

# **The changing environment for trade associations and strategy for adaptation**

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## **Introduction**

Businesses are increasingly subject to a range of economic, technological and social factors which can force them to change drastically the goods and services they provide and/or the way that they provide them. Trade associations, however, for the most part have been sheltered from such forces. Broadly speaking they have needed only to make incremental changes to the services they provide or the way that they provide them. However, this is now changing as a result of a combination of factors.

## **The ideal trade association environment**

It is helpful to identify the environment in which trade associations are most likely to flourish and to be effective. The ideal environment is one in which there is a discrete sector of the economy which is dominated by institutions which are nationally based and which are specialist in that sector. It is an added advantage, and one that could well influence the other factors, if there is a specific regulatory regime for the sector.

It is also helpful if there is a manageable number of members – say 100 to 400, with no one firm having more than 5% of the market and with a stable industry structure.

In such an industry there would be a substantial common interest, particularly in respect of the representative function. One or a small group of members would not dominate the association and the stable industry structure would help maintain continuity in the governance of the association and the subscription scale.

Few industries have ever presented such a favourable environment to a trade association. The building society industry in the UK in the 1970s came very close to it. Over 100 societies were in business and they dominated the mortgage market with a market share of over 90%. They operated under special legislation which itself helped ensure that they were specialist institutions. However, the industry did have large members and a steady stream of mergers. At the opposite end of the spectrum are the global industries – airlines, computers and car manufacturing.

Generally, there is a move towards a far more difficult operating environment; in some sectors and industries the change is very rapid.

## **The changing environment – an overview**

Five factors are changing the operating environment for trade associations. They apply in all countries and all sectors, although their relative strengths vary substantially from case to case. The factors are inter-related. In summary they are –

- An increasing degree of concentration within industries as a result of take-overs and mergers.

- Globalisation of business such that an increasing proportion of business is in the hands of foreign companies and domestic companies have an increasing share of their business in foreign markets.
- The breaking down of barriers between markets and institutions.
- Deregulation and privatisation combined with a gradual shifting of policy-making to the European or global level.
- Information technology developments which should transform the way that trade associations work.

In general the threats provided by these developments outweigh the opportunities.

### **Increasing concentration**

The structure of a sector is relevant to a trade association in two respects. Firstly, the more that an association is dominated by a small number of members the more difficult it will be to manage the association. The large members may feel that the association merely serves to help their smaller competitors at their expense, and may seek to keep the association weak. The smaller members may feel that the association is dominated by the larger members and may want to set up their own association.

Secondly most associations have subscription scales that are either capped or which taper or which are both tapering and capped. It follows that any merger of members will reduce subscription income. The larger the members involved in the merger the greater the effect on subscriptions. Members of an association will not easily understand being asked to pay a higher subscription not because they are getting a better service but rather because two other members have merged.

In those sectors where there has been merger activity and where the subscription scale is either or both of capped or tapering trade associations have suffered reductions in subscription income. Even where there has been no taper or cap the merged member may well question the subscription level thereby forcing the introducing of a cap or a taper. In some cases an informal arrangement will be made. In some associations, where membership is highly valued, it may be possible to extract higher subscriptions from the remaining members to compensate for the effects of merger activity, but even where this is possible there is likely to be adverse reaction from some members.

Normally however, associations have to react to this factor by reducing expenditure or seeking to increase revenue from other sources. This factor can itself also prompt mergers of trade associations where there are competing associations in a sector.

There are few sectors of industry and commerce where has not been a growing degree of concentration. In the banking industry there has been a mega-merger in France between BNP and Paribas, and in the UK NatWest has been purchased by Royal Bank of Scotland. In Germany there have been two attempts at mergers between the largest three banks but, as yet, these have failed. Other industries show a similar trend.

## **Globalisation**

Globalisation is a special form of rationalisation, and involves one or both of two forces – increased foreign ownership of domestic institutions and increased trade such that a higher proportion of business is traded internationally. Recent examples of global mergers include –

- The Bass acquisition of Intercontinental in the hospitality industry. Bass now operates in 95 countries.
  - The Daimler/Chrysler merger in the motor industry.
  - The Vodaphone/Airtouch/Mannesman merger in the telecommunications industry.
- The alliances between the airlines can be seen as a special form of globalisation.

While domestic mergers are invariably bad news for trade associations, globalisation may or may not be. A trade association would probably prefer the foreign acquisition of one of its large members to an acquisition by another larger domestic member. Foreign owned members are often good members for trade associations. Few international companies seem to discourage membership of national trade associations. Most leave the matter to the discretion of the country head.

However, globalisation often involves increased concentration at the national level and thereby affects trade associations. A good recent example of this is the acquisition of a French insurer, AGF, by a German insurer, Allianz, which led to a merger of their British subsidiaries. Taking the insurance sector again, the merger of two French companies, Axa and UAP, led to a merger of their British subsidiaries. The merged company has subsequently taken over one of the largest British companies, GRE, which has led to an increase in concentration in Britain and also rationalisation in other countries where both companies operated.

Where a significant part of a national market is controlled by international companies, particularly those based abroad, then management of the association may become difficult. The primary allegiance of foreign owned members is to their head office. The policies pursued by a trade association to which a subsidiary belongs may be at variance with those of the association of the parent company.

## **Breaking down of barriers between markets and companies**

There has been an increasing trend for the boundaries between markets and institutions to become blurred. This is partly a consequence of deregulation and globalisation but also a reaction to market developments. The financial services market in Britain is a good example. Twenty years ago there were specialists banks, investment banks, stockbrokers, insurance companies and mortgage lenders. Now, the major financial institutions are in most or all of these markets as a result of creating subsidiaries or acquisitions. For example, one of the largest British banks, Lloyds TSB, has acquired two very large life companies, Abbey Life and Scottish Widows, and one of the largest building societies, Cheltenham and Gloucester. There has also been a blurring of the boundaries between products. In Britain unit trusts and life products have come to resemble each other. And there are now capital market instruments that look like reinsurance contracts.

The utilities are another example of this force. In Britain the gas, water and electricity companies can now sell each other's products and there have been mergers between the sectors. For example, Southern Water and Scottish Power are part of the same group, and in Wales the Hyder group provides water, electricity and a wide range of other services. A number of these utilities have moved into the telecommunications business.

### **Deregulation**

Deregulation generally is partly a result of other trends yet it can accentuate those trends as well. While deregulation is often seen as a good thing in itself, governments are often encouraged to deregulate by market forces. Again, the financial services industry in Britain gives a good example of this. The method of implementing monetary policy in the 1950s became inappropriate because of market forces. As balance sheet controls of banks were lifted so they were more easily able to compete with the specialist mortgage lenders, the building societies. This contributed to the deregulation of building societies which allowed them to compete with banks in the deposit and retail loan markets. As the banks and building societies competed more strongly with each other so there have been mergers to create economies of scale. In effect, the building societies and the banks are now in the same industry rather than being in separate and distinct industries.

The utilities have similarly been deregulated. When there was a single national supplier of gas or water or electricity there was no need for a trade association. Privatisation generally meant the creation of a number of separate companies which have then needed to get together through a trade association. Further liberalisation has contributed to three of the other trends noted in this paper – the breaking down of barriers between markets (the various companies now sell each other's products), increasing concentration and globalisation, with American and French companies buying British companies.

There has also been a trend away from specialist regulators and towards regulators covering a wide field. Again, taking a British example, the Financial Services Authority is being created to replace nine specialist regulators. As the specialist regulators for banks, building societies and insurance companies disappear so the need for specialist trade associations is reduced. Similarly, the gas and electricity regulators have merged.

In some sectors regulation is moving to the European or global level. The countries of the European Union have bound themselves to create a single market and much key decision making is now at the European level rather than the national level. Trade associations therefore increasingly have to operate at the European as well as the national level which they can do either directly or through European trade bodies or through a combination of the two.

In some markets where globalisation has been a major trend so decision taking is moving to the international level. For example, key decisions on banking regulation are now taken by the Basle Committee on Banking Supervision and there are similar bodies for the insurance and securities industries. Some issues, such as pollution and food safety,

are increasingly being considered at the global level, if only informally, and the representative mechanism has to recognise this.

Conversely, in some countries there is a trend towards devolution with decision taking being shifted to smaller and smaller units. The former Yugoslavia and USSR have been broken up into a series of smaller units. Czechoslovakia has been split into two. In the UK Scotland, Wales and Northern Ireland now have their own parliaments (of sorts) with, in the case of Scotland in particular, considerable devolved powers.

Trade associations may therefore find themselves not only having to work at the traditional national level but also at the sub-national level, the European or other regional level and the global level.

## **IT**

Technology has differing impacts on different industries. Some, like football, are relatively unaffected. Most use technology to make their administrative systems more efficient. Some are technology driven. Trade associations have largely been in the second category. However, the internet is capable of having a huge effect on the way that they do business, particularly when combined with the other factors covered in this paper.

Trade associations provide one or more of three core services -

- Representation.
- Provision of information, advice and guidance on best practice.
- A gateway for purchasers of the goods or services provided by members.

The balance between these three services is crucial to the impact of the internet. Representation will be least affected. The main effect is to improve the efficiency with which information can be obtained - particularly from government and official bodies.

The provision of information and advice will be greatly affected. The internet is surely the way in which all associations should be communicating with their members. Through the internet instant access can be provided to all the information that the association has to all staff in all members. This removes an age-old problem that associations have had, that is that much of the information they provide does not get into the right hands in member companies.

However, the internet has other implications. Most associations opt for a two-tier website - an open part accessible to anyone and a closed part which is password protected and accessible to members only - or so the theory goes. In practice, in many associations passwords have a very short life. Staff in members will happily pass on the password. At the same time many staff cannot remember (or are not given) the password and therefore do not access the site. Some associations recognise that they cannot keep part of their site closed and accordingly make the whole site open or at the least try to extract a fee for a subscription to the website.

This has important implications for membership of some trade associations, particularly those where most members do not actively participate in the affairs of the Association and join only for the information they obtain. Why should they pay for something which they can now obtain for nothing on exactly the same basis as those who pay the full fee? This is a major threat to many trade associations, particularly those with a large number of small members.

Most associations do not provide the third service - acting as a gateway for buyers - at all, either because it has been too difficult or because the sector they represent does not lend itself to it. There are some services in particular where buyers are infrequently in the market and a trade association is often the best access route. At present some such access routes are wholly web-based, some are partly web-based - eg a request can be made by internet but a person decides which members should be put in touch with the enquirer, and some are entirely manual. In future such services will increasingly be totally web-based and the range of services provided in this way will increase. When small businesses in particular want to buy a one-off good or service the internet will be their starting point. If the trade association is the portal to the providers that will be used; if a commercial portal is more efficient that will be used.

The key point is that the Internet opens the way, for the first time, for trade associations to face a competitive threat not from other trade associations but rather from completely new organisations unencumbered not only by the past but also by all of the problems which are inherent in membership based organisations. In the American trade association world all the talk is of the threat from vertical Internet portals.

One of the major software consultancies serving the trade association market in America, WEGO, summarises the position as follows –

“Hundreds of new Internet companies are launching specialised vertical portals that seek to capture the same audience that have historically turned to associations for education, news, events, networking, and the facilitation of trade.”

WEGO go on –

“The rapid rise of these types of “vertical portals” poses a real threat to associations. As they become increasingly Internetsavvy, your membership will develop an affinity for the site that provides them with the information, services and on-line inter-activity they want and need. Though they would obviously prefer to get it from someone they trust (you) they will most certainly go elsewhere if they have to.”

This threat is probably muted in Europe simply because the trade association market is much smaller and therefore the prizes for potential competitors are equally smaller. However, that does not mean that the threat is non-existent. Some vertical portals are already threatening associations’ positions although most such portals, at least in Britain,

have come from commercial publishing houses often based on trade journals rather than from venture capital backed start up companies.

### **The trade association response**

How should trade associations respond to these powerful forces? The first essential is that an association should understand them and plan accordingly. This requires regular fundamental reviews of the association's market position and the way that it does business. The good associations already have a regular planning cycle but many associations do not – and as a result are likely to find themselves faced with a sudden crisis.

### ***Restructuring***

Many associations will need to engage in corporate restructuring to reflect the changing nature of the industries they represent. Rationalisations will lead to mergers of associations within the same sector as a response to falling subscription income. Where industries merge then there will be mergers of trade associations across sectors. This has already occurred and is likely to continue in the financial services sector as the boundaries between the banking, insurance and securities markets break down.

As policy making in some sectors shifts to the European or global level one would expect to see a shift in power away from national associations towards international groupings. In practice there is, as yet, little evidence of this. One problem is the inherent difficulty of running trade associations at regional or global level. In the past some such associations have been badly run with membership of committees being seen as a reward and an opportunity for foreign travel rather than to make a contribution. And some people have been put on committees purely because of their linguistic abilities. It is also the case that even in the European Union most decision taking relevant to trade associations is still at the national level, and national governments are also the most powerful means of influencing developments at the European Union level. However, over the years globalisation is bound to increase the importance of international associations at the expense of national bodies.

There is the potential for a very worrying restructuring which could adversely affect national associations. In a number of industries (computers, car manufacturing, insurance and hotels for example) large international groups increasingly dominate the market. Very few look at their membership of trade associations in a strategic way. They do not actively consider whether they should be concentrating their resources on particular national associations or European or global associations. They do not consider whether they might be better pulling out of all national associations. Generally, decisions about trade association membership are left to operating units in each country.

It is possible however that some large international groups will decide to go it alone, particularly where policy making is increasingly at the European or international level. In the hospitality industry McDonalds is one international company that has a policy of not becoming involved in national trade associations. Groups of large international companies may set up their own trade associations to concentrate specifically on

lobbying and without having to worry about providing a service to thousands of members or democracy. In many sectors such bodies already exist at embryonic level. Most are talking shops but could easily develop into more formal groupings. National and international associations need to keep their big international members firmly “onside” if they are to avoid such bodies taking off.

### *Using the internet*

Many trade associations are well aware of the importance of the internet to them and have taken the necessary action to protect and enhance their position. Many others are not. In Britain the Trade Association Forum ([www.martex.co.uk/taforum](http://www.martex.co.uk/taforum)) is now the best portal for trade associations. If one is looking for an association covering a sector this is the site to use as one click gets from the directory to an association's home page. But over one third of the associations appear not to have websites - or if they have they have not told the TA Forum about them. Already those associations are missing out because they are less easy to contact than those which have websites.

And while some association websites are excellent others are very poor. Many have not been updated for weeks or months, whereas the best associations update their sites daily if necessary.

Every association should by now have undertaken a full assessment of the impact of the internet on their business and the way that they deliver their services. The assessment will deal in particular with potential competitors and market opportunities.

Based on that assessment each association needs to have a strategy - recognising that there are different strategies for different associations. It is unlikely that that strategy will include not having a website. Most associations should want their website to be the portal for their members wanting information relevant to their business. This will include having hotlinks to other relevant sites. Many associations will want their site to be the portal for potential purchasers of the goods or services provided by their members. If associations do not have their sites in order they will quickly find that their business is being stolen by other associations or commercial organisations, leading to a downward spiral. By contrast, a top quality website can enhance the value of membership of the association and may be a powerful tool in attracting new members, particularly where the association is the portal for new business opportunities.

So far most associations have simply seen the internet as another method of communicating with members. But it is much more important than that. How to use the internet is a crucial strategic decision. The wrong decision could be disastrous; taking no decision almost certainly will be. Even for those associations that get it right, having a good site may be simply a damage limitation exercise. The benefits of the internet tend to lie with consumers and web-based companies rather than with traditional providers of goods and services.

Again the American experience is instructive about what might be on the way in Europe. Most American trade association sites are far better than British sites. Indeed for those



goods and services where the market is global, American sites could well be a competitive threat to European trade associations. In America the leading software companies have now integrated their back office systems with websites and indeed now go one stage further through offering a whole IT package on an application service provider basis. That is, the trade association no longer has to worry about technology (something which many of them do and at great cost) but rather for a fixed monthly fee can outsource all of their in-house systems, membership database and website requirements to a specialist company. The problem in Britain at least is that no company is yet capable of providing those services, although some companies provide parts. Some of the American software companies are looking at the European market, although the experience so far is that their systems tend not to travel very well.

### ***Outsourcing and the virtual trade association***

Could the internet and other developments described in this paper lead to a fundamental change in the way that trade associations are organised and work? The traditional trade association is paper driven and employs a relatively large number of staff who sit in an office performing clerical and administrative functions. Technology has enabled much of the routine work to be mechanised and there has been a general trend, albeit slower than it should have been, for associations to employ fewer but better quality staff. Such staff do not need to be office based. They can work from anywhere, accessing the association's computer system from a laptop or PC in their home. All the papers they will ever need to see will be available to them anywhere in the world. They will need to use an office only for brainstorming with colleagues.

Newly established associations will increasingly look more and more like virtual associations. Instead of permanent staff a variety of consultants will be used on particular projects. All administrative functions will be outsourced. Serviced offices will be used rather than associations trying to manage (generally badly) their own buildings. The permanent staff will be smaller in number but expert in everything they do and will concentrate on the representative and member services roles.

I suspect there will be increased use of association management companies. They are big business in the USA but undeveloped almost everywhere else except Belgium and the Netherlands. Such companies can provide any level of service from a particular administrative function to a full service such that the association itself has no full time employees. They are particularly appropriate for smaller associations with a subscription income of under \$1.5 million.

### ***Governance***

The governance of trade associations merits a book in itself. Associations are difficult organisations to govern. The members of the governing body, however they are chosen, are transient and often in strong competition with the other members. Officers are chosen often not for their ability but rather to secure the necessary balance, to appease a large member or, worst of all, because they have got plenty of time to do the job. Governing bodies frequently spend time discussing things that in their own companies they would not be allowed anywhere near.

There is the permanent danger of a poor quality governing body losing its few good members and finding that it could then attract only position seekers rather than good quality people. Many governing bodies are far too large to function effectively.

The forces outlined in this paper have forced many associations to review their governance. Mergers have disrupted committee structures and globalisation makes it increasingly difficult to arrange meetings as many key people are out of the country at any one time. Many a chairman has been the victim of a merger of his company and has been faced with the choice of standing down quickly or hanging on in office but without a position in the industry. Busy people running big businesses will not commit themselves to serving on a trade association governing body if this requires monthly meetings for three years plus numerous special committees. Top people will not commit themselves to be nominated one September to serve two years as deputy chairman from the following April and then two years as chairman.

Reviews of governance generally lead to the same conclusions. The key one is that more should be delegated to the secretariat, with the chief executive being wholly responsible for the running of the association and also the principal representative and spokesman for the association. The chief executive should generally be in the lead at meetings with ministers and officials and should be the person who appears on radio and TV and who issues press statements. The Chairman's role should largely be managing the board and carrying out an agreed programme of ambassadorial and representative work.

Reviews of governance also conclude that there should be a cull of permanent committees with more use being made of ad hoc project groups. Time consuming liaison committees rarely survive a review.

These conclusions were borne out in the 1997 benchmarking exercise in the UK which concluded –

- Governing bodies should contain a cross-section of members, be of moderate size (12 –25) and meet 4-6 times a year.
- Chairmen should be authoritative but not over-involved, limiting involvement to a maximum of five days a month.
- The use of time limited task forces/working parties is effective.

But delegation to the secretariat and the chief executive in particular will work only if the staff is of sufficient quality. In Britain, and in many other countries no doubt, there has been a huge change in the type of people who are chief executives. The traditional recruiting grounds – the sector and the armed forces – have largely been replaced by government agencies and management consultancies. The salaries of chief executives have risen very sharply and executive recruitment agencies are now finding good business in this area.

Most trade association governance structures are fair weather operations. Provided that good people are in place the system works fairly well. They tend not to work at all when

poor people are in place. Only a tiny fraction of associations have a governance procedure in place that is capable of removing an ineffective chief executive in a timely way. The average time period between it being obvious that the chief executive is ineffective and removing him from office is probably around five years. More than one trade association chairman has found himself in the position of wishing to remove his chief executive but not even having a copy of the chief executive's contract or any details of his terms and conditions of employment. This is not a good starting point.

In putting the governance of trade associations on to a more professional basis it is vitally important that the role of and relationship between the chief elected officer and the chief executive officer are properly documented. Also, systems must be in place not only to ensure that the chief executive is allowed to manage but also that he or she is properly accountable to the governing body of the association and that if he or she is ineffective then they are likely to be removed from office in the usual way.

Trade associations are businesses but it is difficult to run them as businesses because there is no easily measurable output and governing bodies are transient. In the past a poor trade association could continue in business because no one could be bothered to do anything about it. Now, the forces described in this paper make it likely that a poor association will suffer a rapid loss of membership and will go out of business.

Managing a trade association is increasingly moving from being a very simple task – a sinecure in many cases – to a difficult and complex task which requires top quality people. The requirements of today are simply not compatible with old style governance arrangements and a bureaucratic method of working.

### **Conclusion**

Trade associations today are being subject to powerful forces which, as never before, will require decisive action to address them. In many sectors restructuring will be necessary to match changes in the industrial structure, either nationally or globally. Every association will need to have in place modern governance arrangements which unambiguously concentrate power on the chief executive. And the internet must be at the centre of the association's communication system and its business generally.