

Searching for a Solution: Why Administrative Consolidation Made Sense

In 2000, two of Chattanooga's most prominent museums, the Creative Discovery Museum (CDM) and the Hunter Museum of American Art, found themselves struggling to effectively serve their constituents while maximizing limited resources. The CDM faced a growing deficit, while the Hunter's cumbersome operational infrastructure was taking critical staff time away from innovative programmatic work. What both institutions needed was a solution that would not only make their business operations more efficient and cost effective, but also give staff the opportunity to focus more on developing mission-driven programs that would increase attendance from the broader community. For the museums, the solution came in the form of an administrative consolidation with the Tennessee Aquarium, which has saved the CDM and the Hunter nearly \$4 million and generated over \$1 million in revenues for the Aquarium since the consolidation was formalized in 2001.

The CDM opened its doors in 1995 as part of an effort to revitalize the city and attract residents and visitors to downtown as part of an urban renewal process. Shortly after opening, however, the CDM found itself operating in the red due to an unsustainable business model. Museum attendance was down and the resulting decrease in revenues meant that it could not support its large staff. The CDM's infrastructure had been designed to accommodate unrealistic visitor estimates that were based on the startling success of the Tennessee Aquarium. While the CDM worked hard to meet these projections, mounting operating expenses made it clear that a new model was needed.

The Hunter, Chattanooga's oldest cultural institution, faced an entirely different, although equally challenging situation. Perched on a bluff overlooking downtown and the Tennessee River, the Hunter had become internally focused and was no longer realizing its potential to reach

and connect with the community. This detachment, which had left it unable to effectively serve its constituents, was further complicated by the museum's outdated operational infrastructure that took valuable staff time away from upgrading exhibits and designing innovative programs and would require a significant financial investment to modernize.



Photo: Gallery entrance to *Jellies: Living Art*, presented by the Tennessee Aquarium and the Hunter Museum of American Art.

For the CDM and the Hunter, the consolidation was a practical solution to the challenges facing them, and as it grew to accommodate the different needs of the museums it achieved the desired result for both: an opportunity to serve their constituents more effectively and maximize resources. Recognizing that the Aquarium was a much larger organization with greater operational capacity, and capitalizing on its complementary mission to provide, "leadership and partnerships that enhance the Chattanooga experience," the CDM approached the Aquarium with the idea of merging, an idea the Aquarium rejected but countered with a proposal to consolidate administratively. For the Hunter, the collaboration provided an alternative to what would have been a considerable investment in modernizing its operational infrastructure and allowed it to focus on the more important job of transforming itself

from a museum sitting above the City to a more valuable community resource.

Understanding Administrative Consolidations: How it Worked in Chattanooga

The Chattanooga Museum example illustrates how administrative consolidations can positively impact organizations and their clients by expanding revenue streams and improving program quality. Administrative consolidations are a model of strategic restructuring that allows organizations to gain administrative and cost efficiencies by sharing typical back-office functions, such as human resources, finance, information technology, and marketing.¹ Although such partnerships can be difficult to implement, they do present a viable solution to minimizing ever-increasing administrative costs and are an effective means of improving the quality and availability of services delivered by nonprofits. As demonstrated in the Chattanooga example, this type of consolidation standardizes processes and procedures, giving organizations more time to concentrate on developing programs and program staff rather than on administrative functions.

Although the CDM and the Hunter entered into the consolidation for different reasons, they both went through a series of steps to assess their readiness and prepare for a partnership with the Aquarium. These steps included:

- Evaluating their administrative systems (e.g. accounting, HR, IT, marketing, and retail sales) and recognizing their limited operational capacity and need for support services;
- Identifying the administrative expertise and infrastructure of the Aquarium and capitalizing on their complementary missions; and
- Partnering with the Aquarium to recruit qualified staff to support the administrative partnership and offering competitive compensation to retain them.

The Aquarium also assessed what, if anything, it had to gain from such a partnership. While the administrative consolidation seemed like the solution for the CDM and the Hunter—it reduced costs, modernized and improved operations, and allowed the CDM to regain its financial footing—the Aquarium had to determine if the partnership complemented its mission. What the Aquarium found was that the consolidation, unlike the merger with the CDM that it had earlier rejected, created a unique revenue generating opportunity that provided a dependable source of funding.

¹ Coy, Bill and Yoshida, Vance. *Administrative Collaborations, Consolidations, and MSOs*. La Piana Consulting, 2005.
http://www.lapiana.org/downloads/AdminConsolidation_CoyYoshida.pdf

The Human Resource Factor

When the Hunter Museum of American Art, the Creative Discovery Museum (CDM), and the Tennessee Aquarium decided to share the directors of HR, Finance/Accounting (CFO), IT and Marketing, and Retail Sales, the three institutions knew they needed to answer a fundamental question: What is the impact on the staff providing these services? Now, instead of managing the work load generated by one institution, the shared directors were suddenly responsible for the work of three. Moreover, they were now reporting to the Aquarium's CEO as well as the Directors of the CDM and the Hunter.

Charlie Arant, CEO of the Aquarium, recognized that the shared directors needed a compelling reason to undertake the increased work load and accept the complicated reporting structure and offered them a small, but meaningful financial incentive. The incentive sent the message that if the additional work goes away the additional pay goes away, so providing good customer service benefits you.

The incentive is clearly having the desired impact. The shared directors find their new positions enriching. The Director of Retail Sales said that when she came to the Aquarium she never anticipated staying for more than a couple of years, but since the challenges of managing three stores and responding to the needs of a diverse customer base is such a satisfying experience, she can't imagine leaving. The CFO also finds the challenges of managing the financial aspects of three organizations a richer experience than working for a single institution.

Once formalized, the consolidation fundamentally changed the operational structure and staffing of the three institutions. Although each retained its individual identity and continued to be governed by its respective board, the institutions now share four directors: HR, Finance/Accounting (CFO), IT and Marketing, and Retail Sales. This structure is at the core of the consolidation, and as the lead partner, the Aquarium employs the four shared directors who report to the Aquarium's CEO as well as the Directors of the CDM and the Hunter.



Photo: Jellyfish display, Ocean Journey building, the Tennessee Aquarium.

Sharing directors at the operational level allowed the museums to pool resources and hire more qualified operational staff. More importantly, the shared directors find this arrangement enriching. The CFO and the Director of Retail Sales said that when they came on board they expected to stay only a few years, but because the work ended up being more diverse and complex, now they cannot foresee leaving. Part of this job satisfaction stems from the fact that Charlie Arant, CEO of the Aquarium, recognized that providing these services to three institutions increased their work load and level of responsibility. Therefore, he established an incentive pay system for the shared directors, making the point that they are being compensated for the additional work that they do, but if quality and customer service slip and the business decreases, so does the additional compensation.

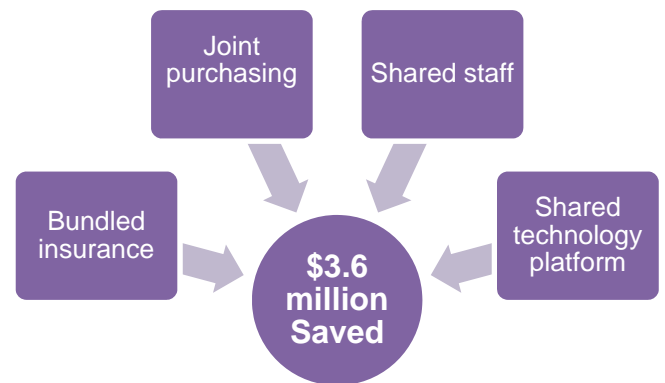
Realizing the Benefits and Assessing the Impact

The positive impact of consolidating administrative services has strengthened the operational and programmatic functions of the institutions and can be felt both internally among museum staff and externally in the community. The consolidation has also allowed the museums to tap into new revenue streams by undertaking joint fundraising and capital campaigns. New and innovative programs have enabled them to more effectively engage the community, develop

partnerships with schools, and powerfully impact a greater number of constituents.

Internally, the results of streamlining business operations are increased benefits for employees, financial savings, greater revenue streams, and more time to focus on creative programming. At the HR level, the museums now offer improved employee benefits, including expanded health insurance and retirement savings plans. According to Byron Mulligan, HR Manager, "It didn't make sense to pay two or three HR staffs to do the same work, since HR issues are often quite similar across institutions."

Sharing a CFO has brought about similar efficiencies and cost savings, in addition to revenue generation for the Aquarium. The consolidation put all three institutions on the same accounting systems, making annual audits easier, allowing for joint fundraising, and establishing better financial controls. "I no longer lose sleep over the accuracy and completeness of our financials," says Robert Kret, Director of the Hunter. "With the financial and accounting expertise the Aquarium brings to the table, I can focus on my own area of expertise."



Improved technical and database support, Internet access, and speed of transmission—the result of consolidating IT services—mean that the CDM and the Hunter can spend more time focusing on their missions. The other combined services, marketing and retail sales, have saved money, improved the visitor experience, and allowed the museums to more effectively reach a larger audience. "Combining forces made good sense for our Marketing Department," recalls Cindy Todd, Director of Marketing. The CDM and the Aquarium collaborate in a number of marketing areas, including advertising, media production, and joint ticketing endeavors. The Hunter and the Aquarium are moving in this direction as well.

Externally, the consolidation profoundly impacted community residents and museum visitors. With \$3.6 million in combined savings and \$1.1 million in revenue, the museums furthered their missions to deepen

connections to the community and provide educational support to schools and social service agencies. In addition to the cost savings and revenue generated for the Aquarium, the consolidation enabled the museums to undertake a joint fundraising and capital campaign that raised \$120 million.



Photo: Inventors' Clubhouse, Creative Discovery Museum.

Apart, the museums had never been able to generate this level of funding, and they used the revenues for both internal investments, such as constructing new buildings for the Hunter and the Aquarium and renovating and creating exhibits at the CDM, as well as external improvements in the community, including building new parks, improving infrastructure along the Chattanooga waterfront, and launching a public arts program. These investments further solidified the museum partnership and sent a signal to the larger community that they were serious about the continued rejuvenation of Chattanooga and improving the quality of life for its residents. According to Tennessee Senator, Bob Corker, "The synergies involved in this partnership are just astounding. These institutions see cost savings, gain expertise, and increase their credibility in the community among visitors."

While the financial and operational benefits of the partnership are significant, it is also important to highlight how the consolidation nurtured a spirit of collaboration that has furthered the missions of all three institutions. Community partnerships have expanded the role the museums play in the community. Rather than being simply a place to visit, the museums are recognized and applauded for their role in improving access to quality education in Chattanooga. The museums play an active role in supporting the nationally recognized Normal Park Museum Magnet School and help design curricula by partnering with the school's administration and faculty. The institutions have furthered their commitment to improving the quality of education in the state by partnering with higher education institutions, including the University of Tennessee at Chattanooga.

Local organizations have also benefitted from the collaboration. A partnership with eight local organizations resulted in the creation of the Association of Chattanooga Museum Educators, a group of educators who collaborate to build capacity across the museum community. The Association has created collaborative summer camps, joint family programs, and multiple museum-school programs that benefit a greater number of residents than any one organization could reach on its own. At the heart of the Chattanooga museum partnership are the traditional services visitors expect from museums: innovative and creative exhibits. Two notable exhibits emerged from the consolidation: *This is Our Land*, a traveling exhibit of children's book illustrations hosted by the CDM and the Hunter, and *Jellies: Living Art*, an exhibit shared by the Aquarium and the Hunter in which science and art come together.

This administrative consolidation allows the museums to leverage their unique strengths and work together more effectively as partners. Beyond increased operational efficiencies, reduced administrative costs, and stronger more enriching programs, the Chattanooga Museum Administrative Consolidation is allowing each museum to do its job more effectively. "Our work has become so much more efficient now that we have dedicated the added time and energy to our mission of educating the public," says Robert Kret, CEO of the Hunter. Visitors, too, are reaping the benefits as the museums continue to think strategically about ways to achieve greater efficiencies in their operations and develop more original programs to reach residents within and beyond the museum walls.

About La Piana Consulting

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Written by Lindsay Vignoles, with Jo DeBolt, Melissa Mendes Campos, and Robert Harrington, this case study is one in a series of snapshots about The Collaboration Prize 2009 Finalists. La Piana Consulting managed the design and implementation of The Collaboration Prize for the Lodestar Foundation. Jo DeBolt led the project and conducted site visits of the eight finalists. For more information, visit <http://www.thecollaborationprize.org>.