AMC-Managed Organizations Are More Stable Than Standalone Organizations

Stability of chief staff executive tenure and headquarters location may account for superior performance of Association Management Company management model vs. standalone model

By: Michael T. LoBue, CAE

September 2019

LoBue&Majdalany
Association Management

September 2019

ABSTRACT: This paper reports the results of a study examining the rates of change in the length of chief staff executive tenure and office location turnover of membership-based organizations for the period 2009 to 2015.

The results of each case were surprising. They revealed much higher frequency of change in standalone organizations compared to organizations managed by Association Management Companies (AMCs). For purposes of this study, a standalone organization was defined as a membership-based organization that employed some or all of its support staff and had a dedicated headquarters office.

The study was conducted in 2018 as part of a commissioned project to investigate the incidence of membership-based organizations "going virtual." For purposes of the study, "going virtual" was defined to mean that standalone organizations ceased to have a physical office, and staff worked remotely, presumably from their homes. It was not possible from the documents examined to come to any conclusions about the state of organizations going virtual.

However, we uncovered two interesting findings about the rates of change in chief staff executives and in the location of associations' headquarters.

Our accidental findings: Standalone organizations with annual operating revenue of $.5M to $2.5M changed their chief staff executives three times more often than AMC-managed organizations of the same revenue size. More dramatically, standalone organizations with annual revenue of $2.5M to $5.0M changed their chief staff executive ten times more frequently during the seven-year period.

Table of Contents

Introduction

This is the third in a series of sibling studies comparing characteristics and performance outcomes of the two prevailing management models for membership-based organizations. This article also serves to confirm the results of the two earlier studies.

This third study begins to answer the question, "Why do AMC-managed organizations outperform standalone organizations?" by comparing the key performance indicators of productivity: net profitability and operating risk.

In the first sibling study we learned that standalone organizations, on average, pay a premium of nearly 50% to employ their staff, and to shoulder the full costs of occupancy and capital expenses. We also learned that AMC-managed organizations achieved better key performance indicators (KPIs) than standalone organizations did.[1] But this first study lacked the evidence to identify *why* this might be the case. There was no shortage of speculation as to why, but there was no evidence to connect characteristics or methodologies to the actual results.

In the second sibling study we identified and measured the rather dramatic benefits AMC-managed organizations enjoyed over their standalone siblings in terms of managing their resources, as measured by generating operating surpluses over the 10-year period from 2006 to 2015.[2] Once again, we observed the differences between these two management models, but there was no evidence pointing to *why* the differences exist.

This third sibling study begins to shed light on why the AMC-management model demonstrates better performance than standalone organizations.

Highlights of the Findings

This study examined 396 randomly selected associations from the nine largest states and the District of Columbia. 40 associations were selected from each location, half with annual revenue between $.5M and $2.5M, and half with annual revenue between $2.5M and $5.0M. There were only 16 selected from the state of Maryland in the upper revenue tier range because 16 was the entire population of this sample from that state.

We examined the 990 tax returns from each of the sample organizations from 2009 and 2015 to answer 4 questions. :

Q1: What percentage of associations in the 10 most concentrated markets switched their management models (from AMC to standalone or standalone to AMC)?

A1: We identified 3 organizations from the entire sample of 396 that switched from the standalone model to an AMC. There may have been more, but the evidence was inconclusive.

Q2: What percentage of associations changed their chief staff executive (CSE) over the period?

A2: 195, or 49.2%, of the total sample of 396 associations had a different CSE in 2015 compared to 2009. This characteristic was fairly consistent across states, however standalone organizations changed their CSE at much higher rates than AMC-managed organizations.

Q3: What percentage of standalone organizations "went virtual" over the period?

A3: Unknown. This is a much more nuanced question to answer than was possible in this study.

Q4: What percentage of associations changed their headquarters location over the period?

A4: Like the rates of change for CSEs, standalone organizations had rates much higher than AMC-managed organizations.

---

1 AMC Managed and Standalone Organizations – A Sibling Study; by Michael T. LoBue, CAE, © 2009 AMC Institute

2 AMC Managed Organizations Generate Operating Surpluses More Consistently Over 10-Year Study Than Organizations Not Managed by AMCs; by Michael T. LoBue, CAE, © 2018 LoBue & Majdalany Association Management.

Scope of Comparisons

This comparison report is the third of its kind in the association management field. It was made possible by Association Headquarters (AH), an AMC based in Mt. Laurel, NJ. AH was interested in understanding if the often-discussed trend in "going virtual" was actually occurring in the market, or simply gaining attention due to frequent online discussions about the topic within in the association community.

For a variety of reasons, mostly because there's no single definition of what it means for an organization to go virtual, this question is difficult to answer conclusively. Further, any definition would have to include levels, or degrees, of going virtual. For example, there are likely many more organizations with partial virtualization than those that have done away with a physical office altogether. These would include staff members of standalones who may work remotely some percentage of time. Some organizations may also employ staff living quite far from headquarters, so a percentage of staff members work remotely on a fulltime basis.

While one could conduct a large survey to answer these questions, examining hard evidence like 990 tax returns is likely to be more accurate compared to a general survey. With surveys there can be less control over the sample responding to the validity of the responses. Lastly, virtualization, almost by definition, is an extremely fluid condition.

As mentioned above, this study reports no findings on the prevalence of going virtual in the association market. We accept that it occurs, but we do not have enough data to quantify the occurrence of it in this sample.

Almost by accident we realized that the dataset collected for this study provided us with an opportunity to study several other questions that align nicely with the two previous sibling studies.

In particular, the collected data provided the opportunity to examine, with evidence, ***why*** AMC-managed organizations outperformed their standalone sibling organizations in each of the two previous sibling studies. This is especially important because there is no shortage of speculation about why the AMC model outperforms the standalone model. Until now, no credible evidence existed. Maybe now it does.

Two other aspects of this study increase the confidence in the results. First, the sample was randomly selected. Second, the studied organizations are geographically varied. There was no attempt to evaluate the results for statistical significance, however some of the results are so varied between the two management models as to suggest that statistical significance exists for some of the results.

Methodology

A. Sampling

Datasets from TaxExemptWorld were purchased for the states with the largest numbers of associations operating in their jurisdictions. This included the District of Columbia because of the high concentration of associations in and around the nation's capital. All the sampled organizations were 501(c)(6) tax-exempt organizations. The sample locations are:

Table #1 **State (2017 Pop.)**	**Association Revenue Between $500k and $2.5M**	**Association Revenue Between $2.5M and $5.0M**
California (39.5M)	556	58
Texas (28.3M)	350	50
Illinois (12.8M)	339	50
New York (19.8M)	292	32
Virginia (8.5M)	283	77
Florida (21M)	273	31
Ohio (11.6M)	230	30
Pennsylvania (12.8M)	220	28
D.C. (.7M)	236	65
Maryland (6M)	148	16
Total	2,927	437

The total population of the nine states and District of Columbia was 161,150,000, representing 49% of the estimated US population in 2017.

The sample populations were selected by generating 20 random numbers for each state within the range of the number of associations by revenue-size category (e.g., \$.5M to \$2.5M and \$2.5M to \$5.0M), then selecting the organization corresponding to the random number from the alphabetical list of organizations in that region. If the organization did not have tax returns for at least 5 years of the period, that organization was removed from the selection pool and a new random number was selected for a replacement organization. This process was repeated for each state until the sample population of 396 organizations was compiled. In the case of Maryland, all 16 organizations between \$2.5M and \$5.0M were included in the study sample.

B. Data Collection

The 990 returns from 2009 and 2015 were downloaded and examined for key data, or changes in responses between the two 990s:

- Yes/no – did the organization's headquarters address change;
- Yes/no – did the Chief Staff Executive change over the period;
- Management-model:
  - Standalone
  - AMC
  - Volunteer-run

To answer the above questions, the 990 return was examined for:

- Office address in the heading of the form;
- Did the form list a contractor/AMC in Section B, question 1 of Part VIII;
- Did the form report salary and compensation figures on Part IX; and
- A change in the individual serving as the chief staff executive.

Detailed Results

A. Management Model Analysis

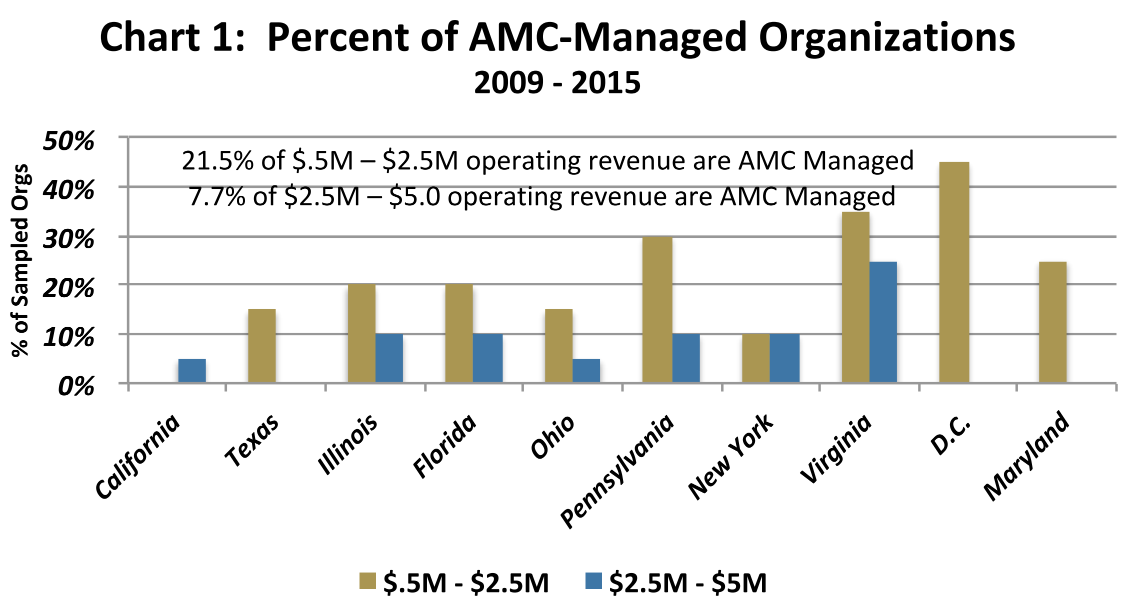
The "management model" question examined in this study was essentially, "What percentage of associations in the 10 most concentrated markets switched their management models (from AMC to standalone or standalone to AMC)?

We found clear evidence of three organizations (.76%) out of the entire sample population of 396 that switched from a standalone to an AMC. One is an organization in Pennsylvania and the other two are Virginia-based.

We identified six organizations out of the entire sample population (1.5%) that appear to be volunteer run. They reported no staff, no employee costs, and no evidence of an AMC or contract workers.

Overall, we found 58 organizations out of 396 that were managed by an AMC, or had completely contracted out their staff work, making up 14.6% of the total sample. There were an additional 12 organizations that "might be" AMC-managed. The data on the 990 forms were inconclusive on this question.

Classifying each organization in the sample by its management model (e.g., AMC-managed or standalone) we were then able to examine the findings by management model, as well as by location (e.g., state) and revenue size. Chart #1 below displays these characteristics of the data.

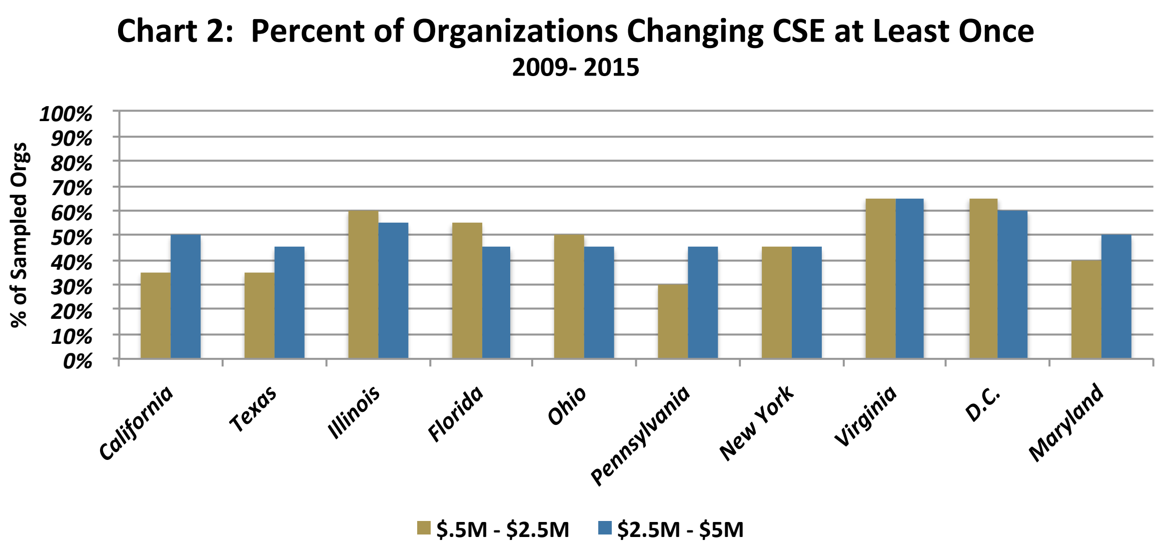


B. Change in Chief Staff Executive Analysis

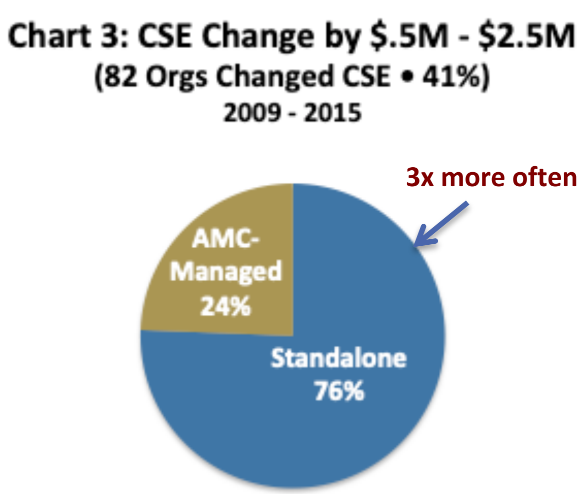
The question was straightforward: "What percentage of associations changed their chief staff executive over the period?"

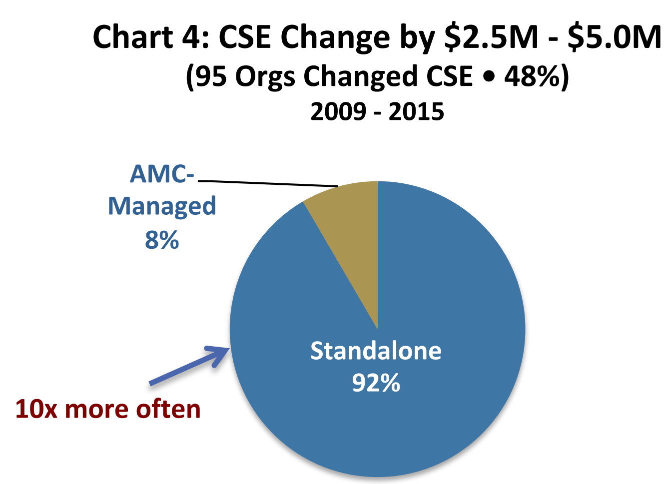
We identified a total of 195 organizations recording two different chief staff executives between the base and last years of this study.

This represents almost 1 in 2 organizations in the sample (49.2%). Chart #2 below displays the distribution of these 195 organizations by revenue size and location. With a few exceptions, changing chief staff executives over this period seems to have occurred in all states and in both revenue categories. Texas and organizations between $.5M and $2.5M in Pennsylvania seem to be the slight exceptions to this rather pervasive trend.



However, when we filter these results based on management model, we see a dramatic difference between the AMC and standalone models.





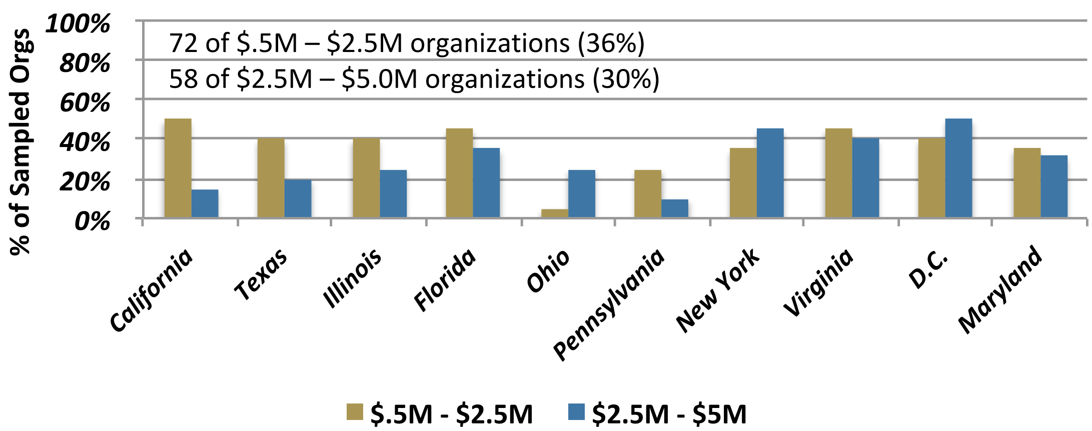
Charts 3 and 4 above display the overwhelming difference between the two management models in terms of the number of organizations that changed their chief staff executive over the period. For organizations between $.5M and $2.5M in annual operating revenue, the standalone model changed CSEs three times more often than their AMC siblings. For the higher revenue bracket of $2.5M to $5.0M, standalone organizations changed their chief staff executives ten times more often during the same period.

C. Change in Headquarters Location

While changing the location of an organization's headquarters is far from a strategic issue, it is a disruption and can take a toll on productivity. Of course, changing an organization's location can also be for necessary and positive reasons. If it happens frequently, one has to wonder about the organization's stability and focus on its mission, and all of the distractions in daily work that go with moving.

Chart #5 below displays the distribution of organizations that have moved by annual revenue size. It's not surprising that 50% of the organizations between $.5M and $2.5M in California moved, given high and ever-rising rents in the state. The larger organizations in six of the regions studied seem more stable than the small organizations, except for New York, Virginia, and D.C.

Chart 5: Percent of Organizations Changing Address at Least Once
2009 - 2015



Once again, when we filter these results based on management model, we see a dramatic difference between the AMC and standalone models. In the case of organizations between $.5M and $2.5M, the standalone model moved offices two times more often during the period than did the AMC-managed organizations. However, in the case of organizations between $2.5M and $5.0M, standalone organizations moved 19 times more often during the period than did the AMC-managed organizations.

AMC Managed Organizations Outperform Standalone Organizations

Chart 6: Address Changes $.5M - $2.5M
(61 Orgs Changed Locations • 31%)
2009 - 2015

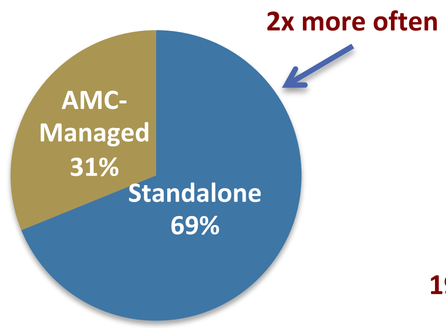
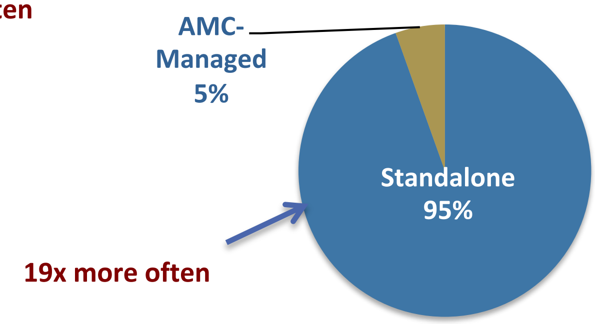


Chart 7: Address Changes $2.5M - $5.0M
(55 Orgs Changed Locations • 28%)
2009 - 2015



Conclusion

The results of this third study are consistent with the previous two studies, but also shed some light on the reasons the AMC-model consistently outperforms the standalone model in terms of:

- Price performance
- Lower risk profiles
- Higher key performance indicators, such as profitability and operating efficiencies
- Generating greater operating surpluses during up-market conditions and during The Great Recession of 2007 – 2010.

This study reveals a difference in the two management models that may begin to explain the solid and consistent performance results of the AMC model. The difference is the exceedingly high turnover rate of chief executive officers in the standalone model.

Boards of directors of AMC-managed organizations enjoy a significant benefit when their organization changes the chief staff executive because their AMC usually screens and provides the successor to the board for acceptance.

It's not unusual for the chief staff executive search to take months, followed by further delays if the chosen candidate is not immediately available to begin as the new executive. Once the new executive begins, there's an acclimation period, possibly followed by more staff turnover, which may cause distractions that make getting operations back on track difficult.

The obvious area to explore why standalone organizations have a much higher chief staff executive turnover rate is whether or not the average board of directors is simply not very good at finding the best fit chief staff executive for their organizations. This is less a criticism of association boards than a statement of fact. Most association board members have little to no experience in association management, so how would they be able to identify the organization's needs and then attract and identify the right executive fit for their organization and membership?

It may well be worth further investigations into the differences between chief staff executives of AMC-managed and standalone organizations. Some of the factors to explore and compare may be:

- Is the chief staff executive from the profession or industry of the association;
- Years of tenure/experience as a chief staff executive;
- Education and professional credentialing;
- Variability of professional experience, inside and outside association management

AMC Managed Organizations Outperform Standalone Organizations

The lead reason in this author's mind to explain the consistent superior performance of the AMC-model is the multi-client nature of the model. Even if the AMC staff are dedicated to a particular client, they work in a multi-client environment with access to fellow AMC staff with more years of experience and lessons learned about association operations and management.

Acknowledgements

Association Headquarters, Inc.

Association Headquarters of Mt. Laurel, NJ for commissioning the initial study. In particular Robert Waller, President, and Sue Pine, Vice President of Client Services (at the time) for their advice and input on the study design.

About the Author

Michael T. LoBue, CAE founded the AMC LoBue & Majdalany Association Management in 1993.

Before starting his AMC, LoBue had a varied career involving public health, judiciary services, youth service nonprofit management, university administration and marketing in the high tech industry. LoBue has a Masters of Science in Management and Public Policy from Carnegie Mellon University and a Bachelor of Arts from University of California, Berkeley.

LoBue has been the CEO of the California Association of Flower Growers & Shippers (an L&M client) since 2013 and provides oversight and guidance to several other current L&M clients.

LoBue has extensive board service over the past 30 years. Current board service:

Clearwater Ranch Community, LLC
Chairman of the Board
A community development organization for special needs adults in Cloverdale, CA

Living Unlimited
Member of the Board of Directors
A nonprofit organization focused on creating living communities for special needs adults.

Memorial Day Flowers Foundation
Member of Board of Directors
A nonprofit organization devoted to thanking and honoring US military and their families on Memorial Day for their service and sacrifices for the rest of us. Flowers are placed on headstones at National Cemeteries around the country.

About L&M

LoBue & Majdalany is a multi-client association management company that bases its management practices on evidence and facts, not on conventional wisdom or what may be in vogue.

Chief staff executives from L&M are CAE (Charter Accredited Executive) credentialed and our firm has been a Charter Accredited AMC from the AMC Institute since 2004. Current accreditation is valid through April 2023.

LoBue & Majdalany Association Management
781 Beach Street, Suite 302
San Francisco, CA 94109
+1.415.561.6110
www.lm-mgmt.com

