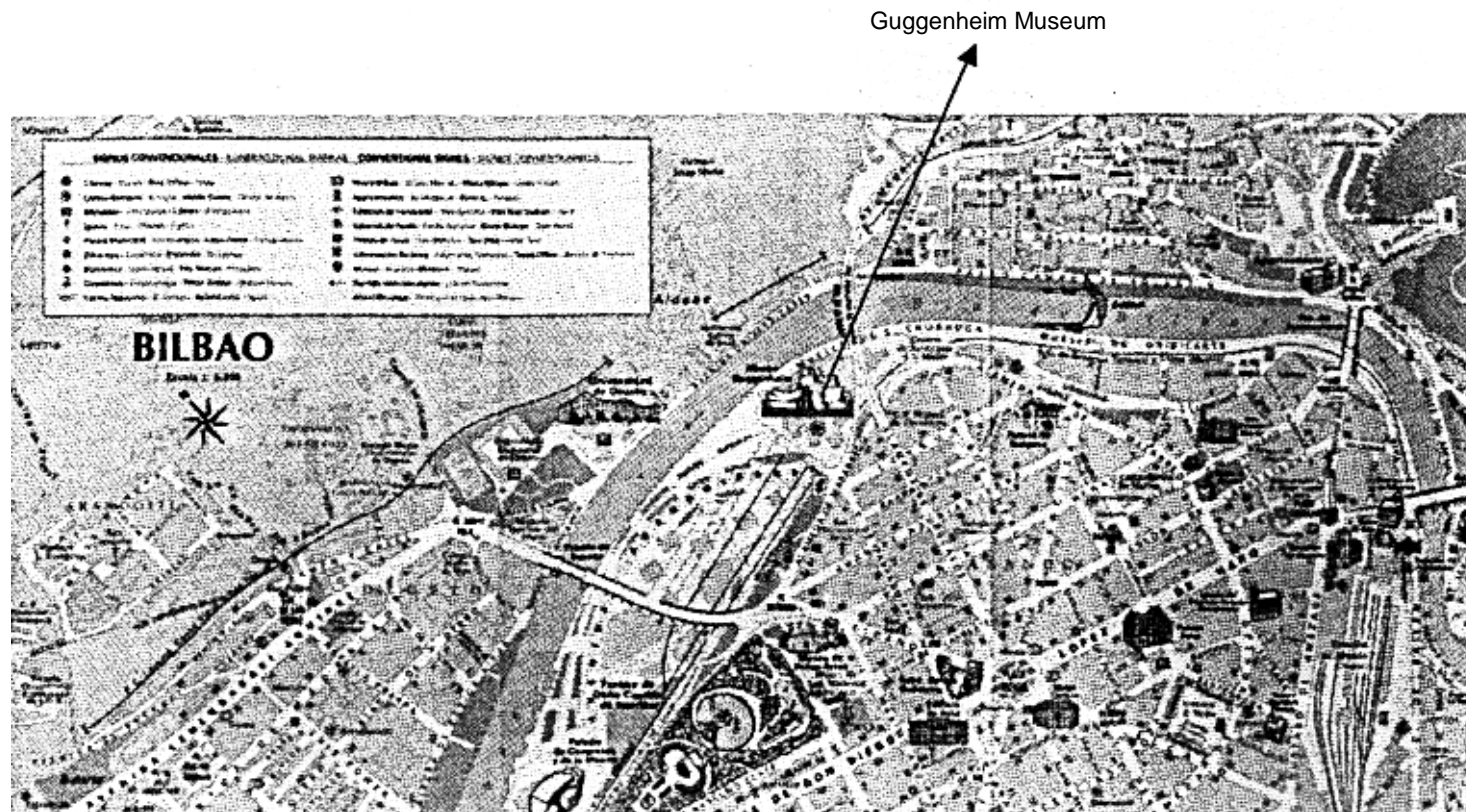
Exhibit 1

The Nervión Estuary before the Construction of the Guggenheim Museum



Exhibit 2

Plan of Bilbao Showing the Proposed Site of the Guggenheim Museum



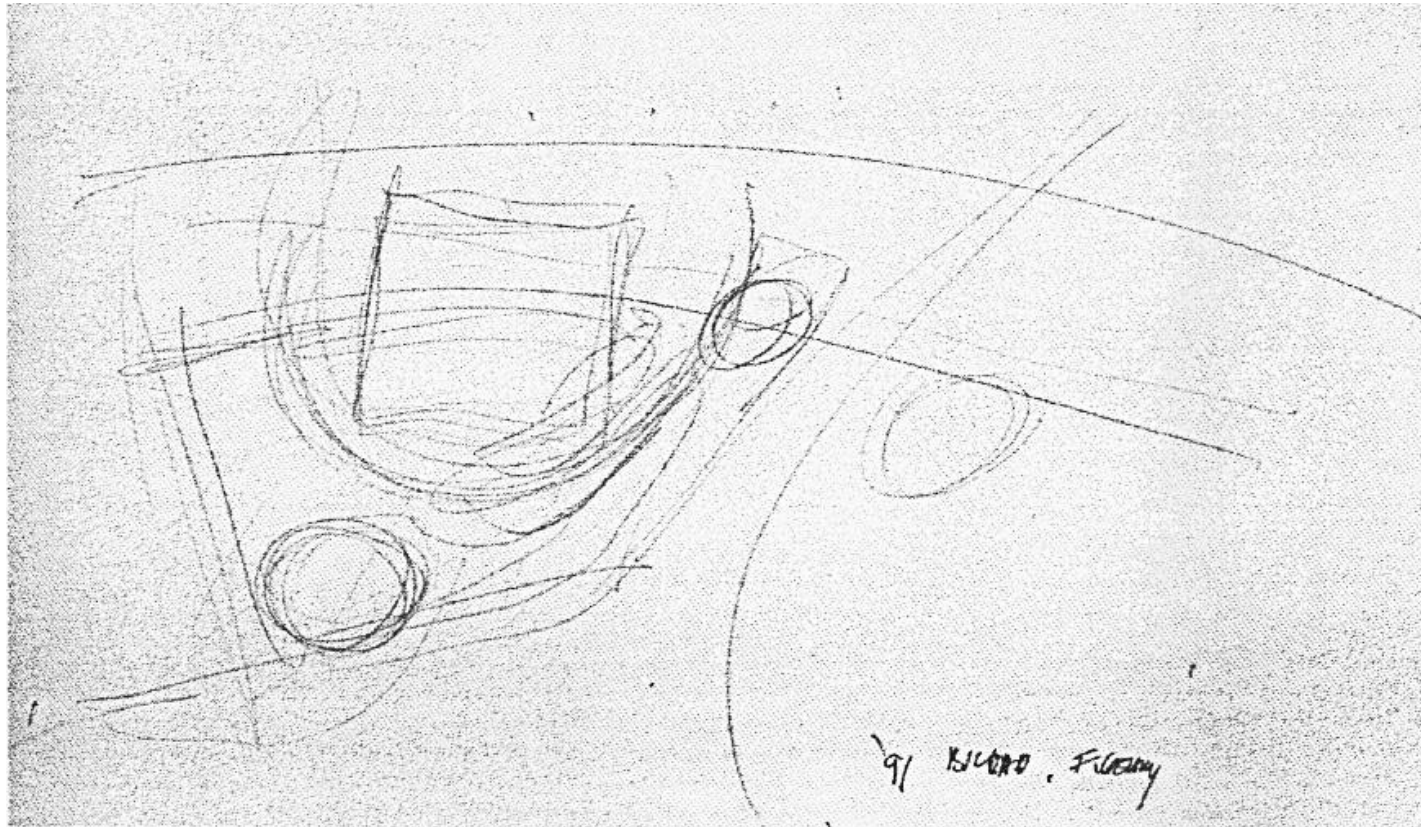


P-0964-E

Guggenheim Museum (A)

Exhibit 3

Gehry's First Sketch for the Guggenheim Museum Bilbao, July 7, 1991





Guggenheim Museum (A)

Exhibit 4

IDOM's Initial Budget for the Guggenheim Museum (in millions of pesetas)

Construction and architectural elements	7,724
Structures	2,258
Permits and licenses	762
Architecture and engineering	1,700
Others	925
Contingencies	2,674
Total	16,043