

VALUATION OF CULTURAL HERITAGE ASSET: ISSUES AND CHALLENGES

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Abstrak

Penilaian hartanah warisan budaya adalah berbeza bila dibandingkan dengan aset atau hartanah lain kerana warisan budaya tidak dapat dijualbeli secara aktif dalam pasaran. Kebanyakan orang termasuk profesional dan orang awam beranggapan harta warisan budaya sangat bernilai dan tidak dapat dinilai. Keunikan harta warisan budaya ini menjadikannya sukar untuk dinilai dengan kaedah konvensional yang sedia ada. Kaedah-kaedah inovasi yang terkini yang digunakan dalam harta warisan budaya adalah *Stated Preference method* dan *Revealed Preference method*. Kaedah ini adalah di bawah kategori kaedah penilai ekonomi bagi *non-market goods*. Pada asasnya, adalah sangat penting untuk menilai harta warisan budaya kerana (1) untuk mengakui dan menghormati keseluruhan harta warisan budaya (2) untuk menghargai keperluan penyelenggaraan dan pemeliharaan harta warisan budaya dan (3) bagi membantu menjawab akauntabiliti bagi mengekalkan kegunaan harta warisan budaya yang berterusan. Disebabkan pemikiran lalu di mana kebanyakan orang beranggapan bahawa harta warisan budaya adalah *non-reproducible*, *non-economic commodity* dan *non-substitutable* maka wujud cabaran dalam menilai harta warisan budaya. Kajian ini menyenaraikan keperluan dan cabaran dalam menilai harta warisan budaya.

Kata kunci: Harta Warisan Budaya, Penilaian dan Nilai.

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Abstract

A valuation of cultural heritage asset is different from other kinds of asset or property because cultural heritage is not normally traded actively in the market. Most people including professional and the general public think cultural heritage is priceless and cannot be valued. The uniqueness of cultural heritage assets makes it difficult to be valued using the existing conventional methods. The most recent innovative methods used in valuing cultural heritage asset are Stated Preference method and Revealed Preference method. Both methods are under economic valuation method for non-market goods. Essentially, it is very important to assess the cultural heritage asset value in order to 1) acknowledge and respect the full worth of heritage asset, 2) appreciate the need for maintenance and preservation of cultural heritage asset and, 3) assist in responding to calls for more accountability for the sustained use of these assets. Because of past thinking where people believe that cultural heritage asset is non-reproducible, non-economic commodity and non-substitutable there are challenges exist in valuing cultural heritage asset. This paper highlights the need and challenges in valuing cultural heritage asset.

Keywords: Cultural Heritage Asset, Valuation, and Value

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1.0 Introduction

Our heritage is a legacy from our past. It is something that we live now, that we hope to pass it to future generations. Apart from its importance as history to future generations, there is no guarantee that heritage will survive and be transferred to the next generation and for this reason, in recent years there are growing numbers of countries trying to protect and preserve the cultural heritage asset. A valuation is a part of decision making process for preserving and protecting the cultural heritage. However, the field of cultural heritage valuation still faces a puzzle. In 2000, the need to value cultural heritage asset begins increasingly important and no longer a 'cooler climate' for art and cultural organization (Smith, 2010).

The issue regarding the valuation of cultural heritage asset is increasingly debated by researchers and economists references. The issues are 1) the impact of heritage designation on property values, 2) the effective method in valuing cultural heritage asset, 3) the appropriate guideline for cultural heritage valuation, 4) requirement of an effective data management and others. In general, not all cultural heritage assets can be valued using conventional methods because of their own uniqueness. The key questions that should be considered in valuing cultural heritage asset are 1) which heritage assets are capable of being valued? and, 2) what benefit will accrue to the owner and interested third parties (Sayce, 2009).

The main purpose of this paper is to discuss the need to value cultural heritage asset and the issues and challenges that lie ahead. The valuation of cultural heritage is a difficult task to carry out. Among the difficulties encountered are 1) the use of comparison methods becomes complex due to the lack of market data, 2) there is no standard method for measuring the value of cultural heritage (Rypkema et al., 2011) and the results should be understandable by decision makers (O'Brien, 2010).

In the context of Malaysia, National Heritage Act (NHA) 2005 was in a long time in the making and it is hoped that it will be placed in Rent Control Act by 1999. However, it did not happen. As a consequence, we lose many properties that should be listed as a heritage for future generations (Boyd & Usilappan, 2006). The advantages of NHA 2005 are 1) to protect our heritage, 2) long-term benefits for society and private owners and, 3) issue of compensation that should receive by the owner of the heritage property.

The reminder of this paper is organized as follows. Section 2 discusses the definition and features of heritage asset. Section 3 discusses the "valuation" in the context of cultural heritage asset. Section 4 illustrates the method used in valuing cultural heritage asset. Section 5 discusses the importance of cultural heritage asset to economic growth. Section 6 identifies the challenges in valuing cultural heritage asset. Section 6 concludes this paper by highlighting the need to value cultural heritage asset and challenges in valuing it.

2.0 Definition and Features of Heritage Asset

It is unsurprising there is no clear definition for cultural value in the existing literature since researchers and economists often define the term “cultural” and “value” separately. There are a variety of perspectives in defining both terms. Some researchers or economists see it as a complement to each other and some see it as contradictory (Belfiore & Bennett, 2008). According to Aversano & Ferrone (2012), the elements of cultural heritage assets include historical buildings, monuments, archaeological sites, conservation areas, nature reserves, and works of art.

There are many of definitions on the cultural term and ‘artistic’ by European researchers. However, the common definition has not been formally in existed yet (Aversano & Ferrone, 2012). From various definitions, some peculiarities of cultural heritage can be highlighted which are 1) difficulties to identify a book value based on market prices that fully reflect the value of cultural, environmental, educational or historical, 2) there are legal or statutory restrictions that prohibit or limit the sale, 3) are often irreplaceable and their value may increase over time, even if their physical condition deteriorates and, 4) can be difficult to estimate the useful life, which in some cases, it may also be indefinite.

Discussing the definition of cultural value is very important before we start valuation process because it involves the economic and intrinsic values. Both values influences the cultural heritage values. The term ‘value’ is subjective and varies according to needs (Blaug et al., 2006). Cultural value can be understood through three values which are 1) instrumental value, 2) institutional value and, 3) intrinsic value. The three forms of value are interdependent in showing the overall picture of cultural heritage values. The instrumental value is generated by social and economic policies of cultural, institutional value that refers to public value where the organization generates the trust and esteem by the way they engage their users and intrinsic value is highly subjective and difficult to set. It something that relates to the beauty, experience and difference based on different individual (Holden, 2006).

Among the most influential theories of cultural value are economic value and intrinsic value. Throsby (2001) attempted to separate both values and had seen that there are links between these two values. The author deconstructs the cultural value into aesthetic, spiritual, social, historic, symbolic and authenticity value. The author maintains that the cultural value is (or can be) separated from economic value because people preference can be expressed from willingness to pay (WTP). However, in his recent paper, he tries to explain the cultural value as an important role in determining the economic value of cultural heritage and both values have close link to each other (Bakhshi & Throsby, 2010). In conclusively, he pointed out that the link between both values can be expressed or measured using economic valuations method of non-market goods.



3.0 Valuation

The valuation of cultural heritage asset is different from other kinds of assets or properties because cultural heritage is not traded in the market and most of people think that this type of asset or property is priceless. The difficulty of selling cultural heritage assets in the open market prevents accountants, economists or valuers from obtaining relevant valuations that will show the potential value or services that encompassed by cultural heritage assets (Aversano & Ferrone, 2012).

A valuation is an important step in the preservation and maintenance of cultural heritage asset. Before considering practical considerations involved in the valuation, the differences between the value and worth need to be considered. Under the existing accounting regime, assets recognised in the balance sheet are usually entered as value. However, it is agreed that it may or may not be associated with the worth of the asset. Sayce (2009) in his study defines the difference between value and worth. Value is estimated using market evidence from comparable transaction in relation to rents and capitalisation rates, to direct capital transactions or to the capitalisation of maintainable profits. Worth, on the other hand, may be calculated using cash flow approach or it may take into account non-monetary values. Such estimates may be critical to the owner in management decisions. Also, worth is categorized as subjective as it normally prepared for individual owners to enable them to manage their assets strategically. Under current accounting principles, worth is not measured while value is. Normally, worth is used as a management tool. It can be concluded that in measuring the cultural heritage asset, it involves value and worth. This is because 1) the value of cultural heritage is subjective, 2) not many transactions take place (not in an active market) and 3) the value of cultural heritage is used in decision making for preservation and maintenance.

The method used in valuing cultural heritage asset can be categorised into two which are traditional method and non-traditional method. The traditional method includes cost method, capitalization of income and replacement cost method (Boyd & Usilappan, 2006). The non-traditional method involves two techniques which are stated preferences (SP) method and revealed preference (RP) method (Treasury, 2011). International accounting standards have proposed a method for measuring cultural heritage asset that refers to historical cost, reproduction cost and fair value. However, for the first one which is historical cost, it is possible to be used in measuring cultural heritage value. The historical cost could be representative value of the first recognition of a picture, however it cannot be representative of the current value because the heritage assets have the features to increase their value in the course of time (Aversano & Ferrone, 2012). The use of valuation techniques include replacement cost, reproduction cost, net present value are difficult to carry out in valuing cultural heritage asset because they are assumed to exist in the ready market. Therefore, in many cases “traditional method” cannot serve as a reliable proxy in economic valuation for non-market goods.



4.0 The Methods Used in Valuing Cultural Heritage Asset

This section presents three most popular methods for economic valuation of cultural heritage asset. These are CVM, TCM and HPM. Advantages and disadvantages of each method are highlighted with more focus on CVM.

4.1 Contingent valuation method

The valuation on cultural heritage is a new field in applied science and falls in the border between economics and culture. It needs to consider the economic and cultural factors simultaneously because both factors influence heritage values. HM Treasury in Green Book recommended the use of CVM in valuing cultural heritage asset (Treasury, 2011). The CVM has been used over 40 years in estimating the non-use market. CVM employs survey as its main instrument. CVM survey is designed in obtaining the WTP and willingness to accept (WTA) of the visitors or residents. There are several steps involved in the applications of CVM namely 1) define the valuation problem, 2) make a preliminary discussion about the survey (conduct by mail, phone or in person, sample size and the potential respondents) 3) actual survey design, 4) actual survey implementation, and 5) compile, analyse and report. The second step refers to the need to run a pilot study. This stage is very important because it can reduce the bias/error in the final results (Báez & Herrero, 2012; Iorgulescu et al., 2011; Rahim, 2008).

There are several advantages as well as disadvantages of CVM. The advantages of this method are 1) more flexible to be implemented, 2) widely accepted in the field and, 3) the result is not difficult to analyse and describe. The disadvantages of this method are 1) most controversial method, 2) do not have a basis in initial stage of the research will lead to bias/error, 3) possible of bias and, 4) based on knowledge and incomes of respondents (Báez & Herrero, 2012; Iorgulescu et al., 2011; Rahim, 2008).

4.2 Travel cost method

Travel cost method is a method which attempts to learn about the size of net value in looking at the pattern of visitors visit a certain site. There are two types of TCM which are visitation frequency model and choice model (Navrud & Ready, 2003). The visitation frequency model sees how often the individual or similar groups tend to visit the given site. While, the choice model looks at the given site, which site will be selected by the visitor. The features of heritage assets are unique and because of that there are limitations in applying this method in its valuation. The limitation of TCM are 1) different time travel by visitors, 2) self-selection and, 3) only capture the visit part, it does not include others non-use value that may influence the cultural heritage asset values (Navrud & Ready, 2003). The advantages of TCM are 1) it is based on actual behaviour and 2) can be applied without enormous expenses. The weaknesses of TC method are 1) different time travel by visitors, 2) self-selection, 3) only capture the visit part, it does not include other non-use values that may influence the cultural heritage asset values.



4.3 Hedonic pricing method

There is a growing use of HPM in estimating the cultural heritage asset value among the researchers. In earliest application, this method is intended to obtain the WTP associated with the attributes that contribute to the value of the property. By comparing two or more similar properties that have different attraction variables, the economists can obtain the implicit price of property.

There are several advantages and disadvantages of this method. Advantages of this method are 1) the real estate market is effective in terms of feedback information so it can be a good indicator to obtain the value, 2) the property records are reliable in the market, 3) property sales and attributes are available through many sources and, 4) the method is versatile and can be adapted in considering the market goods and environment quality. Meanwhile, the disadvantages of this method are 1) the scope of environmental benefits that can be measured is limited to the things/attributes that are related to housing prices, 2) the method is complex to be implemented, it needs a deep understanding in statistical fields, 3) the results depend on the model specification and, 4) the need for large information or database (Iorgulescu et al., 2011; Rahim, 2008; Riganti & Nijkamp, 2004).

There are several steps in applying this method. First step is a collection of data and compilation of data on property transactions for the specific region and time period. Second step is statistically related functions in estimating the value of property (Iorgulescu et al., 2011; Rahim, 2008; Riganti & Nijkamp, 2004).

5.0 The importance of cultural heritage to the economic growth

Cultural economics is a branch of economics that studies the relation of culture to the economic outcomes. There are various areas in cultural economics considering both theoretical and applied and this study focuses on the valuation of cultural heritage asset. Besides, the researchers or economists must be aware of the changeless facing by built cultural heritage especially in the assessment process. Over the past two decades, there are vast studies in estimating the economic value of cultural heritage asset. It also shows the growing recognition by academic, policy makers from government and industry. However, in Malaysia, there are not many studies that undertake this issue. The only study in Malaysia that considered the economic valuation of cultural heritage asset is by (Chiam et al., 2011). The authors discuss the use of contingent valuation (CV) method in valuing the cultural heritage asset.

Figure 1 and Figure 2 show the importance of cultural heritage to the economic growth and assessing process for conservation planning of cultural heritage. Previously, the economic knowledge has neglected the importance of cultural heritage asset to economics, they think cultural heritage are a non-reproducible, non-economic commodity and non-substitutable, but recently the view has changed. The economic knowledge sees the cultural heritage as reproducible, added values, new employment and has an economic lever (Rypkema et al., 2011). However, in order to transform the past thinking to the recent, we need four criteria which are identifying, valuation process, producing and delivering. Focusing on valuation process, this process has not received the research attention it deserves.

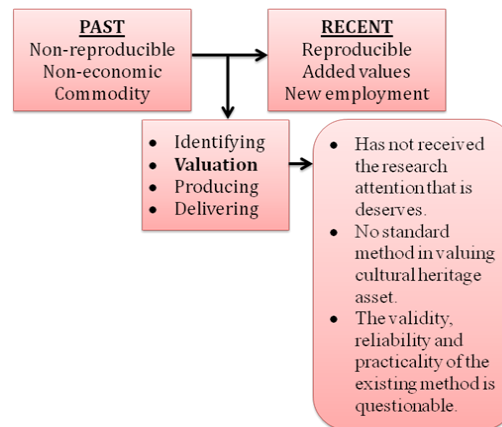


Figure 1: The importance of cultural heritage to economic growth

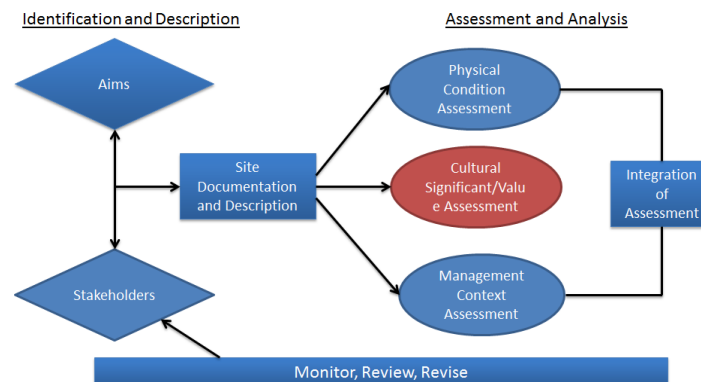


Figure 2: Assessing process for conservation planning for cultural heritage

Artistic or cultural contribute to lower long-term unemployment, lesser crime, better health and better qualification, but also helps develop an individual pride, community spirit and ability to be responsible for allowing the society regeneration programmes run by themselves (Holden, 2004).

Valuation studies in cultural heritage are used as information in decision making process. The heritage management decision may include 1) evaluate the strategic needs of heritage sector, 2) identify research priorities, 3) spending in the repair and restoration, 4) spending in an environment where heritage is presented and enjoyed and, 5) preservation- priority to 'recent' heritage (Eftec, 2005).

Porter (2004) lists the important of valuing cultural heritage asset values which are 1) to acknowledge and respect the full worth of heritage (environmental) assets 2) to appreciate the need for maintenance and preservation of these assets and, 3) to assist in responding to calls for more 'accountability' for the sustained use of these assets.

The economic impact of investing in cultural heritage are 1) direct jobs refer to people employed in heritage institutions, 2) indirect jobs refer to people who work in the fields of conservation and restoration of heritage, 3) induced jobs refer to people who use heritage as a source of activity and inspiration (mostly in cultural industry) and 4) jobs in the tourism sector as a result of heritage tourism development (Iorgulescu et al., 2011).

6.0 Challenges in valuing cultural heritage asset

There are several challenges in valuing cultural heritage asset. The challenges are understanding the meaning of cultural heritage asset, measuring cultural heritage asset, unavailability of effective method and knowledge in valuing cultural heritage asset. Lists of challenges in valuing cultural heritage asset are discussed below.

6.1 Understanding the meaning of cultural heritage assets

Problems in assessing cultural heritage remains in contention and it attracts the policy and media to discuss this issue. The complexity of the term is a fundamental part as to why cultural heritage is difficult to assess (O'Brien, 2010). There are two criticisms in the assessment of cultural heritage, namely 1) intrinsic values division is unhelpful and unclear and, 2) cultural value subsist in economic value. Intrinsic value is the subject of a hotly debated and criticized by cultural policy studies and economists. According to the literature, the study regarding the intrinsic value is not carried out in detail. Intrinsic value is extensive and varies according to the type of heritage property for example intrinsic value owned by the museum is different with the other heritage properties. Another problem inherent in identifying the intrinsic value is the cultural experience. Cultural experience is usually based on personal experience and varies by different people (Holden, 2004).

6.2 Measuring cultural heritage assets

Previously, cultural assessment is based on aesthetic quality. However, since the 1980s, the measurement is based on the contribution of cultural sector to the cultural, economic, and social. This type of measurement has received extensive criticism. According to Holden (2004), he states that the cultural heritage value cannot be expressed only by the statistics because the cultural heritage value is also influenced by other factors such as intrinsic value. The availability of the data might fail to understand the valuable of the cultural value (O'Brien, 2010). Selwood (2010) says that everyone in the art and cultural heritage struggle when talking about "value". According to the author, it is not good to relate art and cultural heritage with monetary valuation. There are puzzles in obtaining the cultural value. What is the best way to express the value of cultural whether in form of cultural, economic or social impact? Cultural sector requires the appropriate methods to suit the "mixed economy" of public, private and government (Smith, 2010).

6.3 An effective method in valuing heritage asset

Current methods of assessing the impact and outcomes of cultural heritage value are increasingly being questioned both in terms of methodologies and the results illuminate our understanding. If the methodology of measurement is not accurate, the results are inconclusive. DCMS has ensured that there is no standard methodology that is ready-made and reliable in measuring the economic impact of cultural heritage (Holden, 2004). The inclusion of heritage assets in the balance sheet points out the need to determine a book value that emphasizes the importance of their artistic, historical and cultural features. It is very difficult or almost impossible to find a universally acceptable method of valuation for the assets and there are many problems to resolve for the application of accrual accounting to these assets of the public sector (Aversano & Ferrone, 2012).*

6.4 Information Management and Expertise on cultural heritage valuation

To produce better evidence-not only data but also the knowledge on that matter (Holden, 2004; Selwood, 2010). Availability of existing methodologies should be refined and applied properly, and become increasingly sophisticated (Holden, 2004).



7.0 Conclusion

This paper provides an overview of the importance to value cultural heritage asset and the problems and challenges that lie ahead. The importance to value cultural heritage asset are 1) to acknowledge and respect the full worth of heritage (environmental) assets, 2) to appreciate the need for maintenance and preservation of these assets and, 3) to assist in responding to calls for more 'accountability' for the sustained use of these assets. The problems and challenges that have been recorded in valuing cultural heritage assets are 1) no standard definition for cultural heritage asset, 2) understanding the meaning of cultural, 3) how to measure cultural heritage asset (no standard framework or guidelines), 4) the existence of effective methods in the market is questionable and, 5) information management and expertise. To sum up, in valuing cultural heritage asset the important thing need to be understood is the definition of cultural heritage value. Therefore, further research should be further conducted in defining the definition of cultural heritage value because it might affect the estimated value of cultural heritage value.

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