CHAPTER

4

Sustainability

Associations as Agents of Change in the Collaborative Economy

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Associations designed along traditional linear supply-chain relationships will not survive in the 21st century. Thanks to Just-in-Time (JIT), Quick Response (QR), e-commerce, and a host of other business practice innovations since the 1980s, the supply chain is dead. And changing the wording to "value chain" does not resurrect it. "LEGO-relationships" in which businesses couple and uncouple partnerships with each deal, which take advantage of the electronic communications technologies but are not dependent on them, have turned commercial security on its head. Associations simply cannot expect to protect members' commercial or professional interests by defending narrowly defined immediate business relationships.

The more fluid markets of the 21st Century demand that association leaders shift their thinking away from the linear *supply chain* or *value chain* relationships that have dominated association planning and operations for decades. Now associations need to think in terms of *demand networks* in which their **members' customers,** not the members themselves, command the focus of association business planning. The association's members' needs are better understood as one of several providers to the end-customer and not in isolation. Today's association leaders must reach beyond just members to directly engage a diverse range of stakeholders whose vested interests align with the association's goals and members' success in the marketplace. The cast of characters that now command association executives' attention include not only their members' customers, other suppliers and regulators of the members' customers' markets, but also key players in other businesses and professions that govern other activities that serve the final consumer of the markets in which the members participate. By working through more holistic nonlinear relationships, associations are able to more readily identify emerging competitors, partners, and allies in their members' markets and to expand their sources of revenue, and thereby assuring both the associations' and their members' success.

This approach requires a far more entrepreneurial management style through which the association identifies and exploits the value its success brings to the *entire* marketplace. While entrepreneurship has always been important to effective association leadership, this approach, which I call *Customers' Customer Analysis*, helps associations to identify how their activities bring value to businesses and institutions, including other associations, who never directly consume the associations' services. Called "capturing positive externalities" in economics, this practice identifies the means for third parties who profit from these activities to pay for the benefits received.

On the upside, greater entrepreneurship reduces the association's dependence on dues without reaching into its members' pockets through additional fees as well as engages a broad range of stakeholders and allies in meeting the association's advocacy goals. On the downside, *Customers' Customer Analysis* creates financial conflicts of interest between the association and its core members by increasing the association's financial dependence on these alternative stakeholders whose interests may sometimes be at odds with those of the membership base. As *social* entrepreneurs, association executives must constantly balance the financial stability of their organizations for which they have stewardship responsibility and the commercial/social success of their members. This *double bottom line*, which distinguishes social entrepreneurs from their commercial peers, creates one of the unique dimensions of association management, unknown in the traditional commercial world. The balance of this chapter discusses these ideas in greater depth.

Drivers of Association Market Change That Make Demand-Networks Necessary

Three revolutionary trends emerged at the end of the 20th century that have changed how, why, and with whom people and businesses want to associate:

- The development of Just-in-Time business relationships
- The "professionalization" of the American workforce
- Globalization

Their impacts on association management, financing, and marketing have been equally revolutionary. Understanding these trends is crucial to developing successful association business models that tap the power of demand networks.

1. The Development of Just-in-Time Relationships: Associations in the Post-information Economy

The Information Revolution of the 1990s began a decade earlier with association-led standardization initiatives in Just-in-Time (JIT) supply-chain management and Quick Response (QR) business relationships. Associations, collaborating across industry supply chains, developed and promoted the Electronic Data Interchange (EDI) data sharing practices and cross-firm decision-making that laid the foundation for Electronic Commerce and defined the dizzying economic transformation of the 1990s. Practitioners, however, soon discovered that these innovations did not merely streamline business transactions; they fundamentally altered business relationships. Former Federal Reserve Chairman Alan Greenspan observed that the greatest changes brought by the technological advances of the last 20 years have been the ways in which "their implementation has fundamentally altered economic relationships and business practices that, in turn, have blurred the boundaries" of economic activity.[1]

An example of this blurring is contract manufacturing, which has uncoupled product design from productive capacity and helped firms to greatly accelerate product innovations, reduce design-to-market cycles, and reduce the risk of intellectual piracy. Applying Just-in-Time (JIT) and Quick Response data sharing practices with contracting to independent manufacturing operations around the world and focusing on the high added value of the design, apparel manufacturers slashed the design-to-delivery cycle by nearly half a year resulting in lower prices for the customer and reduced market risk to themselves. Technology Forecasters (TFI) estimates that in the first decade of the 21st century, contract manufacturing in the electronics industry has grown by more than 20 percent a year, more than twice as quickly as the electronics industry as a whole.[2]

The result of two decades of strategic outsourcing across numerous industries has been the emergence of what Timothy Sturgeon of MIT's Industry Performance Center calls "co-evolutionary shared networks," in which inter-firm collaboration has led to analysts thinking of competencies at *the industry level* instead of *within individual firms*.[3] Helping to design and manage these networks is both the greatest opportunity and challenge to association executives. Rather than thinking vertically, with each firm managing productive, marketing, administrative, and logistical capacities, businesses now think horizontally and focus on delivering these functional capacities *across multiple firms*. Sturgeon labeled this phenomenon "vertical disintegration."

Ironically, associations, through which businesses created these practices, have been slow to identify how the shift in business relationships from smoke-stacked industry organizations to cross-sector coalitions has fundamentally redefined the demand for association services.

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[1] Remarks of Alan Greenspan to 21st Century Workforce Conference, June 20, 2001, www.frb.gov.

[2] Five Year Forecast—Electronics Manufacturing, 2005 annual study, Technology Forecasters, Inc., Alameda, CA, www.technologyforecasters.com.

[3] Sturgeon, Timothy J., Industry Co-Evolution and the Rise of a Shared Supply-base for Electronics Manufacturing, Cambridge, MA, Massachusetts Institute of Technology, Industrial Performance Center, May 2001.

Emergence of Cross-sectoral Coalition Networks

One of the most remarkable outcomes of the "collaborative economy" has been the downsizing of American business. In 1965, one in four Americans worked for a Fortune 500. By 2005, that figure had fallen to one in fourteen.[4] By 2002, businesses with fewer than 100 employees accounted for half of all jobs in the U.S. (for the first time in 100 years) and an even greater share of Gross Domestic Product (GDP). MIT's Sturgeon argues that contrary to conventional wisdom, the drive to outsourcing is not merely to cut labor costs. "The ultimate goal of inter-firm collaboration is to maximize *the overall value,* not merely limit the costs, of inter-firm linkages … [that] can only be realized through the dynamic process of interaction among economic actors."[5] Having outsourced all but "competitive competencies," the smaller more flexible businesses that emerged in the 1990s and 2000s need to develop collaborative relationships with other complementary suppliers to their markets to assure the competitiveness of their products and services.

Richard Langlois of the University of Connecticut, examining the needs of downsized firms, concluded that outsourcing caused a "loose coupling" of essential support services needed to create products and bring them to market. Langlois argues that organizations, having "sacrificed control of key resources in exchange for speed and efficiency, need outside help to recruit and manage such resources."[6] Therefore, the greatest value that associations can offer its members in a world of "vertical disintegration" is **to manage those key resource relationships**.

To mirror those new relationships in their own structures and services, associations need to place greater emphasis on *partner* rather than *peer* relationships and focus more on cross-sector coalitions and networks and less on traditional industry-specific links that defined most associations through the 20th century. **The key to effective association leadership in the future is to focus on developing those network relationships around the members' key customers rather than solely promoting current members' market positions.**

Managing Process No Longer Internal to Members' Organizations

For many industry associations, the transition from large, vertically integrated member firms to small, flat specialized firms was seminal. Their traditional role of protecting their members' market advantage was incompatible with the emerging need for cooperation in "shared network environments."

Associations had to quickly shift their priority setting systems to accommodate a broad and diverse group of younger and leaner businesses whose needs are quite different from a small group of older, larger members that dominated many associations in

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[4] The Small Business Economy, SBA Report to the President, 2006, Small Business Administration, Washington, DC, September 2006.

[5] Ibid.

[6] Langlois, Richard, *The Vanishing Hand: The Changing Dynamics of Industrial Capitalism,* 2003, University of Connecticut, Center for Institutions, Organizations, and Markets.

the past. For many associations, small firms went from being the hangers-on relegated to occasional specialized interest groups to the growth engines of the industries that the associations represent. Small firms' competitive interests depend on coordinating business relationships with a whole range of *indirect* suppliers, partners, and intermediaries such as technology developers, financial services providers, transportation infrastructure, and marketing services as well as with traditional *direct* supply chain providers of raw materials and intermediate products.

The dramatic transformation of the National Business Forms Association (NBFA) is an excellent example of how JIT and EDI fundamentally changed an association. With a membership comprised of business form wholesalers and distributors, NBFA was extremely vulnerable to both JIT and e-Commerce. The need for paper business forms first began to decline as more transactions were conducted over proprietary EDI value-added networks (VANs). The market erosion of paper forms accelerated with the emergence of the open-ended architecture of the Internet. Additionally, thanks to Just-in-Time delivery capabilities and the introduction of high-speed digital printing, forms manufacturers began to directly manage forms inventories for their largest clients.

NBFA's members realized that they were never really in the business of managing the office paper inventories but rather in the business of providing the tools to help businesses manage administrative and financial processes. To survive, business forms distributors needed to first reinvent themselves as problem solvers instead of product providers and then realign themselves with other businesses with similar objectives. For its part NBFA, renamed the Document Management Industries Association (DMIA), opened membership up to accountants, lawyers, bankers, payroll processing firms, and other businesses engaged in managing what could be called "nonproductive" (as in not directly related to the production of a product or service) business activities. Having shifted from a vertical to a horizontal organization, DMIA flourished.

2. The "Professionalization" of the American Workforce

Professional societies were not immune to structural changes driven by outsourcing and electronic commerce. The 1990s witnessed an explosion in new occupations and professions the likes of which has not been seen since the second Industrial Revolution in the late 1800's. According to the U.S. Bureau of Labor Statistics' Occupational Projections Office, one in three jobs created in the decade ending in 2014 will be in occupations that did not exist prior to 1990. Some labor experts have projected that workers entering the workforce today will change *careers*—not *jobs*—four times before they retire.[7] In stark contrast to past generations that identified with the industries or firms that employed them, by the 1990s, worker loyalty to career gained priority as workers identified more with their *professions* or *occupations* and focused on "portable skills" that transferred from one employer to another.

[7] 2002 Economic Census of the United States, Washington, DC, U.S. Bureau of the Census.

This shift in worker priorities led to a pronounced change in the composition of the association sector. The growth of professional societies far outstripped the growth rate of business associations, dramatically altering the balance between the two. According to the U.S. Census Bureau, between 1997 and 2002, revenues at professional societies grew at twice the rate as those of business associations while employment in professional organizations increased more than three times as fast. Professional societies also became larger with employment per organization increasing 14 percent in the same five-year period, compared to just under 3 percent for business associations. Revenues per association jumped 31 percent for professional societies, compared to 13 percent for business associations (before discounting for inflation).[8]

The introduction of new technologies and new business practices that drove these changes in professional markets does not simply change *how* one does something. It fundamentally changed *what* is done and for whom. To remain relevant in this environment, professional societies must help their members constantly reinvent themselves, expand members' skills, and enhance their value to clients by linking with complementary service providers rather than increase members' revenue by limiting entry and exit through rigid rules.

Interventional radiologists (IRs) faced growing competition from cardiologists and vascular surgeons who also mastered the catheter, IRs' primary tool. By focusing, not on competing suppliers, but on the patient, The Society for Interventional Radiology (SIR) learned that their non-invasive technique, which reduced the physical shock to the patient, allowed for earlier hospital releases that created new shocks for the patient and his primary care providers at home. Rather than take the traditional approach of pushing for turf-protection legislation, SIR partnered with GPs and home nurses to solve the new challenges created by "interventional medicine," a term SIR coined, in order to secure its members' position as the providers of choice by referring physicians.[9]

3. What Globalization <u>Really</u> Means for Associations

Finally, the redefining of corporate functions that fueled the drive to outsourcing has, in turn, led to a globalized view of product and service sourcing. Crucial competitive functions are now performed closer to the time for delivery. Coordination and communication take place around the globe and—in the case of intellectual property development—around the clock as globalized teams pass design work from time zone to time zone, earning the description "sunrise production scheduling."

To do so, however, industry associations changed emphasis to *harmonizing* standards internationally rather than *differentiating* local ones. Where businesses once encouraged associations to pursue local regulations to create non-tariff barriers (NTBs)

[8] Hecker, Daniel, "Occupational employment projections to 2012", Monthly Labor Review, pp. 80-105, Washington, DC, U.S. Bureau of Labor Statistics.

[9] The Forbes Group, *In a New Vein: Finding a New Role for Interventional Medicine,* April 2001, www.forbesgroup.com.

to foreign competitors, they now see such strategies as compromising their effectiveness as a competitive participant in increasingly globalized shared networks.

The "Viagra™ Lesson"

The counter-productive impact of differentiated local standards was most keenly experienced in what Europeans now call the "Viagra Lesson." European and Japanese pharmaceutical manufacturers encouraged national regulators to withhold licensing Viagra in order to buy time for local manufacturers to create competing products. The World Trade Organization (WTO), however, allows for "parallel" imports of an unlicensed product as long as the patient has a valid prescription from a doctor in a country where the drug is legally prescribed. The purpose of this regulation was to allow international travelers to access prescribed medications from anywhere on the planet regardless of local restrictions.

Neither the WTO nor the European or Japanese authorities anticipated local patients, eager to obtain Viagra, capitalizing on this loophole by electronically finding an American doctor who could examine lab tests remotely thanks to recent advances in telepathology and provide both an accurate diagnosis and a valid prescription. The traditional NTBs against Viagra proved impotent. Healthcare regulators were forced to reverse their decision so local physicians could learn how to properly dispense the product.

The lesson to associations should be clear. In today's globalized world, using local regulations as artificial market barriers not only fails to protect the product being regulated, it also tears at the "shared networks" the local market needs. Rather than differentiating standards, harmonizing licensing requirements across national borders is now needed to assure both the safety of the consumer and the economic viability of local services (such as diagnosing and prescribing, in this case) that can otherwise be obtained electronically.

It's the Information—Not the Technology

In a globalized environment, information is shared not only across organizations but also across legal systems. Participants need to be assured that proprietary information remains protected regardless of where it goes. India and not China has emerged as the software capital of the developing world because rampant software pirating in China has made it too risky a place to create intellectual capital.

Global associations must manage the flow of information and knowledge across the entire demand-network that supports their members' products. Karen Katen, president of Pfizer Pharmaceutical Group, Pfizer's global pharmaceutical operation, notes, "At a fundamental level what pharmaceutical firms do is transfer scientific knowledge to physicians, and increasingly to patients, their families and their communities." In order to assure the safe use of their products, firms such as Pfizer must also participate in local medical training. Through its Learning and Development Center, Pfizer now offers on-site and distance learning, satellite transmission, and videoconferencing to medical and healthcare staff in markets around the world. But this solution is too overwhelming for most businesses with smaller profit margins. Associations must take the lead in the next stage of globalization and focus on developing the demand networks that influence the competitiveness of their members' products rather than advocacy to assure product-friendly support infrastructures and the safety of the customer across borders.

The *Customers' Customer* AND Demand Network Building

Having demonstrated that the success of associations' members depends on the health of the environment for their members' customers, we now examine how to best identify a demand-driven network. In the world of "blurred borders," most changes, challenges, and opportunities defining market sectors usually come from outside existing market boundaries. By examining only the healthcare industry in the early 1990s, we would not have seen the emergence of assisted living facilities, birthed by the hospitality industry.[10]

To assure members' success, associations need to look beyond their immediate customers and markets and study the new kinds of environments that are emerging and the new customers they create. By focusing on the end-users of the markets in which their members participate, association executives can *anticipate* rather than *react* to change.

Building customer-centric demand networks through *Customers' Customer Analysis* consists of four stages:

- Broaden the definition of whom you serve
- Redefine your members based on the new definition
- Re-examine and identify your partners and competitors
- Re-engineer the association business model

First, the association must examine the trends influencing their members' market with a cold, analytical eye. The founder of The Forbes Group, Paul Forbes, once observed, "The reason most strategic planning fails is that people are reluctant to discuss their own death." Most organizations are interested in examining change only to the point where it finds opportunities for continuing current activities. This "solution in search of a problem" approach unfortunately is applicable to many associations and their volunteer leadership. Never forget that those who have risen to the top of their professions or industries and populate associations boards usually have the most to lose from profound change!

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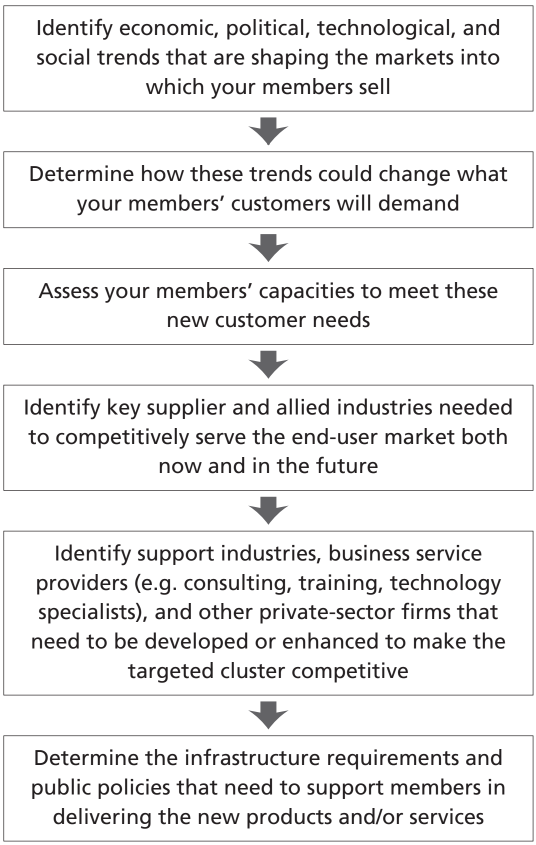
[10] O'Sullivan, Richard, "Customer's Customer Analysis and Demand Driven Association Strategies," *Journal of Association Leadership,* ASAE & The Center for Association Leadership, Washington, DC Winter 2004.

Customers' Customer Analysis intentionally seeks out those trends that could change the needs of the customers who currently use your members' products or services as currently designed, offered, or supported in the marketplace. Following the traditional Structure-Conduct-Performance paradigm, association leaders begin by asking:

- How could changing market structures, regulations, technologies, or social priorities change our members' customers' needs?
- How will these needs be met?
- Can the association's members meet those needs?
- What capabilities will the member need in order to do so?

Graphically these steps can be presented as follows:



For example, the case of Interventional Radiology above demonstrated that the solution for SIR was in better understanding the patients' needs—not the hospitals'.

Selection of Channels of Distribution

At this point the association has identified the products and services that members need to succeed with these new customers. Now it must decide if it should:

1. Meet those needs directly
2. Encourage public policy or government services
3. Leave it to the marketplace

Associations need to think of the three sectors of the economy, the public, private, and nonprofit as different channels of distribution to meet members' needs. Associations should not try to meet all their members' needs, only those for which it has an unassailable competitive advantage. Associations tend to limit management of their members' market environment to only those functions that they can directly control or finance. Thus, if a newly identified member need is outside its scope or ability, the leadership tends to abdicate responsibility for its development.

If Not You, Then Who?

If the association is not able to address the newly identified needs directly then it should determine who will and then encourage others to take up the task. Therein it will find its next member, ally, or competitor. Those services that the association does choose to undertake directly become the new member products and services. Those identified as "public goods" by government organizations become the new advocacy objectives. Those better left to the competitive market become new opportunities for commercial partnerships.

To be sure, fee-for-service income is not new to the nonprofit sector in general nor to associations in particular. Associations have long depended on fee-for-service income by differentiating between dues-supported product and service bundles and those sold individually to members and the public. Yet, this is much more than outsourcing association services to a third party. Very often, other firms in the marketplace that are better positioned to meet new member and members' customers' needs more efficiently will pay the association for its assistance in opening up new markets.

Caution—The Privatization of Government Services

The role of the government in managing the business environment has been seriously challenged since the late 1970s. Contrary to the accelerating pace of change elsewhere in the economy and society, "governments, built in the industrial model with their sluggish centralized bureaucracies, preoccupation with rules, and their hierarchical chains of command" were unresponsive to change.[11] A popular solution to "reinvent" government embraced by both Republican and Democratic administration was to contract government service development and delivery to civil society organizations, such as associations.

While associations see some obvious benefits to accepting the role of social or public service provider, particularly in increased non-dues revenue and greater control through self-regulation, this is also fraught with dangers. In many cases, the "oppor-

[11] Osborne, David and Ted Gaebler, 1992, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector,* Reading MA, Addison-Wesley Publishing Co., p. 12.

tunity" of contractual relationships with government agencies has changed association management strategies, practices, priorities, and skill sets—not always for the better.

Greater direct regulatory responsibility for industry or professional standards has brought four fundamental changes to an association:

- First it has dramatically changed the sources of revenue from donation and dues to fee-for-service activities. In the association world, the total budget drawn from dues has fallen from over 60 percent in the 1980s to 35 percent today.[12] Many association leaders now believe that even that figure is too high and have set a 20 percent cap for dues as the new benchmark.
- Secondly, this shift has profoundly altered associations' advocacy roles. The very organizations that pushed hardest for government activism were selected to take on the role of delivery provider. In extreme cases, associations who chose this path found their relationships with government agencies transformed from adversarial to financially dependent. (A discussion on using *portfolio planning* to mitigate this risk follows.)
- Thirdly, the association may find itself in an adversarial relationship with noncompliant members and must be prepared to face the potential financial and political consequences of disciplining even the most powerful members.
- Finally, it has greatly expanded both the number and types of recipients of services well beyond core constituency. In the case of an association, engaging as a supplier of public goods, such as testing labs, research, and standards development, the associations' influence expanded beyond those who voluntarily support the organization by compromising the exclusivity of the relationship with dues-paying members.

The Risks of a Customers' Customer Strategy

While creating new, nondues revenue from outside the membership base represents the most enticing aspect of *Customers' Customer Analysis*, it could potentially be the most perilous. Generating income outside the association membership is extremely attractive. It generates profits that can then be used to subsidize member activities. That does not mean that the association gets a free lunch.

The Double Bottom Line

It may seem obvious that an association *should* charge commissions or royalties to third-party suppliers in exchange for their help in creating products or services that the third-party firm then sells to the association's members or members' customers. However, if these services move the market toward a path advantageous to the industry or profession represented, the association may choose to forgo profits on the service

[12] Operating Ratio Report, 12th edition, vol 1, 2003, American Society of Association Executives, Washington, DC. p. 2.

to assure their widest possible adoption. This is especially true if the organization or consumer, whose decisions you are trying to shape, either cannot afford or is reluctant to purchase the new service.

For example, in the 1980s, the American Fiber Manufacturers Association, The American Textile Manufacturers Institute, and the American Apparel Manufacturers Association collectively spent considerable sums to create electronic data interchange (EDI) standards to help make its members more competitive in the face of foreign competition. While software producers would have willingly paid substantially for the use of these standards, the three organizations chose to put them in the public domain, essentially giving away three years' work. Why? They realized that to sell the product would have limited their distribution to a handful of software houses that could then restrict their distribution and use. To be sure that software would be developed not only for large firms but also for small ones that would now be crucial participants in the "value network," the members were best served by allowing specialty software firms to have free access to the standards. In this way, the associations had to place their members' commercial interests before their own financial interests.

Adverse Selection Problem

In offering fee-for-service products, associations also face the dilemma of adverse selection bias. An association may discover that those members or customers who will most benefit from the change are least able to pay. By protecting its own commercial interests and withholding services, the association risks acting as a barrier to market growth and innovation instead of a promoter, which is not only contrary to associations' purpose but also possibly risks anti-trust action if withholding the service proves a barrier to market entry or exit.

When creating new products and services, the association needs to identify all of the beneficiaries and then assess to what degree the financial stability of the association must be balanced against the commercial success of its members.

Therefore, the final steps are:

Define a strategic direction based on the newly identified purpose and new relationships with government and market sectors

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Determine how the new association products and services will be financed, taking into account which should be dues supported and which should be fee-for-service

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Develop a strategic plan and business model that determines how, when, and by whom these new services will be delivered

Its Not About ALL of Your Members, Just the Survivors

"But that's not what our members do!" is one of the most common observations made by those who will restrict themselves to their current member base. As noted earlier, one needs to encourage members to respond to new customers, not to try to get new customers to accept what members offer. This criticism most often comes from the association's board members themselves. Association executives need to consider that the current board is populated by those who have been most successful in meeting the challenges and needs of today's customers—not necessarily tomorrow's. In fact, those whose capacities are best suited for current market conditions may be the ones most threatened by a change in those conditions. Association executives must remind themselves that they serve the membership, not the board. In the end, they must concern themselves with those members who will survive change and be able to distinguish between honest and reasonable skepticism of market prognostications and an unwillingness to face potential threat.

Addressing Conflicts of Interest: Portfolio Analysis in a Nonprofit Context

The Adverse Selection problem mentioned earlier is only one example of potential conflicts of interest that emerge when an association shifts its primary focus from its members to its members' customers. Once the association develops business relationships with other suppliers or stakeholders in its members' markets, it develops financial interests and possible financial dependence on their success. The association needs to carefully balance these interests to be sure that it does not sacrifice its members' success for its own.

In the for-profit world, this balance is easily achieved through portfolio analysis; however, for associations, this is much more difficult. In fact, several organizations, most notably Bridgespan, a provider of consulting services to the nonprofit sector, have tried to develop portfolio analysis criteria appropriate to nonprofits. Experts agree that, like an investment portfolio, associations need to distribute earnings across sufficient revenue sources as to not be dependent on any one for the organization's survival. Yet, to date, there is no real agreement on how to quantifiably measure the balance of the organization's financial goals and social benefits. Bridgespan, itself incubated as a 501c(3) firm by Bain & Company, has undertaken the most innovative work in this field but has yet to create a systematic nonprofit portfolio model.

The best advice is to observe the organization's behavior. Association executives need to carefully assess if, when, and where conflicts could arise and create structural barriers to preemptively prevent unacceptable behavior. The American Society for Interior Design (ASID), for example, created standards for interior design service quality. Because the society charges certified members a higher dues payment than that for non-certified members, ASID faced an implicit conflict of interest. Clearly, ASID would benefit from having as many certified members as possible while its members would benefit from having a more restrictive certification process. To resolve the conflict ASID created a completely separate organization, the National Council for Interior Design Quality (NCIDQ) to develop standards and administer the certification exam. Because NCIDQ has no vested interest in a high or low passing rate, it insulated ASID from charges (or the temptation) of watering down the standards to increase dues income.

Conclusion

The JIT/QR globalized environment of the 21st Century, in which the boundaries between industry sectors, markets, and even public and private sectors have blurred, has fundamentally changed the forces to which associations must respond. These changes were developed to reduce barriers to innovation and to accelerate the pace of change. Unless associations base their financial survival on fostering change, they risk compromising the future of the members and undermining their own survival. By employing *Customers' Customer Analysis*, designed to identify emerging needs of members' customers and easing members' adoption of the products and services needed to accommodate change, association executives will assure the most success for their members and for themselves.

To do so, however, they need to develop sources of revenue closer to the members' markets and create fluid partnerships that will allow for rapid adoption of new ideas and products, carefully balancing these new sources to minimize potential conflicts with their members.

This demands that associations engage in developing demand-driven networks that focus on promoting greater efficiency *across* enterprises. This is a far different challenge than in the traditional focus on enhancing the competitive capacities *within* their members. While in the end associations need to engage a broader range of economic stakeholders both for their own financial survival and for their members' ultimate benefit, association executives must be prepared to cope with the inherent conflicts of interests. The role of associations in the years ahead will be to foster cross-sector collaborative relationships that help their members harness the forces of change rather than protect them from it.

About the Author

Richard C. O'Sullivan is an economist and business environment analyst with 30 years experience in the public, private, and civil society sectors in the U.S., European, and Asian markets. He created the *Customers' Customer Analysis* approach to association strategic planning and program development discussed in this chapter. From 2004-2006, Mr. O'Sullivan introduced new self-sustaining association development models in Southeastern Europe. From 2002-2004, he served as assistant director of Johns Hopkins University's Center for Civil Society Studies and before that as chief economist and senior vice president of The Forbes Group beginning in 1994.

Review Questions

Rather than review questions for this chapter, do your own *Customer Analysis.*

Putting Customers' Customer into Practice

Ready to begin? *Customers' Customer Analysis* starts by answering the following questions:

- Who are the major customers of your members' products or services?
- What are the current technological, economic, regulatory, and social forces that can change
  - Who those customers are
  - What they will demand
- What new capacities (skills, partners, products, etc.) will future members need in order to stay competitive with these new customers?
- Looking at each capacity, which ones are best provided by
  - The association?
  - Government agencies?
  - Private sector firms?
- What is the association's role in managing each?