

EMPOWERMENT IN LEASEHOLD COOPERATIVES AND ITS INFLUENCE ON THE MEMBER/MANAGEMENT RELATIONSHIP

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Abstract

Members of leasehold cooperatives hold an incomparable position. While they have greater responsibility than renters do, they lack the equity stake and ownership responsibilities that limited or market-equity shareholders possess. In this case study, members of nine leasehold cooperatives completed a survey measuring management satisfaction, communication, and control over decision-making to explore the presence of empowerment among leasehold cooperative members when their control over their building is limited. The findings suggest that empowerment occurs even when there is no equity provision and few responsibilities in co-op operations. However, when empowerment exists with low member responsibility, the relationship between members and management may be troublesome. This indicates that there are beneficial outcomes from increasing resident responsibility and that limiting opportunities for members to participate can lead to conflict and tension between residents and management.

The question of how much responsibility low-income residents should have in the management and maintenance of their homes has been a topic of debate over the past two decades. It is thought that increasing residents' level of participation, and decreasing the responsibility of the housing authority or non-profit housing organization, increases self-sufficiency and provides economic and development opportunities for residents (Marabella, 1991; Hall, Denney, & James, 1994). Shifting responsibility towards residents and moving them along a "responsibility continuum" is designed to empower residents. The ultimate goal of the responsibility continuum is to move residents into homeownership (Marabella, 1991).

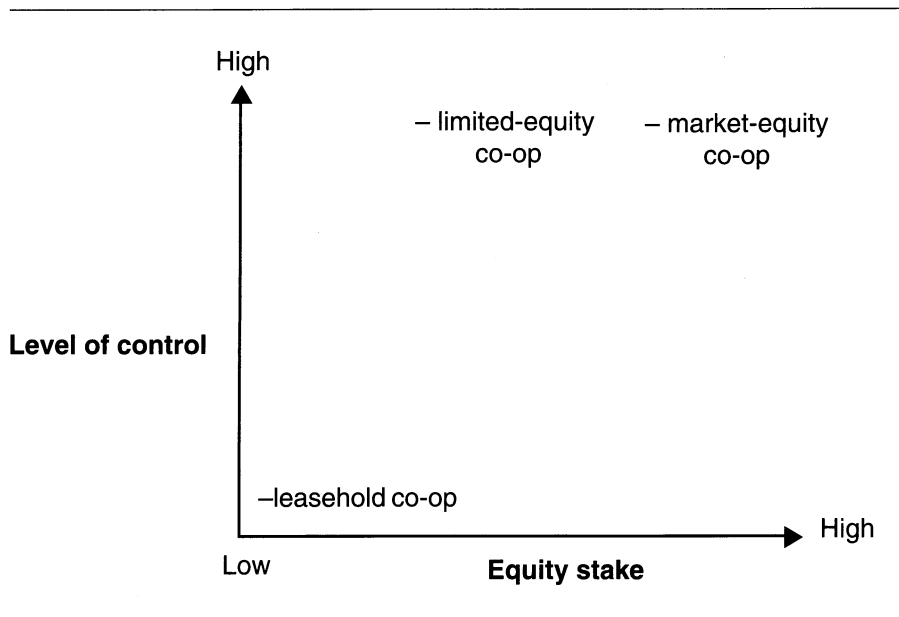
Cooperative homeownership, which can include participation and tenure rights that are similar to home ownership, provides a useful model when examining resident empowerment and the shift towards ownership. In cooperative housing, members own a

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share in the corporation that owns the property, which gives them the right to occupy a specific unit and to participate and exercise some control within the corporation. Shareholders pay a monthly fee, similar to a mortgage payment, which covers the cooperatives' expenses (National Association of Housing Cooperatives, 2001).

The degree of member ownership and control in cooperatives exists on a continuum (see Table 1). Typically, there are three types of housing cooperatives: market-equity, limited-equity, and leasehold. At one end of the continuum is the market-equity cooperative. Market-equity cooperatives function under the principles of cooperative ownership, yet shareholders are able to buy or sell their shares at current market rates (National Association of Housing Cooperatives, 2001). The limited-equity cooperative is in the middle of the continuum. Unlike market-equity cooperatives, shareholders in limited-equity co-ops receive a restricted return on their investment. Thus the cooperative can maintain affordability regardless of market conditions (Smith, 1990). Market and limited-equity shareholders have tenure rights similar to homeownership (Clurman & Hebard, 1970). In leasehold cooperatives, there is no equity provision as residents are members, rather than owners, of the cooperative organization. The cooperative uses the building under a master lease from the owner, usually a non-profit or other independent organization. Like market and limited-equity co-ops, leasehold members have the right to occupy a unit and to participate in the operations of the co-op. However, the level of control over the management and maintenance of the building

Table 1. Housing Cooperative Control/Ownership Continuum



and the tenure rights are markedly different. Some leasehold cooperatives have a master lease arrangement between the financial entity and the non-profit organization, with the responsibilities contracted out to professional management companies (PRG, personal communication, April, 1999).

Background and Literature Review

Before evaluating the relationship between resident empowerment and its impact on the management relationship in leasehold cooperatives, it is important to look at what is already known about empowerment. Empowerment can be defined for both individuals and groups. In either case, empowerment is the amount of control or influence people have over their lives, including their community (Bratt, 1991).

Resident involvement in non-profit housing exists on a continuum, as does its degree of success. Several studies provide information about the perception of empowerment as a benefit of cooperative membership. The level of resident involvement seems to make a difference, although it is not the only determining factor. Somerville and Steele (1999), reviewing previous work on tenant-landlord communication, identified factors in tenant empowerment, including tenants' understanding of community capacity and relations, knowledge of key rights, the means to strengthen their organization, the ability to carry out decisions, and the transfer of power to community members. Hall, Denney, and James (1994), in their study on whether or not empowerment enhances the opportunity for safe and decent housing, look at four non-profit housing developments. These developments range from tenant-owned buildings to buildings with resident councils, with the most successful project being a tenant-owned, mixed-income development. Some problems encountered in the less-successful projects included a lack of tenant mix required for self-sufficiency, the need for recruitment and training of residents to develop tenant skills, unmanageable costs, and a decreased interest in participation due to more pressing issues in the tenants' lives.

Level of income, education, and tenure may influence residents' need or ability to control their environment. Ellenbecker and White (1987), in a study of two Colorado cooperatives, found that members of a market equity cooperative cited "control over environment" as a higher priority than that of the respondents who lived in a limited-equity cooperative. It is important to note that the members of the two cooperatives differ demographically, with the respondents from the market-equity cooperative having longer tenure in the co-op, and higher education and income levels than the respondents from the limited-equity co-op.

Financial or managerial success is not the only indicator of the importance of empowerment. Less tangible, possibly less measurable, benefits are also derived from resident empowerment. In a survey of residents living in Baltimore's mutual housing, a form of community-based housing with principles similar to cooperative housing, findings suggested that residents experienced psychological empowerment and that living in mutual housing had a beneficial impact on their lives (Bratt, 1991). Martineau and Smith (1986) also found positive lifestyle changes associated with living in a cooperative, such as level of responsibility, community stability, and increased neighborliness.

Nefertiti Ben-Egypt, president of a housing cooperative, echoes the beneficial effects of empowerment on members. She states "because co-op members are owners of the corporation, we feel more pride in our homes, more responsibility, and a greater sense of community than renters do" (Helm, Horvitz & Ben-Egypt, 1993, p. 238). Ben-Egypt is an example of how empowerment in housing cooperatives can change a resident's life.

Nefertiti was typical of many low-income residents: single head-of-household with three children, struggling to improve her family's quality of life on an income less than 50 percent of median income. The opportunity to become a homeowner and assume a leadership position in the community was only a dream until buying a share in the Upper Lawrence Cooperative. Today, Nefertiti is sharing her experience and talents to develop other homeownership cooperatives across the country as a trainer with Housing Development Partners (Helm et al., 1993, p.238).

Although her story is anecdotal, Nefertiti's experience reflects the work of Bratt (1991) and Martineau and Smith (1986).

Research on what makes a cooperative successful reveals varied results. For some, people are the crucial element in co-op success, with participation, communication, volunteerism, shared resources, and unified members among the important factors (Helm et al, 1993). For others, it is the ability to provide professionally managed, quality housing at an affordable price (Fuerst & Fuerst, 1979). It is likely that successful cooperatives include a combination of these elements.

Involvement within cooperatives varies, indicating that the need or ability to control the living environment differs among individuals. Marabella (1991) provides a description of the continuum of resident responsibility, with homeownership at one end and lack of involvement at the other. On this continuum there is a middle ground, where responsibility is carried out by participation in resident associations, neighborhood groups, or councils. Member participation was not universal in the cooperatives studied. In a study of 14 Chicago-area co-ops, Fuerst and Fuerst (1979) found that commitment among members was variable, with some members who were highly involved and others who participated very little or not at all. From the perspective of the management, a lack of participation can be perceived as apathy toward cooperative ownership (Fuerst & Fuerst, 1979). Yet, a lack of opportunities to participate can lead to problems. Residents with few opportunities to participate indicate higher levels of conflict and tension in their buildings (Saegert & Winkel, 1996). While empowerment may be an important factor in cooperative success, people living in cooperatives may not acknowledge it as one of the primary benefits. In the Ellenbecker and White (1987) study, respondents from both the market-equity and limited-equity cooperatives ranked neighbors, community, and affordability as major advantages to cooperative living.

Previous research surrounding empowerment and resident satisfaction provides a framework from which the results of a survey were evaluated. It was expected that

problems in the management/resident relationship would stem from a lack of opportunity for the residents to control their environment. Bratt (1991) uses the words “control” and “influence” in her definition of empowerment. Research underscores the need to identify the desire and opportunity for decision-making power among the cooperative residents. The more residents are able to control and influence their home environment through participation and decision-making, the greater the level of empowerment. In this study, the relationship between leasehold cooperatives and resident empowerment is examined, using one non-profit organization as a case study.

Project Procedures and Methods

The survey was conducted at the leasehold cooperatives owned by Powderhorn Residents Group (PRG) in the Philips and Powderhorn Park neighborhoods of south Minneapolis. PRG owns nine cooperatives, ranging in size from 7 to 31 units. The cooperative buildings vary, including duplexes, attached townhouses, and apartment-style buildings. Some of the cooperatives are in newer buildings that are 10 to 15 years old, while most are in renovated, older buildings. The cooperatives are scattered throughout the neighborhoods, although some are located on the same block. The members of the cooperatives are typically in a low-income group. Four of the cooperatives were financed through tax credits, which requires residents to meet maximum income guidelines that range from 30% to 50% of the area’s medium income level. Unlike shareholders in market and limited-equity cooperatives, members of PRG co-op properties occupy their units on month-to-month leases.

All PRG cooperatives are managed by contracted property management companies. The management company of each cooperative is responsible for the day-to-day management and maintenance of the building. They are also responsible for filling vacancies by presenting pre-qualified candidates to the resident selection committee. Co-op members are responsible for keeping common areas clean, making recommendations when selecting management companies, developing policies and procedures through the co-op board, and resident selection.

The primary problem, according to PRG staff members, is the conflict between cooperative members and their management companies. Residents view the management as having an attitude problem. The PRG staff members question whether the management company is really serving the residents. A secondary problem is a lack of understanding about roles. Confusion exists between the roles of owner, property manager, and cooperative members.

Prior to mailing the survey, the asset manager and executive director of PRG were interviewed about the structure of leasehold cooperatives and the problems they faced as the owner. The tension between the management company and the residents was cited as the primary concern for PRG.

In constructing the survey, four areas of concern were identified. The first was a qualitative rating of the management and maintenance of the building. The second identified issues with management and PRG and then suggestions for improvement. The third area included a series of questions that measured the residents’ perception of

the importance of decision-making as a co-op feature pre-and post-occupancy, and the fourth area asked why residents chose to live in a cooperative.

Thirteen of the 15 questions in the survey offered a range of choices; two open-ended questions solicited suggestions on how to improve the resident/management relationship. An area at the end of the survey asked for additional comments. The survey was mailed, along with a postage-paid return envelope, to all 113 occupied units in the nine PRG-owned cooperative buildings. Of the total of 118 units, five were vacant at the time the survey was conducted. The surveys were color-coded for tracking purposes. Two of the properties were coded as one due to a lack of differentiation in the mailing labels from PRG. Surveys were received back from 24 members representing eight buildings, for an overall response rate of 21%. The responses ranged among the co-ops from a 10% response rate to 37.5%.

The survey findings on choosing a cooperative correspond to the work of Ellenbecker and White (1987): neighbors, community, and affordability are referred to as advantages to cooperative living. The majority of residents (46%) who responded cited cost as the reason they chose a cooperative. Characteristics of the unit and "other" were cited by 21% of the respondents. Among people who checked "other", community living, experiencing a co-op, and a place to live were listed as reasons for their selection. The ability to participate in management and maintenance of their home was cited by 16.5% of the residents who responded. Although the survey asked respondents to provide the *most* important reason they chose a cooperative, several checked more than one answer. In this case, multiple answers were included in the results.

Participation is an important factor for PRG residents, a response that differs from the Ellenbecker and White results. Although participation in decision-making was not among the primary reasons for choosing a co-op, 58% responded that it was at least somewhat important in the decision to live in a co-op. Decision-making received the highest ranking, along with cost, as a "benefit of being a cooperative member." Of those who responded to the question, 41.5% selected cost and decision-making as two advantages of living in a cooperative rather than renting.

Participation in decision-making seems to take on greater importance post-occupancy (see Table 2). While decision-making scored relatively low as a very important or important reason for choosing to live in a co-op (41.5%), nearly twice as many (83%) felt decision-making was important or very important as a member. Despite the importance placed on decision-making by the members, less than half the respondents cited that they are the decision makers "usually" or "all of the time". One third of the respondents checked that they never make decisions or that they are not sure who makes the decisions. Participation among the people who responded is quite high: 75% attend co-op meetings, 54% participate on the co-op board, and 50% attend co-op social events and take part in resident selection.

The information gathered revealed fairly neutral results in the management and maintenance ratings (see Table 3). When given a choice of excellent, good, average, or poor, slightly more than one-third ranked the management and maintenance as average.

Table 2. Importance of Decision-Making in a Co-op

In Residential Choice			In Residential Experience		
	n	%		n	%
Very Important	4	16.5	Very Important	13	54.0
Important	6	25.0	Important	7	29.0
Somewhat Important	4	16.5	Somewhat Important	1	4.0
Not Important	3	12.5	Not Important	0	0.0
No Response	7	29.0	No Response	3	12.5

Table 3. Management and Maintenance Ratings

Management Rating			Maintenance Rating		
	n	%		n	%
Excellent	1	4.0	Excellent	1	4.0
Good	6	25.0	Good	6	25.0
Average	9	37.5	Average	9	37.5
Poor	6	25.0	Poor	6	25.0
No Response	2	8.0	No Response	2	8.0

These results seem even more neutral when we look at the rating on either side of average. One-fourth rated the management as good; another fourth rated the management as poor. The ratings for maintenance mirror those of management.

Responses to the question “What do you feel is the biggest issue between your co-op and its management company?” indicate that communication is the primary problem. Communication was cited as the biggest problem (54%); completion of maintenance requests (25%) and conflicts with management staff (21%) received the next highest rankings.

The open-ended questions asked for ways to improve the management/resident relationship. The responses were grouped into two main categories: communication and control issues, and management performance. A few, including comments of “not sure”, were placed in an “other” category. Seven suggestions for improving the management/resident relationship reflected issues of communication and/or control. These comments range from “management should listen and not dictate their rules onto the co-op member and the co-op” and “let co-op members make decisions” to “ask management to send flyers every month to improve communication.” Four comments reflected concerns over management performance. These include broad concerns such as “management should do the job they were hired to do” to specific concerns about a problem with squirrels. It is important to note that many of the respondents who gave the management a good or average rating also, included suggestions that reflected concerns over management communication, control, or performance.

The comments about improving the residents' relationship with PRG also fit into two main categories of communication and owner performance. Four suggestions included improving the resident/owner relationship through better communication. The two suggestions concerning owner performance included follow-through and staff retention.

When we compare the information obtained from the management interviews and resident surveys to the literature review, the findings are not surprising. Overall, the level of empowerment, communication, and satisfaction with management and level of resident participation and community involvement matched the issues identified in the survey.

The greatest surprise comes from the rather neutral-to-positive satisfaction rating residents gave for the management and maintenance of the building. The PRG staff felt that the conflict between management and the residents was a major problem in the co-ops, so it had been anticipated that this dissatisfaction would be reflected in the ratings. This was not the case, although it may suggest that residents are satisfied with the performance of the management company and that the conflict is not performance-related. The responses to the open-ended questions support this idea. While the ratings for management and maintenance were largely average to good, the residents' comments suggest that there is conflict related to issues of control. Comments such as "management should listen and not dictate their rules onto the co-op members and the co-op" and "let co-op members make decisions" indicate dissatisfaction with the management's level of control over co-op decisions. This discontent is not surprising, when we consider such factors for tenant empowerment as the transfer of control from landlords to tenants, so that tenants have the ability to improve their own organization and make their own decisions (Somerville & Steele, 1999).

It was expected that some of the problems in the management/resident relationship would stem from a lack of opportunity for the residents to control their environment. This problem, however, was not reflected in resident participation and involvement in decision-making. Given the low level of responsibility assigned to co-op members, a greater feeling of apathy might have been predicted. It may be that those who responded to the survey are more active than those who did not respond. In either case, the level of participation was unexpected. This result may suggest that responsibility for co-op functions, however limited, creates a sense of responsibility. Participation on the co-op board or resident selection committees is consistent with the middle point on Marabella's (1991) responsibility continuum.

Finally, the survey confirmed that residents perceive communication, which was identified by PRG staff, as a problem in member/management relations. Although communication was cited as the primary issue, over half the respondents stated that they felt management listened to their concerns. This result may imply that the problems with communication are related to the tension between management and residents, rather than the failure to communicate.

Conclusion

Given the limited role that residents have in the management and maintenance of the building in leasehold cooperatives, a lack of member empowerment would be expected. Yet the information provided from this case study does not support this hypothesis. Rather, the survey information suggests that residents do feel empowered to some degree. The results also indicate that limiting members' opportunities for control and participation in cooperative management may have a negative impact on the relationship to and satisfaction with the management company.

Mediating this situation between residents and their management companies is difficult, given that the problem is inferred. The survey yielded mixed results, with residents indicating that management is at least doing an average job in one part of the survey. In other areas, the results indicate discontent with management and with communication, which was identified by both PRG and the residents as the biggest issue between management and co-op members. Yet, once again, the survey showed that, while communication is a problem, the majority of residents feel that management listens to their concerns. This result suggests that empowerment is relative to the inferred problem. The level of participation in the co-op and the importance placed on decision-making suggests that the residents feel "psychological ownership" (Vandewelle, van Dyne, & Kostova, 1995). This feeling of ownership may make the relationship between management and residents difficult. While the residents feel in control of their environment, the management company has the decision-making power.

A solution may be to provide the co-op members with more responsibility by having the management company report directly to the co-op. Comments suggest that residents feel that they are being told what to do by the management, when, in a cooperative, the reverse should be true. Giving co-op residents a greater role in the management and maintenance of their building by realigning this relationship may create positive change. Co-op members could be given the power to provide performance reviews and work with the managers as a team. Communication regarding the property and any rules and regulations should be sent jointly from the management and co-op board. While making these changes may create new problems, it may also alleviate the tension that exists between the co-op members and management.

The solution to this imbalance of power might be resolved if the co-op members had both *feelings* of psychological ownership and *control* over their environment. Moving members along the "responsibility continuum" by converting from leasehold to limited-equity cooperatives could satisfy both of these needs. Conversion to limited-equity cooperatives, while it is a goal of PRG, is a slow process.

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