GUIDE TO REALTOR® ASSOCIATION GOVERNANCE MODELS

October 2024

The Association Executives Committee's 2024 Governance Models Work Group was formed to identify various governance models that local and state associations can consider to best guide volunteer and staff leadership teams as they work together to advance their organization's mission and goals.

To achieve its purpose, the work group focused on the following areas:

- Identify and detail common REALTOR® association governance models
- Identify a list of considerations any association needs to account for when assessing their governance (state law, current culture, etc.)
- Identify and detail other association governance models seen outside of the real estate industry
- Source existing resources available through NAR and identify the primary pieces that apply to this project

Their findings are summarized below.

Common REALTOR® Association Governance Models

Common REALTOR® association governance models seem to correlate with membership size. Large associations tend to adopt a leadership model, which highlights joint decision-making between staff and the board of directors. Operational procedures are directed by the chief staff executive or CEO. They tend to have flexible governing documents and policies that adapt to changing market conditions. These associations tend to emphasize professional standards enforcement, education, networking, and advocacy to effectively serve members and industry stakeholders.

Medium and smaller associations tend to adopt the management model or the administrative model, or a hybrid version of both. The management model centers around elected leaders determining the association's strategic vision, and staff handling the operational decisions within defined parameters. Committee structures are stable and supported by staff and governing documents are regularly updated. Financial reserves are maintained and nondues revenue is a trusted source of income. Strong member communications and a focus on advocacy are also present, and staff professional development is encouraged.

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The administrative model centers around member-centered support and efficient management of organizational functions. Elected leaders determine goals and oversee operational aspects, and decision-making authority rests with the board of directors. Committees are managed by volunteers with some staff assistance. Governing documents are regularly updated to ensure fiscal integrity. Operations are mainly funded through member dues. There are basic reserves and minimal nondues revenue. Staff structure is lean with basic compensation and minimal professional development opportunities. Member services involve communication and basic education offerings. Volunteers tend to manage networking and professional standards, and advocacy is mainly supported at the state and national levels.

Even with these three models serving as a guidepost, each association has unique policies, procedures, and governance structures, and many associations use a hybrid approach that incorporates elements from one or more of the three models.

Regional influences, such as state laws and real estate market dynamics, play a role in shaping governance models, which highlights the adaptability of associations to address diverse needs effectively within their respective regions.

Factors to Consider when Examining Governance Models

In addition to being mindful of state laws, there are a host of other considerations that associations should keep in mind as they examine their governance structure and adhere to it. These include but are not limited to the following: the organization's culture (its values, beliefs, attitudes, systems, and rules that outline and influence employee and member behavior); membership size; board of directors size; the scope of power vested in the executive committee/leadership team; the role multiple organizations play within the organization (i.e. charitable foundations, relationship to an MLS); and building ownership (the advantages of forming a separate for-profit entity or subsidiary to own the building).

Associations should carefully read their state's non-profit corporation legislation to see what requirements are mandated. Due to serious ramifications for non-compliance with state law, associations should seek legal counsel when considering any governance structure changes.

For a quick overview of each state's non-profit statutes, please visit: https://www.harborcompliance.com/nonprofit-governance-by-state

An association should have a clear mission and vision. Any governance structure changes should support that mission. Structural changes should take into account other best practices for creating a positive culture, including aligning actions with the mission and vision, open communication between leadership and staff, investing in the development of leaders and staff, and being nimble to quickly adjust to industry changes.

Representation is an important part of building a positive culture. The organization should take steps to assure that the board of directors and leadership reflect a cross-section of members as well as the diversity of the membership. Diversity may include factors such as race, gender identity, sexual orientation, age, religion, and disability. Diversity can also include geographic representation and representation from various real estate specialties. It may also include the diverse affinity partners with whom the organization engages, and their role in the association's governance structure.

Membership size will dictate the structure of the board. Smaller associations might opt for fewer layers of leadership and management and a smaller board of directors, similar to the administrative governance model. This will help smaller associations have a more intimate relationship with members, creating greater opportunities for direct engagement and input into decision-making processes.

Larger associations may have a larger board of directors and multiple levels of staff and volunteer leadership. This may allow committees to do some of the substantive work for the organization. It may also be prudent to have a smaller, empowered leadership team to keep the association nimble. Member engagement can be challenging for larger associations, so they may need to rely on representative structures within the organization to gather member input.

Larger associations with larger budgets may support more robust governance structures, including an increased number of staff, committees, and training and development opportunities for volunteer leaders. They may also empower a leadership team or executive committee to handle some of the association's work, similar to the leadership governance model. It is important to clarify what issues the leadership team handles and what items must be approved by the board of directors. The leadership team may prioritize emerging issues for the board and make decisions in urgent situations, stipulate the agenda for board meetings, handle committee reports, and act as a sounding board for the staff leadership.

When empowering the leadership team, be mindful of the possibility of an over-concentration of power, a shift towards micro-management of the association, a lack of diversity on the leadership team, and communication challenges back to the board. These issues should be addressed when determining the leadership team's role.

Some associations have multiple organizations within the association, such as a charitable foundation, charitable trust, or ownership of a separate MLS entity. Each may have different legal requirements and require a separate board of directors, financial reporting requirements, and tax structures on the local, state and national levels. Associations with multiple entities that are considering a governance change, should engage with legal and financial experts to assure they're following all legislative requirements.

Associations that own their building may form a separate for-profit entity or subsidiary for the building in order to take advantage of some of these advantages and protections:

Limited Liability Protection: By forming a separate legal entity to own the association's building, the association can protect its assets from potential liabilities. If, for example, there are legal claims or debts related to the property, the liability generally remains with the entity that owns the building (the subsidiary or related for-profit entity), rather than putting the association's assets at risk.

Risk Management: Separating the ownership of the building from the association's operational activities can mitigate risks associated with property ownership. This includes risks related to maintenance, property taxes, insurance, and potential lawsuits arising from property-related issues.

As always, legal representation should be sought when considering changes to legal entity status.

Governance Models Outside the Real Estate Industry

As the work group looked at governance structures in other organizations/industries (hospitals, universities, NCAA, ABA, etc.), it realized the need for organizations to rethink governance as a whole. While the overall structure from board to board was very similar, the size of the board of directors in these outside organizations was smaller and nimbler than most REALTOR® associations, allowing them to respond to market shifts with a more focused strategy. Click here for a summary of findings, which include a link to the McKinley Advisors report on "Next Level Governance: Leading with Strategic Agility," which served as a reference for this research. There were similarities in the role of the board and staff in these different organizations. The board sets the vision/policy and staff acts in accordance to carry out the vision and policies. Outcomes are set according to the strategic plan and committees are accountable for pursuing and achieving the organization's goals.

While these outside entities shared similar structures and board roles, there is still a need across all organizations to intentionally recruit board members to build a well-rounded board, and to educate them on their role to help guide the organization's long-term strategies.

Existing Resources Available through NAR

The work group identified governance resources on nar.realtor. Click here for a compilation of those resources that can help guide your governance strategies.

The work group found some common threads around which governance models can be built. These include association structure, strategic planning, role of the director, risk management, and meeting management.

Conclusions

When examining REALTOR® association governance models, it's essential to look at the membership size of the association. Smaller associations employ fewer staff and tend to follow a governance model that leans toward member-centered support. Larger associations retain more paid staff and tend to adopt a model that allows for volunteer leaders to set the vision and mission, and staff to execute on both.

Regardless of the model chosen, it's important to remember that each association has unique policies, procedures, and governance nuances. And even more important is to ensure that all governance polices cooperate with state laws. Carefully read your state's non-profit corporation legislation to see what requirements are mandated. Due to serious ramifications for non-compliance with state law, seek legal counsel when considering a change to governance structure.

There are resources to help you determine the right governance structure for your association. Use them and learn from them to ensure your association is operating at its optimal level for your members' benefit.