



UNIVERSITY OF SAN FRANCISCO  
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MASTER OF NONPROFIT ADMINISTRATION

# Reimagining the Nonprofit Sector

## Nonprofit + Cooperatives = Solution to Inequality?

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Class #: NPA 622

Semester 2021 Spring

Instructor: Dr. Marco Tavanti

# INTRODUCTION

Grace Notes Community Music School,  
501(c)(3) founded in 2015

2020 Jan : 12 teachers

2021 Jan : 7 teachers

Problems :

Music teachers moving out of the area due to the high cost of living.

Distance between the board of directors and teachers.

Pandemic resulting less students and performance opportunities for teachers.



## **Challenges Facing the Nonprofit Sector:**

Starvation Cycle, Employee Burnout,  
Lack of Diversity in Leadership Roles,  
Overhead Myth, Disengaged Board,  
Unethical leadership

What policies and structures can help nonprofit organizations cope with challenges?

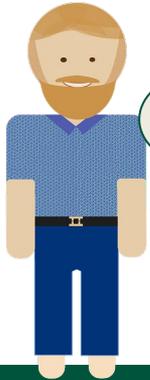
# INTRODUCTION

A traditional nonprofit is not the only business model to accomplish social good.

**Example** : For-Profit Cooperative, Nonprofit Cooperative, Social Cooperative, C corporation, Limited liability company (LLC), Benefit corporations (B Corporations)

There are different organizational models but that nonprofit charities (501c3) are allowed to be only corporation as a structure

**INSPIRATION** 💡 **MOMENT at MONDRAGON, Spain (the largest co-op in the world with over 80,000 employees)**



“If you want to be rich,  
don’t join us but if you  
want a good life. Join us.”  
Ander Etxeberria, Director of  
Cooperative Dissemination

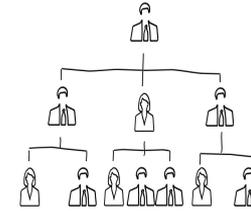


# INTRODUCTION

- Which governance work better for nonprofit organizations?

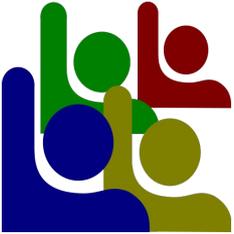


Shared Governance



Hierarchical Governance

- Which pay structure work better for nonprofit organizations?



Some (not all) cooperatives have equal pay for all. many co-operatives have equitable pay scales and pay differentials



Average CEOs now make on average **278** times the average worker's salary <https://www.cnbc.com/2019/08/16>

# OBJECTIVES AND VALUES

1. Can the co-operative model of shared power/leadership reduce nonprofit employee burnout?
2. Does adopting cooperative models affect nonprofits performances?
3. Should 501(c)(3) nonprofit organizations adopt co-op models?



# METHODS AND APPROACHES

## Literature Review

What is a Co-op?

Job Satisfaction in Social Economy

New model: Worker Self Directed Nonprofit



- 20 scholarly articles
- 5 industry articles

## Expert Interviews

What are the pros and cons of having the shared governance structure?



- Staff and Board Members from SF Waldorf School

## Observation

How does decision making work at shared governance organization?



- Meeting at a worker self-directed nonprofit (

## Focus Group

Would Grace Notes Teachers & Board be interested in transitioning to the shared governance model?



- Interview 2 groups
- Current Grace Notes teachers
- Grace Notes Board

# Cooperatives in California

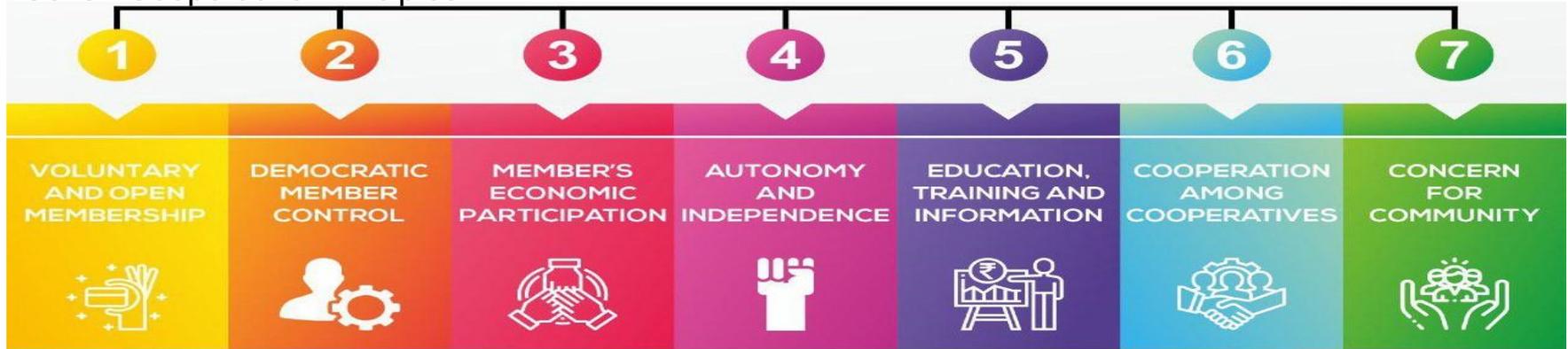
The rules and requirements for incorporating under cooperatives vary by state!

The cooperative corporation is one business entity available under the California Corporations Code.

- Co-ops in California are incorporated under California Consumer Cooperative Corporation Law.
- Section 12201 of the Consumer Cooperative Corporation Law succinctly states that co-ops **“are democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons.”**
- Co-ops may distribute “surplus” to their member
- One member = one vote.

In USA, cooperative sector represents over \$500 billion in revenues and employs about two million people.

## Seven Cooperative Principles



# TYPES OF COOPERATIVES

- **Credit unions:** member-owned financial cooperatives 501c1
- **Agricultural cooperatives:** Sunkist, Ocean Spray, Land o' Lakes, Organic Valley, etc.
- **Purchasing cooperatives:** Ace, Coast to Coast, and True Value
- **Consumer cooperatives:** REI and a host of independent grocery stores
- **Housing cooperatives**
- **Workers Owned Cooperatives**

## HOW IS COOPERATIVES DIFFER FROM 501 (c) (3) NONPROFIT ORGANIZATIONS?

	Cooperatives	501 (c) (3)
Limited Liability	Yes	Yes
Regulated by	FCA	Charities Commision
Equity Financing	Limited membership financing	No
Can it trade?	Yes	Only for primary charitable purposes
Can profits be distributed?	To members	No

# Can A Nonprofit Organization Become A Cooperative?

## Examples of Nonprofit cooperatives

- Credit unions 501(c)(1)
- 501(c)(12) mutual or cooperative telephone companies, electric companies
- Nonprofit Organizations Incubating Worker Cooperatives
- Social Co-operatives in Italy, Sweden

## Can a 501(c)(3) Nonprofit Organization become a cooperative?

A tax-exempt nonprofit organization **cannot** distribute profits to members or investors.

A cooperative corporation generally distributes profits based on members' participation in the cooperative.

A 501(c)(3) tax-exempt nonprofit may have more limits on its activities than a cooperative corporation, as it must be organized and operated exclusively for charitable, educational, or other exempt purposes

Most 501(c)(3) organizations **cannot** incorporate as cooperatives, but **can** adopt shared governance structure and operate cooperatively

# LITERATURE REVIEW

- What matters is the purpose, not the structure! (Castel, D., Lemoine, C., & Durand-Delvigne, A. (2011). Working in Cooperatives and Social Economy: Effects on Job Satisfaction and the Meaning of Work.)
- Differences in the magnitude of impact of social rewards by sector are less pronounced than expected.
- Employee ownership in worker cooperatives can clash or be misaligned with different HR policies
- The distinction between nonprofits and social enterprises is often arbitrary.

Question : Do you agree or disagree with the following?:

The nonprofit sector would make more significant impacts if they could afford to hire the type of transformational leaders who have had tremendous success in the for-profit sector. "Capitalism and the free market are the only engines that can solve problems of that magnitude" Dan Pallotta

# DATA ANALYSIS - FOCUS GROUPS

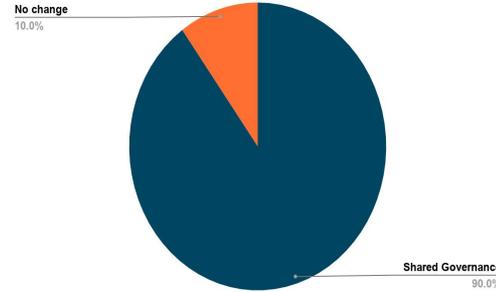
Q. Do you want to see Grace Notes turn into

1. Cooperative?
2. Nonprofit with shared governance?
3. No change ( Continue as a traditional 501c3)

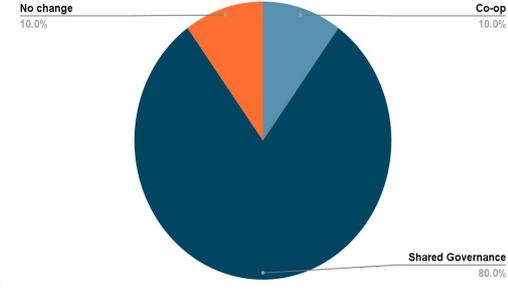
## Board of Directors:

- All agreed that cooperative is not a good model for Grace Notes. Because GN rents classrooms from churches for affordable rent. Needs 501c3 license to rent from churches.
- Very positive attitudes towards having shared governance for workers.
- All welcomed the idea of delegating more decision power to the staff collective.
- One board is not sure this is a good time to change. (too risky during the pandemic)

GN Board



Current GN teachers



## Teachers:

- Concern about added responsibilities and time commitment.
- Many believed the co-op myth of equal pay.
- Even after explaining not all cooperatives have equal pay, many felt negative towards cooperative.
- Most felt very enthusiastic about adopting shared governance model.
- All feel the need to change/evolve.

# DATA ANALYSIS - EXPERT INTERVIEWS



since 1979

Shared governance supports the development of a strong, healthy community from which students learn and grow.

- ❑ San Francisco Waldorf School (An independently run, collaboratively governed institution)
- ❑ SFWS is a K-12 school without a principal.
- Craig Appel (Administrative Director )
- Madhulika Chambers ( Board of Trustees)
- Karen Nelson (Teacher)



Belonging/ Connectedness



Low turn over (less than 5 %)



Accountability



Disconnect between the boards and teachers



Power resides with personalities, not roles



Not everyone can participate in the shared governance

# Observation- Sustainable Economies Law Center

Sustainable Economies Law Center (SELC) coined the term “Worker Self-Directed Nonprofit”

SELC exists to bridge the gap in legal expertise needed to transition from destructive economic systems to innovative and cooperative alternatives. Our 10 programs work together in identifying key leverage points in our existing economic and legal systems, removing strategic legal barriers, and creating replicable models for community resilience.

Be the change you want to see



Worker Self-Directed Nonprofit  
Decentralized nonprofit governance

Meeting processes:

Use of rounds or circles

**Everyone** take turns to speak, share feedbacks.

Consent decision-making instead of Consensus decision making



# IMPLICATIONS

## Traditional Structure

### Leadership Skills

Ambition, delegation, strategic planning, negotiation, analysis

### Finance

Maximize profit and return

### Org Form

Hierarchical firm, nonprofit, 501c3



## Innovative Structure

### Leadership Skills

Storytelling, listening, conflict facilitation, empowering others

### Finance

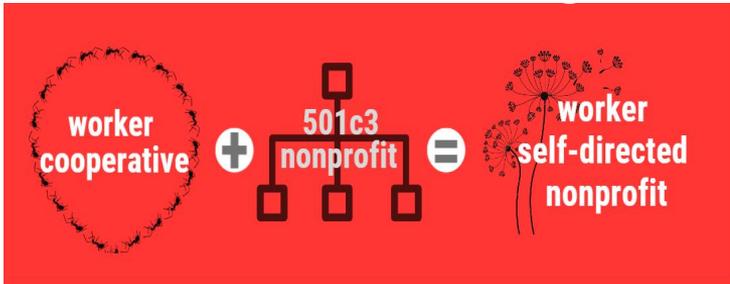
Shared livelihood  
Redistribute for community wellbeing

### Org Form

Collective, cooperative, mutual association, LLC, unincorporated

- **Worker- Self Directed Organization:** an organization in which all workers have the power to influence the realms and programs in which they work, the conditions of their workplace, their own career paths, and the direction of the organization as a whole.

+



## The Board delegates management to a self-directed group of workers.

- More effective at advancing their mission
- More empowering to workers
- More resilient
- More accountable

# RECOMMENDATIONS

1. Meet with the board and the staff together to discuss adopting worker self-directed organization principles.
2. Set up clear expectations and detailed policies for the board and the staff
3. The board pass a resolution every year to delegate management to self-directed workers
4. Provide learning opportunities and resources for board members and staff about worker self-directed nonprofit organizations.

# REFERENCES

Castel, D., Lemoine, C., & Durand-Delvigne, A. (2011). Working in Cooperatives and Social Economy: Effects on Job Satisfaction and the Meaning of Work. *Perspectives Interdisciplinaires Sur Le Travail et La Santé*.

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# Reimagining the Nonprofit Sector: Nonprofit + Cooperatives = Solution to Inequality?

Aki Amai, MNA - Master of Nonprofit Administration - Capstone Project  
Grace Notes Community Music School



## SUMMARY

The purpose of my research is to determine whether transitioning to a co-operative model is the right path for Grace Notes Community Music School. A traditional nonprofit is not the only way to make social change. The gap between the values that many nonprofits hold, and the way they treat their own employees. Is their treatment of their workers limiting their effectiveness?

## PURPOSE

What policies and structures can help nonprofit organizations cope with challenges?

Starvation Cycle, Employee Burnout, Lack of Diversity in Leadership, Overhead Myth, Disengaged Board

## RESEARCH

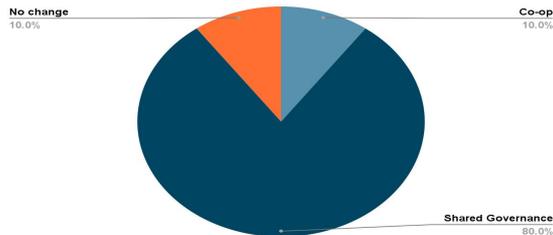
1. Can the co-operative model of shared power reduce nonprofit employee burnout?
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## METHODS

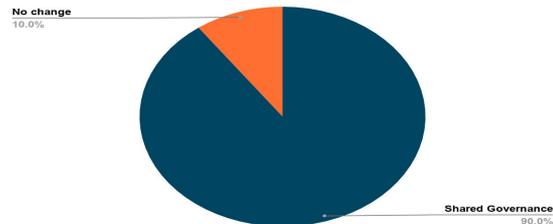
- Literature Review
- Expert Interviews (SFWS staff, BODs, Co-op lawyer)
- Observation (Sustainable Economies Law Center)

## DATA AND ANALYSIS

### Current GN teachers



### GN Board



### Leadership skills

Ambition, delegation, strategic planning, negotiation, analysis

### Finance

Maximize profit and return

### Org Form

Hierarchical firm, nonprofit, 501c3



### Leadership skills

Storytelling, listening, conflict facilitation, empowering others

### Finance

Shared livelihood  
Redistribute for community wellbeing

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Collective, cooperative, mutual association, LLC, unincorporated

## RESULTS

Worker Self-Directed Nonprofit

The staff collective sets the organizational priorities

The Board may delegate management to a self-directed group of workers

The board of directors provides oversight, duty of care and duty of loyalty



<https://medium.com/@ResistFoundation/resist-as-a-worker-self-directed-nonprofit-part-one-6746a5ce51b7>

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