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THE EFFECT OF COMPLIANCE BEHAVIOUR ON THE INNOVATIVE ENVIRONMENT OF HR PRACTITIONERS AT A TERTIARY INSTITUTION

by

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DECLARATION

I, Rajendran Moodley, declare that the dissertation **"THE EFFECT OF COMPLIANCE BEHAVIOUR ON THE INNOVATIVE ENVIRONMENT OF HR PRACTITIONERS AT A TERTIARY INSTITUTION"** which I hereby submit for the degree Masters in Business Administration at the University of South Africa, School of Business Leadership is my own work and that all the sources that I have used or quoted have been indicated with complete references and acknowledgements. This dissertation has not previously been submitted by me for a degree at this or any other tertiary institution.

Rajendran Moodley   3 May 2010

RAJENDRAN MOODLEY   **DATE**

EXECUTIVE SUMMARY

Problem Context

The HR Department of the University of Pretoria had focused on a strategic direction that required it to be the benchmark in higher education. In achieving this vision, compliance and innovation in the HR Department was central since the framework within which the University operated was dynamic and characterised by the demands of good corporate governance.

In the *first level of complexity*, the dynamic nature of the University environment is described from a strategic and operational perspective. Key structures such as the Council, Senate and Executive Management had a direct role in maintaining corporate governance, while the HR Department was mandated to manage compliance. This brought about certain challenges since the achievement of HR objectives through innovation allowed a greater degree of freedom in comparison to the degree of control prescribed by compliance management. The *second level of complexity* analysed the existing models of decentralisation and the New Management Model in order to determine the interaction of compliance and innovation in the existing structure.

In the *third level of complexity*, various business models were used to gain a deeper understanding of the issues. This level was characterised by strategic drift where the department aligned itself to the customer than and less to dynamic nature of the organisation. Deliberate HR strategies became more laboured and compliance was not integrated into the broader strategy. The existence of control created uncertainty of the desired behaviour expected by HR practitioners and the formation of subcultures thereby negating innovativeness.

The illustration of a systems model of creativity provided a view on cultural segregation where innovative ideas resided in their present domains and not transferred within the HR Department as the model for knowledge conversion argues. In the open innovation model there was more emphasis placed on external consultants than the capacity of HR practitioners. The implication was that HR

practitioners were limited in terms of idea generation and the department's intellectual capital remained underdeveloped.

The model illustrating the occurrence of accountability elaborated how HR practitioner's and management's interpretation differed while the ethical decision making model with accountability highlighted how the incompatibility of relationships favoured their respective faculties/departments.

The *fourth level of complexity* reviewed all the literature more specifically on the topics of the Sarbanes-Oxley Act, good corporate governance, compliance management, corporate ethics and innovation. The literature shows a clear shift in emphasis from Finance leadership to HR leadership where the full effect of compliance and effective monitoring is achieved through strategic focus and operational attentiveness. In the modern business world, compliance has not coped well although it is suggested that compliance standards be established to exploit new opportunities. This is accomplished by being ethical and ensuring that the department's actions are not damaging to others. Finally literature on innovation is reviewed and was found to be what organisations strive for. For some, acquisition is less risky while for others risk and failure intensifies innovation.

Importance of the Research

The use of innovative approaches to add value or meet customer expectations has seen risk increasing. In order to minimise these risks and impose good corporate governance, compliance management seeks to instil accountability and control. Where innovation requires risk taking, compliance seeks to minimise risk. As these are in direct opposites, it is important to identify strategies where these two elements can co-exist without compromising competitive advantage.

Research Scope

The research is limited to all HR practitioners and line management of the HR Department in the University of Pretoria.

Research Methodology

Data collection was conducted through survey questionnaires and structured interviews. The constructs surrounding compliance behaviour and innovation were measured by identifying their relative frequencies in the HR Department.

Research Question

Can appropriate compliance behaviour have a positive impact on the innovative environment of human resource practitioners in the University of Pretoria?

Research Objectives

Objective 1: To identify existing compliance behaviour.
Objective 2: To determine the significance of compliance behaviour on the innovative environment.
Objective 3: To identify the contributors to an innovative environment.

Limitations

The potential limitation is that responses may be influenced by the existing culture and values espoused by the respondents respective environments.

Results

The objectives provided a framework within which the research question could be answered. Data in line with the first objective indicated that existing compliance behaviour in terms of developing a culture of integrity and honesty was well below the expected level. This meant that ethical values were not promoted openly to have an influence on the culture of the HR Department. HR's role in corporate governance was also well below the expected level as respondents were of the opinion that the department was not doing enough to facilitate its position on corporate governance. On the other hand line management concurred that a culture of integrity and honesty was not prominent while in the general aspects of corporate governance, respondents were in partial agreement in terms of reporting on policy, compliance integration, documented roles and responsibilities and internal control.

Data on the second objective reflected that the aspects contributing to compliance behaviour was highly significant with the aspects influencing the innovative environment. Both aspects showed an almost perfect correlation with each other indicating that respondents felt that aspects of compliance behaviour were necessary to facilitate an innovative environment. Data on the final objective which measured the contributors to an innovative environment showed that the HR Department was doing little in terms of innovation. Insufficient funding, contribution to innovation and the fact that the department did not harness the capacity of existing intellectual capital found the environment to be unsuitable to idea generation.

Conclusions

The HR Department's role in corporate governance was negatively skewed as a result of the imbalance of governance mechanisms. Management's position on corporate governance was unclear and staff could not relate to the concept. Although results have shown that aspects of compliance behaviour had a significant correlation with aspects in the innovative environment, there was a need for an integrated approach when considering compliance and innovation.

Recommendations

Management might consider changing its position on compliance by incorporating it as part of the HR culture thus linking it to the HR strategy. By providing the necessary support and developing internal capacities an innovative environment could be facilitated and one of the HR Department's strengths could be realised. Management should encourage ethical considerations in work activities should be linked to the value proposition of the HR strategy. Encouraging ethical decision making and good corporate governance might create a climate where compliance behaviour becomes the norm in an innovative environment.

DEDICATION

To my wife **Radha**, and my children **Yegen** and **Sameshnee**, for your love and support which motivated and inspired me to continue and without whose faith I would never have accomplished so much.

To my **Lord Shiva**, who has been with me every step of the way and without whose design and grace this dissertation would not have been possible.

TABLE OF CONTENTS

LIST OF FIGURES AND TABLES

FIGURES

TABLES

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- To my father, who is not here to celebrate my achievements but believed that I could succeed.

- To my lord who granted me the opportunity to fulfil my dream.

ABBREVIATIONS

HR Department	Human Resource Department
IODSA	Institute of Directors Southern Africa
NMM	New Management Model
BCEA	Basic Conditions of Employment Act 75 of 1997
SOX	Sarbanes Oxley Act of 2002
UP	University of Pretoria

CHAPTER 1

BACKGROUND AND PROBLEM STATEMENT

1.1   Introduction

The dynamic nature of the higher education environment has necessitated various changes to the strategy of the University of Pretoria. The Human Resource Department which is an integral part of this strategy provided the support framework for all human resource activities such as appointments and termination, remuneration, grievances, maintenance of EE targets, HR information system maintenance and development, pension calculation and payouts, monitoring and measurement of strategic objectives and policy compliance.

All functional activities were aligned to provide client satisfaction which has been an important measure of performance in the HR Department. Thus the need to balance the needs of clients with compliance requirements has created many challenges.

Chapter 1 provides the point of departure, background and the problem in context. The problem is reviewed and elucidates the position of the research study within the topic area. The research problem is posed and refined into a practicable problem statement, the objectives of the study are outlined, and the significance of the research is highlighted to indicate the value of compliance in a dynamic environment.

1.2   Background and Problem in Context

The question of governance in Higher Education institutions has arisen in many countries over the last decade as a result of complexity, diversification, greater demands for accountability, more competitive and entrepreneurial environments, taking a strategic role in emerging knowledge societies and the challenges of globalisation. The debate of governance of universities takes place alongside a similar debate of corporate governance, where high profile failures of company boards to ensure proper controls and audits have given the issue greater prominence. For Higher Education however, the structures, processes and relationships that are used for making decisions concerning strategic direction and monitoring institutional performance in the context of accountability for public resources is vested in the governing body (Council) and the academic authority (Senate) and their interface with Executive Management (Bolton, 2006).

In the University of Pretoria, good corporate governance is therefore characterised by meeting client expectations and the demands of public accountability. Hence the key structures for achieving good corporate governance is the Council which has the ultimate public accountability for the institution, Senate which is the academic authority and Executive Management which is the implementing agency for both.

Management therefore has the responsibility to:

- Establish and communicate organisational goals and values.

- Monitor the establishment of goals.

- Ensure accountability and values are preserved.

Management is also responsible for effective risk management and internal control and to provide top management with reasonable assurance that:

- Risks are properly managed.
- Assets are safeguarded.
- Financial and operational information are reliable.
- Operations are effective and efficient.
- Laws and regulations and contracts are complied with.

(Bolton, 2006)

Typically in the HR Department of the University of Pretoria, the mandate is to maintain compliance. According to the King Report on Governance for South Africa 2009 (IODSA, 2009: 89) compliance with applicable laws, rules, codes and standards should be proactively managed or delegated within the organisational structure. Compliance Management therefore monitors the challenges emanating from the operational and strategic environment through integrated compliance evaluations and process re-engineering to prevent and detect policy breaches and where necessary redesign system controls to enhance efficiency and effectiveness. Compliance Management also performs an overarching role in monitoring HR operations and collecting data on challenges that may exist for example inconsistencies in the application of policy (Gardner, 2008).

The current strategy of the HR Department is centred on "being the benchmark in higher education", and requires compliance to assume a "guide dog" approach. One

particular concern for compliance management was the impending New Management Model (NMM) which was particularly concerned about addressing service delivery challenges emanating from a previous model of decentralisation (UP, 2008). This business thinking perceived that decentralisation would prove to be an ideal interface for typical faculty or departmental challenges by acting as a conduit to the HR Department. By enabling HR employees to act as custodians of policy and regulations, it was hoped that compliance would be maintained. This steadfast view was also backed up by the fact that Internal Audit and Risk Management was well positioned in the University to offer support in maintaining good governance.

Seemingly one of the issues that emanated from the decentralised model was the apparent disparity between staff functionality at different locations. At the faculty or departmental level, practitioners were somewhat detached from the HR hierarchy and therefore not directly accountable to the HR Director. From a compliance perspective, this disparity highlighted certain implications of liability.

Another typical issue was the distinguishing features of staff allegiance in decentralised and centralised offices. At decentralised offices the reporting structure offered a more protective setting because of a reliance on a few HR experts while at the central office a structured setting was in place with channels of line and staff authorities. In a sense, divided allegiance to the HR structure and its goals were prominent.

Stemming from this apparent split of the HR structure, two cultural paradigms were obvious: one with internal control and the other where control had to be formalised through intra organisational consultation. Seemingly this meant a split in HR cultures and a diverse view on the meaning of compliance.

In general however infractions were considered a risk to the University and from a governance point of view controlled by policy enforcement. Comparatively the King Report on Governance in South Africa (IODSA, 2009: 91) articulated the encouragement of a compliance culture through leadership, establishment of appropriate structures, education and training, communication and measurement of key performance indicators relevant to compliance.

Although it was standard practice for the University to maintain good governance through executive decisions and in conjunction with legislation, risk is always present and therefore risk awareness was explicitly embedded in the University's philosophy as

an essential part of good corporate governance (Van Der Merwe, 2008). For employees who are custodians of policy, the degree and determination with which policy application was achieved may be an issue warranting further attention.

In the decentralised environment the management style may have been differentiated by increased empowerment and adequate opportunities because faculty and departmental managers relied on HR employees to get the job done, which contrasted with the conditions in centralised offices. Thus from a relationship point of view, HR employees had developed internal dependencies with customers which meant a direct stand off between achieving customer satisfaction or compliance.

In order to maintain control, the general tendency is to address each breach of policy with further control measures which meant some reactive alignment with the HR strategy and the compliance function. Nevertheless this created some sort of moral dilemma between being creative within a regulated environment. With the current governance principle recommending a 'comply or explain' paradigm (IODSA, 2009), the risk of preferential application of this tenet under present structural conditions may also arise. For HR employees however, the dynamic environment required individuals that could provide a myriad of solutions, but maintaining flexibility in the long term may be an issue especially when compliance acts to confine rather than to liberate.

The Problem in Context provided an analysis of the first level of complexity within the HR Department. These issues are elaborated further in the Problem Review.

1.3   Problem Review

In this section the Problem Review or second level of complexity is unravelled by examining how centralised and decentralised HR employees respond to challenges in a regulated environment. By drawing and reflecting on the issues within the Problem in Context, greater clarity may be achieved.

1.3.1   Non-integrated strategy

Rapid transformations in the global market were making it difficult for firms to predict and analyse future trends. Strategic foresight is important if current planning systems were able to navigate into a direction that offered an advantage (Kachaner and Deimler, 2008). The adoption of a New Management Model provided some clarity of the HR Department's intention in plotting a new course (Gardner, 2007), more specifically

aligned to servicing the needs of clients. Likewise, the intention to ensure good governance through compliance with policies and regulations was a strategy of the department. However, the question arose as to which provided the greater advantage.

The HR strategy had been designed to pursue its vision, mission and objectives through specifically aligned targets (Gardner, 2007). On the other hand the issue of compliance was an overriding factor that must be achieved if the objectives were to be attained. Typically though, compliance within the HR strategy may be thought of as being dissimilar to the idea of compliance in a governance context. The HR strategy viewed compliance as a mechanism to drive divisional performance through the performance monitoring plan (Gardner, 2007). Arguably if compliance was viewed in this context, the idea of a compliance strategy that was integrated into the HR strategy may be pursued from an alternative position rather than in parallel.

The strategy perspective also underlines that the idea of the New Management Model is inextricably linked to the pursuance of improved service delivery which is the main focus of the HR strategy (Gardner, 2007). The implementation of the NMM signals restructuring and increased re-allocation of internal personnel which by implication would mean that decentralised personnel may in effect remain in their respective comfort zones but relinquish power to a business partner. The apparent weakness of this idea is that the non-integration of the HR and compliance strategy may perpetuate past practices where compliance is viewed as a subordinate strategy. Coupled with the inter-dependencies of clients and faculty or departmental heads on the particular individual, it may just be a case of business as usual.

1.3.2   Ethical considerations

The overall practice of governance in the University of Pretoria is the responsibility of the council, senate, executive management (Bolton, 2006) and finally the organisations stakeholders who are ultimately responsible for compliance (IODSA, 2009). Brewster, Carey and Dowling in their reference to a survey of Australian HR managers conducted by Carey in 2000 indicated that managers play a prominent role in ethics management where they have the responsibility of formulating written ethics standards, communicating these standards as well as monitoring and enforcing compliance to the standards (Brewster, Carey, Dowling, Grobler, Holland & Wärnich, 2003). Brewster *et al.,* (2003: 23) suggested that "HR is well positioned in making an important contribution

to creating, implementing and sustaining ethical organisational behaviour within a strategic paradigm".

With the current issues of non compliance for example the approval of overtime claims which do not meet the minimum requirements of the Basic Conditions of Employment Act (Gardner, 2008) the question of ethics may become prominent. The University does not have a policy on overtime but has to honour the obligations since work was concluded prior to the claim being submitted. This view, on the non compliance to policy impacts on the issue of governance and may outline the position of the University of Pretoria. Arguably, this may indicate a precedence in honouring obligations outside policy and facilitate a continuous cycle of meeting future obligations.

With the HR strategy, identifying the need for the HR Department to be more flexible in delivering quality services (Gardner, 2007), it may be argued that a over emphasis on flexibility in order to keep clients satisfied, may create a window of opportunity for the transfer of control to clients. This is to say that clients may in a sense dictate to the University that their needs should be above anything else. This may bring about a case of client dominance where governance may be secondary and individual client satisfaction may be of primary importance.

1.3.3   Implications of structure

The proposed structural changes in the HR Department, brought about by challenges in the quality of service delivery of the decentralised model considered a more business like approach. This would see the HR structure change dramatically from a secluded network of silo units managed by HR officers to a more elaborate interface led by business partners (Van Aswegen, 2006). Branson (2008) argued that organisational adjustments tended to have a profound adverse affect on the physical, social and emotional well-being of the employees as well as the overall effectiveness of an organisation for example rapidly changing technology, globalisation, uncertainty, unpredictability, volatility, surprise, turbulence and discontinuity. To overcome this organisations have adopted practices such as downsizing, re-engineering, merging and restructuring to counter the negative effects of change.

The decentralised approach indicates that HR practitioners, though being a representative of the HR Department, seemingly were delegated more power as a result of their duties by their respective faculty or department (Van Aswegen, 2006).

This relationship may have nurtured internal dependencies between the HR practitioner and clients. With the proposed structural change and the inclusion of business partners as the commanding force, it may be realistic to consider Branson's (2008) comment and the impact this may have in role reduction.

To fully understand the magnitude of structural change, one can easily identify with Boojihawon (2006), where he argued that different pace and pattern of change created different kinds of internal and external difficulties and constraints that acted as resistances to change. Change heightens insecurities about loss of jobs and career positions. On the other hand change can have a stabilising effect by removing the insecurities that exist. This depended on the nature of change and the reason for it.

This brings to question the impact of structural change on the positional power and internal dependencies possessed by HR practitioners in faculties and departments. From the implementation of the NMM one may observe that the transition to a new mode of operation may be problematic and prone to conflict. Arguably relationships with existing practitioners may continue to flourish and this may bring about the alienation of the business partner's role. One of the risks that this poses is that a limited role may result in subsequent withdrawal of the business partner and the possibility of HR practitioners assuming control which may arguably highlight concerns that previous compliance issues may be restored.

1.3.4 Organisational Culture

A culture is a set of norms, beliefs and values that bind an organisation's members together by providing a unified goal (Louw and Venter, 2006). In the HR Department these norms, beliefs and values have been underscored arguably by divided loyalties stemming from the existence of multiple structures and complacency of HR practitioners when applying policy. Subsequent restructuring and implementation of the NMM, may bring about a clash of cultures especially at the decentralised locations where business partners would be situated.

Existing HR practitioners would in all likelihood remain at their decentralised locations but it is arguable whether a shared identity would prevail. One of the questions that may arise is the acceptability of the business partner in a domain previously held by HR practitioners. Current HR practitioners tended to have a shared history with the

particular faculty or department, something that the business partner had to develop over time.

The new structure will see business partners and all HR practitioners being mandated by the HR Department with all previous agreements as the ones held by faculties and departments being nullified. In essence this means that the business partner and not the HR practitioner will be required to report on performance to the HR Department. This brings about the issue of trust since the existing relationship created by HR practitioners may be differentiated by the loyalty that once existed. This may bring some reluctance by HR practitioners to divulge "the way things were done around here" to the business partner as this may not be seen as the culture that the new model regards as acceptable.

1.3.5 Creative stimulation

Much can be done about boosting overall organisational innovation. This starts by learning to tap into the creative potential of all employees and their knowledge base about customers, competitors, processes and establishing the right organisational climate (Leavy, 2005: 38). In the HR Department, the organisational climate may be compared to a continuum with open innovation on one end and closed on the other end.

Few organisations today have come close to extracting the full innovative potential of their employees (Leavy, 2005: 38). When contrasted with the decentralised model a clear division of operating environments becomes apparent. Decentralised locations such as the faculty or department, offer HR practitioners far greater latitude in decision-making and execution. Coupled with the support received from the heads of department, one can easily identify direct engagement privileges with top management as well as stakeholders. Opportunities may even arise from the use of HR practitioner's specialist knowledge which forms the nodal point and point of reference for the faculty or department.

In contrast, central HR practitioners operate within a particular division and are somewhat constrained in their application since their actions are monitored by their line managers. This brings about the question of creative stimulation and whether the new structure may be adequately suited to encouraging and sustaining the growth of ideas.

Based on this idea one can only predict that constraining the organisational climate by being risk averse may bring about an extreme reliance on being cautious during policy application. The danger is continued reliance on parameters set by respective policies may tend to adjust the perception of HR practitioners so much so that it may be a safer option to be parochial rather than be a risk taker. With this constrained vision set by being less risky it is arguable that any leverage obtained from the ingenuity of people will be able to drive significant growth and competitiveness.

1.4   Research Question

In the previous sections, the reader was guided through two levels of complexity which commenced from the factual and proceeded to the specific. This section provides a more focused approach on the problem itself.

The research question is therefore posed as:

Can appropriate compliance behaviour have a positive impact on the innovative environment of human resource practitioners in the University of Pretoria?

The critical contribution between human resource personnel, ethics and compliance in developing an ethical corporate culture, lies in cultivating the necessary habits of mind with respect to recognition, analysis and resolution of ethical dilemmas (Berenbeim, no date).

Franca (2006) claims that nearly every element of business operations experiences rapid changes to societal expectations of corporate behaviour. For the HR Personnel in the University of Pretoria who operate in a dynamic environment and wrestle with the conflicting expectations imposed on them by competing interest groups, compliance cannot be compromised. Globalisation on the other hand is leading to increased competition (Segal-Horn, 2006) and this exacerbates the pressure to be innovative. The obvious dilemma therefore is the need to offer competitive services within a regulated environment. With the increasing pressures imposed by corporate governance, HR officers are frequently asked to account for their activities by auditors. Deviations are constantly addressed by controls and this may be draining the intellectual stimulation required within the environment.

1.5   Research Objectives

The research objectives formulated around the SMART principles of being specific, measurable, achievable, realistic and timely are:

Objective 1: To identify existing compliance behaviour.
Objective 2: To determine the significance of compliance behaviour on the innovative environment.
Objective 3: To identify the contributors to an innovative environment.

These objectives will therefore form the platform of further reflective analysis in the subsequent chapters.

1.6   Significance of the Research

Vosburgh (2007), comments that the pressure on HR to contribute to the bottom line is growing significantly in the light of diminishing resources and under regulated conditions. This has sometimes led to a parochial approach by HR personnel, who sometimes cling to an old style of administration and policy policing. The evolution of HR whether reactive or proactive, is certain in a dynamic environment.

These remarks provide an indication of the significance of this research in that it is imperative to understand how to link with the bottom line and extend value. From the paradox of control we learn that more control leads to less control and this should not be how HR defines itself in the future. This research is about understanding the nature and importance of compliance and how to develop new complementary strategies that will incorporate compliance within innovative cultures so that HR practitioners would remain flexible in inflexible situations.

1.7   Chapter Layout

This dissertation is organised in the following manner:

- **Chapter 1: The background and problem in context**

- **Chapter 2: Problem analysis**

- **Chapter 3: Literature review**

- **Chapter 4: Research design and methodology**

- **Chapter 5: Research findings and analysis**

- **Chapter 6: Conclusion and recommendations**

1.8   Summary

The boundaries of organisations are rapidly expanding and after the major corporate scandals of Enron and Parmalat, corporations have instituted more vigilant measures on the stewardship of resources. On the other hand organisations need to be profitable and this can only be achieved through engaging the dynamic environment and being able to evolve constantly. This chapter sets the scene for the rest of the dissertation and defines the parameters within which compliance and innovation reside. Although there is a clear delineation between these two concepts, the HR Department wants to attain a good balance between compliance to policies and good governance.

The problem in context provides a factual encounter with the problem in general, while the problem review provides a more reflective approach to underlying issues. In the subsequent chapters a more focused approach on compliance will be adopted to determine how best to positively reinforce the innovative ability of human resource practitioners.

PROBLEM ANALYSIS

"Somewhere, something incredible is waiting to be known."

-Dr Carl Sagan-

American Astronomer, Writer and Scientist, 1934-1996

2.1   Introduction

This chapter provides an exposition of a deeper level of understanding through the interpretation of business theory and models. As the objectives form the baseline, the researcher will gather a deeper level of understanding or third level of complexity by analysing relevant business models.

2.2   Strategic changes and the approach adopted by the HR Department

The problem review has suggested that the HR Department is currently challenged by various strategic issues. These issues are associated with the phases of incremental change and flux since full transformational change is pending.
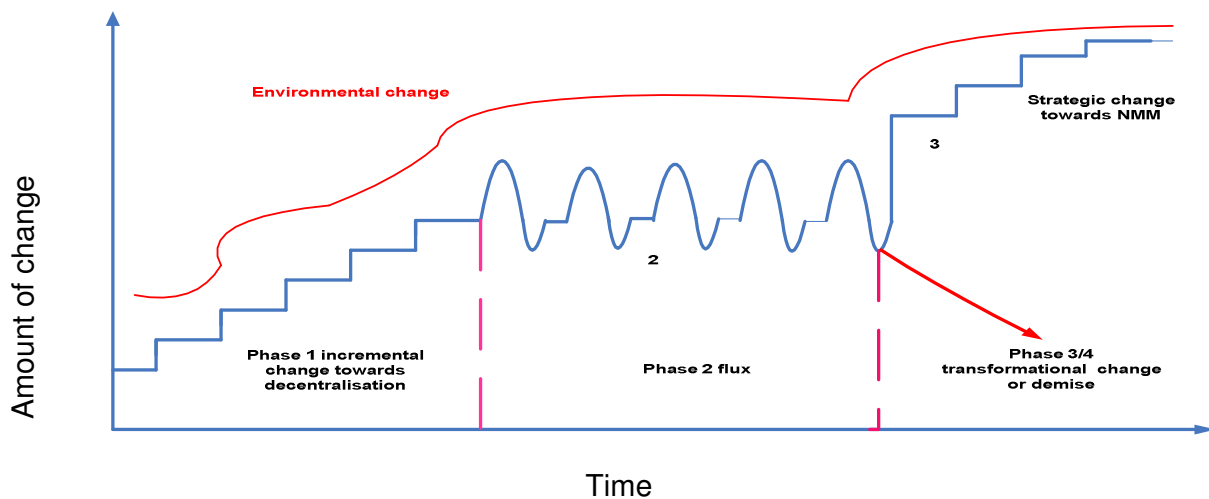
Figure 2.1: The risk of strategic drift (Johnson, 1992)

Figure 2.1 emphasizes the HR Department's earlier incremental move towards decentralisation.   Decentralisation according to Drumm (1995) contained weak theoretical underpinnings. Although these areas of thought exist, the HR Department nevertheless viewed client satisfaction as a core objective.

Drumm (1995: 5), pointed out that one particular problem of decentralisation was ensuring that affected divisions adopt the target goals of the organisation. For the HR Department a flexible approach to service delivery meant a reduction in the interaction with the central office. Inadvertently decentralised offices assumed inward stances that focused on faculty and departmental goals rather than HR goals. Seemingly the effect of increased autonomy of decentralised offices may have resulted in the transfer of reporting away from the HR Department, which effectively saw compliance monitoring becoming more of an internal practice. This suggests that the application of compliance was more subordinate and since customer satisfaction was paramount, this accentuated the possibility of subjective practices.

Coupled with the dilemma of customer satisfaction and doing the right thing, the HR Department's dedication to the organisational strategy provided allowance for incremental changes rather than radical change presented by a new HR strategy.

The widespread prominence of governance internationally and in South African businesses as well as increased audit presence provided some intensive challenges which when coupled with the development of a dedicated HR strategy characterised the state of flux. This depicted a more erratic approach to change since the development of a HR strategy was overshadowed by decentralised operations aligned clearly to the customer satisfaction.

The tandem operation of NMM and the decentralised model offered no clarity of clear strategic change and many perceived the decentralised model as the supporting framework. This also suggested that several elements of the NMM strategic model such as monitoring compliance and performance of the business units were temporarily inactive thus perpetuating the state of flux in the view of major environmental changes in governance and ethics. Invariably, this state of flux implies longer time horizons thus greater strategic risk (Raynor, 2007). Although the decentralised may have been adopted as an intended strategy, emerging strategies requiring an integrated approach on the customer and compliance may be more appropriate.

2.2.1   Strategy development

The development of a HR strategy offers a more practical solution focused on quality and the customer as suggested by the UP strategy (Gardner, 2007). According to Mills,

Platts, Neely, Richards & Bourne (2002: 9) these strategies are 'intended' strategies, and when implemented, they are 'deliberate' strategies or alternatively 'unrealised' strategies if they fail to be implemented.
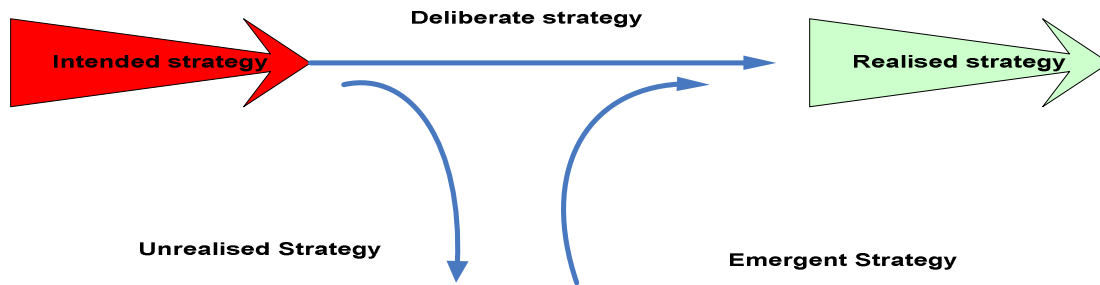
Figure 2.2: Deliberate and emergent strategies (Mintzberg and Waters, 1985)

The HR strategy thus reflects a deliberate strategy. Although partially implemented, its obvious juxtaposition with decentralisation arguably makes its implementation laboured. Although the need for an integrated strategy encompassing compliance would seem to be more performance orientated, this is only intended at present. Compliance therefore seems to assume a mediocre position.

On the other hand Paine (1994: 107) argued that integrity strategies vary in design and scope and strive to define the organisations guiding values, aspirations and patterns of thought and conduct. When integrated into daily operations of an organisation such strategies prevent ethical lapses while tapping into the powerful human impulses for moral thought and action. This ethical framework no longer becomes a burdensome constraint within which organisations must operate but the governing ethos of that organisation.

Raynor (2007: 4) argued that strategic success required a vigorous pursuit of a bold vision and a commitment to hard to reverse objectives that indicate a specific strategic posture if huge returns were the goal. Simultaneously, care should be taken of the considerable risk that the organisation may be exposed to when pursuing these objectives. These risks may have wider implications and affect organisational control (Ward, 2001). It is therefore necessary to understand how control is perceived.

2.2.2   Control mechanisms regulating the HR environment
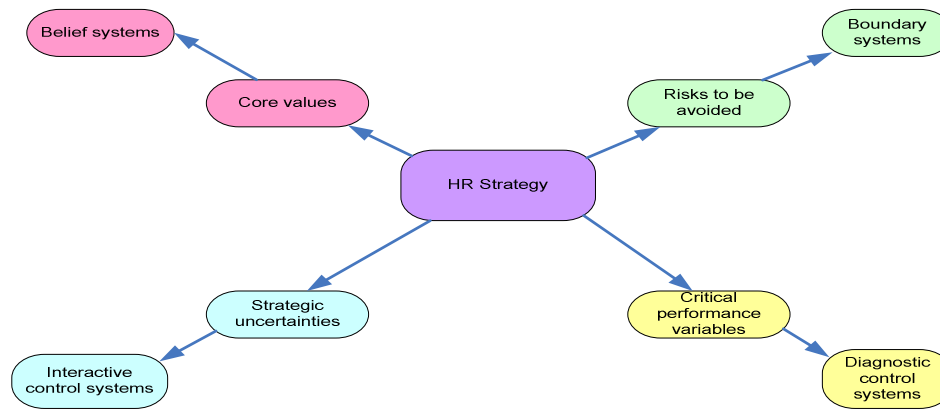
Figure 2.3: Basic control levers (Simons cited in Widener, 2007)

The illustration above analyses how control levers interact with compliance practices to regulate the activities in the HR Department. Nobel and Birkinshaw (1998: 483) refer to control as variety of mechanisms used by management to regulate the activities of the organisation's disparate parts.   In the belief and boundary systems of the HR Department activities may seem to be regulated by the mission and values contained in the new HR strategy. Control in these systems is subject to parallel operational models which in all likelihood may create uncertainty on the desired behaviour when faced with a compliance challenge. Although the belief system in decentralised locations may be customer orientated, limited control especially in articulating the values espoused by the department may create tendencies that are inconsistent with the HR strategy for example disparate service distribution where some clients receive greater attention than others.

Though empirical research suggested that control systems are beneficial in managing strategic uncertainty (Widener, 2007: 7), this characteristic may perpetuate owing to the disparities of the two models. In research conducted on profit centre managers, it was found that manipulation of earnings was likely when the environment was characterised by uncertainty (Widener, 2007).   This uncertainty may be equally prominent in decentralised and centralised structures.   In decentralised structures a stronger relationship between clients and HR practitioners may exist, while this may be less noticeable in central HR. Existing relationships have thus become entrenched in the belief systems of all HR practitioners.

Widener (2007) claimed that organisations facing strategic change are more likely to reduce uncertainty and ethical dilemmas if belief systems accurately portray the vision and core values of the organisation. However, in the HR Department belief systems may typify a duality of core values based on existing paradigms of customer satisfaction and less on compliance. Thus a view that compliance is a subordinate strategy may arguably reduce compliance application.

Diagnostic control systems which are also used to manage strategic uncertainty and which rely on information processing by top managers are handled appropriately by delegating certain decisions to employees. Although this is typical condition of both the centralised and decentralised structure, employees at decentralised locations seem to hold more power due to their independence. The incorporation of business partners into decentralised locations may likely ensure the success of an integrated strategy more so when performance monitoring over strategic objectives commences in the year 2010. Louw and Venter (2006) argue that performance measures embedded in diagnostic systems help to provide the necessary direction and alignment to empowered employees. Seemingly empowerment for some in this instance also means disempowerment for others more specifically in decentralised locations that were previously endowed with decision making powers delegated by the specific faculty or department. This on the other hand may have an impact on a culture of compliance that the department is trying to instil.

2.2.3 Cultural fit
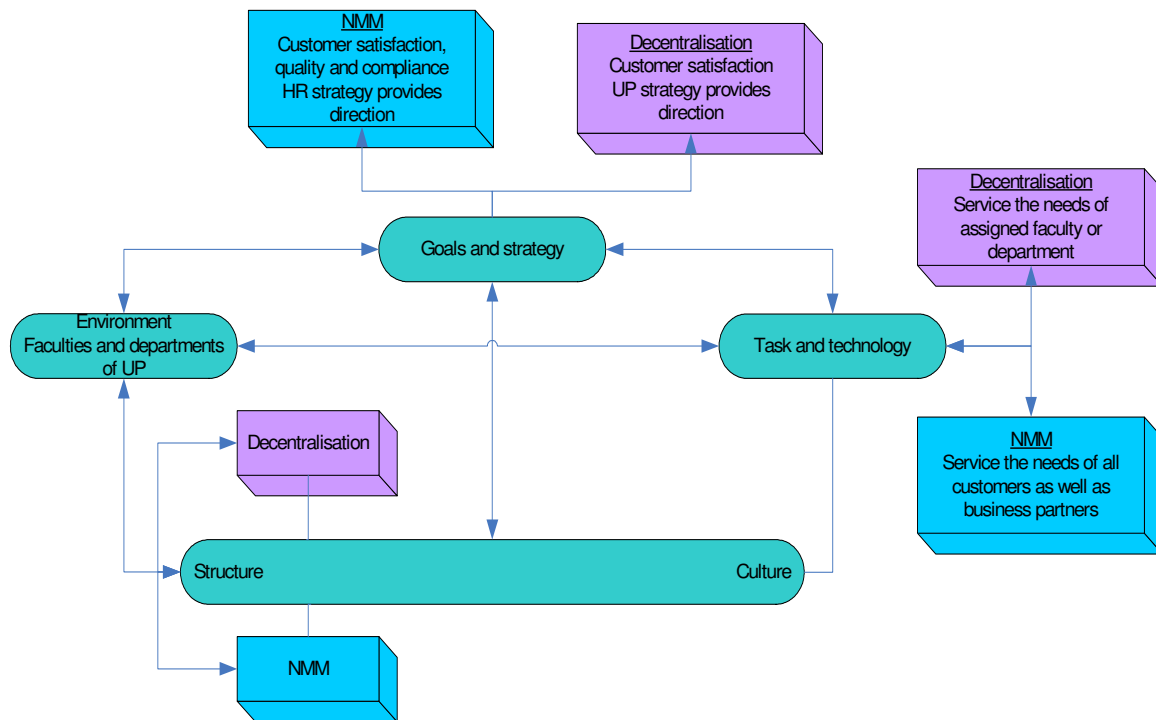
Figure 2.4: Interrelationships between contingencies adapted (Mayle and Henry, 2007: 55)

The idea of cultural fit is tantamount to attaining the goals and strategy of the organisation (Mayle and Henry, 2007). Figure 2.4 illustrates that the HR Department's current cultural fit is based on two strategic models operating in parallel which may result in the formation of subcultures owing to the nature of the model and the requirements of the faculty or department.

In decentralisation, strategy is focused on customer orientation and internal compliance monitoring maintained within a particular faculty or department. For example in veterinary clinics it is a requirement for staff to be available over weekends to feed animals and this may result in the overtime stipulation being exceeded. UP policy does not cater for overtime in general and where overtime is claimed it is required that an overtime project be registered in advance.

Although compliance practices require that overtime remain within the stipulated 40 hours per week as laid down in the BCEA and UP policy on overtime, decentralised practitioners tend to process these claims without scrutiny in the hope that they would be processed at the central office. One of the typical dilemmas of this issue is that

17

when the claim is submitted to the central office, it poses a problem and may be unethical to disapprove the claim owing to the service already being provided. Arguably this displays a differentiated value system particularly in decentralised offices where values may extend beyond ethical boundaries. In fact these values were espoused by their respective authorities for example faculties/departments seem to posit a 'clients are always right' attitude while the HR Department posits a 'clients are right when all compliance conditions have been fulfilled'.

Goals and strategy of the HR Department are clear and strategic direction is espoused by the HR strategy which envisages a customer, quality and compliant relationship between staff and clients. Arguably decentralised operations seem to be operating in isolation where strategic objectives and compliance practices have been relegated as a central office activity typically outlining the 'them and us attitude'.

Current task and technology interdependencies offer a similar picture where parallel operations seem to dominate and where the current structural model indicates the emergence of possible cultural mismatch. Although the new HR strategy refers to furthering the client experience it also amplifies ethical conduct in all activities. It may be relevant to understand exactly what types of culture are predominant in the HR Department before developing new interrelationships.

2.2.4   Organisational Culture
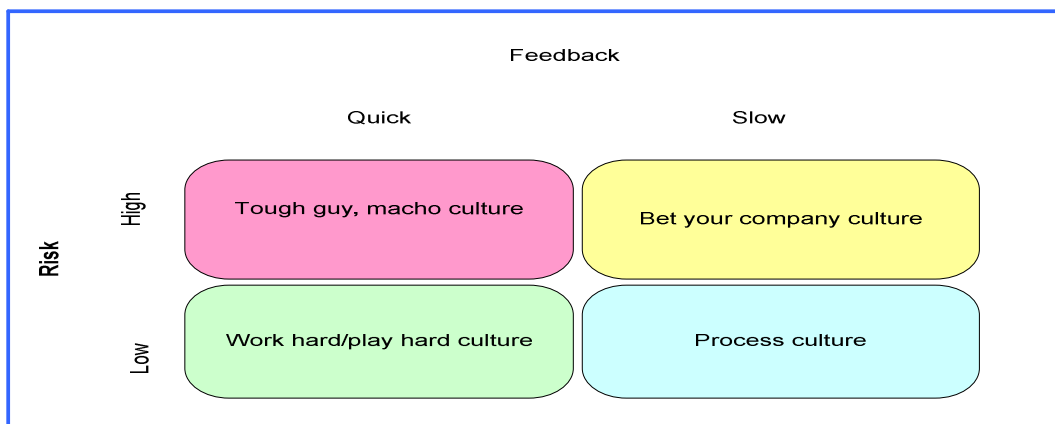
Figure 2.5: Deal and Kennedy's model of organisational culture (Cameron, 2007)

Decentralised units reflect increased empowerment and delegation where risks tend to be higher than in HR central. These risks in all likelihood emanate from the effect of incorrect decisions and the impact that this may have on their employability at the

faculty or department. Since decentralised units lie at the core of the faculty/department and the client interface is considerably reduced, feedback may be quick. Alternatively, decisions awaited from HR central may tend to be slow. Decentralised cultures are therefore regarded as the local authority and may regard themselves as tough or macho. Employees display characteristics of toughness and aggressiveness necessary to survive (Cameron, 2007: 62).

Decentralised units also reflect a 'process culture' as directed by the nature of their functions. The concern is more specifically on how work is done and not what the work is thus encouraging the development of artificial environments (Cameron, 2007: 64). It may be perceived that this combination of cultures may be compensating a particular characteristic depending on which business unit are involved. Arguably tough guy, macho culture may predominate when activities result internally while process culture may predominate when HR central involvement is necessary.

Process cultures also offer a low risk slow-feedback environment with employees fearing repercussions for their actions (Cameron, 2007). HR central may be characterised by order and where risk is something that is better left to senior management, while employees are best suited to set daily routines. This type of process culture may also be differentiated further down individual divisions within the HR Department where line managers' influences offered from different management styles develop subcultures. Clearly, the complexity offered by the different models may see a clash of cultures where employees who were normally subjected to openness and freedom may soon be restricted to a process environment and where limited freedom in decision making and risk taking may negate innovativeness.

2.3 Perceptions and preferences of the ideal innovative environment

2.3.1 Creativity
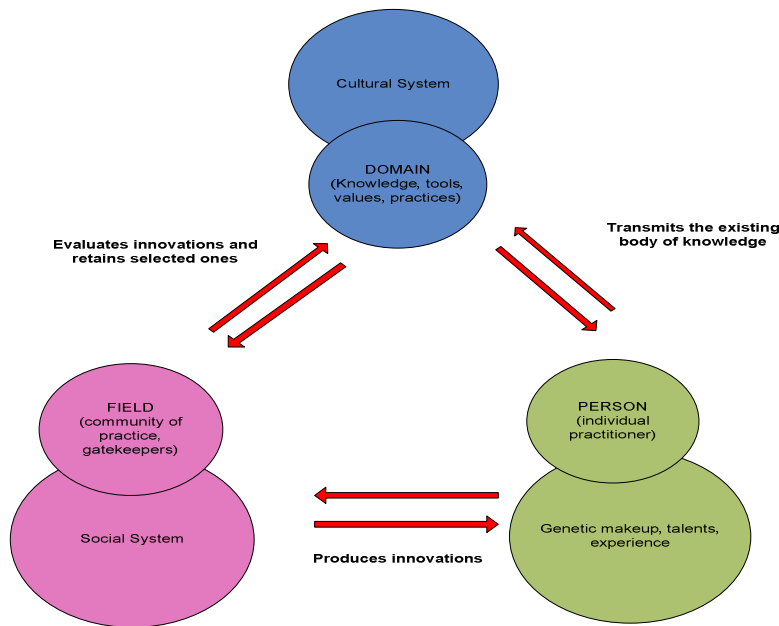
Figure 2.6: A systems model of creativity (Csikszentmihalyi, 1999)

The systems model of creativity illustrates the significance of the cultural system in the process of creativity. Cultures are aptly referred to as a set of interrelated domains usually distinguished by procedures, types of knowledge and belief systems (Henry, 2006).

A fundamental shift may be prevalent through the existing models of the HR Department. The decentralised model and the NMM exist in parallel domains both responsible for transmitting knowledge. This process may have transpired into protective boundaries around each domain. Arguably, creativity in the context of the HR Department is viewed as being isolated in that knowledge is transmitted from both the faculty/department as well as Central HR thus resulting in barriers. Csikszentmihalyi (1999) argues that the existence of barriers impedes potential creativity in individuals thus preventing effective learning.

He is of the opinion that creativity is the engine that drives complexity thus causing cultures to be differentiated over time. This allows them to become increasingly integrated and mutually supportive of each other. Arguably the existing model of the HR Department echoes cultural segregation simply because of the operation of the decentralised units and their subsequent reporting structure.

Cultural segregation may also be the result of the division of loyalty incurred by design where decentralised units are likely to further the aim of faculties/departments rather than the HR Department. The HR Department therefore provides administrative control so that the rules and regulations of the university are complied with.

Performance agreements of decentralised staff are negotiated between the faculty/department and may be the reason for divided loyalties. Supporting a creative idea may therefore reside in a specific domain for example the HR Planning Division internally or the Engineering Division which lies externally and not necessarily in the entire Department since there may be fewer opportunities to encourage and reward novelty.

Henry (2006) posits that creativity is the engine that drives cultural evolution. This refers to increasing complexity over time where cultures become independent and autonomous. The independent nature of decentralised units has supported faculty/departmental goals by virtue of their relationship. In the HR Department which has a more hierarchical structure it may be more difficult to support creative ideas as the knowledge held by older employees is highly valued. Highly hierarchical institutions value knowledge of the past and view novelty as a threat. To this effect older employee contracts in the HR Department are extended even after retirement ages have been reached.

The receptivity of the field to innovation also plays a huge role. In this instance the HR Department has no means to recognise new ideas from decentralised or centralised employees. Henry (2006) comments that persons showing innovative tendencies are likely to have personalities that favour breaking rules. With the increased drive towards a compliance society, the HR Department may reject divergent thinking as behaviour that is not conducive to a culture of compliance. One particular way this could be understood may be by determining what does the conversion of different forms of knowledge mean to the HR Department.

2.3.2   Converting knowledge
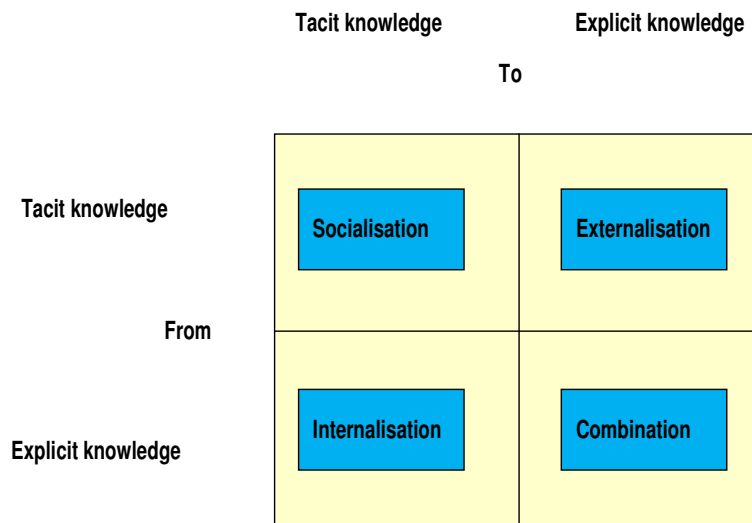
Figure 2.7: Four modes of knowledge conversion (Nonaka and Takeuchi, 1995)

Nonaka and Takeuchi (1995) postulated four modes of knowledge conversion as illustrated in figure 2.7.   Although present in the HR Department's conversion of knowledge approach, it is the degree and depth to which they are exploited that stands out the most.

The socialisation aspect as indicated by Nonaka and Takeuchi (1995) is a sharing process that creates tacit knowledge such as shared mental models and technical skills. Acquiring this type of knowledge rests on the individual sharing some experience with another individual. Seemingly this process of socialisation is applied more within divisions in the HR Department than across divisions. For example the HR practitioner at the claims section has technical knowledge on claims processing and is not in a position to acquire technical knowledge on remuneration. Although these functions fall within the HR domain there are certain dissimilarities suggesting that HR practitioners are specialist orientated rather than being multi-skilled.   Henry (2006) argued that without some form of shared experience it may be difficult to project oneself into another person's thinking process. Although experiences need to be embedded for knowledge transfer to take place, it seems to be more fluid within a division than across it.   This indicates that technical skills developed in one division that could provide solutions in another environment may not be easily transferred.

Externalisation on the other hand describes new ways of experiencing reality. In the HR strategic plan this reality is a culture of compliance which practitioners may not

easily identify with, since the concept of client satisfaction is elevated. Arguably this may be inconsistent with the concept that views client satisfaction holistically where client satisfaction and compliance is an inseparable part. For example practitioners may view client satisfaction in one frame of reference where everything needs to be done to keep the client happy. Another frame of reference views the concept of compliance as central to client satisfaction which means that client satisfaction risks being achieved at the cost of compliance.

A combination of different media such as documents, meetings, telephone conversations or computerised networks forms a knowledge system which may be synonymous with the policies and regulations espoused by the university. The existence of a knowledge system in no way suggests that it is a necessary and sufficient condition for the ideal innovative environment to exist. Typically in the HR Department the unavailability of tacit knowledge in the knowledge system suggests that innovative combinations may only be possible by cross functional interaction. With the HR Department maintaining a knowledge system that is confined to specific media, critical information learnt on the job may not be easily transferred.

By internalisation another means of sharing knowledge occurs. Tacit knowledge which is accumulated at the individual level is socialised with other organisational members. Although internalisation highlights the need for cross functional learning, the HR Department maintains a commitment to client satisfaction with the emphasis on internal functional learning within divisions. This for example means that rotation of HR practitioners is highly unlikely as it may be seen as creating divisional inefficiencies that may impact on performance. This leads one to conclude that the HR Department's innovative approach needs to be re-evaluated in order to determine how innovation is viewed. The open innovation model may provide some clarity on this issue.

2.3.3   Innovation
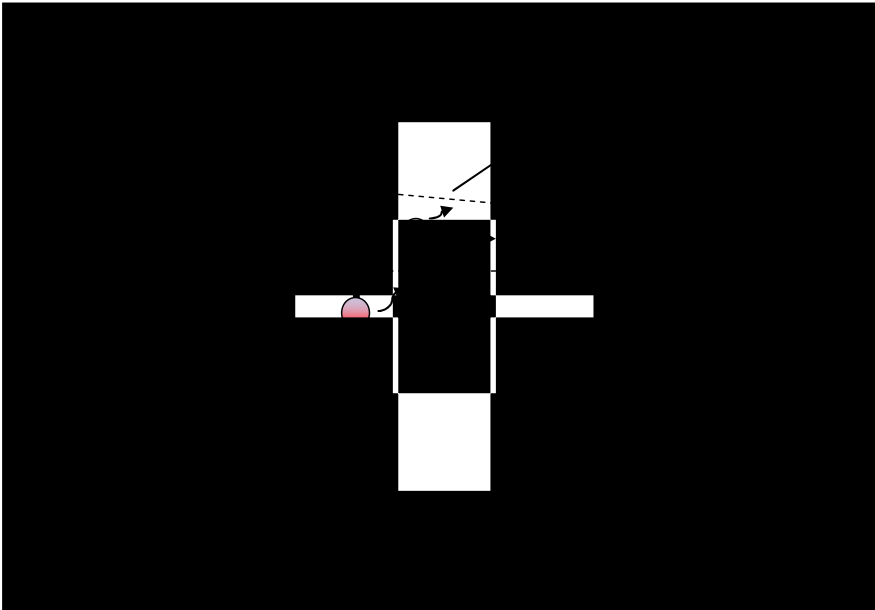
Figure 2.8: The open innovation model (Mayle, 2007)

The open innovation model reflects how organisations commercialise the use of internal as well as external ideas by organizing outside as well as internal routes to generate value (Mayle, 2007). This model depicts the importance of research and development and the use of new and current markets to search for ideas that leads to innovation. In contrast the HR Department has placed its emphasis on consultants and benchmarking to generate and implement ideas and best practice. It seems that consultants are seen as having a broad experience of innovative ideas as a result of their interaction with other organisations and they may be willing to draw on past experiences that have worked well.

In benchmarking the HR Department may also adopt and tailor ideas that are making another organisation more efficient for example a performance management system or an automated leave system. By implication this means that many of the opportunities are routed outside the boundary of the firm than kept inside for employees to generate ideas. As a matter of importance, Leavy (2005) claimed that well known innovative companies share four climate setting factors that are fundamental to its success. These are:

▪   Placing people and ideas at the core of the management philosophy.

- Giving people room for growth, so that new things could be learnt as well as learning from mistakes.

- Building a strong sense of transparency, trust and community across the organisation.

- Facilitating the internal mobility of talent.

Leavy (2005: 39) argued that these factors aided in the development of an internal climate where individual creativity and initiative could flourish and talent and ideas circulate freely, so that intellectual capital can be leveraged to the maximum.

In the HR Department the Peoplesoft project and the NMM appears to be the only innovative projects being implemented in the HR Department. Both these projects have not been developed through external consultants which once again highlights the detachment of staff in solving and generating innovative ideas internally. Innovation depends on ideas that arise from talented individuals and most organisations are yet to discover how to be more hospitable to the unusual person with unusual ideas (Leavy, 2005). Internal ideas however are typically being rebound off the boundary that the HR Department has created. Perhaps it may be the issue of accountability which may arguably see a dependency on external rather than internal idea generation.

2.4   Impact of conventional compliance strategies on innovation

2.4.1   Managing accountability
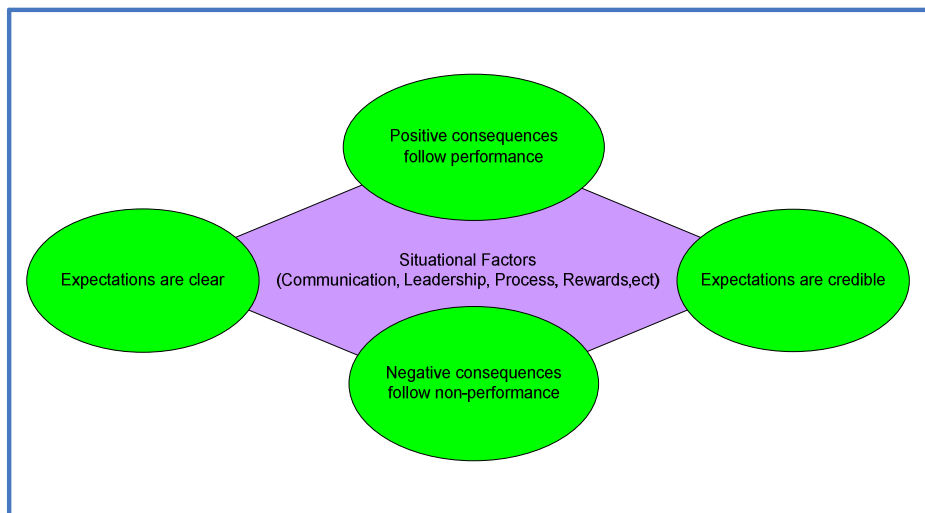
Figure 2.9:   The occurrence of accountability (Grimshaw, Baron, Mike & Edwards, 2006)

25

Grimshaw *et al.*, (2006) asserted that most people in organisations will be accountable provided that four factors are present:

- Expectations are clear to employees.

- Employees feel that expectations are credible and reasonable.

- Employees anticipate that positive consequences will follow performance.

- Employees anticipate that negative consequences will follow poor performance.

The first factor regarding clarity of expectations may be well articulated in the HR Department. Employees are empowered by means of their performance agreement and relevant training. Legal compliance exists within the ambit of existing policies and procedures which are written clearly in English and Afrikaans. Some functional areas for example the claims section is currently in policy development stage and rely on the tacit knowledge of practitioners.

Evaluation of performance seems to be understood by practitioners, however regular constructive feedback is disrupted in some cases. Grimshaw *et al.*, (2006) is of the opinion that many organisations may find it difficult to 'connect the dots' between the daily activities and the esoteric vision and values from leadership. In essence the HR strategy which fundamentally operates against the backdrop of the NMM and decentralisation may develop a situation where practitioner's perception and management interpretation of the strategy may differ.

The second factor is dependent upon understanding the rationale for the things that employees are supposed to do as well as having the capacity and capability to do what is required (Grimshaw *et al.*, 2006). HR practitioners may sometimes not be in a position to display their capabilities as management may often refer problems external to the department for example to consultants. Grimshaw *et al.*, (2006) argued that employees get frustrated when they are not asked to solve a problem in their local work area. This type of frustration may typically surface as HR practitioners questioning their ability in order to sustain the pace which may result in loss of expertise.

One of the beliefs frequently expressed is that employees cannot simultaneously meet the leader's expectations for quality and productivity Grimshaw *et al.*, (2006). In his research on Accountability for Compliance, Grimshaw *et al.*, (2006) found that many

employees felt that compliance often contradicts corporate values such as quality, speed and cost management.

Another element of the model which reflects on positive consequences following positive performance and negative consequences following negative performance may be relevant in the allocation of performance bonuses. The performance management scale is based on a five point scale (Beetge, 2004). An allocation of the maximum score for high performance seems be uncustomary. The perception is that a point of five indicates an employee with exceptional abilities which seems to be unlikely and may indicate that the achievement of high performers is at a disadvantage.

In the case of negative performance, the model proposes a different treatment for low performance. An alternate course of action proposed by the HR Performance Management Policy supports further development or disciplinary action (Beetge, 2004). These sanctions however, seem less viable since line managers perceive that employees are less likely to learn from their mistakes. Instead, some employees are re-evaluated as average which in essence maintains that the employee has performed according to the norm thus giving the impression that all is well. Grimshaw *et al.*, (2006) is of the opinion that negative consequences needs to exist and employees need to know it is there. The question of accountability therefore seems to play an important role in all aspects of organisational life. Employees that are held accountable for their actions and behaviour will be engaged in the least unethical behaviour (Beu and Buckley, 2001). The dynamics illustrated in the ethical decision making model below may provide more insight into the understanding the ethical landscape in the HR Department.

2.4.2 Ethical decision making model with accountability
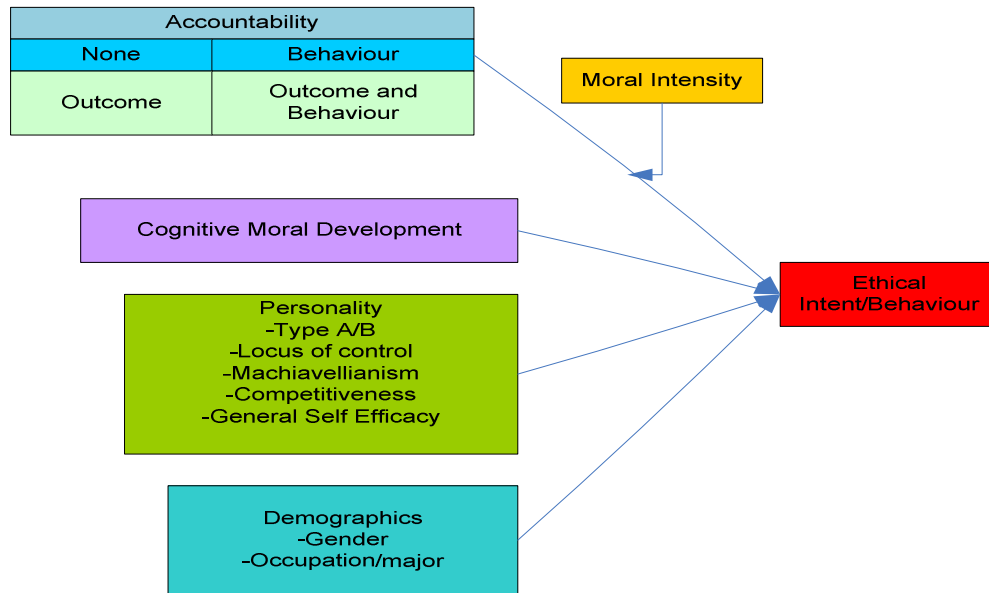
Figure 2.10: **Ethical decision making model with accountability (Beu and Buckley, 2001)**

Many business transactions have an ethical component where a person's action when performed freely may harm or benefit others (Beu and Buckley, 2001). Ethical behaviour therefore has a beneficial effect upon others and may either be legal or morally acceptable to the broader community.

Beu and Buckley (2001) proposed that when individuals are faced with conflicting accountability requirements they are more likely to favour the audience with whom they have the most positive relationship. In fact relationships in the HR Department may amplify this point since there may be a definite incompatibility between relationships of centralised and decentralised staff. For example decentralised staff may more likely conform to the expectations of faculties/departments than the HR Department. Beu and Buckley (2001) argues that when organisation members are faced with an ethical dilemma which requires an action to help others close to them, they are likely to engage in that behaviour if they are not held accountable. Arguably it may seem that the HR practitioner's priorities are relatively vague since it is perceived that they do not have the authority to intervene and that an intervention which is their moral obligation may destroy the relationship that they have with the client. Grover (1993) comments that if behavioural expectations are unclear or priorities are vague, individuals may not feel accountable and may engage in unethical behaviour.

Researchers have demonstrated that perceived moral intensity influences ethical perceptions and intentions (Beu and Buckley 2001). The moral intensity of HR practitioners may engage if the impact of the action affects their vicinity. This suggests that practitioners may readily protect their environments thus creating the greatest benefit to those close to them.

2.5   SUMMARY

Chapter 2 analyses the third level of complexity through business models while maintaining the objectives as the central theme. The first objective underlined existing compliance practices by providing a point of departure from the initial strategy of the HR Department. By elevating the models used, one could gain an understanding of how the existing compliance practices emerged. The second objective reviewed models that focused on the perceptions and preferences of the ideal innovative environment. Central to this environment was the element of culture which seemed to dominate the aspect of creativity. Current conditions of structural duality seemed to create boundaries that impeded innovation and the transfer of knowledge.

Tantamount to innovation was knowledge conversion and the HR Department seemed to be consistent within divisions but rather differentiated outside divisions. This was especially where cross divisional knowledge transfer would have been beneficial. There is also a huge emphasis on external idea generation rather than internal. Typically there seems to be a reduction of the internal opportunities for employees and this may effectively disengage employee's creative sense.

Finally, the impact of conventional compliance practices on innovation amplified the need for accountability. Accountability it seemed was relative to ethical decision making and provided a deeper understanding of how practitioners regulated their responses.

In the following chapter, which delineates the fourth level of complexity previous literary works on this subject will be consulted. This will be done in order to determine the extent of various viewpoints in existence.

LITERATURE REVIEW

"Literature is the human activity that takes the fullest and most precise account of variousness, possibility, complexity, and difficulty"

-Lionel Trilling-

American Critic, Author and Teacher, 1905-1975

3.1 Introduction

It is known that those who employ research belong to a body of scholars, each of whom has journeyed into an unknown territory to bring back knowledge and insight. Their records of the journeys undertaken and findings open doors for others to explore the unknown and discover more knowledge and insight (Swarts, 2008).

In order to conceive a deeper understanding of the research problem a literature review is necessary. This research is aimed at investigating empirically the effects of compliance practices on the innovative ability of HR practitioners. The purpose of this literature review is to review the accumulated knowledge related to compliance and innovation.

3.2 The Influence of Sarbanes-Oxley Act of 2002 on Human Resources

Corporate governance has received much attention due to high profile scandals such as Adelphia, Enron and WorldCom, serving as the impetus to the Sarbanes-Oxley Act of 2002 (SOX), the most sweeping corporate governance regulation in the US in the last 70 years (Gillan and Martin, 2007).

According to Dailey and Brookmire (2005), SOX has created many new challenges for publicly traded companies, often with little or no contribution by the HR function. In fact the burden of compliance resorted to Finance with whom the impact would result in severe penalties and reduced shareholder value. Nevertheless, HR has a significant role in developing and implementing systematic and sustaining policies, procedures and practices that ensures compliance.

SOX, has once again shifted the field of emphasis from Finance leaders to HR leaders. HR leaders are required to charge into new accountabilities for developing ethical cultures as well as partnering with other leaders, especially in Finance to ensure

statutory compliance with legislation. Although initially designed to strengthen accountability and audit independence subsequent to the collapse of Enron, Global Crossing and others, it now imposes:

- Increased standards for financial reporting by public enterprises.

- Greater accountability from boards of directors for corporate governance.

- More stringent measures for ensuring external audit independence.

- Exorbitant civil penalties for corporate governance violations.

- Criminal penalties against CEO's and CFO for significant non-compliance.

According to Deloitte and Touche (2003), implementation and monitoring of SOX has primarily been directed to Finance or Compliance Officers but the full effect of compliance and effective monitoring can only be achieved through strategic focus and operational attentiveness by HR leadership. Firstly, HR leaders have little experience in financial and internal controls. They have relied on internal processes without the necessary knowledge of controls and accounting. Secondly the legislation does not recognise the decisions made in terms of compliance with legislation, policies and company guidelines.

Dailey and Brookmire (2005) argue that HR leaders are now taking note of compliance. In the past they have been criticized for policing policy, now compliance is vital in that it ensures ethical behaviour, proper compensation practices and sound financial management. In achieving compliance, HR leaders must engage in the following behaviours:

- Build ethical and transparent cultures – the new reality requires leadership to be openly supportive and extremely committed to the ethical values of the company. Leadership must further this commitment through communication in company publications, employee meetings and personal interaction. The HR leader has the responsibility for ethical cultural growth. Senior management has the scope and reach of external stakeholders and internal employees to develop a culture of integrity and honesty. Progressive policy development, employee training and regular monitoring will facilitate this (PriceWaterhouseCoopers, 2003).

Hammer, Linn, Stuart & Sullivan (2003) are of the opinion that this can be done by:

- o Upgrading the code of conduct policy.

- o Protecting whistleblowers.

- o Championing ethical behaviour.

- Strengthen HR's role in corporate governance – broadening its charter to encourage dialogue with boards and audit committees will help to ensure SOX compliance. HR leadership should report on aspects such as policies, procedures and controls for areas of material impact, including compensation for executives and directors, employees, payroll, health and welfare, pension and equity plans.

- Integrate compliance into executive compensation practices – illegal practices such as providing loans, guarantees or credit arrangements should be discontinued. Remuneration for senior management should be realigned to financial outcomes of the business, shareholders and employees. Compensation issues and trends should be monitored and compliance driven in areas of weakness. Roles and responsibilities for HR should be documented especially in executive compensation and benefits. One of the key roles in this regard is that HR should set up the criteria for eligibility.

- Adopt robust vendor management processes – HR leadership should have documented internal control procedures and accountability reviews with all vendors. Areas that require financial estimation and future projections should be scrutinised.

- Partner with Finance to implement controls that ensure compliance – since HR does not have core competencies in internal control or financial reporting, it is imperative that communication and collaboration be established among HR, Finance, Legal and any other relevant department to implement the necessary controls.

Dailey and Brookmire (2005), maintains that most HR functions do have documentation of many internal processes, but lack the comprehensive documentation and process evaluation that independent auditors may request. The illustration in table 3.2.1 describes the levels of controls necessary to maintain effective internal processes:

Table 3.1: Internal controls adapted (Ernest and Young, 2004)

Internal Control Rigour				
Level 1 Unreliable	Level 2 Informal	Level 3 Operational	Level 4 Monitored	Level 5 Optimized
Controls are…	Controls are…	Controls are…	Controls are:	Controls are:
▪ Not in place	▪ Designed but inadequately documented. ▪ Mostly people driven. ▪ Not communicated through formal policy or training programs	▪ Documented and communicated to employees. ▪ Deviations/exceptions may not be reported and corrective action is haphazard. ▪ Sporadic monitoring may occur	▪ Operational with periodic testing of effectiveness ▪ Automaton or tools may be used to spot check compliance. ▪ Procedures are in place to take immediate corrective action after violations or policy deviations occur.	▪ Automation or tools continuously track compliance. ▪ Procedures are in place to block policy deviations from occurring. ▪ Formal risk management procedures are operational.

The accountability for compliance with SOX no longer rests on Finance or the compliance officer alone. Sarbanes-Oxley has elevated these accountabilities and responsibilities to HR leaders with a strong orientation towards the business and developing partnerships with Finance and other corporate leaders. These accountabilities include policy creation, stakeholder communication and training, regular and proactive compliance audits and full documentation of audit findings and remedial action. HR leaders who are willing to accept these accountabilities will have more say in executive committees and boards and intensify the modern business partner role.

3.3   The Reality of Good Corporate Governance

Corporate governance in South Africa is about how companies are directed and controlled. The focus is on the balance between economic and social goals and between individual and communal goals, while the aim is to align these as close as possible to the interests of individuals, corporations and society (KPMG, 2005).

Corporate governance in South Africa was institutionalised by the publication of the *King Report on Corporate Governance* in November 1994 with a sole purpose to promote the highest standards of governance and align the economy with international

trends and imperatives (IOD, 2002; West, 2009). The key challenge for good corporate citizenship is to create a balance between performance and conformance while taking into account the expectations of shareholders and stakeholders. Conformance on the other hand results in constraints to management with Boards having to balance this with performance for financial success and the sustainability of the organisation's business.

Botha (2009) maintains that governance, leadership and ethics form a significant part of public administration, business management and organisational behaviour for both public and private organisations. Without effective leadership and good governance, effective administration cannot be sustained, goals cannot be achieved, quality cannot be sustained and first rate services cannot be delivered.   He contends that the increasing complexities arising out of a dynamic environment, coupled with the constant push for increased productivity necessitates effective and ethical leadership.   The principles that organisations can apply to be successful are therefore:

- Integrity and independence: satisfies the objective of best interests.

- Equity and fairness: satisfies rights with empowerment.

- Authority with responsibility: duties with power.

- Actions with accountability: accounting for performance.

- Performance with conformance: compliance with checks and balances.

- Conduct with discipline: ethical corporate business and behaviour.

- Profitability with sustainability: profitability with social responsibility.

- Rewards with results: performance based.

In a recent study conducted in the public, private and civil society, it was found that a positive correlation existed between these principles, general traits, task related traits, motives, cognitive facts and physical and background factors associated with effective leaders.   Botha (2009) concludes that the foundation of sustainable competitive advantage is realised through the continuous achievement of advanced efficiency, innovation, quality, superior human resources and responsiveness to customers as well as compliance to the principles of good corporate governance.

Othman and Rahman (2009) describe good governance as formal and informal decision making as well as the process by which the decision is made. He asserts that a good governance structure should possess characteristics such as participatory, consensus orientated, accountable, transparent, responsive, effective and efficient, inclusive and adhere to the rule of law.

In addition the IOD (2002) points out that good corporate governance should constitute the following characteristics:

- Discipline – a commitment by senior management to adhere to the behaviour that is universally recognised and accepted to be correct and proper.
- Transparency – ease at which outsiders make sense of the company's actions, financial and non financial aspects.
- Independence – extent to which mechanisms minimise or avoid conflict.
- Accountability – the ability to make decisions and be accountable for them.
- Responsibility – behaviour that allows for corrective action and for penalising mismanagement.
- Fairness – the systems that exist in the company must be balanced into taking account of all those who have an interest in the company.
- Social responsibility – being aware and responding to social issues, including placing a high premium on ethical standards.

The IOD (2002) contends that the implications of corporate governance are profound since the development of good governance practices increases shareholder value significantly. In contrast Othman and Rahman (2009) view the constant news of corporate misconduct as a negative aspect to the governance structure.

Arjoon (2005) posits that a compliance based approach to governance has not sufficiently coped with the challenges that the modern business has presented. Consequently, companies are pressured into meeting stakeholder demands for accountability and transparency. This is typified by the agency theory where the wealth of stakeholders is made priority, organisations seem to focus on compliance rather than the substance of governance practices.

3.4   Compliance Management

Cialdini and Goldstein (2004) argue that compliance refers to a particular type of response that is either explicit or implicit and which encourages a specific response. Taylor (2005) argues that no official definition exists, and that compliance literally means complying with any piece of legislation or regulation.

In the King II Report on Corporate Governance, compliance was viewed as a principle of 'comply or else' which encouraged punitive measures for non compliance. In King III the principles of 'apply or explain" is encouraged so management can develop a compliance program aligned to other business initiatives and where a compliance culture can be developed through leadership, establishing appropriate structures, education and training, communication and measuring key performance indicators relevant to compliance (IODSA 2009).

Paine (1994) suggests that compliance programs tend to emphasize the prevention of unlawful conduct by increasing surveillance and control and by imposing penalties to wrongdoers. He argues that managers should establish compliance standards and procedures with the following elements: high level personnel to oversee compliance; avoid delegating discretionary authority to individuals unlikely to act lawfully; communicating the company's standards and procedures through training or publications; achieving compliance through audits, monitoring mechanisms and systems to report criminal misconduct; consistently enforce standards through appropriate disciplinary measures; respond appropriately when offences are detected and finally take reasonable steps to prevent the occurrence of similar offences in the future.

Doyle's (2007) research in 44 multinational and medium sized companies highlighted that the main obstacles to competitiveness from a compliance point of view were obscure legislation, need for legal and supra-legal compliance, increasing regulatory and administrative complexity, reactive compliance knowledge management, variations in legislative processes and information overload. She argued that reorganisation of the management of compliance activities could allow organisations to exploit new opportunities for competitiveness.

Tullberg (2009) prefers a different approach to compliance which includes prudence and morality. He argues that a central component in prudent behaviour is guidance by

self-interest, while moral behaviour revolves around doing the right thing. The illustration below provides different motives for compliance with a rule.

	Incentive support	No incentive support
Intrinsic support	Prudence	Pure Morality
No intrinsic support	Pressure	Soft Conformism

Figure 3.1: Different motives for compliance with a rule (Tullberg, 2009)

Tullberg (2009) claims that the first category is "prudence" where there is a moral agreement, social punishment or reward provides the incentive for compliance. This morality is incentive compatible since the individual may be intrinsically motivated, but extrinsic incentives drive the individual's behaviour. Secondly, an individual acting on pure morality alone could be more disadvantaged by being non-prudent. "Pressure" in the third category is so strong that the individual complies irrespective of reservations. Lastly, behaviour eliciting "soft conformism" is most likely to fail in achieving compliance.

Kant cited in Tullberg (2009) is of the view that prudence can bring moral compliance up to a certain point beyond where there may be no external monitoring or incentive linked to that behaviour. If an individual is restricted by conscience, there is an element of being constrained, but extrinsic controls may not have the same permanent presence. Although pure morality can replace prudence, it cannot completely overcome pure morality.

A choice of pure morality over prudent morality does not imply that rules without incentives are better with rules with incentives. If prudence is preferred, it reflects a constraint on which rules are acceptable and suitable. Prudent morality is a morality of performance rather than ambition where rules are regarded as important restrictions (Tullberg, 2009).

3.5   Corporate Ethics

Buckley, Beu, Frink, Howard, Berkson, Mobbs & Ferris (2001: 13) describe ethics as an inquiry that delves into the normative rules of behaviour which focuses on how people ought to behave and the boundaries between right and wrong. Rossouw (1994) states that morality or ethics is clearly differentiated from values since not all values are considered moral values. The values of an employee accepting a bribe cannot be described as a moral value. Values that seek the wellbeing of other people can be regarded as moral values. He argues that ethics and morality are synonymous and claims that acting morally within a business context means that the consequences of business actions are not damaging to others.

Jones cited in Rossouw (1994) states that there are three levels of moral responsibility. First, the macro-economic level where the moral legitimacy of economic systems is evaluated for example the debate between socialism and capitalism. Secondly, the meso-economic level where the relationship between the business and the state or business and the society is established and lastly, the micro-economic level which focuses on the process and nature of moral decision-making.

Kohlberg (1981) claims that it is possible to distinguish between differing attitudes to ethical behaviour in business by means of a model. This is based on the assumption that individuals or a group of individuals are not born as moral agents but are capable of moral development.   Rossouw (1994) proposes three broad phases of moral development.

Table 3.2: Phases of moral development (Rossouw, 1994)

Phase	Attitude	Style	Goal
Survival morality	Fear of extinction	Fight	Survival
Reactive morality	Fear of rejection	Conform	Acceptance
Pro-active morality	Hope	Innovative	Meaning

The first phase of moral development is survival morality and is described as the phase of survival. In this phase the business is merely fighting to stay alive or avoid being closed down. The dominant driving force is the fear of "extinction" or closure of the business. A typical behaviour of this phase is to compete fiercely with anyone that is a threat to survival. In this situation material gain is highly prized because people will not

want to lose any income. One of the objections of this phase is the probability that the survival phase could be looked upon as an alibi to engage in immoral behaviour because every business has to consider economic survival.

Rossouw (1994) however counters this by arguing that the phase of survival applies when the realistic prospect for survival in the medium to long term is slim and also businesses that are serious about their future will rather gain the respect and appreciation of the community by doing the right thing.

Reactive morality, which is the second phase of moral development, is about the business realising that it should respect the wishes and requirements of its social environment in order for long term survival. Society requires that the business respect the laws of the country and protect the environment as well as enhance the lives of workers. The driving force of business is the fear of rejection by society. The business therefore should conform to the demands of society in order to gain acceptance.

Finally, the third and highest form of moral development views the business as being an integral part of the larger community where its actions will contribute to the betterment of the community. For this to be accomplished, the business has to innovative because it has a responsibility to the society for its unique contribution. By being more innovative, it will foster a sense of integrity by having meaning in society. When this stage is reached all considerations are in harmony with the pro-active moral commitment of the business.

Martin and Woldring, 2001; Brewster, Carey, Dowling, Grobler & Warnich (2003:28) suggest that business ethics and more particularly the role of HR management in terms of "carrying the torch" of ethical stewardship is an important cog in formulating, communicating, monitoring and enforcing the organisation's ethics programme. As the role of HR evolves, it should concentrate on the needs of the changing organisation such as being:

- A strategic partner

- An employee sponsor or advocate

- A change mentor.

Erasmus and Wordsworth (2006: 415) add that "as HR assumes a more strategic place in the organisation, so too does its role in creating an ethical and moral business

climate". Buckley *et al.,* (2001) claim that ethical climates are propagated through effective attraction, selection and retention strategies and by the core values that exist in an organisation. If employees are in disagreement or do not know the norms and values of the organisation, a weak corporate culture may arise. As organisations move towards an ethical approach to doing business, the HR function, as strategic partner should support top management (Erasmus and Wordsworth*,* 2006).

Weaver and Treviño (2001) argue that support could be in the form of corporate ethics programs which involve several components and initiatives. Expectations for ethical behaviour are contained in codes, policy documents, formal training programmes and messages from senior management. Other mechanisms such as "hotlines" also provide anonymous means for employees to communicate to management. These communication mechanisms serve as devices to report legitimate or perceived ethical or legal issues in order to obtain advice and counselling.

In an empirical study of ethics programs in Fortune 500 service companies and industrial firms, Weaver, Treviño & Cochrane (1999), found that an HR officer was responsible for ethics/compliance management in 28 percent of responding firms, while just as many firms vested responsibility in legal positions, compliance departments and internal audit functions. They concluded that the HR function should play a prominent role in ethics/compliance management because HR staff is frequently engaged with representing employees concerns and fairness (Weaver *et al.,* 1999).

Smith (2006) claims that recent corporate scandals such as those in Enron, Worldcom and Cendant have shown that mechanisms such as codes of conduct and ethics programs is not a quick fix for individuals to act ethically. In fact if the locus of ethics is in the individual domain, this may be viewed as an effort to force compliance to what the company would like to consider as their own corporate ethical and legal standards. Typically, having a "Code of Ethics" in place is not sufficient to elicit the right behaviour. Although the focus of many ethics programs is on compliance with the laws and ethical rules developed by a company it may still act against containing fraud completely but may serve as a valuable instrument in making corporate rules explicit to employees (Smith, 2006).

According to Miceli and Near (2001: 3), the possibility of unethical actions are more prominent when an ethical position is ambiguous and when there is an opportunity to behave unethically. A simple example would be when HR officers see the opportunity

to exclude someone from an interview because of values that are contrary to their own or adopt a course of action to please the line manager and avoid sanction. In general, mechanisms such as policies may have been implemented to increase efficiency or promote fairness but for many reasons they can be overdeveloped to an extent where they undermine these intentions by promoting opportunities for transgressions.

3.6   Innovation

Udwadia (1990) defines innovation in an organisational setting as the successful creation, development and introduction of new products, processes or services. The act of innovation therefore is a culmination of creativity in various functional areas and across different disciplines. Bitar (2003) considers innovation to be a holy grail where organisations' strive to transform, to improve or simply place itself in a "league of its own". This desire can be internal or individual based, that is induced by a single person's vision or external as a result of competitive games.

Bitar (2003: 10) hints that a board dominated by outsiders will influence a firm to adopt acquisition rather than internal innovation. "Outsiders, due to their limited access to information and therefore limited knowledge of internal operations will favour monitoring through sophisticated management information systems and will rely mostly on financial rather than strategic evaluation of managers. The main motivation of such a firm will be rapid return on investments through acquisitions which will lead it to reduce investment in the development of internal innovation and focus more on product diversification helping the firm to identify potential acquisition targets through their extensive corporate networks." This reliance of acquisition rather than innovation allows the firm to reduce uncertainty and risk and is likely to be contrasted when boards are dominated by internal directors.

Bitar (2003) contends that the innovation process has to have the full support of management if it is succeed. Manager's should have a complete understanding of the firm's capabilities and then decide how resources need to be allocated to deliver products and services to customers. Managers are therefore the main drivers or blockers of innovative capacity of the firm. Managers who are reluctant to accept the risk and failures that innovation process is likely to bring may lead the innovation capability of the firm into decline.

Yusuf (2009) argues that innovation springs from the creative application of knowledge. It thus has two critical ingredients: creativity and knowledge. An initial invention is the first of several stages before the innovation becomes a reality. Many innovations have no market potential, but it is those ideas that show promise that should be refined, tested and modified before being ready for commercial use.

Yusuf (2009) argues that since innovation is an uncertain process that intensifies interest alignment of owners and managers, a firm focused on a strategy of innovation rather than adaptation and with good control of its internal environment, can further motivate managers to innovate.

Deschamps (2005: 31) claims that many researchers have raised the question "Is there a specific and distinctive form of leadership for innovation?" According to him, there are different varieties of innovation such as a new product category, new business model, improved customer solution, improved product and improved process or service offering. Innovation leaders all have distinctive characteristics or traits that distinguish them as innovation champions. These are:

- An extraordinary combination of creativity and process discipline in introducing the new product or service to the market.
- An acceptance of risks and failures, coupled with the urge to make their staff learn when the project encounters challenges.
- The courage to commence with projects and knowing when to pull the plug.
- A talent for directing teams and a knack for attracting and retaining innovators.
- Openness for external and new technologies and the willingness to experiment with them.
- A passion for innovation and how it links to their mission as well as ardour for sharing this with their staff.

In interviews conducted with top executives in innovative companies, Deschamps (2005) found that innovative leaders could be distinguished on the basis of their process focus for example front end and back end innovators.

He claims that front end of innovation explores opportunities by generating and identifying the ideas that create customer problems by turning them into attractive concepts. This requires a large amount of organisational creativity. The back end of innovation must be able to convert these concepts into winning products or services and deliver them to the market or customers as quickly and cost effectively as possible.

This requires organisational discipline. Both ends involve complex cross functional processes and therefore require very different styles of leadership.

Front end innovative leaders are characterised by a range of unique qualities such as extreme openness and inquisitiveness, out of the box thinking, patience when it comes to results, acceptance of risks, willingness to experiment and tolerance towards failure. On the people management side they are seen as visionaries who thrive by creating ideal environments for adventure and change.

By contrast, back end innovative leaders deal with concrete but critical tasks such as developing, testing, engineering, producing and launching new products and services. Their distinguishing characteristics include having an implementation focus, operational knowledge, speed in decision making, risk management expertise, co-ordination skills and an urge to win. Their people management skills are characterised by leading from within the group, always available, accessible and emotionally charged.

Deschamps (2005) argues that another method of characterising innovation is to view how it spreads within the company, ie bottom-up or top-down.
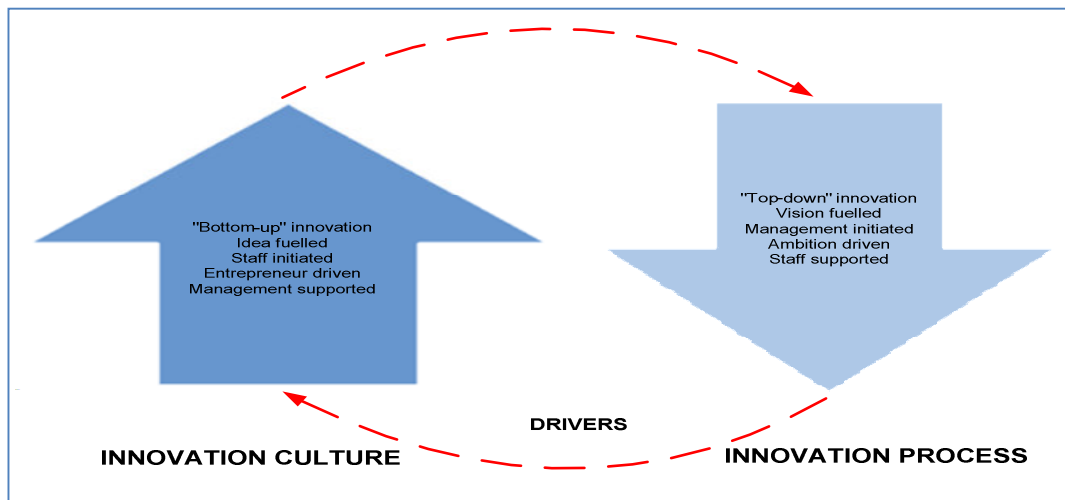
Figure 3.2: Typology of innovation by mode of occurrence (Deschamps, 2005)

In bottom-up innovation, the leader must create a supportive climate that allows for entrepreneurs to pursue their ideas and interact with knowledge holders worldwide. A key driver of this type of innovation is an organisational culture that is fashioned to allow the exchange of information, take risks and experiment from failures.

According to Rabe (2006), "the paradox is that you can't innovate in a culture where corporate experts are dismissive of incipient ideas". The bottom-up leader should filter good ideas by making funding possible as well as coaching teams that will develop and implement them.

In the top-down innovation, the leader must take the initiative by defining objectives and mobilising the people behind innovative projects. A key driver here is the high level process management that starts with a vision as well as the market realities that arise. This type of style is much more directive and hands on.

Rabe (2006) is of the opinion that innovation can be stimulated by the incorporation of zero-gravity thinkers.   To be effective these people must have the following characteristics:

- Psychological distance from the team – this prevents groupthink which may lead to flawed decision-making and untested ideas. A person who retains this distance from the team achieves independence and is less likely to be influenced.
- Renaissance tendencies – linked to someone with broad interests it shows a natural curiosity to learn. This person is more likely to make unexpected creative connections.
- Related experience – relates to people with in-depth knowledge in an area that is relevant but not specific, to the challenges that presented. This type of expertise means that people have to be knowledgeable enough in an adjacent field to be able to communicate with the team and contribute meaningful insights from different perspectives.

Loewe and Dominiquini (2006), claim that there are many obstacles to innovation. In a Strategos survey of innovation practices of more than 550 large companies, indicated that an overwhelming majority of respondents in every industry rated innovation as critical. Many respondents claimed that their company's innovation effectiveness was below average. Loewe and Dominiquini (2006) argued that there were six obstacles to innovation that respondents identified were consistent across industries: short term focus, lack of time, resources and staff, leadership expects payoff sooner than later, management incentives are not structured to reward innovation, lack of a systematic innovation process and belief that innovation is risky.

4.   Summary

The literature review has set the foundation for the forthcoming chapters. In the literature review factual evidence on the influence of SOX, corporate governance, compliance, ethics and innovation was presented from the works of various authors.

Chapter 4 aims to clarify the rationale of the research design and methods, engaged to achieve the study objectives. The research design provides the overall structure and procedures used to collect and analyse the data.

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

"We can't solve problems by using the same kind of thinking we used when we created them."

-Albert Einstein-

German born American Physicist, 1879-1955

4.1   Introduction

This chapter focuses on research design and methodology and provides a blueprint of how the researcher wishes to undertake the study so as to maintain the validity of the findings.   The most appropriate procedures to be performed in order to test the hypothesis are specified and the reasons for these choices are outlined.   The discussion includes: the type of research design, the measuring instrument, the sampling procedure, data management and data analysis. To conclude, the validity of the selected research design and methods are debated.   Throughout the planning phase of the research design and methods, possible biases were identified together with strategies to overcome the possible challenges they posed.

4.2   Research Approach

The study relied on:

- Quantitative measurement by means of a survey questionnaire.
- Descriptive statistics to describe the data by investigating the distribution of scores on each variable and by determining whether the scores on the different variables were in fact related to each other.
- Additional data gathering to provide further information on common themes experienced by HR practitioners.   Some of the experiences expressed in suggestive words and sentences were used to qualify and record information.
- A quantitative paradigm, for a line manager specific survey questionnaire to elicit data not normally available to non managerial staff.

The reasons for this decision were:
- The best method to measure the effect of compliance practices on HR practitioners is to assess the various factors that constitute compliance.

- The differences in the scores obtained can be interpreted in terms of the direction and intensity of compliance practices and their effect on the innovative potential of HR practitioners.

4.3   Research Design

Hofstee (2006) suggests that a research design defines and discusses the overall research approach used to test a thesis statement. Coldwell and Herbst (2004) are of the opinion that research designs provide a strategy for the study and a plan by which this strategy is executed. They comment that it also highlights methods and procedures for the collection and analysis of data as well as different techniques together with their strengths and weaknesses.

Babbie (2004:243) posited that surveys were ideal for descriptive, explanatory and exploratory purposes. He argued that surveys were typically used in studies that had individual people as the unit of analysis and were excellent mechanisms for measuring attitudes and orientations in a large population. As the purpose of the research study was exploratory and descriptive, the unit of analysis was the individual and the point of focus was their orientation towards compliance practices and innovation.

4.3.1   Exploratory research

Babbie (2004) indicated that a large number of social researches are conducted to explore a topic that is relatively new. Exploratory research is fundamentally concerned with phenomena that persist and where the researcher is unhappy about a certain issue. Exploratory studies are typically conducted for the following purposes:

- To satisfy the researcher's curiosity and desire for a better understanding of the phenomena.

- To test the feasibility of undertaking a more extensive study.

- To develop the methods to be employed in any subsequent study.

Coldwell and Herbst (2004) on the other hand viewed exploratory research as being appropriate for studies containing limited data. As in the case of this research, limited literature on compliance and innovation simultaneously makes an exploratory route necessary. The present phenomenon of compliance and innovation creates a dilemma in that not much is known about the application of compliance and whether it is

counterproductive to the innovative environment. A study of this nature will certainly satisfy the researcher's curiosity and desire to understand the phenomenon better.

4.3.2   Research strategy or paradigm

De Vos, Strydom, Fouche & Delport (2002), are of the opinion that qualitative strategies differ from quantitative strategies in that quantitative strategies do not provide a step by step plan to follow. Although there are many types of strategies, Creswell cited in De Vos *et al.,* (2002) makes reference to biography, phenomenology, grounded theory, ethnography and case study.

The strategy of phenomenology has been selected for this particular research and aims to understand and interpret the meaning, respondents attach to things. The researcher eventually relates these expressions to the variables thus making the product of the research in essence a collection of these expressions.

This will be accomplished by posing questions to the respondent within a natural setting through non-coercive means. Inputs will be analysed and the link drawn to the variables in order to understand the effect of one on the other. This particular strategy utilises survey questionnaires as the medium of data collection.

4.4   Research Methodology

4.4.1   Data Collection Methods

According to Kumar (2005), information can be gathered from secondary or primary sources. Survey questionnaires and structured interviews will be utilised to collect data. Since the respondents are located in centralised and decentralised locations within the University, primary sources of information may be readily available. Secondary sources such as archival sources will not be discounted. Cognisance of the socioeconomic-demographic characteristics of the study population will be taken into consideration. Biographical characteristics such as educational level, age, position, socioeconomic status and ethnic background will be listed in order to maintain the quality of the data.

The following methods of data collection are applicable for this particular research:

- Structured interviews – Although a common method of collecting information, its use will be particularly restricted to line management and supervisors if necessary

to obtain higher level information on the application of certain compliance practices and innovation ideals.

- Survey questionnaires – these will be structured in surveymonkey software and submitted to each respondent by email. Although Kumar (2005) has identified some weakness with this method in terms of individual attention and explanation of the questions, this research study will give personal attention to respondents so as to prevent any misinterpretation of the questions. Questionnaires will be differentiated by means of the strategic and operational nature of the position. A covering letter will be attached, explaining the main objectives of the study, the general instructions as well as any other relevant information.

4.4.2 Sampling

Coldwell and Herbst (2004) defined a sample as providing a "finite part of a statistical population whose properties are studied to gain information about the whole". When people are involved, a sample refers to a set of respondents selected from the larger population for the purpose of a survey. A population is a group of individual persons, objects or items from which samples are drawn for measurement for example in this research study the population will consist of HR practitioners employed at the University of Pretoria.

Coldwell and Herbst (2004) cited the following factors that influenced the size of a sample:

- Heterogeneity of the population;
- The degree of accuracy one hopes to achieve;
- The confidence levels the researcher intends to base the accuracy of his results on;
- The number of variables that have been examined simultaneously; and
- Whether the population is finite or infinite.

For the purpose of this research, a purposive sample of 50 participants will be selected from the HR Department of the University of Pretoria. This will consist of 6 line managers or deputy directors/assistant directors, while the remainder being general HR practitioners from the different divisions/departments/faculties.

4.4.3   Quantitative Data Analysis Techniques

The data collection methods will focus on differentiated survey questionnaires for line managers and staff. Structured interviews with line managers will be conducted on the aspects of innovation and compliance. Most of the data will be quantitative and provide the researcher with sufficient information to determine tendencies and relationships. Likert scales will be used to codify numerical data sets in terms of their frequency of occurrence. This information will be tabulated in an excel spreadsheet so that bi-variate data can be easily identified. All data will be graphically illustrated by means of bar graphs and pie charts so that patterns could be easily discernible.

4.4.4   Qualitative Data Analysis Techniques

Qualitative methods help to shed light on complex issues which are constantly changing and difficult to measure (Charlesworth, Lawton, Lewis, Martin & Taylor, 2003). According to Charlesworth *et al.,* (2003), "the qualitative researcher seeks to elicit what is important to individuals as well as their interpretations of the environments in which they work through in-depth investigations of individuals and their miliex". De Vos *et al.,* (2002) add that qualitative analysis is a search for general statements about the relationships among categories of data.

The nature of qualitative data means that it could be interpreted in multiple ways where people will view or read data differently. "Nonetheless, all accounts of research should provide a coherent explanation of how the data was collected and analysed, with good examples drawn from the raw material to illustrate and support findings and theories" (Charlesworth *et al.,* 2003:23).

For the purpose of the study, structured interviews will be conducted on line managers if necessary so that triangulation is possible. The data will be tabulated to substantiate the findings obtained. As qualitative data will be in the form of words, it may be more difficult to condense.   The researcher will provide subtle descriptions and multiple perspectives to help managers better articulate their views.

4.5   Avoiding Bias

"Bias on the part of the researcher is unethical". Bias differs from subjectivity in that it is the deliberate attempt to conceal findings or highlight something that may be inconsistent in comparison to its true nature (Kumar, 2005).   Coldwell and Herbst

(2004), is of the opinion that some researchers conceal the true purpose of the research thus instilling a sense of dishonesty and deception about the nature of the research. One particular reason may be that responses may be biased if the true nature of the research becomes known.

To eliminate bias, all findings will be available to the respondents for their scrutiny and input. All references and evidence will also be made available should they request clarity on specific issues. All information used will be treated according to its merits and outside influences or subjectivity will be eliminated.

4.6 Limitations and Delimitations

Collis and Hussey (2003) identify a limitation as a potential weakness while delimitation means that the scope of research is focused on a particular area. The delimitation of the sample is that all the respondents are employed in the HR Department of the University of Pretoria. One of the limiting factors is that employees may disregard the importance of the survey.

4.7 Validity and reliability of measuring instruments

4.7.1 Validity

The definition of validity is two pronged: the instrument used must firstly measure the concept in question and secondly yield an accurate measurement of this particular concept (De Vos *et al.*, 2002:166 and Kumar, 2005). Kumar (2005) categorises validity as the following:

- Face and content – this identifies the logical link between the questions and objectives of the study. As the objectives will form the backdrop of the survey face validity will be established. What is equally significant is that the items and questions cover the full range of the issue of compliance and innovation or attitude being measured. Assessments of these items of an instrument are referred to as content validity.

- Concurrent and predictive – according to Moser and Kalton cited in Kumar (2005), this refers to situations where a scale is developed as an indicator of some observable criterion. Concurrent validity will be achieved by correlating the findings of the research with the findings of the survey.

- Construct – this refers to the degree of success that an instrument achieves in measuring a theoretical construct. The constructs being measured will be ethics, innovativeness, responsibility, leadership and behaviour. These constructs will be measured through the survey questionnaire.

4.7.2   Reliability

If a research instrument is consistent and stable and hence predictable and accurate, it is said to be reliable (Kumar, 2005). Kumar (2005) stated that a scale or test is reliable when measurements, repeated under constant conditions, provide the same results. Repeat measurements however, are not possible in this study; therefore the researcher has opted to apply measures to counteract the factors affecting reliability. These measures are illustrated in Table 4.1 below:

Table 4.1: Factors affecting reliability (adapted from De Vos *et al.,* 2002)

Factors of Reliability	Meaning	Researcher's Measures
Wording of questions	ambiguity in the wording of questions can alter their interpretation	The researcher will use plain and simple language with no technical jargon.
Physical setting	If an instrument is used in an interview, and any change occurs to that physical setting of a repeat interview, this may affect the respondent's responses.	The setting will be within the HR environment and the instrument will be used only within this environment.
Respondent's mood	Mood changes in the respondent when responding to the questions can affect the reliability of that instrument	The instrument will be used in the morning when the respondent's are under no pressure.
Nature of interaction	changes in the interaction between the researcher and the respondent can affect the reliability of the instrument	The researcher will personally visit each respondent prior to the instrument being used to set them at ease and explain the purpose of the study.
Regression effect of an instrument	when an instrument is used to measure attitudes towards an issue, some respondents may reconsider the opinions they have expressed thus the next time around they may express them differently thereby affecting reliability	The measure will be conducted once only.

4.8   Ethical Issues

Babbie (2007), states that most dictionaries refer to ethics as being related to morality which concerns matters dealing with right and wrong. In the (South African Concise

Oxford Dictionary, 2002), ethical means "relating to moral principles or the branch of knowledge concerned with these". For many groups though, this definition may be a cause of frustration since the idea of morality and ethics in daily life differs from group to group. Coldwell and Herbst (2004: 18) associate ethics with norms or standards of behaviour and the relationship with others. The goal of ethics in research is to ensure that no harm or adverse consequences comes to research participants (Coldwell and Herbst, 2004).

Ethical issues in this research study have been addressed by means of maintaining confidentiality of respondents. Respondents will remain anonymous except for their demographical characteristics, while responses will be stated in its entirety thus ensuring complete confidentiality of the sources.

4.9   Collecting Information

Kumar (2005) argues that research is required in order to improve conditions and if any research is likely to assist society either directly or indirectly, then asking questions is acceptable provided that permission is obtained from the respondents. According to Coldwell and Herbst (2004), if the full co-operation of the respondent is required, the researcher should make the respondent aware of the relevant issues of the research to be conducted. Trust is an important factor and the respondent must understand the purpose, nature and proceedings of the entire process.

A covering letter stating the aim, purpose and value of the research study will be provided to each respondent so that all relevant issues pertaining to the research will be understood. Respondents will be explained of the confidentiality of their responses and that any information provided to the researcher will be strictly controlled. Data collected from the respondents, internal documents, media and artefacts will be controlled in terms of the guidelines set by the University.

4.10   Obtaining Consent

Obtaining informed consent implies that all possible or adequate information on the goal of the investigation, procedures to be followed, possible advantages, disadvantages and dangers that may arise as well as the credibility of the researcher should be made transparent to the respondent (De Vos *et al.*, 2002). De Vos *et al* (2002), claim that by providing accurate and complete information to respondents, will facilitate easy

comprehension as well as promote a voluntary response in terms of their participation in the study. Kumar (2005) posits that a common principle that exists in every discipline is that information collected without the participants knowledge is considered unethical.

In light of the above all participants were provided with adequate information about the research and its purpose. Participants were informed that their participation was purely voluntary and should they wish to withdraw from the study they may do so. They were also informed that the research results would be used to improve the overall HR environment and better benefit their individual environments in the future.

4.11   Maintaining Privacy and Confidentiality

Kumar (2005) points out that sharing information about the respondent with others for purposes other than the research is unethical. Sieber cited in De Vos *et* al. (2002) defines privacy as that which is not meant for others observation or analysis. Singleton, Straits, Straits & McAllister cited in De Vos *et* al. (2002) explains that the right of an individual's privacy gives them the right to decide when, where, to whom and to what extent information will be revealed. Privacy implies the element of personal privacy while confidentiality refers to information handling.

Coldwell and Herbst (2004), argues that the preservation and anonymity of respondents is of paramount importance in a research study. Names and addresses of respondents should not be disclosed to the sponsor of the research until prior approval has been obtained. Research reports containing private information about the client's business should not be dispersed to third parties. According to Kumar (2005), when it is necessary to identify your study population to put your findings into context, the researcher needs to ensure that at least the information provided by the respondents is kept anonymous.

In terms of the above all surveys done will be strictly confidential with no names being mentioned.   All information taken from participants will not be reproduced and documentary information will be returned to the participants once the study is completed. Participants involved in surveys will be informed of their rights in terms of confidentiality.

4.12   Summary

This chapter provided the research design and methodology surrounding the research question.   The chapter commenced with the research approach and the paradigm under which it was conducted. The research methodology provided an explanation on how the data was handled and analysed. In order to obtain diverse views, quantitative data collection methods were appropriate while the researcher reserved the right to switch to minimal qualitative data collection as was necessary.   The researcher maintains that provided a deeper understanding of the research question. To maintain the validity and reliability of the instrument the researcher opted to ensure that the full spectrum of opinions was considered in the line of questioning. This data was to be correlated with information collected from documents and line management. The researcher has also considered reliability measures in order to address possible factors that could have affected the reliability of the instrument.

In the subsequent chapter the analysis and findings of the research study will be provided and the researcher will attempt to determine the congruence of the research question to the research findings.

CHAPTER 5

RESEARCH FINDINGS AND ANALYSIS

"Advance and never halt, for advancing is perfection. Advance and do not fear the thorns in the path, for they draw only corrupt blood."

-Kahlil Gibran-

Poet, 1883-1931

5.1   Introduction

The aim of this research study was to investigate empirically the relationship between compliance and innovation and to examine if compliance behaviour impedes the innovative environment of human resource practitioners. The findings will provide a better understanding of the role of compliance in facilitating an innovative environment by identifying organisational best practice to address the problem. The main purpose of the study was to determine which aspects enhanced the effectiveness of the HR environment. To achieve the research purpose and aim, the problem statement and research objectives that formed the basis of data gathering and data interpretation are reiterated.

Research Question

Can appropriate compliance behaviour have a positive impact on the innovative environment of human resource practitioners in the University of Pretoria?

Research Objectives

Objective 1: To identify existing compliance behaviour.

Objective 2: To determine the significance of compliance behaviour on the innovative environment.

Objective 3: To identify the contributors to an innovative environment.

Chapter 5 presents the findings of the data analysis graphically, while chapter 6 provides the research conclusion and recommendations.

Table 5.1: Master statistical report for HR practitioners

DEMOGRAPHIC CHARACTERISTICS							

Age group	20-35	36-45	46-55	56-65
Responses	5	15	8	5
%	15.2	45.5	24.2	15.2

Gender	Male	Female
Responses	10	23
%	30.3	69.7

Job level	Non management	First level supervisor	Middle management	Top management	Professional
Responses	22	5	3	0	3
%	66.7	15.2	9.1	0	9.1

Years in HR	1-5	6-10	11-15	16-20	>20 years
Responses	14	5	2	6	6
%	42.4	15.2	6.1	18.2	18.2

Race	White	Black	Asian	Coloured
Responses	19	7	3	4
%	57.6	21.2	9.1	12.1

Experience in HR	1-5	6-10	11-15	16-20	>20 years
Responses	6	5	7	6	9
%	18.2	15.2	21.2	18.2	27.3

Qualification	Secondary school	Post school qual	B deg/ equiv	Masters degree equiv	Std 10/ equiv	Doct deg/ equiv	Hon deg/ equiv	NDip/ NHDip
Responses	2	4	6	2	5	1	10	3
%	6.1	12.1	18.2	6.1	15.2	3.0	30.3	9.1

COMPLIANCE BEHAVIOUR						

		Much less than expected	Less than expected	Expected	More than expected	Great extent
Management's support of ethical values	Responses	8	9	13	1	2
	%	24.2	27.3	39.4	3.0	6.1
Management's commitment to ethical values	Responses	5	13	11	2	2
	%	15.2	39.4	33.3	6.1	6.1
Department's commitment to ethical values	Responses	5	16	7	3	2
	%	15.2	48.5	21.2	9.1	6.1
Developing a culture of integrity and honesty	Responses	6	14	9	3	1
	%	18.2	42.4	27.3	9.1	3.0
Compliance enforcement	Responses	3	6	18	1	5
	%	9.1	18.2	54.5	3.0	15.2
Compliance with policy and prescripts	Responses	4	16	11	2	0
	%	12.1	48.5	33.3	6.1	0
Compliance implementation	Responses	3	9	15	4	2
	%	9.1	27.3	45.5	12.1	6.1

		Yes, fully	Not at all	Partially	unsure
Maintenance of regulatory compliance	Responses	4	3	20	6
	%	12.1	9.1	60.6	18.2

CORPORATE GOVERNANCE CHARACTERISTICS						
		Much less than expected	Less than expected	Expected	More than expected	Great extent
Adherence to universal behaviour	Responses	6	10	13	3	1
	%	18.2	30.3	39.4	9.1	3.0
Department's actions wrt financial/non financial aspects	Responses	5	13	10	4	1
	%	15.2	39.4	30.3	12.1	3.0
Mechanisms to avoid conflict	Responses	4	17	8	3	1
	%	12.1	51.5	24.2	9.1	3.0
Accountability	Responses	5	6	20	1	1
	%	15.2	18.2	60.6	3.0	3.0
Allowing for corrective action	Responses	1	14	15	2	1
	%	3.0	42.4	45.5	6.1	3.0
Punish mismanagement	Responses	8	15	7	2	1
	%	24.2	45.5	21.2	6.1	3.0
Balanced systems	Responses	6	15	10	1	1
	%	18.2	45.5	30.3	3.0	3.0
Being aware of social issues	Responses	5	17	8	2	1
	%	15.2	51.5	24.2	6.1	3.0

INNOVATION WITHIN THE DEPARTMENT						
		Not at all	Very little	Average	Better than most	Very much
Creativity and process discipline	Responses	4	15	10	4	0
	%	12.1	45.5	30.3	12.1	0
Risks and failures	Responses	2	7	14	5	5
	%	6.1	21.2	42.4	15.2	15.2
Experimentation	Responses	5	11	14	2	1
	%	15.2	33.3	42.4	6.1	3.0
Passion for innovation	Responses	4	16	10	2	1
	%	12.1	48.5	30.3	6.1	3.0
Consistency and application	Responses	4	12	14	3	0
	%	12.1	36.4	42.4	9.1	0
Responsiveness to radical ideas	Responses	9	13	8	3	0
	%	27.3	39.4	24.2	9.1	0
Brainstorming and innovation team usage	Responses	15	11	6	0	1
	%	45.5	33.3	18.2	0	3.0
Collection of innovative ideas	Responses	16	11	4	1	1
	%	48.5	33.3	12.1	3.0	3.0
Communication of innovation	Responses	16	12	4	0	1
	%	48.5	36.4	12.1	0	3.0
Availability of time and budget	Responses	21	7	4	1	0
	%	63.6	21.2	12.1	3.0	0
Environment	Responses	8	19	3	2	1
	%	24.2	57.6	9.1	6.1	3.0
Speed of response	Responses	8	15	8	1	1
	%	24.2	45.5	24.2	3.0	3.0
Training	Responses	14	8	8	2	1
	%	42.4	24.2	24.2	6.1	3.0

Table 5.2: Master statistical report for line managers

DEMOGRAPHIC CHARACTERISTICS							

Age group	20-35	36-45	46-55	56-65
Responses	5	15	8	5
%	15.2	45.5	24.2	15.2

Gender	Male	Female
Responses	10	23
%	30.3	69.7

Job level	Non management	First level supervisor	Middle management	Top management	Professional
Responses	22	5	3	0	3
%	66.7	15.2	9.1	0	9.1

Years in HR	1-5	6-10	11-15	16-20	>20 years
Responses	14	5	2	6	6
%	42.4	15.2	6.1	18.2	18.2

Race	White	Black	Asian	Coloured
Responses	19	7	3	4
%	57.6	21.2	9.1	12.1

Experience in HR	1-5	6-10	11-15	16-20	>20 years
Responses	6	5	7	6	9
%	18.2	15.2	21.2	18.2	27.3

Qualification	Secondary school	Post school qual	B deg/ equiv	Masters degree equiv	Std 10/ equiv	Doct deg/ equiv	Hon deg/ equiv	NDip/ NHDip
Responses	2	4	6	2	5	1	10	3
%	6.1	12.1	18.2	6.1	15.2	3.0	30.3	9.1

COMPLIANCE BEHAVIOUR						

		Much less than expected	Less than expected	Expected	More than expected	Great extent
Management's support of ethical values	Responses	8	9	13	1	2
	%	24.2	27.3	39.4	3.0	6.1
Management's commitment to ethical values	Responses	5	13	11	2	2
	%	15.2	39.4	33.3	6.1	6.1
Department's commitment to ethical values	Responses	5	16	7	3	2
	%	15.2	48.5	21.2	9.1	6.1
Developing a culture of integrity and honesty	Responses	6	14	9	3	1
	%	18.2	42.4	27.3	9.1	3.0
Compliance enforcement	Responses	3	6	18	1	5
	%	9.1	18.2	54.5	3.0	15.2
Compliance with policy and prescripts	Responses	4	16	11	2	0
	%	12.1	48.5	33.3	6.1	0
Compliance implementation	Responses	3	9	15	4	2
	%	9.1	27.3	45.5	12.1	6.1

		Yes, fully	Not at all	Partially	unsure
Compliance maintenance	Responses	4	3	20	6
	%	12.1	9.1	60.6	18.2
Compliance monitoring	Responses	2	0	3	0
	%	40.0	0	60.0	0

STRENGTHENING HR'S ROLE IN CORPORATE GOVERNANCE

		Yes, fully	Not at all	Partially	unsure
Reporting	Responses	2	0	4	0
	%	20.0	0	80.0	0
Compliance integration	Responses	1	0	4	0
	%	20.0	0	80.0	0
Documentation of roles and responsibilities	Responses	2	1	1	1
	%	40.0	20.0	20.0	20.0
Documented internal control	Responses	1	0	2	2
	%	20.0	0	40.0	40.0

CORPORATE GOVERNANCE CHARACTERISTICS

		Much less than expected	Less than expected	Expected	More than expected	Great extent
Adherence to universal behaviour	Responses	0	2	3	0	0
	%	0	40.0	60.0	0	0
Department's actions wrt financial/non financial aspects	Responses	0	2	3	0	0
	%	0	40.0	60.0	0	0
Mechanisms to avoid conflict	Responses	2	2	0	1	0
	%	40.0	40.0	0	20.0	0
Accountability	Responses	0	4	1	0	0
	%	0	80.0	20.0	0	0
Allowing for corrective action	Responses	0	1	4	0	0
	%	0	20.0	80.0	0	0
Punish mismanagement	Responses	3	1	1	0	0
	%	60.0	20.0	20.0	0	0
Balanced systems	Responses	0	1	4	0	0
	%	0	20.0	80.0	0	0
Being aware of social issues	Responses	1	2	1	1	0
	%	20.0	40.0	20.0	20.0	0
Partnering	Responses	1	1	2	1	0
	%	20.0	20.0	40.0	20.0	0

General control rating	Optimized (automation and tools continuously track compliance)	Monitored (operational and periodically tested for effectiveness)	Operational (documented and communicated to employees)	Informal (designed but inadequately documented)	Unreliable (not in place)
Responses	0	3	2	0	0
%	0	60.0	40.0	0	0

INNOVATION WITHIN THE DEPARTMENT

The reality of innovation in the department	Completely untrue	Slightly true	Equally true and false	More true than false	Very true	Responses
We walk the talk	40.0%(2)	40.0%(2)	20.0%(1)	0%	0%	5
Understanding of values and concepts	0%	60.0%(3)	0%	40.0%(2)	0%	5
We talk about it	0%	20.0%(1)	0%	40.0%(2)	40.0%(2)	5
Happy followers, innovation does not drive growth	0%	60.0%(3)	0%	40.0%(2)	0%	5

60

Leadership responsiveness towards innovation	Completely untrue	Slightly true	Equally true and false	More true than false	Very true	Responses
Leadership spends time acting on, not just talking	20.0%(1)	40.0%(2)	20.0%(1)	20.0%(1)	0%	5
Leaders are assessed and rewarded	20.0%(1)	40.0%(2)	20.0%(1)	20.0%(1)	0%	5
Leadership effectively communicates	0%	40.0%(2)	40.0%(1)	20.0%(1)	0%	5
Leadership allocates resources	0%	40.0%(2)	40.0%(2)	20.0%(1)	0%	5
Use of process and tools to aid innovation	Completely untrue	Slightly true	Equally true and false	More true than false	Very true	Responses
Department has set objectives or measures to drive innovation	20.0%(1)	20.0%(1)	40.0%(2)	20.0%(1)	0%	5
Innovation effective	0%	40.0%(2)	40.0%(2)	20.0%(1)	0%	5
Easy to understand and use process	20.0%(1)	20.0%(1)	40.0%(2)	20.0%(1)	0%	5
Technology available	20.0%(1)	0%	60.0%(3)	20.0%(1)	0%	5
Training	20.0%(1)	40.0%(2)	0%	40.0%(2)	0%	5
People and skills	Completely untrue	Slightly true	Equally true and false	More true than false	Very true	Responses
Training	0%	60.0%(3)	20.0%(1)	20.0%(1)	0%	5
Funding, space and time	20.0%(1)	0%	80.0%(4)	0%	0%	5
Recognition and reward	0%	60.0%(3)	20.0%(1)	20.0%(1)	0%	5
Transfer of knowledge, skills and ideas	0%	0%	80.0%(4)	20.0%(1)	0%	5
Culture and values	Completely untrue	Slightly true	Equally true and false	More true than false	Very true	Responses
Learning from failure	0%	60.0%(3)	20.0%(1)	20.0%(1)	0%	5
Strategy is widely understood and believed	20.0%(1)	20.0%(1)	40.0%(2)	20.0%(1)	0%	5
Department is recognised as an innovator	20.0%(1)	0%	40.0%(2)	40.0%(2)	0%	5
People are encouraged to participate in innovation	20.0%(1)	0%	60.0%(3)	20.0%(1)	0%	5

Table 5.3: Abbreviations of variables included in the analysis

VARIABLE	ABBREVIATIONS
ASPECTS OF COMPLIANCE	
Ethics	E
Integrity	Int
Internal control	Ic
Partnerships with finance and other departments	P
Allowing for corrective action	CorrAct
Balanced systems	Bs
Trust	T
ASPECTS OF INNOVATION	
Creativity and process discipline	Pd
Risks	Bs
Openness to new ideas	Open
Passion for innovation and link to mission	M
Consistency of application	Ca
Communication	Comm
Support	Supp
Training	Trg
Organisational discipline	Od
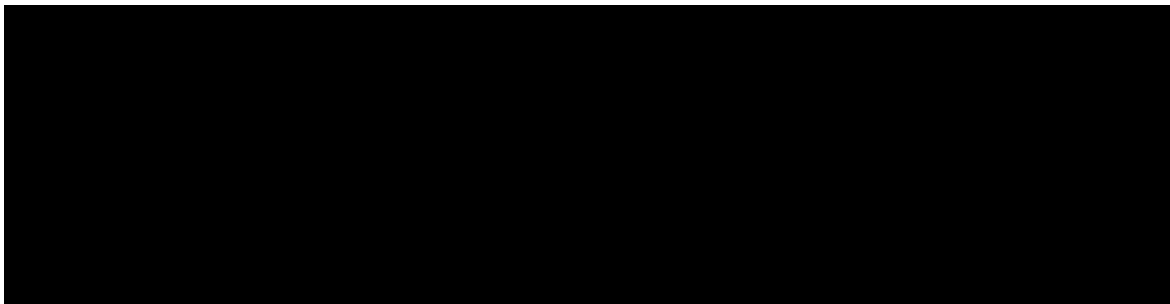
5.2   Existing compliance behaviour

Empirical evidence suggests that compliance has become a primary focal point for HR leadership. In order to achieve a level of compliance, Dailey and Brookmire (2005) asserts that HR leaders must engage in behaviours such as: building ethical and transparent cultures, strengthening HR's role in corporate governance, accommodating compensation practices into compliance and partnering with Finance to implement controls and ensure compliance. These behaviours are used to measure existing compliance behaviour in the HR Department.

5.2.1   Building ethical and transparent cultures

The researcher posed four questions to HR management and practitioners (N = 38) from the measurement instrument relating to existing compliance behaviour in the area building ethical and transparent cultures. In this area, Dailey and Brookmire (2005) referred to a new reality where the HR leader drove ethical growth. In the HR Department this new reality did not feature as a prominent aspect as most respondents agreed that it was below the expected level in all categories measured. Support and commitment to ethical values was below the expected level with 55.3% of respondents in agreement while 63.2% concurred that in general the HR department as a whole did not commit to ethical values. In cultivating a culture of integrity and honesty 60.5% were of the opinion that not enough was being done in this regard. The elements necessary in building an ethical and transparent culture indicated a significant deviation to the negative.

Table 5.4: HR Department's responses on ethics and culture

Building Ethical and Transparent Cultures

- 55.3% Support of ethical values
- 55.3% Openly committed to ethical values
- 63.2% Commitment to ethical values
- 60.5% Culture of integrity and honesty
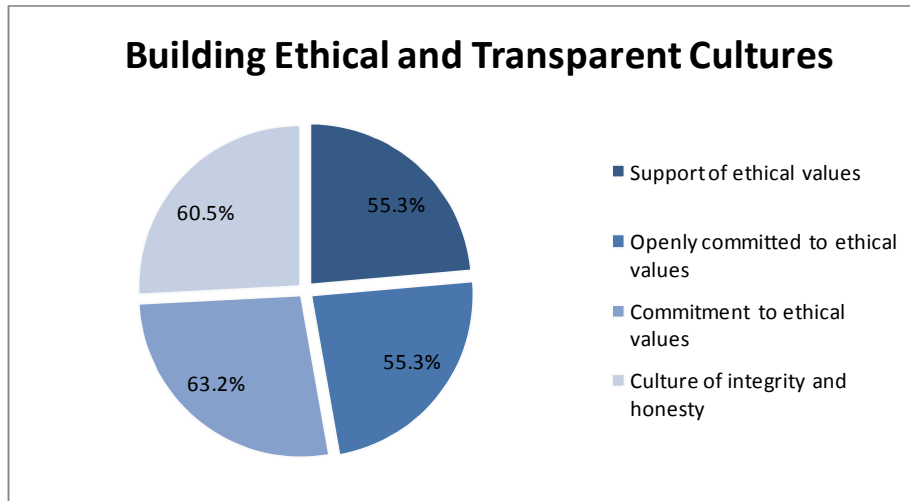
Figure 5.1: HR Department's responses on ethics and culture

5.2.2   Strengthening HR's role in corporate governance

HR's role in corporate governance as Dailey and Brookmire (2005) argue, stems from the transparency of its practices, policies and reporting. For HR to be effective in strengthening corporate governance, it was necessary to triangulate the responses of HR practitioners and line management. Although strengthening corporate governance is typically a management responsibility, the researcher was of the opinion that HR practitioners were also instrumental in consolidating these reports. Table 5.5 highlights the results of eight questions posed to HR practitioners and Line managers alike. In the eight categories surrounding corporate governance, three categories that is allowing for corrective action (57.9%), adherence to universal behaviour (52.6%) and accountability (60.5%) were viewed by respondents as being above the expected level.   In the remaining five categories the department's role in corporate governance was significantly weak.   Of significance was the extent to which mismanagement was punished with 71.1% in agreement that this was below the expected level. Mechanisms to avoid conflict and the extent to which the department placed a premium on ethical standards and being aware of social issues was also indicated as below the expected level at 65.8% respectively.

Table 5.5: HR's role in corporate governance

Corporate Governance: HR Practitioners

- Mechanisms to avoid conflict — 65.8%
- Allowing for corrective action — 57.9%
- Balanced systems — 57.9%
- Adherence to universal behaviour — 52.6%
- Accountability — 60.5%
- Punish mismanagement — 71.1%
- Being aware of social issues — 65.8%
- 52.6%
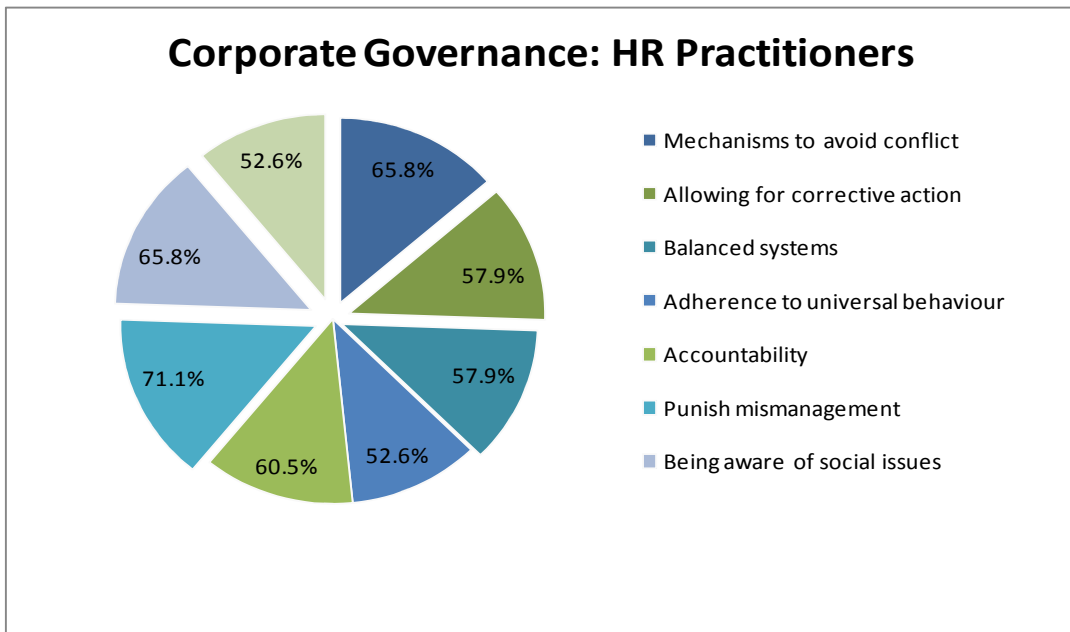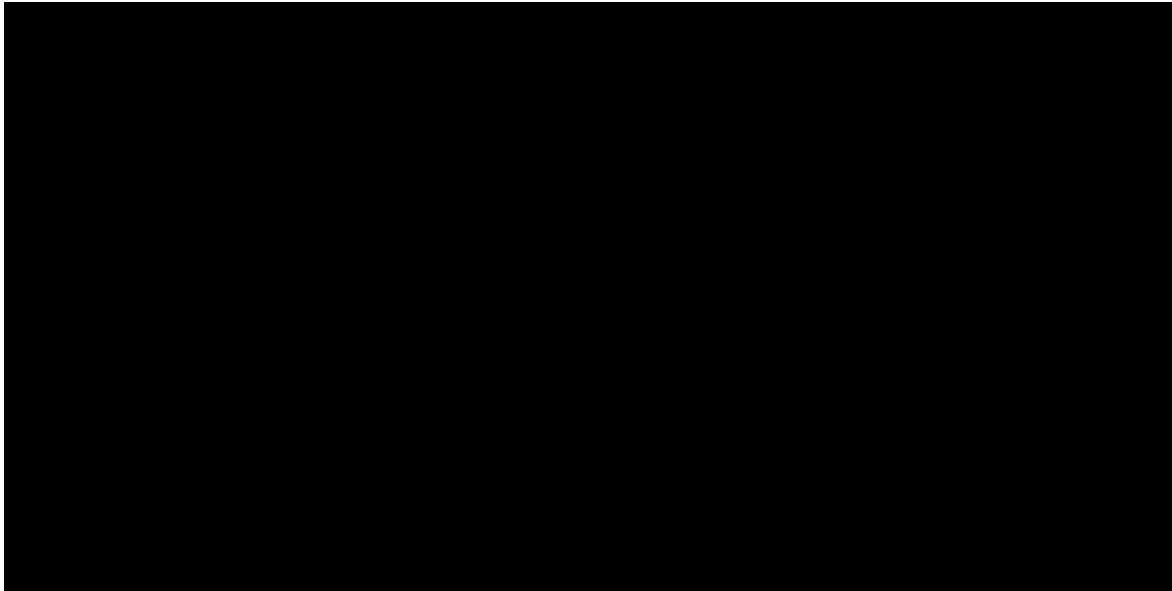
Figure 5.2: HR's role in corporate governance

5.2.3   Accommodating executive compensation practices into compliance

The researcher posed three questions used in the measuring instrument to collect data
on corporate governance. The questions: (1) Does the department report on aspects
such as policy, procedures, controls for areas of material impact, including
compensation for senior management, employees, payroll, health and welfare, pension
and equity plans? (2) Is compliance integrated into senior management compensation
practices for example monitoring trends, compliance drives in areas exhibiting

weakness? (3) Are roles and responsibilities for HR, documented in compensation and benefits policies?

Figure 5.4 provides an indication that 80% of participants highlighted a partial integration of compliance into senior management compensation practices and reporting on aspects such as policy, procedures and controls, while 40% agreed that roles and responsibilities were fully documented in compensation and benefit policies.
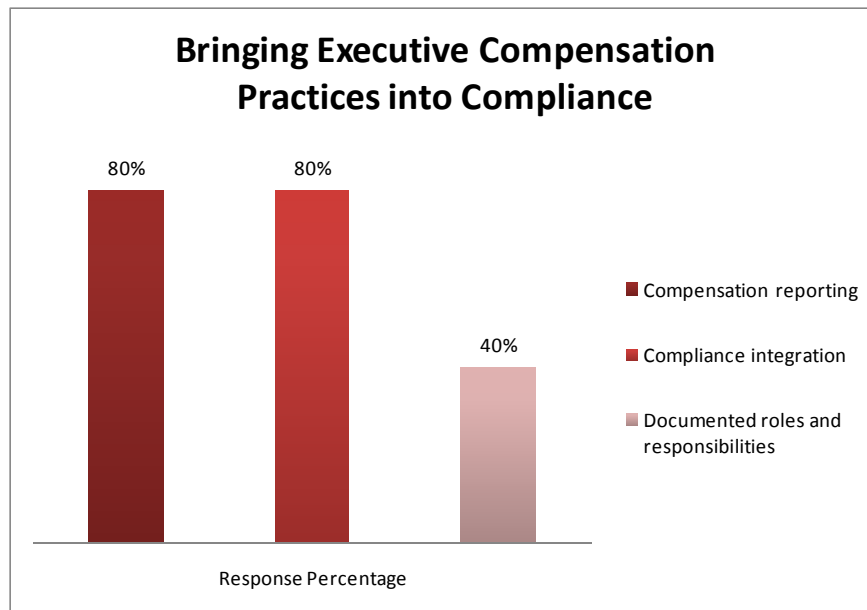
Figure 5.3: Responses on executive compensation practices

5.2.4   Partner with Finance to implement safeguards and ensure compliance

The researcher posed three questions to line management as it was felt that these elements would form part of a service level agreement negotiated between management and not lower level employees. In the study the researcher posed the question: (1) Does HR have a documented internal control procedure and accountability review with all vendors and suppliers? (2) To what extent has HR partnered with any other department to ensure compliance reporting? (3) How would you rate the general controls in the department?

The response to question one as illustrated in Figure 5.5, shows that 40% (2 participants) agreed that a documented procedure was only partially in place while for question two the general indication that 40% agreed that partnering efforts was at the expected level. Of significance was the rating of general controls in the department.

Management indicated that this was monitored and operational as well as periodically tested for effectiveness.

Partnering with Finance

60%

40%   40%

■ Documented internal control procedure and accountability review

■ Partnerships

■ General controls

Response Percentage
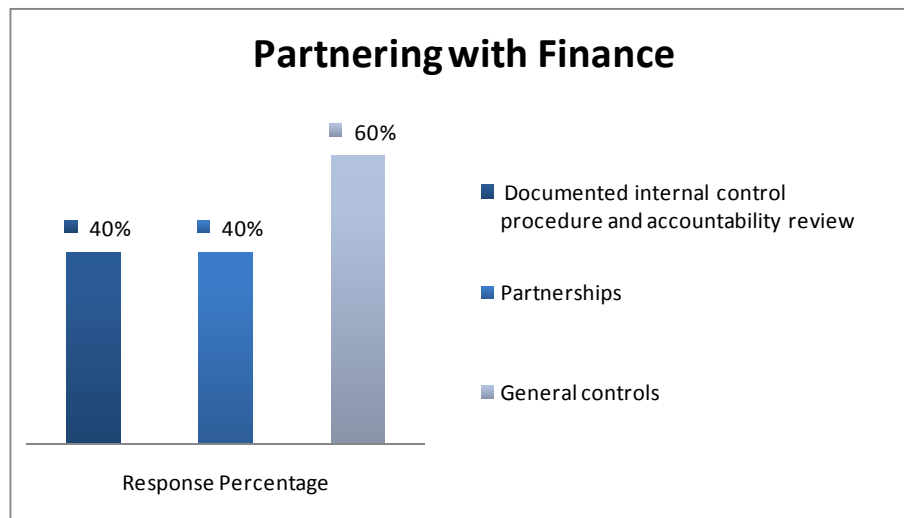
Figure 5.4: Responses for partnering with Finance and ensuring compliance

5.3 Significance of compliance behaviour on the innovative environment

Botha (2009) argues that governance, leadership and ethics are critical to public and private organisations. Sustained competitive advantage is realised through other factors but significantly through the aspects of innovation and compliance. The compliance and innovative aspects are:

- Ethical values
- Culture of integrity and honesty
- Internal controls
- Partnerships with finance and other departments
- Allowing for corrective action
- Balanced systems
- Trust and consistency of application of policy
- Process discipline
- Risks
- Openness to new ideas and willingness to experiment
- Passion for innovation and clear linkage to the mission
- Communication
- Support by leadership
- Training in innovation

- Organisational discipline

The researcher considered that all these aspects would be relevant in the HR environment therefore all respondents were interviewed and asked to indicate the relative importance of each aspect to compliance and innovation. These questions were linked to the relevant code categories in Table 5.3 and frequency counts were calculated. Frequencies depict how data is distributed across the aspects that line managers and HR practitioners perceive as essential. The participation of line managers was reduced by one, since one participant did not complete the questionnaire. This participant was excluded from the data analysis (N = 5). In the case of HR practitioners all thirty-three participants responded (N = 33) out of a possible 50 participants.

Table 5.6 captures the values or number of individuals who view the aspect as important. Figure 5.5 illustrates the almost perfect correlation of innovation aspects with compliance aspects. Frequency counts were much lower in the aspect of training, internal control, process discipline and organisational discipline with regards to the innovation aspect.

Table 5.6: Frequency counts for aspects of compliance and innovation
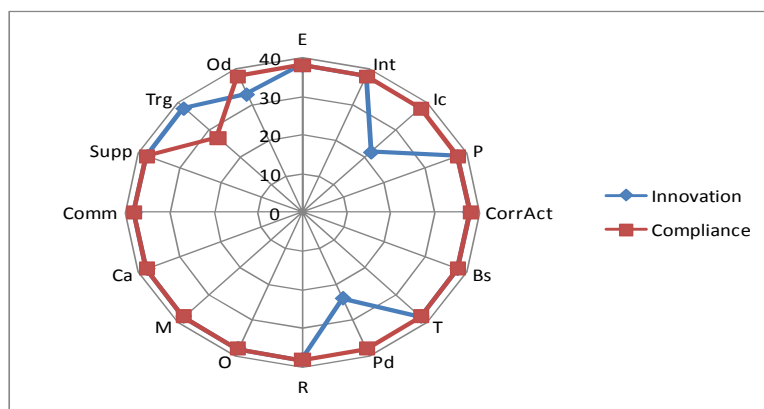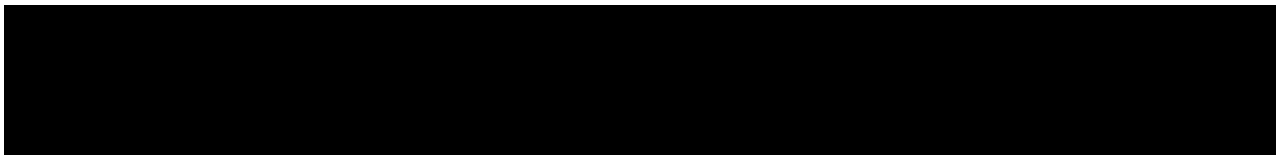
Figure 5.5: Radar graph indicating aspects of compliance and innovation

5.4 Contributors to an innovative environment

Innovation leaders as argued by Dechamps (2005), have distinctive characteristics that distinguish them as innovation champions. These are:

- An extraordinary combination of creativity and process discipline in introducing the new product or service to the market.
- An acceptance of risks and failures, coupled with the urge to make their staff learn when the project encounters challenges.
- The courage to commence with projects and knowing when to pull the plug.
- A talent for directing teams and a knack for attracting and retaining innovators.
- Openness for external and new technologies and the willingness to experiment with them.
- A passion for innovation and how it links to their mission as well as ardour for sharing this with their staff.

In Table 5.7, fourteen innovation descriptors were put forward to HR practitioners. Figure 5.6 displays the spread of values with the largest being the category "availability of funding", which indicated that 63.6% of the respondents were of the opinion that the department did not make the time and budget available for employees to explore their own ideas. This was amplified by 57.6% who viewed that the environment as being unsuited to idea generation, with a further 51.5% of HR practitioners indicating that the department's premium on ethical standards and awareness of social issues was less than expected. The department's overall contribution to innovation, the distribution of values on aspects such as use of brainstorming teams, collection of ideas, communication, and training in innovation were to a greater extent not being done. On the other hand, average values were also recorded for the acceptance of risks, willingness to experiment and consistency of application of policy.

Table 5.7:   Innovative aspects as perceived by all staff
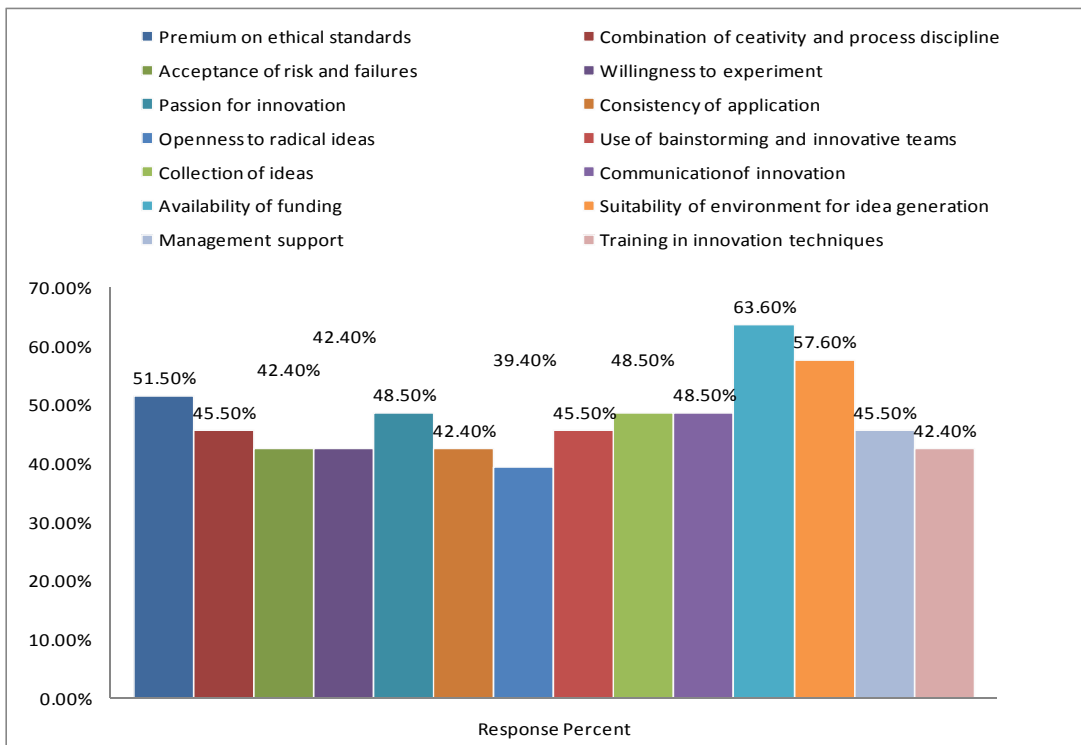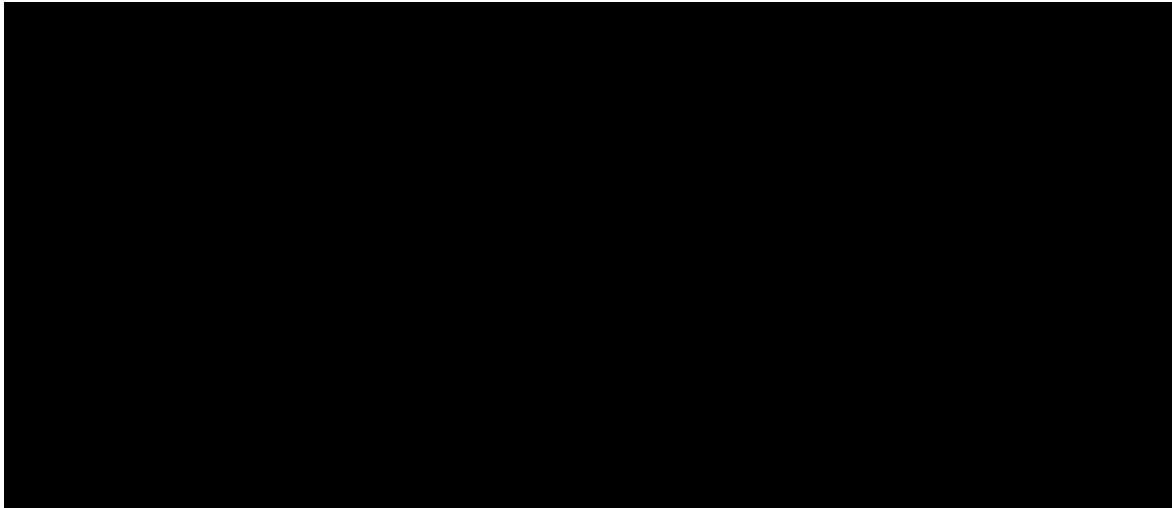
Figure 5.6:   Bar graph of innovative aspects as perceived by all staff

5.5   Summary

The study explored whether appropriate compliance behaviour had a positive impact on the innovative environment of human resource practitioners and the factors theoretically and empirically related to it. In the study, compliance behaviour was the dependent construct and the researcher examined how this was influenced by ethics, corporate governance, compensation practices, partnerships and other factors related to

compliance and innovation. The analysis was conducted through descriptive statistics and content analysis. Through the analysis the researcher was able to summarize large bodies of data regarding the work related attitudes of the participants, compared attitudes of different groups, investigated the correlation between variables and determined the significance of compliance behaviour on innovation. In the search for answers, the researcher relied heavily on statistical inferences. The results of the quantitative analyses presented here will be interpreted and discussed in detail in chapter 6.

CHAPTER 6

RESEARCH CONCLUSION AND RECOMMENDATIONS

"All progress is precarious, and the solution of one problem brings us face to face with another."

-Martin Luther King Jr-
American Leader, 1929-1968

6.1   Introduction

In this chapter, the researcher will focus on elaborating on the findings presented in chapter 5. It must be noted however that data can be interpreted in various ways and making any snap judgements can lead the research effort astray. Chapter 6 is therefore presents a deeper understanding of the analysis and findings by comparing the theoretical evidence with the actual evidence indicated in the survey. The focus of this discussion will be on:

- Providing conclusions on compliance behaviour and the innovative environment from data gathered from the HR Department.
- Provide recommendations to HR management on how best to extract competitive advantage by developing compliance interventions that complement innovation.

This chapter will again be driven by the research objectives to order to maintain the golden thread from the previous chapters.

6.2   Conclusions

6.2.1   Existing compliance behaviour

The creation of ethical and transparent culture is a critical goal for organisations. According to Wong cited in Dailey *et al.* (2005), ethical deficits are a cause of toxic executives. The new reality acknowledges that leaders need to be open and strongly committed to the ethical values of the organisation. Compliance with ethical behaviour is therefore necessary and not just a means to put things together when they break down (PriceWaterhouseCoopers, 2003).

The results from the survey of both HR practitioners and line management indicate that supporting and committing to ethical values in the HR Department has been below the

expected level in general. This indicates a strong negative reaction by management to foster a culture of integrity and honesty. Management's lack of support and commitment to ethics and culture may nurture a climate of insecurity where each case of non compliance may be handled inconsistently than it would be handled if management had adopted an ethical posture and supported which is supported by strong compliance behaviour.

There is a clear indication that the overall culture in the HR Department is withdrawing from holistic compliance behaviour. The significance of the values indicates an amplification of ethical values and culture with similar results provided by line management and gives a clear indication that this problem is just as large in magnitude from management's end. This indicates that the problem may stem from the fact that compliance and its associated behaviours may be viewed as higher level goals related with executive management with no real tangible link being established with HR practitioners at grass roots level.

These high values indicate that employees have not created an attachment to specific ethical behaviours and this may be due to a lack of enforcement on management's part. This is not to say that the practices of management are unethical but to say that the results and over riding evidence from the survey indicates that these practices for example simple compliance to policies is taken for granted. Existing compliance behaviour is therefore a condition that exists as cases arise and not set as a dominant tone that management wants to impart in the department.

Results related to HR's role in corporate governance also indicated significant negative values in most areas except adhering to behaviour that is universally recognised and accepted and making decisions and being accountable for them. There is clear indication that there are no mechanisms to avoid conflict and this may exist on the assumption that the current culture is adequately sensitized with the operations of the HR Department. This may be due to the existence of a large number of employees in the older age bracket who have been in the employ of the department for fifteen years or more. This scenario however may change in the future when natural attrition occurs and new employees with new paradigms and influences join the organisation. Mechanisms to avoid conflict and avenues for corrective action may not be strong enough to address the needs of these employees and may create contradictory behaviours.

In conclusion, the view on HR's role in corporate governance is negatively skewed due to the imbalance of governance mechanisms. Again management's view and actions conducted on corporate governance may be set too high or may be infused with archaic practices such as grievance procedures. Although the department allows for corrective action, the use of it is extremely limited and reactively applied. This is also apparent from the results provided by Line Management on their view of HR's role in corporate governance. Table 5.5 provides a clear indication that management may have not made its policy on corporate governance clear. Although general controls and partnerships are positive, they do very little for HR's overall role in corporate governance.

6.2.2   Significance of compliance behaviour on the innovative environment.

This question seeks to establish the potential difference or similarity between aspects of compliance and aspects of innovation. Although each aspect is an independent variable, the results indicated that they do not differ significantly except for training, organisational discipline and process discipline.

- Training: training in compliance aspects was indicated to be not as important as training in innovative practices. This may because compliance is a practice that must be integrated in all HR activities, while innovation is a skill that requires strengthening.
- Organisational discipline: this result did not greatly vary from the compliance result since innovation may require unconventional thinking which may cut across the norms of organisational discipline.
- Process discipline: this result also varied considerably from the compliance result mainly due to innovation not being process driven but rather triggered by alternative and unconventional thinking.

It can be concluded that the results have shown a significant correlation with each other. This means that the results drawn from HR practitioners and line management alike indicated that the following aspects are critical for an innovative and compliance environment to co-exist:

- Ethics
- Integrity

73

- Internal control partnerships
- Allowing for corrective action
- Balanced systems
- Trust
- Process discipline
- Risks
- Openness to new ideas
- Mission
- Consistency of application
- Communication
- Support
- Training
- Organisational discipline

This is an indication of the critical nature of compliance in an innovative environment. HR practitioners and line management may therefore have a need for an integrated environment as it may facilitate more control over service provision. The near perfect correlation has only been slightly influenced by lower values in training, organisational and process discipline. Although these values are not extreme, they nevertheless signify that HR practitioners and line management realise the importance of these factors.

6.2.3   The contributors to an innovative environment.

According to Deschamps (2005) innovative leaders distinguish themselves through the following characteristics:

- Placing a premium on ethical standards
- Combining creativity and process discipline
- Accepting risks and failures
- Willingness to experiment
- Passion for innovation
- Consistency of application
- Openness to radical ideas
- Use of brainstorming and innovative teams

- Collection of ideas
- Communication of innovation
- Availability of funding
- Suitability of an environment for idea generation
- Management support
- Training in innovation techniques

According to Deschamps (2005), managers leading the organisation do not always have the skills or personality to orchestrate and steer a complex and uncertain cross functional process like innovation. Deschamps (2005) argument may hold true in the HR Department. The innovative aspects reflected in Table 5.8 clearly indicate that the generation, collection and maintenance of ideas has not received the attention within the innovative environment. The importance of an innovative environment has been well stated in literature but does not seem to be as strong in the HR Department. Management does not place a premium on ethical standards which is one of the important aspects contributing to innovation. This was recorded to an extend less than expected and indicates a weakness on the part of the department.

In the combination of creativity and process discipline, passion for innovation, openness to radical ideas, suitability of the environment and management support, the department had very little to offer. This could be due to the lack of an innovative culture in the department. Although aspects such as risks and failures, willingness to experiment and consistency of application where indicated has being average, the general innovative environment was not in place.

In conclusion the innovative aspects as perceived by all staff indicated a gap in driving the innovation challenge. This gap may have been created by not viewing innovation as an important aspect in the environment. What this does show is that all staff have indicated that these aspects contribute significantly to the innovative environment

6.3   Recommendations

The conclusion elaborated on the findings and the recommendations serve to complement these by suggesting alternative measures to the HR Department. The HR Department will be able to apply the recommendations systematically to achieve compliance without impeding innovation. The recommendations are as follows:

- Management might consider changing its stance on compliance by ensuring that it permeates into the culture of the HR Department.

- More support could be afforded to compliance behaviour as there is evidence that it plays a significant role in innovation. By integrating compliance in every HR activity and linking it to the mission, an ethical culture would naturally develop.

- It would be good to develop a tangible attachment to ethics and this could be achieved through consistent policy application and communication. Line Management should develop the capability to articulate the aspects of compliance in the general environment and respond positively by ensuring more innovative means are applied in problem solving.

- HR's role in corporate governance should be clarified. Management may find it necessary to paint the big picture and articulate how employees fit into this picture. Corporate governance involves all staff who should be clear as to what their roles are.

- The correlation of compliance aspects and innovation aspects indicate that they are intertwined. Compliance does not impede performance nor does it impede innovation. As they are complementary towards each other, management should encourage the process discipline for both elements.

- Management should develop mechanisms to channel ideas and nurture idea generation through functional activities. Staff should be encouraged to look upon failures as learning pathways that lead to better ways of doing things.

- An environment of innovation should be allowed to develop. Communication on innovation should be regular so staff are constantly aware that management is committed to developing an innovative culture that has organisational discipline.

- The obvious weakness is the gap created by the isolation of innovation and compliance from each other. These two aspects can be integrated into the HR environment.

6.4 Summary

The purpose of the chapter was to develop an understanding of where the HR Department is in relation to where it is supposed to be. Chapter 6 utilised the analysis from chapter 5 to highlight the possible reasons of the values obtained. Conclusions were drawn so that the crux of the problem could be focused on.

Recommendations were provided so that the HR Department can apply the appropriate action and follows the pattern in terms of the objectives discussed.

MEASUREMENT INSTRUMENT

Dear Participant

Rajen Moodley is a registered MBA student at the University of South Africa. He is currently busy with his final preparation towards his degree which entails a dissertation on "The effects of compliance practices on the innovative ability of HR practitioners at a tertiary institution."

You have been selected, as you are an employee of the Human Resource Department at the University of Pretoria to participate in this study. Your participation in this survey will add value and be appreciated. The aim of the study is to determine if compliance practices prevents the flexibility of HR practitioners in being innovative in their working environments. The information provided in the survey will be analysed to provide findings that could be of value to you as well as management in designing compliance interventions that enhances an innovative environment.

You may open the survey by clicking on the attached link www.surveymonkey.com. The survey is divided into sections dealing with aspects of compliance, corporate governance and innovation. Instructions are provided and should be followed as closely as possible. There is no correct or incorrect answer to these questions as they are intended to determine perceptions of individuals. Please answer all the questions with the answer you think appropriate. Please do not leave any question/item blank as it renders the questionnaire unusable. Completing the questionnaire should not take longer than 10 minutes.

Your answers will be treated in a confidential manner. You need not reveal your identity. The information obtained will be used solely for research purposes, and is subject to ethical rules of research at the University of South Africa.

On completion of the questionnaire and by clicking "done", the questionnaire will automatically be submitted by email. If at all this does not happen then you are welcome to send the questionnaire directly via email to rajen.moodley@up.ac.za. You are also welcome to contact Mr Moodley at 012-4203122 or 0832570512 if you are unsure about anything.

Thank you for your participation

Rajen Moodley

MEASUREMENT INSTRUMENT

HR PRACTITIONERS SURVEY QUESTIONNAIRE

SECTION A: DEMOGRAPHIC CHARACTERISTICS

The following questions request biographical information. Your responses will be used for statistical purposes only. Confidentiality is guaranteed.

1.   Kindly indicate your age group?

20 – 35	36 – 45	46 – 55	56 – 65
A1	A2	A3	A4

2.   Gender.

M	F
A5	A6

3.   What is your current job level?

Non management		1	A7
First level supervisor		2	A8
Middle management		3	A9
Top management		4	A10
Professional		5	A11

4.   Number of years employed in the HR Department?

1 – 5	6 – 10	11 – 15	16 – 20	Greater than 20yrs
A12	A13	A14	A15	A16

5.   Race

White	Black	Asian	Coloured
A17	A18	A19	A20

6.   Number of years experience in the HR environment?

1-5	6-10	11-15	16-20	Greater than 20
A21	A22	A23	A24	A25

7.   Highest educational qualification?

Secondary school	1	A26	Std 10 or equivalent		2	A27
Post school certificate/diploma	3	A28	National diploma/ National Higher Diploma		4	A29
Bachelor's degree or equivalent	5	A30	Honours degree or equivalent		6	A31
Master's degree or equivalent	7	A32	Doctoral degree or equivalent		8	A33

SECTION B: COMPLIANCE BEHAVIOUR

Listed below are a number of statements that represent possible perceptions individuals have about compliance within their respective division or department. Please indicate the extent to which each of the statements represents your experience by crossing the number that corresponds with your response.

Compliance – within the division or organisation	to a much lesser extent than expected	to an extent less than expected	to an expected extent	to a more than expected extent	to a great extent	FOR OFFICE USE
1. To what extent is management openly supportive of the ethical values of the department?	1	2	3	4	5	A34
2. To what extent is management openly committed to the ethical values of the department?	1	2	3	4	5	A35
3. To what extent is the department fully committed to its ethical values?	1	2	3	4	5	A36
4. To what extent has management assumed responsibility in developing a culture of integrity and honesty?	1	2	3	4	5	A37
5. To what extent does the department enforce regulatory compliance?	1	2	3	4	5	A38
6. To what extent do customers comply with the policy and prescripts?	1	2	3	4	5	A39
7. To what extent has the department implemented compliance interventions?	1	2	3	4	5	A40

Compliance – within the division or organisation	Yes, fully	Not at all	Partially	unsure	FOR OFFICE USE
8. Do you think that the department has adequately maintained regulatory compliance?	1	2	3	4	A41

SECTION C: CORPORATE GOVERNANCE CHARACTERISTICS

Listed below are a number of statements that represent possible perceptions individuals have about corporate governance within their respective division or department. Please indicate the extent to which each of the statements represents your experience by crossing the number that corresponds with your response.

Corporate Governance – within the division or organisation	to a much lesser extent than expected	to an extent less than expected	to an expected extent	to a more than expected extent	to a great extent	FOR OFFICE USE
1. To what extent is the department adhering to behaviour that is universally recognised and accepted to be correct and proper?	1	2	3	4	5	A42
2. To what extent do outsiders make sense of the department's actions, wrt financial and non-financial aspects?	1	2	3	4	5	A43
3. To what extent are there mechanisms to avoid conflict?	1	2	3	4	5	A44
4. To what extent does the department have the ability to make decisions and be accountable for them?	1	2	3	4	5	A45
5. To what extent does the department allow for corrective action?	1	2	3	4	5	A46
6. To what extent does the department punish mismanagement?	1	2	3	4	5	A47
7. To what extent are the systems balanced into taking account of all those who have an interest in the department?	1	2	3	4	5	A48
8. To what extent is the department placing a premium on ethical standards and being aware of social issues?	1	2	3	4	5	A49

First pick the statement that describes the overall state of innovation in the department. Then select one of the options that corresponds with your response.

Innovation – within the division or organisation	Not at all	Very little	Average	Better than most	Very much	FOR OFFICE USE
1. Does the department have an extraordinary combination of creativity and process discipline in introducing new services to customers?	1	2	3	4	5	A50
2. Does the department accept that a project may encounter risks or failures?	1	2	3	4	5	A51
3. Is the department open towards new ideas/technology and willingness to experiment?	1	2	3	4	5	A52
4. Does the department have a passion for innovation and clearly articulates how this links to the mission?	1	2	3	4	5	A53
5. Do employees trust the department in terms of consistency and application of policy?	1	2	3	4	5	A54
6. Are radical ideas to management well received?	1	2	3	4	5	A55
7. Are brainstorming and innovative project teams used often?	1	2	3	4	5	A56
8. Does the current system provide sufficiently for the collection of innovative ideas?	1	2	3	4	5	A57
9. Is innovation communicated throughout the department?	1	2	3	4	5	A58
10. Does the department make time and budget available for employees to explore their own ideas?	1	2	3	4	5	A59
11. Is the environment well suited for idea generation?	1	2	3	4	5	A60
12. Does leadership respond quickly to innovative ideas?	1	2	3	4	5	A61
13. To what extent does the department provide training in innovation and other problem solving techniques?	1	2	3	4	5	A62

MEASUREMENT INSTRUMENT

LINE MANAGER'S SURVEY QUESTIONNAIRE

SECTION A: DEMOGRAPHIC CHARACTERISTICS

The following questions request biographical information. Your responses will be used for statistical purposes only. Confidentiality is guaranteed.

1.   Kindly indicate your age group?

20 – 35	36 – 45	46 – 55	56 – 65
B1	B2	B3	B4

2.   Gender.

M	F
B5	B6

3.   What is your current job level?

Non management		1	B7
First level supervisor		2	B8
Middle management		3	B9
Top management		4	B10
Professional		5	B11

4.   Number of years employed in the HR Department?

1 – 5	6 – 10	11 – 15	16 – 20	Greater than 20yrs
B12	B13	B14	B15	B16

5.   Race

White	Black	Asian	Coloured
B17	B18	B19	B20

6.   Number of years experience in the HR environment?

1-5	6-10	11-15	16-20	Greater than 20
B21	B22	B23	B24	B25

7.   Highest educational qualification?

Secondary school	1	B26	Std 10 or equivalent	2	B27
Post school certificate/diploma	3	B28	National diploma/ National Higher Diploma	4	B29
Bachelor's degree or equivalent	5	B30	Honours degree or equivalent	6	B31
Master's degree or equivalent	7	B32	Doctoral degree or equivalent	8	B33

Listed below are a number of statements that represent possible perceptions individuals have about compliance within their respective division or department. Please indicate the extent to which each of the statements represents your experience by crossing the number that corresponds with your response.

Compliance – within the division or organisation	to a much lesser extent than expected	to an extent less than expected	to an expected extent	to a more than expected extent	to a great extent	FOR OFFICE USE
1. To what extent is senior management openly supportive of the ethical values of the department?	1	2	3	4	5	B34
2. To what extent is senior management openly committed to the ethical values of the department?	1	2	3	4	5	B35
3. To what extent is the department fully committed to its ethical values?	1	2	3	4	5	B36
4. To what extent has senior management assumed responsibility in developing a culture of integrity and honesty?	1	2	3	4	5	B37
5. To what extent does the department enforce regulatory compliance?	1	2	3	4	5	B38
6. To what extent do customers comply with the policy and prescripts?	1	2	3	4	5	B39
7. To what extent has the department implemented compliance interventions?	1	2	3	4	5	B40

Compliance – within the division or organisation	Yes, fully	Not at all	Partially	unsure	FOR OFFICE USE
8. Do you think that the department has adequately maintained regulatory compliance?	1	2	3	4	B41
9. Do you think that the department adequately monitors regulatory compliance?	1	2	3	4	B42

Please indicate the extent to which each of the statements represents your experience by crossing the number that corresponds with your response.

HR's role in corporate governance	Yes, fully	Not at all	Partially	unsure	FOR OFFICE USE
1. Does the department report on aspects such as policy, procedures, controls for areas of material impact, including compensation for senior management, employees, payroll, health and welfare, pension and equity plans?	1	2	3	4	B43
2. Is compliance integrated into senior management compensation practices for example monitoring trends, compliance drives in areas exhibiting weakness?	1	2	3	4	B44
3. Are roles and responsibilities for HR, documented in compensation and benefits policies?	1	2	3	4	B45
4. Does HR have a documented internal control procedure and accountability review with all vendors/suppliers?	1	2	3	4	B46

HR's role in corporate governance	to a much lesser extent than expected	to an extent less than expected	to an expected extent	to a more than expected extent	to a great extent	FOR OFFICE USE
5. To what extent has HR partnered with any other department to ensure compliance reporting?	1	2	3	4	5	B47
6. To what extent has management assumed responsibility in developing a culture of integrity and honesty?	1	2	3	4	5	B48

HR's role in corporate governance	Optimized(automation and tools continuously track compliance)	Monitored (operational and periodically tested for effectiveness)	Operational (documented and communicated to employees)	Informal (designed but inadequately documented)	Unreliable (not in place)	FOR OFFICE USE
7. How would you rate the general controls in the department?	1	2	3	4	5	B49

SECTION D: CORPORATE GOVERNANCE CHARACTERISTICS

Listed below are a number of statements that represent possible perceptions individuals have about corporate governance within their respective division or department. Please indicate the extent to which each of the statements represents your experience by crossing the number that corresponds with your response.

Corporate Governance – within the division or organisation	to a much lesser extent than expected	to an extent less than expected	to an expected extent	to a more than expected extent	to a great extent	FOR OFFICE USE
1. To what extent is the department adhering to behaviour that is universally recognised and accepted to be correct and proper?	1	2	3	4	5	B50
2. To what extent do outsiders make sense of the department's actions, wrt financial and non-financial aspects?	1	2	3	4	5	B51
3. To what extent are there mechanisms to avoid conflict?	1	2	3	4	5	B52
4. To what extent does the department have the ability to make decisions and be accountable for them?	1	2	3	4	5	B53
5. To what extent does the department allow for corrective action?	1	2	3	4	5	B54
6. To what extent does the department punish mismanagement?	1	2	3	4	5	B55
7. To what extent are the systems balanced into taking account of all those who have an interest in the department?	1	2	3	4	5	B56
8. To what extent is the department placing a premium on ethical standards and being aware of social issues?	1	2	3	4	5	B57

First pick the statement that describes the overall state of innovation in the organisation? Then rate it with one of the five scores of innovation effectiveness.

Which of the following best describes the reality of innovation in the department?

1 = completely untrue, 2 = slightly true, 3 = equally true and false, 4 = more true than false, 5 = very true

SUBJECT	STATEMENT	SCORE	OFFICE USE
Innovation in the organisation	We walk the talk. Its woven into the fabric of the organisation. Every employee is aware that innovation is important and has the opportunity to participate in programs.		B58
	We understand and value the concepts and processes of innovation but we use it for incremental improvements.		B59
	We talk about it. We recognise that it is important but we don't have an innovation process and our attempts to innovate have not been effective.		B60
	We are happy to be followers. We don't think that innovation as a discipline to drive growth.		B61
Leadership and organisation	Leadership spends time acting on, and not just talking about innovation.		B62
	Leaders are appropriately assessed and rewarded for innovation performance.		B63
	Our leader effectively communicates with the broader organisation wrt innovation activities, successes and failures.		B64
	Leadership consistently allocates resources to fund and staff innovation		B65
Process and tools	The organisation has set objectives or measures to drive innovation.		B66
	Our innovation process is effective in turning out new growth initiatives.		B67
	It is easy to understand and use our innovation process.		B68
	Tools are technology is readily available to help innovation.		B69
	The organisation provides training in creativity, innovation and other problem solving techniques.		B70
People and skills	Our organisation provides training in creativity, innovation and other problem solving techniques.		B71
	Would be innovators can get funding, space and time other problems to pursue opportunities and threats.		B72
	People are recognised and rewarded appropriately for assisting the organisation to innovate.		B73
	Knowledge, skill and ideas is effectively transferred across divisions, sites and regions.		B74
Culture and values	The organisation knows how to learn from failure and encourages informed risk taking.		B75
	The strategy is widely understood and believed through the organisation.		B76
	The organisation is recognised in the marketplace as an innovator.		B77
	People from throughout the organisation are encouraged to participate in innovation efforts.		B78

<table>
<tr><td colspan="6" align="center">**MEASUREMENT INSTRUMENT**

LINE MANAGER'S STRUCTURED INTERVIEW

SECTION A: INNOVATION AND COMPLIANCE</td></tr>
</table>

Relate each question to compliance and innovation respectively and indicate if you **agree or disagree**.

Interaction of Innovation and Compliance in the workplace	Compliance		Innovation		FOR OFFICE USE
1. Ethics is considered a core value in this aspect.	Agree	Disagree	Agree	disagree	C1
2. One should have integrity when one is engaged in this activity.	Agree	Disagree	Agree	disagree	C2
3. Internal control must be maintained at all times even when it seems that you may become unpopular.	Agree	Disagree	Agree	disagree	C3
4. Partnerships are necessary to derive the best benefit.	Agree	Disagree	Agree	disagree	C4
5. Allowing for corrective action is a means of learning.	Agree	Disagree	Agree	disagree	C5
6. Balanced systems will serve to complement one another rather than clash.	Agree	Disagree	Agree	disagree	C6
7. Trust is a mechanism that enhances this aspect.	Agree	Disagree	Agree	disagree	C7
8. Process discipline must be adhered to.	Agree	Disagree	Agree	disagree	C8
9. You are at liberty to take risks.	Agree	Disagree	Agree	disagree	C9
10. Openness to new ideas improves the process and allows learning.	Agree	Disagree	Agree	disagree	C10
11. Do these aspects relate to the mission statement?	Agree	Disagree	Agree	disagree	C11
12. Does the consistency of application towards these aspects differ from individual to individual?	Agree	Disagree	Agree	disagree	C12
13. Communication is abundant and individuals understand these aspects in totality.	Agree	Disagree	Agree	disagree	C13
14. These aspects support one another in that the one cannot exist without the other.	Agree	Disagree	Agree	disagree	C14
15. Training is necessary or staff will be complacent.	Agree	Disagree	Agree	disagree	C15
16. Organisational discipline improves this culture.	Agree	Disagree	Agree	disagree	C16

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