

# When good service means bad behavior

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Economists and professionals praise the merits of competition, as it leads to lower prices and improvements in quality. But in the automobile smog-testing industry, competition can lead to corruption and even public health problems, according to research by USC Marshall School of Business Assistant Professor of Management Victor Bennett.

Bennett, along with colleagues Lamar Pierce of Washington University's Olin School of Business, Jason Snyder at the UCLA Anderson School of Management and Michael W. Toffel of Harvard Business School, found that the structure of the smog-testing industry can lead some firms to cheat on their customers' smog-check results. And this cheating takes place because it can actually lead to better [customer relationships](#). The findings are outlined in "Customer-driven Misconduct: How Competition Corrupts Business Practices," which will appear in a forthcoming issue of [Management Science](#). The study found that:

- Smog check firms that were clustered among other competing smog-check firms were more likely to be lenient, ensuring that customer cars passed when they should have failed.
- Firms that were new to the business also were more likely to pass cars that likely should have failed.
- In New York State alone, these practices could have passed 39,000 cars that should have failed.

"There's a strong sentiment that competition is a positive thing," Bennett said. "It makes firms more efficient, makes service quality and products

better, and drives down prices. But it works through giving customers what they want, and sometimes doing so is bad for others." The research looked at 28 million emissions tests from 11,000 smog check facilities in New York. Smog check firms that faced more local competitors gave cars a passing grade at higher rates than firms that enjoyed less competition. The researchers' findings suggest that competing firms passed more cars because they were afraid if they failed a customer's car, that customer would get it tested somewhere else.

One problem leading to potentially illicit competition is the way the smog-check industry is regulated, the study shows. In New York State, smog-testing facilities must charge \$27 for tests in the New York City area, and \$11 in the rest of the state. Since these prices are fixed for all [firms](#), "facilities must compete on quality," the researchers wrote. "In emissions testing, the critical dimension of quality is the test outcome." By passing customers illegally, the emissions testing firm provides what the customer perceives as quality service. If they don't pass the customer's car, the customer goes to a firm that will, researchers wrote.

Falsely passing cars has consequences beyond economic corruption. Carbon monoxide, a common tailpipe emission, can ultimately block the healthy transport of oxygen into our cells and tissues, while emitted carbon compounds and nitrogen oxides produce ozone, which can accelerate respiratory problems. Smog testing has been a major weapon against this type of air pollution produced by motor vehicles.

"In New York, our results suggest that 1 of every 100 cars tested that should fail, pass instead," said Bennett. "We can't specify exactly how many cases are due to manipulated passing, but the study ties competition to illicit quality. This brings front and center the trade-off between the benefits of [competition](#) and the costs."

Bennett is now hoping to look at the effects of crackdowns on facilities

by government regulators, and whether such action yields any real results in the industry.

Provided by USC Marshall School of Business

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