Command, Control, Culture and Compliance

Behavioral Science Weighs in on Corporate Culture

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If people are good only because they fear punishment, and hope for reward, then we are a sorry lot indeed.

— Albert Einstein
Command and Control Compliance Model

- Heavy reliance on monitoring, detection, punishment and deterrence
- Relies more on rules than on empowerment and judgment
- Aims to control or influence employee behavior mainly through negative and positive incentives
- Based on assumption that humans behave in accordance with the rational choice theory of outcome optimization (classical economics)
  - Reward for Noncompliant Behavior is compared to Risk
  - Estimated Risk = Severity of Punishment x Probability of Detection

Does the incentive program promote the desired results?

Notice:
The floggings will continue until morale improves.
-the Captain
Command and Control Limitations

- Even if the rational-choice model is accurate, improving compliance rates via Command and Control has built-in limitations
  - Sanctions must be proportional, or can become counterproductive – reporting of violations declines if punishment is unfairly harsh
  - Very expensive to increase perceived likelihood that violation will be detected (“Cop on every corner” method)
  - Can undermine employee’s acceptance of personal moral responsibility
  - Deterrence message is one of pursuing self-interest (avoiding punishment) rather than doing the right thing
  - Self-interested rational choices for individuals aren’t always good for the organization – some issues ought to be non-negotiable

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Command and Control Limitations

- Rationality is Overrated: In actual human beings, well-known cognitive biases distort risk/reward decision-making processes (See, e.g. Predictably Irrational, Freakonomics)
  - We consistently over-value definite, near-term events – such as the rewards of rule-breaking
  - We under-value uncertain, future events, even if catastrophic – such as the risk of getting caught
  - People tend to ignore abstract or remote victims (e.g. stakeholders in an institution, “the planet,” future generations)
  - Self-Serving Bias, Conformity Pressures, Motivated Reasoning also distort risk/reward and ethical judgments

Command and Control Limitations

Hidden costs of strong Command-and-Control Focus:
- Mistrust of employees communicated through multiple channels
  - Projection of negative expectations may inhibit employee self-regulation
- Adversarial relationship with employees – Resentment
  - “Atrophy of competence” – if you insist on thinking for your employees, they get out of the habit of thinking for themselves, sense of personal responsibility decreases
- Bottom Line: Command-and-Control alone is an inefficient (and therefore expensive) way to influence behavior
  - Example: Only 5% of variance in drug violations is attributable to the risk of punishment…and how much do we spend on drug law enforcement and punishment?

Sources: Treviño, Weaver, et. al; Stansbury and Barry, Ethics Programs and the Paradox of Control, Business Ethics Quarterly Vol. 17 No. 2 (2007); MacCoun, Drugs and the Law: a Psychological Analysis of Drug Prohibition, 113 Psycholog. Bull. 497 (1993); Ayers and Braithwaite, Responsive Regulation: Transcending the Deregulation Debate (1992)

Command and Control Limitations – The Effect of Framing

The worst of all worlds: a weak Command-and-Control system
- Strong sanctions work better than weak sanctions
- BUT: In some contexts, no sanctions also work better than weak sanctions
  - Weak or rarely applied sanctions communicate lack of seriousness on the part of management
  - Weak sanctions and weak or nonexistent values message encourage economic, risk/reward framing of issues (since the stakes are low), rather than ethical framing
  - In risk/reward market framing, everything is up for grabs if the price is right: there are no absolute rules of behavior
  - If the dominant message is values rather than deterrence, people feel trusted, assume personal responsibility, and frame issues more in terms of “the right thing to do,” where absolutes abound

Values-Based Approach – The Paradigm Shift

Traditional Command and Control Paradigm:
- Prevent bad employees (5%? 20%?) from breaking rules
- Forcibly raise employee behavior up to Company standards -- impose Company values upon recalcitrant employees
- Business and rules-based framing

Values-based, Self-Regulatory Paradigm
- Harness the positive values of good people (80%? 95%?)
- Make sure Company is seen as measuring up to employee’s values
- Ethical framing
- To win loyalty – and voluntary adherence to rules – show that you deserve it – Walk the talk

Thought Leaders and Pioneering Researchers

- Lynne Sharpe Paine (“Managing for Organizational Integrity,” 1994)
Values-Based Approach: Motivating Compliance via Positive Culture

- Culture = Engaging Employee Values so that Employees Identify Positively with the Organization and Behave Accordingly
- “Your values are what you do when you think no one is looking”
  - When employee embraces Company values, compliance is voluntary and doesn’t depend on monitoring, detection and fear of punishment
- Two Large-Scale Studies of Rule Adherence in the workplace:
  - Value-based factors (legitimacy and value congruence) explained 81-87% of variance in compliance behaviors
  - Fear of Punishment and Hope for Reward explained 13-19%


Comparative Effectiveness of Values-Based Programs, Compliance-Based Programs, and Cultural Factors

- “What Works and What Hurts”: Large-Scale study of 7 Compliance Outcomes:
  - Reducing unethical conduct
  - Reporting misconduct
  - Increasing awareness of ethical issues
  - Increasing advice-seeking on ethical issues
  - Increasing employee commitment to employer
  - Comfort delivering bad news
  - Better ethical decision-making
- Measured effect of values-oriented compliance programs, compliance (deterrence) based programs, and ethical culture factors

Comparative Effectiveness of Values-Based Programs, Compliance-Based Programs, and Cultural Factors

- Values-Based Programs positively influence all 7 outcomes, and are more effective than Compliance-Based Programs on all 7.
- Compliance-Based Programs also improved the 7 outcomes.
- Cultural Factors are more important and influential than compliance program elements or orientation:
  - Ethical leadership
  - Fair treatment of employees
  - Rewarding ethical behavior
  - Open discussion of ethical issues


Values-Based Approach -- Legitimacy and Culture

- What Drives Voluntary Adherence to Rules (Tyler)?
  - Company is perceived as a legitimate source of authority: employee believes its rules ought to be followed
  - Company’s values and policies are perceived as congruent with employee’s moral values
  - These factors are more influential than likelihood of detection or punishment
- So, how can we promote these perceptions?
  - “When managers say ‘ethics,’” employees hear ‘fairness’.”

Sources: Tyler, Deinhart, & Thomas; Treviño, Weaver, Gibson & Toffler
Values-Based Approach -- Legitimacy and Culture

› Fairness Perceptions and Ethics Outcomes (Treviño and Weaver)
  › Measured effects of employee perceptions of company’s overall fairness towards employees
  › Fairness strongly correlated with less observed unethical conduct and with more reporting of infractions
  › Ethics program follow-through on reports and infractions also strongly predictive of both incidence of misconduct and reporting
  › But the higher your fairness score, the less ethics program follow-through matters
  › If you’re perceived as fair, employees trust that you do the right thing whether they hear about it or not


Values-Based Approach -- Legitimacy and Culture

› Leading criteria for legitimacy of authority (Tyler):
  › Procedural fairness in decision-making
  › Quality of interpersonal treatment of employee
  › Trust of supervisors and management
    › “Tone in the middle” as well as at the top
    › What you do trumps what you say
  › These factors exert more influence than:
    › Fairness of actual decision outcomes
    › Whether outcomes are favorable to employee
    › Rewards of employment: salary and incentives
    › Risk of punishment

Source: Tyler, Deinhart, & Thomas

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Values-Based Approach--Legitimacy and Culture

› What is Procedural Fairness?
  › Opportunity for input from affected persons
  › Understandable, articulated rules and processes
  › Consistency over time and across similar cases
  › Objectivity as opposed to ad hominem and ad hoc
  › **Same rules for everybody**
  › Communicate reasons for decisions

Source: Tyler, Deinhart, & Thomas

Values-Based Approach--Legitimacy and Culture

› What Makes for Quality Interpersonal Treatment?
  › Respect employees’ rights: *necessary but not sufficient*
  › Courtesy and dignity – respect the person
  › Employee feels trusted
  › Listen
  › Communicate reasons for decisions
  › Trust: Managers at all levels must earn employees’ trust
  › Actions speak louder than words (or Codes of Conduct)
  › Treatment of employees is primary
  › Interactions with third parties are noticed too

Source: Tyler, Deinhart, & Thomas
Consistency is Crucial

“It takes many good deeds to build a good reputation, and only one bad one to lose it”
-Benjamin Franklin

Does the *Company* Measure up to *Employees’* Values?

Corporate Body Language

- Guaranteed ways to sabotage your values message:
  - Unscrupulous or opportunistic dealings with suppliers, customers, investors or the public
  - Cut corners on obligations
  - Differences in public and private statements – hypocrisy
  - Different rules for top performers
- These negatives are all very memorable and strongly influence employee perceptions
Group Dynamics, Commitment and Framing

- People use groups to support and nourish their identities, and favorable self-concepts
  - Identification with the group promotes commitment and cooperation
- Fair and respectful treatment tells employees that they are important and valued, encourages identification, commitment, and cooperation with the group
- Pride in the group also encourages identification
- Social/Group norms can govern behavior more effectively than market norms
- Social vs. market framing: People will do things for free, for social reasons, that they won’t do for money; and social sanctions can trump economic ones
- The power of social PLUS ethical framing: “Around here, we do what’s right.”

Promoting Employee Commitment

- Positive: Employee commitment to the employer strongly linked to:
  - Management’s actions show character and integrity
  - Management welcomes those seeking advice about reporting policy violations
  - Training on guidelines for acceptable behavior
  - 9 Ethical Culture measures in the What Works/What Hurts study
- Negative:
  - Culture: The less ethical the work environment, the less likely employees will go above and beyond job requirements or use extra effort
  - Program Focus:
    - The more prominent sanctions and incentives are, the more likely they interfere with (“crowd out”) employees’ intrinsic motivations and commitment
    - Focus on unquestioning obedience to authority undermines commitment

Committed Employees Boost Compliance

- Benefits of Committed Workforce
  - Voluntary rule adherence
  - Less need for surveillance/monitoring
  - More likely to report suspected violations or other bad news, rather than turn a blind eye
  - Less accommodating environment for rule-breakers – more “eyes on the street”
  - Significant increase in voluntary actions to benefit the organization
  - Psychopaths less likely to climb the ladder of success high enough to do catastrophic damage

Sources: Tyler, Dienhart, and Thomas; Ethics Resource Center, 2009 National Business Ethics Survey, Supplemental Research Brief on Ethics and Employee Engagement

Culture and Reporting of Misconduct

- 34% of fraud discovery comes from tips; employees furnish 64% of all tips and another 18% are “anonymous”
- What Works/What Hurts: Each of 11 ethical culture measures was a better predictor of increased reporting than were program orientation or formal program characteristics
  - Cultural factors had an even stronger relationship to perception that “it’s OK to deliver bad news”
- ERC Fellows: Increased reporting significantly correlated with each of ethical leadership, strong ethical environment, and strong organizational support for the employee
- NBES 2009: In strong ethical cultures, reporting of observed misconduct was 26% higher than in weak ethical cultures

Sources: 2006 AFCE Report to the Nation on Occupational Fraud & Abuse; Treviño, Weaver, Gibson and Toffler; Shapiro, Treviño, De Celles; ERC Fellows Reporting Project, 2006; Ethics Resource Center 2009 National Business Ethics Survey Supp. Research Brief, “The Importance of Ethical Culture: Increasing Trust and Driving Down Risks”
Culture and Incidence of Misconduct

- 9 positive ethical culture factors each significantly correlated with decreased observation of rule-breaking (What Works/What Hurts)
- Ethics Resource Center identified 5 “Negative Work Environment” factors:
  - Success is rewarded regardless whether achieved through questionable means
  - Mistrust of top management’s promises and commitments
  - Mistrust of supervisors’ promises and commitments
  - Dissatisfaction with information from top management
  - Dissatisfaction with information from supervisors
- Strong correlation between presence of these negative factors and workplace misconduct

![Graph showing the relationship between the number of negative workplace factors present and the percentage of employees witnessing misconduct in a year.]

Sources: Treviño, Weaver, Gibson and Toffler; Ethics Research Center, 2007 Business Ethics Survey

Wow! Is it really that simple? (Of course not.)

- Fair and respectful treatment, ethical management and supervisors, values-based messaging, open door policy, etc. go a long way for “good people” and many who are more susceptible to temptation
- Not everyone is alike, and some temptations are stronger than others
- Around 5% of every population operates without a conscience (psychopathy, antisocial personality disorder) and do not take values, group membership, or loyalty into account in their decisionmaking
- Monitoring, detection and discipline are essential
- Sentencing Guidelines and other regulatory incentive programs require robust command-and-control elements
- Command-and-Control elements, if not the dominant features of the compliance program, reinforce the culture message and improve results

Complementary Effects of Culture and of Compliance Programs

- Culture strongly influences incidence of misconduct:
  - Employees of companies with weak ethical culture are nearly 3 times as likely to observe misconduct as employees of companies with strong ethical cultures.
  - Values-based factors explain >80% of employee compliance; fear of punishment or desire for reward explains <20%.
- Compliance Programs further boost reporting of misconduct:
  - The presence of a comprehensive compliance program can nearly double reporting, if ethical culture is otherwise strong.

Sources: Ethics Research Center, 2007 Business Ethics Survey; Tyler, Deinhart, and Thomas.
Complementary Effects of Culture and of Compliance Programs

- **Companies with a comprehensive Ethics and Compliance Program:**
  - 29% of employees failed to report observed misconduct
- **Companies with a strong ethical culture:**
  - 24% of employees observed misconduct in a year
  - 3% of those reporting misconduct experienced retaliation of some kind
- **With both Program and Culture, undetected risk = incidence of 24, multiplied by 29% unreported**
  \[ \text{Score} = 7 \]

- **Companies without a comprehensive Ethics and Compliance Program:**
  - 61% of employees failed to report observed misconduct
- **Companies without a strong ethical culture:**
  - 98% of employees observed misconduct in a year
  - 39% of those reporting misconduct experienced retaliation
- **Absent both Program and Culture, undetected risk = incidence of 98, multiplied by 61% unreported**
  \[ \text{Score} = 60 \]

Source: Ethics Research Center, 2007 Business Ethics Survey
Output: Impending Unforeseen Catastrophe Index

The Bottom Line

- You must have Command-and-Control elements: rules, policies, training, monitoring and deterrence
  - Sentencing Guidelines require them, and they produce important benefits
  - But Sentencing Guidelines also require a “culture of ethics and compliance”
- Values-based elements and emphasis improve Compliance Program results; dominant message should be values-based
- Model the message through the broader company culture:
  - Treat employees with respect and fairness
  - Keep your door and your mind open to employees
  - Be the change you want to see; live up to employee values and they’ll internalize yours
  - Create a place where people are proud to work