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Association Management Company Services: Shopping for Shopping's Sake Is Not Prudent

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Do associations managed by employed staff routinely “shop around” for a new executive director when the current executive is performing well? Is it common for a board of directors to explain to its chief staff executive that, although his or her performance is entirely satisfactory or even exemplary, the board wants to “test the waters” to see if there is someone else out there who is better or less expensive? If the obvious answer to these questions is “no,” then why do boards of associations managed satisfactorily by association management companies feel that “shopping around” for management services is an acceptable practice?

Perhaps it is because consultants engaged to assist in management company search processes have been known to advise that issuing a request for proposal for management services ought to be done every so often - even if the association is happy with its management - because part of the board’s fiduciary duty to the association includes always being on the lookout for a less expensive provider of management services. Or it may be that boards with hidden agendas intentionally use the RFP process even when there are no management performance issues because they know that the process almost inevitably leads to a change in management.

Regardless of the reason, my observation in working with AMC-managed associations for thirty years is that sending out an RFP simply for the sake of shopping around erodes the trust relationship that exists between volunteer leadership and staff and is virtually never in the best interest of the association. If the association board’s desire is to determine whether the organization is getting good value from a management company, putting out an RFP will most likely not give the board the answer to that question. After all, there is almost always a management company willing to offer to fulfill the association’s professional management needs for less than the cost of current management.

More important, however, because the consequences of initiating an RFP process are immediate, significant and most often adverse, both for the management company and for the association, undertaking such a process should be a choice of last resort. It is one to be considered only when an existing management relationship has been determined through a formal evaluation to be unsatisfactory and efforts to resuscitate that relationship have failed.

Likely Consequences of a RFP

Association boards of directors need to be aware of the effects that a decision to issue an RFP for management services can and most likely will have upon their current management company and staff.

Threatened job security. Just as the executive director who learns that others are being interviewed for his or her position is likely to begin looking for another opportunity, so too will an AMC and its employees read between the lines when an RFP is issued. Particularly in situations involving smaller management companies with fewer employees and clients, or management companies of all sizes with employees “dedicated” to a particular association, an association’s decision to seek proposals from other management companies will cause AMC employees to feel that their job security is threatened.

Risk of losing staff. When the management company is unwilling or unable to guarantee continued employment in the event that the association client leaves, potentially impacted employees are likely to begin job searches immediately. Faced with uncertainty regarding their jobs, the most experienced, and therefore the most valuable, AMC employees will leave the management company’s employ as soon as they find new positions, rather than waiting to learn the association’s decision regarding future management.

Possibility of deteriorating performance. AMCs losing key employees due to a client’s decision to initiate an RFP process often are not in a position to maintain satisfactory performance because they will be unable to attract qualified replacement employees. Those AMC employees who do remain, whether of their own volition or due to their inability to find alternative employment, are, quite naturally, going to view their relationships with the association in a different, less trusting, light. The result is that the very decision to “shop” often will produce less satisfactory management performance, even when the AMC’s management services were fully acceptable prior to the board decision to issue an RFP.

Boards believing that this adverse effect on management company employee retention and performance can be overcome by including the incumbent management company in the RFP process are engaging in wishful thinking. Although no statistics are available, experience suggests that, once a decision has been made to “shop around,” the incumbent management company rarely retains the client. The excitement of a potential new management relationship and the promises that undoubtedly will be made by potential management company partners most often result in a management change. Another factor influencing the process is the tendency of many bidders, unfamiliar with the association other than through the contents of the RFP, to underestimate the volume of work and therefore to underbid the business. Finally, because the RFP process, when undertaken in a proper manner, is both time-consuming and expensive, many boards may even feel compelled to justify the decision to seek and review proposals by finding a better management company, even when one does not exist.

Evaluating an AMC’s Pricing

If a board of directors is satisfied with an AMC’s performance, but has questions regarding whether too much is being paid for that performance, issuing an RFP for management services is neither a prudent course of action nor one mandated by directors’ fiduciary duty to the association. In fact, the converse could easily be argued: a board with knowledge of the potential adverse impact of an RFP process actually breaches its fiduciary obligations to the association by engaging in such a process when management performance is satisfactory. Boards should understand that, instead of issuing an RFP, there are people and tools that an association can use to determine whether it is being overcharged.

Conduct a cost evaluation. Assign a committee of the board, perhaps the executive committee if one exists, the task of conducting a management evaluation and reporting its findings back to the full board. If the association's advisors, be they outside attorneys or accountants, possess relevant expertise, they may be involved in the process.

Consider a consultant. Give serious consideration to engaging a professional consultant with special expertise in associations operated by management companies to assist with, or even to guide, the process. Choose your consultant wisely, after inquiring concerning how frequently the consultant's former clients have ended up changing management companies upon conclusion of the consultant's engagement. You will want a consultant who is both experienced in analyzing client-AMC relationships and not predisposed to lead the association immediately to new management.

Involve your current AMC. If the ultimate goal of the evaluation process is, as it should be, to determine whether the association is being well-served at a competitive price - rather than to find or create a reason to terminate the relationship with the current management company - invite the AMC's ownership or designated senior staff to participate in the process.

Make use of evaluative tools. A valuable tool available to the committee and any consultant will be the 14th edition of the ASAE Operating Ratio Report, published in 2013 by the American Society of Association Executives. The Report, a compilation of statistics from the financial statements of hundreds of associations, contains benchmarking information regarding the cost of association operations. Data is arranged by expense category and sorted according to organization type, tax status, revenue size, membership type and location. While the Report does not present separate information for associations operated by management companies, knowledgeable consultants will be able to assist the committee in fairly and accurately comparing the association's operating and administrative expenses with those contained in the Report to reach a conclusion regarding the value provided by the current management company.

Conclusion

When an association is generally satisfied with its management company's performance but wishes to confirm that the association is not paying too much for that performance, the answer lies not in issuing an RFP for management services; such an RFP process itself is unlikely to provide an answer regarding the AMC's value, but is likely to result in a breach of trust and, perhaps, a change of management, a change which will be costly and often not in the association's best interest. If a management cost analysis is deemed necessary, the prudent association board will engage a consultant to work with a committee of directors, staff and the association's other trusted advisors to determine, using all available measurement tools, whether the management services already deemed to be satisfactory are being provided in a cost effective manner.