



Mix Enforcement With Persuasion

For the best compliance, don't just enforce the rules, set the norms.

Compliance sometimes requires nothing but enforcement. When it comes to laws and regulations with observable outcomes, the consequences of non-compliance are designed to maximise the rate of obedience and, usually, they succeed. But in other circumstances, a softer touch may be necessary. For example, encouraging energy saving or recycling, or prompting employees to take part in a volunteer project or to use an internal social media platform. These are small but very powerful movements that can have a big impact on the company's fortunes and simply "enforcing the rules" may not be sufficient to change behaviour.

This is where the role of "social norms" can come into play. Different from enforcement that promotes top-down administration and monitoring, using social norms – how others carry out a desired activity or how many agree it's good for the enterprise – can spur others into action.

But how effective is it and should managers consider using social norms to increase conformity to new processes or strategic directions? Should increasing conformity be used in combination with enforcement tools?

In my recent paper, "**Are the Neighbors Cheating?**", I studied this in the setting of property tax compliance in Lima, Peru, to investigate whether

residents felt more compelled to pay their taxes when presented with evidence of how many of their neighbours did so. I also tested how this compared with providing evidence about enforcement and a simple reminder letter.

Tax compliance is the perfect setting for investigating this effect, since deterrence alone (existing audit rates and penalties) cannot account for observed compliance levels. Moreover, in emerging markets, given the developing state of institutions, enforcement only goes so far. Some of the motivation to pay up must therefore come from social or cultural values, but until now, this has not been documented in depth.

Enforcement vs. persuasion

For the study, in two municipalities in the Lima province, randomly chosen subsets of residents were sent either an official letter about the average rate of compliance, the average level of municipal enforcement or both, ten days before the tax was due. A last group was sent only a payment reminder.

I found that giving residents information about the average level of compliance (the letter stated, truthfully, that a large majority of residents of the district comply voluntarily with the tax) raised

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compliance by 20 percent. The reminder raised compliance by 10 percent, and so did providing information on the level of enforcement.

The residents were surveyed before and after the intervention in order to ascertain whether it had changed their beliefs about compliance as well as enforcement. Interestingly, the letter describing social norms raised beliefs about compliance, but it also raised beliefs about enforcement.

Overall, there are non-deterrence drivers of compliance that have an effect in addition to enforcement and can be considered either a complement or a substitute depending on the situation, according to the data. For example, regular municipal enforcement is complementary to the role of social norms: Those who were exposed to evidence on neighbors' (compliant) behaviour were also more responsive to municipal enforcement actions.

In the organisation

One important caveat for this study is that 60 to 70 percent of residents already paid the tax prior to this study. Moreover, before the experiment, residents underestimated compliance by as much as 30 percent. This scenario was chosen to see whether compliance could be increased from the critical mass already garnered. What this means for replicability is that in situations where compliance is very low, using social norms to persuade others to pay may have the opposite effect. Highlighting that nobody pays the tax is only likely to reinforce the norm, which is not to comply. The same applies if people are overestimating the level of compliance.

This matters for policymakers and organisations. As shown, the use of social norms or enforcement needn't be an either/or affair; the two interact and give weight to the formal structure of enforcement.

This is especially important for countries or companies at varying stages of development. When formal institutions or structures are still being developed, it might help to lean on informal mechanisms to nudge behaviour in the desired direction.

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