The Impact of Social Relations on Environmental Compliance of Small Firms

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ABSTRACT

This paper responds to a question of regulatory compliance: Why do similar actors comply with regulations at one time and place, but not in another? The paper attempts to fill the gaps in traditional compliance theories and argues that when identity concerns prevail, compliance behavior is a manifest expression of twofold socio-political relationship that arises from interactions among regulatees, and between formal regulators and the regulated.

The comparative case studies presented here are based upon participant observation. To provide interviewees with settings that foster freer responses, many interviews were conducted in informal, social locations. Collected free-flowing narratives were complemented by more structured questions related to environmental regulations at hand.

The research reveals that although regulated entities are sometimes instrumentally rational or norms-oriented, they also base their behavioral choices on situated judgments in ways that are more varied and changing than existing compliance theories have suggested. The paper highlights how the social relations of actors are manifested in identities of self and others, and in turn translate into compliance choice making.

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INTRODUCTION

The situation in which the state authority exercises power over people and commands them to do something in the name of the law is a recurrent, significant theme in the social sciences (Beetham 1991, Milgram 1965). It is expressed in our everyday life in the case of government regulation. A critical question in this regard is why some people comply with regulations and others do not.

There have traditionally been two ways of approaching this question. One is deterrence theory and the other the theory of norms. Very briefly, deterrence theory, which is based on the assumption of rationality, posits that regulated entities make choices in a way that maximizes their expected utility. In his path-breaking article, Crime and Punishment, Gary Becker (1968) shows that rule compliance is a function of the probability that violation will be detected, the probability of penalty imposition when detected, and the severity of penalty. From this theoretical perspective, compliance is viewed as a strategic choice.

In contrast, the theory of norms rejects the individualistic rational calculation and instead takes a communal approach: Actors behave according to social norms that prescribe which action is appropriate. The criteria actors use to act appropriately are based on tacit understandings of “what is true, reasonable, natural, right, and good” (March & Olsen 2004:3). This theory claims that motivations for compliance result from regulated entities’ sense of moral obligation to do the right thing rather than from expected utility (Schwartz & Orleans 1967, Tyler 1990). Under this approach, compliance is natural and automatic (Wilson 1993).

Although these two theories provide radically different accounts of how compliance behavior is to be interpreted, they build upon a common project: identifying the most universal principles independent of any particular context. Despite precious insights, the problem with these approaches
is that they leave us with no adequate means of explaining why similar actors obey or comply with regulations at one time and place, but not in another.

Apart from dominant theories of rule compliance, this article is concerned with compliance behavior in particular social contexts rather than universally, and with concrete social relations rather than ideal-typical ones (Granovetter 1990). The problem of overlooking contexts is best illustrated when the two aforementioned theories explain in different ways a bandwagon effect of compliance in which compliance breeds compliance with explosive consequence (Leitzel 2003). Normative theorists view the bandwagon effect as the result of a “norm of fairness” that tells us, “Do A if and only if other people do A.” (Ullmann-Margalit 1977). In contrast, deterrence theorists would consider the same phenomenon as the result of rational calculation: “When there are few violators, the risk of detection is higher and the penalty more severe. Therefore, people are more willing to comply when they recognize that others comply” (Elster 1989a). But we maintain that one cannot tell the true reasons for actions until niches of contextual significance are identified (Geertz 1973).

To make headway on this concern, the article takes as exemplary cases the compliance of Korean drycleaners with environmental regulation. These drycleaners account for 60-70 percent of the dry cleaning industry in Southern California and Massachusetts. Elsewhere, a colleague and I have investigated compliance behavior in these two dry cleaning communities through multivariate analysis. This earlier study served more to test existing theories rather than provide new theoretical insights. Thus, without arguing against the general picture drawn from that research, we wish to move beyond the consideration of modern compliance theories and onto building on recent developments in theories of social identity (Abrams 1999) and social embeddedness of economic action (Granovetter 1985, 2005).

In so doing, the article attempts to develop an empirically grounded theoretical framework, termed the relational approach, arguing that compliance behavior is a manifest expression of socio-political relationships that arise from interactions among regulatees, and between formal regulators.
and the regulated as a whole. The term “relational” is derived directly from the importance of this twofold socio-political relation in understanding compliance behavior. When we examine compliance behavior through this new approach, we recognize that such behavior is contingent on the way an actor constitutes self in relation to others in ongoing interactions. In addition, this approach provides coherent accounts of what is considered by traditional theories to be exceptions to the principles.

To build a bridge between theory and empirical cases, this article proceeds in the following order. It begins by describing the observed phenomena that fail to fit neatly into the frameworks provided by the two major theories of regulatory compliance. This section specifies action domains that the mainstream theories do not cover. The next section then discusses in detail why the two theories are insufficient to explain the observed phenomena. The discussion focuses on the gaps in the two major theories. In an effort to fill the gaps, we then suggest a complementary way of understanding compliance behavior and discuss its conceptual underpinnings. To construct the empirical validity of the new approach, the following section delineates and analyzes how actors are related to one another in particular social contexts. In the process, the analysis explicates how socio-political relations between actors are manifested in identities of self and others and, ultimately, translate into actual compliance behavior.

**PUZZLE IN A STORY OF THE DRY CLEANING INDUSTRY**

With growing concerns about the cumulative impacts of small pollution sources on the environment and human health, federal and state environmental agencies have intensified regulations targeting the dry cleaning industry since the mid 1990s. Yet despite increased regulatory efforts, there have been no significant increases in compliance rates in most states. Throughout the late 1990s, the Southern California dry cleaning industry, which was monitored by the most stringent environmental agency in the nation, exhibited a decreasing trend in compliance, culminating in the low rate – falling from
10 percent in 1997 to 5 percent in 1999 (SCAQMD, 2002). The exception to the nationwide trend was Massachusetts. Over the same period, the Massachusetts industry demonstrated a significant increase in compliance, resulting in exceptionally high compliance rates – rising from 6 percent in 1996 to 76 percent in 1997, and reaching 86 percent in 2001 (MADEP 2002).³

The first, and perhaps most intuitive, explanation of these opposing trends is that regulatory requirements differ significantly between the two regions. However, careful comparison of the rule books confirms that there are no noticeable variations in formal regulatory characteristics between the two states (See Table 1).

[ Insert Table 1 here ]

Given that regulatory requirements are nearly identical, why do the two regions demonstrate such different outcomes? How would existing theories account for the difference in compliance?

Probabilities of detection and punishment, and severity of punishment, are the major factors identified by deterrence theory that should explain different compliance outcomes. However, pilot research revealed that there was no meaningful difference between the two state regulatory programs in these factors (See Table 1). Deterrence theory does not help explain the discrepancy in compliance trends observed in the two dry cleaning communities.

According to the core argument of the theory of norms, different compliance outcomes must have resulted from different social norms constraining each group’s behavior. How then might the two groups of drycleaners come to have different norms? One possibility is inferred from Bowles and Gintis’ (1975) study of the consequences of education, showing that differences in education result in different cognitive process. Such a position implies that different education levels contribute to the different norm formation, and thus differences in compliance trends. However, this is unlikely in the cases at hand because the educational levels of the two groups are almost identical. According to Korean drycleaners associations, approximately 78 percent and 76 percent of Korean
drycleaners in Southern California and in Massachusetts, respectively, are college graduates or higher. The entire balance of both peer groups has completed high school.

An alternative possibility is that informal socialization and acculturation rather than formal education brought about different norms. This explanation also seems unlikely because as mentioned previously, this research examines groups that share the same ethnicity and cultural background. This means that different compliance behaviors cannot here be attributed to differences in social norms.

Despite their wide acceptance, neither deterrence theory nor the theory of norms provides convincing accounts of the observed discrepancy in compliance trends. As we shall see later, the two theories’ contributions run out particularly when identity concerns prevail. Before the article elaborates its discussion, it will be useful to look briefly into the theoretical underpinnings of the two theories to clarify key areas in which they fall short.

THE GAPS IN EXISTING THEORIES

The insufficiency of the two major compliance theories results from several related assumptions about the nature of human agency and economic action. To be sure, these assumptions are useful in that they provide analytical parsimony by preventing an infinite regress to ever more restrictive assumptions. However, they sometimes hamper the thorough investigation of complex reality by imprisoning our analytic process within entrenched frames of reference. This section discusses the limits of deterrence theory and the theory of norms with a view to clarifying the need for a complementary theory.

The Weaknesses of Deterrence Theory

Deterrence theory provides a clear-cut analytical framework within which legal and illegal activities are understood. It builds on a basic theorem of the economic approach that an increase in the cost of
a certain activity results in a shift from that activity toward cheaper activities (Ehrlich, 1972).

Gordon Tullock (1974) elucidates this logic with a simple, but powerful reasoning: “Demand curves slope downward. If you increase the cost of something, less will be consumed. Thus, if you increase the cost of committing a crime, there will be fewer crimes” (pp.104-105). Tullock, of course, acknowledges that the elasticity of the demand curve might be low. Nevertheless, he insists, “…but there should be at least some effect.” (p.105. Emphasis in original).

It might be true that formal punishments have some effect on violators. It remains unclear, however, whether formal sanctions are always an effective way to prevent potential illegal activities by sending an unmistakable warning signal to others who have not yet violated formal rules. In reality, what we are concerned about is not only the direction of response but also the magnitude of such response (Ehrlich, 1972). For formal sanctions to have the sufficient deterrent effect, the following assumptions must be sustained (although not an exhaustive list, these are important core assumptions).

i) Legal and illegal activities are mutually exclusive in a given period (Ehlrich, 1972)

ii) Preferences are exogenously given and separated from objective opportunities such as costs and benefits (Ehrlrich, 1972).

iii) The actor knows the cost of compliance and the magnitude of the deterrence factors.

The first assumption plays a pivotal role in the economic theory of behavior under uncertainty. A general economic theory builds on a hypothesis that one would choose between two activities by comparing the expected utility associated with each, if and only if the two activities are mutually exclusive in a given period (Ehrlich, 1972). However, the decision to commit illegal activities is not entirely an either/or choice. One may in practice combine legal and illegal actions, and switch from one to another in a given period without reference to rational calculation (Ehrlich, 1972; Etzioni, 1988). In the case of drycleaners, many, if not all, owners/managers do not even know which activities are illegal due in large part to regulatory complexity.
The second assumption has been criticized widely in various disciplines. Following neoclassical doctrine, deterrence theorists assume that preferences are stable, externally given and “known with adequate precision to make decisions unambiguous” (March, 1978, p.589). By adopting this assumption, they avoid all questions of value formation. In the deterrence model, there is no need to study where preferences come from and how they are formulated and changed. As such, deterrence theorists claim that changes in illegal behavior can be explained by changes in prices (penalties) only because preferences are held constant.

In reality, however, individual preferences as well as group preferences – which are more subject to the problem of conflicting objectives arising from the diverse values of diverse participants – are often fuzzy and inconsistent (March, 1978; Pfeffer, 1977; Tversky & Kahneman, 1981). Preferences also change over time. While actors may choose among actions as prescribed in rational choice theory, it is equally true that actions already taken and their consequences affect preference formation (March, 1978). Furthermore, preferences seem endogenous rather than exogenous because they are shaped by certain social constraints (Bowles, 1998; Elster, 1983). If any of the above alternative views of preference formation are correct, then the explanatory power of deterrence theory is not as great as is often claimed.

The final assumption, the one most congenial to deterrence theory, is rarely borne out in reality. According to this assumption, an actor is capable of calculating the value of deterrence factors. She then compares them with the monetary cost of compliance. While calculating the monetary cost of compliance is not infeasible, it is difficult for individual actors to pin down the exact magnitudes of the deterrence factors.

**The Weaknesses of the Theory of Norms**

In contrast to deterrence theory, the theory of norms builds on the Durkheimian notion of *homo sociologicus* (Elster, 1989b): Individuals are not separate atomized actors, acting solely on
autonomous rational calculation; rather, they are social beings influenced heavily by other actors and
guided by prescribed behavior. They act in certain ways just because “to do so is customary, or an
obligation, or the natural….or right and proper, or just and fair” (Brown, 1977, p.17).

One of the major critiques of the theory of norms is its vagueness in dealing with the origin
of norms. People often display coordinated behavior that leads to compliance with a certain social
standard. When this behavior occurs without central authorities, we attribute it to the existence of
norms (Axelrod, 1986). To make this convincing, we need a comprehensive theory explaining
altogether “how norms arise, how norms are maintained, and how one norm displaces another”

Researchers in the tradition of the theory of norms are strangely silent on where such norms
come from and how they are internalized. At best, they end up discussing what mechanisms sustain
norms that are already established. Just as preferences are exogenous for deterrence theory, so norms
are externally given for the theory of norms. It has been said that the salience of the theory of norms
lies in its escape from the Benthamite individualist approach by bringing society back in. Ironically,
individual actors’ internalization of exogenous norms pulls such redemption back to asocial
individualism. By putting a heavy emphasis on internalized behavioral patterns based on universal,
fixed, externally given norms, the theory overlooks changing, ongoing relations in particular social
contexts which affect the formation and modification of norms. Mark Granovetter (1985) articulates
this point clearly (p. 485).

….despite the apparent contrasts between under- and oversocialized views, we should note an
irony of great theoretical importance: both have in common a conception of action and
decision carried out by atomized actors. In the undersocialized account, atomization results
from narrow utilitarian pursuit of self-interest; in the oversocialized one, from the fact that
behavioral patterns have been internalized and ongoing social relations thus have only
peripheral effects on behavior. That the internalized rules of behavior are social in origin
does not differentiate this argument decisively from a utilitarian one, in which the source of
utility function is left open, leaving room for behavior guided entirely by consensually
determined norms and values – as in the oversocialized view.
Actors, conceptualized in the theory of norms, are abstracted independent of particular social contexts, and thus fail to eliminate atomization and only transfer it to another level of analysis (Granovetter, 1985). In other words, instead of having atomized individuals, the theory of norms has atomized, stereo-typified groups of people supposedly acting in the same way, and thus falls victim to the very pitfall it intends to avoid.

In addition, a notion of “internalization” raises a critical empirical question. In order for this theory to replace deterrence accounts, we must be convinced that internalization of norms strictly prevents the actor from violating norms. In other words, actors never do things that they believe are wrong (Grasmick & Bursik, 1990). Does an internalized sense of moral obligation always shape behavior? We think not. Actions can create an ex post moral sense to justify themselves. The theory of norms ignores occasions where a sense of moral obligation or intention to act is not synonymous to actual behavior.

Related to the above point, there is another empirical issue that must be addressed. Internalization of universal norms implies that actors who comply in one situation will do so in other circumstances. From our everyday experience, however, we know that people often act according to different normative principles in different action domains. Why then should particular norms apply instead of others in certain situations? Presumably, the theory can account for why people comply, but it can hardly explain why people do not comply unless the above question is answered. In this sense, unlike deterrence theory, the theory of norms is a theory of right action, and not a theory of action.

To summarize, deterrence theory overlooks any impact of social structure or social relations on compliance behavior. It seems to be at fault not in its reasoning but in its simplified assumptions of human behavior. Although this theory is valid as prescriptive guidance to ideal rational actions, it is insufficient to explain what regulated entities actually experience. In the meantime, the theory of norms has addressed the problems of deterrence accounts and provided alternative views, but its
theoretical pendulum has swung too far and reached an oversocialized conception of human action. According to this view, actors are “overwhelmingly sensitive to the opinions of others and hence obedient to the dictates of …. systems of norms and values, internalized through socialization, so that obedience is not perceived as a burden” (Wrong, 1961, quoted in Granovetter, 1985, p.483). If obedience is not perceived as a burden at all, then why do people disobey?

In what follows, we propose a new approach to understanding compliance behavior. It is an effort to fill the gaps left in the existing theories, and thus provide a more cogent account of the phenomena observed in our cases.

A COMPLEMENTARY FRAMEWORK: THE RELATIONAL APPROACH

Core Argument

As clarified at the beginning, this article suggests the relational approach as a complement to the two major theories. It portrays compliance behavior as a configuration of socio-political relations that arise from the patterns of interactions among actors. Perceived identities of self and other actors play a pivotal role in characterizing these relations, and thus facilitate situational judgments.

As members of society, we inevitably interact and form relations with others. Mirroring Granovetter’s point quoted above, this implies that rather than focus solely on the autonomous actor or static system of structures, we need to be particularly attentive to what goes on in the interactive space in-between if we are to better understand how meanings of actions emerge. What gives the meaning to actions is neither individual rationality nor static structure of social norms alone, but the active working and reworking of the relationships among actors (Lejano, 2006). In deterrence theory and the theory of norms, what matters for an actor to act are utility maximization and an internalized sense of moral obligation, respectively. With the relational approach, it is the situated judgments that make sense of the surrounding world in light of who does what and why. This argument is based on the following assumption and intellectual assets.
Conceptual Foundations

1. Dual Aspect of Motivations for Actions: Escaping the “Undersocialized” View

The limited explanatory power of the existing theories comes from the rigid analytic demarcation between self-interest and normative values. The conflict between the two has traditionally been pitched as a struggle to decide which of the two is the correct assumption in interpreting human actions (Tyler et al., 1986). This conflict seems unproductive. More productive is to explore conditions under which people are more or less likely to be rational. The apotheosis of this point is reached by Michael Piore (1992, p. 431):

Neither the social nor the epistemological theory should in principle conflict with individual welfare maximization. Individuals in our theoretical universe are not irrational, but they may be a rational or pre-rational in the sense that the variables and processes on which the social and epistemological focus are generally … prior to the calculations that rational actors in economic theories … are presumed to make (Emphasis in original).

Recognizing the false tension, many scholars have made efforts to resolve the conflict between the two extreme views and to develop a single framework within which different motivations for action are compatible. Most efforts have been an attempt to rationalize normative values. For example, Harsanyi (1968) contends that what is explained by social norms can be explained through the theory of games taking as its primitives only the instrumentally rational individuals (Ullmann-Margalit, 1977).

Although some self-interests clothe themselves in normative garb for more acceptable positioning (Elster, 1989a), we reject a general rationalization of norms. The reason is that with the rationalization of norms, every human action, whatever it is, inescapably falls into the rational. For example, instrumental rationalists would explain an act to save a drowning child’s life at the expense of my own as an effort to increase my utility (subjective pleasure) through altruism. From the outset, the rationality claim is designed not to be falsified, so that it is impossible to distinguish other aspects
of human action from the rational. Rationalization of norms rolls out of every argument on its own circularity and suffers from the lack of a differentiating power.

As Etzioni (1988) claims, real world scenarios require a more realistic assumption to deal with the complexity of the world as it is. Admittedly, human agents are both rational and normative simultaneously. The relational approach does not underestimate one in favor of the other for analytical parsimony. Rather, it stands on a realm preceding both rational calculation and socially coded behavior that is wholly in the power of universal norms.

2. Contextual Embeddedness: Escaping the “Oversocialized” View

The above encompassing assumption of human nature leads us to view economic factors as contextually embedded. This view implies that the meaning of actions is always conditioned by particular social contexts. The attempt here is to avoid the more commonly used term “structural”, and instead use “contextual” to distinguish our point from the oversocialized view.5

A major discovery in economic sociology, which offers an alternative view to neoclassical doctrines, is that economic actions are influenced by social structure or networks of social relationship. Beyond this point, we should note that what we must look into are social relationships between concrete actors rather than abstract actors encapsulated by stereotypical role identification (Granovetter, 1990). Examining social relationships in the latter sense leads to a standardized view of the theory of norms and ultimately to a view that actors in certain categories behave in the same way (e.g., regulatory agencies act this way and regulated entities react that way). Stereotypical categorizations of role identification and social relationship are insufficient to capture the sources of variation in actors’ behavior.

If we wish to explain social phenomena, then our explanation must address the very subjective meanings that action holds for actors in certain contexts (Schutz, 1967). Precisely for this reason, our analysis needs to depart from the assumption made in formal semantic analysis where
categories have well-defined, closed, and monolexemic labels (Feinberg, 1979; Piore, 1995) to
overcome the oversocialized view of embeddedness by ensuring interpretation of the “subjective

Contextual embeddedness acknowledges that actors can be either rational or normative or in-
between while rejecting any form of a priori assumptions. The final direction of behavior depends
on interpretations of contexts. This means that both material facts and normative values themselves
are indeterminate. Particular social contexts give meanings to them, and actors interpret and react to
them. The array of action choices, in relation to a specific set of preferences, is expanded or
constrained by the complicated webs of the ongoing practices and interests of other actors that
prevail in issue contexts. As such, if we are to understand the logic of choice-making, it is necessary
to explicate the intersubjectively constituted meanings of actions.

3. Identities as manifestation of socio-political relations

The role of identities in perceiving the external world has long been demonstrated in the literature on
social psychology. But there is a noticeable paucity of reference to this intellectual asset in the field
of compliance studies. The relational approach views one’s identity as an axis of interpretation that
enables us to find in the surrounding world what is relevant to one’s being (Markus et al., 1985).
Recent theories of social identity support this idea.

In contrast to the structuralist models which view the idea of self as relatively stable,
enduring, and abstractly represented, social identity approaches relate the self to the social context in
which it arises (Abrams, 1999). That is, perceptions of self and others are affected by changes in
social context: Identities “can be maneuvered….by altering the connections between self and other
nodes” (Abrams, 1999, p.214). Furthermore, Turner et al. (1994) argue that variations in individuals’
behavior reflect on activation of different self-perceptions and social perceptions framed by different
social comparisons.
Viewing identity as essentially social opens up room to appreciate the significance of relational sensitivities of actors in interaction. Once shaped by existing social relations, identity functions as a lens through which actors sense the surrounding world and provides a way to interpret other actors’ motives, attitudes and actions in any given context. This does not mean that there is linear causality between social relations and identity. Although identity presupposes particular social relations, it also affects relations with others by reinforcing existing patterns of interaction. Through dynamic reactions, the two reinforce one another. By revealing the interactive processes between identities and surrounding social relations, we can understand how social relations contribute to shaping identity and how their interaction is important in determining compliance behavior.

ANALYSIS OF THE RELATED CASES

To establish the empirical validity of the relational approach, this section analyzes specific relations among actors in the dry cleaning industry in Southern California and Massachusetts. The section begins by outlining how individual drycleaners are linked to each other. It then shows how different forms of linkages create different channels of communication with and representation to formal regulators. Comparing the two cases explains how these different socio-political relations shape actors’ identities, their understanding of given regulations, and thus their strategic compliance choices in different ways.

Relations among Regulatees

1. The Southern California Case

Korean immigrants in Southern California became concentrated in the dry cleaning industry in the late 1970s. As the number of dry cleaning facilities increased, competition heated up and conflicts became intense. Viewing this tendency as self-destructive, drycleaners strongly felt a need for a coordinating mechanism to resolve business conflicts. Starting with sixty two facilities, they founded
the Korean Drycleaners-Laundry Association (KDLA) in October, 1982 and its membership reached over one thousand by the mid 1990s. As the association’s scale was expanded, however, tensions among members grew over time and subsequently exploded in 1997.

1997 was an extremely difficult year for KDLA. The hardship was generated by an environmental regulation-related issue. In 1995, the South Coast Air Quality Management District (SCAQMD) began enforcing a new regulation entitled Rule 1421, which targeted the dry cleaning industry in Southern California. In 1996, the president of an American drycleaners association (the exact name is indeterminate) was accused of contaminating a septic system. Immediately after the accusation, the same association proposed a plan that drycleaners in Southern California co-establish a fund to clean up contaminated sites. In response, two former KDLA presidents (in 1994 and in 1995, respectively) wrote a letter supporting the proposed plan under the name of KDLA. Their letter deviated from KDLA’s official stance trying to overturn or relax excessive regulations. Accepting the proposal could thus be viewed as turning KDLA’s position on its head.

KDLA accused these two former presidents of making fraudulent use of KDLA’s name, and thus dismissed them from membership in fall 1996. It was a shocking scandal in the Korean dry cleaning community and it did not take long time for the community’s opinion to become divided on the matter. A majority group argued that the two men deserved ejection, while the other group countered that although it was wrong to use the KDLA’s name without permission, their ejection from membership was too harsh. This second group claimed that establishing a clean-up fund through cooperation with American associations would not be a bad choice. In early 1997, this second group of drycleaners withdrew from KDLA and founded a new association.

Thanks to the efforts of opinion leaders in the community, KDLA and the new association agreed to reunite and reinstate those two former presidents in October 1997. The reconciliation between the two associations had a strong impact on the degree of cohesion within KDLA. While a majority of members contributed to increasing the level of group cohesion by following the
association’s guidance, a small number of drycleaners began to challenge associational decisions inside the governing board of KDLA.

The breakup of the association in early 1997 disappointed many Korean drycleaners in the region. Although many of the key constituents wanted to forget this event, it was difficult to erase the negative feelings that had been created. Letting bygones be bygones required a convincing story that could redefine the past event and suggest “a future in which all subsequent conflicts will be limited in virtue of being defined in advance as family fights” (Sabel, 1992, p.226). In order to prevent or mitigate potential cynicism toward the association, KDLA needed to convince its members that previous conflicts resulted simply from misunderstandings rather than irreconcilable differences. A storyline in which the factions had resisted Rule 1421 in cooperation seemed to the association to be a good way to demonstrate that the two associations had shared a common value and history.

Meanwhile, a small number of drycleaners strongly felt that the association’s guidance was headed in the wrong direction. One drycleaner belonging to this dissent group stated, “Rule 1421 was not that difficult to comply with. The association overreacted and made worse the relationship with SCAQMD. Things could be better, but KDLA never accepted that it made a mistake.” Another drycleaner scornfully added, “Why would they accept it?.... It [increased conflict with SCAQMD] was not a mistake. It was deliberate.”

An opinion leader of the dissent group raised objections to the association’s guidance through the official channel of governing board meetings, only to be ignored. Eventually, he was excluded from the board and drycleaners in opposition formed its own small-scale network apart from KDLA. From the mid 1990s to now, the community has continued to suffer from factional infightings.

2. The Massachusetts Case
Founded in May 1982, the Massachusetts Korean Drycleaners Association (KDA) initially had difficulty inducing drycleaners to participate in association activities. In Massachusetts, there was a self-defeating atmosphere in which drycleaners felt an inferiority complex with respect to their jobs. They tended to think that dry cleaning was a low class job avoided by educated people. A drycleaner in Newton confessed:

   Every morning I say hello to customers going to work in suits. Many of them are professors, doctors, lawyers, accountants…. Honestly, I envied them…. I graduated from the second best university in Korea. Many of my college friends have respectable professional jobs. I frequently asked myself, ‘what am I doing here?’

Many drycleaners in Massachusetts used to be employed by large firms. At some point in their professional career, they encountered racial discrimination and recognized that they might be no longer promoted. For that reason, they decided to retire before being laid off and moved on to start their own businesses. These drycleaners comments’ ran something like this: “When I first came to the United States, I had a dream, but I couldn’t get over a hurdle of reality. There was nothing I could do in this country except for low class jobs.”

A feeling of self-disdain resulting from psychological disparity between a membership group and a reference group was a major barrier to group integration because drycleaners entrapped by this self-destructive consciousness tended to make themselves hermits. From the association’s viewpoint, there was a need to overcome the sense of defeatism permeating the community.

From 1993 onward, KDA started offering periodic seminars dealing with two different but related issues. Spring seminars dealt with advanced cleaning techniques and fall seminars focused mainly on effective management skills. But these were not the whole point of association activities. What KDA really aimed for at the time was imbuing its members with self-esteem. In seminars, KDA repeatedly emphasized;

   We work more than twelve hours per day, six days per week to make money for our children’s education. Why should our job be looked down on?…. You know the old Korean proverb, “All legitimate trades are equally honorable.” No occupation in this world deserves
KDA’s effort to enhance self-esteem served as what Berger and Luckmann (1967) called re-socialization in which the past is reinterpreted by retrojecting into the past self various elements that were subjectively unavailable at the time. This reinterpretation of the past follows the re-socialization formula, “Then I thought……now I know….” (p.160). Several interviewees commented, essentially, “They [KDA] were absolutely right. There is no reason to shame a dry cleaning job. Rather, it is shameful to be shameful of my legitimate job.” Enhanced self-esteem is a crucial element in explaining compliance behavior as an ideal in relation to shaping self-identity in a broad social context. As socio-psychological models has long demonstrated, “people with high self-esteem feel truly good about the success they have had in pursuit of their ideals. These actions will be sources of pride, pleasure, and self-satisfaction” (Blanton & Christie, 2003, p. 128).

Redefining self-identity through re-socialization seems to have contributed to tightening internal cohesion to a considerable degree. KDA reported that there were approximately 150 participants, drawn from a total of 250 members in each seminar throughout the second half of the 1990s. Those who previously disaffiliated themselves from the community came to interact with others and increasingly participated in communal life. Indeed, many interviewees stated that KDA’s encouragement played a decisive role in escaping a sense of job inferiority. Not surprisingly, individual drycleaners came to discuss business details with the association and gave their support to association decisions. In turn, increased member support contributed to successful fulfillment of association activities. When the Massachusetts Department of Environmental Protection (MADEP) launched a new regulation in 1996 entitling the Environmental Results Program (ERP), KDA opened new seminars to inform its members of what to do to fully comply. Drycleaners highly appreciated the association’s efforts.
Relations between Regulatees and Regulators

We have thus far examined how the dry cleaning community in each region is structured. This examination reveals distinct patterns of interaction among drycleaners in the two regions. Now, let us look at how two different types of linkages among regulatees induced the communities into different channels of communication and relations with regulatory agencies.

In Southern California, regulators encountered divergent reactions to the formal regulation from the two contending groups. Specifically, as noted previously, the opposing faction believed that KDLA led the community into unnecessary conflicts with regulators. To erase a bad image of the community as a polluter, this faction in opposition to KDLA became relatively cooperative and communicative with the regulatory agency. In particular, it established friendly relations with the agency through ongoing participation in the Minority Public Advisory Board.

KDLA was suspicious of the benign relationship between the opposing faction and the regulatory agency. In part because the leader of that faction was a state-certified environmental educator, KDLA suspected that the opposing faction members were attempting to benefit from the application of stringent regulations at the expense of other drycleaners. KDLA’s perception that they were mistreated strengthened their sense of being persecuted. A KDLA official vehemently blamed the regulatory agency:

It is KDLA that represents the entire Korean dry cleaning community in Southern California. Why do they [SCAQMD] keep contacting those guys and alienate a real industry representative? Something must have been going on between them.

Since the agency was not aware of factional infighting within the Korean dry cleaning community until recently, they were sometimes confused about the conflicting responses to identical regulatory signals. An agency staff member stated:

We meet with representatives of Korean drycleaners to discuss our concerns and find common ground. Sometime later, other drycleaners [KDLA] call and visit us, and present different opinions. When we say, ‘we already listened to representatives of your association’, they respond, ‘They are not the representatives. It is KDLA that represents Korean drycleaners and we are the executive officers of KDLA.’
The regulatory agency saw both groups of drycleaners as members of the homogeneous community under similar conditions. Given its view of the industry, the agency was suspicious when KDLA kept challenging the rule and the agency: “If some drycleaners are capable of fully complying with Rule 1421, why not others?” (Personal Communication with a Field Inspector). From the agency’s viewpoint, the majority of drycleaners were in violation not because they did not have the capacity but because they did not want to comply. Correspondingly, the agency established harsher penalty policies and deployed more regulatory resources to deal with recalcitrant polluters.

For KDLA, the agency’s enforcement style as well as Rule 1421 per se was seen as excessive oppression of minority small businesses. Antagonism between KDLA and the regulators grew rapidly and continuing antagonism foreclosed possibilities for mutual understanding between the two.

In contrast to the Southern California Case, the Massachusetts case demonstrates not only direct contact between the Massachusetts Department of Environmental Protection (MADEP) and individual drycleaners but also a well-established continuing channel of communication between MADEP and the Korean Drycleaners Association (KDA). If not frequent, Massachusetts drycleaners at least enjoyed open dialogue with MADEP staff. Since the new regulation, KDA has invited the agency staff to its seminars to ask detailed questions stemming from everyday business contingencies and the staff provided customized solutions. In cases where agency staff could not answer immediately, they kept inquirers’ contact information and responded afterwards (normally within a week). Drycleaners who were contacted through phone calls appreciated the agency’s responsiveness.

Also in the Massachusetts case, the diverse opinions of individual drycleaners are filtered through KDA and MADEP views KDA as a legitimate representative of Korean drycleaners in the state. While MADEP sends information about the regulation to every drycleaner through official
letters, it always follows up actions to confirm that regulatory messages were appropriately received by KDA and its members. Furthermore, MADEP consults the association when they face difficulties inducing violators into compliance. Since the first year of the ERP, MADEP has met annually with the industry to communicate overall performance and to discuss how to further improve it. This ongoing communication contributes to building trust between MADEP and the industry.

In summary, there are notable differences between the two communities. They are different in that the linkages among drycleaners in Southern California are relatively polarized, compared to those in Massachusetts. Such a polarizing split of the community led eventually to a breakdown of communication between KDLA and the regulatory agency while the Massachusetts community and MADEP maintained a cooperative relationship through multiple points of contact over time.

The Impact of Socio-political Relations on Identity Formation

The story of Southern California is marked by the emergence of an adversarial relationship between formal regulators and drycleaners. In contrast, we see that in Massachusetts mutual trust and cooperation were developed. This difference between the two cases offers important insights concerning compliance behavior.

Social relations between regulators and regulatees do not, however, translate directly into actual behavior. To build a conceptual bridge, we now turn to the notion of identity. Let us first examine how social relations affected drycleaners’ self-identity formations and their view of regulators. Given that identity is potentially multifaceted (Fiske & von Hendy, 1992), this examination will provide the basis for understanding why one identity was chosen over others.

SCAQMD (the Southern California agency) has been known for the most stringent regulatory enforcement in the U.S. Its principal enforcement strategy is based strongly upon deterrence. The agency’s guilty-until-proven-innocent approach associated with the adversarial relation contributed to making drycleaners in this region believe that SCAQMD’s motive in enforcing a given regulation
was not to protect public health but to maintain its identity as a regulator. Put differently, drycleaners believed that SCAQMD created a new regulation to reinforce its public image as a regulator because it needed to keep demonstrating to the public that it was working for the public. From the perspective of drycleaners, their industry was targeted because the majority is non-white, small business owners without political power. This belief led them to identify themselves as “minority businesspeople discriminated against by government.”

In Massachusetts, the cooperative relations that developed between MADEP and drycleaners led to a different identity formation. At the outset of the new regulation, MADEP attempted to convince drycleaners why the given regulation was important. As a matter of fact, the same effort was also made by SCAQMD. The difference is that MADEP kept signaling over the course of regulatory enforcement that it recognized drycleaners in the region as educated, intelligent people and that violations might be incidental rather than willful. This does not mean that MADEP gave up imposing penalties on violators. But the regulator made explicit its sympathy with immigrant small businesses.

This aspect is best illustrated in a comparison of the following episodes. In the 1980s and early 1990s, Massachusetts drycleaners regularly invited a Korean consul-general in Boston to their events, but he never appeared. KDA heard its members self-contemptuously say, “If we were a Korean Doctors Association, he definitely would come.” Though disappointed, the association kept trying to enhance drycleaners’ social status. In 1994, drycleaners invited Mr. Angello, the chairman of Natural Resource Committee in the State House of Representatives, to a New Year’s party. He accepted the invitation and delivered a congratulatory address at the party. KDA expected that Angello was more likely than a Korean consul-general to come because drycleaners meant votes to him. Whatever reason was behind his attendance, an elected politician’s appearance in a KDA-hosted event was a pleasant shock to most drycleaners. Drycleaners came to feel that they were not ignored. Furthermore, subsequent attendance of the MADEP staff in KDA seminars since the ERP
preparation stage has contributed to enhancing drycleaners’ sense of being heard (or not being looked down on). Massachusetts Korean drycleaners came to view themselves as “citizens” just like other Americans, not simply a target of coercion isolated from mainstream society.

Steered by industry associations, drycleaners in the two regions developed different self-identities and in turn, formulated different perceptions of formal regulators – the same categorical actors within the framework of the theory of norms. Put simply, SCAQMD came to be viewed as an adversary by Southern California Korean cleaners whereas MADEP is considered to be a friend by Massachusetts cleaners. These sharply contrasting views of regulators as adversaries or friends developed over the course of intense interactions and led actors to interpret identical regulatory actions in radically different ways because an adversary tends to harm while a friend does not.

If we summarize the Southern California interviewees’ view of the given regulation, it runs as follows: “Rule 1421 is not only unfair but also too costly to comply with.”; “This rule is all about collecting fines. That’s the whole point.” In contrast, the Massachusetts drycleaners comment: “I don’t know whether Perc [a dry cleaning solvent] is a carcinogen. But it is a chemical…. chemicals shouldn’t do a body good.”; “ERP must be very important. If not, why do they [MADEP staff] attend our seminars they don’t have to attend?”

The story of drycleaners in the two regions reveals that compliance behavior is affected heavily by the socio-political construction of ‘who I am’, ‘who they are’, ‘whether I am threatened or fairly treated by them’, and ‘how I might best deal with those threats or respond to their actions’ in particular contexts. Such constructs of identity guide interpretation of the external world and help actors understand their regulatory environment. This implies that actors have a wider array of potential choices of action than deterrence theory and the theory of norms assume. These choices are enabled or constrained by socio-political relations that are mutually created by actors through interactive practices. In other words, compliance choice-making is conditioned by how the
interpretive dimension of socio-political relationships shapes the way an actor defines the identity attached to self and other.

**The Impact of Socio-political Relations on Economic Factors**

Different interpretations of given regulations led the two Korean dry cleaning communities to come up with diametrically opposite strategies to deal with the identical external stimuli, based in part on different perceptions of the cost and benefit of compliance with given regulations. The range of reported compliance costs is noteworthy as shown in the frequency distribution (See Table 2).

[Insert Table 2 here]

Approximately 76 percent of Massachusetts respondents indicated an annual cost of compliance ranging from $200 to $1,000. This range remains far below that reported in Southern California. An important explanation is that significant costs attributed to compliance by Southern California drycleaners are categorized as normal operational costs in the Massachusetts group.\(^7\) Most Southern California respondents meticulously noted compliance-related costs. They even amplified the cost by including *psychological* costs. In addition, regulatory requirements which seem to annoy the Southern California drycleaners are accepted in Massachusetts.\(^8\)

The emphasis on costs versus benefits has special connotations in reference to compliance behavior. In orthodox rational choice theory, the type of impression that comes to mind first does not make any difference in the outcomes of a cost-benefit calculation, and thus has no bearing on choice-making. In effect, depending on how people view a situation in which a behavioral choice is required, they commit to different behaviors. In other words, whether something is viewed as an uncompensated loss or as a cost incurred to achieve some benefit makes a difference in the actor’s behavioral choices (Tversky & Kahneman, 1981).

The choice in drycleaner compliance is not determined by the perceived probability of detection and the perceived severity of formal sanctions. More important is the perceived cost and
benefit of compliance, and these material facts take on different meanings according to the regulatory context. The most important finding in this regard is that perceptions of economic factors are even more socially constructed than deterrence theory suggests. The array of the economic facts is indeterminate, and thus can be malleable according to interpretations of the ongoing practices, identities and intentions of other actors.

**Further Evidence**

One of the theoretical advantages of the relational approach is that situations which seem to be “exceptions” according to the theory of norms can be better understood by analyzing relationships among actors (See Figure 1).

[Insert Figure 1. here]

The majority of Massachusetts drycleaners comply fully with the ERP while a small number of them are in violation (area MV). Conversely, the majority of Southern California drycleaners violates Rule 1421 while a handful of drycleaners comply (area CC). According to the theory of norms, drycleaners in areas CC and MV are statistical outliers. Turning to relational accounts for within-group variation in compliance provides a much more nuanced understanding of the sources of variation. In the Southern California case, the interviews revealed that despite the trade association’s strong hostility toward the regulatory agency, good environmental performers maintain a relatively positive impression of the regulatory agency. A drycleaner in Lancaster, California stated:

Some requirements of Rule 1421 seem too strict, but I have no intention to blame them [SCAQMD]. They are public officials and subject to higher authorities….. Just as we are required to comply with laws, so they are required to meet demands of their boss. They are just doing what they are supposed to do…… KDLA blames that the agency is discriminating against small businesses and minorities, but I don’t think so. I have known some staff for several years because I was a member of the Minority Advisory Board….. I believe they are reasonable and willing to help small businesspeople with compliance.

Other interviewees who were introduced in local newspapers as environmentally friendly drycleaners share the same view, and believe what the agency says about the chemicals used by drycleaners.
Unlike the majority of KDLA members, they do not doubt regulator intentions. This perception of regulators accordingly affects their compliance behavior. Although belief does not necessarily make actors act, it can provide the foundational conditions under which individuals will behave in certain ways when the occasion arises. Obviously, doubt or distrust does not have such an active effect (Peirce, 1877).

Behavior of recalcitrant violators in Massachusetts can also be explained in a similar vein. When inspectors detected repeated violations, they always notified KDA and asked if the association could help violators commit to compliance efforts before imposing penalties. MADEP staff said that it was because the purpose of inspections was not to penalize violators but to bring them into compliance in the first place. MADEP’s untraditional way of handling violators was appreciated by most drycleaners. For KDA, it was a good way to increase the association’s influence over its members. For individual drycleaners, it was a way to avoid penalties accruing from accidental violations. As such, MADEP’s pre-notification approach was viewed as a sign of the regulators’ goodness of heart. However, some violators were upset with this method. An anonymous violator in Malden complained:

When they [MADEP] detect violations, all they have to do is giving fines. I am not gonna complain about that. But because they spoke to the association about me, people would think I’ve violated the rule all the time. I swear that’s not true. I was in violation only once for a short time. But who is going to believe me? They ruined my reputation….. What if my landlord knows about it? He is not going to renew the lease and I will be pissed off….. I don’t understand why they did that.

Interestingly, KDA defends the regulators:

We know that those who were notified by the DEP made the same violation more than twice……. If not, the DEP won’t call us. The DEP calls for assistance only when they think someone keeps on violating because he doesn’t understand the inspector’s instruction due to a language problem…. In those cases, we called them [violators] to ask if they needed any help. But most of them said, “You got the wrong person. I was never in violation.” We knew they lied, but what can we do if they respond that way? (Personal Communication with the incumbent president of KDA)
If KDA tells the truth, then a crucial question arises: Why did those violators refuse the association’s help? It is usual in dry cleaning communities that when someone wants to open a new dry cleaning business or when a drycleaner wants to run an additional shop, she looks for existing shops to take over, rather than open a new facility. Taking over an already-operating shop is preferable due to the potential to absorb existing customers. If a facility owner were known as a violator, nobody will consider purchasing her facility for fear of the future clean-up liability. In this instance, the distinction between reputation as a social factor and property value as an economic factor becomes blurry. Reputation in the community translates directly into the monetary value of the property. For this reason, the violators conceal their violation records and insulate themselves from others.

From a compliance viewpoint, this tendency brings about a vicious circle. Although the violators want to get things right, they simply do not know what exactly to do and have nobody to ask. Therefore, their uncorrected violations are detected in the follow-up inspections and, again, the violators try harder to hide subsequent violations from other drycleaners.

The story of the Massachusetts violators does not imply that all self-contained actors are necessarily violators. Nevertheless, it is reasonable to infer that in contexts similar to the Massachusetts community, those actors are more likely to fall into patterns of violations. This is so because the breakdown of social interactions deprives them of opportunities to learn new ways of promoting their capacity to comply.

**CONCLUSION**

This article evaluated competing theoretical accounts of regulatory compliance in the context of ethnic politics. As mentioned at the beginning, the critiques of deterrence theory and the theory of norms did not aim to completely refute them. The primary concern was to identify action domains that they do not cover and to provide a more sophisticated account than we currently enjoy with respect to the dynamics of compliance behavior.
Traditional compliance theories view rule compliance as a journey through a predetermined behavioral path. However, compliance behavior in our cases does not follow such a course. This article traced the motivation for compliance behavior to the patterns of social interactions among actors that govern the framing of the external world, contingencies and outcomes. As shown in the analysis, the observed difference in rule compliance cannot be explained by utility maximization or normative factors alone. It is best explained through close examination of socio-political relations in which actors are embedded.

Different patterns of social relations lead actors to interpret the situations in which they exist in different ways and, in turn, shape different identities of the self and others. Because identities are developed through repeated interactive processes, they have a corresponding capacity to judge and produce contextually meaningful behavior that makes sense of situations (Markus & Nurius, 1986). Differences in identities associated with different socio-political relations lead to corresponding differences in preferences, and thus differences in behavioral choices. In this way, social relations become the basis of interests, which are now endogenous rather than exogenously given. After all, social relations are at the heart of compliance behavior in our cases.

Admittedly, the application of the relational approach is more limited than dominant compliance theories in that it primarily explains compliance choice-making when identity concerns prevail. Besides, this approach does not give us as strong a behavioral prediction as traditional theories. The main reason is that the logic of choice making under this approach is neither optimization nor pre-established consensual behavioral guidance, but contingency. In other words, an actor chooses to act in a way that such action is coherent with situated judgments, which are the outcomes of the interpretation of social relations.

Yet despite its limits, we hope that this article contributes to extending the literature by setting the stage for future research in various regulatory arenas. For example, many studies of migrant entrepreneurship in the U.S have shown that certain immigrant groups concentrate in certain
industries that comprise small businesses (Piore, 1990; Portes & Mozo, 1985). Despite their
collective potential for environmental harms and the problems of labor standard enforcement, it is
extremely difficult to regulate these enterprises, due partly to the limited regulatory resources and
partly to an insufficient understanding of behavioral motivations. Given that there is no one-size-fits-
all regulation, taking into consideration different social relations in different times and places may
inform policy makers of more or less feasible regulatory strategies.
REFERENCES


Figure 1. Within-group Variation in Compliance
<table>
<thead>
<tr>
<th></th>
<th>Southern California (Rule 1421)</th>
<th>Massachusetts (Environmental Results Program)</th>
<th>Annual Compliance Cost Estimates</th>
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<tr>
<td><strong>Equipment</strong></td>
<td>Original dry-to-dry, closed loop machine <em>(section d)</em></td>
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<td>Operating Practices</td>
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<td>The initial compliance &amp; annual reports <em>(section g, h &amp; i)</em></td>
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<td>Mandatory Training</td>
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<td>Compliance Self-Certification</td>
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<td>Required <em>(310 CMR 70.00)</em></td>
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<td>Maximum Penalties</td>
<td>two-year imprisonment and a fine of up to $50,000 per day of violation</td>
<td>One year imprisonment or a fine of up to $25,000 per day of violation or both</td>
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<td>Probability of Penalty Imposition When Detected (from 1997 through 2001)*</td>
<td>57%</td>
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<td>Ratio of the number of facilities to the number of field inspectors</td>
<td>76</td>
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* SCAQMD Information Management Public Records Unit & MADEP, 2002
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Notes

1 I would like to thank Martin Rein and Michael Piore for very helpful comments on an earlier version of this draft.

2 Unlike deterrence theory resulting from mathematical deduction, competing explanations stem from empirical induction grounded upon many scattered studies in a variety of academic disciplines, and thus lack a uniformly agreed upon name. For the convenience of discussion, I call this group of counterarguments the theory of norms. I draw this term, I think correctly, from a common denominator of the scattered findings.

3 These statistics reflect on the entire industry, and thus are not identical with compliance rates of Korean drycleaners. However, the Southern California regulatory agency confirmed that Korean drycleaners’ compliance rates are close to the overall compliance rates. In the Massachusetts case, Korean drycleaners’ compliance rates have been higher than those of other drycleaners in the region (Personal Communication with John Reinhardt at the Massachusetts Department of Environmental Protection).

4 I am indebted to Archon Fung for this point.

5 This does not necessarily mean that all scholars using the term “structural” embeddedness have an oversocialized viewpoint. While using this phrase, for example, Granovetter (1990) reminds us of inappropriateness of oversocialization.

6 Interviewees did not remember the official name of this association. It was simply known to Korean drycleaners as the American Drycleaners Association. This association must be either the Greater Los Angeles Dry Cleaners Association (GLADCA) or the Harbor/South Bay Dry Cleaners Association (HSBDCA).

7 For example, many Massachusetts Korean drycleaners did not consider the cost of waste disposal as a compliance cost. We asked them, “You must pay $6 to $7 per gallon for Perc waste removal and $25 to 30 for filter disposal. Why did you not include these costs?” In response, some added the costs to their estimation, but others insisted, essentially, “I have to pay for waste disposal regardless of the ERP, so it doesn’t make any difference in my compliance costs.” In a similar vein, the Massachusetts drycleaners did not consider that recordkeeping incurred costs, in contrast to their Southern California counterparts.

8 With the recordkeeping requirement, for example, a Southern California drycleaner asserted, “It has nothing to do with the environment or human health. Why must we keep records for years?” In contrast, Massachusetts drycleaners stated, essentially, “It’s just like a housekeeping book. Recordkeeping helps us manage our business more efficiently.” Another example is found in responses to a weekly leak check requirement. The typical Southern California response was: “If Perc is leaking, it’s not our fault. It’s the [machine] manufacturers’ fault, isn’t it? Why should we be responsible for that?” A Massachusetts member expresses his community’s view: “The weekly leak check helps us detect Perc machine problems prior to a total breakdown. When problems are detected in advance, we can repair them ourselves. It saves big money.”