AMC-Managed Organizations Generate Operating Surpluses More Consistently Over 10-Year Study Period Than Organizations Not Managed by AMCs

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EXECUTIVE SUMMARY

A 10-year longitudinal study compared the occurrence and effects of operating surpluses in two common association management models: AMC-managed associations, and associations that employ their own staff and resources (non-AMC-managed associations).

Findings show that associations managed by AMCs consistently out-performed organizations not managed by AMCs in one important performance area: the generation of financial reserves.

Here are the conclusions we arrived at as a result of our analysis:

- The AMC-management model outperformed the non-AMC-management model over the 10-year study period.
- The AMC-management model experienced less frequent operating deficits and was more effective at containing deficits when they occurred, whereas the non-AMC-managed model experienced more frequent operating deficits than did AMC-managed organizations.
- The AMC-management model generated higher rates of growth for associations as measured by the increase in number of months an AMC could operate at full capacity after revenue sources stop contributing new revenue (e.g., glide months).

The net benefit to organizations with greater and more frequent operating surpluses is two-fold. First, the presence of operating surpluses is a strong sign that the organization is managed within its means. Second, organizations that have accumulated reserves have options for how to apply them. Some may choose to operate for a year or two at a loss as part of a rebuilding or restructuring effort, while others may want to retain surpluses in anticipation of a market realignment like the Great Recession of 2008 – 2010.

In addition to the year-by-year analysis of operating surpluses, this study examined the cumulative benefit of operating surpluses. To do so, we created a hypothetical construct we're calling: "glide months." A glide month is a month of full operations funded entirely by reserves. The concept of a glide month allows us to normalize the data across organizations of different budget sizes.

The hypothetical question in this "glide month" construct is, "How many months can an organization run at full operations if their revenue suddenly shuts down?"

Our research shows that, over the 10-year period of this study, the number of glide months grew at a faster rate for AMC-managed organizations than it did for organizations that employ their own staff and resources.

METHODOLOGY AND BACKGROUND

This 10-year study drew data from the federal tax returns (form 990) of two groups of membership-based associations for tax years 2006 – 2015. Members of each group had fiscal years ending December 31 and annual operating budgets up to $5M. The organizations in each group remained part of the study throughout the 10-year period, though some from each group were dropped from the study because they changed their management model, modified their fiscal year, or closed down.

The AMC-managed group of organizations numbered 112 in 2006, and declined to 99 by 2015, experiencing a 12% drop in that sample group. The non-AMC-managed group of organizations numbered 101 in 2006, and 91 by 2015, experiencing a 10% drop in that sample group. No analysis was conducted on the organizations omitted from the two groups over the study period other than to identify the reasons an organization didn't meet the criteria to remain in the study. (See Appendix A for the complete list of organizations in the study.)

INTRODUCTION

The perennial challenge faced by association managers, especially during periods of volatile economic and political conditions, is the consistency of revenue sources. Every association executive and its governing board desire revenue streams that are not only immune to economic and political influences, but that also have the potential to grow for the organization over time. Revenue is only half of the resource equation; the other important component is expenses. Both sides of this equation are examined in this study.

This report documents the results of a 10-year, longitudinal study, the first installment of which was reported in 2010. The 2010 study compared 113 AMC-managed associations to 100 non-AMC-managed associations. Non-AMC-managed organizations employ their staffs, and shoulder the full costs of occupancy and capital expenses.

The timing of the 2010 study is especially useful because it begins with data from fiscal year 2006 – two full years before the Great Recession. This study was inspired by Mark Graham's article in CEO Update on October 30, 2008 entitled: "Analysis confirms 2008 group deficits."

Graham's findings:

- *"Preliminary analysis shows that of organizations ending the fiscal year on the last day of 2008, 46.5 percent of associations operated at a deficit, double the rate of the past two years."*

This author called Graham when the article appeared and was informed that there were no AMC-managed organizations in their sample; we both wondered how AMC-managed associations might compare to his initial findings. This author decided to find out, resulting in this study.

Why Operating Surpluses Matter

For a single organization in a single year, an operating surplus or loss may be irrelevant. However, examining operating surpluses or losses for groups of organizations over a long period of time, and comparing the results based on each groups management model, gives us some very useful information.

Given that operating surpluses or losses are a reflection of "management systems", comparing AMC-managed and non-AMC-managed organizations gives us insight into how the two models actually perform under the same general market conditions. A very important aspect of this study is that actual data are used, as compared to opinion surveys of association managers.

Allocation of Scarce Resources Against Competing Demands

Intelligent and experienced management professionals can have healthy debates about the definition of management. For purposes of this study the definition is simple:

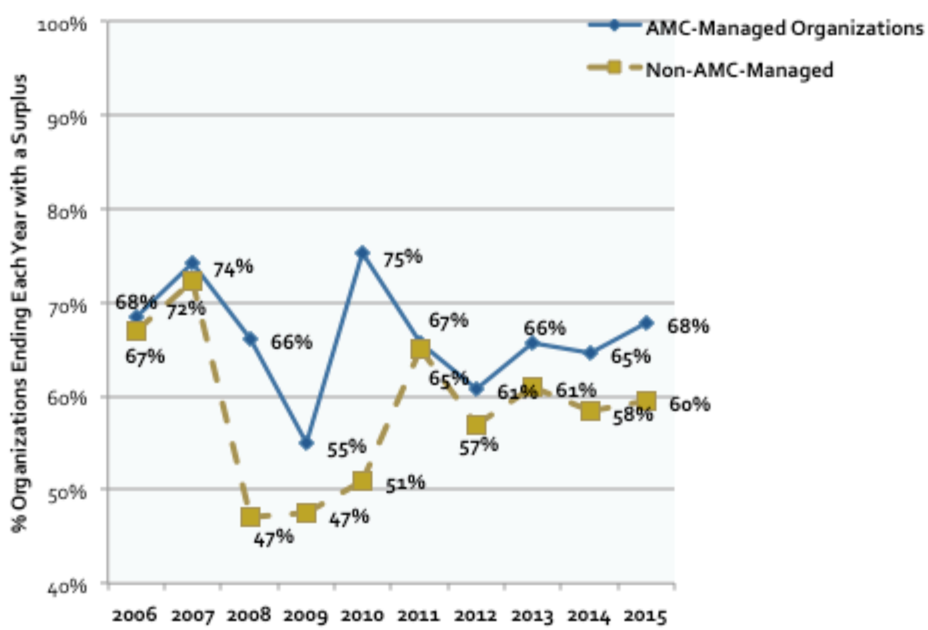
Management is the allocation and assignment of scarce resources against competing demands to produce desired outcomes and results.

Measuring operating surpluses is a simple way to evaluate this definition of a management system. Until standardized metrics and constructs are created to measure and compare "strategic plans and outcomes" across different organizations and industry and professional segments, we're left with the standardized accounting constructs like performance ratios and operating surpluses/losses for evaluation.

Question:	Is one association management model more effective in producing operating surpluses?
Answer:	Yes. The AMC-management model outperformed the non-AMC-management model over the 10-year study period.

Over of the 10-year period the two management models delivered comparable performance in three years (i.e., 2006, 2007 and 2011 – see Chart #1 below). Over the remaining seven years, the AMC-model outperformed the non-AMC-managed model, in some years by rather dramatic measures, especially during the Great Recession years of 2008 – 2010.

Chart #1: Percent of Organizations Operating in Surplus by Management Model (2006 - 2015)

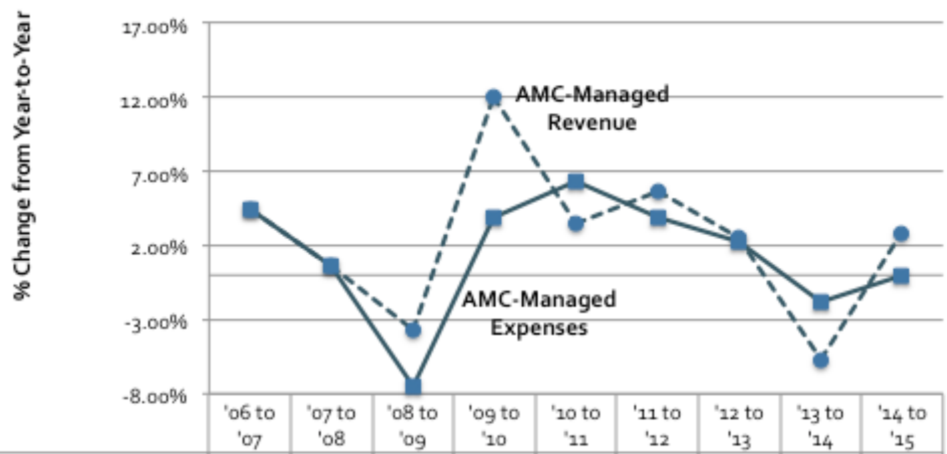


Operating Surpluses – Two Components

There are only two components to operating surpluses or losses: The revenue side and the expense side. The interchange of these two streams determines whether an organization experiences operating surpluses or losses.

As the two following charts illustrate, AMC-managed organizations performed better in matching expenses to revenues during the 10-year period. Chart# 2a reveals that the sample of AMC-managed organizations, on average, experienced only two years where year-to-year changes in expenses (solid line) were greater than year-to-year changes in revenue (dotted line) (2010 to 2011 and 2013 to 2014).

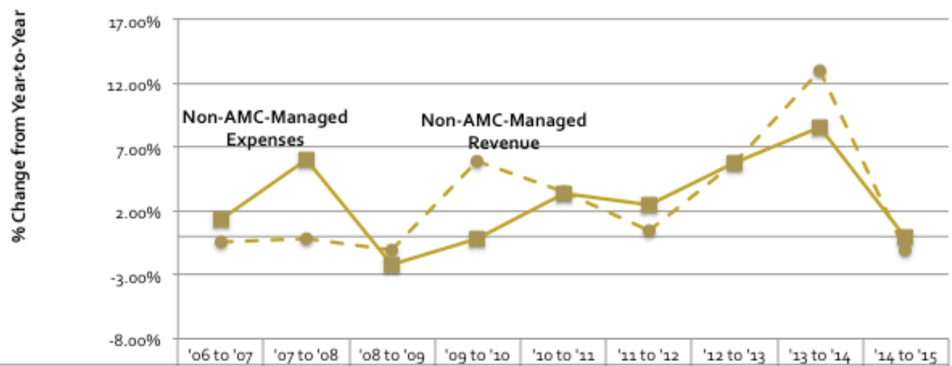
Chart #2a: Percent Change in Revenue & Expenses for AMC-Managed Organizatons



	'06 to '07	'07 to '08	'08 to '09	'09 to '10	'10 to '11	'11 to '12	'12 to '13	'13 to '14	'14 to '15
AMC-Managed Revenue	4.49%	0.61%	-3.73%	12.03%	3.54%	5.67%	2.55%	-5.68%	2.82%
AMC-Managed Expenses	4.48%	0.58%	-7.55%	3.94%	6.30%	3.92%	2.26%	-1.76%	0.00%

It appears that the salient difference between these two management models is that the AMC-management model was more effective matching expenses with revenues, especially in the years leading up to the Great Recession: 2006 to 2008. Further, in the subsequent years to the Great Recession, the AMC-management model was able to continue closer containment of expenses to available revenue resources.

Chart #2b: Percent Change in Revenue & Expenses for Non-AMC-Managed Organizations



	'06 to '07	'07 to '08	'08 to '09	'09 to '10	'10 to '11	'11 to '12	'12 to '13	'13 to '14	'14 to '15
Non-AMC-Managed Revenue	-0.49%	-0.12%	-1.02%	5.90%	3.49%	0.42%	5.79%	12.97%	-1.07%
Non-AMC-Managed Expenses	1.38%	6.07%	-2.23%	-0.15%	3.32%	2.49%	5.82%	8.54%	0.00%

When Operating Surpluses are Good

While the objective of nonprofit membership-based organizations is not to generate surpluses, surpluses can be of strategic importance over stretches of time. To measure the effect of cumulative surpluses, the data were analyzed for two trends to determine if one management model is more likely than the other to: a) experience multiple-year deficits; and b) generate cumulative reserves.

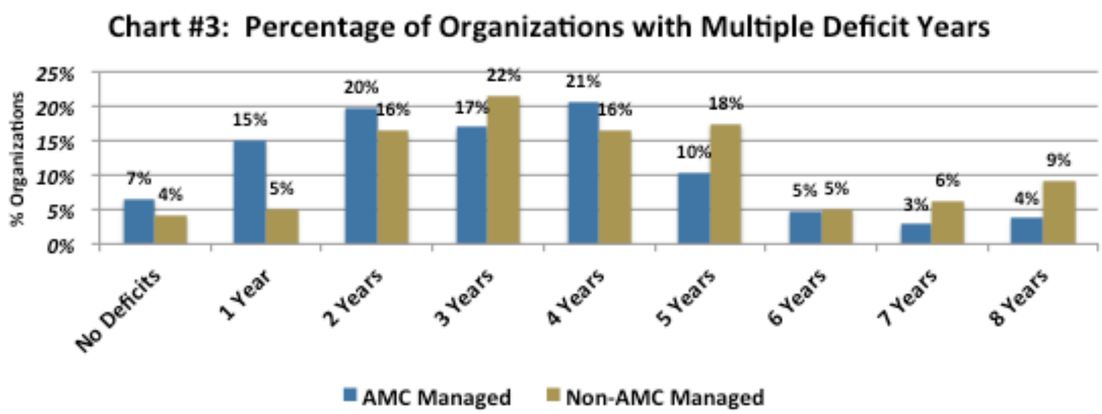
Serial Deficits

Question: Is one association management model more effective containing serial deficits than the other?

Answer: Yes, the AMC-management model is more effective at containing deficits when they occurred, whereas the non-AMC-organization experienced deeper operating deficits more frequently than did AMC-managed organizations.

During the 10-year study period, the AMC-management model was almost twice as likely to produce ***no deficits*** than the non-AMC-management model. Seven percent of the AMC-managed organizations generated surpluses for ten straight years, whereas 4% of the non-AMC-managed organizations generated surpluses for the same 10-year period. Because these percentages are relatively small, the deficits for each management model were analyzed to understand the frequency of years of operating losses – Chart #3 reports these results.

The trend in Chart #3 demonstrates that for the organizations studied in the 10-year study, the non-AMC-management model generated a greater number of multi-year deficits than did the AMC-management model. For instance, 15% of AMC-managed organizations experienced a single-year deficit during the period, compared with only 5% of non-AMC-managed organizations. In addition, only 4% of AMC-managed organizations experienced deficits for eight of the 10 years, while more than double that percent of non-AMC-managed organizations experienced deficits for eight of the 10 years.



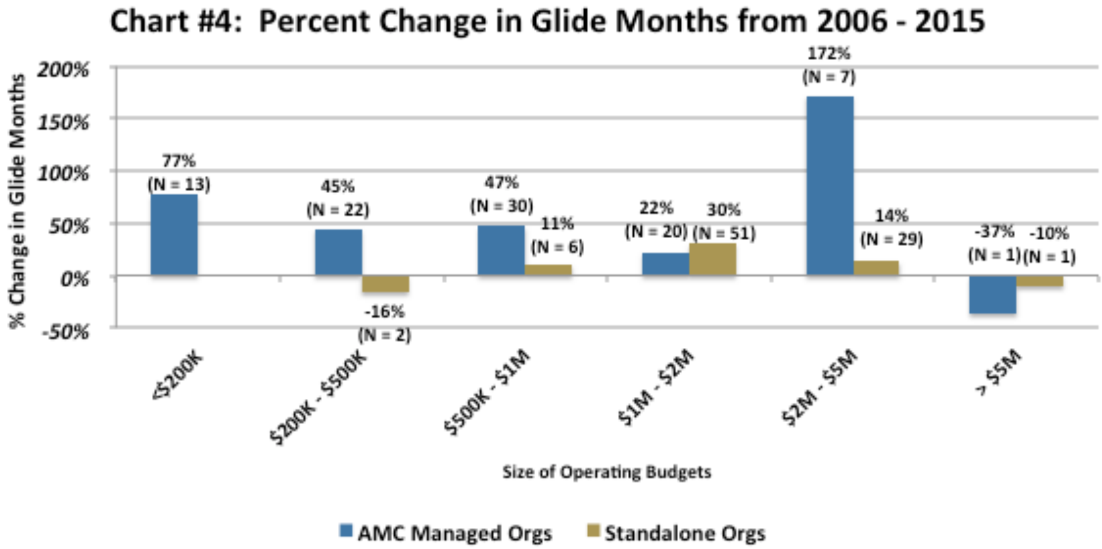
Accumulated Reserves

Question: Is one association management model more effective at building surpluses over time than the other?

Answer: Yes, the AMC-management model generated higher rates of growth for associations as measured by the increase in number of months an AMC-managed organization could operate at full capacity after revenue sources stop contributing new revenue (e.g., glide months).

Using 2006 as the base year, the data over the 10-year period were evaluated to calculate whether the number of months an organization could operate solely on its accumulated reserves had increased or decreased. Chart #4 below shows the results by organization budget size.

For organizations with budgets between $200,000 and $500,000, the 22 AMC-managed organizations ***increased*** the number of glide months by 45%. The two non-AMC-managed organizations in this range ***decreased*** the number of glide months by 16%. However, a sample size of 2 non-AMC-managed organizations is far too small upon which to base any conclusions. The same applies to organizations in both management models over $5M in revenue, each with samples sizes of one. The most dramatic results were for organizations between $2M and $5M, where the AMC-managed organizations increased the number of glide months by 172% as compared to 14% for the non-AMC managed organizations.



Conclusion

This study was not undertaken to evaluate a research hypothesis, so there's no representation that the data proves anything at levels of statistical significance.

The study was undertaken to determine if different association management models yield consistently different results for organizations with the same fiscal years operating under the same market factors. The results generally demonstrate that organizations managed by AMCs fiscally outperform organizations of relatively equivalent sizes not managed by AMCs.

The results of this study are generally consistent with previous studies comparing the performance of AMC-managed and non-AMC-managed associations:

AMC-Managed and Standalone Organizations – A Sibling Study (2009)
(AMC Institute Archives – page 22)

Findings:
AMC-managed model, when compared to the non-AMC-managed model, produces:

- Higher net profitability;
- Greater operating efficiencies;
- Lower operating risks, as measured by both the Leverage ratio and insurance premiums paid;
- A more diverse revenue structure;
- More funds available to invest into programs like member meetings and events; while
- Paying substantially less for the staffing resources, occupancy and capital goods necessary to support an organization's mission.

About LoBue & Majdalany Association Management

Celebrating 25 years in 2018, LoBue & Majdalany Association Management offers AMC Institute Accredited management and operations services to discerning associations. Our clients are a mix of trade associations, societies and foundations and range from state-based to national and international organizations. www.lm-mgmt.com

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Appendix A: AMC-managed Organizations Included in the Study

1. Academy for Eating Disorders
2. Academy of Osseointegration
3. Aircraft Builders Council
4. Aluminum Extruders Council
5. American Academy of Ambulatory Care Nursing
6. American Academy of Oral Medicine
7. American Academy of Wound Management
8. American Ambulance Association
9. American Association for Thoracic Surgery
10. American Association of Feline Practitioners
11. American Association of Plastic Surgeons
12. American Association of Residential Mortgage Regulators
13. American Board for Transplant Certification
14. American Board of Genetic Counseling, Inc.
15. American College of Healthcare Architects
16. American Forage & Grassland Council
17. American Ladder Institute
18. American Pediatric Surgical Assn
19. American Professional Society on the Abuse of Children
20. American Society for Blood & Marrow Transplantation
21. American Society of Access Professionals
22. American Society of Dermatopathology
23. American Society of Diagnostic & Intervention Nephrology
24. American Society of Tropical Medicine & Hygiene
25. American Surgical Association
26. American Zinc Association
27. Asphalt Roofing Manufacturers Association
28. Association For Convention Marketing Executives
29. Association for Death Education and Counseling
30. Association for Dressing and Sauces
31. Association of College & University Auditors
32. Association of Credit Union Internal Auditors
33. Association of Healthcare Internal Auditors, Inc.
34. Association of Medical Illustrators
35. Association of Rotational Molders
36. Association of Steel Distributors
37. Association of University Technology Managers
38. Better Hearing Institute
39. Builders Hardware Manufacturers Association
40. California Society of Addiction Medicine
41. Calorie Control Council
42. Center for Guardianship Certification
43. Ceramic Tile Distributors Association
44. Certification Board of Infection Control & Epidemiology
45. Cheese Importers Association of America
46. Corporate Environmental Enforcement Council
47. Council of State Restaurant Association Executives
48. Dairy Calf & Heifer Association
49. Document Security Alliance
50. Federation of Exchange Accommodators
51. Fibre Channel Industry Association
52. Glass Association of North America
53. Glazing Industry Code Committee
54. Greeting Card Association
55. Healthcare Exhibitors Association
56. Hearing Industries Association
57. Hotel Electronic Distribution Network Association
58. Incentive Marketing Association
59. International Claim Association
60. International Formula Council
61. International Ombudsman Association
62. International Pediatric Surgery Group
63. International Society for Minimally Invasive Cardiothoracic Surgery
64. International Society for Stem Cell Research
65. International Society for Traumatic Stress Studies
66. Iowa Public Airports Association
67. Juvenile Products Manufacturers Association Inc.
68. LES DAMES D ESCOFFIER INTERNATIONAL INC
69. Maple Flooring Manufacturers Association
70. Marketing Association of Credit Unions
71. Message Courier Association of America
72. Minnesota Intellectual Property Law Association
73. National Anemia Action Council
74. National Association of Architectural Metal Mnfg
75. National Association of Government Defined Contribution Administrators
76. National Association of Long Term Care Admin Brd
77. National Association of Professional Geriatric Care Managers
78. National Association of Professional Pet Sitters
79. National Association of Residential Property Managers
80. National Association of State Procurement Officials

81. National Christmas Tree Association
82. National Council on International Trade Development
83. National Credentialing Agency for Laboratory Personnel
84. National Society for Experiential Education
85. National States Geographic Information Council
86. North American Transplant Coordinators Organization
87. Pacific Dermatologic Association
88. Performance Track Participants Association
89. Pet Industry Distributors Association
90. Plastic Pipe & Fittings Association
91. Polycom User Group
92. Post Card and Souvenir Wholesale Distributors Assn
93. Professional Insurance Marketing Association
94. SCSI Trade Association
95. Society for Free Radical Biology
96. Society for Pediatric Dermatology
97. Society for Pediatric Urology
98. Society for Surgery of the Alimentary Tract
99. Society for Vascular Medicine
100. Society of Behavioral Medicine
101. Society of Vertebrate Paleontology
102. Sorptive Minerals Institute
103. Steel Stud Manufacturers Association
104. Tennessee Consumer Finance Association
105. Tennessee Osteopathic Medical Association
106. The American Coaster Enthusiasts
107. Virginia Association of Governmental Purchasing
108. Water and Sewer Distributors of America
109. West Coast Waterfront Coalition
110. Wisconsin Land Information Association
111. Woodworking Machinery Manufacturers Assn - moved???
112. Wound Ostomy Continence Nurses Society

Notes about why selected AMC-Managed organizations were removed from the sample and when they were removed:

13.	American Board for Transplant Certification	No tax return after 2009
16.	American Forage & Grassland Council	Changed fiscal year to June 30 in 2014
32.	Association of Credit Union Internal Auditors	Switched to non-AMC in 2009 for management
53.	Glazing Industry Code Committee	Did not file return after 2009
64.	International Society for Stem Cell Research	Hired own staff in 2012
70.	Marketing Association of Credit Unions	Switched to non-AMC after 2013
73.	National Anemia Action Council	Shut down in 2011
77.	National Association of Professional Geriatric Care Managers	Hired own staff as of 2012
80.	National Association of State Procurement Officials	Reported own staff in 2014
83.	National Credentialing Agency for Laboratory Personnel	Merged into another organization as of 2010
86.	North American Transplant Coordinators Organization	Began hiring own employees in 2015
88.	Performance Track Participants Association	Dissolved after 2009
91.	Polycom User Group	Could not locate tax returns after 2013

Non-AMC-managed Organizations Included in the Study

1. AACE International
2. ActionAid International
3. Adhesive and Sealant Council
4. Afterschool Alliance
5. Aids Research Alliance
6. Air & Waste Management Association
7. Airborne Law Enforcement Association
8. Alliance of Community Health Plans
9. Alliance for Continuing Medical Education
10. American Academy of Environmental Engineers
11. American Academy of Facial Plastic & Reconstructive Surgery
12. American Academy of HIV Medicine
13. American Agents Alliance
14. American Architectural Manufacturers Association
15. American Association for Accreditation Ambulance…
16. American Association for Dental Research
17. American Association for Homecare
18. American Association of Anatomists
19. American Boat and Yacht Council
20. American Cable Association
21. American College of Preventive Medicine
22. American Council for Capital Formation
23. American Council for Technology
24. American Frozen Food Institute
25. American Gear Manufacturers Association
26. American Health Quality Association
27. American Helicopter Society
28. American Institute for Food Distribution
29. American International Automobile Dealers Association
30. American Lighting Association
31. American Public Communications Council
32. American Public Gas Association
33. American Rose Society
34. American Society for Horticultural Science
35. American Society for Public Administration
36. American Society of International Law
37. American Stamp Dealers Association
38. American Supply Association
39. American Water Resources Association
40. American Wholesale Marketers Association
41. Animal Health Institute
42. Association for Postal Commerce
43. Association of Black Foundation Executives
44. Association of Enterprise Opportunity
45. Association of Executive Search Consultants
46. Association of Moving Image Archivists
47. Association of Old Crows
48. Association of Small Business Development Centers
49. Association of Small Foundations
50. Association of Surgical Technologists
51. Coffee Quality Institute
52. Coin Laundry Association
53. Composite Panel Association
54. Compressed Gas Association
55. Concrete Reinforcing Steel Institute
56. Contract Services Association of America
57. Employers Council for Flexible Compensation
58. Environmental Technology Council
59. Finishing Contractors Association
60. Global Aids Alliance
61. Hazardous Materials Advisory Council
62. Independent Liquid Terminals Association
63. Independent Office Products and Furniture Dealers
64. Institute for a Competitive Workforce
65. International Academy of Compounding Pharmacists
66. International Institute of Muni Clerks
67. International Social Service USA Branch
68. International Women's Forum
69. Leadership Conference on Civil Rights
70. Mailing & Fulfillment Service Association
71. Medical Device Manufacturers
72. National Affordable Housing Management Association
73. National Association of Educational Procurement
74. National Association of Retail Collection Attorneys
75. National Association of Subrogation Professionals
76. National Board of Surgical Technology and Surgical Assisting
77. National Consumers League
78. National Employment Law Project
79. National Ethnic Coalition of Organizations Foundation
80. National Fraternal Congress of America
81. National Health Care Anti-Fraud Association
82. National Human Service Assembly
83. National Hydrogen Association
84. National Hydropower Association

85. National Paper Trade Association
86. National Society of Tole & Decorative Painters
87. Painting and Decorating Contractors of America
88. Paperboard Packaging Council - --> AMC in 2009
89. Pertroleum Marketers Association of America
90. Power Transmissin Distributors Association
91. Salt Institute
92. Satellite Broadcasting & Comm. Association of America
93. Satellite Industry Association
94. SEPM Society for Sedimentary Geology
95. Society of Economic Geologists
96. Southeastern Lumber Manufacturers Association
97. Sporting Goods Manufacturing Association
98. Storage Networking Industry Association
99. The Wire Association International
100. Uni-Bell PVC Pipe Association
101. Wood Component Manufacturers Association

Notes about why selected non-AMC-Managed organizations were removed from the sample and when they were removed:

5.	Aids Research Alliance	No tax return after 2013
19.	American Boat and Yacht Council	Changed fiscal year in 2014
56.	Contract Services Association of America	No tax return since 2013 – exempt status revoked
57.	Employers Council for Flexible Compensation	Went to no-staff model as of 2011
60.	Global Aids Alliance	Cannot locate returns after 2011
63.	Independent Office Products and Furniture Dealers	Moved to AMC in 2012
64.	Institute for Competitive Workforce	Not found after 2014
69.	Leadership Conference on Civil Rights	Moved to an AMC in 2010
70.	Mailing & Fulfillment Service Association	Not found since 2013
83.	National Hydrogen Association	No tax return after 2010