

A plea for adoption of ethical compliance

Avoiding pitfalls of compliance groupthink and consulting

Plea for
adoption of
ethical
compliance

187

Wendy Mason Burdon and Jackie Harvey
*Accounting and Finance, Newcastle Business School,
University of Northumbria, Newcastle Upon Tyne, UK*

Abstract

Purpose – This paper aims to discuss the evolution of regulation and compliance in the past 20 years, to the current state of affairs. Despite earlier calls for ethical compliance within financial institutions, there remains scope for improvement within practice (as evidenced by on-going regulatory issues in the banking sector).

Design/methodology/approach – Pre-crisis academic models of regulation and compliance are reviewed for evidence of use in practice. Some preliminary inductive research evidence is presented, following data collection via interviews with individuals impacted by compliance in financial service organisations. The interview data, facilitated by repertory grid, provide a post-crisis assessment of the issues faced by practitioners to comply with a new regulation.

Findings – An over-reliance on group think and consulting services in compliance approach is potentially holding back progress in compliance service. Due to the limited recent empirical data offered in the literature, we believe further research into this area should be undertaken.

Originality/value – This piece of research will provoke reflection on current practice vs existing academic theories, and seeks to identify whether alternative models are viable for the future of compliance approaches within practice.

Keywords Compliance, Financial service regulation

Paper type Conceptual paper

1. Introduction and context

There is limited evidence of public trust in the financial markets, following the 2008-2009 financial crisis and ongoing scandals within the media (mis-selling, interest rate rigging and continued fat cat bonuses[1]). Recent proposals by Sir Richard Lambert call for an independent body acting as a “champion for better banking standards” (BBC, 2014) and suggests a lack of confidence in the current regulatory bodies. However, is the emphasis on new regulation and supervision standards the way to restore public trust?

If policy reform really is the solution, how should the banks approach the incoming waves of new regulation? Two alternate visions of firms exist: first, of the firm as a rational profit maximiser, obeying laws and regulations but only when it is in their best economic interest; and second, where the firm is a law-abiding actor that complies in good faith despite struggling with increasingly complicated and contradictory laws and



Journal of Financial Crime

Vol. 23 No. 1, 2016

pp. 187-200

© Emerald Group Publishing Limited

1359-0790

DOI 10.1108/JFC-11-2014-0049

The authors would like to thank colleagues who read and commented upon earlier versions of this paper. All errors and omissions remain those of the authors.

regulation (Malloy, 2003). However, this assumes an extreme stance adopted by organisations towards regulation, and the reality in practice may fall somewhere between the two visions, depending on the firms compliance culture. In an ever-changing regulatory environment, it is unclear how compliance culture is framed, and how this may be measured. A commitment to comply with regulation is, however, expected of the financial industry. Indeed, for this to be embedded within an organisation's culture, "the behaviour of the firm and its employees must reflect the vision" (Jenkinson, 1996, p. 45).

This paper focuses on mechanisms within the banking sector which may indicate "ethical compliance" towards "responsive regulation"[2]. The banks should be seen to be proactively setting the standards instead of reacting to the demands of the regulators (whilst paying heavily through consulting and internal resource demands). The UK banks may argue that they are already proactive through their liaison via organisation such as the British Banking Authority (BBA). However, are trust mechanisms between banks strong enough for real discussions to take place? Therefore, questions remain whether the approach to regulatory compliance will remain a largely individual (and costly) effort by each financial institution[3].

In an environment in which banks are responding to regulatory demands, compliance professionals working in large organisations will understand the benefits and pitfalls of using consultants. The benefit of expertise and specific skill set of consulting firms is their standard selling point. It is debatable whether the costs (of consultants) to the organisation are justified in terms of the benefits received. In this context, it could also be argued that all of the financial firms are facing the same regulatory issues (broadly speaking given the inherent differences between organisations). Therefore, is an individual approach and group think within financial organisations costing the sector as a whole?

RQ1. How should banks avoid an over-reliance on consulting and avoid group think[4] in their compliance approach?

In Section 2, the evolution of the prominent regulatory model "responsive regulation" in the past 20 years is reviewed and linked to a "complimentary" compliance model. This regulatory model will be compared with advertised approaches adopted among regulators. In Section 3, some preliminary evidence collected during the course of repertory grid interviews is introduced, in response to the research question presented above. This paper reports initial and indicative findings only. The intention is to refine results with full qualitative analysis when the collection of a larger sample of data is complete.

2. Literature review – evolution of regulation and compliance

To counter the issues of public trust, transnational and national policy makers have brought in a number of new regulatory proposals to protect consumers and the wider public (BASEL III[5], Dodd Frank Act[6] and European Market Infrastructure Regulation[7] to name a few).

The literature on regulation is vast, with many commentators presenting new models and critiques of existing regulatory structures in light of the most recent financial crisis. However, one academic model presented in the early 1990s remains a topic of current academic debate, with citations steadily increasing year on year (between 1993-2011) for

“Responsive Regulation” (Ayres, 2013). Indeed, an entire special edition of one journal was devoted to the topic of “Responsive Regulation” (Regulation and Governance, Abbott and Snidal, 2013). Many academics have focussed on the concept of the enforcement pyramid (Parker, 2013, p. 4). In this paper, an inverse comparison to an alternate model within the compliance literature (Jackman’s Ethical Compliance model) is proposed.

The enforcement pyramid (see Figure 1) ranges from the sanctioning approach (at the tip of the pyramid) down to a broadly supervisory role, with the option for regulators to use the “benign big gun” and “restorative justice” to move up and down the pyramid (Ayres and Braithwaite, 1992). Few authors have empirically tested responsive regulation due to the “complex, ambiguous and all encompassing” mix of strategies upon which there are inherent difficulties in attempting to form a hypothesis (Nielson and Parker, 2009; Parker, 2013, p. 3).

However, it must be remembered that the original theories of responsive regulation were born out of years of observation of everyday regulation and practice (Parker, 2013, p. 3), and indeed, is the model adopted in practice within Australian regulatory authorities (i.e., Trade Practices Commission). Gilad (2010) contends that “real life regulatory regimes” often combine more than one regulatory model in their approach. They propose that a family of regulation exists in practice, including “meta regulation” (where both regulatee and regulator are held accountable for continuous improvements in regulation).

Pre-crisis commentary discussed “the concept of regulation as a tool to fix a problem” (Jackman, 2004). However, it could be argued this leads society to a mechanistic approach to compliance, which in turn leads to an inability to making decisions based on “judgement” (Jackman, 2004). The concepts of an ethical approach and a “shared set of values and standards” appears key to embedding a compliance culture within organisations (Barry, 2002; Jenkinson, 1996). In direct contrast to the Ayres and

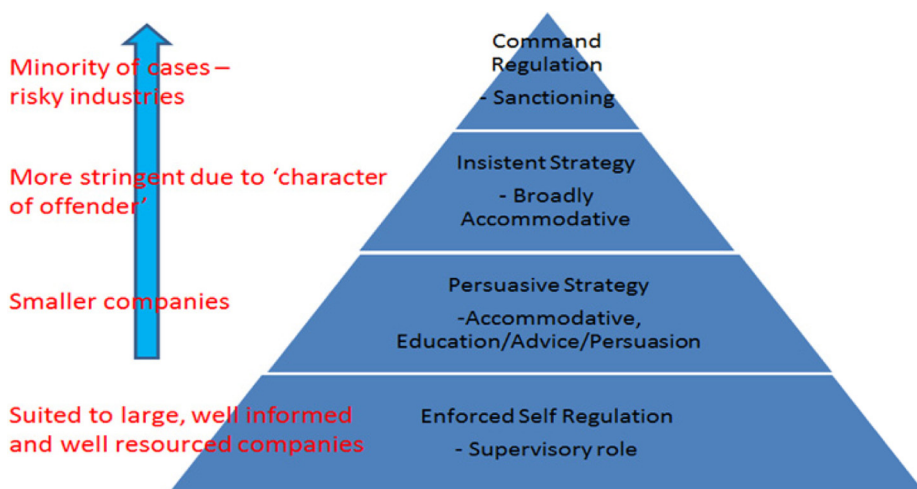


Figure 1.
Pyramid of
enforcement

Source: Summarised from Ayres and Braithwaite (1992)

Braithwaite model, the ethical compliance model ranges from a minimal compliance approach up to “beyond compliance” (Jackman, 2001). Jackman’s paper proposed a link between the firms adopted compliance stance and the then regulator’s approach (FSA) to dealing with individual firms (see Figure 2). Other authors have also supported the calls for ethical compliance approaches (Wood, 2002; Edwards and Wolfe, 2007). However, we still suffer a public perception that regulation and compliance thereon is failing. Questions remain whether these theoretical models for compliance work in the complexities of practice.

Alternative models of compliance include the deterrence model (with the firm as a rational actor) and the normative model (with the firm as a good faith actor). Malloy (2003, p. 471) recognises the limitations of the normative model stating:

[...] proponents of the normative model pay little attention to the role that compliance costs play in causing violations [...] if the costs of complying with social norms are greater than the costs of violating, the individual will ignore the norm [...] even a manager driven primarily by normative concerns will make compliance decisions by engaging in instrumental decision making akin to that assumed by the deterrence model.

More “commercial” literature propose “control self-assessment” (Carter, 2007), “self-regulation” (Rossi, 2010), “active compliance” (Crump, 2007) and software solutions (Simon and Krause, 2008). On review of literature, there does not seem to be any recent empirical research to explore motivations for use of consultants specific to financial service regulatory compliance. One could question the over-reliance on consultants by organisations, and whether consultants feed off regulatory and compliance uncertainty, given recent events in the financial crisis. Gable (2005) comments on the fact that certain white papers and presentations are produced by those with a vested interest in selling compliance-related products and services. This concern is echoed in an online press article following the governance scandals by Gullapalli (2005). Academic literature in place appears to focus on specific pieces of legislation. For example, new legislation FATCA (Foreign Account Tax Compliance Act) has been critiqued by a number of academics (Dizdarevic, 2011; Wise and Baker, 2012; Morse, 2012; Behrens, 2013). However, due to the ongoing introduction of the legislation, no specific conclusions have been drawn in the literature. This can be contrasted to diverse

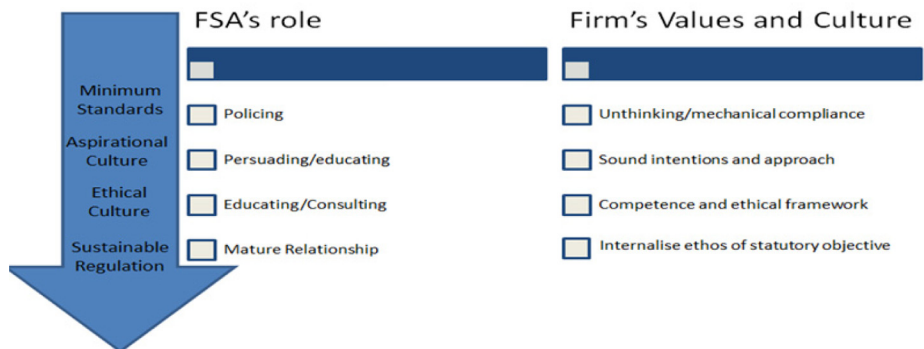


Figure 2.
A summary of
Jackman’s model

Source: Adapted from Jackman (2001, p. 213)

range of advice available on each of the 'Big 4' websites in relation to the topic, encouraging practitioners to prepare for the legislation.

There appears to have been limited (recent) empirical research to test compliance models in Financial Service Regulation (Edwards and Wolfe, 2007; Doyle, 2007; Carretta *et al.*, 2010). Some authors have critiqued Jackman's model as paternalistic (Harvey and Bosworth-Davies, 2013). The lack of empirical research may be indicative of the inherent difficulties in obtaining research access to both the Financial Service Regulator and the confidential compliance and risk management functions within the sector. Perhaps a circumstance of the shake up in the Financial Regulator structure, but this author has had failed attempts to directly access the regulation team on three separate attempts during 2013-2014, with the responses that:

We are not able to accommodate research requests (Financial Conduct Authority, Consumer Enquiries, 18 February 2014).

As a matter of policy the Bank of England does not complete surveys or questionnaires from members of the public (Prudential Regulation Authority, Public Information and Enquiry, 21 February 2014).

This is a busy time for the organisation, and unfortunately, resources are not currently devoted to this type of work (Financial Service Authority, Research Liaison, January 2013).

This is disappointing given the potential benefits to be gained from academic research and improvement to regulatory design within the sector. Baldwin and Black (2008) performed a specific review of enforcement within the "proposed" PRA/FCA structure:

In the case of enforcement, this requires that the enforcement function is broken down into different elements [...]. These involve *detecting* undesirable or non compliance behaviour, developing tools and strategies for *responding* to that behaviour, *enforcing* those tools and strategies on the ground, *assessing* their success or failure and *modifying* approaches accordingly (p. 76).

To understand current regulatory frameworks within the UK, an initial website review was performed to compare the current regulatory approach of the PRA and FCA to other significant UK regulatory bodies (See Table I). The differences in described regulatory style are evident between the small sample of regulators, which has been reviewed. Each regulator describes an individual approach to their sector (with no relation to the highly cited "responsive regulation" model discussed in this paper). This may indicate difficulties transferring academic models (and terminology) into a constantly changing and diverse regulatory environment. This also highlights a gap between the current literature and practice, whereby the literature does not appear to have fully addressed the diverse issues of national (and transnational) regulators.

3. Exploring the "Current state of affairs"

3.1 Methodology employed and sample

To explore the current context of "ethical compliance" models and whether these operate within practice, interviews were conducted with employees of UK banking organisations who are impacted by compliance. The research is inductive in nature, with a pragmatic philosophy adopted. As a result of this inductive research process, the

Table I.
An initial review of regulatory websites to highlight the differences in described regulatory style

UK regulator	Described regulatory style	Source of data
Financial Conduct Authority	Risk-based regulation and credible deterrence: "We aim to use forward-looking and judgement based regulation, with a view to understanding firms' business models and future strategies"	www.fca.org.uk/
Prudential Regulation Authority	Risk-based regulation: "The PRA makes forward-looking judgements on the risks posed by firms to its statutory objectives. Those institutions and issues which pose the greatest risk to the stability of the financial system is the focus of its work"	www.bankofengland.co.uk/pru/Pages/default.aspx
Environment Agency	(Per 2014-2016 Corporate Plan) Risk-Based Regulation: Following Deregulation Bill "We have responded to these initiatives proactively and changed the way we work and how we work with others accordingly"	www.gov.uk/government/organisations/environment-agency
Press Complaints Commission	Self-regulation: "Self regulation works because the newspaper and magazine publishing industry is committed to it. . . . When the Commission receives a complaint, editors now never do anything other than seek to defend themselves in terms of the industry's Code of Practice – a sign of their commitment to it. A further sign of this commitment is that adherence to the industry's Code is written into the contracts of employment of the vast majority of editors in the country – something which gives the PCC real teeth"	www.pcc.org.uk/
Solicitors' Regulation Authority	Outcomes-Focussed Regulation: "Regulation is effective and efficient and meets the better regulation principles We make competent, fair and independent decisions We manage our resources effectively to deal with risks to the regulatory objectives and account transparently for our spending decisions We engage openly and constructively with all of our stakeholders and are easy to do business with"	www.sra.org.uk/home/home.page
Civil Aviation Authority	No 'named' regulatory style found in website search: "We will work collaboratively with those we regulate to ensure there is clarity about how to comply with applicable aviation requirements, but we will deploy a range of scaled responses to actual, suspected or potential breaches"	www.caa.co.uk/
The Office of Communication	No "named" regulatory style found in website search: "Ofcom will strive to ensure its interventions will be evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome. Ofcom will always seek the least intrusive regulatory mechanisms to achieve its policy objectives"	www.ofcom.org.uk/

following question was developed in response to initial research interviews and themes identified:

RQ2. How should banks avoid an over-reliance on consulting and avoid group think in their compliance approach?

The methodological tool employed (interviews facilitated by Repertory Grids) explored risk managers/compliance professional's views of compliance experience. Repertory grid interviews were used due to the grounding of the technique in Personal Construct Theory (Kelly, 1963). Under Personal Construct Theory (PCT), each man is viewed as a scientist interpreting his environment based on prior experiences of the world (constructive alternativism). This philosophy underpins this exploratory research to consider individual viewpoints on compliance approaches. However, the analysis has been approached under the concept of the "commonality corollary" within PCT which contends that:

To the extent that one person employs a construction of experience, which is similar to that employed by another, his psychological processes are similar to those of the other person. (Kelly, 1963).

Using the Repertory Grid and Honey's content analysis technique, one can explore individual tacit knowledge and individual construction of events, and then review collective results from individual grids in a group form (under commonality corollary). At the end of each grid interview, the researcher followed an unstructured interview approach to discuss the content of the grid. This open discussion explored individual's views on alternative approaches to regulation including the concepts of using consultants, outsourcing or use of shared services. Therefore, there are two forms of data output as a result of these interviews: the data produced in the grids during the interviews (individual constructs and scoring), and the data from transcription of open interviews and field notes. The data from transcription have been analysed within this paper.

A summary of data collected to date is presented in [Table II](#). The sample selected for interview includes both experienced compliance officers and individuals working in financial service sector who are directly impacted by compliance with new regulation. This provides a broad spectrum of individual experiences of compliance for analysis. The individuals work for separate organisations to ensure that a range of corporate experience is demonstrated within the result.

4. Data analysed from interviews

This paper only reports initial findings. The data analysed and presented include output from interview transcription and field notes. Following familiarisation within the interview transcripts, a priori thematic analysis has been applied.

4.1 Dealing with "new regulation" and using consultants

During open discussions around the theme of "new regulation" and "using consultants" (and the over-reliance on consultants), a number of interesting points were made by participants. One participant made the logical observation that the choice in approach to new regulation stems from the inherent differences within business models between organisations. The business models impact on the core values and processes chosen within the business:

Table II.
Interview data
collected to date

Date	Interview details	Participant demographics	Method employed	Data collected
January 2013	Pilot 1	Male, compliance officer	Rep grid V1	V1 of Rep grid completed, feedback
January 2013	Pilot 2	Male, retired legal counsel/compliance	Rep grid V2	V2 of Rep grid completed, feedback
August 2013	Live 1	Male, Head of risk management	Rep grid V3 interview	V3 Rep grid (36 constructs), Transcription of 1 ½ hr. interview
January 2014	Live 2 – focus group (five participants)	Group of five customer facing employees	Rep grid V3 interview, group discussion	Five V3 Rep grid (68 constructs), field notes of discussion
April 2014	Live 3	Male, Financial Crime Management	Rep grid V3 interview	V3 Rep grid (24 constructs), Transcription of 1 hr. interview
April 2014	Live 4	Female, Compliance officer	Rep grid V3 interview	V3 Rep grid (18 constructs), Transcription of 1 hr. interview

How we would choose to approach compliance would be very particular to the business model we have got (Relationship Manager, Focus Group, Live 2)

Another logical observation is engaging in impact assessment of new regulation:

[...] because you know that it is going to affect everybody, in some way, shape or form, so before we get to that stage, we will sit together as an organisation and say how is this going to affect us (Financial Crime Manager, Live 3).

This statement supports the concepts of “group think” in a positive manner, but it ignores the potential dangers of poor decision making within the group. To counter these dangers, the same participant attended regular round table meetings with their peers to promote knowledge sharing (whilst avoiding consulting requirements):

we [...] sit and discuss the issues, and what is happening in the world, what new trends, fraud trends are [...] if there have been any errors in the way the systems have worked. What are new ideas we have for improving the systems (Financial Crime Manager, Live 3).

However, one participant observed that consultants should be involved to drive forward cultural change involved in complying with a new regulation:

Where an entrenched team exists, the driver for change is, therefore, more likely to be external (Relationship Manager, Focus Group, Live 2).

Another driver for use of consultants is the skills gap within organisations when approaching a major new piece of regulation. Consultants are seen as necessary to provide assurance to stakeholders (i.e., regulators and internal boards of management):

There was nothing to go on, nothing to use [...] as a mapping tools, so it was from scratch [...] and also it's a one off [...] that one had to have project management skills as well [...] you basically had to manage the whole project, you had to get the key stakeholders on board, because you were not just dealing with [] in that situation I went to ask a consultant to do that (Compliance Officer, Live 4).

However, how does this relate specifically to the ideas of minimal compliance and beyond compliance proposed by Jackman? When discussing a specific approach to a new regulatory requirement the following observation was made:

Some firms did most of it in house, and achieved a minimum level of compliance [...] but absolutely scraped through [...] those paying the minimum tend to be the smaller organisations, with minimal use of external consultants, and tend to be simpler businesses (...). On the other end, we spent £1X0 million, probably £X0 million was with consultants, to develop models, to produce documentation, to run programmes, which is purely because we did not want to gear up with (...) 200 people, and put them on our cost base [...]. And then let them go at some point, as we knew there was going to be a peak in work. So the way we look at this then its very much, supply and demand (Head of Risk Management, Live 1).

A number of conclusions can be drawn from this statement. A key finding is that the perception exists that the use of consultants is inevitable within some organisations. Even with significant expenditure on consultants and internal resource, certain organisations may still be viewed as achieving minimal compliance, just “scraping through”. As expected from general awareness of the industry, “small firms” would tend to use consultants due to a lack of resource and skill set. A more interesting observation was that of balancing resource and cost base to the peak workloads “supply and demand”. This seems to contrast with some other observations in the media, whereby

commentary indicates expectation for continued and sustained expansion in compliance expenditure:

JP Morgan CEO Jamie Dimon said in December that his bank was spending an extra \$1 billion annually on matters such as controls and compliance and that's going to be \$2 billion more by end of 2014. Some of that's permanent. (*Bloomberg Brief*, 2014).

The specific statement "some of that is permanent" highlights the issue of ongoing costs of regulation. However, the proportion of spend between in house/outsourcing/consulting mix remains unclear. Empirical data on compliance spend is limited within the academic literature. The literature that does exist relating to financial regulation cost and benefit is outdated, as the introduction of new regulation and regulatory styles (Alfon and Andrews, 1993; Franks *et al.*, 1998). This may be due to the complexity in measuring both the costs of regulation and compliance and the benefits of regulation (Harvey, 2004). However, there appears scope for further engagement with practitioners to review this issue. A concluding thought made by one participant with regards to "spend" on regulation highlights this issue:

[...] whilst we have got some value from that in terms of better models built, slightly better documentation, have they got a billion of value from it? No chance [...]. And majority of that's gone to consultants (Head of Risk Management, Live 1).

This statement suggests that practitioners view the use of consultants as an inevitable cost of regulatory compliance. Therefore, the concept of "over-reliance" on consultants remains a key issue. However, this in itself is a form of group think and presents a paradox. Consultants are viewed as a key driver for change to counter the effects of group think. However, use of consultants is also a form of group think within practice. Whilst revisiting the initial definition of group think (see footnote 1) in the context of a "follow the herd" mentality, this may apply to the use of consultants as the path of "least resistance" to regulatory compliance by practitioners (in their understanding of appropriate approaches to regulatory compliance). This would be an interesting avenue for future research to explore the relational constraints between the compliance officers and the operational managers within financial service organisations.

4.2 Alternative approaches

Whilst exploring the general theme of outsourcing/shared services/centralised compliance hub for banks, the participants highlighted a number of practical issues around academic models of sharing knowledge.

The inherent differences between individual banks was highlighted as a barrier. The complexity of organisations was also seen to be a barrier to outsourcing and sharing knowledge between organisations:

[...] banking as a market is dominated by larger corporate structures, with fewer new entrants and smaller firms. Larger business perceives itself as having complex requirements, internal networks and a need for experience and influence within the business. This would naturally have to weigh against the potential savings of going externally or be in some way mitigated (Relationship manager, focus group, live 2).

[...] there is a diversity of scale that creates a market for such a function, which is to say that larger companies tend to operate these functions in-house, but the smaller firms find it cost effective to outsource (Relationship manager, focus group, live 2).

Ultimately, the concept of resource management was seen as the key driver of decision making by one individual. As described in prior literature, certain processes inherently lend themselves to outsourcing/shared service. For this individual the decision is strategic and based on underlying cost levels:

[...] at each point you consider what best blend of internal and external contracting of resource, outsourcing some stuff to third parties completely (...), more routine work typically offshore or bring offshore people onshore to deliver that, so it is quite a complex range of decision making to achieve (...) that kind of level of change, and at each stage we think of resource mix, because what you do not want to do is to increase our base level of costs (Head of Risk Management, Live 1).

These initial findings indicate the complexity of decision-making in compliance approach. As evidenced in prior literature, there are a range of approaches to the regulatory maze. However, based on these findings, the key concepts in the decision-making process appear to be that of: organisational sector/complexity and a heavy focus on resource management.

5. Discussion and calls for further research

The role of compliance officers and risk managers has become more prominent in recent years. This includes linkage to ethics of the firm. [Langevoort \(2012\)](#) discusses the relationship of “in house lawyers” with chief compliance officers and chief ethics officers. Due to the intricacies of the financial service sector, compliance and risk manager roles are perceived as highly technical in an environment of complex information “diffused throughout the organisation” (p. 508). Jackman’s model whilst sound in theory, striving for “aspirational” and “ethical” compliance, appears to be unachievable in practice given the ever changing regulatory environment. The resulting relational complexity between the regulators, the compliance team, and the operational teams within financial service organisations creates difficulties in “allocation” within such a linear framework.

Therefore, in response to the original research question of:

RQ. How should banks avoid an over-reliance on consulting and avoid group think in their compliance approach?

Initial findings suggest that there remains an over-reliance on consulting in certain organisations, due to the complexity of the environment that financial service compliance teams find themselves within. Due to the regulatory demands, the compliance officers must choose an approach which balances resource most effectively in the long term – which of course may rely on short term use of consulting services. This vicious circle of decision making over resource management cannot be broken due to the changing regulatory environment that is faced by compliance officers. In addition, the unwillingness of practitioners to go beyond the existing knowledge sharing already in place (for example, BBA), ultimately feeds the apparent ongoing over-reliance on consultants. Whilst new conceptual models may continue to be presented from both the regulatory literature and the compliance literature, until there is a cultural change within the practitioners who ultimately face the barrage of new regulation, the phenomenon of compliance consulting spend will continue to spiral upwards.

However, a key finding (or indeed omission) within interview transcript analysis is that the concept of culture and ethics were not raised as key discussion points by

practitioners. This may represent limitations of the sample surveyed. However, based on this observation (albeit within a limited data set), a wider issue may exist within practitioners' viewpoints. Therefore, additional research into this area is called for, to identify whether the linear models offered by academics can be updated further to reflect the complexities of financial service regulatory compliance. "Messy models" may be inevitable in practice, to encompass the variety of approaches to compliance required from a transactional and operational compliance viewpoint. This paper has offered initial findings only, and the authors consider that there is further scope for enquiry into organisational culture to offer new insight to the academic community.

Notes

1. Example articles misselling <http://uk.reuters.com/article/2014/08/29/uk-britain-banks-misselling-idUKKBN0GT0ZD20140829>, Libor/Interest Rate www.ft.com/cms/s/327edfb6-1879-11e4-a51a-00144feabdc0,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F327edfb6-1879-11e4-a51a-00144feabdc0.html%3Fsiteedition%3Duk&siteedition=uk&_i_referrer=http%3A%2F%2Fwww.ft.com%2Findepth%2Flibor-scandal#axzz3EPWg1Sd4 UK Banker Bonuses www.ft.com/cms/s/0/622344e2-2f5c-11e4-83e4-00144feabdc0.html#axzz3EPWg1Sd4
2. Ethical compliance and responsive regulation models are discussed under Section 2 (Ayres and Braithwaite, 1992; Jackman, 2001).
3. See recent survey where "two thirds thought that the total compliance team budget would increase in 2014 and a fifth (20 per cent) thought the budget would be significantly more in 2014", <http://thomsonreutersaccelus.wordpress.com/2014/03/03/special-report-the-cost-of-compliance-survey-report-2014/>
4. Group think is defined by the Oxford dictionary as "The practice of thinking or making decisions as a group, resulting typically in unchallenged, poor-quality decision-making". In this paper, we take this as a "follow the herd" mentality in the approach to regulatory compliance by both academics and practitioners in their understanding of "appropriate" approaches to regulatory compliance.
5. Reference to www.bis.org/bcbs/basel3.htm
6. Reference to www.sec.gov/spotlight/dodd-frank.shtml
7. Reference to www.fca.org.uk/firms/markets/international-markets/emir

References

- Abbott, K.W. and Snidal, D. (2013), "Taking responsive regulation transnational: strategies for international organisations", *Regulation and Governance*, Vol. 7 No. 1, pp. 95-113.
- Alfon, I. and Andrews, P. (1993), "Cost-benefit analysis in financial regulation: how to do it and how it adds value", *Journal of Financial Regulation and Compliance*, Vol. 7 No. 4, pp. 339-352.
- Ayres, I. (2013), "Responsive regulation: a co author's appreciation", *Regulation & Governance*, Vol. 7 No. 1, pp. 145-151.
- Ayres, I. and Braithwaite, J. (1992), *Responsive Regulation: Transcending the Deregulation Debate*, Oxford University Press, Oxford.
- Baldwin, R. and Black, J. (2008), "Really responsive regulation", *The Modern Law Review*, Vol. 71 No. 1, pp. 59-94.

- Barry, M. (2002), "Why ethics & compliance programs can fail", *Journal of Business Strategy*, Vol. 23 No. 6, pp. 37-40.
- BBC (2014), "Banking standards oversight plan revealed", available at: www.bbc.co.uk/news/business-26123376 (accessed 22 October 2014).
- Behrens, F. (2013), "Using a sledgehammer to crack a nut: why FATCA will not stand", *WI Law Review*, Vol. 1, pp. 205-236.
- Bloomberg Brief (2014), "Financial regulation: 14 March 2014", available at: http://briefs.blpprofessional.com/issue?id=ygfycr-A_qdkfBjzy04qPg__
- Carretta, A. and Farina, V. and Schwizer, P. (2010), "The 'day after' Basel 2: do regulators comply with banking culture?", *Journal of Financial Regulation and Compliance*, Vol. 18 No. 4, pp. 316-332.
- Carter, C. (2007), "Compliance through self-assessment", *The Internal Auditor*, Vol. 64 No. 2, pp. 69-72.
- Crump, J. (2007), "Passive vs Active compliance", *Bank Accounting & Finance*, Vol. 20 No. 2, pp. 45-48.
- Dizdarevic, M. (2011), "The FATCA Provisions of the Hire Act: boldly going where no withholding has gone before", *Fordham Law Review*, Vol. 79, pp. 2967-2944, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1806712 (accessed 2 July 2012).
- Doyle, E. (2007), "Compliance obstacles to competitiveness", *Corporate Governance*, Vol. 7 No. 5, pp. 612-622.
- Edwards, J. and Wolfe, S. (2007), "Ethical and compliance-competence evaluations: a key element of sound corporate governance", *Corporate Governance*, Vol. 15 No. 2, pp. 359-369.
- Franks, J.R. and Schaefer, S.M. and Staunton, M.D. (1998), "The direct and compliance costs of financial regulation", *Journal of Banking & Finance*, Vol. 21, pp. 1547-1572.
- Gable, J. (2005), "Navigating the compliance landscape", *Information Management Journal*, Vol. 39 No. 4, pp. 28-35.
- Gilad, S. (2010), "It runs in the family: meta-regulation and its siblings", *Regulation & Governance*, Vol. 4 No. 4, pp. 485-506.
- Gullapalli, D. (2005), "After the scandals: more work, more money", *Wall Street Journal*, 31 January.
- Harvey, J. (2004), "Compliance and reporting issues arising for financial institutions from money laundering regulations: a preliminary cost benefit study", *Journal of Money Laundering Control*, Vol. 7 No. 4, pp. 333-346.
- Harvey, J. and Bosworth-Davies, R. (2013), "Drawing the line in the sand: trust, integrity and regulatory misdemeanour", *Security Journal*, pp. 1-18.
- Hutter, B.M. (1997), *Compliance: Regulation and Environment*, Oxford Socio-legal Studies, Clarendon, TX.
- Jackman, D. (2001), "Why comply?", *Journal of Financial Regulation and Compliance*, Vol. 9 No. 3, pp. 211-217.
- Jackman, D. (2004), "Does regulation make it worse?", *Journal of Financial Regulation and Compliance*, Vol. 12 No. 2, pp. 106-110.
- Jenkinson, D. (1996), "Compliance culture", *Journal of Financial Regulation and Compliance*, Vol. 4 No. 1, pp. 41-46.
- Kelly, G. (1963), *The Theory of Personality*, W.W. Norton, New York, NY.
- Langevoort, D.C. (2012), "Getting (too) comfortable: in house lawyers, enterprise risk, and the financial crisis", *Wisconsin Law Review*, Vol. 2, pp. 495-519.

- Malloy, T.F. (2003), "Regulation, compliance and the firm", *Temple Law Review*, Vol. 76 No. 3, pp. 451-531.
- Morse, S. (2012), "Ask for help, Uncle Sam: the future of Global Tax Reporting", *Villanova Law Review*, Vol. 57 No. 3, pp. 529-550.
- Nielson, V.L. and Parker, C. (2009), "Testing responsive regulation in regulatory enforcement", *Regulation & Governance*, Vol. 3, pp. 376-399.
- Parker, C. (2013), "Twenty years of responsive regulation: an appreciation and appraisal", *Regulation & Governance*, Vol. 7 No. 1, pp. 2-13.
- Rossi, C.L. (2010), "Compliance: an over-looked business strategy", *International Journal of Social Economics*, Vol. 37 No. 10, pp. 816-831.
- Simon, G. and Krause, D. (2008), "Grappling with global compliance", *Journal of Corporate Accounting and Finance*, Vol. 20 No. 1, pp. 59-63.
- Wise, R.J. and Baker, M.B. (2012), "Next phase of FATCA guidance arrives with proposed regulations and announcement of possible intergovernmental approach", *Journal of Investment Compliance*, Vol. 13 No. 2, pp. 25-39.
- Wood, G. (2002), "A partnership model of corporate ethics", *Journal of Business Ethics*, Vol. 40 No. 1, pp. 61-73.

Further reading

- Edwards, J. and Wolfe, S. (2004), "The compliance function in banks", *Journal of Financial Regulation and Compliance*, Vol. 12 No. 3, pp. 216-224.
- Edwards, J. and Wolfe, S. (2005), "Compliance: a review", *Journal of Financial Regulation and Compliance*, Vol. 13 No. 1, pp. 48-59.
- Levine, R. (2012), "The governance of financial regulation: reform lessons from the recent crisis", *International Review of Finance*, Vol. 12 No. 1, pp. 39-56.

About the authors

Wendy Mason Burdon is a Lecturer in Accounting at Newcastle Business School. Her research is focussed in the area of financial regulation and compliance. Prior to becoming an academic, Wendy worked at a multinational manufacturer for 9 years, following qualification as a chartered accountant with KPMG/ICAEW. Wendy Mason Burdon is the corresponding author and can be contacted at: wendy.burdon@northumbria.ac.uk

Jackie Harvey is Professor of Financial Management and Director of Business Research at Newcastle Business School. Her research is focused in the area of criminal financial management, in particular money laundering. Early outputs considered costs and benefits of regulatory compliance before moving on to evaluate the effectiveness of the Anti-Money Laundering Framework. Prior to becoming an academic, Jackie, whose PhD is in Taxation Policy, spent 10 years working for a major merchant bank, followed by a 3-year posting as a fiscal policy adviser (under the auspices of the British Government) to the Ministry of Finance in Belize.

For instructions on how to order reprints of this article, please visit our website:

www.emeraldgrouppublishing.com/licensing/reprints.htm

Or contact us for further details: permissions@emeraldinsight.com

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.