



Industry Associations

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Industry associations in innovation governance and industry sustainability

(Or)

The role of industry associations in coordinating technological change

- Our purpose is to set research program for industry associations in technological coordination
- We argue that Industry associations play role more significant than previously thought in ensuring industry survival though technological change
- Industry association function is the management/governance of technological change

WHAT IS AN INDUSTRY ASSOCIATION?

- economic and political institutions that engage in collective action for and on behalf of members (Olson 1965, Barnett et al 2000)
- “member-based organisations that represent the interests of a particular industry and actively lobby and negotiate with government on their member’s behalf to shape government policy and regulation” Watkins et al (2015)
- Main function of an industry association is typically to represent the industry’s collective internal and external interests (Dalziel 2006)

collective interests include:

- Information sharing and learning (Benner 2003)
- Coordination on technical standards (Damsgaard and Lyytinen 2001)
- Creating and enforcing industry-level self regulation (Shaked and Sutton 1981)
- Collective funding of industry-specific local public goods and corporate political activity, including training, public relations, issue lobbying, and infrastructure (Foray 2003)

CLASSIFICATIONS

Categorise by structure (Boch 1987)

1. **Horizontal** : how wide the association defines itself (eg: “Transport” or “Truck Owners”)
2. **Vertical**: typically relates to size of member firm
3. **Geographic**: State, national or international membership

Categorise by who members are (Bennett 2000)

- **Associations of companies.**
traditional focus of academic and policy interest on industry associations, where membership is predominantly companies with common interest
- **Associations of owner-managers.**
Also commonly termed “trade associations” and member companies are predominantly small.
- **Associations of self-employed professionals**

Industry associations - No overarching definition or classification scheme

We're including: any collective of business, commercial or industrial entities or 'professionals' constituted to service mutual interests.
and we will use that term to describe them.

Includes Trade Associations (as opposed to trade unions), Chambers of Commerce, Guilds, Institutes, Business Associations, peak industry bodies etc

Australian examples:

Minerals Council of Australia (Mining and Minerals),

Victorian Automobile Chamber of Commerce (automotive),

Financial Services Institute of Australia (financial services),

Australian Industry Group (multi-sector),

Australian Chamber of Commerce and Industry (multi-sector),

Australian Farmers' Federation (agriculture),

Australian Institute of Architects,

Australian Medical Association,

CPA Australia

+ 5500 others.

Economists against industry associations

Defensive:

- Countervailing power to trade unions (Martimort 1999)
- Blocking new technologies that threaten the industry's extant business model (Cavazos & Szyliowicz 2011).

Parasitic:

- *“People of the same trade seldom meet together, ..., but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”* Adam Smith
- *“Where rents can be captured, they will be captured”* (Olson 1965, Stigler 1971, Becker 1983)
- *“[Interest associations] reduce efficiency and aggregate income in the societies in which they operate . . . slow down a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions . . . erect barriers to market entry . . . and make decisions more slowly than the individuals and firms of which they are comprised and tend to have crowded agendas and bargaining tables.”* Olson (1982)

More of them is worse

Tend to proliferate when times are good/stable and that proliferation leads to slower economic growth (Olson 1982)

#NotAllEconomists think that way

- Benefits accrue through ‘market supporting’ and “market complementing” activities, esp. for developing economies (Doner and Schneider 2000)

Market *Supporting* activities (public goods)

- Stronger property rights
- Effective public administration
- Infrastructure

Market *Complementing* activities:

- in-club with spillovers to wider economy
- Direct coordination among members – to manage price competition
- Manage industry downturns through coordinated capacity reduction
- Standard Setting

Associations in Innovation Systems & Technological Coordination

The notion that institutions, including industry associations, have a role on managing innovation is not new, having been (Schumpeter 1939,1942 et al).

- Literature flourished briefly in late 90s early 00s but not much since
- Innovation = industry-wide collective endeavour, requiring coordination of and collaboration between diverse sets of knowledge, resources and expertise. (Freeman 1988,1987, Watkins et al 2015)
- ‘Superstructure’ organisations link and shape networks within innovation system
- Provide collective goods to members & facilitating knowledge flows between policy makers and innovators (Callon, 1994; Van der Meulen and Rip, 1998; Cash, 2001; Kelly, 2003).
- IA are (can be) important actors that work with governments to create stable business environments for industry growth & allow information and ideas to be exchanged (Patel and Pavitt, 1994, Doner and Schneider 2000, Kshetri and Dholakia 2009, Dalziel 2006)

Cases:

The Offshoring Industry in India

EDI in Denmark, Finland and Hong Kong

Offshoring in India

“Offshoring” - contracting or subcontracting of services work, to lower-cost labour forces in developing countries, mostly information technology support and development work and customer contact work (call centres etc).

India's National Association of Software and Services Companies (NASSCOM),

NASSCOM has been highly successful on a number of fronts:

- Chartered capability to monitor members' behaviours, through direct monitoring and through collaboration with government and law enforcement agencies and strategies;
- “strategies of positive incentive” are combined with “strategies of coercion” (Vinogradova, 2006);
- NASSCOM has worked with the Indian Government towards creating a **special court** to try people accused of cybercrimes and other violations of the country's Information Technology Act (Ribeiro, 2006).
- NASSCOM took a wide variety of measures intended to strengthen the country's intellectual property rights (IPR) regime which have resulted in strong copyright laws;
- Stimulating industry consolidation through mergers and acquisitions to exploit synergies and scale opportunities (The Economist, 2006).

EDI adoption in Denmark, Finland and Hong Kong in the **Grocery** sector

Electronic Data Interchange (EDI) in 1990's emerged as a critical transformational process innovation for business - a solution to the increased complexity and increased transaction costs arising from the growth in just-in-time production and other flexible manufacturing philosophies.

EDI facilitated electronic trading between businesses, with improved speed and control over inter- and intra-organisational transactions.

Damsgaard and Lyytinen (2001) examine the role of what they call *intermediating institutions* in EDI adoption in Denmark, Finland and Hong Kong in the **Grocery** sector

First, trade and industry associations become significant players in the diffusion process. Their level of involvement and their actions were critical in launching industry-wide uses of complex and networked Technologies but local contingencies and business and regulatory conditions come into play

Denmark- fierce culture of competition within sectors (“collaborate in the morning, compete in the afternoon”), which associations helped to manage and mitigate;

HK - high rentals and difficult logistics were a prime motivating factor that triggered the need for a technological solution,

Finland: strong culture of collaboration learned from the example of the banking sector.

Attewell (1992 p. 7): “*Where technical knowledge is scarce and/or organizational learning around a technology is burdensome new mediating institutions come into existence*”

Local conditions need local solutions but Across these three centres, EDI was a common solution to a (somewhat) differing set of problems and local IAs came into being to (successfully) coordinate adopting and diffusion .

Conclusions

- NIE has traditionally cast IAs in a negative light - the evolutionary and Schumpeterian literature has had relatively little (else) to say about the role of industry associations in the process of innovation and industrial dynamics
- Innovation economists have paid little attention to the relation between the quality of governance of industry associations and the long run sustainability of industries through periods of technological change
- There are cases where IAs have served to manage industry development and technological changes through a range of activities to maintain established industries and/or develop new ones.
- We argue that coordination of investment and adoption across an industry with respect to a disruptive new technology predicts long run industry performance, and effective governance by industry associations with respect to new technologies can provide this coordination.
- Different industries and industry associations are making distinct efforts to coordinate learning and adoption, and the quality of these efforts (largely taking place at the national level across different countries) predicts subsequent industry performance

Further research

- Blockchain technology presents an interesting case study that will enable us to test this theory in coming years. As new digital infrastructure, it is a technology that requires coordinated adoption.
- An index of industry association quality and effect(?)
- This hypothesis contributes to a deeper understanding of the origins and locus of innovation policy, and how it is provided not only from public policy, but also from clubs (as industry associations) or from private organisations (as consultancies) (Potts 2017).