The Effect and Management of Conflicting Regulation in The Marketplace

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Abstract

As the number of regulatory bodies promulgating regulations increases at local, state, federal, and international levels, the chances that the regulations will be in conflict with one another also increases. The marketing manager is often faced with an untenable or at least very ambiguous set of signals from which marketplace decisions must be made. This paper takes a predominately descriptive and prescriptive look at this growing problem for the marketing manager.

Introduction

In evaluating alternative strategies to promote the firm’s best interests, managers must assess the impact and effect on the firm of varied government regulations and public policy issues embedded in the firm’s external environment. The large volume of regulations results from actions of numerous government agencies and legislative bodies, each promulgating rules and regulations to carry out their respective missions.

The large number of public policy agencies, the abundance of existing regulations, and an incomplete assessment of the proposed regulation’s impact during implementation can lead to multiple, overlapping regulations affecting a given firm. Overlapping regulations often may require conflicting actions from the firm’s decision makers (Montgomery & Weinberg 1979). These overlapping regulations, each of which require opposing or conflicting managerial actions, are hereafter referred to as conflicting regulations. The remainder of this paper will explore the concept of conflicting regulations.

Although public policy activity occurs in a firm’s external environment, the impact and effect of the regulations are manifested internally as the firm’s managers grapple with the strategic decision-making process. Regulation is a major factor affecting daily operation and strategic decision making in almost every business firm. Since it is enacted via legislative action or promulgated by a legislatively-empowered regulatory agency (Starling 1980), the firm’s managers have little direct input or control over which regulatory action is taken and the potential for conflicting regulations increases.

Increased potential for conflicting regulations may also be inherent in the basic regulatory process itself. Public policy decisions are often made in a series of small, disjointed incremental steps and implemented without adequate information concerning the impact upon and consequences to all societal stakeholder segments (Braybrooke and Lindblom 1963).

Regulation is implemented as a governmental response to concerns advanced by certain societal stakeholders who contend that their rights or the rights of other stakeholders have been endangered. In effect, the government attempts to provide for the "common good" and compensate for unfilled societal stakeholder rights and needs by regulating other stakeholders who have seized too large of a jurisdictional claim in society (Osborn, Hunt, & Jauch 1980).

A government agency usually takes action after hearing, observing, and evaluating the endangered stakeholder’s and the offending stakeholder’s positions on a particular issue. An agency tries to ensure a new regulation is compatible with their own agency’s existing regulations. However, due to the abundance of laws and regulations from other governmental agencies, an agency rarely reviews those promulgated by all other legislative and regulatory bodies. Additionally, laws and regulations are not reviewed for compatibility by a higher authority in the government, unless a complaint is registered. This disjointed incremental approach taken by legislative and regulatory bodies provides an
excellent incubator for conflicting regulations to grow.

Conflicting regulations impact on a firm’s activities and decision making in the marketplace through an increased perception of uncertainty and risk emanating from the firm’s external environment. Conflicting regulations affect marketing managers’ strategic decision making through opportunities available and constraints imposed by those regulations. These opportunities and constraints create, expand, or limit the boundaries and uncertainty within which strategic decisions must be made. They also increase the problems and uncertainty surrounding a particular decision as the manager must choose which regulation is most important to take into account.

This paper addresses the issues arising from conflicting regulatory requirements and their impact upon marketing activities. Those issues are: the scope of regulations, existing research into the regulatory environment, conflicting regulations increasing managerial uncertainty and ambiguity, examples of conflicting regulations at and across various levels of government. The framework for marketing managers to approach conflicting regulations, and areas for future research into conflicting regulation issues are addressed.

Scope of Regulations

Often, only heavily regulated industries such as utilities, transportation, banking, pharmaceutical, coal, and petroleum are assumed to be affected by multiple government regulations. However, all marketing managers are confronted with some multiple regulations and legislation which require performance or restriction of certain actions or activities. Affected activities may be directly or indirectly related to marketing decision making.

The following regulations affect marketing activities in virtually all normally regulated companies in the United States. The Internal Revenue Service (IRS) regulations affect income and public reporting requirements and ultimately, decisions about the profitability of new and existing company products. Federal Trade Commission (FTC) regulations ensure distribution channel members and consumers receive fair treatment and protection. The Federal Communication Commission (FCC) and the FTC jointly regulate product advertising targeted towards children and the FCC impacts on other advertising practices. Product cost and delivery times are affected by the Occupational Safety and Health Administration (OSHA) production and warehouse regulations. The Securities and Exchange Commission (SEC) regulations affect information flows about new or existing products when it may affect stock prices (insider trading), as well as public reporting requirements and income distribution. The FTC and the Department of Justice jointly investigate and regulate growth actions of firms (acquisition or increased sales) that may substantially alter relative market share positions.

In addition to these general regulations, a more heavily regulated industry such as the coal industry faces additional regulations that affect product cost and market availability. The Bureau of Mines (BOM), the Department of Energy (DOE), OSHA, and federal power authorities regulate the cost, availability, processing, and extraction of raw materials. The state and federal Environmental Protection Agencies (EPA) regulate production and consumption wastes being returned to the air, land, and water. The Mine Reclamation Act requires restoration of land from which coal is extracted. The size of the coal market is impacted by foreign trade policies and federal energy management policies. EPA policies also dictate the allowable product characteristics of coal, which subsequently influences the market price of coal (adapted from Leone 1977, p. 95).

Thus, numerous governmental agencies and the regulations from each, affect business activities in both heavily regulated and in normally regulated industries. All of which mean an abundance of regulations whose impact must be considered by marketing managers making strategic decisions. This abundance of regulations along with agencies promulgating new regulations, all contribute to the potential for conflicting regulations.

Research into the Regulatory Environment

Research into conflicting regulations is virtually non-existent. The bulk of previous marketing regulatory research has focused on economic issues of regulation and governments’ need to provide for the "common good" of all stakeholders in society. Regulatory research gained increased emphasis during the banking and transportation industry’s deregulation. However, research into the regulatory environment of marketing channels of distribution is still wholly inadequate (see Stern & Reve 1980; Arndt 1983; Achrol, Reve, & Stern 1983; Reve & Stern 1985 for detailed critiques of research in this area).

Regulation has been shown to increase product costs, increase market share for large organizations, decrease market share for smaller organizations, and increase entry barriers. The impact from regulations are not applied equally to all firms in an industry, which
increases difficulties of research into the regulatory environment. Deregulation decreased entry barriers, increased competition, led to organizational structure changes (mergers, acquisitions, out of business) and increased vulnerability to antitrust action, as noted below.

As a result of the Clean Air Act, larger utilities increased their market share due to the demise of smaller utilities unable to adapt to the regulation (Pashigian 1984). Cost increases are also noted with regulatory compliance (McHugh 1985; Gollop & Roberts 1983; Miller & Hutt 1983; Ulrich, Furtan & Schmitz 1987; Devany, Gramm, Saving & Smithson 1982).

Regulation has been shown to increase entry barriers in the utility industry (Pashigian 1984) and in the drug industry (McKay 1986). Medical device regulation, however, caused no increase of entry barrier, presumably because less stringent standards were applied during a deregulation period (McKay 1986). During the early 80’s, coal producers reduced uncertainty and gained additional information about coal exporting through the formation of industry coalitions to work with regulatory agencies and government officials (Rogers 1986).

Deregulation provided opportunities for researchers to examine organizational effectiveness longitudinally in the same firm or in the same industry during heavy regulation and after deregulation. Researchers have examined conceptual issues in deregulation that potentially affect marketing practices (Bloom 1982; Richardson & Pitta 1986). With airlines, deregulation was situation specific and the impact not felt evenly all across firms in the industry (Spiller 1983).

Competition and the ensuing marketing activities increased after deregulation, leading in many instances, to altered organizational structures (Enis & Sullivan 1985; Richardson & Pitta 1985). Ellison (1985) noted competitive and price change effects on United States-Canada distribution channels for goods traveling via deregulated common carriers. He also reported increased vulnerability to anti-trust violations for a once protected railroad industry.

This representative sampling of research into regulation and deregulation indicates a void in research concerning the effects of conflicting regulations on marketing strategy decision making activities. The existence of conflicting regulations is briefly acknowledged in books about regulation in the petroleum industry, regulatory effects in the business environment, and reforming the regulatory process (Welch 1980, Starling 1980, White 1981).

However, empirical research in this area has been virtually non-existent. One exception concerns a conceptual comparison of international advertising regulations to increase awareness of the regulatory conflicts from one country to another. Increased awareness of the regulatory differences can aid marketing managers in adapting their promotions to international regulations which require differing marketing strategies (Boddewyn 1982).

Finally, specific instances of conflicting regulations which affect firms or industries have been reported in popular business publications and detailed later in this paper. One example is the clean coal versus acid-rain legislation pending in Congress which has direct impact on the electric utility and coal production industries. (As of June, 1990, the House and Senate had passed separate bills concerning acid-rain and these bills were in committee.) Clean coal legislation provides incentives for research and development into, and implementation of clean coal burning technology. Conversely, acid rain legislation requires major emissions reductions in a shorter time frame than existing clean coal technology can provide. This conflicting, proposed legislation increases environmental uncertainty for managers faced with differing capital expenditure decisions as a result of the proposed legislation.

**Conflicting Regulations Increase Ambiguity and Uncertainty**

Opposing or conflicting regulations create ambiguity and uncertainty in the task environment of the focal dyad and the impact must be considered by marketing decision-makers (Reve & Stern 1985). With uncertainty, the strategic response to conflicting regulations in the external environment is an important topic for firms to consider. Achrol, Reve & Stern (1983) suggest uncertainty from the external environment impacts channel coordination, channel power, and channel sentiments.

The result of conflicting regulations is uncertainty involving costs for a firm. These costs are "the cost to business of the uncertainty and (cost of the) delay that regulation generates...Another kind of uncertainty is the announcement effect of federal regulation." (Starling 1980, p.194). This "announcement effect" suggests that, not only conflicting regulatory action, but also potentially conflicting regulatory action and proposed but not yet promulgated conflicting regulatory action also generate uncertainty for the decision maker.

For example, the pending clean coal versus acid-rain...
legislation adds to managerial uncertainty in capital resource allocation decisions (Wall Street Journal September 17, 1987). In addition, the lack of new nuclear power plants ordered in the last decade is primarily due to uncertainty generated from differing specification conflicts between nuclear regulations and environmental regulations (EIA 1986).

Managerial decision making uncertainty increased for USAir and Piedmont managers after their proposed merger was approved by the Justice Department Anti-Trust Division and initially rejected by the Department of Transportation (DOT). This was the first airline merger rejected since the airline industry was deregulated in 1978. It is a conflict between a regulation that allowed airline deregulation and a DOT regulation that prohibits unfair competition (Business Week October 5, 1987). The DOT finally recanted and approved the merger (Wall Street Journal November 2, 1987), but only after much uncertainty, controversy, and extra cost for both airline companies.

Similarly, with passage of the U.S.-Canadian trade pact, industries once protected will lose market share to firms with a greater comparative advantage in the other country. The conflict created by potential "no-trade-barriers legislation" in combination with existing import taxes to protect the industries, will increase decision making uncertainty for the Canadian food processing and textile industries. As a result, managers in those industries will lobby for specific trade protection (Business Week April 4, 1988).

These examples of decision maker uncertainty from conflicting regulation centers on several areas of concern for managers. Among these are: cost increase after regulation; how strategic decisions are altered by regulation; effect on organizational structure; threats and opportunities created by the conflicting regulations; operational procedure changes required due to geographical location of subsidiaries; strategic actions required to defeat/modify conflicting regulation; and similar concepts that involve projections into an uncertain future created by the conflicting regulations at and across the various levels of government.

**Conflicting Regulations by Level of Government**

Conflicting and potentially conflicting regulations occur at the local, state, federal, and international government levels, with conflicts occurring at and across all governmental levels. While not an exhaustive list, the following are several examples to illustrate conflicting regulations at and across various governmental levels.

- **Federal with International Conflicts**
  
  Conflicting regulations occurring between federal and international governments particularly affect multinational companies in the areas of product advertising, hostile trade activities and channel intermediaries.

  - A legal United States advertisement may be illegal in other countries. For instance, Saudi Arabia's regulations prohibit women in advertisements and Malaysia prohibits women in sleeveless dresses in advertisements. For the multinational marketing manager, these conflicting international regulations increase uncertainty for product promotion strategies.

  - The United States regulations allow certain product advertisements to children that are not allowed under Canadian regulations (Boddewyn 1982).

  - A Toshiba subsidiary acting in accord with Japanese regulations, sold submarine silencing products to the Soviet Union. This transaction violated United States trade regulations, leading to a purchase ban on Toshiba products by United States government agencies.

- **Federal with Federal Conflicts**
  
  Conflicting regulations also exist across agencies at the federal level.

  - The Sherman Anti-Trust Act's intent was to decrease/eliminate collusion between firms that might result in an unfair advantage over competitors. In contrast, the Export Trading Act of 1982, allowed competitive firms to unite horizontally or vertically to market coal internationally, with protection from conflicting anti-trust law provisions (Boissoff 1985). For coal producers, these conflicting regulations decrease the uncertainty of entering new markets.

  - Under provisions of the Freedom of Information Act (FOIA), government contractors can receive detailed information collected under government contract regulations from firms who were awarded contracts. Information obtained through FOIA (plans, procedures, costs, tests, designs, etc.) has been utilized by competitors to gain a competitive advantage during the next contract award process (Montgomery & Weinberg 1979).

  - The automobile industry is required by the Corporate Average Fuel Economy regulation to increase miles-per-gallon of fuel and with the Clean Air Act to reduce emissions from the cars exhaust. Unfortunately, emissions reductions decrease fuel mileage. Managers must make strategic decisions to cope with the conflicting
regulations, which ultimately will influence marketing strategies.

- State with Federal Conflicts

Conflicts occur between state and federal regulations.

- Environmental Protection Agency (EPA) clean air regulations are administered for compliance by each state’s EPA officials. EPA regulation non-compliance waivers are granted to certain coal-burning utilities with the provision that coal be purchased from producers within the state. Hence, state interests conflict with federal interests, offering a market advantage for in-state coal producers.

- The 1978 Public Utility Regulatory Policies Act (PURPA) provided incentives for industrial electric cogeneration. Since it was immediately challenged in court, many states did not issue implementing regulations with the result that the act was not uniformly enacted and applied to industrial-utility firms across the nation (Farbstein 1982). As a result, some firms may gain a market advantage over other firms who were subject to differing state implementation regulations.

- State with State Conflicts

Conflicting regulations occur from state to state.

- Indiana, Illinois and Kentucky all have different corporate income tax rates, severance taxes on coal, and sales tax/exemptions for coal producing firms. These conflicting regulations from state to state significantly alter a firm’s cost of goods sold and its resultant competitive posture in the industry, thereby increasing uncertainty for market place returns. (Illinois Resources 1986; Nicholson 1982).

- Within State Conflicts

- Illinois has high sulphur coal as a natural resource. It actively promotes coal consumption through regulatory incentive to increase jobs and income in the state. Illinois nuclear regulations have allowed the largest number of nuclear electric plants in any state. Since the nuclear power plants displace coal fired power plants, conflict exists for firms subject to Illinois nuclear regulations and coal regulations. The coal marketing manager gains a market advantage through buy Illinois coal incentives and a market disadvantage when their electric utility customers switch to nuclear generated electricity.

- Incentives to purchase products produced within the state increase the conflicting regulatory environment for the firm. Illinois firms are provided low interest loans to install clean coal burning technology, if they agree to burn only Illinois coal (Illinois Resources 1986). Yet, state EPA emissions standards preclude the burning of coal produced in the state without massive plant modifications.

Issues to be Addressed by Marketing Managers

Conflicting regulation impact is felt within and across industries and must be addressed if managers are to recognize, understand, and cope with the conflicting regulations. These conflicts often require opposing actions by marketing managers, leading to further increases of uncertainty. Figure 1 outlines the steps recommended as essential if the marketing manager wants to strategically manage conflicting elements in the regulatory environment.

Management of conflicting elements in the regulatory environment begins with gaining a fuller understanding of the legislative and regulatory public policy formulation processes. Secondly, managers should realize that there are few short term solutions in the regulatory environment. Management of conflicting regulations requires a long term perspective. Third, develop a proactive stance to public policy and incorporate environmental management strategy planning as a means to reduce uncertainty from conflicting regulations (Galbraith 1977; Zeithaml & Zeithaml 1984).

Next, managers need to commit human and financial resources to the public policy process. Fifth, business firms should develop environmental scanning units for monitoring, probing, and evaluating proposed governmental actions for conflict in the regulations. Sixth, identify early warning indicators of potential and existing conflicting regulations to preclude their promulgation.

Seventh, develop and implement strategies to reduce the impact of potential and existing conflicting regulations. These strategies may include but not be limited to lobbying efforts to encourage uniform federal and state regulations, formation of cooperative coalitions, initiation of a regulatory coordination board to address complaints and overide governmental agencies issuing conflicting regulations, and support for researching the regulatory environment.

Future Research Topics

The descriptive/prescriptive approach to conflicting
regulations taken in this article is not a final solution. Rather it is a conceptual beginning to conflicting regulatory research that can be utilized by marketing managers. Issues and topics for further conflicting regulation research centers around the following five broad categories:

1. Assess the extent and specifics of conflicting regulations through categorization by industry, by geographical location, and by level of government. Also identify early warning indicators of potential conflicting regulations under these same three categories.

2. Assess the effects of conflicting regulations on the marketing decision maker, the firm and the marketing distribution channel. When considering effects, the following variables should be included: decision making process, time, financial, marketing restrictions, competition, threats and opportunities, uncertainty, and point in the public policy formulation process.


4. Determine how a firm's/industry's image is affected by the conflicting regulation reduction strategy, as perceived by regulatory agencies, competitors, consumers, social groups, and the firm's own managers and employees.

5. Facilitate conflicting regulation research through improvement of identification, operationalization, and measurement techniques for regulatory variables, which can lead to improved construct definitions.

Conclusion

Conflicting regulations at various levels of government, have the potential to affect strategic decisions of almost all firms. These conflicting regulations increase ambiguity and uncertainty in the external environments for managerial decision makers.

Throughout this paper, examples of conflicting regulations have been cited which show uncertainty that managerial decision makers face. Further, this has been a conceptual beginning in which relevant managerial issues and topics for research have been suggested.

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