

A Policymaker's Guide to Working with Trade Associations

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Introduction

Trade associations play a significant role in the policymaking process and in the implementation of decisions of Government departments and agencies. Their knowledge of their sectors should mean that they can –

- Help identify emerging issues.
- Identify the effects of policy measures on their sector.
- Help develop solutions to problems.
- Act as an additional resource in ensuring that secondary legislation achieves its desired purpose.
- Be an effective channel of communication between the government and the sector.

Policymakers, therefore, have a vested interest in ensuring that the trade associations representing the sectors they deal with are effective. A small investment of time, and in some cases a modest financial input, can significantly improve the effectiveness of a trade association and, therefore, of the policymaking process. This paper aims to help policymakers obtain the maximum effective input from the trade associations with which they deal.

Trade Associations – Essential Characteristics

Trade associations come in a wide variety of types and sizes. The defining characteristic of an association is that it represents a sector of the economy. Typically, this is a sector that produces a particular good or service, although some associations represent functions. Businesses belong to trade associations for financial reasons; they expect to obtain a benefit at least equal to the subscription that they pay.

Typically, trade associations are poorly resourced and invariably have some internal divisions given that, almost by definition, their members compete with each other. They are vulnerable to changes in their marketplace. The merger of two large members can have a devastating effect on the finances of a trade association, and in a rapidly changing economy an association may find itself losing its constituency. For example, the recent turmoil in financial markets will have a significant effect on some major trade associations including the British Bankers Association, whose major members now have a rather more direct connection with the Government than was ever thought likely, the London Investment Bankers Association, which has lost a number of its major members and seen others badly damaged, and trade associations representing hedge funds and investment managers.

Another significant characteristic of trade associations is that it is difficult to value what they do, and what value they deliver is often not apparent to the members and may not manifest itself until many years after the work has been done. The best work a trade association does is to help secure long term policy or regulatory outcomes either by helping to make something happen or by preventing something happening. Members cannot easily see such benefits and may be inclined more to measure the value of a trade association by the number of column inches it gets or the number of times the chief executive is seen to be attacking the Government.

All of these factors make trade associations difficult organisations to run and difficult organisations to deal with. Those dealing with them need to understand the politics and dynamics of associations if they are to get the best out of them.

What makes a good trade association?

There are two separate groups of factors that help to make a good trade association. The first group are outside the control of the association. Associations tend to be strongest where the members have a distinct common interest different from the interests of others. This generally goes hand in hand with specific regulation of a sector. Trade associations are therefore strongest in the heavily regulated industries such as financial services, communications and utilities. It is also helpful if the sector is of a reasonable size such that the members can afford to resource adequately the association.

In addition to these natural factors are the “man-made factors”, the most important of which is the chief executive. In practice, the quality of a trade association and its usefulness to Government departments and agencies depends largely on how good the chief executive is. A good chief executive can largely overcome adverse natural factors described in the previous paragraph, whereas a bad chief executive can easily prevent a good market position from being used effectively. The trade association will be more effective if it has the support of the major players, in practice the chief executives of the largest companies in the sector. They are the people who can help give the association the resources and the clout that it needs.

The larger the proportion of the industry represented by the association, the stronger it will be seen to be by policymakers and also the better resourced it will be. However, particularly in sectors where there are many small businesses, persuading them to join a trade association is not easy bearing in mind that they benefit from any of the policy outcomes that the association can secure regardless of whether they are members. A 20% coverage of the sector is fairly good for many trade associations.

Is size a factor?

Some years ago Michael Heseltine, when Secretary of State for Trade and Industry, generated a healthy debate in trade associations through a number of carefully thought out and forcefully delivered speeches. One of his points was that a trade association really needs an annual income of £1m a year to be effective, and he complained that there were far too many associations. On this point Mr Heseltine was probably wrong. There are a number of very effective associations operating today with income of under £100,000 a year, and there are some ineffective ones with income in excess of £1m a year. Where a small sector of the economy has its own particular interests that are different from those of others, then it will invariably benefit by having a specialist trade association able to represent those interests. That association sensibly will choose to work with others on some issues, perhaps as part of a loose federation.

Generally however, there is no reason why a trade association with an income of £100,000 a year, primarily operating on a virtual basis, cannot effectively represent a small specialist sector. Such an association needs a part time top quality chief executive, who may be an executive chairman, rather than a full time pen pusher. A £100,000 person two days a week will be much better value than a £40,000 person five days a week. There are a number of recent examples of such associations being

established including the Association of Labour Providers, the Council of Property Search Organisations and the Accident Management Association.

How to identify a good trade association

An official dealing with an association for the first time can now, fairly easily, make a quick assessment of how good that trade association is. The first port of call is the website, and if it does not exist then the trade association is not effective. The website of an effective association will be attractive in appearance and easy to navigate, like all good websites. It should list the members of the association, list the members of the governing body and the executives and include policy papers which, on a quick reading, indicate that the association has an understanding of the issues it is dealing with and is able to make an effective contribution.

The second port of call should be a quick conversation with the chief executive. The good official can quickly work out whether he or she is dealing with somebody who is going to make a significant and helpful contribution towards policymaking or a time-waster. It might usefully be added that the good trade association chief executive can make a similar judgment about the officials who he or she is dealing with.

There are blurred dividing lines between sectors of the economy, and however a sector is defined there may be more than one association. Particularly where officials are dealing with a sector for the first time, they need to develop quickly an understanding of each trade association in the sector, the overlap between them and their market shares. If this is not apparent from the website then it is a good tactic simply to ask for such information. If it cannot be provided or is provided rather slowly and reluctantly, this is an indication that the association is not only ineffective but probably not very representative either.

Enhancing the good trade association

A good trade association will contribute significantly to the policymaking process without any help from officials, but such help can secure an even better contribution.

The good trade association should have its status enhanced by its dealings with Government. Acknowledgement of the association's contribution in policy papers and the willingness of ministers to meet the association representatives will encourage the involvement of the significant players in the industry and strengthen the position of the good chief executive.

As in any other area, a good relationship needs to be built up with the chief executive such that there is a basis of trust. This can be done with regular meetings interspersed with numerous telephone calls and e-mails. Both parties have to understand the basis on which they are talking with much of the best discussion being informal on a what-if basis, and not committed to e-mails.

Where possible, a good trade association should have pre-consultation on major issues and be given advance warning of announcements if this is possible. There will be occasions, particularly when new legislation is planned, that the Government might want to fund some specific projects undertaken by the association that not only will be desirable in their own right but would help strengthen the association.

By a variety of such tactics the good trade association can be helped to become very good thereby making a more effective contribution to the policymaking process.

What to do if there is no effective trade association

In many sectors of the economy there is either no trade association, a trade association that is not effective or one that covers a very wide area including the sector under discussion, but not satisfactorily. Generally, this is of no consequence. However, if suddenly there is a policy initiative or planned legislation covering a small sector of the economy then the fact that there is no effective trade association becomes a problem. To some extent the absence of a trade association can be compensated for by dealing with the major players in a sector, but this is never wholly satisfactory because naturally they are talking their own book and are unlikely to be representative. They are also unlikely to understand the policymaking process.

In such circumstances, a good tactic is to engineer the setting up of a trade association and for this to be done quickly. The best route is for officials to persuade the largest businesses in the sector, possibly with some funding from the Government if this is available, to commission a study that will lead to the establishment of a small specialist association. The study should cost no more than £10,000 and it should be possible for all of the work, including the establishment of the association, to be done in little more than a month. A small trade association can operate very effectively as a virtual organisation with no office, a part-time chief executive (or executive chairman), a good website and electronic communication. [The establishment of a new trade association is covered in more detail in the author's paper *The development of business representation in newly regulated sectors*, accessible on the website www.boleat.com.]

What to do where there is a bad trade association

A common scenario is that there is a trade association but either it is not well resourced or if it is it does not contribute effectively to the policymaking process or it does not represent its members. Such associations are easy to spot. They either have no website or a very poor website, they have published no significant policy papers and industry leaders are not involved. They may be the personal fiefdom of a chief executive or a chairman, and it is likely that the person running the association will have been there for a long time.

In such circumstances it would be naive to believe that a bad chief executive is going to become a good chief executive with support and encouragement from official sources. Rather, there is a need to put pressure on the industry leaders, if they can be identified, to reform the association. There are a number of tactics that can be used -

- Respond critically to policy submissions or the lack of them in a way that indicates that the association does not understand what is going on.
- Invite the industry leaders to a meeting and explain gently to them that their trade association is not making an effective contribution and, as a result, policy or regulatory outcomes will be less than satisfactory for them.
- Suggest commissioning, and possibly help to fund, a study on how to improve the association's effectiveness. Again, such a study should cost around £10,000. Generally, it will lead to the departure of the chief executive.

What to do where the trade association structure is wrong

A common scenario, particularly in rapidly changing industries, is that the trade association structure has not kept pace. As a result there are too many voices trying to cover the same sector and quite often they will see each other as the enemy. Trade associations are very slow to adapt to changing structures of the sectors they represent, with personality issues being important while, at the same time, there is the absence of a clear financial incentive to change structure.

Here, the strategy should be the same as for a bad trade association. Officials, or in some cases Ministers, can often be a good catalyst for reform simply by encouraging the industry leaders to take action which they might know in their hearts was needed but simply had never got around to. There is no need for the Government to become directly involved. It just has to start the process which will lead to reform. The mere suggestion that a study is needed on whether the trade association structure is appropriate for the needs of the industry can be sufficient to start the ball rolling.

Is it worth the effort?

There is a view that those sectors that do not have an effective trade association have the remedy in their own hands and should be allowed to “stew in their juice”, suffering the consequences of policy and regulatory decisions taken in the absence of an effective industry input. This is short-sighted. The government also suffers and policy measures and regulatory measures do not achieve their desired results. Enhancing the trade association input requires only a modest amount of work and the payback can be substantial through bringing a valuable additional resource to the policymaking process.

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