UNDERSTANDING STRATEGIC RESPONSES TO INSTITUTIONAL PRESSURES: THE CASE OF INTERNET INDUSTRY IN AUSTRALIA

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Abstract: Internet service providers (ISP) in Australia are under increasing pressure to provide good quality service solutions to customers as well as cope with increasing and varying customer demands and expectations. This necessitates the need for providers to focus on functional service quality (FSQ) characteristics such as customer service (CS) and complaints handling (CH) as customer perception of ISP service quality is influenced by both technical network performance and functional service performance. FSQ is the quality of services delivered to customers. Using institutional lens, this paper focuses on understanding (i) the institutional pressures that operate in the Internet industry and their influence on FSQ practices (ii) strategic responses to institutional pressures by regulatory and corporate affairs managers’ of very large ISPs. The research adopted a qualitative research methodology using semi-structured interviews for data collection and captured key institutional actors’ perspectives from various stakeholder organizations involved in developing/reviewing/revising FSQ practices. The key findings that emerged from this study are (1) regulatory pressures dominate this industry and together combined with customer and competitive pressure played a pivotal role in bringing institutional actors together to deal with FSQ issues (2) Increased collaboration due to these pressures occurred which led to numerous changes to FSQ practices in the revised Telecommunications Consumer Protection (TCP) code (3) the response to institutional pressures depended on ISP managers’ perception of pressures (who exerts the pressures and under what circumstances they were exerted?) and the real threat of tighter regulation.

Introduction

Telecommunications industry in Australia has been the subject of great interest particularly with the proliferation of new technologies and rapid growth in customer uptakes of internet services. This paper focuses on the Australian internet industry and the recent institutional pressures it has been subjected to. It describes how the industry collectively responded to government, regulator and customer pressures regarding its poor performance in customer service and complaints handling procedures. First, an overview of the regulatory arrangement on telecommunications consumer protection
in Australia is provided. Some background to the problem and the types of ISPs are described. Then, definition of the terms ‘customer service’ and ‘complaints handling’ as it is used in this study is provided. This is followed by the theoretical framework underpinning the study and the research design of this study. Finally, the findings in relation strategic responses of the very large ISPs to the pressures they were subjected to are presented. These findings provide an insight into the increased collaboration and collective efforts of the industry stakeholders to deal with these institutional pressures particularly the regulatory pressures which posed a real threat of tighter regulation.

**Overview of regulatory arrangements on consumer protection in Australia**

The Commonwealth Government assumed responsibility for telecommunication services in Australia upon federation in 1901. Until 1991, the telecommunication services was primarily provided by publicly monopoly organizations. Some of the key developments prior to deregulation in 1997 include the government in 1988 announcing the restructuring of the regulatory environment for the telecommunications industry and the operations of the government owned carrier (Commonwealth of Australia, 2000; Havyatta, 2010a). A major reform was implemented through the *Telecommunications Act 1989* which resulted in retaining the monopolies of Telecom, introduced competition through provision of value added network services and price arrangements. The Australian Telecommunications Authority (AUSTEL) was established in July 1989 as an independent regulator responsible for technical regulation, protecting unfair carrier practices in competition and protecting consumers’ interests. In 1990, the Commonwealth Government announced reforms to the structure and ownership of the telecommunication
networks. A general carrier duopoly was introduced to foster healthy competition. As a part of the reform the second carrier ‘Optus’ would be given enough time to allow itself to establish its presence in the marketplace. The main goal of doing this was to introduce sustainable network competition and minimize infrastructure duplication wherever possible (Commonwealth of Australia, 2000; Havyatt, 2010a).

The open competition in telecommunications started from 1 July 1997 when the market deregulated and a new era of open competition came through the Telecommunications Act 1997. As a part of the regulatory process, the ACCC (Australian Competition and Consumer Commission) assumed responsibility for competition and economic regulation of telecommunications, ACA (Australian Communications Authority) assumed responsibility for administering technical and consumer issues relating to telecommunications and ACIF (Australian Communications Industry forum) was established in May 1997 to act as peak body to facilitate and manage telecommunication self-regulation through industry codes of practice (Commonwealth of Australia, 2000). It is important to note that the ACA is now know as ACMA (Australian Communications and Media Authority) after it merged with Australian Broadcasting Authority (ABA) in late 2000; what was formerly knows as ACIF is now know as Communications Alliance after the merger of ACIF and SPAN (Service Provider Action Network) in 2006 (Communications Alliance, 2011). The Telecommunications Act 1997 and Telecommunications (Consumer Protection and Service Standards) Act 1999 strengthened the industry in regards to specific consumer safeguards and customer service guarantee performance standards. The Internet industry continues to grow in Australia with many new players entering the market to provide broadband services to niche markets and provide bundled service packages including mobile, internet and landline services.
ISP classification types in Australia

The Australian Bureau of Statistics (ABS) uses subscriber numbers to categorize ISP types in Australia. Very large ISPs have more than 100,000 subscribers, large ISPs have between 10,001-100,000 subscribers, medium ISPs have between 1001-10,000 subscribers, small ISPs have between 101-1000 subscribers and very small ISPs have 100 or less subscribers (ABS, 2012). The Australian ISP industry serves many customer groups who differ in terms of attitudes, lifestyle, demographics and motivations, all of which constitute customer characteristics. Therefore, understanding the nature of subscribers (residential and business) and the number of subscribers matters when providing internet based services (ACCAN, 2011).

Functional service quality in internet industry context

The two main types of service quality include the technical service quality and functional service quality (Zeithaml, Parasuraman & Berry, 1998). Technical service quality in ISP relates to issues involving ISP network and system performance. Functional service quality (FSQ), on the other hand, relates to areas outside an ISP network such as customer service (CS), contracts and complaints handling (CH) (TIO, 2011). Parasuraman et al., define functional service quality as ‘the manner in which services are delivered to customers’. The service quality perceived by ISP customers in a service encounter involves technical quality inputs by the ISP and the contact personnel (what is delivered?) and the functional quality inputs by the ISP and the contact personnel (how it is delivered?). By understanding the functional service experiences of ISP customers, ISPs gain insight into both positive and negative experiences of their customers and the kind of negative experiences that force them to switch providers (Chiou, 2003). According to Hays (2000) ‘temporary service problems in telecommunications can actually be overcome by high level of functional
quality provisions by service providers’. The key dimensions of functional service quality are technical, reputational, image, support, reliability, responsiveness, assurance and empathy. These dimensions relate to ISP industry as customer interacts with ISPs through call center, web based self-service and online services (Hays, 2000).

In internet industry, both customer satisfaction and service quality are important for ISPs to gain a competitive advantage and to stay in competition (ACMA, 2011). Service quality varies depending on the type of services provided to customers by different ISPs. For example, previous studies (ACCAN, 2011; ACMA, 2011; TIO, 2011) have found that very large ISPs (more than 100,000 subscribers) provide standardized service to customers where customers are required to have prior experience using internet services and have basic skills to troubleshoot internet related problems, while very small ISPs (less than 1000 subscribers) were found to provide customized services to suit specific customer service needs (ACCAN, 2011). Customized services are particularly important for new internet users who have limited knowledge about internet based services. As a result, customer perceptions about service quality are dependent upon what their needs are and what services they obtained from ISPs (Madden, Savage & Grant, 1999; Wood, 2010).

In this paper, it is important to draw distinction between service quality and customer satisfaction. Service quality is a form of customer attitude representing long term, overall evaluation of service, whereas customer satisfaction represents a short-term, transaction-specific judgement (ACMA, 2011). Service quality as perceived by the customer may differ from the quality of the service actually delivered. When assessing how well a provider is performing it is of importance to distinguish between
customer satisfaction and customer perceived service quality. Many studies conducted in the past have emphasized the importance of functional service quality characteristics of ISPs during service encounter (Hays, 2000; Havyatt, 2010b; Chakrapani, 1998; Roy Morgan Research, 2008; Esghi, Haughton & Topi, 2007; Maxham & Netemeyer, 2002). These studies have revealed that for the service customer, the evaluation of the quality of service provided by their ISP and the satisfaction derived from using a service depends on both the service delivery process and the service outcome.

Problem background: Customer Service and Complaints Handling as top two functional service quality issues in the Australian internet industry

To manage the scope of this study, the study focussed only on internet based services. Mobile service and landline service issues are excluded. For the purposes of this research ‘Complaint’ is defined as: ‘expression of dissatisfaction related to an organisation’s products, services or the complaints handling process itself’ (ACMA, 2011). ‘Customer service’ refers to provision of service to customers before, during and after a purchase (ACCAN, 2011). For customers, customer service relates to the way in which provider treats them after the sale. Complaints handling can be seen as a subset of customer service. Customers usually do not see a clear boundary between customer service and complaints handling. The regulator ACMA (Australian Communications and Media Authority) in Australia uses the term ‘Customer Care’ when referring to concepts of customer service and complaints handling procedures to the way in which customers are treated by their ISPs throughout the customer-service provider relationship. The key areas of customer care that are valued by customers include the providers ability to resolve issues in a satisfactorily and a timely manner, resolve complaints through a formal complaints handling process and improve
customer outcomes by setting and meeting benchmarks as to the way in which complaints are identified, handled and recorded (ACMA, 2011; TIO, 2011; Communications Alliance, 2011). The section below discusses the chronology of events between 2008-2011 in relation to poor CS/CH performance in the internet industry.

**Year 2008**

Research conducted by Roy Morgan Research (2008) about customer satisfaction with ISPs between October 2007-September 2008 found that customer satisfaction was at its lowest level. The survey included Australians aged 14+ with internet connection at home with a sample size of 13,307. The key finding of this study was that the larger players in the industry failed to exceed (or) meet customer expectations. Further, the Telecommunications Industry Ombudsman (TIO) 2008 report quoted the industry performance over the last few years as ‘The proportion of complaints about customer serviced related a matter has remained unacceptably high and, in the TIO’s view, the industry still has much work to do in this area’. All ISPs by law are required to be TIO members. TIO collects and reports on the complaints statistics. TIO Annual Reports (TIO, 2011) have member complaints statistics classified according to issues with a baseline of 25 (or) more complaints. Two main issues focused were customer service and complaints handling. The TIO (2008) annual report highlighted 32.3% increase in internet related issues compared to the previous year. The issues were classified as billing, faults, contract, complaints handling, provisioning, credit management and customer transfer. The functional SQ issues constituted an overall 47.6% with customer service (22%), contract (13.6%) and complaints handling (12%). Billing, faults, customer transfer, provisioning and
credit management can be classified as technical service quality areas as they relate to ISP network operations and performance (TIO, 2011).

Year 2009
In January 2009, the TIO with the support of consumer associations (ACCAN), regulatory agency (ACMA) launched the Connect.Resolve campaign which aimed towards improving the customer service provided to very large ISP customers in response to huge increase on internet service complaints recorded by TIO. The program was created to encourage the ten largest ISPs to improve the customer service practices. As a part of the campaign, providers were supplied with monthly complaints statistics (identifying systemic issues) along with key recommendations to improve CS/CH performance (TIO, 2011).

Year 2010
TIO 2010 Annual report (complaint statistics collected between July 2009-June 2010) showed an increase in customer service issues in relation to problems that occur after contact between customer and their provider. 2009/2010 saw an increase in incorrect advice being provided to customers by service providers. There was an increase by 41.45% for internet services. Because of the ongoing issues with complaints about internet services, the peak consumer association, ACCAN called for a customer service standard as it argued that the existing co-regulatory process through codes of practice in the ISP industry failed to deliver outcomes for consumers and improve the CS/CH performance of the industry (TIO, 2011; TIO Talks, 2011).

Year 2011
In its press release in February 2011, consumer association (ACCAN) called on the regulator (ACMA) to impose penalties on ISP companies with poor customer service
following an increase in complaints statistics released by TIO quarterly statistics (July 2010-December 2010). The media release stated ‘There’s no other industry that has failed customers so comprehensively over such long period of time’ (ACCAN, 2011)

Senior executive of the ISP industry association, Communications Alliance, speaking to ABC radio on May 4 2011 regarding the increase involving internet industry complaints where the industry watchdog TIO received 60,000 complaints in total for all services in the first 3 months of the year 2011 was quoted saying (Communications Alliance, 2011) ‘The numbers point to the urgency of us implementing the new revised industry code, which we believe will take us towards a real step change and improvement in customer service levels and customer satisfaction levels across the industry’. Because of the increase in complaints related to customer service and complaints handling in 2008, 2009, 2010, the regulator ACMA launched an inquiry in to the ISPs’ FSQ practices. The public inquiry report by ACMA RTC Inquiry (2011) stated that ‘All of the evidence available to the ACMA’s inquiry indicates that consumer complaint levels in the Australian telecommunication industry are far too high and that poor customer care (both directly and indirectly) drives many consumers to complain. Poor performance in these areas imposes real and significant costs on consumers. It also imposes unnecessary costs on industry’. The key finding from the ACMA inquiry (ACMA RTC Inquiry Report, 2011) was that ‘The inquiry has found that consumers are most dissatisfied about the level of customer service provided when a customer attempts to contact their service provider to make an enquiry or complaint and how that enquiry or complaint is resolved’.
Telecommunication consumer protection code and FSQ practices in the internet industry

FSQ practices of the internet industry are stated in the Telecommunications Consumer Protection (TCP) Code which is a co-regulatory code developed by the peak industry body, Communications Alliance, in consultation with various stakeholders of the Internet industry. von der Heidt & Charles (2009) define co-regulation as ‘a system in which some of the responsibilities for regulatory development, implementation and/or enforcement are shared between industry groupings and governments’. In a co-regulatory environment, Gunningham and Rees (1997) emphasize that such an environment requires organizations in the industry to decide to cooperate with each other to develop industry practices. In this paper, old TCP code refers to TCP Code 2007 and new TCP code refers to TCP Code 2012. The FSQ practices referred to in this research relate to customer service (CS) and complaints handling (CH) practices of the Australian Internet industry.

The TCP code is a collection of rules, principles and procedures that have been designated by ISP industry association as benchmarks of best practice and the codes formally registered with the regulator and comes into effect. The regulator, ACMA, has limited power to enforce the old TCP code 2007 because it is a voluntary code. The most regulator can do is to exert pressures on the ISPs by directing those ISPs who breached the code to comply with the code. The code breaches are recorded based on various TCP code categories and relevant clauses under each category by the TIO.

Given the poor FSQ performance of the industry over the recent years, there has been a heated debate in the industry about making substantial changes to the 2007
Telecommunications Consumer Protection (TCP) (to change CS/CH practices stated within the code) to deal with current customer service issues. The old TCP code (TCP code 2007) had areas within the code that did not address the minimum standards of customer service; lacked clear compliance monitoring and enforcement measures; failed to address the need for ‘action’ rather than the creation of a ‘process’. The code places a number of obligations upon service providers to have processes in place for consumer protection however; there is a lack of obligation in the code for service providers to actually comply with those processes (ACMA, 2011). This meant that their actual way of implementing FSQ practices deviated from formal processes due to lack of strong enforcement and monitoring. Such attitudes had implications for the FSQ practices adopted by the ISPs and the outcomes for their customers. The old TCP code was revised in 2010/11 to address FSQ deficiencies and the revised code (TCP code 2012) came into effect on September 1 2012. Figure 1 shows diagrammatic representation of the change from old TCP code to new TCP code.

[Insert Figure 1 about here]

**Institutional Stakeholders of the Internet Industry involved in developing FSQ Practices**

The key stakeholders in Australian Internet industry who are involved in the TCP code development/review/revision (of FSQ practices) include 1) the Government agency for Broadband- *Department of Broadband, Communications and the Digital Economy* (DBCDE) 2) the regulator-*Australian Communications and Media Authority* (ACMA) 3) the Complaints authority-*Telecommunications Industry Ombudsman* (TIO) 4) Consumer action network-*Australian Communications
Consumer Action Network (ACCAN) 5) Top four Very large ISPs (interviewed in this research) and 5) Industry association -Communications Alliance.

Theoretical framework

Institutional theory was used as the theoretical framework for this study. This theory focuses on the concept of ‘social legitimacy’ as organizations not only depend upon knowledge, equipment, capital, labour for survival, but also their acceptance by the society in which they operate is essential. Any organization whose environment regards them illegitimate cannot survive (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). Further, institutionalists argue that organizational decision-making not only involves technical factors (rational decision making) but institutional factors play a role in influencing decisions (adopt practices to seek legitimacy among external stakeholders). Previous studies (Gunningham & Rees, 1997; Hu, Hart & Cooke, 2006; Oliver, 1991; Suchman 1995) have shown that organizations adopt practices promoted by their institutional environment to seek legitimacy. Organizations respond to pressures from its external constituents and accede to their demands to seek their active support and influence practices that suit their collective interests, avoid increased scrutiny by them and to avoid excessive regulation (Delmas & Toffel, 2004; DiMaggio & Powell, 1983; Oliver, 1991; Scott, 2001).

An institutional environmental perspective on organizations

A study conducted by Hu, Hart and Cooke (2006) on the role of institutional forces on Organizational Information Security Practices in USA found that the introduction of Sarbanes-Oxley Act changed the management attitudes towards taking information security policies seriously. The study found that compliance with regulation was the key driver for the change. Another study by Major and Hopper’s in a Portuguese
telecommunication firm (Marconi) found that institutional pressures played a key role behind the profound changes that occurred in the company’s accounting system. Several constituents pressured the company to adopt a prescribed management accounting system. They include the regulator, European Union (EU), parent company and the industry consultant. The regulatory pressures pressed the EU telecommunications operators to adopt similar management accounting practices (Major & Hopper, 2005). Major and Hopper conclude that such an adoption occurred in order to allow the company ‘Marconi’ to gain social legitimacy regarding the way interconnection prices were calculated and to prove to its constituents that it was a modern and legitimate organization. Major and Hopper’s study highlights that the factors that motivate the telecommunication companies to change their practices are not purely efficiency driven but institutionally defined in order to seek legitimacy and influence policy decisions. The changes to accounting practices by adopting management accounting system popularised by its key constituents prevented the business from having its conduct questioned by the regulator. In the service industry context Lee, Ginn & Naylor (2009) examined the role of environmental factors on service innovativeness in the not-for-profit industry. Their study revealed that regulatory forces stifled service innovation. All these studies have highlighted the institutional influences on organization practices.

In Internet industry context, the very large ISP organizations are held accountable by various stakeholder agencies on FSQ practices (i) because of their visibility in the marketplace (ii) their involvement with various stakeholder agencies on FSQ policy formulation and (iii) the four very large players in Australian Internet industry combined having more than 80 per cent of the residential internet subscriber base (ACCAN, 2011; TIO, 2011; ACMA, 2011). So far the problem background and the
theoretical framework used in this study were described. The research design and approaches used is the focus of the next section.

**Research approach**

This study used exploratory qualitative approach using thematic analysis for analysing data collected during interviews. The benefit of thematic analysis lies in its flexibility of use (Braun & Clarke, 2006). This approach was used because it provided opportunities to (a) discover unnoticed possibilities and describe new relationships that existed in the internet industry by focusing on the whole experiences of institutional actors and not merely on the parts (b) understand and explore relationships between key actors to make sense and meaning of dynamics of relationships and how they influence FSQ practices of very large ISPs in relation to customer service and complaints handling. Past studies in the Australian internet industry have used quantitative approaches to study issues that affect the stakeholders ignoring the analysis of the role of institutional actors in influencing FSQ practices and their collaborative response in dealing with the FSQ issues and stakeholder pressures. The current research addresses this issue through detailed qualitative interview approach for understanding institutional actors’ perspective on FSQ practices of the industry. For privacy reasons, codes are used to refer to organizations and executives from those organizations who participated in this study.

**Eleven senior ISP industry executives** involved in developing/reviewing/ revising FSQ practices were interviewed after obtaining ethics approval from University of *<name suppressed>* human research ethics committee. The interview participants are:

(1) **Very large ISP1 [O1]**: Regulatory executive [E1] who heads up the legal and regulatory functions of the ISP. This executive was the industry representative chair
on the TCP code review panel. Another executive [E2] who assists him implementing compliance throughout the business.

(2) **Very large ISP2 [O2]**: Senior regulatory affairs manager [E3] who has more than thirty years experience in the Internet industry. In his current role he is responsible for internal regulatory compliance program particularly in respect of customer service and complaints handling obligations.

(3) **Very large ISP3 [O3]**: Regulatory executive [E4] who deals with regulatory and compliance issues; Has been with them for eight years; Overall, has close to forty years experience in the Australian telecommunications industry.

(4) **Very large ISP4 [O4]**: Customer knowledge manager [E5] responsible for managing day-to-day customer service issues of their call center based in Melbourne.

(5) **Australian Government department for Broadband [O5]**: Senior government executive [E6] who manages consumer engagement section of the department.

(6) **ISP Industry Association [O6]**: Senior executive [E7] of the industry association that is responsible for code development/review/revision. This executive is heavily involved in all industry related activities.

(7) **ISP Industry consultant [O7]**: Principal [E8] of an industry consulting firm; Has thirty years experience in the Internet industry and has worked in regulatory affairs area for many ISPs in the past.

(8) **Consumer Association [O8]**: Senior executive [E9] staff of peak consumer association body representing Australian consumers; Has several decades of experience on consumer issues in the industry.

(9) **Telecommunications Regulator [O9]**: Senior executive [E10] staff of the regulator involved in assisting, facilitating development of codes, registration of codes and monitoring compliance; enforcement with codes.
Telecommunications Industry Ombudsman [O10]: Senior executive [E11] staff of the Ombudsman involved in planning and stakeholder engagement; Oversees four functional teams at the ombudsman. Has been with the ombudsman for nine years.

Institutional pressures in the internet industry and the strategic responses to these pressures by very large ISPs is the focus of this paper.

Related literature on institutional pressures and strategic responses to institutional pressures

The key institutional pressures that operate in an industry include the regulatory pressures, normative pressures and mimetic (competitor) pressures (DiMaggio & Powell, 1983). Further, customer pressure also plays an important role in influencing industry practices (ACMA, 2011). This study uses the definition by Williams, Lueng, Taylor and Cook (2009) to interpret these pressures within the Internet industry context. They define regulatory pressure as a ‘force, persuasions or invitations that is applied both implicitly and explicitly by Government agencies which is adopted to comply (or) avoid sanctioning’; Customer Pressure as ‘force, persuasions or invitations that is applied both implicitly and explicitly by Customers to which firms must respond’; Competitor Pressure is defined as ‘the pressure applied by the competitive marketplace creating the desire to appear similar to others by mimicking practices, structures or outputs’ and Normative Pressure as pressures that urges organizations to conform to societal norms and values. They stem primarily from professionalization (DiMaggio & Powell, 1983).

Several authors have studied the response of organizations to pressures from the government or the regulators (Delmas & Toffel, 2004; Scott, 2001; Oliver, 1991; DiMaggio & Powell, 1991). Fligstein (1991) highlighted the transformation of
executive leadership in American industry due to pressures from the government. Leblebici, Salancik, Copay & King (1991) showed the role of influential actors in the industry in shaping the practices of the American radio broadcasting industry. Tolbert & Zucker (1983) highlighted the pressure from legal requirements on the spread of civil service reforms in USA. Schneiberg & Bartley (2001) studied the fire insurance industry in USA and identified the need to have strong enforcement mechanisms for self-regulation to work. They found that the self-regulation that occurred through industry association developing their own standards had problem with enforcement and monitoring. This led to mounting pressure from consumer and political circle to regulate the industry, as there were instances of price fixing, unfair claims and over rate discrimination. This eventually led to state intervention and an insurance regulation passed by the state government. Martin & Sayrak (2003) studied pressures in pulp industry and found that stakeholder pressures through consumer groups led to pulp mill adopting practices that assisted with production of environmentally friendly paper products such as toilet tissue by using unbleached pulp in the products than bleached pulp. These studies are of relevance when studying internet industry as the industry works closely with the regulator on FSQ policy formulation (TCP code) and subsequent registration and implementation of the code.

In studying responses to pressures, Oliver (1991) provides a framework to understand factors that drive organizations in selecting a particular response to institutional pressures exerted on them by external stakeholders. These institutional factors were: 

*Cause (Why these pressures are exerted?), Constituents (Who was exerting them?), Content (What these pressures are?), Control (By what means they were exerted?) and Context (Where they occurred?).*
Organizations conform (or) resist institutional pressures and develop appropriate strategies to respond to these pressures to seek legitimacy. The legitimacy strategies used by organizations include Acquiescence, Compromise, Avoidance, Defiance and Manipulation (Oliver, 1991). Acquiescence is a passive strategy where firms agree to institutional pressures. The other four strategies represent active response to institutional pressures. These strategies are used by organization to maintain, gain (or) repair their legitimacy (Oliver, 1991). Acquiescence is organizations conscious intent to conform to self-serving reasons. This is achieved through imitation and compliance. Compromise strategy is used to promote organization interest using pacifying and bargaining tactics. Avoidance strategy is to prevent the need to conform to any external pressure using tactics such as dismissing and attacking. Manipulation strategy involves tactics of controlling an institutional pressure. Defiance strategy involves assaulting the sources of institutional pressures. The tactics used are dismissing and attacking. Detailed information on strategic responses to institutional pressures and tactics used is available in (Oliver, 1991; Clemens & Douglas, 2005).

Organizations use more than one strategic tactic in responding to institutional pressures (Oliver, 1991). When there are strong institutional pressures, organizations focus more on acquiring legitimacy among their external stakeholders. In particular, large organizations are more susceptible to institutional pressures because of their visibility in the market place (Goodstein, 1994; Clemens & Douglas, 2005; Ingram & Simons, 1995).

**Discussion of very large ISPs strategic responses to institutional pressures**

This study found that among the three institutional pressures (regulatory, normative, and mimetic), the regulatory pressures were dominant in influencing the attitudes of
regulatory and corporate affairs managers of the very large ISPs towards FSQ practices. This is attributed to the ISPs’ fears of tighter regulation by the regulator. In particular the study participants from four very large ISPs responded to such pressures because they prefer to be masters of their own destiny rather than allow a third party player such as the regulator imposing or regulating the whole industry with non negotiable legislations. The response of very large ISPs could also be attributed to their “visibility” in the marketplace. Delmas & Toffel (2004) describe this notion as ‘Visibility of leading firms often subjects them to more pressure’ which could be because of the market leadership expected from the larger players in the industry.

The regulatory pressures combined with customer pressures (customers directly voicing their concerns to the regulator) and competitive pressures (providers such as O3 who have received numerous CS excellence awards) led to significant changes to the TCP code. Some of key changes in the new TCP code includes (i) stronger requirements for providers to disclose information in relation to advertising and point of sale matters (ii) alerting customers to help them manage their spending (iii) clearer standards on complaints handling with tighter time frames for complaints acknowledgement and resolution (iv) establishment of an independent compliance committee to oversee industry code compliance enforcement and monitoring.

[Insert Figure 2 about here]

Australian Government agency (DBCDE) and the regulator (ACMA) through their inquiry recommendations placed a direct pressure on the ISP industry and sent a clear signal demanding code revisions, extensive conformance to code requirements and measuring outcomes for consumers (ACMA RTC Inquiry, 2011). As a direct response to these demands, the ISP organizations and ISP industry association
acknowledged the deficiencies in the then current code (TCP Code 2007) and came together swiftly to address those gaps in their revisions to the code.

The response to regulatory pressure is evident in the revised TCP code where stringent enforcement measures have been included as direct response to regulator recommendation into FSQ practices through RTC enquiry (ACMA RTC Inquiry, 2011). The executive of the Industry Association O3, in his response to ACMA RTC recommendation in new TCP code states,

"There were 21 initial recommendations that the <REGULATOR> put to us, to include in the code. We ended up incorporating 20 of those 21. The 21st, it was impossible to incorporate because it referred to something which didn't exist. So we have been strongly responsive to the <REGULATOR>."

[P3]

Further, the response to the pressures also depended upon the regulatory and corporate affairs managers’ perception of pressures. When the pressures were weak (no collective pressures comprising multiple constituents) and were in conflict with organization goals, CS improvements were not always seen by many ISPs as generating more revenues. When the very large ISPs were asked by individual constituent to improve their existing CS/CH practices, there was lack of enough motivation to address those FSQ issues because of lack of strong enforcement mechanisms and penalties in the code. When faced with collective pressure from salient stakeholder groups in the recent times, the very large ISPs provided collective response statement (through industry representative chair in code review working committee) and used ‘Compromise’ strategy to respond to such pressures. This was achieved by negotiating with stakeholders about revisions to the TCP code, communicating why a prescriptive regulatory framework will not work and their willingness to have more stringent enforcement measures and compliance mechanisms in the revised code. Hence, when threat of tighter regulation became
real, very large ISPs instead of fully conforming to all stakeholder demands (some called for direct regulations), partially conformed to their demands through a collective response and used compromise strategy involving negotiation to meet those demands. Compromise strategy was used because they perceived that having a prescriptive regulatory framework through Complaint Handling (CH) standard would not only impose undue burden on them as a new reporting system has to be developed, adds significant costs to their businesses, did not reflect commercial realities and would not be a viable solution across the industry. Instead, they were of the firm view that a co-regulatory framework with strong enforcement through independent communication compliance committee is the step in the right direction.

The collective response by very large ISPs was evident from the data which indicated that they incorporated 20 out of 21 recommendations that came out of the regulator inquiry into the revised TCP code. Further, the fear of tighter regulation meant that all providers collaborated together during code review working committee meetings to genuinely address stakeholder FSQ concerns. This is to send a signal to the regulator not to further regulate the industry. The individual response by some very large ISPs to pressures included (i) ISPs making structural changes with their organization with increased accountability of staff on CS (ii) appointment of CS specialists to bring new CS initiatives within their organization and (iii) cultural change within the organization that embraces the concept that everything the staff do must have customer as the focus of what they do. APPENDIX 1 summarizes the specific strategies and related tactics used by very large ISPs’ when dealing with pressures from external stakeholders.
Limitations of this research

This research focused on one aspect of internet service provisioning namely FSQ. Internet service quality is a combination of both technical as well as functional service quality. Holistic research in the future needs to consider both technical and functional factors in assessing the performance of the industry. It is acknowledged that the perspectives of the minority groups (small and medium sized ISPs) have been ignored in this research as they form less than twenty per cent of the subscriber base and are not members of industry association. Hence much of the discussion on industry engagement to deal with FSQ issues is irrelevant for this group. Additionally, this study is primarily qualitative but quantitative studies are needed in the future to understand if the new FSQ practices in the revised TCP code have translated into measurable benefits in bringing better FSQ outcomes to customers.

Conclusion

This study has provided a new perspective to understand and describe the role of institutional forces in the Australian very large ISP industry. It provided a rich description of Australian ISP managers’ perception and attitudes towards institutional pressures that operate in the ISP industry and their beliefs about how such pressures influenced the changes made to the FSQ practices. It was found that the institutional pressures, particularly the threat of tighter regulation played a key role in bringing the ISPs together and provide a collective organizational response. Increased collaboration and frequent stakeholder meetings resulted in substantial changes to made to the TCP code to address the poor performance of the ISPs in the customer service/complaints handling matters.
Figure 1: Diagrammatic representation of change from old TCP to new TCP code.
Strategic responses to institutional pressures

- Acquiescence
- Compromise
- Avoidance
- Defiance
- Manipulation

Institutional factors considered in choosing strategic responses
- Why pressures were exerted? (Cause)
- Who was exerting them? (Constituents)
- What the pressures are? (Content)
- By what means they were exerted? (Control)
- Where they occurred? (Context)

Source: (Oliver, 1991)

External influences on ISP organisational Functional Service Quality Practices:

FSQ Practices of the ISP industry are institutionally derived practices through collaborative efforts of key stakeholders in the internet industry involved in developing/reviewing/revising FSQ practices

Factors that influence adoption and implementation of FSQ practices in very Large ISPs

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<tr>
<th>TCP Code</th>
<th>Ability of code to deal with new and emerging FSQ issues</th>
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<td>Penalties and code enforcement mechanisms</td>
<td>Regulatory compliance with the code</td>
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<td>Complexity of products and services</td>
<td>Ability to deal with customer service issues while selling new product and services has implications on FSQ performance because of complaints that may arise.</td>
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<td>Competition politics</td>
<td>Providers excelling in customer service pressure other providers who underperform to lift their game in relation to CS/CH</td>
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<tr>
<td>Organization culture and attitude towards FSQ practices</td>
<td>Senior management attitude towards FSQ practices and if they view it as a cost factor (or) profit factor</td>
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Figure 2: External influences on ISP Organizational FSQ Practices
APPENDIX 1: Strategic responses to institutional pressures by very large ISPs using Oliver (1991) framework

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Tactics used</th>
<th>Sample quote from interview transcript</th>
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<tr>
<td>Acquiescence</td>
<td>IMITATE: Follow the approach used by ISPs that have successfully implemented CS/CH practices and achieved CS excellence.</td>
<td>I’m aware - I have seen a copy of an internal memo that &lt;ISP X&gt; circulated, which was an analysis of &lt;ISP Y&gt; and what it was doing in relation to its customer service and it’s clear that they, I think, were looking to see if they could learn anything from what we did and then we used that information in order to apply it to our own business. I had a conversation with some &lt;ISP Z&gt; staff who also claim - …... - but they claimed that they were using NPS&lt;customer service tool&gt; as well. ……… I think there are people now, mor and more companies looking at this NPS because we’ve given it a fair bit of publicity. We quite happily will go out there and talk about it and we’re quite happy for the rest of the industry to lift its game. [E4].</td>
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<td>Compromise</td>
<td>BALANCE: Balancing the expectations of multiple constituents on FSQ practices. Negotiate with regulator, consumer association and government agency to a mutually agreeable solution on FSQ issues.</td>
<td>Okay, very regularly. We are in constant contact with them, in fact. Not so much all the ISPs. I think it's fair to say that there are some ISPs who go out of their way to engage with the Department because they want to talk about these issues and they recognise that they're things that government has a legitimate interest in. There are other ISPs I think that take an attitude that we'll only talk to government when they subpoena us. So I think that there's a juxtaposition here, but I think that the top &lt;ISP X&gt;, &lt;ISP Y&gt;, &lt;ISP Z&gt; definitely, we do engage with them quite regularly. We do engage with the &lt;REGULATOR&gt; very, not a day goes past when we don't probably deal with the &lt;REGULATOR&gt;, &lt;INDUSTRY ASSOCIATION&gt;, similarly, we regularly engage with them. So, no, I think we have a - there's an ongoing dialogue. We have teleconferences, we have meetings. There's often forums held about issues. There are get togethers, like I've got a regular get together with &lt;ISP X&gt; which we're having tomorrow. We have emails if things come up. You know &lt;ISP Y&gt; might be in the paper over something and they might say, well this is our side of the story and we correspond that way. A range of means, I couldn't sort of single out one out one. It depends on the issue, really [E6].</td>
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<td>Avoidance</td>
<td>CONCEAL: Disguising non-conformity. ISPs appear to comply with regulatory processes, but avoid certain aspects of the regulatory requirements on FSQ practices because of lack of strong enforcement and monitoring.</td>
<td>I think they generally have a very strong network of professional contact, both within forums like &lt;INDUSTRY ASSOCIATION&gt; and &lt;TECHNICAL ASSOCIATION&gt; and other sort of technical forums. There's a lot of standards forums which those groups sort of interact. I think outside of that, too, I mean we're aware of a number of professional networks. Obviously people when we have a teleconference and things they know each other and have professional respect. Oftentimes these people go from one company to the other and back and forth, so they've had experience in different companies. So I think there's strong networks there. [E6].</td>
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<td>Defiance</td>
<td>CHALLENGE: Contesting rules and requirements on FSQ practices. Challenged the need for prescriptive regulatory requirements on FSQ practices. The large players were quick to point out to the regulator that excessive regulation is not</td>
<td>Well obviously there's some commonality in their responses because they are commercial players in the same environment. So you'd be surprised if they had a completely disparate set of points of view. I think most of them don't want to see the &lt;REGULATOR&gt; go away and try to write a standard, because it will tend to be inflexible. It will take a long time to do and it won't necessarily reflect all of the commercial realities that it needs to in terms of how you need to operate in the market to actually meet your customer's needs. So it's not surprising that they would prefer to be masters of their own destiny to some</td>
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required and that co-regulation with strong enforcement is the right way forward.

extent, if you like, by being able to put in place these measures of defining an industry code, which they have a strong hand in drafting [E7].

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<th>Manipulation</th>
<th>CO-OPT: The industry was liaising with relevant regulators to address FSQ issues and influence policy decisions.</th>
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<td>I think to be fair, the &lt;REGULATOR&gt; spent a lot of time consulting both with industry and with other key stakeholders and they had a very good process of consultation. They had a round of engagement workshops with industry before they even started their inquiry. They had, as I said before, a series of public hearings involving a range of stakeholders who all put in submissions. They sought a large amount of information and data from participants so they used their powers to seek information from us prior to starting their inquiry. Then they had a fairly detailed draft report that came out and highlighted areas of concern. I think to be fair to the &lt;REGULATOR&gt;, that process was pretty robust and I think the general findings in the draft report have now flowed through to their final report. In a macro sense I don't think there are any real surprises. The issue is, I suppose, some of their suggested solutions. One of the ones that we grappled with was the concept that we ought to embrace unit pricing in our advertising. Similarly to what had happened in the grocery industry, we felt that the objective there was - that the advertising industry was putting out was leading to confusion and leading to consumer dissatisfaction, hence increased complaints and poor perceptions of customer service. The &lt;REGULATOR&gt; was saying you need to improve the quality of your advertising. The pricing arrangements - the unit pricing - we thought were only going to achieve that problem in part. We’ve had a fairly detailed and robust discussion both inside the industry but also with the &lt;REGULATOR&gt; about how we should respond to that. [E3]</td>
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