Non-Profit Associations as Legal Entities

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Unincorporated associations long have been a problem to the law. They are analogous to partnerships, and yet not partnerships; analogous to corporations, and yet not corporations; analogous to joint tenancies, and yet not joint tenancies; analogous to mutual agency, and yet not mutual agency.¹ The most baffling of all are the non-profit unincorporated associations.

Piecemeal attempts to make legal order and sense of these organizations have not solved the basic question. Thus, statutes requiring the filing of certificates of doing business under an assumed name treat a symptom, not the problem itself.²

Modern studies of the subject express the same bafflement as did earlier studies, plus growing impatience with the sloppy law that permits such uncertainty to continue so long. Recently, for example, the application of constitutional rights to associations has involved the question of whether or not they are "persons" (i.e., "legal entities") for purposes of the privilege against self-incrimination.³ Certainly the drafters of the Constitution could not foresee the modern proliferation of associations, both incorporated and unincorporated.


³ See, Oleck, Non-Profit Corporations & Associations, c. 3 (1956). (Note that a second edition of this book now is in preparation. It elaborates on the non-profit association more than the first edition did, but finds little more certainty about it now than existed years ago).

Confusion as to "entity" or "group of individuals" concepts was criticized recently in, Note, Constitutional Rights of Associations to Assert the Privilege Against Self-Incrimination, 112 U. Pa. L. R. 394 (1964), citing Hale v. Henkel, 201 U. S. 43 (1906) that associations are not "persons," and recent Supreme Court difficulties in cases involving unincorporated associations. Under the decision in, United States v. White, 322 U. S. 694, 700 (1944), associations again were denied the privilege available to "persons." Hale v. Henkel's artificial separation of associations from their agents still confuses decisions in self-incrimination cases, but seems consistent with the trend towards "entity."
NON-PROFIT ASSOCIATION ENTITY

The truth is that some influential non-profit associations long have vigorously fought attempts to give clear legal form and substance to unincorporated associations. They like "having it both ways." It is very convenient to be able to be sometimes a legal entity and sometimes not, sometimes a partnership and sometimes not—very convenient for the association (or its managers), not so convenient for creditors, regulatory agencies, injured members, or others affected by the will-o-the-wisp nature of the association.

Straightforward legislative attempts to force associations to settle into some specific form (e.g., corporate entity) have been futile. Thus a Colorado statute requiring labor unions to incorporate was held to be unconstitutional as an unlawful invasion of "freedom of speech" and of "freedom of assembly." 4 This contrasts strangely with the common requirement that a national bank, for example, must be a "body corporate," as must other banks, insurance "companies," or public utilities. 5

A very recent appellate decision in Ohio, not yet reported at the time of the writing of this note, has cast a beacon of light through the legal fog called "the non-profit unincorporated association." This was the case of Miazga v. International Union of Operating Engineers, A.F.L.-C.I.O., Local 18. 6 Chief Justice Lee E. Skeel, who wrote the opinion, is the same jurist who settled the problem of advertised product liability with a razor sharp decision not long ago. 7

In the Miazga case, the plaintiff and other members sued the union (a non-profit unincorporated association) for damages for defamation. The defense was the usual demurrer, based on the usual argument that a member of an unincorporated association is a co-principal in a joint enterprise, and thus in effect sues himself if he sues the association. The defense cited a long line of cases so holding.

Judge Skeel pointed out that, since 1955, Ohio's statutes

5 See, 1 Oleck, Modern Corporation Law, sec. 26 (1958), citing typical statutes and cases.
6 196 N. E. 2nd 324 (Ohio Ct. of Appeals, 8th Dist., #26670, Opinion Feb. 14, 1964); Skeel writing the opinion; Silbert & Corrigan concurring.
have provided that an unincorporated association may contract or sue or be sued "as an entity" under its own name.\(^8\) Such provisions now are found in many states.\(^9\)

Ohio's statute seemingly permits execution only against the assets of the association but has been interpreted otherwise,\(^10\) while some statutes expressly permit execution also against assets of members in some situations.\(^11\)

Judge Skeel then referred to the common law origin of the theory of non-liability in the law of partnership.\(^12\) He said that, while this may be reasonable for small unincorporated associations, it is "completely outmoded" for a labor union consisting of thousands of members.\(^13\)

He then ruled that "such an association . . . should be like any other corporate entity, held legally responsible as an association in a proper case for injuries inflicted by its wrongful acts not only to members of the public but to its members as well." He pointed out that the use of the legal fiction of legal entity of an organization has been, and still is, determined by the courts rather than by legislative action, and that there is no statutory provision to this effect even as to corporations in Ohio or in most states.\(^14\) Judicial control of the actions of private associations fills what otherwise would be a vacuum in the law.\(^15\)

So we have, at long last, in the Miazga decision, a clear and direct judicial statement that a non-profit unincorporated asso-

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\(^8\) Ohio Rev. Code, Sec. 1745.01; Calif. Code Civ. Prac., Sec. 388; and see Oleck, Non-Profit Corps. & Assns., sec. 20 (1956).


\(^10\) Ohio Rev. Code, Sec. 1745.02 speaks only of execution against association assets, but a recent case held that the statutory right to sue the "entity" is one in addition to the right to hold the members of an unincorporated association (American Legion Post) personally liable: Lyons v. American Legion Post No. 650 Realty Co., 175 N. E. 2d 733 (Ohio 1961).

\(^11\) See statutes cited supra, n. 9. As to the federal view, that an association is an entity for suit (venue, jurisdiction) purposes, but that tort liability applies only to members generally, see, Sperry Products v. Assn. of Amer. RR., 132 F. 2d 408 (2d Cir. 1942), cert. den. 63 S. Ct. 1031 (1942).


\(^14\) Citing, 1 Oleck, Modern Corporation Law, c. 1, 2 (1958).

ciation is a legal entity, at least in the case of a fairly large organization.

Prior efforts to solve the problem have employed various devices to fasten liability on unincorporated associations, such as the concept of conspiracy. Some courts have held a union to be not liable for injury done by a member, while others have held it to be liable. Under federal labor law, unions are considered to be legal entities; under bankruptcy law a non-profit association may go into voluntary bankruptcy as an entity.

Many states have applied to non-profit associations the co-principal doctrine, which treats them as partnerships, imputing negligence from one member to another, including the injured member himself. There is some logical basis for this only in the case of a small organization, not in the case of a large one. A large group (Temple of the Mystic Shrine) was held to be liable for an injury to a member not long ago. In labor union cases the doctrine has been invoked frequently in recent years.

As to unions, the tendency has been to hold them liable for intentional acts. So, too, if a union owes a duty of representa-

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21 Crane, article, supra, n. 13. But in a small group (e.g., a 3 or 5 man partnership) the individual members deny association (partnership) status too, when that is inconvenient; as in refusal of workmen's compensation coverage to an injured employee of a partnership of farmers, in, Campos v. Jomoi, 122 N. W. 2d 473 (Neb. 1963).


23 Crane, article, supra, n. 13; Marchitto v. Central R. Co. of N. J., 9 N. J. 456, 88 A. 2d 851 (1952).

tion to a member; but not if a matter of business judgment is
involved.\textsuperscript{25}

All this backing and filling has been of small help to anyone
but the professional managers of unincorporated non-profit asso-
ciations. Beyond question, labor unions have been the chief bene-
eficiaries of this legal uncertainty—more specifically, professional
labor union managers. In essence, they have claimed the benefits
of unincorporated (partnership) form while operating organiza-
tions larger than most corporations, and denied the liabilities
appropriate to large organizations which are more truly "man-
agement controlled" than are most large corporations.

The writer of this note does not view a "professionally oper-
ated" organization as entitled to the same tolerance that one gives
to small groups of amateurs who try to carry on charitable or
social or educational work \textit{pro bono publico}.

Such views are not anti-labor. The same views would apply
to abuse by business corporation management or any other hold-
ers of power. Power is respectable only if combined with re-
sponsibility.

The \textit{Miazga} case, and its conclusion that at least the larger
unincorporated non-profit associations shall be treated as legal
entities, is wise and sound. This view will require clarification
of the status of officers, trustees and members, \textit{vis-a-vis} each
other and \textit{vis-a-vis} third persons. The constitutional problem of
privilege of an association against self-incrimination is a good
example of the problems involved even as to incorporated asso-
ciations.\textsuperscript{27} It is now to be settled whether or not corporate norms
or some other standards shall be applied to internal and external
relations of unincorporated non-profit associations. But at least
the deliberate abuse, by powerful organizations and their man-
agers, of a legal concept meant only for small, amateur-operated
clubs now should be ended.

\textsuperscript{25} Fray v. Amalgamated Meat Cutters, etc., 9 Wis. 2d 631, 101 N. W. 2d 782
(1960). But no duty was required in Marshall v. International Longshore-
men's & W. Union, Local 6, 57 Cal. 2d 781, 22 Cal. Rptr. 211, 371 P. 2d 987
(1962).

\textsuperscript{26} Finnegar v. Penna. R. Co., 76 N. J. Super. 71, 183 A. 2d 779 (1962); but
see (no special duty involved) Marshall case, \textit{supra}, n. 25.

\textsuperscript{27} See comments, \textit{supra}, n. 3.