

Power Distributions in Compliance

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**KELLEY SCHOOL
OF BUSINESS**

INDIANA UNIVERSITY











why do *good* people do *bad* things?



Probably the strongest finding from behavioral ethics research is that people simultaneously think of themselves as *good* people yet frequently *lie and cheat* (typically in a minor way).

“The empirical evidence seems to point to the conclusion that we lie and cheat much more often than we care to admit. At the same time, we strive to maintain a positive image of ourselves, and moral values are a central component of our self-image.”

—Francesca Gino, *Harvard Business School*

“[C]ognitive heuristics, psychological tendencies, social and organizational pressures, and even seemingly irrelevant situational factors can make it more likely that good people will do bad things.”

—Robert Prentice, *McCombs School of Business, University of Texas*





Governance – processes by which decisions relative to risk management and compliance are made within organizations

Risk management – processes by which risk is identified, analyzed, and included in strategic planning, and either mitigated or accepted as inherent in necessary company conduct

Compliance – processes by which a company polices its own behavior to ensure legal and normative conformity

EDM – ethical decision making of individuals



**U.S. Department of Justice
Criminal Division**

Evaluation of Corporate Compliance Programs

**Guidance Document
Updated: April 2019**



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Evaluation of Corporate Compliance Programs

Guidance Document

Updated April
June 2020



This document is meant to assist prosecutors in making informed decisions as to whether, and to what extent, the corporation's compliance program was effective at the time of the offense, and is effective at the time of a charging decision or resolution, for purposes of determining the appropriate (1) form of any resolution or prosecution; (2) monetary penalty, if any; and (3) compliance obligations contained in any corporate criminal resolution (e.g., monitorship or reporting obligations).

Guidance Document

Updated April
June 2020



1. "Is the corporation's compliance program well designed?"
2. "Is the program being applied earnestly and in good faith?" In other words, is the program being implemented effectively?
3. "Does the corporation's compliance program work" in practice?

See JM § 9-28.800.

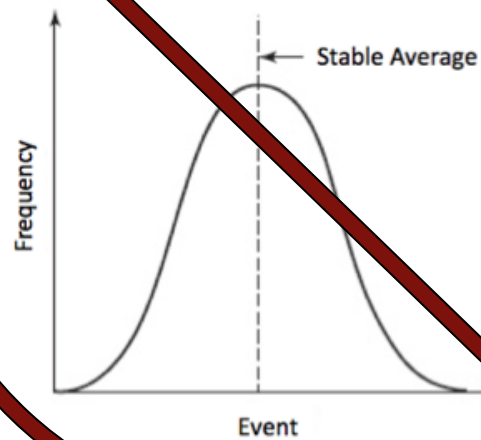
Guidance Document

Updated April
June 2020

Compliance Programs

Assumption

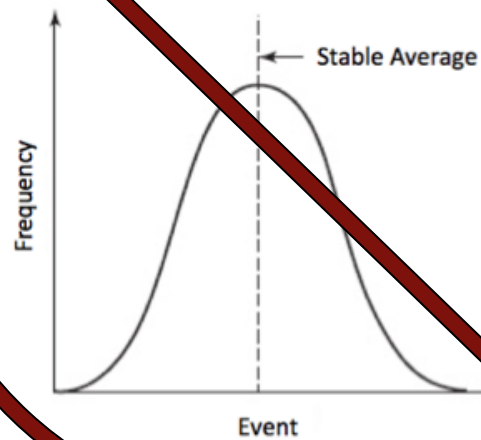
Normal Distribution



Compliance Programs

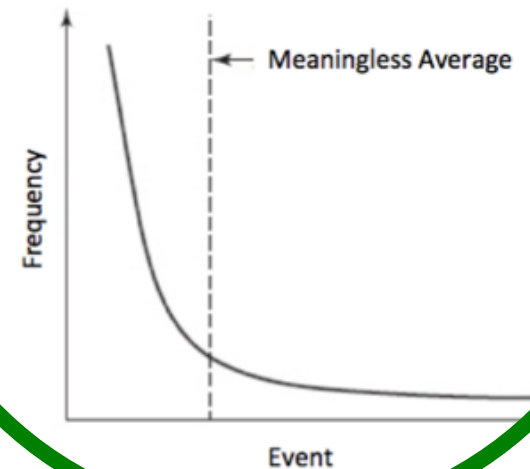
Assumption

Normal Distribution



Reality

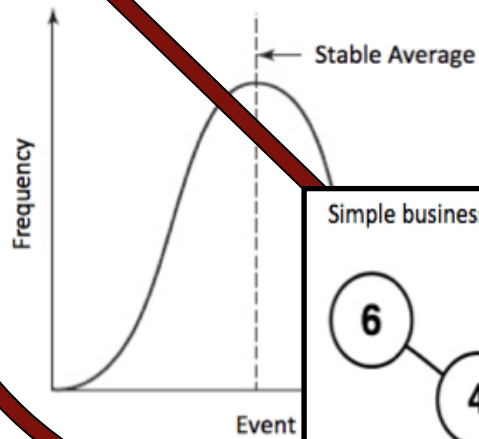
Power Law Distribution



Compliance Programs

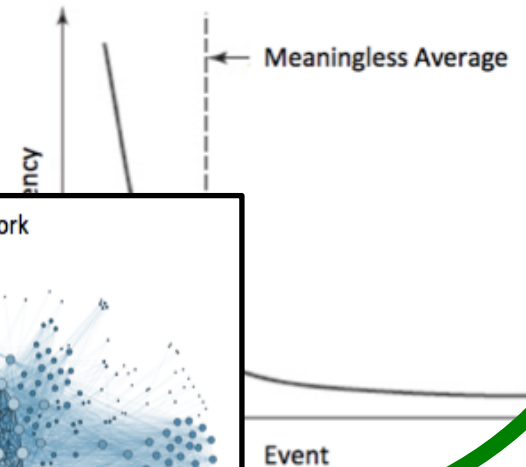
Assumption

Normal Distribution



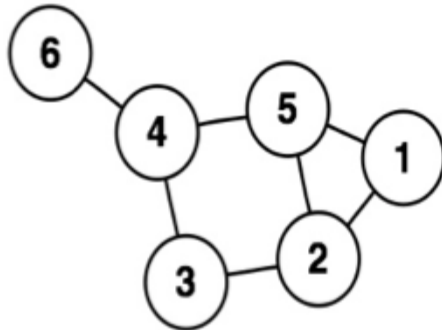
Reality

Power Law Distribution



Network Theory

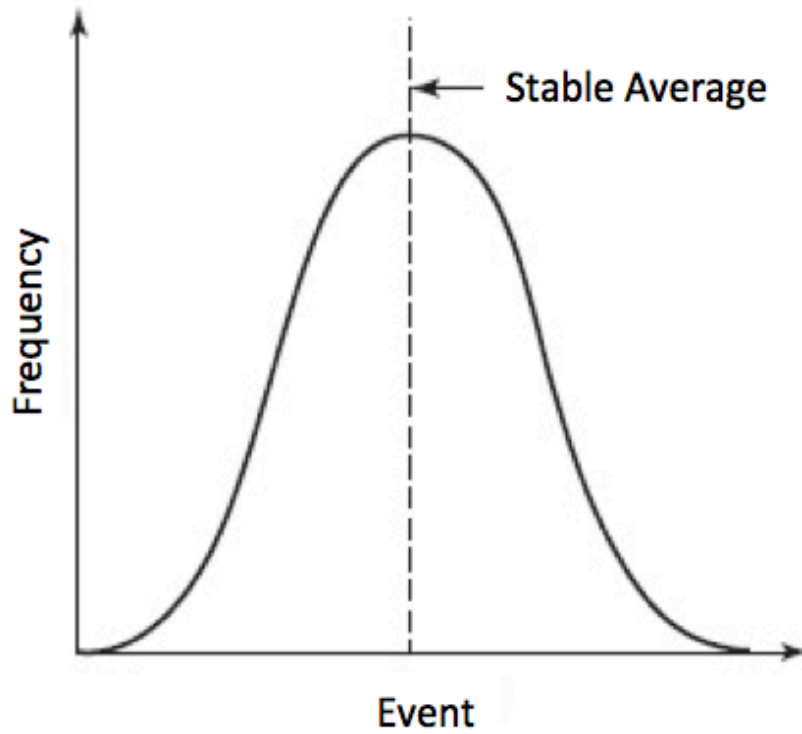
Simple business connections network



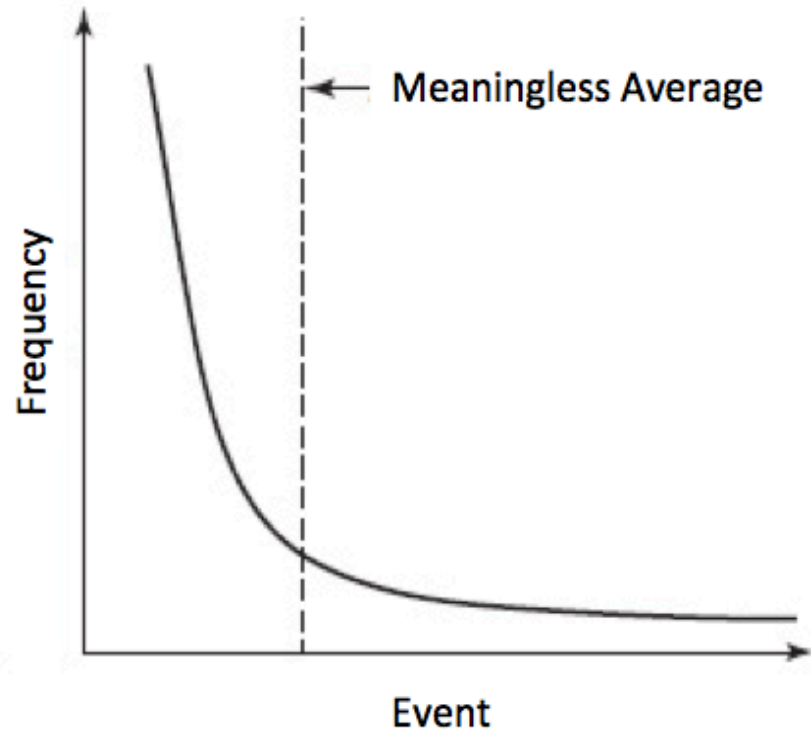
Complex scale-free network



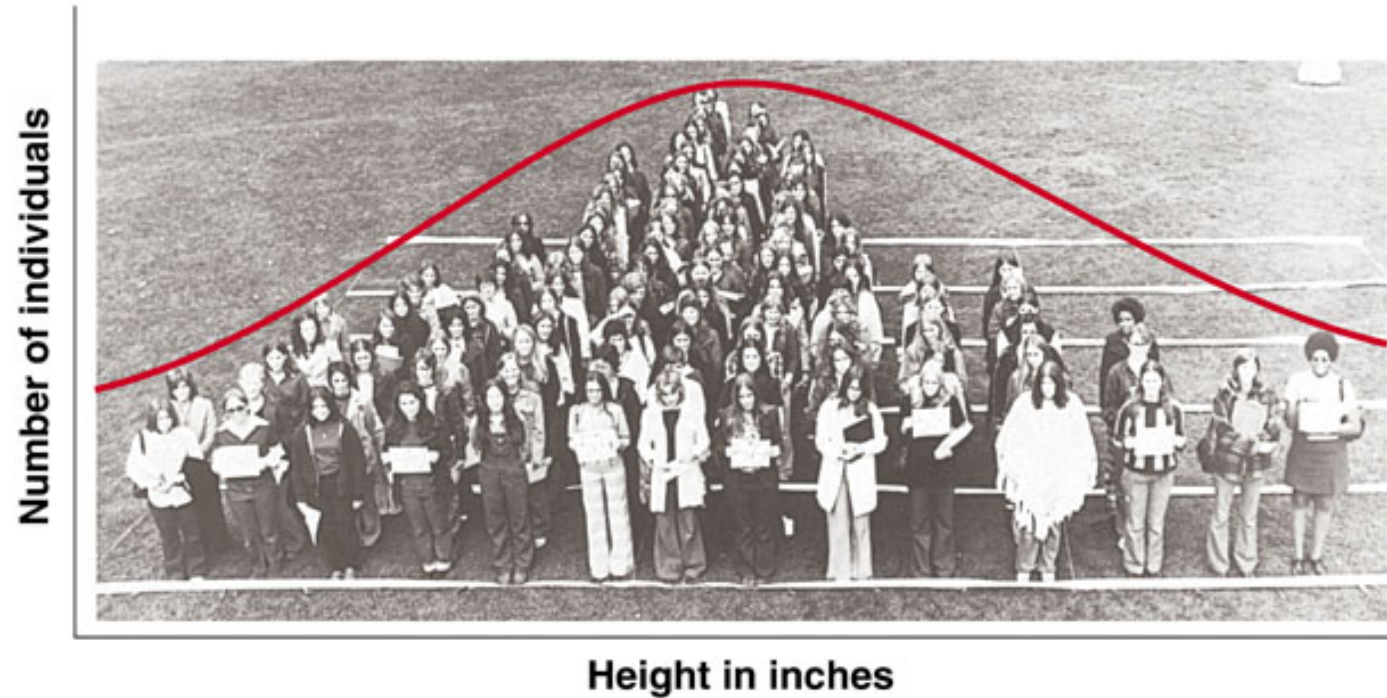
Normal Distribution



Power Law Distribution

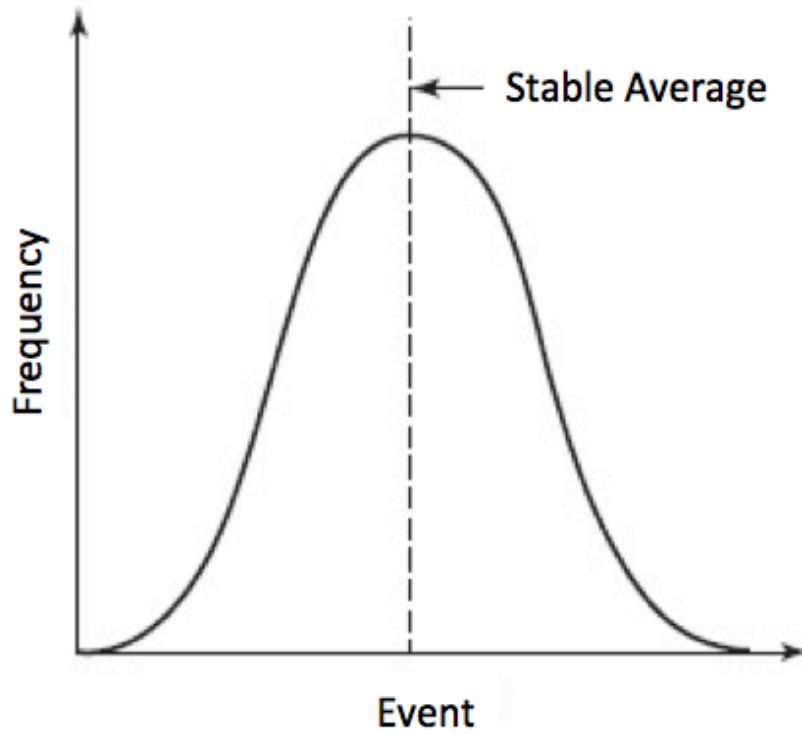


Tobin/Dusheck, Asking About Life, 2/e
Figure 16.6

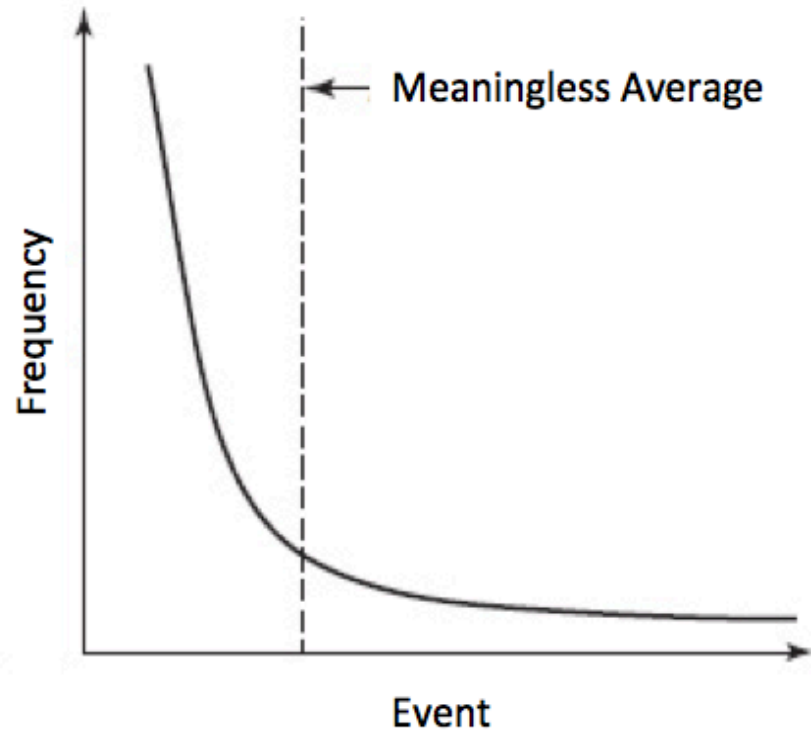


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Normal Distribution

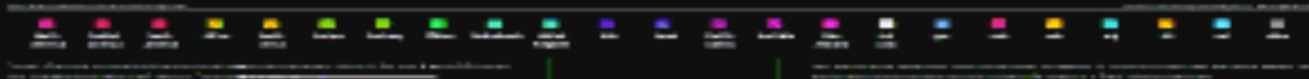
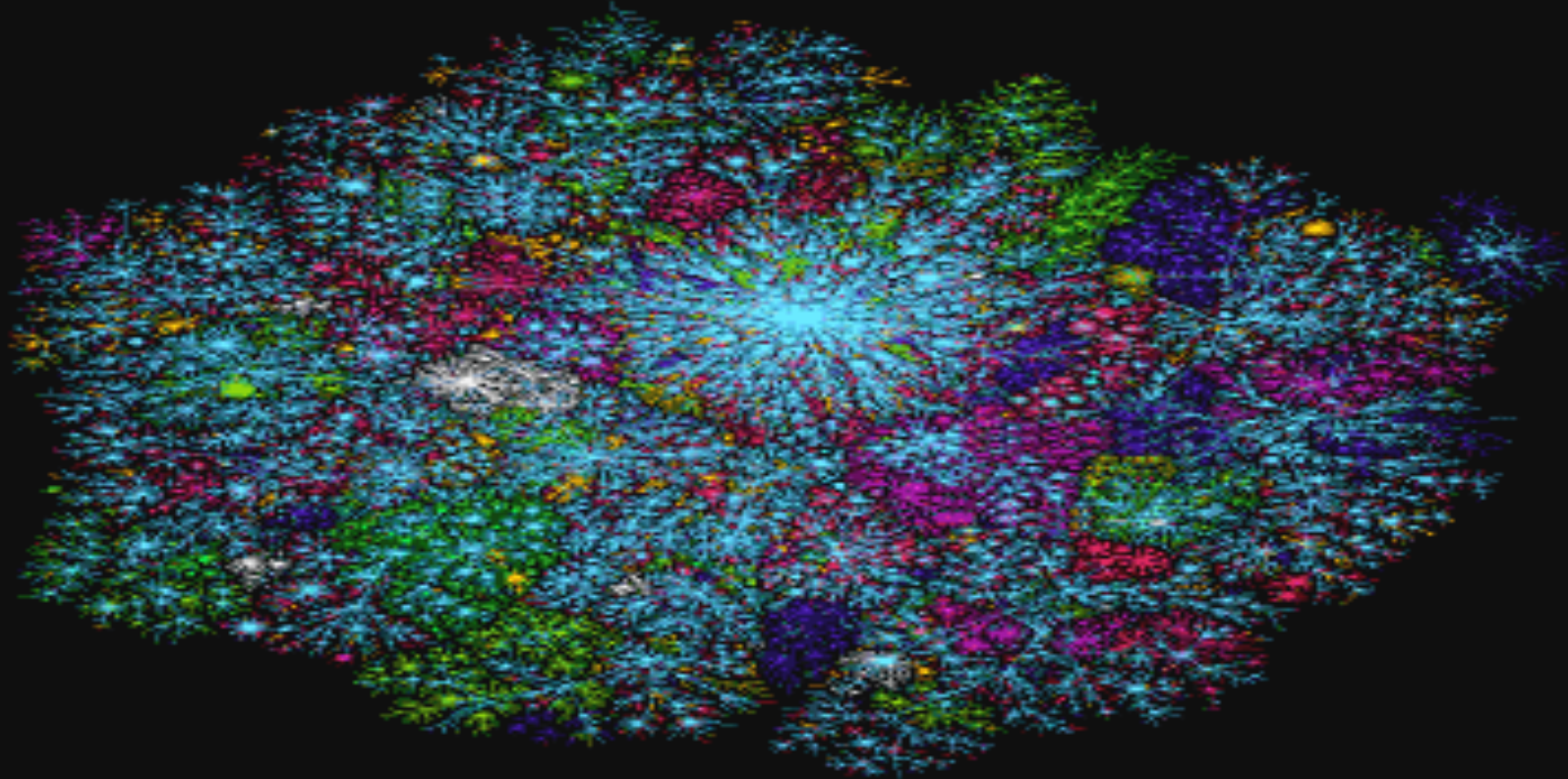


Power Law Distribution





THE WHOLE INTERNET



THE WHOLE INTERNET

WEALTH
INEQUALITY
IN
AMERICA

"THE WEALTHY"

ACTUAL Distribution of Wealth in the U.S.

15.1%

POVERTY LINE

"THE RICH"

"THE POOR"

IDEAL

THINK

"THE MIDDLE"

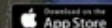


0% 10% 20% 30% 40% 60% 70% 80% 90% 100%



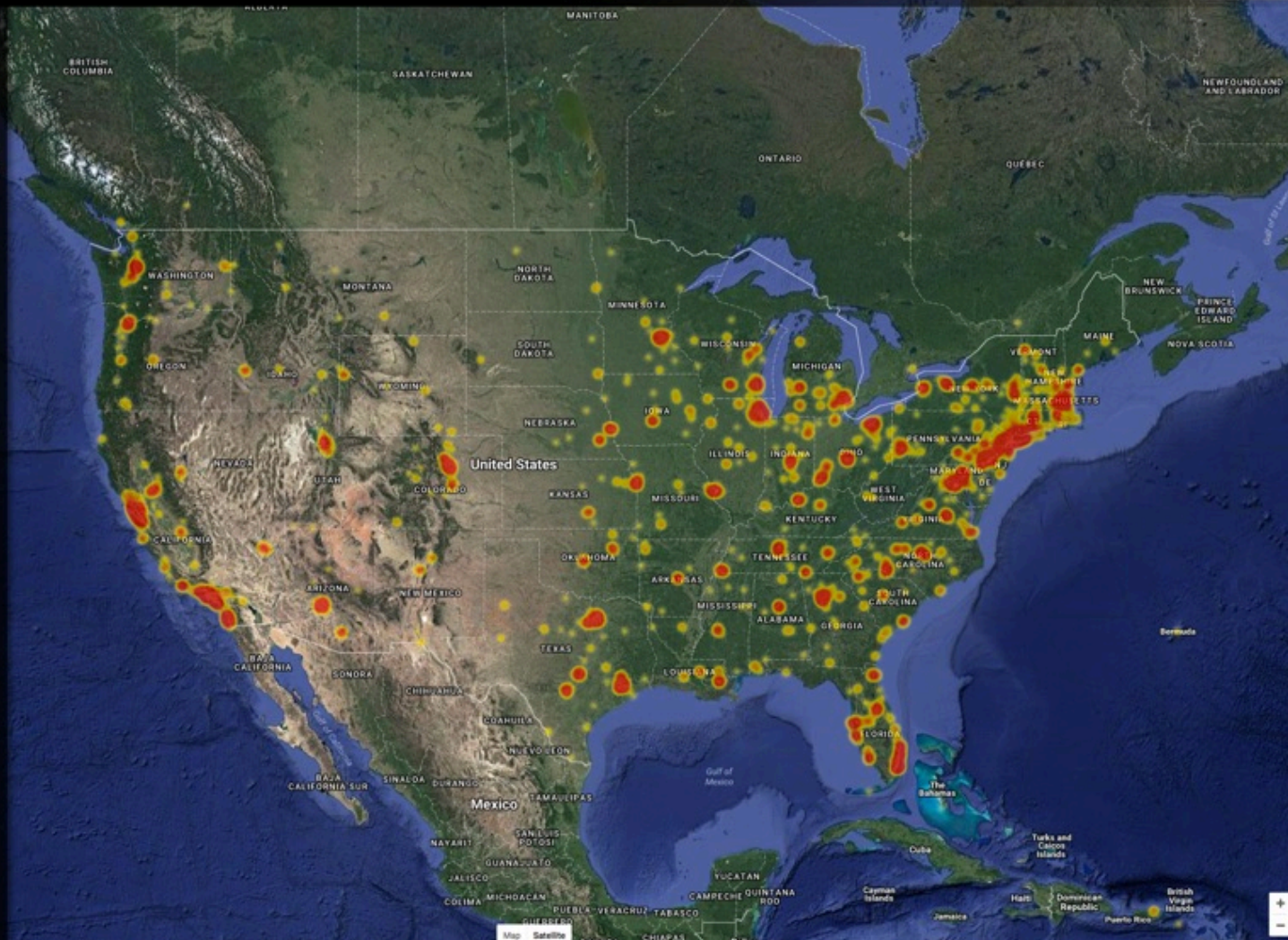
WHITE COLLAR CRIME RISK ZONES

THE NEW INQUIRY

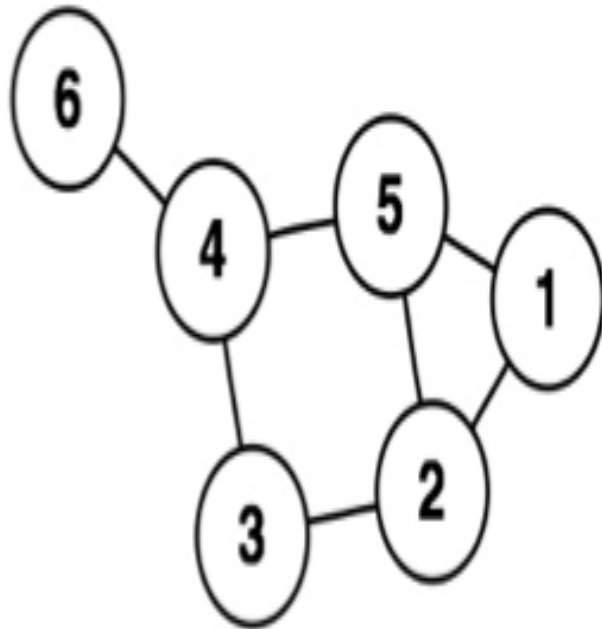


White Collar Crime Risk Zones uses machine learning to predict where financial crimes are mostly likely to occur across the US. To learn about our methodology, read our white paper.

By Brian Clifton, Sam Lavigne and Francis Tseng for The New Inquiry Magazine, Vol. 59: ABOLISH.

Simple business connections network



Complex scale-free network





FREEPORT-MCMORAN'S COPPER CHAOS • THE COMING ERA OF ABUNDANCE

FEBRUARY 13 • 2012 EDITION

Forbes

NBA SPECIAL!
HIGHEST-PAID PLAYERS
MOST VALUABLE TEAMS
RICHEST OWNERS

A portrait of John Stumpf, CEO of Wells Fargo, in a dark suit and blue tie, adjusting his tie. The background is a solid dark red color.

THE BANK THAT WORKS

JOHN STUMPF'S WELLS FARGO IS
MAKING LOANS, WRITING MORTGAGES—AND COINING MONEY.
ARE YOU LISTENING, WALL STREET?

Goldman Sachs Ensnarled in Vast 1MDB Fraud Scandal



Google Scholar
<https://scholar.google.com>

The Goldman Sachs offices in Manhattan. Goldman has played down any role in the so-called 1MDB scandal. John Taggart for The New York Times

By Matthew Goldstein, Alexandra Stevenson and Emily Flitter

Nov. 1, 2018



The image shows a laptop screen displaying the PROTECT.ERM software interface. The interface includes a navigation menu at the top with items like System, Client Setup, Risk, Compliance, Key Risk Indicators, Incidents, Analytics, and Library. Below the menu, there are several data visualization components: a 'Monitoring' section with a 'Key Risk Indicator' bar chart showing data for Jan, Feb, Mar, and Apr; a 'Top 5 Residual Risk' scatter plot; and a 'Total Loss Average Loss' section with a grid of numbers (3, 4, 7, 8, 11, 12). A central white text box with a red border contains three questions. The background of the interface is light gray with various charts and data points.

Who possesses heightened ethical risk?

How can those employees be monitored?

What data can be used to better effectuate compliance?



U.S. Department of Justice

Criminal Division

corporation's compliance program and controls are demonstrated to be effective and appropriately resourced at the time of resolution, a monitor will not likely be necessary").

A. Continuous Improvement, Periodic Testing, and Review

One hallmark of an effective compliance program is its capacity to improve and evolve. The actual implementation of controls in practice will necessarily reveal areas of risk and potential adjustment. A company's business changes over time, as do the environments in which it operates, the nature of its customers, the laws that govern its actions, and the applicable

Guidance Document

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