

The Twin Pillars of Regulatory Compliance: Reduction of Risk and Increase in Compliance

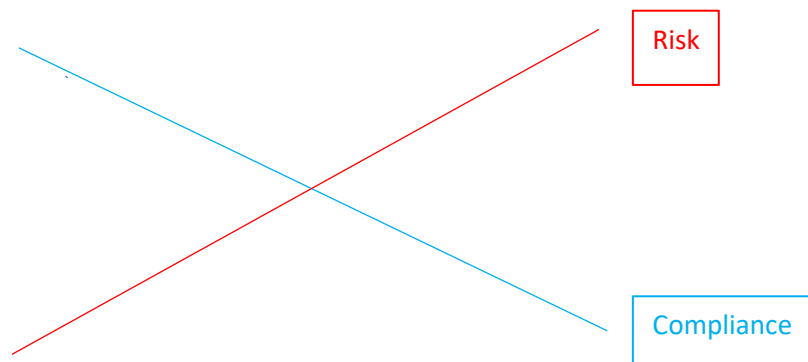
Richard Fiene PhD

Research Institute for Key Indicators Data Lab/Penn State University

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This research abstract will highlight how the reduction of risk and the increase in compliance are the twin pillars of regulatory compliance. As one can see from figure 1 below these two pillars of risk and compliance are not independent of each other but rather inter-dependent. As one increases, the other decreases and vice versa.

Figure 1: Relationship Between Risk Reduction and Compliance



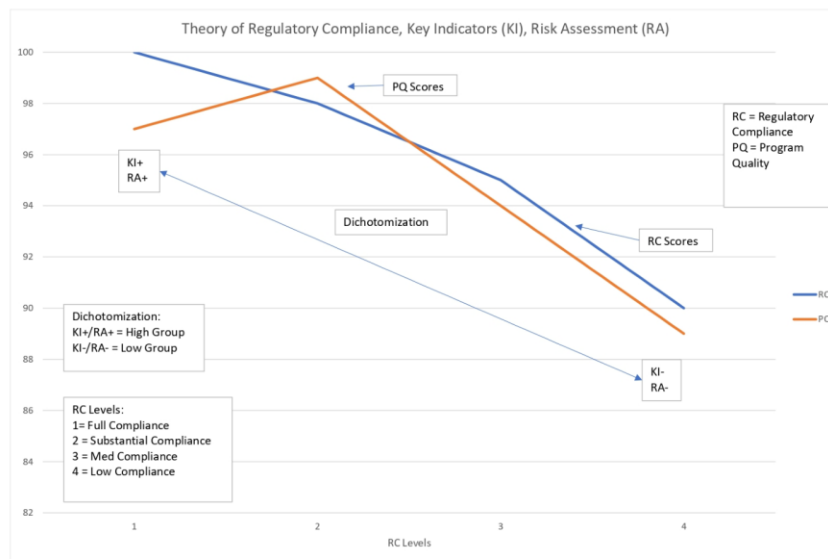
The above Figure 1 depicts the proposed relationship between the pillars of regulatory compliance: risk reduction and increased compliance. It depicts a relationship similar to more well-known relationships such as the economic supply and demand relationship or the management effectiveness and efficiency relationship. Rules and regulations are promulgated to ensure that clients are in a safe environment. Their purpose is to protect individuals and to “do no harm”. Risk is reduced when regulatory compliance is high, and risk is high when regulatory compliance is low with rules and regulations. Risk and compliance do not operate independent of each other but are related in this way.

The essence of this relationship is determining what has been called “the sweet spot” phenomenon where risk and compliance reach an equilibrium which is somewhere at the crisscrossing of the risk and compliance lines. The reason for suggesting “the sweet spot” is based upon the theory of regulatory compliance in which substantial compliance with rules/regulations is equivalent with full compliance with rules/regulations when you compare regulatory compliance scores with quality scores. The ultimate goal of rules and regulations is to “do no harm” but it is also “to do good” which emphasizes a quality element. This is a paradigm shift from previous thinking in which full compliance was the ultimate goal which means 100% regulatory compliance with all rules and regulations. However, the

theory of regulatory compliance just does not support this policy edict. It is more beneficial to also include substantial compliance along with full compliance when making licensing decisions regarding who should be entering respective industries and who should not.

Figure 2 below depicts the theory of regulatory compliance and the relationship between quality and regulatory compliance. It also demonstrates how through data dichotomization; risk assessment and key indicator statistical methodologies can be employed to determine the targeted rules that place clients at greatest risk and those rules that statistically predict overall regulatory compliance. This approach gets us to “the sweet spot” identified in figure 1 where risk and compliance crisscross. Without the theory of regulatory compliance, figure 1 would be dealt with very differently in that high compliance and low risk would be the ultimate goal alone. It still is the ultimate goal but with the additional “sweet spot” which reflects substantial compliance with all rules and regulations.

Figure 2: Theory of Regulatory Compliance



Hopefully, this research abstract helps to further delineate how the intricacies of risk and compliance play out in regulatory compliance. Another way of looking at this is through the vantage point of the regulatory compliance scale in which levels 7 and 5 would be acceptable while levels 3 and 1 would not because compliance would be too low and risk too high. Also, an additional way of looking at this is through the effectiveness and efficiency relationship in which the “sweet spot” represents the balance point between effectiveness and efficiency. Utilizing this “sweet spot” phenomenon is the most cost effective and efficient approach to attaining regulatory compliance. The older paradigm of requiring a “one size fits all” full compliance approach is not as cost effective and efficient.