Dangers Impacting Associations

Section D | Fourth of Five Sections

Realtor.org/**DANGER**Report

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Section D

DANGERS IMPACTING ASSOCIATIONS

DANGER D1 LEADERS NOT IN UNISON WITH FAST-PACED WORLD

The inability to recruit, train, and engage the skills required to lead associations through transition.

TRADITIONAL CEO	DIGITAL CEO
Drives Employees	Lets Employees Explore
Depends on Experience	Depends on Technology
Inspires with Authority	Inspires with Innovation
Places Blame	Finds Upgrades
Knows How It's Done	Shows How It's Done
Takes Credit	Shares Credit
Says, "Go!"	Says, "Who's In?"

IN CONTEXT

The Digital Revolution, the change from analog, mechanical, and electronic technology to digital technology, began in the late 1980s and early 1990s with the mass adoption of the Internet and the use of cell phones. With the proliferation of those technologies, among others, the Digital Revolution brought about the information age at a startling pace that has left many businesses antiquated and struggling. Association leaders in this environment battle to continuously remain current and relevant.

> *"There is way too much focus on protecting the status quo! Too many leaders are not willing to bite the bullet and embrace significant change."*

AUTHOR'S PERSPECTIVE

The profile of a nonprofit association in real estate during the 1980s was that of a non-transparent, pre-Internet business. And that profile has been the design and structure of all aspects of the real estate industry for the better part of the last century. But since the Digital Revolution and the shift to the information age, that profile has changed significantly. The size of local associations ranges dramatically from fewer than 10 members to many tens of thousands. The leadership skills, abilities, and mind-sets of association leaders vary significantly across this large spectrum.

Danger Index

100.0

Probability

5.0

Timing

4.0

Impact

5.0

INDEX
Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.

DANGER D2 TOO MANY UNINFORMED DECISIONS ARE TAKEN

Misguided decisions are made by leaders who don't clearly understand their obligations and responsibilities.

IN CONTEXT

There are a number of issues associated with running a nonprofit organization with a large dependence on volunteer help, like the demand for uncompensated leadership time. The fact that REALTOR® Associations consist of REALTORS® who are not only volunteers but are also independent contractors, makes the board election process an especially difficult issue.

Due to their independent nature, many elected REALTORS® have limited exposure to the industry in its totality. It is further complicated by personal/local interests that are sometimes not aligned with the overall needs of the majority of the members of the association.

Squabbles and infighting at board and committee meetings are not uncommon, transforming meetings into battlegrounds where the victor is often the one with the strongest or loudest voice, not necessarily the one with the best knowledge or most comprehensive understanding of what's needed.

Furthermore, the battle for control and the benefit of the few versus the benefit of many has always been a challenge. But in the case of the REALTOR® Association it's often not a debate, it's frequently the result of a few egos and personal agendas dictating decisions. Individual agents have a loud voice at their association and as a result, decisions are often taken that benefit a small group of constituents rather than the larger collective.

"Dumbing down doesn't solve the problems, it's just the easy way out."

AUTHOR'S PERSPECTIVE

As previously stated, association size varies drastically, as do skills, abilities, and mind-sets. Leadership aside, in-fighting is often the cause of misguided decisions and seldom leads to healthy conclusions.

Many elected leaders don't distinguish clearly enough between the best interests of the association, its various constituents, its members, and their own personal needs. The complexity of wearing multiple hats leads to flawed logic, inconsistent discussions, and a messy political environment where the decision-making process suffers.

Danger Index

80.0

Probability

5.0

Timing

4.0

Impact

4.0

INDEX
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DANGER D3

BROAD RESISTANCE TO CONSOLIDATION

Hundreds of small associations fear loss of identity, custom services, and a voice.

IN CONTEXT

The apparent reluctance on the part of many associations, especially the smaller associations, to consolidate lies in the fact that most view themselves as distinctive and uniquely qualified to best serve the needs of their members as a smaller entity, rather than as a part of a larger enterprise. While there are rare circumstances in which that logic may apply, for the majority, economies of scale will result in more competitive pricing and a higher quality of service offering that outweigh the counter argument.

The concept of consolidation involves combining existing entities into a structure that will make them better, not just bigger. However, one of the failures of the process is that very seldom are any standards, best practices, or objectives put in place.

As a way to indirectly promote, and possibly facilitate consolidation, the new Core Standards issued by the National Association of REALTORS® in 2014 introduced new criteria that apply pressure to associations to achieve certain minimum standards. This may result in an increased number of the smaller associations reconsidering consolidation as a viable strategy.

NUMBER OF REALTOR® ASSOCIATIONS

State and Local Associations reached an all time high in 1984, but since then have declined at a rate of approximately 10 percent per decade.

1984 2,012 associations

1994 1,752 associations

2004 1,453 associations

2014 1,341 associations

Source:
National Association of REALTORS®

AUTHOR'S PERSPECTIVE

The perception is that associations resist consolidation, but statistics reveal that this is not a valid statement. Organized Real Estate (ORE) has consolidated by one-third over the past 30 years. There is, however, significant room for more consolidation.

For example, approximately 83 percent of the current 1,341 associations have less than 1,000 members, with those in the smallest 10 percent having less than 50 members each. A fragmented industry with many uneconomical and under-performing associations significantly complicates the challenge of remaining relevant.

Danger Index
70.0

Probability
5.0

Timing
4.0

Impact
3.5

INDEX
Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.

DANGER D4

THE LOWEST COMMON DENOMINATOR IMPEDIMENT

The inconsistent REALTOR® mindset regarding the understanding and implementation of ethical standards, best practices, governance, organizational structure, and business planning has resulted in the standard of the lowest common denominator being allowed to continue to drive key decisions, defying efforts to strengthen organized real estate.

IN CONTEXT

Operating as the largest trade association in the world, one would expect the organization to have a wide diversity of membership experience and qualifications. With over one million members this is most certainly the case for NAR. But this diversity, while often beneficial, can also be detrimental to the decision-making process as those decisions are often determined by trying to accommodate the lowest common denominator. This is further frustrated by the fact that as a result of low barriers to entry, the membership base represents an exceptionally eclectic selection of skills and knowledge. And any organization's success is significantly influenced by the quality and experience of the leadership in making key decisions.

> *"Groupthink is the norm in many associations, but it is seldom the best path to a good solution."*

AUTHOR'S PERSPECTIVE

Groupthink is widely observed in the association world, especially in the smaller associations, but it is a double-edged sword. The industry has huge extremes, with some of the most professional, well educated, and ethical people trying to work with some of the most incompetent, amateurish, and unprincipled individuals. There are many dangers associated with failing to raise the bar at the association level, and playing to the lower end of membership competency is an unacceptable option.

Danger Index

64.0

Probability

4.0

Timing

4.0

Impact

4.0

INDEX
Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.

DANGER D5 THE UNWIELDY GOVERNANCE STRUCTURE

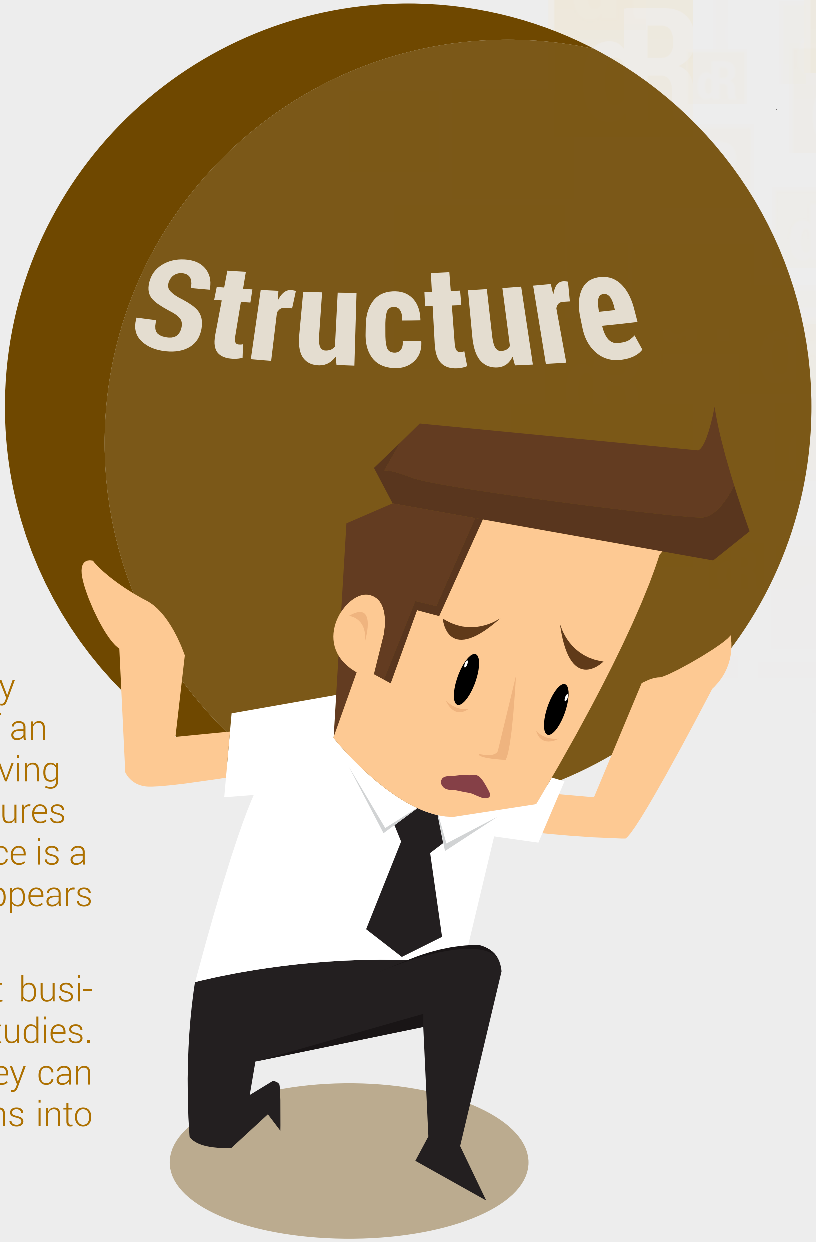
The cumbersome association governance structure and process limits the ability of associations to timely and effectively address the complex challenges currently facing them.

IN CONTEXT

The adherence to legacy rules and longstanding operating policies and procedures—such as nominating procedures, antiquated agendas, inadequate planning, ineffective implementation, failure to agree upon strategic intents, and/or holding staff accountable to drive success—makes managing an organization very complicated indeed.

ORE is often expected to function and/or compete with outside organizations as if it were one entity, yet it clearly isn't. It's a conglomeration of over 1,300 separately incorporated companies with 1,300 different sets of shareholders, charters, and boards of directors, and they each function differently. However, even though they are bogged down with governance, the impact varies based on the quality of the CEO leading the association.

"Associations are often their own worst enemy."



AUTHOR'S PERSPECTIVE

Although governance structures and procedures exist for a reason, and more often than not a good reason, they are also usually dated and in dire need of an overhaul. Therefore, periodically improving complex association governance structures in an effort to improve overall performance is a crucial exercise, one that the industry appears to be in need of.

Fortunately, there are many great business books, best practices, and case studies. If association leaders are committed, they can revitalize and transform their associations into newer, more effective organizations.

Danger Index

60.0

Probability

5.0

Timing

3.0

Impact

4.0

INDEX
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DANGER
D6

RELUCTANCE OF LEADERS TO STEP UP

Many business leaders are unwilling to spend time in committee meetings, debating unproductive issues with uninformed brokers/agents.

IN CONTEXT

A major challenge facing associations is the shortage of qualified and knowledgeable leaders of large real estate companies that are willing to step up and dedicate a large amount of their time to their association. Furthermore, many brokers and owners of their own businesses can't afford the absence of their leader for significant periods of time. This has resulted in positions being filled with sales associates who are frequently uninformed or only vaguely aware of the inner workings of the major issues impacting the industry, and are therefore unable to evaluate and debate decisions at a level comparable to large billion-dollar Wall Street companies.

> *"Within every 12 month association presidential election cycle are six months of madness, leaving very little time to get something substantial accomplished."*

AUTHOR'S PERSPECTIVE

In these trying times the residential real estate industry needs more leader involvement, not less. The absence of knowledgeable, skilled, and experienced decision-makers at key levels is damaging organized real estate, resulting in disappointing results and unintended consequences. Having well trained volunteer leaders is a key to successful associations.

Danger Index

56.0

Probability

4.0

Timing

4.0

Impact

3.5

INDEX
Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER D7 LOSS OF PRIMARY REVENUE SOURCE

The loss of MLS ownership, control, and/or revenue threatens those associations that depend heavily on this asset.

> *"If Associations no longer had their MLS revenue, many wouldn't survive."*

IN CONTEXT

Many associations hold equity in and/or serve on the board of directors of an MLS organization. For many, the revenue derived from their MLS investment or the financial benefit associated with association membership have insulated them from severe membership or revenue loss.

Some feel that the unwillingness of many in the MLS industry to consolidate is perhaps the result of their close association with REALTOR® associations. The benefits that accrue to those consolidated and much stronger MLSs are, however, often disregarded in light of the revenue and power that are lost by the smaller MLSs. In the case of the association, its dues revenue is enhanced by the fees it charges for membership in the MLS, thereby making them vulnerable to any decline in that revenue.

AUTHOR'S PERSPECTIVE

The most pressing issue facing associations that own and operate MLSs is their strong resistance to aggressively evolve and meet the demands and expectations of the industry. This struggle has often placed the associations in the middle of an increasingly strong disagreement between groups in the industry, such as the big brokers and the Realty Alliance.

Many parties are in advanced discussions to take the MLS business into different directions. Some of the decisions will be taken in the forseeable future, but will likely have a large impact over many decades.

Danger Index

54.0

Probability

4.0

Timing

3.0

Impact

4.5

INDEX
Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.

DANGER D8 CHANGING OF THE OLD GUARD

As association executive officers age, innovation declines.

IN CONTEXT

Association leadership is often caught in the power struggle between full-time corporate executives and the annual elected leadership, specifically the newly elected president. With long serving AEs, their personal identity is so intertwined with the organization that they become very reluctant to release control to someone else or make any new changes. This is further complicated by the fact that many association AEs are approaching retirement.

Furthermore, a consolidation of two or more associations will invariably lead to the reduction of many senior executives and AEs. This growing threat has created industry-wide insecurity, causing leaders to make decisions, even subconsciously, that are not always in the best interests of the needs of the association.

> *"Many AE's have created fiefdoms. Local association structures are generally not strong enough to do what needs to be done."*

AUTHOR'S PERSPECTIVE

While the broad statements clearly don't apply to all AEs, the general perception is that a large number of association executives fall into this quandary. So if ever there is a time for AEs to step up their game it is now. Many can do this if they seize the opportunity. AEs that aren't willing to show progressive leadership and make bold decisions going forward will most likely negatively impact their associations for years to come.

Danger Index
42.0

Probability
4.0

Timing
3.0

Impact
3.5

INDEX
Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.

DANGER
D9

LOCAL ASSOCIATION CHARTER REVOKED

Local REALTOR® Associations that do not meet the Core Standards requirements may find their charters revoked.

IN CONTEXT

NAR announced in 2014 that all state and local associations must reach and maintain core standards in several key areas:

1. **Code of Ethics:** Maintain a viable set of professional standards process.
2. **Advocacy:** Include in dues billing a voluntary contribution to meet any NAR established fund-raising goals.
3. **Consumer Outreach:** Demonstrate consumer engagement through no fewer than four meaningful consumer activities.
4. **Unification and Support of the REALTOR® Organization:** Have a strategic or business plan that includes an advocacy element.
5. **Technology:** Maintain an interactive website, with information concerning professional standards, arbitration filing processes, links to other levels of the association, etc.
6. **Financial Solvency:** Adopt policies to ensure the fiscal integrity of their financial operations.

AUTHOR'S PERSPECTIVE

NAR's Core Standards are basic, fundamental, and essential, and although every association should be able to comply, some may or may not choose to. Whether by choice or as a result of being revoked, loss of the REALTOR® charter will be a game changer. NAR products, services, designations, and training will no longer be available to brokers/agents. Life outside the powerful REALTOR® family will most certainly continue, but it will be very different than before. Few REALTOR® Associations are ready for that.

Danger Index

36.0

Probability

3.0

Timing

4.0

Impact

3.0

INDEX
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DANGER

D10 THE DUES DISCONNECT

REALTOR® Association dues no longer correlate to the actual costs and efforts involved in delivering contemporary association programs, products, and services.

IN CONTEXT

With increasing competition and cost to capture the heart and minds of agents, the value of belonging to a REALTOR® association may increasingly be questioned. There could also be a growing risk that association dues do not reflect the value proposition of the services being provided, as many of the services offered become available in the market for much less—some maybe even without cost.

Future friction, duplication and overlap between associations, large brokers, franchisors and third-party service providers may place REALTOR® associations in a precarious position. REALTORS® may not fully recognize the full range of member benefits, including advocacy, access to the MLS and the power of the "REALTOR®" brand, if associations falter in clearly conveying their overall value proposition to the next generation of members in the face of low or no-cost alternatives.

A growing confusion regarding dues paid and the partitioning thereof between national, state, and local associations could also impact the relevancy of REALTOR® associations.

Danger Index

30.0

Probability

3.0

Timing

4.0

Impact

2.5

> “Associations work well as a club. But in 2015 we need more than a club.”

AUTHOR’S PERSPECTIVE

Some associations have done a modest job in packaging and explaining their value proposition and marketing their services to their members. Associations must become better at positioning themselves so that they can be seen as more than just the products/services they deliver. This is especially true if one considers that the advocacy work associations do is in many cases sufficient to justify their value proposition.

That said, REALTOR® associations, at all levels, can and should deliver programs, products, training and services that have high value and high relevance to their members’ businesses and careers. If they are unable to do so effectively, members will look for those resources elsewhere.

INDEX
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DANGER CHECKLIST: DANGERS IMPACTING ASSOCIATIONS

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

INDEX

In evaluating each danger, the overall result is presented in the PTI index (Probability, Timing and Impact), which ranks the danger in order to provide a level of comparison between the dangers/sections of the report. The Danger Index represents a composite, overall score.

#	Probability	Timing	Impact
5.0	100% Chance	1 Year	Game Changer
4.0	80% Chance	1 - 3 Years	Major Impact
3.0	60% Chance	3 - 5 Years	Moderate Impact
2.0	40% Chance	5 - 10 Years	Some Impact
1.0	20% Chance	10 + Years	No Impact

Danger Index	
81-100	Critical
61-80	Severe
41-60	High
21-40	Moderate
0-20	Low

		Danger	Probability	Timing	Impact	Index
☐	D1	Leaders Not in Unison with Fast-Paced World	5.0	4.0	5.0	100.0
☐	D2	Too Many Uninformed Decisions Are Taken	5.0	4.0	4.0	80.0
☐	D3	Broad Resistance to Consolidation	5.0	4.0	3.5	70.0
☐	D4	The Lowest Common Denominator Impediment	4.0	4.0	4.0	64.0
☐	D5	The Unwieldy Governance Structure	5.0	3.0	4.0	60.0
☐	D6	Reluctance of Leaders to Step Up	4.0	4.0	3.5	56.0
☐	D7	Loss of Primary Revenue Source	4.0	3.0	4.5	54.0
☐	D8	Changing of the Old Guard	4.0	3.0	3.5	42.0
☐	D9	Local Association Charter Revoked	3.0	4.0	3.0	36.0
☐	D10	The Dues Disconnect	3.0	4.0	2.5	30.0