

Broad Matters Season 9 Episode 3

“Property Rights and Regulations” with Martin Holzacker

Ken: Welcome to Broad Matters.

Quinetta: A podcast bringing you thought leadership, innovative perspectives and real-world impact from Michigan State University's Eli Broad College of Business.

Ken: I'm Ken Szymusiak, managing director for the Burgess Institute for Entrepreneurship and Innovation.

Quinetta: And I'm Quinetta Roberson, the John A Hannah Distinguished Professor of Management and Psychology. Today we're joined by Martin Holzacker, associate professor in the Department of Accounting and Information Systems at Broad.

Ken: Martin's recent paper, “Property Rights Restrictions and Self-Employed Workers: Evidence From For-Hire Owner Operators in US Trucking” looks at what happens when technology and regulation change how people work. His study explores how electronic logging devices designed to improve safety in the trucking industry affected the working habits of truck drivers and the trucking industry as a whole. Thanks so much for being here, Martin.

Martin: Thank you so much for having me.

Quinetta: Your paper looks at what happens when new rules limit how self-employed people use their time and equipment. Can you walk us through the study and what you were hoping to learn?

Martin: Sure. So, the paper started, yeah, as a cooperation with a PhD student. We were sort of exploring options for a first-year paper for that PhD student, and that student expressed an interest in the trucking industry.

I just happened to have a connection with Jason Miller here from the supply chain department and former colleague, Alex Scott. I was aware that the two of them were very knowledgeable and working extensively with data on trucking. As a matter of fact, I talked to Jason about this a few times. So, it's kind of the typical kind of conversation dropping into somebody's office, chatting.

And so, we connected the dots and got together and had a conversation about what can be done from a supply chain and accounting perspective. If we sort of combine forces and explore joint questions. And so, it was clear that the two of them had an extensive knowledge of the trucking and logistics and supply chain space that obviously in accounting we don't have.

But from an accounting perspective, we brought something else, which was interest in the topic of control systems. Managerial control systems. How do we get organizations aligned to do the right thing? How can we prevent certain types of misconduct and certainly there was something of that nature in the trucking industry. When we talk about control systems, we talked about monitoring as well.

And there was that aspect in that setting. There was a very interesting rule that, you know, Jason and Alex explained to us that essentially changed the way these truck drivers are being monitored. And so

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that was very interesting from a sort of technological monitoring perspective and how workers respond to that. So, we thought that was an interesting question.

And the other interesting aspect of it is with the rise of the gig economy and independent work, we have people working outside the boundaries of a firm, and a lot of our research, at least in accounting, has been focused on employees, whereas this was a setting where we actually look at folks that are a specific form of the workforce that have high preferences for autonomy: gig workers, independent contractors, self-employed workers, if you will.

And so, it would be an interesting question to see how those respond to facing certain restrictions from regulatory monitoring.

Ken: Can you tell us a little bit about these electronic logging devices and what they are? ELDs, which have become, I guess, prevalent now in the trucking industry. Like, how does that work?

Martin: Yeah, exactly. So that was also very new to me, and I was very intriguing to me is the Department of Transportation, notably, was the regulator and implemented these electronic logging devices.

What they do is they track engine activity, and it's a means to ensure the implementation of certain rules. So, truck drivers are subject to rules of how much they're supposed to drive. So hours of service regulations, that's how they're called. And the idea is to ensure, to keep roads safe. Right. So, it's very well understood that driving excessive hours, you know, increases the danger of fatigue and accidents.

And so that's regulators attempt to curtail and curb this sort of form of misconduct on the roads to protect the safety of traffic participants and freight and so forth. Right. So essentially what it does is it's tracking the engine's activity. One of the interesting features of the regulation was that the hours-of-service requirements, the legal portion was in place before. What really changed as a result of the regulations is the government decided to put these tracking devices into the trucks.

And so, you might wonder what was there before. Beforehand, the truck drivers simply had to fill out paper logs.

Ken: A lot of room for error.

Martin: Let's just say there was a lot of flexibility, and it was, you know, exploited. And so now we have a more tamper-resistant form of technology in the truck cabin. It makes it much more difficult to circumvent the hours-of-service restrictions that they have.

Quinetta: So, was your prediction that because of the flexibility that had been there in the past, there would be less misconduct? Or what were your general predictions prior to doing the study?

Martin: Yes. So, I think the flexibility was very valuable to these truck drivers beforehand. These are independent truck drivers. It's essentially a one man or one woman show, right? Essentially a driver with a truck and they hugely value independence. You know, there's a spot market for capacity in trucking where if there's an opportunity to take a haul from across the country, you want to take

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advantage of it. And it's attractive. You know, they're very nimble, these drivers, and sometimes they have to maybe push these limits a little bit. And you never know when you take a haul across the country, you know, what's going to happen, inclement weather or traffic.

You know, you may have to push these rules a little bit. And you also don't know what other hauls you're getting. And essentially these logging devices would effectively, by enforcing these rules and make it much more likely you're going to get caught and going to get fined. You know, it makes it much more likely that these drivers will not be able to do these hauls sort of on short notice.

So definitely, we would expect that, you know, the logging devices would curtail this operating flexibility. I think the paper sort of has, you know, two aspects. One is kind of the obvious tests. Did the regulation work in what it's intended to do, which was curb the misconduct? And then there's this, probably the more maybe compelling or surprising part, which is, okay, what are the unintended consequences of restricting that flexibility?

Ken: Yeah. Let's dive into what you've uncovered through your research and what the study found.

Martin: So, the first part of the paper looked at misconduct of the hours-of-service violations. How did those change after the introduction of the mandate? And the way we conducted our study is we leverage this data from this Federal Motor Carrier Administration that keeps records of inspections and violations.

And so, we can track the drivers, and we can track their behaviors and essentially infer from this data their behaviors., right, and their misconduct. So, the way we test this is essentially there was a group that was exempt. And these were folks that had trucks with engines older than the year 2000. We academics, we get excited whenever we get a control group like that.

Right. And so, we can hold them as a benchmark. And so, what we found in a group that actually was subject to the mandate is that they were much less likely to engage in misconduct. So, the hours-of-service violations essentially went down. If you have more enforcement, it makes it more likely that you actually catch somebody. But yet we find that it's less likely that we find misconduct, or we find citations.

So clearly the regulations strengthened compliance, what it was supposed to do. So that's the starting point. And now moving over to the unintended consequences of the regulation. And we found, first of all, that they were less on the road. So, we found the decline in inspections among the group with these ELD, with these electronic logging devices. The one that there were being monitored compared to the other group that's still on the road that you know, is relatively unchanged.

And so clearly it must be that either they're complying, or they are, you know, seeing less value of being on the roads. There's less flexibility in taking these spot market hauls ad hoc. The counter may be, well, maybe they're just complying. They're no longer taking the non-compliant hauls. And so, is the regulation taking away the incentive to be on the road?

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And then we look at another variable which is market exit. So are you just sort of driving less. Are you seeing this drivers completely exit the market. And we see increased rates of disappearance of market exit among the group with electronic logging devices. The exit rates essentially speed up by somewhere between 10 and 20%, which, you know, is pretty insignificant in terms of economic magnitude.

So clearly, for many of these drivers, it appears that this is somehow pushing them over the edge of viewing their business as a going concern, and they just sort of seem to decide to leave altogether.

Quinetta: So, this was in the trucking industry. Do you think that there's similar patterns when there's more regulation in other industries?

Martin: That's a great question.

And ultimately, I think I'm not a trucking expert, but I look for specific settings that can answer bigger question. And to me, I think your question is getting at the bigger picture, which is an interesting journey academically, is the way we looked into the literature and try to pick a theoretical framing for what was happening. And I think we view this regulation as a restriction of property rights.

Essentially, what is a property right is a perception that you can exercise control over an asset, for example. And this regulation did not really change ownership per se, but it changed the perception of these drivers about the extent to which they can control their truck. And that is a generalizable idea, I think. It cannot even just be a regulation.

It could even be a company policy. I mean, think of, for example, technological monitoring, for example, the remote workspace. There may be always a form of, you know, pushback from the employee. So, and especially in a population of folks that were- they selected to do this job because they wanted to be independent and they valued their autonomy a lot. I'm not sure I'm advocating one way or another.

It's just that there's these two sides of the coin. Whenever we talk about a regulation.

Ken: Right.

Martin: Obviously the opponents of regulations are often the free market advocates, right? The Milton Friedman types, right. And they would say, “well, the driver knows themselves best” and “if something bad happens, you know, they're on the hook financially, legally”. And so, they make these tradeoffs and they're the best to make these tradeoffs, not the government.

But our paper lays out kind of both sides of the argument, evidence actually in favor of both perspectives and how exactly to negotiate this tool.

Quinetta: So, with these unintended consequences, what's the implications for policymakers? Are there ways that regulation needs to change or are there, you know, additional things that need to be put in place thinking about self-employment and the gig economy, etc.?

Martin: I think it's important to factor in from a regulatory standpoint that these property rights have a value to these workers and restricting them might reduce the labor supply. Can lead to higher prices to

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firms. That's important when deciding on the merits and the costs of a regulation. And I think our findings go even beyond just looking at labor supply.

They went into how the structure of employment and how firms generally change. So, another finding was that we saw that those truckers that remained in the market, that they actually teamed up with larger carriers. They sort of partnered up and then became what's called a subcontractor. Where there's still retains some operational independence, but they surrendered a lot of their autonomy in acquiring business, scheduling hauls to a larger firm.

And so essentially, it's creating larger firms at the expense of could even call them, you know, on some level, entrepreneurs. Right. That also is an implication of the regulation.

Quinetta: Martin, you worked closely with a Broad PhD candidate on this paper. How did that experience contribute to your role as a mentor?

Martin: Yeah, so that's one of the most rewarding things, I believe, we do as professors is that we have PhD students that we mentor through the process.

It's kind of an apprenticeship model. I myself actually benefited from that. I actually did my PhD in Germany, and I had the opportunity to come over to Michigan State as a visiting PhD student in, I think it was, 2011. Working with some of the Broad faculty here, you know, I tremendously benefited from that opportunity. You sort of just learn by doing and watching others that have experience.

And so being able to pass those on and working with, you know, the PhD students who are the professors of the future, right. So that's one of the things we do at is we train the next generation of, you know, business faculty members. That's been certainly a thing that I've been doing throughout my career, and I still do. And a lot of these folks move on to be faculty member somewhere else teaching students, and we continue those collaborations.

Quinetta: I could tell that you're good at mentoring, and I'll say why. Because you mentioned earlier that the student came to you with an interest in the trucking industry. And we know as PhD students, we go to our professors with ideas and sometimes we may be told those ideas won't get published or don't make sense. But you went and pursued the PhD student research idea, which I think is excellent mentoring, right.

Kind of validating their ideas and their interests. So, kudos to you.

Martin: That's a really interesting thought. I've been thinking about that, you know, because oftentimes we're experts in some area that we know very well. And if a PhD student comes to us with, “hey, I want to do something else”.

Quinetta: Yeah. You're like, wait, I don't do that.

Martin: You learn a lot in that process.

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And you also grow, right? The PhD student, Harlow, on this paper, she was terrific in kind of handling and getting on top of the literature. And she went on to do actually other research. She also pushed the boundaries. She was doing research on sustainability reporting and pollution. What was really admirable about her is the willingness to engage in these different settings.

And, yeah, exploring just sort of new settings that are perhaps not obvious.

Ken: I'm going to piggyback on that and just say you had mentioned this already, but the paper was really a strong example of what cross-collaboration looks like in the business school. You worked extensively with supply chain to make this come to life. What do you think of that process?

And is that the future of research, like, how does that kind of broaden your horizons? Do you want to do more of it? And should researchers be seeking those types of collaborations?

Martin: I think we often stay siloed. You know, I mean, departmental walls or, you know, area real, right. But I think there's a lot of opportunity for kind of cross-fertilization and for creative new ideas.

I myself learned a tremendous amount simply because, you know, I didn't have the institutional knowledge of the logistics space and what Jason and Alex, our supply chain coauthors, brought to the table was very deep knowledge of the supply chain, logistics space and understanding of the trucking industry. And I think us from the accounting side, you know, we understand control systems and we understand the study of aligning organizations and perhaps misconduct and how to prevent those.

And I don't think we would have been able to do the study without one another. And so, bringing two folks together to explore common research interests from two different departments offers a lot of potential. As a matter of fact, this paper was published in the journal called Production Operations Management. Just like some other journals, you see this happening where these journals are offering or creating an interface with another discipline.

Our paper was published in the accounting interface of POM. As a matter of fact, I just became an editor at that journal, and we're looking for submissions that explore topics at the intersection between accounting and operations. And the more we see journals pursuing that kind of route, I think the research will follow and faculty members will pick up on these opportunities of doing, you know, cross-disciplinary research.

All our disciplines all have specific views of the world. In the accounting space, at least, we focus on things like control systems, misconduct, organizational alignment and these sort of issues. But, you know, we we're not experts in supply chain or we're not experts in retail or we're not experts in other industries, for example. So, we need folks to help us understand these settings better.

Quinetta: Well, Martin, thank you for joining us today. If listeners want to keep up with your work, where should they look?

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Martin: Well, the Broad newsroom would be a great starting point. Otherwise, if you visit my Broad College website, you can also find some information about my profile and the latest research and so forth.

Ken: Want more news and insights? Follow us on LinkedIn, X, Instagram and Facebook at @MSUBroadCollege or visit us on the web at broad.msu.edu/news.

Quinetta: And remember, like, rate and subscribe to Broad Matters on Apple Podcasts and Spotify.

Ken: That does it for this episode. I'm Ken Szymusiak...

Quinetta: ...and I'm Quinetta Roberson. Join us next time to hear faculty and staff weighing in on relevant issues and discussing how their work makes an impact, illuminating how and why Broad matters.