Compliance pluralisme and processes
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Chapter 1: Introduction

1. China’s Compliance Challenge

Since opening to trade and undergoing economic reform in the 1980s, China has experienced remarkable economic growth and the development of a market economy. In 1992, following a speech by Deng Xiaoping,¹ China further made an important strategic decision to establish a socialist market economy, which required the creation of a new regulatory system that differed from the previous system of commands coupled with a planned economy. Consequently, China has been developing an increasingly comprehensive system of regulatory laws and institutions, and has been attempting to implement legislation to regulate the rapidly emerging market actors and processes. Hundreds of laws and regulations have been enacted to regulate various domains in the swiftly developing socialist market economy, such as environmental protection, food safety, product quality, public auctions, occupational health and safety, enterprise registration, and land usage.

By the end of August 2011, the Chinese Communist Party concluded that the socialist system of laws with Chinese characteristics has been set up, noting that all legal branches have been set up, covering all aspects of social relations; basic and major laws of each branch have been made; related administrative regulations and local regulations are fairly complete; and the whole legal system is scientific and consistent. A socialist system of laws with Chinese characteristics has been solidly put into place.² The pace of legislation has not slowed down since. From the end of August 2011 to the end of September 2014, the number of administrative regulations has increased from 706 to 737, and that of local regulations has increased from 8,600 to 8,909.³ In 2015, the NPC standing committee further enacted five laws and amended 37 laws.⁴

However, while China has achieved great success in enacting laws, it does not automatically mean these laws have successfully prevented and controlled the ecological, financial, and health risks that inevitably came with China’s massive economic growth and industrialization. Having a law is but a first step in changing risky behavior. Simply stating that certain behavior is not allowed, or instituting penalties or even rewards to incentivize less risky behavior, does not automatically lead to a change in practice. For that to happen, the actors the law addresses should actually comply with the legal rules established.

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¹ On January 17, 1986, Deng Xiaoping, a former Chinese leader, spoke at the meeting of the Central Politburo Standing Committee of the Communist Party of China (PSC) and proposed that it is necessary to use “two hands” to achieve the “four modernizations,” with one hand developing the economy and the other strengthening the legal system.
⁴ http://www.npc.gov.cn/npc/xinwen/2016-03/10/content_1975326.htm
In fact, China is experiencing a compliance crisis. Frequent violations are common in many areas of law, and these violations cause great risk and harm to the natural environment, public health and security, the market economy order, the credibility of government authority, and even the credibility of legal authority. A core question is thus, how can regulatory bodies ensure compliance? Consider, for instance, the following examples. In terms of food safety, in 2008, a large and well-known Chinese milk producer, Sanlu, produced poisonous milk powder for infants that caused urinary system problems in 294,000 babies and children. In 2005, several large food producers, including KFC and Heinz, were exposed to magdala red, an illegal additive that may cause cancer, in various widely consumed foods. Similarly, in 2010, the widespread use of gutter oil, or illegally recycled cooking oil, by many large Taiwanese and mainland food producers and restaurants was exposed, causing public panic about food safety.

In addition, in terms of environmental pollution, in 2007, Taihu Lake in Jiangsu province, which is the main source of drinking water for Wuxi, a city near Shanghai, was polluted severely with algae due to serious industrial pollution from nearby factories, leaving 200,000 residents without safe drinking water. Moreover, an explosion in the hazardous article storage area of an international logistics company in Tianjin in 2015 exposed the prevalent problems of fraudulent environmental assessment reports and other problematic licensing practices in construction. The explosion killed 114 people and injured 66 more, who required hospitalization, with 56 being severely injured. Following the explosion, 65 people were missing, and 17,000 residences were damaged.\(^5\)

Similar problems have arisen in the field of occupational health. In 2009, Zhang Haichao, a Henan farmer worker, was diagnosed with pneumoconiosis, locally known as “dust lung.” This occupational disease, caused by the inhalation of dust, is prevalent in workers doing mining-, excavating-, smashing-, and polishing-related work in the mining, machine manufacturing, construction material, and road construction industries. By making his condition known, he exposed common violations of occupation health and safety regulations that occurred nationwide. Subsequently, related problems were uncovered in numerous provinces, including Gansu, Guangdong, Yunnan, Zhejiang, and Shangxi.

In addition to the serious events caused by the violation of laws, less significant, yet still dangerous, violations occur in everyday life. The “Chinese way to cross the road” describes the general phenomenon of people crossing the road while the crossing lights are red. Despite legal restrictions, fake Fapiao receipts, the official proof of tax payments in China, have repeatedly emerged. Furthermore, corruption scandals involving government officials keep being exposed, despite China having some of the world’s most stringent anticorruption laws. Overall, compliance is a severe challenge for China on the way to “building a nation of laws.”

\(^5\) http://weibo.com/p/1001603878215923181902
2. Research on Compliance in China

It is remarkable that while China faces such a serious compliance challenge, few studies have been conducted on compliance in the country. Although China’s central government leadership explicitly stated in 2014 that “improving compliance is one of the most important aims in building the nation of laws,” most sociolegal researchers have focused on problems related to legislation, enforcement, and judicature. This could be the result of three factors. First, it may stem from misunderstanding the significance of compliance research. As Li (2015) pointed out, compliance has been seen as the natural result of proper law and proper enforcement. The author likens the system to an automatic vending machine: once the government enacts and implements law, or places it in the vending machine, compliance will automatically come out. Thus, in China, the gap between the theory and practice of law has been overlooked.

Second, the lack of compliance research may derive from seeing the regulated actors as objects but overlooking the subjectivity of the regulated actors in compliance practice (Li, 2015). That the regulated actors are capable persons and partly construct compliance is neglected. As a result, scholars tend to study compliance problems from the angle of legislation and enforcement and do not realize sufficiently that to achieve compliance, the regulated actor must change its behavior, and therefore its perspectives and actions are vital.

Third, compliance goes beyond conventional legal study and requires collaboration with other disciplines, such as sociology, anthropology, politics, and economics. However, in China, sociolegal research is underdeveloped, and using methodology from social sciences to analyze legal problems has attracted scholars’ attention only in recent years. This approach was proposed in 2001 by law professor Su Li (Hou, 2014), and it began flourishing recently. Additionally, as in the West, most of this research has focused on legal institutions such as courts and lawyers, and less on how law shapes organizational behavior outside the courts.

Over the last decade, fortunately, the interest in compliance discussions and research has increased among Chinese scholars, and there is a growing body of compliance studies. Nevertheless, many such compliance studies in China lack a proper empirical focus—to study actual behavior—and instead tend to theorize and generalize without a proper embedded foundation. For instance, scholars have noted the general importance of compliance (Liu, 2005; Liu, 2010; Cao et al., 2009); the association of compliance with other concepts such as trust, formal justice, ethics, and personal well-being (Feng & Miao, 2008; Sun, 2009; X. Wang, 2009; Wei, 2008; Xiang, 2009); and general motivational measures to improve compliance (Ding & Zhao, 2011; Zhan, 2013).

Moreover, several Chinese scholars have introduced Western theories of compliance in China (Ding & Li, 2004). Cost-benefit calculation, one of the most influential factors in Western compliance theory, has gained considerable attention in recent discussions, with various scholars joining in the theoretical discussion of compliance and focusing on the costs and benefits of compliance from an economic perspective (F. Wang, 2009; Wu, 2011; You, 2006). For example, Wu (2011) studied
the cost-benefit ratio of compliance and argued that individuals’ considerations about compliance costs and benefits affect their compliance behavior. Feng Wang (2009) analyzed the cost–benefit consideration of compliance. He claimed that costs and benefits include not only economic costs and benefits but also political, societal, and ethical aspects. He further claimed that cost–benefit analysis was a basic value for modern law and the issue of compliance; thus, compliance can be improved by increasing the cost–benefit ratio of compliance in social life. You (2006) emphasized the influence of compliance cost on compliance behavior, and advocated reducing the cost of compliance through policy design, such as by improving quality of life, enacting laws that align with social justice, establishing relief measures, and awarding institutions or people who comply with the law.

In addition, scholars have introduced psychological theoretical perspectives on compliance. For instance, Yao (2009) pointed out that besides rationality, sensibility is also important for making compliance choices. He argued that any knowledge that is the base of rationality has been processed sensibly by people and that it is embedded in a specific social and cultural structure. Social experiences have a more significant influence on people’s choices than knowledge does. Consequently, to improve compliance, Yao (2009) argued that it is important to pay attention to fostering people’s affinity toward and trust in law.

Empirical research on compliance in China has lagged behind these theoretical studies. A group of medical science scholars involved in hospital and medical research conducted some of the earliest work through empirical investigations on the extent to which medical personnel comply with medical operational rules (Luo et al., 2011; Shang et al., 2003). In these early investigations, the researchers did not properly link their studies to broader compliance theories, nor did they comprehensively address compliance with legal rules. Lu (2005) may be the first scholar who conducted empirical research on compliance from a sociological perspective, specifically on farmers’ general compliance inclination in daily life, such as paying electricity and agriculture tax and using counterfeit money or certificates. He used two approaches, namely the instrumental and normative approaches, to examine farmers’ compliance inclination with data collected via questionnaires. The results showed that both approaches contributed to farmers’ compliance inclination. Moreover, factors that influence farmers’ compliance inclination are embedded in the social structure of rural society, not in the independent legal system.

Since 2010, the number of empirical studies on legal compliance in China has increased. Wang and Liu (2010) studied people’s general compliance inclination in daily life, such as by participating in crossing against red lights, through questionnaires from the perspective of cognitive psychology. They found that people’s cognitive and emotional experiences of law might impede compliance, given that people know the laws. Yu et al. (2014) studied the environmental compliance of manufacturing enterprises in Guangdong province and on the Pearl River Delta using questionnaires and interviews. They found that enterprises comply with environmental laws mainly to avoid potential sanctions and to prevent unreasonable enforcement requirements. Furthermore, if enterprises have a clearer understanding of
the law that is enforced in practice, they are more likely to comply with it. Yu et al. (2014) argued that compliance motivations in China differ from those in Western countries, where legal systems are more developed. Finally, Li (2015) observed construction workers’ compliance behaviors directly and through interviews, and found that individual norms rather than social and legal norms are the main factors influencing workers’ compliance behavior.

Over roughly the last decade, a growing English-language body of work has emerged on China’s compliance problems, with some published by policymakers and related scholars. For instance, analyses have been conducted to provide practical guidelines for promoting compliance in the Chinese environmental and food safety contexts (Li & Michalak, 2008; Van der Meer, 2006; OECD, 2006, 2009). For example, by examining regulatory and institutional obstacles, the OECD (2006) proposed a range of enforcement instruments to strengthen compliance, consisting of strengthening the capacities of the environmental administration, searching for suitable environmental policy tools in other countries, and developing appropriate compliance insurance strategies.

Several English-language studies involved the empirical analysis of compliance situated in broader regulatory compliance research (Ma & Ortolano, 2000; H. Yan, 2014; Liu et al., 2015; Li, 2016; Van Rooij, 2006a, 2006b, 2012, 2013a, 2016). For example, Ma and Ortolano (2000) conducted comprehensive case studies and surveys, and analyzed Chinese enterprises’ compliance with rules of wastewater discharge, fees, and permits. They found that informal rules related to authority, social connections, and the Chinese concept of “face”6 (a kind of social valuation), and economic factors, including profitability, compliance cost, and form of ownership, affected enterprises’ compliance outcome. Van Rooij (2006b) empirically studied Chinese environmental compliance based on 18 land and pollution cases from Kunming city. He found that the economic context dominated the convergence of the economic, social, regulatory, and political contexts. The economic context is the great contradiction between local livelihoods and environmental protection, while the regulatory context offers a limited general deterrent effect. Furthermore, the social context of many actors in China who are not in compliance increases the cost of compliance, and the political context restricts the role of nongovernmental public interest groups. Due to the convergence that dominates the economic context, regulation that is more stringent did not lead to more compliance in most cases.

In 2013, Van Rooij further analyzed tax compliance through a case study of Chinese firm lawyers. He specifically examined the lawyers’ perceived deterrence and investigated how such perceptions affected their tax compliance. He found that lawyers perceived a strong subjective deterrence under conditions of a weak objective deterrence (Van Rooij, 2013b). Van Rooij and his colleagues further compared compliance decision making regarding the use of pirated online content among

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6 The concept of face is Chinese in origin. However, it has gained much attention from scholars from other countries who are interested in Chinese culture. Some believe that “face” is the key to Chinese spirit. Canadian-American sociologist Erving Goffman was particularly interested in the concept. According to Goffman (1955: 5), the term “face” is defined as “the positive social value a person effectively claims for himself by the line others assume he has taken during a particular contact.”
Chinese and American students based on survey data (Van Rooij et al., 2016). They found considerable differences between factors that contributed to Chinese and American students’ inclination to engage in digital piracy. Chinese students’ inclination to engage in digital piracy hinges chiefly on the perceived behavior and approval of others; in contrast, American students’ inclination is influenced by social norms in tandem with either perceived duty to obey the law or with perceived deterrence.

Huiqi Yan (2014) tested farmers’ pesticide compliance with seven variables drawn from compliance theories developed in Western countries. She found that farmers’ compliance behaviors are positively related to amoral calculation, social norms or morals, and legal awareness, but not clearly related to general duty to obey, procedural justice, and financial ability. In addition, Liu et al (2014) studied the effects of campaign-style enforcement on environmental compliance in China. They proposed a recoupling process of campaign-style enforcement and used it to illustrate how campaign-style enforcement brought substantial reductions in pollution emission levels in coal-fired power plants. They found that campaign-style enforcement reduces substantial pollution emissions through resource mobilization and power redistribution. Resource mobilization provides the regulated enterprises with compliance incentives, that is, financial incentives, and higher deterrence in terms of strict monitoring and sanctions. Power distribution strengthens both regulatees’ and local officials’ perceptions of environmental protection legitimacy.

Li (2016), from a process approach, studied construction safety compliance through integrating three interrelated processes: processes of responding to external regulatory enforcement pressures, the internal management processes in the regulated entity, and individual decision-making processes within the regulated organization. She found external safety enforcement for construction sites was generally weak and did not generate deterrence; internal compliance management of the regulated construction business did not work well either. Workers’ behaviors of compliance or noncompliance were based mainly on personal choice and interests.

In summary, there is a growing body of scholarship on compliance in China, and there is increasing recognition that compliance is important. Much of the work is limited, however. As evidenced by the three mainstream approaches, most studies were exogenous and failed to discuss the concept of compliance, instead taking it for granted and operationalize it as compliance inclination, outcomes, and policy goals. In contrast, Li’s research on construction safety investigated compliance from three interrelated processes and operationalize workers’ compliance as compliance behaviors (Li, 2016). Quality empirical work and work that understands compliance beyond simply the result of enforcement remains lacking, and the current literature reflects only the beginnings of a true dialogue using Chinese data to engage with ideas about compliance that have developed in Western settings.
Chapter 1 Introduction

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3. Existing Approaches to Studying Compliance and Their Limits

Within regulatory compliance research outside of China, there have been two core approaches, as identified in the groundbreaking work of Parker and Nielson (2009), namely the endogenous and exogenous approaches. The endogenous approach addresses the concept of compliance as the main research object and questions how the meaning of compliance is interpreted and constructed in regulatory practice. On the one hand, it aims to discover the plural meanings of compliance that exist among key actors in the regulatory field, including regulated actors and enforcement agents. On the other hand, it seeks to uncover the social construction processes that create understandings of compliance and the law, and the power relations between the actors involved. In simpler terms, for endogenous compliance scholars, what matters is not whether people obey or break the law and what can explain their actions, but rather what the interaction between regulated actors and regulators can tell one about what the law itself is and how these actors define compliance.

In contrast, the exogenous approach focuses on what makes people obey the law. To study this, these scholars must somehow themselves define compliance, in stark contrast to endogenous scholars. Exogenous research thus focuses on cause and effect, and it seeks to understand what variables influence compliance decisions and behavior. It is more practice oriented and aims to determine influential factors to promote compliance, such as enforcement, organizational features, and social norms or culture. In another words, exogenous compliance scholars are concerned with improving the implementation of laws rather than rethinking what the laws are.

However, each approach has limitations. Because the definition of compliance for endogenous researchers is fluid, there is no standpoint against which actual behavior and its outcomes can be evaluated and analyzed (Parker & Nielson, 2009). Therefore, the endogenous approach is not helpful for answering the crucial practical question of how to improve compliance, which is important for anyone who seeks to understand how regulation can become more effective in reducing and controlling the risks it sets out to address. When we understand, as the endogenous approach seeks to do, what the meaning of law is, we do not yet know how such law can successfully achieve its goals and actually improve behavior as intended with the implementation of the law. While the endogenous approach is attractive for understanding how regulatory interactions shape the meaning of law and compliance itself, it does not directly offer practical support for those seeking to overcome China’s immense compliance problems and the resultant failure of regulatory law to deal with the risks and dangers caused by the country’s rapid industrial and economic development.

The exogenous approach seems more fitting for dealing with China’s problems, as it helps researchers to understand what factors are at play in compliance, and can enable regulators to test different approaches to improving compliance. However, there are several major criticisms of the exogenous approach. Most crucial of these are problems of operationalizing compliance and collecting data. In existing exogenous studies, compliance was usually operationalized by reference to the compliance motivations and attitudes of the regulated actors (e.g., V. Braithwaite et
al., 1994; Gunningham et al., 2005), or policy goals (e.g., Andrews, 2003; Winter & May, 2001, 2002), in terms of whether businesses meet certain substantive goals. Yet what these kinds of operationalization actually measure are compliance preconditions, tendencies, and outcomes rather than compliance itself. For operationalization by reference to motivations and attitudes, it is important to consider that motivations and attitudes may not translate into action, while for operationalization by reference to policy goals, it cannot say whether it is compliance that delivers the outcome or not (Parker & Nielson, 2009).

Ultimately, as Parker and Nielson (2009) claimed, compliance researchers should operationalize compliance by reference to actual compliance behaviors and evaluate whether people comply with regulations to discover the causes and effects of compliance. Nevertheless, few researchers operationalize compliance as compliance behavior (e.g., Li, 2016; Gray, 2002, 2006). There are considerable constraints to doing so, including limits of resources, time, and access to data (Parker & Nielson, 2009), as well as methodological constraints. First, direct observation of compliance behavior is time and resource consuming, and sometimes impractical for both accessibility and knowledge specialty. It may also involve ethical and political problems. Second, other sources for data about actual compliance behavior, such as state-based regulatory agencies, regulated actors, various stakeholders, and public regulators, may suffer from significant problems of data bias, as they depend on the quality of their own data collection and the willingness of sharing such data with researchers. Third, to operationalize compliance as actual compliance behavior, researchers themselves become part of the process of constructing the meaning of compliance and have to find a proper evaluation standard to evaluate compliance. Fourth, many of the existing studies using the exogenous approach were conducted from the perspective of the regulator and lack consideration of the perspective of the regulated actors (see exceptions by G. C. Gray, 2002; Fairman & Yapp, 2005; Van Rooij, 2013a). Because the regulated actor is the subject of compliance and engages in compliance behavior, the perspective of the regulated actors should be stressed. Fifth, compliance may be composed of a series of behaviors in a certain time span rather than one single behavior at one static point. To operationalize compliance as actual compliance behavior, researchers have to focus on the difference between compliance as an abstract notion and compliance behaviors as substantial acts.

The exogenous approach is useful in discussing China’s compliance challenge, and to operationalize compliance as actual compliance behaviors is especially attractive, as one of the aims of this research was to discover causes for compliance. However, certain limits of the exogenous approach mentioned here are especially difficult in China. Here, especially, collecting data on behavior is difficult, as noncompliance in China is a sensitive subject, not only for the regulated actors or even the state regulators, but also for the party-state as a whole. Most compliance research outside of China is based on surveys or governmental data, but either approach is challenging in China, because respondents may provide biased answers that inflate the level of compliance, and governmental data may be of poor quality due
to weak enforcement capacity, biased toward compliance, and inaccessible to researchers.

Furthermore, the endogenous and exogenous approaches to studying compliance have one common problem: they study compliance using one rule at a time and at one moment in time, which does not reflect real-world conditions for regulated actors, especially businesses. In reality, most regulated actors are subject to a multitude of laws and regulatory institutions. In addition, compliance is interactive, as compliance with one law can affect compliance with another law. When a regulated firm interacts with a regulator from one regulatory system, it is influenced by its experience with other regulators from other regulatory systems. Thus, each new regulatory encounter exerts influence on future interactions with other regulators. The current approaches are in that way overly monodimensional and static.

Moreover, much of the existing research on regulatory compliance, especially the exogenous work that has great practical relevance, tends to focus on either the regulated individual or the regulated organization as an entity, rather than combing the two levels (for an exception, see Parker & Gilad, 2011). Yet organizational behaviors are collections of individual behaviors. The organizational behaviors the law aims to regulate ultimately consist of the actions of individuals within such organizations. At the same time, organizational behavior is not a pure aggregation of individual behaviors—it implies certain kinds of unification of individual behaviors. Individual behaviors are inevitably influenced by the characteristics of the same organization, that is, organizational structure, culture, and norms. One individual’s behavior influences and is influenced by the behavior of others in the same organization. For instance, when food safety laws require restaurants to safeguard food safety by workers washing their hands before processing food, workers rather than restaurants as entities ultimately take the action of washing hands. When every worker washes his or her hands according to the rules when he or she works in one restaurant (individual compliance), this restaurant complies with the handwashing rule (organizational compliance). Nevertheless, the same workers may not wash their hands when they work in another restaurant, and the workers that do not comply with the handwashing rule in one restaurant may comply with the rule in another restaurant. Therefore, studying compliance behavior at individual level may not satisfactorily explain organizational compliance. Organizational compliance and individual compliance are interrelated but different in reality, and combining the two levels would generate valuable insight into compliance.

Many researchers have found that organizational characteristics, such as organization scale (Shadbegian & Gray, 2005), organizational culture (Gherardi & Nicolini, 2002), managerial incentives, and organizational identity (Howard-Grenville, 2006; Howard-Grenville et al. 2008) influence compliance. However, the reality is that members in an organization contribute at least partly to organizational

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7 Parker and Gilad (2011) focused on corporate compliance management systems and claimed to understand these systems in terms of the interaction between structure (adoption of formal compliance systems) and agency (perceptions, motivations, and strategies of individuals at all levels of the organization) through culture (local norms and habituated practices). They showed how structure and agency interact through culture at three nodes of implementation of the compliance system.
characteristics. The organization and individual in the organization have mutual influence, and both the organization as a whole and individuals in that organization construct compliance and present compliance. Several studies on compliance failed to involve such a dynamic construction. In this research, the researcher intended to reveal the dynamic construction between organizations and individuals through discussion of the formation of organizational norms. In Chapter 7, the researcher shows that both employers and employees influence the formation of organizational norms, while at the same time, organizational norms interacting with legal norms shape their compliance behaviors.

A third, lesser-known approach to the study of compliance combines the endogenous and exogenous approaches to a certain extent. This approach, the process approach, focuses on identifying the steps and processes of how legal norms become the actual behaviors required by these norms, and exposes factors influencing this process (Henson & Heasman, 1998; Fairman & Yapp, 2004; Chemnitz, 2012; Van Rooij, 2013b). Henson and Heasman (1998) proposed a compliance process composed of several steps, namely identifying the regulation, interpreting the regulation, identifying change, making the compliance decision, specifying the method of compliance, communication, implementation, and evaluation or monitoring, while Chemnitz (2012) identified several stages of the decision model, namely the knowledge, attitude, decision, implementation, and monitoring stages. In addition, Van Rooij (2013b) defined compliance as a set of recurring, nonlinear processes through which legal norms enter into the operations and perceptions of the regulated actors at different stages of the production chain, including learning, negotiation, dissemination and translation, operational, verification (and simulation), and institutionalization and internalization processes.

The process approach is promising for addressing some of the limitations of the endogenous and exogenous approaches. It divides compliance into steps and processes, which allows researchers to study and evaluate compliance based on these steps and processes and to overcome the limits of compliance evaluation in the endogenous approach. At the same time, by tracing the process of compliance, it facilitates the study of how compliance is constructed, which is lacking in the exogenous approach. Moreover, the process approach is amenable to incorporating multiple simultaneous compliance processes with different rules, as well as individual and organizational compliance processes.

4. Approach and Case Study Selection

This research seeks to draw on the existing body of compliance research to study compliance behavior in the Chinese context by using a combined approach involving elements of the endogenous, exogenous, and process approaches. It draws the method, namely participant observation and deep immersion into the interactions that occur during compliance, from the endogenous approach. In addition, it draws the central goals, namely to understand what factors contribute to compliance and noncompliance, from the exogenous approach. Further, it draws the perspective,
namely examining multiple compliance processes with multiple norms as they occur over time, both individually and organizationally, from the process approach.

To overcome the severe methodological hurdles the study of compliance faces in China, the researcher employed a qualitative and ethnographic approach. Through long-term observation within a small set of regulated actors, the behavioral responses to a multitude of rules could be directly observed. Furthermore, it enabled the researcher to understand how these rules arrived at the organization, how they were interpreted by and transmitted among organizational members, how they interacted with social norms and practices in the organization, and what roles individuals played in these processes.

As such, the researcher first aimed to describe the variation in compliance behavior itself by examining variation in compliance in a particular type of small business (restaurants, in this case, as discussed subsequently) and by analyzing compliance variation with different legal norms and along different parts of the business cycle (distinguishing the start-up phase from daily operations). Second, the researcher aimed to understand the causes of the variations in compliance behavior found.

This thesis offers a unique new empirical study of compliance in China, well grounded in existing theories and with a further developed integrated and dynamic approach. The study is unique, because it seeks to understand the variation in compliance behaviors as they exist for different legal norms and change over time in one particular organizational setting, namely restaurants. It allowed both an endogenous understanding of what compliance means and an exogenous exploration of compliance, as well as a processual dynamic understanding of how compliance varies and changes, and, ultimately, of what explains such variations. This was achieved through in-depth case studies that allowed comprehensive qualitative research and posing “how” and “why” questions related to compliance as they play out in particular businesses. The case study method allowed the researcher to focus on the selected regulated entities in depth, discuss various variables that appear, and examine causality to explore how various compliance behaviors manifest and how those compliance behaviors can be explained.

To perform the case studies, a type of business had to be chosen. Criteria included that it was readily accessible, especially for participant observation, one of the core methods used; that compliance behavior was observable to overcome some of the methodological problems of survey-based compliance research; and that a multitude of legal rules applied, which could be studied over time. Restaurants fit these categories. Thus, to conduct this research, the researcher was permitted to pose as a server in two restaurants, which enabled her to have in-depth discussions with workers, managers, and owners. In addition, restaurants are legal microcosms where a variety of rules applies that can be observed in everyday behavior.

Moreover, studying restaurants has an important practical purpose and significance. Restaurants are a prime example of a small business regulated by a range of legal norms, from environmental protection to food safety, from fire regulation to taxation, and from business registration to city management. A deep ethnographic
case study at a restaurant thus offers a microcosm of compliance processes, many of which are observable and discussable.

5. Aims and Main Research Questions

This thesis had several aims. Overall, the researcher aimed to offer a case study of compliance processes in selected Chinese restaurants through the performance of two core analyses. First, she intended to describe the variation in compliance behavior, and second, she intended to explain why this variation in compliance exists. To this end, the study draws on existing exogenous compliance studies focused on regulatory, social or organizational, and individual influences to understand which of these were at play in the varied compliance behavior in the restaurants studied.

Theoretically, through this empirical study, the researcher intended to offer an integrated and dynamic approach to studying compliance in the Chinese context. Carrying out the case studies integrated the endogenous, exogenous, and process approaches to compliance and the study of how multiple sets of rules shape a singular type of business. Compliance was studied in an integrated manner—rather than focusing on compliance using a single rule, the researcher investigated compliance using multiple sets of rules that regulate a business. Moreover, she did so in a dynamic manner. Rather than seeking to understand compliance at a singular point in time, she studied how it changes in the business cycle from start-up phase compliance, when businesses apply for permits, to daily operations, when they must oversee compliance behavior with a multitude of rules every minute they are in business and for every employee and manager.

In practical terms, the researcher hoped to offer new knowledge about overcoming compliance problems in China. While the data from the restaurant case studies cannot be directly generalized beyond the cases studied, let alone beyond the particular businesses, they do offer new insights about how compliance takes place in China and thus new ideas about what China’s particular compliance challenges are and how they may be addressed.

To achieve these aims, the following empirical research questions were addressed:
1. How do selected restaurants respond to relevant regulatory rules, and what variation is there in their responses to different types of such rules and at different points in time in their business cycles?
2. What factors influence the variation in compliance behavior identified through question 1?
3. What new insights do the answers to questions 1 and 2 provide for general compliance research in China and abroad—practically, methodologically, and theoretically?

6. Operationalization: An Overview

Answering the first two empirical research questions required operationalization of the research. Although this is discussed in detail in Chapters 2, 6, 7, and 8, a brief
overview is provided in this section. In this research, compliance was theoretically viewed as an interaction between legal norms and organizational and individual behavior, which can be expressed as Law \( \leftrightarrow \) Behavior (Van Rooij, 2011). Compliance exists when the behavior somehow comes to align with the law.

The first research question focuses on the behavior in restaurants and on describing the responses to legal norms that occur in these settings. As explained in Chapter 2, the study describes responses during two key phases of the restaurant business: the start-up phase and during daily operations. This provides a dynamic understanding of differences in compliance behavior between when organizations are going through approval and permitting processes, and when they have commenced operations and respond to the law in everyday practice. By studying the responses in the restaurants to the relevant legal norms, the researcher intended to collect data on the compliance behaviors existing in restaurants and the processes through which these compliance behaviors came into being. In addition to describing the compliance behaviors in restaurants, the researcher classified and characterized the patterns of responses observed in the restaurants studied by moving beyond binary terms such as compliance or noncompliance and critically drawing on existing classifications in the literature, as explained in Chapter 2. The analysis appears in Chapter 5.

The second research question focuses on explaining why variations exist in response to legal rules in the restaurants studied. Here, the researcher first returned to the basic scheme of Law \( \leftrightarrow \) Behavior, beginning with the law itself, specifically with an analysis of how the law arrived at the restaurants. As detailed in Chapter 6, the researcher studied both the proactive legal knowledge formation managers undertake themselves and the transmission of legal norms through law enforcement encounters these managers experienced.

The organizational facet is the second factor explaining how restaurants respond to legal norms. As detailed in Chapter 7, the researcher followed insights from Moore (1973) and Heimer (1999) that the law competes with organizational norms in shaping behavior: Law \( \leftrightarrow \) Organization \( \leftrightarrow \) Behavior. To study this, the researcher first identified the relevant organizational norms before studying the relevant norms transmitted to workers during socialization and management processes including hiring, training, evaluation, and problem resolution. Second, as discussed in Chapter 7, the researcher investigated how these norms subsequently played a role in compliance behavior and how they align or compete with the law.

The final influence studied to answer research question 2 were individual level influences. At this level, compliance includes individual agency, which may be shaped by both legal norms and organizational norms, but which operates in decisions individuals in the organization make:

Law \( \leftrightarrow \) Organization \( \leftrightarrow \) Individual \( \leftrightarrow \) Behavior

Behavior ultimately takes place at this level, as individuals do the actual acting. To understand individual-level decision making in the study, as detailed in Chapter 8, the researcher used two approaches. First, she examined how individual employees in the restaurants explained their own compliance or violation behaviors, which elucidates individual compliance motivations inductively and subjectively. Second, the
researcher considered key individual motivations for compliance at the individual level by studying six key variables identified in the existing compliance literature, namely plural subjective deterrence, personal norms, descriptive social norms, perceived obligation to obey the law, recognition of legal requirements and practical constraints. These variables also are explained in more detail in Chapter 8.

In this study, the explanation of compliance behaviors has been categorized into three levels: regulatory, organizational, and individual. The discussion of legal knowledge formation and of how laws arrive at restaurants is on the regulatory level, the analysis of the interaction between legal norms and organizational norms is on the organizational level, and subjective explanation and variable association analysis is on individual level. Furthermore, the three levels reflect three core processes through which compliance behaviors may take place: regulatory, organizational, and individual processes. The regulatory process refers to the interaction process between the regulator and the regulated actors, the organizational processes refer to the internal organizational institutions through which compliance behavior takes place, and the individual process is the personal decision-making process involved in compliance behaviors. By discussing the focuses in each process, mechanisms are revealed through which compliance behaviors take place. The researcher does not claim to study those processes fully, in terms of how compliance behaviors take place within the three processes, but examines some core concepts in each process in the light of the compliance concept model.

In summary, the first two research questions were answered from the two main parts of the analysis. First, in terms of compliance behaviors, a new approach, namely descriptive analysis of compliance behaviors, was developed to describe compliance behaviors and to trace the process through which they take place. Second, those compliance behaviors were explained on the regulatory, organizational, and individual levels. At regulatory level, the focus was on comprehensive legal knowledge formation, with a discussion of how laws arrive at restaurants. On the organizational level, the focus shifted to the interaction between legal norms and organizational norms, while on individual level, both subjective explanations of compliance behaviors and statistical associations between individual variables and compliance behaviors were analyzed. By applying Western theories in the Chinese context, developing a new research approach, and creating a dialogue between existing compliance literature and the answers to the first two research questions, the third question was answered.

Thus, the present study offers a unique view on compliance. Its uniqueness stems not only from its focus on compliance in China, where researchers have limited access to empirical data, but also from the delivery of an integrated dynamic and qualitative approach to studying compliance processes as they occur in a type of small business. Further, it is a study of compliance in one type of business setting, and of the effects of several types of regulation on that business. This allows for a uniquely integrated view of compliance that closely aligns to the real-world experiences of the business. Moreover, rather than isolating a single type of rule, as has been done in most compliance studies, the present study aimed to understand how a business responds to
a combination of legal rules that seek to shape behavior. In addition, the approach used was dynamic, as it addressed compliance as it changes over time, as a business moves from start-up to operation, as it changes as daily operations continue, and as it interacts with the regulatory system from being an outsider to becoming an insider. Similarly, the approach is dynamic because it studies both the organization and individuals in the organization, and as it considers the interplay between an organization and the individuals in that organization.

7. Research Methods and Data Collection

To discuss the main questions, an in-depth qualitative methodology was employed in this study. This section contains a general introduction to the methods used in the study. However, the case selection method is described in detail in Chapter 2, section 6.2, and the method of data collection at the individual level is described in Chapter 8.

The qualitative methods used consisted of a combination of participant observation, in-depth semistructured interviews, and document collection. The most important aspect is the participant observation in two restaurants, where the researcher worked as a server while conducting the study, which allowed her to gain a vivid understanding of the real-life context of restaurants’ compliance behaviors through firsthand experience and to establish trust with the interviewees. This was done not only to overcome the methodological challenge of identifying compliance behavior itself but also to gain a comprehensive subjective understanding of how the regulated actors understood the law, how they socialized organizational norms, and what motivated their daily work decisions. These methods thus allowed for a valid description of compliance and organizational processes, and for a subjective understanding of individual motivations. Conducting participant observation is difficult and highly time-consuming. Completing the pilot study and fieldwork took almost three years, occurring over several longer periods in each of the two main restaurants studied and over shorter periods in other selected restaurants.

When the researcher worked as a server during participant observation, she did not take field notes. Instead, every day after work and after leaving the restaurants, she noted what she observed and found based on memory, and she used a digital recorder to record conversations with restaurant owners and workers that she initiated, later transcribing these conversations. In addition, all formal interviews were recorded and transcribed. Participants were not aware of the recordings during formal and informal conversations.

To describe compliance behavior and capture its complexity, the diverse cases technique was employed to select cases that allow maximum variance along relevant dimensions to emerge (Seawright & Gerring, 2008). During the pilot study, cases were chosen based on their size and consumption levels, which are clearly diverse. The researcher accessed nine restaurants, including three small, low-consumption restaurants; one small, middle-consumption restaurant, one middle-sized,
low-consumption restaurant; three middle-sized, medium-consumption restaurants; and one middle-sized, high-consumption restaurant (see Table 1.1).

The level of access in these restaurants varied, with near full access in some that allowed extended observations, and limited access in others that yielded shorter observations and several interviews. Three restaurants allowed limited access, and data collection was insufficient to warrant analysis for this thesis, so they were not included in this thesis. Based on the pilot study and after gaining an improved understanding of restaurants, the researcher identified diversity that was more nuanced and relevant. Instead of size and consumption level, the ideology of the actors, their attitudes, and their commitment to regulations became more relevant in identifying diverse cases. Consequently, two restaurants were identified that differed in terms of their ideology regarding business operations, attitudes toward regulators, and apparent compliance behaviors. They were used as core cases in this research, and they allowed the greatest depth of study and most significant information regarding all the research questions. In addition to data from the two core restaurants, data from four other restaurants studied in less depth was included to add complementary information and dimensions. These are the Shangguan, Liguan, Haguan, and Weiguan restaurants.

Table 1.1: Summary of Restaurants Studied

<table>
<thead>
<tr>
<th>Restaurant</th>
<th>Features</th>
<th>Study Depth</th>
<th>Data in this Thesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mingguan</td>
<td>Small$^8$ Middle consumption$^9$</td>
<td>Comprehensive Extended participant observation in restaurant (six weeks) In-depth interviews with owners and employees</td>
<td>Core case and main source of individual data</td>
</tr>
<tr>
<td>Naguan</td>
<td>Small Low consumption</td>
<td>Comprehensive Extended participant observation in restaurant (six weeks) In-depth interviews with owner and employees</td>
<td>Core case and main source of individual data</td>
</tr>
<tr>
<td>Liguan</td>
<td>Small Low consumption</td>
<td>Less comprehensive Short observation in the restaurant In-depth interview with owner</td>
<td>Complementary case and source of individual data</td>
</tr>
<tr>
<td>Weiguan</td>
<td>Small</td>
<td>Less comprehensive</td>
<td>Complementary</td>
</tr>
</tbody>
</table>

$^8$ Restaurant size classification was based on the classification standard defined in the national FDA regulation on the catering service industry (See “Catering service food safety operational norms,” August 22, 2011, http://www.foodmate.net/law/shipin/173257.html). A small restaurant has floor space up to 150 square meters or up to 75 service seats, while medium-sized restaurants cover 150 to 500 square meters or feature 75 to 250 service seats.

$^9$ There is no standard classification of restaurant consumption; thus, in this study, restaurants were classified as high consumption (consumption per customer of 100 RMB and higher), middle consumption (consumption per customer of 50 to 100 RMB), and low consumption (consumption per customer of 50 RMB or less).
<table>
<thead>
<tr>
<th>Restaurant</th>
<th>Consumption Level</th>
<th>Methodology</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haguan</td>
<td>Low</td>
<td>Short observation in the restaurant</td>
<td>case</td>
</tr>
<tr>
<td></td>
<td>Mid</td>
<td>Mid-depth interview with managers</td>
<td>Complementary case</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Two weeks’ participant observation in restaurant</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mid-depth interviews with manager and employees</td>
<td></td>
</tr>
<tr>
<td>Shangguan</td>
<td>Medium, but part of a big catering group brand</td>
<td>Mid-depth</td>
<td>Complementary case and main source of individual data</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>In-depth interviews with 15 people, including top manager and employees</td>
<td></td>
</tr>
<tr>
<td>Gongguan</td>
<td>Medium</td>
<td>Shallow</td>
<td>Not included in this thesis</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>Five days’ participant observation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Superficial interviews with three managers and three employees before abandoning site</td>
<td></td>
</tr>
<tr>
<td>Languan</td>
<td>Medium</td>
<td>Shallow</td>
<td>Not included in this thesis</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>Superficial interview with one manager and three employees before abandoning site</td>
<td></td>
</tr>
<tr>
<td>Feiguan</td>
<td>Medium</td>
<td>Shallow</td>
<td>Not included in this thesis</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>Five days’ participant observation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Superficial interview with the manager and one employee before abandoning site</td>
<td></td>
</tr>
</tbody>
</table>

Semi-structured interviews were used to obtain data for the individual level analysis, as discussed in Chapter 8. Through 35 in-depth interviews, structured as dialogues (cf. Van Rooij, 2016), the researcher was able to study all five individual variables and examine 108 cases of compliance behavior. The 35 interviewees included 20 owners and employees at the two core restaurants, that is, Mingguan and Naguan; 14 managers and workers at Shangguan; and one owner at Liguang. The sampling and operationalization of this particular study are elaborated in Chapter 8.

8. Limitations of this Research

This study has several limitations. The first limitation originates in the qualitative approach applied. This research was conducted in a qualitative manner to explore compliance behaviors, the processes involved in compliance behaviors, and the explanatory factors related to those compliance behaviors. Although the analysis included quantitative association analysis between compliance behaviors and certain explaining factors with interview data at individual level, this research largely was completed using a qualitative and exploratory approach. Due to the time- and
energy-consuming nature of the methodology, a limited sample of organizations and individuals was generated. As such, it should not be read as a study that seeks to establish representative answers to its research questions, but rather as an explorative study that seeks to exemplify how compliance occurred and how it was shaped in the cases studied. The aim was to identify and describe compliance as an integrated and dynamic set of processes, both at the organizational and individual levels, which may be used as hypotheses for other research that aims to generalize findings toward broader populations through representative sampling. Therefore, although this research aimed to improve compliance in China, it does not directly offer practical measures for improvement but simply highlights several directions and possibilities.

The second limitation relates to the variables chosen to explain compliance behaviors at the individual level. Although numerous variables are identified in compliance literature, only a limited number could be included in this research. Six variables identified from the three mainstream explanation approaches, were selected. Those that were excluded may also contribute to these compliance behaviors to a certain extent, such as the perception of procedural justice (Tyler, 1990; Murphy & Tyler, 2008) and injunctive social norms (Cialdini et al., 1990; Cialdini & Trost, 1998). Although these variables are discussed implicitly or explicitly on the regulatory and organizational levels, they have been excluded in the direct explanation of compliance behaviors at individual level.

9. Thesis Structure

The main chapters of the thesis (Chapters 2–8) are divided into two parts, with Chapters 2 to 5 appearing in Part A and Chapters 6 to 8 in Part B. Part A answers research question 1, as it describes how restaurants respond to relevant legal rules. Chapter 2 outlines the descriptive approach to compliance used to answer this research question. Chapters 3 and 4 detail the two contrasting restaurant cases and show how compliance processes were studied by describing the compliance behaviors that occurred in these restaurants. Chapter 3 focuses on a health-oriented and idealistic restaurant, Mingguan, which intended to provide healthy and environmental friendly food and whose owner was highly educated, idealistic, and morally concerned. Chapter 4 highlights Naguan, which aimed to provide tasty and economic food at the lowest price possible to maximize profits. The owner of Naguan had knowledge based on experience and was pragmatic and rarely concerned with morals. Furthermore, complex compliance behaviors shown in the process of description are classified and the actors are characterized. Chapter 5 offers a short conclusion for Part A, with a discussion of the implications of the new approach used in understanding compliance and its methodological implications in general compliance studies.

Part B answers research question 2 by explaining what influenced the compliance behaviors described in Part A. Chapter 6 focuses on the regulatory level of influences on compliance to examine how legal norms arrived at the restaurants studied through interaction between the regulator and restaurant receptor, that is, the restaurant owner or top manager. Chapter 7 focuses on organizational influences to discuss how legal
norms are activated or how they compete with other norms in an organization. Chapter 8 addresses compliance motivations at the individual level and investigates how they explain variation in compliance. The subjective responses of respondents regarding why they obey or break the law are discussed, and certain variables the existing literature suggests as key individual compliance variables, including plural subjective deterrence, personal norms, descriptive norms, perceived obligation to obey the law, recognition of legal requirements, and practical constraints are analyzed. In addition, the association between these variables and compliance behaviors is examined.

Chapter 9, the concluding chapter, contains a summary of the key findings and a discussion of the broader theoretical, methodical, and practical implications. In doing so, it answers research question 3.