Examining regulatory intensity as a function of industry performance, industry political participation, and media coverage

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Abstract

This studyexamines how regulatory intensity, measured by the frequency of agency enforcement actions, is associated with industry performance. Longitudinal analysis of the U.S. National Highway Traffic and Safety Administration (NHTSA) crash testing program in the automobile industry reveals that crash test frequency is positively associated with industry performance. Specifically, crash test frequency by the NHTSA increases as industry financial performance improves. This association, however, is moderated by both industry political participation and issue salience. These results suggest that regulators reduce the regulatory burden placed on industries during times of poor financial performance. Such actions, however, are tempered by aspects of both the industry and general environments.

Introduction

Gaining an understanding of the factors influencing the behavior of state organizations such as regulatory agencies is critical to organizational research as such agencies exert pressure that helps shape the actions of both industries and firms. Regulators have been shown to shape industry structure by establishing standards of practice (Dobbin & Dowd, 1997) as well as by shaping property rights (Campbell & Lindberg, 1999). In addition, regulatory agencies have been found to act as mediators of economic exchange, by virtue of their regulation of economic activities (Block, 1994). Such regulatory behavior includes mitigating the effects of business cycles (Friedman & Schwartz, 1963), regulating private transactions (Marshall, 1950), and providing certain goods and services to all citizens (Weir, 1992).

Scholars have long been interested in examining the relationships that develop between regulatory agencies and the firms and industries that they are tasked with monitoring. These relationships havebeen found to be interactive and are oftencharacterized by mutual dependence. Regulatory agencies, for example,may rely on firms for resources and information in exchange for favorable policy conditions (Mayhew, 1974). In strategic management, this view has been applied to develop frameworksthat attempt to predict and explain corporate participation in political processes aimed at influencing firms' regulatory environments. Such research views political processes as a series of exchanges in which policy results from the influence of large, resource-rich firms (Schuler, 1996).[truncated]