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Building Successful Business Associations: Why Good Association Governance Matters

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Article at a glance

- Good governance is vital to creating dynamic, sustainable, influential, and truly representative business associations.
- Business associations must embody democratic values and ideals to fulfill their representative role.
- Association governance is about setting up a process that works in a given institutional climate, not just finding the right people.
- Improving governance in business associations is not a matter of choice – it is a necessity for associations that want to remain relevant to their membership and grow.

Corporate governance became an issue of utmost importance for all emerging and transitioning economies just over a decade ago. Until several financial crises and high-profile scandals put it on top of the agenda for companies small and large in countries around the world, corporate governance was assumed to be something which concerned only large companies in major industrialized economies. Today, good governance in the private sector is discussed publicly and privately in a variety of contexts and its contribution to the economic and political development is increasingly noticeable. There is growing evidence that corporate governance helps to create dynamic, sustainable, and successful companies, industries, economies, and countries.

Business associations around the world are facing the same set of issues companies began to face two decades ago. How relevant is the concept of governance for them? Who should be engaged in business association governance reform? Should all business associations be concerned with governance issues equally? What are the key principles? Why should you reform? What are the benefits and costs? Where does the impetus for reform come from and where do you begin?

Governance – A Necessary Component

Business associations, as representative organizations, play a special role in the development of countries. They are often perfectly positioned to fill the gap that often exists between the private and public sectors. In a broader public policy view of development, business associations provide key information to policymakers on matters of reform and provide a channel for information from the government back to the private sector. Business associations also strengthen the private sector by providing services that allow companies to remain competitive and access new markets. By becoming a vehicle of the private sector's transparent participation in the public policymaking process, business associations in and of themselves are democracy-strengthening and market-reforming institutions. They gather the views and opinions of many members and synthesize them into concrete policy recommendations and advocacy campaigns.

However, business associations do not fulfill this role simply through their existence. Many business associations do not live up to these expectations. In order to do so, business associations have to take the necessary steps and put into place sound mechanisms of their day-to-day operations. Of those, good governance is the most important one, as it serves as a foundation upon which everything else is built – from membership programs and outreach efforts to public policy advocacy and strategic planning.

Although strengthening association governance is necessary, it may be a more difficult task than it sounds. From the governance perspective, business associations are unique – unlike companies or public sector entities, their board members are also direct customers of association services as well as owners (i.e., dues-paying members). Three distinct roles have to be filled by each individual – board member, customer, and owner.

The fact that all members are also owners of a business association is often ignored in many emerging markets. Most governance dilemmas arise from the lack of recognition of this equal share in association ownership. Instead, the founding members, the largest members, the president, or several board members frequently deem ownership to be exclusively their prerogative. This means that several individuals strive to run the organization to respond to their own, narrow needs rather than to the broader concerns of the businesses they are supposed to represent. Therefore, one of the primary goals of governance reform should be ensuring that ownership of a business association lies in the hands of its members – all of its members – and is not hijacked by a select few.

The central concern of corporate and public governance remains relevant when applied to business associations: how do you set up effective mechanisms to deal with issues arising from the separation of ownership and control? How do you ensure that associations act in the best interest of all their owners, and in the case of business associations, their dues-paying members?

A model governance framework achieves this by introducing procedures that allow members to elect a board that focuses on policy-level issues and supervises staff, ensuring that the organization operates in the best interest of its members. Proper governance procedures allow business associations to discern member expectations of what the organization ought to do from management and board perceptions of what members are expecting from the organization. In a similar way, they help separate member needs from board and management wants.

In countries where transparency mechanisms are lacking and decision-making is often conducted behind closed doors, governance reform becomes a much more difficult objective. Yet, it is in these precicise conditions of poor transparency where governance reform is needed to develop business associations as effective, private sector, representative institutions.

Challenges to Business Association Governance

The issue of good governance in associations, especially in developing and transitioning economies, is often an afterthought. Just as corporate governance was initially regarded as something applicable only to a few large enterprises in major economies, business association governance today tends to be seen as something of interest to larger organizations in developed markets rather than associations in emerging economies. Yet, it is the latter associations – beset by low membership numbers, an inadequate financial base, or weak advocacy capacity – that are most in need of better governance.

It may seem that there are many other more pressing needs that associations face than governance – from the larger issues of competing against stronger associations, launching advocacy efforts, or recruiting members to the basic ones of paying utility bills or getting computers. And when governance does gain importance, oftentimes the roadblocks to improving it may lie within organizations themselves.

For example, it is not uncommon to see some association board members arguing against term limits, as they gain visible social status in their communities by being in a position of leadership in an association. Some remain in the same leadership positions for decades, becoming a permanent fixture within organizations. Giving up this status is understandably difficult, especially in a country where the number of high-profile associations may be quite limited.

For many associations in developing countries there is a general unwillingness on the part of the leadership to provide enough responsibility and clout to the chief executive and staff, whether due to the fear of losing control over the organization or one's own status. In the extreme, micro-managing chairmen may get involved in the minute tasks of running an association's daily operations, taking away from time that can be better spent on pressing strategic objectives. In such organizations, the chief executive does not fulfill his or her fundamental role, instead serving as a personal assistant for the association president.

Other examples of poor governance practices include boards of directors conducting meetings in order to open up mail or decide what to have for lunch during a workshop. It is crucial to understand the failure of basic governance mechanisms if such a situation occurs. These may be extreme examples, but the point is that boards may easily get overly involved in the day-to-day management of associations (even if driven by a good purpose) without giving enough attention to their core governance responsibilities.

At times, a blurred understanding of good governance and leadership thwarts genuine efforts to improve governance. The notions of leadership versus management or strategic planning versus implementation may not be clear-cut in different cultures. Language plays a part – in Russian, for example, the words for "governance" and "management" are identical. Thus, on a cognitive level the two concepts may not come across as distinctly as they should. Similarly, for a long time there was no agreed-upon Arabic phrase for "corporate governance," which prevented the non-English speaking business community in the Middle East from capturing and recognizing its true meaning.

In Romania, the word for governance – *guvernanta* – had to be introduced to distinguish the concept from management – *conducere*. The Romanian experience also proved that introducing the word is only a first step. Associations that made strides in improving their own governance practices have undergone rigorous training and capacity-building in order to effectively apply the concept of governance in practice. Changing perceptions and understanding of complex concepts such as governance is a difficult task that is not accomplished overnight.

Benefits of good association governance

- Transparency in operations and decision-making
- Financial integrity before members
- Ability to attract and retain talent
- Proper focus on strategic issues facing the organization
- Clear separation of governance and management
- Clear separation of individual member needs and organizational purpose
- Ability to meet competitiveness pressures
- Ability to better identify member needs and address them
- Credibility in pushing for democratic and economic reform issues

There is also a tendency for founding members to attempt to secure special rights in the association's bylaws. From the founding members' perspective their special rights come with good reason. They may be trying to preserve their legacy or they may feel concerned about other members steering the organization in a direction different from their originally envisioned purpose. The fallacy of this approach is that it automatically regards everyone else as second-tier members, reducing incentives to join and be part of the association. The bottom line, as stated above, is that associations should strive to represent the interests of all their members.

Whatever the reasons justifying the lack of genuine efforts to improve governance structures may be – and there can be many – it is becoming increasingly clear that association governance cannot be ignored. The experience of successful associations shows that it is valuable for and applicable to organizations of all sizes, industries, and geographic locations, as they face the dilemma similar to the one we faced with corporate governance when it began spreading around the world. Good association governance is the necessary foundation upon which associations can begin to build effective membership campaigns, improve their communications, strengthen credibility, or launch advocacy efforts.

Essentially, there are two options on the table before business associations today. They can either implement good governance mechanisms, proactively seeking the benefits of improved governance, or, if they choose to ignore it, those associations will be forced to deal with the issue when crises and scandals hit. The difference between crisis prevention strategies and post-crisis management is significant, however. In being pro-active, senior association leaders who choose to initiate reform are asking themselves, "What is in it for my organization and why should I do it?" Ultimately, answering that question drives associations to seek internal governance reform in order to be positioned to advocate for improved governance in their respective countries.

Business Associations as Non-Profit and Private Sector Actors

Although business associations share many governance issues with other non-governmental organizations and the private sector companies they represent, they do have several unique features which make association governance a distinct issue. This means that associations can both build on the experiences of other types of organizations in improving their governance procedures as well as develop their own methods and approaches.

One distinctive feature of voluntary business associations is the fact that they depend on dues-paying members for survival. This can be both a liability and an opportunity in relation to good governance. By the nature of their existence, associations are accountable to their dues-paying members. There are a number of stakeholders that may have a direct interest in associations' survival and performance, but at the end of the day there is only one group of "shareholders" – the members.

At the same time, it is the members who form the governing bodies of business associations. This raises a number of questions related to the strategic direction of organizations, especially in countries with poor governance and high levels of corruption. For example, how do you improve governance in an association if its own members are not transparent and have few incentives to implement change? Where would the pressure come from? Who has the credibility? How do you put in place a transparent advocacy process without making your members rid their own ranks of corruption in the first place?

Another issue in this regard is that many associations in emerging economies are still working to become truly representative organizations. Rather than focusing on advancing the interests of the broad-based business community they may be trapped in responding to the needs and interests of just the bigger, more powerful members – especially those who provide visibility for the organization. If such members "capture" the board, it can create a host of governance problems, both from the strategic and managerial perspective.

There are several other trends in business associations around the world that intensify the need for governance reform. One such trend is tolerance for poor performance. While the private sector is focused on concrete outcomes and rewards for well-performing individuals and organizations, the non-profit sector – of which business associations are a part – tends to exhibit much higher tolerance for weak performance.

The Business Case: Benefits of Good Association Governance

Transparency

- Good association governance provides the necessary mechanisms for instituting transparency within organizations on several levels. Above all, it is transparency in decision-making, both in terms of electing the leadership as well as in making and communicating strategic and business decisions pertaining to operations of an association. The importance of transparency should also be stressed as it relates to the management of resources – financial and human – well-governed associations are better positioned to fulfill their fiduciary duties transparently before their members.

Creating mission-driven organizations

- Good governance is essential in getting association leadership to outline the overall purpose of the organization and ensure that it remains focused on its core mission in its operations.

Ability to attract and retain high quality staff

- Non-governmental organizations in emerging markets, and business associations are not an exception, often find it difficult to retain high quality staff who can find better paying jobs in the private sector. Putting in place better governance standards ensures that staff receives more opportunities to develop and grow on the job in an association.

Proper focus on strategic issues

- An association's survival depends on its ability to identify emerging issues and to position itself as a leader in addressing those issues. In other words, successful associations remain relevant for membership in any economic climate and provide the necessary solutions to members' problems. The ability to identify emergent issues is directly tied to the governance structures of organizations. If much of the governance capacity is wasted on managing organizations, it comes at the expense of devoting enough time and attention to the identification of issues and crafting a proper response strategy.

Credibility in pushing for democratic and economic reform issues

- Associations fulfill their primary role through public policy advocacy, but being a credible advocate on private sector issues requires that associations themselves are well-governed. In addition to helping ensure that associations represent the views of all their constituents (and not just a select few), good governance is a public statement by associations to turn word into action when talking about democratic reform, anti-corruption, corporate governance, and other issues.

Such attitudes, however, are increasingly losing their ground, especially as competitive pressures of the private sector are increasingly mirrored in the non-profit community. With continued globalization and the opening of economic borders, companies are not only gaining access to new markets, they are gaining access to new service providers, including new possibilities for association. Local business associations, therefore, might want to begin to ask themselves a question: "What do I provide for my current and potential members that associations in others parts of my country or other countries cannot provide?"

In other words, as business associations have to compete with other associations in their field, within the borders of their country and beyond, they have to figure out how to remain competitive and adaptable in order to survive. For instance, how prepared is a business association in Manila or Lima to compete against much larger competitors from other countries that may be willing to attract major companies in the Philippines or Peru as members?

Successful associations never stop thinking about their potential competition and proper response strategies. Being able to actively respond to such pressures means associations have to be fast-paced and dynamic, more so than ever before, and good governance is a crucial first step in getting there. This also means that associations should strive to put in place at least the same, if not higher, level of governance standards found in the private sector.

Good Governance as the Essence of Democratic Principles

Beyond the business case, another reason for instituting good governance mechanisms is rooted in the underlying idea of associations and their fundamental role in society. Business associations – as representative organizations – must embody democratic values and ideals to fulfill their representative role. Business associations have to be able to discern the interests of their members, define their own agenda, and cater to the needs of the entire membership, not individual members. Good governance and transparent decision-making are absolutes for this to occur.

In describing the representative role of associations in general, Alexis de Tocqueville once wrote: "When an opinion is represented by a society, it necessarily assumes a more exact and explicit form. It numbers its partisans and engages them in its cause; they, on the other hand, become acquainted with one another, and their zeal is increased by their number. An association unites into one channel the efforts of divergent minds and urges them vigorously towards the one end which it clearly points out."

Business associations are no exception in this regard. If an association does not have the proper governance procedures to ensure that it represents the opinion of all of its constituents – rather than the opinion of just some of its most prominent constituents – it does not subscribe to the principles that underlay associations as representative organizations (as envisioned by de Tocqueville).

This is an issue apparent in many business associations today – trying to achieve the proper balance between representing the views of the business community, rather than one or two dominant members who may "capture" the board and use the organization to their own benefit. Achieving broad-based representation as well as transparency in decision-making through good governance is essentially what gives associations the credibility with political and regulatory bodies as well as the public in the democratic policymaking process.

The trend of having government officials on the boards of business associations is also a troubling one that undermines the fundamental role associations play in a society. In many countries the argument is that having government officials within business associations is beneficial – it provides access as well as key resources crucial to the survival of organizations. These may be valid points, but, ultimately, how can an association approach legal and regulatory reform issues and push for change if its ability to disagree with the government is limited by its direct dependency on it?

Where Do You Begin?

Certainly, various organizations have different needs in regards to association governance reform. One key issue is that different countries present business associations with a variety of legal and institutional challenges that make each governance problem unique. What works in one country may not work in another simply due to differences in legal requirements affecting business associations. Yet, there are general steps and model guidelines, which any association may follow in order to improve how it is governed and, more importantly, redefine how successful and sustainable it is:

- Create mission-driven organizations.
- Update bylaws as needed.
- Develop clear yearly strategic plans and a forward looking 5-year strategic plan.
- Outline job responsibility of board members, chairman, and staff to avoid duplication of efforts.
- Capture key policies and values in an association governance code.
- Establish relevant board committees, limit the number of committees board members can serve on, and provide staff support to committees.
- Create incentives for board members to be engaged in activities of the board.
- Engage in a systematic renewal of board composition.
- Evaluate the performance of board members.
- Develop an ethics and conflict of interest code for the board and for staff.
- Establish clear procedures for nominating board members and introduce board tenure limits.
- Enforce rules and standards.
- Focus the board's attention on policy and impact issues rather than operations.

Improving association governance plays an important part in resolving the issues facing business associations every day around the world. Good governance provides the necessary mechanisms for organizations to remain more dynamic, more able to deal with emergent issues by being strategically prepared, develop and deliver valuable services to members, and fulfill their advocacy role. Conversely, without good governance, associations cannot effectively fulfill their key representative role as a voice of the private sector in a democratic policymaking process.

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