

The Theory of Regulatory Compliance and Differential Monitoring Applied to Other Industries

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February 2026

Applying the **Theory of Regulatory Compliance** (TRC) to modern industries is like upgrading from a magnifying glass to a smart-filtering lens. Instead of checking every single box for every single entity (which is exhausting and often ineffective), the theory suggests we focus on the **Key Indicators** that predict overall health and use **Differential Monitoring** to spend more time where the smoke is thickest.

Here is how we can map the theory's logic—originally rooted in human services—across the regulatory landscapes of 2026.

Artificial Intelligence (AI)

In the AI sector, "total compliance" is a moving target. The theory of regulatory compliance suggests we shouldn't treat a local chatbot the same as a systemic LLM.

- **Risk Assessment:** Weighting "Algorithmic Bias" and "Data Privacy" higher than "Documentation Formatting."
- **Key Indicators:** A predictor of overall safety might be the **transparency of the training dataset**. If the data is clean and documented, the output is statistically more likely to be compliant.
- **Differential Monitoring:** Established AI firms with "Model Cards" and a history of low-bias outputs receive "Light-Touch" audits, while "Black Box" startups undergo deep-dive architectural reviews.

Banking and Financial Services

Financial regulations are often buried in paperwork. The theory of regulatory compliance advocates for "Smart Supervision."

- **Key Indicators:** Instead of auditing every transaction, regulators focus on **Capital Adequacy Ratios** and **Liquidity Coverage**. If these are healthy, the bank is likely compliant across the board.
- **Differential Monitoring:** Under this model, a bank with a 10-year "Clean Bill of Health" might move to a biennial review, whereas a bank recently flagged for AML (Anti-Money Laundering) failures stay on an "Intensive Supervision" track.

Transportation

Whether it's autonomous trucking or commercial aviation, the physical risk is high, making Risk Assessment the "North Star."

- **Risk Assessment:** Categorizing violations into "Administrative" (expired paperwork) vs. "High-Risk" (faulty braking systems or pilot fatigue).
- **Key Indicators:** For trucking, **Electronic Logging Device (ELD) data** serves as a key indicator. High compliance with rest periods is a strong predictor of overall fleet safety.
- **Differential Monitoring:** Airlines with robust "Safety Management Systems" (SMS) participate in data-sharing programs that reduce the frequency of physical inspections.

Food Safety

The "farm-to-table" pipeline is too massive for constant manual oversight.

- **Key Indicators:** In a restaurant, **handwashing compliance** and **refrigeration temperatures** are the "magic indicators." If a kitchen nails these two, they almost always pass the full 50-point inspection.
- **Risk Assessment:** Prioritizing pathogens (Salmonella, E. coli) over non-critical items like "cracked floor tiles."
- **Differential Monitoring:** A food processing plant with "GFSI Certification" (Global Food Safety Initiative) might receive fewer state-level inspections because their private audits prove they are low-risk.

Human Services

This is home turf for the theory of regulatory compliance (childcare and eldercare). The goal is to move from "Basic Compliance" to "Quality Care."

- **Key Indicators: Staff-to-client ratios and background check completion.** These two metrics are the strongest predictors of client safety.
- **Risk Assessment:** A missing immunization record (High Risk) vs. a missing "Art Supplies" label (Low Risk).
- **Differential Monitoring:** The "Abbreviated Inspection." Providers with a "Gold Star" history only get checked on the 10 Key Indicators, freeing up inspectors to spend 8 hours at a "Troubled" facility.

Summary Table: The TRC Methodology Applied

Sector	High-Weight Risk Factor	Key Indicator (Predictor)	Differential Approach
AI	Algorithmic Harm/Bias	Data Provenance Records	Audit "Black Box" models only.
Banking	Systemic Insolvency	Liquidity Ratio	Biennial audits for stable banks.
Transportation	Mechanical Failure	Maintenance Log Recency	Focused inspections on older fleets.
Food Safety	Cross-Contamination	Holding Temperatures	Fewer visits to HACCP-certified sites.
Human Services	Physical Abuse/Neglect	Staffing Ratios	Abbreviated checks for high performers.

The Candid Takeaway: the TRC theory teaches us that **more or less regulations or rules are not better monitoring.** By focusing on the "Vital Few" rules that prevent the most harm, regulators can increase safety while decreasing the "red tape" burden on high-performing organizations.

Reference:

Fiene, R. (2025). Finding the Rules that Work. *American Scientist*, Volume 113, 16-21