

**AN ANALYSIS OF NOT-FOR-PROFIT GARDENS AND MUSEUMS OPERATING
FOR-PROFIT SUBSIDIARIES**

by
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ABSTRACT

Three not-for-profit gardens and museums which are operating wholly-owned for-profit subsidiaries, Callaway Gardens, Pine Mountain, Georgia; Mystic Seaport Museum, Mystic, Connecticut; and the Zoological Society of Philadelphia, Philadelphia, Pennsylvania, were researched to determine the appropriateness, advantages and disadvantages of operating for-profit subsidiaries. The staffs of the not-for-profit organizations and for-profit subsidiaries were interviewed. Analysis of the interviews and organizational documents identified five key areas which should be considered before establishing a for-profit: mission, planning, trustees, management, and expansion. This analysis was extended to two not-for-profit gardens and museums: Longwood Gardens, Kennett Square, Pennsylvania and Winterthur Museum and Gardens, Winterthur, Delaware, which are not operating for-profit subsidiaries. Each was evaluated to see if a for-profit would be suitable to its organization.

It was recommended that both organizations not start a for-profit subsidiary at this time because Longwood's

current endowment provides strong financial security and Winterthur's leadership is in a period of transition.

However, a for-profit may be a viable option for either organization in the future. The recommendations demonstrate that each organization's management team must evaluate their own operations to determine if a for-profit subsidiary would be advantageous.

Of the five key areas identified in this thesis, the mission and trustees are the two most critical issues in the establishment of a for-profit subsidiary. It is imperative that the mission of the for-profit subsidiary relate to the mission of the not-for-profit. Trustees of the not-for-profit organization must actively support the formation of a for-profit subsidiary if it is to be successful. A for-profit subsidiary should not be perceived as a panacea, instead, as one option that should be investigated by not-for-profit administrators.

INTRODUCTION

Not-for-profit organizations have been under tremendous pressure to expand and diversify revenue sources in the last ten years due to decreases in government and private funding. This pressure has required trustees and staffs to investigate all possible financial options, including the establishment of for-profit subsidiaries. A for-profit subsidiary is a separate legal entity, presumably generating a profit, with the after-tax dollars going back to the not-for-profit in the form of interest, rents, annuities, and royalties. For-profit subsidiaries are well documented in the health care field (Doty and Etzioni 1976, 434), yet information available concerning gardens and museums operating such entities is limited.

The purpose of this research is two-fold: first, to document and analyze the operations of three existing wholly-owned for-profit subsidiaries of not-for-profit gardens and museums; secondly, to make recommendations regarding the establishment of a for-profit to two not-for-profit gardens and museums which are not operating a for-profit subsidiary. Five key areas have been identified for the analysis of the

three case study organizations: 1) mission (How does the for-profit relate to the mission of the not-for-profit organization?), 2) planning (Was the planning process for establishing the for-profit subsidiary thorough?), 3) trustees (What criteria were used in the selection of board members for the for-profit?), 4) management (Is there a cooperative relationship between the not-for-profit and for-profit?), and 5) expansion (Does the for-profit have room for expansion?). One of the main objectives of this research is to inform garden and museum administrators that a for-profit subsidiary may be a viable option for their organization.

The three case study organizations with wholly-owned for-profit subsidiaries are Callaway Gardens, Pine Mountain, Georgia; Mystic Seaport Museum, Mystic, Connecticut; and the Zoological Society of Philadelphia, Philadelphia, Pennsylvania. The two study institutions which are not-for-profit gardens and museums not currently operating a for-profit subsidiary, are Longwood Gardens, Kennett Square, Pennsylvania and Winterthur Museum and Gardens, Winterthur, Delaware.

The purpose of the first chapter is to define for-profit subsidiaries in not-for-profit organizations. The second chapter focuses on the three for-profit case study organizations. An analysis of these three for-profit subsidiaries comprises the third chapter. The fourth chapter

describes the operations of the two not-for-profit study institutions and makes recommendations for and/or against establishing a for-profit subsidiary. The concluding chapter presents a general summary and recommendations.

CHAPTER 1

NOT-FOR-PROFIT ORGANIZATIONS AND FOR-PROFIT SUBSIDIARIES -

SETTING THE STAGE

Tax Exempt Organizations

Dating back to the first Revenue Act in 1894, certain organizations have been allowed tax exempt status. It was originally awarded to "corporations, companies, or associations organized and operated solely for charitable, religious, or educational purposes. . ." (Treusch 1988, 1). Since 1894, the Internal Revenue Code has allowed for many categories of exempt organizations. During this almost one hundred year span, the number of exempt organizations has grown dramatically to nearly one million. For the purposes of this thesis, the category to be discussed is defined by the 1954 tax act as 501(C)(3) organizations. The Internal Revenue Code defines 501(C)(3) status as follows:

Corporations, and any community chest, fund or foundation, organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholders or individual (O'Neill 1989, 3).

Many organizations are classified under the 501(C)(3) section of the code. Once this tax-exempt status is awarded to an

organization, it must adhere to stringent guidelines to protect this status. Since the early 1970's, staffs of not-for-profit organizations have looked for ways to expand their revenue base. One method of not-for-profit expansion which does not jeopardize the tax-exempt status is the establishment of a for-profit subsidiary.

For-profit Subsidiaries

A for-profit subsidiary is a separate entity of the not-for-profit parent and may be structured in different ways. The subsidiary can be partially held or can be wholly-owned. The subsidiary is a business with the after-tax dollars being directed back to the not-for-profit parent in the form of fees for service, donations, dividends, and rents.

Wim Wiewel, Director of the University of Illinois' Center for Urban Economic Development at the School of Urban Planning and Public Policy in Chicago, in his article "Organizing for Business: The Organizational Context of Income-Generating Activities" discusses advantages and disadvantages of establishing a for-profit subsidiary in relation to the not-for-profit. These include:

Advantages

- Access to capital: a separate for-profit corporation may be better able to attract private investment capital than a program of a nonprofit.

- Access to entrepreneurs: closely related to the previous point is the possibility of bringing in skilled management to a for-profit activity.
- Compensation: for-profits can provide numerous incentives to attract and hold valued employees....
- Freedom to operate and grow: in general, there are fewer restrictions and clearer legal rulings regarding what for-profit corporations can do....

Disadvantages

- Tax liability: a major disadvantage of a for-profit or unrelated business activity is its tax liability. Profits taken by the government leave less for program enhancement. Nevertheless, paying taxes is a small price to pay for a successful venture, and tax considerations are rarely the prime determinant in selecting the "correct" structure.
- False expectations: if a new for-profit fails to produce significant net earnings, the enthusiasm of personnel, board members, and the parent organization may rapidly dissipate, and the operations of the business may falter (Wiewel 1988, 121-131).

The separation between the not-for-profit parent and the for-profit subsidiary is a critical issue. Mr. Wiewel states

that there are four advantages of this separation in a for-profit subsidiary:

- Focused program purpose;...
- Inspired confidence and credit;...
- Protect the organization's tax exemption;...
- Permit development of a new board...(Wiewel 1988, 129).

These four points will be addressed in further detail in the following chapters. The origin of a for-profit subsidiary in a not-for-profit organization is generally an outgrowth of a venture or enterprise idea.

Venture/Enterprise

Not-for-profit organizations which consider establishing for-profit subsidiaries, generally begin with a product or service to sell. This product or service starts as a venture or enterprise idea.

Laura Landy, Director of Initiatives for Not-for-Profit Entrepreneurship at New York University's Graduate School of Business Administration, in her book, Something Ventured, Something Gained, defines venturing as:

An ongoing business activity conducted by an established non-profit or profit making organization that introduces new or existing products or services into new or existing markets. A venture normally requires changes in the way the organization operates, whether it be changes in management, staffing, marketing, financing or other operations (Landy 1987, II-1).

Enterprise is described by Crimmins and Keil, in their book, Enterprise in the Nonprofit Sector, as "those income producing activities that are beyond the normal mission of an institution" (Crimmins and Keil 1985, 10). Venture and enterprise are synonymous in the literature.

These definitions contain two key words which also define for-profit subsidiaries in the not-for-profit world: change and mission. Change, as used in defining venturing, is an adjustment by a not-for-profit organization to accommodate a revenue activity not related to its mission. The mission of a not-for-profit is the guiding force allowing it IRS exempt status and must be protected. A venture/enterprise is operated as part of the not-for-profit organization in comparison to a for-profit subsidiary which is operated as a separate entity.

Venturing is not new to not-for-profits. Edward Skloot, President of New Ventures, a New York consulting firm that works with nonprofit executives, in his article "Should Not-For-Profits Go Into Business?", states:

Contrary to conventional wisdom, not-for-profit earned-income ventures are neither new nor compromising. As early as 1874, the Metropolitan Museum of Art retained a professional to photograph its collections and sell copies of the prints as well. The Metropolitan established its first official sales shop in 1908 (Skloot 1983, 20-25).

Some researchers see venturing as posing an adverse effect on the general purpose (mission) of not-for-profits by displacing their original programs. This analysis points out that not-for-profits must be aware of potential pitfalls in planning for a for-profit subsidiary (Adams and Perlmutter 1991, 25-37).

The next step is understanding how to start a venture/enterprise which may lead to the establishment of a for-profit subsidiary.

Procedures for Establishing a For-profit Subsidiary

The literature is full of advice for not-for-profits interested in a venture/enterprise. Laura Landy warns:

In order for a venture to succeed, the parent organization must be committed to the venture and motivated to see that it succeeds. That commitment may be the belief that the long-term survival of the non-profit depends on a successful venture (Landy 1987, II-5).

If the organization is committed to a venture idea, there are step-by-step processes suggested to evaluate one or a group of ideas. Of several venture planning processes reviewed (Skloot 1988, 38) (Massarsky 1988, 75) Laura Landy's ten-step venture planning process is the most straightforward and easily understood. The ten-step process is as follows:

Step 1: Develop a strategic plan for the non-profit organization.

- Step 2: Evaluate the suitability and impact of a business venture on the non-profit organization and its environment.
- Step 3: Establish goals for the business venture.
- Step 4: Explore business ideas and opportunities.
- Step 5: Evaluate potential business products and services.
- Step 6: Conduct preliminary feasibility studies.
- Step 7: Conduct a full feasibility study.
- Step 8: Write a business plan.
- Step 9: Obtain financing.
- Step 10: Start the business (Landy 1987, III-1).

When this ten-step process is completed, an organization should be able to start a business. Step eight, writing a business plan, is the most important. Though a business plan will be specific to each organization, Landy presents the premise for a business plan as follows:

The business plan describes precisely what the business is, how it will operate, who will be involved, how much it will cost, how long it will take, and what kind of support is needed. It also helps non-profits to adapt to a situation different from what they have experienced in working with government and some private funding sources (Landy 1987, XII-1).

The time involved in formulating a business plan may be considerable, yet proper planning can be the difference

between success and failure. A business plan can be done by in-house staff or by a consultant.

An important phase in the evaluation process is learning from other not-for-profit managers who have been through the planning process and have established a venture/enterprise.

Case Studies

Crimmins and Keil, for their book Enterprise in the Nonprofit Sector, interviewed over 300 not-for-profit institutions, selecting eleven for further study. For this thesis, three of those eleven not-for-profits were reviewed: the Pikes Peak Mental Health Center, the Southwest Craft Center, and the Denver Children's Museum, to show the diversity and complexity of their respective ventures/enterprises. These are just three examples of what can be accomplished with ventures/enterprises.

The Pikes Peak Mental Health Center (PPMHC) in Colorado Springs, Colorado is a complex organization, with interlocking corporations offering a variety of services under their not-for-profit umbrella. Charles Vorwaller, Executive Director of PPMHC, states, "I want this to be a charitable, nonprofit organization in purpose, but a business enterprise in its mode of operation." The organization entered into a joint venture with a fast food franchise to develop a vacant property owned by the Center. Mr. Vorwaller strongly suggests working with the IRS when investigating possible venture ideas. By using

many for-profit ideas, the Mental Health Center grew during the 1970's, from 24 employees to 260 in 1981, and from an annual budget in 1971 of \$250,000, to a \$5 million dollar budget in 1981. The venture was used here as a method for organizational growth (Crimmins and Keil 1985, 50-54).

Enterprise and education are combined by the Southwest Craft Center (SWCC) of San Antonio, Texas. SWCC operates the School of Art and Fine Arts and, which is supplemented by, a restaurant, two galleries, a parking lot and a dinner club. Darrell Bohlsen, Executive Director of SWCC compared the not-for-profit and the different profit centers: "people subconsciously divided areas in their mind, this is for profit, this is artistic and this is spiritual" (Crimmins and Keil 1985, 44-46). Ninety-two percent of their annual operation is earned. Mr. Bohlsen stated, "you have to make every thing work for you, and you do that by getting creative accountants and lawyers to help with a system" (Crimmins and Keil 1985, 44-46).

Some organizations turn to venturing as a last resort, as did the Denver Children's Museum (DCM) of Denver, Colorado, in 1976 under the direction of Richard Steckel, Executive Director. The DCM is modeled on the Children's Museum in Boston. After three years of operation, funding sources dried up. DCM is now managed like a for-profit business. It has become a national model for what a not-for-profit organization

can achieve through innovation and determination. Ninety-five percent of its budget is supported by earned income. It has a reputation for high-quality traveling exhibits, publications, special events, and marketing expertise. Mr. Steckel believes, "there are no magic answers, enterprise is just one part of the puzzle. Enterprise takes lead time, time for growth" (Crimmins and Keil 1985, 35-39).

It is evident that strong leadership in each of these cases allowed for new ideas in generating additional income, greatly benefiting each organization. The Pikes Peak Mental Health Center kept building on each enterprise. An important point, as stated by Mr. Steckel, is that enterprise is just one part of the puzzle. Planning is an integral part of each organization's enterprises. These organizations have become models for others. Each institution consulted lawyers, accountants and especially the IRS to insure they were operating within the IRS guidelines and not jeopardizing their not-for-profit tax exempt status. The IRS can and should be used as a resource.

This chapter has focused on setting the stage for a for-profit subsidiary. Moving beyond a venture/enterprise can lead to the establishment of a for-profit subsidiary. As with any business enterprise, there are certain advantages and disadvantages to operating a for-profit subsidiary. Separating the for-profit subsidiary from the parent helps to

protect the not-for-profit's tax-exempt status. Each organization must assess its individual needs in diversifying their operations.

The ten-step planning process presented by Landy is only one example of how a not-for-profit could investigate a venture/enterprise, yet it also suggests a framework to follow in investigating a for-profit subsidiary. The three case studies further support the combination of planning and strong leadership as a foundation for success.

An important part of the planning process for a for-profit subsidiary is to look at specific examples of organizations in each not-for-profit discipline. The next chapter describes in detail three not-for-profit gardens and museums operating for-profit subsidiaries.

CHAPTER 2
FOR-PROFIT SUBSIDIARIES OF NOT-FOR-PROFIT
GARDENS AND MUSEUMS

Background

Not-for-profit organizations operating for-profit subsidiaries are well documented in certain disciplines, yet the information available concerning gardens and museums operating such entities is limited. "There is not a lot of information on not-for-profits which have for-profit subsidiaries, and there are no examples in the zoological field," (Biddle 1991) commented Richard T. Biddle, Treasurer of ZSP, a for-profit subsidiary of the Zoological Society of Philadelphia. In order to provide specific for-profit examples for garden and museum administrators, three not-for-profit gardens and museums operating for-profit subsidiaries were studied: Callaway Gardens, Pine Mountain, Georgia; Mystic Seaport Museum, Mystic, Connecticut; and the Zoological Society of Philadelphia, Philadelphia, Pennsylvania. These three organizations and their respective for-profit subsidiaries represent a wide spectrum of for-profit activities from lodging to full-service museum stores to management consulting firms.

All of the participants in the interviews (see Appendix B - Case Study Questions) have consented to allow their names and their organizations' names to be published.

Callaway Gardens - Callaway Gardens Resort Inc.

As stated in its mission:

Callaway Gardens, a man-made landscape in a unique natural setting, was conceived and created by Cason J. Callaway and his wife, Virginia Hand Callaway, for the benefit of mankind. Callaway Gardens, a public, educational, horticultural, and charitable organization, is owned and operated by the non-profit Ida Cason Callaway Foundation. Its wholly owned subsidiary, Callaway Gardens Resort Inc., a regular business corporation, operates the recreational, lodging, and retail facilities at Callaway Gardens. After-tax proceeds go to the Foundation to support its efforts (The Callaway Experience 1988).

The Ida Cason Callaway Foundation receives income from four sources:

1. Interest from the endowment established by Cason and Virginia Callaway
2. Gate admissions
3. Donations
4. After-tax profits from Callaway Gardens Resort Inc.

(Callaway Gardens 54 Facts 1990)

In addition, admission to the gardens is included in the room rate charge and this amount is allocated to the Foundation.

The gardens opened in 1952. During this time, Mr. Callaway operated two for-profit enterprises: Garden Industries, which included a turkey farm and a country store,

and Gardens Services, which included the food service operation. These two enterprises were consolidated in 1960 under the name Garden Services Inc., as a wholly-owned tax paying subsidiary of the Foundation to operate the lodging, recreational, and retail facilities. The name Garden Services Inc., was changed to Callaway Gardens Resort Inc. in 1990. The number of full-time staff of the for-profit as of January, 1991 is 645 (Barrick 1991).

The reason for establishing the for-profit subsidiary, as described by William E. Barrick, current Director of the Gardens, was that, "Mr. Callaway wanted to provide additional revenue for the Foundation so as to prevent the state from taking control of the gardens in the case of severe financial problems" (Barrick 1991). Originally designed as a "safety net," the for-profit has grown through the years to include a 350 room inn, country cottages and mountain villas, privately owned vacation homes, restaurants, convention facilities, and shopping. The recreational element includes golf, tennis, racquetball, fishing and sailing, hunting, fitness, swimming, bicycle trails, the largest inland man-made white sand beach in the world, and a full range of summer recreation programs (Callaway Gardens Resort Fact Sheet 1990).

Anderson believes that as the Gardens looks to the future, "it is important that the not-for-profit and the for-profit work together to develop joint projects which will

benefit the total organization." He also feels that, "the Foundation employees sort of look down their noses at the money-grubbing folks across the street, and by meshing together the Foundation and the for-profit subsidiary in one management unit, we both have begun to understand a little bit better that we (both organizations) have a lot of common interest" (Anderson 1991). This "meshing together" may be realized in a project still on the drawing board, a nature center which will combine horticulture education and resort amenities.

The staff of Callaway Gardens has found a way to combine the beauty of a public display garden with the full range of amenities offered by a resort. In addition, these two elements provide financial security for the Foundation to further the mission of Callaway Gardens.

Mystic Seaport Museum - Mystic Seaport Museum Stores

Mystic Seaport, founded in 1929, is a not-for-profit maritime museum which has become a popular tourist destination. The 17-acre seaport is situated on the Mystic River in Mystic, Connecticut. Mystic Seaport is a living history museum which interprets life in a 19th-century seacoast village. It contains tall ships, a complex of historic buildings, a preservation shipyard, a planetarium, and numerous exhibit buildings (Mystic Seaport Museum Brochure 1990).

In 1938, a retail operation began by selling postcards of the Seaport, and by 1966, Mystic Seaport Museum Stores was formed as a wholly-owned, for-profit subsidiary with the after-tax dollars going back to the Museum. As described by Tom Aageson, President of the for-profit Museum Stores, starting the for-profit was a way of saying to the town, "we are in business outside of our (the Museum's) gate" (Aageson 1991).

The businesses operated by the Mystic Seaport Museum Stores include a gift shop, a bookstore with the largest collection of nautical books in the world, an art gallery/print shop, a catalog, and a trade sales division.

As a wholly-owned, for-profit subsidiary of Mystic Seaport, Mystic Seaport Museum Stores is dedicated to achieving excellence in four distinct, but connected areas. As stated in their 1989 five-year plan (in alphabetical order) the four areas are:

- Customer needs: without satisfied customers, we cannot achieve our mission.
- Mystic Seaport needs: Mystic Seaport provides the purpose which drives our businesses and makes us distinct.
- Profit needs: profits are essential to achieving our mission.

- Staff needs: a completely trained and dedicated staff is required to serve the customer well, further Mystics Seaport's purpose and achieve our profit goals (Five-year plan 1989, 1-2).

For the last three years Mystic Seaport Museum Stores has been paying a dividend to the Museum from its profits. Yet, Aageson stated, "the greatest source of revenue from the Stores comes into Mystic Seaport from the rent that the Stores pay for the use of the buildings" (Aageson 1991). Because the for-profit is a wholly-owned (100% controlled) subsidiary, the percentage of unrelated merchandise sold in the Stores determines the amount of taxes paid by the Museum on revenue received through the rental agreement with the for-profit. The Internal Revenue Service (IRS) has determined that 60% of the merchandise in the gift shop and bookstore is unrelated and 40% is related to the mission of the Museum. These values can change depending on the merchandise in stock.

The staff of the for-profit consists of seventy employees, and sales for 1991 were \$8,000,000. Frank Kneedler, Vice President and Chief Financial Officer of the Museum believes, "the museum store is more manageable as a free-standing entity than as a department of the Museum. It gives you a separate enterprise that you can be proud of, and its staff has its own esprit de corps" (Kneedler 1991).

In addition to the for-profit activities, the Museum operates separate revenue centers, which include video and photo reproductions, and calendars. These revenue centers are internally operated by the Museum staff. Having a for-profit subsidiary does not preclude the not-for-profit museum from continuing existing enterprises.

Mystic Seaport Museum Stores is co-existing in the not-for-profit world of museums while adding additional revenue and strengthening the image of the Museum. What started out as postcard sales has grown to a multi-million dollar sales operation.

Zoological Society of Philadelphia - ZSP Management and Planning Group Inc.

The Philadelphia Zoo is one of the oldest zoos in the country. Its purpose, the protection of the natural animal world, is accomplished in a variety of ways: breeding, conservation, education, and training. The Zoo staff are also interested in providing recreational opportunities for their visitors.

In 1986, the State of Massachusetts asked the senior staff of the Philadelphia Zoo to do a comprehensive management analysis and to formulate an operating budget for the Franklin Park and Walter D. Stone Zoos in Boston, Massachusetts. Richard T. Biddle, Vice President for the Zoo, stated, "the State required a separate entity, so when the Zoo received the

contract from the State, the Philadelphia Zoo developed ZSP Management and Planning Group Inc" (Biddle 1991). ZSP is a wholly-owned, for-profit subsidiary of the Zoological Society of Philadelphia and is comprised of senior staff and members of the Board of Directors of the Zoo (ZSP Fact Sheet 1989).

The late William Donaldson, President of the Philadelphia Zoological Society and ZSP from 1978 to 1991, believed that ZSP was "an opportunity to give people (the Zoo's senior staff) some challenges" (Donaldson 1991). The services offered by ZSP are as follows:

- Financial feasibility studies
- Management/facility planning
- Master planning
- Strategic planning
- Organizational planning
- Operations management and planning.

ZSP leases employees from the Philadelphia Zoological Society, so there are no full-time employees of the for-profit (ZSP Fact Sheet 1989).

Since 1988, ZSP has been under contract with the New Jersey Sports and Exposition Authority to supervise the work of architects, engineers, and exhibit designers in the construction of the \$42 million New Jersey State Aquarium on the Camden waterfront (ZSP Fact Sheet). ZSP developed a business plan, research activities, operating plan, marketing

strategies, and an education program for the Aquarium. Judith Wellington, Vice President of Planning for the Zoo and also Project Manager for the Aquarium, stated, "there are currently ten Zoo employees working on the aquarium project with projections of nearly ninety employees being involved before the opening in February of 1992" (Wellington 1991).

Donaldson said that after the completion of the Aquarium project, "we will have to sit down and decide if we really want to expand and where we want to go. Every time we have gotten to that point, somebody has come along and hired us" (Donaldson 1991). All of ZSP's clients have sought out the for-profit to work on their respective projects.

Biddle believes, "we are the for-profit which is charging non-profit rates. We see that there is a need, and we are going to fulfill that need" (Biddle 1991).

Compared to the two previous case study organizations, ZSP is very different because it does not have any full-time staff in the for-profit and because their primary service is selling the staff's expertise. It remains to be seen if this type of operation can have the longevity of the for-profits at Callaway Gardens and Mystic Seaport. If nothing else, ZSP (planning) represents another option for not-for-profits investigating for-profit subsidiaries. ZSP might well represent the avant-garde of for-profit subsidiaries for the next century.

In order to better understand these three case studies, the following chapter analyzes each for-profit subsidiary based on five key areas: mission, planning, trustees, management, and expansion of the for-profit.

CHAPTER 3

FOR-PROFIT SUBSIDIARIES - CASE STUDY ANALYSIS

Criteria for Analysis

One of the main objectives of this research is to inform garden and museum administrators that a for-profit subsidiary may be a viable option for their organizations. The previous chapter described three wholly-owned for-profit subsidiaries, Callaway Gardens Resort Inc., Mystic Seaport Museum Stores, and ZSP Management and Planning Group Inc., and examined the relationship of each to its respective not-for-profit organization. As stated in the introduction, in order to analyze these three organizations, five key areas have been identified for analysis.

Mission

How does the for-profit relate to the mission of the not-for-profit organization?

Planning

Was the planning process for establishing the for-profit subsidiary thorough?

Trustees

What criteria were used in the selection of board members for the for-profit?

Management

Is there a cooperative relationship between the not-for-profit and for-profit?

Expansion

Does the for-profit have room for expansion?

Mission of the Not-for-profit and the For-profit Subsidiary

Not-for-profit organizations which are considering adding a for-profit subsidiary must look closely at their mission statements. The not-for-profit's mission should allow for the possible addition of a for-profit subsidiary. A mission statement may be rewritten to include the subsidiary. When the missions of the not-for-profit and for-profit are closely related, this enables both organizations to work towards a common goal. It is important to remember that the not-for-profit's mission must always take precedence over the for-profit's mission, because the for-profit exists to support the not-for-profit organization.

Callaway Gardens' mission statement (see Appendix A) incorporates the for-profit into the overall mission. This is the most direct and best way of relating the missions of the for-profit to the not-for-profit. Mystic Seaport Museum and the Zoological Society of Philadelphia do not mention their wholly-owned subsidiaries in their respective mission statements. Mystic Seaport Museum Stores has a separate mission statement (see Appendix A). The for-profit's mission

specifically states, "Mystic Seaport provides the purpose which drives our businesses and makes us distinct" (Five-year plan 1989).

Even though the missions of Mystic Seaport Museum and the Zoological Society of Philadelphia do not mention their wholly-owned subsidiaries, their respective for-profit missions relate directly to the parent's mission. Due to its relatively short time of operation, ZSP's mission is still evolving. With this evolution may come a redefinition of its for-profit's mission. At this time, ZSP's mission is the most tenuous of the three for-profit subsidiaries.

Not-for-profits interested in establishing for-profit subsidiaries must look first at their missions. Does the not-for-profit's mission allow for the addition of a for-profit subsidiary? Is the mission of the not-for-profit compromised in any way by a for-profit subsidiary? How does the for-profit relate to the not-for-profit? It is imperative that the mission of the for-profit subsidiary relates to the mission of the not-for-profit.

Planning for the For-profit Subsidiary

Planning is one of the more important processes that not-for-profit garden and museum managers undertake. It becomes more critical for a not-for-profit organization when they are considering establishing a for-profit subsidiary. Most authors (Landy 1987, Skloot 1988, Hopkins 1988, Wiewel 1988)

think that planning is essential when evaluating a for-profit subsidiary.

Planning can be done in many different ways, including, reviewing goals and objectives, information gathering, completing a full feasibility study, developing a business plan, consulting with the IRS, receiving advice from lawyers and accountants, and contacting other organizations operating for-profit subsidiaries. Callaway Gardens Resort Inc. (Gardens Services Inc.) and Mystic Seaport Museum Stores both date back at least 25 years, so current management is unaware of how much planning went into establishing their respective for-profits. In any planning, it is imperative that the planning process be well documented for historical purposes. Even though they are not aware of how much planning was involved, managers from both organizations believe that a thorough planning process was completed. Each organization continues to seek out legal and tax advice where its for-profit is concerned.

The Zoological Society of Philadelphia did little formal planning when establishing its for-profit. Biddle believes there was little time for formal planning because they, "really hit the street running" (Biddle 1991), when they accepted their first contract with the State of Massachusetts. However, he did say, "we spent a great deal of time talking with our respective board members about this concept and

talking with our legal counsel and also our accountants" (Biddle 1991).

Even though the Zoological Society of Philadelphia completed little formal planning, the thorough discussion with its board members and legal counsel was critical. More formal planning can still be completed by the for-profit because it is only six years old. With the completion of the Camden Aquarium in February of 1992, ZSP's major contract will come to a close, thereby presenting the for-profit with an excellent opportunity to undertake additional planning.

The combination of longevity and success for Callaway Gardens Resort Inc. and Mystic Seaport Museum Stores, suggests either that planning laid the foundation for their success or that they have had time to overcome the lack of planning. Both for-profit subsidiaries continue to formulate business plans for all future activities.

When structuring a for-profit subsidiary, it is critical that advice be sought from lawyers, accountants, and other organizations operating for-profit subsidiaries. Planning, whether formal or informal, must be an ongoing process for the staffs of the not-for-profits and the for-profit subsidiaries.

Trustees of the Not-for-profit and the For-profit Board

Trustees of not-for-profits have a special fiduciary responsibility to their organization associated with the use of charitable funds (Ullberg 1981). If a for-profit is to be

established, the trustees must first give their approval. After this approval, it is important that they keep themselves informed regarding the progress and status of the for-profit subsidiary.

The not-for-profit trustees in the three case studies determined the structure of the for-profit board. The respective for-profit boards are comprised of trustees and select senior staff from the not-for-profit and the for-profit. Trustees serving on the for-profit board should have strong business backgrounds. In addition, having legal expertise on the board can be beneficial in understanding the IRS regulations that pertain to wholly-owned for-profit subsidiaries.

At Mystic Seaport Museum, William Chaney, Chairman of Tiffany's, is a trustee of the Museum and also the President of the Board of Directors of Mystic Seaport Museum Stores. Tom Aageson, President of the Stores, believes it is very important to have a person of Chaney's stature and experience leading the board: "the trustees will listen to him because the members of his organization are pros as retailers" (Aageson 1991).

Each organization has shown that selecting the right people for the board of directors of a for-profit subsidiary is not an easy task, yet it is crucial to the long-term

survival of both the not-for-profit and for-profit organizations.

Management of the Not-for-profit and For-profit Subsidiary

For-profit managers should possess strong business backgrounds and be sensitive to the overall mission of the not-for-profit. Not-for-profit managers must also understand the business orientation of the for-profit managers. In the last ten years, as described by Peter Drucker, "there has been a management boom going on among the non-profit institutions, large and small" (Drucker 1990, XV). In part, this "management boom" has promoted a business orientation for not-for-profit managers. When a not-for-profit organization contemplates establishing a for-profit subsidiary, the organization must decide whether they have the personnel with business expertise. If not, they must hire this business expertise. By definition, a for-profit is in the business of making money and the staff must reflect this primary goal. Yet, the primary goal of a wholly-owned for-profit subsidiary is not always to make money, but to support the not-for-profit for a specific purpose. This support can range from furthering the good name of the not-for-profit to protecting the tax exempt status of the not-for-profit.

Mystic Seaport Museum Stores and Callaway Gardens Resort Inc. have both been very successful in balancing between business oriented people and people who are sensitive to the

mission of the not-for-profit. As described by Joanne Millovitsch, Business Manager, Mystic Seaport Museum Stores, "we are dedicated to running the business in the most professional manner we can. We also give financial support to the museum; it is like a higher cause . . ." (Millovitsch 1991). Anderson believes that you should, "make sure you salt the for-profit with people that understand the mission of the not-for-profit, but understand the business goals at the same time" (Anderson 1991).

Tom Aageson, President of Mystic Seaport Museum Stores (for-profit) and Scott Anderson, President of Callaway Gardens Resort Inc. (for-profit) both hold positions in their respective not-for-profits. Aageson is Vice President in charge of Marketing and Merchandising for the Mystic Seaport Museum. Millovitsch believes there is an advantage and a disadvantage of Aageson's two positions. The advantage is, "he is constantly feeding us with information regarding activities within the museum, because his area of marketing relates to us." Hopefully, this open communication will reduce the potential for conflict between the two staffs. She sees the disadvantage in that "he is only one man and there is a tremendous amount of time involved in coordinating the two operations" (Millovitsch 1991). The Board of Trustees for the Ida Cason Callaway Foundation named Anderson as the organization's president of the not-for-profit and for-profit

in December 1991. Anderson's management philosophy will be felt throughout the entire organization.

The management relationship of the not-for-profit and for-profit subsidiary will always be a critical issue, because how these two entities relate to each other will in part determine how successful both are in the marketplace.

Expansion of the For-profit Subsidiary

Due to IRS regulations there are limitations on what not-for-profits can do in regards to business enterprises. Establishing a for-profit subsidiary allows the not-for-profit to expand into businesses which it was otherwise restricted from operating. It is also important that the for-profit subsidiary have room for expansion.

Mystic Seaport Museum owns a subsidiary called Mystic Seaport Museum Subsidiary Operations, Inc. which in turn owns all of the stock of the Mystic Seaport Museum Stores. Mystic Seaport Museum Subsidiary Operations allows the Museum room for expansion, because the subsidiary operations acts as a large for-profit umbrella where other future for-profits can be placed. It also allows the Museum to isolate for tax purposes certain for-profit operations if they are not profitable.

Once a for-profit subsidiary is established, it should be given as much room for growth as possible. All ventures will

not always be successful; therefore, there must be some mechanism in place to isolate unprofitable ventures.

The five key areas which were identified in this chapter are not all inclusive of what a not-for-profit will face when establishing a for-profit subsidiary, yet these five areas represent important issues that not-for-profits with for-profit subsidiaries are likely to face. Each key area has many elements which will vary depending on the individual not-for-profit and for-profit. It is important to note that there is much overlap among the five areas.

The mission of the not-for-profit will affect all areas. Whatever planning is completed, it is critical that the planning be thoroughly researched and documented. Trustees of the not-for-profit and board members of the for-profit subsidiary play an important joint role in overseeing the subsidiary's operation. The relationship of the not-for-profit and for-profit management teams will be dependent in large part on the type of leadership in each respective organization. Strong leaders in the not-for-profit and for-profit should foster a cooperative effort between the two organizations. The ability to expand into several subsidiaries is a major advantage of the for-profit.

These five key areas will be used in the following chapter as the basis for the recommendations for the two study institutions.

CHAPTER 4

STUDY INSTITUTIONS

Background

The purpose of this part of the research is to assess the current marketing operations of Longwood Gardens, Kennett Square, Pennsylvania and Winterthur Museum and Gardens, Winterthur, Delaware and make recommendations for and/or against establishing a for-profit subsidiary.

Longwood Gardens' History

Longwood Gardens, located in Kennett Square, Pennsylvania, was the country home of Pierre S. du Pont (1870-1954), a former president of the Du Pont Company and General Motors Corporation. Longwood's major attractions are the conservatories, with their wide variety of tropical and seasonal flowering plants, and the fountain gardens, with their wonderful shows of dancing waters. Longwood attracts approximately 800,000 visitors a year.

Eight years before Mr. du Pont's death, the operation of Longwood Gardens was transferred to the Longwood Foundation, Inc. The Longwood Foundation was established in 1937 to handle Mr. du Pont's gifts to charities and awarded charitable grants to educational and medical institutions. In September

1970, Longwood Gardens, Inc., was formed by the Longwood Foundation as a private operating foundation to operate Longwood Gardens (Thompson 1976). Longwood's sources of financial support consist of endowment income, admissions fees, revenue from the Museum Shop and the Terrace Restaurant, and other miscellaneous operations.

Retail Operation History

The Longwood Shop began selling film, slides, and postcards in 1956. The Shop, located near the current employee parking area, was considered a limited visitor service. Longwood's trustees were concerned that this operation not endanger the non-profit status of the institution. The selling price of most items was only marked up about 25% above cost (Longwood Shop 1982).

In 1960, the Shop was moved to the new Visitor Center. As many as six full-time employees worked in the Shop. Up until 1975, the sales operation lost money each year. This net loss was a direct reflection of the trustees wish to protect the organization's tax-exempt status and not to make the operation a profit center. In 1976 the trustees decided to make the Shop a profit center. Most markups increased from 25% to 100%. Profit goals of approximately 20% above the previous year's level were established for the shop manager (Longwood Shop 1982).

Since 1976, the Shop has realized a yearly net profit. In 1984, total sales were over \$1 million. Total sales for 1991 were \$1.7 million. The Museum Shop, having changed its name from the Longwood Shop, is currently undergoing an expansion and renovation of the current sales area. A new 1,500 sq.ft. plant sales area is scheduled for completion in the Spring of 1992. Upon completion of the new sales area, the existing 1900 sq.ft. will be renovated. There are currently two full-time and fourteen part-time employees. This group of employees includes personnel responsible for admissions (Longwood Shop 1982).

Longwood Recommendations

On the surface, the establishment of a for-profit subsidiary in the near term does not seem warranted. Longwood's current endowment of well over \$200 million provides strong financial security. However, Longwood's trustees and staff should investigate all available business options for maintaining this strong financial position.

It is strongly recommended that Longwood investigate a for-profit subsidiary for two reasons: protecting and enhancing the current endowment and offering expanded visitor services. The after-tax dollars provided by a successful for-profit subsidiary could be used to reduce the amount of investment income used to support Longwood Gardens' operating budget and to bolster the endowment. A for-profit subsidiary

could also allow Longwood to greatly expand its visitor services via a convention center/corporate retreat. Callaway's Convention/Conference Center should be used as a prototype for Longwood Gardens. Of course, this type of operation would require considerable evaluation and planning by Longwood's trustees and staff.

The investigation of a for-profit subsidiary should include the five areas which are described below.

Mission

Longwood Gardens' mission statement would seem to allow the inclusion of a for-profit subsidiary. The last sentence is as follows, "We are committed to excellence, good management, and fiscal responsibility" (Treetops to Tunnelbottoms 1990). The establishment of a for-profit subsidiary must be carefully planned to insure that it will be a fiscally responsible action which increases revenue and strengthens the not-for-profit organization.

Planning

The first step in the information gathering process should be the formation of a committee comprised of senior staff members and trustees. This committee would develop a list of possible business ventures for the Gardens. After this list is developed, the top one or two options would be investigated. This investigation would follow the process

outlined in Chapter 1 (see feasibility study and business plan).

Trustees

Some Longwood Gardens' trustees are former Du Pont Company executives with considerable business expertise. This business expertise would be a tremendous asset if a for-profit subsidiary were considered. It is critical that the trustees actively support the formation of a for-profit subsidiary if it is to be successful.

Management

As was demonstrated with the three case study organizations, it is important that the not-for-profit and for-profit management teams have a shared vision for the total organization. The not-for-profit managers must possess business expertise to relate to the goals of the for-profit subsidiary. In addition, they must be sensitive to the not-for-profit mission. Callaway Gardens and Mystic Seaport for-profit presidents have a position in the not-for-profit. Longwood should consider this arrangement.

Longwood Gardens' senior management possesses considerable business expertise which would be an asset in the planning stages and the possible implementation of a for-profit subsidiary.

Expansion

During the planning stages of a for-profit subsidiary, Longwood's planning committee would decide on the specific structure of the for-profit. A wholly-owned for-profit subsidiary would provide Longwood's Trustees with complete control of the for-profit. Beyond the control issue, the type of additional enterprises Longwood wished to operate in large part would determine the type of for-profit structure they would utilize. Callaway Gardens and Mystic Seaport have for-profit holding companies which allow several for-profit subsidiaries to exist under one large umbrella. As mentioned in Chapter 3, this particular arrangement allows the not-for-profit to isolate unprofitable ventures. Longwood should investigate these organizations' for-profit structures.

Winterthur's History

Winterthur, located six miles northwest of Wilmington, Delaware, is the former country estate of Henry Francis du Pont. The multifaceted institution is comprised of a museum, a library, and a garden (Winterthur Marketing Summary 1990, 1).

The nationally renowned museum was opened to the public in October 1951. The Henry Francis du Pont Winterthur Museum, Inc., is a publicly supported organization which is exempt from income taxes under Section 501(C)(3) of the Internal Revenue Code. Winterthur is governed by a board of trustees.

The current Director, Thomas A. Graves, Jr. is retiring in June 1992. His successor is Dwight T. Lanmon. Financial support for Winterthur's operations is derived from admissions, fees, gifts, grants, investment income, membership, and profits from commercial activities (Winterthur Marketing Summary 1990, 1 - 2).

Retail Operation History

Winterthur's retail operation, which began in the early 1950's as a sales desk located in the reception area of the museum, grew over a twenty-five year period to a bookstore and gift shop (1,288 sq. ft.) located in the Pavilion building. In 1981, the Gallery Shops, which sells upscale gifts, was opened in the renovated H.F. du Pont House. The Furniture Gallery, which launched the national licensing program, was opened in May 1982. The Garden Shop was moved from outside the Pavilion to the Conservatory adjacent to the Gallery Shops in July 1984. Winterthur opened a satellite gift and reproduction store in Old Town Alexandria, Virginia in September 1990 (Winterthur Marketing Summary 1990, 3).

Marketing Division

Winterthur's Board of Trustees established the Marketing Division of the museum in 1978. It is responsible for coordinating the reproduction of objects from the museum's collection. The Marketing Division's dual purpose consists of enhancing the education of the public and generating revenue

for the operations of the museum (Winterthur Marketing Summary 1990, 5).

The Marketing Division is comprised of three separate components: the retail stores operation, which is responsible for the sales of licensed products; the direct mail operation, which distributes mail-order catalogs to over eight million homes; and the national licensing program, which facilitates the promotion and distribution of products derived from objects in the museum collections (Winterthur Marketing Summary 1990, 4).

Gross revenues for the marketing programs in the 1990 fiscal year were approximately 15 million dollars. This was an increase of almost 1.3 million dollars from the previous fiscal year (Winterthur's Annual Report 1990).

Winterthur Recommendations

Due to the imminent retirement of Thomas A. Graves, Jr., Director of Winterthur, the establishment of a for-profit subsidiary does not seem prudent at this time. Once Winterthur's leadership is stabilized, the organization should then investigate a for-profit subsidiary.

Winterthur's Marketing Division could remain in the not-for-profit organization because all of the marketing operations are directly related to furthering the mission of Winterthur or it could be separated out into a for-profit subsidiary. Whether the marketing operations would be

included as a part of a for-profit would require extensive analysis. If Winterthur's trustees desire to move beyond what is being currently operated, then establishing a for-profit maybe advantageous. The investigation of a for-profit subsidiary should include the five areas which are described below.

Mission

Winterthur's current mission statement would have to be revised to incorporate a for-profit subsidiary (see Appendix A). One of the goals of the trustees and staff is to reevaluate the mission statement in the coming years. Winterthur is committed to expanding its financial resources. This commitment could be realized in the establishment of a for-profit subsidiary.

Planning

In 1986, a preliminary assessment of the land and facilities of Winterthur was completed by Land/Design Research, Inc., of Columbia, Maryland. This information can be used as the basis for planning and investigating a for-profit subsidiary. Identifying all possible business ventures is the first step in the planning.

As mentioned previously, a thorough analysis of the current marketing operations would allow trustees and staff to know if establishing a for-profit subsidiary from the existing enterprises would be advantageous. A thorough cost accounting

of the entire operation might reveal that the operation is not as profitable as once thought.

Trustees

Winterthur's trustees possess considerable business expertise. Edgar S. Woolard, chairman of the Du Pont Company is a current trustee. With this business expertise, Winterthur's trustees should be well qualified to oversee a for-profit subsidiary. As stated previously, the Trustees of Winterthur are committed to expanding the financial resources of the organization; the establishment of a for-profit would be one possible option.

Management

Winterthur's Marketing Division personnel possess strong business and marketing expertise which could be utilized in a for-profit subsidiary. In addition, a for-profit could attract business expertise through increased compensation compared to the not-for-profit.

Expansion

If Winterthur's trustees decide to establish a for-profit subsidiary, a for-profit holding company would allow the not-for-profit parent the opportunity to expand the for-profit enterprises. The for-profit structure would depend, in large part, on whether Winterthur's trustees decide to take an existing enterprise and convert it into a for-profit subsidiary or create an operation from scratch.

One of the main objectives of this thesis was to inform garden and museum administrators that a for-profit subsidiary may be a viable option. Given the recommendations against starting a for-profit subsidiary for Longwood Gardens and Winterthur at the present time, it might appear that a for-profit subsidiary is not the answer for other not-for-profit gardens and museums. This is not true, and the recommendations demonstrate that each organization's management team must evaluate their own operations and see if a for-profit would be advantageous. Longwood Gardens' and Winterthur's trustees and staffs may at some future time decide that a for-profit subsidiary is a viable option.

CHAPTER 5

CONCLUSIONS

Summary

The advantages and disadvantages of not-for-profit gardens and museums operating wholly-owned for-profit subsidiaries were researched. Historically, not-for-profit organizations in the United States have been allowed tax-exempt status since the first Revenue Act in 1894. The not-for-profits discussed in this thesis are 501(C)(3) organizations as defined by the 1954 tax act. One method beyond government grants and venture/enterprise of not-for-profit expansion which protects the tax-exempt status is the establishment of a for-profit subsidiary.

For-profit subsidiaries are businesses with the after-tax dollars going to the not-for-profit parent. There are several advantages and disadvantages to operating a for-profit subsidiary. One advantage is the ability to compensate valued employees in ways which are not allowed by the not-for-profit. A major disadvantage to operating a for-profit subsidiary is the tax liability incurred. Each organization must weigh the advantages and disadvantages before establishing a for-profit subsidiary.

A venture/enterprise which is selling a product or service within a not-for-profit can be the first step in establishing a for-profit subsidiary. Crimmins and Keil (1985) in their research identified over 300 not-for-profits operating a venture/enterprise. For this thesis, three of those organizations were reviewed: the Pikes Peak Mental Health Center, the Southwest Craft Center, and the Denver Children's Museum. A combination of strong leadership and extensive planning was the formula for success for each organization.

Laura Landy's (1987) ten-step venture planning process represents a straight-forward planning guide. One of the most important parts of the ten-step process is developing a business plan which attempts to answer questions concerning the operation of the proposed business.

When investigating a for-profit subsidiary one of the best methods of information gathering is to learn from other not-for-profits which are operating one. This research documents the wholly-owned for-profit subsidiaries of Callaway Gardens, Mystic Seaport Museum, and the Zoological Society of Philadelphia.

Callaway Gardens Resort Inc. (for-profit), originally designed as a "safety net" for the not-for-profit gardens, has grown considerably over the years. Callaway has combined the not-for-profit and for-profit management into one unit.

Mystic Seaport Museum's for-profit businesses are a bookstore, a catalog, an art gallery/print shop, and a trade sales division. Starting the for-profit at Mystic Seaport was a way of telling the local business community that the museum and its merchandising operations would be separate. The primary mission of Mystic Seaport Museum Stores is to support the not-for-profit Museum.

The Philadelphia Zoo's for-profit is involved in management and planning consulting work in which it assists other not-for-profit organizations. ZSP has completed in 1992 a contract with the New Jersey Sports and Exposition Authority to oversee the construction of the New Jersey State Aquarium. ZSP leases all of its employees from the not-for-profit Zoological Society.

Analyzing the three case study organizations was the next step in this research. Five key areas were identified for analysis which must be considered before establishing a for-profit:

Mission	How does the for-profit relate to the mission of the not-for-profit organization?
Planning	Was the planning process for establishing the for-profit subsidiary thorough?
Trustees	What criteria were used in the selection of board members for the for-profit?

Management Is there a cooperative relationship between the not-for-profit and for-profit?

Expansion Does the for-profit have room for expansion?

Longwood Gardens and Winterthur Museum and Gardens were researched based on the experience of the case study organizations. Recommendations against establishing a for-profit were made for both not-for-profit organizations. Each organization may decide at a future time that establishing a for-profit subsidiary is right for their respective organization.

Recommendations

The three case study organizations, Callaway Gardens, Mystic Seaport Museum, and the Zoological Society of Philadelphia, were used as examples of how a for-profit subsidiary can be structured and operated in not-for-profit gardens and museums. These organizations are successful because the staffs of the not-for-profits and for-profits have been able to work towards a common goal; to support the mission of the not-for-profit parent. Trustees of each not-for-profit play an important role in overseeing its wholly-owned for-profit subsidiary. Trustees must be committed to the success of the for-profit.

Further research is necessary to identify other not-for-profit gardens and museums which are operating for-profit subsidiaries. A continued analysis of the three case study organizations would be worthwhile. The five key areas identified in this thesis: mission, planning, trustees, management, and expansion, should form the basis of an investigation into establishing a for-profit subsidiary.

A for-profit subsidiary should not be perceived as a panacea, instead, as one option that should be investigated by not-for-profit garden and museum administrators interested in this structure. If the establishment of a for-profit subsidiary is directed towards saving (financially) a floundering not-for-profit organization, there is a strong chance both organizations will fail. Are for-profit subsidiaries right for all not-for-profit gardens and museums? No, however, the three case study organizations demonstrate that given the right situation it can be done successfully. What is the right situation? That question must be answered by the board and staff of each not-for-profit organization. As this thesis has emphasized, not-for-profit administrators should look at for-profit examples in their respective disciplines.

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APPENDIX A: MISSION STATEMENTS

Mission statements from not-for-profit and for-profit organizations.

Ida Cason Callaway Foundation

Callaway Gardens, a man-made landscape in a unique natural setting, was conceived and created by Cason J. Callaway and his wife, Virginia Hand Callaway, for the benefit of mankind. Callaway Gardens, a public, educational, horticultural, and charitable organization, is owned and operated by the non-profit Ida Cason Callaway Foundation. Its wholly owned subsidiary, Callaway Gardens Resort Inc., a regular business corporation, operates the recreational, lodging, and retail facilities at Callaway Gardens. After-tax proceeds go to the Foundation to support its efforts

Callaway Gardens Resort Inc.

Callaway Gardens Resort, a wholly owned subsidiary of the Ida Cason Foundation, contributes its after tax profits to support the Foundation's mission by providing a variety of vacation and business experiences for those preferring a quality four star resort environment of relaxation, education, recreation and inspiration at competitive prices with the highest possible level of service.

Longwood Gardens, Inc.

Longwood Gardens is dedicated to preserving the spirit and beauty of the early twentieth century gardens of Pierre S. du Pont. Longwood is a display garden promoting the art and enjoyment of horticulture for the public, while providing opportunities for research and learning. We are committed to excellence, good management, and fiscal responsibility.

Mystic Seaport Museum

The purpose of Mystic Seaport Museum Inc., is to preserve materials, artifacts, vessels, and skills relating to commercial and recreational maritime history in order to

enhance man's knowledge and understanding of the sea's influence on American life.

Mystic Seaport Museum Stores

Our mission to provide products and services related to Mystic Seaport Museum. We strive to do our best in four connected and equally important areas:

- to achieve customer satisfaction
- to help fulfill Mystic Seaport Museum purpose of education and preservation
- to meet our financial goals
- to enrich the lives of our staff.

Winterthur

Winterthur is a national institution dedicated to the understanding and operation of American art and material culture. Its core element is the largest and most comprehensive collection of decorative art made and used in America from the mid-seventeenth to the mid-nineteenth century. Other important elements include a research library, conservation laboratories, an education and research center, and a naturalistic landscape garden.

Winterthur's mission is:

- to preserve, display, interpret and develop the collections of the museum, library, and display gardens, for the education and enjoyment of the public.
- to initiate and support selected scholarly activities related to American cultural history, with particular emphasis on Winterthur's collections.
- to respect the unique character and quality of Winterthur as envisioned and created by its founder, Henry Francis du Pont.

The Zoological Society of Philadelphia

As part of its charter, in 1859, the original Board of Directors of the Zoological Society of Philadelphia charged itself and its successors with this responsibility: "To provide for the instruction and recreation of the people."

ZSP

ZSP is a team of working professionals who each day manage the most popular cultural attraction in the Philadelphia metropolitan area - the Philadelphia Zoo.

APPENDIX B: CASE STUDY QUESTIONS

Questions for Case Study Organizations

Chronology of Development

I. Planning

What is the primary mission of the not-for-profit organization (NFPO)? How does the for-profit subsidiary (FPS) relate to that mission?

What were the reasons for establishing the FPS?

Were the goals and objectives reviewed before starting the FPS?

Do you feel there are risks involved in operating a FPS to the NFPO?

What type of information was gathered while investigating the feasibility of establishing a for-profit subsidiary?

Did you conduct a full feasibility study?

Did you consult with the IRS?

Did you have lawyers and accountants advising you during the process?

How much research was involved before deciding on the FPS?

Did you contact any organizations that were operating a FPS?

Did you convert an existing enterprise into a FPS?

II. Start-up

When was the for-profit subsidiary established?

How many people are employed by the FPS? Has this number changed over the years?

Did you write a business plan for the for-profit subsidiary? If so, how helpful was this to the organization?

What was the initial reaction by the board and staff of the NFPO concerning the FPS?

How was additional capital raised for the new business?

III. Relationship of the For-profit Subsidiary and the Not-for-profit Parent.

Is it a wholly-owned subsidiary?

Which staff members work for the not-for-profit and which for the subsidiary? Are there any crossovers? If yes-what positions?

What type of contractual arrangements are there between the FPS and the NFP?

Is compensation the same for NFPO and the FPS management?

What is the composition of the FPS board? And how does it relate to NFPO board?

What types of business enterprises are operated by the FPS?

Is the management structure of the FPS similar to the NFPO?

How does the Board of Trustees of the NFPO feel about the activity of the FPS?

Has there been any IRS involvement in your organization?

IV. Implementation and Expansion

When did the for-profit begin to make a profit?

Has the FPS expanded its activities over the years?

Do you foresee an expansion of the FPS activities?

V. Evaluation

Are there any disadvantages to operating a FPS?

What are the advantages? Please, list.

Would you suggest that other institutions explore the possibility of establishing a FPS?

Do you have any words of wisdom for organizations interested in establishing a FPS?