

19th International Scientific Conference; Economics and Management 2014, ICEM 2014, 23-25
April 2014, Riga, Latvia

The effectiveness of compliance management systems – an experimental approach

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Abstract

This paper presents the results of an experimental approach to further strengthen activity in the area of Compliance Management Systems (CMS). It highlights the use of CMS in order to conduct business through persons which are ethically sensitized. Possible cause-effect relations are tested and evaluated. The paper highlights that not all applied measures do have a positive impact on decisions which have to be taken in ethical dilemma situations. The effectiveness of CMS depends on a careful selection of the right activities. Nevertheless elements could be identified which are likely to have a stronger impact on the decision making than others. These should be in the focus when designing and implementing a CMS.

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Peer-review under responsibility of the Kaunas University of Technology.

Keywords: Compliance management systems; laboratory experiment.

1. Introduction

The transferred Milton Friedman logic of “the business of business is business” is no longer paramount. What Friedman defined as social responsibility was narrowly paraphrased as he argued the social responsibility of business is to increase its profits (Friedman, 1970). In the 21st century this perspective has changed. It is assumed that business must be done in responsible ways. Ethical business stands not in contradiction to profit maximization. Compliance Management enhances the business conduct and supports accordance with laws and regulations. Additionally a constant increase in the request for transparency can be noted: “Around the world ethical expectations, if not behaviors, are leveling up.” (Hamel, 2012, p. 5)

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The paper elaborates on how business can be managed sustainably by applying CMS. It is worthwhile to discuss the question if CMS matter or not. In an survey about ethics at work which was conducted in continental Europe with approx. 3.000 participants it was revealed that honesty is practiced by a majority of 77% in daily routines (Basran, 2012, p. 4). However 22% percent of the respondents felt pressured at work to compromise on ethical standards. This pressure might lead to unethical decisions which could have a negative impact for the company in the long run regarding for example fines and the image. A functioning CMS could possibly reduce this percentage. Corruption has been researched using principal-agent theory (Jacquemet, 2005). In his research studies, Jacquemet focuses on the delegation aspect which means that the agent has a conflicting interest when he is paid fairly by the principal. For this research this effect can be neglected, because monetary incentives are not given to the participants.

Fadzil, Haron and Jantan also focus on principal-agent theory in their theory (Fadzil, Haron & Jantan, 2005). The research question which leads the research work postulates that specific CMS activities enhance the conduct of business and have therefore a positive impact for the business. The object of this paper is the study of CMS activities and their application to decrease corruptive behavior. The aim lies in an evaluation of the theoretically available means of a CMS regarding their pertinence, test possible combinations of activities and judge which activities do have an impact and should therefore be followed. Problems arise from the fact that the model was tested in a laboratory experiment. The generalization of results must be done with deliberate restrictions and general deductions for parts of the work should be done cautiously. Constraints such as the practical handling of the test population entailed a laboratory experiment with a relative small sample group.

2. Method

The question of the value add of CMS was tested in a laboratory experiment which was developed incorporating CMS activities which are applied in practice and could be applied theoretically. The experiment was not used to gain new data. It was used to test whether assumed cause-effect relationships are valid. In order to reduce general distortion to a minimum, the experiment was set in the context of a business game. The participants were told that they are about to participate in a business game experiment, but they did not know the intention of the game. The business game represents a context which allows for empirical variables that can be tested.

The hypothesis underlying the experiment states that specific CMS activities enhance the conduct of business and have therefore a positive impact for the business. The variables which were defined were the variables Control, Information, Instruction, Reporting and Sanction. In order to test the underlying hypothesis the model underlying is based on the assumption that the return on Compliance depends on the effect applied Compliance measures have on the decision making of individuals. The results of the decision making process were tested in questions (possible answers include “Certainly”, “Almost certainly” etc.) with a treatment group and were compared with the results of a decision making progress by a control group who also participated in the experiment. If there is a difference between the two groups in the decision making process and the decisions reached it can be concluded that certain Compliance measures do have an impact.

The theoretical conception implies that human beings act better if they have been sensitized ethically. The following figure shows the conception of a model which was used to research the behavior in contexts where Compliance measures had been applied and in contexts where no Compliance measures were applied.

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