

Employee collaboration:  
The new compliance paradigm  
Fairy tale or imperative?

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# Collaboration: Fairy Tale or Imperative?

- ▶ Is the proposition that businesses and their employees collaborate to achieve compliance merely a fantasy?

OR

- ▶ Is it the way organizations will need to re-conceive compliance culture in today's complex and rapidly changing operating environment?

# Key Questions

- ▶ Why we need to consider organisational culture when managing compliance?
- ▶ What is compliance culture?
- ▶ Is enforcement the only way?
- ▶ What about collaboration?
- ▶ Isn't this just an HR fairy tale?

# Corporate failures will lead to more regulation

- ▶ Enron, Tyco, Worldcom... + Lehman Brothers, Babcock & Brown, AIG, Merrill Lynch...
- ▶ Pressure on regulators
  - Increase control of organisations
  - Increase control of their agents
- ▶ The Age of Compliance
- ▶ Complinet (2008) research 210 firms:
  - Greater output by regulators (72%),
    - 37% significantly more
  - More time liaising with regulators (66%)
  - Budget will remain static or decrease (56%)

# Significant proportion of the cost of compliance spent on compliance programs



Source: Complinet (2009). The Cost of non-Compliance

# Are compliance programs effective?

- ▶ Rapidly developing compliance management industry
  - US labour forecasts “Compliance Officer” in top 20 fastest growing jobs in the next decade
- ▶ Common instrument: compliance program:
  - Training, policies and procedures, codes, whistleblower programs etc
- ▶ Lack of evidence to support their efficacy
  - Inconsistent research results
  - NBES (2007): misconduct increasing to pre-Enron levels

# Organisational Culture

- ▶ Culture guides, shapes and regulates employee behaviour:
  - Context for making decisions about how to behave based on ‘how we do thing around here’ (norms)
  - Indicates what is important or not (value)
  - Passed to new employees
- ▶ “Doing the right thing” versus “Getting the results”



# What is compliance culture?

- ▶ Popularised in management literatures
  - Particular type of culture that is essential to achieve effective compliance performance
- ▶ Poorly definition
- ▶ Little evidence to support impact on compliance outcomes

# Compliance Culture

## Inputs

**Environmental Factors**  
Regulation, market, industry, national culture

**organisational Factors**  
Size, maturity, structure, leadership

**Compliance Factors**  
History  
Knowledge  
Investment

## Influencing Factors

**Communication**  
Training  
Scrutiny

**Behavioural reinforcement programs**  
Leadership behaviours

## Outcomes (Current)

**Lag measures**  
Resolution times  
Audit procedures  
Compliance performance

**Lead measures**  
Training completion  
Climate  
**(Future)**  
Behavioural Indicators

# Financial crisis

- ▶ *As the world nervously awaits the effects of the unprecedented Lehman liquidation, one can't help wonder how and why this board let the long-time Chairman and patron, Richard Fuld, cling to both hope and power. Perhaps it was because Fuld wanted it that way. Over the years, he had become the living embodiment of the securities firm, creating a top down culture that sometimes had a military feel to it. His colleagues simply called him "the Chairman". Most mornings, Fuld rode alone in an elevator to his executive suite.*

David Berman, The Australian, Sept 19 2008



# Enforcement: A common compliance paradigm

- ▶ Coercive power
- ▶ Authority reinforced by hierarchy
- ▶ Adherence bureaucratic processes
- ▶ Surveillance is important
- ▶ Behavioural reinforcement:
  - Performance incentives linked to compliance outcomes
  - Project funds linked to compliance meeting requirements
  - Termination
- ▶ Aim: obedience

# Is there one compliance culture?

“...you could have a good culture or a bad culture and still get compliance, I guess for different reasons. To me if you’re operating a culture where there’s no room for individual thought, no room for error, highly punitive, you would get compliance because people would fear for the reprisal. So you get enforced compliance, but grudgingly. But you probably still get compliance. Down the other end, if everyone has freedom of thought, can express their own views, but knows why culture – why compliance is important, you’re much more likely to get – you’ll get perhaps the same level of compliance, but you get it in a positive sense, so they willingly do it rather than grudgingly do it. But you actually might still get the same level of compliance.”

Head of Audit, Top 50 Corporation

# Are there alternatives?

- ▶ Power does not need to be authoritarian to be effective (Follett, 1924)
- ▶ Compliance: ‘power with’ rather than ‘power over’
- ▶ Cooperative governance model(s)



# Types of employee collaboration

- ▶ Two Types:
  - Agreement
    - Exchange-based compliance
  - Alignment
    - Value-based compliance

# Agreement compliance culture

- ▶ Based on a psychological contract in which there is perceived obligations of parties
- ▶ Employees exchange compliance behaviour
  - 85% of participants said employees elect to comply with organisational rules
- ▶ Contract can be breached if organization fails to deliver on explicit or implicit obligations
- ▶ Example:
  - Google – Number 1 of Fortune 500's Top 100 Employers for 2007
    - Free food
    - 20% engineer time on personal projects
    - Individual self-enhancement through employment



# Alignment compliance culture

- ▶ Based on shared belief systems or alignment of morals and ethics
- ▶ Normative & value consistency
- ▶ Identification & emotional commitment
  - ▶ 51% of survey respondents said that employees comply because they share the same values as their organisation
- ▶ Example:
  - Methodist Hospital System, #10 Top 100 employers in the US in 2007
  - "No One Dies Alone"
  - Values based culture highlighting care



# Collaboration is a fairy tale

- ▶ Compliance is too complex
- ▶ Not everybody will 'collaborate' in the same way
- ▶ Compliance is not optional
  - Significant consequences for non-compliance



# Collaboration is an imperative

- ▶ Collaboration leads to more sustainable and effective compliance
- ▶ Collaboration is costs less than enforcement
- ▶ Collaboration leads to a more engaged workforce
- ▶ Collaboration consistent with regulatory & organisational trends
  - Principle-based and self regulation



# What's changed?

- ▶ External stakeholders –greater power and influence
  - Expanded definition of compliance
  - Merge with ethics and social responsibility
- ▶ Skills competition
- ▶ Change in work environment:
  - Technology
  - Generational differences

# Is Enforcement wrong?

- ▶ Context dependent
  - Regulatory context
  - Consequences
  - Legitimacy
- ▶ Is it working?
  - 54% said respondents said it was safe to speak up in their organisation

# Conclusion

- ▶ A collaborative compliance culture is not a fairy tale, but an imperative
  - Little support that compliance programs are effective on their own
- ▶ Imperative to consider other paradigms:
  - Understand what makes employees withdraw compliance with organisational rules
  - Attract and retain employees whose values are consistent with your business
- ▶ More sustainable compliance outcomes

# More information

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