



Models of Trade Association Co-operation

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Introduction

The operating environment facing trade associations has become increasingly more complex over the last few years. This has resulted from a combination of factors including industrial rationalisation, the globalisation of the economy, legislative and regulatory changes, and information technology developments, in particular the internet.

Associations have had to react to these trends in a number of different ways. For many it has been imperative to reduce costs. One way in which this can be achieved is to co-operate with other trade associations by one of the number of means ranging from the sharing of some services through to a comprehensive full-scale merger. Even when cost cutting has not been necessary, co-operation with other associations has been essential to maintain effectiveness.

There is little to guide associations seeking to restructure or to co-operate with others to take account of the changing marketplace. This report, prepared under the auspices of the Trade Association Forum, with financial support from the Department of Trade and Industry, seeks to provide that guidance. The author is grateful to the associations which provided information about their successes, and their failures, in their attempts to co-operate with other associations and to the many people who commented on earlier drafts of the report.

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Executive summary

Environment

The environment for trade associations in the UK is undergoing considerable change as a result of a combination of factors –

- Mergers within industrial sectors which normally reduce associations' subscription income.
- Globalisation of some industrial sectors.
- Blurring of the boundaries between products and markets allied to cross-sector mergers.
- Legislative and regulatory changes, particularly merging of regulatory bodies, privatisation, deregulation, Europeanisation and devolution.
- The implications of the internet.
- Pressure from members and government for more effective representative mechanisms.

Trade association politics and dynamics

Trade associations are complex organisations, and often highly political. As a general rule companies want to belong to associations comprising companies like themselves. However, they also want services that often can be provided only by organisations which have a wider spread of membership sufficient to produce a critical mass.

An overview of models of co-operation

Trade associations now need to co-operate with each other to a greater extent than previously so as to adapt to changing markets and financial pressures. A goal for many is to reduce or at least hold operating costs while preserving their identity and increasing their effectiveness. This goal cannot be achieved by an association working in isolation.

The concept of a “single voice” is generally accepted in trade associations. The question is how it is to be achieved. Also, there are costs in achieving a single voice which have to be weighed against the benefits. The key point is that the single voice applies to issues as well as sectors. A trade association may need to be part of many “single voices” with different partners. A single voice does not necessarily mean a single association.

Trade associations traditionally have not worked together; in many cases they have seen each other as the enemy. The new environment requires a significant change in culture in many associations. The overall objective of serving the members must always be at the forefront. There should be a predisposition to co-operate with other associations to achieve this objective. There has been a strong move in this direction over the last few years.

There are a number of models of co-operation –

- Ad hoc informal co-operation for one-off issues.
- Coalitions and alliances to deal with major issues which are important to a number of associations.

- Joint organisations to cover some aspects of business – particularly at the European and international level.
- Federations.
- Mergers, where there is a significant overlap of interests and potential membership.
- Sharing best practice, particularly through the Trade Association Forum.

There are no sharp dividing lines between these various models. Ad hoc co-operation merges into coalitions, coalitions merge into federations and federations can become de facto mergers. The different terms can also have different meanings. Many federations have a unitary structure, and what is called a federation in some sectors is called a liaison meeting or a forum in other sectors.

Over a period of years most associations use several of these models. As market circumstances change there can be a gradual move from informal co-operation to joint organisations and perhaps a full merger or federation.

Ad hoc co-operation, alliances and coalitions

Ad hoc co-operation, alliances and coalitions are now standard practice in trade associations. They are the accepted way to work and fit in with another key development. The best trade associations increasingly work on a project basis. As a new issue arises it is allocated to a time limited project group rather than to the most relevant committee. This method of working is generally more flexible and efficient than the traditional committee approach. The question of whether to work with other associations should automatically be raised when a project group is established.

Federations

Federations are appropriate in industrial sectors where there are clearly definable sub-sectors. They are in line with the aspiration of members which is to belong to an association of organisations like themselves. However, there are always tensions within a federation; these require skilful management. A federation should not be seen as a way of gaining all the advantages of a merger without undergoing any of the pain. There are a number of different types of federation. Those where there is a unified secretariat but the members belong to the constituent associations seem to be the most effective. Loose arrangements where the centre is, in effect, a liaison arrangement can work well but are not really federations. Those where both the constituent members and the centre have dedicated professional staff are the most difficult to manage.

Mergers

Mergers between trade associations can bring substantial advantages in terms of both effectiveness and efficiency, but are major undertakings and must be properly resourced. Mergers tend to happen only if there are strong outside pressures to reinforce the internal pressures. A merger is on a totally different plane from the other forms of co-operation. The moment that an association is known to be “in the market” it will suffer disruption until the issue is resolved. Poor handling can easily kill a sensible merger proposal. Potential “showstoppers” must be identified at the outset and properly analysed, and all issues should be addressed speedily and without fudging.

A trade association should take a long-term view of potential merger opportunities and position itself accordingly.

Europe

Working at the European level poses increasing challenges for trade associations. The volume of work and resource constraints are such that co-operation with other associations is essential for most associations. There is scope for British associations to co-operate more with each other in their representational work at the European level.

Serving the trade association market

Association management companies can be useful tool for associations in a period of rapid change or for newly formed associations. However, the concept is relatively underdeveloped in the UK. This is probably because federations perform the role that in other countries is undertaken by management companies.

Trade associations can benefit by sharing information with each other through the Trade Association Forum and other means. More generally, the Forum has had a beneficial side effect of increasing contact between members which makes them more confident about working with each other.

Guidelines for successful co-operation

The guidelines for successfully co-operating with other associations can be summarised -

- Each association should regularly analyse its current and likely future market position and assess the scope for co-operating with others. In doing so associations should draw on best practice, particularly the results of the Trade Association Forum 1999 benchmarking exercise.
- Associations need to have a culture in which co-operation with other associations is seen as the normal method of working. This requires leadership from chief executives and elected officers.
- Associations are moving to a project based method of working. Consideration of potential trade association partners should be part of the process of setting up a project group.
- Associations should be prepared to use different models of co-operation for different purposes.
- It must be recognised that trade associations are primarily political rather than economic organisations. Timing and handling are vital when major structural changes are being considered.
- For any form of co-operation the goals must be clearly understood at the outset otherwise there is the danger of different associations having different expectations which cannot be met.
- More formal co-operation agreements should always be in writing and regularly reviewed.
- In any co-operation agreement one person or association must be clearly in the lead.
- Mergers should be regarded as a huge step. The path towards a merger should be embarked on only when a detailed analysis has shown that it can be achieved

successfully. Where a merger is really an acquisition this needs to be recognised by all the parties.

- Federations should not be seen as a soft option where a merger is appropriate. Federations seem to work best where there is a single secretariat but the members belong to the constituent associations.

The role of the Trade Association Forum

The Trade Association Forum has an important role in facilitating co-operation between associations. The Forum should build on the work it has already done through a programme of research, seminars and workshops. There is much re-inventing the wheel when trade associations consider working with other associations. Best practice should be shared.

The role of government

The government has an important, if indirect, effect on the extent to which trade associations co-operate. For a time the previous administration seemingly had a policy that a trade association had to be of a certain size (subscription income above £1 million a year) in order to be effective. The analysis in this report is not in line with that view. However, there is no doubt that the views of the government encouraged a number of associations to think about their place in the market and their future, and some mergers were facilitated by the climate of opinion which was created.

The overall view of present government towards dealing with associations specifically and consultation with interest groups more generally is unclear. However, indirectly government actions are forcing trade associations to co-operate and may precipitate mergers. Such actions include the Climate Change Levy which allows for associations to negotiate deals for their sectors, the possibility of a major initiative on codes of practice and action by individual sections of the DTI to establish forums and other groups where the existing market bodies are felt to be inadequate. The government could usefully take a more strategic approach. This would involve –

- Developing a better understanding of trade associations with the Civil Service College perhaps playing a role
- All departments and agencies following Cabinet Office guidance on consultation, in particular requiring associations to state who they represent.
- Where appropriate, encouraging restructuring, for example by providing modest financial support and by making it clear to industry leaders when a sector is not being adequately represented.
- Continuing to support projects under the auspices of the Trade Association Forum which would help associations work better with each other.

Chapter 1 The changing market for trade association services

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 beginning to change 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 that are nationally based and 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 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. The hospitality industry, by contrast, has presented a more difficult environment. The industry is diversified and international with no specific regulatory regime and a structure comprising a small number of large companies and a large number of small companies.

Generally, there is a move away from the ideal environment towards the more difficult environment.

The changing environment – an overview

Six inter-related 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. In summary they are –

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

- Globalisation of business such that an increasing proportion of activity 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, global or sub-national level.
- Information technology developments which should transform the way that trade associations work.
- Pressure from the government and the larger members for more effective representative mechanisms.

These factors pose a number of challenges to trade associations. They are now examined in detail.

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 is to manage. 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. The Trade Association Forum 1999 benchmarking study showed that 65% of associations had a maximum subscription and only 33% had a directly proportional scale. It follows that any merger of members is likely to 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 usually 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 introduction 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 1999 acquisition activity within industries included –

- The acquisition of Stakis Hotels by Hilton International in the hotel industry.
- The bid for Swallow Hotels by Whitbread, also in the hotel industry.
- The merger of GEC's defence business with British Aerospace.
- The proposed merger of United News and Media and Allied Leisure in the media industry.
- The bids from Bank of Scotland and Royal Bank of Scotland for National Westminster in the banking industry.

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 Vodafone/Airtouch merger in the telecommunications industry and the bid by Vodafone for the German company, Mannesmann.
- The BP merger with Amoco in the oil industry.
- The British Steel merger with the Dutch firm Hoogovens to form Corus in the steel industry.

The alliances between the airlines can be seen as a special form of globalisation.

The pharmaceutical industry is an example of an industry which has become virtually global. AstraZeneca has been formed by the merger of a British and a Swedish company. The German company, Hoechst, and the French company, Rhone Poulenc, have merged. Two British companies, Glaxo Wellcome and SmithKline Beecham, have agreed to merge and will probably be run from the USA. And the US/Swedish company, Pharmacia & Upjohn, has agreed to merge with the American company, Monsanto.

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, there are examples of international mergers causing trade associations to disband. When Daimler Benz bought Chrysler the American Automobile Manufacturers Association was left with just two members – Ford and General Motors. It went out of business, to be replaced by an association embracing all the car manufacturers in the USA, both American and foreign owned.

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.

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 parent company.

Breaking down of boundaries between products and markets

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 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 one large life company, Abbey Life, is the process of acquiring a second, Scottish Widows, and has acquired one of the largest building societies, Cheltenham and Gloucester. There has also been a blurring of the boundaries between products. 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 trend. 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.

The extent to which this development has implications for the trade association structure depends on how the companies operate. If, for example, the electricity and water businesses of a utility are run as separate businesses with no integration then there is no reason why the trade associations should be affected. However, if the businesses become integrated then there will be pressure for a similar development at the trade association level.

Legislative and regulatory change

Deregulation 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 provides a good example. The method of implementing monetary policy in the 1950s became inappropriate because of market forces. As balance sheet controls of banks were lifted from 1979 so banks 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 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, increasing concentration and globalisation, with American and French companies buying British companies and the British companies expanding overseas.

There has also been a trend away from specialist regulators and towards regulators covering a wide field. 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 are merging.

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 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.

The power structure is changing rapidly at the European level in a way which is relevant to trade associations. The European Parliament has become more powerful and trade associations must seek to influence MEPs. Interestingly, while the Commission prefers to talk with European associations, MEPs are still nationalistic and are best approached through national trade associations.

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. The representative mechanism has to recognise this.

Conversely, devolution is leading to a shifting of decision taking in some areas to the Scottish Parliament, the Northern Ireland Assembly and the Welsh Assembly. The Regional Development Agencies will also be very important for some associations, particularly in the manufacturing sector. Some 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.

Finally on the regulatory aspect, there are increasing social and media pressures, sometimes fuelled by politicians and sometimes fuelling them, which generally take the

form of demands that “the industry puts its house in order”, with the trade association expected to be a quasi-regulator.

Information technology

Information 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 chapter.

Trade associations provide one or more of four core services -

- Representation.
- Quasi-commercial financial and advisory services, which are particularly valuable for small companies.
- 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 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 and quasi-commercial services 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 some 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 fourth 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 for almost every good and services will be a number of portals. A trade association has a natural advantage in the marketplace and if it exploits its position then not only will it provide a better service to existing members but it will also attract new members simply because they recognise the value of the trade association portal. But if the trade association is slow off the mark it will lose out to a commercial provider. That provider may also find it easy to offer a range of information services - in particular by being a portal for relevant official documents - that places it in direct competition with the trade association. While commercial organisations may lack the legitimacy of a trade association they also lack the bureaucracy and democracy and accordingly can move more quickly.

Pressure from members and government

In many sectors members of trade associations, particularly larger members, have become significantly less passive. Increasingly major companies are members of a number of trade associations in Britain and in other countries; they may also be direct members of a European trade association. They do not want to see the various associations to which they pay large subscriptions compete with each other or duplicate each other's work. They expect and demand co-operation. Many now regard their "lead" national association as merely one of a number of routes by which they deal with an issue. When a new issue arises it is dealt with as a project and a decision will be made as to how to handle it using one or more of a combination of a single trade association, several associations, the CBI or other umbrella organisation, a European association, a consultancy, unilaterally or in combination with other large companies. A trade association must be able to handle this environment otherwise it risks losing the confidence, and ultimately the membership, of its largest members.

Having said this, the general position is that most big companies do not take an overall corporate view of representative work and therefore of trade association membership. In fact, operating divisions may well be strong supporters of a fragmented trade association structure which allows them to be major participants in their own specialist association rather than having a muted voice in a larger association.

Members are exerting pressure on trade associations in another, more indirect, way. In the past trade associations had little difficulty in securing representation on their

committees from the major companies in the sector. Downsizing has made companies more reluctant to release their senior people for trade association business, and many associations have also suffered the loss of good committee people on mergers or because of early retirement. The “free” resources available to trade associations have therefore diminished, adding to the need for them to operate more efficiently.

The government is also, indirectly, exerting pressure on trade associations. In its final years the Conservative administration was unable to govern, because it lacked a workable parliamentary majority. The Labour Government is in a position to pursue a large number of initiatives and is doing so. This stretches the resources of the Civil Service which had been sharply reduced by the Conservative Government. Officials no longer have the resources to wade through numerous submissions from various interest groups. Increasingly they want a single industry view and make it clear that unless there is such a view then the interests of the various industry groups will not properly be taken into account. The industry view is often required quickly. An old-fashioned bureaucratic trade association, ploughing its own furrow, cannot serve its members effectively in this environment. Co-operation with other interest groups (not only trade associations) and the ability to respond quickly are essential.

The views of trade associations

To test the analysis put forward in this section a questionnaire was sent to members of the Trade Association Forum. The full results are given in Appendix 1.

The first question asked “on a scale of 1 to 5 (1 = strongly disagree, 5 = strongly agree) to what extent do you agree with the following comments in respect of your association over the next two years”. The average score for each variable is shown -

Mergers between members will reduce subscription income	3.6
Mergers between members will make management of the association more difficult	2.4
Mergers across sectors will make management of the association more difficult	2.8
The globalisation of business will make management of the association more difficult	2.5
Changing legislative and regulatory requirements will make the existing trade association structure in my sector less appropriate	2.2
The development of the internet should lead to considerable changes in the way the way my association operates	3.9

It will be seen that mergers between members and the development of the internet were the most highly rated. The other variables are more relevant in some sectors than in others. For example, changing legislative and regulatory requirements were most significant for associations with over £1 million of subscription income (scores of 2.8 and 2.7 respectively as against for the figures for other associations of 2.4 and 2.1).

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.

There are three major areas where trade associations will respond to these developments

- Making effective use of the internet which should be at the centre not just of an association's communications system, but its whole business.
- Having effective governance arrangements in place so as to be able to run an efficient business able to respond rapidly when necessary. This will entail delegation to the secretariat with management unambiguously resting with the chief executive.
- Co-operation with other associations, either on an ad hoc basis, through coalitions or joint bodies or through the creation of federations or mergers.

For some associations, particularly those with a relatively large number of small members, there is also the opportunity to expand commercial income in areas such as training, insurance and consultancy. A number of associations now derive the major part of their income from trading activities rather than subscriptions. This helps to insulate them from the effects of mergers between members and more generally, allows them to offer the representative service at a subsidised price. However, some sectors do not lend themselves to associations offering commercial services, and in those that do there are commercial risks and also the danger of loss of focus.

This report is entirely concerned with co-operation with other associations, but this must always be seen in the context of the whole picture. A trade association must be successful on all fronts if it is to be successful as a whole.

Chapter 2

The need for co-operation

The previous chapter explained the rapidly changing market environment in which trade associations operate. Gone are the days of a stable environment when trade associations could continue with the same membership providing the same services over many years. Associations need to adapt to the new market place, in particular by co-operating with other associations.

Matching up to the changing market structure

Trade associations do not exist in isolation of their members. As markets change so the demand for trade association services can change. Where markets merge then there may well be a need for corresponding moves by the trade associations.

Markets can change in one or more of the number of different ways which have implications for the trade association structure -

- The market can contract because of a fall in demand.
- The market can merge with another market.
- There can be rationalisation within the sector.
- They can be rationalisation within the sector but across national borders.
- They can be cross-industry mergers.

The first of these four factors is likely to lead to an immediate reduction in subscription income and the third factor may well also do so if there is a cap or taper in the subscription scale. All the factors may lead to demands for a reconsideration of the structure and organisation of the association.

Reducing costs

Where an association suffers a reduction in subscription income as a result of a contraction in the market or mergers between its members, and assuming there is no further scope to increase income from services, it has two basic choices. The first is to increase the subscription scale so as to maintain total subscription income. The extent to which this is possible will depend on the particular circumstances. For example, when a number of building societies chose to convert from their building society status to plc status the remaining societies were determined to retain a strong trade association. They therefore agreed to pay significantly higher subscriptions to their trade association, the Building Societies Association. However, in other sectors, an attempt to increase subscriptions would be resisted and, if implemented, could be counter-productive if it led to other members leaving the Association therefore necessitating a further round of increases in subscriptions.

The extent to which an association is able to reduce its costs without significantly affecting its services again depends on circumstances. Where an association is already extremely efficient then the scope for efficiency gains is limited. Typically, employment costs account for half of an association's total expenditure with property costs accounting

for most of the remainder. Few associations are in a position to reduce significantly their employment costs without a marked effect on the quality of the service they provide to their members.

Some associations may seek other ways to reduce costs, for example by making less use of outside consultants and even by withdrawing from membership of European and international associations. The subscription to the European association in particular can be quite significant and may provide a means of reducing costs without having an immediate impact on the service provided. Where a European association is not efficient then it is at risk from the national associations withdrawing from membership in response to their individual financial positions.

An association's position is weakened further if it faces other cost pressures, in particularly rising property costs. These are now likely to be an important factor for associations based in London which are having to acquire new premises or which face a rent review.

Where an association is not able to raise subscriptions nor is able to achieve reductions in costs then a merger or looser form of co-operation might be the correct response.

Issues cut across sectors

Associations were able to work in isolation as of each other where they represented a distinct sector and where the key issues related to the sector only. For example, the National Farmers Union has been able to deal effectively with issues specifically relating to farming and the Chemical Industries Association with issues specifically relevant to chemicals.

Increasingly, however, many of the major issues are not confined to the individual sectors. Financial regulation is a good example. A single regulator, the Financial Services Authority, is replacing the separate regulators for banks, insurance companies, building societies and investment companies. The FSA now publishes consultation documents relevant to all types of financial institution rather than specifically to banks or to insurance companies for example. It is not sensible for the trade association to seek to carry on as if nothing happened and deal with consultation documents from a purely sectoral point of view. In order to have maximum input the sectoral associations need to liaise with each other.

Environmental issues frequently cut across sectors. The huge growth in such issues in recent years has led to a number of co-operation arrangements between associations.

Issues need handling at multiple levels

The strong central government within the United Kingdom has resulted in an economical trade association structure. Most associations have been able to do all their representative work from a single London office. Only a few of the largest associations have felt the need to have offices in Edinburgh, Cardiff or Belfast, let alone in the English regions.

And only a few associations have established their own offices in Brussels, preferring to rely on regular visits by London-based staff or on their European associations.

In some sectors, airlines and banking for example, policy-making has shifted to some extent to the global level and this has required representative work to be done at this level either directly by the national association or in combination with a global trade association. As the nature of the policymaking making process in Brussels changes, with MEPs having more power, so there is a need to devote more resources to lobbying at the European level.

Within the UK there has been a constitutional revolution with devolved assemblies in Scotland, Wales and Northern Ireland. Regional development authorities have also been established in the English regions.

For many sectors the policy-making process has become dispersed with the same issue having to be handled at several levels. This puts a strain on trade association resources and strengthens the case for co-operative arrangements.

Expectations of members and other stakeholders

There is now a strong justification for trade associations to work with each other. If this is not apparent to the people running and working in trade associations then it is to some of their members, particularly those with multiple trade association membership, and to some of their stakeholders, in particularly government departments and agencies. Those associations that try to work in isolation will increasingly find themselves under pressure and, by failing to adapt, may be forced out of business.

The views of trade associations

Trade associations readily accept that there is competition for membership and scope for rationalisation. The following table shows the results of the Trade Association Forum benchmarking exercises carried out in 1997 and 1999. (It should be noted that the samples in the two exercises were different and therefore the changes should be interpreted with caution.)

Proportion of associations saying other associations compete for their membership

	1997	1999
Small associations	47%	47%
Medium associations	63%	59%
Large associations	72%	63%
All associations	57%	58%

This table shows little change between the two surveys, but a high degree of competition for membership generally.

Proportion of associations saying there is scope for rationalisation in their sector

	1997	1999
Small associations	44%	52%
Medium associations	49%	61%
Large associations	74%	78%
All associations	55%	64%

This table shows a significant increase in the proportion of associations saying there is scope for rationalisation, particularly among the medium sized associations.

More generally the two tables suggest scope for substantial rationalisation. It is noticeable that large associations feel most strongly on both counts. This is probably because of their wide spread of membership which goes across sectors, while many small associations have niche markets and face little or no competition. Some of these associations will be members of larger federations.

The 1999 survey showed that while only 7% of associations had been involved in a merger in the previous two years, 25% thought it likely that they would seek to merge with another association in the next two years and a further 30% in the next five years.

The 1999 survey also showed that trade associations are already co-operating with each other. Over the previous two years –

- 92% had worked with other associations in regular liaison meetings.
- 85% had worked with other associations in ad hoc alliances.
- 54% had worked with other associations through joint ventures.

The large associations were more likely to have been involved in such arrangements, scoring 98%, 97% and 58% respectively.

The questionnaire sent to members of the Forum as part of the project (see Appendix 1 for the full results) yielded some interesting information. A question asked “on a scale of 1 to 5 (1 = strongly disagree, 5 = strongly agree) to what extent do you agree with the following comments in respect of your association”. The average score for each variable is shown below -

Within the next two years my association will seriously consider a significant merger	2.4
Within the next five years my association will seriously consider a significant merger	3.2
There will be a gradual shift of power in my sector away from national and towards European associations	2.4

My association will be working more closely with others on an ad hoc basis	4.2
My association will seek to make greater use of formal coalitions with other associations on some issues	4.0

It is perhaps significant that for each variable the medium sized associations had a lower score than either the large or the small associations. The results show a high expectation of merger activity. Perhaps more significantly, there was a very strong view that associations will be working more closely with other associations on an ad hoc basis and in formal coalitions.

Chapter 3

Models of co-operation – an overview

The previous two chapters have outlined why trade associations need to co-operate more than they have in the past. Often co-operation arrangements are developed in an ad hoc way and build on personal relationships and past experiences. This chapter outlines some of the key points relevant to any decision about co-operation and the form that that co-operation should take.

Trade association politics

An understanding of trade association politics is essential to any consideration of models of co-operation, in particular mergers.

Trade associations are membership organisations. People – and organisations – join clubs where the members are like them and where there can be a sense of community. A tennis player generally wants to be a member of a tennis club, not a sports club offering five sports one of which is tennis. For this reason sports clubs are generally structured so people can join the section of their choice rather than an amorphous sports club. Similarly, a tennis club generally wants to belong to an association of tennis clubs rather than an association of sports clubs. In the same way as a tennis club may be viable only as part of a sports club a tennis clubs association may be viable only as parts of a sports clubs association. The trick is to balance the natural community with viability.

Trade associations become involved in internal company politics. It may suit a division of a company to belong to its own trade association where it can have some clout rather than be part of a bigger association to which the company as a whole belongs. For example, the mortgage or consumer lending part of a bank would prefer to belong to specialist associations for those functions rather than a general association for banks, and the shoe division of a clothing manufacturer would rather belong to the shoe association rather than a more general clothing association.

Trade associations also tend to develop lives of their own and can be very resistant to change. They can command a loyalty among some members and some individuals that becomes quite illogical. It is not uncommon to hear members talking of “supporting the association’s conferences and social events” whereas the function of the association is to support the members.

Any significant change will be fiercely resisted by some influential people. A merger will be seen as the association being “swallowed up” by the other association. This is true of many mergers but in the case of trade associations such views can carry much more weight.

It is unkindly said that inertia is the driving force behind some associations. Many members will happily pay a subscription year after a year and seem little concerned as to what the association actually does. An association that raises its head above the parapet will be criticised by some members.

None of these points should be obstacles to co-operation arrangements. But, they must all be taken into account when such arrangements are being planned. Unless the politics are understood and managed otherwise logical co-operation arrangements may be doomed to failure.

Trade association dynamics

While trade associations share much in common they operate in different markets. In any given period external factors will necessitate the creation of completely new associations, mergers, demergers and the creation of coalitions and federations. Over time there may well be a decline in the number of associations but this is not inconsistent with new associations being created. In particular circumstances a demerger of one association may be logical at a time when most associations are thinking in terms of mergers.

Trade associations must largely take the environment within which they work as given. The really successful associations are those that anticipate changes in the environment and make the right structural changes at the right time.

There is therefore no one single correct model towards which all trade associations should be striving. At any one time most associations, other than perhaps very specialist ones, are likely to be involved in a range of co-operation arrangements with a number of other associations. And, over time, they will expect to terminate some arrangements and start or modify others. At regular intervals they should have a fundamental re-examination of their approach which could lead to the development of more extensive arrangements.

There are three groups of people who make things happen in trade associations. –

- The chief executive
- The chairman and perhaps other elected officers
- The large members.

The extent to which an association is involved in ad hoc co-operation, coalitions and alliances depends largely on the chief executive. If he or she believes in working in this way then other staff will follow that leadership. Conversely, if he or she wants to work in isolation this will effectively prevent anything other than very modest co-operation arrangements.

Where a fundamental co-operation arrangement is being considered, such as a merger or federation, then leadership and skilled handling from the chairman and the chief executive are essential. If these are not forthcoming then the initiative will fail.

The role of the big members is interesting. Their support is essential if a merger or federation is to go ahead. And they can force action even against the opposition of the chairman or chief executive – if necessary by removing them. The big companies in many sectors often have their own informal grouping. If the association or associations in the sector are not considered to be performing effectively then those groupings can

begin to take on some of the functions of the association. In extreme cases the large members may threaten to leave the traditional associations en masse and set up their own new association.

The relative strengths of these three groups will vary from association to association and will vary in an association over time. Any association considering a fundamental reform needs to understand where real power lies; equally associations looking for a partner need to understand where power lies in potential partners. Reading the constitution is unlikely to be of much help.

Cultural issues

Trade associations tend to have a culture that is different from that of other organisations. But there is no common culture; some associations live in a world of their own while others are run much like commercial businesses. Their operating environment drives the culture in associations. There is no profit motive, no easily measurable outputs and often a confused governance arrangement with power being divided between committees and the chief executive. It is difficult to run an organisation in a business-like way in these circumstances. Poor performers, including chief executives, are often tolerated either because it is not understood that they are poor performers or, if it is, no one has sufficient interest or authority to do much about it. The power of committees can lead to a departmentalist culture with staff seeing their allegiance as being with the committee and its chairman rather than the whole organisation. Where there are competing associations then the other association or associations might be seen as the enemy and much energy can be spent in seeking to undermine the competition. The “not invented here” syndrome is common. That is, an association is likely to be critical of proposals put forward by another association simply for this reason, even if the proposals are in the interests of the members.

It is easy for staff to lose sight of the objective of the association which is to serve the members. The means are of secondary importance and the good association should not hesitate to co-operate with other organisations to serve its members. But this will be successful only if there is the right culture in the organisation, that is one geared to serving members in the most efficient way. There also has to be experience in working with other organisations with different approaches and cultures. Many associations have this experience through working with government departments and regulatory bodies as well as commercial organisations. But others do not and their contact with the outside world is predominantly with their members. Where staff are instinctively critical of other organisations, perhaps in the naive belief that their own organisation is far superior to any other, then co-operation with others is likely to be difficult.

Instilling the correct culture in a trade association is both important and difficult. It cannot be done quickly, but it must be done if an association is to thrive, or even to continue. Having the right culture is essential if co-operation is to work and equally essential for the whole of the business of the association.

In short, co-operation will be successful only if staff are driven by outputs not inputs, are able to see the wider picture and have an aptitude for, and preferably experience of, working with people from other organisations. It is not sufficient that the top management has this culture; it must spread through the organisation and be clearly visible to others.

There are equally important cultural issues within the membership, which are particularly relevant when mergers or federations are being considered. Broadly speaking, a cultural mismatch at membership level will stop a merger taking place or a federation being created. A cultural mismatch at staff level may not prevent a merger but it will prevent a merger from being successful.

At membership level the key point is the degree of member involvement. The most effective trade associations are run by the permanent staff but with strong policy input from the membership through a committee structure. Staff are left to get on with the detailed work and lead on representation. In old-fashioned associations many administrative decisions are taken by committees and almost nothing can happen without committee approval. Developing a co-operation arrangement between two associations which have different cultures in this respect is likely to be a difficult task, and in most cases should probably not be attempted.

There can also be cultural differences in respect of regional organisation. Some associations have a strong regional network which is valued by the members for networking and social reasons. Other associations are highly centralised. Two associations at the opposite ends of this spectrum are unlikely to be compatible partners. Many potential mergers have foundered because of opposition from small members who fear (rightly or wrongly) that they will lose one of the benefits they derive from their association.

Learning from experience

It is unwise for any organisation which has had a rather sheltered life suddenly to embark on a merger or other major co-operation arrangement. Associations need to learn from past experience and build up expertise in working with other organisations.

In fact, many associations are in regular contact with other associations in the same field. They are likely to be members of the same committees and perhaps have joint meetings with officials. The chief executives may well have regular informal contact with each other because they do see the big picture and will be focussed on the output of the association. However, there are many examples of personal antagonism between chief executives of “competing” associations, which is to be expected as it occurs in almost every walk of life. Sometimes such antagonism will reflect real issues but it could also be a personality clash. Organisations take their lead from their chief executives. Where a chief executive is known to be hostile to another organisation then that will influence his or her staff, governing body and members.

As a general rule, the more that people work together the better they work together and the better their personal relationship becomes. It follows that an association is well advised to encourage wide ranging contact between its staff and the staff in other associations in related areas. This can be done by through a variety of means including informal lunches, working groups dealing with particular areas and sharing information.

Sharing information is particularly important. The good association will ensure that other relevant associations receive copies of all relevant policy and other papers unless there are good reasons for withholding them. Equally, it will ensure that it receives such papers from other associations and studies them to pick up points that can be used by the association and even to pick up points where there is disagreement and which might sensibly be pursued with the other association.

Where an association sees that a major restructuring may be likely in the foreseeable future it makes sense to prepare the ground by developing looser co-operation arrangements. This could involve extensive use of joint committees, preparing joint submissions and sharing information at an earlier stage than completed papers, such as intelligence and draft policy papers.

The American consultant, Andrew Lang, (with the Lang Group, Bethesda, Maryland) has commented –

“If two or more organisations feel they could be more successful working together consistently, then merging the organisations can make real sense. In many cases, mergers occur after successful alliances between the organisations have taken place. A history of successful alliances between organisations is among the best signs that a merger will also be successful.”

Choosing partners

Where a trade association wants to work with others it must be very careful in selecting its partners. To some extent its partners will be its competitors as they are likely to be in the same field. At some stage in the future a potential partner may be a potential acquirer. An association will not want to give away too much in a co-operation arrangement for fear of strengthening its rivals at its expense. Yet associations are in no different position from their members in this respect. Companies compete extensively with each other but are prepared to co-operate through trade associations and in other ways, for example anti-fraud programmes.

In many cases there will be only one partner and the question is whether to work together or to go it alone. A co-operation arrangement will work only if all the partners are net gainers, or rather if they believe that they will be net gainers. The more similar the approaches of the associations the more likely it is that a co-operation arrangement will be successful. If one association has to keep going back to a committee while another works with substantial staff discretion a joint arrangement will be fraught with difficulty.

Other things being equal co-operation arrangements are most likely to work where the associations involved are similar in terms of the types of members served and the qualities of the key staff. Two big associations will work well together, as may two small ones. However, an arrangement between one big association with highly paid staff serving a big sector, and a small association serving a small sector with a few poorly paid staff, is less likely to work.

Types of co-operation

The remainder of this report describes the various types of co-operation. It is helpful to quickly summarise the types at this stage –

- Ad hoc co-operation - which is informal, generally confined to specific issues and normally time limited, for example an agreement to make a joint submission to the government on a subject of major interest to two associations.
- Coalitions and alliances – which are more formal and generally involve a number of associations which agree to work together on a specific subject for a limited period.
- Joint organisations – which are permanent and generally cover a particular type of issue. These are most likely to exist in respect of European and international matters.
- Federations – by which associations are legally part of a parent or umbrella organisation which handles some issues directly and which provides some services to the constituent members.
- Mergers - by which two or more associations join together to create a new organisation.
- National and international organisations – trade associations for trade associations.

In practice the dividing line between some of them is blurred, and one type of arrangement can quickly move to another type. Ad-hoc co-operation merges into joint organisations or federations, coalitions merge into joint organisations or federations and federations merge into mergers.

It is also necessary to recognise that these various terms have different meanings in different sectors. In some sectors there is, on paper, a comprehensive pyramid structure of federations and alliances. One association may be part of a federation which in turn is part of a federation which in turn is part of a confederation. The reality may be different. The federations and confederation may have no staff and in practice be no more than a quarterly liaison meeting. In other sectors the associations would not consider they were part of a federation. There are also some federations that in practice are no different from unitary associations with special interest groups.

Chapter 4

Ad hoc co-operation

Ad hoc co-operation between trade associations can be defined as one-off arrangements generally between two associations, although sometimes more. It can range from very informal to fairly formal and can cover specific policy areas, services or administration. Such co-operation is desirable in its own right but it can also help associations gain experience in working with other associations. Ad hoc co-operation can often be opportunist and dependent on much as the individuals concerned as on the merits of a case. It has the advantage of being low risk. If it does not work the process is reversible and no great damage is done.

Ad hoc co-operation on policy issues

Trade associations can usefully work together on a policy issue where two or more of the following four conditions are met –

- The associations each have a strong interest in and similar views on the issue.
- The issue is a major one.
- A single voice would be more effective than the sum of two or more separate voices.
- Without co-operation the associations could take approaches that were different to the extent that the interests of both associations would be adversely affected.

These conditions are most likely to be satisfied where the government is proposing something particularly relevant to the associations. The associations must start with broadly similar views, which can be made even more similar and stronger by working together and pooling resources. However, there is a danger that more resources will be devoted to getting the common view to reflect the initial view of each association than to influencing the government.

Generally, it helps if one association takes the lead in respect of preparing papers and arranging meetings, with the other associations having a full input at every stage. For this to work requires willingness to give and take, mutual trust and ideally some experience of previous co-operation arrangements. Where the key people know each other because they have worked together and liaised informally in the past they are more likely to be effective than if they come to the position cold.

A common form of ad hoc co-operation for policy issues is joint committees or project groups. These can either be labelled as such or alternatively the larger association may invite representatives of one or more smaller associations to sit on their committee or committees. In this context larger means in relation to the specific issue. In some cases a very small association might invite representatives of a larger association to sit on a committee or project group where the smaller association has a larger interest. This approach can be effective and can help pave the way for more wide ranging co-operation because a basis of trust and understanding between the associations is built up through experience.

Ad hoc co-operation on services

The same principles apply to co-operation on services as they do to co-operation on policy issues. However, the costs and benefits are likely to be more obvious and simply reflect economies of scale. A good example would be two associations combining to organise a conference or seminar that is of equal interest to the members of the two associations. Such an event is likely to be better value to the members of both associations, and more profitable to both of the associations, than if each tried to organise its own function.

Joint commissioning of research is another area where substantial financial benefits can accrue to two associations provided they have a sufficiently common interest.

Where ad hoc co-operation is effective for one-off events or projects the associations are more likely to co-operate on similar ventures in the future with the possibility of such co-operation becoming permanent in practice if not in theory.

Ad hoc co-operation on administration

This is very different from co-operation on policy issues or the provision of services. Associations should co-operate in respect of these because another association is the natural partner. However, there is no reason why a trade association should find another trade association a natural partner in respect of administration.

Co-operation on administration is particularly likely to occur where one association spawns another and there is a substantial overlap of membership and perhaps also staff. The existing association must have a strong vested interest in making the arrangement work and be willing to provide services at cost or perhaps even below cost. The two associations must not be in competition with each other or antagonistic to each other; if they are there is no chance of effective co-operation.

In some sectors a large association has offered office space and office services to smaller associations, allowing them to concentrate on running their business rather than organisational matters. This cohabitation can help pave the way for co-operation on policy issues and the provision of services and perhaps ultimately a merger.

Examples of ad hoc co-operation

- The Association of British Insurers and the British Bankers' Association work together on all matters relating to the Financial Services Authority.
- The Society of British Aerospace Companies administers the British Airports Group.
- The Building Societies Association provides office and administration services for the Council of Mortgage Lenders.
- The Machine Tool Technologies Association, the Gauge and Tool Makers Association and Metcom, together with the DTI and three individual companies, combined to run workshops on the revisions to ISO9000.

Appendix 2 gives case studies.

Guidelines for effective ad hoc co-operation

- There must be sufficient commonality of interest between the associations and a willingness to work together.
- The staff must want to co-operate and to do so enthusiastically with a willingness to give and take. Chief executives must give the necessary leadership.
- While ad hoc co-operation is low risk, it must be recognised that it can also be time-consuming. The benefits must be weighed against the costs.
- For more formal arrangements, particularly where payments are made, there should be a brief written agreement. It should not be a legal contract drawn up by lawyers; if the parties come to argue about legal niceties then there is no hope of effective co-operation.
- One association should generally be recognised as the lead association, depending on the issue.
- The agreement should be reviewed on completion of the project or at regular intervals in the case of an ongoing arrangement.
- Each association should regard ad hoc co-operation arrangements as important in the development of the association with the experience gained being used in future co-operation arrangements.

Chapter 5

Coalitions and alliances

A coalition can be regarded as a special form of ad hoc co-operation in which several parties are involved and the coalition operates under its own name. The concept is very common in the USA and is being increasingly used in Britain. It should become a standard method of operation and is a natural response to the changing environment described in the first chapter of this report. The expression “alliance” sometimes means the same as coalition, and sometimes a looser but permanent co-operation arrangement. The expression “forum” is also relevant, but again can have a variety of meanings. Most commonly, it means a grouping of interested parties, not just trade associations, who get together on a regular basis to exchange views.

It is helpful to note the growing power of coalitions generally, not just trade association coalitions. This was seen as the world trade talks in Seattle at the end of 1999. *The Economist*, on 11 December 1999, commented: “As politicians pore over the disarray in Seattle, they might look to citizens’ groups for advice. The non-governmental organisations (NGOs) that descended on Seattle were a model of everything the trade negotiators were not. They were well-organised. They built unusual coalitions (environmentalists and labour groups, for instance, bridged old gulfs to jeer the WTO together). They had a clear agenda – to derail the talks. And they were masterly in their use of the media.” *The Economist* pointed out that the number of international NGOs had increased from about 5,000 in 1990 to over 26,000 by the end of the decade. The article emphasised the importance of the internet to building and maintaining coalitions.

Issues that can be handled by coalitions

There is an increasing number of issues which are of major importance to a number of trade associations and where there is a sufficient degree of common interest to justify the pooling of resources. By definition these issues will be wide ranging. Many of these issues have an international aspect and are where the interest of British institutions is different from that of other countries. A number of proposals from Brussels have resulted in coalitions of relevant UK organisations and sometimes organisations from other countries as well.

There are also issues of lesser importance where no one association can justify the resources to deal with it, particularly as other associations would benefit equally if it was successful.

The American experience

Coalitions are a well-established method of lobbying in the USA. This is partly because there are many more trade associations in each industry than in the UK, and accordingly coalitions are needed even on relatively narrowly focussed issues. A second important factor is the huge power of senators and congressmen – unlike the negligible power of British MPs. To get legislation through Congress involves individual lobbying of large numbers of congressmen. This is best done by local institutions, hence the need to build

up coalitions that facilitate this sort of lobbying. Another factor is the practice of including unconnected matters in the same bill, something which is not generally possible in the British Parliament. Most bills introduced into Congress fail but lobbying efforts have to take account of everything that is in the bill and not just the areas of specific concern to a trade association. An association may need to sacrifice some of its objectives in order to get any bill at all.

At any one time most major American associations will be members of a number of coalitions. Some will be informal but others will be significant organisations in their own right with their own staff and substantial funding. Lobbying and legal firms often run coalitions.

The American experience is examined more fully in Appendix 3.

The structure of coalitions

Like ad hoc arrangements, coalitions can vary from fairly informal to very formal. In the most common form of coalition one association does almost all the work and takes the lead and recruits others to support the case. For the other associations the advantage is being able to influence the policy process without having to do much work. For the lead association the advantage is being able to claim that a large group of organisations is behind the position being taken. At the other extreme a small number of associations may devote substantial resources to an issue and to some extent may need to hammer out policy differences between themselves before agreeing a coalition view. In these cases a formal written agreement between the parties is appropriate. This will set out the purpose of the coalition, the way it will work, the obligations of the members and the funding arrangements.

A coalition needs an identified leader or organiser. This could be someone from one of the trade associations or it could be an outsider such as an executive of a public affairs consultancy or a lawyer. The role of the leader is a difficult one. If leadership becomes domination then a coalition will fail. Coalitions also raise the issue of who takes the credit. Given the political nature of trade associations this can be a serious problem.

A coalition may operate under its own name with its own letterhead, although this would normally identify the participating associations.

Most coalitions operate without specific funding. This is most likely where the issue is of such importance to one association that it is prepared to provide the necessary resources and benefits from the backing of others. Where the coalition is run by an outsider then funding is likely to be necessary. This could take the form of one-off contributions or agreed monthly or quarterly contributions for a specified period of time.

Coalitions are often not confined to trade associations. It can make sense to involve other parties, in particular consumer groups and local authorities. They can add a great deal of credibility and clout to a campaign. A distinction must be drawn between a coalition which has a clear policy objective and a forum of interested bodies which is a mechanism

for discussing issues. At times this distinction can become blurred with coalitions becoming policy forums and vice versa.

Examples

Recent examples of coalitions and alliances include -

- Ecar, a coalition which operated at the European level to free up the market for spare parts for vehicles.
- The City of London Group, a coalition to support the British government's efforts to stop the imposition of a withholding tax on savings.
- The London Business Board, a coalition of the CBI, London First and the London Chamber of Commerce, which produced the Business Manifesto for London.
- The Fair Regulation Campaign, run by a consultancy, which seeks to improve the way in which new regulations are made and costed.
- The Superfund coalition in America, but involving British organisations.
- The Newspaper Society and the Periodical Publishers Association have an agreement covering representation, lobbying and legal advice.
- The Alliance for Electronic Business which seeks to influence public policy on matters affecting electronic commerce.
- A group of 22 associations, led by the Engineering Employers Federation, have submitted proposals for the 2000 Budget.
- The Sponsors' Forum has been established by a group of trade associations and chambers of commerce to deliver export schemes to industry.
- The campaign for Music in the Curriculum was supported by 54 organisations of which about one third were trade associations.
- The British Property federation has led a campaign on stamp duty.

Further details of some of these arrangements are given in Appendix 4.

Joint organisations

Joint organisations can be regarded as permanent wide ranging coalitions that deal with subject areas rather than specific issues.

A joint organisation will typically have the structure of a trade association. The members will be trade associations and perhaps also large individual companies and other organisations. There will be a governing body elected by or selected from the members. There will be a chief executive, probably supported by a small number of staff. The organisations will be funded by annual subscriptions in the same way as associations.

Joint organisations are appropriate for major subject areas which require substantial resources, but where the existing trade association structure is not considered to be appropriate. The nature of such subjects is likely to mean that they are European or internationally based where there is a distinct British interest that needs to be promoted. There must be commitment from the participating association in terms of funding and involvement of senior executives. Ideally the membership and funding commitment should be for more than one year. A joint organisation will not work effectively if it has

a hand-to-mouth existence and the chief executive has to spend much of his or her time going round with the begging bowl.

Joint organisations always run the risk of clashing with their members. The dividing line between what the joint organisation should be doing and what the individual members wish to do is blurred. There must be a clear understanding of the lines of demarcation between the joint association and its members. This requires careful management and handling by the chief executive of the joint organisation. He or she must be in regular contact with the chief executives of the participating associations and must have their confidence.

A good example of a joint organisation is BI which largely comprises financial companies and trade associations and which promotes British financial services abroad. BI is described more fully in Appendix 5. A second good example in the Defence Industries Council, comprising the Defence Manufacturers Association, the Federation of the Electronics Industry, the Society of British Aerospace Companies and the BNAE.

Guidelines for effective co-operation

- Where an issue lends itself to a coalition – because a significant number of associations have an interest in it – then a coalition has much to commend it. A strong single voice is always likely to be more effective than a number of different voices, even if they are saying much the same thing. Policymakers and commentators are likely to be impressed by the fact that there is a common view and that the associations are willing to work together to promote it. And coalitions can be much more efficient than every association doing its own thing.
- Where participants are committing significant resources to a coalition there should be a brief written agreement specifying the purpose of the coalition, how it will operate and be organised and how it will be funded. It is particularly important that the coalition has clear goals.
- One person needs to be the identifiable leader of the coalition, responsible for administering and representing it. If the leader is to be from within an association then he or she must give the necessary time to the exercise and must have the confidence of the other participants. However, leadership must not turn into domination.
- The coalition should have its own identity. Literature and letterheadings should specify the purpose of and members of the coalition.
- A coalition is no place to have a policy debate on points of principle. The participants must agree the policy aims at the outset and be content for the leader of the coalition to take whatever action is necessary without continually referring back to the members. It is better not to include half hearted participants and essential not include those who do not share the common view or who have a reputation for not being team players.
- Coalitions must be adequately funded. The members are more likely to be committed if they are making a payment.
- Trade associations should not view coalitions in terms of whether they can commit any expenditure. They must compare what they are contributing to the coalition with

the expected output and what they would have committed in staff resources if they had pursued the issue independently.

- The leader of the coalition must provide the members with regular activity reports – partly to ensure that the members remain happy with the stance that is being taken.
- Coalitions should close down when their work has been completed. Where a coalition has a reasonably lengthy life then its operation should be reviewed by the participants at regular intervals.
- There should be a clear exit strategy.

Chapter 6

Federations

A federation is an arrangement whereby a number of associations operate under the umbrella of a parent association which provides a number of common services. Many of the largest associations in Britain have a federal structure.

Structure

There is no one structure for federations. (The term is taken to include confederations. While there is scope for endless debate about the differences between associations, federations and confederations, in practice there is not a great deal of correlation between the name used and the actual structure in operation.)

The first type of federation is the regional one. That is the members of the federation also belong to a regional association. But within this broad category there are –

- Federations where members join regional associations which are powerful in their own right and which collectively control the central organisation. For example, they would have automatic seats on the governing body. The regional presidency is likely to be a much sought after prize and carries considerable status.
- Federations where members join the central body and are allocated to a regional association which exists largely for social and networking purposes with the real power resting at the centre.

The differences between these two groups will be accentuated if the regional associations employ their own professional staff. In practice there may be little difference between the second type of association and a unitary association with regional committees or associations.

The second type of federation is the institutional one. Again, there are two models –

- Federations where companies join the central body and automatically become members of the relevant association or associations. The central organisation levies a single subscription and decides how this is to be allocated between the various activities of the association, often without funds being specifically earmarked for the constituent associations.
- Federations where companies join the constituent associations which in turn are the members of the federation. Power then rests largely with the constituent associations. The central body may be very weak with no full time staff of its own.

As for the regional federations the differences between the two types are accentuated if staff are employed directly by the constituent associations and the central organisation. And, again as for regional federations, there is little difference in practice between the first type of federation and a unitary association with special interest groups and committees.

There can be variations within these four broad categories. For example, in some sectors the federation comprises managed associations without their own staff and serviced

associations with their own staff. In some federations the big companies join the federation while smaller companies join the constituent parts. And in some federations the members are themselves federations. (The construction industry illustrates the number of levels which is possible. A manufacturer of heat pumps is likely to be a member of the Heat Pump Association. This association is a member of the Federation of Environmental Trade Associations which “represents the interests of manufacturers, suppliers, installers and contractors within the heating, ventilating, refrigeration and air conditioning industry”. This Federation is a member of The Alliance which exists to provide liaison between the main construction product suppliers’ organisations. This in turn is a member of the industry-wide body, the Construction Industry Board.)

There are also what can be called “paper federations”. They are organisations with no central staff and which exist largely on paper with occasional liaison meetings. In a number of sectors “federations” have been created which exist more in theory than in practice. They would be called “meetings” in other sectors. There is a danger in believing that restructuring of trade associations has been achieved by creating such federations.

For the purposes of this chapter federations are considered to be organisations where the individual company members regard themselves as being primarily members of the component parts of the federation rather than the central body. Organisations which have regional or sectoral grouping which do not differ in practice from regional groupings or special interest groups in unitary associations and “paper” or theoretical federations are largely ignored.

Which model is appropriate will depend on the particular circumstances of the industry, although in practice historical factors also play an important role.

Examples of the different types of federation are –

- The British Metals Federation is a federation where membership is through the regional associations. However, the organisation is centrally run with the regional associations employing only part-time secretaries.
- The Engineering Employers Federation is a regional federation where the regional associations have a great deal of autonomy and their own paid staff.
- The Federation of the Electronics Industry is a sectoral federation which acts as a unitary association with direct membership of the Federation and a single secretariat.
- The Sports Industries Federation, Metcom, the British Apparel and Textile Confederation and the Food and Drink Federation are sectoral federations mainly comprising managed associations but also some with their own staff.
- The Construction Confederation is a sectoral association comprising autonomous associations some of which are powerful in their own right.

Some federations are described in more detail in Appendix 6.

Where federations are appropriate

A federation is a natural trade association structure. It meets the basic desire of companies to belong to associations of similar companies, while allowing such an association to be sufficiently well-resourced to do its job effectively.

Federations are most appropriate in industries which have within them a number of fairly discrete sub-industries each with their own particular issues. Perhaps the acid test for whether a federation is whether its constituent parts correspond with the structure of its large members.

In practice, defining an industry sector that is appropriate for a federation is very difficult. A detailed analysis of the structure of trade associations in Britain could well suggest little correlation between where federations do exist and where they should exist.

It is vital that there is a sufficient commonality of interest between all the members of the federation. Companies will not join an association if a significant proportion of the members are in businesses which have no similarity with their own. It is also important that the interests of the discrete sectors should not be in conflict with each other to any significant step. If they are then the federation is likely to be paralysed by internal conflict and will operate under the constant threat of breakaways by groups of members who feel that they are not getting a fair crack of the whip.

The changing industrial structure, outlined in Chapter 1, has had a significant influence on the viability of federations. On the one hand, by bringing industries closer together – such as banking and insurance – it has increased the number of areas where a federation is viable. On the other hand, by blurring the boundaries between industries, it has made federations more difficult to run.

In practice, many federations are permanently under pressure because of a number of tensions that are inherent in the concept –

- Tensions between the chief executive of the federal organisation and, where they exist, the chief executives of the constituent associations.
- Tensions between the elected officers of the parent organisation and the constituent associations.
- Tensions as a result of having a number of chairmen each with their own agendas.
- Tensions over funding, perhaps over the allocation of funds between associations, or the amount of the resources taken by the central body, or the structure of the subscription scale.
- Tensions over particular policy issues where, for legitimate reasons, the individual associations have different interests.

Much of the time of the chief executive of a federation has to spent in managing these tensions although it is fair to say that they exist in muted form in most associations. Federations will frequently engage in navel gazing and will regularly restructure or reorganise themselves. The combination of forces analysed in Chapter 1 impact

particularly strongly on federations and will serve to make them more difficult to manage.

Some chief executives of federations estimate that they spend as much as 25% of their time on managing the conflicts.

Creating new federations

Chapter 2 of this report has made the case for co-operation between trade associations to take account of the changing market for trade association services. The case for a radical restructuring – the creation of a federation or a merger - is stronger where –

- Industry restructuring has led to a decline in subscription income of more than one association such that economies must be achieved.
- There has been rationalisation across traditional industry boundaries such that a significant number of companies are now among the largest members of a number of trade associations.
- Public policy issues are directed increasingly at wider industrial groupings.
- The trade associations have already responded to the changing market by working increasingly together, perhaps sharing some services and perhaps running some joint organisations.

The financial services and utility industries are among those that meet these criteria.

The choice between a merger and the creation of a federation is a difficult one; in practice the debate is not entirely a rational one. At first sight a federation is often seen as being the best option because it involves minimum disruption while recognising the need for restructuring. In practice, a number of issues should be addressed –

- Running an umbrella body is costly. The operating costs of the constituent associations need to be reduced considerably if the federation is to lead to significant cost savings.
- The property position of the constituent associations is crucial. The less the scope for moving into a single office the greater the case for a federation rather than a merger.
- Regardless of the logic members will prefer a federation to a merger. A federation might be created as the first move towards a full merger.
- Any constitutional issues. These might make a federation easier than a merger.
- How the federation is to be run. A merger is reasonably straightforward in that there is a clear model as to how a trade association should be run. However, as this chapter has shown there are several different models for running federations. These need to be carefully evaluated.
- A federation may be seen as a half-hearted response to a changed market in which case any modest cost savings are unlikely to be accompanied by real improvements in productivity.
- People issues. A full-blown merger may not be possible if the chief executives have entrenched positions or if or if some elected officers are determined to have their run at the chairmanship. There is the danger of creating a bureaucratic organisation.

These issues are unlikely to be considered dispassionately by a committee of representatives of the associations. Some outside assistance may be valuable in analysing the issues and setting out costs and benefits of the alternative options. The key point is that a federation is not a soft option which will yield substantial cost savings and improvements in efficiency generally. A federation is a legitimate answer to the problems caused by the changing structure of some industries. But creating an effective new federation is a monumental task that should not be undertaken lightly. At the very least it will absorb much time of the officers of the associations and could well also involve substantial legal and consultancy costs. These factors mean that deliberately creating a federation as a move towards full merger may well be the wrong option. If circumstances require a full merger it is best to do this immediately rather than have two bouts of disruption.

Making federations work

The regional federation model is a difficult one to make work and requires a great deal of managing. In practice the regional associations are likely to be doing much the same thing. Yet they each have their own offices and staffs and committees. The system is therefore expensive to operate with much duplication of activity. There are likely to be different standards of service delivery in the regions. There are probably few industries where a new regional federation structure would be appropriate. However, some existing regional federations work well and there would be strong resistance to change from the members and the staff. Such federations will be difficult to maintain in sectors where the members are increasingly national rather than regional. They work best in sectors where there are a large number of small members who operate only at local or regional level.

The case for sectoral federations is much stronger – where there is an easily definable sector with discrete subsectors. The Sports Industries Federation and the Food and Drink Federation are good examples. The normal pattern is for members to belong to the constituent associations – with which they will identify rather than the federation. However, in a number of federations, the large companies belong to the central federation – meeting their desire to belong to an association where the other members are like them.

The key issue is staff structure – which tends to go with the balance of power between the centre and the constituent members. One model which generally seems to work well is where there is a single secretariat. Each constituent part of the federation has a nominated secretary who is responsible for servicing its governing body, although one person could possibly service all the members. The chief executive has to ensure that the resources of the whole organisation are used to their best effect and that all the members are content. The more that a particular staff member is identified with a member of the federation rather than the federation as a whole the greater the risk of tensions. These will be magnified if a member of the federation has a strong chairman. A key test is whether the chief executive has sole power to deploy staff, always bearing in mind the constraints of deploying staff in any organisation. An ambitious member of staff may see attractions in becoming identified as the “director” of the Plastic Widgets Association rather than the secretary of the Plastic Widgets Committee of the British Widgets Federation.

Where there is a strong central organisation and the constituent members have their own staffs there is a different set of tensions. The main one will be over funding and service provision where there are shared premises. Every constituent association will feel that they are getting a rough deal in the allocation of funds and that overheads are too high generally. And the IT system may be slow and cumbersome because it has to cater for different associations with different needs. There may also be competition on the external side. On a particular issue, who should speak - the federation or the individual association? Increasingly there is no obvious answer.

These tensions are all capable of being managed, but only if there is sufficient common interest and if this is understood throughout the federation. They require strong management and effective leadership, particularly from the chief executive but also from the elected officers.

Another problem inherent in many federations is the difficulty of changing the constitutional and administrative arrangements. For the reasons described in the first chapter of this report the operating environment for trade associations is changing rapidly. Unitary associations can take time to change, and federations generally take much more time because of the need to secure agreement of all the participating members.

Guidelines for effective co-operation

- A federation is an appropriate model where there is a distinct industry sector which has within it discrete subsectors. Where member companies are involved in a number of subsectors their own organisation should be the model for that of the federation.
- A federation with a single secretariat can be a very effective model.
- A federation with a weak centre may well be less effective than using a combination of alliances, coalitions and ad hoc co-operation arrangements, perhaps combined with some shared services.
- A federation with a strong centre and strong constituent members has built within it tensions which require strong management.
- Creating a federation is unlikely to be a good substitute for a full merger where this is justified.
- A federation will be effective only if there is a shared understanding of the roles of the centre and the members. If there is not then an undue amount of time will be spent on internal politics and navel-gazing.
- By their nature federations are likely to be more bureaucratic and less able to respond quickly to changed circumstances than a unitary association. The good federation must have a governance structure that facilitates quick decision taking and, where appropriate, restructuring.

Chapter 7

Mergers

A merger between trade associations is like any other merger. Two or more organisations come together as a single entity. There are two basic ways in which this can be achieved – a new organisation being created or one of the existing organisations being the legal foundation of the new body – but the actual vehicle is of secondary importance to the substance of the merger.

The rationale for trade association mergers

The logic for trade association mergers is similar to that for mergers between industrial and commercial companies but with an added point. One advantage of a merger is that costs should be reduced because there is a need for only one chief executive, one office etc. In the commercial world competition between providers is regarded as a good thing, benefiting consumers. Indeed, mergers between companies can bring competition concerns, and a monopoly is regarded as undesirable. By contrast, competition between trade associations in a sector is regarded as a bad thing. There is duplication of effort and a less effective representative voice. In addition, competing associations must spend an undue amount of their time demonstrating to their members what a splendid job they are doing rather than actually doing the job. The ideal is for a single association for an industry so that the representative function can be performed effectively.

There is seldom a good case for having competing trade associations in a sector. By definition they are likely to be ineffective and probably are allowed to continue in operation because no one has the energy to rectify the position or because of personality clashes. But in a dynamic economy the situation is more complex. In some cases a new association has been created because the existing association was ineffective. After a period of time one of the competing associations will win and the other will be folded into it – but the process has to be gone through.

A more interesting scenario, and one very relevant at present, is where two or more sectors merge over time such that associations which previously represented discrete and separate sectors find themselves with overlapping membership and operating in the same sector.

The two key justifications for trade association mergers often overlap –

- The need to reduce costs. In practice trade associations seldom if ever merge only for this reason – because there is insufficient incentive for anyone to make a merger happen. Where however mergers within a sector, which can also involve mergers between sectors, reduce subscription income then the need to reduce costs increases and can prompt consideration of a merger. Many merger proposals are driven by financial difficulties in one or both of the associations.
- As sectors merge so the problems of competing associations become apparent. The large companies are likely to be in all the relevant associations and will find that they are paying two subscriptions for one service.

Increasing co-operation through coalitions and alliances is a proper response to these developments. But these are time consuming in themselves. It is a matter of judgement as to when the environment is right for a merger rather than looser forms of co-operation.

There are probably many sectors where there would be logic in merging trade associations – to provide more effective trade bodies and to reduce costs. In the commercial world such mergers would happen. In the trade association world generally they do not. There are a number of reasons for this -

- There are no clear owners of the business who will derive significant financial benefit from the merger. On the contrary, the members of the governing bodies, who will be taking the necessary decisions, are likely to face considerable downsides – extra work, some criticism and loss of office, and little upside. And the chief executive faces losing his or her job. Accordingly, there is little incentive for anyone to seek to initiate and carry through a merger.
- Egos have an unusually important role – people do not want to lose their opportunity to be chairman of the association or a committee.
- Members can have an astonishing loyalty to a trade association and will believe that in any merger the other association will come out on top.

In the commercial world there is a great prize in finding suitable merger partners or even identifying sectors where mergers are logical. In the trade association world these aspects are easy. The problem is making a logical merger happen.

A digression – demergers

In the same way that circumstances may point to a merger of trade associations, they may also point to a demerger of one association into two or more separate associations. This will happen where the market has changed in such a way that the interests of the members no longer coincide to the extent necessary for the association to operate effectively.

The mortgage lending industry gives a good example. Until the late 1980s the mortgage lending industry was the same as the building society industry. The Building Societies Association (BSA) represented building societies as institutions and mortgage lending as a function. In the late 1980 the banks and other institutions entered the mortgage market and the second largest building society converted to a bank. There was clearly a need for a representative body separate from the BSA. The BSA spawned the Council of Mortgage Lenders (CML). All building societies were automatically members and other lenders could join. The BSA handed over to the CML representative work on the mortgage market. Initially, the BSA and the CML operated as one organisation with a single secretariat. This worked well for a few years. However, as the BSA increasingly became the defender of mutuality, and therefore critical of banks, the situation became untenable. The CML was split off from the BSA with its own staff, although still sharing some facilities with the BSA.

A demerger has also occurred in the zinc industry. In 1938 the Zinc Development Association (ZDA) was established to promote the use of zinc in a variety of uses. Sector associations evolved within the ZDA structure. In 1989 the zinc use sector associations felt they could operate better as separate entities with greater involvement of companies in the user sector. Hence, they, and others, became independent. The Galvanizers Association feels that the demerged structure provides a better-focussed organisation and a clearer relationship with members. The old links have been retained on an ad hoc basis and the association has been able to forge wider ad hoc links without a “mother” organisation.

Mergers or takeovers?

The word “takeover” is almost never heard in the trade association context. Whatever the reality of the position the expression used is always “merger”. Often a “completely new association” is established, which looks remarkably like the largest association pre-merger. Where there is a clear takeover it needs to be treated as such even if the word “merger” is used officially. However, often where a takeover seems appropriate, not only is it described as a merger, but it has many of the characteristics of a merger, with detailed negotiations, compromises and so on. For the larger association the effort may well not be worthwhile.

At the outset that the associations concerned must clearly understand the nature of what they are trying to do. A takeover should be relatively easy to deal with. If there is goodwill on both sides it is a “win win” situation, with the larger association acquiring a wider membership base and the members of the smaller one getting the benefits of belonging to a more effective association.

Completing an acquisition should be a relatively simple task. The key point is that the members of the small association must be “sold” the concept. Above all this requires leadership by its officers, combined with a magnanimous and welcoming attitude by the acquiring association. Where the small association is in financial difficulty the selling task should be relatively easy.

The chapter is primarily concerned with real mergers although many of the points are also relevant to acquisitions.

The high risk high reward nature of mergers

For trade associations even setting off on the merger road is high risk. Ad hoc co-operation and coalitions are all valuable in themselves and useful learning experiences. If they are not successful then not much damage is done and there is always the benefit of learning from mistakes. By contrast, mergers are high risk and difficult or impossible to reverse. They involve a high cost in terms of legal and other expenses, the time of officers, the diversion of attention away from mainstream work and the disruption that is inevitably involved when the merger is implemented. Even when a merger is not completed the costs can be very high.

Andrew Lang, the American consultant, who has been involved in many trade association mergers, points out that there are psychological and financial costs associated with a merger, whether or not the merger takes place and whether it is successful or not. He went on -

"The psychological costs are going to be immediate and substantial when the issue of a merger is brought up. The news that the organisation may consider merging will run like wild fire throughout the organisation. The staff will immediately try to determine if their jobs are in trouble. They will be talking with each other and a new very, very important issue will be added to the very front of their "things to think about instead of getting work done" list. Beyond this, the more proactive individuals who were already thinking about leaving the organisation, will polish their resumes and begin sending them out.

The psychological impact for many other people will simply be that of the deer caught in the headlights of an oncoming automobile. They will be frozen in their tracks producing relatively little of value until the issue matures. Certainly there will also be staff members who will continue to function well, but the organisation's ability to proceed with its mission will diminish as the potential consequences of a merger are contemplated."

There are also consequences for the membership of the association. Announcing that an association is going down the merger road will change the attitude of members, particularly if an association signals that it no longer has a viable future as an independent entity. Those members who were beginning to question the value of the association will be reinforced in their views and may be reluctant to renew membership, particularly if they are also a member of a potential merger partner.

Many members will be unhappy at the way the merger is being handled. The more that is done behind closed doors the more critical those not in the inner circle will be, yet a premature announcement is dangerous.

An association wishing to merge must handle the issue very carefully and professionally. A merger, even a very successful one, will be costly. An association should not publicly raise the issue of a merger unless it believes, after proper study, that a merger is not only logical but is also likely to succeed.

Once such a decision has been taken then the issue must be addressed professionally and with urgency. The sooner the matter is concluded the lower the cost and the less the disruption.

Issues

In considering the merits of a trade association merger there are a series of key issues which need to be adequately addressed.

The first set of issues relates to the **rationale for the merger**. There are four tests –

- Is there a significant and growing overlap of membership? Such an overlap is most likely to happen as a result of merger activity. The overlap needs to be real. It is quite possible for there to be a theoretical overlap in that the members of two associations may have the same parent companies. However, if the members are autonomous in practice and operating in different markets then the overlap should not be regarded as significant. The overlap is very significant where senior people sit on committees of both associations and overwhelming where these are the same people.
- Is there a significant and growing overlap of issues where representational work is concentrated? Unless there is, there is little opportunity to reduce costs or increase effectiveness.
- Is there a significant overlap in terms of service provision? Even if two associations have a strong overlap of interests and members they will not be a good fit if one is a full service high cost association while the other provides only minimal services but is lower cost.
- Do the associations fit generally? Where one association is much bigger than the other a straight acquisition is likely to be a better option.

A merger between two trade associations where one is largely a professional body or a marketing body raises particular issues. Generally, such mergers do not work, but a great deal of time is spent in seeing if they can work. The sharing of services is likely to be a more satisfactory way of reducing costs and maintaining effectiveness.

Ultimately a view must be taken on whether the overlap now and the likely future trends are sufficient to justify a merger. Unlike in the commercial world there can be no justification for a trade association conglomerate seeking to cover a number of unrelated areas.

A related factor is that reduced subscription income as a result of mergers between members with an expectation of this trend continuing is a powerful factor which will put a merger on the agenda. In fact many mergers are initiated because one of the partners faces a serious financial crisis. Where this is the case the facts need to be understood at the outset otherwise recrimination is likely at a later stage.

At an early stage there has to be a broad brush estimate of the possible savings as a result of a merger. In practice such savings are likely to come from accommodation and staff costs. It is more difficult to “sell” a merger to the members if the cost savings merely compensate for reduced subscription income. Members can see the benefit of a merger if their subscriptions go down; a selling point that subscriptions would otherwise have to go up substantially is more difficult.

The second set of issues is **potential showstoppers**. These are often ignored as they may be thought to be just detail that can be sorted at a later stage. However, they need to be addressed early on. For trade associations the major showstopper is likely to be the **property position**.

An example can illustrate the issue. Two associations may have similar income and expenditure accounts, paying similar amounts for their property, a mortgage payment in one case and rent in the other. Both have subscription income of about £3 million a year. The first association could have a freehold worth, say, £10 million while the other may have taken out a long lease at the top of the property market which now has a negative value of £10 million. Clearly in such a case a merger would not happen. While this may be an extreme case it would be very rare for property positions to be identical. This issue needs to be understood at a very early stage otherwise a great deal of abortive work will be done.

The property position was one reason why the proposed merger of BEAMA and Metcom did not take place. And while property was not a showstopper it greatly complicated the merger between the London Insurance and Reinsurance Market Association and the Institute of London Underwriters, and the merger between the Building Employers Confederation and the Federation of Civil Engineering Contractors.

A second possible showstopper is **cultural differences** in one or more of a number of areas –

- The extent of member involvement. Where one association is largely run by the secretariat with the members providing policy input and the other is run by committees then a merger will be difficult. The committee run model is unlikely to be appropriate but the members of that association will not be prepared to lose that feature as a result of a merger.
- Regional organisation. Where associations have regional organisations the members will not want to lose them on a merger. An association without a regional organisations will not want to acquire one. In practice the latter may be the only workable option is a price that may have to be paid. The regional factor was one reason why the proposed CBI/EEF merger in the mid-1990s did not go ahead.
- Maturity. Perhaps paradoxically, long-established and mature associations may be easier to merge than newish associations. Certainly the merger of a new and a long established association may be difficult if there are significant differences in approach and working practices.
- Past history. It is quite likely that potential merger partners will have been competitors in the past. If that competition was unfriendly to the extent that there is substantial bitterness between the two associations this will make a merger difficult.

The third set of potential showstoppers relates to **subscriptions**. Differences in subscription scales depend partly on differences in service provision but also on differences in philosophy and history. Two otherwise identical associations may raise the same subscription income per member on average but do so in very different ways. One may have a high minimum, a severe taper and a fairly low maximum. The other may have no minimum, no maximum and a proportionate scale. If the scales have been long-established the members will be accustomed to them and may not be aware that there are other types of scale. Generally, members of associations are far more sensitive to increases in subscriptions than they are to the absolute level.

Where associations have an overlap of interests and members but very different levels of service provision such that on average subscriptions in one association are twice those in another, then this will make a merger difficult unless there can be broad agreement perhaps on a lower level of service provision with some increase in subscriptions for the members of one of the associations. Where these difference are compounded by different types of scale the difficulties are greater. No member will expect to pay more as a result of a merger. There is a danger of the level of service being reduced to the lowest common denominator. One solution is to maintain the previous subscription scales for the former members of each of the associations for between one and three years or perhaps phasing in a new scale over a similar period. This may work but could also be delaying the problem and cause resentment on the part of those members who see others getting exactly the same service for a lower price. Experience suggests that such an arrangement cannot normally run for more than two years.

A final set of showstoppers is **codes of practice**. Many associations have codes that are meaningless - mainly references to adhering to laws and regulations and acting in accordance with the highest standards of integrity. These are not a problem in a merger. However, there are some codes that do have a substantial effect on the way members work to the extent that not all companies in a sector want to or are able to comply with them. Indeed, some associations have been set up either by companies who want such a code or by members who are not prepared to subscribe to an existing industry code. If one or both potential merger partners has a significant code this could well be a showstopper.

After the rationale and showstoppers come the more obvious issues –

- What structure will the new association have? Will it be fully integrated or will there be a federal structure?
- Where will the association be located? The answer to this may be relatively simple where both associations are based in the same geographic area, and very difficult if they are not.
- What will the staff structure be; in particular who will be the chief executive? This is a vital point as the chief executives of both associations are the people who will make the merger work, yet there is scope for only one chief executive of the merged association. This issue must be addressed head on and not fudged.
- The subscription scale. The more closely aligned the existing scales are the easier this is to deal with.
- How will the costs of the merger be met?
- What will the association be called? In some respects this is a detail. But in other ways it is of huge importance because of the signal it gives. It is also the case that there are many people with small minds to whom the name is the most important issue. A quite undue proportion of time in merger discussions is spent on the name. In some case a long convoluted name may emerge; in others a totally new name unconnected with the business may be the end result. Sometimes the decision may be an easy and obvious one. If it is not there is something to be said for taking professional advice.

Each one of these issues is capable of moving from the “issue” to the “showstopper” category, depending on the particular nature of the issue and the way it is handled.

Making mergers happen

Given this theoretical background how are trade association mergers made to happen once a decision in principle has been taken that a merger is justified? No one is going to make a big financial gain and there is no need to employ the expensive advisers that are used when large quoted companies merge.

The possibility of a merger may arise because of an identifiable trigger such as a large merger within the sector or the retirement of a chief executive. Alternatively, some person or organisation may simply decide that there has been a sufficient change in circumstances as to justify consideration of a merger. The person is likely to be the chairman of the association, although possibly the chief executive. The organisation is likely to be one or more large member companies.

Whatever the starting point, once merger talks get under way the chairmen of the merging associations are of key importance. They must want the merger to happen and have the ability to make it happen. They must have the political skills to negotiate a successful merger. In fact there are examples of chairmen mishandling merger proposals by premature approaches or by not taking their own governing bodies with them.

Once there is agreement in principle to consider a merger the normal tactic is to establish a joint committee. Such a committee should comprise the key people in the two associations who are able to carry the rest of the membership. The joint committee must have a strong and effective chairman. Depending on circumstances this could be someone from one of the two associations who is identified at an early stage as the first chairman of the new association. Such a person must command respect in both associations, not just his or her own. If such a chairman cannot be identified then the best option is to have a suitable outside chairman, perhaps the chairman of another trade association or someone who understands the industry well and who is an experienced chairman in another field.

The joint committee must produce a paper giving the rationale for the merger. Depending on circumstances this could be prepared by the two chief executives. Alternatively, an outside consultant can be engaged. The concept of the merger then has to be sold to the membership of both organisations and to other stakeholders such as relevant government departments and agencies. Support from these stakeholders is essential.

At a very early stage a decision must be taken as to how staff issues are to be handled. At the very least the staffs must be the first people to be informed. As in other mergers a decision has to be taken as to whether issues such as location and the identity of the chief executive are to be resolved quickly or whether they are best left to later with the resulting uncertainty. A key point is that if the staff is unenthusiastic then they will

transmit this to the membership which could jeopardise the merger. Communication with the staff must be given the highest possible priority.

After the initial decision in principle has been taken the joint committee must then work its way through the issues set out in the previous section. To maintain momentum and reduce disruption this needs to be done both quickly and comprehensively. In some cases the staffs of the two organisations, if they are enthusiastic about the merger, can do the bulk of the work. Consultants may be engaged for some of the work. “Due diligence” must be undertaken by both associations although generally this should not be a long or expensive exercise unless an association has substantial trading activity. Specialists may need to be retained to analyse the property position and perhaps also pension liabilities if these are likely to be an issue.

A comprehensive merger plan must then be produced and agreed by the joint committee. It is essential that issues are not fudged at this stage.

Provided the initial stages have been undertaken satisfactorily the implementation should be relatively straightforward. One person should have responsibility for managing the project. Ideally, this will be the chief executive of the merged association if he or she has been identified at this stage. Proceeding with implementation before the chief executive has been identified could well be dangerous. In most cases the chief executive will come from one of the two associations, but in some cases an outsider will need to be appointed. This is generally a lengthy process and the interim period needs to be carefully handled. During the interim phase it is important to keep the show on the road and to maintain the morale of the staff. For this reason implementation must be a hands-on process and generally cannot be left to a committee or to elected officers. However, there may be circumstances where one of the officers is particularly well qualified to handle some of the implementation work. The key point is “well qualified” rather than “having the time”.

Those responsible for the merger must appreciate that they are involved in a political process which means that the rational answer is not always the right one. There is a price to be paid for a merger. It may be that the “wrong” person is the first chairman. But there are also very small issues which, if handled badly, can make a merger more difficult. Those responsible for the merger must identify the people who could frustrate it (some members, the editor of the trade paper, a popular, but useless, senior member of the staff of one of the associations) and see what they do to accommodate the concerns. Giving the chairmanship to the “wrong” person is at one level while giving the chairmanship of a minor committee to the “wrong” person may be a small price to pay for neutralising opposition.

Throughout the whole process there must be excellent communication with the members and with other stakeholders. The initial work must certainly be done in private and a crucial decision is when to go public. The associations must control the first announcement and not let news leak. The announcement must not be premature because damage will be done if subsequent work concludes that the merger should not go ahead.

The announcement must not be unduly delayed partly because this runs the risk of leaks and partly because stakeholders will be annoyed if they feel they have been kept in the dark. The first announcement should generally be fairly brief just saying that the possibility of a merger is being explored. Hostages to fortune must be avoided, but on the other hand if there is a clear decision on key issues such as location and chief executive then the sooner these can be announced the better.

When the more detailed work has been done a suitable document should be prepared, if necessary with professional help, which can be used to sell the merger to the members. The “heads of agreement” should be used to sell the concept but a comprehensive agreement will be needed for internal use by the parties.. Other stakeholders, such as other trade associations, government departments, regulatory bodies, European and international associations and consumer groups, should be sent the document with a suitable covering letter and their views invited. Communication with the staffs of the two organisations is particularly important. They should be the first to know and should be informed orally wherever possible and should receive relevant documents before anyone else.

Depending on circumstances a roadshow to sell the concept to members may be appropriate. At the very least all members of both associations should be invited to give their views. Meetings should be arranged with the larger members individually and with groups of members, for example through any regional organisation.

Regular progress reports should be given to all stakeholders.

Both associations should have dedicated sections on their websites dealing with the merger. All relevant documents should be on this site.

The trade press is particularly important in this process. It is likely to be supportive. If it is not then the merger can be more difficult to complete. The editors of key journals should be individually briefed, invited to give their views and then kept fully informed. Sadly, most members of associations are more likely to be informed by what they read in the trade press rather than by what they receive from their associations.

A key part of the communication process is managing expectations. On the one hand it is essential to demonstrate the benefits of the merger, in particular to the members of the associations. On the other hand there is a danger that expectations will be too high leading to disappointment at the final merger terms or at the outcome of the merger. Managing expectations is particularly difficult where the merger is in response to financial difficulties. Selling a merger where subscriptions will fall is one thing; having a selling point that a merger will prevent subscriptions rising substantially is more difficult.

The pitfalls

There have been a number of planned trade association mergers which have failed to be completed and a number which have been completed but which have not been successful. The worst of all possible outcomes is where a merger of two associations leads, in effect,

to five associations: the new merged association, the two old associations remaining in practice and two breakaway associations of disgruntled members. Mergers are likely to fail for one or more of the following reasons –

- Bad timing, in particular a premature move which can reduce the chances of a logical merger actually happening.
- Insufficient logic, in particular in respect of the real overlap of membership, interests and services. There are a number of examples of mergers being announced and subsequently abandoned which should never have been announced because the associations did not fit.
- Failure to address the showstoppers, in particular the property position, at an early stage.
- Poor leadership by the officers of the merging associations. Often this takes the form of being too ambitious or not understanding the political nature of trade associations.
- Inadequate resources being devoted to the project and resultant failure to maintain momentum.
- Fudging key issues, like keeping two offices and having joint chief executives.
- Trying to maintain the old associations within the new association.
- Not having a single person managing the implementation phase.
- Not communicating adequately with the memberships of the merging associations.
- Personality issues, in particularly people who see their life-long ambition of being chairman of one of the associations slipping away from them. In practice this could easily be the biggest problem.
- Preconditions such as one association insisting that its chief executive is head of the merged organisation or that their office is the HQ, and promises about staff positions and committee membership.

Case studies

A number of planned and announced mergers have not happened –

- The CBI and the Engineering Employers' Federation. The CBI was a unitary association while the EEF was a regional federation.
- The Public Relations Consultants Association and the Institute of Public relations – a trade association and a professional body.
- The Association of Consulting Engineers and the British Consultants Bureau – a trade association and a promotional body.

On the hand there have been some recent successful mergers -

- Water UK, a new association with staff transferring from the two associations which previously existed.
- The International Underwriting Association of London, a merger of the Institute of London Underwriters and the London Insurance and Reinsurance Market Association.
- The Construction Confederation which brought together the Building Employers Confederation and the Federation of Civil Engineering Contractors.
- The Quarry Industries Association which over time was created through a series of mergers.

- The Association of Independent Financial Advisers which brought together the Independent Financial Advisers Associations and two other smaller associations.
- The Confederation of British Metalforming, formed through a merger of the Confederation of British Forgers and the British Metalforming Trade Association.

Some of these cases are considered more fully in Appendix 7.

Positioning for a merger

The research quoted in Chapter 2 showed that 55% of associations expect to merge within the next five years. Probably many of the others anticipate that they might merge but do not expect to. In general all associations should be planning for the possibility that they might merge. The better the forward planning the more likely a successful outcome.

The basis of good positioning is a regular analysis of the market position of the association. This should cover the marketplace in which the association is operating, changes in that marketplace, possible membership trends as a result of market changes, potential competitors to the association and possible partners, both horizontally and vertically. An association should always be aware of the overlap of membership with all other associations.

The good association will ensure that it keeps key members “onside”. This can include offering places on the governing body to representatives of members who may also be involved in another association. It can be a good plan to invite representatives of other associations in the same area to sit on the association’s committees where this is appropriate. That way they will become familiar with the association and hopefully appreciate just how good it is.

More generally, an association should use every opportunity it can to work with other associations. This will help instil the right staff culture such that a merger will be easier to implement successfully should the need arise.

The activities and finances of possible merger partners should be closely scrutinised; the trade press should be monitored for relevant stories and every opportunity should be taken to find out more about potential partners. Where an association in the same field is seen to be having financial difficulties an offer of help in the form of accommodation or personnel might be a useful precursor to a merger.

With the right intelligence of this sort an association will be well placed when an opportunity arises for a merger. Where an association is approached by another it should have enough intelligence to know whether this is a result of financial difficulties in which case the discussions would be very different from where an association is seeking a merger from a position of financial strength.

Guidelines for effective mergers

Every association should regularly analyse its market position and position itself so as to be able to take advantage of merger opportunities.

When an association is considering a merger it should clearly identify at the outset the rationale for a merger in terms of overlap of membership and interests and resulting cost and effectiveness gains. It must identify showstoppers and assess whether they can be satisfactorily addressed.

Once two associations agree there is merit in considering a merger the following guidelines apply -

- A joint committee of the two associations must oversee all stages of the merger. That committee must comprise the leaders of the associations who must be capable of taking the membership with them. The chairman of the joint committee must command the confidence of both associations. In some cases an outside chairman can be effective.
- Commission a comprehensive study of the issues that need to be addressed including legal issues, property issues, the location of the new association, committee structure and staffing. Avoid preconditions and promises.
- Implementation must be the responsibility of one person, ideally the designated chief executive of the new association.
- Give the necessary resources to maintain momentum and decide how the costs are to be met. Outside help is likely to be needed on a number of issues.
- Do not fudge key issues by, for example, retaining two offices or having joint chief executives.
- Do not try to retain the substance of the old associations.
- Communicate continually with all the stakeholders, particularly the members and the staff.

Chapter 9

Co-operation at the European Union level

The decision-taking process at the European Union level poses particular challenges for trade associations. Associations need to co-operate with others as they do increasingly at domestic level, but at the same time there are special factors which make that co-operation difficult.

The policy-making process in the European Union

The way decisions are taken at the European level is very different from the way they are taken at the national level. Techniques which work well in London or in any of the other national capitals may well not work in Brussels. The same people therefore have to work in different ways when handling issues at the national and the European level.

Broadly speaking, at national level the big political issues are decided by ministers and the vast majority of other issues by officials. Representative work therefore can concentrate on officials with ministers and their advisers being targeted on the big political issues. Legislative and regulatory proposals are not formally published until they are in near final form. MPs are relatively unimportant in this process and have become even less since the 1997 election returned a centralising government with a huge parliamentary majority. Often, there is now little scrutiny of legislation in Parliament. In this scenario the representative function can be exercised economically because only a few people need be targeted.

Policy making at the European level is looser. The most important European legislation in the long term is in the form of directives which generally are broad brush, leaving national governments considerable discretion on implementation. Proposals are likely to be published at a very “green” stage which can lead to “shock horror” stories in the British press along the lines of “Brussels plans to ban the British banger”. The decision taking process can easily take years and there can be horse trading between totally different issues in the Council of Ministers. The European Parliament does have extensive powers to amend European legislation and it is using those powers. The “rapporteur” of a European Parliament committee has particular power to influence the final outcome. Representative work therefore has to be spread over a much longer period than at national level and involve a wide range of participants including the Commission, national governments and MEPs.

The European Union struggles to achieve an effective consultative mechanism. The Commission is very small given its responsibilities and needs technical help to understand the issues and the implications of what it is proposing. It is more concerned about the quality of the technical input than where it comes from. Other things being equal the Commission will obtain information from those whom it knows and who make themselves known. MEPs also need technical help because they are dealing with detail on many issues.

MEPs generally follow the national line unless there are compelling political reasons not to. Individual members of the Commission maintain close contact with national governments and unless their part of the Commission has a direct interest in a subject under discussion will also take a national line.

The major change in the way the European Union works over the last few years has been the growing power of the Parliament – which has coincided with the declining power of the Westminster Parliament.

How trade associations handle European Union issues

Issues at the European level have always posed difficulties for British trade associations –

- The long time frame for taking decisions means that members cannot easily see the value of the work being done. This is particularly hard when the UK is in a minority but the outcome is important.
- The convoluted system for policy making means that proportionately more resources have to be devoted to influencing an outcome at European level than at British level.
- Staff are not as familiar with how decisions are taken in Brussels as compared with how they are taken in London and may be inclined to use inappropriate tools.
- Members have little understanding of how Brussels works and can be panicked by newspaper headlines about the latest (untrue) horror story from Brussels.
- It is difficult to keep track on how matters are being dealt with in Brussels. The Commission has more than its fair share of incompetent staff who may seem to be important on paper but who have no influence in practice. Such staff are often delegated to deal with trade associations which enables the Commission to claim it has consulted while keeping incompetent staff away from the real action.
- The anti-Europe mentality which is so prevalent in Britain weakens the British position on any issue at the European level.

Most trade associations adopt a multi-pronged approach to handling issues at the European level. Generally, European matters are fully integrated into the Association's work so the same staff handle issues at both European and national level, although one person may well be responsible for attempting to co-ordinate or oversee European work. The British government is regarded as a prime source of information through sponsoring ministries and UKREP, the permanent office of the British government in Brussels. These are particularly important when issues reach the Council of Ministers stage but can also be important at an earlier stage where the government can use its intelligence network.

Almost all British associations belong to one or more European associations, most of which are federations of national associations, but some of which also have individual company members. The European associations are regarded as particularly important by the Commission which likes to have a single view from an industrial sector.

The major British associations also have their own direct contacts in Brussels. These include relevant MEPs and also Commission staff, particularly where they are British. Some associations have full time staff in Brussels. Generally these are the associations

that represent sectors which are particularly affected by legislation at the European level, such as agriculture and steel.

A number of associations employ European consultancies and some are members of the British Business Bureau – described in more detail subsequently.

The need for a new European approach

At first sight the mechanism described in the previous section seems comprehensive and should be effective. However, at best it is dated and vulnerable while at worst it is wholly inappropriate and damaging to the sector.

European associations are probably the major weakness. There is a general dissatisfaction with the performance of European associations and with the impact of British associations at the European level. This came through in the Trade Association Forum 1999 benchmarking survey. On a score of 1 – 5 associations gave themselves a rating of 3.46 on their effectiveness in influencing government policy in Britain. They gave themselves a lower rating of 3.16 on their effectiveness in influencing developments at the European level. And they rated the effectiveness of their European associations at 3.21.

Some associations have pulled out of their European associations – the Construction Confederation (in a previous incarnation) and more recently the Finance and Leasing Association for example. Many have seriously considered pulling out and some remain members for purely defensive reasons, that is they get no positive value out of membership but remain as members to stop the association taking positions which would be damaging to the British interest. The budgetary pressures on many British associations puts the spotlight on the European subscription which can one of the few budgetary items which can be cut without leading to staff cuts or weakening the associations significantly in the short term.

To some extent dissatisfaction with European associations is inevitable. Trade associations are particularly harsh judges of the associations to which they belong. Many British associations have been represented by the wrong people in European associations – a consolation prize for not being chairman, a nice sinecure which lots of foreign travel for the past chairman or a suitable place for a less than competent member of staff who is not quite bad enough to sack. The presidency of European associations has often been highly sought after by the wrong people, and their persistence has often been successful. The presidency generally has to rotate around the members regardless of the ability of the candidates.

If an association is able to overcome these problems it still faces difficulties in making policy given very different national interests (eg protectionism in France and Germany compared with the open market approach in Britain) and approaches (German trade associations tend to be more formal than British ones and more inclined to put strong pressure on the European association to support their position).

The European Union prefers to deal with a strong European association. Indeed, it used to be said that the Commission would not deal with national associations. This has never been true although it has been the case that a European view would always carry more weight than a single national view. The ponderous method of decision taking by the Commission was well suited to European associations which could be equally ponderous. Sadly, all too often they have merely produced the lowest common denominator, thereby encouraging national associations to make their own submissions.

The rapidly growing strength of the European Parliament poses a major problem for European associations. Most have not sought to have a significant relationship with MEPs and their knowledge of the Parliamentary system is therefore poor. Many have not been able to give views at the speed required by the Parliament.

The point has been made that MEPs generally take a nationalist line rather than a party line. MEPs will willingly listen to a British trade association or other interest group. However, they will not be greatly influenced by a European association. Indeed, there is now the paradoxical position that many large British associations regard MEPs as more important than MPs and devote more resources to them.

This significant, and generally not understood, shift of power has considerably weakened European associations many of which were weak anyway. The best have, of course, reacted to or even anticipated the changing environment and continue to be very effective. One trend is for associations to allow large companies to become members in their own right rather than through national associations. By this means the large companies may be kept within the fold. Without it they are likely to do their own lobbying. Where the European association is no longer able to perform the European function effectively then other mechanisms will develop.

A significant trend in recent years has been the growing European presence of large multinational companies. Many have their own offices and public affairs professional in Brussels. Others use the growing army of consultancies in Brussels. In some industries the large companies have got together to create new associations which bypass existing arrangements and which are solely for the benefit of the big companies. These companies can provide the Commission with the information that it needs more effectively than a European association and can respond to the needs of MEPS rapidly and effectively. Commission staff, UKREP and MEPs are all willing to see individual British companies and such companies are able to have a big impact on the decision taking process as long as they do not try to misuse their access by seeking to disadvantage other British companies.

The view of insiders in Brussels is that one has to have a significant presence there to stay on top of the game and to be able to influence the decision taking process. Most, but not all European associations have a presence in Brussels but not all have the resources or the ability to give the Commission and the Parliament what they want. Very few British associations can justify the cost of having their own office in Brussels.

British associations are having to react to this new scenario but generally without being able to devote more resources to European representation. Many have sought to encourage the necessary reforms to European associations. For some, although probably not many, leaving the European association and using the subscription on a Brussels consultancy may be the response. For many associations, co-operation with other British associations is one response although this is unlikely to be sufficient in itself.

Co-operation between trade associations at the European level

European associations are themselves a special form of federation and an example of trade associations co-operating with other associations in different countries.

Increasingly, British associations are seeking alliances with other national associations to pursue a common line or to increase the number of MEPs who will support a particular position. These alliances are likely to be informal and ad hoc; making them formal could well upset the European associations which most British associations are reluctant to do.

Where appropriate British associations should ally themselves with British local authorities many of which have offices in Brussels and which are particularly influential with MEPs.

There is scope for British associations to work more closely together at the European level. For example, the whole of the British finance industry generally has the same view on issues at the European level. Accordingly the associations have increasingly worked together by sharing information and making common representations. This has been done, for example, of the proposals for a distance selling directive and the proposal to harmonise withholding taxes. This will probably increase as associations come under more budgetary pressure and as the need for representation at the European level continues to increase.

The British Business Bureau

The British Business Bureau (BBB) deserves its own section in this report because it has a unique role. Because of its links with the CBI it can be regarded as a form of trade association co-operation, although in the way it works it is more like a public affairs consultancy. The BBB was established by the CBI in 1991 to help provide its trade association members with improved and cost-effective representation in Europe. It monitors what goes on in Brussels, communicates with the European institutions, produces regular publications for its members, arranges meetings with Commission staff, UKREP (the permanent office of the UK government in Brussels) and MEPs, gives advice generally and provides meeting room facilities. The annual subscription is substantially less than would be paid to a public affairs consultancy.

The BBB currently has 23 members most of which are the very large sector associations, such as the Construction Confederation, the Engineering Employers Federation, the Association of British Insurers, the British Printing Industries Federation and Metcom. Some of these may be members because they are not wholly satisfied with their European associations while others simply want an additional channel of communication which is

available at modest cost. The BBB is well regarded by its members, by UKREP and by MEPs. This is partly due to its links with the CBI and the fact that its members are known to be large, effective representative bodies.

Association management companies and consultancies

It is worth noting in passing that association management companies (AMCs) have a much bigger role in Brussels than they do in London. There are a number of quite substantial companies. One of the largest is Ernst & Young Association Management which has 19 clients and employs 15 professional and can also draw on the resources of the Ernst & Young group. Ernst & Young tends not to service traditional European associations, but rather North American associations which want representation in Brussels, international associations which want representation in Brussels and groupings of multinational companies – which increasingly should be seen as the alternative European associations. Its clients include eight leading freight forwarding companies which established a special interest grouping, FrieghtForward Europe, in 1994, the Association of Executive Search Consultants and an American association, the Motor and Equipment Manufacturers Association. A second large company is GIC Association and Conference Management which concentrates more on individual member organisations and event management.

The AMCs can be particularly helpful to organisations which want to establish a Brussels presence quickly. They offer the necessary expertise and infrastructure without the problems of running an office and employing staff perhaps a long way from home. The AMCs can also help established associations cope with fluctuating work levels by managing or assisting on individual projects.

The AMCs may well have an expanding role in serving American associations an increasing number of which are seeking an international presence. Some also see themselves as managing coalitions.

Guidelines for effective co-operation

- Representational work at the European level has to be handled differently from at the national level.
- The growing power of the European Parliament means that associations must consider devoting more resources to European representation.
- Working through European trade bodies needs to be supplemented by other channels including direct contact with MEPs, coalitions and using consultants and association management companies.
- There may well be a case for trade associations in related areas to pool resources in Brussels where this would not be justified in London.

Chapter 9

Serving the trade association market

The value of sharing information

Throughout industry and commerce the value of companies sharing information is generally accepted. Companies seek to learn from the experience of other companies. The whole of the management consultancy business is aimed at helping companies and other organisations improve their performance, largely by drawing on the experience of other organisations. In most sectors there are lengthy books on best practice and a new entrant to the sector, whether a company or an individual, is probably overwhelmed by the volume of publications which can be consulted. Trade associations are in a sector of their own and therefore, like other businesses, should be able to learn from each other's experiences.

However, until recently, trade associations have not shared information with each other. There had been no mechanism by which they were able to do so other than some loose ad hoc contacts. Trade associations collectively are fairly small and therefore have not justified the interest of management consultants or publications specific to their circumstances.

Over the last few years the situation has changed markedly, largely as a result of the activities of the Trade Association Forum. Associations are now better able to draw on best practice in trade associations generally and to benchmark their performance with that of other associations.

The Trade Association Forum

Trade associations first got together in a significant way to share experience in 1996. Associations were under some pressure as a result of the factors outlined in the first chapter of this report and also because of the comments made by Michael Heseltine when President of the Board of Trade. Another relevant factor was that some trade associations were engaged in benchmarking activity among their members generally, with financial support from the Department of Trade and Industry.

A group of 27 large associations decided to conduct a benchmarking exercise. This covered the full range of trade association activities from membership and governance through to representation and commercial services. This project was generally regarded as having been very successful. A number of benchmarking clubs were set up in order to continue the initiative. The following year the benchmarking exercise was done a second time, on this occasion being open to all trade associations. 135 associations participated. Again the exercise was considered by almost all participants to have been very successful. All three of these exercises were assisted by financial support, generally covering 50% of the costs, from the DTI.

A number of other activities developed out of these benchmarking exercises and a loose organisation was created under the name Trade Association Forum. This was administered by the Association of British Insurers which had taken the initiative in

respect of the first benchmarking exercise. However, as the activities of the Forum grew it became increasingly inappropriate for the management of it to be in the hands of a single trade association. Accordingly, the Confederation of British Industry agreed to take over the administration of the Forum with effect from the beginning of 1998. Again, financial support from the Department of Trade and Industry assisted the process. The Forum became independent and self-funding with effect from April 1999.

The Forum aims to encourage the development and sharing of best practice among trade associations. It is not a policy making body. Rather, it provides its members with a range of core services designed to assist them in the strategic development and day-to-day running of their organisations-

- Promotion of the trade association sector, in particular the part they can play with proper consultation in making the process of government more effective.
- Information on relevant government initiatives through a website and a newsletter.
- An inquiry service.
- Information to outsiders. The website has the most comprehensive listing of British trade associations with website and e-mail links. This is the best portal to trade associations and is widely used as such.
- Promotion of best practice. This is achieved through a range of studies including benchmarking reports. The third comprehensive benchmarking report was published in November 1999. A report on trade association competencies has also been published.
- Conferences, seminars and workshops.
- Networking opportunities.

The Forum now has over 260 fully paid-up members, a much higher degree of penetration than had been thought likely bearing in mind that the annual subscription ranges from £100 to £1,000. Almost all of the large trade associations are members and the Forum probably covers well over 80% of trade association activity. The Forum has, in a short space of time, established itself as an essential source of information for trade associations and a useful mechanism for sharing experience in general and best practice in particular. By promoting contact between trade associations the Forum has also helped to increase the trust and understanding which is essential for effective co-operation arrangements.

Societies of association executives

In many sectors employees have the opportunity to further their careers by becoming involved in the activities of professional bodies. The small size of the trade association sector in Britain has meant that there has been no large organisation able to meet the professional needs of staff in trade associations. The Society of Association Executives is a long standing, but small, organisation, which provides a limited range of services including a newsletter, seminars and training courses. The Institute of Chartered secretaries and Administrators has provided some courses and support for its members in the trade association sector and is looking at a route to qualifications.

At the European level the European Society of Association Executives provides a similar range of services to the British society but obviously in a wider context. It also offers a professional qualification.

The huge size of the trade association sector in the USA, together with the nature of trade association activity in that country, means that there is a substantial professional body, the American Society of Association Executives. This has over 20,000 members including the chief executive officers of most of the large associations. It provides a comprehensive range of services including a professional qualification, conferences and seminars, an information service and a wide range of publications. It undertakes the activities on a much larger scale which in Britain are undertaken by the Society of Association Executives and the Trade Association Forum. The ASAE website is a particularly valuable source of information on the trade association sector.

Association management companies

Trade associations share a number of common characteristics –

- They are relatively small organisations
- They are membership organisations, often with a large number of members throughout the country
- They produce a large number of publications
- They organise conferences, seminars and other events.

Day to day administrative work is fairly similar throughout trade associations. It follows that there is scope for much of this work to be outsourced to firms which specialise in such work, leaving the executives free to concentrate on representational and other matters which are specific to the association. Indeed, some or all of this work can be outsourced.

Association management companies (AMCs) provide this service. At one extreme a full service AMC can provide the whole of the management such that the association needs no staff. At the other extreme, a single service, such as maintaining a membership database or organising conferences, can be used. More generally, of course, trade associations, like any other organisation can outsource administrative functions such as payroll, personnel administration and event organising.

The range of functions that an AMC can provide over and above general outsourcing is –

- Maintaining the membership database and collecting subscriptions
- Secretariat services for the governing bodies and committees
- Preparation and distribution of publications
- Maintenance of a website
- Organising exhibitions, conferences and other events
- Providing meeting rooms
- Handling queries
- Lobbying and public relations
- Market research and statistics.

An AMC can be particularly useful when a new association is being formed or an existing association is undergoing a rapid change or where an association has significant and regular peaks and troughs in its workload. In the context of models of trade association co-operation, an AMC can, for example, facilitate the creation of a new joint organisation or a federation.

Representational work cannot easily be outsourced, although assistance on lobbying can be. Those associations that use AMCs tend to keep this function in-house.

As a general rule the larger the association the less likely it will wish to use an AMC. The American experience, described in more detail below, is that most associations using AMCs have subscription income under \$1 million although the range is from \$100,000 to \$5,000,000.

AMCs are described in more detail in Appendix 8.

Guidelines for effective co-operation

- Trade associations have much to benefit from sharing information on best practice with other trade associations. This has become more important as the commercial and other pressures on trade associations have increased.
- The general point that trade associations should have a culture of working with other trade associations applies not just to specific operational arrangements or coalitions but also more widely. Each trade association should actively seek to be involved in the Trade Association Forum.
- There is a need for training courses and high-level seminars and workshops for trade association staff. There is a market opportunity which is capable of being filled by the Forum, the SAE or the ICSA.
- Associations should use the website of the ASAE as a source of information and some association executives could well benefit by joining the Association.
- The Trade Association Forum should facilitate co-operation arrangements between trade associations by commissioning appropriate research and holding seminars and workshops.

Chapter 10

The role of government

Interest

Does government have a legitimate interest in trade associations generally and co-operation between them specifically? The answer to this question must be that it does. Any government is concerned with good government. This is not simply a matter of dealing with high profile issues. Most of government is concerned with detailed issues many of which never reach ministers. Trade associations have two important roles in contributing to good government –

- They legitimately represent the interests of sectors of industry and commerce whose views must properly be taken into account in the policy making process. The more effective they are the better they can perform this function and the better-informed government will be.
- They study the detail of government proposals in a way that few other interest groups can and therefore can help ensure that legislation and regulations achieve their intended purpose. In this role trade associations are providing a useful supplement to the scarce resources in the Civil Service and regulatory bodies. The more effectively that trade associations do this work the better the quality of legislation.

It is legitimate for government to say that sectors get the trade associations that they deserve. There is therefore an argument that the government should do nothing to help improve the effectiveness of associations. However, this would be misguided. The government devotes substantial resources to helping industry, often with the help of trade associations. The government needs a good channel of communication to industrial sectors to help its own initiatives and also to get the feedback it needs. The government therefore has a strong interest in promoting more effective trade associations. It is in its own self-interest as well as the interests of industry.

There is another point. The chapter on mergers pointed to the need for external forces to help make logical trade associations happen. Often those forces will be the larger companies within a sector. But the government can also be such a force. This does not require a highly interventionist approach. The way that this can be achieved is considered later in this chapter.

History

In general, the government has had no policy or even view on trade associations. To the extent that there has been government action this has generally been on a sectoral basis and has not been part of a co-ordinated strategy. Unlike in many other countries there is no legislation on trade associations, they have been little affected by restrictive practices legislation and they have even been largely ignored in the recent debates about lobbying. They have not featured in the deliberations of the Committee on Standards in Public Life. This is in marked contrast to the position in some other countries. In the USA trade associations are subject to extensive regulation. For example, they must disclose detailed information about their activities, are required to register as lobbyists and are severely restricted in the way that they can seek to influence the government. The registration

requirements include semi-annual reports which must include specific issues where lobbying was undertaken, agencies that were contacted and a list of each employee who acted as a lobbyist. There must also be an estimate of income and expenses in relation to lobbying.

In Canada there is a less extensive regime. Nevertheless trade associations must register as lobbyists and file reports on their activities on a six-monthly basis.

In 1993 the then President of the Board of Trade, Michael Heseltine, made a speech which was critical of trade associations. He said: "It is widely believed that many trade associations simply do not have the resources they need to be effective – because of a fragmentation in coverage, because key companies are not members, or because the industry they serve is not prepared to provide the funds required." He went on to say that "Every sector should have at least one well-resourced trade association equipped to serve its members effectively". Mr Heseltine made a second speech in 1995 when he spoke strongly in favour of mergers between associations and expressed caution about federations if all they did was to lead to another layer of bureaucracy.

There was a widespread perception, not wholly justified, that Mr Heseltine believed that an association needed to have subscription income of £1 million a year to be effective, and that the DTI would talk only to one association in each sector. In practice, there is no evidence that the DTI did adopt a practice of speaking to only one association in each sector. However, the speeches did have the effect of making associations, and their members, question the existing structure of representation and consider mergers. The speeches are generally recognised to have been powerful catalysts in encouraging change in the trade association sector. A number of trade association mergers can be directly attributed to the climate which was created by the Heseltine speeches.

In February 1996 the government published *A best practice guide for the model trade association*. Like the Heseltine speeches this had a useful effect in encouraging associations to review their effectiveness. Trade associations have acknowledged that this was a valuable initiative.

Subsequently, in the late 1990s the DTI supported initiatives by trade associations themselves to improve their effectiveness. It gave financial support to the first two benchmarking exercises and, most importantly, to the establishment of the Trade Association Forum. The Forum is now the central point of contact between trade associations collectively and the government. Without the DTI the Forum would not have got off the ground in its present form. The DTI has also given considerable support to trade associations to improve the competitiveness of their respective sectors through a range of projects including benchmarking, overseas missions, training and skills. These contributed not only to improvements in the sectors but also in the range and level of services trade associations provide to their members.

Within the DTI there were a number of ad hoc initiatives to improve the effectiveness of trade associations in particular sectors, including mergers where appropriate. That work continues today.

The current position

In opposition Labour spokesmen generally spoke against the notion that government should seek to influence the structure of representation, arguing that this was a matter for industry.

The Labour government has said and done little about trade associations. The DTI has continued to support the work of the Trade Association Forum by providing financial support for particular projects, including this one. At sectoral level support continues to be given to particular projects to help trade association become more effective including through merger. There is little such activity outside of the DTI.

However, there is as yet little sign that trade associations are on ministers' agendas. The consultation paper on the establishment of the Small Business Service was interesting in this respect. It envisaged the head of the service as being a powerful voice for small businesses within government. The only mention of existing associations was in the context of being service providers alongside banks.

The approach of the Government can best be described as ad hoc.

The need for a strategic approach

Trade associations should be seen by government as a significant part of the policy-making machinery. In fact that have been identified as such in one significant government paper. In June 1998 the Service First Unit of the Cabinet Office published *How to conduct written consultation exercises*. This is aimed at government departments and agencies. It sets out five guiding principles for effective consultation –

- Build consultation into plans.
- Consult early.
- Write documents in simple language.
- Give consultees time to reply.
- Report back on results.

There is an important principle in this paper which appeared for the first time in a government document. In consultation documents there should be “a request that those responding should explain who they are and, where relevant, who they represent (to help ensure that responses from representative bodies are properly weighted)”. It is also recommended that views should be adequately weighted: “pay particular attention to representative bodies such as trade associations representing businesses in the sector, trade unions, widely representative consumer groups and those most affected by the proposals”.

However, very few government departments take any notice of this requirement. Indeed, there is evidence that government is influenced by the number of responses making a

particular point and literally by the weight of responses. Where responses to consultation exercises are published it is rare for them to do anything other than refer to numbers. For example, the Financial services Authority (generally one of the best agencies in respect of consultation) published *The FSA Principles for Business*, in October 1999. This reported on the response to an earlier consultation exercise. There had been 65 responses, from trade associations, government agencies, individual companies, consumer groups, lawyers and individuals. The report uses the words “generally”, “most”, “many”, “a number”, “several”, “a few” and “some” to indicate the response to particular questions. No where in this paper is there any indication of who the “few” were, for example. If someone had wanted to make a particular point all they would have had to have done would be to get 50 people or organisations to write in for the view to come in the “most” category. It can therefore make sense for an association to encourage all of its members to make their own responses rather than relying on the association. This runs directly contrary to the policy of encouraging more effective trade associations.

As an example of good practice, the Joint Commons and Lords Committee which considered the Financial Services and Markets Bill named individual respondents where appropriate, sought to identify where consumer groups had different views from industry groups and included some submissions in its report.

At a minimum all government departments and agencies should rigidly adhere to the Cabinet Office guidance. Trade associations enjoy a privileged position in that they have access to ministers and officials not always open to others and they are also consulted informally before formal consultation exercises begin. The public and policy-makers are therefore entitled to know just who trade associations (and other interest groups) actually represent. This is very relevant to the issue of models of trade association co-operation. If trade associations know that the bigger the interest group they represent the more weight will be given to what they say then mergers which should take place will take place and coalitions and alliances will be seen to be more advantageous. By contrast, if the government gives the impression that it is influenced by the number of responses to a consultation exercise then a more fragmented approach is inevitable.

There are many government officials and regulators who deal with trade associations. Many are knowledgeable about what associations can and cannot do and how they work. Others are less knowledgeable and perhaps can be critical of trade associations for not being able to “deliver” their sectors. It would be helpful if there was a better understanding of how trade associations work throughout government. They may well be a role for the Civil Service College and the Trade Association Forum here.

It would probably also be helpful if the departments and agencies which deal with a large number of trade associations gave some internal consideration as to what, if anything, they should be doing to make those associations more effective. Some individual parts of the DTI have taken initiatives with respect to their sectors. In some cases this has been through giving financial support to mergers, establishing a “forum”, perhaps as an alternative trade association structure, and even in one case (the motor industry) establishing an industry website that would normally be done by a trade association. It

would be appropriate for the various parts of the DTI to share with each other their experience of working with trade associations and what role, if any, they should be playing in seeking to make associations more effective. There can be a temptation to believe that bringing everyone together is always the best approach. In fact, this may not always be appropriate particularly associations representing competing products in apparently similar sectors.

Outside the DTI few, if any, government departments or trade associations have sought to play a proactive role in encouraging associations to become more effective or even to have a consistent approach to consultation. The Financial Service Authority stands out as an example of good practice – notwithstanding the comments made earlier about its handling of responses to consultation documents. It has published a policy statement *The FSA's approach to consultation* in which trade associations are appropriately covered. It also has a member of staff who has specific responsibility for trade association relations.

There is another example of good practice in the financial services sector. The Bank of England and the Corporation of London have jointly published two editions of *The City Handbook* which has key contact and other information about representative bodies, markets, settlement/clearing organisations, professional bodies, regulators, government departments and promotional bodies. A potentially valuable aspect of the Handbook was the description of each trade association. Unfortunately, these descriptions were written by the associations themselves and thus were not consistent in approach. The Handbook has now been replaced by a directory on the Bank of England's website. This gives contact details only but includes hyperlinks to each organisation's website.

Government officials and regulators are often well placed to judge the effectiveness of a trade association. There are a number of things which officials can do where a trade association is not fully effective and which are not unduly interventionist. For example, where a policy submission is illogical or factually incorrect or lacking evidence then this can usually be pointed out to the officers of the association who may then perhaps understand for the first time that the association is not perfect. Where an association is clearly ineffective it may make sense for a senior official to indicate this privately either to the chairman of the association or to the heads of the big companies in the sector. This might be sufficient to encourage them to seek improvements. It is probably not sensible for officials to try to take a more interventionist role by actually imposing their own solution. This book has demonstrated just how difficult mergers and federations are when trade associations strive to establish or develop them themselves. It is unlikely that officials will be particularly well placed to second-guess what should be done in the sector whereas they are very well placed to say that something should be done.

Guidelines for government action

- Cabinet Office guidelines which require trade associations to state who they represent should be rigidly adhered to by all government departments and agencies.
- There should be a recognition within government that trade associations have a valuable role to play in the policy making process because of their representative role

and also because their own resources can complement those of officials to help ensure that legislation and regulations achieve their intended purpose.

- Government departments and agencies should aim to have a good understanding of the trade associations and other interest groups in their field and should have a consistent approach to consultation.
- The government has a role in facilitating improvements in the effectiveness of trade associations, in particular by making it clear to industry leaders where a sector is not being well represented.
- The government should continue to support the Trade Association Forum and government departments and agencies should encourage trade associations to become members.

Appendix 1

Models of trade association co-operation – results of questionnaire to Trade Association Forum Members

Introduction

As part of this project members of the Forum were asked to complete a questionnaire. This paper sets out the aggregate results. 122 associations completed the questionnaire. They were distributed by annual subscription income as follows -

Under £200,000	41
Between £200,000 and £1 million	54
Over £1 million	27

In fact there was very little difference between the three groups in respect of the answers. Where there were significant differences, these are mentioned in the analysis.

Influences on the association

The first question asked “on a scale of 1 to 5 (1 = strongly disagree, 5 = strongly agree) to what extent do you agree with the following comments in respect of your association over the next two years”. The average score for each variable is shown -

Mergers between members will reduce subscription income	3.6
Mergers between members will make management of the association more difficult	2.4
Mergers across sectors will make management of the association more difficult	2.8
The globalisation of business will make management of the association more difficult	2.6
Changing legislative and regulatory requirements will make the existing trade association structure in my sector less appropriate	2.3
The development of the internet should lead to considerable changes in the way the way my association operates	3.9

The two major factors are the effect of mergers on subscription income and the impact of the internet.

Changes in the trade association structure

The second question asked “on a scale of 1 to 5 (1 = strongly disagree, 5 = strongly agree) to what extent do you agree with the following comments in respect of your association”. Again, the average score for each variable is shown below -

Within the next two years my association will seriously consider a significant merger	2.5
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Within the next five years my association will seriously consider a significant merger	3.2
There will be a gradual shift of power in my sector away from national and towards European associations	2.4
My association will be working more closely with others on an ad hoc basis	4.1
My association will seek to make greater use of formal coalitions with other associations on some issues	4.0

The results show a high expectation of merger activity. Perhaps more significantly, there was a very strong view that associations will be working more closely with other associations on an ad hoc basis and in formal coalitions.

Experience of co-operation

The third question asked about involvement in co-operation arrangements over the last few years.

Most associations (105 – 85%) had worked with others on an ad hoc basis. This was generally judged to have been successful (3.8 on a 1 – 5 score). 51 (42%) of the associations had been involved in ad hoc co-operation arrangements. This was judged to have been as successful as expected (2.2 on a 1 – 5 score). Only 16 (13%) had been involved in mergers with the experience being regarded as successful (3.1 on a 1 – 5 score). This was one area where there were significant differences between associations. Some had had very successful experiences while others had had the opposite. Medium sized associations had had a particularly unfavourable experience of mergers.

Obstacles to rationalisation

The final question asked “if there is a strong case for rationalisation of the trade associations in your sector, on a scale of 1 to 5 (1 = strongly disagree, 5 = strongly agree) to what extent would the following be obstacles to merging or creating a federation “. The results are shown below, with the figures for medium sized associations being shown separately –

	All	Medium
Opposition from me	1.6	1.7
Opposition from senior staff	1.9	2.3
Opposition by officers or potential officers	2.6	2.8
Difficulty of convincing larger members	2.5	2.6
Difficulty of convincing smaller members	3.1	3.5
The association’s property position	1.9	2.2
The ability of the governing body to handle the situation	2.5	2.5

Perhaps not surprisingly chief executives did not see themselves or their senior staff as obstacles to rationalisation. The biggest obstacle was the difficulty of convincing smaller members. This was the one question which did show up differences by size of association. The medium sized associations had higher scores for all the variables than either the large or small associations.

Appendix 2

Ad hoc co-operation

ABI/BBA work on financial services regulation

The decision of the government to create a single regulator for the financial services sector has radically changed the environment in which the financial trade associations work. Instead of specific regulations and regulatory bodies for banks, building societies, insurance companies and securities firms there is now a single regulator. The Financial Services Authority (FSA) which is developing a single rule book and common regulations as far as possible. If trade associations continued to operate as they had in the past then each would put in representations promoting the views of their particular members. However, the FSA is being set up partly because the structure of the industry has changed with many large financial institutions now operating in all the financial markets. Differing views from the different associations would mean that the regulator would get no clear view of what the industry wanted.

The two major trade associations in the financial field, the Association of British Insurers and the British Bankers Association, decided to work together. They agreed to share drafts of all submissions and to take account of each other's views where possible. On a number of occasions they made joint submissions, for example to the joint committee of the Commons and the Lords which considered the draft bill to establish the FSA. The associations exchanged letters on how they would co-operate although this did little more than formalise what was already happening in practice.

The Building Societies Association and the Council of Mortgage Lenders

In the 1980s building societies dominated the mortgage market and their trade association, the BSA, was effectively the voice for mortgage lenders as well as the representative body for building societies. During the 1980s the banks increased their mortgage lending and new lenders came into the market. The building society share of the market fell to under 70%. In 1989 the second largest building society, the Abbey National, converted to a bank. The non-building society lenders, including the Abbey National, wanted representation on mortgage market issues. Similarly, the Building Societies Association could ill-afford the loss of the Abbey's subscription income. Accordingly the BSA spawned the CML. Under the constitution of the CML all building societies were automatically deemed to be members and membership was open to all other mortgage lenders. BSA staff also worked for the CML. The non building societies benefited by gaining access to all the BSA's past work on mortgage lending and had access to an effective representative body. The BSA benefited by gaining subscription income rather than losing it.

The initial working agreement worked well as long as there was no major area of disagreement between the building societies and the other mortgage lenders. However, in the mid-1990s other building societies decided to convert to building society status. The BSA increasingly wanted to defend the concept of mutuality and this meant attacking banks, which were about to have a majority share of the mortgage market. Under these circumstances the BSA staff could no longer also be the CML staff. Accordingly the two

organisations diverged with the CML employing its own staff. However, the two organisations continued to share premises and to share administrative services such as reception, accounts, personnel and IT services.

Appendix 3

The American experience with co-operation

Introduction

The trade association sector is far more developed in the USA than it is in the UK. It is therefore instructive to examine how American trade associations co-operate with each other and to seek to learn lessons for the United Kingdom. However, in examining the American situation it is important to understand the very substantial differences in the legislative system which help to explain most of the differences in trade association practices.

The trade association environment in America

Trade associations in the USA have to operate against the background of a very complex legislative system. In Britain, Parliament has only a modest role in determining legislation. By contrast, in the USA, Congress has the dominant role. In order to secure the passage of legislation it is necessary to obtain the support individually of a sufficient number of congressmen. As they are more likely to be influenced by pressure from their constituencies this means that representative work has to operate at the grass roots level as well as centrally. To complicate the position the 50 states also have substantial powers and have considerable autonomy to make laws that differ from those in other states.

Even when legislation is going through Congress the procedures are very different from in Britain. Whereas in Britain bills which are introduced become law, in the USA a huge number of bills are introduced most of which never become law. It is also common practice for unconnected issues to be linked together in a single bill.

This environment means the trade associations have to devote substantially more resources to achieving a particular outcome than is the case in Britain. Much effort will be devoted to legislation which, in the event, does not pass into law. An association will need to influence not just the administration and one or two members of Congress but rather every member of Congress and this immediately makes it necessary for associations to work with others.

There are thousands of associations in the USA with often three or four large associations in each sector.

The environment facing associations in the USA has become more difficult over the last few years for many of the same reasons that are covered in the first chapter of this report. A particular factor is that many large American corporations have been downsizing their headquarters, including Washington staff. They have therefore expected more of their trade associations while at the same time expecting them to downsize.

An American view of trends shaping associations

In 1999 the American Society of Association Executives (ASAE) published a report *Facing the Future* which analysed the major trends and issues affecting associations. 14

different trends were identified each of which related directly to each other. The report identified actions which associations needed to take -

- Adopting a new set of leadership characteristics will be the first step for association boards and staff as they move into the 21st century.
- Meeting rising member expectations and a greater demand for a return on the dues investment will drive association redesign.
- Keeping up with external changes and responding rapidly to members' emerging needs will require associations to become fast, fluid and flexible.
- The inability of current governance models to deal with an increasingly complex, fast paced environment will require a cultural shift for most associations.
- Associations must be willing to retire historically profitable programmes and services in favour of creating new programmes. They also need to extend their traditional areas of expertise (ie core competencies) to create new revenue generating programmes.
- The profound and beneficial influence of technology usage will be felt through its increasing capability to link people, build relationships and foster communities.
- Mastering the unplanned changes and unexpected consequences ("change loops") that do not fall neatly inside the time frame of the traditional planning calendar or scheduled board meetings will require a new mindset about the budget and planning processes.
- The generational shifts among staff, board and members will fundamentally alter the culture of associations. There will be shifts in member perception of and loyalty to the association, differing preferences for programmes and services and differing degrees of volunteer involvement.
- Securing a qualified workforce with the proper mix of business, technical and social skills combined with the diverse life experiences will demand greater skill, time, and effort.
- Gaining maximum advantage from outsourcing or co-sourcing will require associations to carefully distinguished core from non-core functions and identify its strategic benefits as well as cost savings.
- An increasing vulnerability to competition will require associations to become more vigilant about new types of competitors and to seek out non-traditional allies.
- As consolidation and mergers occur with greater speed and unpredictability, associations must become more proactive in dealing with the resulting chain reaction, which affects revenues, services and membership categories.
- As their members become less bound by geography, time zones, culture and language in their business and professional relationships, associations will have to redefine their own boundaries accordingly.
- Increasing public scrutiny and competition will lead associations to defend their members' credibility and to promote the unique value of their services or activities.

It is helpful to expand on the points in relation to competition and alliances and consolidation and mergers. The report quotes another ASAE survey which found that 76% of associations were facing increasing competition largely from other associations but also from other service providers. The study observed that increasingly associations' competitors were coming from unexpected places, including both non-profit and for

profit organisations, in the areas of publications, trade shows, education, meetings and the web-based services. As a consequence of increased competition, it was noted that associations were more actively seeking alliances with non-traditional partners as well as old competitors.

It was noted that consolidation and mergers of associations' members was occurring at unexpected speed and that associations needed to adopt a proactive stance. It was suggested that the use of scenario planning and asking "what-if" questions will become more common as associations learn to anticipate the consequences of this trend and develop contingency plans.

Coalitions

In the USA coalitions are not only a standard method of working; they are essential on big issues and on any issue which is controversial however small. This is partly because there are many more trade associations in the USA than in Britain and also because of the need to engage in grass roots lobbying and to demonstrate a wide measure of support. Colin Rorrie, Executive Director of the American College of Emergency Physicians, has summarised the position as follows –

“For today’s association, and increasingly for tomorrow’s, strategic alliances are becoming a part of the day-to-day operation. Whereas in the past the literature described the alliance as one element used on an irregular basis by an association to accomplish its work, today, the literature describes an association’s environment as one of juggling multiple alliances with multiple players. These alliances are often focussed on today’s issues, but more and more they also encompass the positioning that will take the association beyond its traditional boundaries. In other instances, the alliances involve organisations that have certain common purposes but also competitive characteristics.”

Mr Rorrie cited an example of an alliance which eventually turned into a merger. He suggested that this scenario will be repeated. He concluded: “For the future, alliances will become one of the most important vehicles used by the association community to advance the purposes that associations will play in the future structure of our society.”

Congress itself also welcomes coalitions. Indeed on some issues the appropriate congressional committee will actually make it clear to industry that it is seeking a single view rather than views from the individual associations.

The National Association of Manufacturers, perhaps the nearest American equivalent of the CBI, sees one of its major roles as being to lead the coalitions. The 1999 annual report of the Association comments –

“The NAM represents every industrial sector and manufacturers of all sizes in every state. Our more than 330 vertical, state and employer's association affiliates – and their members - look to the NAM to build consensus on our collective lobbying strategy. Key industry sectors relied on the NAM for the leadership and clout that can only come from a broad-

based organisation. During 1998, the NAM led, or played a leadership role in, powerful coalitions on tax relief, Y2K, high-tech issues, immigration, social security reform, healthcare and OSHA safety and health regulations, among others.”

The leadership of coalitions is a political issue. Some associations are natural leaders because of their very nature – the NAM is a good example. Other associations may prefer to “hide” behind a coalition leader even though they are the main funders and provide most of the input. For example, an “Association of Polluting Chemical Plants” might prefer to be in a coalition on an environmental issue rather than to operate under its own name. For the same reason large companies often prefer to work under the trade association banner rather than be seen to be pressing for something which will benefit them as a company.

Coalitions in the USA range from very informal to substantial formal organisations with their own identity. Many informal coalitions are really no more than one organisation seeking to sign up others to its particular line. An association might, for example, finalise its policy position and then spend a great deal of time lobbying other trade associations and interest groups at both state and federal level for support for that line. There is an element of mutual back scratching in this. One association might be willing to support the position taken by another in exchange for support for its own position on a totally unrelated matter. Associations are particularly keen to attract the support of state level organisations, because of the influence these have on individual congressmen, and also consumer bodies.

The more substantial coalitions generally involve a smaller number of organisations individually putting significant resources, either people or money, into promoting a particular cause. The larger coalitions are often led by lobbyists or law firms with the participants making a financial contribution to cover the costs.

Key issues in making coalitions work are leadership and trust, a common mission and an agreed strategy. Because associations are accustomed to working through coalitions they quickly become aware of which organisations they can and cannot trust.

While coalitions are the accepted way of working in the USA they are not without their problems. There has been a proliferation of coalitions and consequently a diminution in their quality. They can easily result in a lowest common denominator position being taken. They can be bureaucratic and costly to operate, and some are little more than gossip shops. On some issues individual companies may find it very easy to take a different line from a coalition and to be effective precisely because they are able to move more quickly.

The financial services industry usefully illustrates the use of coalitions in the USA. The thrift industry (thrifts are similar to building societies) wanted to preserve certain features of the thrift charter in a comprehensive modernisation of the law governing financial institutions. Two trade associations – America’s Community Bankers and the

Association of Thrift Holding Companies - ran the coalition with others being able to join at no cost. The “Thrift Charter Coalition” lobbied Congress extensively. It was generally successful in meeting its objectives notwithstanding opposition from other trade groups.

On the wider subject the main trade associations for banking, life insurance, non-life insurance, fund management and securities worked together on the Financial Reform Bill. There have been attempts over many years to reform the arcane laws governing financial institutions in the USA. These have failed for a variety of reasons including strongly differing views from the various trade bodies. On this occasion each association recognised that there had to be reform and they agreed a common approach which was then used in lobbying. This helped assist the passage of the legislation.

Subsequently the five trade associations have established a permanent organisation, the Financial Services Co-ordinating Council. This describes its main purposes as –

- To co-ordinate efforts among the major sectors of the financial services industry on legislative and regulatory policy issues of common interest.
- To use industry resources more efficiently and avoid duplication of efforts by addressing key issues through co-ordination of lobbying and communications activities.
- To provide, as appropriate, opportunities for industry leaders to discuss developing issues.

The Council is governed by a committee comprising the chief executives of the five organisations. Decision-taking requires unanimity. It is intended to convene task forces on key issues.

This is a good example of a coalition being effective and then developing into a permanent organisation.

Mergers and federations

Federations are less common in the USA than they are in Britain. As the general rule the preferred method of operation seems to be independent associations working with each other in coalitions or alliances or the use of association management companies – covered in Appendix 8. The principal difference between a federation and an association management company is that the latter has an ownership independent of the sector it is representing. Many association management companies choose to specialise in a particular area and it is in that respect they perform many of the functions that in Britain are performed by federations.

Mergers between American trade associations are subject to almost exactly the same factors as are covered in this report.

Andrew Lang, President of the Lang Group, Bethesda, Maryland in a conference paper in 1999 identified 10 keys to successful mergers –

- Make sure the merger potentially makes sense. Obvious mismatches are where associations have been in strong competition with each other, where one or both of the boards is extremely divided and where the missions do not fit.

- Look deeply at the merger prospect, in particular cultural issues.
- Communicate fully and openly with the potential partner.
- Develop a mechanism for investigation – generally a joint committee.
- Perform the basic investigation – due diligence.
- Deal with the most difficult issues, such as the chief executive of the new organisation, the mission of the combined entity, governance arrangements and funding.
- Obtain consensus of the boards.
- Develop a specific plan to make the merger happen.
- Let the world know.
- Plan for the follow through.

Lang concluded –

“Despite the difficulties, economic realities will make mergers and alliances more and more prevalent both for local and national organisations they are the wave of the future. The best strategy is to keep an open mind and maintain a regular internal and external environmental scan. It is always best to move proactively. Those non-profits who react will be in the more tenuous position; the most attractive partners are frequently the first to “wed”.”

American Society of Association Executives

The principal organisation which provides services to trade associations in America is the American Society of Association Executives (ASAE). This was founded in 1920. It has over 23,000 members who manage trade associations, individual membership societies, philanthropic organisations and not-for-profit associations. About 40% of the members are chief executives.

The ASAE's mission "is to promote and support excellence and professionalism among association executives, and to work diligently to increase the effectiveness, the image and the impact of associations as they serve their members and society."

The ASAE takes the legal form of a non-profit corporation. Its bylaws set out eight objectives -

- To promote the arts and sciences of association management and educate members and the public in the advancement, improvement and uses of voluntary associations.
- To provide opportunity for the exchange of experiences and opinions through discussion, study and publications.
- To conduct competitions and make awards for outstanding management ability and for association services to business, professions, government and the public.
- To develop and encourage the practice of high standards of personal and professional conduct among executives serving trade, technical, business, and professional associations.
- To conduct and cooperate in courses of study for the benefit of persons desiring to fit themselves for executive and administrative functions in the association management field; to hold meetings and conferences for the mutual improvement and education of members.

- To acquire, preserve, and disseminate data and valuable information relative to the functions and accomplishments of voluntary associations.
- To cooperate with local, regional, and counterpart groups of association executives in the common endeavour to advance association management as a profession.
- To promote the purpose and effectiveness of voluntary trade, technical, business, education, and professional associations by any and all means consistent with the public interest. Subject to prior approval of the Board of Directors or Executive Committee, the Society may take a position and express an opinion on issues directly and generally affecting voluntary associations.

The Association's annual budget is in the order of £10 million a year.

Among the wide range of services provided to all members are -

- ASAE's Information Central which is an information clearing house on association management issues.
- *Association Management* - a substantial monthly magazine.
- *Who's Who in Association Management & Buyer's Guide* - a comprehensive annual directory, not only of members of the ASAE but also of suppliers.
- A huge range of books and studies, many prepared specifically by the ASAE.

The ASAE offers a professional qualification in the form of a Certified Association Executive (CEA).

The ASAE is the representative voice for associations on matters which specifically concern associations, representing association executives and the association community before Congress, federal agencies, state governments and the media. It also helps associations interpret and comply with the many laws and regulations that affect them.

The ASAE has 13 separate sections to which members can elect to belong. Each of them provide a regular newsletter, a peer networking directory, round table luncheons, educational programmes and specific publications.

One of the ASAE's main programmes is a massive annual convention which attracts some 5,000 people. Well over 100 educational sessions are organised, with the plenary sessions always comprising nationally known speakers. The conference is supported by a business exhibition with between 600 and 800 exhibitors. The majority of these are convention and visitors' bureaux, chambers of commerce, convention and conference centres and hotels and resorts. A relatively small number, no more than 50, are concerned with business issues such as insurance, consulting, software and publications. (These type of organisation is better represented at the Association's annual management conference.) However, the income earned from the exhibition makes a major financial contribution to the ASAE. With almost every association in America itself organising a major annual convention, it is not surprising that the ASAE annual convention is seen as being a major marketplace for all of those connected with the convention business to seek to attract business.

The Association has been in the forefront of using technology to communicate with its members and to provide information. It has a well-designed site on the world wide web (<http://www.asaenet.org>). The web site contains information about the ASAE itself and the services that it provides. It has an Information Central section which allows people to search a database of more than 4,500 records. The site also has a gateway to associations which provides a direct link not only with members of the ASAE but also international convention centres and convention bureaux, international societies and the association marketplace. Over 1,200 associations are now linked to the ASAE site.

Appendix 4

Coalitions and Alliances

The Fair Regulation Campaign

All businesses are affected by government regulation. It is probably fair to say that most businesses are dissatisfied with the process by which regulations are drawn up and implemented. Governments of all complexions have announced regular attacks on over-regulation but these have generally not been effective. This issue lends itself to a coalition approach because a large number of sectors are affected. However, the issue is probably not top priority for most trade associations because it is not specifically relevant to them. In addition, an individual trade association probably feels that its particular views on this general point would not carry much weight in government.

The Fair Regulation Campaign is an interesting coalition in that it has been run by Charles Miller, a lobbyist, and the initiative for it came from large companies. Part of the process of making the new regulations is a regulatory impact assessment. Many large companies have been involved in work on such assessments and often have been dissatisfied at the way they have been carried out. Companies which were clients of the public affairs consultancy asked Charles Miller if he could put together a coalition to seek to address the issue. The coalition building started with three major national organisations, the Confederation of British Industry, the British Chambers of Commerce, and the Federation of Small Businesses. With these organisations on board the coalition had credibility and a number of sectoral associations joined. In addition, a number of large companies were members. Among the major sectoral associations which were involved were the British Bankers Association, the Construction Confederation and the Association of British Insurers. Among the companies involved were BT and Zurich Financial Services. Participants had to make a financial commitment for six months at a time with the whole project planned to last two years. The financial contribution ranged from zero for the national representative bodies to £4,800 a year for the companies.

The objective of the campaign is to improve the UK and Brussels rules under which the benefits and costs of proposals which could impose burdens on business must be fully and publicly costed. The overall objective is to significantly reduce the cost of regulation – the target is £3 billion in the first year and £1 billion a year thereafter.

The coalition developed a ten-point plan. It has been successful in many respects. It was fortunate in that its message was in line with the government view and the Cabinet Office probably saw it as useful pressure on other government departments. Guidelines prepared by the coalition have in practice been adopted by the Cabinet Office. The wide range of institutions represented in the coalition has given considerable weight to the message.

The coalition has sought to work in Brussels as well as in London. Interestingly, the involvement of the CBI and the other national organisations has made it more difficult to get the support of European bodies as the initiative has been seen as a British one.

The following factors usefully summarise why this particular coalition has been successful in the UK-

- It has had credibility largely because of the members of the coalition.
- Because the issue was relevant to the whole of industry and commerce it could not be handled by individual trade associations.
- There was a clear aim and strategy which the participants could readily buy into.
- The coalition was timely, its objectives being in line with those of ministers.
- The coalition has been well-organised, drawing on the resources of its members.
- The coalition has kept its members were informed of its work with regular dates by e-mail.

Funding is always a problem for such coalitions. The coalition had reasonable funding from the members – but not enough to be fully effective. It is the case that companies are more willing to put £30,000 into their own campaign than they are to put £3,000 into a campaign with total funding of £60,000.

Alliance for Electronic Business

The Alliance for Electronic Business was launched in May 1998 by five organisations -

- The Computing Services and Software Association (CSSA)
- The Confederation of British Industry (CBI)
- The Direct Marketing Association (DMA)
- E centre uk
- The Federation of the Electronics Industry (FEI).

The Alliance was established because of the rapid emergence of the number of public policy issues on matters affecting electronic business. The Federation of the Electronics Industry and the Computing Services and Software Association were the prime movers in setting up the Alliance. They recognised that to have credibility a wider grouping would be helpful. Having the CBI involved was important for this reason. The Deputy Director General of the CBI, Peter Agar, was asked to chair the Alliance and he has been the main public spokesman. Again, this has been seen to add to the credibility of the Alliance.

The Alliance does not have its own funding. The work has been shared between the participating organisations with one taking the lead on each issue. The Alliance is run by a group comprising Peter Agar and the chief executives of the other bodies. There is also an executive group comprising a representative of each of the organisations.

The Alliance has been involved in a number of projects including -

- The creation of a global trust services infrastructure where the work has been led by the FEI.
- A unified approach to consumer protection on-line where the work has been led by the DMA.
- The establishment of an internet e-commerce resource centre where the work has been led by the CSSA.

The Alliance has also been involved in work on the Electronic Communications Bill, a European directive on the legal aspects of electronic business and taxation issues.

To some extent, the Alliance has been a victim of its own success. There is now a growing international agenda in which it needs to become involved and it has also made a commitment to a self regulatory mechanism which must be met. The Alliance now needs to address the issue as to whether it needs to be put on a more permanent basis with dedicated funding.

The Alliance has been successful because it fulfilled a need of putting together an appropriate group of organisations that could handle the growing policy agenda in relation to electronic commerce. The involvement of the CBI has helped give the Alliance credibility as has the chairmanship being in the hands of the Deputy Director General of the CBI. The work has been shared between the various participants with one being clearly responsible for taking the lead on each particular issue.

Strategic alliance between the Periodical Publishers Association and the Newspaper Society

In July 1998 two leading media owner organisations, the Newspaper Society (NS), representing regional and local newspapers, and the Periodical Publishers Association (PPA), announced a strategic alliance. It covered representation in Brussels, UK public affairs, the establishment of a national training organisation for all prints media and the provision of legal advice. The alliance built on the relative strengths of the two organisations. For example, the PPA is strong in the training field while the Newspaper Society is strong on lobbying and the legal advice.

The chief executives of the two associations emphasised that the proposals did not affect either the identity or the autonomy of either organisation. The chief executive of the Newspaper Society summarised his own organisation's approach to alliances generally as follows: "The Newspaper Society is building a network of alliances with other media organisations in Europe and the UK. Our strategic alliance with the PPA is central to this process. It will strengthen the collective voice of the media industry we represent and give added value to our publisher members."

The City of London Group - taxation of savings income in the European Union

The European Commission has been seeking to get agreement on a proposal to levy a tax at source on savings income in the form of interest payments. This proposal is seen as being very damaging to the City of London because of its dominance of the Eurobond market. The lead organisation on this matter in the trade association sector has been the London Investment Banking Association. It recognised that it was important that the City should give a consistent message on the problem posed by the proposed directive and that it could better make its case with the support of other relevant organisations. It duly invited them to a meeting and there was agreement at that meeting that an informal alliance would be established under the name of the City of London Group. The members of the group are -

- The London Investment Banking Association

- The British Bankers' Association
- The International Primary Market Association
- The International Paying Agents Association
- The Association of Private Client Investment Managers and Stockbrokers
- The Association of Corporate Treasurers.

In addition, the CBI, the Hundred Group (of finance directors) and the Association of British Insurers participated in the Group's work.

The Group has prepared comprehensive policy papers, has maintained close contact with the government and has generally lobbied on behalf on the City. LIBA and IPMA, as representatives of the group, were invited to give evidence to the Lords/Commons Joint Committee and to representatives of the European Union finance ministers at a special meeting in Brussels.

A slightly different grouping, again led by LIBA, and including three City law firms, has made submissions to the Treasury on the Financial Services and Markets Bill. The Group jointly commissioned an influential Opinion from Lord Lester of Herne Hill on the disciplinary mechanism provided for by the Bill, in particular on the European Convention of Human Rights implications of the Bill's market abuse provisions.

Appendix 5

Joint organisations – BI

BI, formerly British Invisibles, helps UK based financial institutions to increase the foreign business. It can be regarded as a special type of trade association. It is predominantly a promotional body, but also provides information to its members, issues a number of publications and has a representative role.

In its present form it was established in January 1998 through a merger of the previous British Invisibles and CEENET, a promotional body funded by the City of London. Its annual subscription income is about £1.4 million. Most of its income comes from individual companies, but trade associations and the City of London also provide some funding. BI has a special status with the government. The Bank of England is represented on its governing council and The Treasury, the DTI and the Foreign and Commonwealth Office appoint observers.

The governance issues facing all trade associations are magnified for an organisation like BI. The merger with CEENET was complex and difficult – CEENET was entirely funded by the City and existed to promote inward investment into the City. British Invisibles had more wide ranging responsibilities. While there was a strong overlap in terms of issues there was no overlap in respect of members and significant cultural differences between the two organisations.

Many of BI's members are foreign owned and there is a fairly blurred dividing line between the interests of German banks based in the UK and the interests of their parents in Frankfurt. And the trade association members of BI each have their own international work. BI has had to establish clear demarcation lines between its work and that of its members. This requires careful management and excellent communications. The role of BI is carefully documented. BI has to be able to demonstrate that it can add value to the trade associations. This it can do primarily through the access it has to the British government, overseas governments and international organisations. It does not seek to compete with the sectoral associations but rather tries to have an understanding with each as to where the line of demarcation should be.

Appendix 6 Federations

The Sports Industries Federation

This Federation provides a classic example of where a federation is appropriate and has the correct structure. The Federation covers the manufacturers, agents, suppliers and retailers of sports and play goods in Britain. Sports is a recognised industry grouping and there are well-demarcated subsectors within that grouping. For example angling and darts are clearly differentiated but are within the sports sector.

The Federation was founded in 1918. Members join the Federation directly – over 500 companies are members – but are members of the constituent associations. There are 28 associations in the Federation. Of these 25 are directly managed by the unified secretariat. These include, for example, the Darts Association, the Tennis Industries Association, the Field Sports Group and the Golf Consultants Association. The other three associations have their own staffs.

The Federation's website has individual pages for each of the individual associations.

Food and Drink Federation

The Food and Drink Federation is one of the major sectoral associations. It is a large organisation with subscription income of over £3 million and represents a major sector of the economy. The Federation has members in two categories –

- Fourteen associations have their own fulltime staff and pay a subscription to belong to the Federation. These include, for example, the British Soft Drinks Association and the British Meat Manufacturers' Association.
- Thirty one associations are managed directly by the central secretariat. These represent the smaller sectors of the industry and include, for example, the Rice Association and the National Association of Cider Makers. Each of these associations has a designated secretary; the people concerned handle between two and four associations each. There is a strong matrix management system which means that the full resources of the Federation are available to each member.

Generally, companies join the constituent associations. However, the large companies in effect join centrally, by becoming members of a managed association, the General Products Association and/or a serviced association, The Food Association, which operates from the Federation's headquarters. Representatives of the big companies are involved in the governing body of the Federation and on its major committees. Company contributions account for 60% of subscription income, members' subscriptions (from the serviced association) for 19% and secretarial fees (from the directly managed associations) for 16%.

This structure fits in well with the views of companies about trade association membership. Large companies, in effect, join the Federation centrally, while smaller companies join the specialist associations. Companies are therefore able to join an

association of companies like themselves, yet there is in practice a single organisation covering the whole of the industry from the smallest company to the largest.

British Apparel and Textile Confederation

The BATC is the representative body for the clothing and textile industry. Like the FDF it has a unified secretariat. The largest constituent association is the British Clothing Industry Association. Members of the BCIA are automatically members of another part of the Federation, the British Knitting and Clothing Export Council, which promotes the industry's exports. A third organisation is the Knitting Industries Federation. These three bodies come together as the British Knitting and Clothing Confederation which in turn comes together with the Textile Forum to form the BATC. The Textile Forum itself has 11 association members such as the British Lace Federation and the Scottish Textile Association. Most of the members of the Forum have their own staffs but two are managed by the BCIA.

The large companies join the BATC itself while smaller companies join whichever association or associations are appropriate. This is a similar model to the FDF.

The structure of the BATC looks untidy but it works in practice. At staff level the Federation operates as a unitary association.

The Construction Confederation

The Construction Confederation was formed by the merger of the Building Employers Confederation (BEC) and the Federation of Civil Engineering Contractors (FCEC) in 1996. (This section covers the merger aspects as well as the federation.) The driving force behind this merger was the need to strengthen the external representation of contractors and to reduce the collective costs of these activities.

The merger was long debated and fraught with difficulty and was only completed in 1997 after the FCEC went out of business. The starting point had been two separate organisations – the BEC representing building and specialist contractors (including housebuilders) and the FCEC representing civil engineering companies. Many of the major contractors were members of both organisations and they were the catalyst in the merger process.

In January 1992 *New Builder* reported that the Chairmen of the large contractors were meeting in a bid to merge the associations. Chairmen were quoted as saying that a merger was essential and that they would "knock heads together". A leader in *New Builder* in April 1992 usefully summarised the issue: "The meeting [to discuss the merger] must succeed where other attempts over the past 20 years have failed. Never before has there been such an imperative, internally and externally, to have a single representative body for the contracting industry. It cannot afford to ignore this opportunity. Internally it cannot afford to fund so many disparate organisations with so many overlapping activities. And externally it cannot afford to lay itself open to divide and rule, by Westminster, Whitehall or Brussels. For major contractors, who make up 50% of the industry's workload, and are squandering most, there is no alternative. Spare

a thought, however, for the smaller contractors which make up the bulk of the BEC's 7000 members. While they will benefit from proper representation in the corridors of power, they depend heavily on their trade association for the technical, legal and contractual advice, that unlike the main contractors, they cannot provide in-house. It is essential that the chiefs.....consider their colleagues in smaller companies as they decide on ways to increase their influence."

Discussions made slow progress. In 1994, the BEC, FCEC and the Major Contractors Group (who belonged to both organisations) commissioned consultants to report on the issues.

It was only in 1996 that the pace of the merger negotiations sped up when 19 major contractors decided to withdraw from both organisations. The merger negotiations were completed by the end of the year and the new Confederation came into existence in July 1997.

In practice the new Confederation is modelled on the old BEC but with civil engineers being an integral part of it, through the Civil Engineering Contractors Association. The creation of the merger illustrates three key points -

- The differing aspirations of large and small companies
- The need for pressure from the larger members
- The time taken – four years for the final lap and over 20 years for the whole race.

The new Confederation is unique in one respect. It is made up of eight sector organisations all of which are strong and active associations together with a strong central block of Confederation staff who provide expert services. Member companies are members of one or more of the eight sector organisations (for example the Major Contractors Group, Civil Engineering Contractors Association and National Federation of Builders) who in turn are members of the Construction Confederation. Three of the member associations (the HBF, NFB and CECA) have regional offices.

The structure has within it built in tensions which require skillful management. HBF mainly operates independently from the Confederation but buys in from the Confederation special services such as tax and health and safety advice. Most of the sector organisations use the Confederation's central services (e.g. accounting) to obtain economies of scale and have the added value of five specialist Departments covering technical, legal, tax, employment and public affairs to serve their members. In public affairs work the Confederation leads on pan industry issues such as the environment, the image of the industry and consumer policies. Where an issue is only of interest to one sector it is handled there. After two years operation the Confederation has embarked upon a major review to establish that it has maximized both economies of scale and is offering the right mix of specialist services for its members. This review will be completed soon.

The Federation of the Electronic Industry (FEI)

The FEI is run as a unitary organisation. It has 15 “business areas” in four groups (components and manufacturing, information and communications technology, defence and capital systems, and office technology) but the 200 members belong directly to the Federation. Any member can participate in any area of work of the Federation where they have a legitimate interest. The members generally support the central organisation, partly because of the increasing integration of the various parts of the industry. For example, computers and telecommunications are increasingly one industry. The Federation works on a project rather than committee basis and is not constrained by the structure of the Federation in putting together an appropriate group. Where appropriate representatives of other trade associations are invited to join project groups.

The Federation has co-operation arrangements with a number of other trade associations. It is one of the members of the Alliance for Electronic Business, described in Appendix 4, and participates in a number of arrangements in the defence industry.

The Federation has a general philosophy of being involved in a single voice on an issue by issue basis. It regards this as essential to deal with the present government. In the Federation’s 1998/99 *Review* the Director General commented: “The formation of the FEI to represent as it does a broad spectrum of industry was a prescient move in these changing times: but it does not stop there. Increasingly we welcome groups from other sectors to address common interests. Our new committee on digital services includes consumer product manufacturers, broadcasters and programme makers as ICT companies.” The Director General referred to the AEB and also the formation of a European ICT association.

Appendix 7

Mergers

Association of Consulting Engineers(ACE)/ British Consultants Bureau (BCB)

This is an example of a merger which did not take place. ACE is a fairly typical trade association for consulting engineers. The BCB is a specialist organisation which promotes British consultancy overseas. There is some overlap of membership, but only about one quarter of the BCB's members are civil engineering firms.

Merger talks were precipitated by the large civil engineering companies who were concerned at paying two lots of subscriptions. The retirement of the chief executive of the ACE was also a factor.

The merger talks broke down in the summer of 1999. In retrospect the two bodies were probably ill-suited. There was an insufficient overlap of interests and membership, and one of the organisations was a trade association while the other was a promotional body. The breakdown of the merger was acrimonious and usefully illustrates some of the points made in Chapter 7.

The merger discussions had gone on over two years. It had been intended that the two associations would hold simultaneous votes on the merger in May 1999. In the event a press release was issued headed "ACE/BCB merger vote postponed". The "ACE and BCB drop plans to merge" press release was issued on 17 September 1999. The joint statement referred to reservations: "The reservations arose because the focus of ACE is on furthering the business interests and professional standing of consulting engineers, primarily in the domestic and European markets, whilst that of BCB is on furthering the commercial success of consultants of all disciplines worldwide." The press release made the ritual comment about the two organisations pledging to work closely on matters of mutual interest.

A trade paper *Contract Journal* commented that there had been a rift over the make up of the executive board. It added: "It is also believed that member firms within BCB were afraid that the new organisation would be swamped by engineering practices. The BCB has around 240 members firms of which only 50 are consulting engineers and its main sphere of activity is pursuing opportunities for overseas work. The ACE has around 600 members but only 75 are engaged in overseas work." Other press reports suggested that both sides privately blamed each other for the breakdown of the merger talks.

The chief Executive of the BCB was quoted as saying: "We were trying to merge a trade association with marketing organisation. This was the biggest stumbling block and the question was always: what are members going to gain from it?"

The analysis in Chapter 7 suggests that this would always be a difficult merger. The two organisations did not have sufficient in common – either in respect of their business or the way that they worked.

The Association of Independent Financial Advisers

Independent financial advisers (IFAs) provide advice to the public of financial products. The IFA sector has lacked a strong representative voice. The largest representative body, the IFAA, covered only a third of the market and did not include in its membership the large networks which accounted for a significant and growing part of the sector. There had been attempts to improve the position but these all failed, largely because of personality problems.

In the summer of 1998, the life offices which take business from IFAs decided to take an initiative to improve the position. The networks and other large IFAs supported the initiative. A steering group was established which oversaw a consultancy study on the options. The study was critical of existing arrangements and also noted that for a number of reasons, including the establishment of the single regulator, the FSA, it was more important than ever for there to be a single effective trade body.

The study analysed the possible ways of creating an effective trade body noting that the ideal was for one accounting for over 80% of the industry and with subscription income of £1 – 1.5 million a year.

The study was published and had the desirable effect of promoting a debate. A new steering group was established to take matters forward. Its composition was representative of the IFA sector. A distinguished outsider, the former minister, Lord Hunt of Wirral, accepted an invitation to be chairman.

The steering committee adopted a novel, if not unique, approach of drawing up a specification for an effective trade body for IFAs and then inviting interested parties to tender proposals. In addition the steering group asked a consultant to prepare a proposal for a completely new representative body.

A number of tenders were made but the steering group quickly and unanimously chose the proposal for a completely new association. It was clear that all the existing associations had too much baggage to be acceptable to the whole market. However, there was a desire to make use of the expertise and knowledge of the existing associations.

The implementation stage was always going to be the most difficult. Unless adequate resources are put into such projects they are doomed to fail. The life companies and unit trusts which do business with. The life offices and unit trusts which do business with IFAs provided £400,000 to cover start up costs.

A project manager was appointed to manage the implementation. This included -

- Establishing a widely representative Council
- Drawing up a budget and subscription scale
- Drawing up the Memorandum and Articles of Association
- Publishing a prospectus
- Securing suitable premises

- Establishing a website
- Employing staff
- Recruiting members.

The new association was duly established and was fully operational by 1 October 1999. A major achievement was to come to an arrangement with the largest existing association to take over its membership and work in progress, as well as some of its staff.

A review of the operation came to the following conclusions which were of general applicability -

- Such an exercise requires substantial resources. In the case of IFAs, life offices and unit trusts were prepared to provide the resources. Few other sectors have such a “fairy godmother”.
- Outside pressure is essential. In this case it came from the life offices. In other sectors it might need to come from the government.
- Putting the issue out to tender was a critical success factor. No one could say that they were not invited to put forward proposals, and the tender documents all included useful material which helped the project.
- Where there are tensions within a sector an outside, top quality chairman is essential. Lord Hunt performed this role admirably.
- Outside facilitators are required to make the project happen.

Appendix 8

Association Management Companies

The market in the USA

Given the size of the trade association sector in the USA, it is not surprising that companies have developed which specialise in managing trade associations. It is estimated that there are more than 500 companies in the market which, between them, currently manage more than 1,700 associations. 175 AMC's are included in the on-line directory through the ASAE's website.

Associations can contract for total administration, a single service on an ongoing basis, or for a specific time period or a single project. Areas of expertise include executive management, public affairs and lobbying, membership development, communication services, financial management and accounting, meetings and convention planning, marketing, education and professional development and management consulting services. Typically, an AMC provides an account executive who serves as executive director for the organisation, administrative staff and specialist staff. The AMC offices also serve as the headquarters. Fees can be structured on a flat basis or a time and materials basis.

The largest single association management company is Smith, Bucklin which was founded in 1949. It has offices in Washington, Chicago and Los Angeles and has affiliate organisations covering Latin America, Asia and Central and Eastern Europe. Smith, Bucklin currently services 180 organisations of which 100 are trade associations and 60 are professional associations. It employs a total staff of 700. Most of the associations it services have annual budgets of under \$1 million, although the range is from \$100,000 to \$5 million. Smith, Bucklin operates through divisions covering accounting and financial management, convention and trade shows, government relations, human resources, information resources, market research and statistics, member services, office services and public relations and communications.

The AMC market in the UK

Compared with the USA, the AMC market in the UK is small. This partly reflects the smaller size of the trade association market. Also, federations in Britain seem to perform similar functions to AMC's in the USA. The following companies advertise themselves as AMC's –

- Kingston Smith Association Management, based in St Albans.
- Trade Association Management, based in London.
- Association Services, based in Godalming
- FCC Management Services Ltd
- Gowers Association Management
- Robert Jay Associates
- Administration Services Ltd, based in Thornton Heath
- The Association Bureau, based in Rugby
- Crane and Partners, based in Bromley.
- Resource associates, based in London

- Association Enterprises, based in Leicester.

At European level, AMCs in Brussels include

- E&Y Association Management
- GIC Association & Conference Management
- Interel.

Appendix 9

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Appendix 10

Methodology

The project was overseen by a steering group of members of the Trade Association Forum comprising –

Andrew Moore, Trade Association Forum (Chairman)
Mary Francis, Association of British Insurers
Martin Hall, Finance and Leasing Association
Nicholas Bennett, Association of Consulting Engineers
Rick Wilcox, British Metals Federation
Bob Kelley, Music Industries Federation
Michael Johnson, Sports Industries Federation
Valerie Cumming, Computing Suppliers Federation
Jacqui Brookes, Federation of Communication Services
Ian Locks, Periodical Publishers Association
Stuart Hill, House Builders Federation
Alan Bishop, National Caravan Council
Gordon Polson, National Association of Steel Stockholders
Julian Rychlick, British Amusement Catering Trades Association
Brian Smart, British Franchise Association
Simon McVicker, Machine Tools Technology Association.

The steering group met twice and members also commented on a draft of the report.

Three focus groups were held covering ad hoc co-operation, federations and mergers.

The consultant interviewed 20 chief executives and other senior executives of trade associations.

The consultant visited Washington DC and had meetings with representatives of the National Association of Manufacturers, the American Society of Association Executives, the Chemical Manufacturers Association, the American Gas Association, the American Insurance Association, America's Community Bankers and the Executive Director of Superfund reform 1995.

The consultant visited Brussels and had meetings with representatives of the British Business Bureau, the European Commission, UKREP, Interel and Ernst & young, (association management companies) and three MEPs.

A questionnaire was sent to all members of the Trade Association Forum. 122 responded. The full results are set out in Appendix 1.