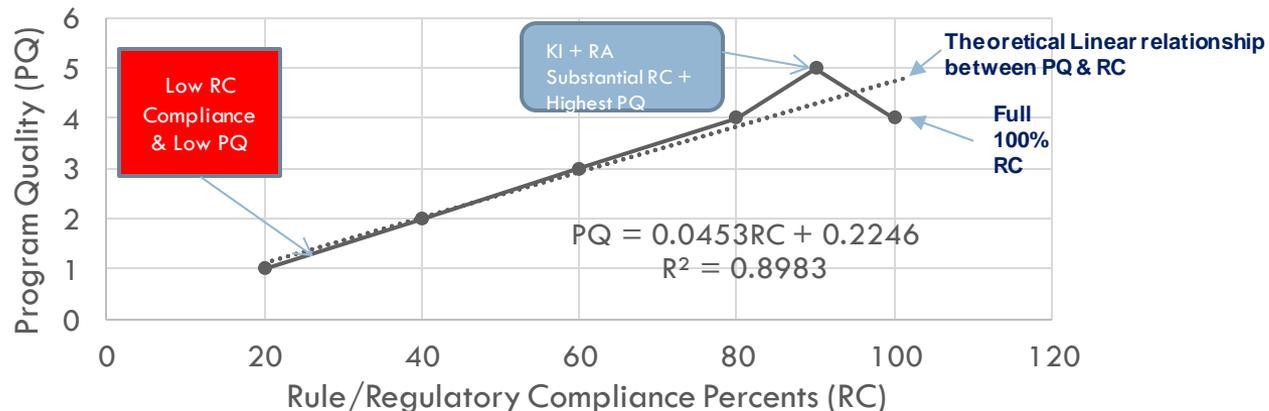


Regulatory Compliance Theory of Diminishing Returns

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The Regulatory Compliance Theory of Diminishing Returns has implications throughout regulatory science although its major emphasis has been within the human services field, in particular early care and education. However, the key elements of the theory are pertinent to any regulatory area, such as in finance, banking, pharmaceutical, environmental safety, etc. The basic premise of the theory is that as programs, individuals, companies move from a lower level of regulatory compliance to substantial but not 100% regulatory compliance, the quality of services increases in a proportionate fashion. But in moving from substantial regulatory compliance to full/100% compliance with all rules/regulations there is either a drop off in quality or services or a plateau effect rather than a linear (see the straight dotted line in the below graph) relationship between program quality (PQ) and regulatory compliance (RC). This is depicted in the graph below where program quality is measured against rule/regulatory compliance. This diminishing returns (non-linear) result has now been documented in several studies in the human services (Fiene, 2013; 2014; 2019). The next logical step is to see if this theory pertains to other industries outside of the human services, such as finance, banking, pharmaceutical, and environmental safety.



The theory is suggesting that policies which require full 100% regulatory compliance with all rules/regulations may not be in the best interests of the client being served. It also suggests the use of abbreviated inspection reviews based upon relative risk and key predictor rules (RA + KI) which statistically predict overall regulatory compliance. So rather than reviewing all regulatory requirements, only pre-selected rules would be assessed on a more frequent basis. This would be warranted based upon the levels of substantial regulatory compliance and the highest program quality being present.