

## Here's Help Finding and Selecting an Association Management Company

The AMC Section has published the 32-page Finding and Selecting an Association Management Company. It offers guidance on soliciting potential AMCs, evaluating management proposals, conducting interviews with AMCs, selecting the best AMC, developing the contractual arrangement, and transitioning activities to an AMC.

### INTRODUCTION

Traditionally, associations have hired their own executive directors and staff, secured their own facilities, and managed their own assets. The trend today, however, is for trade and professional associations to engage an association management company (AMC). This trend reflects the growing need to cut costs, promote efficiency, share resources, and access expertise. A 1995 study commissioned by the Association Management Company Education Foundation and the International Association of Association Management Companies took a close look at how elected leaders select and evaluate management. When researchers assessed AMCs versus other management forms, they found that AMCs, in most instances, provided the greatest value to their client associations. In fact, AMCs were rated as equal to or superior to other management forms on more than 89 percent of the survey criteria. (Surveys were sent to the elected leaders of 1,962 associations; 440 leaders completed and returned the surveys. The study, *Re-Assessing Effective Association Management: 1995 Survey of Elected Leaders*, was conducted by Sumaria I. Mohan-Neill, Ph.D., and Alan G. Krabbenhoft, Ph.D., both of the Walter E. Heller College of Business Administration, Roosevelt University, Chicago.) Although selecting a management company that is right for your association may seem overwhelming, it does not need to be an onerous task. This document was developed to assist you in that process, particularly in regard to soliciting potential AMCs, evaluating management proposals, conducting interviews with firms, selecting the firm that's best for your organization, developing the contractual arrangement, and transitioning the activities of your association to its new management.

### PART I: FINDING AN ASSOCIATION MANAGEMENT COMPANY

The first step in the selection process is to compile an AMC contact list. Two organizations that represent AMCs are:

1. The American Society of Association Executives (ASAE)--1575 I St., N.W., Washington, DC 20005; 202-626-2822; [www.asaenet.org](http://www.asaenet.org).
2. The International Association of Association Management Companies (IAAMC)--414 Plaza Drive, Suite 209, Westmont, IL 60559; 630-655-1669; [www.iaamc.org](http://www.iaamc.org).

ASAE represents the professional staff of associations in the United States. It has more than 25,000 individual members. One of ASAE's professional-interest sections is specifically for association management firms. The ASAE Association Management Section has more than 1,000 members,

representing more than 650 major U.S. firms. In addition, ASAE publishes an annual AMC Directory that includes detailed information about the services the companies provide, the types of client associations they represent, their size, and other information that may help you select the appropriate firm to manage your organization. The Directory is also available on ASAE's Web site and is searchable by state. IAAMC is the trade association for AMCs; it represents about 100 companies in the United States and abroad. You can arrange for IAAMC to send information about your association to all of its members on your behalf. Members who are interested in submitting a proposal will contact IAAMC for more information about the services your association requires.

## PART II: PREPARING YOUR REQUEST FOR PROPOSAL

The first step in preparing your request for proposal (RFP) is to appoint a selection committee. The committee is responsible for developing the RFP, evaluating proposals, participating in interviews, and recommending final candidates to the board of directors. The selection committee may be chaired by a past president or a member who is familiar with the activities of the association and its budget. The committee should be diverse and should include members who have a strong background in the history and past needs of the organization--even experience with prior management firms--and newer members to the leadership of the association who have a lot invested in its future. The committee should represent the variety of segments or special interests within your profession or industry. Where do you begin to develop your RFP? What do you want to know about the companies you are evaluating? What will the companies want to know about your association and the services they will be asked to provide? You'll find help with these and other questions in ASAE's "Request for Association Information" form. This comprehensive checklist includes specific information management companies will want to have about the activities, services, and programs your association offers to members (Appendix A). Another helpful resource is IAAMC's "Request for Proposal Guidelines," which outlines the information companies need to prepare a proposal to manage your association (Appendix B). An AMC needs to have a panoply of information about an association before it can (1) determine whether the nonprofit will complement the profile of the range of clients served; (2) project costs of services; (3) formally respond to an RFP; and (4) negotiate contracts. The association should provide the following:

- Organizing documents--Articles of incorporation, bylaws, constitution, Internal Revenue Service (IRS) letter of determination
- Governance--Three years of board and governing body minutes and resolutions, board and committee rosters, policy manuals, and number and location of meetings
- Finance--Past three years' audited financial statements, past three years' IRS 990 forms, current budget, policies and procedures, inventory of physical and cash assets
- Membership--Categories, dues, three-year trend history, marketing programs, potential development, affinity programs
- Meetings and conventions--Number, location, room nights used, number of exhibitors, number of booths, square feet used in exhibit halls, revenue and expense profiles, contracts with hotels and other entities, meeting and educational needs, number of faculty, expense reimbursement policies
- Publications--Number of newsletters and journals published each year, circulation, advertising
- Legislation and lobbying--Legislative agenda, costs, disclosures, political action committee documents
- Other programs--Scholarships, peer review, ethics, standardization, accreditation, certification
- Staff profile--Number and type of staff, contracts with any existing entities or consultants

After supplying information to the prospective AMC, what do association representatives need to know about the AMC? Here are some suggestions:

- AMC resume--Company philosophy or mission, curriculum vitae for each principal, biographical summaries for support staff, description of services provided, short history of business
- Mission foci--For example, health, arts, environment, education, professions, trades, philanthropic
- Geographic scope--For example, international, national, state, regional, local
- Client budget size and assets managed--For example, under \$1 million, \$1 million-\$5 million, over \$5 million
- Service specialties--For example, full-service, meeting planning, publications and public relations, legislative representation, accreditation/certification, continuing education, research, marketing, affinity programs, data management, financial management, board leadership and development, a combination of the preceding
- Technological resources--For example, computer systems and software; data membership management programs; finance and accounting software; e-mail domain and ability to administer Web sites; fax services, including broadcast fax capability; phone numbers and voice-mail systems; mail room capacity
- Facilities--For example, adequate file and storage space, conference room, attractiveness of surroundings, location of organization, display area for mementos
- Employee orientation--For example, phone manners, attentiveness to individual clients, familiarity with uniqueness of each client association, service orientation
- Commitment to continuing education--For example, membership and participation in ASAE and similar organizations

You should allow a minimum of six weeks for companies to prepare a response to your RFP. You should also include in your RFP the dates for interviews and site visits, the schedule/time frame for the decision-making process, when selections will be made for interviews and/or site visits, and information on how the decision will be made (by the board? selection committee? at a meeting?).

### **PART III: EVALUATING MANAGEMENT PROPOSALS**

AMCs encompass many forms of organization, numerous management styles, and various pricing theories. Differences may occur because some companies serve the general marketplace, while others specialize in certain geographic areas, industries, or services. This diversity can make it difficult to compare proposals from several companies. There is no one right way to structure an AMC, and there is no one proper way to price or to provide management services. There are many strong, qualified, and professional companies with different approaches. Among qualified companies, there may be one company or a particular proposal that best meets the needs of your organization. The first and most important step in analyzing management company proposals, therefore, is to take a critical look at your organization. Compared to other organizations, is yours large or small? Rapidly growing or in need of a turnaround? What are its priorities in terms of programs--trade shows or e-trade, government affairs or publications, membership development or financial services, or some combination? It is tempting to say that everything is equally important; however, the purpose of this analysis is to clearly define the most pressing current and future needs to make the best choice among good proposals. Once you have taken a critical look at your organization, it's time to turn the same critical eye to the AMCs and to the proposals they have presented. There is no right or wrong answer, but there may be a best answer for your organization. It is unlikely that one company will be the strongest in all categories; look for a

company that best matches the needs of your organization overall. Creating a matrix and/or a rating form can help you focus and clarify the analysis. Establishing such a process will also help to separate issues of form and those of content. A beautifully presented proposal is impressive, but what it says is equally, if not more, important. The following are some general areas your selection committee should address when evaluating proposals and interviews with AMCs.

**Company Stability.** A contract between an association and its management company represents a substantial commitment of time, energy, and money on both sides. Does the management company appear stable? Will it be able to meet its commitments? Does it have the staff and the financial resources to weather a setback, such as an economic downturn or the loss of a major client? The company's age may be one indicator of stability, but certainly is not the only one. Some newly formed companies are well planned and highly stable; therefore, a new company should not be eliminated from consideration, but should be carefully investigated to ensure that it is well positioned to weather the challenges common in the first years of any new business.

**Flexibility.** Is the company able to serve not just current needs, but future needs as well? Transitions are costly. Therefore, the company chosen should demonstrate the ability to grow with your organization, to take on additional responsibilities, and to handle more members, another meeting, or a completely new project. Choosing a management company should be viewed as a long-term commitment. Although some turnover among clients and/or management companies is inevitable, it involves both direct costs, such as reprinting and notifying members of new contact information, and indirect costs, such as those resulting from loss of institutional continuity, memory, and identity.

**Location.** Is the company's location suitable to your organization's needs? If you plan frequent meetings at your headquarters, then a central and/or accessible location is important whether the scope of your organization is state, national, or international. If you don't intend to hold frequent meetings, a location in a small city or a more rural area may mean some cost savings on fees, as well as on printing, supplies, and other expenses. If your organization focuses on government affairs, does it need to be near Washington, D.C., or near the state capital? Costs will be higher in such prime locations. Is a particular address or location important to your organization because of industry demographics or image?

**Other Clients.** Do any of the management company's current clients present a potential for conflict of interest with your organization? Is the number of other clients suitable to the size and resources of the company? Can it continue to handle its other clients' needs and those of your organization or does it intend to add staff and resources? If so, how will new staff be allocated among current clients and your organization? How will your organization compare in size, in fee, in calendar, and in needs to the other clients? Will your organization be important to the management company or will it be a minor client among much larger organizations? Look for a good fit or a strong commitment coupled with a plan of action from the management company. While large management companies may have more extensive resources than smaller ones, how will they allocate those resources to a smaller client? On the other hand, while a large association will be very important to a small management company, how will the company be able to accommodate the needs of a large client?

**Resources & Office Facilities.** If your organization will meet at the AMC's headquarters, does the management company have meeting facilities? If your organization stores publications or logo merchandise, does the company have adequate storage space? If not, what provision does it make to serve these needs? Among AMCs, there are many home-based businesses, which may help your organization save money on overhead fees. The question is whether such an arrangement will work for your organization.

**Equipment.** Does the company maintain adequate equipment to provide the needed services? Does it demonstrate a commitment to an ongoing upgrade program to stay current with rapidly changing technology? Consider such specifics as e-mail, voice mail, fax-on-demand, broadcast fax, list servers, computer graphics, and layout. Does the management company provide these services in-house or does it use a vendor? How does this choice affect pricing? costly technology will play an ever-increasing role in the effectiveness of information sharing within associations. How will the AMC help you use technology to achieve your organization's mission?

**Specialty Divisions.** Depending on size, AMCs may have in-house departments that provide graphic design, printing, travel arrangements, legal counsel, insurance, accounting, government relations, or other services. Such services may be provided by staff specialists or through outsourcing. Which services are critical to your organization's mission, and how will they be provided? How will they be priced?

**Staff Number.** Is the size of the staff adequate, not only to perform day-to-day services, but to handle the crunch times--dues billing, annual conference, legislative alerts? Is there sufficient depth so that if a key staff member is ill or otherwise unavailable, the business of your organization goes on? If the staff is large, how many of them will be assigned to work on your organization's products and services, and how will they communicate to ensure that the work goes smoothly? How will a large staff ensure that your organization's members receive personal attention?

**Experience.** What is the experience, not only of the firm as a whole, but of the individuals to be assigned to your account? Consider their education, their years of experience, and their particular areas of expertise. Is their experience well matched to the needs of your organization?

**Assignment.** How will staff be assigned to your organization? Will your organization have any right of approval? How much internal turnover can be expected? While most management companies reserve the right to assign and/or reassign staff personnel according to the needs of the company, this right must be balanced with the client's need for continuity.

**Proposal/Cost.** Association management service prices start from a full-service fee, which includes all aspects of overhead, salaries, benefits, equipment, and supplies, to a retainer-plus arrangement, where the client pays for all services, use of facilities and equipment, and supplies as required. To some degree, all pricing plans must include an overhead component (occupancy, equipment, and supplies), a staffing component (salaries, benefits, recruiting, and training), and a reasonable profit. Like all service businesses, AMCs sell time. Individual worker fees may be separated or packaged in an hourly rate or flat fee. The cost of time may or may not be clear. One thing is certain--it will be difficult to compare fee proposals. Be certain that you understand the proposal and that you know exactly what is included and what is not. Consider, also, that as associations grow, the demands on the management company are likely to grow. The better the company performs, the more likely it is that your organization and its individual volunteers will ask it to do more. Your organization needs to budget for all the costs, which may not be included in the proposed fee. Find out what is and is not included. Determine what procedures, controls, and/or limitations exist to help the organization and the management company plan for the cost of services.

**Terms.** The proposal may or may not include all the terms of a possible contract. However, these terms may be important in comparing companies. Will the management firm advance out-of-pocket expenses on behalf of the association or will the client provide escrow funds? Will the contract be for a single year

or for multiple years? If multiple years, what provisions are made for increased fees and services after the first year of the contract? What protections exist in the contract for each side? Who owns what, and what provisions are made for termination?

**Services.** Look carefully at the description of individual services. For example, if your organization has asked the management company to administer board meetings, what exactly is included and at what cost? Will the executive director draft the agenda for approval by the chief elected officer or will the chief elected officer be expected to provide the agenda to the management company? Will the executive and/or other staff members attend the meeting? Will they take the minutes, transcribe, and circulate them, or will the secretary perform this function? The exact description of the services to be provided can vary and can affect cost significantly. As you consider the services to be provided, ask to see examples of the management company's work. A simple draft budget or financial statement is quite different, in expertise and in time required, than a detailed annotated analysis. What level of service is the company proposing? What has it done before? What is the quality of its work at that level? Quality of Presentation/Reflection of Individuality. Assume that each proposal is representative of that company's best work. Is it well written and free of grammatical and typographical errors? Is it professionally presented? Some management companies have glossy brochures or videos about their companies. Others prepare highly customized proposals, altered in form and content to each prospective client. Some use a combination of the two. It is reasonable to expect that a marketing piece used for many prospective clients will be more glitzy and creative than a highly individualized piece. Larger companies generally have larger marketing budgets than smaller ones. Choices made in form and content, the implementation of those choices, and the quality of the resulting proposals may give some meaningful clues as to the strengths and weaknesses, as well as the management styles, of companies.

**References:** One of the most difficult parts of analyzing proposals may be verifying references. Current clients and business associations can provide valuable information about management companies. Be sure to prepare a list of open-ended questions:

- What is XYZ Management Company's greatest contribution to your organization?
- Can you name a time when you were disappointed in the performance of XYZ? What did the company do to fix the problem?
- Do you feel you get good value for your management dollars? Why?
- How does the XYZ executive director relate to and communicate with your board?
- How does XYZ handle the day-to-day requests of members?

Consider that prospective management companies will provide the names of individuals they expect will give them the best possible references. Although it is necessary to put time and effort into evaluating AMC proposals, it need not be an onerous task. Break each proposal into manageable sections, and evaluate those in relation to each other, and in relation to your organization's needs. Separate the presentation from the substance, and look carefully at what each company is offering. Try to think also in terms of your planned (or hoped-for) growth, and in terms of future programs you might wish to implement. Remember that you are looking for a long-term partner. As in forming any relationship, you want to take your time before settling down and making a commitment.

## PART IV: HOW TO CONDUCT AN INTERVIEW WITH A PROSPECTIVE ASSOCIATION MANAGEMENT COMPANY

Choosing an AMC to manage all or part of your association affairs is analogous to romantic courtship. Both partners want to get to know each other in an atmosphere of candor, respect, and comfort that will set the tone for a dignified, "no thank you, I don't think this is the right fit," or "let's go forward in an atmosphere that fosters trust and productivity." The interview process sets the stage for the relationship and must be conducted with care. Associations are given special status in our society because they act in the public interest. This is evidenced by their tax-exempt status, a status that holds them to additional public scrutiny and disclosure. The fiduciary responsibilities of boards of directors or trustees must be met with proper diligence; choosing the most appropriate management team is crucial to fulfilling these responsibilities. Association officers should expect to meet the following personnel during the interview process: owner, account executive (or designated "executive director/CEO"), and principal project staff who will be part of account executive's team (i.e., meeting planner, editor, and anyone interfacing directly with the association's members). Chemistry is important. Association officers need to choose an AMC with whom they are comfortable. The size should feel right. They don't want their members to feel lost or neglected, nor do they want to feel overwhelmed in a sea of many clients. Style is an important element in selecting the right AMC. Are your members formal, structure oriented, and driven by detail, or are they casual, comfortable with delegating, and focused on results? Is participation in the process part of the benefit, or is project management a greater priority? The intangibles and cultures should mesh to maximize productivity. What style is most compatible with the needs and wants of your members and stakeholders? The AMC exists to help accomplish the various missions of its clients. Be sure you feel your association's needs are understood, and that its uniqueness is valued and appreciated. How enthusiastic is the AMC about your mission?

### **The Presentation/Interview**

You should not schedule more than three AMC presentations a day. In a long stretch of presentations, companies may begin to sound and look alike, and committee members may find it difficult to concentrate. Allow a minimum of two hours for each presentation. The presentation should include both the formal presentation and a question-and-answer session. Make sure that the account executive who will serve your group is a part of the presentation team. It is also helpful to meet other staff, if possible, either during the visitation or at formal presentation. Have audiovisual equipment ready for each presenter, if the equipment has been requested. When setting the presentation appointments, ask if the presenter will require a slide projector, overhead projector, flip chart, video cassette recorder, or any other audiovisual equipment. Then arrange for the appropriate equipment to be available for the presentation. It may be helpful to have an audio-visual engineer available on site. Make sure the presenter has ample space for the presentation. Before the presentation, prepare a series of questions to ask each AMC presenting. Assign each member of the selection committee a particular area of the proposal to question. Assess the different responses that each company gives to the same questions. At the close of each presentation, explain your decision process to each presenting company. Identify the final determination date. If you expect to conduct further negotiations, state when you expect those negotiations to take place.

## Sample Questions to Ask an AMC

How does your AMC's mission and philosophy compare with that of our association?

- What characterizes the geographic scope, budget size, and membership traits of the clients you serve?
- Are any of your existing clients potential competitors of our association?
- Will the legislative agenda of any of your clients conflict with ours?
- What is the range of services and capabilities provided by your employees? Do you outsource any management functions, such as data management, meeting planning, financial record keeping, publishing, or mailing services, and how are the agreements with subvendors handled?
- What resources and equipment do you have to support your client needs? Do you have capacity to serve our organization? Will we own any equipment, or are all such assets the property of the AMC?
- Who decides which software programs (such as accounting and membership database) to use?
- What procedure do you have for computer system back-up, and how will we access our data? Do you have a disaster plan prepared?
- What reports can we expect? In what format will they be presented? How frequently?
- Do you provide full-service management, stand-alone functions, or both?
- May our volunteers provide some services, and contract with you for others? Do you partner any functions with volunteers?
- Who would be assigned to our account? What is their background and experience? Who do they report to?
- Would we have our own dedicated executive, or would we be assigned to a team that performs a range of functions for multiple clients?
- Will we have access to the owner or principal, and if so, on what basis?
- What are the strengths of your AMC, and what kinds of clients do you serve most successfully?
- Have there been any recent changes in ownership or leadership? Are there any plans for merger, consolidation, or buyout, and if so, what succession plan is in place for a smooth transition?
- Is there a conference room or other space at your office for board or committee meetings for your clients? Where do your clients customarily meet?
- Do you have capacity for a resource library to keep current with our unique issues, membership concerns, professional standards, and trade journals? How will our documents be archived?
- Do you have a firm resume? What measures do you take to train your employees? What does staff do to keep current professionally? What professional organizations do they belong to and take leadership positions in?
- Do you have the ability to design and maintain a Web site for our group? Will we have our own domain?
- How do you set your fees? Retainer? Time/hourly based? By project?
- How will our financial assets be managed?
- What about contract terms, evaluation, renewal, and cancellation?
- Who do you expect to act as the official spokesperson for our organization? How will public relations issues be handled?
- How will our organizational image be projected under your firm's umbrella? Will we have a sign on the door, a dedicated phone line, membership access to our account representatives? Could historical or symbolic items be displayed?
- What is the cost benefit to us for using your firm instead of managing our own organization?

## PART V: HOW TO SELECT A MANAGEMENT COMPANY

After the interview process is complete, the selection committee should recommend a firm to the board for approval. The committee's final candidates may be asked to make a presentation before the board so that the board can make the final decision. Base your decision of a management firm on a variety of impressions, not just the written proposal.

1. One or more members of the search committee should visit the candidates' offices. Meet with a representative cross-section of their employees and determine if their knowledge and interpersonal skills are compatible with your own organization.
2. Company Profile Client Mix:
  - a. What kinds of clients does the AMC currently serve?
  - b. What are the images projected by the management company's other clients?
  - c. Knowledge of your industry is less important than the philosophy of the firm and its representation of trust and honesty. Experienced, professional association managers are quick studies and can learn about your industry quickly.
3. Client Loyalty:
  - a. What is the average length of time that the management company has served its clients?
  - b. How many clients has the firm gained and lost in the past three years?
  - c. Why did clients leave?
4. Fees:
  - a. How does the firm set its fees?
  - b. How are reimbursed expenses handled?
  - c. What services does the firm handle in-house that may be marked up?
  - d. Are their fees less costly than going elsewhere for the same services?
5. Buying Power:
  - a. Does the firm negotiate with hotels and vendors for the member's benefit?
  - b. Do they use their buying power wisely?
6. Staff:
  - a. Would the individuals or departments offered by the AMC be assigned to your organization?
  - b. Quality and longevity of staff, along with stability of ownership, are important issues to consider.
7. Diversity:
  - a. Can the firm demonstrate capability and experience in the areas of publications, public relations, lobbying, legal and account support, and problem-solving abilities?
8. Leadership Capabilities:
  - a. How has the company demonstrated its leadership capabilities?
  - b. Has it helped establish new programs?
  - c. What are the growth patterns of the associations serviced by the management company in terms of membership, financial growth, and the position of the client associations within their respective industries or professions?
  - d. What is the business philosophy of the firm?
9. Be sure that your final decision is communicated to each company promptly on the day that you have indicated a decision will be made. Because each company has invested time, energy, and resources to present its qualifications and capabilities to you, you should notify them of your

decision as soon as it is made. Give specific feedback to those who made presentations. Tell those who were not selected, why they weren't selected.

10. Selection must be based on professionalism, experience, and integrity. Top management is critical to the entire process. Does management instill, to the selection committee, confidence, trust, and a commitment for the long term?
11. Copies of proposals from firms not selected should be returned to the AMCs. The proposal from the winner should be kept in your files for reference.

## PART VI: CONTRACTS WITH ASSOCIATION MANAGEMENT FIRMS

Are contracts always necessary between an AMC and its clients? That depends on the relationship between the two. In most cases, a contract or letter of agreement is necessary to clarify expectations, protect the association, and outline the responsibilities of the parties.

A contract may seem superfluous in cases of a long-standing smooth relationship between an association and its management firm. But in general, a written contract serves to define the mutual obligations and expectations of a management firm and its association client. It provides an orderly structure for the relationship between the two organizations. A management firm may use a standard contract for its clients, or contracts may be drawn to suit the differing needs of associations. A standard client service agreement might include these basic elements: the service relationship, compensation, and termination. Contract documents may range from simple letters of agreement to multi-page contracts that describe every detail of the relationship between the organizations. Letters of agreement, which generally contain the standard elements--offer, acceptance, and consideration--of a contract and have the legal force of a contract, may cover broad areas of agreement in general terms. A detailed contract may cover such specifics as number of board meetings, number of newsletters to be published, regional seminars to be held, and the number of exhibit booths to be sold at the convention. Most contracts between AMCs and association clients cover these basic issues:

- Establishing the independent status of the AMC
- Preserving the client's rights
- Determining the management fee or method of compensation
- Listing services to be provided
- Defining the duration of the agreement
- Setting out the method for terminating the agreement
- Stating the client's obligations to the management firm

To address both AMC and association concerns and to address required legal issues, consider including the following statements in your agreement:

- The AMC has the authority to handle funds on behalf of the client. Specify who has signatory authority.
- Bank accounts shall be solely in the name of the client, not joint with the AMC.
- The client is responsible for expenses incurred by the AMC on the client's behalf.
- An annual independent CPA audit (or review) will be conducted at the association's expense.
- The AMC has authority to negotiate and enter into agreements on behalf of the client (such as hotel agreements, purchasing insurance).

- The AMC will receive fees or compensation for its services. Specify how the fees will be paid by the client (e.g., direct transfer of funds), when this will happen (e.g., first of each month), and what the fees cover and do not cover (e.g., a simple statement that telephone expense is not a fee and is a reimbursable expense).
- The AMC and client will indemnify each other.

Most AMCs carefully maintain their independence by ensuring that clients do not interfere with staff salary levels, work assignments, and areas of responsibility. This seldom causes tension or disagreement in management contracts. The association client generally finds it advantageous to establish that the management firm assumes all responsibilities for its employees and that the fee paid by the client frees the association from any obligations for fringe benefits, retirement programs, pension programs, insurance, and so forth. The contract may reserve to the management company the right to select the personnel it will assign to the client, including the executive in charge of the account. Some contracts give the client the right to determine whether the employees assigned to it by the AMC are suitable to its needs.

### **Keeping Records Private**

The association client should be considered an independent entity within the firm that manages it. The association must be able to count on the inviolability of its records, which means that the client has the sole right to its own information, records, and materials. This right is usually covered in management contracts. Typically, the contract will state that the management company cannot use the association's information without prior consent. All materials of the association client remain the property of the association. When the contract is terminated, all materials should be returned to the association client in usable form.

### **Defining Compensation**

Most association management contracts devote considerable attention to defining the management fee, retainer fee, or other fees. Twenty years ago, most AMCs charged their clients a fixed-fee retainer to cover annual personnel and operating expenses. In recent years, the trend has moved away from fixed fees, mainly because of the difficulty of anticipating costs a year ahead. Instead, most management companies now charge their clients a management fee covering certain basic services, and billing other services as used. All management companies charge their clients for management, rent, overhead, staff time and related expenses, and profit. If the contract specifies a fixed management fee, the fee may be about half of the total payment to the management firm. The management fee typically covers senior staff time, rent, office use, and equipment. All other charges are on an as-used basis. These may include special projects, such as public relations, government relations, statistical reporting, convention and exhibit management, and so forth. Arrangements for special services sometimes are covered by separate letters of agreement, independent of the management contract.

Most contracts stipulate that ancillary services, such as word processing, computer use, reproduction, and printing, will be provided at rates competitive with those of outside contractors. The management contract may specify the number of hours or percentage of time to be devoted to the client by key staff members. Although this has not yet become a standard element of management agreements, it does represent an attempt by both parties to reach a clear understanding.

Associations that use fixed-fee contracts for other services often will ask that their management contract include a fixed-fee retainer and agreements concerning charges for special projects outside the annual operating plan. These agreements may include incentive programs based on performance.

Association management firms take different views on the acceptability of incentive programs. Some firms share the legal profession's view that contingency payments are inappropriate for professional services. Others argue that incentive payments are a part of the compensation patterns of some associations and industries and that management company contracts should allow for those customs.

### **Detailing Services**

Most management contracts attempt to define the services that the management firm will supply to its association client. These provisions are often loosely stated and refer to standard policies of the management firm. The contract may simply say, for example, that "services are as mutually agreed upon from time to time with the client."

Although some contracts go into great detail on this subject, some firms prefer to keep the contract language loose. That way, both the management firm and the client depend on the mutual agreement that they have reached. Defining services too narrowly may inadvertently lead to an adversarial relationship between the two parties. It is often helpful to list in the contract specific exclusions-- services or personnel that are not included in the management fee but that the association management firm will provide for an additional fee. In fact, this section of the contract can be the key to establishing a working relationship between the company and the association because it lists the management firm's capabilities.

### **Short or Long Term?**

Management contracts are often drawn up for one year, either with automatic renewal or with intent to renew. Short-term contracts require both parties to review the contract to ensure it continues to reflect current needs and expectations. Doing this annually tends to focus both sets of needs more effectively. In other cases, an association and its management firm may have a long-term contract that is infrequently referred to. Long-term contracts also give the management firm a feeling of security from political vagaries within the association. For the association, a long-term contract helps ensure that the management firm will invest its time and energy for the long haul. In today's rapidly changing business environment, however, associations' changing needs may require them to reexamine their management contracts more frequently than they have in the past. Virtually every association management contract contains a clause designed to protect the management firm from losing employees to its client. Frequently, management firms seek added protection through employment contracts for their key employees. Management firms that have experienced so-called employee piracy know that the cost of losing a key employee can be considerable. In other cases, the contract may simply provide for financial compensation to the firm if the association client hires an executive from the firm. Reverse protection is guaranteed in some contracts, specifying that the management firm will not hire any executive or administrative personnel from the client's member companies, unless the prospective employee has already been terminated by the member company.

### **How to End It**

The period of notice required to terminate a contract may run from 30 days in a few cases to, more frequently, 90 or 120 days. The termination clause for a large association may specify a period of six months or more. Longer notice offers protection for both the association and the management firm because, if cancellation takes place, both organizations need time to handle the transition professionally.

## **Responsibility of Leadership**

It's essential that newly elected directors of the association review and understand the organization's contract. To achieve this, some AMCs conduct orientation programs for new directors so they will understand how the firm operates, its personnel assignments, and the nature of the contract or operating policies that define its relationship with the association. At the very least, the current agreement should be included in the board manual. Failure to provide some form of review can lead to misunderstanding. Even if the contract has remained unchanged and unchallenged for a long time, it is wise to recognize that the leadership of associations and societies changes. Each new slate of elected leaders needs a clear understanding of the relationship between the management firm and the association. Finally, you will need to shepherd the transition of the association's records and important information to your new firm.

### *Reference:*

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