

OTAGO MUSEUM

Professor Ralph W. Adler and Jing Song wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In January of 2010, Chris Farry, the Otago Museum's chief financial officer, was instructed by the museum's chief executive officer, Shimrath Paul, to design a comprehensive Balanced Scorecard (BSC) for the museum. It needed to indicate clearly the museum's strategic objective(s), the strategic business themes that support the objective(s), and the cause-and-effect relationships linking BSC dimensions with strategic themes and objectives.

MUSEUM BACKGROUND

The Otago Museum in New Zealand began operating on September 15, 1868. At that time, it was located in the post office building in Dunedin's Exchange area, a building in which it shared space with the University of Otago.

As the Otago Museum's collections grew, so too did its need for larger premises. On August 11, 1877, the museum moved into its present site at 419 Great King Street. The cost to construct these purpose-built premises, which at the time featured two main galleries, was £12,500.

In 1877, responsibility for managing the museum became vested with the University of Otago. This arrangement lasted nearly 80 years; and, during this time, the university oversaw two major additions to the museum and helped it to become what in 1929 was described as "the finest teaching museum in the Commonwealth."¹

In 1955, the museum's ownership transferred to a trust board, which was authorized to attract funding from various local authorities in the Otago region. Generally speaking, the principal funders continued in recent times to be the Dunedin City Council, Clutha District Council, Central Otago District Council, and Waitaki District Council.

¹ N. Peat, *Otago Museum Collected Stories*, Otago Museum, Dunedin, 2004.

³ Further expansions of the museum occurred in 1963, 1996, and 2002. The latter two expansions were particularly noteworthy, for they very powerfully showcased the museum's attempt to go beyond its traditional role of displaying static work to creating an environment that was capable of engaging and interacting with visitors. Not coincidentally, the 1996 and 2002 expansions occurred under the leadership of Shimrath Paul. Paul, who became the director in 1995, brought a very fresh approach to the running of the museum. Unlike his predecessors, who were typically biologists or anthropologists, Paul was, among other things, an MBA graduate. As such, he brought a sense of business acumen, including a customer focus, that was less evident in the museum's prior directors. He also diversified the museum's income stream, which at the time of his arrival was about 95 per cent derived from the New Zealand government and the four local authorities noted above. Ever since 2009, only about half of the museum's funding came from these four sources, with the balance being comprised of gift shop sales, the museum café, the hiring of the museum's facility areas for conferences, weddings, seminars, etc., various special exhibition fees, and the selling of tours to the cruise boat lines as one of the latter's passenger activities.

The museum had about two million items on display or in safekeeping. This number represented about 15 per cent of all museum-held items throughout New Zealand. The museum's collection could best be defined as broad-based. It held a wide array of displays showcasing birds, insects, marine animals, and fossils; owned a variety of significant Maori and Pacific Island artifacts; and boasted a collection of ship builders' models considered to be among the finest in the Southern Hemisphere.

The museum had about 60 full-time equivalent employees. During a typical 12-month period, the museum attracted between 300,000 to 400,000 visitors. With a regional population of about 130,000 people, Otago Museum was the highest visited museum per capita in Australasia. As Dunedin was not an international gateway, it did not have a large tourist visitation, and maintaining high and increasing visitor numbers relied primarily on encouraging repeat local visitors. Dunedin's relative isolation meant that the museum had to offer an experience that consistently attracted the repeat visitor. In practical terms, this experienced translated into the imperative of changing exhibits and offering an excellent whole-visitor experience.

MISSION AND VISION

The Otago Museum was a non-profit organization with the mission of providing "service and development" to its community.² The museum prided itself on its ability "to acquire, record, research, conserve, communicate, and exhibit material evidence of people, knowledge and the environment for the education, entertainment and inspiration of local communities and visitors."³

The museum's vision statement, as stated in its annual report, was "To be an inspirational museum of which the people of Otago and New Zealand are proud."

The vision statement was supported by a mission statement that, again as stated in the museum's annual report, was "To inspire and enrich our communities, and enhance understanding of the world through our collection, our people and the stories we share."

In striving to accomplish its vision and mission statements, the museum had three primary areas of focus: culture, nature and science. These foci were further enumerated by the following six strategic objectives:

² *Otago Museum Annual Report, 2006-2007.*

³ *Ibid.*

1. To develop our culture and capabilities
2. To continually evolve and grow
3. To increase engagement and quality of experience for our communities through access to and outreach from the museum
4. To actively care for, protect and develop our collections and physical environment
5. To increase our resources and use them wisely
6. To build and contribute to productive partnerships and strategic alliances

The strategic objectives, and in particular the museum's ability to achieve the objectives, were underpinned by three key results areas:

1. Being seen as a community leader in the offering of knowledge, learning opportunities and experiences that are relevant, contemporary, topical, widely accessible and consistently high in quality
2. Having staff and the Otago Museum Trust Board work together to demonstrate effective, positive management of collections, resources, and skills
3. Ensuring a culture that is positive and continually developing, where everyone takes responsibility for individual and collective behaviour, demonstrating agreed values and redressing unacceptable ones, as determined collectively and also individually through self and peer assessment

POSITION AS OF 2010

The museum had achieved large increases in its visitor numbers in recent years. The nearly 20 per cent increase in visitor numbers from 2007 to 2008 was partly attributed to its Discovery World Tropical Forest, which featured more than 1,000 imported tropical butterflies. Of course, other reasons behind its significant rise in patronage included its motivated workforce and its focus on customer satisfaction. As an example of this commitment, the museum had won several tourism and best workplace awards, including in 2006 when it won an Unlimited/JRA Best Places to Work in New Zealand Award under the category "One of the 10 best small workplaces."

Management believed that a major driving force behind the museum's current success was its organizational culture. This culture was put together by the staff, board and large stakeholders at a strategic planning workshop. Management believed that a healthy culture must be dynamic — owned and implemented by the staff and supported, not driven, solely from the top.

This culture in its strategic plan was:

Through actively, positively and fully sharing our skills and positive attitudes with the team, our individual contributions can become key parts of the Museum's total strengths. Together our collective intelligence and abilities will create a work environment which invigorates, inspires and challenges us — and helps us to achieve our vision and mission for the people of Otago and beyond. Our culture is developed through the agreed behaviours being demonstrated and through the expectation that some behaviours will not be acceptable within our team.⁴

An enumeration of the expected and unacceptable behaviours for working as a team at the museum, which was collated by the whole staff, is presented in Exhibits 1 and 2.

⁴ *Otago Museum Strategic Plan, 2006-2011.*

COMPETITIVE ENVIRONMENT

The Otago Early Settlers Museum, the Dunedin Art Gallery, and Olveston each embraced a goal that was similar to that of the Otago Museum. Namely, each organization sought to use its collections to enrich its visitors' understanding of the world.

The Otago Settlers Museum was established in 1898 and was commonly heralded as one of New Zealand's finest social history museums. The museum's permanent and temporary exhibitions showcased Otago's rich cultural tapestry and diversity.

The Dunedin Public Art Gallery was established in 1884 and remained in recent times one of New Zealand's most significant art museums. It housed a fine collection of European art, including paintings by Monet, Gainsborough, Turner, Rosa, Claude Lorraine, Burne-Jones and Tissot. The collection also featured New Zealand art from 1860 to the present, and had significant holdings of Japanese prints and the decorative arts.

Olveston was the former home of David Theomin and his family. It was designed by London architect Sir Ernest George as an "eloquent expression of one man's dreams." Built in 1906, the 36-room house served as a portal to turn-of-the-19th-century early New Zealand life, albeit a rather privileged life.

The Otago Museum needed to compete in this rather crowded competitive space. To assist with its strategic and operational planning, the museum operated what it called a Resources, Operations and Priorities (ROP) system. Each year the ROP system produced a detailed annual plan as well as a three-year plan and a 15-year development plan. Together these plans formed what the museum referred to as its "Statement of Intent." More specifically, the annual and three-year plans set out the museum's prioritized objectives and the required resources, especially the human and financial resources, needed to achieve these objectives for each of the two specific time periods. Some of the typical intentions showcased in the annual and three-year plans included the range and types of museum exhibits being contemplated, especially any new exhibitions; museum upgrades and renovations; and forecasts of the museum's financial performance.

The three-year plan was less detailed and had a greater strategic focus than the annual plan. In addition, the three-year plan helped provide the context for and parameters around the setting of the annual plan, for it was always the case that the annual plan needed to link with the succeeding three years embodied by the rolling three-year plan.

The adoption of a new annual plan and three-year plan began with senior managers heading off-site for a four- or five-day strategic ROP workshop. This strategic management workshop usually occurred in May. In preparation for the workshop, feedback was solicited from five key stakeholders: the Otago community, the four principal funders (Dunedin City Council, Clutha District Council, Central Otago District Council, and Waitaki District Council), visitors to the museum, staff, and the museum's board.

The strategic workshops were also used as a forum for debating ways to capitalize on the museum's core competencies. Exhibit 3 presents what the museum's management saw as its strengths, weaknesses, opportunities and threats (SWOT).

FINANCIAL POSITION

According to the chief executive (CE), the museum operated on a very tight budget. Unlike its New Zealand peers, the museum received significantly less funding from the New Zealand government. Te Papa, for example, received about \$30 million of national funding during 2009, while the Otago Museum received no national funding and less than \$4 million from its four contributing local authorities. Consequently, the museum's senior managers often spoke about a gap between what they perceived as the museum's expected duty and the funding being provided.

The museum attempted to bridge the funding shortage with the introduction of user-pay systems on specific touring exhibitions; profits from its shop and café; and charitable fundraising campaigns. Any remaining funding shortfall required the museum to reschedule or scale back the introduction of its plans, i.e., introduction of new exhibits, hiring of new employees, and museum upgrades and renovations.

The museum's café, gift shop, and tourism and facilities operation were the three main ongoing "business units" expected to make significant contributions to the museum's funding base. The museum's café was operated by an outside contractor, who leased the museum space. The gift shop was directly run by the museum. Gift shop employees were responsible for recommending, sourcing and selling shop items. Discovery World Tropical Forest, an interactive science centre, levied a visitor's admission fee, \$9.50 for adults and \$4.50 for children, in order to be completely self-funding.

There were a number of other more transitory or minor business units. The former comprised internationally sourced special museum exhibitions, which had a loan fee not able to be covered internally by the museum, where an admission fee was charged to assist with the costs. These admission fees were calculated to encompass all the exhibit's costs, plus a desired profit. Being the first New Zealand museum to source these exhibitions and organizing for the freighting and distribution of the exhibitions to other New Zealand and Australian museums was also used to offset the original exhibition cost and generate a small profit. The profit was intended to be used to support the museum's ongoing activities, including its community programs and any planned gallery redevelopments and structural upgrades. Other business units included the hiring of the museum's facility areas to the public and corporate for special functions, such as office parties, weddings, etc.

Exhibits 4 to 7 present the financial statements for the year ended June 30, 2009.

BEHAVIOURS EXPECTED FROM EVERYONE

Passion	Enthusiasm	Fun
Creativity	Imagination	Friendliness
Happy	Positivity	Social
Accountability	Organized	Cooperation
Commitment	Drive	"Can do" attitude
Adaptability	Flexibility	Respect
Curiosity	Proactivity	Openness and honesty
Determination	Loyalty	Dedication
Reliability	Common sense	Professionalism
Hardworking	Helpful	Supportive
Initiative	Inspirational	Self belief
Know limits	Balance	Sense of purpose
Detail focused	Self-motivation	Innovative
Continuous learning	Up for a challenge	Strong work ethic
Ethical behaviour	Problem solving	Trust and trustworthiness
Sharing each other's successes	Forthcoming with information	Recognition of our diverse skills
Responsibility	Sharing	Depth
Working to the best of our ability	Recognition of our individuality	Risk aware but not risk adverse
Solution-oriented	Think on our feet	Pride in our work
Asking for help if you need it	Development of self-empowering environment	Understanding our place in the organization
Pulling in the same direction	Appreciation and saying thank you	Listening and understanding
Acknowledging others	Telling it like it is	Giving recognition
Constructive feedback/criticism	Giving help when others need it	Identifying opportunities
Accept when you are wrong, get over it, move on, learn from it	Acceptance of individual's capacity	Meeting both personal and group challenges and objectives
Brainstorming together	Pulling together	Fantastic communication
Value others	Focused on common goals	Adherence to systems
Enjoying ourselves and our teammates	Challenge each other positively	Committed to meeting deadlines
Strength through good group dynamics	Moving outside our comfort zones	Wanting to be part of the team
Focus on the big picture	Giving our personal best	Healthy lifestyles
Working together	Team focus	Community focus

BEHAVIOURS NOT TOLERATED

Unconstructive negativity	Insularity
Complacency	Lack of initiative
Narrow-mindedness	Gossiping
Dishonesty	Sulking
Hostility	Not working in the same direction
Bureaucratic restrictions	Exclusion
Bad attitudes	Disinterest
Lack of communication	Not owning the goals
Lack of caring	Back stabbing
Having a narrow focus	Arrogance
Working in silos	Self importance
Put downs	Disrespect
Inflexibility	Lack of vision
Wasting resources	Lack of imagination
Wasting opportunity	Unwillingness to help
Blame	Rudeness
Elitism	Ignorance
Whinging/Whining/Grizzling	Lack of common sense
Unproductive criticism	Inhospitableness
Discourteousness	Judgmental
Inaccessibility	Laziness

SWOT

Strengths

An Otago-wide organization located in Dunedin
Otago Museum Trust Board Act 1996
Well-developed and proven infrastructure and business practices
Committed, highly skilled team
Community sense of ownership and pride
Ability to “make a difference” in our community
Committed management team focussed on developing the organization and the people who are part of it
Location between city centre and university
Well-considered development plan

Weaknesses

Reliance on local authorities with small ratepayer bases for core funding
Resources don't match ambition
Reliance on revenue generation and fundraising
Depreciation largely unfunded
Flat organizational structure limits perception of development opportunities
Visitor parking is limited

Opportunities

Revenue generation ideas
Harbour development
Settlers Museum redevelopment
Offsite exhibition ideas
Outreach bus
National and international market for exhibits and exhibitions

Threats

Local community spending behaviour
Limited number of quality exhibitions on touring circuit
Skilled/experienced labour shortage in museum sector

STATEMENT OF FINANCIAL PERFORMANCE
For the Financial Year Ended June 30, 2009

	2009	Budget	2008
	\$	\$	\$
Income			
Grants - Government & other	248,265	244,321	270,603
New Zealand Lottery Grants Board	-	-	-
Local authorities	3,642,294	3,657,711	3,432,580
Public	1,952,377	1,454,525	2,365,700
Legacies & bequests	5,235	500,000	70,291
Investment income - Dividends	125,206	79,995	165,222
- Interest	607,117	433,293	637,160
Realized net gains/loss on sale of financial instruments			
Instruments	-147,676	-	251,134
Total income	6,432,818	6,369,845	7,192,690
Expenditure			
Employee benefits expense	-2,577,716	-2,577,556	-2,600,211
Depreciation and amortization expense	-1,114,959	-1,293,405	-1,163,797
Other expenses	-2,667,506	-2,636,871	-2,409,319
Total operating expenditure	-6,360,181	-6,507,832	-6,173,327
Surplus for the year	\$72,637	(\$137,989)	\$1,019,363

STATEMENT OF FINANCIAL POSITION
As at June 30, 2009

	2009	Budget	2008
	\$	\$	\$
Current assets			
Cash and cash equivalents	6,467,451	220,355	4,367,360
Trade and other receivables	181,081	403,213	224,410
Inventories	153,821	129,757	155,174
Other financial assets	530,673	-	1,974,556
Other current assets	72,295	-	66,315
Total current assets	<u>7,405,321</u>	<u>753,325</u>	<u>6,787,815</u>
Non-current assets			
Other financial assets	3,782,282	7,455,615	4,419,321
Property, plant and equipment	15,765,629	16,733,801	16,723,427
Total non-current assets	<u>19,547,911</u>	<u>24,189,416</u>	<u>21,142,748</u>
Total assets	<u>26,953,232</u>	<u>24,942,741</u>	<u>27,930,563</u>
Current liabilities			
Trade and other payables	468,369	379,563	659,797
Employee entitlements	819,144	-	730,298
Total current liabilities	<u>1,287,513</u>	<u>379,563</u>	<u>1,390,725</u>
Total liabilities	<u>1,287,513</u>	<u>379,563</u>	<u>1,390,725</u>
Net assets	<u>25,665,719</u>	<u>24,563,178</u>	<u>26,539,838</u>
Equity			
Reserves	10,674,458	8,461,525	10,543,847
Capital	14,991,261	16,101,654	15,995,991
	<u>\$25,665,719</u>	<u>\$24,563,179</u>	<u>\$26,539,838</u>

STATEMENT OF RECOGNIZED INCOME & EXPENSE
For the Financial Year Ended June 30, 2009

	2009	2008
	\$	\$
Available-for-sale financial assets valuation gain/(loss) taken to equity	<u>-946,756</u>	<u>-799,695</u>
Net income recognized directly in equity	-946,756	-799,695
Surplus for the year	<u>72,637</u>	<u>1,019,363</u>
Total recognized income & expense for the year	-874,119	219,668
Statement of changes in equity for the financial year ended June 30, 2009		
Equity at beginning of year	26,539,838	26,320,170
Total recognized income & expense for the year	<u>-874,119</u>	<u>219,668</u>
Equity at end of year	<u>\$25,665,719</u>	<u>\$26,539,838</u>

CASH FLOW STATEMENT
For the Financial Year Ended June 30, 2009

	2009	Budget	2008
	\$	\$	\$
Cash flows from operating activities			
Government, local authorities & the public	5,890,126	6,035,942	6,101,572
Dividends	125,206	79,995	165,222
Interest received	603,864	433,293	565,954
Payments to employees	-2,573,082	-2,577,556	-2,500,324
Payments to suppliers	-2,736,138	-2,823,240	-2,146,411
Net cash inflow/(outflow) from operating activities	<u>1,309,976</u>	<u>1,148,434</u>	<u>2,186,013</u>
Cash flows from investing activities			
Proceeds from maturity & sale of other financial assets	1,160,712	-	2,483,441
Proceeds from sale of property, plant & equipment	-	-	-
Purchase of property, plant & equipment	-196,378	-1,104,600	-655,273
Purchase of other financial assets	-174,219	-	-356,987
Net cash inflow/(outflow) from investing activities	<u>790,115</u>	<u>-1,104,600</u>	<u>1,471,181</u>
Cash flows from financing activities			
Repayment of portion of Climate Control Levy	-	-	58,869
Net cash inflow/(outflow) from financing activities	<u>-</u>	<u>-</u>	<u>58,869</u>
Net increase in cash & cash equivalents	2,100,091	43,834	3,716,063
Cash & cash equivalents at the beginning of the financial year	4,367,360	176,520	651,297
Cash & cash equivalents at the end of the financial year	<u>\$6,467,451</u>	<u>\$220,354</u>	<u>\$4,367,360</u>