Managing Trade Associations

Mark Boléat
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Foreword

In 1996 I wrote *Trade Association Strategy and Management*, published by the Association of British Insurers. This was a comprehensive study with 17 chapters and 240 pages covering the nature, functions and business of trade associations. At the time there was virtually no published information on associations so much of the book was original, if modest, research. The book is dated and there is now a great deal more information and research which can be drawn on.

I have had three main objectives in writing this new book –

- To provide a comprehensive but concise up-to-date publication on trade association management that will be of practical use to those managing and working for associations. A number of checklists, toolkits and reference documents have been included as appendices.
- To synthesise the results of research undertaken under the auspices of the Trade Association Forum, in particular the benchmarking exercises.
- To provide a resource which will help in the development of trade associations in other countries.

I hope this book will be helpful to those new to trade associations and also to those currently managing associations. Learning never stops, as I discovered in writing this book.

I am grateful to the following who commented on an earlier draft of this book and who made valuable suggestions for improvements or otherwise have contributed their expertise: Tony Baker, Stuart Bean, Elizabeth Boleat, Adrian Coles, Richard Fairclough, Tom Gunner, Andrew Large, Paul Neale, Michael Johnson, Ray Seymour, John White, Rosa Wilkinson and Patrick Mulligan.

Mark Boleat
November 2003
Chapter 1

The nature of trade associations

Trade associations provide representative and other collective services to businesses, generally in a specific sector, with common interests. There are a number of different types of association. At the margin, trade associations overlap with other industry bodies.

Essential characteristics
Trade associations are representative bodies for groups of companies or other organisations with common interests. Most associations cover a specific sector or subsector of industry, but some cover processes or functions. There are three essential characteristics of a trade association –

• A member-based organisation, the members being businesses not individuals. The term “business” can be defined narrowly (for example profit seeking companies) or more widely (all organisations which have to operate as businesses regardless of whether they are seeking to make a profit).
• The ultimate governing body comprises representatives of members, and members are involved more generally in the decision-making process.
• The members must have a common interest.

Many associations, particularly larger ones, also have a fourth characteristic, that is a representative body, putting forward the collective position of the members, generally to government departments and agencies and regulators, but also to the media and to other opinion formers. Information is provided to members based on this representative work.

Many associations also provide other services such as the provision of industry statistics, general market information, training, conferences and exhibitions, but these are not essential characteristics and are also provided by other bodies.

Types of association
There are a number of different types of trade association with blurred dividing lines between the types.

The most common trade association is a single industry association, representing providers of a particular good or service. Such associations can be wide ranging (covering say the whole of the insurance industry or the whole of the food and drink industry) or narrowly based (say private medical insurers or ice cream manufacturers). More widely based associations tend to have committees, special interest groups or forums to represent particular sub-sectors.

Some associations represent groups of companies defined by their constitution or legislation. For example, building societies and friendly societies have their own associations even though the functions of the two groups of organisations are the same as those of other institutions - banks and insurance companies respectively. These trade associations are mainly concerned with the special legislative and regulatory regimes for their members rather than their functions, although the best of them will seek to influence issues in the markets in which their members operate.
Some associations represent particular functions or processes within a sector, for example exporters or suppliers to a particular type of business.

**Horizontal associations** represent organisations undertaking particular processes or functions across a number of sectors. A good example is the British Consultants and Construction Bureau which represents a wide range of consultants, ranging from engineering to finance, seeking business in overseas markets.

**Geographical associations** represent organisations in a sector operating in a particular region. There are numerous such associations in the retail sector – such as the Oxford Street Association – and also in the agricultural and fisheries sector.

**Federations** are associations of associations. For example, the Food and Drink Federation comprises a number of associations representing particular sub-sectors of the food and drink industry. However, to complicate the matter some federations have direct membership by the major companies which operate across the whole sector and therefore at the same time are both federations and single company associations. **Confederations**, logically, are associations of federations. In practice, however, the terms “association”, “federation” and “confederation” are used interchangeably and often reflect an historical position rather than today’s position. Federations range from lunch clubs to fully staffed organisations. Some single industry associations have committee structures based on subsectors of the industry and in practice operate as federations, while some federations operate in practice as single industry associations.

**National associations** represent the whole of industry or of a particular function. The two best examples are the Confederation of British Industry, which represents the whole of industry and commerce, and the Federation of Small Businesses, which represents small businesses of all types in all industries.

**European associations** deal with the institutions of the European Union. Most take the form of federations of national associations but some also have direct membership of multinational companies. In countries where there is no national association, individual companies may also be direct members.

**International associations** generally comprise federations of national associations. In the few industries where regulation operates at the international level (for example air transport) or there is a single international market (some financial instruments) such associations have a similar representative role to national and European associations. Generally, however, they are very small organisations which exist to help the members network and to disseminate information.

**Other industry bodies**

Just as there is no sharp dividing line between types of trade association so there is a blurred division between trade associations and other industry bodies.

**Professional bodies** comprise individuals in a sector and are mainly concerned with training and education rather than representation. There are two important subdivisions. Some professional bodies regulate their industries, partially or wholly, with individuals needing the appropriate qualification to practice and being subject to disciplinary procedures should they perform unsatisfactorily. In such cases, for example lawyers and
chartered accountants, the professional body may also take on a trade association role. The other group of professional bodies operate in sectors where there is no regulation of individuals, for example banking or advertising. Here there is no representative role, but the professional body may provide a range of commercial services that compete with the services provided by the trade associations. In a number of sectors, housing for example, the major industry conference and exhibition is organised by a professional body not a trade body.

*Chambers of commerce* represent organisations in all sectors operating within a particular town or wider geographical area. Any representational work is confined to local issues. Generic training and promotion are among the functions of local chambers. The national body for the chambers, British Chambers of Commerce, besides representing and providing services to local chambers, also seeks to speak on behalf of industry and commerce generally. This means that it “competes” with the Confederation of British Industry, the Federation of Small Businesses and the Forum for Private Business as a national representative body for industry and commerce, but particularly for small businesses.

*Promotional bodies* promote an area, a sector or an activity within a sector. They have no legitimate representative role although many stray into this area. Many towns or wider areas have promotional bodies designed to promote the area, particularly to inward investment. There are some national bodies that seek to promote sectors, such as International Financial Services London, which despite its name seeks to promote the whole of the UK’s financial industry in international markets. Because trade associations may have a promotional role there is often competition between promotional bodies and associations.

*Employers’ organisations* provide only an employment service to their members. This can range from collective bargaining for the whole industry to the provision of information, advice, training and consultancy services. Some employers’ organisations are also trade associations but others have a wider scope in terms of the sectors covered. Where an employers’ organisation provides services other than collective bargaining it may well be competing against trade associations. By far the largest employers’ organisation is the Engineering Employers’ Federation. This seeks to have a representative role at national level on behalf of manufacturing industry.

*Industry Forums* and *Sector Skills Councils* exist in a number of industries. These have a quasi-official status and generally involve trade associations although in practice they can also compete with them.

*Industry research bodies* exist in a small number of industries. Many, if not most, have been partly funded by government. Such bodies tend to develop a life of their own which can easily lead them into the normal trade association territory.

*Regulators* are generally on the opposite side of the table to trade associations. However, they may also have some of the characteristics of trade associations. They may provide generic information and advice to the industry and its customers. In practice, they may also have a representative role with government. For example, a government department considering a policy move in respect of financial services may ask the Financial Services Authority for its views. Because of the knowledge the regulator has of the industry – often
greater than the knowledge which the associations might have – it is in a strong position to give what it believes to be the position of the industry.

*Government departments* can be in the same position as regulators. If the government machine is working smoothly then departments and agencies will be consulted about proposals well before they are made public. Civil servants are frequently put in the position of predicting what the reaction of an industry will be to a particular proposal and therefore to a limited extent are representing the industry. Some local governments can also drift into this role. In particular the Corporation of London (the local government for the City) sees itself as having a representative role for the finance sector.

*Trade journals*, like the media generally, suffer from delusions of grandeur and often represent themselves as being the “voice of the industry”. Through selective coverage, in particular of their own events such as conferences, exhibitions and the ever multiplying awards, they can give the impression of being able to represent views in an industry even though they have no legitimate right to do so.

*Consultants* cannot remotely claim to be industry bodies. However, they may have the knowledge and expertise to represent the views of an industry more effectively than the industry can itself. Consultants are often keen to be involved in industry bodies as they see this as a way of marketing their business. Consultants may also work with trade journals to promote their collective interests. For example, a consultant may organise seminars which are then promoted by the trade journal. Some trade journals and consultants manage all-party groups of MPs.

*Individual companies or groups of companies* sometimes adopt the characteristics of a trade association. In a sector where there is a weak trade association, one company might try to speak on behalf of the whole of a sector. More commonly, groups of companies get together outside of the trade association structure. This can happen at anything from chief executive/chairman level down to function level (such as human relations or taxation). A good example is the European Financial Services Round Table, which comprises chief executives of major European financial groups. The Round Table has sought to have a direct influence on European Union regulatory activity. For the most part these arrangements are useful talking shops. However, if the trade association structure is ineffective then they can begin to compete with the trade association. There are in particular a number of clubs of chief executives that either seek to have a direct representative role on major issues or which seek to exert influence on the trade associations outside of the normal channels.

**Overlap**
This chapter has identified nine different types of trade association and 11 other types of organisation that may compete with trade associations. It is not simply a case of there being one trade association for one sector; the position is much more complex.

Most large companies have multiple trade association membership, often so multiple that they do not know how many associations they belong to. A large multinational company is likely to belong to a number of single industry associations and federations and perhaps also directly to European and international associations. Its individual business units may belong to chambers of commerce. Its chief executive and other senior executives will belong to a number of industry clubs of varying degrees of importance. The company will probably belong to the CBI and to a number of other national bodies, for example
promoting exports. Many staff within the company will belong to professional bodies and some will be officers in those bodies. Some staff may be involved in regulatory bodies for the industry while others may have close links with trade journals.

This probably looks worse in theory than it operates in practice. The key point is that trade associations do not have a natural monopoly. If they fail to deliver they will be by-passed by other organisations. Even if they are effective they may have to face strong competition, for example from a well resourced professional body or an ambitious trade journal editor or the public affairs director of the largest member.
Chapter 2

The trade association structure in Britain

There are many hundred trade associations in Britain ranging from small associations with no staff to confederations covering several industries. The Confederation of British Industry is the national representative body for industry and commerce. The Trade Association Forum is the “trade association for trade associations”.

The number and size of associations

Little purpose is probably served by attempting to study precisely how many associations there are because this all depends on the definition used. However, a few figures usefully give the context.

If trade associations are defined widely to include, for example, local associations of street traders then there are many thousands in the UK.

The Devlin Report (an official government report on trade associations) estimated that in 1972 there were 860 associations with a further 800 associations affiliated to them. The report said that only 20% of associations had annual incomes of above £10,000 and full time executive staff.

In 1994, the Trade Association Research Unit of Manchester Metropolitan University undertook an analysis of associations. By studying directories of trade associations and professional bodies, 1,300 organisations were identified as likely trade associations and a questionnaire was sent to each association. The survey showed considerable variations in the size of associations in terms of membership. The largest 20% of associations had 485 or more corporate members and the largest 10% had 1,600 or more. At the other extreme, 30% of respondents had fewer than 45 corporate members on average with the smallest 10% having fewer than 15. The median was between 120 and 150. The survey estimated that 181 associations had annual subscription income above £1 million.

The Trade Association Forum currently has over 300 members and the directory of associations on its website has 700. The Directory of British Associations, published by CBD Research, shows over 1,600 organisations as trade associations. The position is further complicated because in some sectors there are a number of different associations but they are run by a single secretariat as a single organisation.

The best overall conclusion is that there are probably between 300 and 600 separately run associations which employ full time staff and probably more than a 1,000 smaller associations with no staff.

The major sectoral associations

Table 2.1 below lists the major sectors of the economy and within those sectors the major trade associations. The table should come with a significant health warning. It is selective and good arguments could be made for including a number of other associations. However, the table is sufficiently accurate for the purpose of illustrating how the major sectors are represented.
Table 2.1 The major sectoral associations

<table>
<thead>
<tr>
<th>Sector</th>
<th>Trade associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal goods and</td>
<td>Engineering Employers’ Federation</td>
</tr>
<tr>
<td>engineering</td>
<td>Mechanical and Metal Trades Confederation (Metcom)</td>
</tr>
<tr>
<td></td>
<td>Federation of British Electrotechnical and Allied Manufacturers Association (BEAMA)</td>
</tr>
<tr>
<td>Electronics</td>
<td>Intellect</td>
</tr>
<tr>
<td>Aerospace</td>
<td>Society of British Aerospace Companies</td>
</tr>
<tr>
<td>Vehicles</td>
<td>Society of Motor Manufacturers and Traders</td>
</tr>
<tr>
<td>Paper</td>
<td>Paper Federation</td>
</tr>
<tr>
<td>Printing</td>
<td>British Printing Industries Federation</td>
</tr>
<tr>
<td>Publishing</td>
<td>Newspaper Society</td>
</tr>
<tr>
<td></td>
<td>Newspaper Publishers Association</td>
</tr>
<tr>
<td></td>
<td>Periodical Publishers Association</td>
</tr>
<tr>
<td></td>
<td>Publishers’ Association</td>
</tr>
<tr>
<td>Chemicals</td>
<td>Chemical Industries Association</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>Association of the British Pharmaceutical Industry</td>
</tr>
<tr>
<td>Construction</td>
<td>Construction Confederation</td>
</tr>
<tr>
<td></td>
<td>Housebuilders Federation</td>
</tr>
<tr>
<td></td>
<td>Federation of Master Builders</td>
</tr>
<tr>
<td></td>
<td>Electrical Contractors Association</td>
</tr>
<tr>
<td>Retailing</td>
<td>British Retail Consortium</td>
</tr>
<tr>
<td>Newsagents</td>
<td>National Federation of Retail Newsagents</td>
</tr>
<tr>
<td>Travel agents</td>
<td>Association of British Travel Agents</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>British Hospitality Association</td>
</tr>
<tr>
<td>Motor trade</td>
<td>Retail Motor Industry Federation</td>
</tr>
<tr>
<td>Petrol retailing</td>
<td>Petroleum Retailers Association</td>
</tr>
<tr>
<td>Inland transport</td>
<td>Freight Transport Association</td>
</tr>
<tr>
<td></td>
<td>Road Haulage Association</td>
</tr>
<tr>
<td>Railways</td>
<td>Association of Train Operating Companies</td>
</tr>
<tr>
<td>Shipping</td>
<td>Chamber of Shipping</td>
</tr>
<tr>
<td>Banking</td>
<td>British Bankers’ Association</td>
</tr>
<tr>
<td>Insurance</td>
<td>Association of British Insurers</td>
</tr>
<tr>
<td>Fund management</td>
<td>Investment Management Association</td>
</tr>
<tr>
<td>Housing associations</td>
<td>National Housing Federation</td>
</tr>
<tr>
<td>Property</td>
<td>British Property federation</td>
</tr>
<tr>
<td>Oil production</td>
<td>UK Offshore Operators Association</td>
</tr>
<tr>
<td>Electricity</td>
<td>Electricity Association</td>
</tr>
<tr>
<td>Water</td>
<td>Water UK</td>
</tr>
<tr>
<td>Food and drink</td>
<td>Food and Drink Federation</td>
</tr>
<tr>
<td>Farming</td>
<td>National Farmers Union</td>
</tr>
</tbody>
</table>

There are two further important qualifications about this table –

- It does not include any of the professional bodies which also have a trade association role, in particular the Law Society, the Bar Council, the Association of Chartered Accountants in England and Wales (and to a lesser extent the other accountancy bodies), the Royal Institution of Chartered Surveyors and a number of the royal colleges of medicine.
The table largely excludes trade associations operating in the public sector, in particular the NHS Confederation.

One interesting feature of the table is that it is little different from a table which was constructed in 1995. All the associations listed were in existence in their present form in that year with the exceptions of –

- Intellect, a merger of a number of associations in the electronics industry.
- The Construction Confederation, formed by a merger of the Building Employers Confederation and the Federation of Civil Engineering Contractors.
- The Housebuilders Federation, which had been part of the Building Employers Confederation.
- The Association of Train Operating Companies, an association formed as a result of the denationalisation of the railway industry.
- Water UK, formed as a result of the denationalisation of the water industry by a merger of two associations, one representing the private water companies and the other representing the public utilities.

The fact that there have been so few changes illustrates how difficult it is to change trade association structures.

Table 2.2 shows the largest associations in Britain on the basis of subscription income. The data is drawn from a variety of sources which are not strictly comparable. Also, while subscription income is the best indicator of size it is not the only indicator. For this reason the figures have been rounded to the nearest million.

**Table 2.2 The largest associations by subscription income**

<table>
<thead>
<tr>
<th>Association</th>
<th>Subscription income £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Farmers Union</td>
<td>22</td>
</tr>
<tr>
<td>Association of British Insurers</td>
<td>14</td>
</tr>
<tr>
<td>Electricity Association</td>
<td>6</td>
</tr>
<tr>
<td>Construction Confederation</td>
<td>6</td>
</tr>
<tr>
<td>Association of the British Pharmaceutical Industry</td>
<td>5</td>
</tr>
<tr>
<td>British Bankers’ Association</td>
<td>5</td>
</tr>
<tr>
<td>Chemical Industries Association</td>
<td>5</td>
</tr>
<tr>
<td>National Federation of Retail Newsagents</td>
<td>5</td>
</tr>
<tr>
<td>British Printing Industries Federation</td>
<td>4</td>
</tr>
<tr>
<td>Water UK</td>
<td>3</td>
</tr>
<tr>
<td>Newspaper Society</td>
<td>3</td>
</tr>
<tr>
<td>Federation of Master Builders</td>
<td>3</td>
</tr>
<tr>
<td>Retail Motor Industry Federation</td>
<td>3</td>
</tr>
<tr>
<td>Society of Motor Manufacturers and Traders</td>
<td>3</td>
</tr>
<tr>
<td>Intellect</td>
<td>3</td>
</tr>
<tr>
<td>Food and Drink Federation</td>
<td>3</td>
</tr>
<tr>
<td>Freight Transport Association</td>
<td>3</td>
</tr>
</tbody>
</table>

An additional source of information on trade associations is the annual report of the Certification Officer for Trade Unions and Employers’ Associations, although his report does not cover those trade associations that are not also employers’ associations.
Table 2.3 Employers’ associations with income above £2 million, 2001-2002

<table>
<thead>
<tr>
<th>Association</th>
<th>Income from members £000</th>
<th>Total income £000</th>
<th>Total funds £000</th>
<th>Number of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering Employers Federation</td>
<td>2,850</td>
<td>11,081</td>
<td>30,947</td>
<td>14</td>
</tr>
<tr>
<td>EEF West Midlands Association</td>
<td>2,253</td>
<td>7,960</td>
<td>5,971</td>
<td>939</td>
</tr>
<tr>
<td>EEF South</td>
<td>1,697</td>
<td>3,162</td>
<td>2,686</td>
<td>374</td>
</tr>
<tr>
<td>Engineering Employers Western Assn</td>
<td>1,069</td>
<td>2,266</td>
<td>1,005</td>
<td>476</td>
</tr>
<tr>
<td>EEF East Midlands Association</td>
<td>564</td>
<td>2,200</td>
<td>1,562</td>
<td>422</td>
</tr>
<tr>
<td>Engineering Employers Sheffield Assn</td>
<td>670</td>
<td>2,018</td>
<td>437</td>
<td>498</td>
</tr>
<tr>
<td>7 other Engineering Employers’ Assns</td>
<td>4,399</td>
<td>6,835</td>
<td>5,130</td>
<td>1,864</td>
</tr>
<tr>
<td>England and Wales Cricket Board</td>
<td>0</td>
<td>67,642</td>
<td>(387)</td>
<td>152</td>
</tr>
<tr>
<td>National Farmers Union</td>
<td>22,211</td>
<td>24,044</td>
<td>54,045</td>
<td>144,481</td>
</tr>
<tr>
<td>Retail Motor Industry Federation</td>
<td>3,383</td>
<td>18,759</td>
<td>7,692</td>
<td>9,330</td>
</tr>
<tr>
<td>Freight Transport Association</td>
<td>3,120</td>
<td>16,670</td>
<td>4,883</td>
<td>11,088</td>
</tr>
<tr>
<td>Electrical Contractors Association</td>
<td>2,681</td>
<td>10,920</td>
<td>44,267</td>
<td>2,078</td>
</tr>
<tr>
<td>Heating and Ventilating Contractors Assn</td>
<td>2,518</td>
<td>8,831</td>
<td>4,195</td>
<td>1,408</td>
</tr>
<tr>
<td>Chemical Industries Association</td>
<td>4,867</td>
<td>6,925</td>
<td>358</td>
<td>69</td>
</tr>
<tr>
<td>Association of Colleges</td>
<td>3,288</td>
<td>5,913</td>
<td>1,695</td>
<td>441</td>
</tr>
<tr>
<td>British Printing Industries Federation</td>
<td>2,834</td>
<td>5,567</td>
<td>2,509</td>
<td>2,393</td>
</tr>
<tr>
<td>Road Haulage Association</td>
<td>2,233</td>
<td>5,129</td>
<td>3,624</td>
<td>9,434</td>
</tr>
<tr>
<td>National Federation of Retail Newsagents</td>
<td>4,669</td>
<td>4,849</td>
<td>3,484</td>
<td>21,169</td>
</tr>
<tr>
<td>Federation of Master Builders</td>
<td>3,325</td>
<td>3,711</td>
<td>2,941</td>
<td>12,881</td>
</tr>
<tr>
<td>Newspaper Society</td>
<td>3,304</td>
<td>3,583</td>
<td>2,050</td>
<td>161</td>
</tr>
<tr>
<td>Society of London Theatre ‘SOLT’</td>
<td>392</td>
<td>3,557</td>
<td>211</td>
<td>114</td>
</tr>
<tr>
<td>National Pharmaceutical Association</td>
<td>2,710</td>
<td>3,429</td>
<td>2,288</td>
<td>4,777</td>
</tr>
<tr>
<td>South Western Provincial Employers Assn</td>
<td>874</td>
<td>2,864</td>
<td>1,730</td>
<td>73</td>
</tr>
<tr>
<td>Paper Federation of Great Britain</td>
<td>1,390</td>
<td>2,707</td>
<td>923</td>
<td>56</td>
</tr>
<tr>
<td>Electrical Contractors Assn of Scotland</td>
<td>675</td>
<td>2,108</td>
<td>3,037</td>
<td>520</td>
</tr>
<tr>
<td>West Midlands Local Government Assn</td>
<td>1,119</td>
<td>2,096</td>
<td>274</td>
<td>87</td>
</tr>
<tr>
<td>Construction Confederation</td>
<td>1,344</td>
<td>2,087</td>
<td>5,234</td>
<td>7</td>
</tr>
<tr>
<td>Producers Alliance for Cinema and TV</td>
<td>1,991</td>
<td>2,040</td>
<td>1,420</td>
<td>920</td>
</tr>
<tr>
<td>Total for above Employers’ Associations</td>
<td>82,433</td>
<td>238,952</td>
<td>194,210</td>
<td>226,226</td>
</tr>
<tr>
<td>Total for 63 other listed associations</td>
<td>13,724</td>
<td>22,178</td>
<td>24,065</td>
<td>25,639</td>
</tr>
<tr>
<td>Total for 84 other unlisted associations</td>
<td>8,533</td>
<td>14,816</td>
<td>17,962</td>
<td>10,731</td>
</tr>
<tr>
<td>Total for all Associations 2001-2002</td>
<td>104,690</td>
<td>275,946</td>
<td>236,237</td>
<td>262,596</td>
</tr>
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</table>


The trade association structure in an industry – the example of finance

It is helpful to look at an individual industry to illustrate the complexity of the trade association structure. This section draws on a recent study of the finance industry (David Lascelles and Mark Boleat, Who speaks for the City?, CSFI, 2002). Like other industries, the finance industry can be defined narrowly or widely. At its widest it is part of the business services sector. The finance industry itself can be broken down into the broad sectors of banking, finance and securities. Each of these can be broken down in turn; for
example, insurance into life insurance, general insurance and reinsurance, and into manufacturing and distributing. The study concluded that there were at least 50 trade associations in “the City”. These included some that had other primary purposes such as –

- The Association of Payment Clearing Services, which operates the clearing system between financial institutions.
- The International Underwriting Association of London, which operates a market for reinsurance and large-scale commercial insurance.
- A number of international associations, reflecting the fact that several such markets are based in London, such as the International Securities Market Association.

The report listed 16 associations under the heading of banking and finance covering: credit unions, international banks and securities houses, friendly societies, non-UK savings banks, banks, cheque cashing services, building societies, vehicle finance, consumer credit (two associations), credit card issuers, mortgage lending, Scottish clearing banks, asset-based capital, asset-based finance and consumer credit, and international project finance. For capital markets nine associations are listed, for insurance seven associations, for fund management eight associations and there are a further eight associations described as specialised. The geographical coverage is from Scottish to UK to European to international.

Interestingly, the authors concluded “that the current structure with its mix of broad institutional trade associations and sectoral specialists suits the requirements of the UK financial sector rather well.” In his conclusion David Lascelles said –

“Efforts to streamline the City’s trade association structure will doubtless continue: to save costs, to match underlying changes in the market, to create broader alliances. And efficiency gains can certainly be made in some areas. But the evidence is compelling that major structural reform will achieve little: the City is simply too big and complicated to pack its interests into a few large trade associations. And even if it did, the mega-associations would be plagued by factionalism and splinter groups. Today’s complex markets and regulations require enormously high levels of focused expertise, and the capacity to deliver this will prove more valuable both to members and officialdom than the ability to mobilise huge battalions.”

The Confederation of British Industry

The Confederation of British Industry (CBI) is the central representative body for businesses in Britain. Its origins can be traced back to the First World War when three organisations were established to speak for industry and commerce: the National Union of Manufacturers (subsequently the National Association of British Manufacturers), the Federation of British Industries and the National Confederation of British Employers’ Organisations (subsequently the British Employers’ Confederation). After various unsuccessful attempts to merge the organisations, this was eventually achieved in July 1965.

The CBI has subsequently gone through a number of restructurings with a key issue being whether it should be an organisation of trade associations (as in Germany) or whether its core membership should be companies. In practice, it is the latter, although 150 trade associations are also members.
The CBI is not the only national representative body which claims to speak for industry and commerce. Others include –

- The British Chambers of Commerce, the central representative body for the chambers of commerce. The strength of the chambers lies in their local work, and their membership is predominantly small to medium sized companies.
- The Engineering Employers’ Federation (EEF), the membership of which comprises companies in the manufacturing sector.
- The Institute of Directors, the individual membership organisation for directors of companies.
- The Federation of Small Businesses, which represents small businesses.
- The Forum for Private Business, which also represents small businesses.

Over the years, there have been merger discussions between the CBI, the chambers of commerce and the EEF but nothing has materialised. This partly reflects the fact that the CBI is a heavily centralised organisation whereas both the EEF and the chambers of commerce are decentralised.

The CBI describes its mission as being “to create and sustain the conditions in which business in the UK can compete and prosper”. It achieves this by –

- “Powerful lobbying of government institutions on behalf of businesses of all sizes and in all sectors.
- Raising the profile of business issues and the world of business itself in the national, local and specialist media.
- Supporting companies wishing to access overseas markets.
- Providing opportunities for business to meet business, for discussion and to exchange ideas and to learn.
- Promoting best practice.”

Membership of the CBI falls into five basic categories –

- Industrial – companies in productive or manufacturing industry.
- Commercial – companies in the financial, trading, service and advisory sectors.
- Employers’ organisations and trade associations – representing individual manufacturing industries.
- Commercial associations – associations with members in finance and commerce, local trade associations and chambers of commerce.
- Nationalised industries and big corporations.

The main elements of the organisation are –

- A ruling council which sets policy. The Council is a very large organisation with membership representing companies and the other categories of members.
- 13 regional councils.
- 17 standing committees. Most of the detailed formulation of policy work is carried out by the standing committees.
- A Small and Medium Enterprise (SME) Council.
- A President’s Committee, comprising leading CBI figures, including the chairs of the key standing committees and the SME Council. In practice this is the true governing body of the CBI. It advises the President on major policy issues and constantly reviews the CBI’s public position and strategy.
A president, elected normally for a two year term. The president is generally a leading figure in industry.

200 permanent staff at its London headquarters led by a director general, and 13 offices around the UK, in Brussels and in Washington. The director general is the leader of the organisation and its public face.

The CBI is funded by membership subscriptions and income from commercial activities including a major annual conference. The following table shows the key items of income and expenditure in 2002.

**Table 2.4 CBI Income and Expenditure 2002**

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
</tr>
<tr>
<td>Member contributions</td>
<td>14,208</td>
</tr>
<tr>
<td>Commercial activities</td>
<td>5,201</td>
</tr>
<tr>
<td>Other</td>
<td>429</td>
</tr>
<tr>
<td>Total</td>
<td>19,838</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>8,542</td>
</tr>
<tr>
<td>Premises</td>
<td>2,316</td>
</tr>
<tr>
<td>Office costs</td>
<td>1,935</td>
</tr>
<tr>
<td>Commercial activities</td>
<td>3,372</td>
</tr>
<tr>
<td>Other</td>
<td>3,282</td>
</tr>
<tr>
<td>Total</td>
<td>19,402</td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td>436</td>
</tr>
</tbody>
</table>

The CBI’s balance sheet shows net liabilities of £960,000 at the end of 2002. This reflects a financial restructuring carried out in 1997. The CBI found itself with a very unsatisfactory property position in which the rent it was paying was significantly higher than the value of the property. It is working itself out of this position with the help of advanced subscription contributions by a number of its larger members. However, like other organisations it has been adversely affected by the financial position of its pension fund which at the end of 2002 had net liabilities of over £5 million.

The CBI occupies a unique position in the trade association world. It is not large and there are at least two sectoral associations (for the insurance industry and the farming industry) which have comparable subscription income. However, it is the accepted national representative body for industry and commerce.

The CBI concentrates on macro issues, for example tax policy, employment policy, transport policy and European issues. Because the CBI concentrates on macro issues it is more subject than most trade associations to the “free riding” problem. Individual companies and sectors benefit from the activities of the CBI regardless of whether they pay a subscription. It is less easy for companies to see the benefits of joining the CBI than the more direct benefits of joining an industry association, particularly where that association is itself a member of the CBI.
To a limited extent the CBI is in competition with individual trade associations, as associations can be in competition with their members. Ideally, the CBI works harmoniously with the sectoral trade associations. If the CBI was ineffective then the sectoral associations, individually or collectively, would seek to fill the vacuum.

The success of the CBI depends entirely on its relations with the government. If it is seen as being representative and if the quality of its input is high then it will be very influential within government. This is certainly its present position and, since reforms in the late 1990s, the CBI now has a very good working relationship with the major national trade associations.

The Trade Association Forum
Until the mid-1990s, other than some loose informal arrangements, trade associations themselves had no trade association of their own. In 1995 the largest association, the Association of British Insurers, took the initiative to undertake a benchmarking exercise between 27 of the largest associations. The government provided partial funding for this project. This work was followed up with the establishment of some benchmarking clubs covering particular areas such as representation, information technology and finance, and then with a comprehensive benchmarking exercise involving 130 associations in 1997.

In 1997 the arrangements were formalised through the establishment of the Trade Association Forum which, although not part of the CBI, has been managed by it. There was some initial government funding for the Forum but it is now self-financing, although it does obtain government funding for some projects. It has over 300 members. For CBI members the subscriptions range from £105 (under 10 staff) to £525 (50 staff or more). Non-CBI members pay double these figures.

The Forum lists the services it provides under seven headings –
- Information – a newsletter, early warning of developments affecting trade associations and information on relevant government programmes.
- Events – seminars, training courses, an annual conference and study visits.
- Promotion of the trade association sector.
- An enquiry service – both for and about trade associations.
- A website.
- Research.
- Practical help.

The Forum’s website (www.taforum.org) is a useful source of information on trade associations and also includes the most comprehensive directory of British associations. A major feature of its work has been regular benchmarking exercises culminating in 2002 with the publication of Trade Association Performance – A Five Year View, which reported not only on a benchmarking study carried out in 2001 but also looked at trends since the first study in 1997. The benchmarking studies cover variables such as association income and structure, membership, governance, management and staffing, finance and financial management, representation, industry leadership, public relations and communications, membership services, information and advice, employment, training and education and commercial services. The information is analysed by three separate size categories of association. Individual associations have found the benchmarking reports useful in comparing their position with that of associations generally. This can be particularly useful where, for example, subscription scales are being reviewed. The
information in the benchmarking reports is also more useful generally and has been drawn on extensively in this book.

The Trade Association Forum has proved to be a valuable initiative benefiting all trade associations in providing, like any good association, an effective conduit between associations and the government. It was established because of an initiative taken by one association combined with some funding and other support from the government and has become increasingly effective over time, partly because it is hosted by the CBI. Having said that, the Forum was an idea whose time had come and had it not been established in the way that it has been then some alternative arrangements would probably have developed, albeit more slowly and perhaps not as effectively.

The Forum is governed by a steering group of trade association chief executives and is staffed by the CBI. It deliberately does not claim to have any policy role except perhaps on matters directly relevant to trade associations as organisations. It has to tread a delicate path in its relations with the CBI and also its individual members. So far it has achieved this very effectively.

Bibliography and further information
David Lascelles and Mark Boleat, Who speaks for the City? (CSFI, 2002).
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Chapter 3

The legal framework and government policy

Unlike in many other countries, there is in Britain no specific legislation on trade associations. There is no requirement on them to be registered and they can take almost any legal form. There are some reporting requirements on employers’ associations and associations are affected by competition law. The government has shown little interest in associations.

The general position
In some countries there is specific legislation governing trade associations and other trade organisations, and even a requirement on institutions to belong to them. Associations may be required to publish their accounts and certain other information. In some countries there is also a requirement for all organisations to be incorporated; the British concept of an unincorporated association is unknown. Some countries, notably the USA, have legislation governing the activities of trade associations, particularly fund raising and lobbying. In most countries associations are caught by competition policy, sometimes with specific requirements on associations, in other cases just generally.

In Britain there is a laissez-faire attitude. There is no legislation that refers specifically to trade associations, no requirements on them to be registered, no requirements on them to publish accounts and so on.

Legal form
Trade associations can take any legal form. The majority are companies limited by guarantee but a significant minority are unincorporated organisations while a small minority are companies limited by shares. The 2001 benchmarking report showed that 79% were limited by guarantee, 15% were unincorporated, 4% were limited by shares and 2% had some other form of structure. Seven (10%) of the associations that took part also in the 1999 benchmarking exercise had changed their status from unincorporated to limited status – five to limited by guarantee and two to limited by shares.

For a very small or new association being unincorporated can be satisfactory; it is a flexible and low cost structure. However, being unincorporated can make it difficult for an association to enter into contracts; often in such cases a member, typically the largest member, may have to be used as the signatory.

Once an unincorporated association is well established there is no compelling operational reason to convert to limited status. However, there is a substantial risk in not doing so, particularly given the increasingly litigious society in which we live. An unincorporated association has unlimited liability. It may be argued that this is not a problem because most associations do not enter into contracts where they run the risk of being sued. However, the real risk lies elsewhere. For example, legal action by a disgruntled employee or a libel action could result in a big claim; in an unincorporated association this would pass straight through to the members. This could be very expensive for the members of an unincorporated association if they are few in number and small. It is for this reason that
members are more comfortable with their association being incorporated and therefore the members having limited liability.

The essential difference between an unincorporated association and a company is that the latter has an independent legal personality, separate from the people who own it, manage it or work for it. The company can own property, enter into contracts, sue and be sued. A company has limited liability, which means that the members of the company are not liable for its debts.

Forming a company is a relatively straightforward task and there are a number of companies which specialise in providing this service.

Where an association is incorporated it is not necessary, and not sensible, for all the members to be members of the company. Becoming a member of a company raises different issues from becoming a member of a trade association, and some organisations may not legally be able to become a member of a company. Similarly, it is not necessary for the board of the company to be the same as the board of the association. The membership of both associations and their boards is much more fluid and generally also much larger than the membership of most unincorporated companies and accordingly there is a significant reporting requirement if an association elects to have the same structure for the association itself and for the company.

Being a company limited by guarantee is the obvious structure for trade associations. Someone has to give the guarantee but as this is generally only £1 this is not an issue. Where an association is limited by shares then a decision has to be taken about ownership of the shares. If the members are to be the shareholders then this will entail frequent changes in the share register; also some members may not want to or be able to become shareholders. If the shares are owned by a group of members then there is a danger of the ownership of the company in legal terms becoming separate from membership of the association. Generally, this may not be a problem unless the association itself has internal difficulties.

**Legislation on employers’ associations**

Many trade associations are also employers' associations, that is they deal with employment matters, ranging from providing advice to collective bargaining on behalf of an industry. Over the years there has been a steady decline in collective bargaining and accordingly the importance of employers' associations has declined. For some associations this has been a benefit as the collective bargaining aspect was often divisive; for others collective bargaining was the glue that held the association together, and the association has struggled to maintain membership when deprived of its principal function.

Employers’ associations are subject to some modest reporting requirements through the Trade Union and Labour Relations (Consolidation) Act 1992. Part 1.1, section 122 defines an employers' association for the purposes of the Act -

"In this Act, an "employers' association" means an organisation (whether temporary or permanent) -

(a) which consists wholly or mainly of employers or individual owners of undertakings of one or more descriptions and whose principal purposes include the regulation of relations between employers of that description or those descriptions and workers or trade unions; or
(b) which consists wholly or mainly of -

(i) constituent or affiliated organisations which fulfil the conditions in paragraph (a) (or themselves consist wholly or mainly of constituent or affiliated organisations which fulfil those conditions), or

(ii) representatives of such constituent or affiliated organisations and whose principal purposes include the regulation of relations between employers and workers or between employers and trade unions, or the regulation of relations between its constituent or affiliated organisations.

References in this Act to employers' associations include combinations of employers and employers' associations."

Sections 28-37 and 43-45 of the Act make certain provisions in respect of employers' associations –

- A duty to keep accounting records.
- A duty to keep records available for inspection.
- A right of access to accounting records.
- The requirement to send an annual return to the Certification Officer.
- A duty to appoint auditors.
- Eligibility for appointment as auditor.
- Appointment and removal of auditors.
- The auditors' report.
- The rights of auditors.
- Provisions in respect of newly formed associations.

A Certification Officer was established in 1975 to oversee the operation of the legislation. Part 1.1 of the 1992 Act states that the Certification Officer is responsible for maintaining a list of employers' associations, and for ensuring that the statutory requirements concerning accounting records, auditors, annual returns, political funds and the statutory procedures for amalgamations and transfers of engagements in respect of employers' associations are complied with.

Any employers' association can apply to have its name included in the public list maintained by the Certification Officer. Listing, however, is voluntary. Unlike for trade unions, where listing is essential for tax purposes, there is no benefit in listing other than to prove that the organisation is an employers’ association. As at March 2003, 91 employers' associations were on the list and an additional 87 employers' associations submitted annual returns to the Certification Officer but were not on the list. The comparative figures in December 1994 were 117 and 123. The numbers have fallen both as a result of amalgamations and associations ceasing to have an employers’ association function.

**Competition policy**

Trade associations in the very nature of their business are collective organisations of competing businesses. Competition policy is therefore very relevant to them. They need to be careful not to restrain competition by price fixing or quota arrangements and also to ensure that this does not happen because of lack of adequate controls.
Until recently the relevant legislation was the Restrictive Trade Practices Act 1976. The Act required restrictive agreements to be notified to the Director General of Fair Trading. Even informal arrangements and unwritten understandings may have been registrable. The Director General had a general duty to refer registrable agreements to the Restrictive Practices Court for a ruling on whether the restrictions were against the public interest. In practice, the provisions of this Act did not trouble associations.

The regime has now been superseded by the considerably tougher provisions of the Competition Act 1998. The Office of Fair Trading has helpfully published a guideline *Trade Associations, Professions and Self-Regulating Bodies*. This section summarises that guideline.

The Act prohibits agreements between undertakings, decisions by associations of undertakings, or concerted practices which may affect trade in the UK and have as the object or effect the prevention, restriction or distortion of competition (this is known as the “Chapter 1 prohibition”). The Act does not refer specifically to trade associations, but they are clearly caught by the term “association of undertakings”. The word “decisions” has a wide meaning and includes the rules of an association, recommendations to members, oral or written and regardless of whether they are complied with, decisions of the board of the association or even the chief executive and the exchange of pricing information. The key test is whether the effect of the decision is to limit the freedom of action of the members in some commercial matter. These points apply to companies acting outside an association as well as through an association. In many industries companies get together outside the formal association structure, sometimes on the fringes of trade association meetings, and when so doing may deliberately or accidentally engage in activity which could be caught by the Chapter 1 prohibition.

The guidance makes the following points on the scope of the Chapter 1 prohibition –

- Collective price fixing or price co-ordination is likely to breach the prohibition.
- The exchange of information is generally permissible, “for example, the collection and publication of statistics are legitimate functions of associations of undertakings”. However, the exchange of information may have an appreciable effect on competition “where it serves to remove any uncertainties in the market and therefore eliminate any competition between undertakings”. The smaller the number of undertakings in the market, the more frequent the exchange and the more sensitive the information the more likely it will be caught by the prohibition.
- The collection of historic information on prices is not likely to be caught nor is benchmarking activity. The regular and systematic exchange of specific information is more likely to be caught.
- The exchange of statistical data, market research and industry studies is not likely to be caught. The exchange of historic information on output and sales is again not likely to be caught. However the exchange of recent information in which participants can be identified is more likely to be.
- Rules prohibiting members from soliciting for business or from advertising prices are likely to be caught.
- Codes of practice should not be caught if the structure of the market is competitive and the code does not deal with prices or involve an element of market sharing.
- Technical standards may be caught if barriers to entry are significantly raised.
- Standard conditions may restrict competition but are less likely to if members are free to adopt different conditions.
- A certification scheme is less likely to be caught if it is available to all suppliers that meet objective quality requirements. However, the standards must be objective and reasonable.
The part of the guideline dealing with terms of membership merits quoting in full –

“Rules of admission as a member of an association should be transparent, proportionate, non-discriminatory and based on objective standards. Those that are not may breach the Chapter 1 Prohibition. Terms of membership will have an appreciable effect on competition where the effect of exclusion from membership is to put the undertaking(s) concerned at a competitive disadvantage. Similarly, procedures for expelling members of an association may have an appreciable effect on competition, particularly where they are not based on reasonable and objective standards or where there is no proper appeals procedure in the event of refusal of membership or expulsion.”

An agreement caught by the Chapter 1 prohibition can be considered for an exemption by the OFT. The test is that it must contribute to improving production or distribution, or promoting technical or economic progress, while allowing consumers a fair share of the benefit, but not impose restrictions which are not indispensable to the attainment of those objectives or affords the undertakings the possibility of eliminating competition. Paragraphs 5.2 and 5.3 of the guideline deal specifically with trade associations on this point –

“5.2 The functions of trade associations are clearly useful to members, especially, perhaps, to smaller firms – and they may also be beneficial in increasing the efficiency of the market system as a whole. While the Act strengthens the law on anti-competitive agreements, activities of trade associations which have no appreciable effect on competition will be of no concern. A trade association may, however, provide directly or indirectly the vehicle for anti-competitive, or even collusive, activity, and any decision, rule or recommendation of a trade association or agreement between its members which has an appreciable effect on competition will infringe the Chapter 1 prohibition. It may nevertheless still qualify for an exemption.

5.3 The nature of membership of the trade association is likely to be relevant in assessing whether an activity does have an appreciable effect. An association will usually seek to make its membership as comprehensive as possible to maximise its influence of behalf of its members. A wide membership will also increase the effectiveness of a code of practice on members’ conduct, devised and implemented by a trade association in its self-regulatory role. However, the wider the membership among those engaged in a market within the United Kingdom, the greater the risk that any anti-competitive behaviour carried on by the association will have an appreciable effect. This will be of greater significance where membership of a trade association is limited to a particular stage in the chain of production or distribution when members are likely to be actual or potential competitors.”

**Government policy**

Trade associations have a strong interaction with government. They enable government to obtain efficiently the views of a sector and also act as a general conduit between business and government. Because of the expertise that they have they are also able to provide a constructive check when legislation and regulations are being drafted. That is they have a role not only in seeking to influence policy but also in ensuring that policy is efficiently transformed into legislation and regulation. The good trade association may be able to point to inconsistencies in drafting or to conflicts. In this role it is acting as an unpaid consultant to government.
Against a background of tight resources in the public sector, the government should want a network of effective trade associations and ministers would probably confirm this. However, government has never really considered trade associations as a subject and there has been no concerted policy towards the sector. Rather, one can detect a range of views and policies with much depending on individual ministers and officials and the particular trade associations they are dealing with –

- They may be seen as a valuable conduit between government and a business sector therefore facilitating the policy-making process.
- Where associations are well resourced they can assist government by acting as a constructive check in the drafting process.
- They may be seen as being too powerful thereby making it more difficult for the government to do as it wishes if they oppose a government view.
- They may be seen as being too weak, unable to “deliver their members”.
- They may be seen as being reactionary, opposing government for the sake of it.
- They may be seen as being unrepresentative, with government preferring to talk to individual companies.
- They may be seen as being too numerous, presenting a plethora of views which is of little help to the policy-making process.

These views can change quickly – as they certainly did when Labour came to power in 1997.

Although there has been no concerted government view or policy, it is worth summarising what little expressions of government policy there have been.

In June 1993 the then President of the Board of Trade, Michael Heseltine MP, made a speech on trade associations at a CBI conference. After noting their functions he went on to say that “remarkably little objective assessment appears to have been made about the effectiveness of these activities, or their practical value to member companies.” He then made some very critical comments -

“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.

So we still face the familiar vicious circle: some top companies won't join, whilst others won't pay more because they take the view that the trade associations representing their sector provide only a very limited service. As a result, we have too many associations who do only provide a limited service because they lack the resources to offer anything else. The inherent tragedy of this situation is that many officials of under-resourced associations - and even some of their members - continue to inhabit a kind of make-believe land. They believe they are effective, when it is all too brutally clear that they are not.”

Mr Heseltine said there were three minimum services that trade associations should be providing -

- They need to be in a position to influence government policies and the quality of public services. He said this requires both resources and expertise and it followed that trade associations need sufficient capability to keep track of developments within a European and other international contexts.
• Trade associations ought to be playing a much bigger role in promoting the international competitiveness of their member companies, including UK subsidiaries where these are foreign owned.
• Trade associations should be more influential in contributing to new government initiatives.

The President said that many trade associations were failing to meet these three requirements and that had been leading to growing dissatisfaction both in industry and in government. He went on -

"Bluntly the standard of representation from associations which we receive in government still varies from the good to the very poor. In sharp contrast with the well-researched and notably positive approach which I should like to see, a good deal of the input from trade associations is both negative and of a low quality. That is disturbing, not least because there has got to be a much clearer recognition that policies resulting from the closer involvement of the private sector in building an industrial strategy can only be as good as the assumptions and advice which are fed into them.

No less alarming, is that only a minority of associations appear to have thought through the implications of the growing European dimension. Few of them seem to have any clear idea of which issues should be pursued in London and which in Brussels - or of how European representation should best be organised.

Also critically in my view, only a minority of associations seem to regard the international competitiveness of the UK companies in their own sectors as a matter over which they have much influence, or for which they have any responsibility.

For all these reasons I believe that change is now urgently needed. It is not my intention to undermine the good work that is being done by the best of our trade associations. But I am determined to consider changes aimed at raising the average performance of the whole network.

The first requirement is that every sector should have at least one well-resourced trade association equipped to serve its members effectively, to engage in serious debate with government and to promote the competitiveness of their sector. That doesn't mean that industry should have a rigid structure of representation in this country, with the CBI as some kind of national federation heading a series of lesser federations below it. I am not persuaded that the Continental pattern would prove ideal, even if it could be successfully transplanted here.

Nor do I believe that every small association necessarily has to be subsumed within a large organisation. Some small associations accept that they are in business to serve niche markets and do a good job - even though I suspect they could often benefit, without any loss of their independence, by pooling resources and effort within a larger organisation."

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Mr Heseltine returned to the subject of trade associations in a further speech in February 1995. He expressed the view that mergers, where appropriate, would lead to more powerful and effective trade associations and that such mergers could be achieved without losing or diluting the interests of particular niche industries within sectors. He asked companies to consider being more ambitious especially where there was a plethora of large and small associations all trying to represent the interests of members in the same sector.

He commented on federations saying that if these led to more effective representation then he would welcome it. However, he also noted dangers if all that a federation did was to introduce another layer of bureaucracy or if it was only a nominal sharing of interests and information or only a paper exercise. He said in these circumstances it would be unwelcome because it would create the appearance of change without the substance.

In February 1996 the DTI followed up the Heseltine speeches by publishing *A Best Practice Guide for the Model Trade Association*. This document set out the characteristics that the government thought a trade association should have, again emphasising competitiveness and export promotion issues.

In practice the DTI and the government generally did little to seek to implement their policy. However, there is no doubt that Mr Heseltine's speeches in particular, and the DTI initiative on trade associations generally, served to stimulate interest in the role and structure of trade associations, both within associations and in industry and commerce more generally. A number of associations were prompted to conduct reviews and there was some restructuring within and between associations as a result.

The DTI has given support to action by trade associations to improve their effectiveness. It gave financial support to the first benchmarking exercises between associations in 1996 and 1997 and to the establishment of the Trade Association Forum. Subsequently it has funded a number of projects undertaken by the Forum and also restructuring exercises in particular sectors and even individual associations.

The Labour government which came to power in May 1997 initially had a novel approach to policy-making. It relied heavily on the advisers it had used in opposition and a number of trusted business people. Associations, even those that had provided considerable help to the Labour opposition, found themselves largely frozen out, as indeed did many civil servants. The position has subsequently improved although associations still seem to be viewed with suspicion in large parts of the government.

There have been no significant ministerial pronouncements on trade associations on the lines of the Heseltine speeches or the *Model Trade Association* document. However, the DTI has continued to fund projects undertaken by the Trade Association Forum and ministers have spoken at its conferences.

The government has more recently placed greater emphasis on improving the policy-making process and also the delivery of government policies, although this is mainly concerned with public sector delivery – health and education in particular – rather than delivery which involves the private sector. However, one can find virtually no reference to trade associations in all this work.
Bibliography and further information
Chapter 4

Membership

A trade association must have a logical constituency. In addition to horizontal scope, suppliers and customers must be considered. Membership criteria must be objective and defensible.

This chapter is mainly concerned with the more mechanical aspects of the membership of trade associations. However, members are the customers of trade associations and the source of most of their income. The strategy on membership is therefore a critical part of the business of an association. This is covered in more detail in Chapter 15.

The market for trade association membership

Some associations can largely take their membership for granted while others have to devote substantial resources to recruiting and retaining members, and suffer a significant turnover of membership each year. Where a sector is dominated by largish organisations which are regulated then the chances are that the trade association will have little difficulty in securing near 100% membership. By contrast, where an industry is dominated by a large number of small companies and there is no specific regulation then it is far more difficult to secure a significant market share and huge resources will have to be devoted to membership issues.

There is a more general position. Some people are natural “joiners” while others are not. Trade associations are membership organisations like sports clubs, churches and many other organisations. Over the years, many membership organisations have struggled to maintain membership as people become less inclined to “join”. They used to provide a significant opportunity for social networking but now there are many other opportunities and other calls on people’s time and other attractions, for example football on television. Companies are less inclined to join associations because it is “the right thing to do” or because they want to feel part of a representative body for an industry. Rather they will join only if the association is essential to them, and it is probably fair to say that many companies do not join even when financially it would be in their interests to do so.

Trade associations operate in a less competitive market than their members but they still have to face competition. Although this may be fairly well concealed, in practice every trade association is competing against others for members. In the case of the very large companies they must decide whether to belong to a sectoral trade association or associations or whether to concentrate on membership of the CBI or even to go it alone or work with other large companies. Big companies may also elect to belong to small trade associations simply to get a basic level of service and information even if a larger association would be more suited to their purposes. Small companies have a range of trade associations competing for their business, including generic associations such as the Federation of Small Businesses and the Forum for Private Business.

The key point is that a trade association cannot afford to be complacent about its membership. The benefits of membership have to be positively sold and the association must provide a package of services which members will value and are adequate to attract new members.
A number of associations with a large number of small members employ commission-based salesmen to sell membership. Even some associations with larger members may employ someone with a specific responsibility for increasing membership although this would not normally be on a fixed amount of commission for each new member.

**The natural constituency for a trade association**

The first chapter began by defining trade associations as organisations that provide representative and other collective services to businesses, generally in a specific industrial sector, with common interests. It might therefore seem to be an easy task to delineate the natural boundaries between associations. In fact it is not, because the suppliers of particular goods and services can vary considerably. For example, car insurance is provided by specialist companies that do nothing else, insurance companies that also provide other forms of general insurance, insurance companies that also provide life insurance, and insurance companies that are part of banking groups. To complicate the position further much motor insurance is sold by companies that do not actually provide the product. There are no natural boundaries here. In practice, in Britain the trade body is the Association of British Insurers; it could equally be a specialist motor insurers’ association or a diversified banking and insurance association.

The key variable is the “common interest”. The members of a trade association must have a sufficient commonality of interest to hold them together. The best common interest is a special legislative and regulatory regime for the sector. In regulated sectors the scope of the regulator often defines the boundaries of the trade associations. This means that when there are significant changes in the regulatory landscape (as has occurred in financial services and communications) then this will be followed at least by consideration of the trade association landscape.

Beyond the common interest, psychological factors are important. Broadly speaking, companies want to belong to associations of companies like themselves. Where a sector is dominated by small specialist companies then that is a natural trade association constituency. However, in most industries then are small specialist companies and large diversified companies. The trade association structure is likely to represent the historical position. The structure inevitably comes under pressure as the industrial structure changes.

The major issue in respect of the right constituency is the horizontal scope of an association. If there is no special regulatory and legislative framework then the issue is one of judgement. The narrower the interest the more specialist and focussed the association will be. But associations also need to be of a sufficient size to command the necessary resources and credibility. The more that an industry is dominated by diversified companies the wider the ideal scope of the association.

There is also an issue about the vertical scope of an association. The interests of providers, suppliers and distributors of goods and services may be very different. However, in some industries there are specialist distributors, for example agricultural merchants or insurance brokers, which may be as important in the marketplace as the providers. And in some industries providers are also distributors. Again, this is an area where judgment is required. The more that providers are also distributors or suppliers the stronger the case for having them within a providers’ trade association.
Membership criteria
Establishing membership criteria can be a difficult subject for some trade associations because there are always conflicting forces at work. Some will be concerned to have as wide a representation as possible. Others will want to restrict membership to companies like themselves and a few will wish to go further and use the membership criteria to obtain a competitive advantage. This issue needs to be carefully considered by the association’s board of directors, taking into account all the relevant factors.

The preferred option is to have clear membership criteria such that if a company meets those criteria then it is eligible to join. An alternative approach is to have more vague criteria with applications being considered by a membership committee. This approach has become less common partly because it is time consuming and partly because it runs the risk of falling foul of the Competition Act. As the section on competition policy in Chapter 3 made clear, if membership criteria are used in a way to achieve competitive advantage then this is an offence under the Act. For example, if an association drew up criteria deliberately to exclude all companies below a certain size or above a certain size and had some practices which gave advantages to its members, for example sharing of market information and statistics, then a company denied membership would have every right to complain to the Office of Fair Trading.

It is particularly important that associations do not seek to exclude foreign owned companies. This is discriminatory and could certainly fall foul of the Competition Act. It may also encourage the excluded companies to get together themselves and to form a potential rival to the trade association. In practice, unlike their counterparts in many other countries, British trade associations not only welcome foreign owned companies but such companies often provide the officers of some of the major associations. This is entirely in keeping with the British practice of being more concerned about the business, rather than the ownership, being in Britain.

It is not uncommon for trade associations to limit membership to companies above a certain size in terms of turnover or to companies which have been in existence for a number of years. Such limitations again require very careful consideration. Small companies are often most in need of trade association services and there is a general presumption that the establishment and growth of small companies is a good thing. If an association is seen to be discouraging such companies it may not help its credibility in dealing with government. It may also not help its credibility in dealing with those companies as they develop and become eligible for membership. Some may find that they can obtain the services they need from elsewhere, for example another trade association or a commercial company, and some may be less willing to consider joining an organisation which only a year or two ago did not want them.

Although there are very good grounds for trade associations not attempting to act as policemen in respect of membership, others take a different view. The arguments were usefully covered in an article in the Consumers’ Association journal Which? in March 2003. A survey carried out in November 2002 concluded that 70% of people were more confident about using a builder, roofer or other home improvement company which displayed a trade logo. In practice, therefore, the public believe that membership of a trade association in itself is a selling point. Over two-thirds of the people questioned thought that trade association membership usually means that a company has to adhere to strict professional standards. The article commented that “a trade association logo is useless to customers if any company can sign up as a member”. The Association suggested that not
only should associations have strict entry requirements but also that there should be ongoing checks and that ideally associations should require members to join an independent ombudsman scheme or at least have an effective complaints system and an arbitration process for settling disputes. The issue of self-regulation is considered in detail in Chapter 13.

Trade associations have to make a judgement about membership criteria. If they are seeking to expand membership and wish to claim that they represent all types of firm in their particular sector then the criteria can be very general with companies being admitted automatically if they certify that they qualify for membership and will comply with the rules. Where an association deliberately wants to restrict membership, for example to companies meeting certain standards, then it has to accept that there is an economic cost in terms of membership and also that it must have proper procedures in place to ensure that its membership criteria are open and that decisions are taken on the basis of objective criteria.

One of the key tests of the representativity of an association is the proportion of the activity covered by its members. Associations are not always honest and the variables used to indicate representativeness can be open to question. The most important variable is the proportion of the market covered rather than the proportion of companies covered. There is little point in an association representing 90% of companies in a sector if those companies account for only 5% of the business. The 2001 benchmarking report showed that the median turnover represented by associations was 82%, the lower quartile was 70% and the upper quartile was 90%. However, it must be remembered that associations are inclined to define their market to coincide with their membership. The variation in respect of market share by number of companies was much greater. The lower quartile was 22%, the median was 50% and the upper quartile was 81%.

The membership application process
Some associations represent sectors comprising a small number of large companies. Such associations have little need to attract new members, although they may have to put much effort into retaining existing members. Other associations cover a sector with a large number of small companies and for them attracting new members is a major task.

An association that is actively recruiting new members needs to have a comprehensive membership information pack, comprising a promotional brochure, constitution of the association, the most recent annual report, details of the subscription scale, details of any codes of practice and any other relevant information. It is now sensible for associations to provide such information on their websites and indeed to allow online applications. Associations need to be aware that a company contemplating membership will look at the association’s website and will expect this to be the principal means by which it obtains information from the association.

Many associations now give the chief executive discretion to admit new members provided that they meet the eligibility requirements. Other associations retain a membership committee or even a requirement on the board to approve membership. If such mechanisms are used it is important that they are transparent and do not frustrate potential new members by introducing an unnecessary delay into the process.

Once they have joined, new members are entitled to all of the past information produced by the association which is relevant to them. This may be available from the association’s
website. If it is not, then a pack of the necessary information should be provided by the
association and ideally there should be a meeting to run through this information and to
cover how the association can help the company.

Categories of membership
Some associations have only a single category of membership. Others have a number of
different categories, but as for membership generally it is important that the criteria are
objective and transparent and are not used to restrict competition.

More recently, many associations have used an associate category of membership to attract
income, often considerable amounts. Suppliers can benefit hugely by having access to
trade association members. They may be willing to pay a significant price not only in
terms of an associate’s subscription but also through sponsorship, particularly of events
such as annual dinners and conferences. Such organisations are also keen to exhibit at any
conference or exhibition organised by the association.

It is quite possible for the influence of associate members to grow to such an extent as to
threaten the nature of an association. Some associates have for example been keen to get
involved in the policy-making process and on the governing body of the association, either
by becoming full members or by securing greater rights for associates. As in so many
areas, this requires careful judgement and the balancing of a number of competing
interests.

A number of associations have an overseas category of membership for companies
engaged in a similar business in other countries. This is now fairly uncommon given that
national markets are seldom isolated. Having this category of membership is not an
acceptable means of dealing with a market in which foreign owned companies compete
with domestically owned companies.

Finally, some associations have an individual category of membership, allowing those who
work for, or who have worked for, companies which are members of the association to
have a direct relationship with the association.

Rights and liabilities of members
It is sensible to regard the relationship between a trade association and its members as a
contractual one in which in exchange for a subscription and possibly the provision of some
information the association agrees to provide a range of services. In all but a few
associations, membership runs on an annual basis and therefore there is little need to have
a formal long-term contract. In practice, the constitution in whatever form it takes is
merely likely to give members the right to attend and perhaps vote at an annual general
meeting and to receive the annual reports and accounts. The only liability of members is
likely to be in the event of winding up. It is important to note here that constitutions often
provide that, in the event of an association winding up because it is insolvent, each
member is liable to an additional year’s subscription. Some associations also have a
requirement that members have to pay a year’s subscription if they leave. Other
associations have nothing other than the liability falling on members if the association is a
company limited by guarantee.

In the course of their business, some associations may have longer term contracts with
members. For example, if it is about to embark on a major area of work or major
investment, an association may seek a three year contract with its members under which
the members agree to remain as members and to pay subscriptions at an agreed level. Associations may also enter into contracts with their members to acquire premises which may, for example, entail all members guaranteeing rent payments. However, such obligations are generally nothing to do with the rights of membership and rather are separate contractual obligations.

With the increasing trend towards litigation, it is prudent for associations to ensure that the rights and liabilities of members are clearly stated in the information provided to new members and in information readily available to existing members.

**Cessation of membership**

It is normal for the rules of an association to require that if a member fails to comply with the constitution or to pay the subscription within a specified time then it automatically ceases to be a member. Such a provision is reasonable and does not raise any legal issues.

Some associations retain a rule which enables them to expel members on such grounds as “bringing the industry into disrepute”. Such a provision is risky and those associations that choose to exercise this must do so with care. An association seeking to expel a member on such grounds must have in place a proper procedure including an appeals mechanism with an independent element if it is not to run the risk of being sued by a company.

In practice, most associations take the view that they are not policemen and do not seek to deprive any company of the rights of membership unless they fail to pay their subscription.

**Servicing members**

Trade associations are member-based organisations and must provide a good service to their members if they are to continue to retain them. This is not simply doing a good job as a trade association by, for example, securing satisfactory outcomes on major policy issues and helping to improve the image of the industry generally. Such intangible benefits are often lost on the majority of members. There is also a temptation on the part of all companies to believe that their trade association is dominated by a group of members of which they are not one. Small companies may feel that the association is dominated by big companies while big ones may feel the opposite.

Formally, the annual general meeting is the opportunity for members to raise any concerns. In practice, an association waiting for the AGM will not be in business for long. There must be a mechanism which provides adequate feedback from those members not engaged in the governance of the association. How this is achieved will depend on the size of the association. Where there is a relatively small number of members, then a programme of visits by the chief executive and other senior staff is often a good approach. In some associations there are regional meetings which give an opportunity for members to make their views known.

The Internet provides a new mechanism for inviting views from members and it can also make sense for an association to use selective telephone calls as a means of helping to get feedback from the members and to ensure that the association is providing a service that members want. Generally, the smaller members in particular are often pleased to receive a telephone call from the chief executive asking if they are happy and if there is anything more that the association can do for them.
It is now good practice for associations to have a more formal survey of the views of members on a regular basis, perhaps every three years. This can be done through a fairly simple questionnaire asking members to rate the services the association provides on a 1 to 5 score. Chapter 17 deals with measuring association effectiveness more generally.
Chapter 5

Governance

Good governance is essential if a trade association is to be fully effective. Associations should operate within the framework of good governance generally although their characteristics present practical difficulties. Associations need governance arrangements which enable efficient decision-taking while involving members. The roles of the chairman, the board and committees must be clearly defined.

What is governance?
Trade associations are not alone in struggling with the concept of governance and the distinction between governance and management. Governance is the system by which an organisation is directed and controlled and includes formal lines of accountability and reporting. Management is the administration of resources, the organisation of events or policy, and the day-to-day control of the decision-making process in accordance with the established policy and strategy of the organisation.

Why is good governance important?
Having sound governance arrangements greatly contributes to the effectiveness of a trade association. Industry leaders will be more likely to be involved in the association if it operates on sound governance lines with which they are familiar. The transient nature of the governing bodies of trade associations, covered in more detail below, means that an established governance regime, well documented, is essential if the association is to be run in a consistent and effective way.

There is also a risk management point. Inadequate governance arrangements expose an association and its board to legal action if something goes seriously wrong. While there are few, if any, practical examples of this happening on a major scale, an association can get into difficulty in respect of competition law and employment law if the decision-taking process is not properly documented.

The principles of good corporate governance
Corporate governance has become a subject of much study and debate over the past few years, in both the public and private sectors. In the public sector the driving force has been concern about the appointments process, while in the private sector a number of corporate scandals have focused attention on the role of boards, in particular non-executive directors. This might all seem not very relevant to trade associations. In practice, it is because in many respects the governance issues facing associations are the same as those facing other bodies. More importantly, the people trade associations want on their governing bodies are directors of companies and they will be expecting standards of governance in the organisations in which they are involved to be similar to those in the organisations that they manage.

In the public sector, the Committee on Standards in Public Life (often known as the Nolan Committee after its first chairman) set out seven principles of public life, which apply to everyone in public service –

- Selflessness – decisions should be taken solely in the public interest.
Integrity – individuals should not be under any obligation to outsiders which might influence them.

Objectivity – decisions should be made on the basis of merit.

Accountability – holders of public office are accountable and must submit themselves to appropriate scrutiny.

Openness – reasons should be given for decisions and information restricted only when the public interest requires this.

Honesty – private interests relevant to public duties should be declared and conflicts of interest resolved.

Leadership – holders of public office should promote and support these principles.

These principles are relevant to the boards of trade associations and also to their committees.

In the private sector there has been a succession of reviews, the most recent of which was published by the Financial Reporting Council in July 2003. The general theme in all the reviews has been transparency in governance arrangements and a regime of “comply or explain”. There has also been an increase in the obligations placed on non-executive directors, which inevitably will colour the attitude of business leaders when looking at joining the boards of trade associations. The Combined Code on Corporate Governance, as promulgated by the Financial Reporting Council, set out seven principles of good governance –

- **The Board** Every company should be headed by an effective board, which is collectively responsible for the success of the company.

- **Chairman and chief executive** There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company’s business. No one individual should have unfettered powers of decision.

- **Board balance and independence** The board should include a balance of executive and non-executive directors (including independent non-executive directors) such that no individual or small group of individuals can dominate the board’s decision-taking.

- **Appointments to the board** There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

- **Information and professional development** The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All new directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

- **Performance evaluation** The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

- **Re-election** All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.

With the exception of the reference to non-executive directors, these principles are relevant to trade associations.

**The special nature of trade associations**

Trade associations have a number of characteristics that present their own special governance issues. Some of these are shared also by professional bodies and other non-market bodies. They are –
In most trade associations some or all of the board members are elected rather than being selected.

Members of the board often represent companies that compete with each other.

Board members have a schizophrenic role in that they are responsible for governing the association while at the same time representing the interests of their companies.

Board members often do not accept collective responsibility and may pursue their own individual, or narrow, ends.

Boards may contain very different types of people from chief executives of major companies to third tier managers of big companies to chief executives of tiny companies.

Board members are volunteers and may, for this reason, accord the board a low priority.

The board’s accountability is unclear and sometimes non-existent.

Board members seem reluctant to challenge the executives even where they are able to do so.

The board may contain representatives of both suppliers and customers for a particular good or service, which brings its own tensions.

Big members of the association can exert pressure outside of the board.

It can be difficult to secure continuity of membership of the board and succession planning for the officers.

Trade associations are not-for-profit organisations. Normal performance data like sales and profitability are not applicable. Members may well have different views about what the objectives of the association should be.

**Constitution**

A trade association must have a constitution. There is no need for this to be a long and complex document. The constitution should cover –

- The objectives of the association.
- The membership criteria.
- The arrangements for setting subscriptions.
- The arrangements for meetings of members.
- The composition and powers of the board.
- Arrangements for electing or appointing officers and their powers.
- Provision for an annual report and accounts.

There is merit in leaving a great deal to be settled by the board.

Appendix 1 comprises a constitution which has been used for a number of unincorporated associations. Much of it can also be used in the Memorandum and Articles of a limited company although inevitably these are more complex documents.

**The board**

A trade association needs a top quality board functioning effectively and dealing with the major issues facing the association. The special nature of trade associations, described in a previous section, makes this difficult.

The composition of a trade association board has to balance a number of conflicting objectives. Ideally, the board needs to be small enough so that it can operate efficiently, which points to a number between, say, six and ten. The board should also include
industry leaders, to give the association credibility and because their input and involvement is essential if the association is to be effective. However, a board also needs to be representative of its membership so that all groups of members have confidence that it is representing their interests.

Reconciling these different interests sometimes means having a board that is larger than is ideal for effectiveness purposes. Sometimes this problem can be addressed by having a smaller executive committee but the danger then is that those board members not on the executive committee feel that they are not sufficiently involved and can become critical of the arrangements. The 2001 benchmarking report showed that the median size for a trade association board was 16, the lower quartile was 12 and the upper quartile was 22. These numbers are much larger than those typically found in public companies and reflect the representativeness point.

An association should have a transparent process of appointing board members. In some associations, typically larger ones, the companies paying the highest subscriptions automatically are entitled to nominate a member of the board. This can be justified on the grounds that their involvement is essential. Some associations provide for chairmen of standing committees to be on the board and, where there are regional associations, for their chairmen also to be on the board. Increasingly, however, there are fewer “reserved places” on boards. The constitution should provide for the majority of board members to be elected, generally on a national franchise, although, in the case of associations with a large number of small members, a regional franchise may be more appropriate. If there are clearly defined subsectors of the industry then these may provide the basis of the franchise.

There is a question as to whether the process of election should be “managed” as it is for public companies. In a number of associations this is done by a nominations committee considering the composition of the board and putting forward the names of suitable candidates. It is of course open to others to oppose them. The advantage of this mechanism is that industry leaders may be more likely to become involved in the association than if they had to go through a formal election process when the constituency did not consist of their peers, that is other industry leaders. However, where it is done, it is important that the mechanism has the confidence of the membership generally.

More generally, a nominations committee can play an important role in the overall governance of an association. The committee normally comprises the chairman, the chairman-elect or deputy chairman, the past chairman if he or she is still member of the board, and perhaps two senior back benchers (who recognise that being invited to join the committee is a sign that they are not in the running for the chairmanship).

A nominations committee should have the following functions –

- To recommend to the board candidates for the office of chairman and, where they exist, other positions.
- To manage the selection part of the process of appointments or elections to the board.
- To review the performance of, and to make a recommendation to the board on the salary of, the chief executive.
- To be responsible for appointing a new chief executive and, where necessary, dismissing an existing one.
- To settle the salaries of the senior management team on the recommendation of the chief executive and to make guidelines on the salary review for other staff.
In a small association the board may well be the only committee and will be responsible for everything the association does. In a large association much of the work will be done by committees, with the board having a more general oversight and governance role.

As with a public company, there should be a list of reserved items for which the board alone is responsible and that cannot be delegated. These will include governance issues such as appointment of the chief executive, approving the annual report and accounts, electing the chairman and appointment of auditors. More importantly, there are a number of major issues for which the board should be responsible –
- The criteria for membership of the association.
- The system of internal controls and delegated authorities.
- The annual operating plan and budget and the subscription level.
- The financial position of the association generally.
- The market position of the association and possible restructurings.
- The governance arrangements for the association.
- The strategy of the association.
- The policy priorities of the association and, in the case of smaller associations, managing policy issues.
- The framework for managing risks.

The board and its business need to be managed in an effective way, all the more important because of the transient nature of the governing body. The responsibilities of the board, committees and the chief executive should be clearly set out and standing orders should govern how the board conducts its own business. An induction pack and process is needed for all new board members.

Board meetings need to be run effectively. There is nothing very special about trade associations in this respect. A key point is the quality of board papers. Boards are inclined to discuss what is put in front of them. If a major issue is not on the agenda then it may well not be discussed. Conversely, if the menu for the annual lunch is high on the agenda it could well dominate the meeting. Board papers need to be specially written for the board and should be brief and to the point. The longer the board paper, the less likely it is to be a satisfactory basis for discussion. The chief executive must personally take responsibility for ensuring that all board papers are of a high quality and are in a consistent format.

Board meetings can be wasted by staff members introducing or “speaking to” their papers. The good board paper should require no introduction. Board members are busy people and it is essential that they are able to make their contribution at the meetings on the basis of the information provided to them in advance.

It is good practice to have an annual review of governance, perhaps a major review every three years and a limited review in other years. The review should include –
- Adequacy of agendas and minutes.
- Handling of meetings.
- The matters the board is asked to consider.
- Communication with board members outside meetings.
- Quality of board papers.
- Quality of discussion at board meetings.
A good governance checklist, which can be used as the basis for such a review, is set up in Appendix 2.

**Committees**
The committee structure of trade associations has changed considerably in recent years. The traditional format was for there to be a number of standing committees which made recommendations to the board. The standing committees were supported by specialist panels of experts and in some cases spawned sub-committees to deal with particular issues. New issues were allocated to the most appropriate committee. The process worked fairly well when there was a long time frame for considering matters and there was stability in membership of committees. However, it has tended to break down, because of the more rapid turnover of senior staff in member companies, because many issues cross traditional boundaries between committees and because the time scale for decision-taking has often been shortened.

The appropriate committee structure for an association will depend on the nature of the association and the matters with which it is dealing. In some cases standing committees are still appropriate. However, many associations have moved towards a new structure comprising –

- The board of the association which establishes policy priorities and oversees the work of project or task groups.
- Project groups appointed to deal with a particular matter with responsibility to settle or to report to the board.
- Permanent panels of experts that are consulted by the secretariat as necessary and are drawn on for membership of project groups.
- Forums of interested members as a means of communication with them and feedback.

These trends were reflected in the 2001 benchmarking report. 28% of associations indicated that their committee structure had changed significantly in the previous two years, following on from a figure in the 1999 report of 27%. In all cases the changes were characterised by a shift to working in task groups rather than permanent committees. 76% of associations had reduced the number of permanent committees, while 73% of all associations were making greater use of time limited working groups.

Whatever committee structure an association employs, it is important that the structure is properly documented and transparent. For each committee there must be terms of reference settled by the body to which that committee reports. A model reference document is set out in Appendix 3. The terms of reference need to cover, in particular, whether the group has the power to negotiate on behalf of the association or rather whether it is advising the board. Selection of the chairmen of project groups is particularly important as some may see this as a chance to become a spokesman in their own right and perhaps to run the group in a way that benefits their particular company. Any committee structure needs proper management by the staff of the association. It is their responsibility to ensure that committees stay within their terms of reference and do not develop a life and existence of their own.

**The chairman**
The chairman plays an important role in any association. A top class chairman will give confidence to the members and the board, as well as the outside world, and will be a
resource which the chief executive and the secretariat can draw on. By contrast, a poor chairman can at best be a nuisance by absorbing resources, and at worst a disaster.

Normal practice is for the chairman of an organisation to be elected by the board rather than by the members. The board is in the best position to know the candidates and will have to work with the chairman. Most associations adopt the practice of the board selecting the chairman. The problem has tended to be persuading the best candidate to take on the chair rather than identifying the best candidate. This was confirmed in the 2001 benchmarking report in which 32% of associations said they had difficulty in attracting suitable chairmen. The problem was more pronounced among smaller associations.

Ideally, the chairman needs to be a recognised industry leader, that is a full time chief executive of one of the leading companies or an exceptionally able chief executive of a smaller company. The buggins turn principle is no longer appropriate for trade associations.

The most able people will be attracted to the chair if most of the following conditions are met –

- There is no formal run in period; rather the chairman-elect should be identified about six months before the term of office starts.
- The term of office should be one year renewable for a maximum of one additional year.
- The time commitment during the period of office should be limited to chairing board meetings and leading the board, presiding over major functions, attending and leading at some key meetings and liaising with the chief executive. A commitment of two days a month should be the norm.
- The board comprises top quality people, such that the chairmanship is regarded as an honour.
- The association is highly regarded.
- There is a good chief executive.

A model job description for a chairman is set out in Appendix 4.

**Bibliography and further information**


Appendix 1

Draft constitution

Introduction
1. The name of the Association shall be the "British Widgets Association" (referred to in this constitution as "the BWA").

2. The BWA was established on 10 May 2003.

3. The BWA has the following mission statement -

"The British Widgets Association provides a service to widget manufacturing companies by helping to establish a favourable operating environment, by providing a forum for discussion on non-competitive issues, and by providing information to assist them in their business."

Objectives
4. The BWA shall have the following objectives -
   (a) To be a central representative body to put the views of widget manufacturing companies to government departments and agencies, Parliament, the European Commission and Parliament and other relevant organisations.
   (b) To be a research and statistical centre, to aggregate and publish statistics, and to provide analysis on widget manufacturing and other relevant market information.
   (c) To be a technical centre providing commentary, guidance and advice on all legal and other regulatory developments of relevance to widget manufacturing.
   (d) To provide a forum for the exchange of non-competitive information.
   (e) To promote the widget manufacturing industry.

Membership
5. Any company which manufactures widgets is entitled to become a member of the association on payment of the appropriate subscription and written agreement to be bound by the terms of this constitution.

6. A company may resign at any time but will not be entitled to any refund of subscription. Membership of the association will automatically lapse if a subscription is not paid within three months of the date of the request for payment.

Associates
7. The Board shall, at its discretion, admit as an associate of the BWA any organisation that does not manufacture widgets but which is otherwise interested in the business. Associates shall be entitled to receive most publications and other literature prepared under the auspices of the BWA, and otherwise he is entitled to participate in the affairs of the BWA as decided by the Board.

Finances of the BWA
8. The financial year of the BWA shall be the calendar year but this may be changed by resolution of the Board.
9. The subscription scale shall be set by the Board.

10. Associates shall pay an annual subscription fixed by the Board.

**Meetings of the BWA**

11. The BWA shall hold an annual general meeting not later than four months after the end of each financial year. At least 10 members of the BWA, or the Board, may at any time require the Secretary to convene a general meeting of the BWA. In convening such a meeting the Secretary shall give not less than 21 days notice to members. At meetings of the BWA each member shall have [one vote/one vote for each £X00 of subscription income].

**Board**

12. The affairs of the BWA shall be directed by a Board comprising -
   (a) A representatives of each of the two largest companies in membership.
   (b) Six members elected on a [national/regional/size] basis, each member serving for a three year term. The Board may make bylaws governing the conduct of elections and the voting entitlement of members.
   (c) A member nominated by each committee designated by the board as a major committee.
   (d) No more than three members co-opted by the Board. A co-opted member shall resign at the next AGM but be eligible for election.

13. A member of the Board shall cease to be a member if he or she resigns from, or ceases to hold office in, the institution in which he or she has hitherto held office or if a nominating body withdraws its nomination.

14. Each member of the Board shall have one vote. The Chairman shall have a second, or casting, vote in the event of equality.

**Nominations Committee**

15. There shall be a Nominations Committee comprising the Chairman, the Deputy Chairman and two other members appointed by the Board. The Committee shall be responsible for the terms and conditions of employment of the Director General, shall propose to the Board candidates for the office of Chairman and Deputy Chairman and shall otherwise have responsibilities as determined by the Board.

**Chairman and Deputy Chairman**

16. The Board shall, at its first meeting in each financial year, elect a Chairman to hold office until the first meeting in the following financial year. The Board shall also elect a Deputy Chairman. No person may hold the office of Chairman, or of Deputy Chairman, for more than two consecutive years. In the event of the Chairman or the Deputy Chairman resigning or ceasing to be a member of the Board, the Board shall have power to elect a replacement to serve for the remainder of the term, this period of office not counting for the purpose of the requirement in the previous sentence.

**Committees, project groups and panels**

17. The Board may establish and maintain sub-committees and project groups, and may delegate matters to them.

18. The Board may appoint technical panels to advise and assist it.
Director General
19. The Board shall appoint a Director General who shall be responsible to it for the management of the Association and who shall also be the principal representative of the Association and the principal policy adviser to the Board.

Annual report and accounts
20. The Board shall cause the appropriate accounts to be maintained.

21. Auditors to the association shall be appointed annually at a general meeting of members.

22. The Board shall send an annual report and audited accounts to members within three months of the end of the financial year.

23. The members may question the Board on the contents of the annual report and accounts at the AGM.

Delegation
24. The Board and the Director General may delegate any of their powers.

Revision of the constitution
25. This constitution may be amended by the BWA at a general meeting provided that 75% of the votes cast are in favour of amendments of which prior notice has been given.

Winding up of the association
26. The Association may be wound up or merged by resolution of a general meeting. Such resolution may specify how the assets of the Association shall be used.
Appendix 2

The good governance checklist

This checklist distinguishes between output measures – in practice do governance arrangements work, and input measures – do governance arrangements meet theoretical tests of good governance. The output measures are the more important, but the input measures help to ensure that output results are satisfactory and will remain so in the future. This checklist comes with a health warning. Most of it is applicable to most trade associations but none of it should be taken as the final word on the subject.

Board composition

There are three output measures –

• Does the board include a significant number of recognised industry leaders?
• Is the board recognised inside and outside the industry as being representative of the industry?
• Is the board recognised as being capable of bringing the necessary leadership to the association and the industry?

The input measures are –

• Is the board the correct size? 12 and 23 are the lower and upper quartiles for trade associations generally. The appropriate size for a particular sector will depend on its nature.
• Is there a requirement that board members should be in full time senior management positions in members?
• Is there a requirement that board members should stand down if they lose their positions in their member-companies?
• Is there a time limit on board membership – two three-year terms for example?
• If the largest members are of a significant size do they each have the right to nominate a board member?
• Where there are elections are the constituencies – size, category or region – appropriate?
• Is there a committee of the board charged with seeking to ensure that the board remains representative and effective?

Board structure

The output measure is that the board conducts its business efficiently with each member being satisfied with their involvement in the policy-making process.

The input measures are –

• If there is an executive committee (which becomes more necessary if the board has over about 15 members) is the relationship between it and the board clear and acceptable to those board members not on the executive committee?
• Is there a committee of the board specifically charged with handling the relationship with the chief executive and the composition of the board and the officers?
**Board accountability**
The output measure is that the members are satisfied with governance arrangements generally, the way the board is selected and the information provided about the board’s deliberations.

The input measures are –
- Is the process for election or selection for the board transparent, documented and known to members?
- Does the annual report (or other documents) explain the association’s aims, objectives and priorities and how they have been pursued, rather than comprising departmental reports and pictures of officers at social events?
- Is a report of board meetings sent to members immediately after each meeting?
- Where there is a regional organisation do members have the opportunity to question representatives of the board at regional meetings?
- Are the governance arrangements fully documented?
- Is the association transparent to the outside world?

**Role of the governing body**
The output measure is that the board deals with the major strategic and policy issues and does not attempt to micro-manage.

The input measures are –
- Has the board agreed a mission statement?
- Has the board agreed an overriding set of objectives and a statement of how the association operates?
- Has the board agreed the terms of reference and structure of the committees that report to it?
- Does the board agree an annual operational plan and budget?
- Does the board conduct a regular (preferably annual) review of the market position of the association?
- Does the board conduct an annual review of the governance of the association, including its own role?
- Does the board review annually, largely through a sub-committee, the performance of the chief executive?
- Is there are clear understanding of the respective policy roles of the board and the committees reporting to it?

**Good practice in managing the board**
The output measure is that each member of the board should be satisfied that the board operates efficiently.

The input measures are –
- Is a comprehensive information pack given to board members annually?
- Is there a new member induction process involving the chairman and/or the chief executive?
- Is there a set of standing orders covering in particular the responsibilities of officers, committees reporting to the board, the role of the chief executive and financial authorisations?
- Are agendas distributed at least a week before meetings and minutes within a week of meetings?
• Do the agenda and the board papers deal with major strategic and policy issues rather than management issues?
• Are board papers brief (no more than two or three pages – with appendices if necessary), to a standard format, well-written and stand-alone documents?
• Has the board decided whether it wants minutes that record only decisions or rather minutes that record the discussion?
• Are minutes stand-alone documents which always clearly record decisions?
• Does the board conduct an annual review of its own operation?
• Are board members involved in the association’s affairs between board meetings?

The chairman
The output measure is that the chairman is a recognised industry leader, gives confidence to the board and the members and concentrates on the big issues without interfering in the management of the association.

The input measures are –
• Is the length of the time period for which a chairman is committed (between one and two and a half years) sufficiently short?
• Is the time commitment while in office limited – preferably to no more than three days a month?
• Is the chairmanship regarded as an honour?
• Does the chairman conduct board meetings in an efficient manner?
• Does the chairman speak privately to board members about their conduct where necessary?
• Are there arrangements in place to ensure that when the chairman speaks he does so according to agreed association policy?
• Is there an acceptance that the chairman never promotes his or her own company?

The chairman/chief executive relationship
The output measure is that the chairman and the chief executive work together as a team.

The input measures are –
• Is there a common and documented understanding of the respective roles of the chairman and the chief executive?
• Does the chairman keep clear of management issues?
• Do the chairman and the chief executive have regular and open communication?
• Do the chairman and the chief executive make good use of each other’s time?
• Does the chief executive use the chairman as a sounding board?
• Do the chairman and the chief executive have a “no surprises” rule?

The chief executive’s employer
The output measure is that the employer/employee relationship is conducted to the mutual satisfaction of both parties.

The input measures are –
• Is there a full understanding by the chairman and relevant committee of the chief executive’s terms and conditions of employment, job description and reporting relationship?
• Is there an annual performance and salary review of the chief executive that is properly documented?

Committees, panels and project groups
The output measure – more vague than most others – is that the committee structure operates efficiently in helping the association achieve its objectives.

The input measures – also less precise than in other areas – are -
• Has the association made a sufficient move away from standing committees and towards time limited project groups?
• Is there a standard reference sheet for each committee, panel or project group giving its membership, terms of reference and reporting relationship?
• Are the terms of reference and chairman settled by the superior committee?
• Is there an annual review of the need for each committee and its composition?
• Is there a clear understanding of the roles of committees and the executive staff?

The role of the chief executive
The output measure – in respect of governance only – is that the association complies with the law and its own constitution.

The input measures are –
• Is the chief executive (or in the case of some large associations a board secretary) specifically charged with complying with the constitution and other requirements and is he or she asked to confirm annually that this has been done?
• Are there arrangements to handle grievances against the chief executive?
• Does the chief executive play a major role in reviewing governance arrangements?

Federations
The output measure is that the federation is stable, without the threat of one or more members breaking away.

The input measures are –
• Is the staff structure logical with clear reporting relationships through to the chief executive?
• Is there a common understanding of the relationship between the federation and the members?
• Do the elected officers give the necessary leadership?
Appendix 3

Model reference document for a committee or project group

Pollution project group

Established
By board resolution of 23 November 2003.

Terms of reference
(a) To ascertain the current level of pollution caused by the industry in the context of pollution generally.
(b) To estimate the impact of the draft pollution control regulations published by DEFRA on 16 October 2003.
(c) To recommend to the Board, not later than 30 January 2004, the approach which the Board should take in making representations on the draft regulations.
(d) After the Board has considered the recommendation in (c) above and agreed the approach, to prepare a draft response, for consideration by the Board, to the draft regulations.
(e) To liaise with other trade relevant associations.

Membership
John Smith (Managing Director, Ajax Engineering) Chairman
David Evans (Technical Director, United Alloys)
……………………………..
……………………………..
……………………………..
……………………………..
……………………………..

Martin Davis (Policy Director) Secretary.
Appendix 4

Model job description for chairman

Job Title:
Chairman

Responsible to:
The Board of the Association.

Main purpose of job:
To be responsible for leading and managing the Board; to be the guardian of members’ interests, and to exercise the association’s responsibilities in respect of the employment of the Chief Executive.

Nature of job:
The Chairman’s role is non-executive. The Chairman needs to have an excellent working relationship with the Chief Executive who is responsible for the management of the association. The Chairman and the Chief Executive will agree and document a working relationship and will regularly review the operation of that relationship.

Main duties/tasks:
1. To lead the Board in exercising its responsibilities and to manage board meetings and the business of the board generally efficiently and impartially.
2. To motivate the elected officers and members of the Board.
3. To be the guardian of the interests of the members by ensuring that the Association pursues its agreed objectives.
4. To be responsible for all aspects of the association’s relationship with the Chief Executive, including terms and conditions of employment, and annual appraisal and salary review. In exercising this function the Chairman shall be bound by commitments made by his or her predecessors and shall, as far as possible, consult his or her predecessor, and, when known, successor. The Chairman shall pass over all relevant papers to his or her successor.
5. To deal with any grievances against the Chief Executive in accordance with the Association’s grievance procedure.
6. To maintain regular contact with the Chief Executive and the other elected officers.
7. To preside over the AGM, any general meetings and major social functions.
8. To lead the Association’s representation at meetings when required.
9. To chair the Nominations Committee and to take the lead responsibility for identifying his or her successor.

Job requirements
1. Credibility in the industry and outside.
2. Leadership and chairing skills.
3. A commitment which in normal circumstances will average two days a month.

Appointment:
The Chairman is elected by the Board on the recommendation of the Nominations Committee and serves for a one-year term. The Chairman may be elected for a second one year term.
Chapter 6

Management

Trade associations are not subject to normal commercial pressures so focusing management and staff can be difficult. The chief executive must be responsible for the management of the association. Staff must be multi-skilled with strong trade association skills as well as the necessary technical and managerial skills.

The special nature of trade associations

Trade associations are not profit-seeking organisations. Rather, their objectives are to secure certain policy outcomes and provide services to members. Profit is therefore not a success indicator or a motivator. In fact, measuring the effectiveness of a trade association is very difficult (see Chapter 17) and measuring the effectiveness of individual members of staff is equally difficult. Trade associations are not alone in these respects. Many other bodies including charities, regulators and public bodies are in the same position.

The management arrangements have to take account of this and ensure that staff are properly focussed on what is important and that there is a mechanism in place to judge and improve effectiveness.

Associations are also in a special position in that staff are responsible to committees, the membership and chairmanship of which can change quickly, as well as to line managers and ultimately the chief executive. However, again associations are not in a unique position; senior local authority staff are among those similarly placed.

Staff also must have a representative role; trade associations are seldom large enough to afford the luxury of separate specialist technical staff and skilled public relations frontmen.

The skill set required of trade association managers is therefore different from that required of managers in profit-seeking firms. However, it is fairly similar to the skill set required in central and local government, regulators and large voluntary organisations.

Distinction between management and governance

The previous chapter dealt with the governance of trade associations. Again, it is important to understand the distinction between governance and management. Governance is concerned with the overall direction of the organisation, its strategy and, in the case of trade associations, policy priorities. The management of the trade association is about delivering the objectives of the organisation. The board is responsible for governance issues, although advised by the chief executive, but the chief executive must be responsible for management.

There is in almost any organisation an inclination on the part of the governing body to get involved in management issues. This is particularly true for trade associations as the people on governing bodies are for the most part chief executives and many will be more comfortable in dealing with management issues than they will be with big strategic issues. It is after all much easier to decide whether a particular person merits a pay increase or
what should be on the menu at the annual lunch than whether the association should seek to merge with another or even to disband.

The responsibility for keeping the management separate from the governance rests with the board itself, particularly with its chairman, but also with the chief executive. As a general rule, boards will discuss what is put in front of them and if the chief executive asks the board to consider matters which should properly come within the province of management then they will do so. Similarly, if the board is not asked to consider strategic issues then the chances are that it will not do so.

The chief executive must be given responsibility for running the organisation. This should cover, for example, being the spokesman for the association, responsibility for all matters relating to staff, although probably with the agreement of a committee of the board in respect of the most senior staff, responsibility for implementing the decisions of the board and responsibility for finances. The responsibilities of the chief executive should be set out both in the standing orders of the organisation and also in the job description. This way there is then minimum scope for disagreement between the chief executive and the chairman or the board.

Having made these points, the board must of course monitor the performance of the chief executive and may ultimately have to take the key decision to dismiss the chief executive. Where a chief executive is not performing properly then the correct response is not for the chairman or the board to assume management responsibilities as often occurs, but rather for the problems to be rectified or the chief executive dismissed.

Where a chief executive is not seen to be running the organisation, for example if circulars regularly come from the chairman or it becomes apparent that the chairman has overturned a decision of the chief executive, then the chief executive is undermined, perhaps fatally so, both in the eyes of his or her own staff and also other stakeholders.

**The chief executive**

The effectiveness of a trade association depends essentially on the chief executive. A top quality chief executive can compensate for a poor board and will ensure that not only is an association well run but also that it adopts a sensible strategy, adapting to changing circumstances as the need requires.

It is important that both the board of the association and the chief executive understand fully the remit of the chief executive. The point has already been made that this should be set out in the job description of the position and also the delegated authorities should be in the standing orders of the association.

The primary function of the chief executive is to lead the association. This role can be divided into three broad headings –

- Being the principal policy adviser to the association.
- Managing the day-to-day affairs of the association.
- Acting as the association’s principal representative with the outside world.

No one person will be equally adept at all three of these functions although the majority of trade association chief executives will need to be fully competent in all of them and extremely good at one or more. In the biggest associations some of the management tasks
can be delegated to a deputy or head of administration but the representational function cannot easily be delegated nor can the policy role.

These three basic functions can be unpackaged a little. In order to give proper policy advice to the association, the chief executive must constantly be monitoring what is happening in the outside world relevant to the sector being covered by the association. This does not mean reading the national newspapers and *Hansard*, but rather networking effectively with the key people who may well include civil servants, regulators and people in the industry itself. Only in this way will the chief executive be able to add value to the board and members. The chief executive must be the person best able to indicate to the board likely future policy developments relevant to the association. The chief executive then has to take this further by developing policy that is realistic and that will have the support of the membership. Again, this is not a mechanical process. It is all too easy to argue for policies which the members want but these are useless if they have no chance of being implemented. Equally, the chief executive cannot be passive, simply accepting what government and others wish to do to his or her membership.

In larger associations in particular, there can at any one time be a huge range of policy issues. A decision has to be taken about prioritising them and also it is important that there is proper co-ordination such that different arms of the organisation are not saying different things. The chief executive has to be responsible for the system that ensures that there is proper prioritisation and co-ordination.

The chief executive must be the principal spokesman for the association. The only circumstances in which it is reasonable for the chairman to be the spokesman is if there is no chief executive or if the chief executive is incapable of undertaking this role in which case he or she should be removed. However, there are many associations where the chairman is the spokesman. This may be simply because the chairman likes this role or it may be from a mistaken belief that it should be a practitioner who should be the spokesman rather than a paid executive. It may certainly be the case that the members would, other things being equal, prefer to hear from one of their own rather than from the chief executive. However, other things are seldom equal. The chief executive should be appointed precisely because they are good at representational work. Being an effective spokesman is a long-term business and is not something which can easily be taken on by a chairman serving for just one or two years. It is particularly disruptive for an association when each chairman in effect decides the extent to which he or she will be the spokesman of the association. Again, this undermines the chief executive.

Most trade associations provide a range of services to their members. Some of these services are on the back of representational work, while others are free standing and can be big businesses in their own right. The typical chief executive of a trade association does the job because he or she likes the representational work rather than the provision of services. However, the chief executive alone must have overall responsibility for service delivery, including the services that are to be provided and how they are to be provided. As far as possible, the work can be delegated but the key decisions must, at the end of the day, be those for the chief executive.

The finances of the trade association are fairly simple, certainly much simpler than those of most commercial organisations. The key tasks for the chief executive are to draw up the annual budget and then to ensure that the budget is complied with. In some associations, particularly where there have been financial problems, this role has been passed on to a
budget committee or a finance committee. In general, this is not appropriate for an association. The chief executive is responsible for running the association and therefore should be responsible for the budget.

Trade associations are on the whole small organisations but they employ staff. The chief executive has to lead those staff and to be an inspirational figure. Many chief executives dislike getting involved in staff matters but the chief executive of a trade association, like others, simply cannot avoid doing so. Among the most important decisions that he or she will take will be the appointment of senior staff. More generally, the way that the staff are managed will be a key factor in determining the effectiveness of the association. There is of course some routine work to do on staff. In a very small association the chief executive may have to take this on but in others the work can be delegated to a head of human resources or much of it can be outsourced.

Finally, the chief executive must be responsible for the day-to-day administration of the association. Again, this need not be something they do directly but they have to be responsible for ensuring that arrangements are in place so that, for example, telephones are answered, letters are replied to, meetings are properly organised, the website is up-to-date and so on.

The chief executive of the trade association therefore has a very wide range of functions. He or she must be a leader, a manager and a communicator. When recruiting a new chief executive, the board of an association must have a view on the relative importance of these three functions and, in managing a chief executive, provide the necessary training and development.

**Recruitment of the chief executive**

Recruiting a new chief executive is the single most important function of a board. It is often also a function that is often mishandled. This is largely as a result of the special features of a trade association described at the beginning of this chapter, in particular the transient nature of the governing body. The major issue is who is running the process. The typical period of office for a chairman is two years, a time barely sufficient to cover the process of recruiting a chief executive and the vital first few months in office.

The board of an association is too large to handle the recruitment process. A committee must be appointed with power to make an appointment. That committee should comprise the chairman and the person who will be the next chairman and one or two other suitable members. Where it exists the nominations committee is well placed to perform this function. It is particularly important that the committee comprises the people with whom the chief executive will be working in his or her first few years. If necessary the incoming chairman should be identified at an earlier stage than usual to ensure that this is the case. There is nothing more damaging than for a new chief executive suddenly to find himself or herself within a few months of taking office with a new chairman who they have not met in the recruitment process and who either has very different views on the role of the chief executive or who is impossible to work with generally. A person specification and job description must be drawn up at the outset. This can be shared with the board. Indeed, there is a case for the board approving these documents so as to minimize the scope for future misunderstanding.

The salary package also has to be broadly agreed at the beginning of the process. This has to be realistic, which often will mean substantially more than the salary paid to the
previous chief executive. The 2001 benchmarking report provides some basic information. However, this is too broad-brush and out-of-date to do anything more than give a general guide. For example, salaries are higher in associations representing financial services than they are in associations representing manufacturing and obviously they are also higher in London than in Yorkshire. There is no easy source of information on the right salary package. If a headhunter is used then they can advise. Otherwise, it may be a case of looking at advertisements for jobs that may be thought to be comparable or making a few phone calls to the chairmen of comparable associations. The Trade Association Forum also conducts a helpful annual salary and benefits survey of trade associations.

This is a far from easy task because there are so few comparables. However, it must be got right. Offering too low a package will either result in no suitable applicants or the appointment of a barely acceptable person. When it becomes apparent that the package is too low it may have to be increased which at best will delay the process and at worst may mean starting all over again. There are fewer downside risks of offering too high a package – other than the cost itself. There is no reason why a high salary to a new chief executive should have any effect on other salaries in the association. There may be some criticism from members but that has to be lived with. The two key points are that a 20% higher salary may improve the quality of applicants by 100% and that the quality of the chief executive will determine the effectiveness of the association.

There are three routes for recruiting a chief executive. The first is to make an internal appointment. This route should be followed only where there is an obvious candidate who would be better than any external candidate. There is clearly much scope to disagree when this is the case. There will always be internal candidates and some may have champions on the board or even on the nominations committee. An obvious candidate is unlikely to be someone who has been a number two for 10 years; it is more likely to be someone who has been recruited to a senior position within the last few years and who has shown the necessary leadership qualities and perhaps also the deficiencies of the current chief executive. If there are any doubts about whether there is an obvious internal candidate then it is wise to test the market by an advertisement. This should not be seen as discouraging for the internal candidate; many organisations have a standard practice of advertising all positions.

If the internal process is followed then it is still important to go through the process of drawing up a job description and person specification, having a formal interview and settling a contract.

If an internal appointment is not the favoured option then it is important to ensure adequate communication with the staff of the association generally, and the senior staff in particular. They should be told at the outset what the process is and how they can apply and should be the first to know when an appointment is agreed. In most associations there will be internal candidates for the position. Some will be plausible candidates; others will believe they are plausible either on grounds of experience and seniority or because a previous chairman has told them they have a good chance of taking over. It is sensible for the chairman to have serious and frank discussions with such people at an early stage. Sadly, it is too common for the board to agree that in no circumstances will they appoint the current deputy but for he or she to be told that they are a plausible candidate and should apply. This is the easy solution but also the wrong one. Expectations may be built up, and perhaps shared with others, that are not then realised.
Trade associations increasingly use headhunters to recruit new chief executives. The bigger the association the more likely it is that a headhunter will be used; this is the way that board members work in their own companies and they will expect to use a similar process in an association. A headhunter not only has expertise in finding people but also in handling the appointment process, for example ensuring that the job description, person specification and salary package are reasonable. A headhunter should also impose discipline on the process, for example by ensuring that the committee handling the process includes the current and the next chairman.

Board members may be inclined to suggest headhunters with which they are familiar. This is generally a mistake. The reason for using a headhunter is that they know the market and the people in the market. The market for trade association chief executives is different from the market for executives in the companies represented on most association boards. For major national associations there are three or four headhunters who are the market leaders in the not-for-profit sector and it makes sense for them to be invited to tender for the position.

The downside of using a headhunter is that they are expensive – typically 30% of the salary. They can also be slow and bureaucratic; from their point of view the longer the process the less likely it is that a mistake will be made. However, an association may want to move quickly. This must be addressed at an early stage. If an association wants someone in place at an early stage then the headhunter must be told to work to this deadline; they will do so but advise on the downside of reducing the field.

The third recruitment route is advertising. This is more time consuming for the association, as someone has to draw up the advertisement and do the preliminary sifting of candidates. It is, however, substantially cheaper than using a headhunter. Typically, advertisements are placed in the Sunday Times, The Times, The Guardian, and, for major appointments, The Economist. It is also sensible to put the advertisement in the trade press if there is a suitable journal.

The headhunting process and advertising can be combined. It makes sense for most trade association positions to be advertised, because the market is small and potential applicants can come from a wide range of backgrounds, many of whom will not be in the databases of the headhunters. A headhunter will therefore often prefer to advertise the position as well as doing a trawl of their own records.

If advertising is being used as the main channel then the committee handling the appointment must have some professional help. This could be a recruitment consultant who would in effect do much of the work of the headhunter except identifying candidates. An alternative is to use the human resources expertise in a member company. This can work well but there is a danger of the HR expert seeking to impose the approach of the company on the association.

The 2001 benchmarking report gives some useful information on the background of chief executives. They are likely to come from another trade association, a government department, a regulator or a voluntary body. This is to be expected, as the skill set required is similar to that in those types of organisations. Some chief executives come from within the sector. This is often seen as ideal by the members who believe that industry knowledge is vital. It is not and can often be a major drawback. However, there may be some good candidates from within the sector, in particular those who have been
active on the committees of the association and who have significant experience in dealing with the government and regulators. The armed forces used to be a major source of candidates when running a trade association was an administrative task – like running a golf club. More recently the change in the nature of the armed forces has again caused them to become a useful pool in which associations can fish. There are now a number of “businesses” within the armed forces and the skills needed to run them, in particular negotiating skills and understanding the political process, are very relevant to trade associations.

The 2001 benchmarking report showed that the chief executives of large trade associations are more likely to be appointed from within – 27 as against four. This is not surprising; large associations should have one or two people who should be plausible candidates; in a small association there is often a huge gulf between the chief executive and the next most senior person.

Table 6.1 shows the figures from the benchmarking report on salaries of chief executives.

Table 6.1 Chief executive salaries, 2001

<table>
<thead>
<tr>
<th>Annual subscription income</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
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The table shows, not surprisingly, that salaries are higher in larger associations. The table conceals differences between sectors. In sectors where salaries are high, such as financial services, then trade association salaries will reflect this to some extent.

Management of the chief executive

However good a chief executive is, he or she needs to be accountable and needs managing. This needs to be done for both positive and negative reasons. A chief executive, like anyone else, should constantly be striving to improve their abilities and skills. Someone needs to guide them as to the areas where there is most scope for improvement and this can best come from those to whom the person is responsible.

Looked at from a different angle, where organisations go wrong it is generally because of the combination of a poor chief executive and unsatisfactory governance arrangements. In trade associations, the typical pattern is for the functions of the poor chief executive to be gradually usurped by a combination of other executives and the board. Rarely is the problem faced head on. When eventually it is, then the association has a major problem as the chief executive will, in effect, have been allowed to be non-performing for several years and can argue that that was all that was expected of him or her. If a decision is taken to dismiss the chief executive, this can be very costly.

A chief executive must be accountable to the organisation he or she represents. That accountability might be to the board in respect of general policy issues and running the association but it cannot be to the board on the more specific issue of line management. A
A typical arrangement is for the chief executive to report formally to the chairman but also for there to be a committee which has overall responsibility for managing the relationship with the chief executive. That committee might be a selection or nominations committee which also has other responsibilities in respect of governance of the organisation. Alternatively, it might comprise the chairman, the past chairman if still on the board, and the deputy chairman. These officers should have all relevant documentation about the chief executive, including the letter of appointment, the terms and conditions, the job description and, most importantly, a record of previous decisions on the salary and, if they exist, records of any appraisals. (Appendix 1 comprises a model job description.)

Good practice is for the chief executive and the chairman to meet regularly to discuss not only common issues, but also the major issues affecting the association and their own working relationship. The “no surprises” rule is sensible. The chief executive should use such meetings to give an early and informal warning of major issues he or she has to face and that might affect the association in the years immediately ahead. Correspondingly, the chairman can use such meetings to indicate areas of concern that he or she has heard about the performance of the chief executive and any more general concerns that he or she has picked up from members about the association.

It is now generally accepted that in any organisation there should be a performance management system. All staff should have an up-to-date job description. Performance targets should be set on an annual basis and ideally linked to the overall work programme of the organisation. Many trade associations have excellent performance management systems but, as in other organisations, they often stop just below the chief executive. The good chief executive will ensure that he or she is subject to exactly the same arrangements as the staff generally. They may need to take the initiative on this, proposing to the committee responsible for managing the chief executive annual targets and, if necessary, insisting on a formal appraisal.

The chairman should normally undertake that appraisal alone, perhaps after taking soundings from the other members of the relevant committee or even the whole board. However, there may be cases, for example where the chairman has been in office for only a short period, for the chairman and the past chairman to conduct the appraisal.

The salary review should follow on from the appraisal and, if necessary, those responsible for the review should take external advice on what is happening in the market for chief executives of trade associations. There is a tendency for chairmen to use their own human resources experts but they are often not well equipped to comment on the market for trade association executives.

The results of the annual appraisal and the salary review need to be properly documented and passed on to future officers.

**Management structure**

The management structure of a trade association should depend to a large extent on the nature of the association and its size. Whatever the association, there are a number of functions which have to be performed, in particular –

- Policy work.
- External relations.
- Provision of services.
- Finance and administration.
A large association may have directors responsible for each of these activities. In a smaller association, the chief executive may well, for example, take the policy role and perhaps also the external relations role. Alternatively, the policy and external relations role might be combined as might services, finance and administration.

In practice, what happens in many associations is that the jobs are juggled to suit the capabilities of the executives. This is not generally good practice but in small organisations there is often no alternative.

Where an association covers a wide range of issues then it has to make a decision on how to split the policy function. One option is to split the function by issues so that there might be three or four executives each responsible for a group of subjects. For example, an insurance association might have divisions for life insurance, health insurance, general insurance, reinsurance and investment matters. The alternative split is by function, for example, public policy, regulation, legal matters and taxation.

There is no right structure in this respect. Each has its advantages and disadvantages. As far as the members are concerned, they would probably prefer something split by business categories as this more probably reflects their own organisations.

In practice, the policy staff at a trade association now need to be multi-skilled and must not work in siloes based on their professional qualifications. The chief executive has to ensure that the policy-making function works effectively and that there is a proper input from staff with industry knowledge and from those with specialist professional skills. The members will not expect to see a disjointed organisation reflected in policy papers that ignore major issues or in two or three different papers on the same subject from different parts of the organisation.

The chief executive has to be responsible for setting salaries of the senior staff although normally these are formally agreed either by the board or by the smaller group responsible for managing the relationship with the chief executive. The 2001 benchmarking report shows that typically the senior staff earn salaries of around 60% of the chief executive’s salary.

Management requirements
The competencies framework set out in Appendix 2 to this chapter usefully sets out the competencies which senior executives of a trade association require. These can be summarised under six headings –

- Technical competence in respect either of industry knowledge or professional skills.
- Management skills where there is a team of people to be managed.
- Team workers, able to collaborate with colleagues from other parts of the association and with experts in member companies and increasingly their equivalents in other trade associations.
- An understanding of the policy-making process. It is, for example, no longer acceptable for the association’s lawyer to say that his or her role stops in drafting legal papers and it is other people’s lawyer to say that his or her role stops in drafting legal papers and it is other people’s jobs to discuss them with policy-makers. All senior executives working on policy matters have to understand the policy-making process and be able to participate in it.
• Communicators. A major part of the work of senior executives is communicating with policy-makers and their members through a variety of means including telephone, e-mail, written papers and in meetings and in formal presentations. Good communication skills are therefore essential.

• IT literate. This is a requirement for almost any manager. Those trade association executives who have not yet caught up with modern IT increasingly are at a serious disadvantage.

Method of working
The point has already been made that the issues trade associations have to deal with are seldom simple and straightforward, and cannot be allocated to one person to handle on their own.

Associations must have a culture that ensures that they are able to deliver the right results for their members. This has to be based on the sharing of knowledge and collaboration so that all of the resources of the association can be used on all issues. It is unacceptable to have a silo mentality where members of staff take ownership too literally as meaning that they alone are responsible for an issue and that they will not share information with their colleagues.

Knowledge sharing is therefore crucial. A good IT system is essential for this as it enables staff to access that information which has been put on paper, or more precisely on the computer system, promptly and efficiently. However, this is not sufficient. It is also important to share intelligence and for the senior executives to brainstorm issues, comment on each other’s work and bounce ideas off each other. This can be done in rather a confrontational way with rude comments being made on draft papers or it can be done in a co-operative way in which comments genuinely are sought and are given briefly in a reasonable manner.

A trade association must produce a consistent standard of work. The members will not be happy if they feel that one part of the association’s membership is getting more resources and a higher standard of work than another part. This means that weak performers cannot be tolerated and, as importantly, staff must not be allowed to work on their own hobby horses rather than on the issues that mainly concern the members.

The best associations now have a comprehensive issue management system. When a new issue arises the senior management team discuss how important it is and how it is to be handled. This is not an easy task as issues seldom arise overnight; rather something might develop as a small issue and then grow into quite a big issue over a period of months. For each issue there needs to be a plan as to how it is to be handled and a clear understanding as to who is responsible. As an issue develops it must be regularly reviewed to ensure that the right resources are being allocated to it and that the right general approach is being adopted. Most importantly, when an issue is concluded it is important for there to be a brief but formal review. This should concentrate on whether the desired outcome was achieved and then analyse what went particularly well and what in retrospect could have been done better. Such reviews should not be seen as an attempt to allocate blame or to mark people for their performance but rather as part of a continuous process to learn from experience and to improve performance.
Handling resource problems
Trade associations are small organisations with a variable volume of work. At times there may be few issues that the association needs to handle but at other times there can be so much work to do that it cannot sensibly be handled by the permanent secretariat. Associations simply cannot afford to staff up to meet possible surges in business. There are a number of way in which they can address this problem.

The first is to use part time staff, perhaps working from home, who, at short notice, may be willing to increase their hours of work. Seconding people from member companies can be a solution depending on the nature of the industry. However, there is always a risk that the people likely to be seconded are those who their companies least want to keep.

Consultants and professional advisers are expensive but can be good value if they are used to cope with peaks in the volume of work. Associations can outsource legal and tax work in particular. Outsourcing policy work is, however, more difficult. Finally, associations increasingly work in conjunction with other associations, with one taking the lead and the other or others having a supporting role. If there is an issue which concerns an association but it does not have the resources to handle it at the time, then it might ask another association also dealing with the issue to take on board the association’s points with the association then having a supporting role and making it clear that the views put forward by the other association are also its views.

Performance standards
Most organisations now have performance standards. The government has been a major user of performance standards over the last few years, as the result of which they have frequently come into disrepute. It is necessary to remember here Goodhart’s law which is that when any variable becomes a control variable it loses its meaning. Having said that, it is particularly important for associations to have performance standards because they are less subject than others to the impact of the market. For example, if a business does not respond to telephone calls and orders from people seeking to buy its products it can virtually go out of business. By contrast, if an association does not respond efficiently to telephone calls and letters nothing is likely to happen for at least some time. It therefore makes sense for an association to have performance standards in respect of certain administrative matters, for example –

- Procedures for answering the telephone. For example, a phone must be answered within three rings, and also rules on voice mail to prevent it being used as an excuse for not taking phone calls.
- Correspondence. For example, a requirement that all letters should be responded to in two or three days.
- E-mails. Similarly, there can be a requirement that e-mails should be responded to and of course there needs to be discipline in respect of what is put in e-mails, to whom they are copied and filing arrangements.
- Agendas and minutes. These should go out in accordance with a strict timetable, for example, agendas should go out at least a week before meetings and minutes should be circulated within a week of meetings.
- Meetings. The standards should cover arrangements for booking rooms, facilities to be made available and so on.
- Circulation of papers. Although electronic communication has reduced the need for journals and papers to be circulated to a number of people in succession, this still has to happen and there needs to be strict rules about the timescale in which this is done.
Performance management

Trade associations, like other organisations, need a training and development programme that must be linked to the performance management programme.

The performance management system should embrace job descriptions, person specifications, appraisals and training. Each member of staff should have a clear job description setting out their principal functions, and the person requirements in respect of that job should also be properly documented. There should be a formal annual appraisal using accepted best practice. Again, for an association this is often not easy because departments are small and many managers have little management experience. There is always a danger that an appraisal becomes confrontational or alternatively the manager tells the member of staff what they want to hear. A training programme has to be built on the foundation of the appraisals. Training needs should be identified and a programme must be arranged to meet those needs. Few associations will provide training in-house although the larger ones may be able to arrange this to some extent.

Among the key areas where training is likely to be needed for senior trade association staff are in report writing, committee work and presentation skills.

Trade associations may also need to arrange training courses on the way that the public policy process works, either in London or in Brussels.

The management of small trade associations

There are a few hundred trade associations in Britain with annual subscription incomes in the range of £15,000 to £60,000. Many of these associations are very long established, particularly in the manufacturing sector. Others have been established more recently to meet the needs of the changing industrial structure. They have their own particular management issues.

Many smaller associations have a number of strong points –

- They have a clearly established market niche with members tending to have similar interests, unlike some larger associations which often represent members with widely differing views or little overlap of interests.
- Because they are small, they can be flexible in their operations.
- Many have huge member loyalty running back over many years.
- Some get excellent value from their chief executives.

But many small associations, even those enjoying these strengths, are less than fully effective. They face a number of problems –

- Declining subscription income in response to market developments, in particular mergers between members or a declining market generally. This has been a major factor in declining manufacturing industries.
- It is increasingly difficult to get good people to stand for office. The chairmanship is increasingly regarded as a chore rather than an honour or a duty. The 2001 benchmarking report showed that 57% of small associations had difficulty in attracting suitable candidates to serve on the governing body and 39% had difficulty in attracting suitable chairmen; the comparable figures for large associations were 34% and 28%.
- Similarly, it can be difficult to recruit a chief executive (often the only executive) of the necessary quality, particularly when an effective long-serving chief executive
retires. The median chief executive salary for associations with subscription income of under £200,000 is just £50,000 and for many smaller associations £30,000 is normal.

• Many associations have found it difficult to use modern technology to its best effect, manifested in poor quality websites and in some cases no websites at all. The associations often remain paper-based which makes them less effective in all of their operations.

In order to continue being effective, small trade associations can no longer rely on factors such as strong member loyalty. This can only delay a decline if the association is not meeting the needs of its members, and often the members are increasingly demanding as they face a tougher business environment themselves.

Like any business, in order to be effective and to thrive, a trade association needs to understand what business it is in. Small associations cannot do everything. They must decide what to concentrate on and their members must be fully behind their strategy. Key decisions have to be taken on –

• The importance of networking, often the easiest service to provide and the most valued by members.
• The need for representational work, increasingly limited in some industrial sectors but very important for others.
• The extent to which the association is able to offer a gateway to customers. This is a strong selling point for trade associations in some sectors but it has to be done through a website.
• The extent to which commercial services can be provided.
• Whether conferences and exhibitions should be organised. In many sectors this used to be a major income earner for associations; now use of the Internet and business pressures generally have made it more difficult to make money from this source.

Associations must bear in mind that they are in competition with other organisations, including other trade associations, commercial service providers, conference organisers, trade journals and professional institutes.

The effective small association increasingly has two distinguishing characteristics. The first is that it will operate almost entirely, if not entirely, electronically. An association must have a top quality website, both for members and for external audiences, and should communicate with its members and others through e-mail. It is no longer necessary to photocopy huge amounts of paper and to run a mailing house. An immediate consequence of this is that an association has no need for office premises. An association needs an address and a telephone number but there are many virtual office facilities that provide this service at very modest cost; £50 a month should be a maximum for a phone answering and mail forwarding service. Other associations are now run from people’s homes. One merit of using a virtual office is that the management of the association can be handed on from one person to another without the need for any change in contact details and, to the extent that it is needed, stationery.

The second characteristic is that the association will have a very effective chief executive. There is an obvious problem in being able to pay the sort of salary that such people demand in the marketplace. However, a key point for small associations is that they will be far better served by a top quality person working a flexible two days a week than by a mediocre person working five days a week. Running an association on this basis therefore
becomes attractive to people who are moving into a new stage of their working life where they are seeking a less demanding job in terms of time commitment but an interesting job in terms of content. Indeed, some people may set themselves up running a number of such trade associations thereby becoming new style association management companies.

Another new trend might be the combination of chairman and chief executive. As smaller associations find difficulty in persuading someone of suitable stature to become chairman so there is merit in having a specialist outside chairman who, at the very least, will not be seen to be capable of abusing his position to the benefit of his own company. One good person can therefore be appointed as chairman and chief executive to run an association under contract with the members.

The relationship should be contractual rather than employment. However, as many chief executives of trade associations have discovered, it is important to know precisely who one’s client or employer is and this could be a problem for a small association seeking to retain a person who will both run the association and be chairman.

One question is whether it is appropriate to seek to remunerate the new style chief executives on the basis of performance. This has theoretical attractions but can be difficult to implement in practice. One option is to provide for a basic annual fee and a bonus dependent on a number of factors, for example, subscription income, number of members and net commercial income. It is more difficult to use softer, but important, variables such as the effectiveness of representative work as there is no obvious person or committee which will be in a position to judge this.

There should be scope for association management companies (AMCs) to expand their services considerably, because they fit in neatly with the concept of virtual trade associations described in the previous section. AMCs are very strong in the United States and one or two European countries. Broadly speaking, they manage a trade association, the extent of the management varying from specific functions such as accounting or maintaining the membership database to total management. Appendix 3 gives more details on AMCs and covers the process for selecting one.

However, it is not sufficient just to provide administration. An association also needs intellectual leadership so as to be able to decide, for example, whether it should seek to merge with another, how it should handle a major policy issue and how it should improve its capacity to influence the policy-making process. Some associations can provide the intellectual leadership from within. Those that cannot may not always find that a management company can help, and where it can there may be a reluctance to pay the required fee.

Federations are another way in which the demand can be met. In a number of sectors there are already effective federations, with a central organisation providing a range of services, but the members belonging to a specific association relevant to their own interests. Where such federations exist and are effective they are often the best option. However, not all federations are effective and in many sectors they do not exist.

**Bibliography and further information**
Appendix 1

Model job description for a chief executive

Job Title:
Director General

Responsible to:
The Board of the Association with the Chairman normally being the representative of the Board

Main purpose of job:
To be responsible for the development and implementation of policy issues, for maintaining a high profile representative role for the industry, and for the management and operation of the Association.

Nature of job:
An inherent characteristic of the job is the need for the Chairman and Board of the Association to trust the integrity of the Director General and to recognise the need for him or her both to have contacts with political figures and other opinion formers, and to speak publicly on industry issues before there has been an opportunity for the Chairman or Board to discuss them. Conversely, the Director General must recognise that he or she will always be seen as speaking for the industry and with the implied authority of the Board and so must exercise appropriate discretion.

Main duties/tasks:
1. To lead the Association, to be the principal policy adviser to the Association and to be responsible for ensuring that the whole of the Association’s policy work is carried out efficiently and effectively. This includes –
   (a) Monitoring the political, economic, legislative and regulatory environments relevant to the industry.
   (b) Developing policies and proposing policy priorities for the Board’s consideration.
   (c) Ensuring co-ordination and compatibility of policy work throughout the Association.

2. To be the Association’s principal spokesman with general responsibility for the efficient exercising of the Association’s representational work. This includes –
   (a) Ensuring that regular contact is maintained on both a personal basis and by the Association generally with relevant ministers, MPs, civil servants, journalists, regulators and other opinion formers.
   (b) Ensuring that the Association’s policies and views are adequately communicated to appropriate target audiences – this will include appropriate media appearances and interviews and addressing relevant conferences and seminars.
   (c) Ensuring that the Association is represented in other forums as appropriate.

3. To ensure that the Association provides a high quality and cost effective service to its members; to attract new members and retain the support of existing members; to ensure the timely and efficient provision of relevant information to members; to keep members informed of the Association’s activities; to maintain direct regular contact with individual
members; and to ensure that the various interests of members are adequately taken into account in the Association’s work.

4. To be responsible for the finances of the Association, including the preparation of the annual budget, the maintenance of adequate financial controls, and the monitoring and reporting of expenditure against the budget; and to make recommendations on subscription levels for the Board’s consideration.

5. Subject to any guidelines agreed by the Board – to be responsible for all matters relating to the employment of staff.

6. To be responsible for the internal administration of the Association; for ensuring that the Association’s constitution is adhered to; and that the Association complies with all relevant laws and regulations.

7. To be responsible for developing the forward strategy of the Association.
Appendix 2

The competencies framework

The framework is reproduced from *Core competencies for the senior managers of trade associations*, Compass Partnership (Trade Association Forum, 1998).

Interpersonal
- **Relationship management**: building and maintaining relationships with members, end-customers, other related organisations, government, regulatory bodies and the media.
- **Discretion**: building trust and confidence with members, end-customers, other organisations, government, regulatory bodies and the media.
- **Diplomacy**: ability to negotiate tactfully within and between different groups.
- **Presence**: establishing authority through manner, skills and knowledge with staff, members, end-customers, government, regulators and the media.
- **Leadership**: to have vision and the ability to make decisions and take responsibility for an issue/direction.

Communication
- **Listening**: ability to hear and understand other people’s perspectives and to conduct dialogue.
- **Writing**: ability to write concisely, logically and appropriately for different audiences in plain English.
- **Presentation**: ability to present effectively and confidently at groups, committees and conferences.
- **Media**: ability to manage the media, including writing press releases and giving interviews on TV, radio and to the press, and having a strong news sense.

Sector
- **Strategic thinking**: ability to understand the sector, including economic issues, industry dynamics and key issues that will affect the future development of the sector and association.
- **Sector knowledge**: having a good basic knowledge of the sector, its services, products and regulatory environment.
- **Technical knowledge**: having particular industry-specific technical skills or professional skills.
- **Commercial awareness**: ability to identify and develop appropriate products and services which members (and non-members) could purchase.

Public policy
- **Public policy**: an acute awareness of public policy, including how, where, when and by whom decisions are taken and how the process can be influenced.
- **Political awareness**: ability to understand government agenda and to link it to the association’s case.

Analysis
- **Analytical thinking**: ability to identify, access, absorb and interpret relevant information and pinpoint the high level key issues.
Management

- **People management:** ability to develop, motivate and manage the performance of others, including staff and committees, so that objectives are met and good team performance is achieved.

- **Self management:** individuals’ ability to manage and motivate themselves to achieve objectives.

- **Planning:** ability to develop and communicate a clear strategy, with goals for the short, medium and long-term.

- **Financial awareness:** ability to manage budgets and to assess the financial implications of any decisions.
Appendix 3

Selecting an association management company

An association management company (AMC) provides a specialist service to trade associations by undertaking the management functions that are normally done by paid staff or, in the case of some smaller associations, volunteers. There are only a few AMCs in the UK. In the USA there are a large number, some of which are huge organisations.

This note gives guidance to trade associations on why they should consider using an AMC, the circumstances in which an AMC is most appropriate, details of AMCs in Britain, and advice on how to go about selecting an AMC.

Why use an AMC?
Small trade associations need to be run efficiently. In the past this often meant a very small secretariat, based in an equally small office, working mainly with paper-based systems. Today, running a small trade association must mean making maximum use of new technology with information being disseminated to members and others via a website and most communications being by e-mail. Members also expect a high quality service in respect of all activities. Poorly organised meetings and poor quality publications are no longer acceptable. It is increasingly difficult for small trade associations to provide effectively the sort of service that is required, particularly where the chief executive is not comfortable with modern technology. Also, administrative costs can be high where an association has premises and equipment even if they are used for only a modest amount of time.

An AMC helps trade associations overcome these difficulties. By providing the same service to a number of different associations, an AMC can offer the benefits of economies of scale and also wider expertise than an individual association could command. For example, an AMC running ten associations can afford to have specialists in production of newsletters, website management and event organising, whereas an association with just one member of staff cannot expect to have all of this expertise.

Using an AMC also has one of the advantages of outsourcing generally. If an association finds that an AMC is not performing according to the terms of the contract then the contract can be terminated. Even if the AMC is delivering but the association decides that it wants a different approach then there will be provision for the association to give notice if it wishes to terminate the arrangements. By contrast, where an association employs someone as a director or secretary then that contract is governed by employment law and if the appointment turns out to be unsatisfactory it can be difficult and expensive to undo it.

Finally, using an AMC can offer an association stability in respect of its management and also contact details such as an address, telephone number, e-mail address and fax number. Many very small associations are run by individuals from their homes and this means that when the management changes all of the contact details also need to change.

There is a price to be paid for the benefits of using an AMC. Generally, they will be more expensive than the option of running an association in the traditional way through one or more employees. Fees for administrative work start at around £150 a day and executive
work is costed at over £300 a day. The basic fee for providing a full service to a small association is likely to be in excess of £5,000 a year.

Whether the benefits outweigh the costs is a matter of judgement. Also, like any other outsourcing decision, it is one that must be taken on the basis of a careful study of all of the relevant factors. This selection process for an AMC must be thorough and the relationship must be energetically managed if the association is to get the full benefit.

**In what circumstances should the use of an AMC be considered?**

An association that is running very effectively with no immediate problems on the horizon would probably not even consider using an AMC, although it never does any harm to test alternative management arrangements. There are a number of circumstances in which an AMC should always be considered.

It might seem paradoxical that, when the general view is that there are too many trade associations, there is a continual need for new associations. The industrial landscape is continually changing, as is the regulatory landscape, and it is appropriate that new associations should be established while others are merging or going out of business. There are throughout the country many tentative discussions every year about the possibility of establishing new trade associations. Often the need is clearly there but companies have little idea as to how to go about the process, and even where this is understood they then struggle with how the association is to be managed. This is an obvious area where an AMC can help. Some AMCs may be able to assist in creating the association, although here the intellectual input is rather more important than the mechanical input. Certainly an AMC can help in the formalities of establishing an association and then in providing an ongoing management service. This is generally preferable to the association being seen to be run by one of the member companies. This can often be an effective approach for the first few years of a new association, after which time it might be appropriate for the association to take management, or at least part of it, in-house.

The second and more common circumstance in which an AMC should be considered is when the director of a small association is retiring. It is at this time that the association realises that it will be difficult to replace the director with someone equally effective for the same sort of cost. At the very least, at such a time, there should be a preliminary consideration of whether the AMC option should be considered.

A third circumstance in which an AMC should be considered is when there is a major change in the nature of the business of the trade association. This could be, for example, the need to vacate an existing office, when new activities are taken on, such as organising training or an annual exhibition, or when the association is seeking to expand its membership.

Finally, many small associations are not efficiently run and this can be tolerated for only a limited amount of time. The inefficiency may stem from the person running the association or it could stem from the market position that is simply not viable. Again, in these circumstances, it is appropriate to consider the AMC option.
Association management companies in the United Kingdom
There are a number of companies which provide some association management services and there are some accountants and lawyers who manage particular associations although they would probably not claim to be association management companies.

There are four companies that any association considering the use of an AMC should have on their shortlist. These are the four British members of the International Association of Association Management Companies (IAAMC), an organisation which, despite its name, is predominantly American. Set out below are basic details of the four AMCs taken from their entries on the IAAMC website.

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<td><a href="http://www.associationgateway.co.uk">www.associationgateway.co.uk</a></td>
<td><a href="http://www.thesecretariat.co.uk">www.thesecretariat.co.uk</a></td>
<td><a href="http://www.kingstonsmith.co.uk/ksam">www.kingstonsmith.co.uk/ksam</a></td>
<td></td>
</tr>
</tbody>
</table>

The information on clients and employees should be treated with some caution. For example, it is possible that an AMC will manage four associations which are in fact closely related and which could easily be counted as a single association. Some of the companies concentrate more on professional bodies rather than trade associations, some have staff who also perform other functions, for example event management, which may have nothing to do with their trade association clients, and some provide services for trade associations other than their “full service” clients. However, the information is sufficient to indicate the broad size of the companies and that they are all relatively small businesses. Kingston Smith is part of a large accountancy firm; the other three companies are independent.

The services an AMC can provide
AMCs can provide a range of services from full management of a large association down to the provision of virtual office facilities. Many of the services can be provided by other companies, for example public affairs companies, lawyers, accountants and business centres. What is special about AMCs is that they offer all, or almost all, of the services and can provide them generally in an integrated way in any combination that the client wants.
Set out below is a very broad list of services which an AMC can provide, indicating also some other services providers in the respective area.

<table>
<thead>
<tr>
<th>Service</th>
<th>Other providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone/fax/address</td>
<td>Virtual office</td>
</tr>
<tr>
<td>Website</td>
<td>Specialist companies</td>
</tr>
<tr>
<td>Meeting rooms</td>
<td>Hotels/business centres</td>
</tr>
<tr>
<td>Events</td>
<td>Events organisers</td>
</tr>
<tr>
<td>Newsletters etc</td>
<td>Publishers</td>
</tr>
<tr>
<td>Financial administration</td>
<td>Accountants</td>
</tr>
<tr>
<td>Company secretariat</td>
<td>Solicitors</td>
</tr>
<tr>
<td>Committee support</td>
<td>Company secretary services</td>
</tr>
<tr>
<td>Association administration</td>
<td></td>
</tr>
<tr>
<td>Representation and press work</td>
<td>Public affairs companies</td>
</tr>
<tr>
<td>Change management</td>
<td>Consultants</td>
</tr>
<tr>
<td>Training</td>
<td>Training companies</td>
</tr>
<tr>
<td>Strategy</td>
<td>Consultants</td>
</tr>
<tr>
<td>Leadership</td>
<td>Individuals</td>
</tr>
<tr>
<td>Database management</td>
<td>Specialist companies</td>
</tr>
<tr>
<td>Elections</td>
<td>Auditors</td>
</tr>
</tbody>
</table>

Selecting an AMC

There are nine stages that should be gone through in selecting an AMC, and the exercise must be carried out thoroughly if it is to be effective.

1. **Establish the need for an AMC**
   Sometimes this task is not undertaken properly or at all with the result that the subsequent process is unsatisfactory. Before an association can contemplate using an AMC it needs to be clear as to its current position and its prospects for the future, taking into account the wishes of the members. At the very least, an association contemplating the appointment of an AMC should undertake a full review of its market position and its strategy. If necessary, it should engage some outside help in doing this. At a later stage (point 5) the association will, in any event, need to assemble a large amount of information to give to prospective AMCs and it makes sense for this to be done at the outset so that the association is clear why it is seeking to employ an AMC and what it expects to get from the relationship.

2. **Decide the services required**
   The association needs to decide which services it requires from an AMC using the list in the previous section. Some of this will be fairly straightforward but there may be some areas where the association is not certain. There is no reason why an association needs to be definite about everything at this stage. It does need to be certain as to whether it wishes an AMC to provide basic administrative services and contact details but some services, such as training, can be regarded as optional, which the AMC can provide if it can meet the required standard but which otherwise the association might organise in other ways.
The key point at this stage is for the association to decide what role any executives and volunteers will play in the management of the association. One option is to employ a director who can concentrate on, for example, representative work and member relations, leaving the AMC to handle everything else. In this case the director would need to be in the driving seat and the relationship with the AMC would be with the director rather than with the board. Where an association intends to employ no staff then it needs to decide who is to provide the intellectual leadership of the association and who is to be responsible for matters such as strategy and policy development. Not all AMCs are capable of providing these services from their own resources, but equally not all small trade associations can be certain that they will be able to provide them either. An association needs to establish who is to be the chairman and what the responsibilities of the chairman will be for at least the first few years of the relationship with an AMC. This is not an issue that can be fudged.

3. **Agree a process**
The association must agree a process for appointing an AMC and must stick to that process. A sub-committee should be appointed with power to make a decision and a firm timetable established which should be adhered to. This should all be properly documented.

4. **Select potential companies**
The four companies listed earlier in this paper should probably be on a long short list for any association contemplating using an AMC. The governing body of the association may be aware of other potential AMCs and, depending on the services required, it might be that a local firm of solicitors or accountants or a local business centre might also be invited to submit proposals. The association should usefully check the websites of these companies to make sure that they can provide the services required. If the website is not up to standard, for example if it is hopelessly out-of-date, then that would be a good reason for discarding the company from the short list. If an AMC cannot run an up-to-date, good quality website for itself, it will be unable to do so for any association it is managing.

5. **Prepare a brief**
This stage should draw on the work undertaken in stage 1. A brief needs to be prepared setting out as precisely as possible the services that the association is seeking from an AMC, distinguishing between those that will certainly be required and those that may be required depending on the proposal. The brief must be accompanied by comprehensive information about the association that will enable the AMC to fully understand the association and its requirements. Among the basic information that must be provided is –
   - The constitution.
   - The last two or three annual reports and accounts.
   - Any literature produced by the association.
   - Details of the membership of the association.
   - Details of any office premises occupied by the association and assets that it owns.
   - Details of any employment contracts.
   - Details of meetings held during the year which the AMC will be expected to organise.
The brief should include a specially prepared note on the current health of the association, its market position, its planned strategy and any major issues which it will need to address in the coming years. This note should be the outcome of the first stage of the process.

6. **Invite proposals**
The brief and accompanying documentation should be sent to the long short list of companies who should be invited to submit their proposals within a specified period (at least two weeks and no longer than four weeks). The brief should ask that the proposals include the following information –
- Details of the ownership and management of the company.
- Relevant experience, in particular in respect of the type of association and the activities for which services are required.
- Any potential conflicts with other clients.
- References.
- Examples of work, for example literature produced for other associations and websites.
- The basis of charging, in particular how expenses are to be accounted for and whether fees are fixed or at an hourly rate.
- Details of the staff who will be handling the account.
- Arrangements for reviewing the contract.
- Additional services that could be provided by the AMC if required.
- Service levels, for example in respect of responding to correspondence, telephone calls and e-mails.

7. **Prepare a short list**
Based on the proposals received a short short list should be drawn up. Ideally this would have three or four companies but given the small number of companies in the sector quite possibly the short list will comprise just two companies.

8. **Evaluate the short list**
The selected companies should then be asked to make a presentation to the selection committee. The selection committee should also visit the premises of the AMCs. It may well make sense to combine the presentation with the visit.

9. **Agree the contract**
Immediately following the final presentation an immediate decision should be taken and a contract signed. AMCs should not be kept waiting once the presentations have been made. It is in this matter, as in others, courteous to inform the unsuccessful companies why they have not been selected.

Once the appointment has been made regular review meetings should be scheduled at which the entire relationship is considered.

**Further information**
The websites of the AMCs set out earlier in this paper may give some useful additional information.

The most useful international sources of information are the website of the International Association of Association Management Companies (www.iaamc.org) and the AMC section of the website of the American Society of Association Executives (www.asaenet.org/amconline).
Chapter 7

Finance

The key policy decisions an association has to take on finances are the subscription scale and the level of reserves it wishes to hold. Associations are fairly simply organisations in financial terms and monitoring is straightforward. VAT is complex.

Finance is critical to the health of any organisation. A trade association must ensure that it runs its business in such a way that it is financially sound in the long-term. Its business strategy must give careful consideration to subscription levels, the value of membership and opportunities for raising revenue from commercial sources. These points are considered in detail in Chapter 15. This chapter is concerned with the more practical aspects of the finances of trade associations.

An overview of trade association finances
Trade associations are simple organisations. They derive most of their income from subscriptions from members but also earn some income from commercial activity, generally on the back of their mainstream work and therefore not in competition with other organisations. Their expenditure is predominantly on staff, premises, running an office and, in some associations, professional fees. Associations seldom suffer cash flow problems. Their normal practice is to raise their subscriptions at the beginning of the year or, alternatively, throughout the year by means of direct debits, and for expenditure to be relatively stable throughout the year. Monitoring can be fairly light, consisting of ensuring that the budget of subscription income is achieved and that expenditure is broadly in line with budget.

The subscription scale
Setting the association’s subscription scale is one of the most important decisions that the board of the association will usually take. This is the association’s key pricing decision. Subscription income has to be sufficient to cover the costs of running the association but also it must attract and retain members.

Each member of a trade association obtains broadly the same service. However, the members are of very different sizes and the value of the services are therefore different to them. Also, the services are generally provided in a single package, but many will be irrelevant to some if not most of the members of the association. There is constant pressure on associations to adopt a “menu” approach to services. While this can be done in respect of publications and seminars, it cannot be done at all for representative work and is also difficult to do for the provision of information. The fact is that the core representational work of trade associations can be financed only by subscription income unless an association is in the fortunate position of having an entrenched position in respect of running an exhibition or a market place that earns it substantial profits.

The two extreme types of subscription scale are proportionate, that is a member pays in proportion to the amount of business they do, and fixed, that is each member pays the same subscription. The fixed subscription is most appropriate only where the companies are of a broadly similar size and representational work is not the major service provided. The proportionate subscription is unacceptable to large members who point out that they
are obtaining roughly the same service as smaller members and that there is no reason why they should subsidise them. Subscription scales generally incorporate a number of balancing principles – minima, maxima, variable rates or tapers.

Most associations establish a minimum subscription. This may equate to the perceived cost of servicing one member but it also needs to be set taking into account policy on attracting small companies into membership. The 2001 benchmarking report showed that, in addition to a minimum, 28% of all associations operated a proportional scale, 59% had a tapering scale, 7% had equal shares and 5% had other types of subscription.

Table 7.1 shows the minimum subscriptions by size of association.

### Table 7.1 Trade associations, minimum subscriptions, 2001

<table>
<thead>
<tr>
<th>Annual subscription income</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £200,000</td>
<td>134</td>
<td>318</td>
<td>509</td>
</tr>
<tr>
<td>£200,000-£1 million</td>
<td>295</td>
<td>450</td>
<td>750</td>
</tr>
<tr>
<td>Over £1 million</td>
<td>237</td>
<td>600</td>
<td>979</td>
</tr>
<tr>
<td>All</td>
<td>247</td>
<td>418</td>
<td>753</td>
</tr>
</tbody>
</table>


It will be seen that the median minimum subscription was a little over £400 and the lower quartile was around £250. It is worth noting that the minimum subscription was just £10 and even for big associations it was £25. The highest minimum subscription was £2,600 for small associations and £45,000 for large associations.

Information on the highest subscription paid is less meaningful because this depends on the nature of the industry. A merger between two very large companies could, for example, easily increase the highest subscription paid by 50%. Table 7.2 shows the highest subscription paid by size of association.

### Table 7.2 Highest subscription in current year, 2001

<table>
<thead>
<tr>
<th>Annual subscription income</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £200,000</td>
<td>800</td>
<td>1,600</td>
<td>10,725</td>
<td>30,000</td>
</tr>
<tr>
<td>£200,000-£1 million</td>
<td>2,331</td>
<td>7,950</td>
<td>24,222</td>
<td>260,000</td>
</tr>
<tr>
<td>Over £1 million</td>
<td>33,000</td>
<td>100,320</td>
<td>325,000</td>
<td>1,738,866</td>
</tr>
<tr>
<td>All</td>
<td>1,806</td>
<td>11,750</td>
<td>60,600</td>
<td>1,738,866</td>
</tr>
</tbody>
</table>


The table shows that the median was £11,750 but there was a huge range with the lower quartile being £1,806 and the upper quartile being £60,600.

The most common subscription base is turnover, used by 58% of associations in the 2001 benchmarking report. Numbers of staff was the second most common variable, used by 10%.
Process for establishing a subscription scale

There are two circumstances in which an association needs to establish a subscription scale. The first is when it is being founded. The second is when the existing subscription scale becomes unsustainable. There are, in turn, a number of reasons why a scale may become unsustainable –

- The association needs to increase its revenue and this cannot be achieved by simply increasing subscriptions within the existing scale.
- The nature of the industry has changed such that the previous scale no longer adequately reflects the volume of business done by the members.
- Mergers occur such that the effect of a taper or a ceiling has a significant effect on total subscription income.
- There are significant complaints from members about the nature of the scale.

Many trade associations have subscription scales that are probably less than ideal but generally it is not sensible to seek to change them unless the scale is wholly unsustainable. This is because any change in the basis of subscriptions will inevitably generate winners and losers and may lead some members to question the value for money they obtain from the association. In short, any review of the subscription scale is likely to raise issues that go well beyond the scale itself.

In establishing or revising a subscription scale best practice is to adopt a slow step-by-step approach, obtaining the buy-in from members at each stage of the process. For example, it is sensible to get the basis of the subscription established before looking in too much detail at figures. If the actual figures are seen to result from a generally accepted methodology then they are more likely to be accepted than if it is thought that they are plucked out of thin air.

The first stage in the process is to establish the need for change. This may be self-evident, for example because the existing subscription scale is leading to a reduction in subscription income because of a change in the nature of the industry. There has to be a general understanding in the membership of the need for a change in the subscription scale. It may be advisable to establish a broadly-based committee of members to handle reviewing a subscription scale so as to help achieve the necessary buy-in. Involving those most likely to be affected by any change is particularly important.

The first stage in the review process itself should be to examine comparable data for other trade associations. Data from the 2001 benchmarking report should be the starting point. It is appropriate for an association then to look at the subscription scales of comparable associations including those where there is common membership. This will help put the association’s own scale in context and will provide some justification for the need for change and for the basis of any change.

Before examining figures, it is important to settle a logical base for the subscription levy. In most businesses, turnover is an appropriate variable but in some it is inappropriate because it discriminates against those that buy-in most of their output. Using value added as a base may be theoretically sound but it likely to unworkable in practice. A good proxy is either the number of staff employed or the total wage bill. Physical variables, such as volume of new business, or balance sheet based variables, may be appropriate in some
associations. An association has to decide the most appropriate variable for it but should do so by looking at what comparable associations use.

An association also has to decide whether there should be a fixed part to the subscription or rather whether the whole of it should be based on the variable chosen, with a minimum.

A key decision is the minimum subscription. This should take into account the cost of servicing an individual member, which is likely to be small, particularly given the increasing use of electronic means of communication. The decision then has to take account of the wish of the association to attract and maintain small companies in membership. There may also be pressure from larger members, including those just above the minimum size, for a fairly high minimum as a very low minimum might be seen to be giving an unfair competitive advantage to very small members.

Setting the nature of the taper and/or a maximum subscription is likely to be the most contentious task. Probably only a small number of members would be affected by a maximum but a large number would be affected by the nature of a taper. The larger members will be affected most and will naturally want a say in any discussions. This is an area where judgement is needed and careful handling essential. One objective test is that the larger members benefit most from the representational service and thus the more important this is, the more the justification for a fairly shallow taper. Where representational services are minimal then the case for a sharper taper is stronger.

Having decided broadly on the nature of a taper, an association then has to decide whether the taper should be applied on the basis of a mathematical formula, such that there are no discontinuities, or whether there should be broad bands. The latter has the advantage of simplicity and comprehension by the members but in setting the bands it is important to ensure that the discontinuities are not too great and also that there are not particular boundaries which could cause problems in the event of, for example, a merger. The larger the number of bands the less are the problems caused by discontinuities.

The problem of discontinuities can be minimised by adopting a formula of a fixed subscription up to certain volume of turnover plus a percentage of turnover for the next band, plus a smaller percentage for the next band and so on.

Alternative taper arrangements are shown in the table opposite.

The differences between the banding and smoothed banding scales can be significant, particularly at the point where the subscription changes. At the lower end of the scale it is not unusual to find that the subscription in one band is twice that in another.

Having had a first go at establishing a new subscription scale it is then important to look at the winners and losers. This might result in modifications being made, in particular to minimise the impact on the losers, and there may also be a case for phasing in new arrangements, for example by limiting the increase faced by any member to a set percentage or phasing migration to the new scale over, say, three years.

It is vitally important that an association fully understands the effect of changing the subscription scale on its members, particularly those that are most important to its success, in practice the larger members.
### Table 7.3 Alternative taper arrangements

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Contribution Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>No taper</td>
<td>Turnover up to £1 million</td>
<td>0.1% of turnover (up to £1,000)</td>
</tr>
<tr>
<td></td>
<td>Turnover £1 - £5 million</td>
<td>0.1% of turnover (£1,000 - £5,000)</td>
</tr>
<tr>
<td></td>
<td>Turnover £5 - £10 million</td>
<td>0.1% of turnover (£5,000 - £10,000)</td>
</tr>
<tr>
<td></td>
<td>Turnover £10 - £20 million</td>
<td>0.1% of turnover (£10,000 - £20,000)</td>
</tr>
<tr>
<td></td>
<td>Turnover £20 - £50 million</td>
<td>0.1% of turnover (£20,000 - £50,000)</td>
</tr>
<tr>
<td></td>
<td>Turnover over £50 million</td>
<td>0.1% of turnover (over £50,000)</td>
</tr>
<tr>
<td>Banding</td>
<td>Turnover up to £1 million</td>
<td>£1,000</td>
</tr>
<tr>
<td></td>
<td>Turnover £1-£5 million</td>
<td>£2,000</td>
</tr>
<tr>
<td></td>
<td>Turnover £5-£10 million</td>
<td>£4,000</td>
</tr>
<tr>
<td></td>
<td>Turnover £10-£20 million</td>
<td>£6,000</td>
</tr>
<tr>
<td></td>
<td>Turnover £20-£50 million</td>
<td>£10,000</td>
</tr>
<tr>
<td></td>
<td>Turnover over £50 million</td>
<td>£15,000</td>
</tr>
<tr>
<td>Smoothed</td>
<td>Turnover up to £1 million</td>
<td>£1,000</td>
</tr>
<tr>
<td></td>
<td>Turnover £1-£5 million</td>
<td>£1,000 + 0.025% of turnover above £1m</td>
</tr>
<tr>
<td></td>
<td>Turnover £5-£10 million</td>
<td>£2,000 + 0.04% of turnover above £5m</td>
</tr>
<tr>
<td></td>
<td>Turnover £10-£20 million</td>
<td>£4,000 + 0.02% of turnover above £10m</td>
</tr>
<tr>
<td></td>
<td>Turnover £20-£50 million</td>
<td>£6,000 + 0.013% of turnover above £20m</td>
</tr>
<tr>
<td></td>
<td>Turnover over £50 million</td>
<td>£10,000 + 0.01% of turnover above £50m</td>
</tr>
</tbody>
</table>

### Use of special levies

There is always pressure on associations to keep their subscriptions down. Some associations deal with this by funding particular exercises through special levies on the members most affected. These levies are typically of a fixed amount and, in any event, are most likely to be much less tapered than the overall subscription scale. The use of levies is most appropriate where a tangible service is being provided, where it is possible in effect to provide it commercially. However, many associations use special levies as a means of avoiding an overall increase in the subscription scale. This can work provided the tactic is used with moderation. If it is used extensively then members begin to complain and in looking at the association add up the various special levies as well as the basic subscription. There will be complaints that members are being asked to pay twice for the same service and particularly strong complaints from smaller members for whom special levies impact particularly harshly. An association is likely to find itself under pressure in preparing the annual budget to record all special levies and not to handle these as one-off events throughout the year.

### Entry fees

An association has to decide its policy on entry fees charged to new members. On the one hand, there is every justification for charging new members for the value they will obtain from the past work of the association which has been funded by existing members. On the other hand, most associations are keen to attract new members and a significant entry fee may well be a deterrent.
Ultimately, a market decision has to be taken. Where there is demonstrably significant value in past work and where this can be given to new members in the form of a package of documents and specific briefings then it is easier to charge an entry fee, particularly if the demand for membership is strong. By contrast, if there is relatively little value in past work, with most of the value coming from current work, and the association is keen to attract new members then there is little merit in charging an entry fee. Perhaps the most common practice of associations is actually not only not to charge an entry fee but in effect to give a discount on new membership by permitting a company to join during the year without paying the full subscription for that year or perhaps even not paying any subscription at all. This is an area where chief executives are either allowed to use their discretion or in some cases choose to exercise discretion even if they are not strictly entitled to do so.

**Managing subscription calls and payments**

Until recently it was not uncommon for trade associations to treat levying subscriptions as an administrative exercise, that is invoices were issued and members paid. A more sophisticated approach is now appropriate.

Chapter 15 deals with the planning process and suggests that the ideal scenario is one in which there is annual plan and budget with the subscription call following on from this process. However, this cannot be an entirely mechanical process. The point has already been made that the subscription scale is the price which the association is charging for its services and that price must not be set so high as to lead to an overall reduction of income because members decide not to renew. Having said that, the members are likely to be sympathetic to an increase in subscriptions provided it is properly justified. The reasons for the increase need to be explained to the membership well in advance of the setting of the annual budget and fully justified in the letter asking for the subscription. In some cases it may be appropriate for the chief executive to talk individually with any members specifically affected or, for example, to arrange to speak to groups of members.

It is advisable for associations to smooth significant changes in subscriptions if this is possible. It makes no sense to try to operate a trade association on an annual basis without taking account of longer term trends. This might require, for example, a significant increase in subscription income in one year followed by a reduction in another. It is far more sensible to smooth such changes.

Associations normally issue a single request for the annual subscription payment and usual practice is for payments to be made once a year by cheque. From a cash flow point of view, the sooner the subscription call is made the better and the more rapidly members pay the better. This is something that requires proper management, including issuing appropriate reminders and chasing up as necessary.

Particularly where there is a large number of members, some associations raise their subscriptions through direct debiting with payments being made annually, quarterly or monthly. Direct debits have the advantage of not requiring positive action on the part of a member and inertia can play its part in helping to retain membership. However, the nature of a trade association is such that many members will not find a direct debit to be an appropriate method of payment.

As in other areas, this is a matter where an association has to exercise judgement. Its objective must be to maximise subscription income given the subscription scale and for the
money to be raised as early as possible, but in so doing it must take care not to threaten subscription income in the longer term by antagonising members.

Reserves
Every ongoing organisation needs a margin of reserves. For trade associations, and many other organisations, there is much scope to debate the appropriate level of reserves and the reasons for holding them.

There are three benefits to associations from holding reserves –

- To cover variations in cash flow and to meet unanticipated shortfalls in income or increases in expenditure. An association must not be in the position of having to go cap in hand to members or increasing subscriptions to meet a fairly modest one-off problem. Reserves can also usefully be used to smooth increases in subscriptions.
- To provide the association with a measure of independence from its members. This might sound contradictory given that associations are membership organisations. However, an association should never be on a tight leash such that every decision is against the background of a precarious financial position and the threat that the organisation might cease to exist. A healthy level of reserves will facilitate a long-term view and generally will help to show the association as an important organisation in its own right.
- To provide income. Associations earn income from their reserves, which means that subscription income is lower than it would otherwise be.

In deciding policy on reserves the particular circumstances of the association need to be taken into account. The following factors are relevant –

- The property position of the association. Associations either rent or own their premises. If they own their premises they will have a value in their published balance sheet. However, that value may be far removed from the real value. Where an association has a lease it is unlikely that there will be any balance sheet entry. However a long lease can easily have a significant (positive or negative) real value. It is important that an association understands the market value of its property or lease and the difference between this and the book value. If the market value significantly exceeds the book value then in practice this should count as reserves. If the association is paying a rent substantially above a market level then other things being equal a higher level of reserves is needed.
- The pension fund position of the association. The issues are very similar to those for property.
- Expected changes in income or expenditure. If an association knows that it is facing a significant increase in expenditure, for example as a result of a rent review or relocation costs, then a high level of reserves may either be able to absorb the cost or to cushion the necessary increase in subscription income.
- The volatility of trading income. Some associations have a heavy reliance on trading income, in particular where they run major annual exhibitions. Trading income is more volatile than subscription income so it makes sense for such associations to seek to have higher reserves.
- The stability of subscription income. Some associations have volatile subscription income because there is a high turnover of members or because the sector they are covering is itself volatile. Other associations have subscription income that is vulnerable to mergers of members. The less predictable the subscription income the greater the need for reserves.
The appetite of members. While an association may have an objective in respect of reserves, taking into account the factors above, it also has to be realistic about what can be achieved. While reserves give a benefit to associations they also are a cost to members, who would otherwise have the money. There is no point in an association keeping subscriptions at a high level in order to maintain reserves if this causes members to resign thereby reducing subscription income. As for settling the subscription scale, this is an area where judgement is needed. There is also a softer point. The membership may simply feel that it is inappropriate for an association to hold reserves.

In settling policy on reserves an association should drawn on the experience of other associations. The 2001 benchmarking report showed the following –

- 80% of associations had a policy on profits; 68% aimed to break even and 32% to make a surplus with a median target surplus of 5%.
- 76% of associations had a policy on reserves, including a larger proportion of smaller associations. This is to be expected as smaller associations generally have more volatile income and expenditure.
- 41% of associations aimed to maintain the value of reserves in real terms and 21% aimed to maintain reserves as a proportion of annual expenditure. 27% had other targets such as raising reserves to a particular level or even to reduce them.

The following table shows the range of reserves

**Table 7.4 Trade association reserves, months of normal expenditure, 2001**

<table>
<thead>
<tr>
<th>Annual subscription income</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £200,000</td>
<td>6</td>
<td>12</td>
<td>25</td>
</tr>
<tr>
<td>£200,000-£1 million</td>
<td>2</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Over £1 million</td>
<td>3</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>All</td>
<td>3</td>
<td>7</td>
<td>11</td>
</tr>
</tbody>
</table>


It will be seen that the median was reserves equal to seven months normal expenditure but with smaller associations holding significantly higher reserves.

**Value added tax**

Value added tax (VAT) represents a complication for trade associations and other membership organisations. VAT affects associations in different ways depending, for example, on whether their members are liable to VAT.

Customs and Excise issued a Notice (701-5) in March 2002 which deals specifically with clubs and associations. The fact that the Notice runs to well over 20 pages is an indication of the complexities.

The key points for a trade association are –

- Like other organisations, an association must register for VAT if its turnover from standard rated, reduced rated and zero rated supplies exceeds the current exemption limit (currently £56,000). VAT incurred on purchases of goods and services used for
business purposes can be reclaimed. Business activities include providing benefits to members in return for subscriptions, providing benefits to members in return for a separate charge and making supplies to non-members for a charge. Where VAT is incurred for non-business purposes then it cannot be recovered.

- Under an extra-statutory concession, non profit making bodies who charge their members a subscription that entitles them to a package of benefits may take advantage of an apportionment of the subscription between those elements liable to tax and those not liable. The most common need for apportionment arises from the supply of zero rated magazines or handbooks to members.
- Where subscriptions are voluntary payments or donations and secure nothing or only nominal benefits in return then it is a donation and outside the scope of VAT.
- The supplies by trade associations of facilities and advantages to their members are standard rated but some supplies in return for a subscription may qualify for exemption. The Notice has a paragraph specifically on trade associations on this point:

  “11.15 Representational trade associations.
  These are bodies whose primary purpose is to make representations to government on legislation or other public matters, which affect the business or professional interests of its members. A representational trade association must restrict its membership “wholly or mainly to individuals or corporate bodies whose business or professional interests are directly connected with the purposes of the association”.
  This means that representational trade associations must satisfy all the following criteria for exemption to apply:
  • the association’s primary purpose is “to make representations” – you can establish this by using the tests in paragraph 11.11 above [the primary purpose should be clear from the objects and objectives in the association’s memorandum and articles of association, the powers and actual activities of the association, what the association itself considers its primary purpose to be and what the members of the association consider its primary purpose to be];
  • representations “to the Government” are to the UK Government;
  • the representations must relate to legislation or public matters affecting the members’ “business or professional interests”;
  • and the members are “wholly or mainly individuals or corporate bodies whose business or professional interests are directly connected with the purposes of the association” - you should use the 75% criterion referred to in paragraph 11.8 above in applying the “wholly or mainly” criterion.” [Paragraph 11.8 says that any association with a membership comprising 75% or more of those individuals “who hold or are seeking a qualification appropriate to the profession concerned” as satisfying this criterion.]

This paragraph has caused some trade associations difficulty, in particular by defining representation as being to the UK government. At first sight, this seems to exclude representations to government agencies and also to European bodies. The 75% criterion is also not relevant to trade associations but rather is a matter for professional bodies.

This is one area where associations need specialist professional advice as the sums of money involved can be large.


**Monitoring**

Because trade association finances are simple, monitoring is straightforward. The management team should monitor the finances on a monthly basis. For the board, quarterly monitoring is sufficient although of course any significant departures from the budget should be reported immediately.

Some organisations provide voluminous tables both to the management team and the board. This can often be counterproductive in that the major points may be hard to find. A board will probably find it most helpful to have a table on one side of paper covering income and expenditure with columns for last year, the budget, year-to-date and estimated outturn. A separate sheet should highlight the major issues and explain any variations in the expected outturn figures.

Where an association has a major trading activity, such as an annual conference, particularly if accompanied by an exhibition, then this should be the subject of separate monitoring arrangements.

The key issue is that there should be “no surprises” for the management team, the chief executive or the board. Monitoring arrangements must be such that possible problems are identified at an early stage and duly reported. For example, in the case of an annual conference and exhibition there should be reporting of booking of exhibition space and conference places well in advance of the event and not simply reporting of an outturn after the event.

Some associations have a finance committee that is responsible for monitoring the finances. Where this is the case it may well reflect a breakdown in arrangements at some stage in the past. Generally, however, this is unnecessary given the relative simplicity of trade association finances. There is also a risk that a finance committee will become involved in management issues or that there will be a confusion of responsibilities between it and the board. Where an association has a large board and a smaller executive committee then responsibility for managing finances would normally rest with the latter.

**Bibliography and further information**

Chapter 8

Information technology

Trade associations are membership organisations that are in the business of accessing, using and disseminating information, and communicating with outside audiences. Information technology (IT) must be at the centre of their business.

This chapter begins with an analysis of why IT is important to trade associations and follows this with an analysis of associations’ IT requirements. Every association should go through the same process, and only then consider what software it should be using.

Why information technology is important for trade associations

The importance of information technology to a business depends on the nature of that business. For example, it is not critically important to a football club or a sandwich bar. However, the nature of trade associations means that it is critically important to them -

- They need a database of membership details and other contacts that must always be up-to-date.
- It some sectors they can be a gateway for new business.
- Most of their members are located some distance away from the head office of the association. National associations are likely to have members throughout the country. Regular communication with members is needed but direct face-to-face communication is not practical most of the time.
- They need to access a wide variety of information from many different sources.
- Their staff need to be able to share information.
- They need to communicate to the outside world.

The IT needs of an association

Membership information

Like any good business a trade association needs to have information about its customers. It needs to know which of its members have an interest in certain matters (for example production of a particular good or exporting), to be able to maintain information about contacts within members so as to be able to target them for or provide them with information, and to be able to assess and demonstrate the value of membership.

For each member an association should have the following information –

- Basic contact information – address, telephone number, e-mail address, website address etc.
- Details of the senior executives.
- The areas of business of the member relevant to the association.
- The involvement of the member – membership of the board and committees, attendance at events etc.
- Subscription details – the type of subscription, current subscription (and whether it has been paid), and subscriptions paid in previous years.
- Contact with the member by letters, e-mails and phone calls. This is valuable in demonstrating the benefits of membership. It can be helpful, for example, to show that a member has accessed a database of information so many times during the year and that it has made so many requests for information.
Any views the member has expressed about the association, for example in surveys or direct communications.

Notes of review meetings.

Ideally all staff should be able to access this information. However, there may be a case for limiting access to anything other than the basic factual information to senior staff. If all staff have access to all the information there must be clear rules about how it can be used. Someone working for a company who makes a number of requests for information may not be pleased to find this reported back to his chief executive.

Often such databases are up-to-date only at the point they are created. They must be properly maintained. Someone in the association must have responsibility for this. This function cannot simply be reactive – recording information provided by the member. It must be proactive, noting and checking reports in the trade press and directly checking the information with each member on a regular basis. There must also be a proper system for ensuring that the necessary information from the association itself, such as committee membership and details of contacts, is recorded.

It is good practice for an association to publish a list of members. Traditionally, this was in hard copy form, but the modern practice is for such a list to be available on the website only. What sort of information should be provided depends on the nature of the association and the sector it is covering. The minimum information should be the names of members with a link to the members’ websites where they exist. Some associations may wish to provide more information such as basic contact details and areas of business. A comprehensive listing of companies in a sector will contribute to making the website a valuable resource for members and also for those who deal with the sector. However, in deciding how much information to publish an association must be aware of whether such information might be useful to competitors. Anti-piracy software can help to deal with this problem.

A gateway for business

In some sectors the membership database can serve as a gateway for new business that can be one of the most valuable benefits of membership. Whether this can be done depends entirely on the nature of the sector. It is not appropriate for sandwich bars or banks or insurance companies. It is appropriate for specialist goods and services that are purchased infrequently. For example –

- The Public Relations Consultants Association offers a service called Preview that allows companies seeking a public relations consultant to enter their requirements and to be provided with a short list of names that they can then invite to tender.
- LAPADA, the Art and Antique Dealers Association, allows its database of members to be searched by postcode, town, county, period, name of business, artist and item.
- The Institute of Plumbing website can be used to search for a plumber by postcode.

Obtaining outside information

Representational work is the defining characteristic of many trade associations. One of the key raw materials for this work is information from other sources, in particular the governmental and regulatory bodies with which the association deals. Such information is now best accessed through the Internet. However, an association must know when documents are available that are relevant to it. This requires a proactive approach in
monitoring appropriate websites and going on mailing lists to receive warnings about additions to websites.

An association also needs to access information from other bodies, such as trade associations with similar interests, comparable trade associations in other countries and interest groups. Finally, representative work often requires detailed research, drawing on, for example, academic papers and reports from analysts and consultants. Again, proactive monitoring of relevant websites and joining mailing lists is necessary.

Such is the importance of the Internet for trade associations that a leased line or broadband access is essential. However, access is not sufficient. Staff have to be trained in how to use the Internet to best effect and arrangements must be in place to stop misuse, a problem that many organisations face. An association needs a “chief information officer” to ensure that the Internet is used to its best effect.

**Sharing information internally**

Chapter 6, on management, stressed the importance of teamwork. Effective teamwork requires efficient use of information technology. All staff working on policy documents must have access to all relevant papers from within and outside the association. Internal e-mail is a good way of circulating information. However, as in other organisations there is a serious danger of e-mail overload with papers being copied unnecessarily and much time being wasted in assessing whether they are relevant. This requires discipline.

Modern technology allows staff access to all relevant documents from anywhere. This facilitates home working and also increases the effectiveness of staff who are travelling.

All staff need access to information and documents which is now best provided electronically. This includes –

- The staff handbook.
- Forms, eg for holidays, stationery requests and expense claims, can be filled in and submitted electronically or printed off as necessary and completed.
- Templates can be provided for all types of documents. These should cover not only format but also to some extent content and can be used as a checklist. For example, the template for a policy response should require in the first few paragraphs the name and date of issue of the document; relevant information about the association and its interest in the subject, and standard headings such as executive summary, key points and detailed comments.
- Agendas and minutes of the board and key committees.
- Membership of the board and all committees, working groups and panels.

The information should not only be available electronically but should also be easily accessible. This requires that the information is filed in a logical way, kept up-to-date and accessible through a search engine. Staff must be properly trained. Again, these tasks must be the clear responsibility of the person designated as the chief information officer.

**Communication with members**

Before the advent of the Internet, communication with members was often a tricky problem for a trade association. Associations were often criticised by their members for sending out far too much information but at the same time not always providing the right
information at the right time. Effective use of the association’s website allows a new method of communication –

- A regular electronic newsletter with links to the website, in particular to additions to the site.
- All relevant documents being available on the website with an effective search facility.
- The maintenance of mailing lists for people interested in a particular subject.
- Discussion groups and bulletin boards on particular issues.

However, there is still room for a hard copy newsletter, both as a summary of what is available on the website and for those who are still not comfortable with electronic communication.

**Committee management**

Electronic communication facilitates committee management, although it is important for the method of communication to be considered by the committee. Use of e-mail can easily lead to sloppy communication with papers being sent out late and sometimes as a large number of attachments which may not be sensibly titled or numbered. This can lead to committee members struggling to find parts of documents. Because of formatting differences what one person may have at the bottom of P.3 another may have at the top of P.4 and a table or diagram may be split between two pages. Using PDF rather than Word format can help minimize this problem. Members also need hard copies of committee documents to bring to a meeting – and many people also much prefer to study a hard copy of anything longer than a page rather than read off a screen. Given that members will have to print out copies of papers individually it seems more sensible for this to be done centrally and for everyone to have identical copies. Having said this, it still makes sense for documents to be circulated electronically as well so members can file them for easy reference, and of course late papers are best circulated electronically.

A more sophisticated approach is for each committee is to have its own dedicated part of the website, accessible only to members of the committee. All papers, minutes, agendas and other relevant documents can be stored in a way that is easily accessible to members of the committee.

**Managing representational work**

Representational work ranges from relatively minor one-off exercises to major issues of vital importance to the association’s members that may run on for years. Larger issues should have a dedicated area of the website. This should have an overview paper with links to all relevant documents such as a government discussion document, responses of the association and other relevant documents, the government response to the consultation exercise, the government’s white paper, ministerial announcements etc. Drafts of any association submissions can be put on the site and members invited to comment. The government itself now manages some consultation exercises in this way, and it is logical for the association to do the same.

**Member services**

Most associations offer a range of services to their members ranging from publications and seminars, to training courses, consultancy work and access to specialist advice, for example on taxation, employment or legal matters. These should all be accessible through the association’s website, ideally with online ordering of publications and booking of events.
Many associations offer services from partners through their websites. If the service is of value then this is a clear member benefit. The association may also benefit financially by receiving a commission.

External communication
A trade association’s website is now the first port of call for outsiders. A potential new member of staff will carefully study the website (and will expect to be questioned on it), a potential member will study the site, and journalists and officials wanting to know who the association’s officers are or what its views are on a particular subject will use the site. A well designed site kept fully up-to-date will be immensely valuable to the association in getting its message across and will reduce the telephone, written and e-mail queries the association receives.

Finance and administration
The needs of an association are the same as those of other businesses of similar sizes. One important issue is the linkage between the system for managing accounts and the membership records.

The IT needs of an association in summary
It is helpful to summarise this section to illustrate the number and range of needs that have to be addressed by an association’s information technology arrangements –

- Recording information about members.
- Recording contact with members.
- Maintaining a publicly accessible directory of members.
- Where appropriate providing a portal through which members can attract new business.
- Obtaining information needed for policy work.
- Sharing information between staff.
- Communication with members.
- Committee management.
- Managing representational work.
- Providing member services.
- External relations.
- Finance and administration.

This is a massive list and illustrates that IT is at the centre of a trade association’s business. It follows that all relevant staff – in practice the vast majority of staff – have to be IT literate. The chief executive and the management team have to show leadership in this respect and there must be clear ownership of the IT function within the association.

A number of issues follow from the importance of IT. Trade associations traditionally were paper-based organisations, and may still generate huge amounts of paper. The paper culture is still often apparent and never leaves some staff, who, for example, continue to print out all e-mails and then treat them like letters or memoranda. An association has to decide how to integrate electronic and paper-based communication. An elaborate central filing system for paper and no arrangements for e-mails is unsatisfactory but not uncommon. Transferring all documents into electronic form is neither practical nor sensible. In practice, an association must have both paper and electronic records, and needs a policy on what is recorded in which media and the linkages between the two. This
is far from easy, particularly as electronic communication has grown so rapidly, and in most associations, and other organisations, was well established before anyone gave thought to filing arrangements.

There is always a danger that maintaining paper and electronic records will increase the workload because there will be duplication. Many organisations are poor at keeping their websites up-to-date, meaning in practice a reliance on paper communication. Association websites must always be up-to-date. Press releases, policy papers and other documents should be on the website at the same time as they are released in paper form. Again, this requires discipline. Those responsible for producing the documents have to ensure that they are available electronically, either by posting them on the website themselves or, more likely, sending a copy to the webmaster. This is an area where many associations are still deficient, although they are not alone in this respect. Similarly, information such as the directory of members, the list of officers and contact details must always be kept up-to-date. Unlike paper records, a once-a-year check is not sufficient.

Access controls
Access controls need to be considered as part of the overall strategy. The problem is not a technical one – software systems can easily be configured to provide any controls that are needed. Rather, there are management and logistical problems. Most associations have a two-tier website – for the public and for members. Most allow open access to the public part; some require a registration process that generates a password and log-in name. The advantage for the association is that it can then record who is accessing its website. The disadvantage is that people forget passwords and may be deterred from using the site. Giving members a password is far from easy where the members are large organisations with many staff who legitimately should be able to access the site. There is a danger that not all relevant staff will have (or remember) the password and that therefore they will not use as the site as often as they should and therefore the association is less valued by them.

It is reasonable to assume that passwords do not stay secret for too long. Staff may pass on a password to companies or journalists with which they deal in the expectation of a return favour on another matter. An association should assume that the private part of its site is not very secure.

Having multiple access levels works better for the staff of an association than for the members. However, multiple access levels is generally not appropriate for staff. Where a website has passwords for particular parts of the site, such as a specific committee, then the problem is ensuring that the right people have and remember the password.

These are not insuperable problems but they need to be addressed as part of the overall strategy and not left to an administrator to determine. The strategy on access has to be to enhance the effectiveness of the association by making it easy for relevant people to access documents that they are entitled to see; there is a risk that the systems that are put in place have the opposite effect.

Software systems for associations
It is taken for granted that an association will use Microsoft Office or another integrated package for spreadsheet, word processing and e-mail facilities. Because association staff frequently need to circulate papers outside the organisation, and similarly receive papers from outsiders, there is much to be said for using the industry standard products, in particular Word and Excel, and to a lesser extent Outlook and Powerpoint. Other software
which an association will use is likely to be compatible with these programmes, and has probably been designed with them in mind. Similarly, an association will normally use a standard accounting package.

The specific needs of an association are broadly covered by two products –

- A contact management system which provides the necessary information about members, committees, staff etc. This should be an important management tool. It should provide instant information about the relationship between an association and a member which can be used, for example, by an executive knowing he or she will be sitting next to a chairman or chief executive of a member at a dinner, and can be easily printed off before an executive visits a member. The database should provide essential management information, for example about the characteristics of members, the involvement of members in committees, the breakdown of subscription income etc. The system should also be capable of being used to generate e-mail addresses or address labels for groups of members. The system should be able to provide the information about each member for the directory of members on the website.

- A communication system comprising a website, intranet and extranet. The ideal arrangement is one in which there is a single site but three different broad levels of access – staff, members and open. Within these broad levels there can be subdivisions, for example the management team, board members, members of particular committees and outsiders who have subscribed for a particular service. The access to papers can be changed as their status changes.

At any one time most associations are likely to have two different products with different degrees of appropriateness – a good contact management system but a poor communication system or vice versa. Probably, the two products were developed differently by separate parts of the organisation – the administration department in respect of the contact management system and the external relations department in respect of the communications system. In some cases there is no link at all between the two products.

Whatever its current position every association, at fairly regularly intervals, needs to undertake a comprehensive review of its IT arrangements. The key decision then has to be taken as to whether to upgrade or install a new system for either contact management or communication and the extent to which the two systems should be linked. At the least there has to be some modest linkage even if it is done only manually. The ideal is for there to be either a single system or two systems effectively linked. This allows, for example, for a member to book places at a seminar on the extranet and for the information to be recorded in the contact management system, or for a member to access their complete records to obtain quickly an overview of the relationship it has with the association, or for the number of times a member accesses parts of the extranet to be recorded in the contact management system. Similarly, records can be kept about outsiders that may be helpful for future marketing.

Selecting a suitable provider for a website, intranet and extranet should be fairly straightforward as the requirements of trade associations are not greatly different from those of other organisations and the market is very competitive. However, many associations have found themselves in difficulty with their provider for one of a number of reasons –

- The provider suddenly goes out of business.
- The provider fails to provide the promised service.
- Uploading new information proves to be very expensive.
• The website cannot be linked to the contact management system.
• The association does not retain ownership of the intellectual property.
• Terminating the contract is difficult.

These problems are most likely to arise from poor planning and management at the outset, again problems not unique to trade associations. Such problems are particularly likely to arise when the website was originally not much more than an adjunct of the external relations department and subsequently proved incapable of keeping up with the requirements of the association. Ultimately, an association can terminate the contract of a website provider, perhaps at some cost, and commission a new site.

Associations, like many other organisations, have struggled much more with contact management systems. There are three reasons for this –
• Many associations do not have the expertise to commission and manage such projects.
• The trade association market is small and the requirements of associations differ. The market does not have the mass needed to support more than a few high quality competitive suppliers.
• Even when the systems are installed some associations do not do the necessary staff training and fail to impose the procedures necessary to ensure that they are used effectively.

Typically, such systems are module based, enabling an association to buy what modules it needs and add others at a later date if required. In addition to the core contact management module, modules can cover matters such as committee management, events, publications and campaign management.

Some contact management systems either include a website/intranet/extranet or provide effective integration. For example, if a member’s website is accessed through the directory of members then the information is automatically recorded on the contact management database.

**Management**

There is now no reason why even small trade associations cannot have effective websites/intranets/extranets and contact management systems, and many do so. However, the software on its own is of no use. It must be at the centre of the association’s business, firmly embedded in all working practices. It must largely replace paper records and communication and not merely duplicate them. Systems must be in place to ensure that everything is kept fully up-to-date, ideally automatically, but for some subjects manually.

The obstacle to this happening is generally the chief executive or senior management, who may consider having a computer to be beneath them or who are simply too set in their ways to embrace modern technology. Leadership is essential. The chief executive must be involved in, and in most cases should lead, the development of the IT strategy and must be fully committed to it. The chief executive and the management team must set an example and not, for example, insist that all e-mails are sent to their secretary who prints them out, or if they want to access the central database they have to ask someone to do it.

Every association needs a person designated as “chief information officer” who must “own” the IT systems and ensure that arrangements are in place so that everything is fully up-to-date and that staff have the necessary training.
Chapter 9

Representation in Britain

Representation is the principal function of many trade associations, particularly larger ones. Most representational work is based on a combination of trust, good intelligence and sound, evidence-based policy submissions. Political lobbying is necessary only in a small minority of cases.

This chapter begins by describing the policy-making process in Britain and then analyses the process by which associations exercise their representative function.

Policy framework

The way that representational work needs to be carried out depends on how policy is formulated; there are significant differences from country to country and differences within a country over time. In Britain, the overriding feature of the policy framework is that there is a strong executive. Most decisions are taken by the government or agencies of government. In recent years a large number of regulatory and executive agencies with substantial autonomy have been established. However, these are all arms of the government and representational work in respect of them is conducted in much the same way as it is with government departments.

Parliament has a limited role in the policy-making process. It is almost irrelevant as far as many trade associations are concerned, particularly those representing sectors whose activities are seldom the subject of specific legislation or of significant public interest.

It follows that representational work in Britain is largely with the executive, that is staff in regulatory agencies, civil servants and, on some key matters, ministers. Although much might be done in the name of ministers, they are involved only in a small minority of cases and issues in any meaningful way. Ministers become involved particularly where there is no logical answer to a problem or where the issue is politically sensitive.

Some trade associations and other interest groups act on the misguided belief that the higher one goes the better, and that ideally one should raise issues with ministers or, if that is not possible, with the permanent secretary of a department. In practice, any representations are promptly referred downwards to the relevant member of staff who is responsible. Nothing is achieved by this approach other than to delay consideration of a matter.

Parliament is involved when legislation is being enacted although, even then, MPs have little opportunity to make substantive changes to legislation. However, MPs also count themselves, with some legitimacy, as among the opinion formers. An MP is more likely to be able to get a government department at least to look at a matter than is an individual or a small business.

The general point is that representation in Britain has to take account of the policy framework in Britain and that means that the bulk of work should be at official level with seldom any need to elevate it to a more political level.
The policy framework is not static. The major trends in recent years have been –

- The establishment of national assemblies with significant autonomy in Scotland, Wales and Northern Ireland.
- The establishment of regional development agencies in England. Their activities have a significant effect on a number of associations, particularly those most concerned with economic development.
- The continuing transfer of power to the European Union.
- The growing globalisation of the economy. This makes it difficult for governments to operate independently of what other countries are doing. For example, the Internet cannot be regulated by a single government. It also has implications for the membership of trade associations; increasingly the membership of large associations comprises multinational companies many of which are not based in Britain.

Climate of opinion

Officials, regulators and politicians do not live in a vacuum and are not always able to take all decisions on logical grounds. A good example of this is the policy not to levy VAT on children’s clothing. There is no logical justification for this policy. If the intention is to benefit poor families the policy fails as rich families purchase more clothing than poor families, and the effect of the policy is therefore to redistribute income from the poor to the rich. The emotional point is that children’s clothing is deemed to be a necessity and so far this point has overcome any logical arguments. Even though officials and ministers are well aware that the practice has the opposite effect of that which is intended and causes significant administrative complexity and difficult borderline cases, they consider that the price that would be paid to deal with the issue is too great.

Policy-makers therefore are influenced by the prevailing climate of opinion but, of course, they also seek to influence that climate. In practice, in Britain, more than in most other countries, there is an incestuous relationship between the media and the government. They both need each other. The media like to be seen to be setting the agenda and because they are often more able to do so than politicians or even regulators, the latter groups may well use the media to raise an issue that properly is their responsibility.

While it is unwise to look entirely for logical or rational decisions in respect of public policy, on most issues this is indeed the case, and representational work can be handled accordingly. However, the climate of opinion means that some issues are higher up the political agenda than others or that tougher action will be taken on practices in one sector than on similar practices in another. Broadly speaking, the issues that are highest on the political agenda are those that most affect policy-makers or which are of interest to the middle and upper classes. If there is a policy proposal to reduce subsidies to the poor then this is generally portrayed as helping them to stand on their own two feet or taking strong action against the scroungers who make no contribution to society. By contrast, when subsidies are removed from the middle classes, this is portrayed as a vicious attack on people who have paid taxes throughout their lives and are entitled to see some benefit from them. The debate over the financing of higher education is a good example. Student grants are a far more controversial area than the financing of primary education. Similarly, the closure of a theatre is likely to attract much more opposition that politicians will succumb to than the closing of a drop-in centre for the homeless or a day care centre for handicapped people.
Certain sectors are also singled out for particular attention, again those used particularly by the middle and upper classes. Thus financial services receive more than their fair share of attention from both regulators and from government. The huge controversy surrounding the Equitable Life insurance company is a useful illustration of this. The policy holders with Equitable Life included MPs, members of the judiciary, journalists and members of many professional organisations. Had the members of Equitable Life been merchant seamen or farm labourers it is unlikely that there would have been such a fuss. The communications industry also gets more than its fair share of attention, with the media being particularly active in this debate.

There are also some major emotional issues which feature high on the agenda of policy-makers but which are probably regarded as irrelevant by the vast majority of the public. Foxhunting comes into this category as does the use of genetically modified food.

The general lesson is that the climate of opinion does influence policy-makers and does result in illogical decisions being taken on particular issues. Few trade associations are able to have a major effect on the climate of opinion but they should at least be aware of the impact which it has and, where they are able to intervene to seek to influence the climate, then they must do so.

**The policy-making process**

The policy-making process in Britain is fairly straightforward and predictable, largely because of the strength of the executive arm of government. Most issues are on the agenda because a decision has been taken that they should be by the government or by a regulatory body. They may, however, have been influenced by the climate of opinion or by specific campaigns. However, this applies to the smallish proportion of issues that are politically sensitive and that get undue publicity. Probably over 95% of the matters that trade associations deal with do not come into this category.

Trade associations themselves can seek to put items on the agenda but in doing so they always need to be conscious of the climate of opinion at the time and whether what they are proposing has a reasonable chance of being considered let alone being successfully implemented. Other groups also seek to put matters on the agenda. Interest groups, for example the Consumers’ Association on matters generally and single issue pressure groups, such as Friends of the Earth and Greenpeace, also seek action in respect of particular points and could well be successful as they are seen to be representative of legitimate interests in the community. However, it is worth noting here that the issues raised by these groups again tend to be the middle class issues rather than issues concerning the disadvantaged.

Once an issue has been earmarked to be discussed then this is generally handled in a fairly logical way. The government department or regulatory body will itself consider the issue. The really good trade association is involved at this stage by providing officials with whatever information they need and acting as a sounding board for ideas. However, some associations may not find themselves in this insider position, and there may be others who are able to exert that influence, such as people or organisations who have a particular relationship with ministers or even with organisations.

Once the government has analysed the issue and identified the possible options then ideally it goes through a formal consultation process. There are now official Cabinet Office guidelines on how the consultation process should be conducted. They are, for the
most part, common sense, requiring consultation documents to be well drafted, ideally summarising the issues for discussion in a few pages. They also require a reasonable period for responses to be made. From the trade association perspective, particularly important points are the requirement to take due account of the views expressed by representative bodies and to respond to the consultation responses. The guidelines are currently in the process of being revised. The guidelines are explained in more detail in the appendix.

A number of government departments and agencies have developed a habit of publishing responses to consultation exercises by referring to the number of respondents who had particular views, therefore the response of a trade association is apparently weighted exactly the same as an individual response by a tiny company in the sector. In practice, the impact on policy is more likely to reflect the relative weight of the organisations making responses but the impression given in consultation responses is not always helpful. This is a matter which associations should pursue with the department or agency concerned.

When the government or regulatory body has considered the responses, it will proceed to settle and implement policy. There may in fact be a number of separate consultation exercises culminating in the publication of a policy statement in the form of a white paper on major issues or simply an announcement on other issues. Depending on the issue, regulations may then be made, legislation put before Parliament or, in many cases, the policy simply implemented.

On major issues, it is seldom the case that all of the implementation occurs through a single document. The modern trend is for legislation to do little more than to give the appropriate agency a wide range of powers to make regulations on which again there may be further consultation.

Where a matter is to be the subject of legislation then a new set of procedures has to be gone through and issues addressed. There are always many more demands for legislation than there is parliamentary time to accommodate them. In practice, this means that policymakers try to devise solutions that do not involve primary legislation. Where legislation is necessary, policymakers know that it may not turn out as intended and always runs the risk of falling foul of the parliamentary timetable because, for example, an election is called or because the government may simply have greater priorities.

Once an issue does get to Parliament then MPs and peers can be lobbied. In practice, there is little chance of overturning government proposals in Parliament. However, they can be influenced at the margin, particularly at committee stage. Even when ministers have a large majority they do not like losing the argument, and on some issues may even be receptive to legitimate points made from any party during the committee stage. The House of Lords may well prove to be more independent but again only on a small number of issues that are politically sensitive.

The general procedures described above apply to the vast majority of issues that trade associations need to consider. There is however one major exception to this. Tax policy in Britain is handled in a different way from most other policies. Broadly speaking, most of the work is done in secret and fairly concrete proposals are published, generally in the Budget, with the major decisions having been taken without any consultation. To be fair, on an increasing number of issues there is now better consultation with the same general procedures being followed as for policy matters generally. It is still however the case that
the annual Budget contains many new points of which industry and commerce have previously had no warning. The resulting Finance Bill is naturally the subject of a great deal of representational work. Again, sensibly most of this will be done at official level with the Treasury, the Inland Revenue or Customs and Excise. However, this is an area where there is a better than usual debate in the committee stage in the House of Commons and it is well worth using MPs to put forward points that may previously have been rejected at official level.

**Positioning for effective representational work**

Handling representational work requires a long-term strategy and is not simply a matter of handling issues as they arise on an ad-hoc basis. The positioning work an association must do is essential if it is to deal with specific issues. Taking a business analogy, a company seeking to sell a good or a service to another company is fully aware that the potential client is concerned not only with the qualities of the particular product. It will want to know about the track record of the provider, how previous products provided by the provider have performed, the quality of service from the provider and also to some extent the strength of personal relationships. So it is with representational work.

The first essential for a trade association is to have a **good intelligence network**. It needs to know at a very early stage what issues are getting near the agenda of policy-makers and also which organisations and individuals are becoming more important in the policy-making process. This intelligence gathering has to be primarily the responsibility of the chief executive but other senior executives also have a role.

Good networking is essential in the intelligence gathering mechanism. Policy-makers are more likely to give verbal indications about how matters are developing than they are to commit something in writing. The good chief executive therefore is an excellent networker, making sure that he or she maintains regular informal contact with the key policy-makers and also with other people who have access to these policy-makers. Such people may include chief executives of other trade associations, journalists or academics.

Official sources of information must also be systematically monitored. It is not sufficient to wait to be asked for views. Relevant websites and official documents must all be studied. The maintenance of good contacts with a wide range of government departments and agencies will help this process.

The media should also be monitored although, in practice, newspaper and journal articles provide only a very small amount of the intelligence which an association needs. The test here for an association is that it should not be caught unawares by policy developments. It should be seeking to influence what items come to the top of the political agenda and, where it is certain that they will do so, to have already done preliminary work to ensure that it is well placed to handle them.

The Internet has both made intelligence gathering easier and more difficult. It is easier because much more information is available. It is more difficult because so much information is available that people may not have the time to sift through it all and to identify key issues. The best way to hide really important information is to bury it in a mass of other less important information. A key part of the intelligence work of a trade association should now be monitoring relevant websites. The association needs to know which websites to monitor. These will almost certainly include relevant government departments and agencies and also the European Commission. Government departments
are sometimes obliged to publish information that they would rather not and the usual tactic is simply to put it on the website without any announcement. Some really useful information for trade associations can be buried inside such documents. However, unless the association is constantly looking for such information it will not be able to benefit from it.

The intelligence gathering skills must be matched by a culture of knowledge sharing within the organisation. There is no point in many staff effectively networking if they keep intelligence to themselves rather than passing it on to their colleagues. This sharing of intelligence information should be one of the prime responsibilities of the senior management team of a trade association. Sharing will enhance the intelligence information which is sought and the use made of intelligence which is gathered. For example, if the chief executive of the trade association has a scheduled meeting with a senior executive in a regulatory agency, then it is important that other senior executives know about this. They may have heard on the grapevine something which it might be useful for the chief executive to test with his or her contact. If the chief executive is unaware of the issue then he or she may not raise it and the association will lose the opportunity of gathering intelligence.

The importance of reputation cannot be overstated. The effective trade association is one that is trusted as an interlocutor on behalf of its members. Policy-makers will see as a valuable partner in the policy-making process and have a high regard for an association that -

- Is representative of the interests of members (if members consistently say different things from the association then the reputation of the association is ruined).
- Has either a deep knowledge of the industry itself or access to such knowledge that can quickly be passed on to policy-makers.
- Makes submissions on policy matters that are soundly based and well backed up by evidence.
- Is willing to work with others with an interest to minimise areas of difference and maximise areas of common ground.

While they may not say so publicly, officials may have a general view of all of the trade associations with which they deal. The ideal situation is one in which an official regards any submission from a particular trade association as something that should be considered seriously. There will be some trade associations whose submissions are regarded as worthless almost before they are read, simply because of the reputation of the association.

For the most part, the reputation of a trade association depends on what it actually does and does not itself require any promotion. However, networking can certainly help to spread the reputation of a trade association more widely and can also strengthen that reputation. If the chief executive and other senior executives of an association are effective networkers then continually they will be enhancing the reputation of their association.

Handling specific issues
Having done the necessary background work, an association should be well placed to handle specific issues. An association should have a clear framework in which all issues are handled. This will ensure that the necessary procedures are followed and discipline applied. Somebody must “own” every issue, taking responsibility for ensuring that the issue is properly handled and that the right representations are made at the right time. However, ownership does not mean one person handling the matter in isolation. All the
skills and expertise of the association must be drawn on in handling any representational work.

At the beginning of the process it is important for the trade association to make sure that it has a thorough understanding of the real issues and what can be achieved in the representational process. Government departments quite often publish consultation documents when in reality only a small part is up for consultation with key decisions having been taken. This is covered by the consultation code of practice but the requirements are not universally observed. If an association represents a sector which is particularly affected by a proposal then it will be entitled to expect informal discussions with the policy-makers at a very early stage about the key issues and what is up for discussion.

Associations need to be realistic about what they are able to influence. If a proposal is a manifesto commitment then it will be very difficult to change the government’s mind, however compelling the arguments – even to ministers. Representational work that goes with the flow and helps the government achieve its objectives is more likely to be successful than full frontal attacks.

Allied to understanding the real issues is a sound understanding of the process. If the policy-making process is not understood properly an association is unlikely to be fully effective at influencing it. For example, some assume that the way to change legislation is to lobby MPs as they pass laws, but in practice influencing the government is more important. An association must explain to its members how the policy-making process works otherwise there is a danger that members think the association is ineffective when in practice it is very effective.

It is sensible for the association to make an assessment of the likely views of other interest groups, in particular other trade associations, particularly those with overlapping membership, and pressure groups. This should be done to help identify allies and to assess the strength of opposing views.

Representational work is often most effectively handled through one-issue coalitions. A message is more powerful if it is put forward by a number of different trade associations, consumer groups and other interest groups. The less that the government has to decide between competing interests, the more likely it is that the interest groups will get what they want. The good trade association therefore engages with other interest groups to identify areas of common ground and also, where there are differences of view, to narrow these as far as possible. Where those differences reflect real differences of interest or view then that must be reflected. But quite often differences reflect misunderstandings of the position. Some of an association’s most effective representational work at this stage might be in persuading others what to say as well as in putting forward its own views.

Having decided whether to work as part of a coalition or on its own but in co-operation with others, the association must then start the process of formulating views. In practice, this might be the easy part of the exercise as the interests of members will be clear. For example, members do not want to pay higher taxes nor do they want more onerous regulation, nor do they want to be put in a disadvantageous position compared with their competitors.
The bulk of the work is therefore in providing evidence. This often is given insufficient weight. While views in themselves are interesting they carry much less weight than hard evidence. For example, if a trade association expresses the view that an increase in the tax on the products of its members will run counter to other government policies and will not increase revenue, this is no more than that an expression of self-interest and will be treated as such. However, if the submission is backed up by hard evidence it will be much stronger. While an association may feel that it has the evidence and knowledge itself, it is always good practice to draw on the work of authoritative outsiders as their views will be given higher weight.

It is particularly helpful if other parts of government or regulatory bodies can be quoted in support of the association’s arguments. There should therefore be a trawl through publications and website of the organisation handling the policy issue and other relevant departments and agencies. The work of consultants and academics should be drawn on where this is helpful and there may also be a case for specifically commissioning work either from an academic or from a consultant. This is likely to be on a specific aspect rather than on the whole issue.

The key point in presenting evidence is that it should be authoritative and accepted as such by the government. This means that publications should be properly referenced and there should be no scope for arguing that external sources have been drawn on selectively. An association’s credibility is undermined if it uses poor quality data or if it claims that certain people support its views when they promptly announce that they do not do so.

On major issues, an association will expect to be able to talk to the policy-makers during the consultation process. For example, an association might indicate that a view is emerging from members on a particular issue and that it would be helpful to get an early indication from the government as to whether this is something on which views would be sought.

**Drafting a policy submission** should be a basic trade association function, but often is not handled well. The assumption is sometimes made that the submission is addressed solely to the relevant government department or agency. In practice, policy submissions should have a much wider audience including other opinion formers and indeed members. It is therefore sensible for all policy submissions to be stand-alone documents rather than something which can be understood only if a consultation document is also available or if members are familiar with the whole of the background and the jargon.

Members must obviously be involved in policy formulation. The nature of the involvement will depend on the nature of the trade association and the issue under discussion. If an association simply writes to its members asking for their views on a particular subject there will generally be only a limited response. A better tactic is for the proposals to be summarised and for specific questions to be asked of the members. The staff should be responsible for drawing up a policy submission. Ideally, there will be an interested group of members who can be involved in this work. On a major subject, it may well be sensible to consult the whole of the membership. This should be on the basis of a draft submission.

There are deadlines for consultation responses. It is important that these are met although there may well be certain cases in which it is impossible to do so. Where this is the case, then the government department or agency should be contacted in advance and asked if
this is in order. Provided an association is an important participant in the process and that it has a good record of meeting deadlines generally, officials can be fairly flexible. However, sometimes there are rigid deadlines for a reason, for example the need to table regulations or publish draft legislation. A brilliant submission that is too late to be taken into account is of no use.

All policy submissions should be well *publicised and circulated*. Obviously the submission has to be made to the appropriate government department or agency. It is sensible for this to be sent with a covering letter or e-mail indicating other people to whom the submission is being copied. These should include the sector’s sponsoring department if this is different, any other departments or agencies that are considered to be relevant and particular interest groups and trade associations.

Policy submissions should be immediately available on the website and made accessible through signposting or being recorded in the “What’s new” section.

It used to be a common practice for trade associations to wish to follow up a submission with a meeting at which the submission was formally presented. This can often be a waste of time. However, there will be cases where the recipient of the submission will wish to discuss some issues or perhaps ask for further information. Where a trade association is a major consultee then it should itself pursue with the department or agency whether there is any further work that should be done or any matters that should be the subject of a separate discussion.

**Subnational representational work**
The United Kingdom is a single jurisdiction and a highly centralised one at that. This is in contrast, for example, with the USA where the individual states each have considerable powers and strong legislatures.

Most trade association work in Britain is done at the national level and also in London. However, there are many regulatory bodies relevant to particular trade associations which operate outside London. Having said that, even where a trade association is not based in London, its chief executive is likely to spend a great deal of time in the capital given the importance of networking.

Over the last few years there has been significant devolution in Britain. Scotland and Wales and Northern Ireland now each have devolved administrations and legislative bodies. This devolution is relevant to trade associations to varying extents depending on the sector which they cover. At the very least, devolution imposes extra costs in that associations must monitor what is happening in Cardiff, Edinburgh and Belfast and, where necessary, engage directly with the administrations in those areas. Where matters are devolved to Scotland, Wales and Northern Ireland, then the trade association may need to consider having a regional office in each of the capitals. However, this is expensive and cannot be justified except by the very large associations or by those whose activity is, for example, concentrated in Scotland.

A more typical way of handling devolution is for designated staff to have responsibility for dealing with these devolved administrations and for them regularly to visit Edinburgh, Cardiff or Belfast. Some associations have a committee of local members which can act as a useful sounding board. Again, depending on the nature of the business covered by the association, it can make sense to employ a local public affairs agency to provide
intelligence and to arrange meetings. This is a good example of using a consultancy in an intelligent way for an association where it could not justify the employment of full time staff.

Most trade associations have now come to terms with devolution and have not incurred major problems. However, there is no doubt that devolution poses risks to associations. As this chapter has made clear, the effective trade association does the necessary groundwork by establishing a reputation and developing contacts and having a good intelligence system so that it can handle specific issues effectively. Associations do not generally have the same position in respect of Scotland, Wales and Northern Ireland because they cannot afford to do so. They may be reliant on others to feed them necessary information and to help them with contacts. They may be slower to pick up on an important development which affects their members simply because they are not there. When they need to deal with a specific matter they are therefore less well positioned.

This is a risk that each association should properly assess and decide how it is to be managed. Simply waiting for a problem to occur is not sensible as it may then be too late to deal with it properly. At the end of the day, a judgement will have to be made as to the resources to be devoted to Scotland, Wales and Northern Ireland in relation to the risk of not being sufficiently involved.

For the most part, local governments are not relevant to trade associations. However, there are exceptions, in particular those industries where planning issues are important. The Housebuilders Federation, for example, does deal directly with individual local authorities in respect of their planning policies. The creation of the Greater London Authority establishes a new organisation that some trade associations have to deal with. For example, the imposition of the congestion charge was a matter on which a number of national trade associations wanted to comment.

Perhaps more relevant to trade associations are the regional development agencies (RDAs) in the English regions. That relevance partly stems from the fact that the RDAs have some funds available that trade associations can draw on and also because the policies of the RDAs can be relevant to members seeking to locate in those areas. At the local level, Learning and Skills Councils provide services which may compete with those of trade associations.

As with the devolved assemblies, trade associations should regularly review the importance of other local government organisations to them and, if necessary, establish the necessary systems so that they can seek to influence them where appropriate. Again, this may be a case for using a specialist consultancy rather than the full time staff of the association.

**Lobbying**

So far this chapter has deliberately not used the word “lobbying”. Lobbying has rather different implications from the representational work which so far has been described. People tend to associate lobbying with the use of influence (who you know rather than what you know), wining and dining MPs, media campaigns and meetings with ministers. The media often use the expression “hard lobbying” which they take to equate with lots of coverage in the newspapers.
There will be occasions on which these sort of tactics need to be used by a trade association, but the tactics must be used in the right way and on the right issues. Regulators are seldom influenced by such lobbying tactics. They may work on matters that ministers are dealing with and where the climate of opinion is important. Effective lobbying still needs the basic groundwork to be done so that the trade association has a good reputation and has the necessary contacts with opinion formers. The best lobbying is actually done in private rather than in public. It may well involve using influence and seeing ministers or their advisors. It is easier to persuade ministers in particular to change their policies before they have been announced than it is to get them to reverse a previous public announcement. The media are best used before a decision has been taken rather than to seek to change the view of the government.

MPs should be subject to lobbying in only a limited range of circumstances, in particular where there is, or will be, legislation before Parliament or where particular MPs are able to have a significant influence on the climate of opinion. In practice, much time is wasted on lobbying MPs. Seldom will MPs vote against the party whip and, even if they are convinced of the arguments of a lobbyist, they may well actually not be willing to do anything to further them.

**The use of consultants**
There is a big industry in Britain of public affairs consultants. In a sense, trade associations are part of this industry. Their mainstream work is much the same as that of consultants.

Public affairs consultancy is often oversold. The consultants themselves and the media may frequently overstate what it is that consultants could do and consultants may actually do rather less effectively, and at quite high cost, what an association can do better itself. For example, if an association wants a meeting with a minister then it is more likely to get a favourable response if it makes a direct approach than if it goes through a public affairs consultancy.

The public affairs consultancy industry has matured and changed quite considerably in recent years. Most firms see themselves as providing a wide ranging public affairs consultancy service which goes well beyond lobbying. It will include intelligence gathering and the facilitation of networking.

Generally, most trade associations do not need to use public affairs consultants because they can do the work better themselves. However, there are a number of circumstances where it makes sense for an association to draw on external consultancy help. For example -

- A newly established trade association, perhaps established to deal with a major issue, may find a consultancy helpful in getting it off the ground and enabling it to be effective as quickly as possible.
- Some trade associations have a fairly limited representative role, perhaps dealing only with a specific, generally fairly friendly, regulator. If that association is suddenly faced with a major public policy issue handled by a different department it may rightly feel that it does not have the expertise to handle it. It can make sense in these circumstances to employ a specialist consultancy to handle the issue.
- Trade associations have variable volumes of work. Consultancies can help deal with surges in the work level.
- The good association regularly subjects all its activities to review. A public affairs consultancy can audit the effectiveness of the association’s representational work.
Where an association is envisaging employing a consultant then this needs careful handling. It is important to be clear about the brief and the duration of the contract as well as about the financial arrangements. Where an association has only a modest knowledge of the market for consultants then the trade association for the consultants, the Public Relations Consultants Association, offers a service (Preview) that helps organisations select an appropriate consultant.

If the consultant is employed on a permanent retainer then their performance should be reviewed at least once a year through a formal review meeting. There is always a risk with consultants that they start well with high level staff but the performance then deteriorates unless the client keeps a very close watch over the consultant.

**The importance of the media**

In general, dealing with the media is separate from mainstream representational work, although on some issues the two are closely connected. However, dealing with the media is an important function for those trade associations representing industries in the public eye. Members, in particular, are greatly influenced by what they read in the media. The performance of a trade association is as much likely to be judged by media comment as it is by effectiveness in securing policy outcomes. The former are definite and immediate while the latter are vague and long-term.

The basic reason why an association should seek to deal effectively with the media is to form part of the groundwork for effective representational work and, more generally, to produce a climate which makes it easier for members to run their businesses. If there is a favourable attitude towards an industry in the media then this may make it easier to secure policy outcomes that the association wants, and it will certainly produce a better climate for staff working in the industry and perhaps also increase business. Having said that, the impact of the media is probably exaggerated. There are many industries which have had a very bad media over the years but which continue to thrive and often to secure successful policy outcomes. Parts of the financial services industry come into this category.

There is little special about dealing with the media as far as trade associations are concerned. However, unlike individual organisations, they generally cannot have the option of refusing to comment on an issue as one of the purposes of a trade association is to represent an industry to the outside world. Always being available to the media is an essential part of that role. A particular problem associations face is that they can be called on to defend policies and practices over which they have no control and quite possibly no knowledge. If a company deliberately or carelessly engages in policies and practices which attract adverse media comment then it is entirely reasonable that the company should explain itself to the media and ideally it will have plans for doing so. An association often finds itself in a position of not knowing about matters which might come up in the media and when they do they can be scrambling around to find the necessary information from the company concerned.

As in other sectors, members of an association can be greatly influenced by media comment. It is a sad fact of life that securing a favourable newspaper article about a policy campaign may be viewed as a huge victory even if the campaign itself is a complete failure. Conversely, an adverse media story, because of a misunderstanding about the impact of a government proposal, can cause the members to be critical of the trade association. There will be occasions where associations will allow other parties to take the
media credit for something when in fact they have achieved the outcome wanted. This can be the price to pay for being successful. All that an association can do in such circumstances is to try to educate its members, in particular its board, about the way the media works and the impact that the media have.

Finally, the trade press represent an important variable in the work of trade associations. In almost every sector of the economy there are one or more trade journals. Some of their activities compete with those of trade associations. They certainly see themselves as an important source of information about the industry. A trade journal may well run conferences and seminars and also awards dinners. Some trade journals also have links with consultants and MPs and may, for example, organise parliamentary receptions. It is not unusual for trade journals to claim that they are the “voice of the industry”. A trade association needs to understand the role of trade journals within its sector and to have a strategy for dealing with them. Generally, the best strategy is to work closely with them, recognising that the trade journal can be an important ally of the association. This can mean giving the trade journal preferential access to information and always being available to its journalists to help explain issues. However, in some cases the trade journal will take an adversarial stand towards the trade association and there may be little that the association can do about it.

**Media strategy**

A trade association should have a strategy for dealing with the media, as a component part of its public affairs strategy which in turn should be an integral part of its overall strategy. The media strategy should not simply be something like achieving the maximum amount of publicity and be measured by the number of column inches the chief executive obtains. Rather, the media strategy must play a support role. If the attitude of policy-makers is influenced by the media then this requires a stronger media strategy than if the media are not relevant to the policy-makers. If the trade press is influential with the membership then a decision has to be taken on whether to seek to influence the members through the media. Sometimes the best strategy may be to keep as low a profile as possible in the media. The strategy to be adopted requires very careful consideration and will depend heavily on circumstances.

However, it is important that members understand the strategy otherwise there is a risk that the association will be thought to be ineffective when it may be being very effective. Many people are far too influenced by the media and are more concerned for example about whether a policy proposal gets a good press than whether it has an impact. The position is very similar to influencing policy-makers generally. If the members do not understand the process they are likely to have an unfairly poor view of the performance of the association.

**Dealing with the media**

In dealing with the media, there are three key points for associations –

- What matters are outcomes not column inches. It is important that an association does not become obsessed with the media, devoting huge resources to securing satisfactory media coverage at the expense of actually producing policy outcomes which benefit its members.
- The best work a trade association does is often to stop adverse stories rather than to respond to them after they have appeared. An association therefore needs a mechanism to get early warning of possible adverse stories and to try to stop them being published if at all possible or, that failing, to minimise their impact.
• An association must have a clearly identified spokesman. This should be the chief executive in all but an exceptional number of cases. Some chairmen wish to be seen as the public figure of the association. A few do this well but most do not but, in any event, the short period of office of the chairman means that the chairman is not the ideal person to be a spokesman because there is not the opportunity to build up the trust and reputation that a spokesman needs. Large associations may have a number of additional spokesmen in addition to the chief executive - such as a director of external relations and regional directors.

There are a number of tactics which a trade association can sensibly employ with the media to help improve its effectiveness. One point has already been made, that is to educate members about the media. An association can run courses for its members on how the media work and in regular publications to members can perhaps deal with particular articles, explaining how they arose, how they were dealt with and the impact that they have. Many companies, for example, have no understanding at all of the way that the lobby system works and therefore in the way that political correspondents often know more about the intentions of government ministers than do journalists specialising in a particular area.

Because journalists are an important stakeholder for trade associations, an association needs to understand them and their views about the industry and the association. A good practice is to conduct an annual review of the media covering both these issues. In some widely defined industries, a number of associations get together to do such surveys, and if only one association is doing it then it makes sense to cover other associations in related areas. Such surveys usefully show trends over time as well as the attitude of the media to the industry and to the association at a particular point of time. Surveys may usefully identify areas that require attention. Occasionally, an association can usefully commission a public affairs consultancy to conduct a survey of journalists. Like others, journalists are often flattered to be asked for their views in this way and the results of such analyses can be very helpful in enabling an association to improve its performance.

In dealing with the media, trade associations have to follow the same rules as other organisations. The key points are –

• As far as possible, a relationship of trust should be built up with key journalists. An association should feel confident in giving background and off-the-record briefings to journalists and in exchange they may find journalists have useful information as far as they are concerned. However, building up trust with journalists is difficult and can often be rather one-sided.
• As far as possible, being open with the press, partly because this is desirable in its own right and partly because if one is not one is liable to be attacked by the press and they will find out the true facts anyway.
• Be available. The chief executive and press officers must be available to the media 24 hours a day. The media work to very tight deadlines and having press officers available only between 9 and 5 is not satisfactory.
• Telephone calls from journalists must be returned immediately and not ignored until the next day. If a journalist cannot get what he or she wants from one source then he or she will go to another which may give him less favourable information as far as the association is concerned.
• Provide whatever data journalists want. Most calls from journalists simply want factual information or explanations rather than detailed policy statements. If an association is seen as the first port of call with information then it will have more opportunity to get its points of view over. Increasingly, an association’s website is used to provide information to journalists but some journalists are not inclined to do anything other than pick up the phone.

• Cultivate journalists. Trade associations should consider inviting journalists to speak to seminars and conferences and perhaps also invite them to write papers or articles. This may well help the journalist become better informed and perhaps more favourably disposed towards the industry.

Management of media work
The chief executive must take overall responsibility for work with the media. In a small association the chief executive is likely to be the only media contact. However, in larger associations there will be one or even more specialist press officers. Their task is to maintain effective day-to-day contact with the media and they may also cover writing and planting articles, the association’s own publications and being proactive with journalists, for example, by seeking to meet them regularly and also to telephone them about issues that may interest them as well as waiting for incoming calls.

An association should maintain a good working relationship with the press officers of its major members. A good tactic is for the association to host regular get-togethers, perhaps on a quarterly basis and perhaps with a journalist as a guest for part of the meeting. Such meetings should be used to review media coverage of the industry generally and to consider any areas for improvement. However, there may be competition between the association and individual companies for media attention. In particular, in many associations the chairman’s press office will seek to become actively involved in the association’s media relations even to the extent of taking them over. As a general rule, the chairman’s press office should have nothing to do with the trade association’s media relations.

The Internet has transformed all of the traditional functions of the trade association, that is in providing basic information to the media. Good practice now is that all press releases are on the public part of the association’s website. This is useful not only to the media but also to other people seeking up-to-date information. The website should also have other information that journalists can call on should they need, for example, basic statistics and any consumer guides. Contact details for press officers should also be available.
Appendix

Cabinet Office consultation criteria

The current code
In November 2001 the Cabinet Office published the Code of Practice on Written Consultation. This applies to all UK national public consultations on the basis of a document in electronic or printed form. It is binding on UK departments and their agencies, unless ministers conclude that exceptional circumstances require a departure.

The criteria should be reproduced in consultation documents, with an explanation of any departure, and confirmation that they have otherwise been followed. UK non-departmental public bodies are encouraged to follow the code. Devolved administrations are free to adopt this code, but it does not apply to consultation documents issued by them unless they do.

Reproduced below are the “headline” criteria together with the sub-criteria most relevant to trade associations.

1. Timing of consultation should be built into the planning process for a policy (including legislation) or service from the start, so that it has the best prospect of improving the proposals concerned, and so that sufficient time is left for it at each stage.

2. It should be clear who is being consulted, about what questions, in what timescale and for what purpose.

7. Representative groups should be asked in responding to give a summary of the people and organisations they represent.

3. A consultation document should be as simple and concise as possible. It should include a summary, in two pages at most, of the main questions it seeks views on. It should make it as easy as possible for readers to respond, make contact or complain.

12. To avoid imposing extra burdens on people, and organisations with very limited resources for replying, like smaller firms and some voluntary and community organisations, it may be better to target consultation through umbrella bodies, including trade associations and business organisations. But it is important to speak to those bodies at an early stage, to establish that they can conduct properly representative consultations, and work out timing; for example they may be able to make use of routine consultation processes among their members.

4. Documents should be made widely available, with the fullest use of electronic means (though not to the exclusion of others), and effectively drawn to the attention of all interested groups and individuals.

5. Sufficient time should be allowed for considered responses from all groups with an interest. Twelve weeks should be the standard minimum period for a consultation.
6. Responses should be carefully and open-mindedly analysed, and the results made widely available, with an account of the views expressed, and reasons for decisions finally taken.

1. Responses should be acknowledged where possible.

2. They should be carefully analysed, in particular for –
   (a) Possible new approaches to the question consulted on.
   (b) Further evidence of the impact of the proposals.
   (c) Levels of support among particular groups.

3. Analysing responses is never simply a matter of counting votes. The House of Lords Science and Technology Select Committee has drawn attention to the risks of single-issue groups monopolising debate. Particular attention may however need to be given to the views of representative bodies, such as business associations, trade unions, voluntary and consumer groups, and other organisations representing groups especially affected. Eventually it is for ministers to assess the argument and evidence and reach decisions in the public interest.

4. It is desirable to keep as full an account as possible of both formal and informal responses to consultations; both to ensure that everyone’s view is fairly considered, but also to help address any allegation of privileged access.

5. Decisions in the light of consultation should be made public promptly with a summary of views expressed (subject to respondents’ requests for confidentiality), and clear reasons for rejecting options that were not adopted. As far as reasonably practicable, this material should be accessible to all who responded, including on a departmental website (individual notification may be practicable in the case of those who have replied by e-mail). Respondents who ask why individual proposals have been rejected should receive an explanation.

6. If significant new options emerge from consultation, it may be right to consult again on them (though a shorter consultation period may be justified: see criterion 5 above).

7. Individual responses should also generally be made available to anyone else who asks for them. Failure to make material available may be incompatible with Open Government or Freedom of Information provisions. It is legitimate, in accordance with those provisions, to make a reasonable charge for copying and postage. But where respondents have sought confidentiality, it should generally be respected. It may also be necessary to keep confidential responses that may affect third parties’ interests or privacy unfairly.

7. Departments should monitor and evaluate consultations, designating a consultation co-ordinator who will ensure the lessons are disseminated.

1. A single official for each department and agency should be designated as consultation co-ordinator and contact details should be published.
2. He or she should ensure that the code is complied with, that consultations are joined up where possible, and that the department contributes to and learns from the central register of consultations and the good practice website.

3. Departments should monitor consultations regularly as they proceed, to ensure that the code, and good practice generally, are being followed. They should analyse complaints carefully. They should seek to develop internal expertise in effective consultation, and awareness of where support can be found outside.

4. Departments should evaluate consultations once complete – perhaps with independent involvement. Questions to be addressed include –
   (a) Whether they fully complied with the code.
   (b) Which techniques were particularly effective in securing a wide range of useful responses, and which not.
   (c) Which represented value for money (taking into account staff time, as well as direct expenditure).
   (d) How far policy and service provision changed as a result. If it did not, the reasons should be explored with Ministers.
   (e) Respondents’ feedback. This might emerge from response rates; an analysis of complaints and other comments, or other dealings with regular departmental contacts. It may also be worth surveying users after major consultations.

5. In the light of this, departments should make available annual statistical and qualitative assessments, including information on departures from the code and on cost.

**The proposed new code**

On 1 September 2003, the Regulatory Impact Unit of the Cabinet Office published a consultation document, *The Code of Practice on Consultation*. The document proposes to replace the existing code, which mixes guidance and principles, with a new, shorter principle-based code that will be supplemented by guidance. Comments were invited by November 2003. It is assumed that the new code will be finalised during the course of 2004. The proposed criteria are –

1. Consult throughout the process, allowing a minimum of 12 weeks for formal consultation at least once during the development of the policy.
2. Be clear about who will be affected, what questions are being asked, and the timescale for responses.
3. Ensure that your consultation is clear, concise and accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor your department’s effectiveness at consultation, including through use of a designated consultation co-ordinator.
6. Ensure your consultation follows the principles of better regulation, including carrying out a Regulatory Impact Assessment if appropriate.

Chapter 10

Representation in Europe

Representational work at the European level has to be handled differently from representation in the UK. The process is more protracted and many more participants are involved. It is important to build coalitions and to avoid pressing a “British” point of view. European associations play a significant role but many are not effective.

The framework for policy-making in Europe
Exercising the representative function at the European level is different from working at the national level. In the UK, representational work concentrates on the government and its representatives, that is ministers, special advisers, regulators and civil servants. Parliament, particularly under present circumstances, has a modest role. The agenda is fairly clearly defined. For most issues, timescales are short and consequently there is little abortive work.

By contrast, at the European level the process is slower with proposals often taking many years from inception to implementation. It is also more complex, with often little clarity where responsibility for an issue lies. Consequently, there is a great deal of abortive work.

On paper, the decision-making process at European level is fairly clear –
• The Commission alone has the power to propose European legislation.
• The Council of Ministers, that is the national governments acting jointly, makes the final decisions.
• The European Parliament has increasing powers of co-decision with the Council of Ministers.
• The Committee of the Regions, the Economic and Social Committee and, on some issues, one or two other organisations have some influence but all of these are far less important than the principal organisations.

But this is to over-simplify the process. The Commission, national governments and the Parliament are all part of the “chattering classes” that influence the climate of opinion as well as respond to it. National governments and the Commission communicate directly even at a very early stage in the policy-making process. The decision-making process also has more than its fair share of horse trading. It is not sufficient, for example, for the British government to be strongly in favour of a Commission proposition that would benefit a British industrial sector. The government also has to be so strongly in favour as to be willing to sacrifice other issues that it also favours. Similarly, a rapporteur for a European Parliament committee may be willing to trade their own judgement either for the benefit of their party grouping or indeed their own advancement. There is also a practice in the Parliament of MEPs offering to support one proposition in exchange for other MEPs supporting a different proposition.

Representational work in respect of the different institutions has common features but there are also major differences, in particular in respect of the channels that must be used.
The environment within which representational work is done changes over time in response to market and political developments. There have been significant changes in the policy-making environment at the European level in recent years, partly as a result of the Maastricht and Amsterdam treaties.

The European Parliament has gradually become more powerful and now has a significant influence on legislation. MEPs tend to be concerned with their national interest rather than the European interest, and therefore European associations are not strongly placed to influence the Parliament.

Many large businesses have seen the need for more direct representation at the European level other than through a national trade association belonging to a European association, and have established their own lobbying offices in Brussels or have got together with other large firms outside the established trade association structure. Many have also secured direct membership of European associations. European consultancies have skilfully exploited the market for expertise on European matters.

Pressure groups, particularly those concerned with the environment, have grown in numbers, size and importance, and policy-making in many areas is now partly at the global level as well as the European and national levels.

These various factors have made the environment for representational work at the European level more challenging.

**Influencing the policy-making process**

A key element of any trade association work is a sound *intelligence system* so that the association is always on top of developments and preferably well ahead of its members and others. At the European level an intelligence system comprises a mixture of –

- Contacts with the Commission. There is no substitute for good quality contacts with the Commission, for which a basis of trust has to be established. This should help to ensure advance information about developments and also should help in interpreting developments.
- Good contacts with other trade associations and interest groups in related areas. Associations trade information. However, there is always a danger of competition between associations with some being less than frank.
- Contacts with national governments. Good government departments have their own sources of intelligence and on some issues may be better informed than national trade associations or even the Commission.
- The Press, although information requires a great deal of sifting and analysis. The skilled trade association executive can easily spot a significant press article. In respect of developments in Brussels, there are two local publications, *European Voice* and *The Rapporteur*. *The Financial Times* also has good coverage of European matters. Generally, however, the European media are not well-developed and are not nearly as relevant to the policy-making process as are the national media in Britain.
- Website surveillance, which in some sectors now needs to be done on a daily basis. Many documents published by the Commission are now made available only on the Internet. An association must also be aware of what other associations and interest groups are doing.
The second key element of good representational work is the development and presentation of policy positions. Two mistakes are commonly made at the European level –

- Promoting a sectional view, for example a British view or the view of a specific industry. This is far less effective than presenting a concerted European view or the combined view of, for example, industry, consumers and environmental groups.
- Setting out a lowest common denominator position. This has been the tradition in many European trade associations. The position itself is relatively worthless and, in any event, is negated and the association devalued when national associations make their own, very different, representations to the Commission, national governments or the Parliament. A good European association should ensure that where there are differences these are for real reasons rather than because of misunderstandings about the proposal or the policy-making process. Where there are real differences then it is better that these are reflected in policy papers. A service is then provided to policymakers by indicating differing views and why they exist. If a trade association, whether domestic or European, has difficulty in reaching a consensus then it is equally certain that the Commission, the Council of Ministers and the Parliament will have the same difficulty.

The third key issue is that representational work at the European level is now best done through coalitions. However, coalitions cannot be formed out of nothing. European and national associations must maintain contacts, handle routine work and also handle many issues directly, but on big issues the wider the coalition in terms of business interests and other interests the better. For many European, and indeed national, associations this is a novel method of working which is not yet fully accepted.

A final element of good representational work as far as national trade associations are concerned is to keep fully informed the British government, regulators and members. Keeping members informed is important because they can use their own representative mechanisms. This is particularly true for multinational companies.

**Influencing the Commission**

It used to be said that the EU Commission not only preferred to talk with European associations but would not deal directly with national associations. This was never true. British associations have found little difficulty in gaining direct access to the Commission. In practice, the less effective the European trade association the more the Commission uses other sources of information.

Generally, European associations still are the most important representational mechanism is respect of influencing the Commission. To them must fall the responsibility of having the appropriate intelligence mechanisms, contacts and quality of policy-making. Sensibly, they will keep their members, particularly national trade associations, fully informed, draw on them for information where necessary and occasionally also for lobbying help, for example Commission staff are known to be more receptive to talking to people from their own country. If the relevant Commission official handling an issue is Danish it can make sense for the European association to work with the Danish association to seek to influence him or her.
Influencing the Council of Ministers
Influencing the Council of Ministers largely means influencing national governments. The Council of Ministers does not often act as a collective body and there is generally little point in seeking to influence its Secretariat General with technical dossiers.

National governments are usually not interested in hearing what the European view is, although their position may be influenced by assessments of the other governments’ viewpoints. They want to know their own national interest. At this stage, European associations have only a modest role to play, except perhaps in helping keep national associations informed of each other’s efforts and progress. The responsibility must rest ultimately with national associations, which must seek to influence their respective governments.

They must ensure that the relevant government department or agency is well informed about their position. They must also ensure that it has any additional background information, that is which countries are likely to take a different view and why or, alternatively, who the natural allies might be.

But it is not sufficient for a British trade association to seek to influence the British government. Other national governments must be influenced as well. They will not be receptive to approaches by British trade associations. The channels of influence are other national associations and multinational members, which may have their own channels of influence.

The presidency of the Council of Ministers is held for six month periods by each member country in turn. The influence of the presidency seems to have grown in recent years. In particular, the presidency can decide which issues will have priority. It follows that the country of the presidency (and forthcoming presidencies) should be seen as a major channel for influencing the Council of Ministers. The trade association of the country is naturally in the best position to do this, and in turn should be seen as a channel that UK trade associations can use.

The UK government can be influenced directly and also through UKREP, the permanent office of the UK government in Brussels. Some associations find UKREP very useful, while for others it is almost unnecessary because contacts with government departments are good and the government machinery as a whole works in a seamless way. However, even the best government departments are not always perfect and sometimes direct contact with UKREP can usefully supplement work with government departments and agencies. UKREP is expert at knowing what is going on in Brussels. It can give a useful overview on what is driving other members states as well as Britain, how the different institutions impact the politics and positions of other members states, and an up-to-the minute guide to negotiations and the key players in Brussels.

Influencing the European Parliament
The European Parliament is nearer to the Council of Ministers in respect of influence by trade associations than it is to the Commission. For the most part, MEPs are more interested in the national view and also their own party interest than the European view. Normally they will go along with the party line so influencing that can be important.

The one exception to this general rule concerns the role of the rapporteur, a concept unknown in the British Parliament. The rapporteur is an MEP who has responsibility for
drafting the views of a parliamentary committee. In practice, the rapporteur has a great deal of discretion and some take their responsibilities very seriously, either in vigorously promoting a sectional or national interest or in genuinely seeking a European solution. In the latter case, a European association may well have a significant role to play with a rapporteur.

MEPs are generally receptive to representations from interest groups in their own countries. They will also be interested in the views of a European association where it has particular relevance to the issue being discussed or where there is a clear European view supported by the national associations. The good European association has to secure the appropriate balance between doing lobbying itself and assisting national associations by providing them with the necessary briefing information and contact details, although often major national associations do this for themselves. That balance will vary depending on the subject.

MEPs are invited to numerous social functions, often from people who simply want to “establish contact”. This is generally a waste of time. MEPs have a short time horizon and are issue focussed. If they are considering European legislation they do not want a lengthy position paper but rather they want amendments that can be tabled if they are in agreement with them.

Ideally, a sector should seek a long-term relationship with MEPs although this is not always easy given the short time horizon of MEPs. In some cases MEPs will have a particular interest in a subject, for example British trade associations should seek to have a permanent relationship with the spokesmen on the relevant major committees.

It is difficult to exploit constituency links simply because of the very large parliamentary constituencies with multi-members, although in some cases the members themselves have divided their constituencies into smaller more manageable areas. Where a constituency interest can be identified it should be exploited. Local government is relevant here as there are much closer links between local governments and MEPs than there are between businesses and MEPs. The European parliamentary constituencies are co-terminous with the regional development agencies. Local government organisations are very strong in Brussels. Scotland is particularly strong. Working with local government should be regarded as an additional sensible method of influencing MEPs.

MEPs, particularly those representing the ruling parties in their countries, are also influenced by national governments. This reinforces the point that there is strong interaction between MEPs, national governments and the Commission at all stages of the policy-making process. Accordingly, the sensible trade association keeps its national government informed about parliamentary lobbying.

**European associations**

European associations are very important to British trade associations for work at the European level in three respects –

- They are one of the principal channels by which national associations have influence and obtain information.
- They can do damage to the British interest if British associations are not active in them or if they are run in such a way that they damage, deliberately or by neglect, the British interest.
They are expensive, absorbing a significant proportion of the budgets of many domestic associations.

Most European associations are similar in nature to their British counterparts. However, one significant difference is that their activity is almost entirely concentrated on representative work. To the extent that they provide information or statistical services to their members, this is generally on the back of representative work and is more limited than what national associations provide. This means that they are significantly smaller than their British counterparts; even associations representing large sectors are likely to have fewer than 10 staff.

The major European associations, like their national counterparts, often operate through committees serviced by the secretariat. However, some associations have either no permanent staff at all or just an administrator. The members do all of the work in such associations. Some associations are run under a management contract by consultants. This form of organisation is particularly popular with American trade associations that want a presence in Brussels, but it is also now being used by some European associations.

There is no “right” way to organise a European association, but the sensible association periodically reviews whether it is running its affairs in the most efficient way.

Many British trade associations have a relatively poor opinion of their European associations. Research conducted for the study *Trade association effectiveness at the European level* showed that nearly a third of associations did not believe that their European association was good value for money. Medium sized associations had the worst experience.

The operating environment for European trade associations is becoming more difficult. The factors that affect national trade associations (globalisation, increasing concentration, blurring of boundaries, unprecedented regulatory and legislative changes, pressure from members for more effective associations, a changing method of working by the government and the implications of the Internet) also apply to them. There are, in addition, a number of factors that apply specifically to European associations.

Increasingly, they have to *work in competition with or alongside a host of other lobbying organisations* in Brussels, including national trade associations, informal groupings of large companies outside the traditional trade association structure, the public affairs offices of multinational companies and pressure groups.

They also have to deal with an *ever-increasing workload*. The number of issues originating in Brussels never seems to diminish and the growing power of the European Parliament has added an extra dimension to European representational work.

The *growing power of the European Parliament* has presented a separate problem for European associations. While the Commission was the key policy-making body, European associations, which fitted well into the Commission’s method of working, were powerful. Now, the European Parliament has substantial powers but MEPs are more interested in the national view than the European view. European associations therefore need to work in a different way with the European Parliament than they do with the Commission.
Finally, there are the *accession states*. Most European associations have arrangements by which associations in the accession states have some associate form of membership. However, they are generally not fully involved in the governance of the association nor are documents translated into their languages. As the accession states become states of the European Union so the problems facing the Commission and the Council of Ministers will also arise for the European associations. Their governing bodies and committees will increase in size and the range of interests that need to be represented will be widened. On the plus side, subscription income should be increased.

Some European associations are more cohesive and governable than others – as is the case for national associations. There has been some useful academic work on this by Professor Justin Greenwood. In his conclusions, Professor Greenwood outlines a number of “families” of related factors that explain the variations in the governability of EU business associations –

- **Overcapacity**, the degree of competition and the extent of concentration within a sector. The presence of high overcapacity coupled with a low degree of competition and a relatively high degree of concentration appears to be associated with a high degree of governability.
- **The cost of non-membership** (that is the problems a national association faces if it is not a member of the European association) combined with the benefits of membership. In other words there are both positive and negative reasons for belonging to the European association.
- **The degree of specialism** together with “issue niche” organisations. A high degree of specialism enables cohesion in an association and may be both a cause and a consequence of trust.
- **Autonomy** and the degree of trust between members and between the members and the secretariat. Greenwood notes that high trust between the members and the secretariat can only be built up over time.
- **The degree of regulation.**

**The method of operation of an effective European association**

The effective European association is output driven, the overall objective being to serve best the interests of the members in the longer term. This is difficult to measure. The remainder of this section covers inputs that, if an association gets right, should lead to effective outputs. There is, however, one useful short-term output test and that is whether the association is easily able to gain access to key people in the Commission and the Parliament. If requests for meetings (to discuss issues rather than as social events) are routinely and quickly accepted then the association is seen as being effective. If, by contrast, there is a reluctance to meet the association then it is seen to be ineffective.

As has already been explained, the best European representational work is now increasingly done through *coalitions* on specific issues. The sensible European association will not hesitate to combine with anyone else to achieve a desired objective although always bearing in mind any long-term implications of a one-off relationship. Other European associations with the same interest will be natural partners, but where appropriate a European association should also work with national associations, individual companies (whether members or not), consumer groups, environmental groups and local government. The wider the coalition supporting an issue the more likely it is to be successful.
Intelligence gathering is a critical success factor for any trade association, particularly at European level. The best European associations gather intelligence through contact, particularly with Commission officials but also with MEPs, other trade associations and any coalition partners. There will be some occasions when national trade associations know things before European associations, particularly where they have strong links with national governments. In such cases, the national associations become a source of intelligence.

The chief executive will be the main intelligence gatherer but the good association will ensure that all of its staff have this role and that it is regarded as a key characteristic of good trade association staff. Trade associations are in the *communications* business. They must ensure excellent feedback from any meetings. There is no point in, say, the president of a European association who might be a practitioner having a meeting with a senior Commission official and then not telling anyone what was discussed. Trade association officials tend to be better at the feedback mechanism than the practitioners. The European association must analyse and distil a great deal of information and feed it to its members and, where appropriate, other stakeholders. This is not done by forwarding a 60 page document from the Commission. It is best done by very short notes setting out key issues which people need to know and then giving website links to relevant documents. The good association will have a database of information on current policy issues, easily searchable so that members can immediately find out the latest information and background.

Finally, the association must be effective at exercising the representative function. The European association should be at its best in respect of the Commission. However, the Commission will value European associations only if they have a positive contribution to make to the policy-making process. What the Commission wants is the views of industry, not only on what should happen but what is happening, how European Union policies are working and so on. Where a European association is seen as a good conduit for information, that is it is quickly able to gather, aggregate and pass on information, then it is valued. If, however, it is seen as an interpreter and massager of information, trying to exaggerate a problem for the purpose of getting a preferred policy outcome, then the European association will quickly be discounted. This is why associations must be close to their members and not simply be organisations of bureaucrats.

Very rarely will the good European association be able to play any part in influencing national governments. Here it has to work closely with the national associations. The associations for the countries holding the presidency and those which are the next two or three in line to hold the presidency are particularly important.

Practice varies in respect of lobbying the European Parliament. Some European associations lobby the European Parliament directly, some lobby in conjunction with national associations and some confine their activities to providing briefing material and logistical help for national associations. Certainly a European association should expect to have a relationship with the rapporteur of any committee considering an issue of key importance to it and perhaps with a small number of other MEPs with a particular interest in a sector. MEPs are comparatively well resourced and the good European association will develop relationships with the staff of relevant MEPs, seeking to become an established source of readily accessible information about the industry.
Improving representation

How does a British trade association address the issue of its effectiveness at the European level? The first step an association should take is to review its effectiveness. The appendix sets out a checklist that can be used by associations for this purpose. The good association, striving to improve its performance, can probably do this work in-house. Sensibly it will consult, among others, its European association, the relevant government department, perhaps MEPs if any specialise in the relevant subject, and also the members, particularly those for whom European developments are most important.

A well conducted review involving relevant staff, which should help to secure their buy-in, is likely to give a number of pointers as to where the national association is weak, for example contact with MEPs, working with the British government or being up-to-date with developments. It may also identify possible changes to the environment in the future that the association needs to take into account, for example the growing importance of local government organisations and the Committee of the Regions.

The review should include considering the performance of any consultancies and considering whether a consultancy should be retained. If there is a case for employing a consultancy then this needs to be looked at in conjunction with any domestic consultancy arrangements.

A key part of the review should be relations with the European association. The review should assess whether the right people are involved, whether the association should seek to have a stronger input into the European association, for example by having better representation on committees and working groups, and whether the flow of information with the European association is optimal.

Generally, the good national association does not need to do a review to know how effective its European association is. It will know this from its day-to-day dealings with it. However, instituting a comprehensive review of a European association seems an extremely difficult task. A number of British associations have attempted it and have served merely to further enhance the reputation of the British for being the “awkward squad” in Europe. Seeking to reform European associations is a very political process and the political environment needs to be carefully and fully understood –

- Some national trade associations may be keen to keep a European association ineffective for their own particular reasons.
- Similarly, large companies may frustrate an attempt (by applying the appropriate pressure on national associations) to reform a European association because they may be able to have more influence where the European association is weak.
- While the good national association wishes its European association to be an essential part of the representative function, others, including national delegations and members of the governing body (including some from Britain), may view it more as a travel club and will firmly resist the loss of their twice-yearly visits to the more enjoyable parts of Europe.
- While many British trade associations have gone through fundamental changes over the last few years, this appears not to have happened in some other countries or at the European level, so the thought of trying to reform the European association may be alien to some.
- Seeking to reform a European trade association is likely to be a time consuming process and those who begin it must devote the necessary resources.
There also needs to be a clear understanding that an ineffective European association will generally mean an ineffective chief executive, although there are some associations that are simply very difficult to manage because of the nature of the issue being covered or because of the members. The ineffective chief executive will resist a review on such grounds as “we had a review only 10 years ago”, “it is only the British who are moaning” and “we are too busy to have a review”.

Where the European association is felt to be weak then a British association must carefully develop a strategy for dealing with it. The strategy must involve other national associations and ideally should be led by them. A good approach is to engineer a review into the European association, whereas circulating a British paper suggesting wholesale reforms is likely to fail.

If a national association really feels that its European association is very ineffective then it must consider whether to withdraw, and over the years a number of British associations have done this. This decision needs very careful thought. It should not be used as an idle threat because relations will never be the same again once the threat has been made. There are also adverse consequences from withdrawal—

- Sometimes membership of a European association should be regarded as an insurance policy, that is to stop the European association from promoting views that are contrary to those of the British association rather than actively promoting its interests. Without membership a British association might find a European association promoting views that are damaging to the association’s members. This “cost of non-membership” can be very high.
- Even poor European associations are normally clever enough to seek to replace any departing British association with another association from Britain, however small and however remote, simply to say that it still represents every nation in the European Union. For the small association (which will generally get membership for almost nothing) their position is enhanced as being the British association recognised at the European level.

Having said that, the evidence from a number of sectors seems to be that withdrawal or threat of withdrawal is the only way in which the reform process can begin in a European association that is seriously ineffective.

**Bibliography and further information**

Appendix

Measuring the effectiveness of European representative work

Output
Is the association able to have directly or indirectly (for example, through a European association) a significant impact on developments in Brussels, to the benefit of its members?

[This can be measured only in the long-term and is in any event very difficult to measure. Perhaps only a survey of policy-makers in Brussels would identify which have been the really effective associations.]

One useful short-term output indicator is access to senior Commission staff and MEPs. If an association representing a major industrial sector finds it difficult to get meetings this is probably because it is regarded as having little to contribute.

Value for money
The total cost of representational work at the European level comprises –

- A subscription or subscriptions to European organisations.
- The cost of any consultancy.
- The cost of travel and accommodation for meetings in Europe.
- The time spent on meetings in Europe.
- (More remotely) time spent in the UK dealing with European matters, a variable which it is becoming almost impossible to measure. However, time spent in dealing with European association matters should be measured.

In assessing the value of subscriptions paid, it is helpful to note the range of subscriptions paid to European associations.

Subscriptions paid to principal European association, 2001

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Source: Trade association effectiveness at the European level, Table 3.

An association should sensibly look at the total direct cost of European representational work in relation to its total budget, its subscription in relation to the figures above and then make an assessment of value for money. An association should also consider trends in its subscription to the European association in relation to its own subscription income and Britain’s subscription in relation to that of the other major members of the European association.
Intelligence
Does the association have up-to-the minute information on developments in Brussels relevant to it and, if so, does it come from –

- The European association.
- A consultancy.
- The UK government or regulators.
- Other UK associations, eg federations.
- Media and website monitoring?

If a European association or a consultancy that is paid to monitor developments is not providing up-to-date intelligence (for example, if information is obtained through direct visits to Brussels or is first received from the UK government) then this must call into question the effectiveness of the organisations. Similarly, it is unsatisfactory if domestic surveillance of Commission and Parliament websites provides information before it is received from the European association.

Handling of European matters by UK associations
There are four broad tests of effectiveness –

- Does one person have an overview role of developments at the European level, for example in respect of intelligence and lobbying work, and is that person effective?
- Do all relevant staff have a sufficient understanding of how matters are dealt with in Europe and the differences compared with the UK such that they use the appropriate tools and are as effective on work at the European level as they are on domestic work?
- Do the board and the members generally have a reasonable understanding of the importance of European work, the long time frame that is involved and the difficulties of getting a desired outcome? Unless there is that understanding the resources may not be made available and there may be unjustified frustration with the performance of the association. A board is more likely to have a good understanding of European issues if it is faced with major issues at the European level.
- Are the right people involved in the European association? Ideally there should be a mixture of secretariat and practitioners, with the secretariat ensuring proper feedback and dissemination of information. The industry practitioners must be the relevant people; people who cease to be relevant must be ruthlessly removed. The “leadership” of the national delegation must be in the hands of a current industry leader and must not become a personal fiefdom of an elder statesman or someone whose sole aim is the presidency of the European association.

The approach to handling issues at the European level

- Does the association explicitly consider how to handle each individual issue at the European level?
- Is the relevant UK government department or regulator always kept informed of the association’s work?
- Is the association effective in making the British view the European view?
- Are coalitions and alliances used where it is considered that they will promote the association’s interests?
- Is careful consideration given as to how an issue should be handled within the European association?
Communications
A national association must receive information in a timely and user-friendly way from its European association. National associations are generally under much greater media pressure than European associations and this needs to be reflected in the information flow from European associations – a detailed and considered view that takes three days to prepare may be useless compared with instant thoughts circulated within half an hour. More generally –
- Does the European association not only distribute information (for example, details of a new consultation document) but also add value with a brief commentary highlighting its relevance to the sector?
- Are reports of European association meetings circulated promptly and are they useful?
- Does the national association get prompt and proper feedback from delegates on European committees?
- Does the national association have a good system for disseminating information to members about developments at the European level?

Contacts
Does the association have excellent contacts with -
- The European association.
- Other national associations, particularly in the “major” countries.
- The Commission.
- UKREP, although this is less relevant in some sectors, particularly where the relevant government department is very active in Brussels.
- MEPs.
- The Economic and Social Committee and the Committee of the Regions (currently not greatly important).

Some associations may not need direct contact with the Commission or some of the other institutions, if they can safely rely on their European association or a federation to which they belong.

European associations
Is the European association (or associations) effective?

Consultancies
If a consultancy is used does it deliver the services it is contracted to deliver in a timely way; in particular how good is it at feeding intelligence to the association?

The effectiveness of a consultancy can usefully be measured against the effectiveness of a European association.

Does the consultancy provide value for money?

Review
Does the association conduct a regular review of the effectiveness of its work at the European level? The nature and extent of the review will depend on circumstances. A major review is probably needed every few years or when there is a special factor, such as a merger with another association or concerns about the effectiveness of the European association. In between major reviews a brief annual review is probably in order.
Chapter 11

Information services

The provision of information to members is a core function of trade associations. An association should be seen as the first port of call for industry information. An association must be skilled at information management and make effective use of its website for providing information both to members and outsiders.

The importance of information
All businesses need information in order to operate effectively. They need to know in particular about the environment within which they are operating, that is trends in the marketplace, the activities of competitors, any legal requirements that they need to meet, the tax regime governing their business, export opportunities and potential threats to their business from whatever source.

Companies must take responsibility for obtaining the information that they need. Good quality information is a source of competitive advantage and companies in a sector are unlikely to agree to pool their sources of information for this reason. However, there is a base level of information which all participants in an industry need and which can best be provided centrally. This is a key characteristic and function of trade associations. They are not only well placed as an information source but it is essential that they are one because of their role in other areas, in particular in respect of legislation and regulation and also statistics.

A trade association that is seen to be effective in providing the information that its members need will be valued by those members. By contrast, if an association is not seen as a reliable source of information it runs the risk of losing members and also perhaps of losing its status to others able to provide the information more effectively.

Types of information
The most important area where associations must provide high quality information to their members is in respect of any legislation and regulation which is specific to the members. This information often derives directly from representational work so an association is particularly well placed to provide it. Members of an association will expect their association to provide them with all the information they need to know as a result of any specific legislation. That information is not only the terms of, for example, a law or a regulation but, more importantly, a clear explanation of what it means and what a company has to do as a result.

It is vital that this service is not handled in a legalistic way, that is that information is not provided until it is definite and has been thoroughly checked. Companies have to operate each day and cannot wait for perfect information. An association should strive to provide advance warning of any legislative or regulatory matters affecting the members and should regularly keep its members up-to-date, if necessary providing quick and dirty analyses followed by more detailed analyses. This will be preferred by members rather than waiting for information which may come too late to be of much use.
Where there is a major piece of legislation or a regulation affecting members then a typical trade association practice is to produce a guide to it, setting out in full the terms of the legislation or regulation and then a detailed explanation of the implications and guidance on how the legislation can be complied with.

A second set of information relates to statistics and analysis about the industry. Another core function of a trade association is to collect and disseminate industry statistics. This enables companies to track their market share and also to understand better the performance of the industry generally. An association needs to ensure that it provides the statistical information that its members want. This may include not only actual hard statistics but also opinions about future trends. This can be a difficult function for associations, which traditionally have worked on the basis that everyone must contribute. However, there will be areas where not all members want to contribute and there may even be areas where only a small number wish to contribute. An association should try to meet these requests, and decide what information will subsequently be made available to all members or more widely and what information will be made available only to participating companies. If an association does not manage industry statistics in this way then it is almost certain that somebody else will. In many sectors, accountancy firms and consultancies have cornered the market in industry statistics because they have been more sensitive to the needs of the companies than has the trade association. There may well be cases where an association will wish to enter into an alliance with such a third party.

A trade association can add value to statistics by providing expert analysis. However, the analysis must be expert or it is not worth providing as many companies will have their own experts. Again, this is an area where some associations may find it sensible to work with a third party who has particular expertise in the industry.

In many industries, companies are constantly looking out for new, reliable suppliers. Depending on the nature of an industry, this can be a service that the association can provide. Merely listing companies that provide services to the industry without in any way rating them can be a useful service, a sort of specific Yellow Pages for the sector. This can save a company time and effort in searching for potential suppliers while still leaving the company the responsibility of entering into contractual relationships.

Members of an association also require information on sources of information that may be relevant to them that the association cannot itself provide. If an association can provide information on these sources then this will be a valued service. Some associations take the view that they should not advertise other organisations that might compete with them. This is short sighted. Members want to know what sources of information are available to them and if their trade association does not provide that information it will be devalued in their eyes.

Finally, companies in any sector require general business information, for example, on matters like employment law or health and safety.

**Management of information**

Information services are more tangible than the representational services which are the core business of trade associations. They are likely to be highly valued by member companies, in particular by middle management. It is therefore important that information services are properly managed such that they are provided in an effective and efficient way and can be relied on by members.
There are four tests which an association should seek to meet in providing information –

- **Comprehensive.** Members should know that all the information they need can either be obtained from the association or that the association is able to point them in the right direction to obtain that information.
- **Timeliness.** Associations should be first in providing information. If they provide it a week late then members will have turned to other sources.
- **Reliability.** Members rely on their associations to provide reliable information. They will feel that they do not need to check it and therefore the association must ensure that everything it says is 100% accurate or, if, for good reasons, there is a margin of error, it should say so.
- **Accessibility.** Information must be accessible to be useful. Today, this means providing the information through the website, normally the part of the site restricted to members. However, the association must have in place a mechanism for ensuring that all relevant staff in member companies can access this information.

As with other areas of business, an association should regularly review the effectiveness with which it provides information. Partly this can be done in-house through staff reviews, but it is sensible to have regular surveys of members in order to test whether the information that has been provided does meet the tests described above and also whether there are other areas where members would welcome an information service. Associations can also use any specialist panels or working groups to review the information that the association provides.

**Competition**

Trade associations may face some competition in respect of the provision of services. A good trade journal may provide some competition, particularly under the accessibility criterion. Middle management in member companies may automatically receive copies of the trade journal and may use this as their major source of information even if more reliable and timely information is available on the association’s website – if the website fails the test of accessibility. Something which is delivered to a desk (or a desktop) is more accessible than something which has to be accessed, even if only by pressing a few buttons.

Trade journals may even compete on the timeliness issue. However, this should not be a problem if a website is used effectively. It was a problem for those trade associations that communicated by means of a monthly newsletter while the trade journal appeared weekly.

Lawyers, accountants and consultants may be competitors in respect of reliability, particularly if they see the sector as a major source of business. They will be willing to provide a subsidised information service as a means of attracting fee-paying business. Generally, however, the effective trade association should be able to fend off such competition, or even to work with it, that is by coming to an arrangement with professional firms to supply some information on certain matters to the association which is then distributed to members.
Chapter 12

Commercial services

The provision of commercial services is not a natural trade association function. Associations can most effectively provide services linked to their mainstream functions or where they have a natural market advantage. The provision of commercial services is a risky business that needs to be handled carefully.

**Why commercial services are not a mainstream trade association function**

While associations must operate in a businesslike way they are not commercial organisations. Their products are largely bundled in a single service that is sold with differential prices according to the size of the member on a take it or leave it basis.

The principal function of most large trade associations is representation. Chapter 6 covered the skills required of the chief executive and managers – analytical skills, presentation skills, diplomacy etc. The provisional of commercial services requires a different set of skills – seeing market opportunities, procurement, planning, marketing and logistics.

The cultures of trade associations and commercial organisations are also different. It is not a question of one being better than the other but rather that they are of necessity different. Dividing a trade association’s staff into two – one half providing representational services and the other providing commercial services is unlikely to be an effective way of dealing with the issue. It is expensive and runs the risk of being divisive. The commercial people may claim superiority on the grounds that they are the people who make money while the others spend it. The representational staff may feel that the short time horizon and profit motivation of commercial staff does not recognise the way that they have to work.

These problems are not insuperable, but they must be addressed. Where an association provides commercial services in a significant way then it must ensure that they are managed such that the overall effectiveness of the association is enhanced. The success criteria and management of services must be different from, but not conflicting with, those for mainstream work. The risk of divisions in the organisation must be minimised and the association must not lose its focus.

**The rationale for providing services**

At first sight the attractions to an association of providing commercial services are compelling. First and foremost is an additional source of income, which means that subscriptions can be lower than would otherwise be the case. This can help retain and attract members and mean that more resources are available to do mainstream representational and other work.

A second benefit is that members may appreciate the services, particularly if they are of better quality or are cheaper than comparable services from other sources. This in turn enhances the value of the membership subscription. Indeed, in some cases the provision of commercial services may be more attractive to some members than the mainstream representational services. For example, some associations are able to offer their members special insurance arrangements that give members a cost saving which exceeds the cost of membership.
The provision of commercial services can therefore be a win-win proposition. However, not all associations can be in this position. Associations differ in their ability to offer commercial services in a way that enhances the membership proposition for reasons that are largely outside of their control.

**The criteria for providing services**

The general principle is that associations should seek to provide commercial services only where they have a natural advantage to do so for one or more of a number of reasons –

- The service draws heavily on the representational work of the association – this applies particularly to seminars, conferences and publications.
- The trade association has such a good reputation among its members that they are more inclined to buy products from the association than elsewhere. This reduces marketing and administrative costs.
- The services help to tie in the membership. This can be the case where the association controls a gateway for new business or where the association’s annual exhibition is the marketplace for the industry.
- Existing resources can be used at little cost, thereby helping to spread overheads.
- The service is low risk.
- The service is specific to the members of the association.

**Types of services**

Services which an association can provide range from those which in practice it must do to those which it should consider offering only with extreme caution. The services are described below roughly in order of attractiveness.

*Services linked to representational work.* There is a huge market for publications, workshops, seminars and conferences dealing which current issues. These will generally be matters in which the association has been involved and therefore on which it has special knowledge. The association’s experts are the best qualified people to cover the issues and therefore events at which they are speaking or publications to which they have contributed will do better in the marketplace than competing products which cannot draw on this expertise. Furthermore, associations are often well placed to attract officials to participate in such events – because of the strong links which exist between the associations and the official bodies with which they are dealing.

Because associations are well placed to offer such services their marketing costs can be minimal. If associations do not provide these services then others (conference organisers, trade journals and professional firms) will (and may do anyway) and may partially replace the association as the source of expertise on the subject. This is an area where an association will not only lose financially if it does not offer such services; it may also suffer a loss of reputation.

While an association is excellently placed to provide such services it may not be able to charge a commercial price. Members will object to this on the grounds that they have already paid once in the membership fee for representational services and they should not have to pay anything above cost price to hear the staff speak. Associations have to decide where to pitch the price between the administrative cost of putting on the event with no allowance for staff time and the cost of a comparable commercial event.
Providing a gateway for new business. There are some goods and services that are only occasionally accessed, which lend themselves to gateways for new business. Such gateways now invariably take the form of website portals. Such services include most forms of building and repair work, antiques and public relations. Many trade associations have always provided a gateway for new business, generally in the form of a directory or simple list of members. The development of the Internet now enables such services to be operated very efficiently through a website. The chapter on IT gave examples, such as LAPADA, the Art and Antique Dealers Association, through whose website people can search by postcode, county, period, item or name of business. However, most associations are not in this position. For example, people do not need a portal to buy services from a restaurant or a pub or for other items that they buy frequently.

Where a market lends itself to a portal then the association must provide it. If it does not someone else will and the association will have lost a valuable opportunity to enhance the membership proposition. It is conceivable that the someone else may also begin to compete with the trade association in other ways, for example by running seminars or producing publications.

Where a trade association does provide the service it must have a mechanism for recording the number of people who reach a member through the portal. At the very least this can be useful in demonstrating the value of membership. Depending on circumstances an association may be able to charge its members either for inclusion in the portal at all or on the basis of the number of references. However, members may resent paying any fee at all for this service or any more than a very modest fee. The association must generally take its share of the benefit through increased member satisfaction or a greater ability to retain and attract members, which in turn may enable it to charge higher subscriptions.

Professional services specific to the business. Where the members of a trade association provide a very specific good or service that has special legal, fiscal or insurance implications, then the association is well placed to provide services that meet these needs. The main moneyspinner for many associations is insurance. Many industries have special insurance needs, in particular in respect of employers’ and product liability. The sensible association engages a broker who arranges cover from a panel of insurers. The broker does the necessary research to be able to negotiate lower prices with insurers who in turn will obtain business without incurring marketing costs. There are many industries where the deals offered through the trade association can be substantially below market rates. The broker benefits by obtaining commission from the insurers with minimal marketing costs. The normal arrangement is for the association to obtain commission from the broker. In some cases this can be a substantial amount.

The less specific the service and the larger the market the less the differential between the price offered through the association and the price on the open market. For example, an association for metal recycling plants or an association for hang-gliding clubs can probably negotiate substantial discounts on open market rates; a large association for printers or golf clubs can probably negotiate much smaller discounts while the British Retail Consortium may have difficulty negotiating any discounts.

An association relying on insurance commission must always be conscious of the risk it is running. If the business is seen to be lucrative then other brokers or insurers might enter the market; this could benefit the members by providing an alternative source of supply but could cost the association commission income. In such circumstances the association’s
broker may want to cut prices and would expect the association to share the pain by cutting its commission. Also, the liability market has gone through a difficult time recently, which has led to big increases in premiums. Members will therefore perceive there to be a lesser benefit of belonging to the trade association even if premiums remain below market prices.

A good example of the way that insurers can provide a service to their members in respect of insurance is the recent initiative by the Association of British Insurers (ABI) for the assessment of trade association health and safety schemes. Over the last few years there has been a significant increase in compensation claims against employers and this has led to a huge increase in the cost of employers’ liability (EL) insurance. This has been the subject of some government reviews which, among other things, have concluded that insurers need to communicate more effectively with their policyholders, in particular smaller firms. The problem for insurers has been to find a cost effective means of obtaining relevant and objective information about the risk management practices of small firms. At a meeting between insurers and trade associations, it was suggested that the insurers, when assessing risks, should take into account the health and safety schemes that many trade associations run for their members. The ABI duly carried out an analysis of such schemes and distilled the features of best practice which characterised high quality schemes. The ABI has subsequently agreed a mechanism to allow information about such schemes to be delivered to insurers in the employers’ liability market. The scheme has two elements –

- Guidance to trade associations and other trade bodies about the kind of best practice which EL insurers would like to see firms adopt.
- The establishment of a standing committee of the ABI to assess trade associations’ health and safety improvement schemes so as to be able to make information about them available.

The scheme is not an accreditation scheme but rather the ABI provides a specific assessment of each scheme which is then communicated to the relevant trade association and to its members writing EL policies.

The best practice criteria are –

- A trade association should have a membership involved in a specific, well defined trade or sector.
- The criteria for membership of the health and safety scheme should be clear.
- Membership of a trade association health and safety scheme should require a firm to meet one or more recognised health and safety standards.
- Any best practice scheme should require all members to have up to date health and safety policies in place.
- Best practice schemes should incorporate a formal “tool” or process for assessing current practices in promoting compliance with scheme standards.
- Assessment should ideally be regular and involve independent third party assessors.
- Assessment should reflect the risks specific to the industry concerned and result in recommendations appropriate to those risks, facilitating suitable action plans and access to appropriate sources of information.
- Assessment should provide a simple, comprehensible score allowing peer group comparisons.
- Trade associations should provide or facilitate access to health and safety training for their members.
- Accident statistics should be collected regularly on a firm by firm basis.
Potentially, this scheme is of major importance to trade associations and also to insurers. If trade associations are able to demonstrate that they have meaningful schemes and that this is reflected in the statistics then the members of such schemes should qualify for lower insurance premiums. This will offer a significant benefit to members and will greatly enhance the value of trade association membership.

Associations may also be able to offer specialist legal and tax advice. The normal position here is for the association to do a deal with a professional firm of lawyers or accountants. The firm will provide a discounted and expert service safe in the knowledge that it has a guaranteed source of business. The association plays no further role other than providing the phone number of the professional firm or a link on the website. The association will receive commission.

The same risk points apply as for insurance deals. The bigger the amount of income the more that there is a threat of a competitor.

Many associations provide standard forms of contract, again most appropriate where there is a large number of relatively small members.

*Professional and business services generally.* Companies need advice on a range of matters that are not specific to them, for example, insurance generally, legal matters, VAT and health and safety. Associations can do a deal with appropriate providers and the services can then be marketed to the members in the same way as specific professional services. The higher the reputation of the association among its members the more successful it will be in providing these services. However, members will generally be able to purchase the services at the same price from other suppliers. The commission the association will be able to earn will therefore be modest.

A popular service with many associations is a legal helpline. Several commercial firms provide this service that gives basic advice free of charge, sometimes combined with insurance. The service provider pays a commission to the trade association and makes its money by providing additional services.

Associations that have a large number of relatively small members can also provide services such as travel and accommodation and stationery.

*Conferences, seminars and training.* The position here is very similar to that for professional services generally. The association has no special advantage in offering these services and where it does so, either directly or through a partner, it will face actual or potential competition from specialist companies in the market. This is where risk begins to enter the equation. Provided an association is using outsiders or using its own spare resources then it runs no risk by offering these services. However, if it signs a long-term contract with a provider with a guarantee of a certain amount of business or if it takes on additional staff and commissions expensive training programmes then it runs a significant commercial risk.

Some associations have training as one of their principal functions, that is they seek to be the principal provider of training services to their sector. Such associations are also likely to be employers’ associations and in nature are a distinct type of association. This is beyond the scope of this book.
Employment market. Where an association is in a sector where special skills are needed then it may be able to run a web-based employment service. The simplest service is for companies to place advertisements on the website, paying a fee for so doing. Such services run successfully in a number of sectors. However, they will work only if the website is seen as a place to visit by those seeking employment. There can also be a reaction from some members who see such services as a means by which their staff can be poached.

Exhibitions. In a number of sectors there are major annual exhibitions. The three largest, all run by trade associations, are Farnborough (Society of British Aerospace Companies), the motor show (Society of Motor Manufacturers and Traders) and the Boat Show – actually two a year, in London and Southampton (British Marine Federation). There are many other exhibitions run by trade associations or other organisations such as professional bodies or trade journals. In other sectors there has been a tradition of annual conferences, generally in seaside resorts. Such conferences have been declining generally but many organisations have added an exhibition as a means both of enhancing the value of the conference and earning income. Exhibitors need not have physical goods to display. Professional firms find exhibitions helpful as a means of marketing and keeping in touch with their customers.

Exhibitions are high reward/high risk for associations. If successful they can earn a huge income, which means that subscriptions can be maintained at a lower level than would otherwise be the case. However, exhibitions are risky. Attendance may drop if there is a downturn in business; an association runs the risk of losing both subscription income and exhibition income at the same time. Attendance may also be affected by extraneous factors. Many American associations, which rely heavily on annual trade shows, were very badly hit as a result of the impact of 9/11. Some trade shows were cancelled in the weeks immediately after and most have suffered significant falls in attendance.

Exhibitions also face the threat of competition from new exhibitions, either in Britain or other countries. The market for exhibitions is international and a new exhibition in France or even America could well rival an established British event.

Marketplaces. Some associations run marketplaces for their members. In such cases there may be a question as to whether the organisation is actually a trade association. Members may join in order to participate in the marketplace; indeed they may have to join in order to trade. Membership fees may be minimal. The association may provide traditional trade association services but it may not be clear if it really has a locus to do so. A number of financial trade associations in the City of London are based on markets yet are also properly recognised as legitimate trade associations by their members and others.

In fact those who run markets will always have some trade association role. They have access to information and statistics and are also likely to be regulated themselves. At the very least they need to represent their own interests. Lloyd’s of London is a good example of a marketplace that also has a trade association role. For the most part, that role is in respect of the Lloyd’s market itself but it also has a role in those parts of the insurance industry in which Lloyd’s members are most involved, in particular large commercial risks and re-insurance. Here it shares the trade association market with the International Underwriting Association of London (IUA), which comprises insurance companies in the wholesale markets. Like Lloyd’s, the IUA also runs a marketplace but because its
members have a bigger share of the markets they are in it has a legitimate role as a trade association in those markets. To illustrate how complex the position is most of the members of the IUA are also members of the Association of British Insurers, which also involves Lloyd’s members on some of its committees. The ABI is a pure trade association and runs no marketplaces. In some areas the ABI, Lloyd’s and the IUA all have a legitimate interest.

The Internet has allowed the establishment of virtual marketplaces in some sectors. Some of these have been very successful and have enabled the trade association running them to earn a substantial income. Others have perished along with the dotcom boom generally.

Running a marketplace is outside the scope of this book, but like commercial services generally it is not a function that sits naturally in a trade association. Where the market is the prime focus of the organisation then it must be staffed accordingly; trade association skills may not be a high priority.

Statistics The collection, analysis and provision of industry statistics is a mainstream activity of trade associations and is often essential to back up representational work. The cost of providing this service is fairly modest and may be wholly or partially recoverable from selling aggregate statistics and analysis to third parties.

Some associations provide a more sophisticated service - collecting very detailed statistics, which are aggregated and passed back only to the contributing companies and on a confidential basis. The service is designed to help members analyse their statistics as against the industry average. The provision of such a service is costly and may well require a significant investment in staff and software or a contractual commitment with a third party service provider. Members will expect this service to be provided on a breakeven basis with a proper allowance for staff time.

Such a service should be seen more as a member benefit than as a method of raising income, although there may be a modest contribution to overheads. However, associations run risks when they are providing such a service. The first risk relates to quality control. The association must not only undertake its own aggregation task competently but it must also be responsible for the integrity of the whole system which includes some checks on the quality of data provided by members. If members find that the quality of the output they are receiving is unreliable then at best the association will suffer a reputation risk and at worst may find members refusing to pay for the service or even demanding compensation.

A second risk relates to the nature of the contract between the association and its members. There may often have been an assumption that there would be a permanent demand for the service. However, in a number of sectors larger companies in particular have come to realise that by contributing to such exercises they are giving away competitive information to smaller companies. They have therefore sought to pull out of such schemes. Paradoxically, following good practice by having a regular review of such schemes may cause members to do their own assessment of whether they should continue to participate. Merger activity between large members may also precipitate withdrawals from such schemes - the larger the share of a market that a company has the less the benefit of participating in schemes to pool statistics. Long standing schemes may well allow companies to withdraw simply by not paying a bill when it is received. If one large company withdraws others may quickly follow therefore diminishing the value of the
scheme to remaining members. Meanwhile, the association is left with the costs of running the schemes which to a large extent are fixed.

It is sensible for the management team of an association to consider whether it is in this position, that is to consider whether there is a risk of members withdrawing and if so what the implications for the association would be. A decision then has to be made as to how to manage that risk.

Consultancy A small number of associations offer consultancy support to their members, generally on a fee paying basis but occasionally free of charge.

Principles for providing services
Many associations have probably drifted into providing commercial services in an ad hoc way. Because of the potential benefits and risks this is no longer a sensible approach. An association must have systems in place to evaluate each potential new service and to review regularly existing services. The evaluation should cover the following areas –

- What use do members make of the service? There must be a mechanism in place that records the use members make of the service.
- How do members value the service? Regular member surveys should show the extent to which members value the service when they use it and if they value the service being available even if they do not use it.
- What financial benefit does the association get from providing the service?
- What other benefits does the association get from providing the service?
- What is the financial cost if any of providing the service?
- What are the risks to the association if problems arise in the provision of the service?
- Could the association have any legal liability?
- What is the reputation risk?
- How dependent financially is the association on income derived from providing the service?
- What is the maximum fall in income/loss that the association could suffer if demand for the service falls and how can this risk be minimized?

In the case of major income earners such as exhibitions all the normal business tools should be employed if the association's interests are to be safeguarded.

The provision of services must be properly managed. Generally, a single person should have overall responsibility for service provision. Where there is a good case for splitting responsibility then there must be a consistent approach.

The provision of services should be included in the annual plan and budget. There should be a target income for services collectively and for each service and regular monitoring of performance against target so that any problems can be addressed and there is adequate warning of any significant downturn in income.

Pricing policy and accounting
This chapter has already touched on pricing policy in respect of some services. This section suggests an overall framework for pricing services and measuring profit. For each service an association needs to know –

- Direct costs of provision - often minimal or even zero where services are provided by a third party.
The cost of staff who are directly involved in provision of the service.
A reasonable allowance for the cost of management time.
A reasonable contribution to overheads. This figure is fraught with difficulty as overheads comprise a large part of an association's costs and exist whether or not the service is provided. Judgement has to be exercised as to what is reasonable and the extent to which services are required to make a contribution to overheads.
A risk allowance where the association is taking a significant business risk.

In assessing the price to be charged directly or the overall financial arrangement with a third party an association and its partners must take account of -

The open market price of the product.
The attitude and expectations of members, in particular in respect of services that they may reasonably consider should be funded out of subscription income.
The price elasticity of the product taking account of potential competition.

Many of these points will be uncertain and undue effort should not be exerted in trying to produce precise figures. The data should facilitate the exercise of judgement and not be a substitute for it.

An association should at least aim to cover direct costs and a reasonable allowance for staff time including senior management time. This might seem to be stating the obvious but it has certainly not been uncommon for the "profit" from conferences and seminars to make no allowance at all for staff time. For each service or individual event the final income and expenditure account should look something like -

Income ................
Less direct costs to third parties ................
Equals cash flow ................
Less direct staff costs ................
Less cost of management time ................
Equals gross profit ................
Less share of overheads ................
Equals net profit ................
Less allowance for risk ................
Equals return to the association ...............  

This type of accounting is essential to avoid spurious analysis. Some associations have, for example, set targets for the proportion of total income to be raised by commercial services. This target can be reached by the association buying in and reselling services or by employing extra staff to provide additional services on a breakeven basis. Such targets can also be reached by redeploying policy staff to provide services. A trade association derives a financial benefit by providing services only if this enables the same level of core services to be provided at a lower cost than would otherwise be the case. For this reason the management accounts of an association should record income from commercial services as net of payments to third parties. However, the audit advice in respect of published accounts is that the gross approach is favoured.

Trends in service provision
The 2001 benchmarking study gives useful data about the services provided by trade associations and trends in the provision of services over the years.
Table 12.1 shows the proportion of associations providing particular services and the associations’ assessment of their value.

### Table 12.1  Commercial services provided by associations

<table>
<thead>
<tr>
<th>Commercial service</th>
<th>Offered</th>
<th>Doubtful value</th>
<th>Positive contribution</th>
<th>Very worthwhile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Seminars</td>
<td>74</td>
<td>20</td>
<td>34</td>
<td>46</td>
</tr>
<tr>
<td>Publications</td>
<td>72</td>
<td>22</td>
<td>43</td>
<td>35</td>
</tr>
<tr>
<td>Conferences</td>
<td>59</td>
<td>18</td>
<td>39</td>
<td>44</td>
</tr>
<tr>
<td>Training</td>
<td>56</td>
<td>15</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Statistics</td>
<td>46</td>
<td>26</td>
<td>47</td>
<td>28</td>
</tr>
<tr>
<td>Exhibitions/trade shows</td>
<td>45</td>
<td>11</td>
<td>35</td>
<td>54</td>
</tr>
<tr>
<td>Insurance</td>
<td>36</td>
<td>24</td>
<td>35</td>
<td>41</td>
</tr>
<tr>
<td>Consultancy</td>
<td>25</td>
<td>16</td>
<td>48</td>
<td>36</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>25</td>
<td>17</td>
<td>63</td>
<td>21</td>
</tr>
<tr>
<td>Press cuttings</td>
<td>15</td>
<td>17</td>
<td>75</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: *Trade association performance – a five-year view* (Trade Association Forum, 2002) Table 4.2.

A higher proportion of large associations provided commercial services in publications, statistics, conferences, press cuttings and benchmarking. Medium associations were stronger in seminars, training and exhibitions/trade fairs. Small associations were particularly strong in consultancy and insurance.

The study noted that 50% of associations had a strategy for commercial services, with larger associations more likely to have a strategy. Elements that appeared in many strategies were –

- Services must be relevant to members and make a positive financial contribution.
- Targets to build commercial income to a certain proportion of total income and reduce dependence on subscriptions.
- Providing services where significant savings can be delivered to members.

43% of associations indicated that they included indirect costs in costing and pricing their commercial services, a significant increase compared with the figure of 34% in the 1999 survey.

Taking account of direct and indirect costs, the median surplus from commercial services made in the previous year was £40,000. Significantly, there was comparatively little difference by size of association. The median for small associations was also £40,000, for medium sized associations it was £29,390 and for large associations it was £75,000.

**Bibliography and further information**


Chapter 13

Self-regulation

Regulation is not a practice which naturally belongs to trade associations. However, many associations run self-regulatory schemes, either because they believe that it is in their interests to do so or under outside pressure. Self-regulation by trade associations is fraught with difficulty and needs to be handled carefully.

The concept of self-regulation

All businesses have to operate under the general law of the land, for example contract law and laws in relation to misrepresentation. There are also a number of self-regulatory schemes that, in effect, are applied on all businesses, in particular the Code of Advertising Practice operated by the Advertising Standards Authority. Many industries are subject to specific laws covering their activity only. This applies in particular to the regulated industries - telecommunications, the utilities and financial services - but also to a number of other industries, for example food preparation and football clubs.

Many companies have their own customer charters or codes of practice. These are primarily a marketing device but they do form part of the contract with the customer and many give protection over and above that conferred by law.

Self-regulation is generally defined as regulation imposed on a group of companies by those companies. Its essential feature is that it is a voluntary arrangement, that is companies volunteer to be subject to regulation that is not required by law. Most self-regulatory schemes are run by trade associations but a number are run by organisations specifically set up for that purpose by a group of companies. This may happen, for example, if the trade association does not want to introduce such a scheme or if the companies concerned want to operate to higher standards than companies generally in the sector would agree to. A trade association can make adherence to a code of practice a condition of membership. Where membership of the trade association is, in practice, essential because of the particular nature of the industry and the advantages which the trade association offers then adherence to the code of practice is, in effect, a licence to trade.

While the general concept of self-regulation is a simple one, there are, as the remainder of this chapter will show, an endless variety of types of self-regulation, both in respect of the requirements of any code of practice and the way that it is enforced.

The case for self-regulation

At first sight, the case for self-regulation seems to be a strong one, with the government, the companies subjecting themselves to self-regulation and the public all benefiting. For the government, self-regulatory schemes frequently work in the public interest and do things that the government would like to do but is not able to either because of lack of legislative time or because the matter does not lend itself to legislation. More specifically

- Self-regulation can address a public policy concern without the need for government and other public sector resources to be devoted to introducing and enforcing a new law.
• Even where government may wish to regulate, self-regulation deals with a problem more quickly than statutory regulation.
• Once legislation is passed it is difficult to change. By contrast, a self-regulatory regime can be changed relatively easily. Having said this, this particular advantage has been eroded in recent years because of the normal practice for legislation to say little, with the substance being laid down in regulations which can be changed more easily than the primary legislation.
• Self-regulation can do things that legislation cannot do. Governments may be constrained from imposing particular legislative requirements on a sector because they believe it is not practical to do so for legal reasons. There have to be good grounds for a government to impose conditions on one industry that are not generally imposed and may conflict with other government legislation or policy. For example, the government seems keen to allow people to transfer their bank accounts easily and has encouraged this to happen through a code of practice. It is very difficult to see how government could legislate for something so specific.
• Self-regulation can be used as a testing ground. Governments can build on self-regulation if they then want to regulate statutorily, and particularly can learn from any problems that emerge from the operation of a self-regulatory regime.
• Self-regulation enables the government to shift responsibility for a problem on to an industry and, if necessary, to shift blame to that industry.

For the members of the trade association, self-regulation can also be attractive –

• Business may be improved through the cowboys being driven out of an industry. For example, in some industries there may be some companies that cut corners and offer a poor deal to the customer. In so doing they can offer lower prices and, therefore, attract business away from more reputable companies, and the reputation of the whole industry suffers where the customers eventually discover that they have been poorly treated. If a code of practice is successful in creating a level playing field on such matters then the good companies will benefit.
• Adherence to a code of practice may win companies “brownie points” in that they are seen to be responsible companies keen to operate to a high standard of business.
• Self-regulation may be an alternative to statutory regulation which in all probability would be more onerous for the businesses concerned.

Operating self-regulatory schemes can also be attractive for trade associations. If the members perceive there to be value in a code of practice then the value of the trade association membership is enhanced. If adherence to a code of practice is, in effect, a condition to trade then this can help tie in companies to the trade association, that is they have no choice but to join if they wish to operate in the industry. Finally, where a trade association runs a code of practice successfully this is likely to enhance its image in the eyes of the government, media and consumer groups.

It may seem therefore that there is an overwhelming case for self-regulation. The government is able to achieve certain public policy goals without having to legislate itself; companies in a sector may well benefit through the cowboys being driven out of the sector; the trade association has an enhanced status and perhaps additional business as well, and the consumer is better protected. However, these advantages can be secured only if the right form of self-regulation is introduced, and they also have to be balanced against some problems.
While trade associations may not see themselves as having a significant role in respect of self-regulation, others see them in a different light. Some useful research on this appeared in the March 2003 issue of *Which?*, the magazine of the Consumers’ Association. *Which?* asked 1,026 adults whether they thought trade associations offer protection to their members’ customers. Over 70% said that they would be more confident using a builder, roofer or other home improvement company which displayed a trade logo. Over two-thirds thought that trade association membership usually means that a company has to adhere to strict professional standards and over half thought that membership usually offers some sort of guarantee of workmanship.

The Association conducted a name recognition test in which some associations with codes of practice scored no more than fictitious trade associations. The value is therefore in the general “trade association” label rather than the names of specific associations.

The article set out some views on what trade associations should be doing to protect the public who use their members –

- Checks on new members and ongoing checks on existing members.
- Requiring members to join an independent ombudsman scheme or, at least, to have an effective complaints system and an arbitration process for settling disputes.
- Ensuring that members are backed by indemnity insurance if they go bust.

**Degrees of self-regulation**

The expression “self-regulation” is sometimes used as if it has a single meaning. There are, in fact, various degrees of self-regulation. Broadly speaking, they can be divided into three separate types.

The first type is typified by an aspirational code of practice. Many trade associations have such codes and often require them as a condition of membership. In practice, however, the requirements generally are no more than –

- An obligation to comply with the law and all relevant regulations.
- An obligation to behave with integrity.
- A commitment to fair prices and fair trading.
- An obligation to consider complaints against the company.

Such codes many have additional requirements related to any specific legislative requirements affecting the industry. The key point is that they actually do no more than companies would be required to do by law anyway. Vague statements about behaving with the utmost integrity and operating fairly are meaningless. Such codes are fairly harmless but there is a danger that they detract from the more effective codes. The public have little means of knowing whether a code of practice is meaningful or whether it is simply aspirational.

The second type of code of practice can be described as a soft code but with real requirements. Such codes of practice may require, for example –

- The provision of information over and above that required by law.
- Refunds, where these are not required by law.
- Some after-sales-service commitment.
- A complaints mechanism that may include the trade association investigating complaints.
Such codes can be described as soft because there is no effective monitoring of their operation and there is only a limited complaints procedure which is not likely to include a procedure by which the decision of the company can be overturned. However, such codes are not worthless. They form part of the contract between the customer and the company and are therefore relevant in any legal case. If generally observed, they can also help to raise standards in an industry generally. A customer with a complaint that illustrates clearly that a company has broken the code can expect the trade association to assist him or her in seeking redress and this usually happens. Such soft codes are particularly appropriate in sectors where there is some scope for self-regulation but where the value of any detriment is fairly small. They are not appropriate in sectors where there can be significant consumer problems.

The third type of code of practice can be described as a hard code. The main features of a hard code are –

- Requirements that go well over and above those required by law and which, for many companies in a sector, require a standard of behaviour that they would not otherwise follow.
- In drawing up and monitoring the code, consultation with outside bodies, in particular consumer bodies and probably also government.
- A governing body for the code of practice that should include significant effective outside representation.
- Hard monitoring which, at the least, should include companies providing an annual compliance letter confirming that they have complied with the code in all respects and probably also some external verification, either auditing of companies’ procedures or mystery shopping.
- A complaints mechanism that enables decisions of companies to be overturned, either an ombudsman or compulsory arbitration.

This chapter is not concerned with aspirational codes but rather with the second and third types of code, which require significant changes in company behaviour.

**Problems with self-regulation**

For a trade association, operating an effective code of practice is fraught with difficulty. Not all members will want such a code of practice. For some it may threaten the way they do business. Other members may take the view that the job of the trade association is to protect them from regulation, not to become a regulator. Even some companies willing to sign up to the code may do so reluctantly and therefore become disaffected with the association. Companies may be particularly concerned if they see self-regulation as imposing standards on them that do not apply to their competitors, that is companies that are not in the trade association or companies that may be in related sectors but which effectively compete with them.

From experience, trade associations know that operating codes of practice can be a slippery slope. Initially, it might seem sufficient to introduce a fairly tame code of practice with minimal resources and which has comparatively little effect on the behaviour of member companies. However, the trade association will then come under increasing pressure to strengthen the code of practice. Paradoxically, the sectors where this is most likely to happen are not those where there is most consumer detriment but rather are those where there is already a code of practice and there is an effective trade association. Associations may come under particular pressure to beef up the monitoring and
compliance arrangements and to introduce an independent element into the governance of the code.

This problem has a related one, that is the cost of codes of practice. They can start off as being cheap but the cost can rapidly build up over time, particularly to run complaints procedures, monitoring arrangements and also governing bodies where an independent element is involved. Trade associations may well not be able to recover the costs from those companies that sign up to the code and therefore the financing of the code has to compete with other activities.

Related to this point is the risk that the trade association might lose focus, being a regulator rather than concentrating on representing the interests of its members, in particular in relations with government. An increasing amount of the association’s work might be in regulating its members. This can introduce conflict into the association, for example an association may find it difficult to get the co-operation of its members on other matters if they feel unhappy with the way in which the code of practice is being applied. In extreme cases members may leave an association because they do not agree with a code of practice.

From the government and public interest point of view, codes of practice are also not ideal. A major problem has already been touched on. Codes of practice are voluntary and there are varying types from those that are meaningless to those that impose significant obligations on member companies. The public cannot be expected to differentiate between codes of practice. By contrast, the public is reasonably entitled to assume that all laws are observed and enforced, although in practice this may not be the case. Even where there is an effective code of practice it may not be easy for the public to know whether a particular company is a signatory to that code. This is in contrast to legislation which applies to all businesses.

The uneven enforcement of codes of practice is a particular problem. There are hard codes of practice in many sectors which seek to impose significant obligations on companies that give the consumer substantial protection. However, enforcement in one sector may be zero while in another it may be comprehensive. The public can have no way of knowing whether this is the case until the code is tested.

Finally, self-regulation, at the end of the day, has no real teeth. It is open to a company to withdraw its adherence to a code of practice and, if necessary, to walk out of a trade association; a number have done that over the years. A company may choose not to meet an obligation under the code of practice and while the aggrieved customer may have a good case in law it may be difficult for them to pursue this. Consumer bodies generally criticise codes of practice as having no real teeth. This is true, but it is an inevitable consequence of voluntary self-regulation. The alternative of statutory regulation has advantages but also disadvantages.

Some codes of practice can be enforced where businesses insist on it. For example, a voluntary code of practice works in the advertising industry because the media insist on it – to protect themselves from legal action. Similarly, mortgage intermediaries are forced to comply with the mortgage code because unless they do so mortgage lenders will not accept business from them.
Conditions for successful self-regulation
The experience of trade association codes of practice over the years suggests that there are a number of criteria that need to be met if they are to provide significant protection for the consumer.

It is possible to identify the sectors where codes of practice are most needed. Indeed, these are the sectors where arguably legislation is also needed. The consumer is particularly vulnerable in the following circumstances –

- Where each transaction is unique, that is, instead of a standard good or service being bought the customer is buying something of a one-off nature, for example repair work to a car or to a house or medical treatment.
- The customer engages in only occasional transactions and therefore is not able to benefit from the experience of previous transactions. Estate agency and funerals come into this category.
- The sector has many small firms. Large companies have their reputations to protect and are also vulnerable to scrutiny by the media, trading standards departments and, if necessary, government departments. By contrast, many small firms have no such reputation to protect. Even where there is legislation, monitoring a large number of companies is more difficult than monitoring a small number.
- There is considerable consumer detriment because customers are treated badly, for example by being given incorrect information about price or by being advised that they need a particular good or service when, in practice, it is not suitable for them.
- Legislation is not practical, either because the government could not find time for it or because it is very difficult to legislate to deal with the particular problem. For example, the car repairs industry is riddled with bad practices such as people being charged for work that has not been done and garages recommending unnecessary work. These activities are illegal. However, they will be caught only through some mystery shopping exercise. The government cannot easily legislate for this although it has done so in respect of financial services.
- There is a lack of public confidence in the industry.

The sectors that most exhibit these characteristics include car servicing, all forms of building work, funerals, estate agency and medical services.

Having established those sectors where codes of practice are most needed, it is also necessary to establish whether codes of practice are practical in those industries. A meaningful code of practice is most likely to be practical in industries which exhibit the following characteristics –

- The industry is subject to some regulation, for example in respect of prudential requirements. Companies within the industry will therefore be accustomed to regulation.
- The companies in the industry can be easily identified.
- There is a trade association covering the whole sector. This is generally the case in a regulated industry because regulated industries and strong trade associations go together. The government, or a regulatory body, can lean on companies in the sector to impose self-regulation for the areas it does not want to cover.
- The trade association is strong and has effective leadership. This means that the vast majority of companies in a sector must belong to the trade association and that the trade association has a high status within the industry with industry leaders being involved in its governance.
• The industry itself is fairly concentrated as self-regulation is easier the fewer the number of companies involved.
• There is a good prospect of companies getting additional business and profits as a result of the operation of the code of practice, which means that the code should be effective in driving out cowboys.
• There is a strong threat of a worse alternative to self-regulation in the form of statutory regulation. The government may continually need to be making that threat and it should be clear that it will legislate if necessary.

If the conditions set out in this section are compared with those in the previous section it will be seen that there is little overlap. The fact is that strong codes of practice are particularly needed in those sectors where they are not practical. This leads to a somewhat perverse situation in which the industries that have reasonably good records and where there are already high standards are increasingly leaned on to have more effective codes of practice while industries where there are major problems but codes of practice are simply not practical are rather left alone. Most government pressure in respect of codes of practice has been in the financial services industry whereas, for example, the building industry and the car repair industry have largely been left alone.

This leads to a key point in the code of practice issue. In seeking to devise a code of practice for a sector, is it possible to satisfy outsiders, in particular consumer groups and the Office of Fair Trading, and at the same time produce a scheme that is acceptable to the members of a trade association?

**Government policy**

There has been little or no coherent government policy on codes of practice. Rather, the subject has been left to individual departments and regulatory agencies. The financial services industry has been subject to strong government pressure for a range of codes of practice covering, among other things, the selling of general insurance, the use of genetic tests and banking. The utilities have also been required, in effect, to introduce various codes of practice.

Policy in the non-regulated sector has been very different. The Office of Fair Trading (OFT) has had overall responsibility for this area. Under section 124(3) of the Fair Trading Act, the Director General of Fair Trading had a duty to encourage trade and professional associations to prepare and disseminate to their members codes of practice. The OFT went beyond encouragement and gave formal support to codes of practice which it believed would deliver real benefits to consumers. However, there was increasing dissatisfaction with the regime.

The issue was discussed in the government’s consumer policy white paper *Modern markets: confident consumers* (July 1999). This set out the case for self-regulation and outlined core principles for codes of practice. This issue has subsequently been taken forward by the OFT. In February 2001, it published a consultation paper *The OFT’s new approach to consumer codes of practice*. After briefly discussing the benefits of self-regulation, it observed that the current regime was not delivering the theoretical benefits. Complaints continued to be high and there was little consumer awareness of the codes. Where there was awareness there was doubt as to whether the codes had teeth and could deliver real benefits to consumers.
The consultation paper suggested a two stage approach which aimed to encourage associations to reassess their existing codes or introduce new codes. Under the first stage, the OFT would set out clear criteria that a code of practice should meet, including compliance and dispute resolution procedures, and the OFT would encourage associations and others in drawing up codes to map the criteria into the practical circumstances of their sectors. It undertook to confirm to the sponsors of well formulated codes that the codes appeared to meet the OFT criteria. Thus the role of the OFT would not be involved in drafting codes of practice but rather in facilitation. The consultation document set out proposals for a second stage in which the OFT would endorse, including through a logo, those codes for which there was robust evidence of practical success. Code sponsors would have to provide this evidence, which would include mystery shopping, compliance audits and complaints data.

The consultation paper said that the OFT planned to issue the final version of its new criteria in July 2001 and that in August it would invite code sponsors to state whether they wished to participate in the new regime. During September and October it would assess their applications with a view to announcing in November 2001 which codes met the stage 1 criteria.

The OFT aimed to target those areas where consumer detriment was high. It set out criteria for selection of priorities fairly similar to those outlined earlier in this chapter. Its criteria were –

- Known problem areas for consumers.
- Complex products.
- High risk transactions.
- Low consumer awareness of products and rights.
- Likelihood of a successful code.
- Absence of a sector specific statutory regulator.
- Absence of an alternative self-regulatory regime.

The OFT’s preliminary view was that priority sectors would include used cars, car repair and servicing, credit, funerals, travel, estate agents and direct marketing.

The OFT’s criteria for the new approach to codes of practice are set out in full in the appendix. In summary, they are –

- Code sponsors should have a significant influence on their sector.
- Compliance with the code must be mandatory on code members.
- Code sponsors must have independent disciplinary procedures.
- Code sponsors must be able to demonstrate that organisations representing consumers, enforcement bodies and advisory services have been consulted throughout the preparation of the code and are consulted in the operation and monitoring of the code.
- The code should include measures directed at the removal or easing of consumer concerns and undesirable trade practices.
- Among the areas that codes should address are advertising, pre-contractual information, clear terms and conditions, delivery and completion dates, cancellation rights, guarantees and warranties, protection of deposit or prepayments and after sales service.
- Code members must have in place mechanisms for dealing with complaints and a conciliation service must be available.
There must be a low cost, speedy, responsive, accessible and independent redress scheme.

The operation of the code should be regularly monitored.

Code sponsors must develop performance indicators and must regularly assess customer satisfaction.

There must be a procedure for handling non-compliance by members with the provisions of the code.

In July 2001, the OFT published its response to the results of the consultation exercise. Broadly speaking, it said that it intended to go ahead with the proposals as originally announced and there were no substantive amendments. Similarly, the priority sectors were unchanged.

The OFT repeated the timetable that it had previously announced. It also indicated that it would be producing guidance on the core criteria for code sponsors in early August 2001.

In the event, this guidance was not produced until May 2002, under the heading of Core criteria for consumer codes of practice.

In October 2002, the OFT published guidance for consumer organisations aiming to address what is expected from them and how the OFT intended to address concerns raised about the consultation process. The core criteria require consultation with consumer bodies and there would obviously be a concern that the consumer bodies either could not cope or that in some sectors there was no specialist consumer body which could comment.

In the event, the OFT has made very slow progress. By the end of 2002, only three code sponsors had achieved the stage 1 status - the Ombudsman for Estate Agents Company, the Vehicle Builders and Repairers Association and the Direct Selling Association. They were followed in February 2003 by the Association of British Travel Agents.

The OFT regime has made slow progress for a number of reasons –

- The approach has been partial, largely ignoring the effective codes of practice that exist in the financial services and utilities industries which have been promulgated by trade associations but with the encouragement of regulators and government departments. The OFT regime would have more credibility if it embraced these codes.

- The criteria are tough and many trade associations would find it difficult to meet them. In particular, the requirements for independent involvement in monitoring arrangements and disciplinary action will be controversial within trade associations. This comes back to the point that in the areas where codes are most needed, the trade associations are seldom strong enough to be able to impose them unless there is a clear additional threat or encouragement from the government. So far, that additional threat or encouragement has not been very evident.

- The regime is appropriate for sectors where there is the potential for major consumer detriment, such as travel, estate agency, funerals and car servicing. It is not appropriate for sectors where most transactions are relatively small in value, such as shoe repairers or sports clubs. A lighter version of the regime with less emphasis on disciplinary procedures and the involvement of an independent element might be more appropriate in such sectors.
It remains to be seen how the OFT regime will develop over time. The OFT has now unveiled its logo and is talking with a number of other trade associations. However, unless it can substantially increase the number of sectors covered by its approved codes then the new regime will be of limited value.

**Process for establishing a trade association code**

If a trade association intends to introduce a new code or to review an existing code, it must recognise at the outset that this is a major undertaking. A strategy should be developed before work begins covering, in particular, why it is wished to introduce or change a code. As part of this strategy, the costs and benefits must be firmly identified. It is important that there is member buy-in to the code which means an extensive programme of consultation and information.

The key decision an association must take is whether it wishes to develop a “soft” code which will have some consumer benefit but which will not meet the OFT criteria or to develop a hard code and seek OFT endorsement. The soft code will be the favoured option in all but a few sectors, because the OFT criteria would be unattainable, if only on cost grounds. Having decided that it wants a soft code, the following sequence should be followed –

- Identify the issues that need to be addressed by a code of practice. These will be the issues that properly concern consumers. The chances are that the trade association will be well aware of what these issues are but it makes sense to have a somewhat more rigorous framework for identifying them, for example, conducting market research and consulting consumer bodies.
- The code needs to be drawn up. There are some standard features which should apply to any code, for example compliance with existing law and regulations, but the key points are the special features of the code which will give consumers substantial protection over and above that conferred by law. These will differ from sector to sector but are likely to embrace such issues as pre-contract information, refund policy and delivery and completion times.
- A complaints procedure must be prepared. At the minimum this should require each company to have its own complaints procedure and for people who are not satisfied to be able to complain to the trade association. As an option, arbitration can be made available or it may be possible for an association to tap into an existing ombudsman scheme, although this can be costly.
- The association also needs to establish compliance arrangements. At a minimum there should be a requirement for adherents to a code to submit an annual compliance letter confirming that they have complied with each specific provision in the code. This can be supplemented by an analysis of complaints and again, depending on the sector, perhaps also mystery shopping.
- Drawing up the code, the complaints and compliance arrangements must be done as an iterative process involving consultation with the members and with other interest groups, in particular any relevant consumer bodies, government departments or regulatory agencies. The point has already been made that it is difficult to produce a code that will satisfy consumer bodies and regulators but, at the same time, will be acceptable to the members.
- When the code has been introduced the trade association must have a procedure for regular monitoring of its effectiveness and the publication of an annual report, perhaps as part of its own report. This should cover, in particular, complaints and the results of any monitoring exercise.
The code, the compliance arrangements and the monitoring arrangements should be regularly reviewed.

If an association wishes to adopt a hard code with an intention of meeting the OFT criteria then it has to go through broadly the same process but with a number of additional stages. It is also vital that it is understood at the outset just how lengthy, complex and costly the procedure may well be. The key additional points are –

- Ownership for the project has to be established. Ideally the trade association will establish a small committee of members and provide the necessary staff resource.
- A framework must be established for developing the code, which should include, for example, the consultation mechanism, the organisations that will be consulted and the proposed timetable.
- The issues that the code should address should be analysed in consultation with consumer bodies, regulators, government departments and any other interested bodies, rather than the trade association deciding what they are and then consulting.
- The association should then have a first go at drafting the code together with the compliance, monitoring and enforcement arrangements.
- Members have to be persuaded to sign up to the draft code but with an understanding that it may well be amended in the light of consultation.
- A draft of the code, together with the administrative arrangements accompanying it, should be formally issued for consultation and a reasonable consultation period allowed.
- A process of negotiation between the association and consumer bodies, regulators or government departments may be needed to settle the code.
- A council, including an independent element, must be established to oversee the operation of the code. It makes sense for consumer bodies to be consulted in establishing the council and there may well be a case for establishing it at a fairly early stage in the process. A code of practice will have more credibility if there is seen to be a council which includes in its membership people who will give confidence to consumer bodies.
- A board has to be established to be responsible for the operation of the scheme, in particular the funding and any administrative arrangements. Normally this would be established by the trade association and there is no need for any independent involvement.
- An independent complaints mechanism must be established. This can either be an ombudsman or arbitration arrangements.
- Once the code has been established, the monitoring arrangements must be put in place. These will include, as a minimum, the annual compliance letter and also mechanisms such as mystery shopping, consumer surveys and consultations with interested parties.
- An annual report should be published on the operation of the code.
- The code and the various administrative arrangements surrounding it should be subject to a modest annual review and a more comprehensive review at least every five years.

**Bibliography and further reading**
The OFT’s new approach to consumer codes of practice (OFT, 2001).
Core criteria for consumer codes of practice (OFT, 2002).
Appendix

The OFT criteria for codes of practice

Overarching principles
a) Our aim is to set challenging but realistic standards for businesses to achieve. The overriding principle, that only codes which are effective in protecting consumer interests shall be approved, must be maintained. If it is not, the codes of practice regime will fail due to a lack of credibility and respect.
b) A code must require code members to meet their obligations under consumer protection and other laws. A code should offer specific and worthwhile benefits beyond the law.
c) The OFT has decided upon a two stage approach to codes of practice. At stage 1 code sponsors will promise that their code meets the required criteria. Progression to stage 2 and OFT approval will be made when evidence is produced to verify that the code sponsor delivers on the promise.
d) The criteria apply to stages 1 and 2 except where otherwise indicated. [Those marked with an asterisk apply only in stage 2.]

CRITERIA

Organisational
a) Code sponsors should have a significant influence on the sector. In practice membership would normally be a majority of firms in the sector but this would not preclude support for a smaller code sponsor containing some of the more progressive elements in the industry.
b) Compliance with the code shall be mandatory on code members.
c) Code sponsors shall have independent disciplinary procedures available to deal effectively with cases of non-compliance.
d) Codes sponsors shall have adequate resources and be funded in such a way that the objectives of the code are not compromised.

Preparation of the code
a) Code sponsors shall be able to demonstrate that members are prepared to observe its provisions.
b) Code sponsors shall be able to demonstrate that organisations representing consumers, enforcement bodies and advisory services have been adequately consulted throughout the preparation of the code.
c) Code sponsors shall be able to demonstrate that organisations representing consumers, enforcement bodies and advisory services are being adequately consulted throughout the operation and monitoring of the code. *

Content of the code
a) The code shall include measures directed at the removal or easing of consumer concerns and undesirable trade practices arising within the particular business sector.
b) The code shall require that code members ensure that the relevant staff know about and meet the terms of the code as well as their legal responsibilities. Appropriate training is to be provided.
c) The content of the code shall address the following areas, as appropriate, to the sector:-

- clear and truthful marketing and advertising;
- clear pre-contractual information;
- clear terms and conditions of supply including fair contracts;
- delivery/completion dates;
- cancellation rights;
- guarantees and warranties;
- protection of deposit or prepayments;
- after-sales service provisions;
- additional effort/help to be provided to vulnerable consumers.

**Complaints handling**

a) Adequate procedures shall be available, within the code, for dealing with complaints from consumers, to include:

- a requirement that code members shall have in place speedy, responsive, accessible and user friendly procedures for dealing with consumer complaints. A specific reasonable time limit for responding to complaints shall be agreed;
- a requirement that code members shall offer maximum co-operation with local consumer advisers or any other intermediary consulted by the consumer;
- the availability of conciliation services directed at arranging a decision acceptable to both parties;
- availability of a low-cost, speedy, responsive, accessible and user friendly independent redress scheme to act as an alternative to seeking court action in the first instance. Independence is vital in any redress scheme. The scheme shall be binding in respect of code members who shall not be able to refuse to allow a complaint to go before the scheme if a customer so chooses. Furthermore the code member shall be bound to accept a judgement made under the scheme. Any such scheme shall be able to take into account possible breaches of the code where relevant to the complaint.

**Monitoring**

a) The operation of the code shall be regularly monitored as follows:

- the code sponsor shall regularly review the code;
- the code sponsor shall develop performance indicators, e.g. mystery shopping exercises and independent compliance audits, to measure the effectiveness of the code;
- the code sponsor shall implement and publish the results of the performance indicators to demonstrate the effectiveness of the code; *
- the code sponsor shall update the code provisions, as and when necessary, in the light of changing circumstances and expectations; *
- consumer satisfaction shall be regularly assessed; *
- the code sponsor shall publish annually a report on the operation of the code including in particular the numbers and type of complaints referred for conciliation and to the independent redress system. It would be preferable if the report were compiled by an independent person or body with powers to recommend actions; *
- the code sponsor shall provide copies of the annual reports to the OFT; *
- the code sponsor shall regularly review the code.
Enforcement

a) The code sponsor shall establish a procedure for handling non-compliance by members with the code. The procedure shall include reasonable time limits.
b) The code sponsor shall also set out a range of sanctions, e.g. warning letters, fines, termination of membership, for dealing with non-compliance.

Publicity

a) Code sponsors and members shall ensure that their customers are aware of the code.
b) Code members are to make clear, e.g. in advertising, point of sale, their adherence to a code of practice.
c) Copies of codes shall be available without charge to customers, to members, to local consumer advisers and to others with a legitimate interest.
d) Copies of any code related publicity generated by the code sponsor shall be provided to the OFT.
e) Code sponsors and members shall publicise the fact that the OFT has approved the code by using the agreed OFT logo/mark.*
Chapter 14

Improving members’ performance

The government sees trade associations as having a significant role in improving the performance of their members in respect of innovation, productivity and exports. However, many trade associations are not well equipped to provide such services and there are differing views among members as to whether they should be provided.

Theoretical issues
Trade associations are member-based organisations which can do only those things that their members want them to do. This causes associations difficulty because not all members want the same services.

Many trade associations draw the line at matters which they regard as competitive. Services such as representation, the provision of statistics and the provision of information are not regarded as competitive matters, whereas, for example, joint funding of research and joint promotion may be regarded as competitive. However, this is an unrealistic view. Ultimately, everything is competitive. Even the provision of representational services has a competitive element to it. If a trade association did not exist then the chances are that the large companies would be able to influence policy more than the smaller ones, although whether they would be as effective as they would be in a trade association is another matter. Similarly, the provision of aggregate industry statistics is of less value to those companies that constitute a large part of the market than to those that are only a small part. Even anti-fraud programmes, which provide an absolute benefit to all members, provide a greater relative benefit to those companies that are unable to operate anti-fraud mechanisms on their own.

The general position is that associations have little difficulty from their members as long as they confine their activities to providing the framework within which members operate. As they go beyond that framework into matters more directly affecting business operations so there will be increasing opposition from some members. The chapter on provision of commercial services noted that this was the case in respect of large statistical exercises. It is also the case in respect of benchmarking activities. In fact, the more normal pattern here is for companies to get together by size, often outside of the trade association aegis, rather than for everything to be done by one organisation.

Programmes designed to promote exports or to improve productivity generally can be particularly controversial with some members. For example the largest member of an association may have a strong market position in a major emerging market such as India or China. That member will not wish to see the association help other members obtain a presence in that market. Similarly, the most productive company in a sector, which may have invested millions of its own money to achieve that position, will be reluctant to see its membership subscription used to help other companies become more productive and be able to compete more strongly with it.

It is also the case that the more that trade associations get into providing services directly related to competitiveness and the promotion of business then the more they are stretching
the limits of their capability, as well as running the risk of opposition from their most competitive and efficient members.

This is an area where considerable judgement has to be exercised, bearing in mind that the government may well want associations to play a bigger role than some of their members would ideally like.

**Government policy**

Pronouncements of successive government ministers have indicated that they favour almost a command economy role for trade associations. The best manifestation of this is the *Best Practice Guide for the Model Trade Association*, published by the Department of Trade and Industry in 1996. This set out as one of the key characteristics of trade associations: “promotes co-operation within the sector, and between the sector, its customers and suppliers, to enhance international competitiveness”.

The document covered the various services which associations should be providing, classifying them as essential or desirable. One of the services was “works proactively to improve the sector’s competitiveness” with the essential characteristics listed as –

- Analyses the sector’s competitiveness requirements.
- Takes action where necessary with the sector and others (including government) to address weaknesses and build on strengths.
- Organises competitiveness improvement programmes, eg benchmarking clubs to spread best practice, supply chain initiatives.
- Supports international trade and investment.

Under the same heading, desirable characteristics were listed as designing and implementing support services, monitoring government initiatives and support and helping members take advantage of them, and adopting a proactive approach to meeting other shortcomings that are identified by benchmarking activities.

Under the heading of “promotes exports and other market opportunities” the following were listed as essential characteristics –

- Has an export strategy in support of member companies, developed in consultation with them, taking account of investment decisions.
- Mounts promotional events, seminars, overseas missions, trade fairs, exhibitions, etc as part of an export strategy.
- Takes full advantage of export services from government and other providers to add value to member companies.

Desirable characteristics were listed as providing information on sources of supply from its members, representing the sector to major customers and liaising with the government and other agencies on UK sources of supply and import substitution.

**Export promotion**

Many associations are involved in export promotion work. This service typifies the issues covered in the earlier section on theoretical issues. Some government comments seem to assume that, in respect of exporting, British companies are united against the rest of the world. This is not correct. The main competition that many British exporters face is other British exporters. Each company operating in export markets is doing so in order to earn a profit. There may be cases where its ability to do so is enhanced by working with other
British firms but in many other cases it may be in direct competition with them. The issue is also complicated by the fact that many “British” firms are in fact international. In a sector where, for example, some of the major companies are owned by French, American or Japanese companies, it can be quite difficult to persuade the association that it should be encouraging its members either to export to those countries or to actively help its members compete against their parent companies.

Having said this, there are some elements of export promotion work that are relatively uncontroversial. In the same way that some associations provide a gateway for new business through Internet portals, so there is no reason why they cannot do the same in respect of export opportunities. In fact, association websites may well be used by importers for this purpose already, particularly for specialist goods and services for which there may be a small market.

Many associations provide a service of passing on export opportunities to their members. Here they are acting as a clearing house or information centre, which is uncontroversial.

Going beyond the provision of information is involvement in trade missions. This is a major activity and associations need to make a decision in principle as to whether to be involved in this activity. Trade missions can be particularly useful for smaller businesses and, at a different level, where there are major political issues involved. Some trade associations may work at both levels seeking to help their major members where political issues, in particular trade barriers, are important, and at the same time working with smaller members in trade missions for more routine export activity.

The government seems to want trade associations to have an export strategy for their sectors. While many associations may claim to have such a strategy, it is often not backed up by any concrete action simply because associations do not control their members and association members are not likely to export simply to contribute to someone else’s strategy as opposed to their own profitability.

The 2001 benchmarking report has some useful information on export activity. Of the associations whose members export, 41% had an export strategy to support them (very different from an export strategy for the sector) and 31% said they took full advantage of government export services.

The government agency responsible for export promotion is Trade Partners UK. Trade associations used the services provided by Trade Partners UK as follows –

- Information centre 61%.
- Support for exhibitions and seminars abroad 30%.
- Inward trade missions 57%.
- Outward trade missions 67%.
- Export market research scheme 41%.
- UK sales leads 20%.
- Identifying a sector focal point for international trade 41%.

The benchmarking report showed that median expenditure on export support was £49,000. There was virtually no differentiation between large and small associations, the median for small associations being £50,000 and for large ones £65,000. This confirms that support for exports is a relatively more important activity for smaller associations which tend to
have smaller members than it is for the large associations whose members are likely to be multinational companies.

Trade Partners UK commissioned a sector partnership report designed to develop best practice for the promotion and development of export trade. The study identified eleven best practice criteria. These are reproduced in the appendix to this chapter, together with the recommendations specifically relating to trade associations. The criteria related to –

- Leadership and resourcing.
- Government liaison.
- Regional/national co-ordination.
- Strategy and networking.
- Identifying opportunities.
- Marketing and promotion.
- Development.
- Information.

**Benchmarking**

Benchmarking is the practice of comparable companies sharing detailed information about their activities so as to enable comparisons to be drawn. Statistical schemes are a simple form of benchmarking. More complex schemes go into more detail and cover techniques and practices as well as hard information. The Trade Association Forum benchmarking reports are typical examples of what benchmarking can do.

The enthusiasm of firms to engage in benchmarking activities varies and for this reason it is not something that associations can impose on their members. However, associations can run or help promote benchmarking schemes for those of their members that wish to participate. In some sectors the DTI has provided funding for such schemes.

In large industries there are often numerous benchmarking exercises, largely conducted outside the aegis of the association. Typically, firms get together by size group. There are many firms, including the major accountancy and consulting firms, that offer expert benchmarking services.

Trade associations are probably at their best in offering basic benchmarking schemes and perhaps running or managing schemes for smaller members for whom a commercial scheme may not be viable or available. The good association keeps track of benchmarking schemes organised by others and occasionally can draw on the results for policy work.

**Competitiveness improvement programmes**

In some sectors, particularly in manufacturing, trade associations have been involved, often with government support, in comprehensive schemes designed to improve the competitiveness of the whole industry. Such schemes are likely to include benchmarking but go much wider and may include, for example, research, pooling knowledge, training programmes, supply chain initiatives, marketing support and export promotion. Few associations have the capability to manage such schemes; often a body is specifically set up for the purpose – which in some cases can then pose a competitive threat to the trade association.

An association needs to be involved in such schemes to some extent if only to protect its position. An association must always be aware of the different degrees of enthusiasm among their members for such schemes and the involvement of their trade associations in them.
Appendix

Best practice criteria for supporting exports

This appendix sets out the generic best practice criteria from the Trade Partners UK Sector Partnership Report, 2000

Leadership and resourcing
1. There is a representative export focal point (body, association or forum) with a declared mission and clear objectives for co-ordinating promotion and development of export trade for its sector, or appropriate group of subsectors.

2. The export focal point has strong personal leadership to drive organised export trade efforts, and adequate resourcing to enable key export trade processes to be supported.

3. The export focal point is actively and substantively supported by the majority of the significant players in the sector or subsectors concerned.

Government liaison
4. The export focal point acts as the primary point of liaison between industry and government on export trade issues, and includes representatives from government departments (sponsor, Trade Partners UK, other) as well as industry.

5. The sector seeks proactively to inform and engage government on export matters through the export focal point, and through ongoing contacts at association and individual company levels.

Regional/national co-ordination
6. There are suitable organisational structures and processes to co-ordinate regional and national issues on export trade matters.

Strategy and networking
7. There is consensus on national export strategy for the sector or subsectors, and active networking on export trade matters at national level.

Identifying opportunities
8. There are systems and processes for capturing and disseminating information on export opportunities for the sector or subsectors, and supporting timely response.

Marketing and promotion
9. There are appropriate marketing and promotion processes organised and managed at a national level on behalf of the sector or subsectors.

Development
10. There are initiatives aimed at developing awareness, knowledge, expertise and professionalism in export trade matters for the sector or subsectors, especially with regard to Small- and Medium-sized Enterprises (SMEs).
Information
11. There are modern systems for providing up-to-date export market information, trends and evaluation of export performance, exploiting the potential of electronic commerce.

The report made recommendations for government, associations and companies in respect of the eight broad headings. The specific recommendations for trade associations are –

- Leadership and resourcing: seek further co-operation and alliancing where necessary on export trade issues; assist in identifying appropriate senior leadership.
- Government liaison: seek to engage, involve and inform government, especially overseas posts, on industry sector issues.
- Regional/national co-ordination: establish links with those regional organisations where significant numbers of their members are also participating; develop consensus on export strategy taking into account regional inputs.
- Strategy and networking: ensure mechanisms and structures are in place to achieve consensus.
- Identifying opportunities: develop and implement such systems where these do not already exist; seek alliancing and pooling of resources where these are limiting.
- Marketing and promotion: improve marketing and promotion processes, especially in areas such as inward missions, facilitating development of relationships, and promotion within UK; consider alliancing and pooling of resources where these are limiting.
- Developing export capabilities: focus more on training and development in export, especially for SMEs; lead and encourage member companies to support organised sector level export initiatives.
- Information, statistics, evaluation: further develop and implement Internet-based approaches for sector export information management.

Bibliography and further reading
Chapter 15

Planning, strategy and risk management

A trade association needs a process to manage the long-term direction of its business. This should embrace an environmental scan, an assessment of market position, a SWOT and/or risk management assessment, the development of a strategy and a review process. The planning process needs outstanding leadership.

The need for strategic planning

For many trade associations strategic planning has been an unfamiliar concept. They have been able to operate in a stable environment in which they have needed to give little thought to major strategic issues. This is now changing as a result of a combination of factors. Five major factors have contributed to this change. Their relative importance varies significantly from sector to sector but there are common threads in most sectors and indeed countries.

For trade associations, mergers of their members are invariably bad news. Most associations have a subscription scale that is tapering or which has a cap or in some cases is both tapered and capped. Mergers mean a reduction in the number of members and generally also in subscription income. Mergers between large members can cause huge reductions in subscription income that cannot easily be recovered by raising subscriptions for other members.

Mergers often cut across traditional industrial sectors. In the financial services market for example, banks have been acquiring insurance companies and insurance companies have been acquiring or establishing banks. In the widely defined communications industry, technological developments and mergers have led to the complete reshaping of the industrial structure in a very short period. It is now increasingly difficult to delineate the boundaries between industrial sectors and therefore the natural constituency for a trade association.

This trend has been accentuated, particularly in Europe, by the increasing internationalisation of the economy. The mobile phone industry, for example, has developed from nothing fifteen years ago to a major national industry and now to a major global industry. The computer industry has always been global and the car industry has now moved into the same category, as has pharmaceuticals. Within the European Union the pace of cross-border mergers has accelerated even in those countries such as Germany and France which traditionally have made it difficult for hostile takeovers from non-domestic institutions. In the more open economy of the United Kingdom, the water, electricity, car manufacturing and investment banking industries are now to a large extent foreign controlled.

Managing a trade association is more difficult when major members have their head office outside of the country. Their natural allegiance should be to their head office and it is quite possible that the trade association in the host country will take a different view of some matters from the trade association in the home country.
Regulatory changes are closely related to mergers and globalisation. In some cases they reinforce these trends while in other cases there have been reactions to the trends. The introduction of the euro is likely further to accentuate the trend for cross-border mergers of banks and other financial institutions in particular.

In many sectors there has been a radical change in the regulatory landscape. Nine financial regulators have been merged into a single regulator, the Financial Services Authority, which covers almost the whole of the UK finance sector, and arrangements are in place to widen the scope of the Authority even further. The major financial institutions have one regulator but belong to many trade associations. At the very least this requires the trade association structure to be re-examined. Similarly, the gas and electricity regulators have merged and a new communications regulator is being established covering the telecommunications and broadcasting industries.

Political changes contribute to a changing regulatory environment. Much is now decided at European Union level which means that national trade associations have to operate at that level directly as well as operating through European associations. In some sectors policy is decided to some extent at the global level, for example in international transport, broadcasting and banking. At the same time there has been devolution to regional administrations in Scotland, Wales and Northern Ireland and the growing influence of nine regional development agencies. As policy-making is devolved so trade associations need to extend their areas of operation.

Expectations of members, and in some cases other stakeholders, are increasing. In the past members often took a fairly tolerant view towards their trade associations. Sometimes they were seen as a club; certainly there was little pressure on them to act in a businesslike way. Indeed, attempts to do so often led to criticism.

However, as major companies have downsized, they have expected their trade associations to increase their efficiency. Pleasant but ineffective members of staff are not tolerated as once they were. Where associations do not perform then large members may well take on representative work either themselves or jointly with other large companies. In some cases they may threaten to pull out of the association and in a small proportion of cases may actually do so. A potentially worrying trend for many associations is the establishment of informal groupings of large companies at the European level. They can provide the Commission and the Parliament with what they want, predominantly good quality information; they have a ready audience and can move much more flexibly and effectively than Europeanwide associations many of which remain bureaucratic and ineffective.

Government is expecting trade associations to become more effective. A particularly valuable role of associations is to help ensure that proposed regulations will achieve their purpose. As the number of government officials has been sharply cut in many areas so the scrutiny they are able to give to potential legislation has been reduced and associations can often provide an effective service to make sure that legislation does achieve its desired purpose. In some sectors the government is increasingly looking to the industry to come up with solutions. And it always wants organisations which can tell it what companies in a particular sector think about a certain proposal or how they will react if the government does a certain thing.

For a time in the mid-1990s the British government was very critical of trade associations generally. There is evidence that this had a desirable effect in stimulating changes that
should have occurred in any event but which tend not to occur unless there is some outside stimulation.

Finally, the Internet is changing radically the way that trade associations operate. The Internet offers huge opportunities for associations but also threats. Associations cannot afford to ignore the Internet. They have to take account of its implications and most will need to make the Internet the very centre of their operations.

That then is the new environment for trade associations. It is not stable. The membership of many associations is changing rapidly as a result of mergers within sectors, between sectors and across national borders. The regulatory landscape is changing rapidly, particularly in Europe. Members and other stakeholders are expecting trade associations to become more effective notwithstanding the fact that they have to do more with less, and the Internet will have a very major impact on their operations whether they like it or not. In this environment medium and short-term planning is essential.

**The planning process – an overview**

There are a number of different elements of the planning process which need to be brought together in a coherent structure –

- An environmental scan to give a clear understanding of the market within which the association will be operating.
- An understanding of the association’s position in the market for trade association services going forward.
- An assessment of the association’s strengths and weaknesses and the opportunities and threats facing it – a traditional SWOT analysis.
- The development of a framework for assessing risks – this can be combined with or replace the SWOT analysis.
- The establishment of a vision and mission for the association.
- The development of a strategy to achieve the vision and mission.
- An annual planning process within the framework of the agreed strategy.
- Regular review of each element in the process to ensure that the analysis and assumptions remain valid.

This might seem a complex process for a relatively simple organisation such as a trade association. However, it is essential for associations to use such a process, if only implicitly. If they do not, they run the risk of being efficient in what they do, but ineffective because they are doing the wrong things or their market reduces in size.

The chief executive and the board must take a leadership role in respect of the key strategic issues, in particular establishing the vision and mission of the organisation. The chief executive must take prime responsibility for developing the strategy and short-term plans to deliver the vision and mission.

**The environmental scan**

An association should analyse all of the external factors which are likely to impact on the association in the planning period. These will include the five factors analysed in the first section of this chapter and other factors that are more specific to the sector. The scan should identify the factors that will drive change in the association. These will vary significantly from sector to sector. In some sectors regulatory developments will be most important while in others technological change may be the key factor.
Understanding of the association’s market position.
A trade association must be honest in its analysis of its market position. Most associations exaggerate their market coverage - by defining their market as their members. It is important that associations do not believe their own propaganda.

The analysis should be done in the following stages –

• In which markets is the association operating? In practice there are few clear cut markets. Rather, a series of markets must be identified, from narrow to broad. For example the Association of Train Operating Companies operates in a series of markets from train operating companies, to rail travel to travel generally.

• What shares does the association have of the markets in which it is operating and how have these shares changed over time? Market share should be analysed by both volume of business (the most important measure) and number of businesses.

• What other associations are in the markets, both horizontally (competitive products) and vertically (suppliers and customers)?

• What other organisations provide services that compete with the trade association services? These typically include other trade associations, professional bodies, trade journals, conference organisers, research organisations, websites, consultants and, in some sectors, regulatory bodies.

• What overlap of membership is there between the association (and its board members) and other trade associations and other organisations (such as the governing bodies of professional institutes and research bodies)?

• How are these markets changing? For example, are the markets merging with each other or other markets (like the telephone and information markets), are there intra-industry or cross-industry mergers, is the market becoming globalised, is the industry declining? This aspect will draw on the results of the environmental scan.

• What effect will these changes have on the demand for trade association services?

• What are the strengths and weaknesses of the other associations and organisations and what are their strategies and ambitions? Annual reports and websites, together with first hand knowledge, should be used for this part of the process.

Ideally the analysis should be conducted in-house. By involving staff and board members there is more likely to be in buy-in to the analysis and to the resultant strategic plan. For staff in particular the process can help sensitise them to the fact that they operate in a market and to the nature of that market. This can be excellent on-the-job training. Doing the work in-house is also likely to be cheaper than using consultants.

There are circumstances in which it can be sensible to use outside consultants either to manage the whole process or to assist the in-house team –

• The association lacks the resources to do the job properly itself.

• There is a need for major changes in the staffing of the organisation.

• The board lacks confidence in the management of the association.

This analysis need not be protracted and expensive. The good association can do 90% of the work in a few hours. There is no need to devote considerable resources to working out whether a market share is 43% rather than 47%. What matters is whether it is 40% rather than 80% and whether the right market is being examined.
The concept of analysing market position implies that an association is in a competitive market and in such circumstances it is not sensible to reveal strategy to potential competitors. One should not, therefore, write to associations in related areas asking them what their ambitions and strategies are. Rather, the work should be done confidentially. How much should be committed to paper and how much should be shown to the board will depend on circumstances.

**Strengths, weaknesses, opportunities and threats**

In practice the same issues may well be both opportunities and threats, or strengths and weaknesses. For example significant income from trading activities is an obvious strength but also a potential weakness because the association is vulnerable to a downturn in trading income. And the Internet should certainly be both an opportunity and a threat. Depending on circumstances a SWOT analysis could be turned into a brief analysis of certain key points which are likely to include –

- Membership – loyal or fickle, appreciative of the association or tolerant of it, potential for expanding membership.
- External reputation – with government, regulators and the media.
- Member involvement – willingness to serve on committees and to provide high quality input when asked.
- Staff – quality, morale, turnover.
- Information technology – website, membership system, internal office system.
- Financial position – reserves, subscription base, trading income.
- Competition – other associations and organisations competing for part or all of the association’s business.

**Framework for assessing risks**

Risk management is now regarded as an essential part of corporate governance and is a useful management tool in its own right. Institutional investors (for public companies) and regulators (for the organisations they regulate) increasingly have requirements in respect of risk management. The concept is therefore a familiar one among members of trade associations.

Associations tend not to use normal risk management tools although many will consider the risks facing the business in their strategic planning process – the “threats” part of a SWOT analysis.

There are three key features of a risk management programme applicable to trade associations –

- Identification of risks facing the association, their potential impact and the possibility of them occurring – the risk assessment process.
- The programme to manage risks.
- A process embedded in the organisation, including annual review by the board, ownership by the chief executive or another senior executive and procedures applicable to all staff.

Risks can be categorised under seven broad headings –

- Governance
- Market
- Policy
- External credibility
- Operational
- Finance
- Internal.
There is an overlap between these various headings and some associations may find a different categorisation to be more appropriate. Indeed, it is important not to be constrained by a pre-determined list of headings for fear of missing an important risk. Having said that, there are few risks that are not caught by one of these headings.

Under each of these headings are a number of separate risks. These are identified in the appendix. For each of these risks it is necessary to identify –

- What – the nature of the risk.
- How – how the risk might materialise.
- Effects – what will happen if the risk materialises.
- Management – how the risk is to be managed.

Identifying the risks is probably the easy part. How the risks might occur and what the effects might be, require some analysis. For example, every association faces the risk that subscription income might fall. This could be because of mergers or because the business is declining or because members resign. The effects will vary depending on the cause of the decline.

For each risk an assessment of high, medium or low is made of –

- Impact – the effect on the association of the risk materialising.
- Likelihood – the chances of the risk materialising in the foreseeable future.

High impact risks may well have a low likelihood of occurring. For example, high impact risks include the largest members resigning, a major unbudgeted item of expenditure or a significant failure in respect of representative work. The impact assessment is likely to be fairly stable over time, whereas the likelihood assessment can change quickly as circumstances change. A risk that may be categorised as having a low likelihood of occurring one year may easily move to the high likelihood category during the year.

For each risk there needs to be an action point which can range from doing nothing to undertaking a major programme of work. Obviously, any risk with a high likelihood of occurring must be matched by significant action to deal with it. High impact/low likelihood risks also need addressing in the longer term. The action points need to be built into the annual work programme. Some action points may involve expenditure – such as updating an IT system or increasing staffing – while others may be more concerned with emphasis – for example increasing contacts with consumer bodies.

The chief executive must take responsibility for the risk management programme. However, the framework is one that can usefully be used to help staff understand the nature of the business and how performance can best be improved. Accordingly, a staff brainstorming exercise is often the most effective way of conducting the preliminary risk assessment.

However, there must also be input and buy-in from the board of the association. Board members will have had experience of similar exercises in their own companies and will have a valuable perspective to add. It is of course also important that they fully understand the risks that the business is facing.
The risk management assessment must not be a one-off exercise. The action programme resulting from it must be properly monitored. There should also be an annual review of the assessment to identify new risks, perhaps eliminate risks that no longer apply, change the ratings given to particular risks and review action points.

The risk management process can be conducted entirely in-house but some associations may prefer to have external validation of it. This can come from –
- The auditors of the association.
- A consultant.
- Another trade association that has gone through a similar exercise.
- The risk manager of one of the leading members.

In practice, few well-run associations should need external help. The board should provide the necessary challenge to the assessment prepared by the chief executive. Poorly run associations can most use external help, but then such associations are the least likely to have a risk management programme.

The results of the risk assessment must feed into the determination of the strategy and work plan of the association. Ideally, risk management is part of the planning process rather than a separate exercise tacked on to an existing framework.

**Buy-into and articulation of the plan**
A strategic plan, particularly one suggesting a significant change of direction, must be broadly acceptable to the stakeholders in an association. The easiest way to achieve this is to involve them in the process so that they are party to the analysis and buy-in to the conclusions.

The two key sets of stakeholders are members and staff. The staff probably need to be involved at an earlier stage than the members. Staff are more likely to perform effectively if they are fully conversant with the environment within which their association is operating and the association’s own plans for the future, and they will also feel more valued if they are involved in the planning process.

The governing body of the association, and particularly the officers, need to be involved from the outset in identifying important external factors and where appropriate identifying policy priorities and organisational issues.

There may also be a need to involve other stakeholders such as regulatory agencies and government departments although generally this is not necessary.

But there is a major problem in involving staff and members at a very early stage. A strategic plan should properly look at all possibilities, and there is a danger that staff may feel that just because something is being considered, such as a possible merger, then that is a likelihood and their jobs are under threat. Involving the members at an early stage could well mean the draft plans will leak out which could be damaging, particularly if an association is considering a merger or establishing a federation.

These are all issues that require skilful management by the chief executive of the association. But on occasions there will probably be matters that should be kept out of the strategic plan because they are commercially confidential. Where, for example,
association's leaders understand that there is a need for the association to merge in the foreseeable future they may take the view that premature disclosure of this could be damaging. Perhaps the answer here is not to commit to a strategic plan in such circumstances.

This all points to the need for the whole planning process to be carefully handled. If a plan is produced entirely by the officers with no involvement of the governing body, the staff generally or the members then it is likely to be viewed with considerable suspicion particularly if it is proposing significant structural change. If there is widespread consultation at too early a stage there is the danger of unnecessarily arousing fears. Also, there may be a huge amount of unhelpful input which cannot sensibly be assimilated into a plan, yet not including it can cause offence to those who have volunteered their views. A document that identifies 47 policy priorities to keep everyone happy is not much of a strategic plan.

**Mission and vision**

Like any organisation a trade association must know what it is trying to do and what sort of organisation it wants to be. A typical mission statement will be something like: “The British Widgets Association provides a service to widget manufacturing companies by helping to establish a favourable operating environment, by providing a forum for discussion of non-competitive issues and by providing information to assist them in their business.” The vision statement should succinctly set out what the association does. It should be the sort of statement that can appear on the home page of a website or the inside cover of an annual report.

A vision statement is more concerned with how the association functions rather than what it does. A typical vision statement might be: “The British Widgets Association seeks to be the pre-eminent association in the widgets industry, to be seen as a constructive partner of government in developing programmes to benefit the industry and an efficient deliverer of quality services by electronic, paper and physical channels”. In practice, many associations have very similar vision statements. A vision statement is worthless unless it is a guiding principle in everything the association does. Thus the British Widgets Association should not spend its time attacking the government and lagging behind in the delivery of electronic services.

**Policy priorities**

For those trade associations that have a significant representational role, an essential part of the strategic plan is the identification of long-term policy priorities. At the strategic planning level a common practice is to identify up to ten broad policy objectives such as “To maintain the existing favourable tax treatment of…..” or “To reduce the costs of complying with the .....Act”, or “To develop closer relations with consumer bodies” or “To improve the public image of the industry”.

At the annual operating plan level specific actions need to be identified most of which will come within such broad headings. Identifying such actions is not easy. Measurable targets are attractive but can be meaningless. For example a target of having six meetings with consumer bodies may not lead to closer relations with consumer bodies. This issue is one for management. A planning process is dangerous if it leads to a box ticking approach with sight being lost of the overall objective.
Organisational issues
A strategic plan should primarily cover a range of organisational and other matters such as –
• Membership – should the association change its membership base; what will be done to maintain and increase membership?
• External relations – what are the main objectives of external relations policy; the balance between internal and external work?
• Events – should there be a significant change in the range of events; to what extent should they be handled internally or outsourced?
• Accommodation – is there a need to consider relocating the association or upgrading the existing premises?
• Staff – is a significant change needed in the number and type of staff employed; the staff training programme?
• IT – does the association’s main IT system need upgrading?
• Trading activities – should the range of trading activities be increased or reduced; how should they be organised?
• Governance – is the association’s governance structure outdated and if so what must be done to enable the plan to be delivered.
• Working with others – should the association be seeking to developing stronger links with other trade associations, possibly extending to a merger?

Finance and resources
In most commercial organisations the outcome of the planning process concentrates on finance and resources. In a trade association often it does not. A trade association does not have major investment decisions to take. Those associations that have substantial trading activities may have some such decisions but for most resource issues are about the staff, the head office and perhaps the computer system.

Traditionally, the financial issues arose from the strategic plan. That is the subscription income that needed to be raised followed from the work that was to be done. Where there was no significant change in the volume of work then a relatively stable subscription scale could be contemplated.

A more sophisticated approach is now generally required. Subscription income should be forecast on a number of alternative assumptions about membership and fee scales. Similarly, there should be a range of forecasts for other income. An expenditure forecast can be made from the planned work programme. The plan may result in the need for additional subscription income or seek to achieve an increase in trading income. The plan should highlight known significant changes in expenditure resulting from, for example, a rent review, a move to new premises, the installation of new computer equipment or a planned new external relations programme. Where a subscription increase is needed the plan should be an important part of the process of softening up members.
Appendix

Risk management framework

Set out below are 28 risks under seven headings which are applicable to most trade associations.

For each risk the what/how/effect/management must be identified and a high/medium/low assessment made of impact and likelihood.

1. Governance
   (a) Chairmanship [inability to attract Chairman of sufficient standing]
   (b) Composition of the board [unrepresentative and/or not including industry leaders]
   (c) Effectiveness of the board
   (d) Committee structure and member involvement
   (e) Chief executive

2. Market
   (a) Viability of market position [ill-defined or rapidly changing market; different interests of members]
   (b) Competitor action [other associations, professional bodies, regulators, journals and companies in the sector]
   (c) Member dissatisfaction

3. Policy
   (a) Policy decisions adversely affecting the industry
   (b) Policy decisions adversely affecting the association
   (c) Decision-taking in Brussels

4. External credibility
   (a) Government and regulators
   (b) Other trade associations
   (c) Other industry bodies
   (d) Consumer bodies and other interest groups
   (e) Other national trade associations in Europe
   (f) The media

5. Operational
   (a) Viable long-term strategy
   (b) Effective decision-taking process
   (c) Operational efficiency

6. Finance
   (a) Reduction in subscription income [from mergers or a shrinking market]
   (b) Reduction in commercial income
   (b) Dissatisfaction with subscription scale
   (c) Unbudgeted expenditure

7. Internal
   (a) People
   (b) Premises
   (c) Information technology
   (d) Financial controls
Chapter 16

Co-operation and restructuring

Trade association structures need to adapt to changing market circumstances. There is a continual need for new associations to be created, existing associations to merge, federations to be created or disbanded and for ad hoc co-operation arrangements. A key issue is who takes the lead in restructuring arrangements.

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 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 considering 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 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 a trade association –

- 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 crucial. Their support is essential if a merger or federation is to go ahead. They can force action against even the opposition of the chairman or chief executive – if necessary by removing them. The big companies in many sectors often have their own informal groupings. 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 associations. 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.

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 part 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 a shoe association 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 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 great weight.

It is unkindly said that inertia is the driving force behind some associations. Many members will happily pay a subscription year after 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, seemingly logical co-operation arrangements may be doomed do failure.
Creating a new association
Before considering restructuring of existing associations it is useful to note the
circumstances in which new associations should be created and how this can be achieved.
This is of little interest to existing associations and accordingly the analysis is set out in a
separate appendix.

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. The arrangements 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 of working with other associations. Ad hoc co-operation can
often be opportunist and dependent as much on 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.

Trade associations can usefully *co-operate 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 a 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 a joint committee or project
group. 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.

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 each 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 is 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 towards each other; if they are there is less chance of effective co-operation.

In some sectors a large association has offered office space and office services to smaller associations in related areas, 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.

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. 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.

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.
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 cause. 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 with 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 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.

**Federations**

A federation is an association of associations. The umbrella association provides services to the member associations. Many of the largest associations in Britain have a federal 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.)

In a regional federation the members also belong to a regional association. Within this broad category there are –

- Federations where members join regional associations that are powerful in their own right and that 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 carry considerable status.
- Federations where members join the central body and are allocated to regional associations that exist 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.

In an institutional federation, 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.

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” or even “lunches” 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 groupings, 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.

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 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 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 extent. If they are, 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 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 may be 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 regional federation model is difficult 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 each has its own office and staff 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 are 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. Another relevant factor is the growing importance of regional development agencies. In sectors...
where they are particularly strong the case for regional federations is correspondingly strengthened.

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 identify rather than the federation. However, in a number of federations, the large companies, whose activities cover a number of the constituent associations, 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. 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? Often, there may be 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. The previous chapter made the point that 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.

**Mergers – the rationale**
A merger between trade associations is basically 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 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 may 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 may be created because the existing association is 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 common scenario 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 or more 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.

**Why mergers are difficult for trade associations**

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

- 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.

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 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.

For trade associations even setting off on the merger road is high risk. Ad hoc cooperation 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.

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 to be addressed in merger discussions**

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 from the same companies 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 examining 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 trade association 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.

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.

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 organisation will not want to acquire one. In practice, the latter may be the only workable option as a price that may have to be paid.

• Maturity. Perhaps paradoxically, long-established and mature associations may be easier to merge than newish associations. Certainly, the merger of a new association with a long established one 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 more sensitive to increases in subscriptions than they are to the absolute level. In this particular example it would be almost impossible to devise a subscription scale acceptable to the members of both associations.
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, 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 differences 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 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 its particular nature 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 so 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 of the largest 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. 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 an early stage a decision must be taken as to how staff issues are to be handled. At the 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 are unenthusiastic then they will transmit this to the membership which could jeopardise the merger. Communication with the staff must be given the highest 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 can 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.

Why mergers fail
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 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.

Bibliography and further information
[This chapter is an edited and updated version of parts of this publication.]
Appendix

Creating a new association

A rapidly changing industrial structure requires an equally rapid change in the trade association structure. This paper provides a brief guide to establishing a new trade association.

The guide is concerned with getting a trade association off the ground and operational. After a year or so there may well be a need to take a decision on how to develop the association. The experience in that period will guide that decision.

Establishing a new association can be done simply and cheaply. One guiding principle is to keep options open and avoid long-term commitments.

When should a new trade association be established?
There are three broad sets of circumstances in which it is appropriate to seek to establish a new trade association –

- Where a new industrial sector emerges, particularly one which is subject to regulation. Recent examples include Internet service providers, the provision of some services via the Internet such as health advice, professional rugby clubs, train operating companies, cable television suppliers and self-employed IT consultants.
- Where there is a significant change in the nature of a sector such that an existing trade association structure is no longer appropriate.
- Where there is dissatisfaction with an existing trade association, either generally or because the interests of a particular group of members are not adequately served.

In either of the last two cases, the companies concerned may choose to remain, at least for the time being, in the previous trade association.

Who should take the initiative?
Where a new trade association is being established the initiative should be taken by a group of companies, ideally being representative of the industry and including the largest companies in the sector. An association that is seen to represent either a single company or a group of maverick companies is unlikely to achieve anything other than short-term publicity in the trade press. The companies should form a steering committee and appoint a chairman and secretary of it. This committee can become the initial executive committee of the association until elections can be held.

Legal form
A significant proportion of established trade associations are unincorporated. In the short-term this is the best option for a newly established trade association as it is the most flexible and least costly. Incorporation is most appropriate where there is a need to limit the liability of members from the outset.

Similarly, a new trade association can work best with a short constitution, no more than three or four pages. A model constitution is set out in the appendix to Chapter 5.
Unlike in most other countries there is no need for a trade association as such to register with any official body or to make returns.

**Start-up costs**
The costs incurred in establishing a trade association should be shared between the members of the steering committee. One large company may well be willing to fund the start-up costs but the association should not be seen to be a creature of one of the founding members. The members of the steering committee should therefore each make a modest contribution, perhaps of equal size, or if the members are of widely differing sizes then with some appropriate differentiation. The amount raised initially should be sufficient to cover any printing and distribution costs and modest promotional material, together with paid-for consultancy and secretariat support, but in no circumstances payment to members of the steering committee for their time. Depending on circumstances the start-up costs can sometimes be recovered through an entry fee into the new association.

**Secretariat support**
It is important that those establishing the new trade association should have secretariat support from a person or organisation that has an understanding of what trade associations are and how they work. This could be –

- A member of staff of one of the organisations who has had suitable experience on trade association committees.
- A professional firm that provides company secretary services, although it needs to be remembered that these are quite different from trade association secretariat services.
- Someone with suitable trade association experience, perhaps a chief executive.
- An existing trade association, the best option where this is appropriate but clearly not if any relevant association is felt to be inadequate.
- An association management company or consultancy, although the market for these in Britain is rather thin.

**Promotional material**
A new trade association needs a short one page statement which can be issued in the form of a press release setting out succinctly why the trade association is being established, who the founders are, how it will be organised, what its objectives will be and how it will be financed. A draft is set out in Annex 1.

A more detailed “prospectus” will also be needed, filling in the detail and crucially setting out governance arrangements and the subscription scale. The constitution would be part of this. Annex 2 sets out what should be covered in a prospectus.

**Membership**
A trade association should be open to every company in the sector. The greater the membership in terms of both number of members and percentage of market covered the more credibility (and money) the trade association will have. A new or existing trade association should be very careful before rejecting any applications for membership as they could lay themselves open to legal action. In the short-term the best policy is to accept into membership any organisation operating in the sector unless the association is being set up specifically for companies that subscribe to a particular code of practice or professional standard.
Running costs and subscription scale
One of the most difficult tasks is to estimate the running costs of the association. These will obviously depend on the scale of the business being planned. Generally, new associations have modest aspirations with an annual budget in the £10,000 to £100,000 range. The work that a trade association can do is almost infinite so a sensible approach is to seek to assess the essential workload of the association and the cost of this, and also what potential members are likely to be willing to pay – which will require some modest market research. A judgement then has to be made about the target subscription income. It is unwise to assume any income other than subscription income.

Costs that have to be met include secretariat support (if this is outsourced it will be a known amount), printing and postage, meeting expenses, any accommodation and staff costs, the subscriptions to federations/European bodies and the Trade Association Forum, and the costs of developing and maintaining a website. The total subscription income being sought should be equal to the estimated running costs plus a small contingency.

It is then necessary to work out a subscription scale. This will need to be included in the prospectus. This requires some knowledge of the structure of the industry and the likely take up of membership. Ideally, it should be possible to work out how much revenue would be received for a given scale if every company in the sector joins, or if companies covering 50% of turnover join etc. A sensible approach is to assume a modest take-up – say 30-50% of the sector by volume of business – but plan the business so as to accommodate greater take-up.

For the subscription scale itself, normal practice is to have a minimum, which should be sufficient to cover administrative costs for one member but low enough to attract SMEs. Typically, this is in the £200 - £1,000 range. There should also be a maximum that will depend on the nature of the sector and the planned activities of the association; the lower quartile in 2001 was £1,806 and the upper quartile was £60,600. Between the minimum and maximum it is usual to have a tapering scale related to turnover.

Communications
At an appropriate time the steering committee should begin a communications programme which should cover the sector, in particular through the trade press, other relevant trade associations and relevant government departments, official bodies and, if appropriate, European organisations. A letter from the chairman of the steering committee accompanied by the short promotional piece and perhaps also the detailed prospectus is the best way forward.

Pitfalls to be avoided
There are a number of pitfalls that those seeking to establish a new trade association can easily fall into –

- Giving the appearance, justified or not, that the association is in fact a creature of one company, of a small group of maverick companies or worse still an individual.
- Deliberately or accidentally fixing prices or providing a framework which is seen to encourage anti-competitive behaviour.
- Being too legalistic, in particular starting with a detailed constitution drawn up by lawyers. There should be no need to involve lawyers in the early stages of most trade associations unless a very substantial organisation is being planned.
- Seeking meetings with other trade bodies and government departments without having given thought to the purpose of the meeting.
Annex 1

Draft initial announcement

Trade association for widget manufacturers to be established

A new trade association for the British widget manufacturing industry is to be established. A group of six companies, including the largest in the sector, have formed a steering committee to be responsible for establishing the Association. The Chairman of the steering committee is John Smith, the Managing Director of Superior Widgets Ltd, and the other members are…………….

The Steering Committee is drawing up a prospectus which it expects to issue to all companies in the sector in………

John Smith said –

“Widget manufacturing is a relatively new business but has now reached the stage when it needs its own dedicated trade association. All companies which manufacture widgets will be invited to join and we hope to cover over 75% of the market within a year.”

The Association has retained the XYZ Consultancy to assist in setting up the Association and to provide secretariat services until a Director General is appointed. For the time being the Association will be based at the offices of the XYZ Consultancy. The Association will be advertising for a Director General in the next few weeks.

The Association will join the…………. Federation, the umbrella organisation for trade associations in the wider ……… sector and also the Trade Association Forum.

The Government and the ………Agency have been kept informed of the discussions which have led to today’s announcement and have given their full support to the initiative.

For further information contact –

John Smith, Chairman of the Steering Committee, on ……………

David Jones, XYZ Consultancy, on……………….
Annex 2

Contents of prospectus

Steering committee/initial executive committee and contact details

Foreword by the Chairman

Executive summary

Reasons for establishing the new association

Structure, governance and staffing/secretariat support of the association

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Chapter 17

Measuring effectiveness

Measuring the effectiveness of a trade association is difficult but must be attempted. An association should develop meaningful targets and monitor performance against them. External validation of the system is desirable as are surveys of members and other stakeholders. Quantifying the value of representational work presents particular difficulties but is crucial for trade associations.

The importance of measuring effectiveness

There is no point in having an organisation unless it is effective in what it is doing. For member based organisations, this is particularly important as the members will want some reassurance that they are obtaining value for money for their subscriptions. It is also important for individual parts of the organisation to have measures of effectiveness. Departments wish to know whether they are doing a good job and how their performance can be improved. Similarly, individual members of staff need to know whether what they are doing and what their department and organisation are doing are effective. It can be demoralising to work in an organisation where one simply turns up and leaves during the day without having any clear idea of what the organisation is trying to do and how well it is doing it.

These points would be generally accepted in almost every organisation. They are however more difficult to apply in non-profit making organisations. In commercial organisations the objective is clear, that is profit related variables such as profit before tax and return on capital employed. These variables can be broken down by operating units. Often, targets can be set for particular units and even for individuals based on variables such as sales. Remuneration can be linked to these targets. Because companies operate in a commercial environment there will be other companies doing much the same as they do. Their performance can therefore be compared with that of other companies, using published data. This is particularly true for public companies where a great deal of information has to be published and, in addition to companies comparing their performance with others, investors and analysts will also do this.

Measuring effectiveness now goes well beyond the private sector and is standard practice in parts of the public sector and many voluntary organisations. For example, the government has introduced league tables for all schools based on examination results. Performance targets have also been introduced for hospitals covering, for example, waiting lists and time taken to treat people in accident and emergency units. Individual government departments now have to meet a range of targets agreed with the Treasury.

Local authorities have been subject to an array of different targets and measures of effectiveness over the years. Individual functions such as libraries are expected to meet targets established by the government. In recent years the system has become rather more sophisticated with authorities having to demonstrate that they are achieving best value. Particularly relevant to trade associations is the new concept of Comprehensive Performance Assessment. This attempts to measure how the local authority is run and how the main services perform. The assessment is carried out by means of a self assessment
document based on guidelines issued by the Audit Commission and a visit from a team of inspectors.

For the corporate assessment the score is produced on the basis of nine themes under four separate headings –

- What is the council trying to achieve? – ambition, focus and prioritisation.
- How has the council set about delivering its priorities? - capacity and performance management.
- What has the council achieved/not achieved to date? – achievement and investment.
- In light of what has been learnt, what does the council plan to do next? – learning and future plans.

Individual service assessments are drawn together from inspection reports, performance indicators and plan assessments by government departments.

Local authorities are given an overall assessment ranging from excellent to poor. Those authorities with an excellent assessment immediately obtain advantages in that they are freed from having to meet many specific targets and also freed from government inspections for a period of years.

While the importance of measuring effectiveness is generally accepted, it is not without risk in both the public and private sectors. The main risk is that behaviour is distorted with a view to achieving whatever target has been set regardless of side effects and long-term benefits to the organisation. Taking an example from the private sector, life insurance salesmen used to be remunerated on the basis of commission earned for policies sold. This was based on the assumption that the volume of new business was the critical success criterion for an insurance company. However, in order to achieve targets and earn more commission, salesmen did not follow correct procedures and there was inadequate monitoring of their performance. As a result, many products were mis-sold and years later insurance companies had to pay the price through having to review those sales and pay huge amounts of compensation.

In the public sector, there are well documented cases of targets distorting behaviour. For example, if secondary schools are judged on the basis of GCSE results then the obvious way to improve these is to seek to accept only the brighter pupils. If hospitals are being judged on the success rate of operations then this will make them more likely to concentrate on those patients with easy operations rather than those with difficult ones. Similarly, if waiting times in accident and emergency units are a target then the temptation is to see patients very quickly for an initial assessment then perhaps leave them for several hours before they are properly treated.

Where organisations are able to have a role in setting their own targets or, indeed where individuals are in this position, then the natural temptation is to make the targets easy so that they can be achieved and the people concerned rewarded accordingly.

These points do not mean that measures of effectiveness and targets are not worthwhile. The general view is that they have helped to improve performance in the public sector. However, it is important that the use of targets and effectiveness measures are carefully managed and monitored so as to ensure that they help to enhance the performance of the
organisation and do not distort behaviour with the targets becoming the objective and overall performance taking second place.

Special factors for trade associations
The analysis in the previous section applies to trade associations. It is important that they do measure effectiveness but there are problems in doing so. For associations, more than other membership organisations, this is particularly important. The members of a tennis club or a cricket club are very clear what value they get out of their membership subscription. Their benefit is a tangible one as is the cost. Professional bodies also have a somewhat easier task than trade associations in that each individual pays a subscription and obtains a range of services which they can, in their own minds, value as against the subscription paid. In the case of trade associations, however, the subscription is paid by a large organisation and the major benefit, that is representational work, cannot easily be measured. This is the crucial point for trade associations and on which this chapter concentrates.

Targets and reviews generally
This section covers the various types of target and reviews that an association can use. Some of it repeats what is in other chapters and is included here for the sake of comprehensiveness. The following section deals with the more important issue of the effectiveness of representational work.

Any trade association should have an annual plan and budget. The plan should include annual targets and priorities. Targets may relate to tangible matters such as income from commercial services, attracting new members, installation of a new IT system or sales of publications. Priorities generally relate to areas of work and, given the long-term nature of representational work, there can often not be quantifiable targets. For example, a priority might be to deal with a government proposal in respect of regulation of the sector with the general objective of minimising the adverse impact on members. This is an easily understandable priority but, on an annual basis, measuring how effective the association has been in trying to meet this priority can be difficult.

The annual plan has an important function in helping to focus the organisation during the year and to give some criteria against which the performance of the association for the year as a whole can be judged.

The good trade association, like any other organisation, will regularly review the way that it is providing particular services and carrying out functions. Each service should be reviewed annually, partly by examining the hard data which is available but also by a review carried out perhaps by staff or perhaps by a committee and also sometimes informed by surveys of members and occasionally some external validation.

Similarly, the senior management team of an association should regularly review the performance of each department and function. This might be part of the annual plan or it could be on a longer term basis. For example, one tactic is for the functions and services of an association to be broken down into, say, eight separate categories and for a staff review of each division to be carried out over, say, a three month period with the results being submitted to the board of the association for consideration.

Member surveys should be an essential tool for any trade association. Some associations carry out surveys annually although most probably do them less frequently. Surveys can
also range from comprehensive ones covering all members and all services to more specific ones using a sample of members and covering single services. A typical format for a survey of all members would be to list each service that is provided, breaking them down as far as possible, and asking members whether they believe that that service should be provided, whether they make use of the service and how effectively the member believes the service is provided.

Such a survey gives perceptions only, but perceptions are important for membership organisations. Such a survey may well show that the golf days organised by the association are particularly valued or that the statistical services are highly valued but representational work may score badly. The members may well be wrong in their perception of the effectiveness of representational work. If, for example, an association has done an exceptionally good job in watering down the effects of a regulation which would be very damaging to the members’ business then the members may well rate the association as being ineffective because there is still a regulation which does not benefit them. By contrast, if an association has been ineffective in its representational work but there have been no significant measures taken by the government or regulations in the previous year which adversely affect members, then members may well rate the performance as effective even if they will be paying a heavy price in the years ahead.

The results of these surveys therefore need to be treated with caution and analysed in a sophisticated way with the results being fed into the work programme of the association. If there is a perception of the association as ineffective when, in practice, the senior management and the board believe this is not the case, then either they are wrong or they need to engage in an education programme with their members so that they better understand the representative process.

Stakeholder surveys can be useful for some parts of an association’s work. Most major trade associations have to deal with the media. It is therefore sensible for them to survey journalists on a regular basis, perhaps once a year, asking for their views on how effective the association is in representing the interests of the members and in dealing with calls from journalists. However, even these results can be distorted by the performance of members and the sector the association is covering. An additional point is that an association can score very well in dealing with the media if it provides journalists with a great deal of information which is extremely useful to them but is actually damaging to the members. However, it is important that an association knows what journalists think of the way that the association deals with the media. In this particular area a survey of the press offices of member companies may well provide valuable additional information. There can also be a case for commissioning a public affairs company to review the effectiveness of media work.

Surveys of government officials and regulators can be valuable because they are the recipients of representational work and are therefore very well placed to know the effectiveness of trade associations. Such people are generally willing to respond on a confidential basis to such surveys carried out by an appropriate third party. The difficulty with these surveys is that there are a small number of people who will be interviewed and this can distort the results, particularly where the people concerned are themselves ineffective. Some may judge the trade association not on how well it represents the interests of its members but rather on how co-operative it is in bringing members into line with the views of the government or the regulator.
The overall message from this analysis is that all forms of targets, surveys and reviews can be valuable to trade associations but their limitations need to be understood and the results interpreted accordingly. If such reviews are done in a spirit of helping to improve the effectiveness of a trade association, then they are likely to be effective. By contrast, if they are done for defensive reasons, that is to demonstrate how wonderful the trade association is, then the results are unlikely to be helpful.

**Quantifying the value of representational work**

Trade associations are primarily representative bodies and therefore their effectiveness as organisations depends critically on how well they exercise that representative function. This was covered in detail in Chapter 9 in respect of representation in Britain and Chapter 10 in respect of representation in Europe. It is in respect of representational work where an association is capable of bringing benefits to its members worth many times the annual subscription. Equally, if a trade association gets its representational work wrong then it can cost its members millions of pounds in the future.

It is possible to attempt to review the value of representational work either for individual initiatives or more generally. However, if individual initiatives are being evaluated then of course it is important to understand the importance of the background work which the association needs to do in order to be in a position to handle a specific issue. This was covered in full in Chapter 9.

The value of representational work can be calculated only in arrears. Indeed, successive evaluations can be done over a longish period of time. A government proposal might include a regulatory impact assessment quantifying the costs of administration for the members of the association at, say, £5 million. When the association has completed its representational work it may be able to argue, perhaps with support from the government, that the implementation costs are now £3 million. However, another evaluation three years later may show that, in practice, the implementation costs were £10 million. To complicate the position further, all of these calculations may be subject to massive uncertainty. Regulatory impact assessments are fairly broad brush exercises and often far from reliable. Implementation costs can be difficult to calculate because they cannot easily be isolated. Taking a simple example, if the regulatory requirement means that additional information has to be put on headed notepaper then it can be argued that implementation cost is equal to the cost of scrapping existing supplies of notepaper. However, if sufficient notice is given then there might be no need to scrap surplus supplies and the only cost is simply the minor one of changing the design. A game is of course played here with industry attempting to argue that the costs of doing something will be excessive while government is seeking to minimise the impact.

The major problems in measuring effectiveness of representational work are –

- Did government policy change as a result of the representational work of the association? Even where a policy changes in line with the association’s submission many others may have made the same sort of submission and the policy may have been changed regardless of any submissions.
- The benefits of representational work take a long time to come through, quite often as much as five years and even longer in the case of work at the European level.
- The value of commercial services and tangible benefits can be more easily measurable and this can lead to a distorted picture of the relative importance of commercial work and representational work.
• Much of the best work that trade associations do is to stop things happening. In some cases this can mean stopping matters even getting on the agenda. Assessing the impact of the association’s work is particularly difficult in such cases.

• Even where it is reasonable to argue that an association has changed government policy, it can be very difficult to quantify this. In some cases, an association may change government policy but in so doing, in the long-term, actually disadvantage its members rather than benefit them.

Many trade associations make unrealistic claims about the value of their representational work. It is common to see an argument along the following lines: “The government proposed to introduce a new regulation on the way that members do business. By its own admission this would have cost £20 million a year to administer. We have lobbied strongly against the proposals and put forward instead an alternative scheme which would cost just £2 million. We are delighted that the government accepted our proposals and as a result members are saving £18 million a year. This is 36 times annual subscription income of £500,000 and clearly demonstrates the value of membership of the association.” While it may be correct to argue that the implementation costs as initially proposed would have been £20 million and that finally they were £2 million, the difficult bit is quantifying the extent to which the association was responsible for the reduction in the figure. The key question is what would have happened if the association did nothing. Is it possible that there would have been the same result or perhaps an even better result?

It is very seldom the case that only one organisation is making representations on such matters. A number of trade associations are likely to be interested in the subject and, in addition, individual companies will be making representations as will consultants and perhaps even other government departments. The government may well have got its proposal wrong in the first place by not understanding the issue sufficiently or indeed the proposal may have been made knowing that it was probably wrong but seeking to flush out better proposals from industry.

It is common for a number of trade associations, and indeed others, to claim credit for a government measure and, in particular, for any change in government policy. Indeed, it is not uncommon to find associations saying that, unlike other trade associations, they alone secured the change in government policy. The position can be even more complicated because the association that was really effective may have come to an understanding with the government that policy would be changed provided the association did not claim credit for it.

There is an excellent example of this from the insurance industry. The government initially proposed to introduce a new insurance premium tax, at the rate of 3% on net insurance premiums. This was immediately felt to be unworkable with there being a strong preference in the industry for the tax to be based on gross insurance premiums. This would require a lower rate to produce the same revenue. The Association of British Insurers, the major trade body for the industry, had a number of detailed discussions with the government on this, as a result of which it was eventually announced that the rate would be 2.5% on gross premiums. The actual cost to the insurance industry was the same but the tax would be far easier to administer. The Association came to an arrangement with the government that it would not publicly crow about the change in policy but it was clear from ministerial statements that the policy had been changed following representations from the Association. Indeed, the change in policy was announced in a letter to the Chairman of the Association by the minister. The Association of British
Insurers was therefore precluded from claiming public credit for a useful achievement. Two other trade associations in the industry promptly claimed credit for what had happened saying that, unlike the ABI, they had been lobbying vigorously and publicly on the issue.

There are two groups of people who may actually have a reasonable idea of what difference the association has made, either on specific issues or more generally, that is the director general of the trade association and government officials and regulators. The problem is that both parties may have reason to be less than honest.

If an association is really serious about evaluating its representational work then it needs to undertake a comprehensive exercise which, besides helping to demonstrate value in its own right, should also highlight areas where performance can be improved in the future. The basic elements of such an evaluation would be –

- The preparation of a detailed paper by the secretariat of the association setting out how they believe they have benefited their members through representational work, both generally and in specific cases.
- This paper being subject to scrutiny, perhaps in the first instance by relevant people from member companies including public affairs directors.
- Scrutiny of the paper by the board of directors of the association.
- External validation of the paper by a consultant. This is probably easier to do for specific policy issues than it is more generally. For such an issue, the consultant would not only look at what the association would claim to have achieved but also at what every other organisation can claim to have achieved and would then discuss the issue with officials and perhaps also MPs if Parliament was involved in the issue.

Just going through this process would in itself be a valuable discipline. In particular it would expose some of the outrageous claims that trade associations are inclined to make about their effectiveness.

**The Trade Association Forum initiative**

In 2003 the Trade Association Forum initiated a project to develop and test a value added measurement methodology for trade associations. It is expected that this will appear during 2004.

The Forum's objective has been to develop a rigorous and consistent approach with robust processes, including external validation of findings, that will provide objective and credible assessments of the annual value added generated by trade associations.

A primary benefit of the process will be to enable associations to demonstrate value for money and provide a basis for communicating this to their members and other stakeholders. However, it is expected that the methodology will also feed into internal business planning and project evaluation and help in the development of best practice.

**How should companies evaluate trade association membership?**

In practice few companies attempt to evaluate trade association membership in a scientific way. The issue is generally raised either when a company is in financial difficulty or when a new chief executive or public affairs director starts asking questions that have not been asked before.
It may well be the case that some companies will attempt to do an analysis of the value of trade association membership, or memberships, as part of a wide ranging review of how they handle public affairs work. Associations should be prepared for such analyses, and if necessary to help members complete them. Indeed, associations may consider encouraging their members to do such analyses.

A framework that can be used for value for money assessment is set out in the appendix. In summary, the assessment should cover –

- The cost of membership of the association – both subscription and indirect costs.
- The effectiveness of the governance arrangements.
- Involvement in and effectiveness of committees.
- Value of representational work, commercial services and information services.
- Co-ordination with other national and European associations.
Appendix

Framework for a company to evaluate trade association membership

Cost of membership
The direct cost of membership is the subscription paid. This should also cover any subsidiary subscription, for example for special interest groups. The subscriptions should be analysed over a number of years and the reasons for any trend identified, such as –

- The association taking on new business or costs increasing.
- The company’s subscription as a proportion of total subscription income changing because the company is growing faster or slower than the industry average.
- Mergers necessitating an increase in the subscription scale or new members enabling the subscription scale to be reduced.

In addition, a company must consider whether the subscription scale is “fair”. Data from the Trade Association Forum benchmarking study is useful as a benchmark.

The indirect cost of membership derives mainly from the time involved in membership of committees and working groups – preparation for meetings, attending meetings and work between meetings. Any travel and accommodation costs should be included.

Governance
If a company is one of the largest members of the association it should expect a seat on the board as of right and this seat should be taken by the chief executive. A serious businessman is likely to evaluate the governance arrangements by using four criteria –

- Is membership of the board a useful source of intelligence?
- Is membership of the board useful for networking?
- Does the board concentrate on the right issues and is it in control of the association?
- Are the meetings well-organised and conducted?

Committees
A company should assess whether it has a fair representation on committees, panels and working groups, whether it has the right people involved and the value of each committee on which it is represented.

For each committee, the following questions should be asked on performance –

- Are the meetings well organised – agendas and minutes circulated promptly for example?
- Are the agenda papers and minutes well-written and useful documents?
- Is the number and frequency of meetings appropriate?
- Does the committee deal with the right issues?
- Does the secretary guide the committee meetings effectively and do the necessary follow up work between meetings?
- Is the chairman properly qualified to be chairman (i.e. because of his or her position not their personal characteristics)?
- Is the composition of the committee appropriate?
- Is the committee well chaired?
- In general, how effective is the committee?
- What two or three things can be done to make the committee more effective?
Representation
Large companies in particular belong to trade associations to be able to influence legislation, regulation and policy generally and to have advance warning of developments in these fields. The questions a company should ask itself are –

- Does the company have a reasonable input into the policy work of the association?
- Does the association produce good quality policy papers?
- Does the association have good contacts with opinion formers? Is it respected and listened to by them?
- Does the company seek to bypass the association and, if so, why?

In a large association this analysis may need to be done for individual subject areas or for horizontal areas (tax, regulation etc).

Services
Where the association provides services, either paid-for or free to members, then for each such service the following questions need to be asked –

- How much does the service cost?
- Is there an indirect cost to participating in the service (e.g., providing statistics)?
- Is the service provided efficiently?
- Is the service valuable to the company?
- How could the service be improved to the benefit of the company?

Information
One of the core services of any association is to provide information to members, particularly on areas where the association has a representative role. The following questions should be asked –

- Does the association provide useful “intelligence”, based on high level contacts, to the chief executive and other senior representatives of the company?
- Is it easy to keep track of the association’s work?
- Is information provided in a timely and user-friendly way?
- Is the association’s website a useful source?
- Does the association respond quickly and effectively to individual requests for information?

Overlap with other trade associations
Many large companies belong to a number of trade associations. There may be different trade associations for different vertical market sectors and some for horizontal interests. The following questions should be asked –

- What other associations does the company belong to?
- For each such association what subscription is paid?
- Is there any overlap of issues covered and representation between the principal association and other associations?
- Do the associations compete or co-operate?

The answers to these questions may lead to a wider question of whether membership of all the associations can be justified, and whether any duplication can be avoided.

Co-ordination of public affairs work
A large company will typically have its own public affairs capability. It can be difficult to separate out public affairs work from corporate affairs work. Broadly speaking, public
affairs work can be defined as work with regulators, politicians and other opinion formers that is not directly related to the firm’s goods and services.

If such work is done then it should be costed in the same way as membership of the association. Some other questions follow –

- Is the direct public affairs work done because the association is considered to be ineffective?
- Is the direct public affairs work reasonably co-ordinated with the work of the association?

**Co-ordination at global and European level**

If the UK company is a direct member of a European association then that association should be evaluated in the same way as the principal association.

There are several other scenarios –

- A parent company is a direct member of the European association.
- Sister companies are members of sister associations in other EU countries.
- Subsidiaries or parent companies are members of sister European associations.

All these membership relationships should be recorded and a key contact identified. Two questions should be asked –

- Is there adequate co-ordination?
- Is it clear where overall responsibility lies?
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