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THE COLLECTIVE VOICE OF BUSINESSES: HOW COMPANIES CAN EFFECTIVELY USE TRADE ASSOCIATIONS IN CORPORATE POLITICAL ACTIVITY

Abstract:

Companies undertake corporate political activity (CPA) to secure favorable policies and regulatory environments using internal capabilities and external resources, such as trade associations. This study examines how companies can effectively use trade associations for CPA by conducting qualitative interviews with 35 company executives. According to the interviews, companies expect trade associations to prioritize advocacy and public policy as their core businesses. The study identifies the following five ways in which trade associations provide value to companies: (1) be the critical voice for the industry, (2) represent collective interest, (3) provide policy and research support, (4) facilitate sector-wide collaboration, and (5) act as a sounding board for policymakers. This study also finds that companies benefit from active participation in trade associations. Through board and committee involvement, they can influence the organization's strategic agendas.

Keywords:

Corporate Political Activity, Government Relations, Lobbying, Nonmarket Strategy, Trade Associations

JEL Classification: D71, D72, F23

Introduction

As economic, social, and political entities, businesses are impacted by laws and regulations; therefore, executives can reduce the risks created by external forces through nonmarket strategies such as corporate political activity (CPA) (Bach and Allen, 2010). Described as efforts for shaping policy and the regulatory environment, CPA can help companies anticipate and respond to government actions to minimize impacts on business strategy and performance. Despite their benefits, companies are reluctant to undertake CPA when lacking the capacity to do so (Sutton et al., 2021). In addition to their in-house lobbyists, many companies utilize external resources, including lobbying consultants and trade associations, as part of their CPA (Chan, 2023; Jia, 2018). This study focuses on the latter.

Trade associations play an influential role in conducting business within political systems. They provide companies with a collective voice when seeking to influence governments' decision-making, particularly when policymakers face competing stakeholder positions (Drope and Hansen, 2009; Rajwani, Lawton and Phillips, 2015). As meta-organizations with multiple members, trade associations receive financial support through membership fees to deliver programs and initiatives that advance the industry (Rajwani, Lawton and Phillips, 2015). They undertake advocacy and marketing campaigns to garner support for the sector, promote the industry's reputation, and secure favorable policy positions.

While the extant literature has examined the involvement of trade associations in CPA, this research aims to understand how they add value for their members. Conducting qualitative interviews with 35 company executives, this study examines how companies use trade associations for CPA. The interviews offer insights into the economic contributions of trade associations for businesses within the CPA context. By supporting companies through advocacy and public policy, trade associations can help them react to the potential implications of new or changing policies and regulations, thereby mitigating any harm to business performance and competitive advantage. They provide businesses with a collective voice in engaging with politicians and bureaucrats, particularly when dealing with challenging policy proposals that can negatively affect economic growth and innovation. When drafting new legislation, policymakers can also benefit from using trade associations as sources of information on their sectors.

Literature Review

Companies engage in CPA to improve business performance

Companies that engage in CPA have an increased chance of survival (Hillman and Hitt, 1999). They can derive visible benefits, such as government contracts, and less visible benefits that contribute to better business performance (Ridge, Ingram and Hill, 2017). Moreover, companies lobby to build long-term relationships with governments to leverage established networks when specific issues arise (Hillman and Hitt, 1999). Furthermore, access to political intelligence helps companies anticipate and adapt to evolving policy environments (Schuler, Rehbein and Cramer, 2002). Despite its complexity, CPA can provide companies with a competitive advantage and should be a key component of their business strategies (Scott, 2015).

Trade associations as a CPA resource

Olson's (1965) collective action theory suggests that groups working together derive benefits at sufficiently lower costs than those acting alone. However, smaller groups have an increased

likelihood of achieving common objectives because the larger ones “will fall short of obtaining an optimal supply of any collective good” (Olson, 1965, p. 36). Drope and Hansen (2009) have tested Olson’s theory and found that associations representing concentrated industries tend to be more politically active than those representing less concentrated industries. This explains why companies prefer sector-specific associations when engaging in CPA. Trade associations help companies liaise with politicians and bureaucrats in addressing complex policy issues, particularly where no regulatory framework exists because of the sector’s novelty (McCaffrey, 2019). Despite being competitors, companies must collaborate to deal with policy issues that affect their sectors (Drope and Hansen, 2009). For example, tourism operators join trade associations because they have limited access to senior policymakers from various government departments in their sectors (McKercher, 2022).

In designing this study, the extant literature was reviewed to identify gaps and opportunities for further research. While prior studies have outlined the important role of trade associations in influencing policymaking, there is a need for a better understanding of their contributions to CPA (Rajwani, Lawton and Phillips, 2015). As complex organizations that focus on improving the policy environment for their members, it is imperative to understand how companies can benefit from the resources and capacities of their trade associations (Lawton, Rajwani and Minto, 2017). There is also scope for exploring how trade associations and their members can deploy shared resources to advance mutual goals, why competitors cooperate, and their value to companies (Berkowitz and Bor, 2017). Other gaps include understanding their function in education and policy monitoring (Spillman, 2017) and how companies, trade associations, and politicians interact (Kowal, 2018).

Research Method

Insights from company executives

To understand the value of trade associations in CPA, qualitative interviews were conducted with company executives responsible for public affairs activities in their organizations. To identify potential participants, a systematic search was conducted on LinkedIn using the following terms: government relations, government affairs, and public affairs. A total of 50 individuals were invited to participate in a study on the use of external CPA resources; among them, 35 agreed to be interviewed. The interviewed participants were vice presidents, directors, and managers and represented industries such as financial services, insurance, healthcare, technology, telecommunications, and transportation. The professionals worked in Canada for global companies headquartered in Asia, Europe, and North America. As they were actively involved in trade associations on behalf of their employers, they were considered credible data sources for this study. Several participants had previously worked in governments and trade associations and accordingly offered relevant perspectives on the role of trade associations in CPA. See Table 1 for the participants’ profiles.

The interviews were conducted by videoconference in 2022 and lasted between 20 to 30 minutes. During the semi-structured interviews, participants were asked how they used trade associations in advocacy and the value of trade associations in CPA. Considering that CPA is a politically sensitive topic, participants were offered anonymity and assured that their identities and affiliations would be kept confidential. All participants consented to being recorded. The interviews were manually transcribed and coded. Using an inductive coding approach, the data were categorized and further analyzed to determine the themes and linkages to understand how companies use trade associations and how they relate them with

CPA. Direct quotes that helped illustrate the findings were identified during the interview data analysis.

Table 1. Profile of participants

		N
Industry	Consumer	4
	Energy/Infrastructure	2
	Financial services/Insurance	6
	Healthcare	2
	Manufacturing	1
	Pharmaceuticals	11
	Technology	6
	Telecommunications	1
	Transportation	2
Job level	Manager	9
	Director	17
	Vice president	9
Sex	Male	17
	Female	18
Prior experience	Politics and government	26
	Trade association	6

Source: Anonymized participant data

Results and Discussion

Trade associations should prioritize advocacy and public policy

Trade associations are expected to prioritize advocacy and policymaking as their core businesses. There is a broad consensus that this focus cannot be jeopardized by secondary activities. As political intelligence can help shape CPA strategies, trade associations provide valuable information for policy development. Companies perceive effective advocates of trade associations as offering good value. To be successful, trade associations must have credible relationships with policymakers and remain apprised of political developments and emerging issues. One executive stated the following:

If they are good at advocacy, they can be really helpful. Trade associations run into problems when they do other things and let those things take over.

Additionally, multinational companies that lack local capacity or familiarity can leverage trade associations for their CPA strategies. An executive with global responsibility shared the following:

We operate in over twenty countries. In some countries, we do not have contract lobbyists or staff. I was able to use trade associations to help with an issue that can impact our business.

Five ways trade associations provide value to companies

This study identifies the following five ways in which trade associations provide value to companies: (1) be the critical voice for the industry, (2) represent collective interest, (3) provide policy and research support, (4) facilitate sector-wide collaboration, and (5) act as a sounding board for policymakers.

Table 2. Five ways trade associations provide value to companies

1. Be the critical voice for the industry	Deliver tough messages to policymakers
2. Represent the collective interest	Provide companies with strength in numbers
3. Provide policy and research support	Monitor policy and gather intelligence
4. Facilitate sector-wide collaboration	Provide a forum to discuss common issues
5. Act as a sounding board for policymakers	Create avenues for government to consult businesses

Source: Interview data

1. Be the critical voice for the industry

Companies prefer trade associations to manage adversarial relationships with policymakers and perceive their value in having difficult conversations about problematic policy matters. Trade associations can act as proxies for the sector, especially when there is a consensus on an issue among the members. If companies oppose a proposed policy or legislation, they want the trade association to be the critic. Accordingly, negative criticism is not directly attributed to any specific company, given their reluctance to be confrontational with policymakers. Several participants shared the following insights:

If there are issues that are hot and individual companies do not want to comment on, the industry association can be the face of those policy discussions.

We use them when we do not want the message to come from our company but from the industry.

We don't want to criticize the government, but let the association do that.

It is not to say it will not reflect on your company, but it is not your name on it.

2. Represent the collective interest

Trade associations can serve as credible voices for businesses during their interactions with policymakers. When important issues affect the sector, they help companies effectively advance their positions. Policymakers are more likely to meet trade associations than individual companies, especially when issues affect the entire sector. Companies perceive that they can gain better traction in the policymaking process as a collective. When businesses act as a group, they are less likely to be viewed as self-serving. Several participants provided the following insight:

Trade associations represent a collective and do not come in with a single business issue. Instead, they are focused on policy issues that affect the whole industry.

Industry as a whole can come together and make representations on issues where there is alignment.

If the entire industry is knocking on your door, then it becomes an issue.

3. Provide policy and research support

Trade associations with effective policy and research capacities offer valuable benefits to members, even to those with their own internal resources. For example, they monitor and report policy developments, political issues, and emerging economic trends relevant to the sector. When trade associations support sector-wide policy matters, companies can focus their resources on company-specific issues. Trade associations are forums for exchanging information on issues that can impact the sector. Knowledge-sharing helps companies validate

or improve their CPA strategies. Additionally, trade associations draft white papers to advance the sector's economic interests. Insights from several participants included the following:

A good trade association will also help with intelligence gathering because they will be monitoring a file on behalf of the membership.

Trade associations can be helpful as another set of eyes and ears on the ground, so companies do not have to be in all the meetings to get the information.

By providing submissions on issues that speak to our collective voices, a trade association frees up capacity so we can choose which issues we want to engage directly in.

4. Facilitate sector-wide collaboration

Trade associations provide a platform for companies to collaboratively resolve common issues, even when operating in a competitive environment. Companies can coordinate the development of joint policy submissions under the shield of trade associations, presenting a more compelling case. When trade associations effectively tackle sector-wide issues, companies can choose to focus their CPA resources on matters unique to them. This approach enables better resource allocation and avoids duplication of effort. Some executives shared the following insights on trade associations:

They generate a forum for discussing a subject. You can pool a group of companies that care about that subject.

They can set up a forum where regulatory folks can come together to speak. If you can learn from each other, there are lots of things that can happen.

5. Act as a sounding board for policymakers

This study also shows that trade associations are an important resource for policymakers because they provide a mechanism for policymakers to access information about the industry and engage with the private sector. During the policymaking process, politicians and bureaucrats can reach out to trade associations to receive industry data or subject-matter expertise. Trade associations are credible sources of information for public consultations. The interviewees shared the following relevant observations:

Not only does it help the companies but also government officials who are accessing trade association information to get a picture of what is going on.

Industry associations are easier to deal with because they reflect the industry position.

They reflect the compromise that takes place within the organization.

Trade associations can serve as a benefit as well to the government in terms of saying, "we were able to go to the association, and they are supportive of what we are doing."

Companies get the most value when they are actively engaged

Active involvement in trade associations is time-consuming, and significant work is required to build policy agendas and advocacy strategies. However, companies receive the highest return on investment through participation in the boards and committees of trade associations. Considering that the governing body shapes the strategic agenda of the organization, the board drives the priorities of the trade association. Being included in the discussion enables companies to influence their tone and level of engagement with the government. Several participants shared the following insights.

We have senior executives sitting on boards while other company representatives sit on committees that provide input on the development of strategy. There is a sense of ownership in that we played a role in a change of policy through the organization.

We are moderating the voice of the companies, like how we can work together with the government.

We have seats on committees, so we are informing them of the priorities.

You have a voice at the table; you have the opportunity to work with your peers; you also shape a position.

It is also vital for companies to keep trade associations aware of emerging policy issues. This can be achieved by participating in working groups and committees. Information-sharing enables trade associations to assess whether the issue concerns the entire sector and whether there is a need to bring companies together to identify common solutions.

Conclusion

The geopolitical environment is becoming increasingly complex, and companies must be equipped to anticipate and respond to emerging policy issues. Even when companies have significant CPA resources, trade associations can serve as an additional tool for businesses to advance their interests. Through qualitative interviews with 35 company executives, this research discovers the following five ways in which trade associations provide value to their member companies: (1) being the critical voice for the industry, (2) representing collective interest, (3) providing policy and research support, (4) facilitating sector-wide collaboration, and (5) acting as a sounding board for policymakers. The study also finds that advocacy and policymaking should be prioritized as a trade association's core businesses. Trade associations enable competitors to collaborate on common policy issues faced by the entire sector and offer a collective voice when engaging with policymakers. Time-consuming, active participation in boards and committees allows for shaping the strategic priorities of trade associations. As a collective voice for businesses, trade associations offer businesses strength in numbers when engaging in CPA.

Limitations and Future Research

The sample was limited to participants who worked in companies. They were considered credible data sources, given their first-hand involvement in trade associations. The study focused on sector-specific trade associations and not on broader business groups, such as chambers of commerce. The results should be considered within the specific scope of the study, namely, interviews with company executives, to understand the involvement of trade associations in CPA. There is potential for future research on the roles of broader business groups and coalitions for CPA. There may be challenges regarding a lack of consensus among members on policy issues or CPA strategy or when a company's position is inconsistent with the position taken by the trade association. Future research could explore the governance models of trade associations and decision-making related to advocacy priorities and policy positions.

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