

# Research Compliance & Innovation



## Innovation is an essential component of effective Compliance Programs

There is a significant reputational risk for organizations if employees' behaviour does not align with socially shared norms and values. Illustrative is the demand from the Public Prosecutor regarding a former top executive of the NS (Dutch Railways), who is suspected of misconduct regarding procurement. Influencing behaviour is one of the main objectives of a Compliance Program. PwC's research shows a 36% increase in CEO dismissals due to (un)ethical conduct. Explanations for this rise relate to the changing world over the past 15 years. Society has become both more suspicious and more supportive regarding transparency. Legislation and regulations have become stricter, and due to, among other things, social media, organizations' activities are more visible. This increased visibility leads to the reputational risk of misconduct. In short, a Compliance Program that adapts to societal changes is essential for success. The demand for more innovation within Compliance Programs is therefore increasing. On the one hand, to remain current as a program and thus continuously provide employees with a new incentive (Weber, 2013). And on the other hand, to continually test which instruments are effective (Haidt & Trevino, 2017).

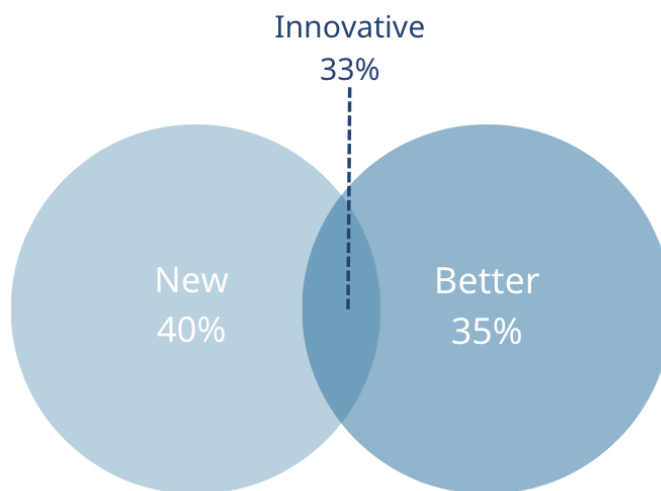
A more innovative Compliance Program is a more effective Compliance Program. This is now confirmed by research by Highberg in collaboration with Risk & Compliance Platform Europe, Michael Page, the Association of Compliance Officers, and the Dutch Compliance Institute. More than 100 compliance officers shared their perception of the relationship between innovation and effectiveness in Compliance Programs. In this paper, we share the most remarkable preliminary findings:

- 1. A more innovative Compliance Program is related to a more effective Compliance Program.*
- 2. A more effective Compliance Program is related to more ethical behaviour.*
- 3. More innovative work performance by Compliance Officers is related to a more innovative Compliance Program.*
- 4. Compliance Officers who are more open to change and consider themselves more creative score higher on innovative work performance.*
- 5. Support from supervisors in the workplace influences both the effectiveness of the program and the level of ethical behaviour.*

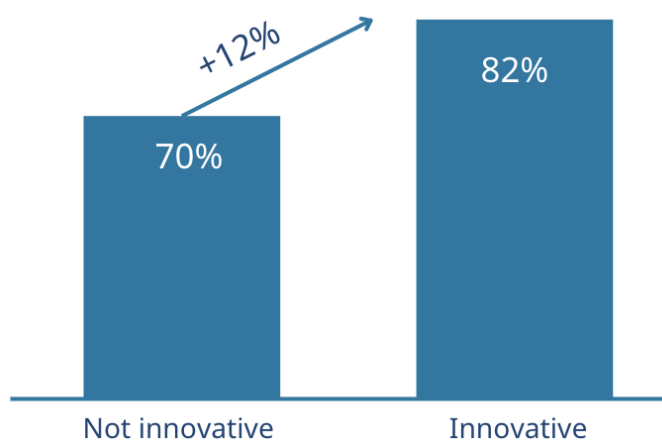
## 1. Innovation and effectiveness go hand in hand

There is a relationship between the degree of innovativeness and the effectiveness of a Compliance Program. Innovation consists of two main pillars. First, an idea, process, or product must be new in the eyes of the user. An iPad may be entirely new to your parents, but not to your nephew or niece. Therefore, an iPad is innovative for parents but not for the nephew or niece. Second, the idea, process, or product must also be usable. Building a wooden microwave may be new, but the device is not really usable. In the context of Compliance Programs, we examined both additions to the program (novelty) and the extent to which additions also led to qualitative improvements (usability). The conclusion? Only 1 in 3 Compliance Programs appears to be truly innovative.

**“2 out of 3 Compliance Programs do not benefit from the positive effect of Innovation.”**



**Innovative compliance programs are more effective**



At the same time, almost 9 out of 10 Compliance Officers believe that innovation within the program is necessary to ensure its effectiveness. So, there is a strong consensus among Compliance Officers that innovation is important for Compliance. However, this consensus does not always translate into concrete behaviour. How this can translate into concrete behaviour will be discussed later. For now, it

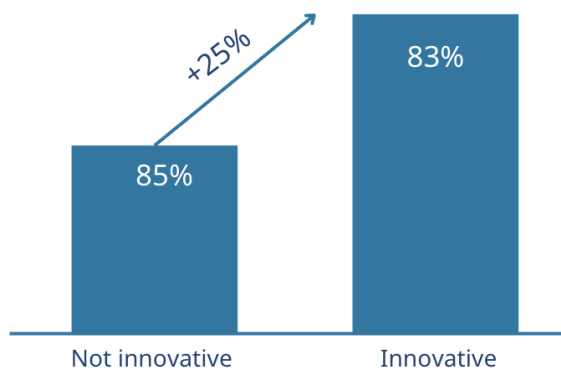


is clear that Compliance Programs labeled as innovative are also more effective. On average, we see a difference of 12%. Thus, a program that is innovative also appears to work better.

## 2. The link between effectiveness and ethical behaviour

In our research, effectiveness encompasses two aspects. First, there is a general appreciation of the quality of the program from the perspective of the surveyed Compliance Officers. Second, we take into account the effect on ethical behaviour. Results indicate that companies with an effective Compliance Program observe more ethical behaviour than companies with an ineffective program. Specifically, companies with ineffective programs experience only 57% ethical behaviour, compared to 82% for programs rated as effective. A definition for ethical behaviour is: behaviour that conforms to generally accepted moral behavioural standards. In practice, this can include not disclosing confidential information or not giving gifts in exchange for preferential treatment. Behaviour that violates these standards occurs in 6% and 1% of cases within companies with effective Compliance Programs, respectively. For companies with ineffective programs, these figures are 21% for both cases. The research shows that employees in organizations with an effective compliance program adhere more to generally accepted moral standards.

More ethical behavior occurs within companies with effective compliance programs



## 3. The power of innovative work behaviour

Responsibility for a Compliance Program typically lies with the Compliance Officer within an organization. For this reason, Compliance Officers can have a significant influence on the level of innovation of the Compliance Program. Specifically, this happens through the demonstration of innovative work behaviour.

**“Compliance Officers with high innovative work behaviour are twice as likely to have an innovative Compliance Program.”**

Innovative work behaviour consists of 3 chronological parts (Scott & Bruce, 1994), where the first part consists of generating new ideas and is characterized by statements such as 'I am someone who comes up with creative ideas for improvements'. The second part involves garnering support for the idea and is assessed with statements like 'I am someone who gets key figures excited about innovative ideas'. The third part focuses on implementing ideas. A statement like 'I am someone who develops innovative ideas into workable applications' is fundamental here. Only 21% of Compliance Officers with low innovative work behaviour have an innovative program. Compliance Officers with higher innovative work behaviour experience this in more than double the cases. Current research suggests a positive causal relationship where innovative work behaviour has a positive impact on the



level of innovation within Compliance Programs. However, currently, only 6 out of every 10 Compliance Officers believe they meet the criteria for innovative work behaviour. Indeed, Compliance Officers still have a reasonable margin for growth in terms of innovative work behaviour, currently averaging 4.4 out of 7 on a scale. The logical follow-up question then is: what influences or leads to innovative work behaviour?

#### 4. Characteristics of innovative employees

Within the set of characteristics studied, openness to experience and creativity emerge as important traits of innovative Compliance Officers. Openness to experience is a broad concept and includes characteristics such as intense imagination, a preference for variety, and intellectual curiosity.

Both creativity and openness to experience are more present in employees who deliver innovative work. Creative Compliance Officers exhibit high innovative work behaviour in two-thirds of cases, compared to only 17% for less creative Compliance Officers. These results clearly emphasize that creativity can have a significant impact on innovative work behaviour. Particularly, the Compliance Officer's belief in their own creative ability plays a significant role (Tierney & Farmer, 2011). Furthermore, it is valuable to make some simple changes in thinking patterns (Bandura, 1977). For example, recalling a previous creative achievement in mind helps boost creative self-confidence slightly. Moreover, confidence can be gained from observing creative performances within one's own organization, especially when observed in colleagues believed to have similar qualities (Stajkovic & Luthans, 1998).

Openness to experience can be increased by greater exposure to new experiences (McCrae & Costa, 1997). For instance, by delving into an unfamiliar intellectual movement. This can make you more open-minded. The next time you go out to eat, you can choose a type of cuisine that you wouldn't normally consider, preferably in a neighbourhood you don't frequent often. But also, by occasionally challenging yourself cognitively with Sudoku puzzles or other brain teasers, you can significantly increase your openness to experience (Jackson, Hill, Payne, Roberts, & StineMorrow, 2012). This newfound openness can then be used to think differently about your work and thus enhance your creative performance. For example, Compliance Officers interested in art generally exhibit 10% more innovative work behaviour. In short, step out of your comfort zone.

#### 5. Stronger together

The support - including that from executives - experienced by Compliance Officers appears to be essential on two fronts. Compliance Officers with ample support indicate that they have a more effective Compliance Program, and they also observe more ethical behaviour within their organization. Overall, companies where the work environment provides support have Compliance Programs that are 10% more effective compared to companies where this is not the case. A deeper dive into the data also shows that the top 20% most effective Compliance Programs occur four times as often in companies where Compliance Officers experience high support.

**“The top 20% most effective Compliance Programs are almost exclusively led by Compliance Officers who experience high support.”**

#### 6. Agenda for a more effective Compliance Program

Our research shows that an innovative Compliance Program is also an effective Compliance Program. This means that it is very important to develop an innovative program. We recommend the following agenda to achieve this:

1. ***Make room for innovation. Many Compliance Officers indicate that 'innovation' is not part of their primary duties. This needs to change. Compliance Officers should***



*challenge each other and should be challenged by their supervisors to come up with creative ideas.*

- 2. In addition to 1. Support from supervisors is essential. As the annual cycle approaches, annual plans are also being made. As a supervisor, actively inquire about the Compliance Officers' agenda regarding innovation.*
- 3. Develop your innovative and creative qualities as a Compliance Officer. Delve into the unknown and challenge each other to propose new ideas. Realize that it doesn't have to be grand to be innovative; every idea helps. Establish connections with other departments and see how they handle things there.*
- 4. In recruitment and selection: select Compliance Officers not only based on content but also on personality. Is someone open to new experiences? Have they previously converted creativity into realized ideas?*

And then, because innovation is determined by its effectiveness, translate these effectiveness requirements into concrete behaviours. What desired behaviour should a Compliance Program stimulate? That behaviour is observable, and thus the effectiveness of a program can be determined. Based on that, it can also be determined what works well and what doesn't. This analysis inherently leads to innovation.

## About the author



**Sjoerd Hogenbirk** (political scientist and theologian) works at Highberg as an organizational specialist in performance improvement based on four pillars: process, governance, behavior, and leadership. He is pursuing a PhD in business ethics, driven to achieve better performance, but finds the way performance is attained just as important.

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