TRAPPED IN THE past

Challenge your board to break free of conventional thinking by addressing **FIVE WAYS** it is killing your association's current and future business models. **BY JEFF DE CAGNA, FASAE**

WITH SO MANY ASSOCIATIONS struggling to find their footing in a world experiencing relentless transformation, senior leaders—and boards in particular—face the daunting task of building their organizations to thrive over the next decade and beyond. Unfortunately, far too many boards continue to operate in ways that undermine their organizations' current business models, not to mention opportunities for business model innovation, sometimes without even realizing it.

Simply put, boards are killing association business models. This is a deliberately provocative statement, derived from my personal experience as both a board advisor and member, and it is intended to get your full attention.

Over the next few years, the business model conversation is the most important dialogue you and your board will have, bar none. Having the right conversation will help identify compelling opportunities to create and deliver new value to your association's stakeholders. To get there, however, you'll need to remove unnecessary obstacles to business model stewardship and innovation by challenging your board to shift its conventional mindset.

A business model describes the rationale of how an organization creates, delivers, and captures value. The most common association business model follows the "two-sided market" pattern, in which one side of the market (the membership) receives subsidized value, with the subsidy coming from the more robust revenue streams provided by the second side of the market, typically advertisers, exhibitors, and sponsors. The value to the second side of the market is the ability to access the qualified buyers on the first side.

For a variety of reasons, this business model has become deeply problematic for associations. In order to identify what's next, association boards must work to free themselves from the following five thinking traps.

1

Boards operate with a narrow interpretation of fiduciary responsibility.

Most association boards pursue their fiduciary responsibilities through the regular review of key financial documents, including budgets, profit-and-loss statements, and Form 990s. Although necessary, this type of oversight is not sufficient by itself to drive future success. Indeed, it can be detrimental if it results in excessively conservative, even defensive, strategic and financial decision-making by boards, rather than imaginative thinking about what it will take for their organizations to thrive in the years ahead.

In the 21st-century association, fiduciary responsibility requires energetic business model stewardship. **Working closely with the CEO and senior team, every association board has the duty to build a deep understanding of the organization's existing business model**, as well as to determine how best to collaborate with staff leaders to ensure the model is sustainable in the short term.

At the same time, every board faces complicated questions about the creation of new value for its stakeholders. (In this context, value can take many tangible or intangible forms, with economic, social, or other impact.) To answer them, boards need to give staff the support they need to innovate. A top priority should be to enable safe experimentation with new business model concepts to determine whether they are viable and scalable.

Boards have been slow to embrace the shifting dynamics of new value creation.

2

Business model stewardship demands a robust understanding of how the forces of transformation are reshaping value creation. In recent years, future stakeholders have come to exert much greater influence over how organizations create and deliver value. In stark contrast to their predecessors, future stakeholders have demonstrated a strong preference for more open and inclusive systems that embrace their technology-enhanced mobility, enable simpler collaboration, and create more meaningful value for themselves and their networks.

For the most part, however, association boards have not come to terms with the strategic implications these new dynamics create for their organizations' current and future business models. **The traditional membership-centric model operates on deep-seated and often outmoded assumptions about value creation**, including the preeminence of membership itself, which boards remain largely unwilling to question.

As a result, most association boards "don't know what they don't know" about the effects of mobile, social, and other interactive technologies—not to mention other transformative forces—on both the outcomes their stakeholders are trying to achieve and their organizations' key lines of business. Instead, many boards believe their associations are already doing the right things, and staff members simply need to execute those activities with greater efficiency and communicate about them with greater frequency to make them more attractive to stakeholders.

Having access to reserves is helpful only if boards are willing to make actual investments to advance innovation, especially business model innovation.

3 Boards choose investment risk over innovation risk.

The work of business model stewardship and innovation requires meaningful financial investment. Just about all association boards and CEOs work together to strengthen their organizations' financial positions by building reserve funds through diversified and well-managed investment portfolios. Such funds establish a pool of resources on which boards can draw when unexpected circumstances arise or opportunities emerge. But having access to reserves is helpful only if boards are willing to make actual investments to advance innovation, especially business model innovation.

Association boards and CEOs have become comfortable with the inherent uncertainty of investing in markets they may not fully understand and certainly cannot influence. **But they remain hesitant to provide financial support to test inventive ideas for new value creation developed by people they know personally.** Both forms of investment involve risk, yet despite the urgent need to design new association business models, investment risk remains more acceptable than innovation risk to many board members and other senior leaders.

FOR STRATEGIES TO HELP BOARDS EMBRACE BUSINESS MODEL STEWARDSHIP, VIEW THIS ARTICLE ON **ASSOCIATIONSNOW.COM.**

4 Boards adhere to a membership ideology.

Most board members are accomplished people who attribute at least some of their success to membership in their organizations. Over many years, they enjoy the benefits of serving in a series of increasingly influential leadership roles that build their professional networks, burnish their reputations, and provide them with insider access. These experiences instill in boards a firm belief in membership as the organizing principle for the association's work.

Board members often do not fully appreciate that for the majority of stakeholders, the experience of association membership is not nearly as immersive and rich. A fervent commitment to membership can lead to willful blindness to even the obvious shortcomings of membership-centric business models, as well as resistance to exploring alternatives. To counteract this mindset, CEOs and other senior executives must help their boards develop a more holistic and honest view of membership's impact on current and future business models.

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5 Boards prefer politics to profitability.

Politics intrudes on successful business model stewardship in different ways. In some associations, it is about business models that feature advocacy, lobbying, or public policy efforts as the primary form of value, one for which many stakeholders are unwilling to pay. In other associations, competitive elections and political representation harm boards' collaborative potential. For most associations, however, **the most serious problem is when boards engage in their own internal politics and jockeying for power instead of fully embracing their stewardship responsibilities.**

Association boards should view the business model as the framework that integrates the organization's commitment to purposeful action with the equally necessary pursuit of a responsible level of profitability. Organizations can't completely escape politics, of course, but it is now time to insist that boards take the long view, minimize the impact of petty political disputes on board work, and maximize the attention they devote to supporting the creation of new forms of value, with the goal of generating more purposeful and profitable revenue streams over time.

Whether today's associations will be able to accelerate their rates of progress toward new levels of strategic success will depend considerably on whether their boards can fully participate in building adaptive and resilient business models for the future. To help them do so, CEOs, senior executives, and other key contributors must understand these five negative mindsets, reject orthodox beliefs about board performance, and collaborate to develop shared capabilities for effective business model stewardship. Without question, it will be a serious leadership test, but one certainly worth passing for the benefit of their organizations and their future stakeholders.

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