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Regulation: A New Theoretical
Perspective**

**CEO Publication
G 87-21 (112)**

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We wish to express our appreciation to Wayne Brockbank, Harvey Hegarty, Larry Lad, and Drew Weiss for their helpful comments on earlier versions of this paper. This research was supported, in part, by a grant from the Spencer Foundation.

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ORGANIZATIONAL RESPONSE TO GOVERNMENT REGULATION:

A NEW THEORETICAL PERSPECTIVE

ABSTRACT

Students of organizational strategy lack a fully specified framework for studying and better understanding the strategies shaped by organizations in response to government regulation. Drawing upon a set of concepts relatively unexplored in the organizational literature and upon earlier empirical reports, we propose that infrastructure development and inter-organizational network centrality, mediated by transaction costs and property rights, have salience in explaining the directionality, intensity, and timing of the strategic responses of organizations to regulation. This paper also develops an elaborated view of the regulatory response context and suggests an approach to analyzing the movement of organizations over time.

Adapt or die is perhaps the most basic premise of current research in organization theory and strategic management (Aldrich, 1979; Hannan & Freeman, 1977; Pfeffer & Salancik, 1978; Porter, 1980). One central feature of this premise is that organizations are incapable of existing without engaging in input and output transactions with other organizations. However, other organizations, such as aggressive competitors, hostile-takeover groups, zealous government regulatory agencies, create uncertainty (Thompson, 1967) and pressures for accountability (Hannan and Freeman, 1984). Adaptive organizations are able to deal with such pressures and uncertainties, acquiring essential inputs, adding value to them through a transformation process, and successfully marketing the resulting outputs (Yutchman & Seashore, 1975).

The environments of organizations, thus, hold many possible sources of uncertainty and accountability pressure. One element in these environments that has attracted considerable attention, from both scholars and managers, is the regulatory powers of government. While in a few instances (e.g., transportation), government has been, in certain time periods, the source of considerable certainty and reduced accountability pressure for a subset of industry competitors (e.g., by increasing barriers to entry), government regulation is more often regarded as a source of increased uncertainty and greater accountability pressure (Lindblom, 1977).

Government may not only serve as a significant source of pressure and uncertainty for organizations, but also may be viewed as a key component of selection mechanisms at work in a population of organizations (Scott, Mitchell, & Birnbaum, 1981). A system of

government authority (Lindblom, 1977) expressed through regulations, taxes, or other policy instruments often causes the elimination of some organizations and the retention of others (Aldrich, 1979).

Considerable effort has recently been devoted to understanding the strategic responses of organizations to the regulatory powers of government. Some of these have focused empirically on the government's perspective (Aplin & Hegarty, 1980), on single industries (Birnbaum, 1984; Miles, 1982; Ottensmeyer, 1982), and on comparisons across industries (Birnbaum & Ottensmeyer, 1982; Birnbaum, 1985). However, with few exceptions (Cook, Shortell, Conrad, & Morrissey, 1983; MacMillan, 1978; Mahon & Murray, 1981; Post, 1978), little theoretical development has taken place that might assist scholars in their efforts to specify enriched explanatory models of organizational response to government regulation. The primary purpose of this paper is to refine such models by drawing upon a set of concepts from the institutional economics literature.

We view this refinement effort as important, more generally, to the study of complex transactions among organizations. The study of organization/industry/government transactions provides an opportunity for organizational analysts to better understand organizational action in response to uncertainty and accountability pressures, as well as the complex set of antecedent conditions and contexts from which organizational actions emerge.

We begin the analysis by explicitly specifying the concepts of "regulatory response" and "response context". In the first section, we discuss three elements (external infrastructure, internal

infrastructure, and network centrality), which we see as fundamental forces shaping regulatory responses. In the next section, each of these elements is discussed in relation to transaction costs and property rights, two concepts from the institutional economics literature which, we argue, serve as more-proximal, mediating variables that help to explain the dependent variable of principal interest, strategic organizational response to government regulation (abbreviated below as "regulatory response").

REGULATORY RESPONSE AND RESPONSE CONTEXTS

Regulatory Response

Much effort on the part of organizational actors, both general managers and specialized boundary spanners, is focused on the political-regulatory environment. Government relations experts follow developments in legislative bodies and regulatory agencies. Managers follow proposed tax legislation with more than passing interest. Domestic steel, auto, and semiconductor manufacturers focus on governmental actions in the international trade area. In some cases, firms move into the political-regulatory arena more aggressively via direct lobbying or electoral politics (through PACs). In other instances, organizations watch rather passively from the sidelines or begin adapting to new regulatory imperatives before they are required. Even organizations operating in the same industry often choose different sets of activities with respect to the same regulation.

Ottensmeyer (1982) identified several organization-level approaches to regulatory interaction, ranging across a spectrum from very active "gladiators" to classic free-riders. Other authors (e.g., MacMillan, 1978) have identified alternative ways of categorizing regulatory

response. What can be observed, in general, from such classification attempts is a) that they are drawn frequently from cross-sectional analyses of single (or closely related) instances of government-firm or government-industry interaction, and b) that they inevitably represent variations on the familiar "fight or flight response" theme from human psychology, modified by the equally familiar power-dependence theme from organization theory.

Considered in the aggregate, actions taken by an organization with regard to government involvement in its operations define the construct we term "regulatory response." Thus, adapting Mintzberg's (1978) familiar definition of a strategy, we view regulatory response as a pattern in a stream of decisions or actions that define an organization's posture vis-a-vis the regulatory powers of government. We hasten to add that, while the term itself implies an after-the-fact reaction, "regulatory response" also includes those organizational actions that encourage government to enter a regulatory arena. For example, a firm's system for managing strategic issues (Dutton and Ottensmeyer, 1987) may identify the potential strategic importance of government protection from foreign competitors, and that firm may take steps to bring about supportive government action. This pattern of regulatory response represents a sub-set of strategic choices that, viewed over time and combined with other decision patterns, defines an organization's more general competitive strategy.

Regulatory response includes three critical dimensions: directionality, intensity, and time. By directionality, we mean that regulatory response can be focused either away from an organization (external directionality) or toward an organization (internal

directionality). In one study of regulatory response (Ottensmeyer, 1982), twenty separate action-responses were identified (see Table 1). Nine observed responses were internal in that they modified internal structures and processes in order to monitor, disseminate information, coordinate responses, and comply with government regulations. Eleven were externally focused since they were directed outward from an organization to similar organizations, to individuals, or to regulatory agencies.

Insert Table 1 about here

Intensity refers to qualitative and quantitative assessments of the level of aggressiveness of observed decisions or actions taken by an organization. Externally focused intensity might include measures such as the number of legislators contacted about an issue, the number of shareholders enlisted in a letter-writing campaign, the quality of lobbying efforts, the number of similar firms enlisted to support a rule revision, or the strength of inter-organizational support for an "industry-wide position" on a regulatory issue. Internally focused intensity might be indicated by the force with which regulatory compliance is supported through new roles, structures, or operating policies.

The time dimension draws attention not only to the life cycle of regulatory issues but also to the sequence of interactions among key players (e.g., legislators, regulatory agencies, firms, industry associations) over the life of a regulation. The perceived effectiveness of regulatory response often depends on its placement in a

sequence of events. For example, experienced lobbyists recognize the advantages of sharing their views with key legislators while a bill is under consideration in committee. One recent study of regulation in the medical equipment industry (Birnbaum, 1984) found that firms sought to time their efforts effectively with Congressional committees and rule-writing agencies to achieve a less threatening regulatory outcome. The tactics of "bringing out the big guns" and "playing the trump card" in a particular regulatory setting are often significant only if "brought out" or "played" at the right time. A less-visible university association, fighting a change to a federal financial regulation, was able to enlist the support of the prestigious Association of American Universities (AAU) at a critical time and, thus, influence the regulation's eventual shape and impact (Ottensmeyer, 1982).

Response Contexts

Regulatory response occurs within the larger life cycle of public issues. This cycle has been argued to begin with changing public expectations, which evolve into political controversies, which in turn are acted upon by the legislative or executive branches of government. A subsequent stage of litigation often ensues to bring the judicial branch into the arena (Post, 1978). While different public issues take differing amounts of time to move through these stages, issues typically follow this sequence.

An organization develops a regulatory response as well as its core processes (ie, input-transformation-output) in the context of social systems referred to as external and internal infrastructures (Birnbaum, Weiss, Ottensmeyer, & Stearns 1984; Williamson, 1981). An organization's external infrastructure includes systems such as industry

structures, labor markets, educational systems, or communications systems. The external infrastructure most clearly associated with regulatory response includes trade associations, lobbyists, government monitoring systems, external information dissemination systems (e.g., consultants), and action coordinators. Specific quantitative indicators of the texture of an external infrastructure include the number of trade associations, the pattern of trade association memberships, the number of specialized consulting or lobbying firms, the number of formal linkages between regulators and the regulated, and the event-history of firm-industry-government agency interaction. Over time, these external infrastructures become institutionalized in an organization's environment, as meanings become shared among participants and as interpretations of events converge.

Economists over the years have devoted considerable attention to the evolutionary nature of regulatory relations. Joskow (1973), Bernstein (1955), and Stigler (1971) analyzed, theoretically and empirically, the interactions between regulatory agencies and regulated firms. These analysts are concerned with the root causes and initial motivations for regulation, the evolution of regulatory relations, and the phenomenon of "regulatory capture," by which regulatory bodies, over time, are unduly influenced by the firms being regulated.

Organizations also develop social systems internally to carry out input, transformation, and output processes. Like external infrastructures, these internal systems also change and evolve over time in a process of institutionalization. Ackerman (1973) refers to this phenomenon as operating unit institutionalization. The internal infrastructure related to regulatory response includes organizational

structures and processes to monitor, evaluate, report, and take actions with regard to government regulation. Specific indicators of such internal infrastructure development include the number of specific roles and positions to monitor, inform, and coordinate regulatory response, specific methods of informing key organizational members of proposed changes in government actions, or the number of in-house lobbyists to represent an organization in government forums.

A third important factor in explaining regulatory response is an organization's centrality within a relevant network of organizations. Centrality positions an organization within its external infrastructure. Normally, we expect the primary network to be an industry (or its equivalent in the not-for-profit sector). Indicators of centrality may include the level of an organization's interorganizational communication relative to total network communication, organizational prestige, market share, or membership on key decision-making bodies of industry groups.

Response Contexts, Transaction Costs, and Property Rights

These three elements of an organization's regulatory response context (external infrastructure, internal infrastructures, and centrality) can be viewed as shaping regulatory response through their effects on organization-specific variables, transaction costs and property rights. Both transaction costs and property rights have received considerable attention in the fields of economics and law and more recently in organization theory (De Alessi, 1980; Demsetz, 1964; Furubotn & Pejovich, 1972; Jones, 1983; Walker & Weber, 1984; Williamson, 1981).

Transaction costs refer to the costs associated with negotiating, contracting, and policing an external transaction (Williamson, 1981).

Economists argue that organizations are created when market transactions become infrequent, unstable, and concerned with the transfer of specific assets. However, when transactions are frequent, stable, and concerned with nonspecific assets, market structures are more efficient than organizational structures; consequently, there is no need for organizations to form in order to handle these transactions (Williamson, 1975).

Property rights refer to the "sanctioned behavioral relations ...that arise from the existence of things and pertain to their use" (Furubotn & Pejovich, 1972:1139). The system of property rights-in-use assigns authority to individuals in how specific "things" are to be used (De Alessi, 1980). Included in this definition are rights to social property, such as decision-making autonomy, as well as physical and legal property. We use the concept of property rights here in a more "micro" sense than that used generally by economists; that is, we treat property rights as a mediating variable to explain organizational action rather than as one variable to explain the socially optimal allocation resources in an economy. At an organizational level, property rights, as perceived and acted upon by managers, vary from strong to weak, depending on other salient factors in the response context.

Thus, in this conceptualization, the underlying logic is that organizations seek to minimize transaction costs and to maximize property rights, and, further, that these two organizational attributes shape regulatory response. This logic follows directly from the work in organization theory of Thompson (1967), Aldrich (1979), and Jones (1983), and in economics from the work of Alchian & Demsetz (1972), Demsetz (1964), Klein, Crawford, & Alchian (1978), and Williamson

(1975). Underlying this logic is the assumption that transaction costs and property rights vary across organizations. Further, transaction costs and property rights develop from a context in which organizations may be more or less central in their networks, may have highly developed or rudimentary internal infrastructures, and may operate in strongly institutionalized or weakly institutionalized external infrastructures.

Figure 1 portrays the configuration discussed above. In the sections below, we discuss in detail the relation of each of the three elements of the response context to transaction costs and property rights.

Figure 1 about here

HYPOTHESIZED BIVARIATE RELATIONSHIPS IN THE MODEL

External Infrastructure and Transaction Costs

External infrastructures provide the context in which transactions are carried out. A highly developed external infrastructure lowers transaction costs for individual organizations; in its absence, these same organizations would have to individually develop more costly specific facilitators. For example, the U.S. Postal Service or United Parcel Service can facilitate between organizations the transactions of parcels of standard size and weight more efficiently than if each organization had to internalize the transfer. As external infrastructures become institutionalized, marginal transaction costs decrease for the individual organizations operating within them.

This same notion can be applied to regulatory response in straightforward fashion. As the frequency and certainty of regulatory response transactions increase (for example, in presenting information, filing routine reports, and attempting to influence a regulation's form or enforcement), trade associations and specialized consultant services may develop to more efficiently monitor and disseminate information, or coordinate collective action among organizations within a regulated sector. Thus, the increasing institutionalization of an external regulatory infrastructure reduces the marginal transaction costs for each organization in dealing with government regulatory agencies. There are, of course, costs associated with establishing and maintaining an external infrastructure, and an associated danger that firms may not recognize these costs and commit the classic "grass is greener fallacy" (Demsetz, 1964).

External Infrastructure and Property Rights

The development of trade associations in the external infrastructure may shift property rights for decision-making autonomy (that is, for choosing regulatory response) away from individual organizations. This sort of increased institutionalization of an external infrastructure may decrease the individual property rights of organizations by reducing their individual decision autonomy in the interests of collective decisions. Examples of this phenomenon are familiar and especially salient in national or organizational governance systems in which the will of a majority may differ sharply from individual choices. As institutionalization occurs, an individual organization's property rights may decrease, depending, of course, on the nature of the collective association as well as on an organization's

position within it. Property rights are reduced less by institutionalization for more central organizations than for less central ones.

Internal Infrastructure and Transaction Costs

The development or elaboration of internal roles, structures, and processes is a well-recognized way for organizations to deal with external uncertainty and accountability pressures. The Parsonian (1956) framework (elaborated by Thompson, 1967) of the institutional, managerial, and technical core of an organization has been argued to represent a range of internal responses to regulation (Cook, et al., 1983). That is, an organization will respond initially at the institutional level, then at the managerial level, and only lastly with changes to its technical core.

Specialized roles, structures, and processes compose the internal infrastructure used by organizations in responding to government regulations. When combined with others of strategic importance, these internal configurations define an organization's strategic issue management system (Dutton and Ottensmeyer, 1987). The general organizational tendency is to develop an efficient internal infrastructure that minimizes cost. This drive toward minimizing administrative and production costs is generally referred to as "technical rationality" (Scott et al., 1981; Scott & Hart, 1979).

However, the internal infrastructure not only affects internal cost but external transaction cost as well. The cost of negotiating, transacting, and policing transactions are affected by an organization's internal structures and processes. Creation of specialized internal roles, positions, units, and processes for negotiating, transacting, and policing interorganizational exchanges serves to reduce, over time, the

average cost per transaction. Internal infrastructure differentiation, thus, is intended to reduce externally-focused transaction costs. This argument is consistent with the economist's position that organizations exist where they are more transaction-cost-efficient than markets.

A link between internal and external infrastructures becomes apparent here, if we add a time dimension to the analysis. External infrastructures that are undeveloped may increase a single organization's overall transaction costs. However, if an external infrastructure is undeveloped, it may reflect a strong-property-rights stance among key organizations in that network. That is, powerful organizations, because they wish to preserve their individual, regulatory response autonomy, may block external infrastructure development. Thus, they choose to assert property rights and to pay the price for this stance through higher overall transaction costs. Similarly, organizations willing to pay the start-up costs of "organizing" an industry for collective effort, may reduce transaction costs in the long term. However, the impact of such actions on property rights is less determinant.

Internal Infrastructure and Property Rights

While a more refined external infrastructure may decrease an organization's property rights, development of an internal infrastructure may increase the tendency of organizations to assert their property rights. The development of an internal infrastructure, through new or refined structures and processes to match environmental forces, translates into increasingly specialized functions, more elaborate systems of information filtering and coordination, and greater power for those operating these systems (Hickson, et al, 1971). As increased

attention is paid to such concerns, an organization's decision makers develop increasingly clear boundaries around what are and are not their property rights. This boundary clarification of property rights is an integral part of the institutionalization process, as roles are defined and decision authority specified inside organizations.

Network Centrality and Transaction Costs

Organizations central to a network may have proportionally higher total transaction costs during initial infrastructure development. However, due to organizational learning along an experience curve, more central organizations would be expected to experience proportionally lower average transaction costs than those more peripheral in the same network. Other characteristics of central organizations support this position. Central organizations tend to be larger, more innovative, more decentralized, and more structurally complex (Aiken & Hage, 1968; Paulson, 1974).

Centrality has been associated with goal congruity, common technologies, and the structures of similar organizations within network (Gillespie & Miletì, 1979). Consequently, transaction costs are a lower proportion of total assets in larger organizations. In addition, internal decision processes and structural arrangements may reduce costs associated with change. Finally, goal congruity with network associates decreases certain information processing and problem solving costs of more central organizations.

Network Centrality and Property Rights

Organizations more central to a network are better able to maintain stronger property rights through their influence on collective decisions. Such organizations are central to the communication network

and because of goals and structures shared with other key members are better positioned to learn of changes and to initiate action. Further, peripheral organizations are more dependent on the central organizations for information and for action than the central organizations are on them. The dependence of peripheral organizations on central organizations provide those more central with increased power to take action (Bacharach & Lawler, 1980; Birnbaum, 1985; Emerson, 1962, 1972a, 1972b; Pfeffer & Salancik, 1978). Centrality, of course, comes at a price whenever it is a real option for an organization.

A summary of the expected relationships among the variables discussed above is shown in Table 2.

Insert Table 2 about here

THE DYNAMICS OF REGULATORY RESPONSE

An organization's transaction costs and property rights may vary depending upon the extent of external and internal infrastructure development and the organization's centrality within a network of regulated organizations. Transaction costs are negatively related to external infrastructure, internal infrastructure, and centrality. Property rights are negatively related to external infrastructure and positively related to both internal infrastructure and centrality.

The three elements of response context may be conceptually combined into eight categories by dichotomizing each element. By assigning a "1" for an increase in transaction costs or a strengthening of property rights, and a "0" for a decrease or a weakening, we are able to indicate the effect of each of the eight conditions on an organization's trans-

action costs and property rights. These eight conditions and their respective transaction costs and property rights are indicated in Table 3.

Insert Table 3 about here

As noted above, organizations shape regulatory response to reflect their efforts to minimize transaction costs and increase property rights. Using the results of Table 3, we are better able to develop predictions about the direction, intensity, and timing of regulatory response for organizations under different conditions. These predictions are summarized in Table 4.

Insert Table 4 about here

Externally-directed response is predicted for organizations with high centrality, under all conditions because of their comparatively lower transaction costs and stronger property rights (Cells 2, 4, 6, and 8). Internally-directed response is predicted for organizations with low centrality under all conditions because of their comparatively higher transaction costs and weaker property rights (Cells 1, 3, 5, and 7). Similarly, the intensity of regulatory response is predicted to vary as organizations with high centrality attempt to increase external infrastructure development, and as those with lower centrality attempt to increase internal infrastructure development. As both external and internal infrastructures develop, the level of intensity of effort is predicted to decrease since transaction costs are reduced and property

rights are stabilized among network members. The time dimension is here reflected in the hypothesized movements of organizations from one general position (i.e., Cell) to another.

Movement by Network-Peripheral Organizations

For peripheral organizations (i.e. low centrality), there are four dynamic changes possible. Organizations might either develop their internal infrastructures or behave as classic "free riders" (McMillan, 1979), relying on the efforts of more central organizations. That is, organizations might move from Cell 1 to Cell 3, from Cell 1 to Cell 5, from Cell 3 to Cell 7, or from Cell 5 to Cell 7.

Cell 1 to Cell 3. Peripheral organizations under conditions of low external infrastructure and low internal infrastructure will have high transaction costs and low property rights, the worst possible condition. They might seek to reduce their transaction costs and increase their property rights by intensive internally-directed regulatory response. Internal efforts will be pursued because they will not further increase transaction costs and may increase their property rights. Such organizations often are "free riders," depending on the efforts of other organizations in developing the external infrastructure. By increasing internal infrastructure building efforts, they are able to move Cell 3 (high internal infrastructure, low centrality, and low external infrastructure).

Cell 1 to Cell 5. Peripheral organizations unable to increase their internal infrastructure, but which are "free riders" on the efforts of others to develop the external infrastructure might also be expected to reduce transaction costs and lower property rights by moving to Cell 5. For example, a small competitor in a

rapidly concentrating industry may choose not to attend to prospective regulatory issues, while minimally complying with extant regulations, thus minimizing costs of compliance and putting its property rights in the hands of stronger industry players.

Cell 3 to Cell 7. As more central organizations develop the external infrastructure, organizations that have increased their internal infrastructure might enjoy the benefits of lower transaction costs, but might also experience lower property rights due to collective response efforts.

Cell 5 to Cell 7. If peripheral organizations with low internal development, under conditions of high external development (Cell 5) are able to successfully develop internal systems and procedures, they might further reduce their transaction costs while strengthening their property rights (Cell 7).

Peripheral organizations may also attempt to become more central within their network. That is, organizations in Cell 1 may attempt to move to Cell 2 rather than Cell 3, or organizations in Cell 5 may choose to move to Cell 6 rather than Cell 7. While this is possible, we believe it to be unlikely since centrality is not only a function of the focal organization's intent but also of the willingness of other organizations within a network to allow them to become more central. While it may be possible, for example, for large, prestigious organizations with large market share to become more central should they so intend, it is much more difficult for small, low prestige organizations with small market shares to do so. It is, of course, possible for a small, low prestige organization with low market share to grow, increase its prestige and market share in order to become more central in a network, for example,

by building a leadership position in a previously-fragmented industry. However, this is often a slow process; until this change is effected, an organization will only retain the choices outlined for peripheral organizations.

Movement by Network-Central Organizations

Organizations centrally located in a network are predicted to engage in externally-directed regulatory response. Two condition changes are predicted by this model.

Cell 2 to Cell 6. Organizations operating in contexts of low external infrastructure, low internal infrastructure, and high centrality (Cell 2) are predicted to exert intensive efforts externally in response to government regulation, in order to decrease transaction costs. These efforts are not expected to significantly affect their internal infrastructure, but to increase external infrastructure development. The result would be to create the conditions characterized by Cell 6, high external infrastructure, but low internal infrastructure while maintaining centrality. Through this movement, organizations reduce transaction costs as external institutionalization increases and simultaneously lower property rights, as they give up some decision-making autonomy to the collective effort. Such firms are usually the organizers of industry trade associations.

Cell 4 to Cell 8. Central organizations with highly developed internal infrastructures for responding to government regulations, but facing low external infrastructure development (Cell 4), will have lower transaction costs and higher property rights than will those organizations in Cell 2. Consequently, their intensity of effort would be less than organizations in Cell 2 although they might also expend effort externally. The results of these efforts would be to further

increase external development, thereby reducing both transaction costs and property rights.

SUMMARY AND IMPLICATIONS

We began this analysis by arguing that organizational scholars, while recognizing the criticality of adaptation by organizations to powerful external forces, know little about a) the ways organizations actually adapt or respond, or b) the factors explaining such responses. Throughout this analysis, we have sought answers to two straightforward questions:

- How do organizations respond to regulation?
- Why do organizations respond the way they do?

Recognizing the enormous variety of both government regulations, regulatory agencies, and organizations affected by them, we have attempted to develop a better "working draft" of a model of the regulatory response phenomenon. In so doing, we have identified a set of variables and relationships among them that warrant further empirical investigation. Comparative case studies, with systematic follow-up, need to be supplemented with longitudinal field studies.

The model proposed here depicts an organization's response to regulation as emerging over time from a complex interplay of internal and external infrastructures, network positions, transaction costs, and property rights. Critical to the development of a fully specified model of regulatory response is a better understanding of the ways in which political efficacy develops in strategic decision makers operating in this complex milieu. That is, a manager's prior experiences with and interpretations of internal and external forces might be reflected in more explicit ways in future models.

Studies of regulatory response may eventually yield important findings on the interconnectedness of intra- and inter-organizational decision-making processes. For example, developing responses to a particular form of regulation may reside within one organization's preview, but even in such instances, intra-organizational bargaining may be needed to gain the commitment of insiders whose roles are affected by response decisions. In other settings, internal bargaining may occur simultaneously with an external bargaining process that may involve similar organizations, associations of these same organizations, regulatory agencies, or the legislative branch. As a result, intra-organizational decisions may be constrained by the outcomes of interorganizational bargaining taking place within a relevant network. Conversely, the external bargaining posture assumed by an organization may be shaped by its array of internal actors and power configurations.

AUTHORS

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Table 1

Responses of Organizations to Regulation

Internal Actions:

1. Modify physical information/control systems to monitor disseminate, and coordinate internal response to government regulatory activities.
 2. Temporarily expand individual job(s) to monitor, disseminate, and coordinate internal response to government regulatory activities.
 3. Permanently expand individual job(s) to monitor, disseminate, and coordinate internal response to government regulatory activities.
 4. Create new job(s) to monitor, disseminate, and coordinate internal response to government regulatory activities.
 5. Modify physical production/service systems to comply with regulatory requirements.
 6. Modify physical information/control systems to comply with regulatory requirements.
 7. Temporarily expand individual job(s) to handle compliance responsibility with regulation.
 8. Permanently expand individual job(s) to handle compliance responsibility with regulation.
 9. Create new job(s) to handle compliance responsibility with regulation.
-

External Actions:

10. Serve on key committees of association.
11. Arrange personal visits with government officials to request their informal influence with officials proposing regulatory change.
12. Prepare detailed, technical reports on impact of proposals on the organization, for distribution to key government officials.
13. Arrange for administrators or other organizational employees to present formal testimony or to serve as expert witnesses at agency hearings.

14. Publicly praise federal officials for their efforts during the regulatory process.
 15. Convene information panels to exchange views with key federal officials.
 16. Organize a letter-writing campaign directed at federal officials.
 17. Participate in a letter-writing campaign that was organized by another organization, organizational consortium, or a Washington based association.
 18. Request organizations not directly affected (i.e., unions, scientific equipment suppliers to exert influence on key government officials.
 19. Organize a media campaign on the regulatory issue, including letters or articles to key journals.
 20. Informally solicit contacts or correspondence from powerful individuals not directly affected (e.g., lawyers, C.P.A.s).
-

Adapted from Ottensmeyer (1982)

Figure 1

A Model of Regulatory Response

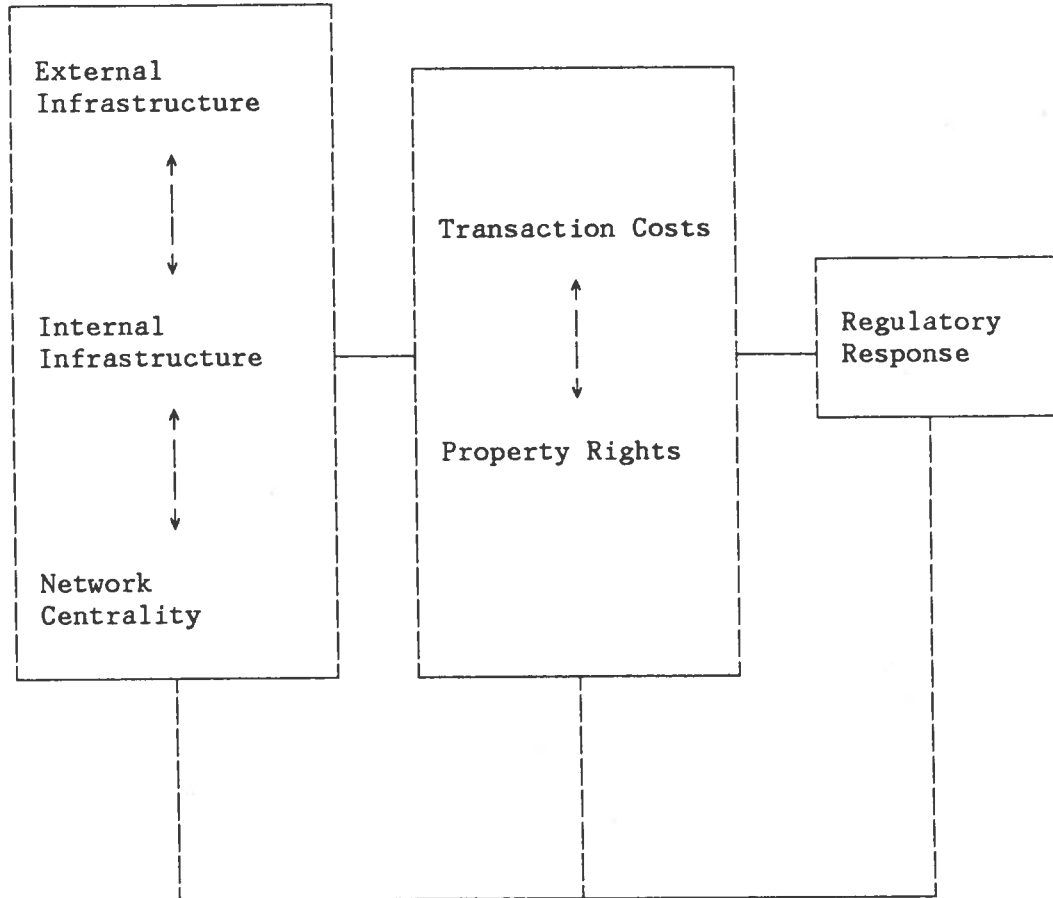


Table 2

Expected Variable Relationships

Result in:

	Transaction Costs	Property Rights
Increases in: External Infrastructure Development	lower -	weaker -
Internal Infrastructure Development	lower -	stronger +
Network Centrality	lower -	stronger +

Table 3

Transaction Costs and Property Rights for Different Conditions of External Infrastructure, Internal Infrastructure, and Centrality

Cell	External Infra- structure	Internal Infra- structure	Centrality	Trans- action Cost (TC)	Property Rights (PR)
1	Low (TC = 1) (PR = 1)	Low (TC = 1) (PR = 0)	Low (TC = 1) (PR = 0)	3	1
2	Low (TC = 1) (PR = 1)	Low (TC = 1) (PR = 0)	High (TC = 0) (PR = 1)	2	2
3	Low (TC = 1) (PR = 1)	High (TC = 0) (PR = 1)	Low (TC = 1) (PR = 0)	2	2
4	Low (TC = 1) (PR = 1)	High (TC = 0) (PR = 1)	High (TC = 0) (PR = 1)	1	3
5	High (TC = 0) (PR = 0)	Low (TC = 1) (PR = 0)	Low (TC = 1) (PR = 0)	2	0
6	High (TC = 0) (PR = 0)	Low (TC = 1) (PR = 0)	High (TC = 0) (PR = 1)	1	1
7	High (TC = 0) (PR = 0)	High (TC = 0) (PR = 1)	Low (TC = 1) (PR = 0)	1	1
8	High (TC = 0) (PR = 0)	High (TC = 0) (PR = 1)	High (TC = 0) (PR = 1)	0	2

Table 4

Categories of Regulatory Response

Centrality	External Infrastructure			
	Low		High	
	Internal Infrastructure		Internal Infrastructure	
	Low	High	Low	High
Low	CELL 1 TC=3 PR=1 Internal Hi Intense	CELL 3 TC=2 PR=2 Internal Lo Intense	CELL 5 TC=2 PR=0 Internal Lo Intense	CELL 7 TC=1 PR=1 Internal Lo Intense
High	CELL 2 TC=2 PR=2 External Hi Intense	CELL 4 TC=1 PR=3 External Lo Intense	CELL 6 TC=1 PR=1 External Lo Intense	CELL 8 TC=0 PR=2 External Lo Intense