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Governance Structure Project Team Recommendations

July 2017

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GSPT's Charge and Process

In 2015, the Appraisal Institute's Governance Structure Project Team was given the following charge by the AI Board of Directors:

- *The overall focus of the Governance Structure Project Team (GSPT) should be on **member value**, while the structural focus should take into account **market realities**. The project team is to review and build upon the conceptual framework that was accomplished by the Strategic Planning Committee in 2014.*

- *The project team is tasked with making recommendations to the Board for possibly altering the structure of the Chapters and Regions and the overall AI governance structure to find **the optimum mix of member services and the efficient delivery of those services**.*

- Consider what levels the organization needs to respond quickly and be financially sustainable.

- Consider what the focus and responsibilities of each level of the new organization should be.

- Consider each service that AI delivers at the chapter and region level(s), and determine the most cost-effective and efficient methods of delivering those services within a revised structure, if it will be provided, and what level of the organization is best-equipped to deliver the service.

- Consider how the greatest cost-efficiencies may be obtained in the context of the overall plan.

- Which entities/levels will be responsible for administration?

- What will governance look like?

- What is the best organizational structure for legislative and advocacy issues?

- Which entities/levels will have financial/accounting responsibilities?

- At what levels will dues be collected (or not collected)?

- Review minimum chapter criteria and responsibilities, and make recommendations, as necessary.

- Consider how education delivery can be more cost-efficient. Is a new model needed?

- The GSPT **reviewed the relevant research**, **studied AI financial, membership and organizational data**, **examined organizational risks** and **analyzed benchmarks and best practices** in both the for-profit and not-for-profit sectors.

- Throughout its deliberations, [GSPT's] guiding principle was always to be mindful of **member value and the efficient delivery of services** to AI's professionals and customers, while taking into account the market realities of today, as well as the **future of the profession**.

GSPT's Actions

- Work sessions:
  - 2015: November 21
  - 2016: January 25, April 4, May 3, June 30, July 26, October 13
  - 2017: February 10
  - Regular Communities of Practice discussions

- Research and documentation reviewed:
  - AI organizational structure research phases I, II and III
  - AI financial, membership and operational data
  - AI organizational risks
  - AI national, region and chapter data
  - Not-for-profit and corporate research, practices and benchmarks

GSPT Members

- Ken Wilson, MAI, SRA; Chair — Plano, TX
- Val Chiasson, MAI SRA — Boca Raton, FL
- Eric Haims, MAI, AI-GRS — Bronxville, NY
- Craig Harrington, SRA, AI-RRS — Eden Prairie, MN
- Stephen Roach, MAI, SRA, AI-GRS — San Diego, CA
- Rodman Schley, MAI — Denver, CO
- Leslie Sellers, MAI, SRA, AI-GRS — Clinton, TN
- Craig Steinley, SRA, AI-RRS — Rapid City, SD
- Ted Whitmer, MAI, AI-GRS — College Station, TX

AI Organization Structure Research

AI performed three rounds of organizational structure research in 2014, with review and analysis conducted into 2015.

- **Phase I** surveyed a random sample of AI Designated Members, Candidates, Practicing Affiliates and Affiliates for their feedback, with a +/- 4.0% margin of sampling error at the 95 percent Confidence Level (January 2014).
- **Phase II** surveyed all Chapter Presidents, Chapter Executive Directors and Region Executive Directors with a 99% response rate (March 2014).
- **Phase III** surveyed all Region Chairs and Vice Chairs, Third Directors, Region Executive Directors, Chapter Presidents, and Chapter Executive Directors (May 2014).
- Additional research was conducted in 2017, which confirmed previous results.

- Any solution must involve more than chapters – otherwise there could be significant pushback to any form of change.

- Members see the three-tier AI structure as unwieldy – chapter and region leadership generally do not.

- Members are more supportive of streamlining the structure than are AI leaders.

- Members and, to some degree, chapters leaders do not understand the purpose of regions. The research suggests that confusion may have increased with the onset of regions assessing dues.

- Other than education, chapters have a relationship with only about one-half of their respective memberships.

- Overall, roughly one-quarter to one-third of the membership has a strong relationship with chapters.

- For those that have a strong relationship with their chapter, chapters are an essential means of connectivity to AI.

- The relationship between members and AI is largely virtual. AI supports a largely virtual chapter network, but recognizes few of the financial and operational benefits of a virtual system.

- A significant majority said the lack of an accessible chapter office location neither increases nor decreases the value of membership. This finding suggests that members have become increasingly comfortable with a remote/virtual relationship, provided there are regular in-person activities for members interested in personal contact.

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- Only a small portion of the membership engages with AI (national, region, chapter). The overall member participation rate in volunteer activities is low (less than 10 percent).

- With the exception of classroom education delivery and member relations and servicing, respondents attribute all other primary activities to the national office by large proportions. Member respondents equally attribute member relations and servicing to both local chapters and national.

- Member servicing is a major area of overlap between chapters and national. AI may realize some cost-savings by reducing/eliminating the overlap.

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- Collective chapter business model: The research and other inputs suggest there is something unusual about the chapters' primary role as deliverers of education, members paying for courses (presumably supporting financially viable education) and members paying chapter dues for essentially servicing support and social activities.

- Support for a best practices approach to minimum chapter criteria is weak amongst chapter and region leaders; however, some do see the wisdom and necessity of such criteria.

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- Overall, chapter staff and contractors (paid and volunteer) predominantly spend most of their time on education delivery, education enrollment and chapter financial management activities. Comparatively, chapter staff and contractors spend much less time on new member recruitment, the Candidate program and community/government relations.

In the survey of Region Chairs, Vice Chairs, Third Directors and Region Executive Directors, and of Chapter Presidents and Chapter Executive Directors:

- 63% somewhat disagreed/strongly disagreed that a member-accessible chapter office space should be a minimum criteria for an AI Chapter.

- When this group was asked what the minimum number of chapter members should be, the mean (average) response was 125.

Conclusions

- Member age demographics and the current outlook for growth of the U.S. appraisal profession strongly suggest that AI should streamline its structure, lower its operating costs and, ideally, pass on any savings to members in the form of lower dues and other costs (or at least in the form of reduced cost increases in the future).

- The existing three-tier structure is unwieldy and is expensive to operate. Moreover, the structure is not providing maximum value to all members. With the exception of some tweaks over the years, the basic AI structure has not changed for decades, despite major changes in the profession, in technological advances and within AI.

Conclusions (con't)

- The next generation of members likely will not engage with or support the existing structure.

- Chapters tend to operate as independent entities and do not always embrace or pursue broader organizational aims.

- A competitive (sometimes unfriendly) relationship exists at times between national and some chapters and between chapters themselves, which is not optimal from an organizational and mission standpoint.

Not-for-Profit & For-Profit
Research, Practices and Benchmarks

- The three most sought-after board skills and backgrounds remain unchanged from the 2012 report: Related industry experience, C-level experience and International business exposure.

  o © Deloitte and Society of Corporate Secretaries & Governance Professionals 2014 Board Practices Report: Perspectives From the Boardroom

- "Associations need boards composed for performance, not boards composed according to geography, special interest, who one knows, or how long they have been hanging around. We need boards that can govern – direct and control – the association, not micromanage or mismanage it. We believe a smaller, competency-based board, with directors carefully selected for competencies critical to the organization's future, can be more effective."

  o *Road to Relevance;* Coerver and Byers © 2013

Board Responsibilities

- The three tasks considered the *most important* to the current board are (in order): strategic planning; ***financial oversight/risk management***; and protecting the organization's reputation. *(emphasis added)*
  - © The ASAE Foundation's Benchmarking in Association Management Series 2011

Board Priorities

- As they head into 2015, the individuals surveyed said that the top three areas of board focus will be strategy (85%), ***risk oversight*** (44%), and board composition (36%). *(emphasis added)*
  - © Deloitte and Society of Corporate Secretaries & Governance Professionals 2014 Board Practices Report: Perspectives From the Boardroom

Percent of organizations (total/those with 100 or more staff) who report the following in relation to Board composition:

- 76%/75% -- Written duties and responsibilities for Board members.
- 32%/42% -- Select Board members based upon possession of specific competencies (i.e., CPA, attorney, etc.).
- 15%/17% -- Reference and/or background checks for Directors.
  - o © The ASAE Foundation's Benchmarking in Association Management Series 2011

- Average board size (including officers) has remained stable in recent years, with a mean between 16 and 17 members since 2004, after decreasing from about 19 members in 1994-1999.
  - © BoardSource 2012

- Respondents report a median of 15 voting members (includes officers) on their board of directors.
  - © The ASAE Foundation's Benchmarking in Association Management Series 2011

- Board size is relatively consistent, with 45 percent of respondents having 9 to 11 members (includes officers).
  - © Deloitte and Society of Corporate Secretaries & Governance Professionals 2014 Board Practices Report: Perspectives From the Boardroom

GSPT Recommendations

GSPT Recommendations

- Operational and Financial Compliance

- Education Development & Delivery

- Chapters

- Regions

- National & Local Services

- Board of Directors & Qualifications

- National Nominating Committee

- Governance Structure Transition

Operational and Financial Compliance

- Financial responsibility, management and accounting should be centralized at the National office.

  ➤ Property and assets held in trust by the Chapters for the Appraisal Institute should be managed by the National organization according to Board policy.

- Chapter support to be uniform and consistent throughout the country.

  ➤ Chapter support to be provided locally, utilizing uniform job descriptions; supervised locally, directed nationally.

  ➤ Chapter goals and objectives to match those of the National organization.

  ➤ Chapters will not charge annual dues or fees to AI Professionals (eventually).

Education Development and Delivery

- Education development and delivery (AE, QE, USPAP, some CE) centralized and coordinated at/through the National office.

  - Chapter staff, contractors and volunteers will be available to provide local input and feedback on delivery locations.
  - Local content and programming for CE will be offered (i.e., a chapter meeting with a guest speaker).
  - Existing or future chapter conferences will be reviewed as part of a cost/benefit analysis and managed as part of the budget process.

- Chapter mission, goals and objectives will be in alignment with all components of the organization.

- Chapters will provide the following services:
  - Advocacy (state and local, coordinated)
  - Awards & Honors (local)
  - Education Delivery Support
  - Leadership/Volunteer Service (local)
  - Local Meetings (guest speaker/CE)
  - Member Service, Recruitment, Retention (coordinated)
  - Networking
  - Social Events

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- Chapters will be organized along state lines or in combinations of states.

- There will be no more than 50 domestic chapters (eventually), not including U.S. territories; this domestic cap does not preclude any future international chapters. Review of the needs of chapters in U.S. territories and D.C. will be completed in the research described below regarding minimum chapter size.

- Chapter maximum size will not be capped.

- Minimum chapter size will be set at a number expected to be around 300, but which requires additional review. Research will be conducted to determine which geographic groups of AI Professionals may be best served by multi-state chapters.

- Chapters will be governed by a Chapter Advisory Council composed of between 2 and 9 AI Professionals, plus a Chair and Vice Chair.

- Chapters may determine the appropriate size of their Advisory Council, but which size must be an odd number.

- Minimum eligibility requirements will be determined for Advisory Council service; however, both Designated Members and Candidates will be eligible to serve.

- The Chair and Vice Chair of an Advisory Council must be a Designated Member and have at least one (1) year of immediate preceding service as an Advisory Council member with the chapter (or equivalent service on predecessor Chapter boards).

- Terms of Advisory Council members will be two (2) years and will be staggered. Advisory Council members will be eligible for one renewal term, up to a total of two (2) full terms.

- The Chapter membership (Designated members, Candidates, Practicing Affiliates and Affiliates) shall select the Advisory Council members from the confirmed pool of qualified applicants and the selected Advisory Council members shall elect their Chair and Vice Chair for terms of two (2) years.

- Chapters may form work groups, project teams and panels, which will sunset upon completion of their assigned goals.

- AI Professionals will be assigned to a primary chapter by state and may join secondary chapters.

- Chapters may create branch chapters (similar to the current process).

- Region structure to be sunset.

- Directors for the AI Board to be nominated by the National Nominating Committee.

- Admissions

- Advocacy

- Awards & Honors

- Continuing Education (AI)

- Designations/Candidate Program

- Ethics & Standards

- Education Delivery (AE, QE, CE, USPAP, PDP, users)

- Education Development (AE, QE, CE)

- Finances & Operations

- Governance

- Human Resources

- Information Technology

Additional National Services

- International
- Leadership Development
- Leadership/Volunteer Service
- Legal Support & Contracting
- Marketing & Communications
- Meetings & Events
- Member Benefits
- Member Service, Recruitment, Retention
- Professional Practice
- Publications
- Reserves Management
- Strategic Planning

- 16-member Board comprised of 11 Directors plus 5 Officers: president, president-elect, vice president, immediate past president, CEO (ex-officio).

- Individuals to apply to the National Nominating Committee (NNC) and will serve the membership at large.
  - ➢ Geography will be considered for nomination purposes for the international Director (or Directors) and to ensure, when other Director qualifications are equivalent, that no single geographic area is overrepresented.
  - ➢ Diversity of practice and expertise for Directors is desirable.

Board of Directors: Terms

- No more than two (2) Directors may be non-members representing a complementary or related field to valuation (fields or targeted organizations to be determined).

- One (1) Director position will be reserved for an international Designated Member.

- Directors will be provided a director fee (amount to be determined) and expense reimbursement for attendance at Board meetings.

- Directors will serve 3-year staggered terms.

- Directors may not serve on a chapter Advisory Council and the National Board concurrently.

- Vice President candidates will apply and be nominated and elected as they are under AI's current structure.

- Current AI requirements for BOD service would be maintained for Directors who are Designated Members and requirements will be developed for qualifications of the non-member Directors.

- In addition to current AI Director service qualifications, the following will be mandatory requirements for Board service:
  - ➢ Completion of a selected leadership training program;
  - ➢ Passage of a background check; and
  - ➢ Completion of required industrial testing.

- Additional desirable criteria for consideration by the NNC in nominating Directors will include:
  - Legacy Chapter President or a past Chapter Advisory Council Chair.
  - Past involvement in national and local service.
  - Former or current LDAC attendee.
  - Prior service on non-AI boards or as a corporate fiduciary.
  - Alignment of the proposed Director's field of practice and expertise with current Board needs.

- All Director applicants will fill out a required application and affirm completion of the requirements for Board service to be considered for nomination as a Director by the NNC.

- Current AI requirements for Officer service would be maintained and all new requirements and qualifications for Directors will apply to Officers.

- Officers must have prior or current service on the AI BOD.

- Officers must complete industrial testing (potentially more robust than Director level testing).

- Officers must be Designated Members.

- Additional desirable criteria for consideration by the NNC in nominating Officers will include:
  - Current or prior Chair of a National Committee and/or other national and local service.
  - Diversity of practice and expertise.

- Composed of eight (8) individuals plus the Chair; the Chair shall be the AI Immediate Past President.

- Selection of the 8 NNC members will be via choosing two (2) each from four (4) quadrants of the U.S. and its territories. Chapters in those quadrants will select the 2 NNC members for their quadrant.

- Minimum eligibility requirements to serve on the NNC will be developed, beginning with the current guidelines, and an additional list of desirable criteria for service will be established (i.e., Chapter service, National service).

- NNC members may serve on other AI National Committees.

- NNC members may not be a sitting member of the AI BOD.

- Training for NNC members will be developed and will be required for service.

- Service limitations will be developed to ensure opportunities to serve on the NNC remain available to those not currently serving.

- NNC will recommend a slate to the BOD for approval that includes VP and incoming Directors.
- Petition of alternate nominees for VP position would need to come from 40% of sitting Directors.
- No petition process for alternate incoming Director nominations.
- The Chair may vote to make or break a tie in the case of a nomination of a Director.
- In the case of a tie for nomination of the VP, both candidates shall be forwarded to the AI BOD for their consideration.
- As is the case presently, NNC members will not be eligible for nomination.

Governance Structure Transition

- A transition plan will be developed following BOD deliberation and approval of any recommendations to refine and implement the approved plan.

- This will include determining timelines, process and procedures for approved structural and functional changes.

Conclusion

- AI and its professionals recognize the need for structural change. AI is not alone in recognizing this need.

- In addition to AI's members indicating – through the AI Organizational Structure Research – a need for a structure update, other professional associations are diagnosing the same need.

Changing Structure

- In the *Race for Relevance* (2011) – a key text in the association space advocating best practices for associations – the authors propose the one "radical" change associations should adopt is to overhaul the governance model and committee operations to result in streamlined and nimbler governance.

- According to a 2016 American Society of Association Executives (ASAE) Foundation research project surveying 1,016 associations – entitled "Achieving Mutually Beneficial Relationships" – over the past five years:
  - ➤ 43% of associations indicate reviewing their structure, and
  - ➤ 41% added or deleted components or made a change to the mission of a component.

Study Results

- A 2016 study of 162 associations with chapter networks – by Mariner Management & Marketing, in partnership with Whorton Marketing & Research – found:

  - "Our study predicts that 2017 will be a breakout year for innovation in the current chapter model. For example, associations like the Regulatory Affairs Society, the American Association of Diabetes Educators, and the Council of Residential Specialists have adopted models that pare down the structure and scope of chapter networks, streamlining administrative responsibilities and enabling activities that meet the needs of members and their mission."

  - "Technology is key to enabling a change to chapter structure because associations can more readily provide integrated databases and registration systems, system-wide communications, and robust financial and banking solutions. These capabilities streamline administrative responsibilities and allow greater collaboration across the association to reduce duplicative member services. **When the central organization offers these solutions to chapters, it's a win-win**." (emphasis added)
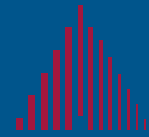
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Topics and Questions to Address

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More Topics and Questions

- What will governance look like?

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