

Small Enterprise Affiliations To Business Associations and the Collective Action Problem

Revisited

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Despite long standing awareness of the propensity of SMEs to join business associations the contributions associations make remains poorly understood partly because of negative interpretations of association lobbying activity. This overlooks that as a form of business network, associations have attributes that potentially make them a source of business support and a form of network that has strengths over other types of networks. This paper reports findings from 1838 respondents to a survey of SMEs in New Zealand. It examines which types of SMEs join trade and sector associations, the motivations for membership, the benefits obtained and how association membership can be made more attractive to existing members and non-members. This evidence is used to propose a conceptual framework through which to evaluate the role of business associations in supporting growth-orientated SMEs.

Key Words: Business association; New Zealand; collective action; network

Introduction

Business associations have been examined mainly from the perspective of their role in lobbying for the interests of their members (Olson 1971; 1982; Aldrich 1999; Barnett 2006). Granovetter (1994: 455), for example, excludes business associations from a discussion of business groups that promote inter-firm learning on the grounds that their activities are principally about “negotiating and affecting the institutional and governance arrangements under which their industry proceeds”. Sabel (1994: 149) refers to the standard neo-liberal account of business associations as ‘predatory lobbies using political pressure to extract returns they cannot achieve

directly in the market'. A largely negative assessment of the role of business associations has arisen because the scope of lobbying supported by business associations tends to be restricted to interests shared among small groups of enterprises (Olson 1971; 1982). This is reflected in the continued preponderance of industry and trade-based business associations that frequently have a membership of fewer than 100 organisations (Aldrich 1999; Bennett 1998; Barnett 2006; Perry 2008). As a consequence, business associations have been characterised as predominantly acting as distributional coalitions that seek to advantage one group of interests by disadvantaging other groups that are either less well-organised or not organised at all (Olson 1971).

The fragmentation of business representation across multiple, narrowly constituted groups has also been linked to a chronic weakness of business associations (Bennett 2000; Barnett 2006). With small numbers of members, association secretariats command limited resources to provide service support without compromising the effectiveness of collective representation (Bennett 1998). The public good nature of much lobbying activity means that membership is not necessarily required for industry participants to gain from the association's lobbying successes (Olson 1971; 1982; Bennett 1998). This context puts associations in a weak position to enforce membership rules that might enhance the ability of associations to generate membership benefits (Perry 2009). Measured by their level of participation and support for association activity, strong associations tend to depend on high levels of common interests among industry participants and high levels of organisation in the interests threatening the viability of industry participants (Barnett 2006). As a result business associations have been dismissed as agents of enterprise support. The intensity and extent of the business networks fostered by formal business associations are considered weak and unlikely to be of significance to enterprise development (Bennett and Ramsden 2007; Curran and Blackburn 1994; Bennett

and Robson, 2010). This is supported by Foreman-Peck et al. (2006) who demonstrate that membership in trade associations negatively affects growth and profitability.

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A contrasting assessment of the significance of business associations to enterprises arises when they are approached from the perspective of network theory. By providing access to complementary assets, additional sources of knowledge and third party endorsement, networks can help to resolve endemic challenges for small enterprise (Perry 1995). The extent of help received will vary according to the attributes of the network joined and the particular needs of the enterprise joining the network (Baum et al. 2000) For example Dalziel (2006) argued that business associations can make a significant contribution to their members because their activities are driven by the need of their members and they possess specialised knowledge. Using economic modelling, Parker (2008) shows that formal networks enhance the entrepreneurial performance of its members and contribute to the efficiency and social welfare in the wider economy. This finding is supported by more recent evidence provided by Maennig and Ölschläger (2011) as well as Schoonjans et al. (2013) who argue that formal business networks can contribute to competitive strength of small businesses.

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One reason for the inconclusive results is that formal business networks have been ill defined in previous research and little attempts have been made to differentiate between different types of business associations. For the purpose of this paper we define formal business networks as business associations that are collective bodies intermediating between individual business action and state action (Bennett 1998). There are two distinctively different types of business associations – those affiliated to a specific business activity i.e. trade associations and those that have a wider pan-industry membership i.e. sector associations (Bennett and Ramsden 2007; Perry 2009). This division is based on the range of membership targeted and is emphasised for three reasons. First, it examines whether the two types of associations attract different enterprises with regard to firm and performance characteristics. Second, it examines

whether the benefits members receive varies according to the two main types of business association that they are affiliated with. Such information may indicate which type of association merits most recognition for its role in supporting business development and how each type of association might enhance its capacity to support SMEs. Third, it examines whether there is a consistent case for encouraging business representation through encompassing, sector-wide associations rather than narrowly constituted trade associations. It has long been held that encompassing, sector-wide associations are more likely to focus on issues of net economic benefit to society than are associations that represent the interests of comparatively small groups of enterprises (Olson 1971; 1982).

With the exception of Bennett and Ramsden (2007), there has been little investigation into the profile and motivations businesses have for affiliating to each type of association or the relative levels of support enterprises obtain from different types of association. Such information is required to build up a deeper understanding of the role of business associations for SMEs than currently exists.

This paper seeks to address this research gap by examining the following research questions:

1. How do trade and sector association members differ from each other and from non-members with respect to firm characteristics and performance?
2. What are the reasons why SMEs have joined the business associations to which they are affiliated?
3. What are the benefits SMEs receive from their membership in trade associations compared to sector associations?
4. What actions increase the attractiveness of membership for SMEs that are members of trade associations, sector associations or are currently not members of a business association?

The study draws on evidence from a large scale survey of SMEs in New Zealand that examines the membership patterns of different types of SME and that identifies potential recruitment and association development strategies that may be employed to increase the value of business association membership to SMEs. The discussion commences with an outline of the research questions addressed in the paper that are then addressed in two stages. First, a theoretical rationale for the study is provided that explains how business associations have been thought to resolve the collective action problem and why this has encouraged a negative assessment of business associations. It then draws on network theory to identify how industry and trade-based associations may have particular strengths in providing business support networks. Second, original survey evidence is presented. Sampling and survey methods employed in the study are described followed by a presentation of empirical findings, discussion and conclusions.

Business associations as collective representations of member interests

Typically business associations, whether affiliated to a specific business activity (here referred to as trade associations) or having a wider pan-industry membership (here referred to as sector associations) provide direct support to individual members alongside collective representation of member interests (Bennett and Ramsden 2007; Perry 2009). This overlap in activity is the origin of three main reasons for dismissing the role of business associations as agents of enterprise support.

First, the theory of unequal returns to lobbyists has encouraged a negative interpretation of the role of lobbying in society. It argues that groups lobbying for an interest from which they obtain direct benefit are more easy to form than are groups that are aligned with society as a whole that oppose the allocation of the benefit (Perry 2001: 57; Mabbett 1995: 15). The gainers from the benefit can be a small group who individually may receive a large benefit while the losses are dispersed widely and are individually small. Although those disadvantaged are in a

numerical majority the gainers have more incentive to lobby intensively. Olson (1971: 124; 1982: 46) captured this by his description of trade associations as 'distributional coalitions' that are focussed on advantaging their own members by restricting opportunities for economic interests that are less well organised. Enterprise participation in trade associations is therefore less desirable than representation through associations that encompass multiple industries (Olson 1971). The assumptions are that narrowly-based interests groups focus on expanding their own interests at the expense of others. In contrast, encompassing associations that represent the interests of all types of enterprise or at least a wide cross section of enterprises are forced to pursue more ambitious and socially beneficial strategies that aim to expand economic opportunities rather than merely advance the interests of a small group.

Second, where the focus of representation is on protecting or changing industry-wide conditions the benefits potentially generated by business associations are public goods accessible to non-members ('free riders') as well as association members (Olson 1971; 1982; Aldrich 1999). The challenge for associations is that the delivery of effective representation and lobbying services depends on the ability to claim representation of a large share of the industry or sector whose interests are at issue. A fundamental barrier to the building of inclusive associations has been claimed because the benefit obtained by 'free riding' increases with the value of collective activity (Bennett 2000: 19). General responses to this situation have been to restrict the scope of collective activity to interests that are specific to a comparatively small group of enterprises and to lower entry requirements and membership conditions (Perry 2009). As well it encourages associations to develop a suite of membership services that deliver individual benefits to members as a way of increasing the incentive to join and reduce the incidence of free-riding. This helps to maximise recruitment but can trap associations in a 'low capacity, low service' syndrome as the need to provide a broad range of services stretches the resources of the association and militates against associations developing a specific focus to

their activity (Bennett 2000). Partly for this reason it is generally recognised that collective strategy aimed at advancing the position of an industry as a whole is much harder to organise than cooperation between groups of enterprises within industries (Aldrich 1999; Barnett 2006).

Third, the lobbying role of business associations tends to skew them toward the interests of large enterprises (Herrigel 1993). Within any industry, large enterprises may be prepared to underwrite group activity on the basis of their individual share of the collective gain (Olson 1971). While in theory large enterprises have the capacity to engage in their own lobbying, they can see benefit in representing their own interests as being shared by a larger group (Salisbury 1984; Barnett 2006). On the other hand, larger enterprises tend to see little value in the services such as business advice, market information or guidance with regulation as they can obtain this from their own internal expertise or external business consultants (Bennett 1996; Perry 2008). Small enterprises, in contrast, may welcome the individual support provided by an association but be less concerned with the representation services since their share of any collective gain is minor.

Business associations as network facilitators

According to network theory, networks can be described in relation to its structure, its embedded resources and purpose. Lin (2008) argues that networks only provide the necessary condition for access to and use of its embedded resources. It is the variations in network structure and purpose that determine the quantity and quality of its embedded resources and ultimately the value networks generate for their members. In relation to network structure, two arguments have been put forward. The structural hole argument (Burt 1992; Granovetter 1973) concludes that low density in a network creates holes in its social structure that create information and control benefits for those who are skilled in building the relationships that span those otherwise disconnected parts of a network by performing a brokerage role. Having weak

relationships that span structural holes allow a higher volume of information that contains fewer redundancies because the broker reaches not only more sources, but more diverse sources of information. The closure argument (Coleman 1988; 1990), however, concludes that in a network with high density i.e. where everyone is connected to everyone else in the network, higher reliability means that information flow and quality improves. Further dense networks facilitate trust and norms by facilitating effective sanctions and protect individuals from exploitation. Depending on the network structure i.e. structural holes or closure the nature of the embedded resources is also different. In the case of network closure, resources tend to be similar as individuals have stronger ties with individuals who are similar to themselves (McPherson et al. 2001). This in turn affects the purpose of the network as similar resources predominantly allow for expressive action (Lin 2008) which focuses on preserving and maintaining existing resources. Instrumental action, in comparison, is better achieved with diverse resources which are more likely to be found in the outer layers of social relations where ties are less intense and networks less dense.

From the perspective of network theory, it can therefore be argued that business associations fulfil a role of enterprise support that goes beyond the collective representation of member interests. More specifically, the ways that business associations merit recognition are in: (i) giving member enterprises legitimacy with external parties; (ii) facilitating interaction through networking activity; (iii) performing a brokerage role bridging previously unconnected parties; (iv) facilitating joint action through network closure (Dalziel 2006).

(i) Membership of an association can give legitimacy to an enterprise as in the way that trade associations representing building and property maintenance service companies may endorse the performance of association members through some form of service guarantee. Trade associations are differentiated by the extent to which they establish membership eligibility rules

and enforce adherence to industry codes of practice but they typically aspire to encourage high standards of commercial behaviour (Bennett 1998; Perry 2008). Of course, having a large customer as a client provides small enterprises with a form of legitimacy too but such endorsement is not open to all enterprises and may not exist for those serving other small businesses and individual consumers.

(ii) It has long been argued that the intensity and extent of the business networks fostered by business associations are weak and unlikely to be of significance to enterprise development (Bennett and Ramsden 2007; Curran and Blackburn 1994). The resources commanded by association secretariats and the extent of their formal activities such as the range of membership services offered are, however, incomplete measures of the significance of businesses associations. Membership of business association gives access to network building opportunities and informal interaction at membership gatherings as well as access to the formal services provided by the secretariat such as access to management advice, market information and assistance in complying with business regulation (Barnett 2006).

(iii) According to Dalziel (2006) the significant contributions of business associations in facilitating innovation can be overlooked because their role is primarily that of a broker that provides mechanisms through which enterprises can share knowledge, engage with other enterprises and be motivated to emulate the achievements and strategies of their peers. These roles are undervalued partly as individual enterprises tend to identify the private and economic contributions of customers and suppliers as having most impact on their ability to innovate, overlooking the importance of the intermediary in enabling the connections to be developed. In a similar way, McDermott et al. (2009) argue that networks should be judged not simply by the number of connections that they offer but by the extent to which they include bridges to other producer communities and additional knowledge sources.

(iv) In relation to network closure it can be argued that trade associations have a particular strength in bringing together all relevant industry participants within the reach of a single network. One measure of this is that trade associations frequently claim to represent over 70 percent of the targeted membership, as shown in studies of trade associations in Australia, Ireland and New Zealand (Perry 2008; 2009; 2012). Network closure reduces the risk of incomplete communication and facilitates sanctions against non-conforming actors (Coleman, 1988). A high degree of closure is directly relevant to collaborative activities in which firms work together to develop or build upon a common technological platform (Dalziel 2006). Beyond specific technological projects, industry-wide collaboration facilitates informal agreement over the norms of competitive behaviour and the development of what regional geographers and economists call 'untraded interdependencies' encompassing flows of tacit knowledge, technological spillovers, trust-based business relationships and shared values (for example see Storper and Scott 2009).

In summary, from the perspective of network theory, the role of business associations can be described as providing legitimacy, enabling innovation and building innovative milieu rather than supporting innovation directly (Dalziel 2006; Maennig and Ölschläger 2011).

Research propositions

As indicated in the previous section, the empirical evidence on the role of business associations for SMEs is inconclusive. While some research indicates that business associations can contribute to the innovation potential (Dalziel 2006) and competitive strength of small enterprises (Maenning and Oelschlaeger 2011; Schoonjans et al. 2013) others argue that business associations are too weak to have a significant positive impact (Curran and Blackburn 1994). One reason for the inconclusive results is that business associations have predominantly been researched as a homogenous group and little attempts have been made to differentiate

between different types of business associations. As indicated in the previous section business associations are highly variable in their purpose, levels of support and membership motivations. We contribute to the literature by distinguishing more clearly between different types of business associations – namely trade and sector associations. Another reason for the inconclusive results on the role of business associations is the lack of differentiation on the side of the members. Membership base of business associations is equally diverse and heterogeneous and business associations might not only attract different types of firms, but deliver different benefits across their different types of members. For this reason we include firm and performance characteristics in our assessment of business associations' affiliation. Based on the theoretical considerations in the previous section, four research propositions have been developed:

1. Small enterprises that affiliate with trade associations have got different firm and performance characteristics compared to those affiliating with sector associations and those who are currently non-members. Evidence that particular types of small enterprise tend to be members of an association may indicate how they serve some interests comparatively well. If there is no discernible difference in the kinds of enterprise belonging to business associations this points to membership being an outcome of the priorities of individual managers rather than the way associations are valued by particular types of enterprise. A difference in the relative performance of association members and non-members is a further dimension of association focus: whether associations tend to attract underperforming enterprises that are in search of business support or whether associations tend to attract high performing enterprises, possibly because they are meeting unfamiliar challenges, business managers are confident to share experience with their peers or more exercised by the opportunities or impediments arising from government regulation.

2. *The motivations that small enterprises have for affiliating with a trade association are different compared to those affiliating with a sector associations.* As discussed earlier, a feature of most industrial economies is the continuance of both forms of representation - trade and sector - despite duplication in the main roles that are performed by each type of association and differences in the capacity to deliver the same bundle of services. Evidence that enterprises have particular reasons for joining the type of association that they have suggests that strategic decisions are made affecting the choice of association. The ability to exercise a strategic choice indicates that associations focus their activity to meet the preferences of their particular member group. From the perspective of small enterprises this would mean that despite similar service offerings associations are differentiated in other ways.

3. *The benefits that small enterprises receive from their membership in trade associations are different from the benefits small enterprises receive from their membership in sector associations.* As indicated earlier, previous research has tended to dismiss the informal contributions of business associations to the development of untraded interdependencies. Identification that networking and other informal activities are important drivers of membership and membership satisfaction supports increased importance being attached to the contribution of business associations to SMEs. Evidence of different types of associations generating different benefits for members may indicate the value of maintaining association variety.

4. *Depending on their membership status, SMEs identify different actions that would increase the attractiveness of business associations.* Different types of association exist because each has developed a specialised niche that is attractive to a particular constituency of enterprises. At the same time enterprises favour being able to access a bundle of services from a single

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point of entry rather than engaging with multiple specialised agencies. This arises partly from the way that value of association services can be enhanced through their provision alongside other roles. For example, the role of trade associations in representing member interests to government agencies can be strengthened where the association also provides accreditation of members such that the association can claim to represent businesses conforming to an industry code of practice. It is also a way that business associations seek to minimise the risk of free rider behaviour by combining actions that generate collective benefits (such as lobbying government agencies) with services that generate individual benefits (such as business advice).

Survey Sample and Method

The current study is part of the 2010 BusinessSMEasure postal survey of SMEs in New Zealand conducted annually by the New Zealand Centre for SME Research (2011). The study follows SME definitions that have been recommended for New Zealand: micro firms with up to five full-time equivalent staff numbers (FTE); small firms with 6 to 49 FTEs; and medium-size firms with 50 to 99 FTEs (Cameron and Massey 1999). As of 2010, there were 474,415 SMEs in New Zealand (Ministry of Economic Development 2010). The data used in this study was derived from a stratified, random sample of firms from the Martins database, a commercial provider of business-to-business information in New Zealand. Martins offers the largest and most comprehensive business database in New Zealand that is constantly updated and offers a range of selection criteria.

Stratified random sampling was used to reflect the diversity of the SME population and to improve the representativeness of the sample. Three dimensions were used to stratify the sample: firm size, industry sector and independent ownership.

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See pdf on Stratified Sampling – argue for equal stratified sampling due to design of research (qual and quant) – 50% micro and 50% small, as well as 50% service and 50% manufacturing. Over time medium sized firm strata was included to allow for comparison.

BusinessMEasure followed a sequential exploratory design i.e. qualitative research followed by quantitative research. Qualitative research involved interviews with 250 micro and small firm owners in 5 individual studies. Purposeful sampling was applied.

See more on sequential exploratory design on p71 http://www.sagepub.com/upm-data/35066_Chapter3.pdf and saved in file

In relation to size Cameron and Massey's (1999) definition of SMEs was applied. The survey was sent to 4,222 firms and obtained 1,838 usable responses. The response rate of 43 percent is well above the average response rate of 27 percent involving studies of small firms (Bartholomew and Smith 2006).

While the data relates specifically to New Zealand, Bennett and Robson (2010) suggest that the pattern of relationships between advisors and firms are similar across different countries. This is confirmed by Perry (2009: 2012) who found that New Zealand has a population of trade associations that are similar in their representation of industry and levels of support as those in other industrial economies (Perry 2009; 2012). There is both a high representation of business activity through trade associations and high levels of membership from among the businesses targeted. Membership density tends to be highest for associations representing industries dominated by large enterprises. In areas where small enterprises are numerically concentrated such as restaurants, retailing and building trades association membership can drop to a third or less of the potential recruitment whereas in areas where the potential membership is a

comparatively small group of medium to large enterprises membership density frequently rises to over two thirds (Perry 2008). The generalizability of results, nevertheless, has to be treated with caution, as there are macro-institutional factors that vary across countries such as xxx that might impact on the role of business associations for SMĒs.

The survey investigated membership of two types of business association: sector associations (i.e. chamber of commerce and employer associations) and trade associations. With respect to each type of association, responses ranged from 1=currently a member, 2= not currently a member but have been in the last 5 years to 3=not a member for at least six years or longer. The motivation for joining an association and the benefits perceived to be obtained were measured on five point Likert scales. Five enterprise characteristics were captured: (i) firm size (measured by full-time equivalent staff numbers); (ii) main market (measured using 1=local/regional, 2=national to 3=international); (iii) industry affiliation (categorising businesses into 1=manufacturing, 2=construction, 3=wholesale/retail, 4=business, property and financial services and 5=other services); (iv) type of location (1=urban and 2=rural); (v) firm age (1=up to five years and 2=six years and older).

Firm performance is difficult to measure because of it is a multidimensional, complex and subjective phenomenon (Achtenhagen et al. 2010). In small enterprise research, it is difficult to obtain organisational records such as balance sheets and profit and loss statements. Business owners tend to be reluctant to share records or report accurate financial data in a postal survey. This situation led to the measurement of perceived performance as advised by Garg et al. (2003). Further, cross-sectional studies are only able to capture performance snapshots rather than variations and patterns over time. As the global financial crisis has resulted in changing market conditions for small firms, we expected to find considerable variation in the performance of firms. But again, data on actual changes of firm performance is difficult to obtain. As a result, we used four measures to operationalize firm performance: turnover,

profitability, market share and productivity. For each of these measures, respondents were asked to assess the firm's current performance to that 12 months ago using a five-point Likert scale (1=strongly decreased to 5=strongly increased).

As a further aspect of enterprise performance, four measures of innovation recommended in the Oslo Manual (OECD 2005) are measured. These items ask respondents to indicate whether they have developed or introduced new or significantly improved products or services, operational processes, organisational or managerial processes, and sales or marketing methods in the last 12 months. The four measures are focused on innovation output rather than input or process and are an incomplete measure of a firm's innovation activity. They do, however, measure different types of innovation that are particularly relevant for the SME sector.

In line with a recommended test for non-response bias in this type of survey (Armstrong and Overton 1977) four demographic profile variables were examined (gender, firm size, legal form of firm and family firm). Respondents and non-respondents were not significantly different across these variables suggesting that non-response bias is not affecting the survey results. To examine whether results are affected by common method bias (arising where a single instrument to measure all the variables is used), Harman's single-factor test was performed on selected items (Podsakoff et al. 2003). The un-rotated factor solution found seven underlying factors with eigenvalues greater than one. These seven factors accounted for variances ranging from 1.46 percent to 20.8 percent and no factor accounted for more than 50 percent of the total variance. This form of common method bias detection is rather weak but it gives some evidence that a common method bias is not affecting responses to the questions. Pearson Chi-Square, Student-t test and ANOVA were used to compare variations between the population subsets of interest to the study.

Studies in relation to the use of external business advice by SMEs are prone to self-selection bias, as enterprises tend to self-select themselves for assistance (Wren and Storey 1998; Bennett, Robson and Bratton 2001). Particularly business associations consist predominantly of firms that chose to be members (Bennett and Robson 2010) suggesting that SMEs make strategic decisions when it comes to the choice of association types. It can be argued that firms chose the types of associations that they perceive as generating the greatest benefits. The results of this study therefore allow no conclusions about the impact different types of business associations have on small enterprise development. Instead the contribution of this study is to examine the differences in the membership base of trade compared to sector associations, the motivations for joining as well as the perceived benefits obtained from the membership.

Business association membership in New Zealand

The survey responses give a good representation of the SME population in New Zealand: 52.2 percent of firms are micro enterprises (with up to 5 FTE employees); 44.1 percent are small firms (with 6-49 FTE employees) and 3.6 percent are medium-sized enterprises with over 50 FTEs. Most firms are mature and well established with an average age of 26 years. All sectors of the private sector economy are represented: manufacturing firms provide 35.1 percent of responses, the wholesale or retail sector 21.7 percent, business, finance and property services 10.3 percent, other services 21.4 percent and construction 11.5 percent.

SMEs and business associations. Overall the survey found that 60.4 percent of SMEs are members of a business association. Business association members comprise those belonging solely to a trade association (43.8 percent), solely to a sector association (21.1 percent) and those with membership of two or more types of association (35 percent). Of the 39.6 percent of non-members, those who have no membership experience in the last five years or have never

been members (62.2 percent) outnumber those who have lapsed membership over this period (37.8 percent). This relatively high lapse rate may indicate that some businesses join an association simply to help resolve an individual issue rather than for any wider motivations. Particularly with respect to large trade associations (for example, those representing retailers, restaurant owners or building trades), association executives report a tendency for SMEs to join when they are looking for assistance with a business problem and lapse once the issue has been addressed (Perry 2008). To reduce this problem, some associations put a cap on the amount of free individual advice that can be accessed annually by individual members and generally there no signing-on incentives that might induce membership hopping. The high lapse rate might also be a reflection of the difficult economic conditions faced by enterprises. Particularly enterprises that join business associations to gain legitimacy might be more likely to terminate their membership in times of austerity. Overall, however, it appears that most association members have a long term commitment to their association.

--- Insert Table 1 about here ---

Firm characteristics and performance. Of the attributes examined, all except age of the enterprise differentiate members and non-members of business associations (Table 2). The rate of membership increases with enterprise employment size and there is a significant difference with respect to the greater propensity for urban-based SMEs and SMEs predominantly serving a New Zealand wide or an international market to be members of an association than SMEs in a small town or rural location and enterprises serving a market local to the enterprise. Further, there is a significant difference in relation to industry sector. Particularly firms from the business, property and finance services sector and construction seem to be more likely to be members of business associations. Age of the enterprise has no significant impact on the membership of associations.

--- Insert Table 2 about here ---

In examining the relative performance of business association members and non-members, it would be desirable to have some measure of long term performance to establish whether associations attract more dynamic enterprises than those who are not members. The performance data collected in the survey are limited to the 12 months prior to the survey, when the economy continued to be affected by the unfolding of the global financial crisis and real GDP per capita was declining. Other dimensions of performance measured include various forms of innovation (Table 3 and 4). Each of the four forms of innovation is more likely to have occurred in SMEs belonging to a business association than those which do not engage in innovation. The impact of a slowing economy is evident in the financial performance measures which on average indicate stability. It is nonetheless worth noting that SMEs belonging to business associations are more likely to have increased their turnover, market share and productivity in the last 12 months than are non-members. No difference exists for changes in profitability.

--- Insert Tables 3 and 4 about here ---

To build up a profile of those SMEs that join trade associations compared to sector associations, we had to exclude firms with multiple memberships. This allowed us to investigate two distinctly different membership types. Results show that the profile of SMEs that are exclusively members of a trade association differs from those that are exclusively members of a sector association (Table 5). Sector association membership is biased toward urban enterprises and those with a national market or international market. In contrast, trade associations appear to be more attractive to SMEs that serve a local or regional market and operate in a small town or urban location. A further point of difference is that the recruitment of larger SMEs (employment of 6 or more) increases in the case of sector associations. In

contrast, trade associations are successful in recruiting micro enterprises employing 5 or fewer and firms from construction, retail and services sector. Age of the enterprise has no significant impact on the type of membership.

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Firm performance and innovation activity differs between sector and trade association members (Tables 6 and 7). The differences within business associations are less pronounced compared to the differences between members and non-members of business associations. It is nonetheless worth noting that SMEs belonging to sector associations are significantly more likely to have introduced new products or services, organisational or marketing innovation and to have increased their turnover and productivity in the last 12 months.

Motivations for membership. There is evidence that membership selections are based on specific goals (Table 8). Both types of association attract members for a diversity of reasons indicating that no type of association is perceived as monopolising any particular role. The main difference is that trade associations are viewed as helpful across all the identified motivations by at least half their members except with respect to ‘social opportunities’ which is the lowest mentioned motivation for both types of associations. In terms of ranking, trade associations are favoured for their role in providing opportunities to learn from other members (ranked first), as an expression of industry loyalty (ranked second), to gain access to individual advice and to achieve representation to government (ranked third and fourth respectively). In comparison, access to individual advice is the most important motivation for SMEs to join a sector association. It is also the only motivation that is rated as more important by sector association members than by trade association members. The strongest point of difference why SMEs join trade associations compared to sector associations is because of loyalty to the

industry (ranked second and seventh respectively). The opportunity to market the business is marginally more of a motivation for trade than sector association membership.

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Membership benefits. The higher overall benefit obtained from a trade association membership is reflected in the frequency with which particular types of outcome are obtained (Table 9). There is no outcome that is more frequently obtained from a sector association membership than a trade association membership. In most cases there is a significantly higher degree of benefit reported by members of a trade association than sector association. More specifically, members of trade associations are significantly more likely to have benefitted from improved awareness of industry issues, reduced business costs, improved motivation to grow the business, improved access to customers and potential business partners.

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Improving associations. A further indication of how enterprises view their respective associations is given by the actions that are suggested could increase the attraction of membership (Table 10). Membership modifications have most chance of influencing existing members of trade associations but a comparatively high proportion of all respondents might be influenced by some of the measures suggested in the survey. The high proportion of respondents identifying such actions needs to be treated with some caution. The identification of scope for improvement is not conditional on the willingness to invest more time or resources to secure the change, does not indicate that there is a willingness to forgo some other activities or that it would affect actual membership decisions. Similarly, while the responses suggest areas for improvement it is possible that this is based partly on observations that an association has demonstrated some capacity in that area. Thus trade associations have the highest share of members identifying steps that would increase the attractiveness of membership while also

being the enterprises claiming most benefit from their existing membership. Nonetheless the relative frequency with which issues are identified as affecting the attraction of membership provides some insight into the priorities of enterprise managers as it affects association activity.

--- Insert Table 10 about here ---

Broadly the responses show that there is little agreement among non-members over the ways that membership of an association could be made more attractive than it is and that members and non-members have different perceptions of the steps that would most increase the attractiveness of membership. 'Less big firm emphasis' is an initiative that is judged similarly by members and non-members as tending not to increase the attractiveness of membership. 'More small firm focus', on the other hand, is viewed as a positive initiative but more so among existing members than non-members. Trade association members see more government lobbying as the change that would most make membership more attractive and while non-members are significantly less concerned with this issue it is still on balance something that raises interest in membership. For all types of respondent, access to individual advice is more likely to raise interest in membership than is an increase in networking opportunities. Reducing the cost of membership is something of greatest concern to trade association members.

Trade association members are more likely than members of other associations to envisage gaining more support from their association than they currently do but this involves strengthening across the bundle of services offered rather than greater specialisation among the two main types of association. Demand to maintain an advisory and representation service continues among all association members. A difference between trade and sector association members is that the latter seek more opportunity to influence association activities and favour more guidance over regulatory requirements.

Implications of the survey evidence

Commented [BM6]: One suggestion the author might consider is to bring in other authors that have highlighted the diverse role of associations (beyond representation and lobbying). This seems relevant for the discussion section. For example, in page 25 the author mentions encompassing versus narrow business association. I note that Ben Schneider has discussed this issue in the context of developing countries.

Schneider, Ben Ross. 1998. "Elusive Synergy: Business-Government Relations and Development." *Comparative Politics* October: 101-122
Schneider, Ben Ross and Sylvia Maxfield. 1997. "Business, the State and Performance in Developing Countries." In *Business and the State in Developing Countries*, edited by Sylvia Maxfield and Ben Ross Schneider. Ithaca: Cornell University Press.

Other authors that have discussed the diverse role of associations in business development are:

Sabel, C.F. (1996), "Learning by monitoring: The institutions of economic development," in N. Smelser and R. Swedberg, (eds), *Handbook of Economic Sociology*. Princeton University Press: Princeton, NJ, 137-165

Perez-Aleman, P., "A Learning-Centered View of Business Associations: Building Business-Government Relations for Development," *Business and Politics*, Vol. 5, No. 2, 2003, pp. 195-215.

The author might want to strengthen the discussion section with some or all of these to show how this manuscript goes beyond or supports or is similar or is different.

Within the population of SMEs, business association members differ from non-members in their employment size, propensity to serve national and international markets and greater likelihood to have undertaken some form of innovation in their recent past. There is a small tendency for urban-based enterprises to be more likely to join an association than rural enterprises. Among the issues examined only the age of enterprises is not significantly different between members and non-members. Reflecting on the first research question, therefore, it is concluded that association members differ from SMEs that are not members of a business association. With more frequent participation in innovative activity and more likelihood of having increased turnover, market share and productivity, members of business associations appear to be more strongly performing SMEs than those which are not members of an association. The tendency for stronger SMEs to be affiliated to an association is further underlined by the relative propensity to serve international markets. There is no significant difference in profitability change between members and non-members but this may reflect the greater exposure of association members to the slowdown in the economy than SMEs operating in more sheltered domestic markets.

With respect to the second question addressed by the survey, there is evidence that participation in a trade association has different motivations to those which influence membership of a sector association. A higher proportion of SMEs joining trade associations seek representation to government than those joining sector associations. This finding is consistent with Olson's (1971) theory of collective interests gaining most support when limited to the concerns shared by a small group but membership is about more than representation. Equally widely held motivations for trade association membership include access to individual advice, the opportunity to learn from other members and to demonstrate loyalty to the industry.

Turning to the third survey question, improved awareness of industry issues is the most frequently identified benefit from the membership of an association. The findings are consistent

with UK evidence in indicating the greater frequency of ‘soft’ outcomes (such as improved awareness of issues and more ability to cope with challenges) than ‘hard’ benefits (reduced business costs) (Bennett and Ramsden 2007). Nonetheless, the findings do suggest that membership is valued and that trade associations are generally more likely to be perceived as bringing benefits to the business than are sector associations. This supports the notion that SMEs claim greater benefit from their membership of narrowly constituted groups than broadly based ones.

In relation to the fourth survey question, SMEs tend to join associations for various member benefits as well as to support representational activity. Going forward association members generally support associations maintaining a diversified service offering that includes more lobbying and more individual advice. As in the UK (Bennett and Ramsden 2007), SMEs appear to be broadly satisfied with the bundling of association services to encompass member, club and collective benefits and do not express a demand for greater specialisation between business associations. Members and non-members tend to differ in their assessment of the actions that would increase the attractiveness of association membership although they agree that less big firm emphasis is not a membership concern, although there is a desire for a greater focus on small firms in the activities of associations. This evidence is consistent with the way SMEs can value formal associations for the access that they can give to industry leaders (Perry 2007). It points away from large firm dominance of business associations being a deterrent on SME membership. One difference in the responses of trade association and sector association members relates to the desire for influence over association activities. Trade association members more frequently identify more influence as desirable than do sector association members, perhaps reflecting how this is viewed as a practical possibility in the context of an association with a small membership as well as reflecting interest in the association’s activity.

The finding that members favour the continuance of a broad service offering is important to recognise since business associations are frequently criticised for their provision of overlapping services rather than for narrowly concentrating on areas of strength. An explanation for this is that businesses see a benefit in associations combining the delivery of individual and collective benefits recognising that where associations focus on lobbying alone (the principal source of collective benefit) the risk of free riding increases unless lobbying is directed at concerns that are widely shared and strongly felt among the potential members of the association. A further explanation for the preference to see associations maintain their existing bundle of services is the high cost that would be associated with establishing new groups purpose-designed for the contemporary business environment. Forming a new association requires effort to search for and recruit potential members, agree association rules, a formal constitution, negotiate a programme of activity and secure the resources to carry out this activity. This provides a further reason for increasing the understanding of the contributions made by trade associations as there is frequently a strong tendency for public agencies that need to work with the business community to seek to develop new groupings rather than work with already established associations.

The larger issues addressed by the study are the implications of these findings for the perceived desirability of a shift toward business participation in encompassing sector associations rather than narrowly constituted trade associations and whether the evidence justifies a reappraisal of business association activity. From the perspective of the contribution of business associations as network facilitators, the findings in this study do not support any move to encourage participation in sector over trade-based associations. The evidence in the survey is consistent with the importance of network closure and legitimacy as reasons why business associations are important to innovation, as proposed by Dalziel (2006). Giving the business status is a more important motivation for joining trade associations than a sector-based association, reflecting

how trade associations typically seek to promote membership as a form of third party endorsement (Perry 2008). The importance of network closure has not been directly measured in the study except in so far as the perceived opportunity to learn from other members and having representation to government are related to the extent of network closure. Access to parties who can be learnt from and links to government are partial indicators of the extent of network closure and in both areas trade associations are perceived as more likely to provide these opportunities than sector-based associations. Clearly, there is scope for future research to directly investigate the occurrence of the network advantages identified by Dalziel as important, but these mechanisms do offer some theoretical support for the empirical findings in the study.

The finding that trade associations attract growth-orientated enterprises and that they judged to be of some value in assisting this ambition does not in itself justify abandoning interest in encouraging business participation in sector rather than trade associations. That agenda arises from the role of trade associations in lobbying for the interests of small groups in a context where those disadvantaged by the association's agenda are less well organised. The scope and impact of trade association lobbying has not been investigated in the present study. The evidence nonetheless can be used to argue that any move by public agencies to influence business representation should be informed by understanding of the net impact of different types of business association taking into account their roles in facilitating networks and in lobbying for member interests. It also suggests that business associations may be well advised to demonstrate their value as network facilitators as a way of encouraging greater recognition of their contributions to enterprise development and innovation.

The focus of this study has been on the difference between trade and sector associations but it is important to recognise that trade associations vary in their size and purpose. It is well established that those associations potentially representing a diverse constituency in terms of

business characteristics face a greater organisational challenge than those representing a homogenous group of enterprises (Barnett 2006). At the same time those associations with a diverse membership have potential to be the most important in terms of their capacity to act as network intermediaries. On these grounds future research is recommended to give particular attention to developing greater understanding of the roles played by trade associations that represent a diverse business constituency.

Conclusion

The case study evidence confounds established views about the importance of business associations to SMEs in three main ways. First, based on their involvement in innovation and international markets, the profile of SMEs that join associations highlights their representation of enterprises with the greatest capacity to contribute to future growth. Representation of industry concerns to government is an important role of associations but the character of member enterprises suggests caution in dismissing business associations as merely self-interested lobbies. Second, national business associations are able to contribute to the development of a network of connections through which learning is shared and industry norms established. Previous research has tended to dismiss their role as agents for informal knowledge sharing but the survey evidence indicates that the opportunity to learn from other members is the single most frequent motivation for joining trade associations. The desire to express loyalty to an industry emerges as an almost equally prevalent motivation for trade association membership and this also suggests a role for associations in supporting personal affiliations and maintaining goodwill among industry participants. Third, the study challenges the depiction of business associations as being largely weak and ineffective. A high proportion of members claim tangible financial benefits from their association membership and particularly their trade association membership. Additional 'soft' benefits such as an improved ability to cope with business problems and increased awareness of industry issues are significant

outcomes too. While it is not possible to judge the precise importance of these outcomes they may add to an owner manager's confidence and help sustain SMEs through troubling economic conditions. The spread of these outcomes to enterprises in comparatively isolated locations where direct access to other sources of business support may be restricted adds to underline the important contribution of trade associations even when this is not translated into 'bottom line' gains.

An important implication of the study is that public agencies should recognise trade associations as potentially useful agents for supporting economic development strategies. In New Zealand there has been a tendency for SME support programmes to shun involvement of existing business associations in preference to starting new groups. The relationship between business associations and government can be difficult because they are partly engaged in representing business concerns against public policy measures. Judged in terms of the types of enterprises typically joining trade associations, the motives that exist for joining and the extent to which members gain business development advantages there is a case for government to find ways of building on the positive contributions that can be made by trade associations.

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Table 1: Membership by association

Total											
N						%					
1838						100					
Current membership						No current membership					
N		%		N		%		N		%	
1111		60.4		727		39.6					
Member of trade association only		Member of sector association only		Member of multiple associations		Never member		Lapsed member			
N	%	N	%	N	%	N	%	N	%	N	%
487	43.8	235	21.1	389	35	452	62.2	275	37.8		

Table 2: Profile of association members and non-members

	Business association members		Non-members		X ²
	N	%	N	%	
<i>Employment</i>					170.8***
0-5	443	46.5	510	53.5	
6-49	601	74.9	201	25.1	
50+	58	89.2	7	10.8	
<i>Main market</i>					13.618***
Local/regional	593	56.0	465	44.0	
National	240	64.3	133	35.7	
International	126	67.4	61	32.6	
<i>Sector</i>					12.234**
Manufacturing	374	58.4	266	41.6	
Construction	126	60.3	83	39.7	
Wholesale/Retail	229	58.0	166	42.0	
Bus/Prop/Fin services	135	71.8	53	28.2	
Other services	235	59.9	157	40.1	
<i>Location</i>					5.842***
Urban	835	61.9	515	38.1	
Small town/rural	243	55.4	196	44.6	
<i>Years business established</i>					.158
Up to 5	39	58.2	28	41.8	
6+	915	60.6	594	39.4	

Notes: Pearson Chi-Square with post-hoc analysis of standardised residuals

***p<.01; **p<.05; *p<.10

Table 3: Business performance in the last 12 months by members and non-members

	Business association members			Non-members			<i>t</i>
	N	M	SD	N	m	SD	
Turnover	447	3.08	.960	716	3.14	.945	1.318**
Profitability	471	3.12	.946	707	3.13	.927	2.183
Market share	448	2.88	.654	650	2.99	.701	19.004***
Productivity	449	2.83	.691	660	2.89	.739	10.139***

Note: Likert scale 1=strongly increased to 5=strongly decreased

Student t-Test for independent samples

***p<.01; **p<.05; *p<.10

Table 4: Innovation performance in the last 12 months by members and non-members

	Business association members		Non-members		X ²
	N	%	N	%	
<i>Product innovation</i>					<i>17.434***</i>
Yes	333	68.4	154	31.6	
No	778	57.6	573	42.4	
<i>Process innovation</i>					<i>14.519***</i>
Yes	225	69.9	97	30.1	
No	886	58.4	630	41.6	
<i>Organisational innovation</i>					<i>42.456***</i>
Yes	306	74.3	106	25.7	
No	805	56.5	621	43.5	
<i>Marketing innovation</i>					<i>30.141***</i>
Yes	317	71.6	126	28.4	
No	794	56.9	601	43.1	

Notes: Pearson Chi-Square with post-hoc analysis of standardised residuals

***p<.01; **p<.05; *p<.10

Table 5: Characteristics of trade association and sector association members

	Member of trade association only		Member of sector association only		χ^2
	N	%	N	%	
<i>Employment</i>					37.5262***
0-5	278	78.1	78	21.9	
6-49	193	56.9	146	43.1	
50+	11	52.4	10	47.6	
<i>Main market</i>					29.356***
Local/regional	301	74.7	102	25.3	
National	76	51.4	72	48.6	
International	40	58.8	28	41.2	
<i>Sector</i>					56.409***
Manufacturing	110	50.2	109	48.8	
Construction	77	88.5	10	11.5	
Wholesale/Retail	106	65.4	56	34.6	
Bus/Prop/Fin services	58	73.4	21	26.6	
Other services	131	77.5	38	22.5	
<i>Location</i>					18.3183***
Urban	334	62.7	199	37.3	
Small town/rural	133	80.6	32	19.4	
<i>Years business established</i>					.543
Up to 5	19	73.1	7	26.9	
6+	388	66.1	199	33.9	

Notes: Sector associations include chambers of commerce and employer associations

Pearson Chi-Square with post-hoc analysis of standardised residuals

***p<.01; **p<.05; *p<.10

Table 6: Business performance in the last 12 months by members and non-members

	Member of trade association only			Member of sector association only			<i>t</i>
	N	m	SD	N	m	SD	
Turnover	477	3.08	.960	233	2.93	1.044	3.065*
Profitability	471	3.12	.946	232	3.03	1.010	.524
Market share	448	2.88	.654	226	2.79	.724	5.492
Productivity	449	2.83	.691	226	2.68	.741	7.839**

Note: Likert scale 1=strongly increased to 5=strongly decreased

Student t-Test for independent samples

***p<.01; **p<.05; *p<.10

Table 7: Innovation performance in the last 12 months by members and non-members

	Member of trade association only		Member of sector association only		χ^2
	N	%	N	%	
<i>Product innovation</i>					<i>14.835***</i>
Yes	110	56.4	85	43.6	
No	377	71.5	150	28.5	
<i>Process innovation</i>					<i>1.443</i>
Yes	74	62.7	44	37.3	
No	413	68.4	191	31.6	
<i>Organisational innovation</i>					<i>8.950***</i>
Yes	91	57.6	67	42.4	
No	396	70.2	168	29.8	
<i>Marketing innovation</i>					<i>3.396*</i>
Yes	114	62.0	70	38.0	
No	373	69.3	165	30.7	

Notes: Pearson Chi-Square with post-hoc analysis of standardised residuals

***p<.01; **p<.05; *p<.10

Table 8: Motivations for business association memberships

	Member of trade association only			Member of sector association only			<i>T</i>
	N	m	SD	N	m	SD	
Helps give business status	457	2.24	.942	207	2.84	.971	-7.522***
Loyalty to industry	459	2.10	.827	203	2.82	.923	-9.455***
Opportunity to learn from others members	461	2.01	.840	209	2.36	.936	-.4662***
Representation to government	450	2.18	.940	206	2.40	.898	-2.767***
Social opportunities	457	2.91	.936	202	3.00	.949	-1.137
Access to activities	461	2.40	.921	208	2.51	.885	-1.545
Access to individual advice	462	2.17	.918	213	1.98	.887	2.647***
Opportunity to market the business	455	2.51	.936	206	2.65	.955	-1.722

Note: Likert scale 1=very important to 5= very unimportant

Student t-Test for independent samples

***p<.01; **p<.05; *p<.10

Table 9: Benefits obtained from business association memberships

	Member of trade association only			Member of sector association only			<i>T</i>
	N	m	SD	N	m	SD	
Reduced business costs	459	3.47	1.175	213	3.77	1.045	-3.294***
Improved ability to cope with problems	457	2.96	1.158	212	3.01	1.218	-.547
Improved ability to manage the business	455	3.24	1.149	214	3.27	1.203	-.303
Improved motivation to grow the business	454	3.22	1.159	211	3.47	1.216	-2.519**
Improved awareness of industry issues	463	2.25	.975	216	2.99	1.212	-7.842***
Improved access to customers	457	3.29	1.112	213	3.52	1.084	-2.513**
Improved access to potential business partners	456	3.53	1.123	211	3.72	1.109	-2.013**

Note: Likert scale 1=very high benefit to 5=no benefit at all

Student t-test for independent samples

***p<.01; **p<.05; *p<.10

Table 10: Actions to increase the attractiveness of association membership

	Member of trade association only			Member of sector association only			No membership			<i>F</i>
	N	m	SD	N	m	SD	N	m	SD	
Reduced cost	468	2.35	.902	221	2.47	.917	611	2.65	1.077	12.207***
More small firm focus	469	2.01	.768	224	2.02	.798	612	2.25	1.057	11.083***
More influence	458	2.59	.761	219	2.84	.760	591	2.88	.965	15.372***
Less big firm emphasis	460	2.60	.817	222	2.64	.838	598	2.63	.983	.259
More individual advice	465	2.25	.759	224	2.19	.858	606	2.41	1.018	6.764***
Network opportunity	465	2.42	.824	224	2.47	.927	602	2.55	.995	2.603*
Help to meet regulation	465	2.31	.785	224	2.49	.903	600	2.61	.993	13.995***
More government lobbying	464	1.97	.811	225	2.08	.924	610	2.33	1.076	19.592***

Note: Likert scale 1=very important to 5=not important at all

ANOVA with post-hoc analysis using Scheffe

***p<.01; **p<.05; *p<.10