



## Can expert feedback improve SMEs' views of government's regulatory legitimacy? Evidence from Thailand

Allen Hicken, Edmund J. Malesky, Songkhun Nillasithanukroh, and Markus Taussig

- Past research indicates that an in-person Notice and Comment (N&C) process improves regulatory compliance by increasing trust in government. But these findings may not directly transfer to a digital N&C process.
- The lack of direct human interactions can lead firms to feel unheard and disengaged and thus undermine their views of the government's regulatory legitimacy and efforts toward compliance.
- To deal with such backlash, our team implemented a 'Regulatory Room', allowing representatives from small and medium-sized enterprises (SMEs) to meet with legal experts who provide advice on the comprehensibility, relevance, and feasibility of their comments.
- The pilot study found that participating in the Regulatory Room has a positive impact on firms' perception of the quality of the consultation process and firms' view of the government's regulatory legitimacy.
- The conclusion suggests that governments should extend access to legal experts for resource-constrained stakeholders and consider other innovations to improve the quality of the consultation process.

POLICY BRIEF THA-22047

APRIL 2023

This project was funded  
by IGC

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## Policy motivation for research

Developing countries commonly face alarmingly low levels of regulatory compliance by firms, endangering the health and safety of citizens and the environment (ILO 2017; Kellogg and Slaten 2015). Previous research indicates that the opportunity to provide feedback during the regulatory drafting process—also known as Notice and Comment (N&C)—enhances firms' views of government's regulatory authority, as well as their actual efforts towards compliance (Malesky and Taussig 2019). This is evidence of a firm-level version of a mechanism that psychologists refer to as procedural justice, which appears to be particularly relevant for the small- and medium-sized enterprises (SMEs) that are most challenging for resource-strapped developing country governments to regulate (Tyler 1990). Simultaneously, however, there is also evidence of compliance “backlash”—in other words, reduced compliance—when these same firms find government and its N&C approach to be insufficiently engaged or responsive (Dahlander and Piezunka 2014; Dickson et al. 2017; Malesky and Taussig 2017).

An emerging trend to facilitate this type of consultation is digital N&C, which dramatically reduces the costs of government consultation—for both government and for prospective firm participants. However, the creation of an effective digital N&C system must overcome several potential challenges:

- **Firms that participate and post a comment do not always feel heard or potentially feel ignored if draft regulations do not reflect their comments.** Transferring the procedural justice mechanism to digital N&C is not a straightforward process. The lack of face-to-face interaction with digital N&C increases the risk that firms will feel neglected, thus increasing the risk of backlash and reducing government legitimacy when comments appear to be ignored.
- **SMEs participating in digital N&C often are not expert enough in regulatory details or legal prose to produce comments that ultimately influence the views of regulators.** Regulators will frequently disregard low-quality or unfeasible comments, heightening the danger of backlash.

## Overview of the research

Our specific vision for strengthening digital N&C involves construction of what we term “The Regulatory Room,” an online space wherein participating firms engage with relevant legal experts who support them to craft the most comprehensible, relevant, feasible, and actionable version of their feedback on draft regulations. Our expectation is that such a Regulatory Room will lead to

improvement in comment quality that will not only directly support subsequent improvement in the quality of regulations, but also have an additional benefit of demonstrating to participating firms—of all sorts—that government wants to understand and take seriously their uniquely informed insights. Consequently, firms—especially SMEs—will perceive the N&C process to be meaningfully oriented towards maximising public welfare and, therefore, will feel greater responsibility to be compliant.

In short, our expectation is that, for participating firms, a properly designed Regulatory Room should enhance the quality of submitted comments, perceptions that comments will be understood by government, beliefs that comments might even lead to revisions, respect for government’s regulatory authority, and, ultimately, efforts to comply with the final requirements of the regulation.

## **Research design**

In collaboration with Thailand’s Digital Governance Agency and its new digital N&C platform (“The Law Portal”), we constructed online video chat room that connected select firms with experienced legal experts tasked with helping them improve the relevance, comprehensibility, and feasibility of their comments. We then designed and implemented an experiment to evaluate if providing firms with access to the Regulatory Room leads to positive change in any of the following three outcome areas of interest: 1.) firms’ perception on the consultation process quality; 2.) firms’ views of government’s regulatory legitimacy; 3.) likelihood of comment submission to the online N&C platform; 4.) quality of comments submitted.

For the pilot project, we utilised the Department of Provincial Administration's Ministerial Regulation on the Type and Criteria for Hotel Business. In January 2023, we recruited 90 small-sized hotels, the primary stakeholders of this regulation, to participate in the study. The sample firms were randomly assigned to either a control or treatment group, with 47 firms in the control group and 43 firms in the treatment group. The control group received the full proposed regulation, a brief summary of its key contents and how it would impact their operations, and an invitation to participate in the online N&C portal through email. In addition to this, the treatment group received an invitation to participate in the Regulatory Room on a video conference platform. The participation in the Regulatory Room is not required but recommended. We recorded SMEs’ perception of the consultation process quality and views on the government’s regulatory legitimacy both before and after the implementation of the experiment.

## Key findings

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The research shows supporting evidence that providing firms with the opportunity to participate in the Regulatory Room improves firms' perception of the N&C process quality, firms' views of the government's regulatory legitimacy, firms' likelihood of submitting comments to the online N&C platform, and the quality of comments submitted.

Figure 1 shows the predicted probabilities that a firm in each group will evaluate the quality of the consultation process at each quality level.<sup>1</sup> Overall, firms that were offered the opportunity to participate in the Regulatory Room saw a larger improvement in their perception of N&C quality between rounds of surveys than firms that were only invited to submit comments. For firms invited to participate in the Regulatory Room, there was a 35.7 percentage point increase in the probability that these firms viewed the consultation process as "Good" or "Exceptional" between the two rounds of the survey. By contrast, for firms that were not invited to participate, there was a 6.5 percentage point increase in the probability that these firms viewed the consultation process as "Good" or "Exceptional" between the two rounds. Therefore, firms that were invited to participate in the Regulatory Room saw a 29.2 percentage point larger increase in their views between the two rounds of the survey.

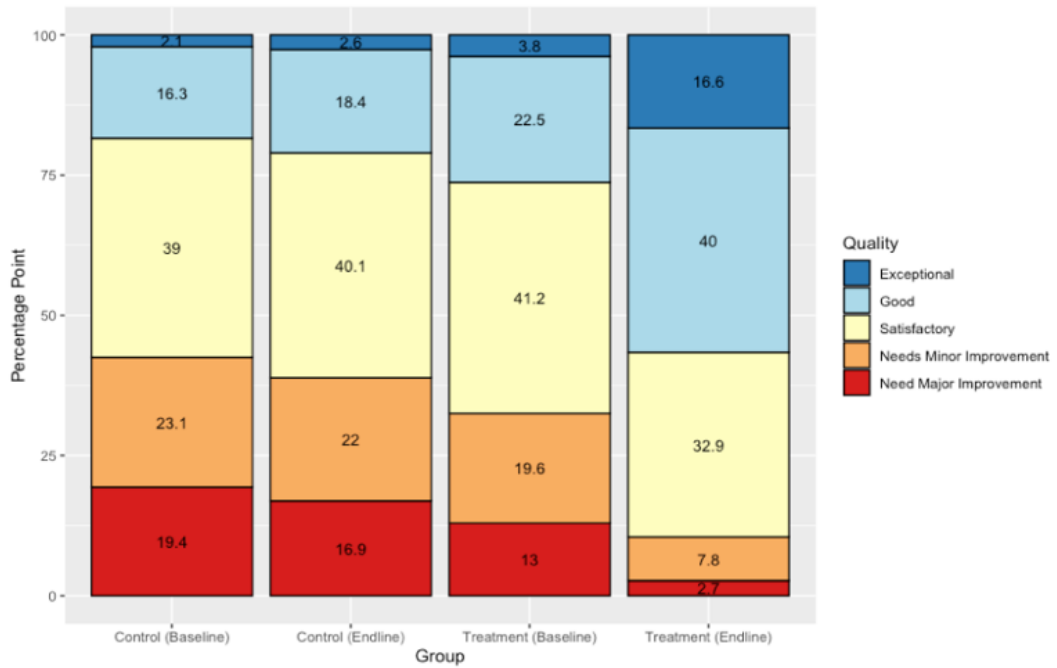
Figure 2 displays the predicted probabilities that a firm in each group will evaluate the statement on the government's regulatory legitimacy at each level of agreement.<sup>2</sup> In general, firms that were offered the opportunity to participate in the Regulatory Room also saw a larger improvement in their views of the government's regulatory legitimacy between rounds than firms that were only invited to submit comments. For firms invited to participate in the Regulatory Room, there was a 23.8 percentage point increase in the probability that these firms "agree" or "strongly agree" with the statement that the government has the legitimacy to regulate businesses between rounds of the survey. For firms that were not invited to participate, there was a 3.6 percentage point increase in the probability that these firms "agree" or "strongly agree" with the statement on the government's regulatory legitimacy between the two rounds. Thus, firms that were invited to participate in the Regulatory Room saw a 20.2 percentage point larger increase in their views between rounds of the survey.

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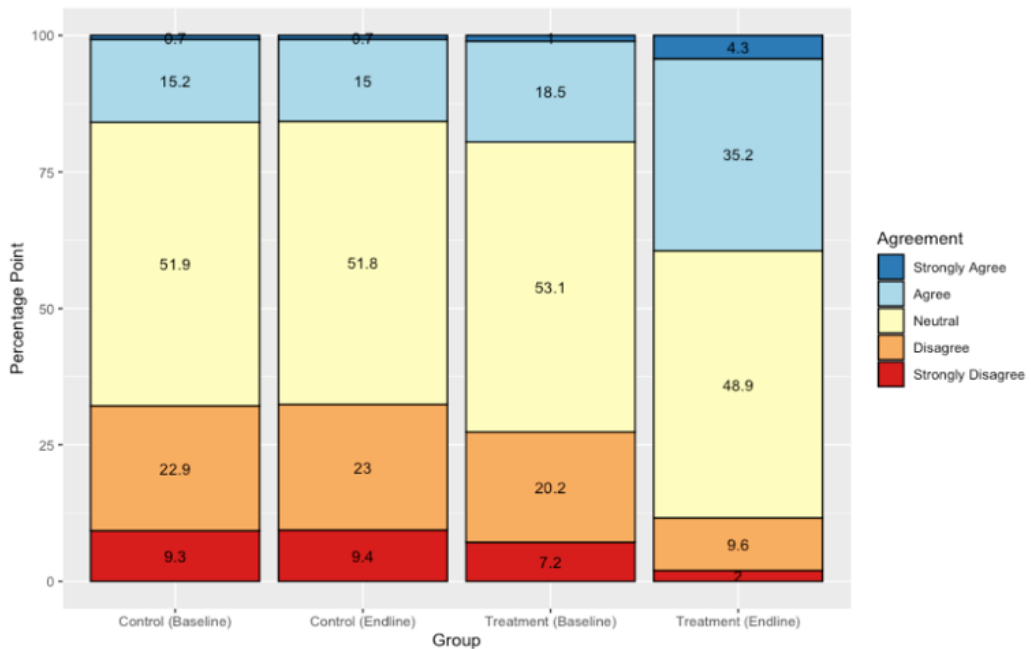
<sup>1</sup> The question asked was: "How would you rate the quality of government agencies' consultative process?"

<sup>2</sup> To minimise the risk of preference falsification by respondents, we asked respondents to rate this statement "Government agencies have sufficient understanding of businesses like this one to effectively carry out their regulatory duties", instead of directly asking respondents about government's regulatory legitimacy directly.

**FIGURE 1: Predicted probabilities of firms' evaluation of the consultation process quality**



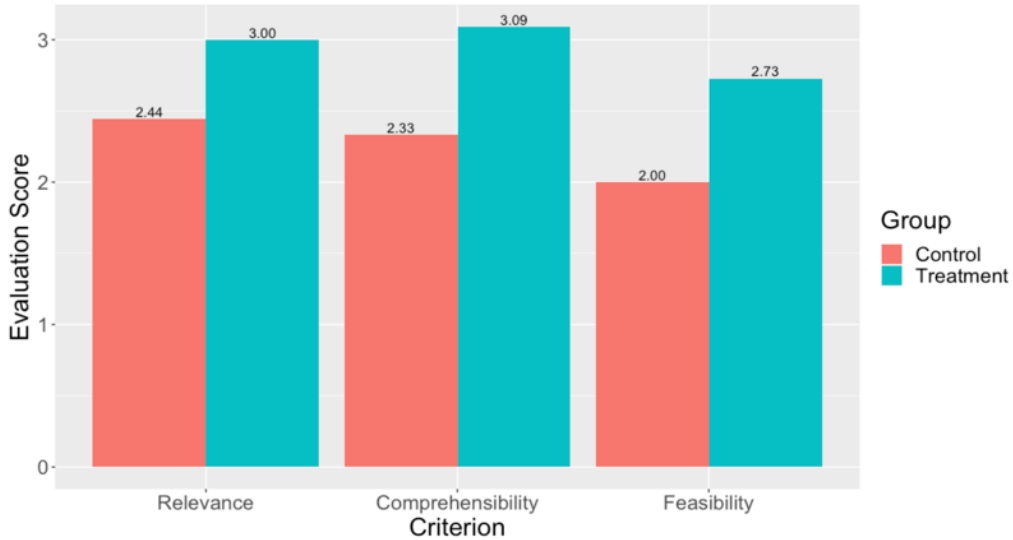
**FIGURE 2: Predicted probabilities of firms' agreement with statement on government's regulatory legitimacy**



To evaluate the impact of Regulatory Room participation on the quality of comments submitted, we asked a legal expert to evaluate the quality of the submitted comments on three criteria: 1.) comprehensibility, 2.) relevance, and 3.) feasibility. We find that firms that participated in the Regulatory Room scored higher on all three criteria than the treatment firms, providing evidence that advice from legal experts helps comments to be easier to understand, on-topic,

and contain information that can be acted upon by government officials. Figure 3 displays bar graphs that portray the mean scores for the control and the treatment groups across three criteria.

**FIGURE 3: Assessment of comment quality by legal experts**



Finally, we find some evidence that an invitation to participate in the Regulatory Room improves the likelihood that firms will submit comments to the online platform. In one model, Regulatory Room participation increased the firms' probability of comment submission by 34.2%.

## Conclusion

This pilot offers preliminary evidence that the Regulatory Room, which SMEs with the opportunity to receive advice from legal experts on how to improve the quality of their comments, is a feasible and scalable path towards potentially improving regulation quality and compliance. More broadly, the government may want to consider providing resource-constrained policy stakeholders access to legal experts who can help them craft comments more effectively, so that stakeholders will view the quality of engagement in a digital consultation process positively.

Given that an improved quality of the digital N&C process can result in an improvement in firms' views of the government's regulatory legitimacy, governments should also consider other policies and innovations to improve the quality of the consultation process, in addition to the Regulatory Room, to prevent the potential backlash from the lack of interactions between firms and the government.

Benefits from the Regulatory Room need not be constrained to SMEs and the private sector. There is no reason to believe that the findings from this study only apply to firms and business-related regulations. Therefore, governments

may want to allow the general public to access and use the Regulatory Room as well.

The primary challenge of a Regulatory Room is the existence of a long-term commitment by the government to continuously fund the maintenance of its infrastructure and the employment of legal experts who will staff the Regulatory Room. In addition, it will only be useful if policy stakeholders consistently participate. Therefore, governments face the challenge of informing and persuading the public to participate in the Regulatory Room.

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