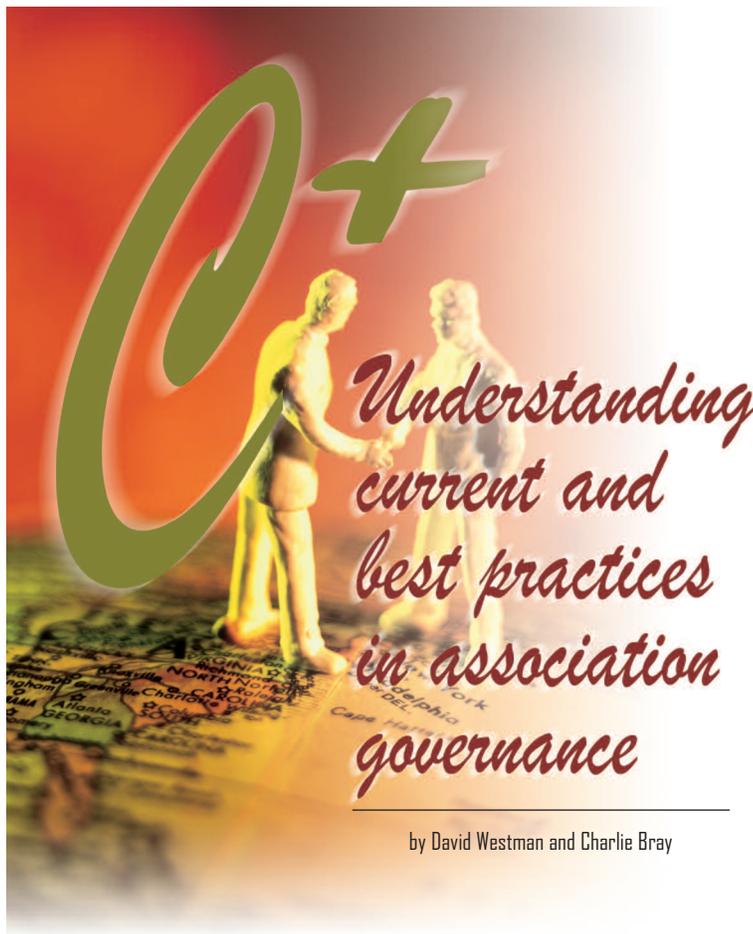


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by David Westman and Charlie Bray

**Dr. Roberts** was frustrated and getting increasingly more so every day. Two months previously he ascended to president of a mid-sized professional membership society. The society had grown rapidly in recent years — nearly tripling its membership. With this growth came a need to operate more professionally and administer an increasing array of programs and services more efficiently and effectively. This was Dr. Roberts' top priority.

Unfortunately, the challenge was turning out to be far more daunting than he had anticipated. Little had changed within the staff organization, and staff executives were complaining about a lack of consistent direction from the board. Several board members were routinely overcommitting themselves to various leadership roles. Others were apathetic. During meetings, too much time was spent on routine issues, whereas critical decisions were made without understanding the implications.

These were just some of the issues that led Dr. Roberts to engage outside consulting assistance. What subsequently became apparent was that the root of the society's current problems was its governance. This included: a lack of clarity regarding the board's role, the roles of individual members, and the society's strategy; poorly run and unfocused board meetings; a flawed decision-making process; and a lack of board attention to managing staff performance. By addressing some of these issues head on, Dr. Roberts and the society as a whole were able to affect several changes at the board level that cascaded down to improve staff organization and, servicing members.

**B**ASED ON WORKING WITH numerous for-profit and not-for-profit organizations with governance issues similar to those experienced by Dr. Roberts, RSM McGladrey concluded several years ago that more research, time, and attention were critical to understanding and supporting effective governance practices.

This need has been amplified by the recent passage of Sarbanes-Oxley and increased attention to governance from several sources. The association community is not exempt from this scrutiny. According to various governance experts, two provisions of Sarbanes-Oxley apply to any not-for-profit organization that is registered as a corporate entity (i.e., protection of whistleblowers and preservation of documents). More legislation impacting associations is on the horizon, including possible changes in Form 990s and legislation at the state level.

With these issues in mind, the not-for-profit industry consultants at RSM McGladrey initiated a series of nationwide surveys of governance practices within selected industries. The most recent survey initiative (Fall 2003) was targeted at the association industry. The survey's purpose was three-fold: (1) to take a snapshot of corporate governance in the association industry; (2) to compare and contrast survey results to best practices in corporate governance; and (3) to motivate associations to adopt a value creating model to support and nurture their ongoing governance practices.

Participation in the survey was open to all US associations. Respondents completed a survey that included questions covering:

- Board composition and director selection
- Board leadership
- Board roles and accountabilities
- Board management, climate, and communications
- Committee structure, composition, and operations
- Board development and performance management
- Board compensation and perquisites

The Association Forum of Chicagoland was instrumental in publicizing and promoting participation in the survey process.

## Key survey findings

Although impossible to include all report findings in this article, some summary observations can be made, followed by a sample of specific findings.

First, it was not surprising to find a lack of uniformity in governance practices within the association community. Most likely, over time there will be more consistency in practices, as associations implement best practices identified in the survey and elsewhere and become subject to various legislative requirements.

Taken as a whole, and acknowledging an imperfect grading system, RSM McGladrey assigned a C+ grade to the association industry in terms of overall governance practices. Although not stellar, it is actually a better grade than has been assigned to some other industries.

Scores of best practices were identified in the results package. Most of these have long been advocated by various governance experts. Regardless of source, all best practices need to be reviewed carefully by each association to determine whether they're appropriate.

## Areas of strength

Associations as a whole appear to be doing very well in adopting many best practices. These include:

- Using officer ladders to assure that members develop requisite experience and skills to eventually lead the organization;
- Having the board approve and review progress on strategic plans;
- Distributing board packages at least a week in advance;
- Using committees to address specific issues, as opposed to overreliance on the board as a whole; and
- Assigning staff liaisons to each committee to ensure coordination and progression in attaining committee goals.

## Improvement opportunities

Some of the key areas of concern uncovered by the survey include the following:

**Many association boards lack governance guidelines that address risk management issues.** Risk management at the board level is becoming increasingly important in our current operating environment. Currently less than half of associations, according to the survey results, have governance guidelines in place that address, among other issues:

- Periodic reporting to the board regarding internal controls
- Allowable and prohibited board director transactions
- Treatment of material adjustments proposed by external auditors
- The board's relationship with its accounting firm
- Processes for whistleblowers in communicating concerns

**Formal processes to manage executive performance and compensation are frequently non-existent.** Effective performance and compensation management systems at the executive level can be critical in assuring that the board and staff are in congruence in serving the members. It is concerning that only two-thirds of association boards surveyed set executive director performance expectations at the beginning of the year, while 20 percent of boards do not evaluate the executive director's performance at least annually. Less than 50 percent of association boards currently use a formal, documented compensation strategy applicable to the executive director and, similarly, less than half of boards systematically survey competitive market compensation levels pertaining to association executives.

**In many associations, the board of directors does not have formal opportunities to interact without the presence of staff representatives.** Only one-third of survey respondents indicated that such opportunities were provided—either entire meetings or portions of regular board meetings. Many times there may be little or nothing to discuss on such occasions. However, having this time as a standard agenda item takes away the stigma of calling for such a session when it is truly needed. It typically serves to raise issues and problems much more quickly than they otherwise would, thereby enabling quick and appropriate responses.

**Committee performance does not appear to be managed actively in most associations.** Committee work is crucial to the success of most associations. Committees also provide key opportunities for leadership development among the members. Unfortunately, more than two-thirds of associations do not require committees to submit annually documented performance plans to the board. More than one-third indicate there are no written or oral progress reports made by committees to the board at least annually. Approximately one-third of boards require that committees meet a certain number of times each year to be considered active.

Regardless of the threshold, if not achieved, the committees should be either dissolved or have the leadership changed.

Taken as a whole, the report provides a comprehensive view of current governance practices within the association community and food for thought on how these practices can be improved. Moving forward, all associations would be well advised to keep attuned to new developments in governance and learn from their peers. r

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To order a copy of the survey referenced in this article, contact Chris Mirabella at [chris.mirabella@rsmi.com](mailto:chris.mirabella@rsmi.com) or (847) 413-6326.