Increasing compliance is a vibrant topic in firms. Recent cases of loss of reputation and customer confidence have underlined the importance of this issue. A critical prerequisite for compliance on the firm level is compliance of the workforce. We address the question of appropriate means for firms to foster compliance of their workforce, in particular, when compliance is not in the monetary interests of workers. We investigate the effects of: (1) increasing the detection probability of non-compliance, (2) monetary incentives to promote compliance (bonuses and penalties), and the interaction of (1) and (2).

We find that compared to a situation without any audits, audit systems that penalize non-compliance or reward compliance, but with a low detection probability lead to significantly lower compliance. Increasing the detection probability increases compliance, yet only a penalty system with a high detection probability ensures significantly higher compliance than without audits (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3645136).

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