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**Working Paper**

## The organization of business interests: Studying the associative action of business in advanced industrial societies

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**The Organization of Business Interests**  
**Studying the Associative Action of Business**  
**in Advanced Industrial Societies**

**Philippe C. Schmitter**  
**and Wolfgang Streeck**

99/1

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### **Abstract**

The paper presents a theoretical outline for a cross-national comparative study of business associations. It identifies two clusters of independent variables that are assumed to affect the structure of intermediary organizations: properties of the represented group ("Logic of Membership") and properties of the state and other political institutions such as trade unions ("Logic of Influence"). It goes on to develop a model of the organizational properties of business associations as they respond to these two logics and to other functional exigencies ("Logic of Goal Formation" and "Logic of Effective Implementation"). In a further step, the paper suggests four dimensions ("Domains", "Structures", "Resources", "Outputs") in which the "organizational development" of interest associations from lower to higher levels of "organizational complexity" and "strategic autonomy" can be studied.

### **Zusammenfassung**

Das Papier enthält einen theoretischen Entwurf für eine international vergleichende Studie von Wirtschaftsverbänden. Es benennt zwei Gruppen von unabhängigen Variablen, die die Struktur von intermediären Organisationen beeinflussen: Eigenschaften der vertretenen Gruppen („Mitglieder-Logik“) und Eigenschaften des Staates und anderer politischer Institutionen wie der Gewerkschaften („Einfluß-Logik“). Im Anschluß daran wird ein Modell der organisatorischen Eigenschaften von Interessenverbänden als Ausdruck der Einwirkung der beiden genannten „Logiken“ sowie anderer funktionaler Zwänge („Logik der Zielformierung“, „Logik der effektiven Zielverwirklichung“) entwickelt. Danach werden vier organisatorische Dimensionen vorgeschlagen („Domänen“, „Strukturen“, „Ressourcen“, „Tätigkeiten“), in denen die „organisatorische Entwicklung“ von Interessenverbänden von niedrigeren zu höheren Niveaus „organisierter Komplexität“ und „strategischer Autonomie“ untersucht werden kann.

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## Introductory Preface

The present paper, long as it may seem, is a considerably shortened version of a piece that appeared as far back as 1981, when it was published as a discussion paper at the Wissenschaftszentrum Berlin (WZB Discussion Paper IIM/LMP 81/13). When it was written, in the summer of 1981, it was intended to serve as a research design for a multinational research project on business associations. (Actually, originally it was to be no more than a long letter to the project participants.) That project got under way shortly thereafter, funded by numerous agencies, including the Stiftung Volkswagenwerk. Over the years it generated an enormous number of articles and books, so many that ultimately the authors of the design of the research, who were also the project coordinators, lost track of them and gave up trying to keep a record.

What they also failed to do was write the “final book” summarizing all the other books and articles that the project generated. This was mainly because of unpredictable changes in personal circumstances: Schmitter went from Florence to Stanford, Streeck from Berlin to Madison, and for both of us this brought with it new challenges and obligations that pushed our “Organization of Business Interests” back further back year by year. But it was also true that the huge data base accumulated by the nine country teams that in the end used the 1981 research design turned out to be less than easily accessible to comparative analysis. Clearly we had overestimated our ability to get nine different groups of people to collect comparable data, not to mention the capacity of statistical analysis to yield insights that could satisfy our interests. So, for better or worse, the big book fell by the wayside.

What did not were some of the ideas we had developed in our oversized research design. These kept getting quoted in likely and unlikely places reflecting, if nothing else, the widespread availability of photocopying equipment. Numerous authors, many of whom had never been associated with the project, used concepts and ideas we had tentatively developed for internal purposes, for example the notion of the different “logics” of influence and membership to which intermediary organizations are subject. Indeed occasionally we heard our 1981 paper being referred to as the most often cited non-publication, even a sort of “secret classic” for many working on corporatism and organized interests, and one that unfortunately was accessible only if one knew someone else who had a copy and was willing to manufacture another one. Confirmation that our work, while never completed, was still alive was the fact that over the years we kept getting requests for copies, long after we had run out of our own.

It was our colleague Fritz Scharpf who finally convinced us that we should make the manuscript newly accessible. Again for lack of time we were unable to rewrite and update it, not to speak of producing the book we should have produced some fifteen years ago. What we could do and did was cut the more technical sections where we developed the measurements for the variables that later turned out so resistant to quantitative analysis. These were clearly outdated, and so were some passages on corporatism as a mode of governance in advanced industrial societies. On the whole, however, while trying to make the text less technical and more readable, we preserved its basic content and structure, at the risk of not taking due notice of later research (a good part of which our own work had stimulated).

Asking a commercial publisher to publish an almost twenty year old research design as a book, however edited, would surely have been asking a little too much. And to wait for new work in the spirit of the project to be written for publication alongside the 1981 manuscript would have meant putting off the second edition for another two years, if not indefinitely. So, to bring a

long story to a reasonably satisfactory end, we decided to publish our old work once again as a discussion paper, this time of the Max Planck Institute for the Study of Societies. Unlike in the early 1980s when electronic publication was still unknown (and indeed the original manuscript was still produced on a manual typewriter!), this places it also on the internet, as all MPIfG discussion papers are posted there for optimal availability. If someone now wants to read or quote "The Organization of Business Interests", this will no longer be difficult.

Philippe C. Schmitter  
Wolfgang Streeck

Köln, January 1999

**Part A**

**Why Study the Organization  
of Business Interests?**





## 1 The Substantive Problem: Business Interests as the Subject of Associative Action

The efforts of business to advance or defend its interests collectively have attracted surprisingly little attention from scholars. The literature on contemporary politics abounds with references to the activities of individual “captains of industry”, the role of specific enterprises, and the imputed influence of capitalists as a class. But reliable information on, not to speak of analysis of, the resources, organizational characteristics, activities and strategies of formal associations specialized in the promotion and protection of trade or employer interests is rare. Even rarer are efforts to explain how these dimensions of interest politics evolve over time and change in response to varying contexts and conflicts.

The conspicuous silence on the subject of “organizing capitalists” compared, for example, to the considerable noise generated by the topic of “organizing workers” is puzzling. Part of it may stem from a general political orientation in the scholarly community, which has looked on the collective efforts of employers at defending their interests as less legitimate and certainly less heroic than comparable efforts of workers. Some of the lack of attention may be attributed to the secrecy and confidentiality which tends to surround the operation of business associations and, hence, to greater problems of accessibility by scholars of the data necessary to evaluate the role of such associations in political life.

A more important reason, however, why research has bypassed this topic – after a promising but abortive start in the first decades of this century – is that observers of quite different ideological and political persuasions have tended to agree that such explicit – formally organized – expressions of class, sectoral or professional interest are relatively unimportant in the political process. Although the data on which this assumption is based are very scanty and the judgments quite impressionistic, the suspicion persists that the “real” promotion and protection of business interests somehow flows through other channels of representation and influence.

Conservatives point to the continuous volume of complaints, unsatisfied demands and defensive actions of “producer” associations as evidence for their impotence, and to the steady increase in state regulation of firms and public interference with markets as proof of the clout of “anti-business” interests. Liberal pluralists observe the vast number and variety of fragmented, overlapping propertied interests organized into multiple, specialized associations with varying resources and precarious existences and deny both the existence of a unified and distinctive interest of business as a class and the relevance of paying any more special attention to this “group” than to, say, anti-vivisectionists, airline passengers or tax-payers.

The silence on the part of Marxists is more difficult to understand. For them, the class interests of capitalists are real and appreciable, and presumably they must somehow be consciously coordinated. Many contemporary Marxists may (unknowingly) agree with the sociological observation put forth by Friedrich Engels already in 1881 that:

Capitalists are always organized. They need in most cases no formal union, no rules, officers, etc. Their smaller number, as compared with that of workmen, the fact of their forming a separate class, their constant social and commercial intercourse stand them in lieu of that. (Engels, 1989/1881: 380)

If business interests do not (cannot?) find expression through formal associational channels, the focus of attention must shift to other, less visible coordinative arrangements such as banks (Hil-

ferding, 1910); interlocking corporate directorates (Warner and Unwalla, 1967) or social gatherings (Domhoff, 1974). "Structural" Marxists may prefer to take refuge in the axiomatic position that the contemporary state performs the function of mediating and coordinating the higher general interests of capitalist reproduction. The observable, immediate and often contradictory expressions of interest on the part of capitalists and their associations are, at best, to be treated as an illusory, convenient facade designed to provide the state with a false image of neutrality and universality. At worst, they could be regarded as an impediment to the realization of the longer term interest of the class in accumulation and expanded reproduction. *Ergo*, business should not organize into associations or, if it does, those in positions of state power should be careful not to pay attention.

*Eppur si muove!* Despite all these reasons why employers and entrepreneurs should not form associations or why, if they do, they are not likely to be successful, the owners and managers of productive property have joined with each other in formal organizations to advance and defend their interests. Especially since the decade in which Engels wrote, "trades unions of capitalists", as he called them, have emerged in large numbers. They have, at least in certain cases, acquired a substantial density of membership and amassed considerable physical and human resources. They have even succeeded, in some countries and policy arenas, in establishing themselves as indispensable intermediaries in the exchanges between individual capitalists, their firms and the state, and as important providers of services to their members and wider publics.

Unless we are willing to believe that businessmen create, join and support such associations altruistically or irrationally, or unless we are prepared to dismiss their activities as an elaborate (and expensive) charade, we must recognize that "trades unions of capitalists" do exist and operate in response to calculable reasons and strategic motives. We must therefore take a systematic look at why, when and how such associations efforts have occurred, and what have been their resultant effects.

## 2 The Theoretical Domain

The principal topics a study of business associations must address can be summarized in three questions:

- (1) Why should the owners of capital, possessing as they are *the discretionary power to invest*, develop a need for collective interest representation, and what are the societal conditions determining the significance of class associations as instruments used by business in the pursuit of its interests?
- (2) What structural arrangements are required, *given the basically individualistic and competitive structure of business interests*, for owners of capital to be able to associate with each other and form collective interest organizations?
- (3) Is collective interest representation of employers subject to the same dialectical forces which have made workers organizations, originally set up solely to advance the interests of their constituents vis-à-vis other social groups, subsequently assume *governing properties* in relation to their members?

## 2.1 The Political Imperatives for Business Associability

Theories of political economy attempt to explain the structure and the functioning of political systems by reference to “underlying” economic structures. While in principle the subject of political-economic theory is the relationship between economic and political action in general, most of the debate tends to focus on the relations between private ownership of the means of production and public control over the means of domination. One hypothesis frequently put forward in this context is that the economic decisions of private capital owners, especially with regard to investment, place such heavy restrictions on the possible range of government policies that capital owners can afford to concede formal autonomy to the state and to tolerate political democracy. Since private capital owners control the society’s means of production and thus possess the relevant economic power, they are able, according to the theory, to advance and protect their interests against political infringement without specifically having to acquire political power. Although capital owners may sometimes find it more convenient (and certainly more pleasant) to deal with governments and parties deliberately and overtly sympathetic to their ideological views, their influence on the polity is assumed to rest, not on political mobilization, but on the fact that their non-political, “economically rational”, behavior in the market constitutes one of the most fundamental conditions for the success of all public policies in such societies. Any government which fails to take this constraint into account and which takes measures adversely affecting the willingness of capital owners to invest is bound to create economic disturbances which not only destroy the economic base of state activities but also tend to erode the government’s political support. Hence, according to the argument, state policies tend to be geared to the interests of capital owners even if the government happens to be in the hands of non- or anti-business oriented parties.

One of the advantages of this approach – which one can briefly refer to as the “business-interests-as-functional-constraints” theory – is that it yields clear hypotheses on the status and the character of business interest associations. If capital owners as a class are basically able to promote their interests without entering the political arena directly, their collective associations are exclusively economic phenomena emerging in principle from the inherent strategic imperatives of market-rational behavior. This, in turn, implies that they have no role in the interpretation and definition of their members’ structural interests, and that they therefore are in principle of only secondary importance from the viewpoint of their members. While it may be rational for business interests to organize and form associations, the criteria of such rationality are in no way different from those governing behavior in the market, and are in particular not affected by the fact and process of associability as such. In this sense, business associations are held to be incomparable to political organizations for which the transformation of individual interest perceptions into a common interest definition – the formation, as it were, of a collective political identity – is of central importance.

Collective political action and economic action in the market place are guided by fundamentally different principles and strategic imperatives. To become political actors social groups require, among other things, a minimal degree of internal cohesion, a sense of solidarity in spite of existing internal divisions, and legitimate leadership strong enough to impose discipline and individual sacrifice on their members. Also, to exercise influence within the institutional framework of democratic political systems, collective actors have to be able to formulate their goals in terms of commonly accepted values – the “public interest” – and to make their position appear as a symbolically defined social status embodying certain legitimate rights and entitlements. Whether or not a group is successful *as a political actor* depends in principle on its ability to solve these and similar problems of political mobilization. As this applies to them in the

same way as to all other social groups, employers or entrepreneurs when they adopt a political mode of action are in a fundamentally different position than they are in the market place: while in the latter they are distinguished from all other actors by their unique power to control investment, the logic prevailing in a political frame of action puts them at least in principle on the same plain as their opponents.

The crucial difference, in other words, from the viewpoint of capital owners between the political and the economic domain is that in the former they have to meet other groups on terms which, unlike the terms regulating economic exchange in the market place, do not grant them an *a priori* advantage. For this reason, for business political action can be assumed to constitute a "second choice" which, since it does not grant capital owners similar "competitive advantages" as does economic action in the market place, involves considerable risks and uncertainties. This implies, in turn, that the degree to which business interest associations become "politicized" is determined by the extent to which, for whatever reasons, the power to invest is not, or no longer, sufficient for them to control the political process and to realize their economic interests. The political character of business interest associations is in this sense dependent upon the existence of societal conditions in which a non-political, individual, market-oriented way for capital owners to pursue their interests does not lead to satisfactory results. It is only under the pressure of such circumstances that business, in contradiction to what is assumed by the "functional constraints" theory, is willing to enter directly into the political arena instead of limiting itself to determining its pay-off matrix indirectly from without.

There may basically be three reasons by which entrepreneurs or employers may be forced to politicize their interests and to form class or sectoral associations. First, while free competition is a basic feature of the capitalist mode of production, capital owners in pursuing their individual interests do not bring about the spontaneous integration of the system but, to the contrary, generate systemic contradictions and crises. Thus, even in historical situations in which they, as a class, enjoyed great advantages over workers, pre-industrial estates and consumers, one can witness a variety of attempts to coordinate, by means of a network of associations, individual and sectoral interests in order to preserve the viability of the system as whole. Basic issues in this stage of associational activity were attempts to avoid cutthroat price competition on the market; efforts to limit or prevent altogether the access of foreign competitors to the domestic market; endeavours to form a common front *vis-à-vis* the sellers of basic raw materials and other supplies, and the like.

A second reason for capital owners to organize is that their power to invest is, or at least could be, challenged by the political mobilization of workers. In several historical instances, business efforts to organize and coordinate its actions came as a response to prior attempts by workers to defend their interests through collective action. The institutionalization of class conflict, the setting of shared rules of the games in labor disputes, and the effort to guarantee a stable and reliable labor supply, have increasingly become major concerns of business associations; and trade unions have become their most important institutional partners.

Thirdly, with the increasingly systematic intervention of the state into the economy, the importance of the market as a mechanism of resource allocation has declined while the importance of the polity has proportionately increased. One, but not the only, reason for this is democratization. As political democracy operates on the principle of "one man - one vote", it has an inherent tendency to produce interventionist policies aimed at economic redistribution. Directly or indirectly, such policies may touch upon the "sovereignty" of private capital owners with regard to investment. Business interest associations have always seen it as one of their foremost tasks to

fend off political attacks upon the freedom to invest and to contain the “irrational” redistributory tendencies emanating from political democracy. On the other hand, collective interest associations are in a better position than individual entrepreneurs to appreciate the minimum of politically mediated redistribution necessary to maintain the legitimacy of the social system as a whole. In certain circumstances, they may even come to the conclusion that the preservation of the system and the protection of the long-run interests of their membership require that they enforce this minimum upon reluctant or resisting individual members. In this sense, the more economic processes are mediated, facilitated and regulated through democratic political institutions, the more business as a whole, or sectors of it, are drawn into the political game and forced to develop a capacity for collective action. As a result and in response to the democratic politicization of social and economic exchanges, business interests may have to become politicized themselves – i.e., may become subject to collective definition and redefinition within the institutionalized process of interest representation and intermediation.

The extent to which business groups pursue their interests through political action rather than relying solely on their power to invest can be determined by looking at the organizational structure of their associations. The political action of social classes and economic sectors is, almost by definition in the modern period, *organized* action. It is primarily through the process of deliberate and permanent organization that the specific imperatives of the political domain enter into the social relations of a collectivity. This is why the dynamics of interest politics express themselves in terms of organizational and interorganizational dynamics. Analyzing the organizational properties of interest associations, therefore, and relating them to the structural conditions existing in the society-at-large may yield important insights into the dynamics of politicization of social interests and into the way social structures, economic resources and political processes influence each other. Since the structure of interest associations is a product of the interaction between the individual and the collective interests of the respective groups under specific constellations of societal forces, it can serve as an indicator both of the nature of this constellation of forces, and of its impact on the substantive content of the interests concerned. By looking over time at changes in the functions business associations perform for their members, one can determine the areas and sectors in which an individualistic pursuit of interests is or has become less likely to prevail, and in which the freedom to invest no longer works as a restrictive enough condition to make public policy conform quasi-automatically to the interests of private owners of capital. Also, to the extent that business associations in different social environments and nation-states differ in their functional significance for their members, organizational analysis can contribute to determining the conditions under which the collective interests of employers and entrepreneurs gain in importance as compared to those defined more traditionally in individual, purely economic, terms. By comparing the organizational strength of business associations in relation to their social base in different countries, industrial sectors and historical periods, one can arrive at generalizable propositions on the changing role of the political system in advanced industrial societies, on the varying structural and historical sources of societal politicization, and on the different ways by which economic power affects the political process.

## 2.2 The Organizational Requirements for Business Associability

The second of the questions listed at the outset refers to the structural requirements which business interest associations must fulfil as a consequence of the specific characteristics of the

interests they represent. Basically, while owners of capital and employers of labor may under certain conditions develop interests which they can, and must, pursue as a collectivity, important individual interests always persist, some of which are bound to create internal conflict among them. These derive principally from the fact that under competitive market conditions businessmen ways have to face the possibility of being driven out of business by their competitors, and that one of the ways by which they can ensure their survival in the market is by doing everything they can to eliminate their competition. To the extent that the conflicts of interest between individual capital owners reflect the economic imperatives of competition, they become all the more significant for the social relationships within a group of capitalists the more similar, and thus the more potentially associable, the members of the group are in terms of their interests. Homogeneity, in other words, while on the one hand increasing the range of subjects on which common interests can be formulated, at the same time fosters competition and makes mutual cooperation more difficult to establish.

This dilemma has frequently been conceptualized as a "contradiction" between short-term and long-term interests or, in more subjective terms, between "short-sighted" and "enlightened" interest perceptions. The problem with this dichotomy is that it conveys the impression that the actors concerned can in practice choose which category of their interests they wish to pursue in a given situation. However, in the real world, the two sides of the dichotomy represent different aspects of an integrated complex of situational interests. Actors following their short-term interests cannot but also affect their long-term interests, and to satisfy their long-term interests they must continuously redefine what they have previously taken to be their short-term interests. One of the reasons why Marx saw capitalist society as a self-destructive system was his belief that capitalists, exposed as they were to the structural pressures of the market, would not be able to achieve these redefinitions, and that because of this they were bound to destroy, by "rationally" following the intrinsic logic of their immediate situational interests, the preconditions of their long-term existence as capitalists. What Marx did not entertain, however, was the possibility of capitalists getting organized as an interest group, or a system of interest groups, and using organizational control mechanisms to ensure the day-to-day presence, internally as well as externally, of their collective interests as a class as opposed to their individual, and potentially self-destructive, interests.

Putting the problem in somewhat different terms, for an individual entrepreneur the defense of the free enterprise system represents, in Olson's (1965) terminology, a "collective good" in which he is vitally interested but to which he has no individually rational reason to contribute. The dilemmas raised by this for the political representation of business are not in principle different from those applying to collective goods production. A collective goods problem exists whenever a group is large enough for the success of its collective efforts to be independent of whether or not one more individual member is prepared to contribute to it. Olson himself has drawn on examples from the union movement to demonstrate how the perverse "logic of collective action" operates and what difficulties and contradictions have to be overcome for collective action to be possible. One can hypothesize, however, that the problems of producing *collective political goods*, in the sense of the word used here, should be even more pronounced and more visible for employers than for workers. This is because competition among workers tends to be tempered, at least to some extent, by pre-existing primary relationships providing for a certain degree of group cohesion and normative integration. On the ideological level, this difference is reflected by the fact that competitive behavior is considered much more legitimate and "natural" among modern entrepreneurs than among workers. While an entrepreneur who pushes his competitors out of business is recognized by other entrepreneurs as an example of

success, and is awarded the respect of his peers for living up to standards commonly accepted by the group, a worker outbidding a fellow-worker to get his job runs the risk of being ostracized for disloyalty and breach of solidarity.

Since the existence of competing interests is more openly admitted and more effective for manifest behavior in the capital-owning than in the working class, business associations should in principle be a better subject than labor unions to study the mechanisms by which the Olsonian dilemma is resolved or neutralized in political practice. This applies, in particular, to the role of organizational control in preventing "free ridership" and in reassuring individual participants that others will also cooperate and that their own contribution to the production of the "collective good" will not be taken advantage of by non-cooperative competitors. It also applies to the tendency for associations generating collective goods to provide also "selective goods" that are available only to their members. This forces such associations to diversify their outputs, to get involved in a wide range of service functions and, thereby, to increase their own organizational complexity.

Generally speaking, the "collective goods" problem, as it applies to business associations, emphasizes the fact that organizations of capital owners and employers have to cope with a high diversity of interests among their constituents. This may have two basic sources. While some of the potential interest conflicts between members of business associations are due to competition, others arise from relationships of mutual exchange. As has been said above, the more homogeneous a business association is with regard to its membership, the stronger the competition among its members in the market is likely to be. Correspondingly, the more heterogeneous a business association, the greater the diversity of interests concerning rates of exchange between different functional areas or sectors of the economy. To the extent that the policies of business associations are concerned with regulating these exchange rates, intra-organizational conflict of the second type is bound to increase in proportion to the scope and breadth of the organized collectivity.

The internal politics of business associations can be conceptualized as centering on the problem of reconciling conflicts stemming either from internal homogeneity or from internal heterogeneity. In either case, the central organizational problem of such associations, more so or more visibly so than in labor unions, is what one could term the *management of diversity*. One of the questions the present study will try to address is what organizational strategies and arrangements business associations use to resolve this problem so as to ensure their organizational and political viability. Using a broad initial distinction, one category of such arrangements is *external* to the organization and consists of formal or informal assistance by other organizations pressuring potential members to organize and facilitating the establishment and the maintenance of representative monopolies. Another category are *internal* provisions and policies designed to reconcile the individual interests of the members with the collective interest as pursued by the association, and to bring to bear the long-range interests of members on their actual day-to-day behavior. Examples range from reliance on charismatic leadership and ideological mobilization to the provision of selective goods and services functioning, in Olson's terms, as "outside inducements" to join the association and conform with its policies. Also relevant in this respect are particular patterns of voting rights; institutional guarantees of individual privileges such as protection of secret information against competitors organized in the same association; formal penalties; and informal economic sanctions.



### 2.3 The Policy Consequences of Business Associability

The third question is concerned with the consequences of the organization of business interests for the political process and for the way advanced industrial societies are, and can be, governed. More specifically, its subject is the effect of getting organized on the substance of business interests and the way these make themselves felt in society. One advantage of this perspective is that it makes it possible to draw together and compare, in a very specific sense, employers and trade associations with labor unions. Concerning the latter, it has often been observed that the goals that originally may have led to their formation have consequently been subject to modification by what one can call an "organizational effect". Some, like Michels, have attributed this phenomenon, also known as the "goal displacement effect", to the impact of a newly emerged stratum of professional leaders with vested interests in the security and stability of the organization which for them is their principal source of income and status. Others have argued that, through organization, social groups get access to new strategic parameters – e.g., are enabled to influence social and economic macro variables directly. While, on the one hand, this increases their power, on the other hand they are forced by their own self-interest to take into their calculations possible direct and indirect effects of their actions which they previously could afford to neglect. This mechanism has been referred to as the enforcement of "effective responsibility". Still others have pointed to the "strategic imperatives" which organized representatives of collective interests have to observe. One of these is the need for an interest organization to be able to ensure that its members stand by the compromises negotiated on their behalf; another is the necessity to preserve the organization as an instrument of interest representation for the future. The common theme in these and other explications of the "organizational effect" is that interest associations, although created originally as *instruments to represent specific group interests* against the conflicting interests of other groups, can become – by their routine functioning and organizational success – *mechanisms of collective self-discipline*. The outcome of this process may be referred to as the assumption by interest associations of "governing properties".

The inherent tendency for successful interest associations to become regulating agencies for their constituent interests is an important factor facilitating the "liberal-corporatist" institutionalization of interest groups as subsystems of an "integrated system of societal guidance". "Secondary interests" generated by the creation of large formal organizations; "effective responsibility" as a result of participation in power at the societal level; and the "strategic imperatives" of contractual, long-term interest intermediation all work into the same direction in that they add to interest politics a strong element of emergent self-regulation, and thus help create important preconditions for the cooptation of particularistic interest into larger, more encompassing systems of compromise and cooperation. In this way, the organizational dynamics of collective interest politics can pave the way for a corporatist devolution of public authority to functional groups and for the establishment of "private governments" complementing the functions performed by the state and relieving the state of difficult problems of control and legitimation. While the working of this process has been demonstrated persuasively for labor organizations, little attention has been paid to the question of the conditions under which it can also become effective on the part of business.

**Part B**

**The Variables for Analysis**



### 3 The Competing Imperatives and Logics of BIAs

The vast variety of motives involved in business associative action confounds attempts at theoretical elegance or simplicity. At the heart of the difficulty lies the *Janus*-like nature of business associations in their role as intermediaries between at least two independently constituted, resourceful and strategically active sets of actors – between firms on the one hand and state agencies and/or labor organizations on the other. What is more, these actor sets can combine and collude directly without engaging in intermediation under associational auspices, for example, when a firm presses the state for particularistic advantages, or contracts with a labor organization at the enterprise or firm level. Somehow, the BIA (business interest association) must insert itself into such direct exchanges of market, authority and contract by offering a “good” at an advantageous price or quality to its member-firms and/or to state agencies and interest interlocutors.<sup>1</sup>

BIAs must, on the one hand, structure themselves and act so as to offer sufficient incentives to their members to extract from them adequate resources to ensure their survival, if not growth.<sup>2</sup> On the other hand, they must be organized in such a way as to offer sufficient incentives to enable them to gain access to and exercise adequate influence over public authorities (or conflicting class associations) and, hence, to extract from this exchange adequate resources (recognition, toleration, concessions, subsidies, etc.) enabling them to survive and to prosper.<sup>3</sup> These two “logics” of exchange we label “the logic of membership” and the “logic of influence”, and our initial orienting hypothesis is that the organizational properties of any BIA can be viewed analytically as the outcome – usually a compromised one – of this interaction.

As if this were not enough to make the choice of structure, procedure and activity difficult, BIAs must also attend to two other sets of contending imperatives, characteristic of all complex service organizations. In a seminal article on trade unions, Child, Loveridge and Warner<sup>4</sup> have identified these as “administrative rationality” and “representative rationality”. At first glance, these appear to correspond (or overlap) with our “logic of influence” and “logic of membership” respectively, but upon reflection this set of polar choices seems to run orthogonal to them. Administrative rationality, for which we would prefer the term: “logic of efficient implementation”,<sup>5</sup> relates to the way “that specified tasks or outcomes are attained with certainty and economy” and involves such properties as “routinization of operation, specialization of functions, directness of communication and speed in decision-making”. It does *not* specify, however, whether these are applied to the association’s relationship with its members or with the state. Representative rationality, which we would call “the logic of goal formation”,<sup>6</sup> seems to correspond more closely to our logic of membership only because Child et al. presume that

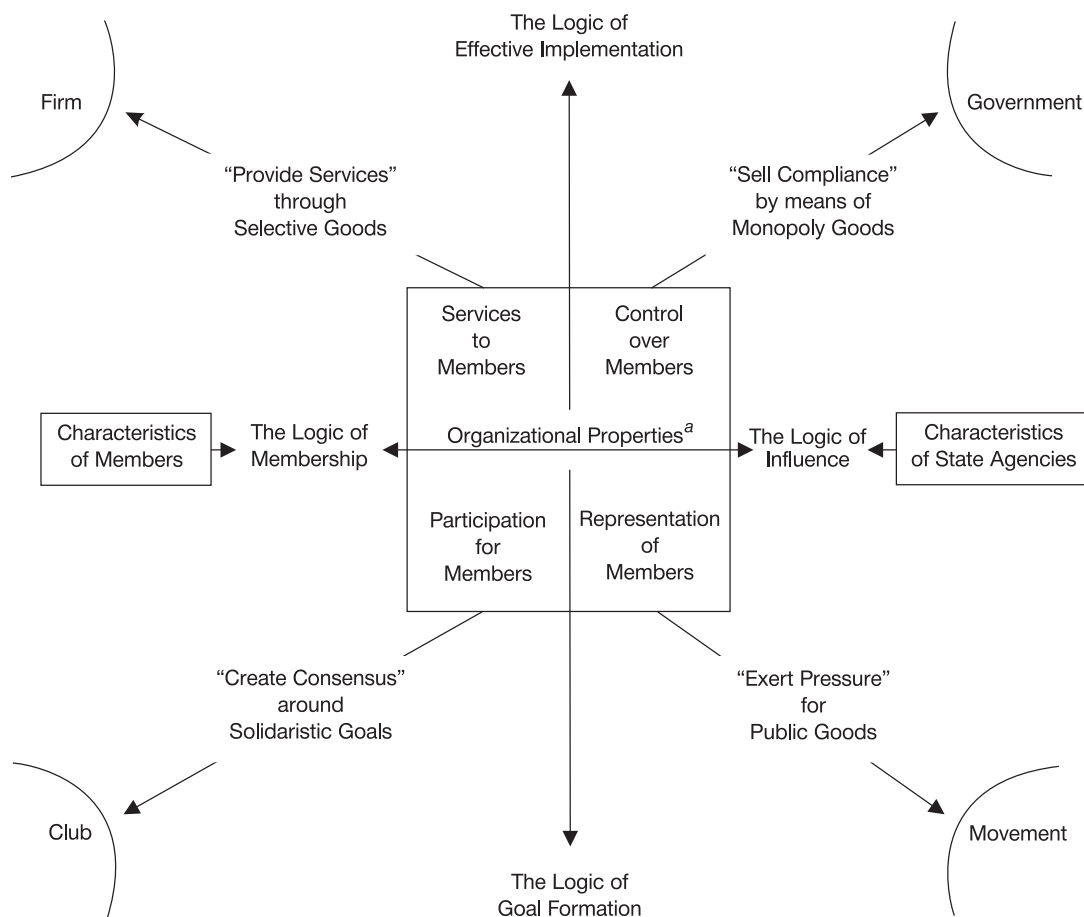
- 
- 1 Admittedly, it is not likely to have to demonstrate continuously its price or quality advantage since resort to using its services may become customary or legally protected over time. Nevertheless, the possibility that it can be bypassed or “outsold” by other arrangements should be an important and salient constraint on the structure, behavior and impact of BIAs.
  - 2 Presuming that, since we are dealing with liberal societies, their existence and their funding cannot be simply imposed upon their members by law, i.e. as *Zwangsvverbände*. Where such is the case, the organizational properties of BIAs can be expected to differ significantly.
  - 3 Presuming, of course, that in the modern democratic polity, BIAs cannot simply impose their preferences on public policy-makers or suppress the activities of conflicting associations.
  - 4 “Towards an Organizational Study of Trade Unions”, *Sociology*, 7 (1973), pp. 71–91.
  - 5 Child *et al.* elsewhere use the expression “the logic of a goal-implementation or operational system”.
  - 6 Elsewhere Child *et al.* call it “the logic of a goal formation or policy-deliberating system”.

“a flexibility of operations (sufficient) to suit the needs of different membership groups, a duplication of functions in order to build checks and balances into union control, a multiplicity of communications in order to allow the maximum possible interchange and collation of opinion, and a holding back of decision-making until every viewpoint has been expressed” can *only* be attained through “widespread membership involvement”. If we dissent from this democratic ideological presumption to suggest that associational goals, especially those of BIAs, may be formed “from above” by expert consultation and oligarchic domination rather than “from below” by member deliberation, and that they may be based not just on immediately perceived subjective interests but also upon longer-term calculations and projections of objective interests, then the logic of goal formation may not be coterminous with the logic of membership.

Figure I illustrates the orthogonal relationship which we postulate exists between the two sets of logical alternatives. “Attending” to all of these would involve an association in four types of activity: *Participation* for Members, *Representation* of Members, *Services* to Members, and *Control* over Members – each with a corresponding type of modal “good”: *solidaristic*, *public*, *selective* or *authoritative* in nature. As associations structure themselves organizationally to provide only one of these modal goods and submit themselves to the imperatives of only one logic of social action, they transform themselves, at the extreme, into another type of social organization. For example, an association only concerned with the efficient implementation of selective goods to its members-*cum*-clients becomes very much like a business firm. Inversely, one which only formulates goals and seeks to have influence by exerting pressure on public authorities – without encouraging participation by prospective beneficiaries, or providing services to members, or being able to control member behavior with respect to state objectives – is close to being a social movement. BIAs which through licensing or policing acquire the ability to provide authoritative goods – and do not “attend” to other affairs – look very much like private governments. A club or *Verein* would be an association only concerned with the exchange and consumption of solidaristic goods among members based on a high degree of internal interaction and consensus about goals (e.g. fellowship, sharing of knowledge for its own sake, sporting competition, etc.).

We believe that this notion of multiple organizational imperatives and logics not only serves to delimit a certain “space” and set of constraints within which interest associations (of all kinds and not just business ones) must operate, but generates an appropriate typology of activities which can be used to classify and analyze the performance of different associations. Our most general hypothesis is that, to be viable, a *voluntaristic*, “free” association must have organizational properties for dealing to some degree with all of the four realms of activity, but that specific combinations of activities are likely to be emphasized. In the traditional liberal “pressure group” literature, BIAs were considered to be no different from any other interest group, and all were considered exclusively active in finding a consensus among members by encouraging their participation and in exerting pressure upon government through independent, but self-restrained, action. A “pathological” version of this (according to pluralists) involved associations, mostly radical anti-capitalist trade unions, which did not merely *find* but *forged* a high level of consensus around intensive, “sub-cultural”, class solidarity and then used this mobilization potential to attack existing institutions of property and authority without regard for “the rules of the game”. So-called “business unionism” could be described as an inverse pathology in which workers’ associations allow (or encourage) participation and representation to atrophy and concentrate upon building an organization around the provision of selective goods and the acquisition of influence upon the state and their business interlocutors by selling the compliance of their members – often at a price which returns a high profit to oligarchic union leaders.

Figure I The Competing “Logics” of Associative Action Affecting Organizational Properties



<sup>a</sup> Choice of present organizational properties restricted by past organizational properties.

The public choice perspective suggests that BIAs, even if they are relatively “privileged” in their potential for associative action, may nevertheless have very compelling reasons for developing the provision of services to members, both as selective goods which will attract members to join and as functional tasks whose performance can be expected to expand professional staff, cover some fixed overhead costs and, at least in some cases, generate a profit for associational coffers. Implicitly, this same set of assumptions hints at a second course of action which can develop membership density, levels of resources and, hence, organizational properties. That is to collude with public authorities in order to acquire some monopoly good essential to the survival or prosperity of members (e.g. certification, licensing, “protection”, reputation, juridical authority, and so forth). The commodity it can sell in exchange for such *de jure* or *de facto* privileges is the compliance of members in the form of private (associational) governance over their behavior within standards or goals set by public authority.

This is not to say that BIAs can merely pick the goods and services they wish to supply – and create automatically a demand for them. First, in a competitive capitalist economy, they must compete with private concerns who may be able to offer the same information, protection,

training program, convention service, arbitration, fellowship, whatever – at a cheaper price, i.e. without the associational overhead which goes to cover the representation costs or without the constraints of private governance. Second, in a liberal society, individuals, especially resourceful, well-connected businessmen, may not be “in the market” for associational control over their behavior – even if it is demonstrably in their long-term interests. They may choose alternative modes of more opportunistic interest expression – individual or collective. Also, the state in such a society may have constitutional or normative reservations – affecting their legitimacy with the public – against devolving authority upon BIAs – even if it can be argued that it is “in the general interest” to do so. In other words, the mix of participation, representation, provision of services and control over members which any given BIA can acquire (or, better, should rationally prefer) is limited by the often competing logics of membership and influence.

The different logics to which BIAs are subject are expressed, among other things, in the fact that most BIAs have dualistic leadership structures. The nominal executive head is usually an elected president, chairman, etc. accountable in principle to the whole membership and in practice to some representative body. Matters such as staff supervision, budgeting, program implementation and so forth are usually the province of a professional administrator or manager,<sup>7</sup> who is presumably under the authority of the elected top official but who may frequently play an active, even a predominant role in policy-making matters as well. In fact, a substantial number of BIAs (at least, in the USA) do away altogether with the pretense of member participation and control over associational activities and are simply administered by professional managers as if they were a profit-making business service firm. Occasionally managers or managing corporations may even be simultaneously responsible for several associations. In addition, an unascertainable quantity of BIAs have purely nominal elected leaders who devote virtually all of their attention to the affairs of their own firm and leave all association decisions effectively in the hands of their administrative “subordinates”. The inverse situation obtains when some crusading executive selected by his peers founds (or refounds) an association and fuses the policy-making and managerial roles by investing his energy in both.

With these exceptions when BIAs are, so to speak, directed by singular executives, the multiple imperatives and competing logics of choice affecting such organizations are likely to find a different reception from their elected (and presumably transient) leaders and their professional (and presumably permanent) managers. A frequent theme in the literature on associations is precisely this tension between administrative management, permanent staff and professional experts on the one hand, and *nebenamtlich*, elected leaders, periodic assemblies and occasional committees on the other hand.<sup>8</sup> While it seems highly likely that the former will be more atten-

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7 The extent to which this is a recognized, “titled”, professional role (and distinct career) seems to vary from country to country. The German “*Geschäftsführer eines Verbands*”, or the Swiss “*Verbandssekretär*” have existed for some time and can be chosen as a career. The American “Association Manager” is a much less distinctive role despite efforts to professionalize it and to develop a “science” of it through journals and other publications.

8 For a good survey of this literature, see Ernst-Bernd Blümle, “Besondere Führungs- und Organisationsprobleme von Verbänden”, *Zeitschrift für Organisation*, 1980, pp. 243–246. One aspect of this tension which is rarely discussed is the role that status differentials are likely to play. Unlike labor organizations, where permanent managers-staff usually have a higher status (and power potential) than members, the inverse is true for BIAs. Businessmen-members are likely to be in command within their respective firms of managers and employees with roughly the same attributes as association managers and employees. Except in those countries and cases where the role has become highly differentiated, recognized and respected, the former are likely to treat the latter as subordinates, even when the latter possess a better command of the multiple imperatives surrounding asso-

tive to the imperatives of efficient implementation, and the latter to those of goal-formation – this is argued, for example, in the Child, Loveridge and Warner essay – it is not all that clear which of the two types or modes of organizational leadership will be most affected by the logic of membership and the logic of influence respectively. Elected part-time leaders might be expected to be closer to their “constituents” and, hence, to invest more effort in the creation of consensus; whereas appointed-professional managers might be more interested in acquiring the additional resources and security which the provision of authoritative goods and sale of compliance could bring. However, some elected leaders might be more subject to the logic of influence (especially where electoral processes are not very competitive and where voters are rather indifferent – as frequently is the case in BIAs) and engage heavily in a statesmanlike (“Burkean”) mode of exerting influence over public bodies (especially where the ensuing public goods could be tailored to benefit differentially their firms, or where association office can be used to further a personal political career in other realms). Inversely, the provision of selective goods which requires a close attention to member needs may prove an attractive device to administrative leaders interested in expanding their tasks (especially when their efficient disbursement could open up new career opportunities for them in member firms). Since all the above (as well as other permutations) seem abstractly possible and motivationally reasonable, about all we can say is that *the selection of a strategy for developing and preserving BIAs is likely to involve some compromised mixture of these differing logics and that the dualistic leadership structures of most BIAs are likely both to reflect and to exacerbate these difficult choices.*

One thing stands out immediately when contemplating the “menu” of existing BIAs in any country: the great variety, multiplicity and complexity of organizational forms willingly and calculatedly adopted by business in the effort to protect or promote its general and specific interests. This can be regarded as a rational response to the sometimes conflicting, sometimes complementary logics of attracting members and exercising influence, not to mention those of forming goals and implementing decisions efficiently.<sup>9</sup> These strategic choices are, of course, also affected by the emergent properties of bureaucratic organizations and their attendant motives of organizational self-interest (involving goal displacement as well as strategic distortion). Furthermore, we must recognize that the point of departure – the nature and characteristics of business interests – is itself highly complex, especially since the previous role combination of capitalist, entrepreneur, employer, manager, profit-maker and private appropriator has become more and more differentiated, professionalized, regulated, etc. While the very general categories and structure of the model in Figure I could fit any intermediary association (that was sufficiently voluntaristic and independent in membership recruitment, goal selection, policy implementation and influence behavior), the specific values they take on with respect to BIAs have led to an especially complex and varied organizational response.

Beyond the question of why BIAs may be different organizationally from the associations intermediating the interests of other classes, one needs to understand a particularly paradoxical aspect of the activity of BIAs; namely, that *despite their greater complexity and variety there seems to be a markedly lower level of tension, discord and conflict among BIAs than among the associations of any other class or status group.* On paper and in organigrams BIAs often appear to be overlapping,

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ciative action. This may constrain the role of BIA management and staff, precisely in domains where trade union management and staff are most autonomous.

9 Making proper allowance for “lag effects” where existing practices become routinized and, hence, relatively impervious to the sort of new strategic responses necessary to cope with emergent problems or changing parameters.



duplicating, competing and interfering with each other in the common task of intermediating the same interests of a relatively circumscribed number of actors who, themselves, possess a substantial capacity for individual political action. Clearly there are conflicts of interest between sectors, between enterprises of different size, between regional groupings, etc. But they do not usually emerge from the structure of organizational pluralism in purpose and scope that is so marked in the associative action of this class. One is tempted to suspect some "hiding hand" behind the articulation of the interests of business as a class which at the same time craftily creates a vast number and variety of organizational responses while invisibly coordinating their organizational interactions. Even in countries where peak associations have emerged establishing a hierarchy of purpose and resources among some associations and exercising a not so hidden hand in coordinating class interests, there still seems to exist a considerable amount of voluntaristic exchange, ad-hoc cooperation and shifting alliances. One reason why there is not more interorganizational conflict may be a certain amount of intra-class deference, based on the differential size of the actors involved. Another reason may be the high organizational skills and experience of businessmen who are used from their daily work to setting up efficient organizational structures for specified purposes. Perhaps it is also possible that coordination is achieved through an invisible network of interlocking directorates and financial connections, and, no doubt, there exists a sense of prudence engendered by the comprehensible fear that any privileged minority must have in a mass, egalitarian democratic polity.

Moreover, looked at over time as well as in specific contexts, the organizational properties of these multiple and diverse associations may acquire an importance and an existence of their own. "Rationalizations", "consolidations", "simplifications" of the structure of business associative action may prove difficult to accomplish, and the diverse associational system may be politically sub-optimal in the performance of its principal tasks of protecting and promoting member interests. Tensions and conflicts not expressed *between* associations may be found *within* them in the form of conflicts between different political or administrative subdivisions. Also the efforts of association leaders / officials may not just *reflect* the preferences of members or goals of public actors, but may *affect* member actions and perceptions and / or authoritative responses and expectations. In this sense, the organizational properties of business associations are both dependent and independent variables.

#### 4 The Logic of Membership

The purpose of this section is to specify a number of variables which can on the basis of existing theoretical and empirical knowledge be expected to affect the associative potential of populations of business actors. The variables presented in the following describe properties of – however defined – groups of *potential members* of BIAs; they are not to be confused with the organizational properties of BIAs themselves. The assumption is that group properties – "Logic of Membership" variables – in interaction with the "Logic of Influence" factors introduced further down condition and explain the organizational properties of business associations. We believe that our set of variables captures most of the causal relationships we have in mind when we speak of the "Logic of Membership". Other variables may also play an important role, however, and at the end of this section we will draw attention to some of them.

#### 4.1 Number

– *Definition*: Number of independent actors in a given population.

– *Hypothesis*: A skewed, U-shaped relation prevails between the size of potential membership and the likelihood of associative action. At very small numbers, informal, collusive collective action is the more likely response. Beyond some threshold where the returns from associative action become available to all members of the group regardless of whether or not they have contributed, the likelihood of associative action diminishes rapidly until it approaches zero for very large potential groups.

#### 4.2 Equality

– *Definition*: Extent to which resources held by members of a population and potentially disposable for support of associative action are equally distributed.

– *Hypothesis*: Where resources are very unequally distributed – say, between one large leading firm and many equally small ones – there will be a strong temptation for the dominant actor “to go it alone” in direct, unintermediated action. Where there is a less extremely skewed distribution, larger actors are able and may be willing to pay a disproportionate share of the costs of associative action, thereby subsidizing the membership of smaller, less endowed members for purposes of the appearance of greater representativity. Groups of actors with approximately equal resources to contribute will be the most difficult to organize.

– *Operational Indicators*: The degree of *equality* in a population of firms can be measured in terms of both output and employed labor. We suggest to use both measures, providing for the possibility that the two may tap different aspects of *equality*. A simple indicator is the *proportion of total output accounted for by the largest firm (four largest firms)*. Conventionally, if the largest firm accounts for more than fifty per cent of a sector’s output, one speaks of a “dominant firm”. If the four largest firms together account for more than fifty per cent, one speaks of a “group of dominant firms”. The same indicators can be calculated for employment *equality*. The degree of *equality* between the firms in a given sector can be calculated not only in terms of their *output within that sector* but also in terms of their *total output*. The two measures differ to the extent that firms have significant interests in more than one sector. The degree to which firms are part of multi-sectoral, horizontally integrated conglomerates affects their attitudes towards and their participation in sector-specific collective action. For one part, this may be due to the effect of external interests on internal *equality*; for another part, it may have to do with the diversity of the interests of the respective firms. Thus, one could assume that the higher the number of sectors to which a firm belongs, the less it feels dependent on the fate of any one of them (risk diversification), and the less likely it is to participate in sector-specific associative action. Likewise, business firms with diversified multi-sectoral interests which do join a sector-specific association could perhaps be expected to be more difficult to control by it than firms with sector-concentrated interests. On the other hand, much depends in this respect upon the organizational structure of multi-sectoral firms, in particular, on the degree of autonomy they grant their subsidiaries in determining their interests and their policy.

### 4.3 Competition

– *Definition:* Extent to which actors are constrained in determining their rates of exchange with others by other actors producing (requiring) the same or substitutable goods and trying to sell them to (buy them from) the same customers (suppliers). Competition may be either internal or external. Competition is internal if it takes place between actors belonging to the same population; it is external if it takes place between actors belonging to one population and other actors belonging to another.

#### 4.3.1 External Competition

– *Hypothesis:* A group of firms in competition with firms outside the group is more likely to engage in associative action than a group not in such competition.

#### 4.3.2 Internal Competition

– *Hypothesis:* Firms in a competitive situation can expect high rewards from collective (associative) action. If they succeed in coordinating their behavior and in establishing effective group discipline, they all stand to gain. On the other hand, even greater gains can be made by free-riders and free-booters (firms not contributing to the costs of collective action but taking advantage of it anyway, or firms continuing to behave as competitors in areas in which the others have suspended competition through collective agreement and discipline). The greater the competitive advantage over other firms accruing to those who refuse to participate in cooperative action – up to and including the elimination of “suckers” from the market – the less likely it is that associative action will take place or that it will persist. (Or, put otherwise, the greater are the demands on the control and sanctioning capacities of associations.) This holds despite the fact that, in the long run, all firms might be better off from cooperation (less risk of elimination, higher average profits).

### 4.4 Interdependence

– *Definition:* Extent to which the members of a population engage in exchange with each other rather than with outsiders.

– *Hypothesis:* Actors have a choice to associate with each other on one of two logically exclusive bases: on the basis of *identity* or on the basis of *complementarity* (of interests, resources, etc.). Social relations based on identity and social relations based on complementarity both entail specific gratifications but may also give rise to specific conflicts of interest. Actors with identical resources may find themselves in competition with each other when they try to engage in exchange with third parties holding complementary resources. Actors with mutually complementary resources may find themselves in disagreement over the “terms of trade” under which they are willing to exchange their resources. In so far as associations of business firms have as members firms which try to market identical resources (products), their central organisational problem is to *reduce competition* among their members (both to make collective action possible in the first place and to improve the position of their members as a group in relation to other groups with which they trade). Business associations may also include firms with complementary resources which

engage in trade with each other; in this case, they will be less concerned with competition – although at each step in the chain of production some competition between a subset of firms will remain – than with the *regulation of the terms of trade* between interdependent firms.

In particular, the higher the degree to which firms in a given industrial sector (however defined) buy their supplies from and sell their products to each other, the easier it is for actors strategically located in the internal exchange network to persuade other actors to join in associative action. Furthermore, highly interdependent sets of firms may develop a common interest in some kind of self-organized (associational) adjudication of internal conflicts over terms of exchange; this interest may be more likely to give rise to associative action than other common interests. Moreover, material interdependence permits informal economic sanctions against free-rider and free-booters. It should be emphasized, however, that these hypotheses are highly tentative, and that in reality the effects of *interdependence* may vary from country to country depending on the political-legal-institutional context.

*Interdependence* relates to *competition* in that firms which sell their output to each other are not competing with each other to sell their output to a third party. In this sense, internal exchange reduces internal competition, and exchange and competition are mutually exclusive modes of interaction. High interdependence through internal exchange within the same group makes the competitive exploitation of collective cooperative action less profitable and, therefore, less likely. In a group of firms selling their entire output to outside customers, there is a considerable temptation for each firm during a labor conflict to sign a separate agreement with the union or to refuse to participate in a lockout. However, if a large part of a firm's output goes to firms hit by the same strike or cooperating with the lockout, the opportunities the firm can hope to exploit through non-solidaristic behavior are considerably reduced.

#### 4.5 Heterogeneity

– *Definition*: Extent to which firms in an industrial sector (however defined) perform different transformations of factor inputs into different product outputs.

– *Hypothesis*: Heterogeneity is probably related to associative action in a parabolic rather than straight line manner. Firms which effect standardized transformations of identical raw materials into interchangeable products are likely to be highly competitive and, hence, to have serious Prisoners' Dilemma problems. Firms with a very heterogeneous product mix and widely differing ways of exploiting labor, land, capital and technology will have few and only highly general common interests. At some intermediate level, similar transformation of input factors may combine with a diversification of output products and/or markets to encourage associative action. In general, high product heterogeneity may engender high horizontal differentiation of associational systems into product-specific associations.

Product *heterogeneity* relates to *competition* in that it creates specialized submarkets with limited numbers of participants. Product differentiation may be, and indeed frequently is, a strategy used by firms to sidestep competition by creating specialized markets in which they enjoy a competitive advantage. Everything else being equal, groups of firms with a high variety of outputs should be less internally competitive than sectors with homogeneous, uniform outputs.

#### 4.6 Turnover

– *Definition*: Extent to which the members of a population disappear and/or are replaced by another over time.

– *Hypothesis*: Interaction between actors in populations with low turnover permits reiterated efforts at finding a viable cooperative solution and entails lower transaction and discovery costs. Also, new members of a group tend to be less socialized into its values and frequently carry with themselves the interest perceptions of the group from which they came. Actors newly moving into a group may need time to settle down and to identify their interests with those of the group. Members who have joined a group only recently may not expect to stay for long and may therefore not be prepared to take part in associative action for long-term collective (categorical) goods.

*Turnover* relates to *competition* in that the extent to which the membership of firms in a given industry changes may be indicative of the competitiveness of the industry. This applies to the rate of entry as well as to the “mortality rate”. The relative number of new firms in an industry during a period  $T_1/T_2$  can be interpreted as indicating the ease of access to the particular market. Everything else being equal, an industry in which market access for new firms is easy is more competitive than an industry in which market access is difficult.<sup>10</sup>

#### 4.7 Profitability and Growth

– *Definition*: Yearly rate of return on capital invested, yearly rate of increase in sales. *Profitability* and *growth* are subject to long-term and short-term fluctuations. Longer-term *profitability* and *growth* depend on an industry’s stage in the product cycle; short-term *profitability* and *growth* are determined by the industry’s sensitivity to the *business cycle*.

– *Hypothesis*: Firms in dynamic sectors with expanding markets should have relatively little need for associative action. On the other hand, when forced to respond collectively to labor militancy or government regulation, relatively low competition should make it easy for them to associate. Firms in stagnant sectors may need associative action more – e.g. to mobilize public protection – but may also find it more difficult to accomplish due to higher competition. Firms in contracting sectors may find it necessary to engage in collective “management of decline”, perhaps in cooperation with the state. Attempts at joint reduction of productive capacities throw up considerable “Prisoner’s Dilemma” problems and require high control and sanctioning capacities on the part of associations.

– *Hypothesis*: The more susceptible an industry is to short-term business fluctuations, the more it will tend to resort to collective action in order to stabilize its market through public / political intervention (anti-cyclical public policy measures). On the other hand, the stronger the cyclical changes in the economic situation, the more difficult it may be to build up stable associational structures and to achieve comprehensive organization.

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10 The relative ease of market access is frequently measured by capital intensity. Industries where high capital inputs are needed are less accessible to newcomers than industries with low capital intensity. We propose to measure market access directly using the number of new firms rather than indirectly using capital intensity.

#### 4.8 Social Cohesion

– *Definition*: The extent to which the members of a population maintain with each other diffuse rather than or in addition to specific social relationships; the extent to which they interact with each other on the basis of ascribed rather than or in addition to achieved social roles; the extent to which they engage with each other in primary, face-to-face interaction rather than or in addition to interaction through impersonal, secondary systems; and the extent to which they share a set of particularistic common values and “views of the world” clearly distinguishable from those of other groups.

– *Hypothesis*: Owners and managers of economic interests which share frequent (past or present) social interactions outside their purely economic transactions will know each other better (hence, lower discovery costs), meet each other more frequently (lower transaction costs), trust each other more, develop a sense of solidarity with each other and, hence, find it easier to engage in specialized associative action – except in the limiting case where social interactions are so frequent, comprehensive and multi-purposive that no formally differentiated organization for interest intermediation is necessary.

*Social cohesion* among a given group of owners (managers) of business enterprises can be assumed to increase with the proportion of group members who are related by marriage; who share distinctive social characteristics (minority race, religion, language); who have attended similar educational institutions; who participate in other associational activities such as clubs or charities; or who share a sense of distinct social identity based on membership in some historically defined collectivity, especially one subject to discrimination, exploitation, scape-goating, persecution, and the like.

#### 4.9 Concluding Remarks on the Logic of Membership

The foregoing speculations on the logic of business association membership seem to imply that it is both easy *and* difficult for business firms to engage in associative action.

What this comes down to is largely whether the general or the specific characteristics of business as a social category are more important. *Seen generally*, and in comparison with the associations of other classes and professions, especially in comparison with those of workers, business should logically have an advantage in the ease and costs with which permanent and effective organizations can be established and sustained to intermediate its interests. Its smaller number, (perhaps) lesser dispersion, greater inequality in resources and intensity, lower turnover, multiple social interconnections – all assist it greatly. Only the relative absence of outside sponsorship (although business interests have received, frequently and deliberately, help from the state), the relatively low degree of historical identity and the relatively attractive presence of individual action or alternative modes of collective action detract from that organizationally privileged status.

*Seen specifically* in terms of the properties that differentiate business from other economic or social categories, its position looks much less privileged. Most importantly, business firms are much more competitive among themselves, and they are also more diverse in their organizational formats, heterogeneous in their productive activities, varied in their capital intensity (although the disparities in interests between highly skilled and unskilled workers are somewhat analogous) and vulnerable to product cycle effects (although the business cycle definitely

has had a greater and more differentiated effect on workers than employers, at least until the advent of the comprehensive welfare state). The presence of mechanisms for business coordination and concentration in property ownership mitigate against the above disadvantages – a bit in the way the help of outside church, party and state institutions sometimes helped in the associability of otherwise dispersed, numerous and diverse workers and peasants. Finally, the very success with which their indirect opponents – workers and, more recently, consumers – overcame their *general* status of being organizationally underprivileged through heavy reliance on collective identity and ideology led to a collective perception of class antagonism which, in turn, induced businessmen to overcome their *specific* status of being organizationally underprivileged.

## 5 The Logic of Influence

The “logic of influence” is much more difficult to analyze *a priori* than the “logic of membership”. There is an immense literature on the influence of organized interests upon policy processes, but most of it is of dubious relevance. References abound to such things as “the rules of the game”, “access”, “the institutional framework”, “political culture”, etc., but these remain vaguely delimited *ad hoc* forces which affect the organizational properties of interest associations in unspecified and unforeseen ways. While the notion that “policy determines interests” has supplemented the more traditional observation that “interests determine policies”, this causal inversion has not been submitted to systematic theoretical scrutiny within the pluralist tradition. Olson’s treatise on the *Logic of Collective Action* (1965) has provoked a conceptual and theoretical revision with respect to previous assumptions about common interests and spontaneous group response,<sup>11</sup> but the equally subversive thought that the structure, actions, intentions of public authorities might be influencing the organizational properties of associative action, and not just be the outcome of that action, has attracted much less attention. The pluralist tradition has, by-and-large, remained *true to its* historical, coercion-free, passive conception of the state.<sup>12</sup>

Nor has the interest of the 1970s in Marxist-Functionalist theories of the state contributed much. There, the state (or, better, the capitalist state) has been made into such a formidable, flexible, resourceful and automatic articulator and enforcer of business interests that existing BIAs and their influences over policy appear irrelevant, if not dysfunctional, for the promotion/defense of such interests. Without being told exactly *how* this logic of influence operates (while being told a lot about *why* it must operate), we are left without much of an idea of what organizational properties BIAs are likely to (or must) acquire in order for this class or its respective sectors, branches and products to be able to reproduce itself and its dominance over economic, social and political processes.

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11 See, for example, James Q. Wilson, *Political Organizations*.

12 This is also the case of such well-known critics of American pluralism as Grand McConnell, Theodore Lowi, Henry Kariel, etc., although from their scattered empirical observations one might be able to piece together an alternative model.

## 5.1 Interactions with the State

(1) The state or, better, state agencies have interests of their own, as well as distinctive perceptions of what the interests of their citizens or their clients “should” be. This is most obvious in the area of inter-state (international) relations where the survival or welfare of the country is at stake, but applies in lesser degrees to other policy domains as well.<sup>13</sup>

(2) State agencies – territorially or functionally defined – must compete with each other for scarce resources (most obviously for budgetary allocations). To do so successfully, they must bargain and often ally with other actors – among which are interest associations with facilitative resources or obstructive capabilities.

(3) The substantive content of the policies pursued by the state and state agencies – especially as these policies have become increasingly particularized and categorically specific in the modern welfare state – imposes certain requirements of information and compliance if these policies are to be effectively designed and implemented.

(4) The state with its monopoly over the utilization of legitimate coercion and its symbolic capacity to represent universalistic societal interests possesses important general resources, along with its more specific abilities to provide rewards or dispensations, which its agencies may use to influence the organizational structure and behavior of interest associations.

(5) The logic of influence rests on an exchange relationship. Interest associations seek to acquire organizational properties which enable them to exploit the existent (or emergent) configuration of state authority, interests and needs for the attainment of their own purposes. The state (or its agencies), on the other hand, seeks to reward its interlocutors for acquiring organizational properties which increase the probability of satisfying the state’s policy interests and constraints.

(6) Nothing guarantees a mutually satisfactory and self-reproducing solution to this exchange, least of all for all classes or sectors. But the greater the institutional differentiation, internal competitiveness, informational needs and constrained dependence of state agencies, the more the mode of interaction will be determined by interest associations and the lesser will be the impact of the logic of influence upon the organizational properties of these associations. In the extreme case of a dispersed, dependent, easily penetrated state, the structure and activities of interest associations will be determined almost exclusively by the logic of exchange with their respective memberships and the “private” contractual arrangements that develop between associations.

(7) BIAs, of course, occupy a special position in the logic of influence, at least in those countries whose political system is devoted to the maintenance of order within the confines of a capitalist system of property rights and production arrangements. At one extreme, that of the minimal liberal state, the need for formal business interest associability is low – because individualistic action through the market or through electoral and parliamentary channels will tend to be sufficient to ensure that public authorities will effectively police contracts and provide such infrastructural public goods as defense, standardized measures, perhaps some subsidization of

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13 We set aside the obvious point that actors within state agencies also have distinctive, corporate interests *qua* public employees, professionals, civil servants, state workers and so forth – and, hence, form interest groups potentially (and actually) capable of associative action on their own, specifically self-regarding behalf.



communications and transport. The common interests of business are influential in such a scenario (*viz.* the famous metaphor of the “executive committee of the bourgeoisie”). But the logic of their pursuit and satisfaction does not place a high burden of action on BIAs, whose organizational structures will reflect exclusively the problems of attracting and holding a voluntaristic membership.

At the other extreme, that of a strongly interventionist state, public authorities “must” (or so postulates the functionalist explanation) actively promote the realization of profit and the accumulation of capital sufficient to ensure reproduction of the system. To this end, the state “must” acquire sufficient information and decisional autonomy to act even (and, indeed, often) against the immediately perceived interests of business. Control over the mode of business-state interaction, therefore, becomes a functional imperative, to guarantee both the appropriate aggregation of information and sufficient control over behavior. In this scenario, attention to business interests is again a predominant concern of public policy-making, but the logic of influence must prevail over the logic of membership in determining the organizational properties of BIAs. The state, now vastly more active, resourceful, centrally coordinated and autonomous, “selects” and “molds” interaction in terms of longer-term functional imperatives. BIAs become simultaneously less relevant as the voluntaristic representatives of perceived-subjective member interests, and more relevant as compulsory elements in the control over functional-objective member interests.

At some risk of misunderstanding, one could describe the modern interventionist state as a sort of *meta-firm* (or, better, conglomerate of meta-firms). Its goal structure is not as simple as that of a business firm, even a large business firm, i.e. it does not *just* seek to maximize profit or minimize risk without regard for others. It pursues a more elusive and complex set of aims in addition to that of ensuring the *reproduction* of the capitalist system: primarily *security* in external transactions and *order* in internal transactions, but tempered or distorted by considerations of *legality*, *social equity* and *political accountability*. BIAs must, therefore, deal with two sets of firms: *micro-firms*, or private-public units of economic production and distribution, which are the actual or potential members within its domain of interest, and *meta-firms*, or state agencies of authoritative allocation and general legitimation, which are the actual or potential suppliers of public or categoric goods within its domain of interest. The fact that neither set of “firms” clearly prevails (outside the extreme scenarios of a minimal liberal or a maximal interventionist state); that BIAs cannot survive without extracting resources from both of them; and that the micro- and meta-firms of its environment pursue different, but not necessarily contradictory, goals, makes the choice of an organizational strategy complex and confusing.

In seeking to operationalize the likely impact of state agencies upon BIAs, we find it useful to begin with a simple fourfold distinction:

(1) Certain characteristics of the state (or, better, the political process since they are not restricted to institutions of public law or general political accountability) can be expected to affect the organizational properties of virtually all BIAs, regardless of task or sector. These “general” variables describing the structure and role of political authority in a given society explain why BIAs differ so much from country to country. So, for example, we might find BIAs in, say, Canada less centralized internally, or less bound into interorganizational hierarchies than in, say, Sweden – even in sectors whose membership characteristics are roughly similar.

(2) There also is the empirically obvious fact that the form and content (structure and role) of state policy varies significantly from sector to sector, perhaps because different sectors are of

varying importance for the state, perhaps because their BIAs have been differentially successful in “colonizing” the public agencies responsible for dealing with them, perhaps for varied historical, even accidental reasons. Whatever the reason, exploration of these differences should help explain the variation in BIAs across sectors within the same polity. It may even lead to generalizations that hold up across all political systems regardless of member characteristics. For example, because the machine-tool industry is not specifically regulated by central authority, its BIAs could be expected to have less of a governing capacity over member behavior than, say, those of the construction industry where local government regulation is usually important, or those of the food processing industry with its national health and packaging standards.

(3) Whether general or sectoral, the form and content of state policies may involve a set of *direct* transactions with BIAs in which authorities tolerate, recognize or even encourage specific associations; subsidize their existence; control their activities; exchange information with them, etc.;

(4) or, the impact of the state on BIAs may be *indirect*, i.e. conditioned by the transactions which the state has with individual firms as it subsidizes, taxes, purchases from and even owns them. Here, the logic of influence works in a sense through the logic of membership, by influencing the needs and interests of actual or potential members and by determining their requirements for BIA intermediation.

### 5.1.1 General (National) Conditions

In Figure II we have run the direct vs. indirect and general vs. sectoral dimensions against each other and listed what seem to us to be the variables of greatest importance in each of the four cells. Most of the “general” conditions, whether affecting the BIAs directly or indirectly through firms, are internationally comparative in nature and can be measured relatively easily through a variety of standard aggregate indicators. This does not hold for the “the rules of the game”. Organizational properties of BIAs are affected by the legal norms and customary practices present in a society and enforced by public authorities. For each country it will therefore be necessary to describe the existing situation in formal law, juridical precedent, administrative practice and political prudence with respect to the following:

(1) Conditions under which BIAs can be founded and can acquire a legal status sufficient to permit them to exist (i.e. to own property, to sue or be sued, etc.).

(2) Conditions under which the foundation or recognition of alternative and rival associations can be prevented, or at least hindered, either by state authorities at their initiative or by existing associations seeking to protect their acquired position. Especially important are any procedures whereby a given BIA becomes certified formally or informally as “the most representative institution” and can then prevent competition.

(3) Activities, including the production of goods and services for sale to members which BIAs are *allowed* or *required* to perform, and those that are *prohibited*, e.g. fixing prices, restricting information to members, making campaign contributions, raising a private army, discriminating against members by race or religion, collecting contributions automatically and compulsorily, etc.<sup>14</sup>

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14 Both of these may encourage BIAs to “off-load” some of their activities on other institutions (research, insurance, sales, etc.) which can be set up parallel to, but nominally independent from them.

Figure II The Logic of Influence and Its Impact on the Organizational Properties of BIAs: Interaction with the State

	<b>Direct</b> Transactions between the State and BIAs	<b>Indirect</b> State transactions with firms that affect BIAs
<b>General</b>  Conditions affecting the polity or economy as a whole	<b>I.</b>  1. "Rules of the Game" under which all BIAs can form/operate  2. Degree of centralization (territorial and functional) of State institutions  3. Extent to which national political institutions controlled by Social Democratic/Labor Party  4. Degree of professionalization and autonomy of public bureaucracy	<b>III.</b>  1. Overall importance of State in economy  2. Extent of international trade dependence  3. Extent of international capital dependence  4. Vulnerability to international competition  5. General diversity of the economy  6. Vulnerability to international security threats
<b>Sectoral</b>  Conditions affecting individual sectors	<b>II.</b>  1. Configuration of State Agencies for dealing with sector  2. Extent of subsidized program-payments to BIAs in sector  3. Information needs of the State in the sector  4. Presence/absence of specialized institutions of functional representation	<b>IV.</b>  1. Degree and type of government regulation of sector  2. Extent of government purchases from sector  3. Extent of public ownership in sector  4. "Status" of sector in terms of growth and employment objectives of public authorities

(4) Tax situation with respect to BIAs (and their activities, especially those involving sales of goods or charging fees for service or lobbying for legislative benefits) and the situation with respect to member contributions to BIAs (a deductible business expense, a personal income deduction?).

(5) Rights (if any) which members have with respect to an association's decisions or processes. For example, do members have a right to know the association's annual financial situation? Do

members have a right to have their votes in association matters counted honestly and secretly? Do members have a “due process” right if threatened with expulsion or with a fine?

(6) Liability or extent to which BIAs can be held legally responsible for their actions or their consequences. Can they be sued by customers for the higher prices or rigged bids they have produced? Can they be forced to compensate workers or their organizations for losses due to a lock-out they have organized?

It is difficult to summarize *a priori* the likely significance and direction of impact of general influence variables. For example, a classical hypothesis in the “pressure group” literature relates the degree of centralization of the state structure positively and linearly to the degree of centralization of associative action, on the grounds that “groups imitate the structure of authorities they wish to influence”. But why this rather than the more dialectical notion that BIAs in particular may react inversely to the structure of the state? BIAs may seek to acquire a relatively centralized capacity for the coordination of class action, precisely because the decentralized state structure fails to provide necessary services at national or international level.<sup>15</sup> Or, where the state is already highly centralized, why would business interests not find that they can bring resources to bear more at local or regional level?<sup>16</sup> Strength of social democracy, especially in relatively early periods, is often suggested to be accompanied by greater willingness, based on a perceived greater threat to capitalist hegemony, to entrust BIAs with “strong” organizational properties.<sup>17</sup> Highly professionalized state bureaucracies with their specialized knowledge presumably discourage the development of organizational properties in BIAs, if only because they are more capable of interacting directly with clients and less dependent on intermediaries for information. In addition they are likely to stress the independence and distinctiveness of the public bureaucracy. The indirect variables mostly deal with the international economic and political vulnerability of the country, and the hypothesis would be that the greater the perception by those in power of this vulnerability, the greater will be their inclination to intervene to create a “favorable” set of organizational properties for BIAs.

### 5.1.2 Specific (Sectoral) Conditions

State structures are rarely identical for all sectors of the economy. Fewer and fewer policies have a general effect across the board, and more and more are designed to affect specific sectors and are implemented by increasingly specialized agencies. Direct or indirect sectoral specificities in the structure of power and content of policy are therefore likely to explain at least some of the variation in organizational properties across sectors within the same polity. Moreover, when it comes to the specific question of the acquisition of governing properties by BIAs we expect the logic of influence to be a good deal more significant than the logic of membership.<sup>18</sup>

(1) It seems to make a difference if the state has an agency and a set of programs designed to deal more-or-less explicitly and exclusively with a given sector. Presumably, where the agency

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15 Switzerland would be a case in point.

16 France might fit this assumption.

17 Or with a greater propensity for workers’ organizations to be hierarchically coordinated and, hence, to “provoke” capitalists into accepting more corporatist forms of organization themselves.

18 Although their respective contributions will sometimes be hard to “partition” since much of the sectorally differentiated effect of public policy is indirectly experienced by BIAs *via* the direct transactions between the State and firms.

is relatively autonomous within the power structure of the state, associative action may become almost unnecessary, since the aggregation of interests and promotion of favorable policies may be undertaken by the “public” agency itself as it becomes “colonized” by those it is supposed to regulate. Examples of this seem to be central banks and “the financial community”, and certain agricultural marketing boards and the producers of the commodities whose prices they are supposed to control. Likewise, where an industrial sector faces a plethora of state agencies with overlapping competences – especially where these are scattered across local, regional and national levels of decision-making – the incentives from the state for developing centralized, hierarchical organizational properties are likely to be weak (and confusing). The “ideal” situation seems to be one where the state agency (“sponsoring agency”) needs the collaboration of a comprehensive, singular, highly dense and resourceful BIA to provide it with information and to assist it in its competition with other state agencies.

(2) Public (national or regional) authorities may allocate funds for specific programs to a sector and may channel them through BIAs, up to using them as agents of policy implementation (*Staatsentlastung*). Subsidies for export promotion, apprenticeship training, industrial credit, statistical information, social insurance, product standardization and so forth can become important “monopoly goods” inducing members to join and contribute. Even in cases where they cannot be denied to non-members, firms may feel that they will get preferred treatment if they join. States may even specifically inspire the foundation of an association as an agent for the implementation of a particular program. Delegated programs may pay for a substantial portion of overhead expenses and encourage BIAs to develop more professionalized and centralized administrative structures.

(3) Public authorities may find it costly or impossible (especially where they are not trusted) to gather information on the performance or needs of a sector. They may subsidize BIAs for providing the data. BIAs will be inclined to be receptive to such requests if, by doing so, they can principal access to information used for public policy-making, and effectively eliminate the temptation for state officials to address themselves directly to firms or knowledgeable individual businessmen.<sup>19</sup>

(4) The structure of the modern state is shot through with consultative and decisional bodies composed of functional representatives. Virtually all empirical research to date reveals that BIAs are prominently, even quite disproportionately, present in such forums<sup>20</sup> and it seems that this represents a particularly privileged arena of influence for business interests. Presumably, BIAs will adjust their domains and their intra-organizational and inter-organizational structures to ensure a more effective participation in these representative bodies, especially where by doing so they can further protect their monopoly on intermediation from rival associations or opportunistic firms and individuals. Obviously the more national in level and broad in scope these bodies, the greater the incentive for higher and more hierarchic modes of interest organization.<sup>21</sup> Perhaps the most important general effect of such bodies is to “freeze” the

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19 Different sectors, one could hypothesize, create differently strong needs on the part of states for *Staatsentlastung* through devolution of public policy programs, associational rather than state licensing, and information. It is difficult to say, however, which structural properties of sectors should account for such variation. One could assume that needs for devolution vary with the importance of the sector for public policy, especially in terms of the growth and employment objectives of public authorities.

20 These have been most thoroughly explored by Lars Nørby Johansen and Ole P. Kristensen (1982).

21 Whether this logic applies to supra-national bodies remains to be seen. So far, the restricted compe-

structure of organized intermediation by ensuring participation for existing BIAs and raising the costs for new ones, especially rival ones, to get into the game of interest politics.

The “bundle” of factors in cell IV in Figure II, those that are sectorally specific but indirect in effect, have a peculiar significance: the tendency for business interests to be “satisfied”, “taken care of”, “promoted” by state authorities without a self-conscious, strategically active effort on the part of BIAs or even of individual firms. For a large variety of motives, the state may have significant reasons of its own to make it act for business. We have already hinted at these under the label of general international economic and political vulnerability; now we draw attention to more sectorally specific manifestations of this same generic feature of “the state in capitalist society”.

Hence, the state may be an important purchaser of goods from a given sector (arms procurement being the most obvious case); it may have a significant stake in the “healthy development” of a sector because it itself owns and manages productive units in it; it may be particularly solicitous because the value of its currency depends upon the effect that the export receipts of a given sector have upon the country’s balance of payments; it may be especially concerned to protect the interests of some sector because of the employment creation effects this may have and its fear of the political consequences (i.e. non-re-election or violence) that unemployment could have; and some sectors may be particularly significant to the state because they generate especially important fiscal revenues the state may need to meet its other obligations.

One general orienting hypothesis is that, all things being equal, sectors of greater importance for the state will have less incentive to develop strong associational structures because firms in those sectors will be inclined to free-ride on the efforts already being taken by public authorities to promote their interests. Differences in interest perception and time preferences and fear of the future consequences of such dependence may mitigate and even eliminate the temptation to free-ride, but on balance, BIAs in strategic sectors are likely to be less active and less capable of governing their members’ behavior. This would lead to the paradoxical conclusion that the interests of sectors with a weak associational structure may be better satisfied than those of sectors which are highly organized. *“Business” may be more influential (if less powerful in the intentional sense of the term) where BIAs are less influential.*

On the other hand, one could as well expect that the state will encourage and support associational self-government (*Selbstverwaltung*) precisely in sectors of high political significance. If it is true that direct public regulation of economic activities has its inherent limitations and often even dysfunctions, the state may be the more interested in the presence of a functioning system of interest and policy intermediation the more important it is that its policies actually work. In dealing with strategic sectors, it may not only require precise information, reliable expert advice and swift adjudication of internal conflicts but also a high degree of aggregation of individual interests at the sector level; all of these may not be available without the support of well-organized associations. As a consequence, the state *vis-à-vis* strategically important sectors may, in addition to or even instead of direct intervention, put heavy emphasis on “meta-policies” structuring and regulating self-governing sectoral associations and enabling them to solve sectoral problems independently within the framework and contributing to the goals of general public policy (“functional autonomy”).

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tence and sectoral compartmentalization of the EC has yet to provide sufficient incentives for strong associational hierarchies at the regional level.

An example of business associations with strong organizational properties performing, under government authorization and subsidization, quasi-governmental functions in crucially important industrial sectors is the agreement between the coal mining and the electricity supply industry associations in Germany on the use of domestic coal in the production of electric power. The agreement determines the amount of German coal the electricity supply industry has to buy over a number of years, and it provides for a complicated fine-tuning mechanism regulating the allocation of domestic coal to individual electricity producers according to criteria such as general economic fluctuations, individual changes in market performance, transport costs, etc. While the state subsidizes the system financially, previous experience had shown that under direct state administration the scheme did not bring about the desired replacement of import coal, and it was only after the associations had agreed to accept responsibility for the program that it began to work. In so far as the governing capacities of the participating associations have increased as a result of their participation in the scheme – which they seem to have – this is an example of associations becoming organizationally stronger as a consequence of their sectors' strategic importance for the state.<sup>22</sup>

## 5.2 Interactions with Organized Labor

Our basic assumption in discussing the relationship between organized labor and the organization of business interests is that individual employers, if they have a choice, prefer not to deal with organized labor at all but rather to procure their supply of labor through individual contracts. If compelled either by law or by union strength to recognize a trade union as an agent of collective bargaining, employers will have a preference for workplace or company over multi-firm, industrial agreements since the former leave them a higher degree of autonomy. It is only if they are forced either by existing institutional structures or by a high degree of strategic coordination on the part of trade unions that employers can be expected to yield some of their autonomy as buyers of labor to employers associations bargaining on their behalf. We assume, therefore, that to explain the existence of developed organizational properties in employers associations one has to look for external pressures preventing employers from acting in the labor market independently and on their own.

Business associations in some countries or sectors are differentiated into two categories according to the two major task environments of organized business: (1) into *trade associations* dealing with and oriented towards the state and other business interests; (2) into *employers associations* interacting primarily with trade unions. Interactions with trade unions affect the organizational properties of employers associations and of multi-functional BIAs interacting with both the state and organized labor, but they do not necessarily influence the structure of trade associations. The differentiation between trade associations and employers associations may in some cases have historically idiosyncratic origins; on the other hand, one could hypothesize that it is more likely to occur in polities or sectors where the interaction between business associations and organized labor is particularly intensive and broad in scope. If under such circumstances there is no differentiation between BIAs by tasks, one would expect that the two major task environments will be attended to by specialized subunits within multi-functional BIAs.

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22 For a detailed account of this case, see Z. Jákli, *Staatliche Intervention und private Politik im Energiesektor*, in: V. Ronge, ed., *Am Staat vorbei*, Frankfurt: Campus, 1980, 30–82.

Like the influence of interaction with the state, the impact of organized labor on BIA organizational properties may be both direct and indirect, and it may either be the same for all BIAs in a given industrial polity or differ by specific sectors (Figure III). A direct influence on BIA organizational properties is exercised by the institutional structures of interaction between capital and labor in the labor market (the “system of industrial relations” as defined by Dunlop) determining the role and scope of “joint regulation” and the arenas of negotiation in a society or sector. Indirect influences are exercised by (national or sectoral) contextual factors conditioning the behavior of trade unions in the framework of given institutions; they affect BIAs through their impact on trade union activities.

Obviously, there are manifold interdependencies between the institutions of collective bargaining, trade union structures, BIA organizational properties, and the economic and social context within which capital and labor interact. Thus, contextual factors undoubtedly influence institutional structures, and the latter not only affect the organizational properties of BIAs but are in turn also affected by them. Nevertheless, for the purpose of our present discussion the distinction between institutional structures and underlying social and economic conditions offers a useful classification, and the conceptualization of BIA properties as dependent upon collective bargaining systems and trade union organization permits a meaningful analysis of causal relationships.

### 5.2.1 General (National) Conditions

National industrial relations systems differ by the degree to which the state acts as a “third party” regulating the exchanges between capital and labor, either by defining and guaranteeing certain “rules of the game” or through incomes policy, minimum wages legislation or the like (items 1 and 2 in cell I of Figure III). They also differ by the degree of centralization and unification of the national trade union movement (item 3). All three factors can be assumed to influence BIA organizational properties directly.

(1) “*Rules of the Game*”. Different systems of labor law differently encourage and support associative action of business. Five factors seem to be of particular importance: the extent to which the law limits workplace or plant-level bargaining and gives precedence to industry-wide collective agreements; the extent to which agreements can be declared generally valid (*allgemeinverbindlich*) by the state for all firms in a sector, regardless of whether or not they are members of the employers which have negotiated the agreement; the extent to which agreements are enforceable in court; the extent to which they impose a “peace obligation” for the time of their validity on the parties involved; and the extent to which the state engages in arbitration and conciliation between unions and employers. First, in systems where industry-wide bargaining takes precedence over workplace bargaining, employers associations are more likely to establish themselves as bargaining agents on behalf of their members than in systems in which employers have the option of regulating their industrial relations individually. Furthermore, the broader the range of the (non-wage) subjects that can be taken up in, or are reserved by law to, multi-plant bargaining, the more technically complex industry-wide collective agreements will become, and the greater the importance of employers associations as bargaining agents and as informants and advisors for their members. Second, in systems in which the state can make a collective agreement *allgemeinverbindlich*, the capacity of business associations to govern the behavior of individual firms is not only generally increased but is extended to non-members. As a result, non-members may decide to join in order to be able to participate in the formation of as-



Figure III The Logic of Influence and Its Impact on the Organizational Properties of BIAs:  
Interaction with Trade Unions

	<b>Direct</b> Institutional Structure of Capital-Labor Interaction	<b>Indirect</b> Factors Conditioning Union Behavior Towards Capital
<b>General</b>  Conditions affecting BIA properties in the polity or the economy as a whole	<b>I.</b>  1. "Rules of the Game"  2. State involvement in wage determination  3. Centralization and unification of national trade union movement	<b>III.</b>  1. Range and scope of state social policy  2. Social Democracy  3. International dependence and vulnerability
<b>Sectoral</b>  Conditions affecting BIA properties in a specific sector	<b>II.</b>  1. Relative importance of workplace and company bargaining  2. Configuration of trade unions and bargaining arenas  3. Presence and configuration of tripartite and bipartite public and quasi-public bodies, agencies, authorities  4. Status of sector in national trade union policy	<b>IV.</b>  1. Labor intensity and position in national wage structure  2. Union density  3. Strike pattern

sociation policy, and the association may find it possible to extend its bargaining activities to other and more complex subjects than wages and hours. Third, where collective agreements are legally enforceable, firms require specialized legal assistance to apply agreements correctly and to be represented in court; such assistance can be furnished by employers associations whose legal services may become indispensable especially for smaller firms. Fourth, in systems with a legal "peace obligation" firms are protected from trade union action if they are members of an employers association which is a party to a current industrial agreement. This may be a strong incentive for employers to join such an association. Generally speaking, the more a country's "rules of the game" of industrial relations favor industry-wide bargaining, and the greater the role of the formal law in regulating relations between labor and capital, the greater one would expect to be the functional importance of BIAs for, and their governing capacity over, their members.

(2) *State Involvement in Wage Determination.* Tripartite arrangements at the national level for the formulation and implementation of an “incomes policy” can be expected to contribute to the integration and centralization of BIAs at the national level in general, and to the strengthening of peak associations comprising all sectors of the national economy in particular. Whether or not tripartite incomes policies in addition lead to increased control by BIAs over member firms is less easy to predict; on the whole, it seems that they presuppose such control more than they bring it about, and that the presence or absence of associational control is much better explained by the particular country’s industrial relations “rules of the game”. Where, on the other hand, the state regulates important aspects of labor relations directly – e.g. through minimum wage legislation – the incentives for employers associations to develop can be expected to be weak, and individual employers may even be able to refuse to recognize trade unions altogether. Generally, states which intervene in the process of wage determination have the alternative of either soliciting the cooperation of the “social parties” and working, as it were, through their organizations, or bypassing both unions and employers associations and relying on their own regulatory machinery. Which of the two options they choose seems to depend at least partly on the strength and the organizational structure of the trade union movement (see below).

(3) *Centralization and Unification of the National Trade Union Movement.* Where trade unions are centralized and united at the national level, employers will be under pressure to build up strong national (peak) associations of their own. Centralized *Einheitsgewerkschaften* holding an effective monopoly of representation are able to prevent their workplace organizations from independent, autonomous action and thus to protect the stability of multi-firm (industry-wide or nation-wide) bargaining arrangements (see above, “Rules of the Game”). Furthermore, in so far as centralization gives trade unions the capacity to coordinate their activities in different sectors of the economy, it makes it necessary for employers to develop similar coordination mechanisms. Moreover, a centralized and united union movement can be expected to have more influence on the state, and to interact more closely with it on social policy matters, than a decentralized and divided movement. Employers confronted with a national *Einheitsgewerkschaft* are therefore forced to acquire a matching capacity for unified political action – especially since union centralization makes it difficult or even impossible for the state to influence wage settlements without relying on trade union intermediation. Generally, a centralized and unified trade union movement can be expected to create in employers a sense of class antagonism and a need for class solidarity which are highly conducive to the emergence of strong associations.

Among the characteristics of industrial polities which work upon BIA organizational properties mainly by conditioning trade union behavior, the following seem to be particularly significant:

(1) *Range and Scope of State Social Policy.* The broader the social policy functions of the state, the more it is possible for trade unions to be compensated for concessions made in direct collective bargaining. This is likely to facilitate stable and cooperative collective bargaining relations. By assuming social policy responsibilities, the state takes potentially divisive political issues out of the hands of the social parties, bringing them either under unilateral state regulation or making them the subject of tripartite negotiation. On subjects that have in this way been politicized, national trade unions and employers associations no longer have to defend their jurisdiction against their workplace organizations and members. In so far as state social policy is negotiated on a tripartite basis rather than unilaterally dictated, it forces both unions and employers to centralize their organizations and direct them towards the state. Moreover, a centralized social policy inevitably involves complex systems of formal rules which can be designed and applied only with a considerable input of information and expertise.

We expect, therefore, that in countries where the state has assumed broad responsibilities in social policy, much of the activities of BIAs (and of trade unions as well) will consist of furnishing information both to the state on their members and to their members on state policies. The high complexity of public social policy and the specialized expertise required for dealing with it may make it appear useful to organize employers interests in a separate organization apart from other business interests. On the other hand, the more the social policy role of the state is extended, the more social policy and general economic policy will become interdependent, and the greater will be the pressure for coordination of policies not only between different state agencies but also between employers associations and trade associations. In this sense, growing scope of state social policy and increasing preemption of collective bargaining by tripartite policy formulation, while they need not render differentiation of business associations by different tasks and task environments useless, may create a need for closer inter-organizational coordination.

(2) *Extent to Which National Political Institutions Are Controlled by Social Democratic / Labor Party.* That Social Democracy may have an influence on the structure of BIA has already been mentioned in the context of interactions with the state. In addition, ruling Social Democratic parties usually have promoted, frequently by legislation, the development of multi-plant, sectoral, industrial or national-level collective bargaining. In this way, they have not only served the interests of their trade union allies but also forced employers to delegate significant bargaining responsibilities and decision-making powers to associations. At the same time, partly through their contribution to the institutionalization of industrial relations and partly through their efforts to integrate industrial relations into a broader context of tripartite macro-economic management, Social Democratic governments have generally contributed to a transfer of potentially disruptive industrial relations problems into the broader political arena and thus to a reduction in the level of open industrial conflict. While on the one hand this has reduced the challenge to business posed by spontaneous, unregulated and hierarchically uncontrolled strikes and strike threats, it has on the other hand forced employers, like their counterparts on the trade union side, to develop an organizational capacity to interact not only with the opposite "social party" but also with a powerful centralized, interventionist state.

(3) *Extent of International Trade Dependence, International Capital Dependence, Vulnerability to International Competition, and Vulnerability to International Security Threats.* It has been argued above (5.1.1) that external dependence and vulnerability may cause states to support associative action and to assist social groups in the creation of stable "private governments". This concerns not only business but also labor. In internationally vulnerable countries business associations are typically faced with safely institutionalized trade unions which, like themselves, have highly developed organizational structures. The presence of these counterparts reinforces the organizational development of business associations and further contributes to their governing capacities. In addition, international vulnerability not only affects the behavior of governments but also that of trade unions. Unions are generally well aware of the extent to which the income and the jobs of their members depend on free international trade, on the country's competitiveness on foreign markets, or on foreign investment. Trade unions in internationally vulnerable countries tend to be prepared to cooperate with the government and the interest organizations of business to protect the joint interests of the country vis-à-vis its international environment. For this purpose, they may be prepared not only to accept quasi-governmental responsibilities themselves but also to agree to business associations taking over such responsibilities (and perhaps sharing them with them).

### 5.2.2 Specific (Sectoral) Conditions

The institutional structure in which the exchange between labor and capital takes place may not be the same for all sectors of a national economy. This holds also for the economic and social conditions influencing trade union behavior *vis-à-vis* capital as an employer of labor. While the institutional structure of joint regulation at sectoral level has a *direct* effect on BIA organizational properties (with the qualifications introduced above), the social and economic structure of the sector influences BIs *indirectly* through its influence on trade unions.

There are mainly four characteristics of sectoral institutions of joint regulation which we expect to have a direct effect on the organization of business interests:

(1) *The Relative Importance of Workplace and Company Bargaining as Compared to Regional or National Multi-Firm Bargaining.* Employers associations increase in significance and gain in organizational capacity the greater the extent to which the terms of exchange in the labor market are regulated by multi-firm as opposed to workplace and company bargaining. The importance of multi-firm bargaining in an economic sector depends on its area of coverage and its impact on the actual wage level. The coverage of multi-firm bargaining is measured by the *percentage of workers in a given sector whose wages are covered by multi-firm agreements*. The impact of multi-firm bargaining is measured by *the difference between workers' actual wages and the wage rates set by the agreement (wage drift)*; the greater this difference, the less effective is the multi-firm bargaining mechanism in regulating the labor market, and the lower (presumably) the control capacity of employers associations (and trade unions) over their members.

(2) *Configuration of Trade Unions and Collective Bargaining Arenas.* In a sector with only one centralized trade union organizing all groups of workers in all regions and subsectors, there is likely to be considerable pressure upon employers to join in a similarly unified and centralized employers association. This should hold, perhaps to a lesser degree, even if the sector has more than one bargaining arena, i.e. if different agreements are negotiated by the same union for different regions, subsectors, or groups of employees – the decisive factor being the degree of union centralization and the ability of the union to coordinate its strategies in the different bargaining arenas. In any case, once a multi-firm bargaining arena has been firmly institutionalized, employers will find it useful to build up a coterminous interest association or, at least, to improve coordination between existing associations representing employers in the respective arena. This should be true regardless of the number of unions involved on the other side of the bargaining table. In sectors in which the number of unions and bargaining arenas is high, the incentives for employers to form comprehensive and complex associations or associational systems are weak. Generally speaking, if the bargaining system in a particular sector is fragmented in a number of independent bargaining arenas – which could be due to either fragmentation or decentralization of trade union organization – employers associations will also tend to be decentralized and fragmented; if on the other hand the number of bargaining arenas is small and trade union strategies in different arenas are effectively coordinated, employers are forced to build comprehensive and centralized associations with a high capacity to integrate diverse interests and to make their policies binding on a large and heterogeneous constituency. The degree of fragmentation and coordination of multi-firm collective bargaining arenas in a sector is indicated by *the number of (major) industrial agreements negotiated (fragmentation) and the number of (major) trade unions negotiating industrial agreements (coordination)*.

(3) *Presence and Configuration of Tripartite and Bipartite Public or Quasi-Public Bodies, Agencies and Authorities Dealing with Sector-Specific Labor Problems.* Most of what has been said above on the

influence on BIAs of state-sponsored consultative or decisional bodies of functional representation also holds for bodies composed of both unions and employers (and sometimes including state representatives). Regardless of how such bodies have come into existence – whether by state imposition or by agreement between the “social partners” – for the employers under their jurisdiction they usually create strong incentives to coordinate their activities and the activities of their associations. Multiparty sectoral institutions with a public or quasi-public status also tend to increase the organizational security, and sometimes in fact the organizational resources, of both unions and BIAs. As a consequence, the governing capacities of business associations are enhanced. A further impact of multipartite institutions on BIA properties may be through their effect on trade unions. By improving the stability of comprehensive and centralized trade union organizations, such institutions put additional pressure on BIAs also to develop their organizational properties.

(4) *Status of Sector in National Trade Union Policy.* National trade union movements may concentrate their efforts on a particular sector (or region) to achieve a “break-through agreement” which can be later extended to the rest of the economy. Break-through sectors are selected on the basis of their market and production structure and of the strength of their trade union organization. Since these factors remain fairly stable over time, union efforts to gain model agreements usually concentrate on a small number of sectors. Employers in such sectors will have to face industrial action more than other employers, and they will therefore be more inclined to form strong associations. Furthermore, since the outcome of collective bargaining in break-through sectors concerns not only the employers immediately affected but all employers in the country, sectoral employers associations may receive outside organizational assistance if needed. They are also likely to play an important role in their national employers peak associations.

In addition to the effects of sectoral institutional structures, sectoral business associations are influenced by a number of social and economic factors whose effect on them is more indirect. In particular, we expect three such conditions to be of importance:

(1) *Labor Intensity and Position in the National Wage Structure.* The greater the labor intensity of production, the more, everything else being equal, is at stake for employers in the determination of the price of labor.<sup>23</sup> As a consequence, employers in labor-intensive sectors are particularly likely to detect common interests and act collectively on labor-related matters. In capital-intensive industries, on the other hand, employers associations can be expected to have difficulties coordinating and controlling the labor-market behavior especially of the larger and more profitable among their member firms. The more capital-intensive an industry is, the more its leading firms will be prepared to pay their workers wages in excess of industry-wide agreements – not only to buy industrial peace but also to keep overall trade union influence among their workforce in check –, and the less willing such firms will be to cooperate as buyers of labor with other firms and subject themselves to collective labor market discipline. Likewise, in sectors where wages grow faster than in the economy as a whole, employers may find it necessary to strengthen their associations to make their resistance against union demands more effective. In sectors with wages falling relative to the national average, the incentives for employers to organize are weak. (Relative decline of sectoral wages may also be due to successful associative action by employers.)

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23 Leaving aside sectors like the public service where increased labor costs can easily be passed on to the consumer – or could until the emergence of taxpayer revolts.

(2) *Union Density*. The higher the percentage of the workforce in a sector who are unionized (density ratio), the greater is the need for employers to organize in employers associations. *Ceteris paribus*, this is true even if the number of unions and bargaining arenas in the sector is high. In sectors with a fragmented bargaining system and decentralized trade union organization, high density makes it likely that gains made by one union, or by workers in a “break-through” bargaining arena, will soon be made also by other unions or in other bargaining arenas (“leapfrogging”). The more probable this is, the higher the incentives for employers to coordinate their bargaining strategies at the sectoral level. Density ratios may differ widely by subsectors and by sub-groups of the sectoral workforce; the greater these differences, the more difficult it is to predict the effect of the overall density ratio on sectoral BIA properties. A sector’s aggregate density ratio reflects the structure of the workforce in the sector and covaries with variables like the relative number of manual as opposed to non-manual, skilled as opposed to unskilled, and male as opposed to female workers.

(3) *Strike Pattern*. The structure of business associations in a given sector is conditioned by the frequency and prevailing pattern of sectoral strike activity. In a sector that is relatively strike-prone in comparison to the economy as a whole, employers should be more likely to build strong and encompassing employers associations than in a sector with low strike activity. If strikes are predominantly local, unofficial and short, employers associations tend to be limited in their functions to the provision of advice and legal services. As strikes become regional or national in scope, the more the functions of employers associations will tend to include the provision of strike insurance or the organization of lockouts. With increasing relative frequency of official as distinguished from unofficial strikes, the role of the employers association as the official representative of its members vis-à-vis the union grows in importance. If strikes normally last long, employers may feel a need for strike insurance, and this again is likely to add to the functions of employers associations.

## 6 Organizational Properties

### 6.1 Introduction

Under what conditions and for what purposes do business interests act collectively through formal associations? What forms do such associations, or systems of associations, take in different social, economic and political environments? And what tasks do such formal associations perform? In trying to understand the resort to formal organization, as opposed to informal collusion, as a mode of collective action by a particular social class, we have offered the hypothesis that the emergence and structure of formally organized (systems of) interest associations of business vary systematically with two clusters of determinants: the kind and structure of the underlying *membership interests*, and the conditions and processes of *political influence*.

To justify the focus on formal organizational properties, it may be useful to consider briefly the relationship between formal organization and political interests. Formalization of systems of collective action entails an explicit definition of common objectives (“functional specificity”) and the establishment of criteria of eligibility for membership. Since rules of inclusion are at the same time rules of elimination, the formalized boundaries of interest associations function as institutional filters separating members and interests that are admitted into the association from others that are excluded and have to find their own organizational forms. Internally, in-

terest associations containing heterogeneous interests among their constituency may set up formalized subdivisions allowing subsets of interests to express themselves independently and to be officially represented in the association's political process. Other partial interests within a BIA which are not institutionalized in this way are excluded from open and legitimate articulation. Furthermore, to the extent that the interests represented by a particular association affect, and are affected by, other interests, associations may enter into more or less formalized relationships coordinating their activities and combining their interests into more general interest aggregates. By selecting, excluding, emphasizing, suppressing and combining interests, the formal structures of interest associations process the complex variety of motives and goals existing in the social group they represent, and transform them into a more or less coherent set of political objectives and actions. If the form of the organizational channels processing a group's "raw interests" is altered, the interests selected for representation will change, and the "processed interests" are likely to be differently weighted and aggregated. In this sense, the formal organizational properties of (systems of) interest associations can be conceived of as a behavioral expression of how the respective associations perceive and interpret the collective interests of their constituents.

This is not to say, of course, that every single aspect of the behavior of interest associations, or of organizations in general, is determined and explained by formal organizational properties. There is no doubt that the day-to-day decisions of organizations are greatly affected by informal processes, and that "what is really going on" may even take place largely outside formal associational channels. However, while the informal elements of formal organizations are undoubtedly significant, they are located within and confined by the basic framework of formally established domains, structures, and exchange relations. How important these are in conditioning organizational behavior is illustrated empirically by the existence of what one can call the *politics of formal organization*. If the formal properties of interest associations were unrelated to substantive interests, or if the basic interest definitions embodied in them could be easily modified and circumvented informally, they would not be as carefully chosen and as passionately defended and contested as they are, and attempts to change them would be accompanied by less political conflict.

### 6.1.1 Organizational Development: Organized Complexity and Relative Autonomy

As we have said at the outset, we attempt to determine the degree to which business interests are intermediated through associations by analyzing such associations' formal organizational properties. Our assumption is that *the more important associative action is for business interests in a particular country or sector, the more developed the organizational properties of the respective business associations will be*. The principal concept here is that of "organizational development". Organizational structures are the more "developed" the more *encompassing* they are in scope and purpose (the more "external effects" and interdependencies they "internalize"); the more *specialized* and *coordinated* they are internally; the more safely their supply of strategic *resources* is institutionalized; and the greater their autonomous *capacity to act* and to pursue long-term strategies regardless of short-term environmental constraints and fluctuations. The two basic notions involved are those of *organized* (ordered, coordinated) *complexity* and of (relative) *autonomy* (*Verselbständigung*). In the following, we will briefly discuss these as they relate to our treatment of organizational properties.<sup>24</sup>

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24 The concept of development may carry the connotation of a historical process starting at a "low"

In its most general sense, the concept of *organized complexity* refers to a multiplicity of different units that are related to each other in a non-accidental, orderly, purposively designed pattern making them contribute to the performance of a specific common function. A social system, including an interest association or a system of interest associations, is the more complex the higher the number and the greater the diversity of the units of which it is composed; and it is the more *organized* the larger the number of institutionalized relations between its components and the greater the extent of functional coordination achieved through these relations. Further below in our discussion of organizational structures, we will use the term “differentiation” to refer to the degree to which associations or associational systems are composed of different kinds of units, and we will speak of “integration” to denote the extent to which component units are coordinated towards common, general objectives.<sup>25</sup>

Starting with the most obvious aspect of complexity, which is multiplicity and diversity, an important, and in fact the principal, source of structural complexity in interest associations is the *diversity of underlying interests*. Assuming a given distribution of diverse interests among possible members, interest associations and systems of interest associations can be expected to be increasingly complex the more comprehensive they are in terms of the interests they organize. Since the comprehensiveness of an interest association *ceteris paribus* covaries with the number of its (potential) members, associations with broad constituencies and many members are more complex than associations with narrow constituencies and few members. In this sense, organization of a given population of interests in a small number of large and broadly defined asso-

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level and proceeding continuously to ever “higher” levels. Whilst we do not want to preclude the possibility that some empirical business associations indeed are, or have been, undergoing “development” in this sense, our concept is not primarily historical but analytical in status. That is, while we do classify organizational properties of BIAs in terms of their degree of “development”, we are not making the assumption that a “highly developed” association has necessarily been less developed in the past. This means, among other things, that we allow for the possibility of diffusion of organizational forms as an alternative to “organic” growth. Furthermore, we do not wish our concept of development to imply a notion of unidirectionality. Although we expect that highly developed organizational structures will offer considerable resistance against “de-development” (which has to do with their very “autonomy” and *Eigengesetzlichkeit*), we assume that the degree of BIA organizational development is primarily dependent upon specific environmental constraints and opportunities. In principle, the external contingencies affecting a particular BIA organizational structure may change in such a way as to lower rather than raise its level of organizational development.

- 25 The concepts of differentiation and integration will be used to describe and analyze the structure of both individual associations and systems of associations (intra-organizational as well as inter-organizational structures). The relationship between “internal” and “external” organizational structures will be discussed shortly. At this point it may be useful to remark briefly on our use of the term “system”, for example, when we speak of “associational systems”. Basically, an associational system in our usage is the universe of all BIAs representing interests from a particular economic sector. When used in connection with the concept of “associational system”, “sector” means exclusively “sector objectively defined on the basis of product identity / similarity / proximity”. If we call a sectoral universe of associations an “associational system”, we do not make assumptions about the character of the relations between the associations belonging to it. In particular, the concept of “system” does not contain any pre-judgments on the interrelatedness, interdependence, density of interaction etc. of the respective associations (i.e. on what is frequently called the “system character” of a given set of social or other relationships). Although we expect empirically to find at least some degree of interrelatedness in all our sectoral associational systems, as far as our concepts are concerned they contain the possibility of total isolation of component units and “zero system integration”. The degree to which the associational systems we are dealing with are, or are not, integrated (interactive, interdependent, boundary-maintaining, self-reproductive or whatever) is entirely an empirical question and is in no way pre-judged by the use of the term “system”.



ciations represents a higher degree of organizational development than organization in a large number of small and narrow associations.

Large size in organizations gives rise to internal differentiation. The larger and the more comprehensive business associations are, the more they can be expected to be differentiated into subunits responding to different tasks and interests. Internal differentiation reflecting task complexity is another aspect of organizational development of interest associations: holding size and other properties constant, an organization that has a high number of internal subdivisions is more complex and more developed than an organization with no or few subdivisions.

The internal subunits existing within organizations are subject to a higher or lower degree of *coordination* in terms of the overall organizational purpose. Functional coordination is the second dimension of what we have called organized complexity. Intra-organizational differentiation according to different special interests can be conceived as a mechanism of accommodating those interests within one encompassing organization and making them accessible for integration into a broader, more general interest definition. An alternative mechanism to achieve the same objective would be external coordination between independent associations organizing the interests to be coordinated separately. For example, road-building firms and house-building firms could either be organized in the same interest association – which would then presumably have special internal subdivisions for each of them – or they could be organized separately and coordinate their interests through some kind of inter-organizational linkage. Basically, intra-organizational differentiation into specialized subunits and inter-organizational integration through institutionalized linkages between separate organizations are functional alternatives that can be used for the same purpose.

Organizations differ by the extent to which their subunits form an organic pattern oriented towards the achievement of a common objective. Ideally, the number of subunits in an organization should be *limited* to what is required for the organization to achieve its objectives; subunits should be *singular* to avoid duplication of effort; they should be *non-competitive* to prevent internal friction and diversion of resources from the organization's overall purpose; they should be *functionally differentiated* according to a complementary division of labor; and they should be *hierarchically ordered* to allow for unity of purpose and continuous centralized coordination. In the same way in which *individual associations* can be compared in terms of the degree of correspondence of their structure to these criteria, so can *associational systems*. Obviously, the range of variation in this respect between associational systems is much broader than between individual associations. At one extreme, one can conceive of an associational system in which the number of constituent units is unspecified; identical functions are performed simultaneously by several associations in competition with each other; associations determine their tasks independently without taking into account the tasks performed by other associations; and no association is in a position to exercise hierarchical control over others. Systems of interest associations with these characteristics have been termed "pluralist". At the other extreme, the functionally complementary differentiation, hierarchical ordering, non-competitiveness, unit singularity etc. of an associational system may approach that of the subunit structure of a single organization, and in fact there may be empirical cases in which what is formally a system of independent organizations is more "organized", "ordered" and "coordinated" than a loosely integrated single organization. Associational systems whose interorganizational structures resemble an intra-organizational pattern of functional division of labor and hierarchical coordination – up to and including the transformation of inter-organizational relations between different interests into intra-organizational relations through mergers – have been labeled "corpo-

ratist". Although pluralist associational systems may consist of a large number and great variety of component associations and may thus be highly complex, they are not "ordered" or "organized" and therefore represent a low level of organizational development.<sup>26</sup>

The second aspect of organizational development in which we are interested is what we have called above "autonomy". The notion of organizational autonomy refers to the supply of resources required for the organization's survival and growth ("input") as well as to the capacity of the organization to determine its objectives and select the means and strategies to pursue them independently ("output"). Our guiding hypothesis is that organizations strive to increase their autonomy in both these dimensions in order to protect themselves as much as possible from unpredictable turbulences in their environments. By acquiring and defending increasing autonomy in the course of their development, organizations secure their continuity and stability as social systems and become capable of orienting themselves towards steady, long-term objectives. The more autonomy an organization has achieved, the less any one of its environments is able to determine its behavior ("un-coupling"); the more it is capable of changing its environments instead of itself in order to protect its own performance and stability; and the more reliably its present structural properties predict its properties in the future.

In political interest associations at least, the foremost environment from which organizational autonomy has to be wrought is the *membership*. As far as resource supply ("input") is concerned, political organizations at a low level of development get all their resources – finance as well as manpower – from their members on a spontaneous, non-routine, voluntary basis. To increase their autonomy, organizations of this kind have basically three strategies at their disposition which they can to a certain extent combine:

(1) they can make the supply of resources by members a formalized obligation enforceable in law (constitutional imposition of regular dues payments, employment of professional rather than voluntary staff, compulsory membership);

(2) they can complement the more or less voluntary contributions of their members by selling products or services in the market; or

(3) they can turn to other "sponsoring environments" for subsidization. The most likely source of subsidization for political organizations is, of course, the state. The importance of the state for the development of political organizations is increased by the fact that the feasibility of the first two strategies of gaining autonomy is largely determined by state-defined "rules of the game" (in particular, compulsory membership). The transformation of voluntary support into legal, routine obligations can be referred to as *formalization*, while the mobilization of support from other environments amounts to an increase in *institutionalization*. A developed political organization extracts resources not only from its membership base but from a multiplicity of environments – enabling it to balance the influence of one source of support against that of others – and it receives its supports on a routine basis through stable and predictable lines of supply.

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26 The two aspects of "organized complexity" will be dealt with in depth in the first two of the four main parts of our discussion of organizational properties. The first part, titled "Domains", will be concerned with the choice by associations of the kind and range of interests they undertake to represent. The central variables there will be "comprehensiveness" and "size". The second part, "Structures", discusses the internal structural differentiation of associations within a given (or chosen) interest domain; the institutionalized inter-organizational relations between associations; and the structure of associational systems. Here, the emphasis will be on the mechanisms by which structural complexity is ordered, organized and coordinated.

Resource autonomy from the membership is closely related to strategic autonomy as organizational inputs and outputs are linked to each other in the exchange between the organization and its various environments. Interest associations with little developed organizational properties have to gear their policies closely to the immediate demands and the short-term interest perceptions of their members who are their only source of support. Since the immediate concerns of members of interest associations are more likely to be narrowly defined, idiosyncratic and subject to rapid change, such organizations tend to be small in size, and their policies tend to be particularistic and unstable.

Associations can free themselves from the uncertainties of political spontaneity by developing into firms selling products or services in the market. If they do not choose this alternative and decide to stay in the political realm, they can grow in size and comprehensiveness and develop longer-term perspectives only if they acquire a capacity to reject short-term member demands and make their decisions binding upon their members even against resistance. For this "relative autonomy" to develop, associations need the support of their other environments compensating them for the inevitable decline in the spontaneous support from their membership, or enabling them to extract such support in spite of member apathy or resistance.

External assistance of this sort is likely to come forward only if the association's activities respond at least to some degree to the respective "other" environments' interests, in particular, to the interests of the state. It is only to the extent that associations become in this sense *interest intermediaries* between different environments that they can transform themselves into stable, continuous, institutionalized *interest governments*, and it is only to this extent that they can afford to be unresponsive to some of the demands made on them by their constituents; to represent the interests of their members only selectively and in a general, "compromised" form; and to design their policies and strategies in accordance with their own structural needs, rather than with the wishes of actors other than themselves.

The most frequent form of external support for interest associations is of course state recognition and licensing and the granting of a monopoly of representation, often combined with compulsory membership.<sup>27</sup> Voluntary membership and the absence of state licensing and representational monopolies are characteristics of pluralist systems of interest representation, whereas compulsory membership and state-guaranteed associational functions and domains correspond to the definition of corporatism. Organizational development, then, of interest associations in the direction of increasing "relative autonomy" from their primary environment – the members – implies a move from pluralism to corporatism, accompanied by a decline in the voluntary and an increase in the obligatory character of organization.<sup>28</sup>

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27 It is possible that associations in trying to gain independence from their members become dependent upon the state – or some other "third party". State dependence is of course no more welcome to associations than member dependence, and the "high art" of developing the organizational properties of an interest association is precisely to find a position in which the influence of each of the organization's task environments can be balanced against the influence of another.

28 Resource and strategic autonomy will be discussed more thoroughly in the third and fourth part of our treatment of organizational properties. Resource autonomy is the subject of the third part which is titled "Resources". Strategic autonomy is dealt with in the fourth part titled "Outputs". The two parts are closely related as organizational processes are conceived as transforming input "Resources" into different "Outputs" exchanged with different environments in return for different kinds of supports. The basic structure of our discussion of organizational properties, then, is this: Our general concern is with organizational development, which we have analyzed into the concepts of organized complexity and (relative) autonomy. While organized complexity contains the notions of compre-

Different degrees of organizational development of interest associations and interest associational systems are related to differences in the relative importance of the Logics of Membership and Influence. As far as *organized complexity* is concerned, associational systems that are primarily responsive to their membership base are likely to be fragmented into a large number of small, narrow, internally undifferentiated and externally uncoordinated special interest associations. While the degree of fragmentation, dispersion, overlap etc. produced by the Logic of Membership may vary between countries and economic sectors with different structural conditions, generally the desire of members to have their immediate, particularistic interests represented as undistorted as possible works in the direction of narrow domains and resistance to coordination within associational systems. As Mancur Olson has persuasively demonstrated,<sup>29</sup> interests are the more likely to be organized in voluntary membership associations the more narrowly defined they are, and they become increasingly unlikely to be organized as they become more general. Although members may be aware of the general implications and the interdependencies of their interests with those of others, having to abandon some of them for the sake of organizational unity and to contribute to the costs of an elaborate formal structure of interest coordination poses almost insurmountable “Prisoner’s Dilemma” problems. As a consequence, members will tend to associate, if at all, only with the very small number of those who share their immediate, specific, narrowly defined interests, and the resulting associations will be narrow in scope, small in membership, internally homogeneous, simply structured, highly responsive to the immediate demands of their members and highly unresponsive to demands for coordination with neighboring or more general interests.

Opposite effects originate from the Logic of Influence. States in attempting to process and regulate social interests seem to have a preference for dealing with a small rather than a large number of interest representatives, and for being confronted with interests that are as aggregated and comprehensive as possible. Interest associational structures dominated by the Logic of Membership transmit to the state a vast variety of special interests and place the burden of their reconciliation and accommodation upon public authorities. In societies in which all important allocative decisions are affected by the market, this may not be much of a problem. However, where the state has, willingly or not, accepted a responsibility to protect the interests of specific social groups and regulate their transactions with others politically, governability may depend upon the existence of broad, encompassing, well-coordinated systems of interest associations reducing the complexity of social interests by transforming them into a limited and politically manageable number of interest aggregates. States whose ability to govern hinges upon this kind of social, pre-state interest transformation may take direct or indirect measures to redesign member-dominated, fragmented associational systems and change them into influence-oriented, encompassing, integrated *interest governments*.

In attempting to consolidate and “rationalize” organized systems of functional representation, states are assisted by another aspect of the Logic of Influence, which is the political imperatives of successful associative action. While the immediate interests of members work in the direction of fragmented and simple associational structures, the exertion of effective political influence may demand coordination of efforts and concentration of resources and power. As a result,

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hensiveness and structure, autonomy relates to resources and strategy. The problem of domain comprehensiveness is discussed below under Domains, the problem of internal and external structuring under Structures, the supply with required (“input”) resources under Resources, and the problems of policy and strategy under Output.

29 “The Political Economy of Economic Growth Rates”, in: United States Congress, *U.S. Economic Growth from 1976 to 1986: Prospects, Problems, and Patterns*, Vol. 2, 1976, pp. 25–40.

members are often faced with the unpleasant alternative of having their interests represented in their authentic, unmediated form by little developed, small and powerless associations, or having them represented only partly and generally but by highly developed, large and (comparatively) powerful associations. By biasing the conditions of political success in favor of inclusive and comprehensive representation, states can create institutional incentives for the formation of developed associational structures with a high internalized capacity for interest transformation and compromise. In the case of BIAs, similar constraints can emerge from the confrontation with centralized trade unions, which may force individual businesses to confer upon broad and relatively interest-unspecific associations the authority to act on their behalf even though their decisions may in some cases violate some of their more specific interests.

The simultaneous impact of the Logics of Membership and Influence pushes and pulls the organizational structures of BIAs and BIA systems in opposite directions. Which of the two competing forces will prevail in a given case should, to a significant degree, depend on the concrete conditions of membership and state and trade union structure (cf. above, 5.1 and 5.2). One form of *compromise between the two Logics* at an advanced stage of organizational development is the formation of a pyramid of associations and “*associations of associations*” with a high number of hierarchical levels. At the bottom of this pyramid, there is a multitude of narrow, small, highly interest-specific and specialized “direct membership” associations. At the next-higher level, these are combined into, and coordinated by, a series of “higher order” *associations of associations* which are both fewer in number and broader in scope than the associations they are organizing. At the next level, there is a still smaller number of still broader higher-order associations combining and coordinating the associations at the lower level, and this inter-associational interest aggregation and coordination continues until, at the top of the pyramid, only one encompassing association of associations is left. The point about a system like this is that it responds to both the Logic of Membership and the Logic of Influence at the same time and, at least possibly, to the same extent: while its bottom structure accommodates the former, its structure at the top satisfies the imperatives imposed by the latter. The gap between the two Logics is bridged by a chain of hierarchical inter-organizational relationships, which permits a stepwise transformation of more special into more general interests and gives special interests an opportunity to express themselves separately inside an encompassing structure representing and embracing the general interests of all participants. In this sense, a multi-level associational pyramid is midway between incorporation of all special interests in one encompassing association (responding to the “Logic of Influence”) and voluntary organization in a large number of small, fragmented, uncoordinated sectional associations (in line with the “Logic of Membership”).

Similar cross-pressures are exerted by the two Logics with regard to an association’s degree of organizational autonomy. Under the imperatives of the Logic of Membership, the only resources associations receive come from their members, and the value associations can add to what their members have contributed to them is fundamentally limited. Thus effective “pluralist” representation depends on the members themselves exercising pressure, and it presupposes direct informal interaction between members. Furthermore, under the Logic of Membership, competition between associations for members not only increases the power of the latter over the former but also puts narrow limits to the price associations can charge for their services. Stable and generalized political influence, on the other hand, may, and usually does, require organizational continuity, a capacity for long-term planning, and the ability to disappoint and discipline the members in specific cases.

The state, for its part, may be prepared to lend its assistance in the development of such organizational properties if it has reasons to expect that strategic autonomy (of broad, inclusive, monopolistic associations) will be accompanied by strategic responsibility and “reasonableness”. Again, associations including BIAs are caught between contradictory forces and have a choice between either opting for one of them or trying to strike a balance between them. Some of the relationships between the Logics of Membership and Influence on the one hand and organizational resources and strategies on the other are summarized in Figure IV; more details will be introduced further down.

Generally speaking, our emphasis on the Logics of Membership and Influence reflects the observation that BIAs (indeed, most interest associations) are highly “artifactual” social institutions whose performance is difficult to assess and, hence, to justify on purely economic terms; whose products are difficult to privatize and, hence, accessible to appropriation by outsiders; and whose very presence is difficult to sustain and, hence, vulnerable to circumvention by strategically-minded, opportunistic members and state authorities. As a consequence, BIAs should have a more serious and persistent problem in extracting sufficient resources to ensure their survival and growth than, say, a firm producing a privately appropriable good, or a government offering the historically acquired and legitimated monopolistic service of providing order and exercising coercion. All social organizations must, of course, offer to their “environment” inducements which exceed the contributions they appropriate,<sup>30</sup> but for BIAs (and other interest intermediaries) this seems a particularly crucial problem.

This is not to say that the Logics of Membership and Influence will always predominate in the determination of organizational properties. If BIAs manage to secure for themselves a stable supply of resources through the attractiveness of their products, the indispensability of their services or the unavoidableness of their intermediation between private members and public authorities (or other private interlocutors), then they can perhaps best be analyzed as organizations in terms of their, more inwardly regarding, Logics of Goal Formation and Policy Implementation. In such a case, they will have become established quasi-firms or quasi-governments unaffected by problems of resource extraction.

Secondly, we have pointed to the fact that BIAs do not merely extract resources from, and offer inducements to, their members as a firm does in attracting clients to buy its products. Their status as intermediaries means that they may (and usually do) receive (indeed, depend upon) resources, e.g. rights, subsidies, facilitations, encouragements, from those who are in a position to respond to their demands, i.e. public authorities and private “social partners”, and must in turn offer to these interlocutors some inducements which will make the exchange both attractive and viable. This presumes that BIAs, their members and their interlocutors are involved in a voluntaristic, mutually or reciprocally advantageous exchange relationship. Once, however, elements of asymmetric dependence, of monopoly, of involuntary contribution, of legal obligation and of potential coercion creep into the arrangement sustaining a given BIA, the “resource dependency” model becomes less applicable. Forms of “power dependency” may emerge both in the relation of BIAs with their members and in their relation with public authorities (for example, when authority is devolved upon them to make binding, enforceable decisions). One way of expressing this transformation is to describe the situation as one in which the Logic of Influence, previously subordinate to (and contingent upon) the logic of attracting, retaining and

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30 Even governments or states which fail to provide order or are inefficient in their use of coercion may eventually be overturned or overwhelmed.

Figure IV The Logics of Membership and Influence in Relation to BIA Organizational Properties

<b>Logic of Membership</b>	<b>Logic of Influence</b>
<i>Domains</i>	
Narrow	Broad
Small	Large
Self-determined	Other-determined, coordinated
<i>Structures</i>	
Internally simple	Internally complex
Multiple units	Singular units
Unlimited number of units	Limited number of units
Incomplete systems Overlapping units	Organic pattern of inter- organizational division of labor (functional differentiation)
Fragmented, uncoordinated	Integrated, hierarchically ordered
In flux	Established
<i>Resources</i>	
From members only	From a variety of environments, esp. the State
Changing lines of supply	Institutionalized lines of supply
Spontaneous contributions based on approval of policies	Formalized and legally enforceable support obligations
Voluntary labor	Paid labor based on contract
State-independent representation	State recognition and licensing
Competition	Monopoly
<i>Outputs</i>	
Members determine strategy	Members are one strategic environment among others
Short-term perspective	Long-term perspective
Private functions	Public functions
Consensus	Authoritative decisions
Solidarity	Self-regulation
Representation	Intermediation, governance
<b>Pluralism</b>	<b>Corporatism</b>

extracting resources from members, or somehow juxtaposed to it in the Janus-like situation suggested above (Section 3), becomes predominant and BIAs can resolve their resource extraction problems by *de facto* or *de jure* compulsory membership and compliance, and by state subsidization and licensed governance. In the extreme case, BIAs again become so safely institutionalized as intermediaries that they are no longer resource *or* power vulnerable, and can therefore develop organizational properties determined almost exclusively by the imperatives of goal formation and policy implementation in a sort of modern-revised version of the Michelsian “Iron Law of Oligarchy”. In this case, however, the outcome ensues not from a continuous and conscious, goal-distortive manipulation of members by leaders in power, but from the association’s liberation from its “intermediary” dependency on both members and authorities. BIAs in such established corporatist arrangements become, in effect if not in name, interest governments more than interest associations.<sup>31</sup>

The next part of this paper will attempt to put into perspective the four kinds of formal organizational properties – Domains, Structures, Resources, Outputs – that we have identified as particularly salient. Following this, each of the four themes will be discussed in greater detail.

### 6.1.2 Domains, Structures

Business interests in developed capitalist societies are organized in a great number and variety of associations that are linked together in highly complex patterns of inter-organizational relations. While one could speculatively conceive of a single all-encompassing association representing the totality of all business interests in a country, in reality there have always been a multitude of business associations whose *Domains* were much more narrowly defined. Organizational domains of business interest associations are demarcated along a number of parameters which correspond to perceptions of special interests within the general interest of business as a class. The selection and demarcation of specialized domains represents a basic organizational response to perceived internal divisions within a “business community” and defines the conditions under which diverse interests are processed and translated into common organizational objectives. This explains why the nature of associational boundaries – the demarcation of interest domains of business associations no less than of trade unions – may become a matter not only of private choice, but also of public concern. Frequently, the state attempts to channel the articulation of interests into a particular direction by making associational domains more inclusive than they would be if their demarcation were left solely to the choices and dynamics of voluntary political action. As has been argued above, the very fact that formal organizational properties may become the target of such strategies of political design testifies to their importance in the definition and transformation of social interests.

The demarcation of specialized associational domains gives rise to differentiation between associations representing similar interests rooted in the same social base. The more associations specialize, and the narrower the range of interests that each represents, the higher, everything else being equal, the total number of associations. To the extent that the representation of the

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31 We will not explore for reasons of space the inverse “liberal” or “pluralist” transformation whereby BIAs, initially resource and power dependent, become increasingly independent of such environmental constraints by becoming monopolistic interest firms selling not compliance to authorities but unique selective goods to their members. Although they are not (and were not) BIAs, the nature and role of national automobile clubs, e.g. ADAC or TCS, offers a good illustration of what we are talking about.



interests of a particular category of business is divided among different associations, one can speak of an “associational system” consisting of all associations representing the interests of that category, and of their patterns of interaction. Associational systems may vary in terms of their degree and their pattern of differentiation, as well as in the way their member associations are related to each other. Inter-associational differentiation may be weak or strong, may follow different lines, and may or may not be accompanied by overlaps between domains and competition between associations. Relations between associations may differ in intensity and may be organized both horizontally and hierarchically. Although associational systems representing business interests are typically highly differentiated, varied and complex, there is usually little if any competition or conflict between individual associations. Business interests seem to have a higher capacity than other social categories to coordinate their collective activities, to accommodate internal differences through organizational and inter-organizational arrangements, and to establish complementarity between associations representing different aspects of one collective interest. The mechanisms by which this is achieved are at the center of the discussion of our second category of organizational properties, the *Structures* of associations and inter-associational systems.

Internal differentiation may occur not only in associational systems but also in individual associations. To facilitate the organizational processing of cleavages among its members, an association may divide its domain into subdomains and set up internal subdivisions and departments corresponding to the interests of different member groups. Associations differ with regard to the degree of autonomy they grant to their suborganizations, and to the role these play in the formulation of associational policies. In an association with a confederal structure, suborganizations may enjoy as much or even more autonomy as formally independent associations belonging to a common higher-order association. In fact, inter- and intra-organizational differentiation represent functional alternatives in the integration of partly conflicting interests into collective action, so that groups in principle have a choice between being represented by a single large, internally differentiated organization or by a number of specialized and perhaps “federated” organizations.

A central problem in the design of associational structures is *the management of internal interest diversity*. The need for internally differentiated (systems of) interest associations results from the existence of cleavages between interests in their class, sectoral, branch or product constituency. How much internal differentiation associations have to admit depends on the intensity of such cleavages and on the power available to associations to enforce binding decisions on a heterogeneous membership. From the perspective of an association, inclusiveness increases internal heterogeneity and makes the definition of a common interest more difficult. It also cuts the association off from the mobilizational support provided by informal group cohesion and identification and increases the likelihood of a break-away of dissatisfied member groups. Homogeneity, on the other hand, may increase internal cohesion and governability but means small size, limited resources, limited internal control over the aggregation of diverse interests, and an externalization of interest interdependencies. As a result, homogeneous, and therefore small, associations are likely to be more dependent on formal coordination with other associations than heterogeneous and large ones. Since institutionalized coordination entails costs in terms of organizational autonomy, the problem interest associations have to solve in coping with internal diversity of interests is to find an *optimal mix between internal and external coordination and differentiation*.

To maximize autonomy and to internalize as many external effects as possible, associations have to integrate the maximum number of cleavages they can manage without becoming un-governable or breaking apart. To control the remaining externalities, they at the same time have to establish more or less formalized relations with other associations, keeping the scope of such relations as narrow as possible in order to preserve for themselves a maximum degree of autonomy. How many and how intense cleavages an association can process internally depends, among other things on the intensity of internal and external demands for associational policies that are non-trivial from the perspective of the interests of the members *and* binding on the *entire* membership – the stronger such demands, the narrower the range of manageable diversity. It also depends on the capacity of the association to obtain the compliance of its members. Furthermore, how many externalities an association has to take into account is determined by the chances for opportunistic behavior offered by its environment. In all these respects, the conditions of political influence and the structure of the state in general are an important factor, and it is precisely by strengthening the power of associations over their members – e.g., by more or less tacitly supporting monopolies of representation – and by limiting the chances for opportunism that states can change the design of interest associational systems in the direction of greater comprehensiveness and unitariness.

The third general theme of our discussion of organizational properties is *Resources*. Whereas our previous topics were concerned with the demarcation of associational boundaries, the internal differentiation of associational structures, and the design of inter-associational systems, we now turn to the material reproduction of the associations thus established. Formal organizations are distinguished from informal groups by their endowment with resources that are *their* property rather than that of their members. Interest associations, like organizations in general, can be conceived of as social systems extracting resources from their environments – clients, members, other intermediary associations, the state – through mutual exchange. Associations can extract resources from any of their environments to the extent that they have other resources to offer in return. Organizational success of interest associations can be operationally defined in terms of an association's ability to establish balanced and continuous exchange relationships with a number of "task environments", using the resources extracted from them to produce outputs with which to compensate them for their support.

The last category of organizational properties we suggest for study is the *Outputs* into which extracted resources are transformed. One such output in which we are particularly interested is what we call "governance": the assumption by an association of the status of "private government" with the capacity to impose binding decisions on its members. The external resources from which governance is derived are drawn from both the members and the state. Like the other organizational properties discussed in this paper, governance is a characteristic of an association's formal structure: it is not to be confused with informal collusion of members to bring pressure to bear on others who refuse to cooperate, but rather refers to the ability of the leadership of an association, or the association as such, to make members comply with association policy. The means available to associations to achieve this may differ in strength and effectiveness and may be limited to specific policy areas. The strongest and theoretically most interesting mechanisms of generating associational compliance and discipline are positive incentives and negative sanctions. In order to be effective, incentives and sanctions have to be so substantial that the costs for an individual member of abiding by association policy will be lower than the costs incurred by violating it. Negative sanctions may include suspension of voting rights, imposition of fines, temporary exclusion from services, etc. The ultimate negative sanction available to a formally organized interest association is, of course, expulsion from membership.

Whether or not members can actually be disciplined by the threat of expulsion depends on how important it is for them to belong to the association. It is only to the extent that membership brings with it significant advantages (especially ones not obtainable from other “suppliers”) that the threat of partial or total withdrawal of them in retaliation for non-cooperative behavior can be an effective instrument of organizational control.

Associations may derive their power to sanction their members either from the membership itself or from the state. In both cases, the development of governance capacities on the part of interest associations has important implications for the relationship between the state and the system of organized interests. The formal assumption by private associations of authority to govern their members may interfere with legal rights of individuals under a liberal constitution. Even where states play no active role in the formation of a private government, they inevitably have to choose at some point between suppressing it in the name of liberal principles or, in one way or another, recognizing and, perhaps, regulating and utilizing it. Furthermore, regardless of how they have acquired it, associations may use their capacity to govern either in support or in defiance of public policy. To the extent that private governance affects the success of public policies, states have to formulate, if only by default, an *Ordnungspolitik* defining the status of private governments in the political system. Thus, analyzing the governance capacities of interest associations again requires placing associations in the middle between their members on the one hand and the state on the other, and highlights the peculiar position of interest associations as intermediaries between two different, often contentious and sometimes incompatible social systems.

## 6.2 Domains

### 6.2.1 Parameters

The most basic decision in the design of an interest association is to select from the variety of existing interests those which the association will represent, and to institutionalize a distinction between these and other interests whose representation is left to other associations. Interest associations define the interests they choose to internalize by formally demarcating an organizational *domain*. Organizational domains of interest associations are delimited by *structural and functional parameters*. A *structural* parameter is a social distinction identifying social groups and separating them from each other.<sup>32</sup> Structural parameters relevant for interest associations are social distinctions which may correspond to different interests. Interest associations demarcate their domains by formally specifying in their constitution the characteristics of their potential members; in doing so, they exclude from membership actors who do not have such characteristics. Structural parameters should not be confused with actual patterns of membership; an association may include in its domain groups of potential members none of which eventually joins it. Associations may use any number and combination of structural parameters to define their constituency. The more parameters an association specifies, the narrower and the more specialized its domain, and the smaller and more homogeneous the group of its potential members. Parameters that are not specified presumably do not distinguish between potential members and outsiders; whatever groups can be defined on such parameters, all within them

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32 P.M. Blau, “Parameters of Social Structure”, in: *Approaches to the Study of Social Structure*, New York: The Free Press, 1976, pp. 220–253.

are eligible to join. For example, when an association does not specify religion or age in identifying its potential members, businessmen of all faiths and ages are formally eligible to join.

*Functional* parameters, on the other hand, distinguish between different kinds of interests within the same structurally defined group. Whereas structural parameters define the collectivity from which an association tries to draw its members, functional parameters specify the tasks the association offers to perform on their behalf. If no functional parameters are specified, the association presumably undertakes to represent all interests resulting from the specific social-structural position of its (potential) members. By defining functional in addition to structural parameters, associations select from the universe of their members' *positional* interests those that are related to particular *roles*. For instance, business associations may represent either the totality of their members' business-related interests, or they may specialize in interests deriving from their members' role as buyers in the labor market and as employers of labor. Other role-specific interests of potential members which could be separately organized include those of sellers in the product market, buyers of raw materials, consumers of utilities and services, or objects of different government policies.

The most common form of task specialization of business associations is embodied in the distinction between employers associations and trade associations. Employers associations represent the interests of their members as employers – e.g., in relation to labor as well as to the social policy of the state – whereas trade associations represent their members as producers. In not a few instances, both kinds of interests are represented by one general association. If the two functions are organized into separate associations, members (and leaders) of one association may also join (and even direct) the other since membership in the two is presumed to be complementary rather than mutually exclusive.<sup>33</sup>

Specialization by task of interest associations serving the same group raises problems of coordination. If all interests of a positional group are represented by the same association, coordination is a matter of consistent organizational decision-making. If the representation of group interests is divided between different associations, coordination has to be accomplished (if at all) through inter-organizational relations. The greater the interdependence between the kinds of interests represented by the associations involved, the greater the need for institutionalized linkages between the associations. Needs for coordination are increased if task domains are not, or cannot be, completely mutually exclusive. In so far as there is overlap between the tasks of differently specialized associations, there is a possibility for political friction, and pressures are likely to arise either for a re-specification of organizational domains, for setting up a “joint venture”, or for a merger.

Structural parameters used for the formal demarcation of organizational domains of business associations include:

*Territory.* Business associations may limit eligibility for membership to individuals or firms located in a particular territory. Territorial divisions between associations reflect differences of interests arising from different location (or they may merely correspond to customary or legally binding divisions of the political system). Frequently, associational domains are co-extensive

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33 Another example of a task-specialized category of business associations is Chambers of Commerce and / or Industry, as they exist in several European countries. Chambers represent the interests of local business in relation to various activities of the state. They do not, for instance, engage in wage bargaining, as might a local employers' association. The precise distinction between chambers and trade associations is not easy to establish, however, and it may well vary from country to country.

with nation states. In other cases, business associations may cover only part of the national territory, or they may even be confined to the territory of a single city. If an association defines its domain in territorial terms, potential members located outside its territory have to organize in separate associations. The representation of a given category of interests spread over a certain territory may be divided between any number of territorially-bounded associations. A universe of associations organizing the same interests in different territories may or may not be complete, and the territories of representation may or may not be mutually exclusive.

*Branches or Products.* Business associations may limit eligibility for membership to individuals or firms producing one or more out of a particular range of products. Divisions between associations by branches or products reflect differences of interests related to different positions in the chain of production. Members of business associations defined by branch or product parameters may be located either on the same or on different stages of the chain of production.<sup>34</sup> In the first case, products of members are identical or similar, and members are likely to face identical or similar market and production problems (i.e., to use identical or similar technologies) and to confront identical or similar conditions at their markets for labor and raw materials (i.e. to compete for customers or suppliers, etc.). One main function performed by a “horizontal” association of this kind is to contain competition among its members in order to improve their position in their exchange relationship with such outside groups as customers, labor, suppliers of raw materials, and government authorities.

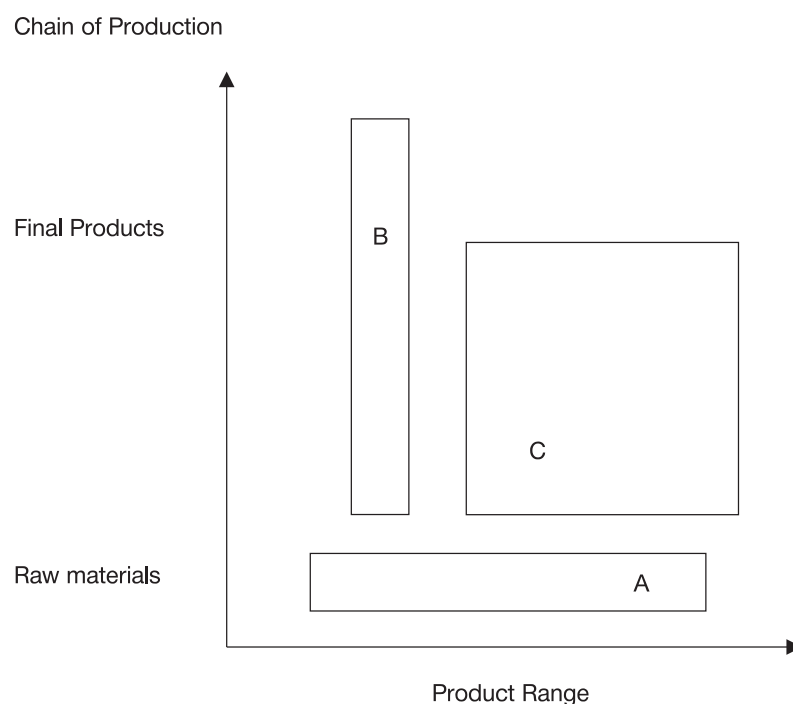
The second, “vertical” type of association unites producers at different stages in the production and distribution of a particular final product. In a vertical relationship, the output of lower-level producers constitutes the input of higher-level producers. Producers belonging to a vertical production chain, in addition to competing with others operating at the same stage, engage with each other in mutual exchange: they buy their materials from producers at lower stages and sell their products to producers at higher stages. As a result, whereas horizontal associations are confronted with interest diversity stemming from competition, vertical associations have in addition to accommodate diverse interests originating in and relating to exchange relations. While in a horizontal pattern of associability conflicts over rates of exchange exist only with groups organized in different associations, in a vertical pattern such conflicts are organizationally internalized. An obvious way in which the members of a vertical association may collectively improve their position – and thus span the internal cleavages – is by promoting the final product(s) to which they each contribute. One aspect of promotion is stable institutionalization of exchanges along the chain of production, and this seems indeed to be what vertical associations are primarily engaged in.

Faced with a given distribution of potential members by products, business associations in demarcating their domains have to make a choice between different types of domain diversity, as well as between homogeneity and size. If associations extend too far horizontally, their policies may become too general to satisfy the special product-related interests of their different groups of members (Case A in Figure V). On the other hand, if associations reach out too far in the vertical dimension, the exchanges they have to regulate, and the interests related to them, may become too diverse (Case B). Associations may of course extend into both dimensions (case C) which would confront them with two different types of internal cleavages at the same time. In any case, the more widely associations define their domains in terms of different products, and the more diverse the interests of their potential membership, the higher – everything else being equal – the number of their potential members.

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34 Cf. above, 4.4, our discussion of the concept of “Interdependence”.

Figure V Domain Diversity in BIAs



By defining their domains broadly and comprehensively, business associations increase their potential membership at the price of sacrificing interest homogeneity and burdening themselves with problems of managing internal diversity. The optimal degree of inclusiveness of associational domains, and thus – *ceteris paribus* – the optimal potential size of an association, is reached if a further increase in the diversity of product-related interests would impair the ability of the association to make binding decisions on behalf of its membership and to meet critical external and internal demands for such decisions.

*Firm Size.* Business associations may limit eligibility for membership to firms, or individuals representing firms, of a particular size. Inter-associational divisions by firm size reflect differences of interest between “big business” and “small business”.

*Type of Ownership.* Business associations may limit eligibility for membership to (representatives of) privately- or publicly-owned firms. Divisions between associations by type of ownership reflect (perceived) differences of interest between the state and private capitalists as owners of means of production.

*Profit / Non-Profit.* Business associations may limit eligibility for membership to (representatives of) profit-making as opposed to non-profit firms (cooperatives). Associations excluding non-profit firms from membership assume that these have different interests, and that such interest differences are so significant that they cannot be reconciled within the confines of one association.

*Religion, Political Allegiance, Age, Sex.* Business associations may limit eligibility for membership to individuals with a particular religion, political allegiance, age or sex ("*ascriptive status associations*"). Demarcation of associational domains by religion reflects different perceptions of the role and the obligations of businesspeople rooted in different religious creeds. It may also reflect the persuasion that such differences cannot be accommodated within the framework of a common organization. Demarcation of associational boundaries by political divisions reflects different perceptions of the political interests of business and of the desirable relationship between business and the state. Business associations divided by religion or political affiliation may cooperate in matters of joint interests and may develop institutionalized relationships with each other. Age-specific associations seem to exist only for young businesspeople, and sex-specific business associations seem to exist only for women. Members of young business associations are usually also members of general business associations organizing members regardless of age, and members of associations of businesswomen are usually also members of general business associations organizing members regardless of sex.

Business associations defining eligibility for membership by age or sex are more likely to be social clubs than interest intermediaries. The same may hold for business associations based on religion or political allegiance, although in this case the matter may be less obvious. A good initial operational criterion to distinguish between a social club and an interest association seems to be whether or not the organization in question interacts with some regularity with certain interest-political environments outside the business world such as the state or trade unions. The common characteristic of ascriptive status associations of business is that they define their domains by characteristics of individual (business) persons rather than of firms.

### 6.2.2 Units of Membership

One important difference between business associations and trade unions is that union members are always individuals whereas business association members may be firms. In principle, business associations have a choice whether they want to organize individuals, firms, or both. If they decide to organize firms, they have to make provisions in their formal structure to accommodate the specific properties distinguishing firms from individual persons. If they want to include both firms and individuals, they have in addition to decide how the two kinds of members are to relate to each other within the association.

There seem to be two factors determining the units of membership of business associations: the relationship of the interests represented to the firm as an organization, and the structure of the organized sector.

Some business interests are related to characteristics of individuals rather than of firms, others may be different from, and possibly opposed to, the interests of firms. An example of the first kind of interest is that of groups like "young businessmen" or "businesswomen" in emphasizing their special role and in improving their position within the business community; another, the interests of businesspeople with a particular religious or political affiliation in supporting and advancing their specific system of social values. An example of the second kind is the professional interests of managers in status security and in control over managerial career structures. Both kinds of interests are more likely to be organized with individuals than with firms as members. Since the special interests represented by associations of managerial staff may

even be in conflict with the interests of firms (“employers”), such associations may in effect come closer to being trade unions than business associations.

The second factor affecting the choice of the unit of membership is the structure of the organized business community. If a business community consists of a small number of owner-operators who are locally concentrated and whose firms are of about the same size, cooperation against trade unions, collusion against new entrants into the market, and even restriction of output to regulate prices may be achieved through personal relations without any formal organization at all. This becomes different if the number of relevant participants, perhaps as a result of growing regional interdependencies, increases. The consequence may be the creation of a formal “union of capitalists” based on individual membership. Firm membership represents an even higher stage of organizational development, responding to increasing diversity of interests in terms of their political weight (differentiation between small and large firms) and of organizational forms. In particular, firm membership may be a formal-organizational solution to the problems posed by an increasing number of firms in a particular interest domain ceasing to be family enterprises and coming under the control of professional managers. Owner-operators who direct their firms *qua* personal property rights can easily be organized in business interest associations on a personal basis. Managers, on the other hand, are “businessmen” only because, and as long as, they perform a certain function within the formal organization of a firm. The differences in status and resulting interests between the two groups make it unlikely that they can *as individuals* be represented by the same interest association. While both owner-operators and managers represent and pursue the vested interests of the firms of which they are the chief executives, the former have in addition specific property-related interests whereas the latter have specific bureaucratic advancement interests. The step from individual to firm membership in business associations serves to facilitate the joint organization of all economic decision-making units belonging to a particular sector or branch regardless of whether their chief executive owns them or not.

Business associations with firms as members face a number of difficult structural and constitutional problems. Although their units of membership are firms, the members of their representative bodies have to be individuals. Associations organizing firms, therefore, have to develop *rules on the kind of representatives of firms they will accept as members of their bodies*. Generally, associations will be interested in having on their boards and committees as high-ranking and powerful representatives of member firms as possible. While eligibility is relatively easy to decide for firms operated by their owners, the problem lies with firms controlled by a hierarchy of professional managers. In effect, defining eligibility of managers for representative offices in business associations amounts to drawing a formal distinction between managers who are deemed equivalent to “capitalists” or “entrepreneurs” and, hence, can be representatives or even “governors” of interests that include those of property owners – and managers who are not. One hypothesis is that the more a BIA functions as an effective private government intermediating significant interests of its members, the more demanding it will be with regard to the entrepreneurial status of managers eligible for representative office. Correspondingly, associations admitting to their elective offices managers who are not chief executives or members of boards of directors can be expected to be of little political importance for their member firms and are likely to be limited to narrow technical or economic functions.

Other organizational problems created by firm membership result from the specific properties of firms as distinguished from individuals. One of these properties is that firms can exist at *different locations* at the same time. If firms have more than one plant, and if their plants are lo-



cated in the territorial domains of different associations – or of different suborganizations of one association –, adequate representation of their interests may require *multiple membership*, and associations may have to admit as members not only firms but also subunits of firms (plants). Multiple membership, however, means multiple representation and creates members with a capacity to act in different organizational contexts at the same time, perhaps coordinating their associative activities “privately” and outside formal organizational channels.

Similar problems are posed by the fact that firms may produce *different products* falling in the domains of different sector- or product-specific associations. While multiple-plant firms raise the possibility of multiple eligibility for membership, horizontally or vertically integrated firms present associations with the problem of *partial eligibility*. Sectorally-defined associations admitting as members firms that have also interests in other sectors of the economy have to find ways to prevent the “outside” interests of their members from interfering with the “proper” representation of sector- or product-specific interests. Since the interests of firms in a certain sector may differ depending on whether and how their activities extend into other sectors, extension of member firms beyond the product boundaries of an association’s domains can be expected to add to the problem of the association in managing interest diversity.

Thirdly, firms – or subunits of firms in case of multiple or partial membership – may be of *different size*, and this may also be taken into account by formal organizational structure. Differences in firm size, measured in terms of employment, installed capital or sales, imply differences in economic importance. As has been argued, firm membership, unlike individual membership, makes it possible for associations to differentiate between economic decision making units on the basis of their relative importance. Thus, associations may require member firms to pay dues in proportion to their total sales or their wage bill. Likewise, members may be given different voting rights, with the number of votes being based on their size or, when members pay differential dues, on their dues rate. Associations collecting differential dues do not necessarily have to have differential voting rights, and *vice versa*. Moreover, associations may provide for proportional voting rights on some of their bodies while on others following the principle of one man (or firm) – one vote. The extreme case, of course, is a highly formalized and impersonal type of association which in many ways resembles a joint-stock company, in which both the rights and the obligations of member firms are determined solely by the size of their economic stake in the association’s interest domain.

Business associations may organize not only individuals or firms but also other business associations. BIAs which have individuals or firms as members we refer to as membership associations or “first-order associations”; BIAs whose units of membership are other associations we call “higher-order associations”. Further definitions will be introduced below under “Structures” (6.3.2).

BIAs may have different kinds of members at the same time. Membership associations may organize both individuals and firms. In such cases, we expect that the individual membership will be clearly less important than the firm membership. For instance, individuals may be “associated members” or “honorary members” without voting rights and with no obligation to pay dues. Higher-order associations may not only have associational membership but also direct firm membership; in this case, we speak of “mixed associations”. Direct firm membership in higher-order associations may be a way of integrating into an associational system big firms with national but without significant local or sectoral interests, or it is used by such firms as a way of influencing the policies of higher-order associations directly without going through sectoral or local associations.

The interest domains of higher-order associations can be described by the same parameters as the domains of membership associations (tasks, territory, products, firm size, type of ownership, profit/nonprofit, ascriptive criteria, etc.). Domain definitions of higher-order associations determine the kinds of interests that must be included in the domains of lower-order associations in order for them to be eligible for membership. Typically, the domains of member associations<sup>35</sup> are narrower and less general than the domain of the respective higher-order association, the latter normally being the aggregate of the domains of its member associations. It is possible, however, that only part of an association's interest domain falls into the domain of a particular higher-order association; in this case, membership in the higher-order association can be acquired only on behalf of this part rather than of the domain as a whole. Examples are BIAs that are both an employers association and a trade association (and, presumably, could join higher-order associations of either type), or a regional BIA comprising small and large firms and joining a national association of small business associations.

### 6.3 Structures

Business interests can be organized into two kinds of structures: structures within associations and structures between associations. Intra- and inter-organizational structures of BIAs are in a complicated way related in that they can serve as functionally equivalent mechanisms for the management of interest diversity. A borderline case is the relation between higher-order associations and their member associations which can be conceived of as both intra- and inter-organisational depending on the perspective. Our discussion starts with intra-organizational structures. In a second step, we introduce a number of modifications necessary to accommodate the specific properties of associations of associations. After this, we turn to relations between associations and to the structures of total associational systems.<sup>36</sup>

#### 6.3.1 Intra-Organizational Structures

The most general concept of an organization is that of a system of formalized social relationships involving a *distribution of tasks* (or functions) and a *distribution of authority*. The first, "horizontal" dimension of organization is identical with what has been termed "functional differentiation", "specialization", or "division of labor"; the second, "vertical" or "hierarchical" dimension serves as a mechanism of "functional integration", "coordination", etc. Functional dif-

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35 Note the difference between the terms "member association" and "membership association". "Member associations" are associations of any order that are members of a higher-order association; "membership associations" are associations organizing individuals or firms directly. A given membership association may or may not be a member association of a higher-order association.

36 In practice, it may sometimes be difficult to decide whether an organized unit is a separate BIA in its own right (an organization of its own) or a subunit of another BIA. The distinction is important for the decision whether a particular organizational relationship is intra- or inter-organizational. According to our definitions, to qualify as an interest association a unit requires a constitution and a (voluntary or paid) staff. However, subunits of interest associations which are clearly not associations in their own right may also have a staff and a constitution. On the other hand, associations may be members of higher-order associations without ceasing to be separate organizations. A good criterion for distinguishing between those hierarchically affiliated units having a staff and a constitution which are and those which are not associations in their own right is whether or not they have the choice of *seceding* from their affiliation.

ferentiation within organizations involves the creation of subunits performing specialized tasks and contributing by this to the overall objectives of the organization. Designing the organization's pattern of specialization and supervising the performance of specialized functions is the task of subunits specializing in control and coordination which are endowed with an authority to make binding decisions on behalf of the organization as a whole. Organizations differ from markets in that the relationships between specialized organizational subunits are not determined by the subunits themselves through voluntaristic contracts and exchanges but by other specialized subunits through authoritative commands ("hierarchy").<sup>37</sup>

Our discussion of intra-organizational structures will be built around two concepts: those of *horizontal differentiation* and *hierarchical integration*. The two concepts are closely related to our general notion of "organized complexity". The first refers to the complexity of an organization's internal division of labor, the second to the way in which this complexity is coordinated ("organized"). The specific problems in which we are interested are the degree to which intra-organizational structures are internally *specialized* (horizontal differentiation, division of labor) and *centralized* (hierarchical integration, coordination).

### 6.3.1.1 Horizontal Differentiation: Intra-Organizational Complexity

There are basically two forms of functional differentiation of interest associational structures: one by groups of members with different special *interests*, another by *tasks* performed on behalf of the membership and the association as a whole. The first type of organizational differentiation responds to lines of interest differentiation in the organization's social base and produces subunits such as a council for member firms producing a particular product. The second type reflects the technical advantages of an institutionalized division of labor in the performance of a complex task and leads to the creation of subunits such as a department for public relations or internal administration serving the association as a whole. Both kinds of differentiation can exist in the same association, and in fact the subunits of most interest associations can be distinguished into those that are specialized by particular membership categories and those that are not.

While normally differentiation by members and differentiation by tasks are mixed in empirical associational structures, there are also extreme cases. One is that of a *unitary* organization whose formal structures are exclusively task-oriented and which has no subunits specializing on particular member groups. The other case is that of a *federative* organization without subunits performing functions on behalf of the organization as a whole, in which all structural components are specialized by member categories. A close approximation to this extreme would be a member-divisionalized organization with an executive board composed of division representatives in which each membership division has its own task-specialized (public relations, internal administration, etc.) departments.

Although it would be tempting to identify structural differentiation by member categories with the Logics of Membership and Goal Formation, and structural differentiation by tasks with the

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37 In other words, *integration* in organizations is achieved through vertical or hierarchical *differentiation*. In the absence of ("voluntaristic") mechanisms of horizontal integration, growing horizontal (functional) differentiation in organizations creates a need for simultaneous vertical (hierarchical) differentiation. The situation is different and more complex in inter-organizational systems where there is a possibility of integration on a horizontal in addition to a vertical (hierarchical) axis and where the integrating function of hierarchically differentiated units is more tenuous.

Logics of Influence and Implementation, the relationship is more complicated. The establishment of member-specialized divisions may be dictated both by the need to give different member interests an institutionalized opportunity to express themselves and by a need to have an instrument for the effective implementation of policies negotiated with the state or other external agents. Furthermore, Influence and Implementation activities may be divisionalized by member categories in the same way as Membership and Goal Formation, and membership divisions may themselves be functionally differentiated internally to respond to the exigencies of Influence and Implementation. In sum, while member-specialized subdivisions may and probably normally do serve as channels of internal interest representation, they may also perform other functions, and in some cases their functions may even be limited to the internal implementation of decisions made or accepted by the organization as a whole.

Structural differentiation by member interests and organizational tasks can be expected to be related to internal heterogeneity and size. The more heterogeneous an association is in terms of the interests of its members, the more likely it is *ceteris paribus* to have institutionalized subunits specializing in specific member categories. The more members an association has – the greater its workload and the more plentiful its resources – the more likely it is to have a task-differentiated departmental structure. Since domain heterogeneity is related to size of membership, and large associations are more likely than small ones to be internally heterogeneous, the two kinds of differentiation are in principle likely to occur together.

On the other hand, in associations of similar size and heterogeneity, the relative extent of structural differentiation by member interests and tasks may be determined by their degree of organizational development. Associations at a *low* level of development, if they are of sufficient size and interest heterogeneity, are divided into highly independent, self-contained subunits corresponding to different categories of members. Internal differentiation along member group lines is more pronounced and elaborated than differentiation by unitary tasks, and the allocation of resources such as professional manpower is in favor of the interest-specialized subunits and to the disadvantage of the task-specialized subunits. Highly developed associations, on the other hand, are unitary in terms of member interests and differentiated in terms of tasks; they have an elaborate division of labor by tasks and few if any member-specific subunits, and their resources are employed for the largest part on behalf of the membership as a whole rather than allocated to specific membership sections.

### 6.3.1.2 Hierarchical Integration: Intra-Organizational Coordination

The degree of coordination in an organization is inversely related to the autonomy of its organizational subunits. An organization is coordinated to the extent that it has an effective *unity of command* – i.e. that the activities of all specialized subunits are determined in the final instance by one central subunit specializing in coordination. In this sense, coordination depends on and has its structural base in *centralization* which, in turn, can be expressed in terms of the limits placed by the institutionalized hierarchy of authority on subunit autonomy.

Centralization in an organizational structure has as many dimensions as horizontal differentiation. If a particular organization has two kinds of subunits, its degree of centralization with regard to one of them may be different from that with regard to the other. For our case, this implies that in the same way in which we have distinguished between Task and Interest Differentiation, we have to distinguish between Task and Interest Centralization, and within the latter category, between territorial interest and product interest centralization. Generally, we sug-

gest to *measure centralization in terms of the resource endowment and the decision-making authority of (task- or interest-) specialized subunits*. In the case of *task centralization*, we propose to look at *the role and the authority assigned to task-specific committees of member representatives*, like a finance committee or a social policy committee. The greater the autonomy of these committees from the (elected) general executive committee (or executive board), the weaker is the unity of command, and hence the lower the degree of task centralization.

Concerning *interest centralization*, the question is *to what extent special member interests are institutionalized within the organizational structure as subunits with an autonomous capacity to act*. Again, these interests are most likely to be defined by territory or product. The weakest form of separate institutionalization is possibly a formal provision for group representatives to have a certain share of the seats on the general executive committee, with the committee being elected at large by representatives of all members. The other extreme would be membership divisions with separate constitutions, with an independent resource base (i.e. with their own office staff and their own dues income) and with the right to make their own decisions and to contract autonomously with external interlocutors. It is obvious that membership divisions of this kind come close to being autonomous organizations in their own right, and that associations with strong membership divisions may in fact be closer to associations of associations than to unitary organizations.

### 6.3.2 Inter-Organizational Structures: Higher-order Associations

We begin with the hypothesis that a BIA, once established in its chosen domain and capable of sustaining itself through an exchange of resources and activities with its members and interlocutors, will prefer to remain autonomous. Its “natural” preference (reinforced by the self-interest of association leaders and staff) will be to operate alone, to optimize its command over its own resources, and to engage in whatever activities it alone deems appropriate and prudent without deference to the interest of others.<sup>38</sup> This preference, however, cannot always be satisfied. Already our inclusion of peak associations suggests that, realistically, the preference for autonomy will be tempered by an often reluctant admission that some form of coordination with other associations is unavoidable, and from this admission will spring a variety of cooperative ventures, coalitional structures, coordinative mechanisms, and hierarchical arrangements.

*Grosso modo*, two generic motives are likely to produce inter-organizational structures: (1) previously autonomous associations may voluntarily interact to obtain some resource or engage in some activity which none could achieve alone; or, (2) some more resourceful or more authoritative actor<sup>39</sup> may compel a weaker or more dependent BIA to accept coordination involuntarily – either by offering it resources it does not have, or by threatening it with the loss of resources it already enjoys. In most cases, it may be empirically difficult to ascertain whether a

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38 This is a reflection on our presumption that all social units will seek to reduce uncertainty and risk by maximizing own resources and autonomy. Another expression of this can be found above in our introduction to the logic of influence where it is applied to state agencies. See also M. Aiken and J. Hage, “Organizational Interdependence and Inter-Organizational Structure”, *American Journal of Sociology* 33, December 1968, pp. 912-930.

39 This may, of course, be another BIA, but it can also be a public agency (for example, one that insists that information be provided at a particular level of aggregation) or an interlocutor association (say, a trade union which demands that agreements be made to cover a given sector or industry).

given inter-organizational structure is voluntary or involuntary in origin, or even whether it is sustained by symmetrical exchange or asymmetrical power relations.

Whether they are “pulled” by the attraction of common benefits or “pushed” by the exercise of power into inter-organizational relations, business interests seem to form a great variety of coordinative arrangements – due no doubt to the complexity of their interests as capitalists, employers, managers etc., and the variety of their member or base associations (such as employers’ associations, trade associations, chambers, regional and local associations, etc.). When compared to any other class, BIAs are likely to have both more *types* and more *levels* of intermediating inter-organizational structures. Describing or classifying these types and levels is no easy task. One could imagine a continuum of types ranging from *decentralized* (but permanently organized) *alliances* completely dependent upon member associations for financial support, for borrowed facilities, personnel and leadership, with little or no independent capacity for gathering information or processing it and, hence, no ability to ensure the compliance of its members except by moral exhortation. At the other end would lie relatively *centralized hierarchies* with budgets and resources of their own, even with financial control over and subsidization for their member associations, extensive facilities, large staffs and prominent leaders of their own and, hence, a very substantial capability for coordinating the activities of dependent member BIAs and even for compelling their conformity to its directives. In between one would find a bewildering variety of federations, confederations, leagues and other cooperative arrangements with more complex interdependencies of resources and activities. To cut through this complexity, we propose concentrating on two general dimensions of interdependence: resources and authority.

To offer a formal definition, a higher-order BIA is an organization with a staff and a constitution whose members are other BIAs. In functional terms, higher-order associations are permanent organizations specializing in coordinating the activities of their member associations. As permanent and specialized organizations, higher-order associations represent an advanced stage of institutionalized inter-associational cooperation. An important definitional property of higher-order associations is that their interest domain encompasses most or all of the interests of their member associations and that they are therefore more general and inclusive (and, in this sense, of a “higher” order) than any of their members. (In 6.3.3, below, we will encounter less institutionalized forms of inter-associational cooperation which involve no corporate membership in a specialized and permanent coordinating organization and which are much narrower in the scope of the interests involved.)

Generally speaking, the structure of higher-order associations is in many ways analogous to that of direct membership associations. In principle, one could conceive of the member associations of a higher-order association as (relatively autonomous) *interest subdivisions with a right to secede*. Although the details are in some respects rather complicated, higher-order associations like direct membership associations are internally subdivided by both tasks and interests, and in both dimensions they may be centralized to different degrees. As in direct membership associations, we expect that organizational development of higher-order associations will involve *an increase in the importance of task differentiation as opposed to interest differentiation* – i.e. of unitary as opposed to interest-specific action and organization – accompanied by a *growth of both task and interest centralization*.

Associations of associations are of importance primarily as mechanisms of hierarchical coordination of different interests. The extent to which higher-order associations are capable of controlling the behavior of their affiliated member associations may differ considerably between associations, sectors, or countries. The more developed the hierarchical control capacities of a

higher-order association are, the more its relationship with its affiliates resembles that between a unitary organization and its subdivisions. Hierarchical control of higher-order associations over member associations seems to depend on, and to be measurable in terms of, four factors:

(1) *The degree of equality of member associations.* A higher-order association some of whose affiliates are much larger than the rest is not likely to be able to gain much “relative autonomy” from these large affiliates. If such associations develop an organizational control capacity at all, this will probably be used by the large affiliates as a means of ruling the small ones. A good measure of member equality is the percentage of the higher-order association’s dues income contributed by the largest affiliate; another, the coefficient of variation in the size of affiliates in terms of either total employment or total sales represented by them.

(2) *The distribution of resources between the higher-order association and its members.* The extent to which a higher-order association is able to exercise hierarchical control over its members is conditioned by the extent to which it has independent resources. A higher-order association that has to borrow its staff and facilities from (some of) its members is likely to have less strategic autonomy as a coordinating agency than a higher-order association with a steady and sizeable income of its own. The crucial dimensions are the degree to which the higher-order association is subsidized – i.e. supported without formal obligation – by its members and the relative size of the income and resources of the higher-order association as compared to those of its affiliates. Both dimensions can be measured in terms of both staff and finance.

(3) *The autonomy from affiliate associations of the higher-order association’s decision-making structure.* The strategic autonomy of a higher-order association is inversely related to the role played in its decision-making structure by member associations as collective entities. If the major policy-making body of the higher-order association is a council of delegates of member associations, its autonomy is likely to be lower than if decision-makers are officials of the higher-order association elected by its members at large. Furthermore, the decision-making structure of the higher-order association has little autonomy from affiliate associations if important decisions have to be approved by all affiliates; it has more if decisions are made by majority vote with each affiliate having one vote; it increases further if the votes of affiliates are weighed by their size; and it is highest if the members of decision-making bodies do not vote on behalf of affiliate associations at all but as officials of the higher-order association.

(4) *The distribution of authority between the higher-order association and its members.* An extreme case of authoritative hierarchical control would be a higher-order association with the formal right to determine which subjects it is competent to decide upon on behalf of its affiliates and which are to be left to the latter’s discretion. (The German legal term for this is *Kompetenz-Kompetenz*.) The opposite extreme is a situation in which member associations are free to decide whether or not they want to delegate a particular subject to the higher-order association. In between, there are various degrees of obligations for both sides to coordinate their decisions with each other, and these obligations may vary by subjects. A particularly crucial dimension is the extent to which member associations are free to contract or exchange information with third parties such as trade unions or the state.

(5) *Pattern of Configuration between Member Associations: Completeness, Non-Competitiveness, Mutual Exclusiveness, Structural Uniformity.* The capacity of a higher-order association to coordinate the activities of its affiliates finds an indirect expression in the affiliates’ structural *pattern of configuration*. A higher-order association’s system of affiliates may or may not be coterminous with the domain boundaries of the higher-order association: it may either be incomplete, leaving “blank

spots" not covered by member associations,<sup>40</sup> or it may overlap into areas which are outside the higher-order association's domain – which may lead to affiliation of member associations to more than one higher-order association. Furthermore, the domains of affiliated associations may overlap internally and there may even be competition among affiliates of the same higher-order association for members. Finally, affiliate associations may widely differ in their organizational structures, thus making central coordination and standardization of activities difficult or even impossible to achieve. Higher-order associations can be assumed to be interested in having a system of affiliate associations which is coterminous with their overall domain, complete, internally noncompetitive and mutually exclusive, and as structurally uniform as possible. The extent to which systems of affiliates exhibit these characteristics is an indicator of the higher-order association's capacity for coordination – perhaps through authoritative arbitration or an authority to license new associations – and of the development of its organizational properties.

### 6.3.3 Inter-Organizational Structures: Associational Systems

Having considered the structure of associations of associations, we now shift to a new level of analysis to discuss the structural properties of *associational systems*. As we have said above, an associational system for our purposes is the universe of BIAs representing interests from a particular sector. Sectoral associational systems include both membership associations and higher-order associations; they consist of all BIAs in which firms belonging to a particular sector are directly or indirectly organized. Sectoral systems of BIAs can differ in terms of the number and kind of units of which they are composed, as well as in terms of the number and the kind of the institutionalized linkages between such units. In analytical terms, the number and the variety of the units in a system determine the system's level of *differentiation* while the number and the strength of inter-unit linkages determine the system's degree of *integration*.<sup>41</sup> While differentiation produces complexity, integration orders that *complexity* and binds different units together in *coordinated patterns of interaction*. Social systems may be more or less differentiated or complex, and they may be more or less integrated or organized ("ordered").

As previously stated, increasing development of BIA organizational properties implies growing internalization of relationships between interest segments in encompassing organizations. Given a defined interest domain, the BIAs organizing the interests included in it should become increasingly broader in scope, larger in size and fewer in number as they develop their organizational properties. In this sense, inter-associational systems at a high level of development should be less differentiated and complex than inter-associational systems at a low level of development. On the other hand, at any given level of inter-associational differentiation and with a given number of component associations belonging to an inter-associational system, organizational development involves an increase in the number and strength of inter-unit linkages (in the system's degree of "organization" and, in this sense, integration). The more numerous and the stronger such linkages – including the proliferation and the increasing hierarchical integration of higher-order associations – the greater is the degree of coordination that can be achieved within the associational system.

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40 One consequence could be that the higher-order association would have to admit direct firm membership, thus increasing its internal coordination problems.

41 In other words, we are using the term "integration" in a highly abstract sense to denote any form of institutionalized "relatedness", complementarity, "order", etc.



Our substantive purpose in trying to catalogue the structural dimensions of associational systems is to determine the ways in which BIAs in a given sector cope with the problems created by the simultaneous diversity and interdependence of their interests. We assume that individual BIAs once established will prefer to stay autonomous and to conduct their affairs without interference by other associations. However, if associations are permitted to organize freely and independently, their domains will overlap, their objectives will conflict, and their influence on their environment will be weakened by the simultaneous but uncoordinated activities of other BIAs. Inter-associational structures are built up in response to the problems created by separate, autonomous action and pluralistic competition. While such structures may be imposed upon BIAs by outside agents – and may have to be imposed in this way if they are to come about at all – they nevertheless represent an organizational response to interest diversity.

Differentiation and integration in associational systems can occur in a horizontal and in a vertical dimension. Horizontal differentiation “creates” a wide variety of associations specializing in the representation of different and divergent kinds of interests. The inevitable result of unregulated horizontal differentiation of collective action units is competition for members and resources held by third parties, conflicts over terms of mutual exchange, and economic and political influence problems resulting from suboptimal size. The more dysfunctional the frictions resulting from pluralistic differentiation become either for the affected interests themselves or for powerful outsiders, the greater the pressure will be for the development of institutionalized mechanisms of integration. Integration between different collective actors can take place either by contract (“horizontal integration”) or by authority (“hierarchical integration”). Integration by contract involves the negotiation of mutual agreements on domain boundaries, exchange of information, codes of conduct in competition, coordination of political strategies, sharing of resources, joint ventures, task forces, etc. Integration by authority, or hierarchical integration, is likely to be resorted to only when horizontal integration by voluntary contract fails to produce the desired (or required) results.

Since horizontally negotiated coordination is burdened with considerable “Prisoner’s Dilemma” problems, its capacity to regulate competition and resolve conflict is fundamentally limited. Hierarchical integration in associational systems may involve the creation of “associations of associations” with the specialized purpose of coordinating by authoritative means the activities of other associations at lower levels of interest aggregation (vertical differentiation). Associations of associations, like their constituent organizations, may find themselves in competition or in conflict with each other, and this may make it necessary for them to develop forms of “horizontal” cooperation or, if this proves insufficient, to proceed to still higher levels of vertical differentiation and to set up or accept further, more encompassing higher-order associations. The extent to which this results in effective authoritative coordination (“hierarchical integration”) depends on whether higher-order associations succeed in organizing all relevant lower-level associations and in developing sufficient internal control capacities. In the following we will introduce a series of operational indicators for each of the four structural dimensions in which sectoral systems of interest associations can be analyzed.

(1) *Horizontal Differentiation.* By the horizontal differentiation of an associational system we mean the extent and the way in which the base of the system is divided into the domains of different associations. A simple and straightforward indicator of horizontal differentiation is *the number of first-order membership associations* the system contains. The measure does not, however, take account of the lines along which membership associations are differentiated (*direction of specialization*), and it says nothing about the *configuration* between them, in particular, about the extent to which the system is internally competitive.

*Direction of Specialization.* Horizontal differentiation is a result of specialization: where one all-encompassing and multi-functional association could exist, there are in fact several associations with narrower, more specialized interest domains. Specialization may be by territory, product, task, firm size, ideology etc., or any combination of these. The prevailing direction of specialization may differ between associational systems depending on which interest divisions take precedence over others in the perception of relevant actors. While some systems may consist primarily of national product- or sector-specific associations, others may contain a large proportion of locally based but sector-unspecific associations.

Another possible direction of specialization is by task. Specialization by task creates different associations with complementary functions. Complementarity between interest associations means that membership in them is not mutually exclusive: members may join any or all of them at the same time since each appeals to a different aspect of their interests. For example, in most sectors of German industry, firms can be, and are, members of three types of BIAs: the *Industrie- und Handelskammer*, an employers association and a trade association.

*Configuration: Competition.* Two associations are in competition with each other when their domains overlap in a particular way. The most common form of overlap results when one association does not define its domain in terms of a particular parameter while another does (see above, 6.2.1). For instance, if one business association limits eligibility for membership to small or large firms while the other leaves this parameter undefined, their domains – everything else being equal – overlap: the potential members of the first, more specialized association are also potential members of the second, general association. The area of overlap, in this case, is co-extensive with the total domain of one of the associations, but covers only part of the domain of the other.

Overlap may also exist on parameters defined by both associations. Thus, an association extending its domain over a particular product range may include some or all of the products claimed for representation by another association. Likewise, certain categories of middle-sized firms may be included within the domains of small business as well as big business associations. Overlap always exists on parameters that are left unspecified by both of the associations concerned.

Whether or not domain overlap on a particular structural parameter may lead to *competition* depends on how the other parameters are defined. If the domains of two associations are mutually exclusive on only one (functional or structural) parameter, there can be no competition however much overlap there may otherwise be. *For competition to occur, the possible parameters of associational domains must either be undefined by both sides, or defined by only one, or defined by both in a non-exclusive pattern.* For example, if two associations organize firms producing the same products and situated in the same territory, but one of them admits for membership only firms with less than 1000 employees while the other admits only firms with more than 1000, there can be no competition between them. The area of competition, or the “competitive space”, of two mutually nonexclusive associations is defined by the parameters on which the associations overlap. A competitive space is populated by a group of potential members with properties that make them fall into the domains of two or more (not mutually exclusive) associations. The higher the number of parameters on which a competitive space is defined, the smaller and the more homogeneous the group populating it, and the more specialized the interests for whose representation associations may compete.

Competition between associations may take different forms. Like competition between firms on a product market, inter-associational competition may be of varying nature and intensity. An extreme case would be associations making active efforts at persuading each other's members to change. The other extreme would be a kind of oligopolistic co-existence based on a mutually recognized segmentation of the joint market. Although in this case formal domains still overlap, and there is still a group of potential members who could join either of the associations, in practice they have become mutually exclusive. Between these extremes, there are various forms of regulation of competition, including "non-raiding" agreements, price-fixing, etc.

Inter-associational competition can be ended by formally redefining organizational domains so that they become mutually exclusive. Making a parameter of domain demarcation mutually exclusive is sufficient to end competition. Associations are continually engaged in reviewing the boundaries of their domains, even if not forced to do so by competition. Redefining domain parameters may be an organizational response to (1) difficulties in managing internal interest diversity; (2) suboptimal size; (3) changes in the economic structure which result in declining or increasing interdependence between interests, which create new interests or make old ones disappear; or (4) changes in the political system such as the creation of new government departments or shifts in territorial boundaries. Redefinition of associational domains, perhaps but not exclusively through merger, may also be caused by direct or indirect government intervention aimed at creating more encompassing and more governable units of interest intermediation.

The amount of competition in an associational system can be expressed by three simple indicators: (1) *the number of competitive spaces in the sector*; (2) *the percentage of membership associations in the system engaged in competition with other associations for members from the sector*; (3) *the percentage of (possible) members in the sector who have a choice between two or more competing associations in at least one category of possible membership*.

(2) *Vertical Differentiation*. By vertical differentiation we mean the extent to which an associational system consists of associations specializing in the coordination of the activities of other associations. An associational system is vertically differentiated if it contains ("higher-order") associations representing aggregates of interests that are separately represented by other ("lower-order") associations in the system. Associational systems that do not contain higher-order associations have a vertical differentiation of zero. Vertically differentiated systems may vary in terms of the relative number of higher-order associations they contain as well as the number of levels of interest aggregation these represent. For example, an associational system may consist of 20 associations, one of which is a higher-order association; the proportion of higher-order associations in this system would be five percent, and the number of hierarchical levels would be two. Another system with 20 associations may contain seven higher-order associations. Four of these may be "second-order associations" grouping together the interests of the 13 membership associations, two may be "third-order associations" organizing these four, and the remaining one may be a "fourth-order association" (see Figure VI). In this example, the proportion of higher-order associations is 35 per cent, and the number of hierarchical levels is four.

(3) *Horizontal Integration*. An Associational system is horizontally integrated to the extent that there exist institutionalized relationships between its component associations that are not mediated through hierarchically superior, more general associations ("higher-order associations"). Inter-associational relationships are "horizontal" if none of the participants represents the interests of another participant at a higher level of aggregation. In particular, they do not involve joint membership in an association specializing in authoritative coordination. Associations involved in horizontal relations may be membership associations as well as higher-order associations

Horizontal relations between associations can be classified in five categories:

(a) *Ad-hoc alliance*. This is the weakest form of an institutionalized horizontal relationship, and in many cases it may be questionable whether an ad-hoc alliance should be classified as institutionalized at all. In organizational terms, an ad-hoc alliance involves the coordination of strategies and the mutual exchange of information between associations with a common interest on a particular issue. If this issue is resolved, so is the ad-hoc alliance related to it.

(b) *Joint task force*. While task forces are also issue-bound and temporary, they involve a commitment of staff by participant associations to a joint organizational unit. Task forces plan and carry out the strategies of their parent associations in relation to one specific issue. Since they are from the beginning intended to be disbanded after their mission is completed, they usually have no constitution or charter and they are not legally incorporated.

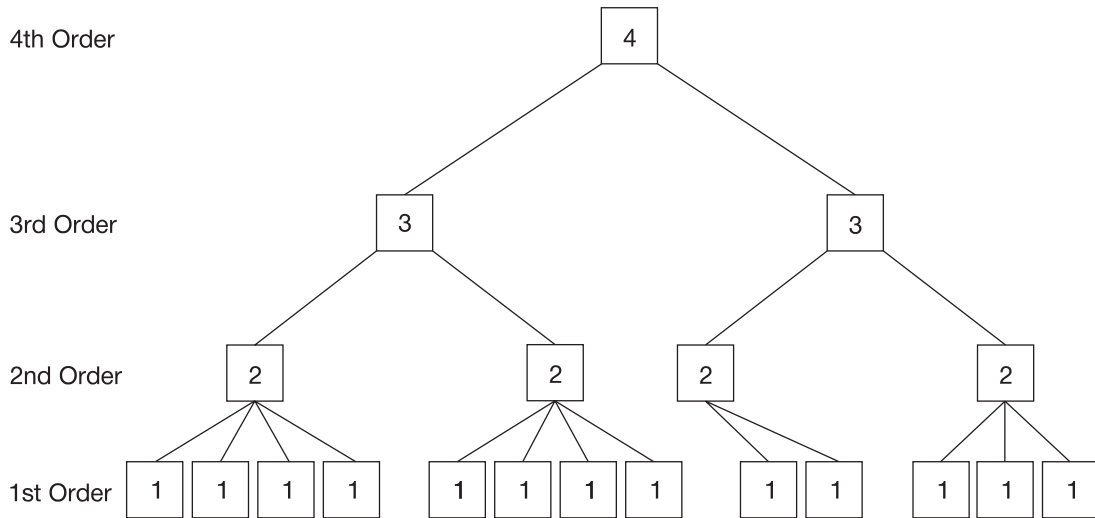
(c) *Joint venture*. Joint ventures are task forces whose task is more permanent and which therefore have a more formalized structure. Like higher-order associations, they are organizations in their own right with a separate charter or constitution which are created by formally independent associations to serve their common interests. However, whereas higher-order associations are hierarchically superior to their constituent associations, joint ventures are inferior to them; and whereas the mission of a higher-order association is broader than that of any of its members, that of a joint venture is usually much smaller. Frequently, joint ventures are set up to realize economies of scale in the production or provision of services to the members, or their creation is encouraged by tax law.

(d) *Alliance*. An alliance between two associations is a permanent cooperative relationship extending to a broad range of subject areas rather than individual issues. It involves institutionalized mutual information and consultation, possibly in the framework of a special joint organization or through interlocking directorates. An alliance, even if it is embodied in a joint organization, differs from a higher-order association in that it exercises no hierarchical control over its members. Moreover, it has no staff or elected leadership of its own but is operated exclusively by personnel belonging to its member associations. On the other hand, the boundaries between an alliance and a higher-order association are probably blurred, and it is possible that alliances turn into higher-order associations as they develop their organizational properties.

(e) *Staff sharing*. The sharing of staff, or manpower, between two associations represents a fairly advanced form of resource sharing. Usually, it is accompanied, and sometimes preceded, by joint use of facilities such as buildings, offices, computers and the like.

Associations may share either their office staff or their elected, unpaid leadership. The first case appears to be the more common one. Associations with a shared office staff usually have separate elected leaders. Associations having the same elected leaders ("*Personalunion*"), on the other hand, tend to have separate offices. Horizontal integration through a common elected leadership is possible only between associations with an identical membership base representing different, complementary interests of the same constituency. The possibility of *Personalunion* in systems of business associations depends on the presence of inter-associational differentiation by task. Business associations of different functional types representing the same constituency will usually not share their professional staff since this would undo the advantages of functional specialization; if they want to coordinate their activities through an institutionalized cooperative relationship, they will rather tend to establish *Personalunion*. For this reason, we suggest to treat the sharing of office staff and the election of identical leaders as functionally

Figure VI An Example of a Hierarchically Differentiated Associational System



Proportion of Higher-Order Associations: 35%

Number of Hierarchical Levels: 4

equivalent and to consider both as “staff-sharing” arrangements indicating horizontal cooperation between associations.<sup>42</sup>

Staff sharing arrangements may be asymmetrical and an expression of dominance by one association over another. This is the case if the respective staff is employed by only one of the participating associations and if the other participants are much smaller and unable to sustain a staff of their own. Under such conditions, staff sharing amounts to subsidization of the small participants by the large one, and it can be expected that such subsidization has a political price.

The degree of horizontal integration of an associational system can be measured in terms of the frequency of institutionalized cooperative relationships of the various kinds that exist between its members. Of particular importance at the system level are joint ventures, alliances, and staff sharing arrangements. A possible operational indicator of horizontal integration would be *the percentage of associations belonging to the system that take part in one of the three more permanent types of cooperative relationships.*

Dense horizontal integration through resource sharing and/or joint ventures between two or more associations may be first steps towards a merger. A merger differs from the creation of a higher-order association in that the associations involved adopt a joint constitution which takes the place of their original, separate constitutions. Through a merger, the relations between the units involved become intra-organizational relations and are no longer properties of inter-associational systems.

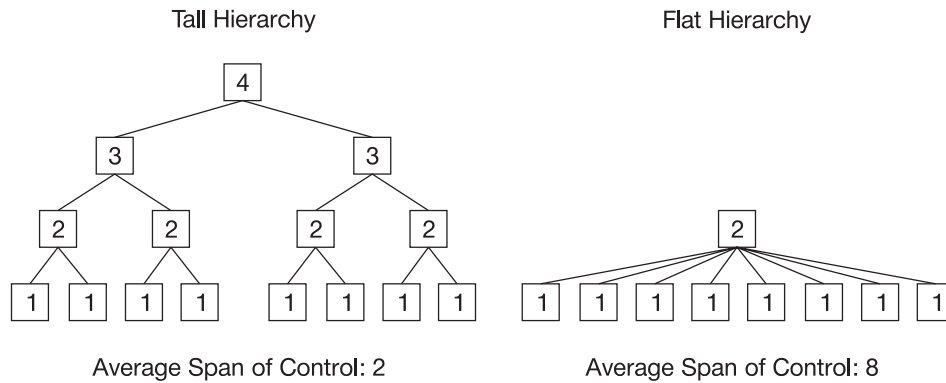
<sup>42</sup> Staff sharing may be politically insignificant and a mere economic convenience if it involves associations representing interests that bear no relationship to each other (e.g. an association of vinegar producers sharing its office with an association of road-building firms).

(4) *Hierarchical Integration*. An associational system is hierarchically integrated to the extent that its component associations are *affiliated to, and controlled by, higher-order associations* representing their interests at a more general, aggregate level. Hierarchical integration is *high if the number of component associations which have no links to a hierarchically superior association is low*; in this sense, hierarchical integration is *the inverse of fragmentation*. Furthermore, hierarchical integration increases with the *strength of the bonds between lower- and higher-level associations*: the less politically autonomous lower-level associations are in relation to the higher-level associations to which they are affiliated, the higher the system's degree of hierarchical integration.

Hierarchical integration in the sense of low fragmentation is relatively easy to measure. Associational systems are the less fragmented, and the more hierarchically integrated, the higher the proportion of their component associations at a given hierarchical level which are affiliated to a higher-order association. The most straightforward operational indicator should be *the percentage of membership (first-order) associations in the system that are affiliated to a higher-order association*. In addition, it should be meaningful to compare between sectors nationally and cross-nationally the *number of hierarchically unaffiliated higher-order associations*. In the ideal case of maximum integration and minimum fragmentation, a system has one highest-order association integrating all interests from its social base (as well as, presumably, interests from other sectors). For this association, there is no higher-order association in the system to join. Thus, the number of hierarchically unaffiliated higher-order associations at the maximum level of hierarchical integration is one. If a system has more unaffiliated higher-order associations, this reflects a division into different, separate, hierarchically unrelated interest subsystems. Each hierarchically unaffiliated higher-order association stands for an interest subsystem not linked into a more general level of interest representation. The number of unaffiliated higher-order associations is identical with the number of subsystems into which the hierarchically integrated part of an associational system is fragmented.

The *intensity* of hierarchical control in an associational system can be conceived of as a function of the amount of interest diversity higher-order associations have to integrate in their relationship to their affiliates. The smaller the number of affiliates a higher-order association has to coordinate, the lower, everything else being equal, the amount of interest diversity it is confronted with, and the higher its integrational capacity. At a given level of horizontal differentiation of an associational system into independent membership associations, one way of reducing the interest-political "span of control" of higher-order associations is to increase the number of hierarchical steps from the base to the top of the system. While in "flat hierarchies" with few hierarchical levels the span of control is wide and, hence, the intensity of hierarchical control low, in "tall hierarchies" spans of control are narrower and control intensity is, therefore, higher (Figure VII). The higher the number of hierarchical levels in an associational system, the lower the average span of control of higher-order over lower-order associations, and the narrower the range of interest diversity higher-order associations have to manage. Associational systems with tall hierarchies reduce the interest diversity confronting their higher-order associations by aggregating the divergent interests they have to process step by step at a number of intermediary stages; in this way, they achieve a higher level of interest aggregation and coordination than would be possible in one single step. Thus, we suggest to use as a first measure of the strength of hierarchical integration in an associational system *the average span of control of higher-order associations*, expressed in terms of the average number of associations affiliated to them.

Figure VII “Tall” and “Flat” Interassociational Hierarchies



#### 6.4 Resources

As pointed out above, a central dimension of organization development in interest associations is increasing economic and strategic autonomy from their social base and from their environments in general. In relation to the procurement of organizational resources (in Parsons' terms, the problem of "adaptation"), (relative) autonomy means two things: *institutionalization* of the resource supply to provide protection from unpredictable changes in the kind and quantity of the resources received, and *diversification* of sponsoring environments to reduce the organization's dependence upon any one of them and to enable it to balance the influence of each of them against that of others. Interest associations at a low level of development get all their resources from their members, and they get them on a strictly voluntary basis contingent upon whether members approve of present policies and perceive them as instrumental for their own immediate objectives. Since member approval may be subject to change depending on all kinds of external circumstances and may be differently strong for different groups of members and for different issues – and since approval of a collective objective does not necessarily motivate individuals to share in the costs of its organized pursuit – associations that depend exclusively on the voluntary support of their "primary beneficiaries" are likely to suffer from high instability of organizational structures and processes, continuing pressures for structural change and adaptation, inability to develop organizational routines and plan activities over a longer period of time, and a general scarcity of available resources. The driving motives behind what we have called "organizational development" are the severe dysfunctions of this insecurity for purposive, coordinated collective action, and it is primarily these dysfunctions that explain the tendency of organizations to change in the direction of higher levels of institutionalization and organizational self-determination.

The resource economy of an interest association with undeveloped organizational properties is characterized by the following elements:

(1) The only source of *finance*, as of all other resources, is the membership. Much, if not most of the money supplied by the members consists of voluntary contributions (as distinguished from regular dues payments) and most of it is related to and raised for specific purposes. The basic principle governing the funding of the organization is that money is contributed for individu-

ally identifiable activities rather than for the operation of the organization in general. The prevailing form of finance is through special levies, and if regular dues are collected at all, they are typically low, or members have the choice of opting out of certain services and paying a lower rate. Under these circumstances, it is difficult for the organization to divert parts of its financial resources from their allotted purposes to build up a stable organizational overhead. As most of the organization's funds are earmarked, the money that can be used for the development of general capacities is fundamentally limited, and the discretion of the organization in handling its finances is tightly restricted.

(2) Organizations are composed of social roles structuring and coordinating human activities. To fill their roles, they have to mobilize *labor*, i.e. the performance by individuals of specific tasks. At a low level of development, the labor used by interest associations is contributed by their members on a voluntary basis. Unpaid, "honorary" officials are typically chosen by the members or by member representatives to ensure close control by the membership over organizational resources. Professional "full-time" staff appointed by the association and paid for out of its own funds does not exist. The supply of voluntary labor, like that of voluntary financial support, is contingent upon member consent with association policies or the presence of strong and selective "outside inducements" (Olson, 1965). If the political consent of the membership is weakened as a result of unpopular decisions or of changing external circumstances, voluntary labor can be withdrawn at any time, and the organization may have difficulties finding a sufficient number of replacements. Moreover, the extent to which voluntary labor can be subjected to bureaucratic discipline is limited, and so is the extent to which it can be used for highly specialized tasks in a complex organizational division of labor. Most importantly, the incentives motivating volunteers to contribute their labor to an association are not commanded exclusively by the organization as such, but by primary groups or other social systems in its environment. This is especially obvious in the case of business associations using loaned full-time staff employed by member firms. Although such staff may be highly specialized and bureaucratically disciplined, from the perspective of organizational autonomy it has the decisive disadvantage that it is not paid by the association but by another organization with interests of its own; that its primary loyalty therefore lies not with the association; and that it can in principle be withdrawn at any time in response to associational decisions conflicting with specific firm interests.

(3) Interest associations at a low level of development expect their members to support them with a wide range of *voluntary activities* even outside specific organizational roles (or, in other words, being a "member" in such organizations involves meaningful and selective *political* activity – as opposed to organizations whose members are actually just "customers" subscribing to a set of services in whose production they take no part). The classic example is trade unions which, as long as they are not recognized by the employers or the legal order, have to ask their members to go on strike whenever a union wants to bargain on its members' behalf. Other interest associations may call upon their members to write letters to political authorities or contribute money to or vote for certain political parties. To the extent that an association needs to form consensus through the use of solidaristic goods – approaching, in the terminology of Figure I, above, the "club" model of associability – it is unable to function unless its members are willing and able to interact with each other directly within its institutional context. Likewise, an association with no authority of its own to sanction "free riders" or no power to coerce "opportunists" may have to rely for its growth on the willingness of its members to use informal social or economic pressure on non-members to make them join. Generally speaking, the less organizationally developed an interest association is, the less it is able to pursue its objectives without



repeated recourse to its members for specific voluntary support, and the greater the role the members are expected to play in the achievement of associational goals.

(4) At a low level of development of organizational properties, *formal membership* counts less than active support, and the difference between supporters or beneficiaries on the one hand and members on the other is not well institutionalized. Although density ratios tend to be low, and turnover among members high, systematic efforts to recruit supporters into formal membership and keep them in the organization are infrequent. In many cases, although this does probably not apply to BIAs, associations do not even have exact membership records, and the administrative resources they expend to maintain the formal distinction between members and non-members are limited.

(5) *Total resource endowment* of undeveloped associations is low, or at least it is subject to substantial cyclical change. Since interest associations at this stage often have competitors undertaking to represent the same constituency, the price they can charge for formal membership tends to be low. Moreover, to the extent that an organization utilizes voluntary rather than paid labor, it is in competition with other social systems also laying claims to the activities and loyalties of its personnel. As has been mentioned, the resources underdeveloped associations are able to extract on a continuous, routine basis tend to be negligible, and they are certainly not sufficient for savings or the accumulation of property. Resource inflow may suddenly increase in situations perceived as vitally important by the members for their individual or collective interests. Emergency mobilization may suddenly multiply the finances, labor and member activities at the organization's command, but this is only temporary and in relation to a specific, limited objective. After the emergency is over, the organization's extractive capabilities and its resource supply return to their previous low level.

Associations suffering from resource uncertainty strive to free themselves from the constraints of consensus-dependent *ad hoc* mobilization. In relation to their primary environment – their immediate beneficiaries – political organizations typically attempt to improve their extractive capacity by *substituting contractual obligations for voluntary commitments* as the principal basis for member support. With support “on value grounds” being gradually replaced by resource transfers through a “market nexus” (Parsons), elements of “economic exchange” (Blau, 1976) creep into the relationship between the organization and its members. This can be observed in several dimensions:

(1) To increase their *financial* autonomy, political organizations strive to raise as much of their monetary resources in regular dues paid as a matter of routine and regardless of specific decisions or events. Dues payments, unlike special levies or voluntary contributions, constitute a generalized form of financial support and leave the organization wider discretion in the purposes for which it makes use of them. In exchange for the increased economic security and strategic autonomy that go with a shift to regular dues as its principal source of finance, an interest association may offer its members economic “outside inducements” (Olson) that are produced independently from its primary collective interest objectives and that are made available only to members who have paid their dues. The introduction of “selective goods” adds a commercial-contractual element to the relationship between the organization and its members, in that it makes it possible to conceive of dues as payment for specific commodities. In so far as this perspective becomes generally accepted, associations can be sued by their members for breach of contract if they fail to provide a selective good offered in their constitution – just as members can in principle be taken to court by their association if they fail to pay their dues. This conception of membership as a formally binding and legally enforceable commercial con-

tract is in itself a result of organizational development and is not present in political organizations of the "club" or "social movement" type.

Another way of stabilizing an association's access to financial support involves the sale of individual goods and services to customers through individual, specific sales contracts. Interest associations raising money through individual sales transactions are likely to incorporate elements of a business firm into their structure. In so far as they procure financial resources through commercial activities, their funding is no longer affected by fluctuations in the political consensus or immediate policy concerns of members. Associations may raise financial support through both dues and commercial sales at the same time. For example, an organization may sell to non-members on an individual basis the same goods and services members are entitled to in exchange for their dues, or members may be given the right to purchase certain goods or services at a lower price than non-members.

On the other hand, neither selective goods nor commercial activities are without problems as means of financing interest associations. Although selective goods can greatly contribute to motivating potential members to join and pay dues, their possible effect is limited by the competition of commercial firms offering the same or substitutable goods without having to finance a "political overhead". While political organizations may supplement their money income by engaging in commercial activities, beyond a certain scale this is likely to undermine the distinction between members and non-members ("customers"); to lead to the dissolution of the package of selective goods into a range of different products that can be individually purchased by everybody; and to result in the decomposition of membership as a social status into a series of individual economic exchange transactions. The primary reason for this seems to be that the more an organization is dependent for economic resources on the market, the more it is subject to imperatives of economic rationality which militate against discrimination between members and non-members (e.g. reasons of economies of scale).

(2) As far as *labor* is concerned, instituting contractual obligations for voluntary commitments means replacing voluntary by paid labor procured through the market. It is obvious that the employment of paid officials is possible only on the basis of a minimum regular money income, and it is likely that organizational efforts to increase and stabilize the money supply will be redoubled by the professional staff who have a vested interest in their employer's ability to pay.

The employment of paid labor increases an association's autonomy in relation to its member base in that now a crucially important resource is drawn from another environment. This is particularly clear in the case of BIAs whose administrative staff is usually not recruited from the ranks of their members. (In trade unions, the emergence of the labor market as a new resource base is veiled by the fact that, at least initially, full-time officers are always former rank-and-file members.) Since professional staff depend for their status and income to a much higher degree on the association than voluntary officials, they can be directed to perform a wide range of highly specialized tasks, and since their obligations towards the organization are contractually specified, they are relatively easy to discipline or, if they fail to meet expectations, to dismiss.

Another aspect of professionalization is that it injects into an organization a new, autonomous interest that is not identical and may even conflict with the interest of members. In commercial organizations, the conflict of interest between "staff" and "customers" is regulated by the market which determines the rates of exchange between the two groups and their relative incomes. The corresponding conflict in interest associations between the self-interest of full-time officials and

the collective interest of members is reflected in internal tensions between the full-time staff and the elected leadership. With rising levels of organizational development, the role of the former in running the organization can be expected to grow at the expense of the latter. While the professional management of developed interest associations has to take the expectations of the members and their elected representatives into account, the character and substance of the organization's policies, and the way in which these are pursued, are geared to the functional needs and the specific strengths and weaknesses of a large and specialized bureaucratic staff. While organizational development normally does not make elected leaders disappear completely – except in the extreme case of associations turning into full-fledged business firms – the number of elected officials in relation to the number of full-time staff declines, and the function of the elected leadership is reduced to legitimating the policies selected and carried out by the full-time staff.

(3) The more developed an interest association is, the less it depends for its functioning on the *voluntary activities* of its members. Organizationally developed associations usually have well-established and safely institutionalized lines of influence to the state or other environments that enable them to represent their members as a matter of political and bureaucratic routine. This makes it possible for them to tailor their policies in such a way that under normal circumstances they can operate without spontaneous, voluntary “mobilizational” contributions from their members. As a consequence, they have been able to reduce the input from their members to such resources as can be procured through a formal “membership contract” on a regular, routine basis. One resource that can be extracted in this way is, of course, finance. Another one which is especially important in BIAs is information on members' economic situation. The obligation to provide accurate economic information – which the association can routinely process and put to various uses at its own discretion – may be the only other activity expected from BIA members in addition to paying their dues.

(4) With rising levels of organizational development, the *formal status of organization member* is either transformed into that of customer – and thus loses its specific significance – or it is increasingly emphasized and formalized. In the first case – i.e. in the commercial variant of resource stabilization – membership as a social category either disappears completely, giving way to a series of unrelated economic exchange transactions, or is turned into something like an insurance policy. In the case of increasing formalization, being a member “in good standing” becomes the precondition for access to the selective goods provided by the association. It is important for such an organization to protect carefully the formal distinction between members and non-members and, in particular, to keep reliable records on which members have and have not discharged their constitutional obligations. The more an association extracts its resources from its social base through contractual obligations – and the more independence it gains from spontaneous voluntary supports – the more important it becomes that all those who fall within its formal scope of representation become members. In fact, one can argue that for a developed interest association it is almost irrelevant whether or not a potential member agrees with its policy, if only he or she signs an application form. Empirically, this is reflected in the emphasis placed by developing interest associations on recruitment campaigns aimed at maximizing the number of formal members without paying much attention to whether such members actually share the organization's values.

(5) Although formalization of support obligations may make the resource flow from the members to the organization more steady, it does not in and of itself increase *the total amount of resources* that are mobilized. As long as different organizations compete for the representation of one group, the percentage of potential members each is able to recruit is limited, and so is the

price it can charge for membership status. One way in which small and underfinanced associations can try to compensate for suboptimal size is through joint ventures or other forms of resource sharing. More effective would be changes in domain demarcations putting an end to inter-organizational competition, or mergers making domains broader and increasing the number of potential members. However, changes in inter-organizational configurations of this dimension are unlikely to occur without the intervention of a powerful third party, and under voluntaristic-pluralist conditions it is difficult to see who this third party could be.

The second strategy for interest associations to gain resource autonomy, complementing the stabilization of the primary lines of supply and in an important respect reinforcing it, is what we have called the *diversification of sponsoring environments*. One obvious reason why organizations should prefer to be supported by more than one environment is that this increases the total resource base from which they can draw. In addition, simultaneous interaction with several environments offers the opportunity to use resources from one to extract resources from another, or to mediate exchanges between two environments and charge a price for this. We have already encountered two “secondary” environments to which interest associations can and do turn for resources in developing their organizational properties: the labor market and the market for goods and services. However, the extent to which interest associations can rely on paid labor depends on their financial resources, and commercial activities cannot be extended indefinitely if the organization is to maintain its political identity. If interest associations want to stabilize and increase their resource supply beyond a critical point without becoming business firms, they therefore have to turn to a further sponsoring environment which is, not surprisingly, *the state*.

Interest associations, as resource-extracting social systems, cannot exist without interference by and protection from the state. For example, the transformation of voluntary political commitments of members into legal entitlements of the organization – which we have described as an initial phase of organizational development – presupposes a legal order which ensures that “membership contracts” are observed. The same is required for associations (as well as firms) to engage in commercial activities. Moreover, the extent to which an interest association can supplement its resources by selling goods and services in the market is in large part dependent upon the tax laws and other legal “rules of the game”.

Apart from and beyond its role in providing a general legal framework for associative action, the state is, of course, among the principal addressees of the demands associations make on behalf of their members. Efforts of interest associations to influence state policies can be conceived of as efforts to extract a specific resource – “favorable decisions” – from the state, in the same way in which other resources are extracted from other environments. At a low level of development where interest associations are primarily “movements” pressing the demands of a particular, narrowly defined interest clientele (see above, Figure I), the resources they extract from the state are public goods. They benefit association members as well as non-members, and they do not benefit the associations specifically as organizations. The more an association establishes itself as a regular exchange and interaction partner with the state, however, the more opportunities it is likely to encounter in this relationship to use the state in its quest for (relative) autonomy from its members: either by making the state withhold the benefits of favorable decisions from, or limit the consequences of adverse decisions to, non-members – thus indirectly facilitating the association’s membership recruitment efforts – or by getting the state to provide benefits to the association itself and, thereby, increase its resources directly. The temptation to add to political demands made on behalf of the clients others that benefit the association *per se*

is all the more irresistible since the state may on its own offer to provide selective organizational assistance in exchange for the performance of particular policy functions (see below, Outputs, 6.5). The resources the state may supply to interest associations to add to the resources they receive from other environments can be classified in the following way:

(1) In terms of *finance*, associations may get from the state anything from direct subsidies to various forms of tax relief and tax exemption. (For instance, an indirect way of state financing of interest associations is by making member dues tax deductible.) A particularly interesting form of subsidization is reimbursement for specific services performed on behalf of the state, e.g. the administration of a licensing program. Frequently, the amount paid is high enough to cover a significant part of the general organizational overhead or to fund the development of organizational properties which can later be used for other purposes. On the other hand, interest associations frequently reject all too obvious state financing to avoid apparent or actual state-dependence. While many associations do receive financial assistance from the state, they often prefer such assistance to be provided, not in the form of direct subsidies, but in a more indirect manner.<sup>43</sup> One, but by no means the only, way in which states can assist interest associations financially is by sheltering their selective goods from competition by private business firms, e.g. through various forms of tax relief. The more direct and indirect financial support interest associations receive from the state, the more unlikely they become to fund themselves through commercial activities. We assume that, at a certain stage, the commercial and political paths of organizational development separate, and interest associations face the choice of becoming either business firms or (quasi-) public political institutions – unless they accept stagnation at a low level of development.

(2) Regarding the dependence of associations on *voluntary member activities*, the state can contribute to organizational autonomy by institutionalizing stable and reliable channels for effective interest representation on an everyday, routine basis. Whether or not an association can abstain from calling its members to its support on specific issues depends, in the final instance, on whether its political interlocutors permit it to satisfy significant member interests. By granting an association generalized recognition as a legitimate representative of its category of interest, by giving it easy access to significant decisions – e.g. through institutional representation on public or quasi-public bodies and authorities – and by listening to it without first insisting on demonstration of member support, the state (or any other political interlocutor) makes it easy for the association to routinize its political activities, and to reduce the role of its members from active participants in the pursuit of collective goals to passive political customers buying (or, as the case may be, not buying) decisions produced by their association on their behalf.

(3) In addition to recognition and access, the state may grant interest associations specific *organizational privileges* to stabilize and increase their resource supply and to strengthen their independence from their members. Organizational privileges dispensed by the state to interest associations are essentially monopoly rights – exclusive licenses to provide certain essential goods or services to a particular group constituency. Compared to other forms of state assistance in the procurement of resources, organizational privileges have obvious advantages. Since they do not involve direct financial subsidies, they do not necessarily impair an association's appearance of independence. Furthermore, since legal recognition and enforcement of

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43 Again, BIAs with their typically “private”, anti-state ideologies may be normatively constrained more than other interests in their acceptance of state subsidies. Public authorities may also be reluctant to subsidize such obviously privileged social groups, although they can hide behind the pretense they are helping “small business” or “ailing sectors”.

contractual obligations involved in association membership do not make potential members join in the first place; and tax privileges for selective goods do not make it altogether impossible for commercial competitors to undercut an interest association's "prices", organizational privileges may make membership obligatory and competition illegal. Moreover, while guaranteed political influence may make an association an effective interest representative, the favorable decisions it extracts from the state are still collective goods benefiting, at least in principle, both members and "free riders". By limiting the benefits of favorable public policy decisions to association members, or the costs of unfavorable decisions to non-members, states may turn the political results of associative action into selective goods (or "bads") monopolized *de facto* by the association. Examples of organizational privileges are a legally enshrined monopoly to provide an essential service such as representation in court; authorization to administer certain public policy programs and to discriminate in distributing material benefits against non-members; the *de facto* or *de jure* linkage of access to a particular market to association membership; or outright obligatory membership like in the Austrian and German *Kammern*. The concession of organizational privileges is usually accompanied by state-assisted "rationalization" of inter-associational systems, involving domain changes to end competition and mergers leading to more encompassing organizational units. Whatever their concrete form, organizational privileges always contain elements of compulsion and devolved state authority which not only make the organization's resource supply more steady and reliable but also increase it. It is normally only after the introduction of some form of state-backed compulsory membership that interest associations are able to achieve a density ratio approaching one hundred per cent.<sup>44</sup>

Organizationally developed interest associations depend for their resource supply neither on their members nor on the state: they draw their resources from both, and possibly from other environments as well, and they convert them into outputs that are as essential for their environments as their resources are for themselves. In this sense, developed interest associations are *resource autonomous*. Whether or not organizational efforts to overcome resource dependence on the membership end up in resource dependence on the state hinges upon the services the association provides to the state. If these are as indispensable for the state as the latter's organizational assistance is for the association, the mutual exchange relation is balanced, and neither side can dominate the other. A fully developed interest association is indispensable to the state because of its relation to its members, and indispensable to its members because of its relation to the state (or to other external agents such as trade unions). The organizational "outputs" on which such mutual indispensability can be founded are discussed in the following final part of our consideration of "Organizational Properties".

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44 Outright compulsory membership may have dysfunctions in terms of the political control an association is permitted to exercise over its members, and associations may for this reason prefer more indirect forms of compulsion. If the state makes it obligatory for a particular group to be organized in, and to contribute to, a specific association, it often at the same time narrowly circumscribes the jurisdiction of the association and the political discretion of its leadership. An association licensed to use compulsion in extracting economic resources may not at the same time be permitted to use it to generate compliance. Likewise, associations wielding devolved state authority may, and are likely to, be restricted in their freedom to reject applicants for membership or to expel members. This explains why interest associations tend to prefer indirect forms of state licensing and organizational assistance over direct ones which are usually subject to legal restrictions in the name of free trade or equality before the law. It also explains why, where compulsory BIAs exist (e.g. *Kammern*), they are often "paralleled" by closely related private associations.

## 6.5 Outputs

“Relative autonomy” of interest associations implies an enhanced ability to plan outputs over a longer period of time and to select strategies and objectives in accordance with organizational needs for continuity and stability. The more developed an organization is, the more it should be able to protect its activities from being determined by factors other than, and in conflict with, its own functional requirements. Organizations are strategically autonomous to the extent that they can remain insensitive to unpredictable “turbulences” in their environment that might force them to write off past experience and established structures of decision-making – or, inversely, to the extent that they can change their activities and structures without prior approval of members or interlocutors. A (relatively) autonomous organization can (within limits) determine the direction and the rate of its adaptation to external changes. It can keep its outputs (relatively) constant in spite of environmental fluctuations so as to protect its past investment in “standard operating procedures”, or it can upgrade its productivity and profitability when it sees the opportunity to do so.

### *Solidaristic Goods, Public (Pressure) Goods*

Interest associations whose outputs are addressed exclusively to their primary environment, i.e. their membership, cannot normally gain much strategic autonomy. Confined to a single “public” and, hence, unable to mobilize additional resources from other environments, an association can achieve only little control over the demand for its outputs, and it is forced to respond immediately to whatever changes in demand may occur. Organizational development in the direction of higher strategic autonomy, therefore, is tantamount to insulation from the immediate influence of the membership. The development of stable mechanisms of control by an association over its social base is possible only through a diversification of outputs and strategic environments. The most likely addressee of additional outputs for interest associations is the state; others include organizations representing conflicting interests with which the organization maintains a regularized relationship.

Interest associations at a low level of development engage basically in two kinds of activities: they organize pressure by their members on other groups or organizations (i.e. act as “movement”), and they structure and facilitate interactions of their members with each other (i.e. perform like a “club”). In both, they depend on the voluntary support and participation of their membership, and these are likely to be forthcoming only if the association’s policy is in line with the members’ immediate, short-term interest perceptions. As a result, undeveloped associations may not have much to offer to their secondary environments in terms of stable policies and binding long-term commitments. Where they do, they are likely to be so locked into member concerns that they are not in a position to bargain and trade off with interlocutors. This makes it difficult for them to get much from the state or other target environments, except through direct member pressure or intense member solidarity. Moreover, they are likely to get little for themselves as organizations from such exchanges. For example, whatever favorable decisions they may as movements extract from the state will be public or categoric goods available to everybody regardless of association membership.

Apart from the pressure-group type of *representation*, undeveloped interest associations can offer their members “*solidaristic goods*” such as sociability, participation in collective activities, prestige, “connections”, formation of a collective identity and the like. None of these goods can be produced without the active voluntary involvement of the members themselves, and while

high participation and effective consensus formation may increase the association's ability to represent its members effectively, they at the same time determine its policy and limit the strategic discretion of the leadership. Moreover, businesspeople have many ways of getting prestige and sociability outside BIAs, and informal interaction with other businesspeople carries with it economic advantages only under specific conditions. Informal relations, prestige and appeals to shared values may motivate membership in a business association and compliance with its policies among small, densely integrated, locally concentrated business communities with a high degree of informal cohesion, or they may work in societies where there is a high level of politicized class antagonism, or where the business class is distinctive in ethnic, religious or linguistic terms. In general, however, business interests are more universalistically defined, and the outputs undeveloped BIAs can offer exclusively to their members are under most circumstances expendable for them.<sup>45</sup>

The *capacity* of undeveloped interest associations to *control their members' behavior* and make binding decisions on their behalf is low. Interest associations with undeveloped organizational properties are small and have narrow domains; their membership is homogeneous; and there are no internal cleavages that would demand authoritative reconciliation and provide an opportunity for a strong interest government to establish itself and gain autonomy. As a result, interests are represented as they are defined by the members themselves, and an organized transformation and reformulation of interests does not take place. The members control the association, not the other way around. If no consensus can be formed among the membership on a relevant interest, the association is likely to stay silent or break apart – its capacity to integrate divergent interests or mediate between them is limited.

The *means of control* available to undeveloped associations require a great deal of voluntary identification and participation to be effective. The most obvious means leaders can use is *persuasion* – an appeal to common values and shared interests which draws on collective identifications and group solidarity. The ability of an association to generate compliance through persuasion depends on how successful it can be, given the social structure of its constituency, in building up, reinforcing, and sustaining such identification and solidarity. In addition, leaders can try to mobilize *informal group pressure* by loyal members on disloyal ones (or by members on non-members). However, participation in such informal collusion can almost by definition not be made obligatory and cannot be enforced by threats of organizational sanctions. Moreover, the means of control that are employed on behalf of the association are not in the hands of the association itself but in those of its members. Although informal collusion in support of an association may be inspired by its leadership, it presupposes a high degree of “voluntary” cohesion and solidarity among the members whose presence or absence cannot be significantly influenced by formal organizational efforts. Whether or not, in other words, an association can rely upon informal group pressure in enforcing its policies on its members is not primarily a matter of organizational but of group properties, and is likely to appear unpredictable and unreliable to its interlocutors. Such an association, in other words, cannot “sell” the compliance of its members.

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45 A visible expression of the inability of the “club” functions of business associability to motivate support and compliance is that, with progressive organizational development, they tend to be delegated to separate, specialized organizations not engaged in interest representation as such. Examples are “ascriptive” associations of businesswomen and young entrepreneurs. In many cases, associations of this kind are closely allied to business interest associations (which either have firms as members or are open to individuals), and sometimes they are directly financed by them. Otherwise, these functions are better performed by a range of organizations less oriented to external representation (e.g. Rotary Clubs).



An important borderline case is control over member behavior through *information*. Interest associations may direct the (“micro”) behavior of their members by informing them of its likely aggregate (“macro”) outcome. An example is a BIA gathering from its members information on their investment plans and feeding the aggregate data back to the membership. If this data shows that the result of all individual members carrying out their plans would be over-capacity, it is possible that members will adjust their plans accordingly – especially if the BIA can produce a formula for sharing the costs and benefits of investment restraint. The problem with this kind of control is that information alone does not protect those who cooperate from others taking advantage of them and, perhaps, increasing instead of reducing their investment. Furthermore, since the way members react to information is beyond collective control, the aggregate effect of information on possible over-capacity may well be under-capacity. On the other hand, although it is a firm’s individual decision whether or not it responds to information on aggregate consequences in a collectively rational way, the provision of such information by an association presupposes that the association has received detailed and truthful information from its members on their plans. It is, however, unlikely that such information is supplied in a voluntary exchange between the association and its members.

#### *Selective Goods*

A major step interest associations can take to increase their strategic autonomy is to diversify their outputs and add to representation on the one hand and group consensus and identity on the other specific *selective goods*. Selective goods are private goods produced by an association exclusively for its members. Their central characteristic is that they can be, and are, withheld from non-members or members who violate their formal obligations towards the association. And, their provision is usually not contingent on member participation as in the case of “solidaristic” goods. Selective goods offered by BIAs range from current information through journals and newsletters – e.g., on technological and legal developments – to the procurement of materials or equipment at reduced prices; to advice in getting government subsidies or taking advantage of government economic assistance programs; to individual legal advice in case of labor problems or civil suits; to individual consultancy services, making available to members the specific know-how of the industry; assistance in the promotion of products; the organization of joint distribution systems, etc. The important point about selective goods in the present context is that they offer members and potential members additional incentives to contribute to the association’s subsistence and conform to its expectations. The consequence is that the need for the association’s substantive policies to conform to the expectations of the (potential) membership is reduced. If the selective goods produced by an association are attractive enough, one can become a member and be forced to comply with the association’s decisions even if one disagrees with them – provided, of course, the members need the goods and cannot obtain them elsewhere. Selective goods, that is, can increase the strategic autonomy of interest associations by enabling them to frustrate political expectations of their members for the sake of strategic continuity and long-term objectives, without having to fear that members will refuse to cooperate in response.

On the other hand, the autonomy political organizations can achieve through selective goods is limited by the pressure of commercial competitors offering the same or substitutable goods. Even if private suppliers charge a higher price for a particular good than an association, potential members may be prepared to pay this price if they can in this way escape associational discipline. Interest associations that cannot get some form of monopoly privileges for at least some

of their selective goods may therefore in the long run be able to grow only if they relieve the goods they produce of their political functions and become business firms. This, too, is a way of winning strategic autonomy. The members of associations-turned-business-firms are no longer political supporters but customers, and as such they are concerned only about the products and not about the goals and structures of the organization producing them. Interest associations that cease to be political organizations achieve the same autonomy as business firms which make their investment and marketing decisions exclusively according to criteria of economic rationality and profit maximization.

The introduction by associations of private selective goods to gain strategic autonomy may lead to changes in the structure of associational systems and inter-associational relations. Insofar as the production of selective goods is subject to economies of scale, it may result in various forms of institutionalized inter-associational cooperation. One such form is joint ventures. Associations producing and providing selective goods may in any case have to set up special sub-organizations for this purpose – either for internal organizational reasons (to take advantage of the benefits of specialization) or for external legal reasons (e.g. tax laws). Such suborganizations can be funded and maintained by two or more associations together. Alternatively, associations belonging to a common higher-order association can have their selective goods produced by it rather than producing them independently and on their own. In this case, individual members get selective goods not from their direct membership association but from an organization of which they are only indirect members. To the extent that the membership associations would be unable to supply the respective goods on their own, such an arrangement strengthens the control of the higher-order association over its affiliates.

The *sanctioning power* interest associations derive from selective goods in relation to their members depends on the degree to which such goods are indispensable for the latter. The threat to exclude a member firm from access to selective goods is effective as a means of organizational discipline if the costs for a member of compliance are lower than the costs of exclusion (or of having to buy the respective goods in the commercial market). If the costs of exclusion are substantial – i.e. if the selective goods the organization provides are essential and expensive to get elsewhere – the ability of the organization to prevent its members from free-riding and free-booting is high. If the relative costs of being excluded from selective goods are low – which is likely to be the case as long as commercial competition is admitted and the organization does not share in some kind of public authority – the sanctioning power of the organization is limited.

Generally speaking, selective goods are *positive sanctions* (rewards, incentives) for joining an association and accepting its decisions as binding; to the extent that they can be withdrawn from non-compliant members they give an association a capacity to wield *negative sanctions*. The strongest and most effective sanctions BIAs can wield are probably those that create competitive advantages or disadvantages. An example of an associational selective good with this effect is access to a joint distribution system outside of which a particular product cannot be marketed at a competitive price. However, if the competitive advantages created by a selective good, or the disadvantages created by its withdrawal, exceed a certain level, this may, and normally will, conflict with the laws on free trade and competition. In this case, the use of the selective good for organizational purposes, if permitted at all, is likely to be highly regulated legally and subject to judicial review. Again, this shows that the effectiveness of selective goods as means of organizational control depends to a large degree on explicit or tacit state licensing and authorization.

Another important aspect of selective goods as a basis of organizational sanctioning power in BIAs is that they affect large and small firms differently. Large firms are normally better able than small firms to do without the selective goods offered by BIAs. The threat to withdraw such services in response to non-compliance will therefore make less of an impression on them than on their smaller competitors. Furthermore, if dues are assessed on the basis of sales or employment, large firms pay most of the costs of an association's selective goods even though they do not make much use of them. In effect, this amounts to large firms subsidizing through the association their smaller competitors. If in such a situation a large firm were expelled, or if it resigned from membership, the association may become unable to produce the selective goods for whose sake its smaller members have joined it and are prepared to comply with its decisions. This implies that the strategic autonomy an association can gain through selective goods may differ for different categories of members. Moreover, it shows that what at first glance may look like control of an association over its membership may in fact be control by large members over the smaller ones. BIAs whose internal politics are in this sense more or less a reflection of existing power differentials in their respective constituencies are precisely not (relatively) autonomous; rather, they are instruments of domination of some of their members over the others.

#### *Monopoly Goods*

BIAs can try to increase their strategic autonomy beyond what they can gain by providing private selective goods through the *assistance of other organizations*, especially trade unions and the state. To avail themselves of such assistance, they have to add to their primary outputs others that are of use for their potential allies. The two most important of such outputs are *information* and *compliance*. In exchange for them, BIAs may receive various kinds of organizational support contributing to their ability to control their members. As far as the state is concerned, such support consists primarily in *monopoly rights* on the provision of certain vital goods or services to (potential) BIA members, or in a share in the *authority* of the state to make legally binding decisions on matters of interest to BIA constituents.

State agencies undertaking to regulate complex economic processes require accurate *information* on the possible and actual consequences of their actions. Collecting this information on their own might not only be costly for them. Especially in the case of private business, individuals may be unwilling to supply truthful information to the state for fear of interference with their property rights. This may be different if the information is collected by a private interest organization in which the respective individuals have confidence. Information collected by BIAs may for this reason be more reliable and complete than information collected by the state, and BIAs providing (processed and aggregated) information on their members to the state may thus serve an important public policy function. Insofar as the state has an interest that this task is in fact performed, it may decide to subsidize BIAs, to reimburse them for expenses incurred, or to grant them legal authority to extract the information in question from non-members and against resistance.

As far as *compliance* is concerned, all interest associations negotiating with the state or other organizations on behalf of their members have a vital interest in being able to make their members accept the results of such negotiations. Without this ability, they would no longer be recognized by their counterparts as representatives of their respective category of interest. In developing a capacity to make their members comply with negotiated agreements, associations

act not only in their own interest but also, insofar as these depend on the actual enforcement of the agreement, in that of their partners. In the case of BIAs, this holds for both the state with its interest in governability, and the trade unions with their interest in industry-wide collective bargaining – and it applies even though BIAs may in specific instances use their capacity to generate member compliance to boycott state policies or to organize lock-outs.

There are, basically, three kinds of monopoly rights which interest associations can acquire from, or with the toleration of, the state: (1) monopoly on the supply of certain (normally selective) goods, and in particular exemption from competition by private business firms; (2) a monopoly of representation for certain categories of interests; and (3) participation in the monopoly of the state to make binding decisions (what we have called an “authoritative good”).

(1) An example of the first kind of monopoly is a legal privilege to run a joint distribution system outside of which no firm in a particular market can sell its products. In such a situation, no firm in the industry can afford not to join the association or to be expelled from it. Another example would be consultancy services through which firms can get access to legal, administrative, managerial and technological know-how which they would not be able to get from other sources. An association may even have an explicit legal privilege to provide a certain service, such as representation in a labor court or information on the development of the market, but this appears to be the exception rather than the rule for business interests.

(2) An association may have a state-guaranteed *de facto* or *de jure* monopoly on the representation of a particular category of interest. Monopolies of representation, as has been pointed out, permit the formation of more encompassing organizational units and are closely linked to the emergence of hierarchically integrated inter-associational systems. Moreover, only associations having a monopoly of representation are capable of producing certain selective goods which may in turn increase their indispensability for their members. For example, employers associations cannot offer their members an effective strike insurance scheme unless they can prevent them from conducting labor relations on their own; if they could not, members would be tempted to bargain “irresponsibly” and to impose the costs of the ensuing disruptions on the insurance fund and, thus, on the membership as a whole. Generally, associations with a monopoly of representation have more strategic autonomy than associations competing with others for members; unlike the latter, they do not have to fear that members disappointed by their policies will join a competitor.

(3) A BIA administering a state regional aid or disinvestment fund and handing out public money to (member) firms wields state authority and serves the function of a state agency. So does an association carrying out a licensing or occupational training program under state auspices. Another form of devolution of state authority on interest associations is the declaration of collective agreements as “generally valid” (“*allgemeinverbindlich*”) by a state agency; as a result, the agreement applies to both association members and non-members. The examples show that the more an association is permitted to share in state authority, the more the distinction between association members and non-members loses its meaning: either the non-members disappear completely with the formal introduction of compulsory membership, or members and non-members equally turn into subjects of a new form of *de facto* private governance.

State-granted monopoly rights may help associations solve their problems in controlling large member firms. Large firms may be as dependent upon certain monopoly goods, require a license, or want public subsidies, as small firms. If they can get these only through a particular association, they are in principle vulnerable to its organizational sanctions. It seems that with-

out some element of state-protected monopoly or state-derived authority, BIAs are unlikely to acquire significant sanctioning power over their large members. Whether or not organizational privileges actually strengthen associational control over large member firms depends, among other things, on the response of the state to such firms trying to circumvent associational channels and establish direct contacts with state agencies. If such attempts are discouraged, the authority of the association is reinforced; if they are permitted to be successful, associational control is undermined and restricted to just the smaller members.

Generally speaking, the power over its members which an association can derive from a state-guaranteed monopoly is determined by the importance of the monopoly goods put at its disposal, and by the range of discretion it has in dispensing them. The more important the respective goods are for members and potential members, and the less restricted the association is by anti-trust laws or constitutional principles in withholding them from non-members or non-compliant members, the more one can speak of the association having the power and the authority to exercise *compulsion*. *Organizational development of interest associations involves a growing capability to use compulsion on the membership, and a corresponding decline of the need to rely on persuasion or informal pressure as a mechanism of organizational control.* Compulsion can be exercised through both *positive* and *negative sanctions*. A positive sanction is a reward for behavior in accordance with a particular expectation; it adds to an actor's level of gratification. A negative sanction is a punishment for violating an expectation; it deprives an actor of something he or she has already possessed. Both positive and negative sanctions create a difference in the level of gratification between actors who do and actors who do not behave in line with the respective expectations. If this difference is so large that an actor cannot afford not to comply, the situation is one of compulsion.

*Positive sanctions* in interest associations are rewards the association gives to its members for compliance with its decisions. To be effective, such rewards must exceed the advantages members could gain from non-compliance. In most situations in which important member interests are at stake, BIAs on their own are unlikely to be able to mobilize incentives substantial enough to outweigh the incentives for "opportunistic" competitive behavior in defiance of association policy. To achieve sufficient positive sanctioning power to control their members, BIAs therefore may have to fall back on the assistance of third parties, in particular, on the state. An example of a reward for compliance that is in this sense "borrowed" from the state is abstention by the government from legal bureaucratic regulation of a particular problem on the condition that it is regulated by collective self-government through the association. The reward for members complying with association policy is, in this case, that their autonomy in relation to the state remains unimpaired and that the agency controlling them is not a state bureaucracy but their own association. For instance, when the West German government in the 1970s considered legislation to increase the number of apprenticeships, Chambers of Commerce and trade associations promised to persuade their members to take on more apprentices "voluntarily". For many members, the prospect of avoiding direct government regulation was sufficient to make them comply and do what their association wanted them to do.

Another kind of positive sanction is direct incentive payments, e.g. premiums for disinvestment, for investment in a particular region or product, for participation in an international trade boycott or in a lockout etc. The respective funds may be given to the association by the state or may be collected by the association from its members. Normally, such "private taxation" will not be effective without some kind of state authorization and enforcement.

*Negative sanctions* are punishments inflicted by an association, or by the state on behalf of an association, upon non-compliant members.<sup>46</sup> An obvious case in point are fines. Associations may on the basis of their constitution collect fines from members found in breach of association policy. To be effective, fines have to exceed the gains members would make through non-compliance. Furthermore, fines work only if members do not have the alternative of leaving the association. This alternative is not available if membership is either compulsory or so essential for successful operation in the industry that members cannot afford to give it up. In the last instance, the capacity of an association to fine its members depends on whether fines are enforceable in court, and on the extent to which the legal order comes to the assistance of fined members in the name of principles like “due process”, “freedom of trade” or “negative freedom of association”.

Other negative sanctions associations may use against non-compliant members consist of a withdrawal of membership rights. Examples include suspension of voting rights, exclusion from selective goods, and expulsion. Expulsion is the ultimate negative sanction an association has at its disposal.<sup>47</sup> Expelled members forfeit all rights and advantages formally connected with membership status. The more important the selective goods (e.g. a monopoly) an association provides to its members, the weightier becomes the sanction of expulsion. Since the power deriving from the capacity to expel members may be considerable, associations providing indispensable goods or services may be subject to strict state regulation in using this capacity.

BIAs that have successfully developed into “established interest governments” have enough state-backed positive and negative sanctioning power to transform the different interests of the various groups in their inclusive domains into a common, long-term organizational interest strategy. While on the one hand their policies reflect, in modified and mediated form, real interests of their constituents, on the other hand they can be, and are, defended against and imposed upon members’ short-term or group-specific interest perceptions. In associations with developed organizational properties, interest definitions are not passively received by the association from its members but are shaped in a complex process in which the association’s organizational structures and needs play an important part. Nor are such definitions dictated by the state. Strategic autonomy from the membership is not necessarily identical with strategic dependence upon state agencies. Established intermediary associations may be able with state assistance to make their members conform with interest definitions that are established, not directly by the members themselves, but indirectly through organizational processes; at the same time, they are capable of defending and enforcing such interests with the assistance of their members in relation to the state and other external interlocutors.

As has been pointed out at the very beginning of this essay, BIAs are characterized by the contradiction that they have to mobilize collective solidarity in defense of the competitive pursuit of individual interests. If BIAs want to become stable and effective interest organizations, it is essential that they acquire the capacity to procure the compliance of their members with negotiated agreements on matters which otherwise would be entirely under their discretion as private owners. In trying to determine the degree of organizational development of a given BIA, one must therefore look at the extent to which it is able to regulate its member’s use of their

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46 Negative sanctions wielded by an association as a *formal organization* must not be confused with informal pressure by members on members (“collusion”, see above).

47 Associations with compulsory or quasi-compulsory membership may not be legally permitted to expel members or to exclude them from services. If such associations want to sanction non-compliant members, they may have to take them to court.

private *property rights* – the autonomy of business actors to make individual and unaccountable decisions with respect to such crucial matters as investment, labor and competitive practices. The more such decisions are “collectivized” – not “appropriated” by public agencies or “captured” by competing interests but transferred to associations representing and governing the collective interests of business – the less it is possible to explain the role of BIAs with the conventional liberal pressure-group theory.

In analyzing the relationship between BIAs and their members in terms of control over property rights, one can look at selected areas of decision-making for which owners or managers of private property traditionally claim a high degree of individual autonomy. Promising examples seem to be investment, vocational training, wage payments exceeding the collective industrial agreement, and competitive practices. BIAs that have in fact acquired “quasi-property rights” should be able to influence the behavior of their members in such areas by means stronger than moral suasion or information – i.e. by some kind of positive or negative sanctions. One way of determining their sanctioning power is to study concrete cases of conflicts between associations and their members. In West Germany – and very likely in other countries as well – there are various examples of confrontations within and between BIAs involving labor relations and the terms of collective agreements negotiated with trade unions. In some instances – such as in the construction and the textile industries in the 1960s – members left their associations in great numbers to protest against its allegedly too compliant policy. Facing the prospect of breaking apart, the associations had to ask the unions to dispense them from an already signed contract. In other cases, employers associations in the construction industry were able to impose collective agreements with the union on all employers in the industry by having them declared “*allgemeinverbindlich*” (generally valid in law) by the state. Other examples of policy disputes include (successful) attempts of the national employers’ peak association (BDA) to prevent member associations – e.g., in the brewing industry – from making concessions in collective bargaining that could have been taken as precedents by other unions. A careful analysis of such cases – of member resistance, member break-aways and expulsions, conflicts between associations and peak associations, etc. – should yield rich information on the means of control available to associations in relation to their members, and on the direct and indirect role of the state in the creation and regulation of such means.

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