

IAHA/AHRA Merger Documents, Governance Committee's Recommendations on Governance

August 4, 2003

This study was conducted by Management Advisors, Inc., Management Consultants
Contracted by the AHA Governance Committee

I. INTRODUCTION

A. PURPOSE OF REPORT

This report summarizes the findings, conclusions and recommendations of the Arabian Horse Association's Governance Committee consisting of these eight members:

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The Governance Committee was assisted by consultants from Management Advisors, Inc. who also conducted surveys and helped with the development of a strategic plan for the Association.

In early April 2003, Management Advisors, Inc. (MAI) was engaged by AHA to work with the Governance Committee to undertake a three-phased project involving the development of a strategic plan and conducting a governance study. Phase I involved obtaining background information and developing a comprehensive understanding of the Association and its plans for the future. This was primarily for the benefit of the MAI consultants, but it also helped the Governance Committee put AHA policies, traditions and operations in perspective. As part of this phase, multiple telephone interviews were conducted with Delegates, Regional Directors, other members of the Board of Directors, and members of the Executive Committee. Phase II of the project involved undertaking the activities which resulted in development of a strategic plan for AHA. A major component of Phase II involved surveys of current members, past members and non-members, the results of which are summarized in a separate report to the Governance Committee dated July 29, 2003.

The three strategic initiatives recommended by the Governance Committee are as follows:

1. Increase market share of the Arabian horse within the horse industry
2. Unify AHA as a broader-based organization with a new culture and identity

3. Increase organizational efficiency and effectiveness including staff and member resources

On April 1, 2003, the Arabian Horse Registry of America (AHRA) and the International Arabian Horse Association (IAHA) merged to create the Arabian Horse Association.

Essentially, the governance of the former IAHA was adopted by the new organization, at least as a temporary measure. The purpose of the governance study phase of the project was to obtain a thorough understanding of this current governance structure and the decision-making processes that go along with it. The end objective was to explore one or more modified governance models that could enable the Association to function more efficiently and effectively in concert with the strategic initiatives developed by the Governance Committee and anticipated to be embraced and implemented by AHA.

B. GOVERNANCE STUDY APPROACH

In dealing with the issues of governance, MAI first summarized all the key findings relevant to governance gleaned from the surveys, interviews and focus groups conducted during Phases I and II of the project. This summary, presented in Section IV of this report, largely represents the opinions of members, from the grassroots level up to top leadership, regarding AHA's governance today. In developing suggestions for the Governance Committee to take under

advisement, MAI endeavored to build upon the spirit of the strategic initiatives developed during Phase II of the project. That spirit calls for a broader-based organization with clearly defined roles and enhanced responsibilities for AHA staff led by a Chief Executive Officer (CEO) to take on some additional duties and responsibilities that are now in the hands of volunteers. This is a change in the organization and how it is run.

The following section of this report (Section II), discusses the traits that are usually found in highly effective organizations. This is followed by a description of AHA's governance today and member opinions on AHA's governance. Finally, the last section of the report, Section V, deals with opportunities to modify AHA's governance and the Governance Committee's recommendations for consideration by the leadership of AHA.

II. TRAITS OF HIGHLY EFFECTIVE ORGANIZATIONS

A. ASSOCIATIONS ARE BUSINESSES

Perhaps because most associations are non-profits, they sometimes do not see themselves as businesses. However, associations are required by laws and government regulations to function just like for-profits and other businesses. Some of the ways in which non-profits and for-profits are similar include:

- □ Generate funds for growth, modernization and new initiatives

- ❑ Compete for the same good people
- ❑ Pay competitively
- ❑ Provide ordinary, customary, and competitive benefits
- ❑ Abide by Federal Wage and Hours regulations
- ❑ Recruiting and hiring practices must comply with EEOC (Equal Employment Opportunity Commission) regulations
- ❑ Employment practices must be in compliance with state and federal regulations with regard to non-discrimination and work rules
- ❑ Top-level and middle-level employees must be able to obtain training and advance their careers
- ❑ Executive and management staff must be able to participate in peer professional organizations at the employer's cost
- ❑ The organization must actively market and promote itself, its products and its services
- ❑ A strong image and brand identity is necessary

B. NON-PROFIT IS A TAX STATUS

Non-profit is a tax status, not a business philosophy. The best non-profits recognize that it is okay to make money and essential to have revenues exceed expenses on a consistent basis. The highly effective organizations are market driven and devote significant resources on market research, competitor analysis, promotion and brand identity. They constantly focus on present organization needs and anticipate future needs while devising the best means for delivering the organization's products and services. Market driven organizations also look at what their competition is doing, not necessarily to emulate them, but to at least know what the competition does well and not so well. The bottom line on highly effective market driven organizations is that they strive to expand and improve their services to their constituents and maintain a high degree of constituent satisfaction.

C. VOLUNTEER INVOLVEMENT

Highly effective non-profits utilize their top leadership volunteers for their expertise, knowledge and wisdom. They rely on these volunteers for a deep-rooted understanding of their industry or profession, and the ability to envision a future for themselves and their

fellow constituents that others outside the industry or profession may not be able to visualize and comprehend. Highly effective organizations capitalize on these strengths of the volunteers and utilize the staff to execute strategies, policies and decisions developed and coordinated with top volunteer leadership involvement. Thus, volunteers become unburdened with the day to day management and administrative functions. At the same time, the paid staff becomes more responsible to carry out more than just mundane functions and to actually contribute ideas and entrepreneurial thinking to the organization. With both the volunteers and staff looking out for new opportunities for their organization, a better organization results.

Today's associations tend to have a shortage of volunteers willing to donate time to their associations. Many who volunteer wish to spend less time doing so than in the past. They want quicker decisions and they do not want old decisions revisited or second-guessed, and old business re-hashed. Therefore, many associations are finding themselves more dependent on their paid staff to carry out duties and responsibilities the organization depended on volunteers to perform in the past and many have streamlined their governance to be as nimble as possible. They have accelerated the decision-making process so good decisions can be made more quickly and efficiently. In a fast-moving society where change can occur virtually overnight, this is necessary, and highly effective organizations aim to be as responsible as possible and have the ability to make decisions quickly and move quickly on those decisions. Such organizations are willing to take the risk that they may subsequently need to fine tune or even reverse decisions.

D. FOCUSED LEADERSHIP

Another characteristic of highly effective organizations is that they have volunteer leadership focused on strategy, policy and direction for the organization. They operate at a high level recognizing the strengths and opportunities for improvement of the organization while recognizing current and potential external opportunities and threats. They tend to leave the details of execution to their paid staff. Their executive committees oversee rather than execute and manage. Such organizations depend on the chief paid staff person to be a chief executive officer to carry out the aims and desires of the board of directors through the executive committee.

E. OTHER CHARACTERISTICS OF HIGHLY EFFECTIVE ORGANIZATIONS

Some of the more recent works that deal with association governance include John Carver's Boards That Make A Difference, The National Center for Non-Profit Boards' Non-Profit Governance, and The American Society of Association Executives (ASAE) Foundation's How To Govern Well. All three of these publications approach the subject of governance from different angles, but they all emphasize the attributes and characteristics that their research has found to be present in the best run and most effective associations and non-profits. Below is a compendium of the more salient points made in these three works based on extensive research conducted in the past few years.

- General

- Governance deals with the legitimate distribution of authority throughout an organization where leadership steers, controls and influences from a position of authority.

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- Good governance helps an organization to thrive, not just survive.

- A good governance structure combined with effective organizational leaders results in leadership thinking about what to achieve instead of only what to do.

- A governance structure with more layers than needed, more committees than needed and more seats on committees than needed, increases complexity with no compensating gain.

- Convention Delegates

- Most of today's associations do not have delegate bodies.

- When a delegate body exists, it is usually for the purpose of providing more member representation.

- The power and authority of most delegate bodies is limited to the organization's bylaws and election of board members.

- Board of Directors

- A board's role is frequently described as consisting of three major functions: policy-making, setting direction and ensuring that necessary resources are available.

- A recent survey conducted by the National Center for Non-Profit Boards found that the average board consists of 17 to 19 members. There is a clear trend towards smaller boards.

- There is no right answer to how large a board should be, but boards of 30 members or more are considered quite large.

- Geographic representation on a board, which is essential for many organizations, can render a much larger board than an organization might otherwise have.

- A board meeting is a place of action where leaders come together to make leadership decisions. It should not be a place for ritual voting. Boards that make

decisions that should otherwise be made by staff reduce the significance of director's jobs and diminish the value of the staff capital. The degree to which the CEO can be held accountable for outcomes is also reduced.

- Executive Committee

- An effective executive committee will ensure that the policies and decisions promulgated by the board of directors will be executed through the staff.

- Executive committees should provide staff oversight to ensure the policies and the will of the board of directors are being carried out.

- Executive committees are typically empowered to make decisions for the organization between board meetings, especially in emergency situations or situations requiring immediate action.

- It is not common for executive committees to require approval of their decisions by the board of directors.

- Chief staff person

- In earlier days, especially in smaller associations, the chief staff person was an executive secretary, primarily providing support to volunteers. The chief staff person position evolved from executive secretary to executive vice president (EVP), giving it more importance and significance, especially when the chief staff person managed several other staff persons.

- Most associations today utilize the title of CEO and give the CEO position more responsibility and authority than a typical EVP position.

- A major trend in associations is to shift more responsibility for implementing policy and leadership directives from the volunteers to the CEO and staff.

- Today's association CEOs hire and manage staff, develop business plans, provide information and support to the board, conduct studies, stay abreast of association and industry trends, develop ideas and proposals for board consideration, and usually serve as a link to the world at large concerning the matters of the association.

- All significant board and committee directives should flow through the CEO and not to other staff persons.

- The CEO's accountability should be to the president.

The most significant trend in associations today is the shifting of implementation from volunteers to paid staff. This is somewhat due to the declining availability of volunteers as well as a desire for volunteers to spend less time performing volunteer duties for their

associations. Today's volunteers value their time and prefer to provide their knowledge and wisdom to their association rather than their time to perform duties that could be performed by paid staff. Thus, the number and size of committees is declining, boards are becoming more knowledge-based and there is more focus on the CEO to accomplish many more association functions with staff. Because decisions need to be made fast in today's organizations, including associations, giving the CEO and staff more responsibility allows the organization to be more agile, reacting to change and making decisions more quickly than is usually possible with an organization that has very heavy volunteer involvement.

III. AHA'S GOVERNANCE TODAY

A. MEMBERSHIP

The membership of AHA consists of Affiliates, Direct members, Associates, Youth members, Business members, Single Event members and Life members. Life members can either be Affiliates, who are also members of a local club, or they can be Direct members who are not affiliated with any club. The membership as a whole has no powers or authority in the governance of AHA.

B. MEMBER ORGANIZATIONS

These are local clubs sanctioned by AHA. They are made up of Affiliate and Life-Affiliate members as well as non-AHA members. Local clubs have their own governance structure and their officers are elected by their members, but they must abide by AHA's bylaws, rules, policies and procedures. They furnish Delegates to the Annual Convention by whatever means their individual organizations permit. Some elect their Delegate representatives and others appoint them. Clubs can also submit resolutions for consideration by the Convention Delegates.

C. CONVENTION DELEGATES

The body of Convention Delegates, as can be seen in the accompanying chart, includes four At-Large Directors appointed by the Purebred Arabian Trust, the four elected officers of AHA, the two At-Large Vice Presidents appointed by the Trust, and all past Presidents. By far, the largest contingent of Convention Delegates is made up by the representatives of the 18 regions that serve as members of the 18 Regional Boards of Delegates. Each Regional Board of Delegates includes a Chair, a Vice Chair, Past Regional Chair, and Delegates selected by local clubs. Each club is entitled to send one Delegate plus an additional Delegate per 50 club members. This relatively large body of some 535 individuals convenes annually and has the following powers:

The chart on the following page illustrates the governance structure of AHA today. The Purebred Arabian Trust is shown on the diagram because its Trustees, according to the merger agreement and AHA's bylaws, are required to make some AHA appointments. The Trustees appoint four At-Large Directors and two At-Large Vice Presidents in

addition to some committee members. The following sections describe AHA's governance and the power and authority that exist at each level.

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Purebred Arabian Trust (Appointees must be Affiliate or Committees, Commissions, Boards and Panels)

AHA Governance Structure

Membership (Affiliate or Life-Affiliate or Associate or Youth or Business or Single Event)

Member Organizations (Clubs)

Convention Delegates (18 Regional Boards of Delegates, 4 At-Large Directors, 6 Officers and all Past Presidents)

- ❑ Revocation of a Member Organization's charter upon recommendation of the

AHA Membership Committee

- ❑ Reinstatement of Member Organizations
- ❑ Enact, repeal and amend AHA's bylaws
- ❑ Amend AHA's Articles of Incorporation
- ❑ Election of AHA's President, Vice President, Secretary and Treasurer ("elected officers")
- ❑ Vote on resolutions in connection with show rules and the conduct of the business of AHA and any other resolutions previously passed by the Delegates
- ❑ Established dues for Affiliate members
- ❑ Elect the members of five committees

Convention Delegates do not have any power and authority related to matters of the registries and to AHA's budget. No proxy voting is permitted. In general, the Convention Delegates may take any action not inconsistent with the law, Articles of Incorporation, the Bylaws, or the Merger Agreement.

D. BOARD OF DIRECTORS

The AHA Board of Directors consists of the four elected officers, the two officers appointed by the Purebred Trust, four At-Large Directors appointed by the Trust, the immediate past President and the 18 regional chairs. The latter are referred to as Regional Directors. Except for the Trust appointments, and the immediate past president, all members of the Board of Directors are elected by the Delegates. The Regional Directors who serve on the Board are elected by their individual Regional Board of Delegates. The individuals appointed by the Purebred Arabian Trust are expected to represent the interests of the purebred Arabian breed.

Powers and authority of the AHA Board of Directors are as follows:

- ❑ Approve admission of Member Organizations
- ❑ Approve budgets
- ❑ Fill vacancies of elected officers
- ❑ Fill some vacancies on committees, commissions, boards and panels
- ❑ Ratify, amend or overrule Executive Committee decisions
- ❑ Hiring and discharge authority with regard to the Executive Vice President position
- ❑ Establish dues for all membership categories except Affiliates

The Board of Directors has limited authority to deal with matters relevant to the registries. In general, the Board of Directors can take any action not inconsistent with the law, the Articles of Incorporation, the Bylaws, the Merger Agreement and Resolutions of the Convention Delegates. The Board of Directors has the right to delegate its power and authority to any committee, commission, board, panel or officer.

E. Executive Committee

The Executive Committee of AHA consists of six officers (four elected by the Delegates and two appointed by the Trust) and the immediate past President. The Executive Committee, in essence a subset of the Board of Directors, is empowered to handle all matters between meetings of the Board of Directors. However, its decisions are subject to ratification by the Board of Directors and there have been instances where the Board has overruled the Executive Committee and reversed a decision. Thus, it would appear that the Executive Committee has little power, although in practice, this is not true. Though not stipulated in the Bylaws, the Executive Committee in effect manages and oversees the Executive Vice President.

F. Officers

AHA has four officers elected by the Convention Delegates and two appointed by the Trustees of the Purebred Arabian Trust. The elected officer positions are as follows:

- □ The President who has the authority to appoint certain committees and commissions, and is largely responsible for conducting and managing the affairs and business of the Association
 - The Vice President who can fill in and assume the duties of the President when necessary and actually replace the President if the office is vacated
 - The Secretary who is the recorder for the Association, keeping all essential records and minutes, and controlling the use of the Seal of the Association
 - The Treasurer who is the chief financial officer of the Association and responsible for revenue receipts, disbursement of funds, the maintenance of the books of accounting and the preparation of financial statements.

There are also two At-Large Vice Presidents appointed by the Trust. Their principle responsibility is to represent the interest of the purebred Arabian horse, including perpetuation and growth of the purebred breed.

G. Executive Vice President

The Executive Vice President is the chief paid staff position in the Association. The EVP has overall responsibility for the paid staff including hiring and discharge powers. The EVP performs duties as assigned by the President, the Executive Committee and the Board of Directors. The EVP also makes recommendations to the Purebred Trust with regard to resources required in

connection with market development and promotion, the Purebred Registry and racing services. This top paid staff position is relatively limited in power and authority. It is interesting to note that in AHA's governance, the chief financial officer of the Association is the Treasurer and not a paid staff person under the EVP.

H. COMMITTEES, COMMISSIONS, BOARDS AND PANELS

AHA's bylaws identify seven standing committees and commissions that must be in place at all times. In addition, there are 42 other committees, commissions, boards and panels which have been created by the Annual Convention, the Board of Directors and/or the President. These 49 groups are collectively referred to in this report as "committees".

According to the 2003 Committee Summary Report there are currently 18 committee chairs in their first year as chair and the current average term of a committee chair is 2.5

years. The longest serving committee chair is 10 years. Thirty-two of AHA's committees have between three and 20 members. Six committees have three members, which is the fewest number of members. Four committees have in excess of 100 members with the largest number of members on a single committee being 138. A total of 532 individuals occupy 1,446 seats, meaning that individuals who serve on committees serve on an average of 2.7 committees.

At least 16 of AHA's current committees have been in operation in one form or another since the 1950s or early 1960s. Three standing committees described in the bylaws and one ad hoc committee (the Governance Committee) were formed as a result of the merger. An ad hoc committee at AHA appears to be what most associations call a task force.

A review of a 1997 IAHA Committee Report reveals that, in addition to the committees formed by the merger, six new committees have been formed and six committees have been dropped since 1997. In addition, four committees performing promotional or public relations activities appear to have been combined into the current Market Development and Promotion Committee. Finally, 12 ad hoc committees are no longer in existence. In total, the 63 regular and ad hoc committees in operation in 1997 have been reduced to the current total of 49. All of this indicates that the Association's committee structure has been fluid and changes as the needs of the organization and the Arabian industry have changed.

IV. MEMBER OPINIONS ON AHA'S GOVERNANCE

A total of 1,473 current members were contacted by telephone or responded to a survey instrument provided in Arabian Horse Magazine. Individuals were members of IAHA, AHRA or both organizations. 83% of the respondents were members of IAHA and therefore would more likely have knowledge of AHA's governance. Of these, 53% were members of IAHA for ten years or more. The 1,473 respondents were asked how well their interests were represented by various governance units of AHA. These units include the Board of Directors, Regional Directors, Convention Delegates, Commissions and Committees. About half of the respondents had no opinion on how well their interests are represented by these governance units. With regard to clubs, fewer (35%) had no opinion on how well their interests were represented.

The following indicates the percent of the 1,473 respondents who indicated that their interests were represented "well" to "very well" by the various governance units. Since multiple choices were allowed, the percentages add up to more than 100%.

Clubs 46%
Convention Delegates 33%
Regional Directors 31%
Committees 29%
Board of Directors 26%
Commissions 23%

The above reveals the current members' relative degree of importance of the various governance components of AHA. However, it is beneficial to know what the current members involvement is, or was, in the Association and/or local clubs. While a respondent could respond to more than one Association/Club role, it is interesting to note from the following that more than half of the 1,473 respondents have not and are not involved in AHA or club leadership.

51% - Not involved in AHA or a local club

29% - Club officers

21% - Involved as a member of a committee or task force

15% - Involved as a local competition volunteer

12% - Served as Delegates or Alternate Delegates at the Annual Convention

11% - Served as Regional officers

One could conclude from the above that of those familiar and involved, there is more involvement at the local level. Respondents therefore feel that their interests are best represented more at the local level than at the national level. Given that most of those responding with an opinion feel that clubs and Delegates who emanate from clubs represent their interests the best, one could conclude that the members place a fairly high degree of significance on Convention Delegates representing them. However, they also feel fairly well represented, but less so, by the Regional Directors and the Board of Directors.

B. OPINIONS ON GOVERNANCE FROM INTERVIEWS AND FOCUS GROUPS

In addition to 259 randomly selected current members with whom a telephone survey was conducted, telephone interviews were also conducted with 42 Officers, Delegates, Directors and Committee/Commission Chairs. The following represents a summary compilation of opinions expressed during the telephone interviews:

- ❑ The governance structure is complex and cumbersome.
- ❑ Having regions allows for good geographic representation of the membership, but realignment of regions with approximately an equal number of members in each would provide more balanced member representation.
- ❑ Many Delegates are self-selected based on who can afford to attend the annual convention.
- ❑ Although local clubs may have some criteria, AHA has no criteria for eligibility of a Delegate, other than having to be an Affiliate member, and some delegates may not be representative of the membership.
- ❑ A great number of Delegates may not be informed voters on many matters.

- Delegates deal mainly with show rules, exceptions and infractions; they do not necessarily represent all interest areas of the membership.
- Delegates have too much power, including the power to block any changes to AHA's governance. It may not be possible to achieve a different governance with less power and authority for the Convention Delegates since the Delegates would have to approve the changes
- The annual convention is too long of an event for many members, but a large number enjoy serving as Delegates, feel the convention is worthwhile, and are willing to invest their personal time to participate.
- Commissions have too much power and need to focus more on policy and less on execution.
- There are many opportunities for members to participate in AHA with its current governance structure, and an expanded structure would not necessarily benefit the organization.
- There are too many committees, too many members on some committees, and some committees are ineffective and should be retired.
- Eliminating or downsizing some committees would reduce opportunities for members to participate in the Association.
- The roles and responsibilities of the Executive Committee, the Board of Directors and Convention Delegates is not always clear and some overlap exists.
- The Board of Directors ratifies Executive Committee decisions and there have been times when the Executive Committee decisions have been reversed by the Board.
- Directors are not always knowledgeable enough to make decisions.
- A smaller Board of Directors may be desirable, but allowing for Board representation from each region, which is good, results in the current board size.

The above represents frequently stated opinions obtained during the telephone interviews. A wide range of views obtained from interviews and surveys were taken under consideration by the Governance Committee.

V. OPPORTUNITIES TO MODIFY AHA'S GOVERNANCE

A. INTRODUCTION

AHA today is an organization with heavy volunteer involvement and a staff that provides support to the volunteers who are the key decision-makers. Perhaps this is the way the membership wants it, or those who serve at the level of Convention Delegate or higher want it. However, this way of running an organization is more in line with the way fundraising social organizations function and less like modern day membership associations that have revenue generating operations like businesses.

Today's membership associations with significant business operations are transitioning implementation activities and routine decision-making away from volunteer leadership to paid staff. This is being done for a variety of reasons including a declining interest in volunteerism, volunteers who wish to spend less time volunteering, and staff who wish to work for organizations where they have more responsibilities and are better able to advance in their jobs and in their careers. In addition, research shows, that a staff charged with greater responsibilities is likely to bring more ideas and recommendations for change and improvement to volunteer leadership. This is because they have the time and resources that volunteers usually do not have to conduct the research necessary to stay abreast of the marketplace and their constituents' needs. Thus, they are better able to furnish meaningful data and information to volunteer leadership in connection with higher-level decision-making.

Staff with more involvement and responsibility tend to be active in their peer societies made up of individuals in similar organizations. This allows the sharing of ideas and learning for the benefit of the organization. Individuals involved in their industry associations or professional societies frequently discover that the issues and situations facing their organization are no different than those that face other organizations. They can learn about how those other organizations deal with similar matters in similar situations.

B. OBSERVATIONS ON AHA'S EXISTING GOVERNANCE

The above section is a more general description of the typical division of responsibilities between association volunteers and staffs. Below are some more specific points which describe AHA as an organization:

1. The governing bodies at many levels of AHA's organization frequently deal with how to achieve outcomes rather than just dealing with what the outcomes should be.
2. The governing bodies are not always strategic in their activities; they often do not deal with how the organization should be changing and reinventing itself to deal with a more competitive marketplace and a decline in the breed, breeders, owners and members.
3. Top volunteer leadership individuals are dealing with many routine matters that could be delegated to staff.
4. It is difficult for volunteer leadership to hold the Executive Director and staff accountable for performance because staff direction is often received from the Executive

Committee, the Board of Directors and many committees and commissions rather than clear lines of authority.

A well directed staff can provide top volunteer leadership with time to think strategically and focus more on the strategic direction of the association, what it needs to accomplish, where it needs to be, and over the short-term, how to reinvent itself. A staff with greater responsibility and accountability is more likely to be more entrepreneurial, feeding top volunteer leadership with ideas and proposals and thus creating a more synergistic relationship.

C. WHY MODIFY AHA'S GOVERNANCE

Many AHA members may wish to leave the current governance structure and decision-making as is. However, there may be several compelling arguments for changing AHA's governance and streamlining it, depending on one's point of view. Some of the arguments are as follows:

1. To reduce the number of governing bodies and the number of individuals required to be involved in analysis, deliberation and decision-making
2. To create less layers of governance and fewer governing bodies, resulting in less bureaucracy and quicker decisions for the Association
3. To place authority and decision-making in the hands of the most knowledgeable and informed members
4. To reduce the number and length of meetings and, therefore, the attendant costs
5. To allow AHA to be more strategic and more dependent on staff to carry out more of the routine business activities of the Association.
6. To relieve volunteers from participating in activities that could be performed by the staff and perhaps performed even better, more efficiently and more cost effectively

D. RECOMMENDATIONS TO MODIFY AHA'S GOVERNANCE

Many AHA leadership individuals interviewed for this project feel that nothing is broken and, therefore, nothing needs to be fixed with regard to AHA's governance. Many individuals have enjoyed their participation at various levels of AHA's governance and cannot envision it working any other way. Others have expressed dissatisfaction over having to contribute so much of their time to the organization and the enduring processes required for decision-making. Consequently, some members and volunteer leadership individuals will be adverse to changing the governance while others will be inclined to support changes. For sure, there is no governance model which will appeal to all. Nevertheless, the Governance Committee believes these recommendations are right for AHA and will enhance implementation of the strategic plan:

1. Create the position of Chief Executive Officer.

AHA should create the position of Chief Executive Officer (CEO) with greater responsibility and authority to implement the goals and objectives of the organization. This would be a significant change in the organization and how it is run. The CEO would report to the President.

2. Move the duties of Chief Financial Officer to a staff position.

The function of Chief Financial Officer (CFO) should not be the responsibility of the Treasurer, a volunteer position. It should reside within the staff reporting to the CEO, so the CEO will have operational accountability for the fiscal soundness of the organization. By continuing its annual certified audits, by establishing a treasury function that oversees rather than executes, and by establishing a Budget and Finance Committee chaired by the Treasurer (see Section V.E.1.), AHA can entrust the CFO function under the CEO.

3. Maintain the Executive Committee.

The Executive Committee should continue as is, having the responsibility to deal with business matters of the Association between Board meetings.

4. Maintain the Board of Directors and clarify its responsibilities.

The current powers and authority of the Board of Directors, as specified in AHA's bylaws, are listed under Section III. D. on page 11 of this report. The Governance Committee does not recommend any reduction in the Board's powers. However, since the Board has the power to admit a Member Organization (club), it should also have the power to reinstate a club once it meets the requirements for readmission. This would allow reinstated clubs to legally function as Member Organizations between the time they qualify for reinstatement and the convening of the Delegates at the Annual Convention. The Delegates today have the power of both revocation, which the Governance Committee does not recommend changing, and reinstatement. The bylaws should also be amended to make it clear that any powers that do not rest with the Annual Convention (Delegates) actually lie with the Board of Directors.

5. Maintain the Convention Delegate body and clarify its responsibilities.

The current scope of powers of the Annual Convention (Delegates) as defined in the bylaws is listed under Section III. C. on page 9 of this report. The Governance Committee recommends that reinstatement of clubs be the responsibility of the Board of Directors instead of the Delegates. It further recommends that it be clarified that since responsibility for budgetary matters lies with the Board of Directors, and not the Delegates, responsibilities for AHA's business operations, especially those things dealing with the efficiency and effectiveness of staff, should be the exclusive responsibility of the Board.

6. Modify the committee structure.

The current committee structure provides desired opportunities for Delegates and

other members to participate during the Annual Convention. AHA should modify its existing committee structure and provide a voice for groups that are currently underrepresented. Specific recommendations include:

· Create a new Budget and Finance Committee, chaired by the Treasurer, consisting of the current:

- AHA Finance Committee
- Ways and Means Committee
- Internal Audit Committee

Create a new Breeders Committee to provide an opportunity for those involved in breeding to have a forum for their special interests.

Place the ongoing responsibilities of the following committees with staff:

• Arabian

• Create a Recreation Rider Committee for those whose primary interests lie in recreational riding and other non-competitive activities.

• Horse Magazine Cover Review Committee

• Legal Oversight Committee

• Legal Review Committee

Retire the Planning Committee.

Merge the functions of the Youth Advisory Board into the Youth Activities Committee.

E. PENDING ITEMS

There are three pending items the Governance Committee continues to work on:

1. Working with the Market Development and Promotion Committee, explore how AHA can track member interests and develop strategies to enable AHA to transition and reinvent itself to become a broader-based organization which addresses all key interest areas of the marketplace.

2. Work with a subcommittee to explore ways in which AHA's Delegate body can be configured to not only represent clubs and regional interests, but also a broader range of interests and activities embodied in the entire membership of AHA beyond just the Affiliate members.

3. Work with the various show commissions to explore how they can utilize a greater mixture of staff experience and achieve uniformity in marketing, sponsorships, promotion and development.

F. INNOVATION TO CHANGE

If AHA truly wants to implement the strategic initiatives identified in the strategic plan, it cannot do so by simply combining, eliminating or modifying those governing bodies that are made up of volunteers today. Instead, AHA will need to make dramatic changes in its philosophy and in the delegation of authority. This means that the top leadership of AHA will have to be willing to focus primarily on what should be achieved and not how to achieve the outcomes. It must be willing to establish a more powerful position of CEO with a staff that has more clearly defined roles and enhanced responsibilities. This will have two benefits. One benefit will be to relieve top volunteer leadership of the implementation of mundane activities so they can focus more at a strategic level dealing with reinventing, transitioning, and redirecting the organization to deal with an ever-changing and competitive marketplace. The other benefit is that a staff with greater responsibility and accountability will be more entrepreneurial and more inclined to feed top leadership with ideas and proposals for their actions. Thus, rather than the staff primarily reacting to leadership directives and carrying out the assignments promulgated by top leadership, a more two-way synergy can exist between staff and top leadership.

G. NEXT STEPS

The governance recommendations described in this report will be provided to the AHA Board of Directors for discussion and ratification at its next meeting on August 8-9, 2003. Those elements of the recommendations needing Convention approval, such as those requiring bylaws changes, will be submitted in a resolution.