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Bachelor Thesis

# The Impact of the Logic of Collective Action by Mancur Olson in the Automobile Industry

- An Approach to the European Automobile Economy -

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## Acronyms

ACEA	Association des Constructeurs Européens d'Automobiles
BLMC	British Leyland Motor Corporation
CCFA	Comité des Constructeurs Français d'Automobiles
CEEC	Central and Eastern European Countries
CKD	Completely Knocked Down
CSCA	Chambre Syndicale des Constructeurs d'Automobiles
FFSA	Fédération Française du Sport Automobile
OICA	International Organization of Motor Vehicle Manufacturers
RDA	Reichsverband der Automobilindustrie
SEM	Single European Market
SMMT	Society of Motor Manufacturers and Traders
VDA	Verband der Automobilindustrie
VDMI	Verein Deutscher Motorfahrzeug-Industrieller

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*“Coming together is a beginning; keeping together is progress; working together is success”*  
(Henry Ford, 1863-1947)

## 1. Introduction

The subject of my paper concentrates on the implications of Europe’s automobile industry process of internationalization and the logic of collective action inside this context. The initial point is the development of associations from a national into a transnational division. In this field associations of different nature and character have become an essential part of national corporative structures. Concurrently the process of internationalization influences our national societal structures considerably. More precisely processes of internationalization influence our state, our markets and companies. Although the meaning of transnational associations has grown significantly, research and statistics on the impact of Mancur Olson’s theory of groups for these associations are not well established yet. It is attached too little value to the marginal number of abstract and hypothetical models on the consequences of Mancur Olson’s theory. The aim of this paper is to indicate more specific how associations in the automobile industry develop under the influence of internationalization and why some of these groups are able to have a larger influence on government policy than others.

Thereby I will take advantage of Mancur Olson’s Theory of Collective Action. We would expect that if a group of people have a common interest that they will naturally get together and fight for the common goal. That means groups of individuals with common interests are expected to act on behalf of their common interests much as single individuals are often expected to act on behalf of their personal interest. Olson states, however, that this is generally not the case. Instead of taking advantage of rational action, which follows logically from the premise of rational and self-interested behavior, a group of firms will not reach a collusive agreement in the marketplace. This means: They will be unable to form a group and lobby the government for help. In doing so M. Olson gives some reasons for this failure, which mainly depend on the group size, perceptibility of the actions of individual actors, organization costs, possibility of selective sanctioning of group members and the asymmetry of interests of individual group members by achieving the objectives.

Associations like the German VDA, who nationally and internationally promote the interests of the entire German automotive industry, arose since the beginning of the industrial society. Since the industrialization traditional market structures decomposed and lead to new social, political and economical challenges for the state. As a consequence a new level between state and individual has developed: groups. Associations are one of these groups. The question is whether the mentioned issues in the procurement of public goods by Olson in the area of the automobile industry even exist or the logic of collective action in this area has to be extended. Thereby I will analyze in this framework whether the term “group size” is advisable as a criterion for the success of a group within the automobile industry. Moreover I will examine the relevance of other indicators like the perceptibility of the achievements of an individual.

The main question in this context is:

Why do European Automobile Associations achieve common group objectives (public goods) like „Decisive political advantages“, as per Mancur Olson’s logic of collective action this achievement is not possible in a large group?

Following assumptions have to be considered:

1. Assumption 1: „Decisive political advantage“ is a **public good** in the terms of Mancur Olson.
2. Assumption 2: The group which is accounting for the achievement of public goods is a **large group** in the terms of Mancur Olson.

Referring to the first assumption I had different ideas to my mind. More precisely there are more assumptions possible than “Decisive political advantage”. The ACEA as an example has various group objectives which can be achieved. Other possible assumption can be formulated like this:

Assumption 1\*: Raise of salary

Assumption 1\*\*: Better working conditions

Assumption 1\*\*\*: Favorable legislation

All above mentioned possible group objectives have one important factor in common. They all can be implemented through economic and political communication and at last through a positive decisive political decision. That is my basic motivation for choosing “Decisive political advantage” as the main assumption to analyse.

## 1.1 Methodology

The subject of Mancur Olson’s logic of collective action falls in the area of rational choice theories and has played a significant role in many sociological studies. It is often taken for granted that groups of individuals tend to act in support of their group interests because of their rational, self-interested behavior. This opinion about group behavior has been implicitly or explicitly accepted by many economists of diverse methodological and ideological traditions. Furthermore he demonstrates explanatory power by examining the growth of trade unionism, the concept of economic freedom, Marx’s class theory, orthodox theories of pressure groups, special interest groups and, lastly the unorganized groups. His book is an economic analysis which is blended with political theory and sociology at the same time (The Economist).

The thesis is structurally based on Mancur Olson’s literature about the “Logic of Collective Action- Public Goods and the Theory of Groups”. His work was generously supported by the Social Science Research Council, the Shinner Foundation, and the Center for International Studies at Princeton University<sup>1</sup>. In his book he argues that collective action is unlikely to occur even when large groups of people with common interests exist. Another important statement by Olson is the “Freerider- Problem” on the provision of a collective good. In other words people within a group or association taking a stab at collective action will have incentives to “free ride” on the achievements of others within the group or association. These statements will be tested in the fields of the European automotive industry.

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<sup>1</sup> Olson, M. (1971). The Logic of Collective Action- Public Goods and the Theory of Groups, USA. *Harvard Economic Studies*, pp.vii.

Since the creation of the SEM the outstanding growth in the automotive industry upgraded those bodies of entrepreneurs which are now referred to as key industries<sup>2</sup>. The significance of the automotive industry for Europe's economy can be demonstrated by following facts:

#### 1. Manufacture of vehicles<sup>3</sup> (Germany)

	2009	2010*	Change in %
Sales (Euro Mn.)	207,750	248,733	19.7
Domestic sales (excl. VAT)	75,589	73,551	- 2.7
Foreign sales	132,161	175,183	23.6
Employees (yearly average)	406,408	398,252	- 2.0

Table 1. Source: Verband der Automobilindustrie – Annual figures

\* partially interim or estimated figures

Europe is the world's largest vehicle producer. One third of the 50 Million cars produced globally are manufactured in the European Union. In total, more than 12 Million European families depend on automobile employment, with 2.3 direct jobs and another 10 Million in related sectors. The car industry represents 6 % (12, 1 Mn. people) of European total employment (Based on EUROSTAT data, 2005<sup>4</sup>) Thereby this indication can be divided into two fragments: 3, 5 % of 10 % (1,2 Mn) includes indirect automotive manufacturing employment and 6,5% of 10 % (2,2 Mn) includes direct automotive employment . As per the ACEA "the European automobile industry plays a pivotal role in Europe's economy, driving wide-scale industrial activity, boosting investment and innovation, bolstering economic growth."

These facts in particular are the main reasons for choosing my bachelor thesis on the grounds of Mancur Olson's theory of groups. The thesis is compromised of four major parts, beginning with an overview of the automotive industry in Europe and its associations. In order to give an insight about the hitherto findings I will present the state of the art of research in this subject especially with regards to Mancur Olson's logic of collective action.

I will then explain what conceptually underlies this logic of collective action then transfer it to the European automotive industry and its association. Special emphasis will be on the analysis of the assumptions I introduced in the very first part of my work. To conclude the thesis I will sum up the findings regarding EU automotive associations and the applicability of Mancur Olson's methodological approach on my analysis. Finally I will give a brief estimation about the assessment of Mancur Olson's impact on the European automotive economy and an outlook about possible future developments of group performance in the European automotive industry as a subject.

<sup>2</sup> Moneta, Dr. E.H. (1963). Die europäische Automobilindustrie –Unternehmungen und Produktion. Baden-Baden. Verlag August Lutzeyer, p. 23.

<sup>3</sup> <http://www.vda.de/en/zahlen/jahreszahlen/allgemeines/> [Accessed 06-23-2011].

<sup>4</sup> Cf. Annex. Key figures. Automotive employment put into perspective (Source: [http://www.acea.be/images/uploads/files/20100902\\_2010\\_KEY FIGURES\\_1\\_Employment.pdf](http://www.acea.be/images/uploads/files/20100902_2010_KEY FIGURES_1_Employment.pdf))[Accessed 06-23-2011].

## 2. European automotive economy put into perspective

The European automotive industry disposed itself to the most significant key industries in the world. On the one hand the automotive industry is an important purchaser of the capital goods industry and on the other hand it is a major consumer of raw materials like the iron- and steel industry<sup>5</sup>. The industry can be divided in eight sub-industries<sup>6</sup> as follows:

1. Innovation and Education
2. Sales and Services
3. Transport and commerce
4. Fuels and electricity
5. Manufacturing and employment
6. Driving and mobility
7. Roads and infrastructure
8. Taxes and revenues

In consideration of the sub-industries mentioned above the industry covers large fields of the European economy, either direct or indirect. The mobilisation and combination of diversified competencies along these different industry fields underline the deep-seated and rapid developments that have taken place within this sector. Furthermore the automobile industry is in a “regime of permanent innovation”<sup>7</sup>. More precisely along with the enlargement of the European space, rapid transformations in the automobile industry’s productive organisation have affected the sector’s geography in Europe.<sup>8</sup> What we are witnessing in these new geographic configurations is a “double extension” (enlargement and intensification) through the spatial agglomeration of activities movement.<sup>9</sup> We can say that the opening up of the automobile industry to CEEC (Central and Eastern European Countries) is one of the main developments of the past few years.

Romania for example, with an optimal positioning in Central and Eastern Europe for increasing demand and automotive production, has processed a strong automotive industry with a modern and diversified supplier network. A new opportunity to develop further has arisen after Ford’s takeover of the Daewoo Craiova plant<sup>10</sup>. Furthermore the Romanian

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<sup>5</sup> Moneta, Dr. E.H. (1963). Die europäische Automobilindustrie –Unternehmungen und Produktion. Baden-Baden. Verlag August Lutzeyer, p. 24.

<sup>6</sup> [http://www.acea.be/index.php/collection/the\\_automobile\\_industry\\_in\\_europe/](http://www.acea.be/index.php/collection/the_automobile_industry_in_europe/) [Accessed 06-23-2011].

<sup>7</sup> Lung, Yannick (08/2004). The Challenges of the European Automotive Industry at the Beginning of the 21<sup>st</sup> Century. *Groupement de Recherches Economiques et Sociales*. France: Université Montesquieu Bordeaux IV <http://cahiersdugres.u-bordeaux4.fr/2004/2004-08.pdf> [Accessed 06-23-2011].

<sup>8</sup> Layan J.B., Lung Y. (2004): „Dynamics of Regional Integration in the European Car Industry”, in *Cars, Carriers of Regionalism?*, J. Carrillo; Y. Lung and R. van Tulder (eds.), London: Palgrave- Macmillan, pp. 57-74.

<sup>9</sup> Lung, Yannick (08/2004): The Challenges of the European Automotive Industry at the Beginning of the 21<sup>st</sup> Century. *Groupement de Recherches Economiques et Sociales*. France: Université Montesquieu Bordeaux IV, pp. 5-15 <http://cahiersdugres.u-bordeaux4.fr/2004/2004-08.pdf> [Accessed 06-23-2011].

<sup>10</sup> <http://www.automotiveworld.com/news/emerging-markets/62136-romania-ford-proposes-675m-investment-for-daewoo-craiova> [Accessed 06-23-2011].

automotive sector has known an important development during 2001-2007, mainly due to Renault's involvement at Dacia and its suppliers' investments. Following on their footsteps, more and more significant automotive suppliers decided to create production facilities in Romania. Taking into account that Renault decided to increase Dacia's production capacity to 400,000 vehicles per year and the CKD<sup>11</sup> 800,000 collections (equivalent of 400,000 vehicles), growth of the automotive sector in this area is assured (ACEA Country Profiles).

In the eyes of the global automotive sector Poland is, next to Romania, one of the most attractive countries in Europe as well. "The Polish car industry, one of the country's first sectors to be privatised in the early 1990s, is playing an increasingly important role in the national economy: its share in GDP creation was around 4% in 2007, and it represented 11.2% of total industrial production. The country produced nearly 700,000 cars in 2007, with production rose by 33% within 9 months of 2008"<sup>12</sup>. Both vehicles manufactures and suppliers have made major investments in this part of the world seeking new markets and production locations that offer a skilled and cheap workforce to produce vehicles and components featuring a level of technological complexity that is often relatively low.

I also want to advert to the distinctiveness of the European automobile market. Whereas in the early 1990s some observers worried about the European automobile industry's competitiveness and about its ability to resist the rise of the new Japanese and China champions, it would appear that the structural changes which this branch has gone through over the past decade have enabled its firms, and notably its manufacturers, to consolidate their positions not only in their local regional market (stagnation of Japanese market share, financial losses by American subsidiaries) but also in other markets via alliances or mergers (in particular the Renault-Nissan alliance and the Daimler Chrysler merger). According to the Top 20 motor vehicle producing countries (2010), China takes first place with 13,897,083 Mn. produced cars and Japan ranks second place with an 8,307,382 Mn. estimated car production<sup>13</sup>.

Besides the fact that rapid transformations in the automobile industry's productive organisation have taken place, we can also conclude a negative transformation since the early 1990s. The number of economic self-employed automotive manufacturers declined notably in the last two decades. In Germany for the year 2000 it was estimated that almost 80% of total revenue in this branch and 66% of total employees falls on the ten most top-selling automotive companies<sup>14</sup>. World-wide we can see a result of a similar image: Round 74% of the automotive production is generated by the ten biggest automotive manufactures as you can see in table 2. This process of concentration within the automotive industry caused radical changes in the structure of this branch.

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<sup>11</sup> Definition CKD (Completely Knocked Down): *Fully disassembled item (such as an automobile, bicycle, or a piece of furniture) that is required to be assembled by the end user or the reseller. Goods are shipped in CKD form to reduce freight charged on the basis of the space occupied by (volume of) the item.*

[www.businessdictionary.com](http://www.businessdictionary.com).

<sup>12</sup> [http://www.acea.be/index.php/country\\_profiles/detail/poland#text](http://www.acea.be/index.php/country_profiles/detail/poland#text) Association des Constructeurs Européens d'Automobiles [Accessed 06-23-2011].

<sup>13</sup> <http://oica.net/category/production-statistics/> [Accessed 06-25-2011].

<sup>14</sup> Vgl. Statistisches Bundesamt (Hrsg., 2002): Statistisches Jahrbuch 2002, p. 190 in Marschner, Karina (2004): Wettbewerbsanalyse in der Automobilindustrie – Ein branchenspezifischer Ansatz auf Basis strategischer Erfolgsfaktoren. Deutscher Universitätsverlag/GWV Fachverlage GmbH, Wiesbaden 2004, p.7



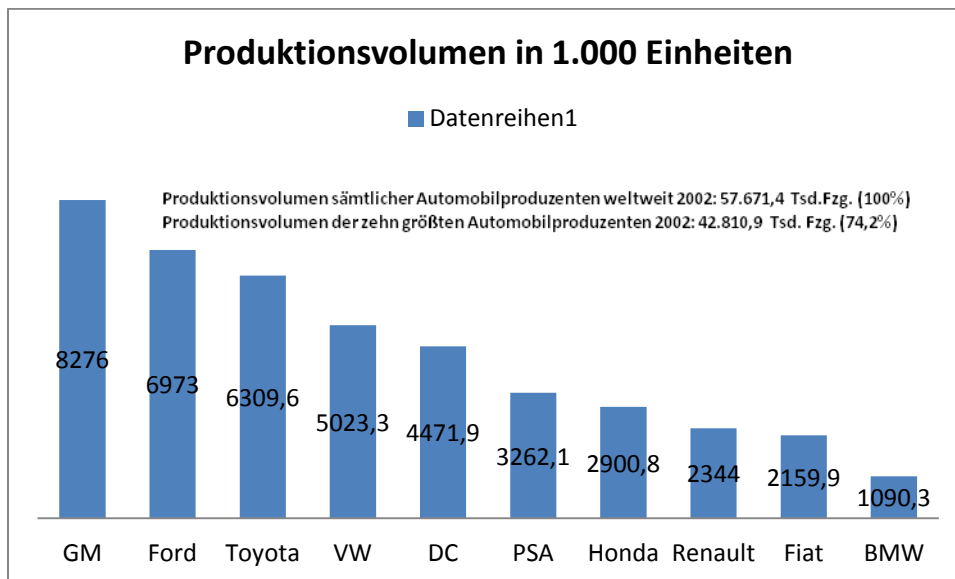


Table 2. Source: Own illustration see *Automotive News (Hrsg., 2003): Market Data Book*, in Marschner, p. 79.

By looking at the market itself and its productive organisation, we see that its specificities are the mirror image of the limitations of globalisation, in the sense that certain segments that are important outside of Europe are marginal there: in the United States light trucks represent more than one half of automobile sales (vs. less than 5 % in Europe). More precisely for the year 2010 the total number of light trucks sold amounts 5,919,144 Mn. (51.20 %) <sup>15</sup>. Furthermore smaller, fuel-efficient “mini-cars” are very present in Japan (30%). However the European consumer expects a model that is different both in terms of design and technical characteristics (with diesel motors being very important and accounting for 43 % of the market) <sup>16</sup>.

European carmakers benefit also from a strong competitive advantage in terms of design capabilities. In Europe the presence of fabrics of medium-sized firms that offer highly developed technological competencies, not only in the luxury car/sports or car/racing car niche (like Ferrari, AMG, Brabus) but also in support of the major European car makers' design and small series production activities illustrate a crucial difference in comparison to the United States and Japan. Now we can say that within this triad market vehicles sold in Europe differ from the ones being sold in the USA or Japan.

Moreover in these industrialized countries it is initialled a tendency towards the individualisation of customer preferences. First of all the main reason for this, is due to societal change and therewith the changing role of a vehicle for a human being <sup>17</sup>. Up to the 1970s the possession of a car was an exclusive symbol for one's status and furthermore the

<sup>15</sup> <http://www.autoalliance.org/index.cfm?objectid=0DDE4480-6810-11DF-A46000C296BA163> [Accessed 06-25-2011].

<sup>16</sup> Lung, Yannick (08/2004). The Challenges of the European Automotive Industry at the Beginning of the 21<sup>st</sup> Century. *Groupement de Recherches Economiques et Sociales*. France: Université Montesquieu Bordeaux IV <http://cahiersdugres.u-bordeaux4.fr/2004/2004-08.pdf> [Accessed 06-23-2011].

<sup>17</sup> Marschner, Karina (2004): Wettbewerbsanalyse in der Automobilindustrie – Ein branchenspezifischer Ansatz auf Basis strategischer Erfolgsfaktoren. Deutscher Universitätsverlag/GWV Fachverlage GmbH, Wiesbaden 2004

car as a transport service ranked first<sup>18</sup>. In the meantime an advancement of our wealth- and earning capacity led to a rising stage of the vehicle density which means that in the year 2000 in Germany already 74,4 % of all households had a car available.<sup>19</sup> Based on these facts nowadays mobility is implicitness. Customers are increasingly searching for individual an added benefit which has potential for differentiating from other vehicle owners<sup>20</sup>. Finally we can record that a progressive individualisation of customer preferences is effecting a fragmentation and polarisation of the automotive industry. This trend has specific consequences for the market. The elevated variety of products is causing higher costs of development and less economies of scale. The arising cost pressure is a major reason why automobile manufacturer are increasingly escaping on international markets and entering co-operation with other manufacturers. Hence the individualisation of customer preferences is an important force for competition within the automotive market.

## 2.1 Internationalisation

Exceptionally the automotive industry is characterized by a number of various processes it went through. Key words like industrialization or globalization put significant influence on the different industry fields. According to Pries (1999) we can distinguish between three different phases within the automotive industry:

1. Export
2. Production in a foreign country
3. Companies' global operation

It is important to mention that it is not possible to summarize industries in phases like Pries did.<sup>21</sup> But it is possible to categorize individual companies. To come back to Pries' three phases, the third phase is almost never reached, whereas the first and second phase has been reached already hundred years ago. Export was present at almost every time, in some parts to an applicable extent. Until 1914 primarily the French, afterwards the British, exported. In 1909 London had more cars than France at all. We can guess that a major part has been shipped to Britain from France, because France was at that time leading in Export worldwide.<sup>22</sup> In the 1970s Japan displaced the French and Renault/ Volkswagen<sup>23</sup> and they dominated the market further on. The big American manufacturers have started early with their production overseas and outside their country borders (phase 2). If we have a closer

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<sup>18</sup> Vgl. Winzen, U. (2002): Neue Trends in der Automobilindustrie. In: Die Wirtschaft – Wirtschaftsmagazin der Industrie- und Handelskammer Bonn Rhein-Sieg, o. Jg., Nr. 7/8, S. 8-11.

<sup>19</sup> Marschner, Karina (2004): Wettbewerbsanalyse in der Automobilindustrie – Ein branchenspezifischer Ansatz auf Basis strategischer Erfolgsfaktoren. Deutscher Universitätsverlag/GWV Fachverlage GmbH, Wiesbaden 2004.

<sup>20</sup> Vgl. Winzen, U. (2002): Neue Trends in der Automobilindustrie. In: Die Wirtschaft – Wirtschaftsmagazin der Industrie- und Handelskammer Bonn Rhein-Sieg, o. Jg., Nr. 7/8, S. 8-11.

<sup>21</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009.

<sup>22</sup> Richardson, Kenneth (1977): *The British Motorindustry 1896-1939*, London: Macmillan.

<sup>23</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009.

look on international export-relationships from the past we will see that a multiplicity of further activities of phase 1 and 2 has taken place.<sup>24</sup> According to Teuber (2009) processes of internationalisation are irregular and unbalanced. As already mentioned only particular companies are affected and only some of the phases are taken whereas others have been already fallen back to earlier phases.

More precisely a company can fall back from overseas production to national production. After dealing with phases of internationalisation we can say that internationalisation means most notably regionalisation in terms of regions in the world. There is one further crucial point why we don't speak about globalisation in the fields of the automobile industry. Even if a company is present in almost every country; there is no single "World car". I already discussed in section 2 that the automotive market has distinctiveness for each country in the world. There is no single car model, but for different regions automobile companies assert different tastes and demands for car models.<sup>25</sup> Even within a region there is not one type of car dominating, but the demand differs in each national market. In addition it fits in that the manufacturers are scoring very well in their home country in reference to their car sales.<sup>26</sup>

Retrospective we can sum up that the current internationalisation in the automotive industry is happening on higher levels or phases in the terms of Pries than in the past decades. Above all an increase in trading cars can be noticed within a region<sup>27</sup>. The production in the car industry enlarged from national to broader parts within a region. Nowadays European car manufacturers and component suppliers are producing in Eastern Europe considerably (See section 2).

## 2.2 National automotive associations in Europe

### 2.2.1 Theoretical foundation

Subject of the following design will be the associations of the European car manufacturers using the example of Germany, France and Great Britain. First of all we can divide associations and their domain in the automotive industry into two different dimensions:

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<sup>24</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009.

<sup>25</sup> Freyssenet, Michel., Yannick Lung (2000): Between Globalisation and Regionalisation: What is the Future of the Motor Industry?, in: Humphrey, John; Lecler, Yveline and Mario Sergio Salerno (eds): *Global Strategies and Local Realities. The Auto Industry in Emerging Markets*, Houndsmills: Macmillan, pp.72-94.

<sup>26</sup> Williams, K., Haslam, C., Johal, S. and J. Williams (1994): *Cars: Analysis, History, Cases*, Providence: Berhahn Books.

<sup>27</sup> Vickery, Graham (1996): *Globalisation in the Automobile Industry*, in *OECD, Organisation for Economic Co-operation and Development (ed.): Globalisation of Industry. Overview and Sector Reports*, Paris: OECD, pp.153-206.

	Dimension
vertical	Component supplier, finishing, sales and distribution
horizontal	Passenger cars, trucks, special purpose vehicle

Table 3. Source: Own Illustration see Teuber (2009)

In the first row of the vertical dimension the value added chain is listed whereas the second row of the horizontal dimension deals with particular production types. The association's domains of the example countries vary in different ways. On the one hand the horizontal dimension is present in the same way in every of the three countries. On the other hand the value added chain in the vertical dimension comprehends not every period of the value added chain. For instance in France the *Fédération Française du Sport Automobile* (FFSA) represents only end-producers of passenger cars and trucks whereas the German VDA and the *British Society of Motor Manufacturers and Traders* (SMMT) includes component suppliers as well<sup>28</sup>. The British Society of Motor Manufacturers is the only group which is representing and organising dealers of the automobile industry as well. And all three organisations are traditional associations with direct memberships of several companies.

A hundred years ago in the early stage of industrialisation the European automotive associations worked closely together with representatives of the cycle industry. The past most significant scope of duties were interrogating within the trade policy, aspects of regulations, taxation of cars, and issues of standardisation within the industry. First and foremost opposing interests in the automobile industry came from areas of the horse and rail industry.

## 2.2.2 Germany

The birthplace of Germany's association was on 19 January 1901<sup>29</sup> in Eisenbach. The tasks the

VDMI set itself can be summarized as follows<sup>30</sup>:

1. Promotion of road transport
2. Defence against "burdensome measures by the authorities" (taxation, liability obligations)
3. Customs protection
4. Monitoring of motor shows

<sup>28</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009, p.111.

<sup>29</sup> „Verein Deutscher Motorfahrzeug-Industrieller (VDMI) - "Association of German Motor Vehicle Industrialists" - was founded by Gustav Vischer (manager of Daimler Motoren Cannstatt), Baron Eugène de Dietrich (Dietrich + Co. Niederbronn/Elsaß), Heinrich Kleyer (manager of Adler-Fahrradwerke Frankfurt/M.), Gustav Ehrhardt (manager of Fahrzeugfabrik Eisenach), Willy Tischbein (manager of Conti Gummi), Moritz Hille (Hille-Werke Dresden), Wilhelm Opel (Opel Rüsselsheim), Karl Fichtel (Fichtel + Sachs Schweinfurt), and Gustav Freund (manager of Automobiltechnische Gesellschaft, Automobilausstellung Berlin)“, <http://www.vda.de/en/verband/historie.html>, [Accessed 07-04-2011].

<sup>30</sup> <http://www.vda.de/en/verband/historie.html> [Accessed 08-04-2011].

In 1923, the VDMI was renamed the “*Reichsverband der Automobilindustrie*” (RDA) and after World War II on 2 May 1946 the organisation was re-established under the present name, “*Verband der Automobilindustrie*” (VDA). Since that time the German VDA developed to an association with strong resources and a relatively strong independence in comparison with other associations on an international level. Thereby the dependency on members of their association could be reduced to a significant degree. This certain autonomy guided the VDA on European Level. Today the German VDA established an European Office, dominates a European special interest group, is member of the European Automobile Association “*Association des Constructeurs Européens d'Automobiles*” and can therefore operate with various strategies on international level. Membership within the VDA is structured and composed in 5 five different categories. Currently it has more than 600 member companies. They produce motor vehicles, trailers, body structures, buses and vehicle parts and accessories. The different groups are divided as follows:

1. Manufacturer Group I: Follows the links to the manufacturers of automobiles and their motors.
2. Manufacturer Group II: Trailers, Special Bodies, buses are manufactured by these members.
3. Manufacturer Group III: More than 500 members supply parts and accessories.
4. Extraordinary members: Further members complement the German Association of the Automotive Industry
5. Corporate members: Follows the links to the corporate members.

### 2.2.3 France

Since 1909 the French Automobile Association CCFA<sup>31</sup> still exists. Before that date it went through three different stages until it developed to a fully automotive organisation. Firstly from 1896 on there was an association for cycle- and automobile manufacturers. Since 1898 it coexisted an association with a membership composed only of automobile manufacturers. Continuous conflicts inside of this sector and associations resulted into a fourth association: *Comité des Constructeurs Français d'Automobiles*<sup>32</sup>. If we consider the organisational development of France' Automobile Association, the independence, strength and autonomy compiled from intensive conflicts and repeated contrary associations<sup>33</sup>.

Furthermore since 1945 France has developed important structures within the industry (productional structures, employee relationships etc.), which made France more influential and the association less powerful. Lastly the fact that some individuals within the French association maintained contacts to the government led to weaker and less influential association.<sup>34</sup> If we compare France and Germany as a representative organisation in the

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<sup>31</sup> From 1909 till 1990 named Chambre Syndicale des Constructeurs d' Automobiles (CSCA)

<sup>32</sup> <http://www.ccfa.fr/> [Accessed 08-04-2011].

<sup>33</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009, p.117.

<sup>34</sup> Szokoloczy- Syllaba, Janos (1965): *Les organisations patronales et le Marché Commun*, Paris: Armand Colin.

automotive industry we can say that Germany is more developed regarding organisational aspects than France. Another important aspect which makes France more different than Germany and Great Britain is the membership of manufacturers with a registered office and company in a foreign state. France has blocked potential members which are producing outside of France since 1945.<sup>35</sup>

## 2.2.4 Great Britain

In comparison to Germany and France, Great Britain has the most complex membership in their automobile association *Society of Motor Manufacturers and Traders* (SMMT) since 1902. Frederick Simms was a British engineer and pioneering visionary of today's British motor industry. He believed the fragmented nature of the UK's motor industry needed to be addressed by creating a UK representative body to provide leadership, protection and direction to the British motor industry. The principal aim of the Society was to exercise control over motor shows and the first SMMT exhibition was held at Crystal Palace in January 1903, and then later moved to Olympia where it remained for 32 years.<sup>36</sup>

The association's membership has quickly been enlarged on commercial vehicles and even automobile dealers." In 1966, government and SMMT discussed a centralised vehicle registration system and in June 1969 the Vehicle Driving Licenses Act received Royal Assent (DVLA). SMMT would use the new licence documentation to provide the UK's new vehicle registration statistics. In July 1972, the Motor Vehicle Registration Information System (MVRIS) began operating using part of the registration document<sup>37</sup>. Despite the nationalisation of Great Britain's automobile manufacturers in the 1970s the SMMT still acted as an independent body, observe the government as well. As the owner of British Leyland<sup>38</sup> (Since 1986 renamed Rover) the government was present with a seat within the association's leadership. But the government had only the function as a passive actor.<sup>39</sup> The following aspects are the most important reasons for the SMMT's key role as a significant and powerful actor within Europe's automotive industry:

1. Considerable organisational and financial size
2. Wide membership domain
3. Fundamental coordinator in innovative technology since 1990

In conclusion we can say that Germany's and France's automobile associations constitute the two ends of a pole whereas the British SMMT is located in the middle. Considering size and importance in a national system the SMMT equals the German one; however the SMMT lacks relatively more independence in relation to politics than the German VDA. Associations develop most notably under the influence of a state, its government and membership area. To be more precisely with the design, development and expansion of an association I will now discuss two important criterions.

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<sup>35</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009, p.118.

<sup>36</sup> <http://www.smmt.co.uk/about-smmt/history/>[Accessed 08-05-2011].

<sup>37</sup> <http://www.smmt.co.uk/about-smmt/history/>[Accessed 08-05-2011].

<sup>38</sup> British Leyland Motor Corporation (BLMC) founded 1986 in Great Britain.

<sup>39</sup> Teuber, Jörg (2009): Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. *Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009, p.119.



To alleviate the analysis of associations I will make use of two different theories which are essential of how groups are organised: Pluralism/Neokorporatism and Schmitter/Streecks model of the relationship between the logic of influence and the logic of membership within a group or association. Important is to consider where to position associations or special interest groups. Should state and society be examined separately or not? And what kind of role does an interest group or association play? The answer depends on different factors and these factors I am going to explain in the next sections with main focus on the automobile industry and Mancur Olson's objections

### 3. Special interest groups on EU Level

At the present there are thought to be approximately 3 000 special interest groups of varying types in Brussels, with up to 10 000 employees working in the lobbying sector. Within this total there are more than 500 European and international federations (whose constituent members belonging to national associations number more than 5 000). In addition, there are 50 offices in Brussels representing "Länder", regional and local authorities (some of which may of course participate in the institutional framework of the Community and it is only their other activities which are concerned by this communication). There are more than 200 individual firms with direct representation, and about 100 consultants (management, and public relations) with offices in Brussels and many others dealing with Community affairs. Moreover there are 100 law firms in Belgium specializing in Community law and many more in other countries (both Member States and beyond)<sup>40</sup>.

The Single European Act, coupled with the progress of the White Paper programme, prompted a sharp increase in lobbying at Commission level. At the same time there was a shift in the need for information from a general to a specific level. Evidence of this is that independent consultants began to obtain monitoring contracts from clients. Moreover, organizations sought to exert influence directly and/or through intermediaries such as consultants. For similar purposes, large firms from third countries increasingly set up offices in Brussels. In addition, some of these special interest groups serve as a channel to provide specific technical expertise to the Commission from a variety of sectors, such as in the drafting of technical regulations<sup>41</sup>.

#### 3.1 Channels for interference purpose on EU level

Generally speaking national associations or interest groups have the opportunity to influence the European Union's policy making through a number of different channels<sup>42</sup>. We can differentiate between following channels a group can use for their purpose:

1. Channel through the **national government**
2. Channel through **European Associations**
3. (Individual) Channel through direct contact to **European Institutions**

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<sup>40</sup> [http://ec.europa.eu/civil\\_society/interest\\_groups/docs/v\\_en.pdf](http://ec.europa.eu/civil_society/interest_groups/docs/v_en.pdf) [Accessed 08-10-2011].

<sup>41</sup> Meynaud, Jean et Dusan Sidjanski (1971): Les Groupes de Pression dans la Communauté Européenne 1958-1968. Structure et Action des Organisations Professionnelles, Brussels: Université Libre de Bruxelles, p139.

<sup>42</sup> Sargent, Jane (1986): The Pattern of British Interest Group Representation in the European Communities. Six Case Studies 1972-1982, Ph.D. thesis, London School of Economics and Political Science.

#### 4. Channel through **multinational companies**

From the point of view of a national association two channels are the most important one: The channel through the national government and the channel through European associations<sup>43</sup>. On the level through national government associations have even more influential power than through European associations. This was strongest at the times of European Integration<sup>44</sup>. The reason for this is that the cooperation between associations and government equipoised after a while. To some extent representatives of associations and representatives of the government got together weekly<sup>45</sup>. This was and is still a fundamental work for a strong cooperation. The influence on their own government has some important beneficial aspects. Firstly it is possible and important to control and sometimes (if necessary) to pressure government through public relations. Secondly it is also important to mention that within a channel via government it is not necessary to cooperate and debate with other associations from other countries. It is also easier to cooperate through national channel because the permanent representatives of the government have an office on European Level as well. Therefore it is possible to communicate at EU level through the national channel.

On EU level explicit Commission rules (such as accreditation, registration, code of conduct) towards special interest groups do not exist. However, the Commission has a general policy not to grant privileges to special interest groups, such as the issuing of entry passes and favoured access to information. Nor does it give associations an official endorsement by granting them consultative status. This is because the Commission has always wanted to maintain a dialogue which is as open as possible with all interested parties without having to enforce an accreditation system. Commission services have drawn up directories which list Community trade, agricultural, industrial and other relevant professional associations as a first tool in the search for increased understanding of special interest groups<sup>46</sup>. While there are no general problems with such contacts, there have been cases where more aggressive styles of lobbying have been encountered. Misdemeanours have occurred, such as lobbyists selling draft and official documents; lobbyists misrepresenting themselves to the public by the use of Commission symbols; lobbyists who are in possession of a press card and therefore have direct access to press conferences and press releases. One of the reasons cited for the success of the trade in Commission documents is the length of time it takes to obtain them through official channels as I already mentioned (this is partly due to the unavoidable delays inherent in the translation process). Some problems of confidentiality also exist<sup>47</sup>.

### 3.2 Relationship: National and international associations

In this section I have to attach importance to the power relations between national and international associations to alleviate my concentration of analysis later on. The dominance of national associations is obvious most notably because of one important aspect: the power

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<sup>43</sup> Teuber, Jörg (2009): *Interessenverbände und Internationalisierung- Dachverbände, Automobilindustrie und Einzelhandel in der Europäischen Union. Forschung zur Europäischen Integration*, VS Verlag für Sozialwissenschaften /GWV Fachverlage GmbH, Wiesbaden 2009, p.147.

<sup>44</sup> Sargent, Jane (1986): *The Pattern of British Interest Group Representation in the European Communities. Six Case Studies 1972-1982*, Ph.D. thesis, London School of Economics and Political Science.

<sup>45</sup> Platzer, Hans-Wolfgang (1984): *Unternehmensverbände in der EG. Ihre nationale und transnationale Organisation und Politik*, Kehl/Straßburg: Engel.

<sup>46</sup> [http://ec.europa.eu/civil\\_society/interest\\_groups/docs/v\\_en.pdf](http://ec.europa.eu/civil_society/interest_groups/docs/v_en.pdf) [Accessed 08-18-2011].

<sup>47</sup> [http://ec.europa.eu/civil\\_society/interest\\_groups/docs/v\\_en.pdf](http://ec.europa.eu/civil_society/interest_groups/docs/v_en.pdf) [Accessed 08-18-2011].



of resources. More precisely the national associations created the European associations, in fact as their instruments. This makes national associations as the most important actor and the most influential one. Furthermore they rule over considerably more resources than their European association. Either international associations have no administrative divisions at all or they rule over a small international office outside their origin country for example an office in Brussels. There is one fact all members of national associations are in agreement with: The function of an office in Brussels is only to improve the flow of communication between national associations and the political system of the European Union. Table 4 is an illustration to clarify the proportion of power between the different levels of associations.

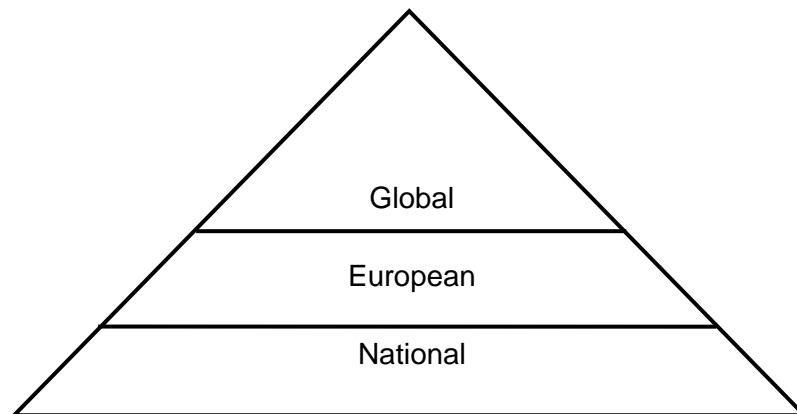


Table 4. Source: Own Illustration

#### 4. State of the art of research

In his essay Olson refuted a thitherto adopted paradigm, according to which all stakeholders have an interest in a common goal and come together to form an interest group to participate in achieving this common goal<sup>48</sup>. He also writes that “the assumption that organizations typically exist to further the common interests of groups of people is implicit in most of the literature about organizations, and two of the writers already cited make this assumption explicit: Harold Laski emphasized that organizations exist to achieve purposes or interests which “a group of men have in common,” and Aristotle apparently had similar notion in mind when he argued that political associations are created and maintained because of the “general advantages” they bring”<sup>49</sup>. According to Olson those groups will not succeed in achieving that goal which is aimed by their members or rather succeed only within a sub-optimal scale. Thereby Olson explains that reaching a common goal depends on certain factors. This will be examined in the following sections.

<sup>48</sup> Bauerdick, Johannes: Lexikoneintrag zu „Olson, Mancur – Die Logik des kollektiven Handelns. Kollektivgüter und die Theorie der Gruppen“. In: Oesterdickhoff, George W. (Hrsg.)2001: Lexikon der soziologischen Werke. Opladen: Westdeutscher Verlag, p. 518.

<sup>49</sup> Olson, M. (1971). The Logic of Collective Action- Public Goods and the Theory of Groups, USA. *Harvard Economic Studies*, p.9.

## 4.1 Group size

One of Olson's central ideas is the dependence of a group of their group size relating to their success. He states that in "any event, size is one of the determining factors in deciding whether or not it is possible that the voluntary, rational pursuit of individual interest will bring forth group-oriented behavior. Small groups will further their common interests better than large groups"<sup>50</sup>. However Olson's the criteria for group size and group behavior is not clear in the first place. To be more specific on the one hand he states that the group size is one of the key criteria for the success of a group in achieving their common goal and thereby classifies three different options: large, small and medium-sized groups. We can agree that this is a statement on quantitative grounds. On the other hand it is not clear if he excludes at the same time group size in a qualitative sense. But in his chapter *Taxonomy of Groups* he says that it now seems that small groups are not only quantitatively, but also qualitatively, different from large groups and that the existence of large associations cannot be explained in terms of the same factors that explain the existence of small groups.<sup>51</sup> Olson is convinced from the assumption that there is a causal relationship between the size of a group and its success in producing a collective good<sup>52</sup>. Moreover he confirms this causal relationship with the low notice of efforts of an individual group member in a large group and increasing organizational cost for the providing of a collective good in a large group. This means that we can sum up three different factors that keep larger groups more from furthering their own interests than smaller ones.

1. First, the larger the group the more an individual observes that his own effort or contribution will not greatly affect the performance of the group, but expects that he will get his deserved share of the earnings whether or not he contributes as much as he could have done.
2. Secondly, the larger the group the larger the costs of organization. To establish a group agreement for example organization will tend to be always more difficult and complex the larger the number of group members. This means that it is difficult for a large group to organize and locate even before any of the collective good at all could be obtained.
3. Third, the larger the group, the smaller the fraction of the total group benefit any person acting in the group interest receives<sup>53</sup>.

In his chapter about the *Taxonomy of Groups* Olson realizes that the efficiency of a group does not solely depend on the number of individuals in the group ("It is not, however, strictly accurate to say that it depends solely on the number of individuals in the group. The relation between the size of the group and the significance of an individual member cannot be defined quite that simply" Olson, p.45). To begin with we can adhere to the statement that the success of a group in providing a public good depends on quantitative traits. Thereby he

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<sup>50</sup> Olson, M. (1971). *The Logic of Collective Action- Public Goods and the Theory of Groups*, USA. *Harvard Economic Studies*, p.52.

<sup>51</sup> Olson, M. (1971). *The Logic of Collective Action- Public Goods and the Theory of Groups*, USA. *Harvard Economic Studies*, p.52.

<sup>52</sup> „Clearly then groups with larger numbers of members will generally perform less efficiently than groups with smaller numbers of members" Olson, p. 28.

<sup>53</sup> Olson, M. (1971). *The Logic of Collective Action- Public Goods and the Theory of Groups*, USA. *Harvard Economic Studies*, p.48.

assumes that the quantity is a basic criterion and this in turn has sub-criterion (e.g. costs of organization). His book reveals not a lot about the qualitative characteristics a group should have and about the impact these characteristics can have on the success or failure in providing a collective good. At this point it is important to distinguish between quantitative and qualitative characteristics as will be shown later on more precisely, to emphasize that a group despite significant group size is able to provide a collective good, because the relation between group members is arranged in a certain way (quality).

As Olson views the group size in a quantitative manner as a crucial criterion for the success of a group, these objects and other key characteristics of Olson's theory will be discussed in the next section briefly. Thereby I will tie in with the impact of Mancur Olson's logic of collective action in the European automobile industry.

#### 4.1.1 Large groups

In Olson's point of view in a *large group* (latent group) none individual's contribution makes a difference to the outcome of the groups taking action, even the burden or benefit of any single member of the group. Moreover in his mind it is certain that a collective good will not be provided unless there is coercion or some other inducements that will lead the members of the large group to act in their common interests<sup>54</sup>.

With other words if the impact of an individual action in a large group to the aspired public good is so small that the exoneration and at the same time the contamination within the group are so low that they cannot be detected by the latter. More precisely there is a high feasibility of low interdependence between the various members of a large group. If there are no other incentives then the successful procurement of the public good the members of the group will not participate in providing the good, because as rational individuals they will try to minimize their own individual costs. All of the individual members of this group can benefit from the efforts of each member and all can benefit substantially from collective action, but the theoretical conclusions mentioned above assume that some members in a large group may not contribute to their share. This phenomenon is called the *Free-Rider Problem*.

Free-riding on the provision of a collective good is often characterized as morally wrong<sup>55</sup>. To my mind free-riding in a large group with rational individuals is not only possible but unavoidable and the logical necessity of rational action. Since a rational individual avoids useless actions - useless to those actions considered to have no significant effect on achieving the intended goal –freeriding and rational action will always coexist. This means that group members who are rational, consequently, reduce their contributions once they have the impression that the group goal can be achieved without their contribution.

Furthermore the organizational costs in a large group to provide a public good will increase by a fact I already mentioned – low interdependence between members. This leads to the conclusion that a formal organization is necessary to regulate on the grounds of agreements

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<sup>54</sup> Olson, M. (1971). *The Logic of Collective Action- Public Goods and the Theory of Groups*, USA. *Harvard Economic Studies*, p.44.

<sup>55</sup> "If others are cooperating for mutual benefit and I benefit from their cooperation, then I have an obligation to do my share." H.L.A. Hart (1955).

and meetings the allocation of the group's resources<sup>56</sup>. According to Olson the free-riding actions in conjunction with the relatively high cost of the organization has the consequence that these groups cannot obtain public goods, or they succeed only in a sub-optimal scale. However, Olson allows large groups to obtain the intended public goods, namely, if they manage to create selective incentives. I will come back to that in the next sections.

#### 4.1.2 Small groups

Olson calls those groups in which high interdependence of the individual group members exist *small groups* (or privileged groups). In this context high interdependence means that the contributions of each individual actor can be noticed by all other group members. These conditions makes free-riding less attractive than it is the case in large groups, where lacks of contributions are not noticed. Small groups are next to the high dependence featured with the fact that the proportion of an individual member's total profit is so great that it would bear the entire cost itself rather than disclaiming the good<sup>57</sup>. Positively formulated: Each member of a small group has more reason to obtain a collective good – if necessary alone – than disclaiming the good. This means also that each individual in a small group is such of great interest in providing a collective good that it is ready to carry the entire expense of the group for their attainment.

There is a tendency that the members with the greatest interest and the greatest assets in providing a public good, once it has obtained the amount he wants, it will bear a disproportionate share of the burden. In other words in a small group the member with the largest fraction obtained will not share his power to provide the good and not even his portion of the good with other members within the small group. Olson calls this phenomenon "Exploitation of the great by the small"<sup>58</sup>.

There are a couple of arguments which underline Olson's statement that the likelihood of reaching the group goal in small groups is relatively high: First the readiness of one or more actors within a small group to bear the total costs of a good, second the noticeable earnings of the services provided and third the unattractiveness of free-riding lead logically to a better score in small groups than in large groups. Another favorable feature of small groups to large groups is the possibility to produce collective goods at lower cost than groups with a larger number of members. In small groups this eliminates the cost of agreements on the distribution of burdens and the costs of establishing and maintaining a formal organization structure. In comparison to large groups this leads to a decrease of the cost of procurement of the public good.

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<sup>56</sup> "In short, costs of organization are an increasing function of the number of individuals in the group. (Though the more members in the group the greater the total costs of organization, the costs of organization per person need to rise, for there are surely economies of scale in organization.)" Olson pp. 46-47.

<sup>57</sup> "In a small group in which a member gets such a large fraction of the total benefit that he would be better off if he paid the entire cost himself, rather than go without the good, there is some presumption that the collective good will be provided." Olson p.44.

<sup>58</sup> Cf. Olson, p.29.

### 4.1.3 Medium-sized groups

Olson identifies medium-sized groups where the contribution of every member is noticed (as in small groups) but on the other side nobody is willing to carry the entire costs for the collective good on his own. This aspect comprehends that an individual in a medium-sized group does not obtain a sufficiently large proportion of the total profit of the group to compensate his costs. Just as in large groups it is common for medium-sized groups to require at least to actors to be efficient in obtaining a collective good. This in turn makes it necessary to institute organizational and coordination structures through which agreements can be made about the distribution of burdens. This fact leads to an increase of costs of organization as it is same in large groups<sup>59</sup>. Whether and to what degree a medium sized group finally can reach a common goal remains uncertain<sup>60</sup>.

### 4.2 Noticeability

As already mentioned in section 4.1.1 the noticeability of the performance of each individual in a group plays a not a central but a significant role in Olson's theory about collective action and can be understood as a precondition for the success of a group. Olson assumes that a low noticeability of the benefits of individual group members leads to free-riding and that this happens especially in large groups. This is attributed to the fact that a performed or omitted action in large groups has no significant effect on the action of an individual group member or the group as a whole. In fact Olson points out that "the noticeability of the actions of a single member of a group may be influenced by the arrangements the group set itself"<sup>61</sup>, however he adds that doesn't know any practical example that a group was able to manage the improvement of noticeability of the actions of individual members within a group<sup>62</sup>.

### 4.3 Selective incentives

I already illustrated that as per Olson if one member in a large group does or does not help provide the collective good, no other member will be significantly affected and therefore none has any reason to react<sup>63</sup>. Thus an individual in a "latent group" cannot make a noticeable contribution to any group action; he has no incentive to contribute to the provision of a collective good. In other words, a large group cannot provide a collective good because it doesn't offer their members any incentives to bear in any other way any of the costs of the necessary collective action.

But Olson distinguishes between incentives in common and so called *separate and selective incentives*.<sup>64</sup>As per Olson only the use of *selective incentives* allows a large group to achieve a common aspired goal. A *selective incentive* will stimulate a rational individual in a latent group to act in a group-orientated way.

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<sup>59</sup> "In short, costs of organization are an increasing function of the number of individuals in the group. (Though the more members in the group the greater the total costs of organization, the costs of organization per person need to rise, for there are surely economies of scale in organization.)" Olson pp. 46-47.

<sup>60</sup> „The rational member of such a group faces a strategic problem and while the Theory of Games and other types of analyses might prove very helpful, there seems to be no way at present of getting a general, valid, and determinate solution at the level of abstraction of this chapter." Olson p.43.

<sup>61</sup> Cf. Olson p.45.

<sup>62</sup> Cf. Olson p.45 footnote 67.

<sup>63</sup> Cf. Olson p.50.

<sup>64</sup> Cf. Olson p.51.

Olson says that with the application of *selective incentives* it will be possible that members, who are not contributing in a kind of way to the provision of a collective good, will not be treated differently than those who do so. These *selective incentives* can be either negative or positive. More precisely thereby “lazy” members will be punished or “hardworking” members rewarded, a large or latent group can be mobilized to more action<sup>65</sup>. Within this section about *selective incentives* I can explain why large groups are called latent groups; because they have a latent power or capacity for action, but that potential power can be realized or “mobilized” only with the aid of *selective incentives*. That means that there is likelihood that large groups will provide a collective good either optimal or sub-optimal.

## 5. The Impact of Mancur Olson’s Logic of Collective Action in the Automobile Industry

The aim of this paper is to develop a theoretical framework to study the interaction of economic and political associations in the automobile industry on the grounds of Mancur Olson. This framework seeks to improve our understanding of how business interests can influence the making of legislation in a policy area at the National and European level. The investigations are motivated by the development of the automobile industry and thus the question of the motives for the creation of public goods within their automobile associations. In the next section of this paper I will discuss the main question” why do European Automobile Associations achieve common group objectives (public goods) like „Decisive political advantages”, as per Mancur Olson’s logic of collective action this achievement is not possible in a large group?” and maybe it will show that Mancur Olson’s theory has to be supplemented.

### 5.1 Decisive political decision as a public good

In general a *decision* is the most important task of running a business or management on the central issues of corporate policy<sup>66</sup>. These strategic choices will be essential if new, significant circumstances have occurred, for example, two competitors join forces. The decision process involves all the activities of problem analysis, the search for alternatives, their comparison and evaluation, the decision (decision) itself and the associated additional orders to other organizational units. The decision itself is, for example in the determination of other corporate policies, such as a change in the existing product, pricing and advertising policies.

Thereby the decision itself constitutes the possibility and necessity for the choice between (two or more) alternatives which are not going to be realized simultaneously<sup>67</sup>. There is also a distinction between

- a. *individual* and *collective* decision
- b. *private* (personal) and *public* (political) decision
- c. *purposeful* decision

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<sup>65</sup> “A latent group that has been led to act in its group interest, either because of coercion of the individuals in the group or because of positive rewards to those individuals, will here be called a “mobilized” latent group.” Olson p.51.

<sup>66</sup> [http://www.bpb.de/popup/popup\\_lemmata.html?guid=GARH3Y](http://www.bpb.de/popup/popup_lemmata.html?guid=GARH3Y) , Duden Wirtschaft von A bis Z: Grundlagenwissen für Schule und Studium, Beruf und Alltag. 4. Aufl. Mannheim: Bibliographisches Institut 2009. Lizenzausgabe Bonn: Bundeszentrale für politische Bildung 2009, [Accessed 08-26-2011].

<sup>67</sup> [http://www.bpb.de/popup/popup\\_lemmata.html?guid=AQ16R0](http://www.bpb.de/popup/popup_lemmata.html?guid=AQ16R0), Quelle: Schubert, Klaus/Martina Klein: Das Politiklexikon. 4., aktual. Aufl. Bonn: Dietz 2006, [Accessed 08-26-2011].



Within associations or groups in general important decisions have to be made as well to influence economy, policy and society. The German automobile association VDA promotes nationally and internationally the interests of the entire German automotive industry resulting in decisive advantages for the German automotive industry through direct dialogue and rapid decision-making. Their *decisive political decisions* have a significant influence on economic and transport policy, technical legislation, quality assurance, taxation and in addition environment and climate protection. To identify *decisive political decision* as a public good we have first to define the latter. Public goods have two distinct aspects<sup>68</sup>: *non-excludability* and *non-rivalrous* consumption. *Non-excludability* means that the cost of keeping non-payers from enjoying the benefits of the good or service is prohibitive. The most common example for non-excludability is air. Nobody can charge a fee for consumption of air and nobody can keep a person from enjoying breathing and the benefits of fresh air in general. This example includes the second distinct aspect *non-rivalrous*, because everybody can consume air to an endless extend without diminishing anyone else's enjoyment of air.

A *decisive political decision* is a public good for the following reasons. First, a political decision is characterised by non-excludability because every citizen can enjoy the benefits of a political decision; or not if the decision affects one's life in a negative way like higher taxes. But the main criterion is that nobody can charge someone for consuming the benefits of a political decision. Second, a *decisive political decision* is *non-rivalrous* as well because the consumption of political decision as a good by one individual does not reduce the availability of the good for consumption by others.

To illustrate a *decisive political decision* as a public good more accurate I will give an ongoing example. The German Automobile Association VDA currently published in their press releases that "The German automotive industry's fuel-efficient models continue to make faster progress in CO<sub>2</sub> reduction than the market in general. German-branded passenger cars newly registered in Germany in July had an average CO<sub>2</sub> value of only 146 grams per kilometre."<sup>69</sup> This progress in innovative automobile technology is an achievement of a. political parties who are engaged for a more ecologically friendly environment and b. automobile associations who convinced the government for investments and subsidies in innovative eco-friendly technology. Thereby this political decision could be implemented and all citizen benefit from reduced CO<sub>2</sub> emissions and therefore less global warming as well.

So far I defined why a *decisive political decision* is a public good. The very first part of this section was only theoretical. In a more practical scheme of things there may be no such thing as an absolutely non-rivalled and non-excludable good. But economists think that some goods approximate the concept closely enough for the analysis to be economically useful. For instance, although many people think a *decisive political decision* is a public good, automobile associations are funded by membership fees, donations, capital- and property treaties, exhibition and fairs, or subvention and other financial resources. What we have to consider in this analysis is that the members, which are big and key industry companies like Daimler AG for instance, have more interest and therefore monetary benefits for successful political decisions than an average citizen. Charging directly citizen for each of these

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<sup>68</sup> "Public Good" in Cowen T.: The Concise Encyclopaedia of Economics: George Mason University.

<sup>69</sup> <http://www.vda.de/en/meldungen/news/20110815-1.html> , Berlin 10th August 2011, [Accessed 08-26-2011].

services would be impractical. Therefore a *decisive political decision* is partially a public good.

## 5.2 *Decisive political decision as a public good in the sense of Olson?*

Next to the type of group size Olson is also expecting that the success in providing goods depends on the type of good as well. Thereby Olson distinguishes between *inclusive collective goods* where exclusion is not feasible and rivalry in consumption of goods does not exist; and *exclusive collective goods* for which exclusion is not feasible as well, but there is rivalry in consumption. In the broadest sense Olson's *inclusive collective goods* can be put on a level with public goods as it is the matter of common knowledge. Olson's *exclusive collective goods* would then be common goods for which rivalry in consumption but no excludability is persisting<sup>70</sup>.

Within the context of Olson's *exclusive collective goods* a public good can be enjoyed by every member of the group but its benefit should be portioned equally for each individual in the group. This means that an already used portion of that good cannot in turn be enjoyed by another member of that group. To describe an exclusive good more precisely I will give you the classic example of a fish stock as an exclusive good. In this case no one is excluded from fishing, but as people start extracting fish without limits being imposed the stocks will be exhausted some day. This situation in which people withdraw resources to secure short-term gains without regard for the long-term consequences is called *tragedy of the commons*.<sup>71</sup> Table 4 gives an overview of the composition of goods in the sense of Olson and in the matter of common knowledge.

	<b>Excludable</b>	<b>Non-Excludable</b>
<b>Rivalrous</b>	Private goods	Common goods/ <b>Exclusive goods</b>
<b>Non-rivalrous</b>	Club goods	Public goods/ <b>Inclusive goods</b>

Table 5: Source: Own Illustration

Whether a group's collective good can be characterized as exclusively or inclusively depends on the "nature of the objective the group seeks, not on any characteristics of the membership."<sup>72</sup> To find out whether a *decisive political decision* is an exclusive or inclusive collective good as per Olson will therefore not depend on the group size of an association which is seeking this collective good. For further analysis I will take Olson's invariability of supply into consideration, which is used to differentiate between an exclusive and inclusive collective good. He says that there is a big difference between the benefits from a collective good in a market and non-market group.<sup>73</sup> His argumentation signifies that a company for instance (market group) sells products at a given price. In this context the "price" is the collective good. If the company A sells a product more at a given price than company B and/

<sup>70</sup> Cf. Olson pp. 36-39.

<sup>71</sup> <http://www.sciencemag.org/content/162/3859/1243.full> [Accessed 09-08-2011].

<sup>72</sup> Cf. Olson p.39.

<sup>73</sup> Cf. Olson p.37.



or C, company B and/or C must sell less, because the benefit of that sold product is *fixed in supply*<sup>74</sup>.

If we consider a non-market situation with an association, which demands several changes in government policy to reduce costs in private households, citizens can benefit from these efforts even if they didn't contribute seeking for taxes to be reduced for example. Because the decision to reduce taxes as a collective good can be enjoyed by an endless number of citizens, this good is *not fixed in supply*. Furthermore Olson states that "only so many units of a product can be sold in any given market without driving down the price, but any number of people can join a lobbying organization without necessarily reducing the benefits for others".<sup>75</sup> Therefore if an association increases their membership the enjoyment of the benefits of that collective good will not be reduced by other new members. So both, so-called free-riders who don't contribute to the provision of that collective good and entrance of new members in an association will not reduce or change the benefits from the collective good.

A collective good within a non-market situation is therefore called *inclusive collective good*. To the fact that a *decisive political decision* is characterised by non-excludability and *non-rivalry* as well and already identified as a public good in a common sense, however, it is not an inclusive collective good as well. But in this case a *decisive political decision* is an inclusive collective good in the sense of Olson for the following reasons: First, non-excludability and *non-rivalry* are significant aspects to be identified as a public collective good and an inclusive collective good as well. Second, associations that supply collective goods like a *decisive political decision* in non-market situations almost always welcome new members. One example is the British Automobile Association SMMT<sup>76</sup>: This association is advertising on their website for more members to join. In doing so, they promote their most significant strategies and benefits as they publish a full range of services they offer if you join them like "Promoting the interest of your company" or "Improving your financial competitiveness". This is important for the following reasons. According to Olson in non-market groups the larger the number available to share the benefits and costs the better.<sup>77</sup> Indeed, such associations sometimes attempt to make membership compulsory. Third, it is not essential for every individual to participate in providing the collective good. Simply because "the benefit a noncooperator receives is not matched by corresponding losses to those who do cooperate."<sup>78</sup>

Looking at a *decisive political decision* as a good, we can declare that it is a public good in the first instance because nobody can be excluded from enjoying this good and that this good cannot be used up. I already mentioned that there may be no such thing as an absolutely non-rivalled and non-excludable good. For the analysis of my paper it is important to differentiate between an absolutely public good and a partially public good. This assumption implies that Olson's collective goods cannot be seen as pure public goods as well.

A *decisive political decision* is a partially inclusive collective good for the following reasons. I will take advantage using the example of the implemented "Low-emission zone (Umweltzone)" which was introduced on 1 January 2008 in Germany to mitigate air pollution

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<sup>74</sup> Cf. Olson p.37.

<sup>75</sup> Cf. Olson p.37.

<sup>76</sup> <https://www.smmt.co.uk/members-lounge/member-benefits/> [Accessed 09-10-2011].

<sup>77</sup> Cf. Olson p.37.

<sup>78</sup> Cf. Olson p.40.

caused by fine particles.<sup>79</sup> By this regulation, which is called Feinstaubverordnung, citizen can enjoy cleaner air without over consuming. And nobody can be excluded from this enjoyment. In fact, only those can benefit from a *decisive political decision* within the automotive industry that have the precedent condition eg. driver's license, car etc. But apart from the possibility of censorship of certain content for certain users under certain circumstances, it is in principle not possible to exclude people from enjoying the air with lower emission. Furthermore every citizen who is in possession of a vehicle has to order stickers from one of the governmental body before driving into a low emission zone. The issuing bodies charge between 5 to 10 euro for one sticker. Therefore cleaner air in these so called "Low-emission zones" is not purely free. This benefit is linked with indirect or direct costs. As direct costs can be identified the sticker and indirect costs the taxes we pay for government who grant their citizen a non-polluted environment. Charging indirectly citizen for a governmental service makes a *decisive political decision* partially an inclusive collective good in the sense of Olson.

### 5.3 Automobile Association as a large group in the sense of Olson?

In the very first sections of this paper I introduced some subjects about the structure and organization of automobile associations. After I discussed in section 5.2 whether a *decisive political decision* can be indicated as a collective good in the sense of Olson I will now analyse how to identify an *automobile association* in the sense of Olson. To answer the main question of this paper "Why do European Automobile Associations achieve common group objectives (public goods) like „Decisive political advantages“, as per Mancur Olson's logic of collective action this achievement is not possible in a large group?", it is important to assume that an *automobile association* can be identified as a large group as per Olson.

In Mancur Olson's work about public goods and the theory of groups it is not indicated an accurate measurement to identify a group as a small, medium-sized or large group. Now where to draw the line? For the findings of my paper it is only important to know how to term an automobile association. To the fact that automobile associations are one of the most key indicators within the automobile industry we can also conclude that their membership is of significant size as well. To have an accurate measurement is not of particular importance since we only need to have a large group as an initial point in a more theoretical scheme. Let us assume we have on the one hand a small automobile association with a membership of 5 actors and on the other hand a large automobile association with a membership of 500 actors. According to Olson the small group is more likely to provide a collective good than the large group. But in this case I will make use of his distinction between *market groups* and *non-market groups*.<sup>80</sup> I already used these indicators in section 5.2, but that was significant to discuss a *decisive political action* and its suitability as a collective public good.

Olson makes an important distinction between market and non-market groups, indeed, the success of providing a collective good depends on the "nature of the objectives the group seeks, not on any characteristics of the membership".<sup>81</sup> In market groups the "collective good" is of different nature than that of a non-market group. Let us assume a market with a market group, BMW, and a non-market group, VDA. BMW is of particular interest to sell more cars than Mercedes Benz cars. The price is their collective good. If BMW sells more

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<sup>79</sup> [http://www.bmu.de/english/air\\_pollution\\_control/general\\_information/doc/40740.php](http://www.bmu.de/english/air_pollution_control/general_information/doc/40740.php) [Accessed 09-10-2011].

<sup>80</sup> Cf. Olson p.37.

<sup>81</sup> Cf. Olson p.39.

cars, at the same time Mercedes Benz cars sells less. In Olson's view BMW's "ideal is a monopoly".<sup>82</sup> But their products are cars to a given price and they are *fixed in supply*. Only so many cars can be sold. In the case of an automobile association like the VDA the nature of the collective good is different. The VDA is a non-market group because their collective good they want to provide is not reducible, like better working conditions in automobile companies or a better infrastructure with more highways of higher value. Now the VDA wants to recruit more members to have more power in achieving their group objectives.

This case example is an important aspect to come closer to the initial question of my work but it is not a decisive factor. It became apparent that an increasing number of people joining an association is beneficial regarding their achievement of the successful provision of a collective good. In the next part of my analysis I am going to illustrate the most important key factors for an automobile association to achieve their group goals like providing a *decisive political decision*. Thereby I will make use of Olson's selective incentives. He assumes that a large group cannot provide a collective good because it doesn't offer their members any incentives to bear in any other way any of the costs of the necessary collective action. Later on he disproves this assumption and I will try to tie in with his conclusions.

#### 5.4 Selective incentives as significant stimulation

Lastly we identified a *decisive political decision* as an inclusive collective good as per Olson and an *automobile association* as a large group in the sense of Olson. In this part I am going to examine how certain selective incentives can influence the successful provision of a collective good and whether these incentives can give a conclusion about my findings.

First we have to categorize incentives in two different chapters: economic incentives and social/ psychological incentives. Moreover it is important to mention that there is no doubt that both kinds of incentives are often linked with each other and that primary their interrelation leads to the successful achievement of group objectives. For this correlation Olson uses the phrase "socio-economic"<sup>83</sup>. Social incentives can be of different nature. Some examples would be prestige, friendship, approval etc. The most important question is now to what extent social incentives can lead to the achievement of an association's group goal. Olson thereby makes again a difference between small and large groups. He says that "first, in the large, latent group, each member, by definition, is so small in relation to the total that his actions will not matter much one way or another; [...] second, in any large group everyone cannot possibly know everyone else, and the group will *ipso facto* not be a friendship."<sup>84</sup> This means in turn that social incentives have no crucial contribution to the optimal provision of a collective good in a large group, here an automobile association. He encourages his assumption when he says that in small group social incentives might influence members in the group to make such a contribution to the group's objectives.<sup>85</sup> By this he assumes that members in a small group are at the same time friends as well and might use "social pressure" to encourage them to do their part toward achieving the group goal.

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<sup>82</sup> Cf. Olson p.37.

<sup>83</sup> Cf. Olson p.60.

<sup>84</sup> Cf. Olson p.62.

<sup>85</sup> Cf. Olson p.60.

At this point I want to consult the dissertation about “Social incentives in the Workplace” by Oriana Bandiera, Iwan Barankay and Imran Rasul. Among other findings they addressed the question of whether and how the existence of social incentives in someone’s workplace affects aggregate firm performance. At the same time they say that in this context the answer is not straightforward precisely because the presence of friends increases the productivity of some workers and decreases the productivity of others.<sup>86</sup> Furthermore they show evidence on whether worker’s performance is affected by the presence of their friends among co-workers. Thereby they scrutinized the class of models that predict the effect of social incentives to have the same sign on all workers, namely, they test whether workers are *always* more or less productive in the presence of their friends compared to when friends are absent. In their analysis they detected that the presence of friends has no significant effect on the productivity of the average worker conditional on other determinants of productivity. This is true regardless of the strength of ties, of the number of friends on the field-day and of the percentage of co-workers who are friends.<sup>87</sup>

Let us agree that first, social incentives are not the only key determinant of the successful provision of a collective good. Second, social incentives can affect the productivity of a worker. Third, the affect of a social incentive can have a specific affect on one actor while the same incentive has no or a small affect on another actor. But according to Olson there might be one example of group-oriented action in which social incentives may well be able to bring about the successful achievement of a group’s objectives.<sup>88</sup> More precisely this is the case with a “federal group” – a group divided into a number of small groups, each of which has a reason to join with the others to form a federation representing the large group as a whole.”<sup>89</sup> That means social incentives play a significant role in a large group when the large group is a federation of smaller groups. In these smaller groups members determined to use their social incentives to get the other members belonging to each small group to contribute toward the achievement of the collective goals of the group as a whole. If we assign this model on the German Automobile Association VDA we can conclude following findings. In section 2 I demonstrated that the European automotive industry can be divided in eight sub-industries. On the VDA’s organizational chart<sup>90</sup> it is obvious that they divided their association workers into sub-industries as well. Each sub-divided team consists of a couple of people (never more than six workers). Now we can say that the VDA is a federated large group with several smaller units and therefore able to mobilize actors within these teams through social incentives towards the achievement of their collective good.

After we examined some cases of social incentives I am now going to assume that maybe an economic incentive is the crucial determinant for the successful provision of a collective good. Now I am going to use the literature about “Die CSU: Strukturwandel Modernisierung und Herausforderungen einer Volkspartei“ by Gerhard Hopp, Martin Sebaldt and Benjamin Zeitler. In their work Sebaldt described the relationship between association representatives and political actors as a “trade-off” (Tauschgeschäft)<sup>91</sup>. Both actors – group member and

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<sup>86</sup> Bandiera, O., Barankay, I., Imran, R. (May 2009): Social Incentives in the Workplace. Department of Economics, London School of Economics and Political Science, Houghton Street, London. p. 10.

<sup>87</sup> Bandiera, O., Barankay, I., Imran, R. (May 2009): Social Incentives in the Workplace. Department of Economics, London School of Economics and Political Science, Houghton Street, London. p. 14.

<sup>88</sup> Cf. Olson p.63.

<sup>89</sup> Cf. Olson p.63.

<sup>90</sup> <http://www.vda.de/en/verband/organisation/organigramm.html> [Accessed 09-10-2011].

<sup>91</sup> Hopp, G., Sebaldt, M., Zeitler, B. (2010): Die CSU: Strukturwandel, Modernisierung und Herausforderungen einer Volkspartei. VS Verlag für Sozialwissenschaften. Springer Fachmedien Wiesbaden GmbH 2010, p. 50.

political actor – have an interest to join a “trade-off” with each other unless they expect to optimize their individual conditions. Here, the associations provide political actors with information and support their government. In return they receive the opportunity to have an influence on political decisions in their sense.<sup>92</sup> But more important is another “trade-off”: That of a member of an association and the owner or president of an association. In our case we can assume that the current VDA president Matthias Wissman has a business meeting with his association members. He will try to convince his members to work for him as effective as possible to make therewith more automobile companies join his association. The political entrepreneur, Wissman, creates, by convincing his members of the necessity of their accession and giving them the necessary incentive for commitment, lucrative trade-off. On the hand the association president has an increase in his membership and therefore an increase in his rates, which have to be paid for being a member. And on the other hand his employees can expect a higher salary. Better payment is clearly an economic or monetary incentive. Top representatives of employers and associations can constitute a significant increase in selective incentives<sup>93</sup>.

According to the “Wirtschafts- und sozialpolitische Landesvertretung auf Landes-, Bundes-, und EU- Ebene”<sup>94</sup> a list of the main reasons for joining an association can be: Consulting in different areas like social- and labor law or software development, discounts on vehicle purchases, insurances, public relations and information service etc. These services, mostly of economic or monetary nature, make a membership far more attractive than only social incentives. To the fact that an association offers individual goods as mentioned before their members, it prevents the possibility to free-ride within the association. That means selective incentives are important for two reasons: First, the association can make sure that their membership will grow and therefore organizational costs in providing the collective will be more affordable and therefore the association is more likely to provide the good. Second, the likelihood that employees will free-ride is almost zero. Third, employees benefit from these arrangements as well as they get services they don’t have to pay for or they even don’t get if they would not work for the association.

Any group that does nothing besides lobby to obtain a collective good would not have a source of positive selective incentives it could offer potential members.<sup>95</sup> There are for these reason organizations that have both lobbying and economic functions to obtain an optimal group objective. As per Olson the collective good becomes only a “by-product” in a members view and the association is truly organized for some “other propose” than the provision of a collective good.

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<sup>92</sup> Hopp, G., Sebaldt, M., Zeitler, B. (2010): Die CSU: Strukturwandel, Modernisierung und Herausforderungen einer Volkspartei. VS Verlag für Sozialwissenschaften. Springer Fachmedien Wiesbaden GmbH 2010, p. 50.

<sup>93</sup> Zimmer, Dr. rer. pol. Stefan: Wie entstehen Verbände? Die Schlüsselrolle exklusiver Dienstleistungen als zentraler Mitgliedsschaftsanreiz. Fachartikel in <http://www.verbaende.com/verbaendereport/fachartikel/index.php/Wie-entstehen-Verbnde?id=154>. [Accessed 09-10-2011].

<sup>94</sup> Zimmer, Dr. rer. pol. Stefan: Wie entstehen Verbände? Die Schlüsselrolle exklusiver Dienstleistungen als zentraler Mitgliedsschaftsanreiz. Fachartikel in <http://www.verbaende.com/verbaendereport/fachartikel/index.php/Wie-entstehen-Verbnde?id=154>. [Accessed 09-10-2011].

<sup>95</sup> Cf. Olson p.133.

## 6. Summary

Finally, after examining the importance of selective incentives we can now conclude a suitable answer to the question: Why do European Automobile Associations achieve common group objectives (public goods) like „Decisive political advantages”, as per Mancur Olson’s logic of collective action this achievement is not possible in a large group? In addition to the criteria worked out by Olson for the success of a group the following findings can promote the achievement of an automobile association’s group objective:

1. A contribution to the provision of a collective good brings forth lower costs for the individual actor or member of an association.
2. A contribution to the provision of a collective good brings forth special services for the individual actor or member of an association which cannot be offered without a membership.
3. Social incentives are not crucial determinants for the provision of a collective good but can have positive effects on the productivity of some members.
4. Economic incentives are crucial determinants for the provision of a collective good.
5. Economic incentives is more likely to be the purpose of the provision of a collective good than the collective good itself.
6. A *decisive political decision* is partially an inclusive collective good in the sense of Olson.
7. The nature of group objective is more important for the provision of a collective good than the size of membership.

Moreover I can conclude that in the case of a *decisive political decision* as a collective good neither a large number of free-riders nor the phenomenon “Exploitation of the great by the small” can prevent the production or provision of a collective good.

In contrast, the claim that the success of a group depends on the group size only could be refuted. Indeed, there are some cases where the relevant factor “noticeability of contributions” for the provision of a collective good decrease with an increase in the membership. But with the example of a *decisive political decision* as a public good and an *automobile association* as a large group in the sense of Olson it could be worked out that all contributions to the group’s objectives should not be attached to the group size.



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