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Onto the Next Chapter - Transcript

[Speaker 1]

Welcome to Charity Therapy, a podcast from Birken Law about building better nonprofits. I'm your host Jess Birken. Hello and welcome to this episode of Charity Therapy.

Normally on this show we tackle like two or three listener questions around a similar topic but every once in a while there's like a question that can take up a whole episode and today is one of those days. So I am here with my co-host Meghan to tackle one question. How are you Meghan?

[Speaker 2]

Hey Jess, I'm good. I am very excited to dig into this one because I think there's a lot to talk about. It's a very meaty one and it's all about chapters and what it means to be a chapter of a nonprofit versus like a fully independent separate entity or group.

So, before we jump in, can you first just give us like a little bit of an overview about how these nonprofits with chapters or affiliates actually work?

[Speaker 1]

Well, let's see. So, there are a lot of ways that chapter organizations can be structured, and a lot of the structures can be combined so it gets complicated fairly quickly.

But the first thing to know is whether the organization you're talking about truly has chapters or whether they have affiliates.

[Speaker 2]

And honestly, I didn't even realize there's a difference between the two of those. Like I feel like most people in the general public just sort of use those words interchangeably. So I am curious to hear what the differences are.

[Speaker 1]

Yeah, I hear these terms kind of swapped around all the time and they do actually mean different things. So, like generally, if you think of a chapter organization, you think of something that has like one central office and lots of smaller groups around them.

But what the smaller groups around them are legally can vary. So, like if a central office has affiliates, then these are independent corporations that have a contractual relationship with the parent organization. And the contract usually says something like, you can use our name and our brand and you can access some shared resources like maybe insurance or something like that.

But legally they are independent. You could like sue them independently. They're not all one thing.

And they have like their own board and they're responsible for themselves. So, an example of this that people would recognize is like Red Cross USA. There's a national organization, but there are also regional offices of the Red Cross like in your state.

And that regional office is a corporation, but it's likely affiliated with Red Cross USA through like a contract. And those are usually called affiliate agreements.

[Speaker 2]

So then question, this sounds kind of similar to like franchises. Is that a fair comparison?

[Speaker 1]

Sort of. Certainly I am no expert in franchise law.

[Speaker 2]

I mean, me neither.

[Speaker 1]

And I think there's like a lot of variety in how franchising can work, but I think it's the closest thing that the nonprofit sector has that maybe makes sense. So, when you go to a McDonald's, you know there is a McDonald's corporate office that controls the branding and the menu and the look and feel of all of the regional franchises, even though they might be owned by franchisees.

And again, I have no friggin idea how all of that works, but yes, that's it's a similar comparison.

[Speaker 2]

So for all of us out there that don't really know how either of these work, our general understanding of franchises seems to like fit with that. OK, so that's the affiliate side of things.

What about chapters?

[Speaker 1]

So, for chapters, you have like the central office with these chapter groups and the chapters are not separately incorporated. And this is like your Pheasants Forever or Ducks Unlimited.

They're one organization with hundreds of volunteer chapters across the country. And those chapters might do local fundraising and they might have local events. But legally, they're all under one umbrella.

They're all part of one corporation with one board at the national office.

[Speaker 2]

So, it's like one giant organization with pockets of people and activities happening kind of all over the place.

[Speaker 1]

Exactly and it's a lot to keep track of. So, the thing that gets complicated, because that seems pretty basic, right? But then the thing that gets complicated is when you combine these things.

So, you might have a national headquarters that creates the brand and the global mission and the vision, and that national organization then can have regional affiliates, which carry out the mission and the vision in a way that makes sense in their region. And then the regional offices can have local chapters. And you get this giant organizational tree of all of the things.

And the best example of this is probably like Girl Scouts of America, their nationally central office, Girl Scouts USA, right? And then they have a contractual relationship with their regional affiliates. And here where you and I are sitting in eastern Minnesota, western Wisconsin, that's the Wisconsin River Valley Girl Scouts.

They are their own entity, and they get to use the branding and the curriculum and all of those things and badges and all that stuff from national, and they have to follow some rules and guidelines to stay in good standing with Girl Scouts USA. But then you have all the troops, and each little Girl Scout troop isn't incorporated. They don't have a board.

They are the chapters, and they're managed by the regional affiliate. So yeah, it can be a lot, and it can get messy with how these groups interact and who's responsible for what. And a lot of times the vocabulary isn't super clear because people use terms interchangeably.

They might say affiliate, but legally it's a chapter or vice versa. Wow. Okay.

[Speaker 2]

Yes. I can see how this gets complicated very quickly.

[Speaker 1]

This is why I have a job.

[Speaker 2]

Exactly. Right? Just unravel it for us.

Okay. So, with all of that background now in my head, I've got the big meaty question for you to pick apart. So, are you ready?

[Speaker 1]

Yep.

[Speaker 2]

Let's dive in. All right.

I am the secretary of a local professional association. We're a local chapter, and our group is designed to create a professional network for small business owners. I've been involved with this org for a long time, and we don't really get any help from our central office.

We've decided collectively to leave and form our own association so that our dues can go directly towards serving our local members. We would probably use our member dues to hire a marketing person. I've been researching how to do this, and I have to decide whether this should be a nonprofit or a for-profit, and I don't know what to choose.

Can we be a for-profit association, or is there any liability that comes with being totally unincorporated and a group that charges dues?

[Speaker 1]

Okay. That is a lot.

You are correct. Oh my God, where to even begin? So, first of all, let's assume this is a true chapter and they're not already incorporated.

Sounds like that's the case. So, they're just a bunch of people that call themselves part of this networking association. And man, if I had a dollar for every chapter that was convinced that National didn't do anything for them, I would be pretty rich.

This is a super common complaint. And what I will say, at least in the nonprofit sector, a lot of the time the National group is doing a lot for their chapters, but they may not be doing a good job of communicating the value. So this listener says like, we don't get any help, but what does that mean?

And so from their perspective, I would be asking, is the home office like doing accounting for you? Are they providing insurance for you? Are they doing tax forms for you?

Are they managing member issues or member enrollments for you? These all take your time, your money. If you had to do that all for yourself or pay someone else to do that, what would that cost, right?

Are they providing you with curriculum, branding, marketing, creating goodwill in the community around that brand? Like all of those things are worth money. And especially for long established National brands, you don't realize what it takes to get that level of brand awareness.

And you can't just create a logo tomorrow and get the same results.

[Speaker 2]

Right. So I feel like a lot of the times they just don't value it because it's unseen.

Like it's the sort of like background things that are not to do with your day to day, like planning the events. And so I can see where people might feel like they're not getting a lot until they have to do it themselves.

[Speaker 1]

And that, yes, exactly.

That's just it. It feels like nothing because they've lifted this burden for you. So, you're literally not the one who has to renew the insurance policy or prep the 990.

And that's assuming that this is a nonprofit, which we'll get to later. I don't think that it is. But, you know, remember that whatever the unseen work is, you're going to have to pick it all up if you're leaving.

[Speaker 2]

Right. Absolutely. Well, OK, so then let's take the flip side and assume that maybe their central office just isn't doing any of this for them.

Maybe they're listening to this and like, yep, nope, nope, nope. They don't do any of those things. Then what are their member dues actually going toward?

[Speaker 1]

Yeah. So, right. Like what if they aren't?

And we don't we don't know because we just have the question. So, if they're not doing anything for you and you're paying dues and you're going for what, then, yeah, it might make sense to leave. And if you leave, what do you do?

And from the question to me, this sounds like a garden variety business networking group, something similar to BNI, Business Networking International. It's a super well-recognized business networking organization. So, my first instinct is like, do you need to do anything at all?

Like, do you even need to be anything? Because the listener is saying they would hire a marketing person, which I really don't understand for a networking group. If this is what I assume, and it's like kind of B2B networking, get more referrals.

The point of the networking group is to network. So, the whole marketing thing is basically you have core members and in order to build their networks, they should be inviting people to come to the networking meetings and the networking events. So, I'm not sure what the marketing person would do because your members should be generating the word and the new members.

So, they don't say why they need a marketing person, but to me, that feels like putting the cart before the horse, like first get a solid group of people who are coming to your networking meetings and events. And this feels to me like this is the same mentality that is really common with nonprofit startups where they think we need to get C3 status so people will donate. It's like, no, no, no, that's not how you get donors.

It's not just like we hire a marketing person and then like the members will come like that. No, it's all legwork on your part. You have to do it.

So, like if the current national group isn't serving you, what are the dues for? What are you going to spend the membership dues on? Do you even need to charge membership dues?

Right? Like going back to like, do you even need to be an entity? Well, you know, why do you need to be an entity?

Why do you need to charge dues? If the group is so small that they need to attract more members and they want to pay for marketing, it seems to me you could just not charge and just network like a lot of time in a networking group, the dues go to cover the cost of the meeting space. So, I get that.

And if your meeting space has a fee, then ask your members to like kick in to pay the fee for the meeting space. And if you can't cover the cost of the meeting space with a suggested donation, then that would tell you that the meeting isn't very important to people. And I would reconsider whether you continue this group because like it occurs to me that the dues they're paying now.

It feels if they're really doing nothing for you and you're paying dues and you don't think anything's coming from that, it starts to feel to me like a little bit of a pyramid scheme. And in this case, if they're the main organization isn't even a nonprofit, then what are the duties or what are the dues for? They probably go to an owner who like probably maintains a membership website where members can find other members.

I don't know.

[Speaker 2]

Right. So that sounds like not a nonprofit and literally just like enriching the owner of Central.

[Speaker 1]

Yeah. Or just paying for a website to exist or I don't even you know, we have no context of like, is this a national org? Is this a state level org? Is it big? Is it small? How much are the dues? How much money are we talking about? How many members are like we don't have any of that information. But I'm sort of assuming that it is not a charity because there is no charitable purpose in increasing your referrals.

Like that's not a charitable purpose necessarily. And I'm assuming it's not a nonprofit because BNI Business Networking International is like the most recognized model organization for this kind of group and they're not a charity. So, I'm guessing that this is not a charity.

[Speaker 2]

Right. And so, then it sounds like if they are going to branch off and do their own entity, they should also not be a smaller charity.

[Speaker 1]

No, probably not and they certainly wouldn't be a 501c3. They would have to be some sort of like trade association, which doesn't sound like fits them. It sounds like it's just a straight up networking thing.

So, I'm just like, don't start anything. Like if you're going to start something, why not just form a new BNI chapter? Because that's a well-recognized brand.

You won't have to do any marketing or just get together and do your own thing. Sometimes people think they have to form an entity, they have to form a nonprofit. And sometimes you don't.

You don't need to do anything because, you know, they asked about liability. No, there's no liability for like having coffee with a bunch of people at 7 a.m. on a Tuesday morning. And if you rent a space, then the person who owns the space has the liability, not you.

So, it's like if it grows organically, great. This is what I tell people in startup consultations. It's like, just keep doing what you're doing.

And if it needs to be something later, you can still do that later. But there's no sense in creating an entity, nonprofit or otherwise, when you don't need to. It's just more work than it's worth.

[Speaker 2]

Right. And yeah, this is something we say to nonprofits all the time, like potential new nonprofit founders. And it makes total sense in this situation, too. It's like if you have something that works, just keep doing it. But Jess, OK, I have some takeaways from this big, giant question. So first of all, I think a big one back from the beginning is that chapters and affiliates are not the same and when you are working or dealing with a chapter or affiliate, it's important to figure out like what you're actually dealing with because it'll change the conversation.

[Speaker 1]

Yeah, for sure. Like do the research. Who is this central organization? Look them up. Figure out, are they a nonprofit or a for-profit? If they're a nonprofit, what does their 990 look like? Actually, figure out what you're dealing with before you try and solve any problems related to your relationship with these groups.

[Speaker 2]

Absolutely, and that sort of goes into the second one that not only do you need to look at what you're dealing with, but I think you also need to take a good look at what the central office is really doing for you. So, you had kind of gone through that list of insurance and tax forms and whatever, accounting. You know, it might not be what you should think that they're doing, but

they may be doing a lot for you. So, make sure you really take stock of what's going on before you decide to take on all that work yourself. And the last takeaway I have is just what we were saying. Don't make your life more complicated than it needs to be and oftentimes that means don't start a nonprofit or don't start a new entity if you don't actually have to. Oftentimes it's a lot simpler just to continue the work that you're doing without a formal entity around it.

[Speaker 1]

Yes. I tell people all the time, you know, like we have the Founders Roadmap course for helping people decide if they want to be a nonprofit. And part of that course is like doing the budget and figuring out all the things that you would have to spend money on if you ran your business or you ran a nonprofit. And it's like you're not anticipating all of the junk that comes along with that.

And if you just enjoy getting together with people for coffee and networking or driving around and finding cool stuff and e-baying it and donating the money to charity, just keep doing that. You don't have to make your life more complicated, a hundred percent.

[Speaker 2]

Absolutely.

[Speaker 1]

Meghan, as ever, thank you so much for joining me. Folks, if you enjoyed this episode, do me a huge favor, share it with a friend, rate us on your podcast app, subscribe. It really helps us out.

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About the Author



Hi, I'm Jess Birken.

I'm the owner of Birken Law Office, I help nonprofits solve problems so they can quit worrying and get back to what matters most – The Mission. I'm not like most attorneys, I actually have an outgoing personality, and – like you – I like to think outside the box. Most of my clients are passionate and have an entrepreneurial spirit. I'm like that too. My goal is to help you crush it. Getting bogged down in the minutia sucks the joy out of the important stuff. My clients want to do the work – not the paperwork.

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