

to capture important information, particularly for intangibles such as "service quality." To measure service quality, subjective measures drawn from a customer satisfaction survey are likely to convey more useful and accurate information than objective measures of sales volume.

In addition to distinguishing among objectivity, completeness, and responsiveness, Walsh (2005) also considers whether measures focus on outcomes, processes, or initiatives. At the top of Walsh's hierarchy are **exact measures of outcomes**. These are complete measures that cover all the key attributes for the outcome under consideration. Exact measures of outcomes may be objective or subjective and may have different levels of responsiveness.

Next are **proxy measures of outcomes**; proxy measures are used to make inferences about exact measures. For example, an increase in customer referrals may be used to infer that service quality has improved. Proxy measures are incomplete but are often used because they are easier and less expensive to obtain. Both exact measures of outcomes and proxy measures of outcomes are intended to reflect *achievement of strategic objectives* (in the example above, for instance, improving service quality).

Simply measuring achievement/outcomes, however, may not be sufficient. For an organization to improve outcomes, it also needs to understand and measure the processes and initiatives that lead up to those outcomes. Thus, **process measures of outputs, activities, and inputs** make up the third level. Process measures reflect the *degree of effort being exerted*. Effort alone is not sufficient to guarantee desired outcomes, of course, but it can be an important lever for improvement. The fourth and final level of the hierarchy includes **measures of initiative progress**. These measures provide information on the *changes being made* by the organization (Walsh, 2005). As with effort exerted, simply making changes may not result in the desired outcomes. Reviewing measures that are currently being used in light of this hierarchy can help ensure that no important indicators are being omitted.

For many organizations, the choice of measures used is affected by external factors such as accrediting organizations, and in some cases, those data are made available to the public. For example, the Centers for Medicare and Medicaid Services (CMS) posts data on process and outcome measures for US hospitals on the Hospital Compare web site (<http://www.hospital-compare.hhs.gov>). With respect to cardiac care, the CMS initially focused on process measures that can improve the quality of care; in 2007 the CMS proposed adding 30-day mortality outcomes to these measures (Krumholz, Normand, Spertus, Shahian, & Bradley, 2007). In July 2009, CMS announced that in addition to process measures and mortality rates, data on readmissions were also being added. These measures have now been tracked for a long enough period that they are providing important insight into the causes, symptoms, and treatment of chronic heart disease (Yancy et al., 2013).

TAILORING MEASURES TO THE ORGANIZATION AND ITS MISSION

The hierarchy of measures presented earlier is general enough to be used in any type of organization. The identification of specific measures that should be collected and analyzed will depend on the mission and strategic objectives of the organization. Measuring items for which there are common industry benchmarks can provide a sound basis for comparison, but these measures may not be sufficient, depending on the mission of the organization.

In recent years, many companies have attempted to expand the way they measure performance. For example, the popular balanced scorecard approach (R. S. Kaplan & Norton, 1992) includes not only the financial perspective but also the customer perspective, internal business

perspective, and innovation and learning perspective. Incorporating these four perspectives helps guard against suboptimization (R. S. Kaplan & Norton, 1992). More recently, R. S. Kaplan (2005) has suggested that the balanced scorecard is the contemporary manifestation of the McKinsey 7-S model (strategy, structure, systems, staff, skills, style/culture, shared values), which gained popularity as a result of Peters and Waterman's (1982) best seller, *In Search of Excellence*. The balanced scorecard and similar approaches to measuring organizational performance still focus primarily on what is good for the company and ultimately the shareholder. Recently, Wicks and St. Clair (2007) argued that more attention was needed on measures related to employee well-being. For some, however, even that focus is still too narrow.

In recent years, there has been a growing interest in measuring organizational performance on more than just operational and financial outcomes. The concept of the "triple bottom line" gained currency in the late 1990s after the publication of John Elkington's *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Norman & MacDonald, 2004). Supporters of the triple bottom line approach argue that organizational success should be measured not only in terms of financial performance but also with respect to social/ethical performance and environmental performance. Waddock, Bodwell, and Graves (2002) go so far as to suggest that the pressure that stakeholders have put on corporations to be more socially and environmentally responsible has created a new business imperative. Box M2.2 discusses one such effort by Better World Shopping and highlights the reporting of Seventh Generation a company that leads the list of best companies identified by Better World Shopping.

BOX M2.2 BEYOND SHAREHOLDER RETURNS

The brainchild of Ellis Jones, Better World Shopper (<http://www.betterworldshopper.org>) is a web site "dedicated to providing people with a comprehensive, up-to-date, reliable account of the social and environmental responsibility of every company on the planet AND making it available in practical forms that individuals can use in their everyday lives."

With a PhD in sociology and an urge to build connections among academics, activists, and everyday citizens, Dr. Jones uses his research skills to analyze the performance records of companies on five different dimensions: (1) the environment, (2) human rights, (3) animal protection, (4) community involvement, and (5) social justice. Company rankings have been developed as part of a five-year research project that resulted in an extensive database. The database includes information on over 1,000 companies and was built using more than 25 different sources, some going back as far as 20 years.

As of 2014, the top 10 companies as ranked by Better World Shopper are Seventh Generation, Method, Organic Valley, Clif Bar, Aveda, Tom's of Maine, Dr. Bronner's King Arthur Flour, Earthbound Farm, and Dansko Footwear. Given its emphasis on environmentally friendly products, it isn't surprising that Seventh Generation tops the list. The name comes from "the Great Law of the Iroquois: In our every deliberation, we must consider the impact of our decisions on the next seven generations." In addition to its focus on environmentally friendly products, transparency also is important to the company. Seventh Generation measures and reports on its social performance in areas such as charitable giving and diversity of employees. The company also pays close attention to the needs of its employees. For example, in its 2008 report, Seventh Generation publicly recognized that it had allowed its rapid growth to negatively affect the work-home balance that it strives to support.

Sources: Based on information presented on the Better World Shopper web site (<http://www.betterworldshopper.com>), the Seventh Generation web site (<http://www.seventhgeneration.com/>), and Seventh Generation's (2008) Corporate Consciousness Report: *Crossroads: Reinventing the Purpose and Possibility of Business*.

Even for people who support the idea of evaluating organizations based on corporate social responsibility, there remains the problem of how these activities should be measured and monitored. For example, Norman and MacDonald (2004) argue that because no clear, standardized measures exist for social and environmental bottom lines, companies may benefit by adopting the rhetoric of the triple bottom line without actually changing their actions. Efforts such as the United Nations Global Compact are one attempt to move toward more standardization for social and environmental reporting. The UN Global Compact has established 10 principles for socially responsible corporate behavior related to issues of human rights, labor, the environment, and anticorruption. The voluntary organization encourages reporting in the belief that transparency about corporate activities will help lead to more socially responsible behavior. You can read more about this organization and its principles at <http://www.unglobalcompact.org>. While a step in the right direction, Chen and Bouvain (2009) found that although membership in the UN Global Compact had some impact in the areas of the environment and workers, there were still significant variations in how much corporate social responsibility was promoted in different countries.

Despite the substantial growth of interest in corporate social responsibility, not all business observers and academic researchers are convinced that changing business models to improve the social and environmental bottom lines is a good trade-off (Hayward, 2003). This brings us back to the key concern for every organization, no matter how it defines its mission: What drives organizational effectiveness?

IDENTIFYING DRIVERS OF ORGANIZATIONAL EFFECTIVENESS

As organizations continue to increase in complexity, it becomes more and more complicated to identify the key drivers of organizational effectiveness. Beginning in the mid-1980s, research on enhancing organizational effectiveness began focusing on three main approaches: total quality management (TQM), downsizing, and reengineering (Cameron & Thompson, 2000). Of these three approaches to enhancing organizational effectiveness, TQM, devotes the most attention to diverse measures of performance and quality. Despite that fact, in their review of research on TQM, Cameron and Thompson (2000) concluded that “the studies that have attempted to evaluate the success of TQM efforts according to some standardized indicators of success do not inspire enthusiasm” (p. 216). Part of the problem appears to be due to inconsistency in applying TQM throughout the organization. One system that takes a comprehensive approach to quality is the Baldrige Criteria for Performance Excellence.

BALDRIGE CRITERIA FOR PERFORMANCE EXCELLENCE

Since 1987, the Baldrige Criteria (the Criteria) have been used by thousands of US organizations to stay abreast of ever-increasing competition and to improve organizational performance practices, capabilities, and results; to facilitate communication and sharing of best practices information for organizations of all types; and to serve as a working tool for understanding and managing performance and for guiding organizational planning and opportunities for learning. The core values and concepts upon which the Criteria are built include “visionary leadership, customer-driven excellence, organizational and personal learning, valuing employees and partners, agility, focus on the future, managing for innovation, management by fact, social responsibility, focus on results and creating value, systems perspective” (NIST, 2005, p. 1).

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The Baldrige Criteria go beyond measuring financial performance and incorporate a broad range of constituents. Outcomes continue to be important, but the Criteria also emphasize developing, deploying, and integrating processes that are aligned with the organization's strategic planning process. Outcome measures serve to complete the feedback loop in the strategic planning process.

The connection between quality processes associated with the Baldrige Criteria and outcome measures has been evaluated by the US General Accounting Office (GAO). Looking at data from the 1988 and 1989 Malcolm Baldrige National Quality Awards (MBNQA), the GAO found that those companies that had been selected as finalists for the quality of their processes also showed improvements in specific outcome measures. Table M2.2 shows the annual percentage of improvement for specific outcome measures.

TABLE M2.2 Results of a US General Accounting Office Study of the Relationships between Quality Processes and Desired Outcomes

<i>Outcome Category Measures</i>	<i>Reported Annual Improvement (%)</i>
<i>Employee-related indicators</i>	
Employee satisfaction	1.4
Attendance	0.1
Turnover (decrease)	6.0
Safety and health	1.8
Suggestions	16.6
<i>Operating indicators</i>	
Reliability	11.3
On-time delivery	4.7
Order-processing time	12.0
Errors or defects	10.3
Product lead time	5.8
Inventory turnover	7.2
Costs of quality	9.0
<i>Customer satisfaction indicators</i>	
Overall customer satisfaction	2.5
Customer complaints (decrease)	11.6
Customer retention	1.0
<i>Financial performance indicators</i>	
Market share	13.7
Sales per employee	8.6
Return on assets	1.3
Return on sales	0.4

Source: Adapted from K. S. Cameron and Michael Thompson, "The Problems and Promises of Total Quality Management: Implications for Organizational Performance," in R. E. Quinn, R. M. O'Neill, and L. St. Clair (Eds.), *Pressing Problems of Modern Organizations* (New York: AMACOM, 2000), 228.

Stock market analyses prepared by the National Institute of Standards and Technology (NIST) from 1994 through 2001 showed that Baldrige winners generally outperformed the S&P 500 (NIST, 2010). The studies were discontinued in 2004 because “the vast majority of Award recipients since then [2004] are either business units of larger publicly traded companies, privately held companies, or nonprofit organizations” (NIST, 2010).

OTHER APPROACHES TO IMPROVING PERFORMANCE

The literature on improving performance and quality is extensive, and many organizations have learned from a variety of techniques over the years, including the zero defects and quality is free approaches, TQM, quality circles, kaizen, ISO 9000, the Baldrige Criteria, and Six Sigma (Bisgaard & De Mast, 2006). Recent writings on using enterprise resource planning (ERP) software (Laframboise & Reyes, 2005) with TQM, implementing formal business performance measurement (BPM) approaches (Marr, 2005), applying quality assurance techniques to global supply chain management (Bandyopadhyay, 2005), and conducting self-assessments with the European Foundation for Quality Management (EFQM) Excellence Model (Benavent, 2006) continue to expand approaches for improving organizational performance. As technology continues to advance and societal expectations for corporations are constantly revisited, the skills and knowledge associated with monitoring and measuring performance and quality will be critical for organizational success. As Heras (2005, p. 54) notes, “A strategy with no indicators is wishful thinking, and indicators not aligned with strategy are a waste of time and effort.”

ANALYSIS Improving Performance in the Health Care Industry

Objective The objective of this exercise is to develop a set of performance metrics for a hospital according to the measurement hierarchy outlined by Walsh (2005) and described in this competency. This exercise will hone your ability to distinguish different types of measures.

Directions Complete the steps outlined below:

1. Read the case that follows:

St. Angela's Hospital has decided to adopt the Baldrige Criteria for Performance Excellence to help it meet its mission: providing the highest-quality health care in a caring, community setting. You have been asked to organize and lead a task force to address Criteria 3.2, part b, related to customer satisfaction and loyalty. Use the abbreviated version of instructions from *2006 Health Care Criteria for Performance Excellence* instrument shown below to prepare a brief report that proposes a set of measures you think are needed to give the hospital the data needed to improve performance with respect to patient satisfaction. (For more detailed information, you can find the entire Criteria at http://www.baldrige.nist.gov/HealthCare_Criteria.htm.)

Questions from 3.2 b. Patient Satisfaction Determination (abridged from the Criteria; see NIST, 2006).

- a. HOW do you determine PATIENT satisfaction and dissatisfaction? HOW do you ensure that your measurements capture actionable information for use in securing your PATIENTS' future interactions with your organization, and gaining positive referrals, as appropriate? HOW do you use PATIENT satisfaction and dissatisfaction information for improvement?

- b. HOW do you follow up with PATIENTS on the quality of HEALTH CARE SERVICES and transactions to receive prompt and actionable feedback?
 - c. HOW do you obtain and use information on PATIENTS' satisfaction relative to their satisfaction with your competitors, other organizations providing similar HEALTH CARE SERVICES, and/or health care industry BENCHMARKS?
 - d. HOW do you keep your APPROACHES to determining satisfaction current with HEALTH CARE SERVICE needs and directions?
2. Craft an outline for a report with these elements:
- a. Identify where each measure fits in terms of Walsh's (2005) hierarchy (e.g., Exact Outcome, Proxy Outcome, Process, or Initiative Measure).
 - b. Describe each measure in terms of its Objectivity, Completeness, and Responsiveness.
 - c. Justify that the combination of measures being recommended will capture the data necessary to meet the Criteria without imposing too high a cost on St. Angela's Hospital.

Reflection The type of measures that organizations choose to collect and the ways in which data are categorized can convey important messages about organizational values. But often, organizations send mixed messages. In health care, high standards of performance are expected, but beliefs that perfection is attainable can result in pressure to cover up mistakes, particularly when investigations of errors focus on blaming individuals rather than identifying problems with organizational systems (Jones, 2002).

PRACTICE Developing Education Performance Metrics

Objective This exercise will give you a chance to develop a set of performance metrics for your own education. Try to identify measures that you think are most critical for meeting your future goals.

- Directions*
1. Write a list that summarizes your strategic objectives for getting an education at this point in your life. As you work on developing the list, think about more than just getting a degree (although that may be one of your strategic objectives) and think about why you want to get that degree.
 2. For each of the strategic objectives that you listed, identify some key measures that will help you determine whether or not you are on track to achieve that objective. Remember, one objective may require several different measures to adequately capture whether or not that objective has been achieved. Briefly jot down at least one measure for each objective.
 3. Compare the objectives and measures that you have developed. Then develop answers to the following questions:
 - Do you see any objectives that appear to be contradictory?
 - Do any measures show up for multiple objectives?
 - How much control do you have over achieving your objectives?
 4. Now, consider what the instructor can do to help you achieve your objectives. What measures would be appropriate for assessing the instructor's performance relative to your objectives? Write a short answer to this question.
 5. Reconsider the situation from the perspective of your instructor. Do you think your instructor has the same objectives that you do? Why or why not? If there are differences between your objectives and the objectives of your instructor, how can those differences be reconciled?
 6. As instructed by the professor, share your answers in groups or with the class.

Reflection In many jobs, outcomes are not entirely controllable by the person who is tasked with getting the job accomplished. Doctors who treat patients often must depend on patients to take medications, participate in physical therapy, or avoid certain activities. The desired outcome of a healthy patient is not solely in the hands of the doctor. Likewise, the outcome of an educated student depends not only on the actions of the teacher but also on the actions of the students, as well as on circumstances beyond the control of either the teacher or students. In situations where there is mutual responsibility, it may be tempting to focus on the performance of the other party, rather than on our own responsibilities. Finding the best balance of performance metrics in these types of situations is doubly difficult, but it is also doubly important.

APPLICATION Developing Performance Metrics for Your Job

Objective In the Assessment for this competency you analyzed the type of performance feedback you receive in your current position. This exercise gives you an opportunity to use the tools we have discussed to develop enhanced performance metrics for your job.

- Directions*
1. Develop a new performance evaluation form for your job. Your plan should include the following elements:
 - Measures for Outcomes, Processes, and Initiatives.
 - A statement about how Objective, Complete, and Responsive the measures are, individually and as a set.
 2. Discuss your new evaluation form with your supervisor, and then revise them as needed.

Reflection Thinking about how you are being evaluated can help you identify ways to improve your performance in your current job. Just as important, however, is thinking about where you would like to see yourself in the future. Are there some tasks that you could begin to delegate? As we discussed in Module 1, Competency 3, Mentoring and Developing Others, delegating can both help you improve your supervisory skills and free up time for developing skills in new areas. Perhaps you can incorporate some metrics for leading new initiatives into your performance evaluation to demonstrate your ability to manage change in your organization, a topic that we address in Module 4, Competency 5, Implementing and Sustaining Change.

Module 2 Competency 5 Encouraging and Enabling Compliance

ASSESSMENT Reactions to Methods of Encouraging Compliance

Objective This exercise is designed to help you assess your attitudes about complying with rules and how you tend to respond to different methods used to encourage compliance.

- Directions* First, think about how frequently you engage in the following behaviors, and rate yourself using the following scale: 0 = Never; 1 = Rarely; 2 = Sometimes; 3 = Often
1. Drive faster than the posted speed limit
 2. Skip classes
 3. Arrive late to meetings
 4. Submit assignments that don't reflect your best effort

Next, think about why you behave as you do.

1. What factors are influencing your behavior in each of these situations?
2. What assumptions are you making about the "rule" associated with each situation?

Finally, consider how you would feel and whether your behavior would change under the following circumstances.

1.
 - a. The cost of speeding tickets was doubled.
 - b. People caught speeding had to attend an automobile safety class.
 - c. People with no speeding tickets during a calendar year received a check for \$25 in January of the following year.
2.
 - a. Students earned extra-credit points for each class attended.
 - b. Students lost points from their overall average for each class missed.
 - c. Students were required to write a paper for each missed class.
3.
 - a. Your boss drew attention to your lateness when you arrived at the meeting.
 - b. Your boss spoke to you after the meeting about being on time in the future.
 - c. You discovered that before you arrived a task you really wanted to work on had been assigned to someone else.
4.
 - a. Your instructor recorded a low grade on the assignment you submitted.
 - b. Your instructor asked you to revise and resubmit the assignment.
 - c. Your instructor asked you to come to office hours to discuss the assignment.

Discussion Questions

Based on your results, answer the following questions in groups or as a class:

1. What factors seem to most influence whether you will comply with the requirements of a situation?
2. What changes in context are most influential in changing your compliance with the requirements of a situation?

Reflection

It is critical for managers to understand that individuals may respond differently to different methods of encouraging compliance. For example, some people may resent what they perceive to be "bribes" for good behavior. Others may feel that "threats" are demeaning to their professionalism. Unintended consequences often result when strategies for encouraging compliance are not carefully thought through and explained to employees.

LEARNING Encouraging and Enabling Compliance

In theory, employees may be expected to comply with formal rules, policies, and procedures, as well as more informal norms about behavior. However, in practice noncompliance is frequent in many organizations.

This section first explores why individuals may not comply with organizational rules, policies, procedures, and norms. For simplicity, we generally do not distinguish among rules, policies, procedures, and norms. Instead we use the term *rule* to refer to these different concepts more generically.

Next, we outline basic strategies for encouraging compliance. Sometimes, these attempts to increase individual-level compliance create paradoxical consequences.

The section concludes with a discussion of issues related to organization-level compliance. In particular, we consider compliance with US federal laws prohibiting criminal conduct such as perpetrating fraud, discharging environmentally hazardous waste, evading taxes, and engaging in anticompetitive activities.

UNDERSTANDING NONCOMPLIANCE

At the core of all sport lies a fundamental tension between the desire for rules and the desire to break them. (Mitchell, Crosset, & Barr, 1999, p. 216)

Using sports metaphors when talking about other types of organizations sometimes can be misleading, but when it comes to understanding how people react to rules, the quote above seems quite apt. It highlights a key paradox—we all seem to have a love–hate relationship with rules. We need rules to keep order, but we resent them when rules prevent us from doing what we would like to do.

Although it may be human nature for us all to prefer rules that work to our benefit, in practice, responses to specific rules can differ substantially based on situational variables as well as individual characteristics. Consider, for example, how people respond to speed limits. The speed limit posted on a road states the maximum legal driving speed, but some individuals are comfortable driving faster than the speed limit while others are not. The ways that different people *typically* respond to speed limits are based on individual-level variables. In contrast, even people who typically are comfortable driving faster than the speed limit are inclined to slow down if they see a police car. Similarly, people who believe it is important not to drive faster than the posted speed limit may decide to speed in an emergency, such as taking an injured friend to the hospital. In these examples, situational variables influence individuals to change their typical behavior.

Because managers typically have much less influence over individual-level personality variables (e.g., conscientiousness, emotional stability, agreeableness, cynicism, locus of control) that might help predict noncompliant behavior (Kidder, 2005; Litzky, Eddleston, & Kidder, 2006), we will focus on different types of situational variables that managers can directly affect to encourage compliance.

MANAGEMENT MISTAKES—EMPLOYEE MISBEHAVIOR

Noncompliance. Misbehavior. Wrongdoing. Deviance. All these terms have been used to refer to voluntary actions by employees that violate the norms or rules of an organization. Although many researchers use the terms *deviance* (e.g., Robinson & Bennett, 1995; Litzky et al., 2006) or *counterproductive work behaviors* (Gruys & Sackett, 2003), we prefer the less loaded term *noncompliance* when violations are relatively minor. In cases where the violations are more significant, we use the terms *positive deviance* and *destructive deviance* to emphasize both the direction and the magnitude of the deviance (R. E. Quinn, 1996; Warren, 2003).

In their research focusing on noncompliance, Litzky et al. (2006) identified six different triggers for employee misbehavior: (1) ambiguity about job performance, (2) social pressures to conform, (3) compensation/reward structures, (4) negative/untrusting attitudes by managers, (5) rules that are perceived as unfair, and (6) violating employee trust. Below we organize these triggers based on how the employee is likely to explain her behavior.

“I DIDN’T KNOW”

Although not included in Litzky et al.’s (2006) typology, it is important to recognize that not every failure to comply with a rule is intentional. In some cases, people fail to comply with rules because they are unaware that the rule exists. For example, a new employee may not know that she is required to submit expense reports within one week after returning from a business trip. Another employee may not have read an e-mail announcing that, in the future, all expense reports must have original receipts attached, so he may continue to submit expense reports without receipts, as he has in the past. In these types of situations, the organization can enable compliance by communicating the rules to employees and making sure that employees understand the rules.

“I WASN’T SURE”

In some cases, organizations send mixed messages about complying with rules. Mixed messages can be the result of ambiguity about job performance, the failure of managers to respond to instances of noncompliance, or inconsistency in responses to noncompliance. Finally, when a subgroup in an organization fails to follow rules, there is social pressure to conform to those subgroup norms rather than the official rules of the organization.

Employees suffer ambiguity about job performance when they are unsure of their roles, their responsibilities, and the behavior they are expected to exhibit. Employees in boundary-spanning roles, such as salespeople and service providers, bridge the boundary between the organization and its customers and are especially likely to experience this type of ambiguity (Eddleston, Kidder, & Litzky, 2002). Satisfying the customer may require violating a company policy. Violations may be small or large. For example, a bus driver may wish to let a regular customer ride on a day when he has forgotten his bus pass, but that would be a violation of company policy (Litzky et al., 2006). A salesperson who is constantly told “the customer is always right” may be hesitant to refuse to pay for an expensive dinner, even though she knows that it exceeds the limits set by her organization for entertaining customers.

Organizations send mixed messages when a rule exists, but there are no consequences associated with complying with that rule. In this type of situation, once people realize that there are no consequences when the rule is ignored, some may begin to disregard the rule. Alternatively, an organization may have sanctions for failing to comply with certain rules, but at the same time may have procedures that make compliance difficult. One organization that we are familiar with, for example, requires that employees include comparative data to have their requests for salary increases considered. At the same time, the organization refuses to provide any information related to the performance and compensation of other employees in similar positions, making meaningful comparisons difficult, if not impossible. This kind of mixed message can lead to frustration, anger, and acting out.

Responding inconsistently to acts of noncompliance also sends a mixed message. Perceptions of inconsistency can result when some employees are allowed to engage in certain behaviors, but other employees are prohibited from engaging in that behavior. In some cases, this may simply be the result of failing to clarify to whom the rule applies. For example, employees may not understand that the reason some employees are allowed to take office supplies home, while others are not, is based on whether the employee is officially participating in a telecommuting option offered by the organization.

In contrast to situations where there might be some misunderstanding about what the rules are and to whom they apply, in some organizations there is social pressure to engage in inappropriate behavior because the norms of a subgroup are inconsistent with organizational

rules. For example, a study of bartenders found that at an establishment where tips were pooled and divided among employees, when new employees were first hired, senior employees taught them that the amount of tip money reported for tax purposes should be considerably less than the actual amount (Litzky et al., 2006). Employees are likely to feel especially pressured if it is the managers who are encouraging or engaging in inappropriate behaviors.

“I HAD TO LOOK OUT FOR MYSELF”

In contrast to situations where there is some confusion about a rule and/or to whom it applies, individuals may also choose not to comply when they believe that they will personally benefit from noncompliance. Sometimes ignoring a rule may save a little time or inconvenience. For example, a worker may prefer not to put on safety goggles and a helmet when entering a construction site. At other times, rules may be ignored in the belief that following the rules may be financially costly. For example, a sales representative may ignore a company rule forbidding expensive gifts to prospective clients in an attempt to secure a large sales commission. When compensation/reward structures are based on commissions and/or quotas, research shows that employees may find it easier to rationalize inappropriate behaviors (Litzky et al., 2006).

Special issues related to compliance may emerge in associations and voluntary organizations because of the nature of the relationship between the organization and its members. Most employees feel dependent upon their employer, especially in economic hard times, and may fear losing their jobs if they fail to comply with organizational rules. In contrast, members of voluntary organizations may feel less compelled to comply because they have less of a vested interest in retaining their membership in the organization. For example, an individual who would never intentionally consider being late to a meeting at work might feel comfortable arriving late or even skipping a committee meeting for the local food bank where she volunteers.

“THEY HAD IT COMING”

Three of the triggers identified by Litzky et al. (2006) relate to how employees feel they have been treated. When managers exhibit negative and untrusting attitudes, treat people unfairly, and/or violate their employees' trust, employees are likely to feel that noncompliance or even destructive deviance is an appropriate response (see, e.g., Eddleston et al., 2002; Harris & Ogbonna, 2002; Kidder, 2005; Robinson, 1996; Robinson & Bennett, 1995). Such retaliation is viewed as appropriate because the manager (and/or organization) “had it coming.” In a study of service workers, for example, one employee remarked, “Managers have always asked for more than's fair and customers have always wanted something for nothing. Getting back at them is natural—it's always happened, nothing new in that” (Harris & Ogbonna, 2002).

Employees who are publically reprimanded in front of customers and peers may react very quickly and negatively to such a breach of trust. “In these types of situations, one of the most common responses by the employees was for them to do exactly what the managers told them not to do once the manager left the room. This type of behavior was often accompanied with much gusto, so that other employees and on-looking customers could play party to the unacceptable act” (Litzky et al., 2006, p. 96).

“IT WAS THE RIGHT THING TO DO”

Finally, some individuals may choose not to comply with a rule that they disagree with, not for their personal benefit, but because they believe that their actions are aligned with the overall interests of the organization or society. Researchers have used a variety of labels to refer to this

type of behavior. We use *positive deviance* (R. E. Quinn, 1996; Spreitzer & Sonenshein, 2003). Other terms, including *constructive deviance* (Warren, 2003), *functional* or *creative disobedience* (Brief, Buttram, & Dukerich, 2001), and *tempered radicalism* (Meyerson & Scully, 1995), all refer to the same basic idea—that in the particular situation in question, *not* complying was the right thing to do.

Positive deviance often includes speaking up to protest something being done in the organization. Although such “whistle-blowing” violates informal rules about accepting the status quo and not exposing information that might harm the organization, the motivation for positive deviance often is based on a desire to improve the organization and thereby improve the long-term outcomes for organizational stakeholders.

STRATEGIES FOR ENCOURAGING COMPLIANCE

Organizations use a variety of tactics to encourage compliance. For example, cities that wish to reduce accidents at intersections may install cameras and issue automated tickets to vehicles that fail to stop when the light turns red. Hospitals that wish to reduce the spread of infections may provide checklists to be followed along with information about the benefits of activities such as frequent handwashing (Gawande, 2009). Corporations that wish to reduce travel and entertainment expenditures may require itemized receipts for reimbursements. A list of specific tactics could go on and on. To help managers improve compliance, a more general strategic framework is needed.

Traditionally, tactics for encouraging compliance have been captured in the metaphor of the carrot (compensation when compliance is observed) and the stick (sanctions for noncompliance). This type of dichotomous framework, however, is antithetical to the competing values approach because it encourages either–or thinking. More recently, Mitchell et al. (1999) described a more comprehensive framework that identifies six basic strategies to encourage compliance. Table M2.3 provides a summary of that framework and includes a set of metaphors that we think help explain the key differences between these strategies.

TABLE M2.3 Compliance Strategies

<i>Strategy</i>	<i>Explanation</i>	<i>Metaphor</i>
Punitive	Increase negative consequences when people do not comply	Sticks
Remunerative	Increase positive consequences when people do comply	Carrots
Preventative	Make it harder for people to avoid complying	Hurdles
Generative	Make it easier for people to comply	Fast Tracks
Cognitive	Explain why complying is in a person's best interests	Enlightenment
Normative	Convince people that complying is the morally right thing to do	Conversion

Source: Strategies and explanations adapted from Mitchell et al. (1999).

STICKS AND CARROTS

Mitchell et al. (1999) begin with traditional “stick” and “carrot” approaches, which they relabel “punitive” and “remunerative” strategies, respectively. Sticks are the punishments that are imposed when individuals fail to comply with a rule. Carrots are the rewards people receive when they are observed complying with a rule. It is important to note that both sticks and carrots assume that the individual is able but unwilling (unmotivated) to comply with the existing rules. If the problem is lack of ability to comply, rather than lack of motivation to comply, sticks and carrots will be ineffective.

To be effective, stick and carrot strategies depend on the ability of the organization to provide a clear description of prohibited (undesired) or required (desired) behaviors. It is also important to have some method of monitoring behavior. In the example of the city that wanted to reduce traffic accidents, the addition of traffic cameras at intersections was an important feature when implementing that punitive strategy. The city could have just raised the cost of a ticket (also a punitive strategy), but just getting a bigger stick would not be effective without sufficient monitoring of behavior.

HURDLES AND FAST TRACKS

In contrast to attempting to alter employee motivation by focusing on consequences, the next two strategies identified by Mitchell et al. (1999), preventative and generative strategies, focus on changing the opportunities to avoid compliance. Preventative strategies are hurdles—they make it more difficult for individuals to avoid complying with rules. For example, one of our former employers wanted to reduce expenses and requested that employees not stockpile office supplies at their desks. When that request went unheeded, the managing partner had the supply cabinet locked and employees had to go through his assistant to obtain office supplies. Putting this hurdle in place made it more difficult for people to violate the no stockpiling rule.

In contrast to hurdles, which focus on decreasing opportunities to engage in undesired behaviors, fast tracks (generative strategies) attempt to increase opportunities for desired behaviors. A key assumption here is that people have not been engaging in a desired behavior because of a problem with the system, not a problem with the individual. For example, a company that wants to encourage employees to recycle might increase the number of recycling bins available to employees, perhaps placing a bin in each office. By giving employees a fast, easy way to comply with the recycling rule, the organization is able to generate a higher level of compliance.

ENLIGHTENMENT AND CONVERSION

The final two strategies identified by Mitchell et al. (1999), cognitive and normative strategies, focus on the rationale for particular behaviors. Cognitive strategies take advantage of the concept of enlightened self-interest, so we refer to these as enlightenment strategies. Enlightenment strategies assume that people mistakenly believe that following the rules is unnecessary and/or not in their best interests. Once information has been provided to correct that mistaken impression, there is no need for any additional monitoring because enlightened self-interest will result in the desired behavior. For example, workers may not realize how important wearing safety glasses is for reducing injuries. By providing information on the number and severity of injuries when safety glasses are worn versus when they are not worn, the organization may be able to change how workers think about and comply with these types of safety regulations.

In contrast to enlightenment (cognitive) strategies, normative strategies require a deeper change to the individual's values—hence our use of the term *conversion*. Normative strategies assume that people need to be taught to do the right thing—they need to be converted. Once converted, these individuals will behave appropriately without any sticks or carrots and regardless of whether they are facing hurdles or have a fast track to the appropriate behavior. Because assumptions, beliefs, and values are often very deeply held, however, conversion strategies are especially challenging.

One situation when conversion strategies are likely to be used is when top executives attempt to change the values and norms of the organization as a whole. For example, an organization that has operated with monopoly power in the past may need to significantly change its attitudes about quality and customer service when competitors enter the market. It is important to recognize that changing organizational culture is a long-term project. Mitchell et al. (1999) describe efforts by the NCAA beginning in the late 1950s to differentiate between professional athletes and students who participated in athletics programs. Recognizing that changes in language and rhetoric play an important role in changing values and beliefs, the NCAA insisted that the term *student-athlete* be used, rather than the terms *player* or *athlete* to reinforce the fact that these individuals were, first and foremost, students. Currently, these distinctions are under challenge as many players are questioning whether they make sense in an environment where schools are making millions of dollars off the backs of athletes who play for the price of an education (Schwartz & Eder, 2014).

When it comes to changing deeply held beliefs and values, rhetoric alone is rarely sufficient. Sustaining new values requires that structural changes be made to performance evaluation and reward systems to reinforce that rhetoric.

COSTS AND PARADOXES OF COMPLIANCE STRATEGIES

As noted earlier, managers can use different strategies to encourage compliance, but each strategy comes with a cost. In addition to concerns about direct financial costs, trying to force compliance may result, paradoxically, in less compliance and reduced effectiveness. Tight controls that result in a high degree of compliance can also result in missed opportunities and, in some cases, destructive deviance.

DIRECT FINANCIAL COSTS

Punitive strategies for encouraging compliance depend heavily on an effective monitoring system—employees cannot be punished unless there is evidence that they have violated some rule.

Theoretically, remunerative strategies can rely on self-disclosure (thereby eliminating monitoring costs) because employees will want to report behaviors that are rewarded. However, if there is a risk that employees may claim to have engaged in behaviors when they actually have not, then a monitoring system may be needed. To have an impact, remunerative strategies must include rewards that are sufficiently valuable to induce employees to behave as desired and to avoid behaving in undesirable ways. Depending on the difficulty of the desired behavior and the perceived benefit of violating rules, the costs of rewarding compliance can be substantial.

REDUCED COMPLIANCE AND EFFECTIVENESS

In addition to the financial costs associated with punitive strategies, the use of monitoring systems and punishments signals a lack of trust in employees, which can be a trigger for noncompliance. Even if employees continue to comply with rules, they may choose to “work to rule,” doing exactly what is required and nothing more. Research on organizational effectiveness has found that organizations depend on employees going above and beyond what is explicitly required by their job descriptions. When employees choose to work to the rules, they stop performing these types of extra-role or organizational citizenship behaviors, and organizational performance suffers.

While remunerative strategies may avoid the appearance of negative attitudes about employees, they may also result in motivation problems once they have been in use for some time. Research shows that the impact of extrinsic rewards often diminishes over time, as employees begin to feel entitled to the reward, rather than motivated by it. In addition, research summarized by Gagne and Deci (2005) suggests that in some cases providing extrinsic rewards to individuals for doing a task may actually reduce their initial intrinsic motivation. Finally, if the company attempts to eliminate remunerative strategies to save money, employees may feel that they are being treated unfairly and retaliate.

MISSED OPPORTUNITIES

Sometimes organizations need members to challenge or even break rules, as in the case of positive deviance. In the competing values framework, the internal process (Control) quadrant is directly opposite the open systems (Create) quadrant, indicating the tension between maintaining the status quo and encouraging change. So it should be no surprise that one of the costs of standardization and control is stifled creativity and missed opportunities. In organizations where the phrase “That’s how we’ve always done it” is regularly repeated, it can be difficult to convince people to consider new ideas and to implement and sustain change (two competencies we address in depth in Module 4).

DESTRUCTIVE DEVIANCE

Many examples of destructive deviant behavior are likely to be triggered when employees feel that the organization “had it coming.” Research by Greenberg and Alge (1998) suggests that acts of deviance are often preceded by perceptions of unfairness. Employees who feel that they are underpaid may feel they have the right to take organizational property or to use organizational resources for their personal benefit. Employees who feel that performance expectations are too high may look for ways to cut corners or hide poor performance from their supervisors.

It is important to keep in mind that even if destructive deviance is not targeted directly at the organization, the organization can suffer serious consequences. For example, even though the direct target of sexual harassment may be a coworker, supplier, or customer, that behavior deviates from both legal requirements and ethical standards. Organizations should also recognize that sexual harassment is not dependent only on the personality of the harasser; the organizational culture and specific circumstances also play a role. For example, when Krings and Facchin (2009) studied the sexual harassment of women by men, they found that men who felt they had been treated unfairly were more likely to engage in the sexual harassment of women than men who did not feel that they were treated unfairly. Workplace deviance has been estimated to collectively cost organizations billions of dollars per year (Ferris, Brown,

Lian, & Keeping, 2009). Although individual differences play a part in predicting destructive behavior by employees, situational triggers such as poorly designed compensation/reward systems, ambiguous performance expectations, and disrespectful or unfair treatment by managers form an important part of the equation.

Up to this point, we have focused our attention on compliance at the individual level. Now we turn our attention to the emerging field of organizational compliance.

ORGANIZATIONAL COMPLIANCE

In the vernacular, *compliance* means acting in accordance with a request or a rule—something that organizations have always needed members to do. Over the past 20 years, however, the term *compliance* has taken on another, more specific meaning as the United States and other countries have attempted to create incentives for organizations to behave more responsibly.

As a manager, it is important to understand that organizations can be penalized for failing to comply with countless laws and regulations. Although our focus will be on organizational compliance initiatives in the United States at the federal level, you should recognize that the United States is not alone in its quest to encourage organizational accountability and good global citizenship. Australia and the European Union have been active in developing systems that encourage organizations to institute compliance programs, while leaders in Japan, Europe, and the United States have come together to emphasize the importance of developing a set of international ethical standards (Israeli & Schwartz, n.d.).

FEDERAL SENTENCING GUIDELINES FOR ORGANIZATIONS

In 1991 federal sentencing guidelines for organizations (referred to hereafter as “the Guidelines”) were issued by the United States Sentencing Commission (USSC) and began to influence the internal mechanisms organizations use to reduce the likelihood of criminal activity. Although organizations are intangible entities and cannot be imprisoned, they can be found guilty of criminal conduct and punished (Desio, n.d.). It is important to understand that the federal sentencing guidelines do not just apply to large corporations. According to the Guidelines:

“Organization” means “a person other than an individual.” 18 U.S.C. § 18. The term includes corporations, partnerships, associations, joint-stock companies, unions, trusts, pension funds, unincorporated organizations, governments and political subdivisions thereof, and non-profit organizations. (US Sentencing Commission [USSC], 2007, p. 488)

Although organizations were prosecuted for criminal activity before 1991, research by the US Sentencing Commission found problems with both the severity and the consistency of punishments. For example, average fines often were less expensive than the costs associated with obeying the law—suggesting “that corporate crime did in fact ‘pay’” (USSC, 1995, p. 26). In addition, there were large inconsistencies in how different organizations were being treated, even when the facts of specific cases were nearly identical (USSC, 1995).

The Guidelines were created as a manual for judges to use when determining the appropriate sentence for organizations convicted of a federal crime (Israeli & Schwartz, n.d.). Just as important, they also attempted to reduce organizational wrongdoing by incorporating multiple strategies for encouraging voluntary compliance.

2004 REVISION AND EXPANSION

Although the original 1991 Guidelines did appear to have a positive impact on consistency in sentencing, as the many accounting scandals in the early 2000s demonstrated, there was still much room for improvement with respect to the goal of actually reducing inappropriate activities by organizations. As a consequence, the USSC voted to make the standards under the Guidelines more stringent (USSC, 2004).

One key aspect of the original Guidelines was the provision for a reduction in punishment for companies that had “meaningful compliance programs” in place at the time the criminal activity occurred (J. M. Kaplan, 2004a). A compliance program requires substantially more than a code of conduct—it is an operational program that includes “policies, procedures and actions within a process to help prevent and detect violations of laws and regulations” (Kral, 2009, p. 1).

Not surprisingly, however, some organizations were found to have followed the letter, but not the spirit of the 1991 Guidelines, creating compliance programs that appeared to be good on paper but that were ineffective because of a bad organizational culture (J. M. Kaplan, 2004b).

To increase accountability, more responsibility was put on boards of directors and top executives for managing and overseeing compliance programs. Specifically, the revised Guidelines mandate that organizations periodically conduct risk analyses to estimate the likelihood of criminal conduct and use the findings of these analyses when designing, implementing, and/or modifying their compliance and ethics programs (J. M. Kaplan, 2004b).

At a more general level, the revised Guidelines called for organizations to “promote an organization culture that encourages ethical conduct and a commitment to compliance with the law” (USSC, 2007). An April 13, 2004, press release announcing the new requirements noted, “The Commission’s focus on ethical corporate behavior is a unique development in the 13-year history of the organizational sentencing guidelines” (USSC, 2004, p. 1).

GUIDELINES FOR COMPLIANCE AND ETHICS PROGRAMS

According to Paula Desio, deputy general counsel of the USSC, “The organizational guidelines criteria embody broad principles that, taken together, describe a corporate ‘good Citizenship’ model, but do not offer precise details for implementation. This approach was deliberately selected in order to encourage flexibility and independence by organizations in designing programs that are best suited to their particular circumstances” (Desio, n.d., p. 1).

As stated in the Overview of the Organizational Guidelines (Desio, n.d., p. 1), the six key criteria for effective compliance and ethics programs include:

1. Oversight by high-level personnel
2. Due care in delegating substantial discretionary authority
3. Effective communication to all levels of employees
4. Reasonable steps to achieve compliance, which include systems for monitoring, auditing, and reporting suspected wrongdoing without fear of reprisal
5. Consistent enforcement and compliance standards including disciplinary mechanism
6. Reasonable steps to respond to and prevent further similar offenses upon detection of a violation

Not surprisingly, career opportunities focused on compliance and ethics have grown substantially since 1991. Only about 20 ethics officers attended the first meeting of the Ethics

Officer Association in 1992; renamed the Ethics and Compliance Officers Association in 2005, the organization now numbers in the thousands. Many consulting firms offer services to organizations seeking assistance meeting compliance standards. Some firms focus on industry-specific compliance (e.g., banking, health care, insurance), while other firms focus more broadly, providing training, software, and other services to a variety of organizations.

Regardless of the type or size of an organization, it is important to recognize that one-time training sessions on the importance of compliance are not sufficient. An organizational culture of encouraging and enabling compliance and ethical conduct requires that appropriate values and behaviors be integrated into the daily activities of the organization (Teichgraber, 2008). As a manager you may be able to make a great contribution by playing your part in building a culture of integrity.

ANALYSIS Strategies Used by the United States to Increase Compliance

Objective This analysis exercise will give you the opportunity to test your understanding of different strategies for encouraging compliance as well as to learn more about the US federal organizational sentencing guidelines.

Directions Do the following:

1. The United States Sentencing Commission has posted the current version of the Federal Sentencing Guidelines Manual on its web site. Download or view the most recent copy of Chapter 8: The organizational sentencing guidelines, from <http://www.usc.gov/guidelines-manual>.
2. Briefly review the guidelines looking for evidence of different strategies for encouraging compliance. Then answer the following questions with a group or as a class:
 - How many different strategies did you find?
 - Which strategies do you think have the most impact in reducing illegal and unethical behavior? Why?
 - Do you feel that some strategies were not used that should have been used? Why or why not?

Reflection If you have never read any federal regulations before, you may have been surprised at the length and complexity of Chapter 8 of the Guidelines. Creating laws and regulations to help ensure fair competition is an extremely complicated task. It is also a highly political task. In some cases, exclusions are created for specific industries or even specific organizations. For example, states often attempt to attract new businesses by offering tax breaks that are not available to existing businesses.

PRACTICE Moving Compliance Outside the Workforce

Objective This exercise is designed to give you the opportunity to practice analyzing and developing policies to encourage and enable compliance.

Directions 1. Read the following scenario:

Assume that you work for a university that wants to reduce health care costs. The president, a marathon runner, is especially interested in getting employees to exercise more. One of your colleagues

in HR has proposed a program to reward employees who exercise. Your colleague has written the memo below and has asked for your feedback.

GET HEALTHY, GET CREDIT!

As part of the university's "Get Healthy, Get Credit" program, faculty and staff are encouraged to maintain a healthy lifestyle including physical activity. Faculty and staff are encouraged to be physically active a minimum of 30 minutes each day. A form has been provided to keep track of your daily or weekly hours of physical activity, excluding classes or programs sponsored by the university. Eligible faculty and staff may earn a \$25 incentive credit for completing 25 hours of physical activity hours between February 1 and June 11 (20 weeks). Please note this form should be completed only for physical activity outside of university programs (i.e., if you participate in a group exercise class, you will get one point per class, and hours should NOT be tracked on this form). Hours of physical activity must be tracked in increments of 30 minutes (= .5) OR 60 minutes (= 1).

2. Write a memo that identifies the strengths and weaknesses of the program as proposed and offers suggestions for improving the program.

Reflection Not everyone is comfortable with the idea of organizations creating programs like the one described, which focus on personal behavior outside the workplace. In addition to programs aimed at changing lifestyle behaviors that might affect health (e.g., exercise, smoking), many organizations have created programs to track employees' community service, even when that service takes place outside of work hours. Although some employees appreciate being recognized for their community activities, others feel that these types of behaviors are private and should not be tracked and used by the company to burnish its public image (Tschirhart & St. Clair, 2008).

APPLICATION Your Organization's Compliance Policies and Practices

Objective This exercise is designed to help you assess how your organization attempts to encourage and enable compliance.

- Directions*
1. Identify an organization to analyze, preferably your employer.
 2. Use the questions below to evaluate how your organization attempts to obtain compliance with rules, policies, and regulations.
 - a. Does your organization have a compliance and ethics office?
 - b. What is covered in your organization's code of conduct? Are copies readily available to employees? How often is the code of conduct reviewed?
 - c. What types of strategies does your organization use to encourage compliance?
 - d. Have you come across any situations where company policies made it difficult to actually comply with some requirements? If so, what can be done to improve the situation?

If you are not currently employed, you can use the questions when interviewing potential employers or answer the questions with respect to your school or even how different teachers attempt to obtain compliance from students in the classes you are taking.

Reflection Encouraging and enabling compliance is not just the job of compliance officers and top managers. Every member has the opportunity to set a good example by learning about organizational policies and procedures, role-modeling appropriate behavior, and, if necessary, challenging the status quo.

MODULE 2 Control-Focused Competency Evaluation Matrix

Objective The final exercise in each module encourages you to develop a comprehensive strategy for mastery that you can implement and monitor in the future. These competency evaluation matrices will be used at the end of this book to help you develop a long-term development plan that focuses on enhancing your behavioral complexity.

Review The first competency in the Control quadrant focused on organizing information flows for the individual manager, with an emphasis on increasing the efficiency of handling information inflows and improving the effectiveness of information outflows. Next, we expanded our view of the manager's job to consider how managers can work and manage across functions. The third competency focused on planning and coordinating activities in general, while the fourth competency focused on monitoring and measuring performance to ensure that actual outcomes were aligned with goals established in the planning phase. Finally, we considered control and stability in light of pressures from the external context, particularly issues of compliance with US federal guidelines for corporate accountability.

Directions Answer the questions in Table M2.4 for each of the competencies covered in this module based on the reading material, class discussions, and your personal work (e.g., Assessment exercises and Application exercises).

Reflection Completing the matrix in Table M2.4 should give you some ideas about how you can continue to improve on competencies that focus on establishing and maintaining stability and continuity, consistent with the goals of the internal process quadrant.

TABLE M2.4 Module 2 Control-Focused Competency Evaluation Matrix

With respect to this competency:	Organizing Information Flows	Working and Managing Across Functions	Planning and Coordinating Projects	Measuring and Monitoring Performance and Quality	Encouraging and Enabling Compliance
1. What do I know about my current performance?					
2. How could I be more effective?					
3. Who are some people I could observe?					
4. What books should I read?					
5. What objectives and deadlines should I set?					
6. With whom should I share my objectives?					
7. How will I evaluate my efforts?					