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Considerations about the Membership Fee Systems of Business Chambers and Associations in Sri Lanka

Version 2

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1 Introduction

Prospering economies in a globalised world require an efficient network of business chambers and associations on regional, national and international levels.

ESSP – GTZ, FCCISL – Chamber of Commerce and Industry of Southern Sweden and other institutions / donors are presently engaged in promoting Sri Lankan Chambers of Commerce and Industry. The objectives of these projects are more or less similar to one another: Stimulation of organisational changes in the chambers in order to expand and intensify

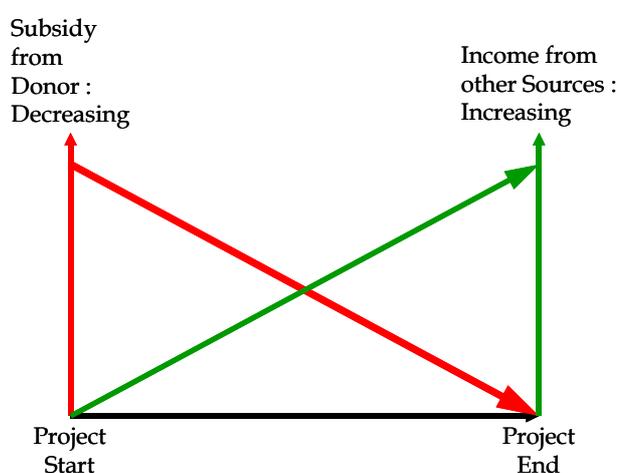
- their services so that they contribute more to the development of their member enterprises;
- their lobbying efforts so that they contribute more to the development of an entrepreneurial environment which is conducive to the promotion of more efficient economic activities.

The need of the organisational efficiency of the chambers is closely linked to this.

The main idea is that the chambers gradually undergo organisational development processes in the direction of becoming institutions, which are professionally managed like enterprises whose products are services and lobbying.

The donors may work with different instruments and in different ways. But the strategy of their interventions is usually identical:

- the support of the chambers through a project occurs for a limited time;
- the donor support (financial subsidies, equipment, training, etc.) is intensive in the beginning and gradually decreases;
- the donor expectation is, that during the promotion period the chambers increase their income from other sources so that they are able to self-finance their organisation and its infrastructure and newly started activities after the end of the project. Otherwise the project does not reach sustainable impact and is evaluated as a failure.



Therefore the question is how can the chambers reach the required financial sustainability?

2 The Structure of Chamber Finances

In a simplified form the chamber income and expenditures is structured as follows:

Chamber Balance

Income	Expenditures
1. Membership fees 2. Fees for services 3. Others (interests, eventually rent from buildings, etc.) 4. Subsidies a) from national public institutions b) from international donors	1. Lobby activities including PR 2. Service activities 3. Self-organisation and administration

During a workshop with chambers¹ the participants were asked to analyse their 2003 / 2004 finances in reference to the above structure. The results:

- the membership fee represents in most cases between 4 and 8% of the income, in one case 39% due to almost no income from services;
- the income through services including business schools and marketing of member products represents ca. 65% of the income;
- the subsidies from national public institutions and international donors represent between 24% and 33% of the income;
- the income from other sources is in the majority of cases 0%.

The subsidies received from donors and national public institutions are in reality still much higher, because the calculations include only the financial subsidies and not the non-financial support (training and consulting of honourable and professional staff, equipment, trips to other countries, etc.).

This means that

- the chambers at present depend highly on external subsidies;
- the income through membership fees is comparatively extremely low.

During the above mentioned workshop the chamber representatives intensively discussed this situation. They were well aware of the advantages and disadvantages of the subsidies, observing during one group assignment that:

- subsidies from the GoSL are normally only relatively small amounts and create political dependencies;
- subsidies from international donors are larger amounts, do not create dependencies and are perceived somehow as more “comfortable”. Faced with the argument that the subsi-

¹ For the details see ESSP: Report on the Workshop on Financing Chambers, On 18 & 19 June 2004, At Culture Club Resort, Kandalama, Dambulla, document “Chamber WS June 2004.doc”. Participating chambers and associations: CCICP, CCIUP, CPWCIC, MDCCI, NCHSL, PAEA

dies will permanently decrease and end one day the reaction is the – unspoken – hope that the project will be prolonged or that another donor will enter with a new project.

The membership fees of chambers in other continents range normally between 10 and 50% of the income². But this figure easily leads to misinterpretations:

- The higher the income from services the lower automatically the income from membership fees as a percentage of the total income. This means, a chamber with a low income share from membership fees is not automatically “weak” and a chamber with a high income share from membership fees is not automatically “strong”.
- The income from services is linked with corresponding expenditures. Therefore, the question is, whether the chambers are able to reach a financial surplus through the services or whether they are using also the membership fees to finance them.

The authors do not know one chamber on local or regional level considering also other continents, which are able to regularly produce a considerable financial surplus through services. Some such chambers might exist but they should be seen more as an exception rather than the rule. The reasons are as follows:

- Certain services are not charged separately. The member has the right to these services through the payment of the membership fee. This refers to certain information services, in many chambers to counselling and consulting services (sometimes limited to a fixed number of hours / days per year) and others. The idea is, to motivate and stimulate the member to use these services. Experiences show that as soon as the chamber charges for these services individually the members think twice about whether it is worth to use them or not. And due to the fact that entrepreneurs are prudent and sceptical people they tend not to invest money into a service if they are not 100 percent sure about a positive return. Therefore, chambers charging for these services are risking losing contacts to their members³.
- Big companies are normally more interested in the lobbying activities of a chamber. They are able to buy the required services on the market. SMEs have less interest in the lobby and much more interest in the services provided. They expect a direct financial return from their membership fee. Consequently a chamber without services is not attractive for SMEs.
- Chambers especially offer services, which the members need and request but which are not sufficiently profitable and too risky to be provided by profit orientated BDS providers⁴. On the other hand if a chamber offers more profitable services it is probable that it enters into competition with its own member enterprises, which automatically causes serious

² The Chamber of Commerce and Industry of Southern Sweden confirmed 40%.

³ Exactly due to this reason German Chambers for Crafts and Small Industries decided not to charge for counselling services despite existing financial problems.

⁴ Examples from many countries: a) If chambers start to organise trade fairs for their SME-members they do so normally not in order to make profit but because the market does not offer an attractive and adequate product to these SMEs. The BDS providers like to offer profitable services to an organiser of a SME trade-fair but not to assume the risk of organising a trade-fair. b) Trainers / instructors like to be contracted by a chamber to conduct a training course but they do not like to assume the entrepreneurial risk and to run the course on their own.

conflicts. Most chambers follow an unwritten rule: Never compete with your own member enterprises.

- The members expect to get the services for a “reduced” price. They might accept that the chamber has to recover the full costs for a service from them. But when they observe that their chamber as so-called non-profit-organisation makes a real profit through a service paid for by them they automatically question why they should pay the membership fee.

Consequently many chambers finance their lobby and PR work, the self-organisation, the administration and x% of the services through membership fees plus other income.

How much of their membership fees and other income chambers invest into the service area and how much into lobby / PR is a pure political decision in reference to the preferences of the members and their organisation⁵.

Chamber Balance	
Income	Expenditures
Membership fees	Lobby activities inclusive PR
	Self-organisation and administration
Others (interests, eventually rent from buildings, etc.)	Service activities

Fees for services	Service activities

Under these aspects it becomes obvious that the Sri Lankan chambers have to urgently increase their income from membership fees. Otherwise they will run into serious problems related to maintaining their physical infrastructure and human resources as well as their performance in the service and lobby area, which they develop at present with donor support.

The question is, how in general, can chambers increase their income from membership fee through an increase

- of the membership;
- of the membership fee.

3 Increase of the Membership

In general, when more members pay membership fee the fixed costs (mainly administration costs like rent, equipment, staff, etc.) per member decrease. (Example: The costs of the CEO remain the same when the chamber has 10 or 100 members).

⁵ Some examples: German Chambers for Crafts and Small Industries – the members have in average 8 employees – and many sector associations invest up to 80% of their membership fees into their services, German Chambers of Commerce and Industries much less (here the big national and international companies participate), Latin American chambers between 20 and 50%.

The activities promoted by different donors made the chambers more attractive for entrepreneurs. As the graph shows chambers / associations supported by ESSP and the FCCISL / SIDA started to increase their membership since 06/2002 by 42% (red / middle areas of the column). Through the Nuclei they got the access to another 600 enterprises, which are not yet membership fee paying members (yellow / top areas of the column). This means that on one hand the chambers have increased their membership and their income from membership fees but on the other hand there still is a huge untapped potential for more members.

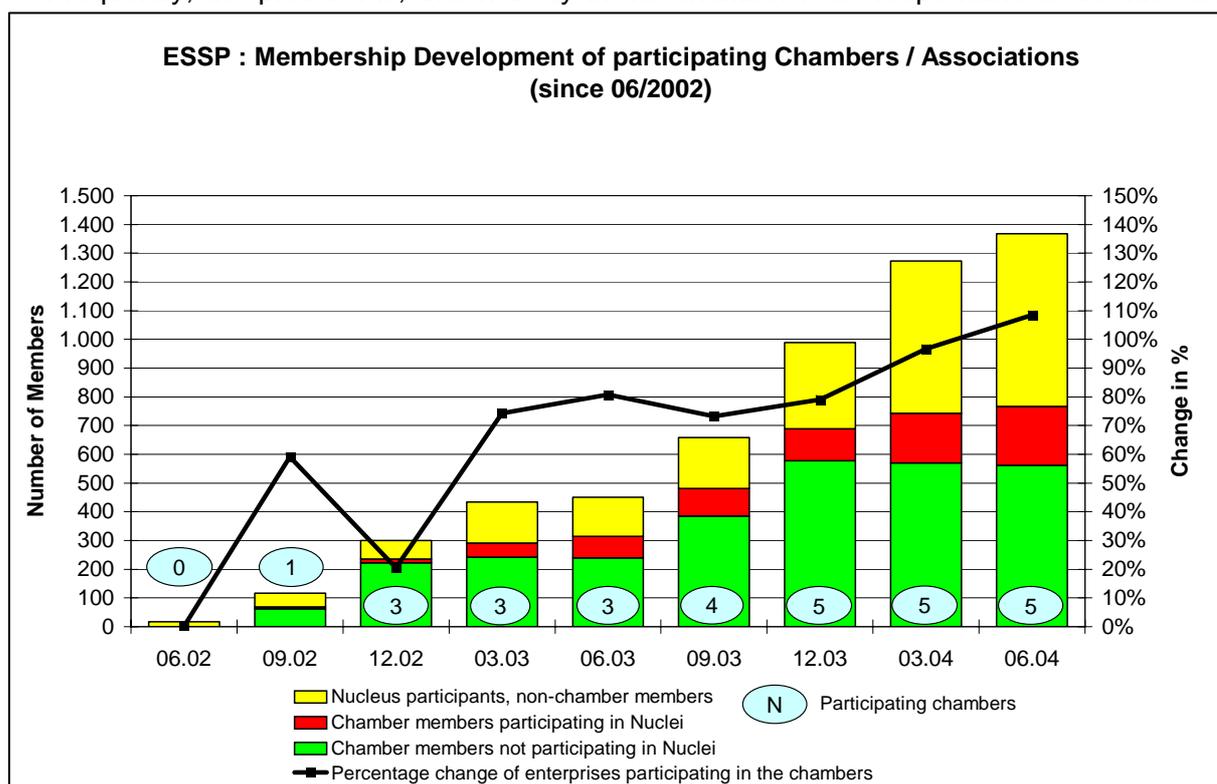
This result has to be considered in addition to the fact, that the “Chamber Overhead Subsidy System” of ESSP refers partially to the number of Nucleus members who become membership fee paying chamber members: The higher this number the higher is the subsidy amount. Thus the chambers have a direct incentive each time a Nucleus member becomes a chamber member (for more details please refer Nuc Subsidy Guide)

Therefore, the question is, why do the chambers not take more advantage of the opportunity to gain more members and subsidies?

The simple answer blames the entrepreneurs: They are reluctant to spend money for the chamber membership – they are the problem, not the chamber.

It is not as simple as this. The more complex answer can be analysed as follows:

- The entrepreneurs are not sure whether they are really welcome in the chamber. In order to avoid the risk of a most unpleasant rejection, which may be felt as a personal defeat, they do not apply for membership.
- Consequently the chamber has to approach them and to invite them pro-actively: “We, the chamber, we need you entrepreneur a member – you are most welcome. And you, as an entrepreneur, you need our services!”
- Frequently, the problem is, that nobody in the chamber feels responsible to do this: the



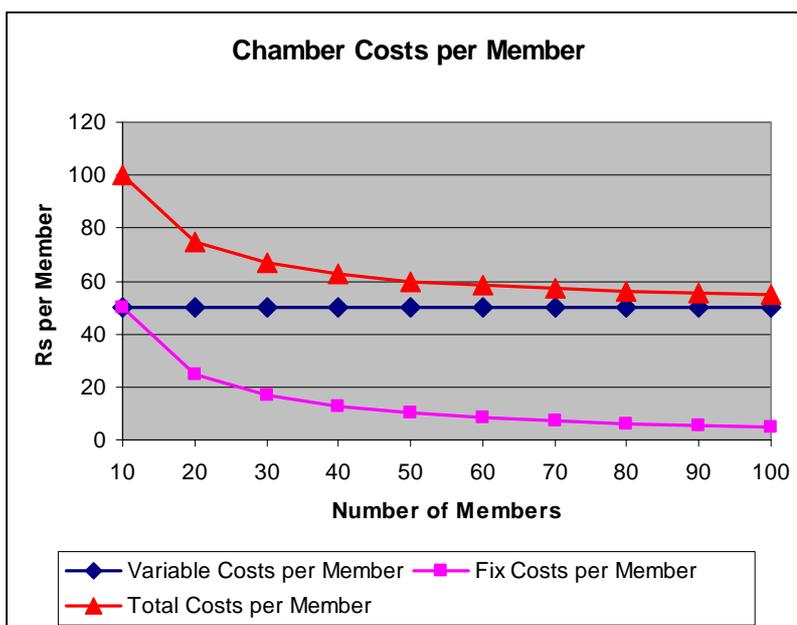
chairperson and the other board members are too “noble” to talk to entrepreneurs about their membership, the CEO too often may feel like this. The counselors and other staff members either do not have the courage or they say: “Why should I do it? There is no advantage for me, only presumably more work. In some chambers there is an officer responsible for “membership drive”, the other staff members of the chamber often feel that the increase of the members is the sole task of this officer.

In this context has also to be mentioned that some chambers have a hidden agenda of keeping out other entrepreneurs what indicates a high degree of confusion concerning the tasks and objectives of a business chamber.

The actual membership should be seen also in relation to the potential “member-market” concerning the degree of representativity of the chambers: How many percent of the total number of the entrepreneurs in a defined region do the chambers represent? The higher the rate of representativity – this means, the more entrepreneurs a chamber represents – the higher is the chance for successful lobbying – the public administration has to listen and respect it and the politicians have to consider the chamber members as potential voters who will vote in favour of them in the next elections.

In the CP, for example, CCICP, CPWCIC and NCHSL together represent actually circa 400 of 26,000 enterprises; this means 1.5%. This extremely low rate limits the chamber’s chances to lobby successfully to almost zero⁶.

Another question is which type of enterprises should chambers try to attract as members. Here again financial aspects enter: ESSP always recommends taking care first and especially of medium and small enter-



prises because more than micro enterprises they are able to pay reasonable amounts as membership fee.

During the above mentioned workshop the participating chambers / associations announced their intention to concentrate and pay more attention to increasing members and consequently the membership fee derived from them.

⁶ A short story from Germany: In 1863 some representatives of the newly founded Chamber of Crafts and Small Industries went to the German chancellor Bismarck to present the chamber and to ask for his support. Bismarck asked: “How many entrepreneurs do you represent?” The entrepreneurs answered: “50.” Bismarck: “Well, my dear men, do a good job, and when you have 50,000, then you come back!”

4 Increase of Membership Fees

Worldwide the increase of membership fees is never popular in chambers. On the one hand the deciding entrepreneurs take the matter affecting their pockets into their own hands concerning an increased payment of membership fee, on the other hand the chairperson and the board of directors never gain popularity among their members with this subject.

Nevertheless due to the reasons presented above the chambers will have to increase their membership fees. They at present are extremely low at between 100 and 200 Rs per month. Members have to be confronted with a very simple question: Which services and performance can you expect from a chamber to which you pay the value of two or three softdrinks per month? The ESSP Team asked this questions a couple of times and the entrepreneurs admitted: Nothing!

4.1 Relevant Criteria for Chamber Membership Fee Systems

A chamber membership fee system must refer to some selected criteria in order to function efficiently:

- The members should perceive it as "fair".
- It should generate the necessary income for the chamber.
- It should have a limited complexity and be easy to manage and administer.

4.1.1 Criterion "Fair"

A "fair" membership fee means, that the member feels subjectively treated in the right way in reference

- to his / her financial capacities;
- to the "return" he / she can expect from the membership;
- to the other members.

In sports, social and business clubs (Lions Club etc.) things are relatively easy: An individual person is a member. All members are "equal" and they can use the services in the same way. The rule is: One member, one vote, one membership fee amount.

These clubs have only to adjust the membership fee amount. This is sometimes used as instrument to keep certain social groups out of the club in order to maintain an exclusiveness desired by the existing members.

Business chambers have another character: Members are companies. These may have different juridical forms, but even in the case of a one-person-enterprise the owner is not a member as an individual person but as a representative of his / her company. The question is, whether a chamber system, which has the same membership fee amount for all members, is "fair" and provides the institution with the necessary financial means. Or whether a more differentiated system that reflects the different economic strengths of the members expressed through the number of employees and / or turnover or profit is better.

Case 1: All chamber members are more or less similar concerning their economic strength reflected by turnover, profit and number of employees.

In this case the same membership fee amount for all members represents a “fair” system. The economic burden through the membership fee is somewhat similar for all members. In addition, the system is simple, easy to manage and administrate and consequently efficient.

This case refers in Sri Lanka at present to the situation of e.g. CPWCIC. Almost 100% of the members have less than five employees and the range of turnover and profit between the strongest and weakest companies is small.

Case 2: The members differ strongly concerning their economic strength. The number of employees ranges from 0 to hundreds and consequently their turnover and – often – the profit also differs accordingly.

In this case the same membership fee amount for all members represents an “unfair” system. The economic burden placed upon the members is totally different as a simple calculation shows: The membership is 1,000 Rs per member.

- An enterprise with one employee pays consequently 1,000 Rs per employee;
- one with 10 employees pays 100 Rs per employee and
- one with 100 employees pays 10 Rs per employee.

A similar calculation done per turnover or per profit leads to the same result. If nevertheless such a chamber charges the same membership fee from all members, then there are two possibilities:

- The membership fee is so low that even the smallest member does not feel it in his / her pocket and therefore does not bother, that an enterprise with 200 employees pays the same amount.

But this leads automatically to the problem, that the chamber generates only a very low income with the membership fees. Such a chamber will never be able to finance itself.

This refers presumably in SL to all chambers with a monthly membership fee of 100 Rs per month and less.

- The membership fee is so high, that it can be paid only by enterprises with a certain economic capacity. This chamber may generate sufficient income. But the effect of this membership fee is, that – intended or not – micro, eventually also small and medium companies are excluded as members. The chamber expresses in a certain way, that it is interested only in elite companies as members.

A so-called “Regional Chamber” confirmed this intention openly when it once defined a membership fee of 30,000 Rs / month⁷.

The authors encountered chambers with such a membership fee system for the first time in Sri Lanka. The reasons are not fully clear. Is it, because

- the membership fee system is simply copied from social and business clubs without reflecting whether this is suitable for a business chamber?

⁷ In the meantime this chamber has reduced this amount.

- during the foundation phase all founding members had more or less the same economic strength and when the membership changed the chamber did not adapt its fee system?

In most countries chambers define their membership fee according to the economic strength of the member companies through a tier system.

The question is what best reflects the different economic strength of the members:

- **Profit:** The profit of the member companies certainly best reflects the economic strength of an enterprise. It changes in relation to the economic success of the enterprise. But entrepreneurs are very reluctant to publish data about their profit due to competition on the market and an institutionalised conflict with the government about their income tax. Therefore, the enterprise profit is not a recommendable criterion for defining the membership fee⁸.
- **Turnover:** The turnover reflects also the economic strength of a company. One problem is that the turnover differs between industry, service, trade, agriculture and finance: The turnover of 1,000,000 Rs requires many more economic activities from an industry, service or agriculture enterprise than from a trade company or a bank. The solution can be to define different values per sector. The disadvantage of this is that the membership fee system rapidly becomes very complex. In addition, the entrepreneurs are also very reluctant to publish information about their turnover. Therefore, the enterprise turnover is also not a recommendable criterion for the definition of membership fee.
- **Number of employees:** The number of employees is normally not a business secret. The employees know more or less the number and therefore also the general public. In addition, entrepreneurs may gain reputation through a higher number of employees. An advantage is that the calculation of the number of employees is normally relatively easy to do and does not cause additional work to the entrepreneur. For the chamber the fact that the number of employees of a company does not change very much from one year to the other is important. On the one hand this eases the administration; on the other hand this stabilizes the income through membership fees. Worldwide, the number of employees is presumably the criterion most used by chambers. It is recommendable also for Sri Lankan chambers. A problem might be how especially micro and small, sometimes informal enterprises answer the question about their employees. If only those who have a formal work contract are counted then daily paid workers, apprentices and family members are not considered. Therefore it could be better to ask for the number of persons who participate in the enterprise including the entrepreneur him- / herself.

4.1.2 Criterion Necessary Income

The chamber income required from membership fees depends on its costs. In reference to some chambers in the Central and neighbouring provinces one can calculate a chamber

⁸ German chambers have the access to information about certain taxes which the entrepreneur pays in reference to his / her surplus. The membership fee refers to this surplus. But this is a very special solution and refers to the special status of German chambers, which have also some public functions. Therefore, this system does not represent a model for other countries.

model with staff, rent, communication, transport and general administrations costs (excluding the costs of special activities and services as well as the depreciations of equipment or investments in equipment) per month roughly as follows:

	Cost category	Monthly range between (in 1,000 Rs)	
1	Qualified staff		
	– CEO	> 20' Rs	< 50' Rs
	– Counsellor	> 6' Rs	< 20' Rs
	– Information Officer	> 6' Rs	< 20' Rs
	– Secretaries and other support persons (1 – 4)	> 3' Rs	< 10' Rs
	Total	> 35' Rs	< 100' Rs
2	Rent	> 10' Rs	< 50' Rs
3	Communication, transport and other administrative costs	> 15' Rs	< 50' Rs
	Total	> 60' Rs	< 200' Rs

If this model chamber has between 100 and 200 member which are paying membership fees of 100 Rs or 200 Rs / month the calculations are as follows:

	Members	Monthly fee per member Rs	Total monthly fees Rs	Total costs minimum – see above RS	Financial gap in Rs / in % of costs	Total costs maximum – see above RS	Financial gap in Rs / in % of costs
a)	100	100	10'	60'	- 50' / 83%	200'	- 190' / 95%
b)	100	200	20'	60'	- 40' / 67%	200'	- 180' / 90%
c)	200	100	20'	60'	- 40' / 67%	200'	- 180' / 90%
d)	200	200	40'	60'	- 20' / 33%	200'	- 160' / 90%

The table shows, that the financial gap in % of the chamber's cost is not only big: It is huge. To close this gap, especially through a surplus from services, does not seem very realistic.

In other words: Such a chamber maintains at present a staff and physical infrastructure far above its financial capacities.

To close this financial gap with membership fees only, an average monthly membership fee of

- between 600 Rs and 2,000 Rs in the case of 100 members;
- between 300 Rs and 1,000 Rs in the case of 200 members.

would be necessary.

Referring to the above paragraph it is obvious that such fees for all members would exclude all micro enterprises as well as the majority of the small ones. But even if this chamber follows a policy to concentrate on medium and large enterprises as target group it runs into financial difficulties:

- a) There do not exist so many of such enterprises;

- b) These relatively small numbers of medium and larger enterprises of each province belong to different, partially competing chambers and business associations, making this target group per chamber even smaller.

The only way out is a membership fee system which charges more from the economically stronger members and less from the economically weaker ones, as shown by the above mentioned tier system.

The question remains how much should and can be charged. There exists a basic rule:

- the membership fee should be so low, that it does not function as a barrier for an entrepreneur to apply for membership;
- the membership fee should be so high, that the entrepreneur feels it as a certain financial burden. In other words: The membership in the chamber is not a personal “hobby” of the entrepreneur but an investment from which he / she can expect a return.

4.1.3 Criterion Complexity and Management / Administration Efforts

A fixed amount per member certainly presents a membership fee system with the lowest complexity. A tier system is automatically more complex. On the other hand the membership fee system must be easy to understand for the members: Who pays how much and why? Otherwise they will always be reluctant to pay the fees.

In general there exists a certain conflict between “fairness” and “simplicity” of a membership fee system⁹.

Many chambers in other countries work with between 6 and 10 categories of members. In this case the administration is comparatively easy, because only a minority of members will move from one category to another during one year.

5 Membership Fee for Sri Lankan Chambers

The presented models refer to the number of employees / people working in the enterprise.

Model A1 and A2 with eight categories emphasize the membership fee per working person in the company. The differences between the minimum fee per person per category (column 4) as well as the maximum fee per person per category (column 5) vary as less as possible.

Model A1 Working Persons			Fee / Person	
Minimum	Maximum	Fee / Year	Minimum	Maximum
1	5	200	200	40
5	9	500	100	56
10	19	1.000	100	53
20	39	2.000	100	51
40	79	4.000	100	51
80	159	8.000	100	50
160	319	16.000	100	50
320	640	32.000	100	50

⁹ The members of a Latin American association pay a certain amount per employee: This is „fair“ but causes a lot of administration work due to permanent changes of the individual membership fee.

The disadvantage of Model A1 is that enterprises with less than 10 working persons pay a very low amount, which will never finance the costs of the chamber. Considering that in many chambers they represent the majority of the members a chamber might not reach the necessary income level.

Model A2

Working Persons			Fee / Person	
Minimum	Maximum	Fee / Year	Minimum	Maximum
1	4	1.000	1000	250
5	9	2.500	500	278
10	19	5.000	500	263
20	39	10.000	500	256
40	79	20.000	500	253
80	159	40.000	500	252
160	319	80.000	500	251
320	640	160.000	500	250

When – as in Model A2 – the fee is increased to approximately the amount SMEs pay actually then the membership fee for bigger enterprises reaches levels, which they presumably will refuse to pay.

Model B increases the difference between the membership fee per working person: The biggest enterprises pay between 10% and 20% per person compared with the smallest ones (see the first and last values of the last two columns).

Model B

Working Persons			Fee / Person	
Minimum	Maximum	Fee / Year	Minimum	Maximum
1	4	1.200	1200	300
5	9	2.400	480	267
10	19	4.200	420	221
20	29	7.800	390	269
30	49	10.800	360	220
50	99	15.000	300	152
100	199	19.800	198	99
200	399	24.000	120	60
400	799	30.000	75	38

On the other hand, the difference between the membership fees per year is reduced. SMEs pay a reasonable amount in reference to their costs; bigger enterprises contribute more but still amounts, which they can afford without difficulties.

Of course, other calculations are possible. They always follow a tier system and the same formula: The smaller the difference between the lowest and the highest membership fee amount the bigger is the difference between the membership fee per working person and the financial burden for the enterprise.

6 Conclusions and Recommendations

The discussions in the previous chapters clearly indicate, that the chambers without increasing their income from membership fees will run into financial difficulties – especially as soon as the international donors decrease and finish their support which are presently given through various subsidies.

In order to increase the income especially from the financially stronger members and to maintain simultaneously the chambers’ attraction for SMEs and MSMEs a tier system for the membership fee is presented.

If these chambers are to become self-financing sooner or later they will have to change their membership fee system. In the present context of economic globalisation the international tendency is decentralization of tasks and responsibilities. This decentralisation in society could be from central governments to regional / provincial governments as well as to private

institutions including business chambers. This calls for institutionally and financially stronger chambers. The question is what is the right moment to try to convince the chambers to adapt their membership fee system more to the international procedures.

One could argue against a change as follows: If the chambers start to increase their membership fee now from the few members they have many will leave contributing to making the fragile situation of the chamber worse.

The counter argument: If the chambers do not start to increase their membership fees now they will run very fast into a precarious financial situation. In addition, the more members the chambers have, the more entrepreneurs will be used to a low membership fee, which will make a change even more difficult.

Concerning an implementation strategy for a tier system it is obvious that it would not make sense to try to convince all chambers to change their system in one step. Therefore, a successful strategy could be in the form of a step-by-step process:

- To select one or two smaller chambers with a relatively homogenous membership where a tier system would not have a big financial impact on most members. In such a case the introduction of a tier system encounters less resistance of members. These chambers could serve as examples for other chambers.
Examples for this type of chambers: CPWCIC, NCHSL.
- Parallel to this it can be considered to recommend to chambers just starting out to introduce a tier system right from the beginning.
- In addition to this it can be considered to start negotiations with a chamber with a more heterogeneous membership. Based on information about the member enterprises different models for a tier system would have to be calculated in order to see the effects for the members and the chamber. This could be a chamber where the leaders are open to changes, have an entrepreneurial vision for their institution and are conscious concerning the chamber finances.
- In case a tier system works successfully in such a chamber others can be stimulated to copy the system.

This strategy has more chance of succeeding if the FCCISL / Chamber of Commerce and Industry for Southern Sweden and ESSP agree on a common concept related to the development and changes to be made to the membership fee systems being implemented.