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Trust, but verify, as they say

Relationships built on trust are crucial, but for the art market to grow, verifiable information about price and provenance is essential

By Anna Dempster
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The art world is riddled with tensions: between the rational and the emotional, commerce and culture, public and private, collectors and investors, amateurs and connoisseurs—and between trust and transparency in the art market. A group of leading academics and practitioners debated what this means for the art world at a conference in Goodenough College, London, sponsored by Skate's Art Market Research and Sotheby's Institute of Art, coinciding with a research project launched at the institute.
Trust and transparency are often assumed to be substitutes—one replaces and becomes superfluous when there is evidence of the other. But in the increasingly global and technologically determined marketplace, trust and transparency can, and should be, complementary.

The web can allow market transparency to complement deals made with a handshake. Photo: rain rabbit

Art-world participants are particularly adept of navigating the choppy waters of competing interests. Like the Roman god Janus, dealers and auction houses often face in two directions at once. Contemporary galleries, for example, promote and position their artists in a cultural discourse while meeting the commercial realities of a business. Auction houses broker deals between consignors and buyers with directly competing interests who want the best price for works.

What makes the art world special is that at the top end it is a truly global marketplace of rare and high-value objects, inhabited by a few big players whose whims can move the market. Even at the middle and lower ends, to survive the uncertainty of a market built on the fickleness of taste, successful businesses rely on something vaguely termed "trust".

There is widespread belief that trust, in all its forms, is at the heart of the art world. Individuals rely on trust-based relationships for transactions where handshake deals are the norm. A purchase at major international art fairs is sealed not with a written and signed contract but with an understanding. International institutions such as Sotheby's and Christie's build their brands on the strength of the reputations of their experts and the personal relationships they forge with long-standing clients.

Trust can broadly be understood as the expectation that an exchange partner will not behave opportunistically—they will not take advantage of you even if it could benefit them.

At the heart of trust is the willingness to accept vulnerability within a relationship. By definition, if you trust someone, you do not check up on them. But if you don't check, you will never know for sure.

"Trust, but verify", the old Russia proverb, was the title of the conference keynote address by Orley Ashenfelter, a professor of economics at Princeton.

For those in the art world, trust-based relationships have many benefits. They can reduce the costs of transacting and encourage exchange. At international art fairs, deals are done on a handshake and it is common practice for dealers to lend valuable objects to try out at home before you buy. Dealers assume the work will be returned properly and in due course.

But trust has a dark side. What makes cases like the recent closure of Knoedler & Company, following alleged fraud and the alleged selling of fakes, so detrimental is that they illustrate that no one is above suspicion in a system based on trust.

Historically, the trust-based art world has also been characterised by a lack of transparency. It is often described as the last unregulated market in the world. On the one hand, the private nature of transactions and a focus on client confidentiality and discretion are at the heart of a highly personalised service. On the other, opacity and a lack of verifiable information, particularly in terms of price and provenance, make it difficult to make good decisions and monitor risk.

Although consumers and emerging companies are increasingly calling for more transparency in some aspects of the market—for example, the asking price, size of commissions and number of agents—practice is far from uniform. When prices are not openly quoted, dealers can and do discriminate between clients, based on characteristics such as their age, nationality and visibility in the market.

Asymmetry of information naturally suits the person who knows more. This might suggest a need for regulation to ensure market transparency. But regulation should not be confused with transparency and is difficult to achieve in a global marketplace of many different cultures. Functional market transparency is based on accepted norms of behaviour that are willingly subscribed to by all participants, not imposed from above.

So how can trust and transparency be reconciled today? Communications technology is the answer. More information than ever is available about the art market from a growing range of sources. These include auction price databases such as ArtPrice, Artnet and Invaluable, and bespoke indexes such as Mei Moses and Art Market Research, as well as news and analysis from companies like ArtTactic and industry players such as Aris Title Insurance, Art Mundi and Skate's Art Market Research.

But more data does not necessarily mean more knowledge. Experts with skills based on years of experience, training and intuition are still critical for making data make sense.

The proliferation of price indices is an example. These can be a good indication of market trends but the data and methodology used to construct indices is key. They are often neither entirely transparent nor systematic, leave out swathes of unreported transactions, while calculation methods are fiercely debated by both practitioners and academics.

A few organisations have harnessed technology to benefit from the information revolution. Founded in 1971, the Antiques Trade Gazette transformed the trade by providing a centralised source for future auctions. Prior to that, dealers had to subscribe to slow postal cuttings services for information about local events. While some dealers grumbled this ruined hard-won opportunities, the auction world suddenly opened up to a wider audience.

The next radical steps were to go online as early as 1990 and then in 2006 to establish a live bidding portal for auctioneers, the-saleroom.com. This provided a centralised platform where buyers could access information, watch, listen and take part in smaller and regional auctions in real time. Hosting 116 sales in the first year, which generated £956,000, in 2012 the-saleroom.com hosted 2,415 sales with £52.6m in online revenue. Some sales attracted more than 1,000 bidders, a global audience only accessible through the web.

Dreweatts & Bloomsbury Auctions is another company that has benefited from such online opportunities. It uses three live bidding engines (liveauctioneers, artfact and the-saleroom.com) enabling its parent company, Noble Group, to sell £10m worth of work online in 2012. Using the-saleroom.com alone, the growth of the business has been staggering, from £286,558 in 2006 to £3.9m in 2012.

So, do we have to choose between trust and transparency? For the market it looks like technology allows the trade-off to blur. When carefully balanced, both trust and transparency can support existing players, provide opportunities for new ones, and ultimately benefit those who love art.

The writer is associate professor in art business at Sotheby's Institute of Art, London, and the academic director of the International Art Industry Forum on Trust and Transparency in 2013