

# **Clients or members? Organisational strategies of employer associations in Australia and Italy in response to industrial relations decentralisation.**

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## **Abstract**

Decentralisation of collective bargaining generates challenges to employer associations' organisational purpose, identity and strategies for survival and growth. We focus on one important strategic choice through which associations may seek to address challenges of membership and financial sustainability: whether to substitute (even partially) traditional purposes and identities as representative associations by embracing those of commercial businesses in the broader business services market. Our study develops a cross-national, comparative analysis of eight associations, four in Australia and four in Italy. We find that labour market and product market pressures most important for explaining these choices.

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## **INTRODUCTION**

Decentralisation of collective bargaining poses new challenges for labour market membership organisations such as unions and employer associations. Employer associations, like unions, can take different forms. Thus, territorial associations represent firms from different industries in a given geographical area. Industry (or sectoral) associations represent employers within one or a few related industries. Industry associations may also operate at different territorial levels but rarely at the local level.

Historically, firms formed associations to provide 'collective goods' – non-market solutions to communal problems – related to their 'class' needs: coordination of collective bargaining, lobbying and political representation. Yet, reliance on collective goods leaves associations vulnerable to 'free-riding' by firms who benefit without joining and financially contributing. Many associations therefore provide a portfolio of 'selective goods' (Olson 1965): free or heavily-subsidised, standardised services directly to and solely for members. Selective goods are an inducement to and a reward for membership. Examples include: collection and dissemination of survey information; advice on regulatory compliance; training; guidelines for wage bargaining, industrial disputes and judicial procedures.

Many countries have experienced decentralisation of collective bargaining in recent years. Union density and strike activity have also declined while individual employment rights regulation has expanded. The consequences for employer associations have received little attention outside Australia. This is surprising as employer associations themselves have often led the policy charge for bargaining decentralisation and the weakening of unionism.

Decentralisation started early and has proceeded a long way in Australia, encouraging greater attention to this topic (Mortimer *et al.* 2002; 2004; Sheldon and Thornthwaite 2004; Spooner 2002). Taken together, these studies suggest that decentralisation profoundly affects associations in a number of ways. Radical bargaining decentralisation highlights competition among firms and makes an association's collective goods – essential to 'associational glue' – less attractive to larger member firms. Given their size and internal resource, larger firms also have less need for an association's selective goods. Yet, fragmentation of collective

institutions and proliferation of individual rights regulation encourage smaller employers to demand both more and more customised selective goods. All this increases fragmentation of association activities raising their costs (Markey and Hodgkinson 2008:761).

Under the typical association subscription formula, each member firm pays a fixed sum plus a variable amount related to workforce size. Defection of larger firms therefore drastically reduces association revenues. Attempts to offset this by recruiting smaller firms increases total – but not average – revenues and generates rising total and average costs. Thus decentralisation threatens associations through declining revenues and rising costs.

How then to generate organisational sustainability? Sheldon and Thornthwaite (2004) argue that, in responding to decentralisation, contemporary Australian associations have chosen one of two main directions or experimented in spaces between. They can always continue as a largely representative association. Alternatively, they can choose to move towards a business services model, increasingly providing 'elective goods': commercial fee-for-service, customised services to members and non-members alike. Indeed, provision of elective goods – for example, industrial relations and human resource management advice and consultancy services – has been a common response by Australian associations.

Those choosing a business services identity have experimented with their own financial arrangements. Some have chosen to provide basic services for all members (included under membership fees) but will have a variable or tiered fee-structure for complex or customised services requested by members and potentially, by non-members. This achieves two important outcomes. It diversifies association revenues beyond membership fees and it provides an organisational purpose to replace multi-employer bargaining. On the other hand it also challenges traditional employer association purposes, possibly undermining their representative roles and identities.

Sheldon and Thornthwaite suggest that five intersecting variables generate particular organisational choices of path, behaviour and identity. An association with abundant, discretionary financial resources is more likely to experiment with elective goods, as will one with a territorially homogeneous membership. On the other hand, three factors encourage continuing associational focus. Associations more dependent on smaller members, financially and politically, face greater pressures to provide a wide array of selective rather than elective goods. Recruitment of an association's professional leadership through its internal labour market encourages maintenance of associational purpose and identity. So too, most importantly, do threat effects from unions and governments.

Dommerson (2007) uses Sheldon and Thornthwaite (2004) to investigate Australia's most important building and construction sector association, delving comprehensively into relationships between members and association. She confirms that different industrial relations environments – 'high' against 'low pressure' – as well as firm size shape the needs of particular types of firms, their association's internal dynamics and, therefore its strategic choices. What determines policy and strategy outcomes are those internal dynamics and, in particular, the availability and commitment of certain types of firms – here the largest ones – to involve themselves in the association's activities.

This paper compares Australia with Italy, another country with strong employer association traditions and a recent history of bargaining decentralisation. We pose four questions. First, how have associations chosen to respond to challenges from decentralisation? To what extent have they chosen to supplement or forsake their paths as representative associations by embracing business activities? Third, which factors encourage or discourage these choices, and why? Finally, what have been the organisational outcomes of these choices?

Until the early 1990s, both countries had centralised bargaining, high union density and wide collective bargaining coverage via state intervention. Change in Australia, fruit of government

activism, began earlier and is more comprehensive. In particular, between 1996 and 2007, a militantly anti-union government refashioned the national bargaining structure – virtually outlawing collective bargaining beyond the enterprise – with very willing support from major associations. From 2005, it legislatively privileged individual over collective agreements. In Italy, the intended decentralisation has had less effect than expected although the national bargaining level has virtually disappeared. Industry and territorial bargaining remain important because, in part, both unions and employer associations prefer them.

### Research Design and Methods

We examine eight leading associations as study cases: two territorial and two sectoral associations from each country. In both countries, we have chosen sectoral associations in manufacturing to minimise variables involved and territorial associations with as much geographic contiguity as possible. To assess the potential of environmental pressures on organisational strategic choices, we selected, from each country, one territorial and one sectoral study case that we expected to face stronger environmental pressures and a pair for which we anticipated a more stable situation (Table 1).

Country	Environmental pressure	Shape of the association	
		Territorial	Sectoral
Australia	Higher	Commerce Queensland	NSW Business Chamber
	Lower	VECCI	Australian Industry Group (AI Group)
Italy	Higher	Assolombarda	Federchimica
	Lower	Associazione Industriale Bresciana (AIB)	Federlegno- Arredo

**Table 1 – Case selection strategy**

Commerce Queensland and the Victorian Employers' Chamber of Commerce and Industry (VECCI) are territorial associations representing their respective states. Both have, as members, individual firms and smaller associations, whether sectoral or territorial. Victoria is Australia's second most populous state and an industrial heartland. Queensland is the third most populous state with an economy strongly based on primary and resource industries, tourism and small business. Both associations are state affiliates of the Australian Chamber of Commerce and Industry (ACCI), the largest national peak association.

Australian Business Ltd – since 2006, New South Wales Business Chamber (NSWBC) – began this period as a sectoral association, having represented NSW's non-metal manufacturing employers for a century. Over the last 18 years, it has transformed itself into a territorial association, one of two major territorial ACCI affiliates for NSW, Australia's most populous state. On the other hand, Australian Industry Group developed in the metalworking sector to become the dominant national association for manufacturing employers (and large-scale construction). It disaffiliated from ACCI in 1987 over policy and other differences.

One of our Italian territorial associations is Assolombarda. It groups firms in the Province of Milan. Associazione Industriale Bresciana (AIB) performs the same function for firms in the neighbouring Province of Brescia. Milan, long a centre of both manufacturing and commerce, in recent years has undergone substantial de-industrialisation and services now dominate employment and economic development. Brescia remains a historical heartland of heavy industry, particularly metalworking. Both provinces are part of the Region of Lombardy, one of Europe's four most developed and richest industrial regions. The Italian sectoral associations are Federchimica – representing chemical industry firms – and Federlegno-arredo from Italy's important furniture and home design products industry.

We collected data through semi-structured interviews of senior officials from each association, relevant internal and public documents. For most of these associations, we also have longitudinal evidence – via multiple interviews and documentary evidence – that cover more than a decade. In the following section we present our findings before explaining their significance through organisationally-based theory.

## RESULTS

Table 2 presents results for our main variables. The four Australian associations continued on respective paths that Sheldon and Thornthwaite (2004) had identified. NSWBC, already most distant from its association heritage, has become ever more territorially-oriented through its 2006 merger with NSW Chamber of Commerce – another very old association. On its website, it describes itself as an ‘independent member-based company’ (NSWBC 2009). While it no longer refers to itself as an association, membership remains important to its 5,000 odd members – and thus to the association. However, what that means continues to change. One challenge is being sensitive in determining type and level of selective good to fit within each membership level. Another is to work out the relationship between its ‘associate members’ – of whom there are some 23,000 – full members and NSWBC as organisation.

NSWBC continues to develop, provide, re-fashion and innovate its elective goods. It faces product market competition over them and stronger fiscal pressures to ensure they are profitable. However, it has an advantage in being able to customize its membership relationships and its organizational economies. Industrial relations remains an important area of collective and selective good provision and also for elective goods via outsourcing. However, it is ever less a source of ‘associational glue’, whether for recruitment or retention.

Commerce Queensland remains focused on lobbying that state’s government. Alongside this central collective good, it continues to offer a broad suit of selective goods, particularly in industrial relations, employment and OHS. It also continues to offer elective services – ‘consulting’ – but with less experimentation than in the past. VECCI has chosen a similar profile for Victoria whose prominence, however, gives VECCI a greater national profile and more complex challenges. Both Commerce Queensland and VECCI clearly remain associations but, perhaps, now more generic business associations than before. On the other hand AI Group has chosen to remain closest to its employer association purpose and identity, promoting its strong reputation for delivering collective goods through lobbying and coordinating its members’ against strong unions in metal manufacturing and civil construction.

Legislative changes have, once again, been influential but this time they have provided more fertile ground for associations’ collective and selective goods. The 2005 *WorkChoices* law threatened almost all collective bargaining. However, that government chose to fund employer associations to deliver information and training to employers – members and not – about the law’s implications. This raised associations’ legitimacy and expert profile among employers, mitigating threats to them from that law. Associations gained financially and used those occasions to advertise their services: collective; selective; and elective. Many developed – for use on a consultancy basis – company-level templates relevant to the choices employers now enjoyed. They also lobbied and advertised heavily against proposed changes to the law during the 2007 election campaign. Since the change of government, they have been busy with more lobbying and propaganda. Legislative changes in 2008 and 2009 have provided them more opportunities to inform, counsel and train employers. Thus, government intervention may renew employer association purpose, at least in the short term.

Our findings for Italy are similar. Most of the associations have chosen to provide customised elective services to members (and sometimes non-members). Nevertheless, three of the associations adopted this strategy quite differently. Another, AIB chose not to embrace it. AIB is a territorial association whose members are mostly in steelmaking and other labour

intensive, heavy manufacturing activities where they face strong unions and company-level effects of coordinated collective bargaining. In the words of AIB's Managing Director, 'bargaining at firm level is our most important duty. This has particularly been true in the recent years as we have had so much restructuring in our province.'

Migration towards a business service model has begun in the two sectoral associations but both still consider their representative functions and assistance in labour disputes to be core services. Collective goods thus remain central to organisational purpose and identity. Both have also responded to members' explicit expectations to develop and offer expert services that address crucial challenges employers face in their respective industries. Some of these services require profound customization for which members are happy to pay a fee if they feel that service is cheaper than from other potential sources or it better fits their specific needs. An example is Certiquality, a company Federchimica set up to provide economical quality certification services to members. Certiquality subsequently also began providing these services to firms in other industries and thus to non-members. Federchimica's Managing Director mentioned that his association has rejected offers to buy Certiquality from competing providers. Members highly regard what Certiquality provides and, even with its lower prices, Certiquality has become a very important Federchimica revenue source.

Finally, Assolombarda is the Italian association that has moved furthest towards provision of business-like services on a user-pays basis. The senior officials we interviewed declared that industrial relations-related services are less important now because firms can and do obtain such assistance from Assolombarda's private sector competitors: employment relations consultants and lawyers. It also faces an effective, new competitor that emerged from a Catholic movement and which also offers forms of business networking – including through political channels – mostly unavailable through associations. As a result, Assolombarda has had to experiment most to maintain membership roles that still have meaning to members (or potential members) while also innovating in delivery of marketable elective goods.

Given the vast sectoral heterogeneity of its membership and potential membership, member firms expect – through Assolombarda – to have access to a rich portfolio of services as selective goods. As well, they are often willing to evaluate other services as elective goods by comparing cost and quality relative to those on offer from alternative providers. Assolombarda provides these elective goods through an array of organisational structures within which it continues to experiment form and content. As for NSWBC, some of these elective goods come directly from the 'mother' association, some from the various commercial entities that Assolombarda has developed as specialist providers, others from joint ventures or affiliates and still others through networks that function like loyalty programs. Nevertheless, while it has moved much further than the other three Italian associations we examine, it appears to have maintained more of its associational role and identity than NSWBC.

## **DISCUSSION AND CONCLUSIONS**

Our findings partially confirm Sheldon and Thornthwaite (2004): decentralization encourages associations to shift towards commercial provision of business services. This trend has been slower and less uniform in Italy because its decentralisation has been slower and less far-reaching. However, we find some differences in explanation. Two contingency variables appear most important and largely dependent on those decentralisation processes. In both countries, the first variable, perceived challenges to firms from unions within an association's representative domain, was – as Sheldon and Thornthwaite proposed – most important. In its absence, a product market variable facing associations – which they did not identify – comes into play: the degree of competitive threat from alternative providers – whether other associations or profit-seeking business services firms.

In Australia, rapid and deep decentralization largely makes the first variable irrelevant to associations apart from in a few crucial sectors, such as for AI Group in metal manufacturing.

Australian territorial associations are losing some of their collective bargaining-related vocations. Nevertheless, our evidence across both countries contradicts Sheldon and Thornthwaite (2004) that territorial associations are more likely to shift towards a fee-for-services model than sectoral associations.

In Australia, the first variable also includes more invasive and directive government intervention in industrial relations. Where this remains strong, employers recognise the continuing importance of their association's collective goods of propaganda and lobbying. Labour market threats to employers thus provide associations with monopolistic (or oligopolistic) resources within their domains, lowering their incentive to experiment with service-oriented strategies. Associations – like AI Group and Italy's AIB – can therefore continue to supplement crucial collective goods with expertise-based selective goods to generate recruitment and retention of members – large, medium and small.

Resource dependence theory (Pfeffer and Salancik 1978) helps explain the effects of labour market threats on firms and their associations. Individual employers lacking the necessary resources to confront these challenges alone, join associations, thereby developing forms of interdependence that increase their labour market power relative to unions and government. Associations are a resource for employers, while associations depend directly on their memberships. Associations therefore also depend *indirectly*, on labour market conditions that make membership attractive. Centralised bargaining, strong unions and interventionist governments are all thus indirect environmental resources for associations. They create their product markets for collective, selective and even elective goods.

The second variable – product market competition – undoes those conditions associations previously enjoyed, generating strategic choices in the opposite direction. Where this competition is not strong, an association can gradually enlarge its range of selective goods to increase membership satisfaction and maybe offer a limited set of elective goods. In the opposite circumstances, when firms think they can obtain those services elsewhere, they consider joining another association, partnering with other service providers or buying-in services. This places that association in boundary-less competition that threatens its survival and drives strategic change towards a service-oriented strategy: NSWBC and Assolombarda.

These strategic choices are, perhaps, best explained through 'mimetic isomorphism' (DiMaggio and Powell, 1991). When confronted with product market uncertainty, organisations adapt by attempting to absorb lessons from their most dangerous competitors. Those associations most vulnerable to product market effects of decentralisation – Assolombarda and NSWBC – have chosen to compete through adopting different organisational profiles, treating members more as clients. In part, this involves offering elective goods – including services previously offered as selective goods – directly, through commercial subsidiaries or bought in from third parties. They also increasingly mimic business services firms' offerings but with price or other advantages for members. This mimetic process can go further as associations seek to compete by meeting the business services needs of *non-members*. Behind this approach may lie a strategic choice to use market competition to attract new members. It may also merely represent a profit-seeking strategy, off-setting sunk costs of developing customised elective goods for members.

These strategic decisions generate larger conundrums for associations regarding their purpose – beyond mere competitive survival. At stake are profound questions of organisational identity (Hatch and Schultz 2002). This becomes particularly obvious from outside when: associations publicly seek business from non-member clients; involve themselves more in alliances with unrelated, profit-seeking firms; and commit to competition in boundary-less domains away from their traditional vocations. The most obvious signs are fundamental changes in self-description.

From the point of view of members and association practitioners, symptoms of gathering tensions in organisational identity may start – innocuously – with greater customisation of dues structures and related levels of selective goods. From many members' perspective, a more worrisome sign is the shifting of long-valued selective goods into the realm of elective goods. This progressively undermines organisational identity, making it more similar to for-profit competitors. Decisions to implement this type of strategy vary according to an association's resources – understood within a resource dependence perspective – and its capacity to identify and adapt to product market trends in this way. It generates – and is aided by – the capacity of an association's decision-makers to redefine its organizational identity and develop new systems of organisational competence.

This is not a linear or deterministic process. Associations choose, experiment, confirm and backtrack. Decisions may have negative, unintended consequences such as attracting commercial clients while alienating members. As Dommerson (2007) points out too, these choices reflect an association's internal political dynamics. NSWBC and Assolombarda have moved furthest in this direction. Less vulnerable to decentralisation, Commerce Queensland, VECCI, Federlegno and Federchimica have chosen to experiment in a space that allows them to meet their members' expressed associational needs while competing in product market arenas where they have some comparative advantage or where their members require an association presence. For industrial relations organisations, markets count, as do institutional contexts, but so too do questions of identity.

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	<b>Unions/ strength</b>	<b>Perceived competition</b>	<b>Self Image</b>	<b>Core activity towards members</b>	<b>Elective Services</b>	<b>Revenue model</b>
<b>NSW Business Chamber</b>	Many, but mainly weak or non-existent (SMEs)	Much and "strong"; from EAs, professional services firms	Member-based company	Strong on collective goods. Minimum selective goods. Member discounts for elective goods	Many and diverse. Provided directly, through subsidiary, affiliated and networked entities	Tiered dues structure, from very, low. Associate memberships. Medium to high fees with member discounts
<b>Commerce Queensland</b>	Many, but mainly weak or non-existent (SMEs)	Weak to moderate; from sectoral EAs. 'Natural' territorial strength.	(Employer) association	Strong, narrow collective goods profile, selective goods for SMEs.	Some. Employment and product market. Experimentation between selective and elective goods.	Medium dues, medium fees
<b>VECCI</b>	Many, diverse situations: from none to militant	Moderate, from EAs, professional services firms	(Employer) association	Strong, narrow collective goods profile, expertise-based selective goods	Some. Employment and product market. Shift back to delivery via selective goods	Medium dues, medium fees
<b>AI Group</b>	Few but strong and militant. Much coordination	Moderate; from other EAs, professional services firms	Employer association	Strong, broad collective goods profile; targeted, highly expertise-based selective goods	Very few and very targeted.	High dues, low fees. Most income from dues
<b>Assolombarda</b>	Generally weak, heterogeneous	Much and "strong"; EAs, professional service firms	Professional service organization but "also association"	Provision of a vast array of services as selective goods to motivate membership	Many advanced and customized services; mainly from network of related companies	Total from fees for elective goods higher than membership income
<b>Federlegno</b>	Weaker union, SMEs and fragmentation	Moderate, space for new recruitment	Dual image. association with "separate" related business activities (e.g. export fairs)	Collective and selective goods in labour related issues. Qualified, industry-specific service as a selective good	Targeted to key sectoral issues such as organization of trade fairs and exhibitions	Membership subscription plus fees for elective services (member discounts)
<b>Federchimica</b>	Strong industry union with a non-antagonistic orientation	Some loose competition; territorial EA (e.g. Assolombarda), professional services providers	Employer association with "separate" related activities (e.g. quality certification)	Representation and assistance in labour related issues + some qualified industry specific service as a selective good	Targeted services related to key sectoral issues, such as quality certification	Membership subscription plus fees for elective services (member discounts)
<b>Associazione Industriale Bresciana</b>	Strong; high union density	None	Employer association	Representation, assistance in labour related issues	None	Membership subscription

**Table 2: Findings regarding context, purpose, roles and identity**