

# Socio-Political Contexts, Identity Formation, and Regulatory Compliance

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This article attempts to fill the gaps in traditional compliance theories and argues that the actor's identity formulated by socio-political contexts influences the propensity to move toward or away from compliance. 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 comparative case studies presented here focus on how the socio-political relations of actors are manifested in identities of self and others in interaction and, in turn, translate into compliance choice making.

**Keywords:** *compliance; socio-political relations; identity*

**T**he 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 actors comply with regulations and others do not.

There have traditionally been two ways of approaching this question. One is deterrence theory and the other is the theory of norms.<sup>1</sup> 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) posits 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.

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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, p. 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 on 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. Understanding the reasons for this variation is central to the design of regulation.

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). In so doing, the article attempts to develop an empirically grounded understanding of compliance behavior. It argues that when identity concerns prevail, compliance behavior is a manifest expression of socio-political relationships that arise from interactions between formal regulators and regulated entities. Put another way, the actor’s identity influenced by socio-political contexts determines the propensity to move toward or away from compliance.

The empirical support for the above argument is derived from the case studies of the environmental compliance behavior of Korean American drycleaners that account for 60% to 70% of the dry cleaning industry in Southern California and Massachusetts. Although the article presents only two cases, it is suggested that comparing them provides a good example of a broader trend that those concerned about subterranean forces of regulatory compliance need to consider. It must be noted here that we are under no illusion that we can dismiss the standard compliance theories with two case studies. As a study of one industry, the research cannot, of course, fully answer the difficult question raised above. But in a realistic fashion that reflects what regulated entities actually experience, we wish to contribute to extending the literature on regulatory compliance by suggesting the notion of identity as an important variable that deserves scholarly attention.

To make theoretical headway on this concern, we locate this research within two related sets of the literature: compliance motivations (e.g., May, 2005; May & Wood, 2003; Scholz, 1984) and regulatory enforcement (e.g., Ayres & Braithwaite, 1992; Gunningham, Kagan, & Thornton, 2003; Kagan, 2001). The evolving picture from this line of research is that the nature of regulatory enforcement settings fosters different regulatory relations and generates varying degrees of environmental performance. Yet, despite its empirical validity, the existing literature provides only a partial explanation. What are incomplete in the literature are detailed explanations of how regulatory relations enable or constrain action choice. The main objective of this article is to build a conceptual bridge linking regulatory relations to motives for compliance.

To fulfill this task, we turn to the literature on identity, which is not the traditional domain of compliance studies. Our main contribution is to illustrate the role of identity as a cognitive mechanism through which those relations translate into actual behavior. When examining compliance behavior through the lens of identity, we recognize that such behavior is not based entirely on utilitarian calculus or the endowment with a universal norm. Rather, it is contingent on the way an actor constitutes self in relation to others in ongoing interactions.

## Research Method

Unlike most studies of regulatory compliance, which adopted statistical analysis as a primary method, this research is grounded on the method of narrative analysis. The selection of the narrative method comes from recognition that the identical phenomenon can be defined and interpreted in radically different ways. In this case, statistical analysis turns out to be inappropriate (or insufficient) to excavate and explain the subterranean contexts in which particular actions are embedded. Given the purpose of the article that signifies the role of identity in making compliance choices, narratives provide useful data for analysis to meet that purpose.

Narrative refers to “the ways in which we construct the disparate facts in our own worlds and weave them together cognitively in order to make sense of reality” (Patterson & Monroe, 1998, p. 315). It involves at least three components that make it differ from other modes of discourse or organizing experience (Monroe, 2001): storytellers as actors, their perspectives on events, and sequential ordering of events (Bruner, 1996). First, storytellers necessarily locate themselves somewhere in the story, whether as active

agent or passive bystanders, and, thus, function as *dramatis personae* in literary works. In so doing, they tend to reveal the concepts of self and others in interaction.

Second, narratives are in no ways value-free. They reflect on one's perception of reality and are more than mere reporting of facts. Storytellers do not narrate all the details of events but choose to tell what is noteworthy from their standpoint (Bruner, 1996). As such, they create and reveal the specific contexts in which their behavior has occurred (Monroe, 2001).

Third, storytellers describe the certain phenomena in crafted stories with beginnings, endings, plots, and stages (Kaplan, 1986). Although their stories deal with the same events, they begin and end at different moments and are framed in different ways that locate different actors in different worlds (Mandelbaum, 1991; Schon & Rein, 1994). This aspect enables us to better understand the nature of events in the specific socio-political context by discerning the meaning of facts to the actors. When analyzing drycleaners' narratives, we do not mean to argue that one of these stories is more correct or accurate than others. What we aim to show is how the behavioral outcomes become varied as actors interpret or characterize their past and present and project them into their upcoming future in different ways (Piore, 1995).

For detailed analyses, we conducted interviews with 25 drycleaners in Southern California and 38 in Massachusetts. We also interviewed three staff members in the South Coast Air Quality Management District (SCAQMD) and four in the Massachusetts Department of Environmental Protection (MADEP). Interviewees from the dry cleaning industry included good environmental performers and violators (as identified by state agencies' official reports). We examined whether responses from the different groups were convergent or divergent. Moreover, to confirm the consistency and reliability of responses, several drycleaners were contacted more than 10 times. We continued to be in contact with the key informants for approximately 2 years with a view to acquiring additional information, on one hand, and overcoming the limits of the interview method, on the other.

The primary pitfall of the interview method lies in the possible unreliability of responses. This does not necessarily refer to intentional deception. But, from our previous ethnographic research, we knew that many interviewees may respond with what they believe to be the "right" answer. To provide interviewees with settings that foster freer responses, many interviews were conducted in informal, social locations.

Interviews with drycleaners began with an unstructured, open question about their lived experience as immigrant businesspeople, which are more or less autobiographic accounts. Collected free-flowing narratives were

complemented by more structured questions related to environmental regulations at hand. We coded systematically the responses to those questions to see whether, in aggregate, there were noticeable discrepancies between the Southern California group and the Massachusetts group.

## **An Empirical Puzzle and the Traditional Literature**

### **A Puzzle in a Story of the Dry Cleaning Industry**

With growing concerns about the cumulative effects 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% in 1997 to 5% 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% in 1996 to 76% in 1997, and reaching 86% in 2001 (MADEP, 2002).<sup>2</sup>

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).

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 on 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

**Table 1**  
**Comparison of Formal Regulatory Environments**  
**(Southern California vs. Massachusetts)**

	Southern California (Rule 1421)	Massachusetts (Environmental Results Program)	Annual Compliance Cost Estimates
Equipment	original dry-to-dry, closed loop machine (section d)	original dry-to-dry, closed loop machine (310 CMR 7.26 section-12)	\$1,100 (refrigerated condenser only)
Operating practices	weekly leak & emission check wastewater treatment (sections e & f)	weekly leak & emission check wastewater treatment (310 CMR 7.26 section-13)	\$1,046-1,474
Recordkeeping & reporting	2-year recordkeeping (since 1997) the initial compliance & annual reports (sections g, h, & i)	5-year recordkeeping the initial compliance & annual reports (310 CMR 7.26 section-14)	not measured
Mandatory training	required (section e-3)	not required	Southern CA: \$150 (plus annual operating fee, \$168)
Compliance self-certification	not required	required (310 CMR 70.00)	MA: \$200 (as of 2004)
Maximum penalties	2-year imprisonment and a fine of up to \$50,000 per day of violation	1-year imprisonment or a fine of up to \$25,000 per day of violation or both	
Probability of penalty imposition when detected (from 1997 through 2001) <sup>a</sup>	57%	7%	
Ratio of the number of facilities to the number of field inspectors	76	94	

a. South Coast Air Quality Management District (2004) and Massachusetts Department of Environmental Protection (2002).

to have different norms? One possibility is inferred from Bowles and Gintis's (1975) study of the consequences of education, showing that differences in education result in different cognitive processes. 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% and 76% 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, here, different compliance behaviors cannot 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, in particular when identity concerns prevail.

## **The Literature on Compliance Motivations and Regulatory Enforcement**

The challenge for the regulatory scholars has been providing a theory that overcomes the conflict between the two standard models of compliance and developing a coherent framework into which different motivations for action are compatible.

In the early 1980s, models of rational compliance choice and moral reasoning were developed to compromise between self-interest and normative values. A formal model of rational compliance finds a determining factor in individual differences in the proclivity to weigh moral obligations or self-interest more heavily (Margolis, 1991). A model of moral reasoning claims that when the legal system is viewed as unfair and when consequences of compliance are considered as a burden, moral obligation is less likely to affect action (Rest, 1984). Although those studies show that there is a trade-off between moral obligations and economic outcomes, they do not delve into the patterns of interactions that could possibly change the trade-offs.

With the similar intellectual inquiry asking, essentially, "What factors influence the willingness to comply?," researchers have tested the empirical validities of the two dominant theories under varying circumstances. Their major finding is that compliance behavior is determined by mixed motives embracing both economic and normative factors, rather than on an either-or basis (e.g., Gunningham et al., 2003; Gunningham, Thornton, & Kagan, 2005;

May, 2005; Winter & May, 2001). For example, Gunningham et al.'s (2003) study of paper mills in the United States, Canada, Australia, and New Zealand found that firms' different reactions to apparently similar regulatory pressures result not from a single motive but from an "intervening variable," the combination of multiple attitudes. Consistent with the finding cited above, Winter and May's (2001) serial studies of Danish agro-environmental regulation, the U.S. building code provisions (May, 2004; May & Wood, 2003), and water quality control regulation targeting marine facilities (May, 2005) revealed that both formal threats and moral education of regulatees are of significance in actualizing the propensity to compliance.

Those accumulated empirical studies reflected and expanded on the preceding research on regulatory enforcement and shifted the main research focus from disentangling the interwoven factors toward the role of enforcement styles in meeting regulatory goals (e.g., Ayres & Braithwaite, 1992; Kagan, 2001; May & Wood, 2003; Scholz, 1984). Rather than attempt to resolve the intellectual stalemate between rational calculation and moral considerations, this body of research has paid particular attention to whether different enforcement styles shape different environmental performance and how to best design regulations to ensure regulated entities' credible commitment to compliance. Admittedly, their strongest finding is that given diverse, simultaneous motivations of regulated entities, tit-for-tat is the best strategy to promote compliance by facilitating cooperation between regulators and regulatees (Ayres & Braithwaite, 1992). This strategy is viewed as inculcating voluntary compliance by reducing unnecessary compliance costs (Scholz, 1984).

Either implicit or explicit in this literature is an emphasis on the advantages of cooperative regulatory relations over adversarial (or confrontational) relations. Although we share the idea that the former is more likely than the latter to lead to better regulatory outcomes, we must note an opposing perspective in order to inform that cooperative regimes do not necessarily guarantee high compliance. There exists the literature documenting instances in which variation in environmental performance can be substantially explained by the stringency of legal requirements and the aggressiveness with which they are enforced (Gunningham et al., 2003). At the core of this scholarship is the argument that cooperative approaches often impede the needed changes, especially where regulators are unduly influenced or captured by the regulated (Ashford, 2002; Caldart & Ashford, 1999; Coglianese, 1997, 1999). On this account, an adversarial regulatory regime may be viewed as a legitimate response to agency capture. Indeed, an adversarial regime was, to a significant degree, successful

at regulating the problem industries during the first stage of developing environmental problem solving in the 1970s (Kagan, 2001).

If regulatory relations are important in understanding compliance behavior, a crucial question is how those relations are supposed to affect the motives for compliance. Adequate answers have not been produced yet. We now turn to that inquiry.

## **Identity as a Behavioral Guidance**

The concept of identity has recently stimulated research in a variety of academic disciplines, including studies of social movements (Green & Shapiro, 1994), developmental economics (Kaufman & Zuckerman, 1998; Ouchi, 1982), and organizational theories (Brickson, 2000), to name a few. Despite varying degrees, they have demonstrated the important role of identity in guiding the behavior of actors, whether as individuals or groups. However, there is a noticeable paucity of references to this intellectual asset in the field of compliance studies. As noted previously, our aim is to make a contribution to the literature on regulatory compliance by illustrating the notion of identity as an important cognitive mechanism linking regulatory relations to compliance behavior.

To construct an empirical account of compliance based on identity, we first must define the term. Erikson (1963, cited in Dillon, 2005) construes identity as “the development of the self in response to the interpersonal and social world” (p. 220). Although the proliferation of identity-based studies has resulted in a lack of precision about what identity actually means (Abdelal, Herrera, Johnston, & Martin, 2001), Erikson’s definition corresponds to our thesis in that it implies that identity is inherently social and relational (Dillon, 2005). More recent theories of social identity support this idea.

In contrast to the structuralist models that view the self as relatively stable, enduring, and abstractly represented, social identity approaches relate the self to the social context in which it arises (Abrams, 1999). As Hall (1992) argues, identity is a matter of not only being but also becoming. That is, perceptions of the self and others are affected by differences in social context: Identities “can be maneuvered. . . by altering the connections between self and other nodes” (Abrams, 1999, p. 214). Furthermore, Turner, Oakes, Haslam, and McGarty (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 and suggests

three basic adaptive functions of the self: managerial, emotional, and organizational (Monroe, 2001):

Managerial functions inform us of our relationship to the social world and help us organize our behavior and plan for the future. The emotional function of the self helps us determine our expressive responses. . . . The organizational function helps us create schemas, the mental structures around which we organize our knowledge. . . . We use these schemas to interpret and recall information about both the social world and ourselves. One of the most important schemas is the self-concept and the information we notice, remember, and think about is often organized around how we view ourselves. (p. 501)

Monroe's discussion provides clues, though indirectly, to solve a quandary in identity-based arguments, that is, a question of how identity leads to action. We will delve into this identity–action relation in the empirical section, but it would be useful to outline three possible answers. First, identity provides us with frames through which to view the surrounding world and interpret other actors' motives, attitudes, and actions in any given context. Given that identity influences the way actors understand the world, the motives for a particular action will take on different values according to one's identity (Abdelal et al., 2001).

Second, identity could affect action by way of in-group–out-group differentiation (Abdelal et al., 2001). On this account, one's action is more or less conditioned by, or a reaction to, one's counterpart. It implies that "some relationships will be more cooperative than others even if the same issue is at stake" (p. 8). The third corresponds to role theory, positing that a particular action is consistent with the actor's role expectations (Festinger, 1957). Identity imposes socially appropriate roles on actors. On this account, the motives to act in a certain way are influenced by a decision to meet social expectations, rather than a decision to select the best alternative to maximize the preferred outcome (Abdelal et al., 2001).

The above points are important to the ensuing discussion because social actions and social relations involve the mutual interpretation and imputation of meanings. Given that social relations are recognized not only objectively but also subjectively, identity is an indispensable concept to capture the reality because it provides actors with bases for perceiving how the self and others are related. It must be emphasized here that we should not expect 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 may 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 identity-based argument, this section examines how the identities of the group actors in the dry cleaning industry in Southern California and Massachusetts were formed in different ways. Inspired by the literature on regulatory enforcement, our analysis begins by comparing different styles of regulatory enforcement in the two regions and drycleaners' reactions to the respective enforcement styles. We then examine how different regulatory regimes shape different perceptions of the self and others (in our case, formal regulators).

### **Regulatee Perceptions of Different Enforcement Styles**

#### *The Southern California Case*

In the United States, the relationship between regulators and regulated entities is characterized as "legal formalization" or "adversarial legalism" (Bardach & Kagan, 1982; Kagan, 2001; Wallace, 1995). Regulators have typically viewed firms as objects for regulatory coercion, as opposed to important participants in policy discourse. Malloy and Sinsheimer's (2004) study confirms this ethic of the regulatory enforcement of the SCAQMD. In the study of environmental innovation in Southern California, they refer to the agency's pervasive philosophy that emphasizes managing risks created by industrial operations, rather than understanding and helping to solve genuine difficulties facing the regulated. Our interviews with a field inspector who was in charge of inspecting 60 dry cleaning facilities in West Los Angeles are consistent with Malloy and Sinsheimer's report. In response to the interviewer's question of "Why do you think a majority of drycleaners in the region do not comply with the regulatory requirements?," she commented,

Well . . . maybe, personality? You know, some people are lazy. . . . I think it is a critical factor. The cost of compliance could be another reason, but I think it's relatively moderate.

In response to a subsequent question of "What is the best strategy to bring them [violators] into compliance?," she asserted,

They're sort of small, so they might need some sort of assistance. . . . But despite the agency's technical assistance and a loan program, many people haven't changed their behavior. So, I think regulatory stimulus is necessary. I mean . . . I am trying to let them know what went wrong. . . . Penalty imposition is unavoidable in this process. . . . I just go by the book. . . . That's what I do. Without it, these people wouldn't change their behavior. That's why we've done more inspections over the last 4 years.

The agency's enforcement principle clarifies that a primary goal of law enforcement is to create an adequate deterrent to illegal activities. Correspondingly, the agency's enforcement system was oriented toward the creation of an expected penalty that outweighs the economic gain from violating regulations. How did drycleaners view the SCAQMD's stringent deterrence strategy? A drycleaner in Paramount told of his experience:

One day, while I was removing lint from the machine, an inspector came in. He said I violated the rule because I didn't seal a lint container. How absurd it was! I said, "Don't you see I am cleaning the machine? How can I put lint into a container while it is sealed?" He suspiciously said, "It seems that the container's remained open for a while." "No. I was about to seal it, but you rang the bell, so I came to the counter." But he didn't trust me. I felt so bad not because he imposed fine but because he treated me as a liar. . . . It seems like they drive around just to collect money. I think that's the whole point.

Presumably, the inspector thought that it was more objective and uncontroversial to base his judgment on what he directly observed at the moment of inspection. Regardless of the inspector's intention, however, his enforcement style led this drycleaner to feel that he was mistreated and eventually to doubt the intention of inspection and the rule itself. Indeed, a view that the main goal of the regulation is "collecting money" permeates in the Southern California dry cleaning community. Of 25 interviewees, 21 people made the same point directly or indirectly. In addition, Southern California drycleaners blamed the SCAQMD for its irresponsiveness:

I got a Notice of Violation last year. I called them [the SCAQMD] to ask what to do. They told me I could either appeal or pay the fine. . . . That's not what I wanted to hear about. I just wanted to know what I should do to get things right, so I asked again. They transferred my call to another person. This guy said that he couldn't answer right away, and if I left my phone number, someone would get back to me. Alternatively, he said, I could find what I wanted to know on their Web site. I really didn't want to look into the Web site because I was not familiar with the Internet. So, I just left my number, but they never contacted

me. . . . I called again a couple of weeks later, but they told me the same. If the rule is really important to protect the environment, as they claim, then why don't they tell me what exactly to do? (Pomona drycleaner)

Inspectors visited me twice last year. When I asked them some questions, they didn't answer me properly. They must have sufficient knowledge of what they do. I think they simply ignored me. They seemed to think I was bugging them with unnecessary questions to distract their attention. (Ontario drycleaner)

The SCAQMD's deterrence principle is not just a theory in a textbook but practical enforcement guidance in actual use. Contrary to the agency's anticipation, this enforcement strategy without the capacity of adequate responsiveness produced intense resentment and, thus, failed to yield changes sought in the regulated entities' behavior. From the perspective of drycleaners in Southern California, inspection is simply a means to increase the agency's revenue and the given regulation was enacted to justify it. Drycleaners' perceived illegitimacy of the regulation foreclosed their effort to be aware of the regulatory requirements, let alone the effects of their business activities on the environment and human health.

### *The Massachusetts Case*

The MADEP does not rely solely on a deterrence approach and, instead, takes on a combination of traditional methods of inspection and technical assistance. The Interim Policy on Compliance Incentives for Small Business (Policy ENF-97.002) reflects on the MADEP's decision to extend incentives and compliance benefits to the regulated. Furthermore, it relieved formal penalties for violations by small businesses. Established in June 1997, this policy explains how the MADEP would exercise its enforcement discretion at the ground level in terms of deciding on appropriate enforcement responses and penalties (MADEP, 1997b):

Many small businesses experience difficulty in complying with environmental requirements as a result of limited access to information concerning requirements and limited financial resources. . . . In recognition of the particular difficulties typically experienced by small business, this interim policy intended to: 1) promote environmental compliance among small businesses by providing them with incentives to seek onsite compliance assistance, or to conduct environmental audits; and 2) achieve statewide consistency in responding to noncompliance of small businesses by providing guidance to DEP staff on how to exercise enforcement discretion in such cases. (pp. 1-2)

This official statement did not mean that drycleaners could be exempted from regulatory requirements. Despite the difficulties experienced by small businesses, they were required to comply fully with all environmental regulations administered by the MADEP. Relief of penalty was only considered under three conditions: (a) There was evidence that a facility did not have ample access to information concerning compliance; (b) there was evidence that noncompliance was an isolated instance, not part of chronic violations, and the owner demonstrated good faith to correct errors within a reasonable period of time and to maintain future compliance with all applicable requirements; and (c) the facility demonstrated financial constraints that prevented compliance or claimed an inability to pay a penalty. In this case, the burden was on the facility to prove why such constraints impeded its ability to comply or perform a remedial measure and resulted in inability to pay the full penalty (MADEP, 1997b). Whether a facility met one of the three conditions above was completely at inspectors' discretion. In the event that inspectors decided to mitigate or waive penalties, they offered the facility technical assistance. Jeffrey Chormann, who is in charge of the enforcement and compliance, stated,

We don't necessarily go in there with the attitude, "We gotta find something." . . . We don't walk in with the black hat and say, "We are looking to find as many problems as we can." We are also looking to help . . . and provide assistance, as well . . . beyond sort of the regulatory aspects.

This attitude stems from inspectors' field experience. Due to limited regulatory resources, the same MADEP inspectors deal with both small and large firms. Having that kind of experience, inspectors acknowledge that small business is a totally different kind of operation, that violation is sometimes inadvertent rather than willful, and that small businesses need more technical assistance. The comment by John Reinhardt, the general manager of the agency, is consistent with Jeffrey Chormann's:

In the beginning, it was very difficult to work with them. They were not sure about our intention. . . . But they recognized we didn't try to go in and find things that were wrong. . . . Of course, we do want people to comply. That's what our job is. However, because they're small, we do . . . try to help them enhance compliance rather than just enforce. . . . They are small business . . . they wouldn't have a capacity of knowing all technical stuff. That's the kind of thing we are more willing to work with them on as opposed to taking sort of a hard line attitude.

The agency's effort was highly appreciated by drycleaners. The following comments were typical of most respondents:

Every year, I have several notices from DEP and our association, and they remind me of what to do. When they ask, "Why didn't you do this?," it's really hard for me to deny those notices. . . . They're not like, "Watch out. We're gonna come and close you down." It's more like, "This is what you need to do. If you have questions, give us a call." (Lowell drycleaner)

We are not allowed to discharge laundry water into the septic systems. If I were in violation, typical inspectors would say, "You are in violation. Stop, because the rules say you can't do that," . . . and that's it. I know about a typical enforcement style because I was a groundwater inspector while in Korea. In fact, that's what I did. . . . But these guys [the MADEP staff] are different. Basically, they say, "Stop, but instead, you can do this or that." . . . Actually, they offered five options that can legally replace wastewater discharge into the septic system. As a matter of fact, three of those options were economically infeasible, but there were options you might entertain. More importantly, these guys are trying to go the extra mile to tell, "This is what you need to do, and this is what you are allowed to do." (Townsend drycleaner)

In other states, inspectors come to catch you. In Massachusetts, they come to enlighten you. (Chang in Peabody)

To summarize, the SCAQMD's enforcement style takes on a typical feature of traditional command-and-control, that is, a deterrence strategy. On the contrary, the MADEP's strategy can be characterized as command-and-assist (O'Rourke & Lee, 2004). As we shall see later, the two differing styles of regulatory enforcement contributed to the emergence of an adversarial relationship in Southern California and a collaborative one in Massachusetts. This difference offers important insights concerning compliance behavior associated with divergent paths to identity formation.

## **The Effect of Enforcement Styles on Regulatory Relations and Identity Formation**

In recent years, there has been increasing recognition that identity is not a single, overarching categorical status but is multifaceted, alive with complexities (Dillon, 2005; Kondo, 1990). This refined concept of identity challenged the longstanding linear stage models of identity formation and led much research to focus primarily on continuous deconstruction and

reconstruction of the self in concert with the recognition of changing socio-political relationships (Taira, 2002). Given that identity is potentially multifaceted (Fiske & von Hendy, 1992), an important issue is how identity is constructed variously to specific situations or why one identity is chosen over others. A viable answer is consciously reorganizing the presentation of self for different situations (Taira, 2002).

In the dry cleaning communities in both regions, there was a self-defeating atmosphere in which drycleaners felt an inferiority complex with respect to their jobs. Job dissatisfaction was derived both internally and externally. Drycleaners tended to think that dry cleaning was a low-class job avoided by educated people. A drycleaner in Newton, Massachusetts, confessed,

Every morning, I say hello to customers going to work in suits. Many of them are professionals . . . 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?"

Some interviewees in Massachusetts (and in Southern California, too) 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 run 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."

Initially, drycleaners in both regions shared the similar perception of their social status, that is, minority businesspeople living in an ethnic enclave. Since new dry cleaning regulations were enacted in the mid-1990s, their perceived identity formation has taken different paths. We attribute this divergence partly to different regulatory relations influenced by different enforcement styles. Although we are unable to develop a fully fledged theory of identity formation, the following stories will illustrate how identities are amenable to influence by regulatory regimes.

### *The Southern California Case*

As shown in the previous discussion, the story of Southern California is marked by distrust between the dry cleaning community and the SCAQMD. From the SCAQMD's standpoint, which is essentially the guilty-until-proven-innocent perspective, the majority of drycleaners were unwilling to comply

not because they did not have technical capacity but because the benefit from violation was high enough. Correspondingly, the SCAQMD established harsher penalty policies and deployed more regulatory resources to deal with polluters. For drycleaners, the SCAQMD's enforcement style as well as the regulation entitled Rule 1421 was an excessive oppression of small minority businesses. A former president of the Korean Drycleaners-Laundry Association (KDLA) stated,

We did our best to get things to work, but AQMD didn't even try to listen to drycleaners' concerns. They already decided what to do before listening to our opinion. . . . Public hearing? Were they really willing to listen to non-White small drycleaners? I don't think so. It was a cheap and tawdry political rhetoric.

Some KDLA members even brought Perc (a dry cleaning solvent known as a potential human carcinogen) to a public hearing held at the SCAQMD headquarters to show that the solvent is not dangerous. More precisely, it was an attempt to demonstrate how angry drycleaners were. The SCAQMD was upset with this "insane" attempt and became more skeptical of the drycleaners' willingness to jointly find reasonable solutions. Needless to say, antagonism between the community and the SCAQMD grew rapidly and continuing antagonism seems to have foreclosed possibilities of mutual understandings between the two.

Accordingly, drycleaners in this region have a strong sense of discrimination with respect to their scale of business, emerging from the interactions with the SCAQMD. This was directly addressed in public hearings. The trade association's board members would make a strong protest to the SCAQMD staff against the dry cleaning regulation: "If we were Ford, Toyota or Dow Chemical, . . . would you do the same?" (Fountain Valley drycleaner).

This remonstrance was an insult to the regulators. The SCAQMD staff responded that the agency never discriminated against small businesses and they were just doing what they were supposed to do to protect public health. The SCAQMD viewed the association's blame as stemming from a hackneyed excuse of recalcitrant violators to justify their acts and, thus, required more stringent enforcement. For the association, the SCAQMD's response was a lie. No matter what the SCAQMD said, drycleaners were extremely skeptical of the intention behind the statements. Correspondingly, antagonism between the two continued and the dry cleaning community regarded itself as "small businesspeople discriminated against by government." The

drycleaners believed that they were discriminated against because they were minority small business owners with no political power.

### *The Massachusetts Case*

The Massachusetts case hit the opposite road. In Massachusetts, the cooperative relations associate with the enforcement style that developed between the MADEP and drycleaners led to a different identity formation. At the outset of the new regulation, the MADEP attempted to convince drycleaners why the given regulation was important. The MADEP kept signaling over the course of regulatory enforcement that the agency recognized drycleaners in the region as educated, intelligent people and that violations might be incidental rather than willful. This does not mean that the MADEP gave up imposing penalties on violators. But, the agency 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. The Korean Drycleaners Association (KDA) heard its members self-contemptuously say, "If we were a Korean Doctors Association, he definitely would come" (Lowe in Arlington).

Although disappointed, the association kept trying to enhance drycleaners' social status. In 1994, drycleaners invited Angello, the chairman of the 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. The 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 new dry cleaning regulation has contributed to enhancing drycleaners' sense of being heard (or not being looked down on). Dong-In Choi, the president of the Massachusetts association, commented,

Our seminars have been held on Friday or Saturday evenings. Although we invited them [the MADEP staff] to join the seminars, we really didn't expect that they would come. . . . Who wants to spend time attending seminars which they don't have to attend? And you know . . . Massachusetts is the White state and we are just powerless Asian immigrants. Surprisingly . . . DEP

*always* sent their staff to listen to us. And they answered our questions in great detail. We truly appreciated that.

A drycleaner from Framingham made a similar comment:

When I first came to the seminar, I was a little surprised because our president introduced DEP staff to us. It was Friday evening. They must have been off-duty. Honestly, I had thought that a new rule had nothing to do with the environment and public health. But their attendance changed my view on the ERP [the new regulation involving the dry cleaning industry as a main target]. I started thinking, “They really want to help us and a new rule must be very important to us. If not, why did they come in Friday evening?”

In addition, the MADEP emphasized formally its view of the industry. The Drycleaners Environmental Certification Workbook articulates (MADEP, 1997a),

Professional drycleaners are an essential part of our communities. Their services save us time and keep our clothing in the best possible condition. Most drycleaners are family-owned businesses which have been good neighbors for decades. Dry cleaning has become such a routine part of our lives that we rarely think about it. (p. 2)

Chang, a former chairman of the drycleaners association’s advisory board, commented,

It was not us but DEP that included this paragraph. I don’t think it was a lip service. . . . They treated us as citizens they are supposed to serve, not simply the target of regulation. Their attitude made us feel respected. At least, we were not ignored.

Drycleaners in Massachusetts came to view themselves as citizens just like other Americans, not simply a target of coercion isolated from mainstream society.

## **Identity–Action Relations**

Our goal in this section is to understand how identity can bridge the explanatory gap left in the existing literature on regulatory enforcement. How do different perceptions of the self (i.e., the oppressed vs. citizens served by the government) affect an understanding of given regulations and, thus, compliance choices in different ways? We suggest three ways to

understand identity–action relations in the dry cleaning cases, corresponding to the three theoretical answers presented above. Although we cannot pin down the exact magnitude of each one’s importance, taken together, they suggest that an actor chooses to act in a way that such action is coherent with situated judgments, which are the outcomes of the interpretation of self and surrounding socio-political relations.

### **Identity Affects the Valuation of Incentives**

Social psychologists have long noted that identity helps actors understand the external world by providing frames. Frame is construed as “a particular way of representing knowledge, and as the reliance on (and development of) interpretive schemas that bound and order a chaotic situation, facilitate interpretation and provide *a guide for doing and acting*” (Laws & Rein, 2003, p. 173, italics added). To emulate Max Weber’s expression, it provides a finite segment of meaningless infinity and, thus, the basis for making the world meaningful. Once shaped by existing socio-political relations, identity functions as an axis of interpretation that enables us to find what is relevant to one’s being (Markus, Smith, & Moreland, 1985). This process affects the way incentives are valued, whether economic or normative.

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 made the following comments: “I don’t know whether Perc 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?”

Different perceptions 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. Specifically, that which seems to annoy the Southern California drycleaners is accepted in Massachusetts. 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, a Massachusetts drycleaner stated, “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 manufacturers' fault. 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" (Harry Cho in Peabody).

The valuation of costs and 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 most important finding in this regard is that material facts take on different meanings according to the regulatory context. Action may flow from material incentives, but identity affects the valuation of those incentives (Abdelal et al., 2001) by providing actors with a particular frame through which to view the surrounding world.

### **Identity Affects Reactions to Others in Interaction**

As we have seen, the two dry cleaning communities 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, the SCAQMD came to be viewed as an adversary by Southern California Korean cleaners, whereas the MADEP is considered to be a friend by Massachusetts cleaners. These sharply contrasting views of regulators as adversaries or friends led drycleaners to interpret identical regulatory actions in radically different ways because an adversary tends to harm whereas a friend does not.

It is notable that the trade associations interpret the past relations with the state regulatory agencies according to the present relations. In fact, the Southern California group and the Massachusetts group had no virtual contacts with the agencies before Rule 1421 and the ERP, respectively. Under this same historical condition, the two associations characterize the agencies differently: Whereas the Southern California group says, "AQMD was never helpful," the Massachusetts group states, "DEP never bothered us."

Each group uses these reconstructed historical relations to justify its current characterization of the agency. It, in turn, reconfirms the identity of the

agency and the meaning of its actions associated with the assigned identity. Now, drycleaners have an idea of “who they are” as well as “who we are” and, concomitantly, “what actions should be done” to best deal with their requirements. Correspondingly, the two trade associations came up with radically different behavioral guidance to respond to the given regulation. The comparison of the following stories is illustrative:

The researcher was visiting the KDLA office located in Gardena, California. An executive officer was speaking to a drycleaner through a speaker phone. A caller seemed to have recently opened a dry cleaning shop. He was complaining about the complexity of the regulation in question and asking what to do. The executive officer explained the major requirements in detail, but the caller was not sure if he correctly understood the explanations. Another drycleaner in the office interrupted,

*Drycleaner in the office:* I recommend not wasting your time by trying to fully comply. No matter how hard we try, we're likely to fall into violation.

*Caller:* What do you mean? I don't understand.

*Drycleaner:* Let me give you an example. It's a common sense that once high-way patrols decide to issue 100 tickets per day, they can do. What about 200 or 300 tickets? Of course, they can do. My point is that the purpose of the regulation is to collect fines. So, once AQMD decides to collect more money, we cannot be free from detection.

The caller seemed confused. The executive officer added, “Don't be stressed out. If you want to meet every detailed requirement, you cannot run a business. Just do what others do.”

Where did this seemingly confusing recommendation come from? We asked why he had this opinion. He told us what happened to him last year:

My shop was inspected last year. When an inspector first checked if the Perc machine was leaking, there was nothing wrong. A computerized detector showed no sign of a Perc leak. I expected him to leave after reviewing the records. But he checked the machine again. No leak. Then he started sniffing garments, and looking around a boiler room. Then, he rechecked the machine. His detector finally made alarm sound. He imposed \$1,800 on me. Do you know how long he stayed in my shop? 4 hours. Can you believe that? I couldn't do anything that day because of him. If you were I, would you spend your energy making efforts to comply? It will make no difference.

The executive officer added, “Actually, he is not the only one. Many members complained about similar experiences.”

In contrast, the Massachusetts association actively encouraged drycleaners to comply with the formal regulation. According to Dong-In Choi, the association kept saying to its members,

We have made great efforts to assist you to comply with ERP and most drycleaners have fully complied. DEP believes that we are making a credible commitment. You should know that we are one group. When your violation is detected by DEP, it will undermine our collective reputation. If you have any problem meeting the requirements, let us know and then we will do our best to help you. If you keep violating the rules, we will have no choice but to notify DEP to protect others. In that case, you shouldn't expect us to help you and you will be in trouble.

The above examples show that images about formal regulators formulated through specific relations play a critical role in the trade associations' reactions to agencies' regulatory actions.

### **Identity Helps to Meet Role Expectations**

Another conceivable account of identity–action relations is that identity imposes a need to meet role expectations (Abdelal et al., 2001). Of particular relevance to this idea is the theory of cognitive dissonance (Festinger, 1957): A gap between one's perceived image and behavior causes a psychic discomfort, a cognitive dissonance; and when the cognitive dissonance arises, people try to minimize it by modifying either their behavior or underlying values. These aspects imply that new information (in our cases, information from regulators) inconsistent with preconceived notions tends to be discounted and that there exists a need for consistency between self-images and behavior.

In our cases, the Southern California community has doubted the veracity of information from the SCAQMD due to strong suspicions of regulatory intention. The SCAQMD has provided various compliance and beyond-compliance options to help drycleaners in the district. For example, the agency announced that they had \$2 million grants available for non-Perc cleaners. Drycleaners switching from Perc to hydrocarbon could get \$5,000 and to wet cleaning, \$10,000. The SCAQMD did not require repaying the money. It is surprising that no association member applied for the grant. Instead, they requested that the SCAQMD use it to provide undeniable scientific evidence confirming that Perc is dangerous if the agency is to regulate Perc.

KDLA members do not even trust nonmember drycleaners. Kim, a former biochemist in Rancho Cucamonga, used to attend KDLA technical seminars and explained why and how Perc is dangerous. The only feedback

he received from the attendees was, “Since when have you worked for them [the SCAQMD]? What do you want to get out of this?” Because the KDLA distrusted the SCAQMD, anyone who shares the same opinion as the SCAQMD was viewed as an enemy. Correspondingly, all communications were interrupted by a breakdown of information flows, and this group of drycleaners came to get more and more insulated. A feeling of “nobody is on my side” or of being persecuted and harassed made this group of drycleaners get angrier and prompted them to fight against enemies because “tolerating discrimination and obeying unfair rules undermines self-esteem” (Westchester, CA, drycleaner).

The Massachusetts drycleaners present a diametrically opposite case. KDA board members state, “We are doing our best and they [the MADEP] know it. In return, they trust us and we know it” (Sung-Bae Kim in Beverly, MA). This attitude leads to, “We don’t want to cheat on someone who trusts us. We will live up to our promise” (Harry Cho in Peabody, MA). Furthermore, trust in the regulatory agency facilitates forming trust in a third party. The KDA has maintained a cooperative relationship with the Toxics Use Reduction Institute (TURI) at the University of Massachusetts Lowell. The TURI was established by the Toxics Use Reduction Act in 1989. Since its inception, the institute has worked closely with the MADEP. The MADEP’s guarantee that the TURI could be helpful for developing educational programs assured drycleaners to accept assistance from the institute. Recently, the KDA and the TURI began collaborating to develop a new program aiming for beyond-compliance.

The Massachusetts community’s collaboration with the MADEP and the TURI can be viewed as an attempt to articulate that “we are doing our best” and demonstrates drycleaners’ goodness to the outsiders. These experiences were particularly important for maintaining consistency between drycleaners’ self-image and their behavior. To maintain a sense of “I am truly who I think I am,” I need not only the implicit confirmation of identity on my part but also the explicit confirmation that others bestow on me (Berger & Luckmann, 1967). The Massachusetts association’s deliberate outreach to outsiders was successful at inducing regulators to witness drycleaners’ credible commitment to social responsibility. In return, the MADEP gave more credits to the dry cleaning community.

### **Socio-Political Relations, Identity Formation, and Regulatory Compliance**

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 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.

## **Conclusion**

The primary concern of this article was to identify action domains that the standard models of regulatory compliance 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 perceived identity formulated by the patterns of social interactions among actors that govern the framing of the external world, contingencies, and outcomes. At least in our cases, the observed difference in rule compliance cannot be explained solely by utility maximization or normative factors alone. It is best explained through close examination of the socio-political relations in which actors are embedded.

Different patterns of socio-political 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.

Admittedly, the application of our argument is more limited than dominant compliance theories in that it primarily explains compliance choice making when identity concerns prevail. Besides, the identity-based explanation of compliance does not give us as strong a behavioral prediction as traditional theories. The main reason is that the logic of identity-based choice making is neither optimization nor preestablished 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 socio-political contexts.

Yet, despite its limits, we hope that this article contributes to extending the literature by setting the stage for further research in various regulatory arenas. For example, many studies of migrant entrepreneurship in the United States have shown that certain immigrant groups concentrate in certain industries that include 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 the role of identity resulting from different socio-political relations in different times and places may inform policy makers of more or less feasible regulatory strategies.

## Notes

1. Unlike deterrence theory resulting from mathematical deduction, competing explanations stem from empirical induction grounded in many scattered studies in a variety of academic disciplines and, thus, lack a uniformly agreed-on 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.

2. These statistics reflect on the entire industry and, thus, are not identical to compliance rates of Korean drycleaners. However, the South Coast Air Quality Management District 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 (J. Reinhardt, Massachusetts Department of Environmental Protection, personal communication).

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