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Chapter III

Assessing the Impact of Governmental Regulations on the IT Industry: A Neo Institutional Theory Perspective

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Abstract

Given the recent monumental events including the September 11th attack on the World Trade Center and the Pentagon as well as the Enron and MCI WorldCom debacles, people have witnessed, and more readily accepted, a significant increase in governmental authority, leading to a dramatic upsurge in the number of governmental regulations imposed on business organizations and society. Neo institutional theory suggests that such significant institutional forces may gravitate an otherwise highly disparate IT industry towards industry wide homogenization.

Introduction

IT infrastructure, processes, and security have been thrust to the forefront due to colossal catastrophes such as the September 11th attack on the World Trade Center and the Pentagon, illegal corporate activities, identity theft, and cyber crime. The plethora of governmental regulations that were successfully passed after these recent events hold business organizations unmistakably accountable, with serious consequences, including fines and imprisonment, for noncompliance. While such legislation may not directly be aimed at corporate IT, the omnipresence of information technology along with the indisputable gravity of these governmental regulations has forced most business organizations to revisit and subsequently revamp their IT infrastructure and processes in order to achieve legislative compliance.

The introduction of governmental regulations and the subsequent corporate restructuring may gravitate the IT industry toward a standardization and homogeneity which has traditionally been sorely lacking. Historically, the IT infrastructure within IT-oriented as well as non-IT-oriented organizations has been largely disparate. Perhaps this is a consequence of the unprecedented rapid advancement of the industry and the inability of the legal, social, and cultural forces to maintain pace. The industry as a whole has significantly suffered due to the lack of an orthodox organizational methodology and infrastructure.

Neo institutional theory (DiMaggio & Powell, 1983) provides a theoretical basis using which we are able to analyze and comprehend the behavior of particular organizations with respect to the industry of which they are a component. Today's IT-oriented organizations in particular are exposed to institutional forces, a prominent one of which is governmental regulations. Using the neo institutional theory perspective, we suggest that IT organizations, which traditionally are not standardized in structure, form, or method of operation will, in the face of social forces to which they are exposed, begin showing considerable similarity and standardization industry wide.

This chapter discusses some of the most significant of the governmental regulations recently mandated of the IT industry and their considerable impact and implications on information technology, both from a technical and managerial perspective. Employing neo institutional theory as the guiding framework for analysis, this paper suggests that the plethora of regulations being imposed on the IT industry are migrating organizations in the IT industry to conform and implement standardized processes and practices, resulting in the industry wide commoditization of IT.

The remainder of this chapter is organized as follows: we first present background discussion on neo institutional theory, including its basic tenets, followed by four major regulations currently influencing the IT industry and discusses some plausible