Effective compliance communication

Agenda

1. Communication requirements
2. Two approaches
3. The economic approach
4. The psychological approach
5. Conclusion
Effective compliance communication

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Communication effectiveness

A definition

The purpose of compliance communication (in conjunction with supplemental compliance interventions) is to deter non-compliant behavior (or promote compliant behavior) by relevant actors (employees, third-parties, etc.).

Comparison of two approaches:

- The economic approach
- The psychological approach

Actor's behaviors
- Communication
- The economic approach
- Compliance
- The psychological approach
The economic approach

Assumptions

<table>
<thead>
<tr>
<th>Theory X</th>
<th>Homo oeconomicus: The economic approach (key assumptions)</th>
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<tbody>
<tr>
<td>Workers:</td>
<td>- are reluctant to work</td>
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<tr>
<td></td>
<td>- only contribute to goals of the organization when actively required to do so</td>
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<tr>
<td></td>
<td>- avoid responsibility</td>
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<td></td>
<td>- perform best when provided with detailed instruction and oversight</td>
</tr>
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<td></td>
<td>➞ &quot;homo oeconomicus&quot;</td>
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Agents:
- choices are constrained by scarcity (time, money, etc.) and competition
- are self-interested
- are rational
- are utility maximizing
- have stable preferences

Therefore:
- Agents’ actions are most efficiently coordinated by competitive markets
- Rise in price reduces quantity demanded
- Rise in price increases quantity supplied
- A tax on the output of a market reduces that output (i.e., punishment – a tax on crime – reduces crime)


Adam Smith, The Wealth of Nations, 1776


"Homo oeconomicus"

Slide 4

The economic approach

Application to compliance communication

<table>
<thead>
<tr>
<th>Assumptions about human nature</th>
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<tbody>
<tr>
<td>- Homo oeconomicus</td>
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</table>

| Intervention |
| Communication |
| Actor’s attitudes |
| Actor’s behaviors |
| Compliance |

- The ambivalent majority
- Ethical role models

Potential delinquents
Did individuals alone brake laws because they were unaware or miscalculated the potential costs of non-compliance?

Is it reasonable to assume that actors generally behave based on the homo oeconomicus model?

"If only there were evil people somewhere insidiously committing evil deeds and it were necessary only to separate them from the rest of us and destroy them. But the line dividing good and evil cuts through the heart of every human being. And who is willing to destroy a piece of his own heart?"
Alexander Solzhenitsyn

Can we think of people who have demonstrated self-sacrificing behavior?
The economic approach
Effects on other-regarding persons

Assuming that the majority of people is capable of other-regarding attitudes and behavior, how will they respond to the economic approach to compliance communication? Can there be adverse effects?

- To increase the perceived cost of non-compliance (= likelihood of detection * penalty) relative to its benefits, communicate the company’s commitment to:
  - detecting non-compliance through monitoring, whistleblowing, investigation,
  - punishing any violators through tough disciplinary action (“zero tolerance”),
  - rewarding compliant behavior

Intervention:
Communication
Homo oeconomicus
Assumptions about human nature
Actor’s attitudes
Actor’s behaviors
Other-regarding persons

Assuming that the majority of people is capable of other-regarding attitudes and behavior, how will they respond to the economic approach to compliance communication? Can there be adverse effects?

- Other, unintended / adverse effects?

The economic approach
Potential adverse effects

1. Over-justification / crowding-out effect
- Giving someone an incentive (monetary or otherwise) to do something that they already enjoy doing decreases their intrinsic motivation to do it.
- As a result of the extrinsic incentive, the person views his or her actions as externally motivated rather than intrinsically appealing.
- In general, intrinsic motivation decreases in response to tangible but not verbal rewards (praise) for behavior.

→ Over-emphasizing extrinsic incentives (e.g., threats of punishment) for complying can diminish actors’ intrinsic motivation for compliant behavior.

The economic approach
Potential adverse effects

2. Locus of control (LOC)
- Extent to which individuals believe that they can control events that affect them.
- Internal LOC: believe that one can control decisions in one’s life.
- External LOC: believe that decisions and life are controlled by environment.
- Actors generally have a preference for internal LOC.

→ Over-reliance on extrinsic incentives (e.g., threats of punishment) can be perceived as a threat to one’s need for self-efficacy and result in reactance (e.g., cynicism).

3. Reactance
- Reactance can occur when someone feels heavily pressured by someone or something (often, persons, rules, regulations) to adopt a certain attitude or behavior, thereby threatening that person’s choices.
- Reactance can cause the person to adopt or strengthen a view or attitude that is contrary to what was intended, and also increases resistance to persuasion.
The economic approach

Potential emotional responses to compliance communication

Necessity?
I've been doing the books here properly for 20 years, and now I'm supposed to be trained in complying with accounting rules?! → Communication has to be justified for the participant.

Presumptuousness?
Now they want to make me a better person? Who do they think they are? → Communication on eye level: Avoid lecturing. Don't aim for an ethical makeover.

Conflicting values?
Now the company wants me to turn in on my own colleagues? Is the company going to be watching our every move now? → Avoid overzealousness. Aim for balanced trade-offs.

Coherence?
Today they're telling us about ethics, and tomorrow they'll be throwing us on the street! → Communication has to be consistent with overall culture in the company.

The economic approach

The effect on other-regarding persons

What happens if the economic approach is applied to other-regarding persons?

Effective compliance communication

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1. Communication requirements
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4. The psychological approach
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The psychological approach
Assumptions

Theory Y
Workers may:
- be ambitious and self-motivated
- enjoy mental and physical work duties
- perceive work as natural as play
- have valuable skills, possess the ability for creative problem solving
- learn to accept and seek out responsibility
- seek to exercise self-control and self-direction in accomplishing objectives to which they are committed
- be strongly motivated the satisfaction of doing a good job
- identify with the organization and contribute to its goals

Therefor, managers are advised to:
- develop a climate of trust with employees
- minimize the difference between superior-subordinate relationships
- create a comfortable work environment in which subordinates can develop and use their abilities
- communicate openly with subordinates
- allow subordinates to participate in decisions that influence them

Theory Y
Douglas McGregor, The Human Side of Enterprise, 1960

"homo psychologicus"

Application to compliance communication
Communication should:
- position corporate citizenship as a core goal of the organization
- validate employees' central role in accomplishing company's goals
- establish a respectful climate
- allow for two-way communication/dialog
- enlist employees' participation in communication efforts
- communicate openly with employees
- convey trust in employees' decision-making capacity
- activate and reinforce employees' desire to be moral agents

Intervention:
Communication Homo psychologicus

Assumptions about human nature
Actor's attitudes
self-motivated
- seeks out responsibility
- seeks to exercise self-control and self-direction in accomplishing objectives to which they are committed
- identifies with the organization and its goals
- seeks to contribute to their achievement

Actor's behaviors
- Compliance
- Communication
- Citizenship
- Non-compliance
- Moral leadership
- Non-moral leadership

What happens if the psychological approach is applied to narrowly self-interested persons?
Effective compliance communication

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Tensions between the foundations of learning for adults and the requirements of E&C training

<table>
<thead>
<tr>
<th>Pedagogy (Child)</th>
<th>Andragogy (Adult)</th>
<th>E&amp;C training</th>
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</thead>
<tbody>
<tr>
<td>1. Autonomous and self-directed</td>
<td>Learners are autonomous and self-directed</td>
<td>E&amp;C training is mandatory</td>
</tr>
<tr>
<td>Students depend on the teacher</td>
<td>Intrinsic motivation to learn</td>
<td>Subject matter is generally pre-determined by regulatory requirements</td>
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<tr>
<td>E无需无需</td>
<td>Learners set the goals and can adjust them</td>
<td></td>
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<tr>
<td>Teacher determines fixed goals</td>
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2. Life experience

- The experience of the teacher can contribute to the learning process.
- The experience of the students is less able to contribute.

- Learners already have breadth of experience and knowledge.
- Learners already have experience with proper behavior, though less experience with compliance violations.

3. Purpose orientation

- Teacher sets the lesson plan.
- Students are unable to assess what they should learn.

- Learners have to understand the purpose of their studies. The subject matter must be tailored to concrete needs.
- Some E&C training materials are less relevant for the daily life of the learner.


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The economic vs. psychological approach

Summary

<table>
<thead>
<tr>
<th>Interdependency between personality type and management approach</th>
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<tbody>
<tr>
<td><strong>Communication approach</strong></td>
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<tr>
<td><strong>Extrinsic</strong></td>
</tr>
<tr>
<td><strong>Homo oeconomicus</strong></td>
</tr>
</tbody>
</table>
The economic vs. psychological approach
A different mix for each organization

Economic approach

Psychological approach

Organization with recent significant compliance incident

Organization with strong track record of corporate citizenship

“The task of leadership is not to put greatness into humanity, but to elicit it, for the greatness is already there.”
John Buchan

“There is no better way to elicit the good in a person than to treat them as if they were already good.”
Gustav Radbruch

“Trust is good, but control is better.”
Vladimir I. Lenin

“Be the best version of yourself and treat others as they treat you.”
Gustav Radbruch