

Summary of Doctoral Research Project Sean Campbell – Bertram Scholarship Application

Social purpose organizations (inclusive of charities, not-for-profits, co-operatives, and for-profit social enterprises) have begun to use direct public offerings (DPOs) of debt instruments and (for social purpose organizations with share capital) shares to raise funds from both accredited and non-accredited investors to (1) advance their social or environmental mission, (2) refinance more expensive debt, and/or (3) acquire equipment or property. DPOs are a new and evolving area of practice for social purpose organizations and pose unique governance challenges. For example, the social purpose (e.g., provider shelter) must be weighed against the economic necessity to provide a sufficient return to attract investors, the organizations are exposed to new risks (e.g., default on issued debt), and the organizations must conform to new regulations (e.g., securities regimes).

New and evolving areas of practice do not operate in a vacuum. I will apply institutional isomorphism—a branch of institutional theory developed by DiMaggio & Powell (1983)—to understand the coercive (e.g., laws and regulations), mimetic (e.g., efficiency through imitation), and normative (e.g., need for legitimacy) pressures that limit innovation and the possible governance frameworks that can be adopted by a social purpose organization that engage in DPOs. To do so, I will analyze legal frameworks and the offering documents of social purpose organizations that have conducted DPOs, interview social purpose organization leaders and experts, and undertake action research to develop the governance structure for an emerging social purpose organization.

The action research focuses on [Union Co-operative](#), a new organization that has the goal of raising funds through DPOs to acquire properties for affordable housing. The reader will be provided with the objectives of the founding members (e.g., permanent affordability, community ownership, broad membership) to demonstrate the tensions between the desired and possible governance framework. Consider the following examples:

- **Member (Shareholder) Influence:** To advance the objectives of community ownership and a broad membership, board meetings were intended to be open to all members. However, it is an offence (pre-sale) under securities regimes to share information pertaining to receiving regulatory approval. The result: Board meetings are generally closed to members.
- **Community Ownership:** To advance community ownership, the directors intended to allow other community organizations and local businesses to become members. The Tax Act requires that 90% of shares be owned by natural persons. Failure to do so results in higher taxation and disqualification of the Co-operative's shares from being held in RRSP accounts. The result: organizations cannot become members, but can purchase bonds.
- **Asset Lock:** Permanent property ownership requires that members act as trustees, and the redemption of a share does not result in the division of the common asset. While charities are subject to legislated asset locks, for-profit social enterprises and co-operatives, and not-for-profit corporations are not (soliciting not-for-profit can be evaded). The result: the by-laws limit the rights of members to benefit from property sale, and a new class of share is being considered to allocate the appreciative value of the properties to an independent trustee.

I intend to advance the literature by moving isomorphism beyond the study of established fields to considering the system pressures that influence the governance frameworks adopted within emerging fields. This research will additionally identify opportunities for policy makers to modernize legal and tax frameworks that constrain social purpose organization governance innovation, and provide social purpose organization practitioners with a Canadian-specific DPO model to learn from.