



# Membership in Employers' Associations: Some Simple Thoughts on Theoretical Mechanisms

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## **Membership in Employers' Associations**

In our empirical examination, we use firm data to examine the firm characteristics that are associated with the membership in an employers' association.

Thus, we need some theoretical considerations on the factors that influence the decision of an individual employer to become a member of an employers' association.

Applying the standard economics approach, the decision should depend on the costs and benefits of a membership.

In what follows, I list a series of costs and benefits from the perspective of the individual firm.



## Membership in Employers' Associations

Ignoring the issue of collective bargaining coverage for the moment, membership in an employers' association can, in general, have a series of benefits and costs.

Possible benefits are:

1. Lobbying: The firm may want to have an influence on political decision (Of course, this can entail a free-rider problem).
2. The firm wants to obtain legal advice and support from the employers' association (Selective incentive from the viewpoint of Olson's theory of collective action).



## Membership in Employers' Associations

3. Networking: The employers' association may provide a mechanism for information sharing between employers on personnel problems and personnel policy.
4. Networking: The employers' association might even provide a mechanism for firms to coordinate their personnel policies. For example, to reduce competition of employers on the labor market or to avoid poaching (Of course, this gives rise to the question of cartel stability).

Note on point 4: There is a recent literature on avoiding employer competition in the US. We may consider if this could be also relevant for our topic.

At least, we could use this literature for motivating our point.



## **Membership in Employers' Associations**

Costs of membership in an employers' association:

1. Membership fees.
2. To the extent membership in an employers' association involves coordination among firms, such coordination would entail restrictions on the individual firm's flexibility to pursue its preferred personnel policy.



## Membership in Employers' Associations

To the extent membership in an employers' association implies coverage by collective bargaining, there are further benefits and costs.

Possible benefits:

1. **Commitment value:** By committing itself to specific minimum standards for wages and working conditions, the firm fosters the trust and cooperativeness of its employees. Moreover, the firm may signal to applicants that it is a good employer.
2. **Reducing distributional conflicts at the firm level:** If distributional conflicts are moderated by unions and employers' associations outside the firm, employer and employees can build more cooperative relationships at the firm level (This point may particularly hold for centralized bargaining).



## **Membership in Employers' Associations**

3. Saving on transaction costs: In case of centralized collective bargaining, the firm has not to negotiate directly with unions. However, even in case of firm-level bargaining the firm may save on transaction costs as it has support by the employers' association.

Possible costs:

1. Paying wages specified in a collective agreement can entail higher labor costs.
2. Collective bargaining impose restrictions on the flexibility of the firm to pursue its own preferred personnel policy (This point might be particularly relevant in case of centralized collective bargaining).



## **Empirical Implications**

Depending on circumstances and type of firm, the costs and benefits of a membership in an employers' associations depend on circumstances and type of firm.

For example, as suggested by Lindbeck and Snower, the costs may be higher if a firm uses flexible or lean production.

Of course, also the institutional framework can play a role. Thus, it is important to conduct a comparative analysis in our project.

All in all, the basic challenge will be to relate the theoretical considerations to variables available in the data sets (e.g., firm size, work organization etc.).