
Trade Associations:

A case of Cinderella at the ball?

- Martin Perry

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Growing interest in business networks has somehow bypassed the well-established forum of the trade association. In contrast to traditional beliefs about low service and low capacity, recent New Zealand-based research finds they are now characterised by high participation levels and valuable contributions to members, industry and public good.

Trade associations are the Cinderella of the network society. Academics champion networking and collaborative relationships in the cause of competitive advantage as if they had discovered some novel sphere of activity. Government agencies have followed with programmes for joint action groups, hard networks and latterly cluster groups. Meanwhile, the sometimes century old trade associations continue to provide forums for business networking and the pursuit of shared interests apparently written out of the moves to promote a more associational economy. Technically, all that may distinguish a trade association from other business networks is the coordination by a third party that is independent of any association member and that has some degree of power to aid, abet, guide and cajole participating businesses.¹

New Zealand has over 300 trade associations, estimated by adding a margin to the number identified in the present study. Amalgamations of existing associations are frequent but equally so is the impetus to form new groups. Indeed, new associations were established at a faster rate post 1990 than in the immediate prior decades. The largest ever investigation of New Zealand's trade associations was launched to explore the continuing appeal of trade association membership.² This review examines four issues covered in the larger study.

First, how has the focus of lobbying activity changed with the opening of the economy to increased competition and the general reduction in sector-specific regulation? Prior to this study, no information existed about whether business has new motivations to join trade associations and whether this might change the evaluation of their importance to the economy. Second, New Zealand is not alone in having a high density

of trade associations but the number and longevity of groups may indicate some particular influences at work. This may lead to hitherto unidentified strengths to build upon. Third, even if involvement in industry expansion turns out to be low there is still a case for discovering good practice. An "association of associations" does exist - Associations New Zealand - but it is not as well supported as equivalent agencies overseas that help associations benchmark their performance. Four, government agencies may be required to update their relationships with trade associations and consider a bigger role for them in the delivery of business development programmes. There has been a history of promoting alternative industry networks. These efforts have had little lasting impact so it may be time to turn to the groups that do seem to survive.

The study is based on interviews with the executives of 101 trade associations. They are generally representative of New Zealand trade associations but it should be noted that the evidence comes mainly from groups representing industry and services rather than rural and primary sector businesses and that small associations without at least a part time executive officer are under represented.³ The study was designed to enable comparison with previous evaluations. The conclusions of the earlier studies are discussed next as they provide one important benchmark for the findings subsequently summarised.

Critical judgements on trade associations

Trade associations have a reputation for being protectionist lobbies intent on defending industry incumbents from new competition. The economist Moncur Olson encouraged this view.⁴ He labelled trade associations "distributional coalitions" to reflect a focus on capturing a greater share of existing wealth

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rather than on helping to grow the economy. Relatively closed economies and high levels of sector regulation were the context for Olson's prediction that sector-based trade associations were at risk of encouraging economic paralysis. Subsequent changes in the competitive environment and the failure of Olson's prediction to come to pass underline the importance of reconsidering what associations do.

A study of New Zealand's trade associations was made in the wake of the Porter Project report⁵ on upgrading New Zealand's competitive advantage.⁶ The Porter report argued that competitive advantage arose from shared resources as well as individual enterprise. Enderwick and Wilson evaluated trade associations as a potential vehicle for putting Porter's theory into practice. In terms of the resources available to individual associations and the range of activity engaged in, they were judged unfit for purpose. Indeed it was said not even to be possible to define precisely what an industry association was or what it did.⁷ Consequently, they claimed that a "not inconsiderable gap" existed between the current structure and activities of associations and what they would need to be if they were to have any capacity to assist the upgrading of New Zealand's competitive advantage.

Few associations reveal a strategic orientation, as indicated by the number able to offer a mission statement, for example. There is limited commitment to an end-user orientation, and much communication appears to be one-way, from the association to its membership. This is unlikely to be conducive to the successful creation of industry competitive advantage.⁸

A subsequent follow up survey carried out in 1998 suggested that associations were becoming more effective but this included rural sector groups that had the benefit of funding through compulsory levies. An emphasis on influencing government policy rather

than upgrading their industry's competitive advantage was identified as a continuing weakness of associations.

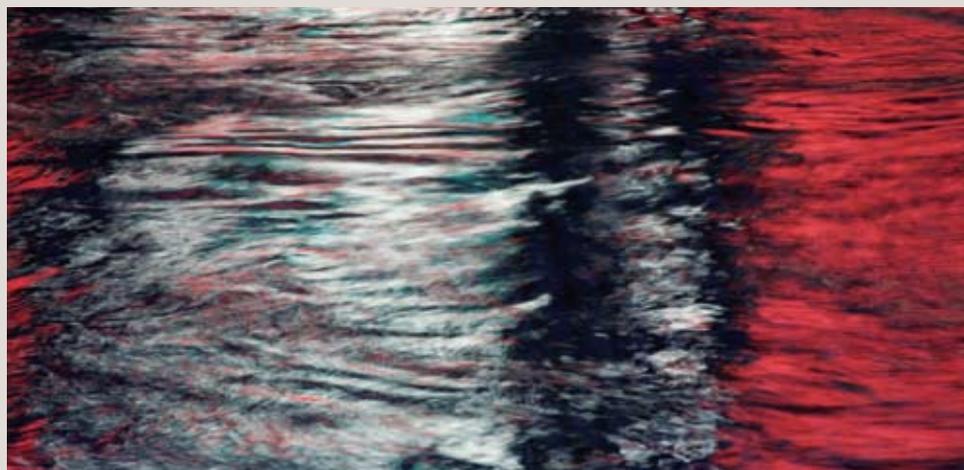
The present study is based entirely on groups depending on voluntary membership, providing a more specific focus than the Enderwick samples. A logic of influence and a logic of service have been identified as the general motivators of voluntary trade association membership.¹⁰ The logic of influence is to join the association's collective representation on behalf of its affiliated sector, to government and other bodies as well. The logic of service is to gain access to association services. These may be in the form of membership controls (such as a code of practice), advisory or research services. Whereas the logic of influence is based upon the

existence of collective interests, the logic of service depends on there being some rationale for obtaining services from an association rather than from independent suppliers. This may be a particular relationship of trust between the association and members or the alignment between service and collective activity, as when membership accreditation enhances representation to government.¹¹

In purely voluntary systems of membership, "low capacity, low service" associations are generally thought to result from the membership logics. Representation can have a large "public good" outcome such that benefits flow to members and non members alike, offering an incentive to "free ride". A reaction is to restrict the scope of collective representation to sector-specific issues. The generally small number of business in a business sector makes informal, peer pressure a more effective recruitment tool than with a more encompassing group. With groups limited in scale, there is limited resource to provide services and hence the expectation of a "low service – low capacity" bind.

The variety of trade associations existing is a challenge to making generalisations about their capacity to assist business.

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"Reflection"

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This constraint has particular relevance in New Zealand where most associations are participatory groups: one of seven types of association identified by Bennett.¹² In a participatory association, affiliates maintain an active role in the association engaging with the association's executive and directly with other members. This can make an association of importance beyond the resources obtained by the executive, the indicator used by Enderwick and Wilson.¹³ As well, the "low capacity" label begs the question of what capacity it is reasonable to expect. It may be that the roles performed by associations match the capacity of members to engage in "industry good" work.

This summary first considers whether the logics of collective influence and service still hold in terms of what associations do and what motivates membership. It then provides some indicators of the resources possessed by associations. The extent of strategic planning is then commented upon as this indicates a perhaps unexpected degree of coherence and ambition. Associations' own assessments of their performance are then discussed before explaining what has helped to strengthen associations.

What do associations do?

Trade associations variously perform a mix of five main roles (Table 1). In some cases, activity can shift from year to year according to what is deemed most important. Partly for this reason it is difficult to identify a precise number of associations with each activity, but all except the transformational role are frequently encountered. There has been a substantial change in the purpose of associations since the early 1990s when it was claimed to be difficult to discern precisely what associations did.¹⁴

The representation, maintenance and strategic purposes overlap with the logics of service and collective influence. Different terminology is introduced partly to recognise that some activity is directed at industry growth whereas the logic of influence carries an implication of defensive lobbying. As well it seems important to recognise the distinction between the strategic and transformational roles.

Associations linked to a sector that is undergoing some fundamental change in its market, technology or industry structure can play important roles in facilitating the transformation. This may include facilitating new areas of industry training; providing industry forums to facilitate engagement between association members and other market participants; or helping to identify and agree evolving business practices and standards. Such activity is more than a mix of collective influence and service as it can require a high degree of activism by the association compared with maintaining "business as usual". A good example is Roothing New Zealand. This comparatively new association is assisting an adjustment to changes in government contracting for road construction and maintenance work.

The social role responds in varying degrees to the sense of pride participants have in their industry, a wish to interact with and gain recognition among industry peers and a desire to share knowledge and experience. Activities such as annual conferences, networking functions (possibly organized by regional branches as well as the national office) and annual awards reflect this aspiration. As well as at least a part time executive officer all the associations have an executive committee comprising representatives from some or all the member companies. Whereas the executive of an association typically comprises CEOs or other senior executives from member companies, in some associations there are multiple committees targeted to specific areas of responsibility that draw in a wider range of representatives. The social purpose can promote a more open-ended commitment than membership driven by the purchase of a specific business service consumed over a finite time period.

The diversification of roles questions the "predatory lobby" interpretation of associations. In closely regulated sectors such as broadcasting, traditional perspectives on association activity remain relevant but few sectors are as dependent on government-controlled resources. Representation work is frequently now at the invitation of government agencies reflecting their need to engage with policy stakeholders. Associations aspire to be seen as experts that are respected for their insight. Proactive representation frequently has a focus on changing perceptions rather than immediately leading to more advantageous outcomes for the sector. For example, much of the advocacy by the Tourism Industry Association is directed at gaining recognition of the financial importance of tourism rather than on securing specific advantages over other parts of the economy. Advocacy work may also be addressed to interests that are shared with others, such as the involvement of several trade associations with other public and private interests advocating

Table 1 Summary of association roles

Purpose of activity	Illustrative activity
Representation	Assisting regulatory compliance, representation to government and maintaining industry relationships with public agencies and other industry associations
Maintenance	Promoting professional standards and maintaining industry self regulation
Strategic purpose	Supporting industry growth through the promotion of industry infrastructure, addressing resource constraints and collective marketing
Transformational	Assisting businesses to adapt to new market environments
Social	Recognising, motivating and informing industry participants

more investment in Auckland's infrastructure. As well the extent of transparency in trade association advocacy has grown with the publication of submissions and advocacy reports on association websites. Olson's¹⁵ description of trade association advantage over others in the community remains an important insight but they have a legitimate role in contributing to public debate.

Why businesses join

Consistent with the frequency of the representation role, having representation to government is the most frequent motivation for membership (Table 2). "Access to association activities or privileges" and the "opportunity to learn from other members" are two secondary but still important motivations. Association activities include member meetings and conferences that are valued partly for the network opportunities provided. This may make the networking motivation of more influence than the data indicate, underscoring how associations can have both a formal and informal importance to members. The formal relates to the programmes and advocacy work and the informal relates to the dialogue and interaction they facilitate between individual members.

The relative importance of representation, access to association activities and the opportunity to learn as motives for membership changes with the age of the association. Slightly over two thirds of the associations were formed post 1950 with a quarter of all associations formed after 1986. The network motive for

association membership is particularly strong among the most recently established associations. New associations are frequently a response to increased specialisation in growing areas of the economy and this context encourages demand for opportunities to learn from other industry participants as well as to support market shaping initiatives.

Representation is the most important membership motivation for associations born in the decade prior to the mid 1980s economic reforms. Access to association activities and privileges is most important for the longest established associations.

Association resources

A high level of recruitment from the target population is a prerequisite for association effectiveness. On this score associations are strongly resourced. The average membership density is two thirds of the potential but a fifth claim to have recruited at least 90 percent. Resource strength is less evident when absolute membership and the investment of members in their association is examined.

Membership averages over 390 among the associations examined but this is skewed by 9 associations that have over 1,000 members (Table 3) including 4 with over 2,000 members. When these mega associations are excluded, the average drops to 170 but the majority (53) have fewer than 100 members. These data relate to the primary membership group excluding associate and other member categories. These subsidiary members are typically not given voting rights on association affairs but can widen the association's network to suppliers and other businesses with a partial interest in the focal sector.

The number of executive staff tends to increase with membership numbers (correlation coefficient 0.738) but this overall relationship is mainly the outcome of the small number of large-member associations with large executives. Among the majority of associations with fewer than 250 members there is generally at least a full time executive but rarely more than four in total. Around a fifth of associations have a permanent executive of five or more full-time equivalent staff but half have no more than two. In practical terms this can mean that most associations have a full time executive officer and a part time administrator, possibly supplemented by occasional contract staff. A typical annual budget is around \$300,000.

The small number of executive staff employed by most associations suggests limited capacity to implement programmes and strategic planning. Six influences help sustain association activity.

- Member participation through involvement in ongoing management and projects is important to most associations and especially those representing a few large organisations. For example, one association of 30 members identified 21 committees and subcommittees that are maintained by representatives of member organisations. The staff time being given to these committees was valued as equivalent

Table 2 Association perceptions of membership motivations

Motivation for membership	Number of associations (n = 101)		
	Very important	Some Importance	No influence
Have representation to government	69	25	6
Access to association activities/privileges	55	34	10
Opportunity to learn from other members	52	42	6
Access to individual advice	37	46	16
Demonstrate status in the market	34	50	15
Support an industry strategy	33	35	20
Loyalty to the industry	27	54	17

Table 3 Selected big and the small trade associations 2008

Trade associations with 1000 plus members	Trade associations with 10 or fewer members
Electricity Contractors Association of New Zealand	Bakers Association of New Zealand
Hospitality Association of New Zealand	Gas Association of New Zealand
Motel Association of New Zealand	Health Funds Association of New Zealand
Motor Trade Association	New Zealand Bankers Association
National Road Carriers Association	New Zealand Shipping Federation
New Zealand Retailers Association	New Zealand Tanners Association
Registered Master Builders Federation	Trustee Corporations Associations of New Zealand
Restaurants Association	
Tourism Industry Association New Zealand	

to around a quarter of the association's annual income. This was exceptional but most (63) associations have at least one committee in addition to an executive committee. This can expand the proportion of organisations actively involved and the range of staff from member organisations. As a consequence nearly all (85) associations can claim to have significant contact with members rather than being driven by the executive alone. This appears to be a change from the position in the early 1990s when interaction between executive and members was claimed to be minimal.¹⁶

- Diverse income sources mean that few (15) associations are dependent entirely on membership subscriptions. Annual membership fees continue to provide the main source of income but for a third of associations the dependence is no more than 60 percent. This gives some security to engage in long term activity and an ability to pursue projects that are not necessarily endorsed by all members. Alternative income tends to augment rather than merely substitute for subscription income, as reflected in income diversity being associated with the employment of more executive staff (Figure 1). The correlation is not strong (correlation coefficient -0.371) but this is partly because there are some smaller associations of large organisations that do not need to seek additional funding.
- Association running costs are typically a low share of expenditure. One concern about associations is that sparse resources are absorbed in maintaining the life of the association rather than in supporting industry good projects. In practice, membership promotion and administration absorbs less than 10 percent of annual resources for a third of associations. There are ten associations claiming that keeping the association running is their main activity but most associations devote at least half of their resources to other activity.
- Non member free riding on association activity is generally not a management distraction or constraint on activity. Two associations indicated that their work was impeded by the potential spill over of benefit to non members. More typically (40 associations), there is frequent engagement with non members and for an equal number of associations at least some ongoing contact with non members. Association conferences and professional development workshops are frequently open to non members. There may also be consultation with non members on industry strategy and public policy submissions, recognising that there is benefit in claiming to speak for all industry participants. Associations with large memberships of predominantly small enterprises but low recruitment rates are most inclined to maintain a strict member – non member demarcation.
- Associations with shared interests augment individual resources by working together on projects of joint interest. Examples include a jointly run remuneration survey; support by the Frame and Truss Association to activities coordinated by the Wood Processing Association; coordination between the Baking Industry Association and Bakers Association on representation on food regulation matters; cooperation among the “master associations” to negotiate a KiwiSaver scheme with specific incentives for their combined members. There has also been the emergence of “umbrella” groups such as the Tourism Industry Association, which partly works on behalf of independent tourist industry associations, and Print New Zealand whose membership includes sector groups that once operated as independent associations.
- Some associations keep base funding low on the basis that specific activities should be paid for as they arise and as supported by members. This organisational model works where there is a small membership of large organisations. Coordination of significant, additional funding is feasible in such a context and can respond to member specialisation that gives rise to different priorities for the association to address.

Strategic planning by associations

Most (78) of the trade associations interviewed aspire to encourage industry growth. Associations linked to demand dependent service industries are the dominant among those not sharing the growth ambition, reflecting the view that the state of the economy determines industry growth. Developing some form of strategic plan is one of the ways that growth-minded associations give substance to their aspiration. While there is a risk of plans having little impact on actual resource decisions, preparing a plan in itself suggests a hitherto unrecognised role and importance to trade associations.

At the most developed end of the spectrum, strategic planning can result in some form of comprehensive assessment of the industry's current situation, derived from engagement with a wide cross section of industry stakeholders and the prioritisation of projects selected for their contribution to some larger goal. The New Zealand Tourism Strategy 2015 prepared jointly by the Tourism Industry Association, Tourism New Zealand and the Ministry of Tourism is perhaps the leading example of industry association strategic planning. Given tourism's dependence on public and private sector infrastructure and service investment, it is perhaps not surprising to find this sector linked to a particularly exhaustive planning process. Government support assists as it has also in the development of an export opportunities plan by the Aviation Industry Association.

Industry-wide strategic plans such as those prepared by the Tourism and Aviation Industry Associations map a vision that it is hoped will influence investment decisions over the long term. Realising the vision will depend on the support of other agencies as well as industry participants. Plans assist if they help convince financial institutions and skilled workers of the growth opportunities that exist. Some strategic planning initiatives identify projects that can be funded partly with industry grant

schemes. The strategy pursued by Plastics New Zealand seeks partly to fill gaps in the education and research environment. A \$10 million Centre of Excellence funded 50-50 by the industry and the Tertiary Education Commission located in the University of Auckland Tamakai Campus has been one outcome. As well the planning has led on to discussions with universities about the introduction of specialised qualifications based on the mix of polymer science, mechanical engineering and design skills needed in the plastics industry.

These examples indicate that trade association strategic planning can support industry growth. On a smaller scale, changes in association representation are frequently central to an industry growth strategy. The Baking Industry Association, for example, represents predominantly small scale bakers whose market has been affected by the growth of franchise chains, supermarket in-store bakery departments and a growth in businesses owned by new migrants. Membership diversification is key part of this association's current industry strategy recognising this to be a first step to being able to assist the baking industry adapt to increased public health and food safety issues. The New Zealand Water and Wastes Association strategy is similarly addressing membership issues. Business leaders in this sector see that investment in water infrastructure has lagged other areas of public investment. A strong trade association with capacity for research and advocacy has been identified as one tool for changing this position and this is reflected in a strategy for building the association's capacity to influence public infrastructure investment.

Association performance

Judged against what they aspire to achieve, most association executives believe that they are performing well (Table 4). Self assessments may be unreliable although some associations drew on membership satisfaction surveys in providing responses. Performance variation across the areas of aspiration is at least indicative of relative strengths and weaknesses. In this regard,

Figure 1 Reliance on annual membership and number of full time equivalent staff

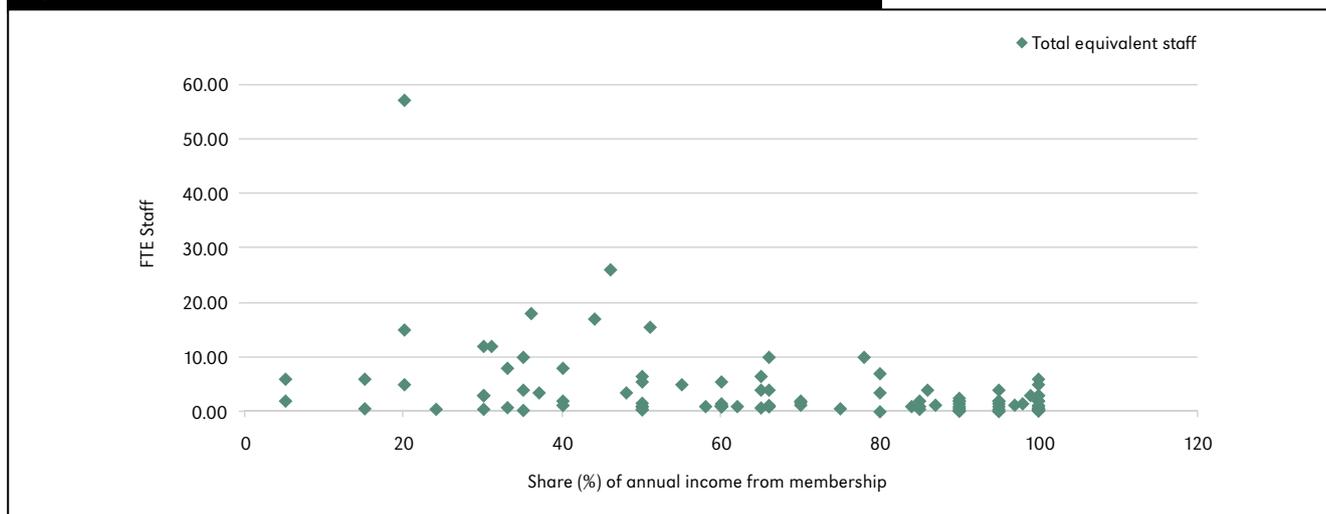


Table 4 Assessment of performance in attaining association aspirations

Association aspirations	Performance against aspiration (number of associations):		
	Very well or well	Performance less than well*	Not an aspiration
Building cooperation between member businesses	57	11	32
Facilitating conditions conducive to industry growth	53	26	22
Good relations with government agencies	82	14	5
A united industry voice	79	14	8
Providing resources or activities that save individual company investment	49	15	37
Placing non members at a significant competitive disadvantage	17	16	68
Attaining influence over members to obtain support for association strategies	26	11	64

Note* The original survey categories “neither well nor poor”, “poor” and “very poor” are combined. Except for “Placing non members at a significant competitive disadvantage”, most responses are “neither well nor poor”.

N = 101 except for “Building cooperation between member businesses” where one respondent indicated that they were unable to judge the association’s performance.

limited success in placing non members at a disadvantage is the area where associations are most frequently performing less than well but this is not a widely held aspiration.

Efforts to facilitate industry growth are another relatively frequent area of shortfall. This partly reflects assessments that the public policy environment continues to constrain growth or that public agencies have yet to support activities sought by the association. This judgement may exist at the same time that the association believes that it has established good relations with government agencies, judged by the willingness of public bodies to proactively involve them in ongoing dialogue.

The overall rating of the associations’ current strength is high: 86 rate their association as currently “strong” (54) or “very strong” (32) while 13 rate it as “neither weak nor strong”. Performance was judged on a variety of indicators including membership growth, low membership turnover, the willingness of members to support association activities, the degree of engagement with public agencies and other industry associations and recent project successes. The two poor performers had either made a decision to wind up or to scale back activity to little more than maintaining an association website for marketing purposes. Performance judgements are based on the outcomes achieved with their present resources: most association executives see an unrealised potential for greater achievements if they had greater resource.

Beyond high levels of member support, a few executives speculate that New Zealand may have some trade association advantage compared with the ability to coordinate collective action in other countries. As a small economy, associations sometimes bring together activities that in larger economies have separate associations. Booksellers New Zealand, for example, represents booksellers and publishers whereas overseas they tend to engage in separate groupings. This separation existed in New Zealand prior to 1991 when the booksellers and publishers combined forces with the aim of strengthening their capacity to promote New Zealand published books in New Zealand (a separate association continues to focus on overseas sales of New Zealand books). Of a slightly different nature, one association executive believed that their association was able to achieve more than equivalents overseas because coordination from higher up the industry value chain is missing in New Zealand. In this sector the trade association partly fills a void created by the absence of end producers.

A further suggestion was that industry initiatives are sometimes easier to coordinate in New Zealand than in larger economies. Much of this advantage was thought to derive from the preponderance of personal relationships across industry stakeholders and the ability to progress projects on the basis of comparatively informal communication. One association, for example, described their experience of designing and

implementing an industry-based electronic payment system over a time period several years ahead of an equivalent association in the UK. The accelerated development achieved in New Zealand was put down to the relative ease of collecting the transaction data needed to design the payment system. The association's lead gave the possibility of it selling its design solutions to overseas markets. Another association referred to experience that international bodies sometimes seek guidance from New Zealand (and Australia) because of the tendency for North America and Europe to have contrasting perspectives in areas of industry regulation. Agencies such as the World Health Organisation may seek out this region's recommendation when these larger regions have sharply polarised outlooks.

The changing environment for associations

Changes in the external and internal environment underlie the new significance of trade associations. Externally, the depressed economic conditions of the late 1980s and early 1990s contrast with the sustained economic growth prior to 2007. Economic buoyancy can increase business entry, reduce barriers to inter-firm networking, create or at least expand new areas of business activity, increase labour and other resource shortages and result in more openness to new forms of competition. These are all influences with potential to increase demand for association membership. An expanding agenda of public concerns such as advertising and obesity, other public health concerns, environment and consumer protection bring threats of regulatory change that again tend to bolster support for associations.

The internal environment of associations has been affected by changes in the structure of corporate New Zealand. During the 1980s, a small number of corporate groups grew to dominate key parts of the economy. Rivalry between the groups and capacity to address industry issues individually tended to constrain the role of trade associations. Particularly in the building products and wood processing areas, new associations have emerged and established ones have grown in membership in the wake of the break up of former dominant corporate entities. With a membership now more inclusive of their sector and comprising enterprises of more equal scale, the basis for collaboration and perceived value of an association has grown. At the same time, other associations have gained in strength from an increase in industry concentration and from technological convergence that reduces the fragmentation of industry interests. This arises where the shift is from many small enterprises with individual specialisations to more medium-sized enterprises with overlapping markets. Of a different nature, the efficiency of association information gathering and dissemination has been enhanced through the growth of electronic communications since the 1980s.

Conclusion

Recruitment success, sense of purpose, membership engagement and involvement in activity of potential public good as well as individual benefit underlines the case for reassessing the importance of trade associations. The present study has relied upon input measures rather than indicators of the effectiveness of association efforts or ability to create value for individual members or the economy as a whole. Clearly it would be valuable



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Liz Hardley,
 "Sunset Swimmers",
 St Heliers Bay,
 November, 2005

to collect such data in future trade association research. For the present, an overall positive assessment contrasts with that in the early 1990s. Environmental change has generally been positive for trade associations giving reason to believe that the support for association membership has been growing. Speculation about the comparative advantage trade associations may sometimes have in New Zealand adds to the case for giving the sector greater recognition than hitherto.

The strategic orientation of many trade associations provides a justification for government to engage more closely with associations than has tended to occur to date. Many associations are focussed on building conditions for the long term prosperity of their sector, partly through assisting member business adapt to changes in the business environment. There are selected

examples of government agencies recognising the possibility of utilising trade associations for the delivery of public policy goals. National Road Carriers, for example, are one of several industry associations that have established "Straight 2 Work" partnerships with Work and Income to help the recruitment of long term unemployed into their sector. Conventions and Incentives New Zealand now manage a government funded Conference Assistance Programme. Not all associations would accept a role as agents of government programmes but there is scope to expand beyond the sporadic examples that currently exist. More generally, future business development policy should first determine whether trade associations are appropriate for the task. Any need for government agencies to establish alternative enterprise groups appears to be diminishing. ■

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Further reading

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A practical guide to the work of trade associations is given by Boléat, M. *Managing Trade Associations*, (London: Trade Association Forum, 2003) and for guidance on good management, see Boléat, M. *Good Practice in Trade Association Governance*

A broad evaluation of the role of social networks can be obtained by reading Cross, R., Nohria, N. & Parker, A. "Six myths about informal networks - and how to overcome them" *Sloan Management Review*, (2002). 43(3): 67-76; Cross, R., Parker, A. and Sasson, L. *Networks in the Knowledge Economy* (New York: Oxford University Press, 2003) and Castells, M. *The Rise of the Network Society* (Oxford: Blackwell, second edition 2000).

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