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CHANGE THE WORLD FROM HERE

Reimagining the Nonprofit Sector

Nonprofit + Cooperatives = Solution to Inequality?

by

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Abstract

The traditional nonprofit is no longer the only business model through which to accomplish social good. A business established with a social mission, a social enterprise, is not characterized by its structure, but rather by its missions, use of profits, or engagement with stakeholders. There are different organizational models, but nonprofit charities (501c3) are only allowed to be structured as corporations. As nonprofit organizations face challenges such as employee burnout, starvation cycles, unethical leadership, the overhead myth, a lack of diversity in leadership roles, and disengaged boards, this research looks to cooperative models of shared governance and leadership for solutions. Using the Grace Notes Community Music School (GNCMS) as a case study, the research explores the conditions and impact of adopting the shared governance structure for 501(c)(3) organizations. The qualitative analysis with expert interviews and focus group point to a worker self-directed organization as the most effective model for GNCMS.
Keywords: cooperatives, shared governance, worker self-directed organizations, nonprofit, organizational structure

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Section 1. Introduction

The nonprofit sector is facing significant challenges in this rapidly changing and financially volatile time. The world is still struggling through the pandemic, and there is enormous demand for nonprofits' work. Social problems stemming from inequality are mounting, while resources for nonprofit sectors are decreasing. The traditional nonprofit is no longer the only business model through which to accomplish social good. More than ever, investors and corporations are looking to spend money on social causes. With its abundance of innovative talents and the tools of capitalism, the for-profit sector is stepping in. New, innovative business models fall between the nonprofit and for-profit sectors, such as the B-corporation, corporate social responsibility, purpose-driven brands, impact investing, and the public benefit corporation. While more money for social causes is a positive trend, nonprofit organizations must now compete with for-profits with similar missions for talents and money. Social rewards are big reasons for nonprofit employees to choose their work. But things are changing. Many for-profit organizations' job offer the same kind of social rewards nowadays.

A businesses established with a social mission, a social enterprise, is not characterized by its structure but rather its nature, aims, use of profits, and participation by or engagement with stakeholders (Michelmores, n.d.). There are different organizational models, but nonprofit charities (501c3) are only allowed to be structured as corporations. The competition for talent and money between nonprofit organizations and for-profit businesses with similar missions is becoming stiffer.

While there are over 1,600,000 tax-exempt organizations in the United States (Independent Sector, 2019) and the numbers continue to increase every year, so do problems within the sector: employee burnout, starvation cycles, unethical leadership, the overhead myth, a lack of diversity in leadership roles, and disengaged boards. The U.S. nonprofit industry often finds itself divided between focusing on its financial health and mission delivery. It is time to rethink conventional nonprofit structures and practices:

> A core principle in the design of nonprofits is that they don't distribute earnings to private individuals. That makes nonprofit corporations a powerful platform from which to accomplish work that benefits communities, providing a shield against the strong pull toward generating private wealth. We should not abandon nonprofits. We should just rethink them. (Sustainable Economies Law Center, 2019)

Grace Notes Community Music School

Founded in 2016, Grace Notes Community Music School (GNCMS) is a 501(c)(3) organization located in Burlingame, California. GNCMS provides high-quality and affordable music lessons to more than 150 children and adults from various social backgrounds, by offering sliding-scale tuition and scholarships. In pre-COVID 2020, GNCMS employed 10 music teachers. Before the pandemic, musicians and teachers were struggling to navigate the skyrocketing cost of living in the Bay Area. The pandemic pushed many of them out of the Bay Area due to loss of income. GNCMS's teachers were not exceptions. The school lost four teachers. Several moved out of the area, and others decided to look for more pandemic-proof jobs.

In addition to the loss of teachers, GNCMS has had difficulty keeping the board of directors engaged. Disengaged boards are not unique to GNCMS—this is one of the major issues many nonprofits face. During the pandemic, the distance between teachers and the board of directors has widened. As an executive director, I have struggled to act as a bridge between the board and the teachers/staff.

Cooperatives

I was inspired to explore the cooperatives model during my visit to Mondragon in Spain, the largest worker-owned cooperative in the world. Mondragon effectively demonstrates that success and democracy are compatible in a business organization. Their lecturer stated that the organization is at fault if an employee fails at their job. Instead of firing employees for not completing tasks successfully, Mondragon finds a new job that suits an employee's ability. The lecturer shared that they say if you want to be rich, don't join us, but if you want a good life, join us.

Cooperatives' model of shared power and equity aligns with the mission of many nonprofit organizations as nonprofit organizations work to create a more just, equitable, and co-operative world. Often overlooked as a viable business model, the co-operative model offers a unique yet promising model for the nonprofit sector. In times of crisis and financial uncertainty, the shift of attention from shareholder to stakeholder is needed.

Key Characteristics of Mondragon

At Mondragon, each member is a worker and an owner. Every worker has the right to vote (1 vote) and the right to be elected. one vote for each worker, no matter how much capital he owns.

Table 1 Capital and Labor

	Power	Factor of Production
Corporation	Capital	Labor
Cooperative	Labor	Capital

Source: Author's creation. Aki Amai, 2021.

Mondragon's cooperative model, which eliminates competition between capital and labor and reduces the gap between the conception and execution of task. It means "converting people into owners of the company, making them participants in decision-making and allowing them to benefit from the profits" (Knowledge@Wharton, 2005).

Some cooperatives have equal pay for all, but Mondragon has equitable pay, with CEO-to-line-worker pay ratios that runs from 6-to-1 to 9-to-1. In the U.S., the CEO-to-worker pay ratio averages 339 to 1, with the upper end of the spectrum surpassing a ratio of 5,000 to 1. (The Craftsmanship Initiative, 2020). For an organization with social missions, does shared governance or hierarchical governance work better? Is it more effective to have a pay structure like that of a for-profit company or a more equitable pay system like Mondragon's?

Research Questions

GNCMS is looking to solve two major issues: employee burnout and a disengaged board. This research will explore the governance and structures of a cooperative model and ultimately recommend a policies or a structure that can help the GNCMS improve the two issues of employee burnout and disengaged board.

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

Section 2: Literature Review

Nonrewarding Side of Nonprofit Work

Work and well-being are often overlooked and are complicated topics for many nonprofit organizations. The public often pressures nonprofit organizations to have low overhead. Many donors want to see their donations used for programs, not the employees' salaries and benefits.

Dan Pallotta (2008), a harsh critic of the nonprofit business model, argues in his book, *Uncharitable*, that 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. Pallotta passionately decries the nonprofit business model that lacks tools for making broader impacts. Although nonprofits can be at a disadvantage when competing with for-profits, some of his statements are controversial: "Capitalism and the free market are the only engines that can solve problems of that magnitude" (Pallotta, 2008, p.16). Nonprofits' work is driven toward systemic change. It is hard to comprehend that the capitalism that created many of the social issues that nonprofits are trying to solve actually can improve nonprofits' performance.

Effective human policies motivate employees and create cultures that support accountability; thus, they ultimately help organizations make significant impacts on society. However, the nonprofit sector is not known for going the extra mile for a worker's well-being or generous human resources practices.

Abzug and Watson stated, "Given the humanistic missions of most nonprofit organizations, it is paradoxical that nonprofit leaders need to be reminded of the importance of the people in the organizations" (2016, p. 597). The belief that one cannot make money by helping others is embedded deeply in U.S. culture. This belief originated in Christian charity with Puritan roots and further creates the belief that charity is penance for making money. "How could you possibly make money helping the poor if helping the poor was your penance for making money?" (Pallota, 2008, p. 23). Many people hold such sentiments even today.

Paul Light (2004) described nonprofit workplaces by suggesting that "the nonprofit sector survives because it has a self-exploiting workforce: Wind it up and it will do more with less until it just runs out" (p. 7). This description is unfortunate but true, and is the underlying cause of the situation needing to change.

Meaningful Work as the Double-Edged Sword

Bunderson and Thompson's research (2009), "The Call of the Wild: Zookeepers, Callings, and the Double-Edged Sword of Deeply Meaningful Work," states that meaningful work can come with significant costs and burdens (p.42). Bunderson and Thompson (2009) conducted a qualitative examination of work by studying zookeepers from 157 different zoos in the United States and Canada. Many zookeepers viewed their work as more than just an occupation, rather as their calling and moral duty.

> If one feels hardwired for particular work and that destiny has led one to it, then rejecting that calling would be more than just an occupational choice; it would be a moral failure, a negligent abandonment of those who have need of one's gifts, talents, and efforts. (Bunderson & Thompson, 2009, p. 43)

Furthermore, the research points to a “troubling implication that suggests that those with a sense of calling will be vulnerable to exploitation by management because unfavorable pay, benefits, or working.” (2009, p. 43).

An unwritten rule for an individual doing work that they choose to do out of personal passion often is: “one should be willing to make sacrifices for their work.” The stereotypical images of artists, teachers, and nonprofit employees (professions that are associated more with passion than monetary compensations) are of individuals whose bank accounts are empty, but their hearts are full.

Many nonprofit organizations aspire to empower poor, powerless, and marginalized communities. However, because nonprofit organizations seek to have low overhead and because they generally lack strong budgets, their employees are often underpaid. When organizations are too focused on helping their constituents, they can undervalue human resources policies.

However, nonprofit organizations should not exploit their employees or take advantage of their workers’ passion for doing good. Their missions are important, but their employees are just as important—if not more so. An organization’s human resources are its most important resources, and the organization’s constituents depend on its employees. Establishing effective human resources policies thus should be a priority for all nonprofit organizations. This is easy to say, but hard to execute. More generous human resources can be costly. As the overhead ratio looms over nonprofit organizations, the costs to care for workers’ well-being can be difficult to prioritize.

Missing in Business Textbooks: Cooperatives

Cooperatives play an important role in the United States by generating two million jobs each year, contributing $652 billion in annual sales, and possessing $3 trillion in assets. (International Cooperative Alliance, n.d.). According to the International Cooperative Alliance (ICA), there are nearly 400 worker-owned cooperatives in the United States operating in a diverse range of industries. In fact, 29,000 cooperatives operate in every sector of the U.S. economy. However, cooperatives are barely visible in all introductory economics textbooks. In “The Case of the Missing Organizations: Co-operatives and the Textbooks,” Hill (2000) finds that that co-ops are largely absent from the introductory economics textbooks in the United States. Hill argues that co-operatives are an example of the possibility of extending democracy to economic life" (p35.)

What Exactly Are Cooperatives?

ICA defines a cooperative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise" (International Cooperative Alliance, n.d.). Although this research focuses on worker-owned cooperatives such as Mondragon, there are various types of cooperatives such as: (a) credit unions, which are member-owned financial cooperatives; (b) agricultural cooperatives; (c) purchasing cooperatives; (d) consumer cooperatives; and (e) housing cooperatives. According to ICA, cooperatives share seven principles, which are described in Table 2 (International Cooperative Alliance, n.d.).

Table 2

Seven Principles of Cooperatives

Seven Principles	Descriptions
Voluntary and open membership	Cooperatives are voluntary organizations, open to all individuals able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.
Democratic member control	Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal

	voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.
Member economic participation	Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities the membership approves.
Autonomy and independence	Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
Education, training, and information	Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively

	to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.
Cooperation among cooperatives	Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.
Concern for community	Cooperatives work for the sustainable development of their communities through policies their members approve.

Note. Sourced from International Cooperative Alliance (n.d.)

In the United States, the definition of what is a cooperative can vary by state and individuals' personal definitions. Sustainable Economies Law Center in Oakland, California, states, "the definition of cooperative varies depending on whether you are looking at it from the perspective of a tax lawyer, a corporate lawyer, or a cooperative enthusiast" (Co-op Law, 2019).

Cooperatives as a Legal Entity

A cooperative can mean a specific type of corporation recognized under the law. The tax category and legal definition of cooperative varies by state. In California the cooperative corporation is one business entity available under the California Corporations Code. According to the Section 12311(b) of the California Corporations Code, cooperatives are incorporated "(1) as a 'generic' co-op under the California Consumer Cooperative Corporation Law, (2) as an 'agricultural' co-op, (3) as a 'limited equity' or 'stock' real estate-related co-op, or (4) as a credit union'" (Co-op Law, 2019). Note that in California, the word "cooperative" cannot be in a corporation's name unless it formed under this statute (Co-op Law, 2019).

Cooperatives as a Legal Structure

Some organizations such as nonprofit mutual benefit corporations and limited liability companies (LLCs) may choose to operate like cooperatives by incorporating cooperative principles and practices into their articles of organization, articles of incorporation, operating agreement, and/or bylaws (Co-op Law, 2019).

Cooperatives as a Tax Category

According to the IRS (2009), there are three core factors of cooperative associations set by the seminal tax court case *Puget Sound Plywood, Inc. v. Commissioner 44 T.C. 305, 308* (1965):

1. Subordination of capital, both as regards control over the cooperative undertaking, and as regards the ownership of the pecuniary benefits arising therefrom;
2. Democratic control by the worker-members themselves; and
3. The vesting in and the allocation among the worker-members of all fruits and increases arising from their cooperative endeavor (i.e., the excess of the operating revenues over the costs incurred in generating those revenues), in proportion to the worker-members' active participation in the cooperative endeavor. (*Puget Sound Plywood, Inc. v. Commissioner*., *44 T.C. 305, 308*., 1965)

Cooperatives as a Set of Practices and Values

Workers at a nonprofit organization or fiscally sponsored project may decide to operate through cooperative, democratic principles, such as one person, one vote. "This type of cooperative organization may or may not have the other cooperative attributes of joint ownership and cooperative distribution of earnings, described above" (Co-op Law, 2019.)

Nonprofit Cooperatives

Nonprofit cooperatives exist mainly outside of 501(c)(3) category. Credit unions are nonprofit cooperative and categorized under 501(c)(1). In terms of IRS tax exemption status, 501(c)(12**)** applies to "benevolent life insurance associations of a purely local character and like organizations, mutual ditch or irrigation companies and like organizations [and] mutual or cooperative telephone companies and like organizations" (Co-op Law, 2019).

It a lesser-known fact that tax-exempt status in the U.S. is usually difficult for most "cooperatively" run entities to achieve because individual members instead of the public at large are the intended beneficiaries.

Table 3

Comparative analysis for Cooperatives, Investor-owned corporation, 501(c)(3)

Type	Cooperatives	Investor-owned corporation	501(c)(3) Nonprofit organization
Ownership	Member-owned	Investor-owned	Not "owned" by a person or members
Control	Democratically controlled; one member, one vote basis; and equal voice regardless of their equity share.	Controlled by shareholders according to their investment share. Business decisions and policies are made by a board of directors and corporate officers.	Board of directors has the ultimate decision power.
Board membership and compensation	Made up of co-op members elected by the members. Serve on an uncompensated, volunteer basis.	Board is comprised of a combination of independent directors, management and other directors with financial or business ties to the organization.	Board is generally made up of people who do not receive the services, usually chosen for philanthropic or political reasons. Serve on a volunteer basis.

Board nomination and elections	Candidates nominated by membership either directly, or by a nominating committee made up of members.	Candidates nominated by the board of directors and management, often by a nominating committee.	Candidates nominated by either members or the board of directors.
Earnings/dividends	Any surplus revenues (profits) earned by the co-op are reinvested in the business and/or returned to members. Members share losses and earnings.	Profits returned to shareholders based on ownership share. Corporations generally are not obligated to pay out dividends. Timing and amount of dividend payout are determined by the board of directors.	Re-invest any profits they make in their public benefit purpose and their own operations
Purpose/motivation	Maximize customer service and satisfaction.	Maximize shareholder returns	Primary motivation is to serve in the public interest. Redistribute resources to provide educational, charitable, and other services.

Source of funds/generation of money	Raise resources through the equity of members: (a) direct investment, (b) retained margins, and (c) per-unit capital retains.	Typically raises money through capital markets.	Typically funded by donations from the private or public sector or the government. Tax-exempt.
Community	Promote and assist community development.	May engage in selected community philanthropic activities.	Serve as a mechanism for collective action based on a common good.

Note. Sourced from: https://www.michelmores.com/news-views/news/what-best-structure-social-enterprise

Effects of Business Model on Workers' Well-Being

Considering the cooperatives' characteristics, many assume that worker-owned cooperatives have a high job satisfaction rate. Castel and Durand-Delvigne (2011) conducted a qualitative analysis of the links between social economy characteristics and job satisfaction to determine whether "involving everyone in decision-making should increase job satisfaction upon completing the activity" (p. 125). The assumption is that the job satisfaction is high for cooperatives because of "a higher level of shared business culture, increased confidence in elected management, greater attention to working and employment conditions following the increased social responsibility of the company, and collective decision-making" (Castel & Durand-Delvigne, 2011, p. 143). Through surveying and interviewing the employees of two companies—the first one was a worker-owned cooperative and the second was a private company—Castel and Durand-Delvigne's research found that the relation between working in cooperatives and job satisfaction was assumed to be much more complex.

Table 4

Worker-Owned Cooperative vs Noncooperative

	Worker-owned cooperative	Noncooperative
Satisfactions	Work team cohesion; working in a cooperative; work interest, usefulness, and diversity	Company values honesty; complementarity freedom; work usefulness; and confidence in the management
Dissatisfactions	Staggered hours and family-work conflict, unequal and encroaching team cohesion, task division, and income	Demands and drawbacks of company values, novelty, complexity, and isolation

Note. Sourced from Castel and Durand-Delvigne (2011)

The satisfactions and the dissatisfactions are similar for both the cooperative and the noncooperative. The results showed that, "while the cooperative's employees highlighted work usefulness, company values and human consideration, that was also the case for the employees in the private company" (Castel & Durand-Delvigne, 2011, p. 125). Neither the shared governance nor hierarchical structure were the sole source that provided job satisfaction. Employees from both organizations cited the work team cohesion as a critical component for well-being at work. The cooperative company especially underscored the importance of the work team cohesiveness. They claimed that, "work team cohesiveness was extremely important in determining whether or not collegial governance was a source of satisfaction or dissatisfaction" (Castel & Durand-Delvigne, 2011, p.126). Interestingly the semistructured interview with the cooperative employees showed that work team cohesions was a condition rather than a consequence of shared governance. For the shared governance to work, the work team cohesion had to be "strong enough strong to ensure that people consider themselves to be equal members of the team" (Castel & Durand-Delvigne, 2011, p.136). The shared governance could not fully be effective unless it was fully inclusive. The shared governance could not be used with selective members of the team. Adopting a shared governance depends on the characteristics of the work team as one interviewee summarized what mattered the most for employees' well-being at work was "the purpose, not the structure of the organization" (Castel & Durand-Delvigne, 2010, p145).

Benefits of Having the Tax Exemption

Needless to say, there are many benefits of having the tax exemption including:

- exemption from federal income tax;
- tax-deductible contributions,
- possible exemption from state income, sales, and employment taxes; and
- exemption from federal unemployment tax (Co-op Law, 2019).

Specifically for GNCMS, having the tax-exempt 501(c)(3) license plays a critical role in running the business. GNCMS rents rooms from churches, which are 501(c)(3) organizations. Legally churches are allowed only to rent their facilities to tax exempt organizations. Churches usually offer significantly cheaper leasing compared to that from a real estate agency. In the Bay Area, where the real estate is extremely high, for GNCMS being able to rent classrooms from churches is central to the whole program. Within the structural boundary of a 501 (c)(3) what are the innovative ways to break away from the traditional hierarchical model?

Worker Self-Directed Nonprofits

Since the 1970s, the hierarchical and professionally managed model has been the norm for nonprofit organizations. However, in "The New Activist Non-Profits: Four Models Breaking from the Non-Profit Industrial Complex," Haber (2019) described four organizational structures for nonprofit organizations that departed radically from the professionalized nonprofit framework: sociocratic nonprofits, worker self-directed nonprofits, the "hub-and-spoke" structure, and the swarm model (p. 896).One model that stands out as a possible model for GNCMS is the worker self-directed nonprofits (WSDN).

The concept of the WSDN, developed by a nonprofit law firm Sustainable Economies Law Firm in Oakland, is based on the economist Richard Wolff's term "worker self-directed enterprises" (WSDE), meaning businesses in which workers are the lead decision-makers for their enterprises. (Haber, 2019). WSDE are distinct from the worker-owned cooperative in a way that the worker-owned cooperative is defined by worker ownership of the firm and the WSDE are about firm governance (Haber, 2019).

SELC describes a WSDN as a nonprofit organization in which *all workers* have the power to influence the programs in which they work, the conditions of their workplace, their own career paths, and the direction of the organization as a whole. Their website explains: "What do you get when you cross a worker cooperative with a 501(c)(3) nonprofit? A worker self-directed nonprofit!" (SELC, n.d.).

The major difference between a WSDN and the traditional nonprofits is the role that the board of directors play. In traditional nonprofits, the board of directors delegate many decisions and management power to an executive director. Instead, in a WSDN, the board delegates management to a self-directed group of workers.

The Board - Executive Director Relationship

In nonprofit organizations, the relationship between the board and executive director plays a vital role. Generally, in nonprofit organizations, the central role of the board is to provide governance executive director's role is to implement the strategic plan and manage daily operations. (Olinske & Hellman, p42, 2016.) While many believe that for a nonprofit organization to run effectively, the most critical relationship in a nonprofit organization is the relationship between the board chair and the executive director. There is not enough data and research to support this claim. My experience as an executive director of GNCMS has been that the most important relationship for me was with the teachers and staff. They are directly working with the constituents and carry the whole operation. While my relationship with the board chair has been meaningful, it is more about reporting what I have been doing at work. Olinske &

Hellman's study finds that when the board of directors was perceived as interfering, the executive director was likely to report less of a sense of well-being and more frequent burnout (p42, 2016). The WSDN model does not have an executive director role. Instead, the board will be working with a collective of workers. This structure brings the board and the workers closer.

Section 3: Methods and Approaches

In this research, I propose that by adopting a shared governance structure, 501(c)(3) organizations can mitigate the problems of employee burnout and disengagement among members of the board of directors. The analysis utilizes a mixed-methods research approach of both primary and secondary data resources. I collected primary data through semi-structures interviews, focus groups, and observation. The contextual literature review outlines secondary sources.

Interviews

I conducted three extensive interviews with employees from San Francisco Waldorf School (SFWS), a K–12 school that has the shared governance structure. I also conducted two interviews with staff from the worker self-directed nonprofit (WSDN) organization Sustainable Economies Law Center (SELC). These experts have decades of experience in working at organizations with shared governance in various roles, from board members and staff to executive directors.

To select interviewees, I considered a diverse range of nonprofit professionals at the executive, board of directors, and managerial levels in order to gain a diverse perspective of how shared governance works. I conducted a total of five semi-structured expert interviews over Zoom teleconferencing. No interviews were conducted in-person due to the CDC mandate regarding Covid-19. Each interview lasted approximately 45 min to 1.5 hrs depending on the interviewees' length of response. Table 1 outlines the details of each interview participant's role, organization, and professional experience.

Table 4

Interviewee Characteristics

Participant	Name	Role	Organization
P1	Craig Appel (MNA Alumni)	Administrative Director	SFWS
P2	Karen Nelson	Teaching staff	SFWS
P3	Madhulika Chambers	Board Member Parent	SFWS
P4	Alejandra Cruz	Staff Attorney	SELC
P5	Chris Tittle	Director of Land and Housing Justice	SELC

San Francisco Waldorf School

I have a personal connection to SFWS as my daughter attends the school. SFWS, an independently run, collaboratively governed institution that is a private pre-K–12 school in San Francisco. Waldorf education is based on the philosophy of Rudolf Steiner, who believed the school should be governed as a republic, rather than having a single source of authority; thus, the school should have no principal but shared governance among teachers and staff. The first Waldorf school opened in 1919 in Stuttgart, Germany. A century later, it has become the largest independent school movement in the world, with more than 1,200 independent schools and nearly 2,000 kindergartens located in 75 countries. SFWS is governed by three entities (board of directors, college of teachers, and administrative council) that assume distinct governance responsibilities and strive for consensus on major policy decisions (San Francisco Waldorf School, n.d.).

Sustainable Economies Law Center (SELC)

SELC is a 501(c)(3) organization that “exists to bridge the gap in legal expertise needed to transition from destructive economic systems to innovative and cooperative alternatives” (Sustainable Economies Law Center, 2019). They applied their mission of creating a just and resilient society to their organizational structure by adopting an equitable pay rate and de-centralized governance, a model they developed into a WSDN.

They have donation-based legal advice sessions called the Resilient Communities Legal Café. I reserved two sessions and interviewed two staff members: Alejandra Cruz, who had worked there for 6 months, and Chris Tittle, who had worked there for over 8 years.

Expert interview questions

Q(1) Is shared governance working well at the organization?

Q(2) What is needed for shared governance to work?

Q(3) Can shared governance reduce nonprofit employee burnout?

Q(4) Do you think that adopting a cooperative model affects a nonprofit’s performance?

Q(5) What are the challenges of having shared governance?

The first question was intended to draw out interviewee’s attitudes towards shared governance. This questions was a good way to jump into the discussions after exchanging greetings and introductions. The answers were split. While the administrative director (P1) and the teaching staff (P2) thought the shared governance was working well, the board member (P3) expressed the opposite. P2 felt empowered by the shared governance model as she had freedom to make decisions on her teaching curriculum. She had worked at a traditional public school before coming to SFWS. She left the teaching position at a public school as she did not agree with the school’s sudden change in curriculum due to the testing required by the No Child Left Behind Act and felt powerless. She felt the shared governance model is especially beneficial to teachers because teachers know well what students need and should be included in decision making.

P3 felt the board lacked communication from the staff and that the teachers had much more power than the board did. Board members are generally selected from the parents of the school. This creates interesting power dynamics between the board and the teachers. For many nonprofit organizations, engaging the board can be a challenge. However, at SFWS, the board (eight of twelve members are parents) is invested in the school and wants to engage more. In addition, P3 felt the shared governance at SFWS was not inclusive because not everyone could participate. She pointed out that the custodian who had been the school's employee over a decade was never invited to participate in strategic meetings. Although SFWS practices a consensus-decision making process, P3 felt they never had enough time and the atmosphere did not encourage all to express their opinions.

P4 and P5 felt strongly that having shared governance had a positive impact on the organization and the community. P4 was the newest member of the organization. Despite being the newest, she felt she was treated fairly and with respect. She especially appreciates how meetings are conducted at SELC. SELC's meeting process is democratic and uses consent decision-making process, which allow employees to take risks and try new ideas. P4 brought up a new proposal recently and the proposal passed. This was empowering experience for her and shared that at traditional organizations it can be hard for new and young staff to speak up at meetings. She believed that having shared governance with the culture to support it created an environment where risk taking and learning could happen without feelings of guilt and shame.

The second question was a follow up question to the first. It asked the interviewees to elaborate on their answers to the first question and made them think about why shared governance works. All five participants agreed that detailed policies and processes are critical. Without that, the shared governance model will not work. P1 especially underscored the importance of having the guidelines. He gave an example of the school's response to the pandemic. The situation for the pandemic was constantly changing, and SFWS had to react swiftly. SFWS was able to react effectively because of the emergency decision matrix they had in place. P3 strongly felt that shared governance only works if everyone in the organization is included. It is not true shared governance if only selected people participate. P5 emphasized the importance of setting clear expectations for the employees and the board.

The third question explored the impact of having shared governance from the employee point of views. P1 shared that SFWS has a very low turnover rate for teachers at about 5%. He believed that the shared governance model was one reason teachers are so loyal to the school. This is no small feat considering the Bay Area suffers from teacher shortages and high turnover. In 2017, GO Public Schools data analysis showed that "about 71.5 percent of teachers who joined the school district left, quit or were let go within five years, according to a that studied the 2004-05 through 2011-12 school years" (Tsai, 2017). P2, who had worked for SFWS for over a decade, agreed that the shared governance structure brought her closer to her colleagues and made her feel ownership of the school. Interestingly P3 was not sure. She shared that she never had thought of whether shared governance had an impact on employees' feelings and attitudes towards their work. P3 believed that participating in shared governance was time consuming for teachers. Therefore, shared governance could have a negative effect on younger teachers with small children.

For P4 and P5, the shared governance model was one of their motivations for working at the company. They both felt distributed power works especially well for organization with social missions.

The fourth question explored the interviewees' experiences working at organizations with shared governance and those with a traditional structure. P1 worked in a traditional nonprofit before SFWS. He believed adopting shared governance for any nonprofit would bring employees together and improve employee engagement. However, other than that, he was not sure how much of an impact the shared governance structure has on nonprofits' performances and felt it depended on the organization's mission and metrics. P2 believed that a shared governance structure is the best structure for schools. For teachers, being able to participate in decision making for the school is very empowering. She did not feel supported by the administration and her colleagues when she worked at a public school. At SFWS she felt fully supported by the school and that helped her become a better teacher. P5 also believed that the shared governance structure can work for any nonprofit organizations as long as the organization's culture truly supports the structure. Most nonprofits' mission is to move humanity forward. The structure of how work is done matters. The shared governance model aligns with nonprofit organizations' visions.

The fifth and final question addressed the scope of what shared governance entails. P1 answered that the challenge is that power resides with personality not with roles. Seniority and dominating personalities sometimes drive decisions, leaving others who are more introverted or quiet with less opportunities to contribute. And another challenge he mentioned was how it takes a long time to make any decisions. While P2 could not think of particular challenges, P3 shared the same challenge as P1. She agreed that personalities played an outsized role in meetings. She noticed the same group of people speaking up every time. Also, she mentioned the challenge of conflict resolution. She spoke of the need to hire a professional mediator when conflict arose at the school. When she was the board chair, she was able to handle critical conflict with professional help. In a shared governance structure, conflicts can become very personal, and without professional help, they may keep accumulating until it is too late. P5 expressed concerns about how share governance can shift as an organization grows. He believed in having detailed written processes for everything.

Focus Group

I conducted two focus group interviews with staff and executives at Grace Notes Community Music School (GNCMS): one session included the school's six current teachers and the other included six members of the board of directors. The goal of the focus group interviews was to understand the attitudes towards the shared governance structure and cooperative model. Each focus group interviews was conducted over Zoom teleconference and lasted for 2 hrs.

Table 5

Focus Group Members

Teachers	Name	Board Members	Name
T1	Alex Anaya	B1	Stephen Austin

T2	Georgianna Askoff	B2	Rick Branner
T3	Rose Brown	B3	Tom Hilman
T4	Richard Fraizer	B4	Sue Milwee
T5	Ikuko Kyle	B5	Kennon States
T 6	Mari Yoshida	B6	Will Stevens

Both focus groups were given detailed explanations of what cooperative and shared governance are and how they could be applied to GNCMS. Both group talked candidly about where GNCMS was then and where it should go next. Not surprisingly there was a great deal of confusion around the idea that a cooperative would affect both groups. All but one participant knew that not all cooperatives have equal pay for all members. At GNCMS, some teachers taught group lessons and some taught private lessons; some had advanced degrees in music and some were just starting out as music teachers.

Given varying degrees of education and experience, participants expressed negative attitudes toward equal pay for participants in both focus group Although I explained that cooperatives use equitable pay scales not necessarily equal pay for all, participants' negative attitudes toward cooperatives did not change in either focus group. Everyone valued having the tax-exempt license to keep rent affordable and overhead costs low for GNCMS. The consensus in both groups was that exploring becoming a cooperative entity was not worth the risk. Only one teacher expressed interest in becoming a cooperative.

All music teachers had also worked at different. For-profit music schools. They noted that rent and overhead costs were so high for most music schools that the teachers generally received only 50-60% of the students' lesson tuition. Because its tax-exempt status helped keep GNCMS' overhead low, the school was able to pay teachers 75% of tuition fees.

While there was not much interest from either groups in changing the organizational structure to that of a cooperative entity, most participants felt some change was needed. Teachers shared their desire to participate more in business decisions and their belief that shared governance would make a difference in their well-being at work. One teacher expressed concern about added time requirements and responsibilities with the shared governance.

Overall, participants were enthusiastic about trying a shared governance model and about learning more. Two teachers expressed that they had not felt that they belonged at GNCMS. To them, there was no cohesion or connectedness among the teachers, but they thought shared governance would help them come together. Five out of six teachers did not quite understand the role of the board of directors. All teachers expressed concern and dissatisfaction with the board's current role. One teacher questioned the effectiveness of the current structure and said she felt the board did not understand what the teachers were trying to achieve with their students. The focus group interview with the teachers was eye opening as it revealed their dissatisfaction with the current structure. It also provided an opportunity to educate them what it means to be a nonprofit organization. Before the focus group interview, all but one participant did not know what the requirements are for an organization to be a 501(c)(3). The teachers' group also expressed that they wanted to be included in understanding the financials of the organization. They believed that implementing shared governance would bring more financial transparency. One teacher shared her hesitation to move into a shared governance structure because of the uncertainty created by the pandemic. Given that the pandemic was still not contained, she felt it was not a good time to make changes.

In contrast, the board of directors was much more knowledgeable about the requirements and structures of nonprofits. Like the teachers, the board was not interested in becoming a cooperative for fear of losing the tax-exempt license. However, they expressed strong interest in the WSDN model. In the WSDN model, the board plays a smaller role, which means fewer board meetings. The GNCMS board had generally met once a month. During the pandemic they met virtually, and all directors expressed their fatigue with zoom meetings. In addition, the pandemic forced the board to be more involved in management and financials as GNCMS applied for a PPP loan. One director shared that he sometimes felt he was making decisions for someone he did not know well. All board members had full time jobs, and all expressed their care for GNCMS but also their desire to be less involved in managerial decisions. All agreed that they would prefer to meet quarterly instead of monthly. One member expressed concern that the organization not rush into a decision and requested more extensive data on other WSDN organizations. All welcomed the idea of delegating more decision-making power to the staff collectively.

I asked both groups to come up with words to describe the current traditional model and the new structural model they would like to see for power dynamics, organizational structures, leadership skills, and finance (see Table 4). Through the conversations, both groups envisioned moving into a shared governance model. Despite the uncertainty around the pandemic, the majority of teachers and board members were willing to begin transitioning into a shared governance structure.

Table 7

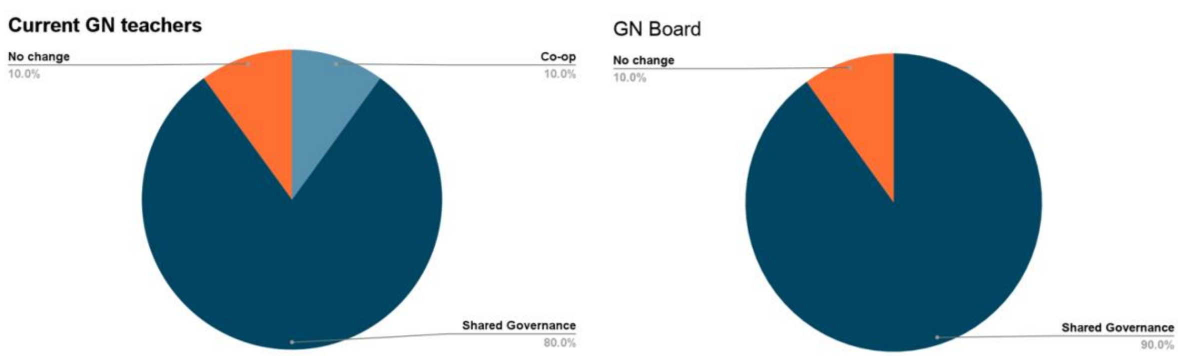
Power Structure Model Characteristics

	Traditional (current model)	**Future**
Power Dynamics	Centralized, hierarchical, unbalanced, one way	Equity, collaboration, shared governance, fair, circular, participatory
Organizational structures	Traditional 501(c)(3) Rigid, not flexible	Cooperative, collective, WSDN, fluid, flexible

		within the guideline
Leadership skills	Ambition, delegation, strategic planning, negotiation, analysis	Listening, conflict facilitation, empowering others, respectful
Finance	Maximize profit and return, wealth gap	Shared livelihood, equity, empowering tools

Figure 1

GNCMS Focus Groups



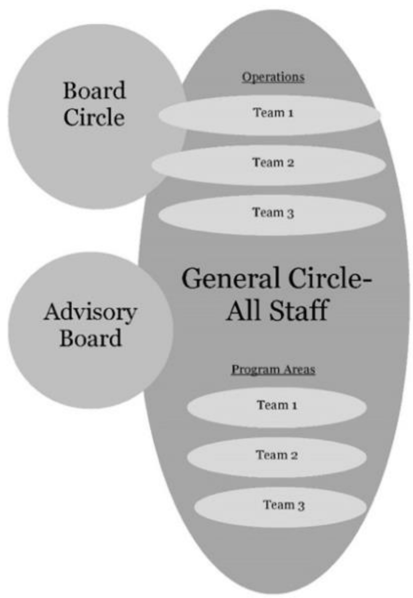
Section 5: Implications and Recommendations

The focus group interviews with GNCMS teachers and the Board of directors painted a clearer path forward for GNCMS. The teachers seek to be more involved in the school's decision-making, and the Board wants to delegate more management decisions to the staff. Although cooperatives are a viable option for organizations with a social mission, it is generally tricky for 501(c)(3) organizations to exist as cooperative and tax-exempt. Thus at this point, transitioning to a combined entity is not recommended for GNCMS. This research points to a

Worker self-directed nonprofits model to be the most suitable structure model for GNCMS. With the WSDN model, GNCMS can keep the 501(c)(3) tax-exempt status and implement the shared governance structure, which will help mitigate employee burnout and disengagement among members of the Board of directors.

Worker Self Directed Nonprofit for GNCMS

Figure 2: A Worker Self Directed Nonprofit



Note : Haber, M. (2018).

Moveable Roles

One of the distinct organizational features for WSDN is that the employees have moveable roles, a framework for workers to serve the organization in multiple ways by filling various positions. This feature seeks to promote greater equality and fairness among work (Haber, 2018). In contrast, traditional nonprofit organizations have specialized roles for skilled professionals such as grant writers, fundraisers, and web designers. Haber argues that such specialization can promote hierarchy, bureaucracy, and pay differentials (p32, 2018).

Currently, GNCMS has six teachers, and an executive director takes care of administrative tasks. As GNCMS grew and administrative tasks increased, it needs to hire administrative staff. Some of the teachers work part-time and are looking for more work to supplement their income. By implementing the movable roles, instead of hiring administrative staff, GNCMS can have teachers take on some administrative tasks. Movable roles "encourage staff to play an active role in their professional development" (Haber, p32, 2018).

Consent decision making process

Another feature of WSDN that would be beneficial for GNCMS is the consent decision-making process. Expert interviews with SFWS staff suggest that consensus decision-making with shared governance can become tedious and sometimes lead to unfruitful results. However, the consensus decision-making process can align more with the shared governance structure, WSDN advocates for a consent decision-making process at meetings. Consent means the absence of objections. Consent urges the group to accept a "good enough" solution. This encourages new ideas and risk-taking. The group can come back to the proposal after some time and re-evaluate it. GNCMS has used the consensus model and spent too much time discussing and struggled to move on to any actionable items.

Board of Directors

In WSDN, the Board of Directors delegates "governance powers to a collective of self-governing workers, and then provides oversight to ensure that the self-governance system is functioning to advance the organizations' best interests" (Haber, p22, 2018). This can be done by amending the bylaws or passing the Board resolution stating that "the Board believes that it is in the organization's best interest to have staff govern themselves" (Sustainable Economies Law Center, 2019). The Board retains fiduciary obligations and statutory authority to rescind or such a resolution or bylaw. WSDN model works well for GNCSM as the Board is willing and comfortable to delegate governance powers to teachers/staff. As the experts' interviews showed, shared governance can have positive effects on reducing employee burnout. The WSDN model helps GNCMS mitigate employee burnout and disengagement among members of the Board of directors.

Challenges

There are no perfect structures. Any organizational structure has strengths and weaknesses. Some concerns for adopting WSDN for GNCMS are as follows. Circles for the WSDN are generally made up of only employees, not independent contractors or volunteers. GNCMS has a few contractors and volunteers who are essential parts of the organization. Can we have the shared governance in the true sense if we do not include the contractors and volunteers? Another concern is how the WSDN model can function effectively when an organization increases in size. SELC has a total of 15 employees. GNCMS has seven employees. The model has been proven to work effectively for small organizations but could it work as effectively with an organization with hundreds of employees?

Recommendations

The fiscal year for GNCMS starts in September. The recommendation is for the GNCMS to pass a resolution.

1. For a GNCMS annual meeting, an executive director will invite all the teachers. Share the findings of this report and recommend that GNCMS adopt the WSDN model.

2. Set up clear expectations for the Board and the employees. Have detailed policies and decision-making, conflict solution, setting the pay scale, meeting processes, and hiring processes.

3. The Board passed the resolution delegate management to self-directed workers. Formalizing commitment to worker self-directed governance can make it more resilient.

This is the sample board resolution from the SELC website.

The Board hereby resolves that, based on the successful track record of ORGANIZATION's staff and activities, in view of the talents and skills of current staff, based on ORGANIZATION's robust set of internal policies and procedures for worker governance, and based on emerging principles and best practices for the management of nonprofit organizations, it is in the best interest of ORGANIZATION and most effectively and efficiently advances ORGANIZATION's mission if ORGANIZATION employees primarily direct the strategy, policies, and tactics of the organization. The Board affirms that ORGANIZATION staff may make day-to-day decisions and set longer-term policies strategy for the organization until [DATE ONE YEAR FROM TODAY], at which time the Board shall review and may re-affirm or revoke this resolution, in view of the best interests of the organization.

Sustainable Economies Law Center. (2019). *Bite-sized legal guide: How to become a worker self-directed nonprofit*. Google Docs.

Note: Sustainable Economies Law Center. (2019).

Conclusion

Dr. Marco Tavanti states that doing good and doing it well is at the core of leadership in the nonprofit-social sector. Nonprofit leaders often face the difficult task of putting others in front of themselves and think of the possible impact (positive and negative) on those least able to have a voice and act in the context of those realities" (Hollensbe, p. 1228).

This rewarding yet challenging career can burn the fire of passion quickly that all nonprofit leaders have. I believe that the shared governance structure can help build better nonprofit leaders and organizations.

The for-profit sectors have transformed and re-invented their businesses by taking risks and being innovative to increase their value and profit. Can nonprofits do the same? The nonprofit sectors need to be flexible in their thinking and become more open to change to evolve. Otherwise, they will be left behind, dragging their constituents with them.

The WSDN have capacities to transform nonprofit organizations

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

However, we cannot forget that "good structures are not substitute for mutual respect" (Haber, p22, 2018). The structure does not matter without the organizational culture of collaboration, respect, and solidarity.

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Author’s Bio

Originally from Tokyo, Japan, Aki began studying music at the early age of three. Since graduating from the San Francisco Conservatory of Music with a bachelor's degree in piano performance, Aki has deeply rooted herself within the Bay Area community as a piano teacher, accompanist, and organist. She has worked with numerous schools, musical theaters, churches, and choirs. Her previous employment includes Sacred Heart Preparatory High School, SF Waldorf School, Serra High School, Burlingame United Methodist Church, and more. She has toured the US and internationally. Highlights include Sydney Opera House and Norte-Dame Basilica of Montreal. She continues her active music career by serving as an organist and music director at St. Catherine of Siena Catholic Church to provide music and leadership for Sundays and other special liturgies.

A creative and self-motivated professional with a record of success and achievement building community outreach programs through marketing, successful recruitment of highly qualified staff, and excellent interpersonal skills, Aki currently works as a director and co-founder of Grace Notes Community Music School in Burlingame. She uses music to effect positive social change in communities by creating an environment where people from different backgrounds can find common ground in music. She applied entrepreneurial vision and passion, along with astute business acumen, to conceive and establish a thriving non-profit school of music. Conducted in-depth research and analysis of the market, and competitor organizations, building presenting a successful business proposal and plan to secure the financial support to enable its creation. She has achieved notable success in building students from an initial 2 to 150 within three years. An avid lifelong learner, she is pursuing Masters in Nonprofit Administration at the University of San Francisco, where she works as a research assistant Gellert Family Business Center Report.