

THE REGULATORY COMPLIANCE GRAVITY CURVE, PROSPECT THEORY'S LOSS AVERSION, AND THE PSYCHOLOGY OF COMPLIANCE

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ABSTRACT

This paper introduces the Regulatory Compliance Gravity Curve as a framework to evaluate how the risk weighting of licensing regulations dictates non-compliance frequencies in human care facilities. Integrating Daniel Kahneman and Amos Tversky's Prospect Theory—specifically loss aversion and certainty dynamics—we analyze how operational and regulatory decisions create inspection biases and suboptimal enforcement patterns. Finally, we establish how the incorporation of Fiene's Unified Theory of Regulatory Compliance addresses these limitations by infusing growth-oriented quality elements into a historically defensive risk framework.

I. INTRODUCTION

Evaluating human care licensing requires a clear paradigm for how facilities navigate diverse regulatory rules. Traditional frameworks often assume compliance risks are linearly distributed. However, empirical findings reveal a distinct non-linear relationship between the risk profile of a rule and its frequency of violation. This study models this dynamic via the "Gravity Curve" and bridges it with behavioral economics.

II. THE GRAVITY CURVE

The Regulatory Compliance Gravity Curve places the frequency of non-compliance on the vertical axis and the rule risk level (low to high) on the horizontal axis. As shown in Figure 1, the curve highlights three distinct regulatory domains:

- High Frequency Zone:** Low-risk rules frequently fall out of compliance because their breach does not threaten immediate operational viability.
- The Predictor Zone:** Medium-risk rules exhibit moderate variance, functioning as highly predictive statistical Key Indicators that correlate strongly with comprehensive institutional quality and safety.
- The Floor:** High-risk rules are almost never out of compliance. Facilities prioritize these standards to safeguard baseline operational licensing.

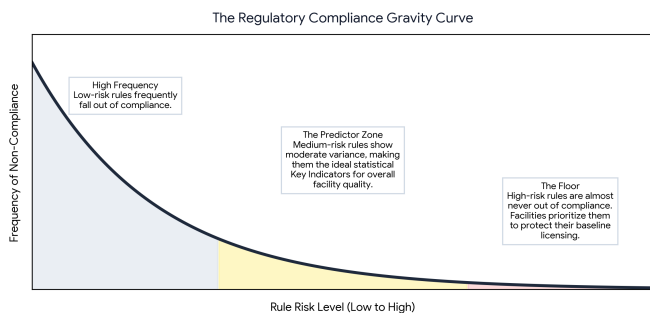


Figure 1. The Regulatory Compliance Gravity Curve modeling non-compliance frequencies across rule risk spectrums (Fiene, 2024).

III. PROSPECT THEORY SYNTHESIS

Prospect Theory's tenets of loss aversion and certainty illuminate the psychological mechanisms driving this curve. Decisions regarding high-risk rules occur inside a *loss-averse arena*. Because non-compliance can trigger license revocation, it functions as a low-probability, high-consequence event that prompts intensive facility focus to prevent operational termination.

Conversely, low-risk rules exist in a *certainty arena*. Infractions here yield zero threat of license closure, meaning baseline adherence provides clear certainty of standard operational status. Thus, low-risk rules represent high-probability, low-consequence compliance deviations.

IV. INSTITUTIONAL BIAS AND DRIFT

This risk-behavior asymmetry produces noticeable administrative bias. Regulators seeking straightforward compliance certainty often show a *negative bias (strictness)* when assessing low-risk rules. Conversely, a *positive bias (leniency)* frequently emerges during high-risk rule inspections to avoid the severe disruptions of operational closure, explaining why crucial license-revocation actions are often deferred.

From a behavioral standpoint, a lack of consistent enforcement around high-risk rules causes *procedural drift*. This shifts institutional cultures into accepting hazardous "new normals" driven merely by loss avoidance rather than true system optimization.

V. THE UNIFIED THEORY SOLUTION

To overcome this defensive posture, Fiene's *Unified Theory of Regulatory Compliance (CH+)* integrates explicit quality indicators into standard risk models. This paradigm shifts organizational incentives from merely "not losing" a license to actively gaining system-wide quality advancements.

REFERENCES

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