



M Ű E G Y E T E M 1 7 8 2

BUDAPEST UNIVERSITY OF TECHNOLOGY
Faculty of Economic and Social Sciences
PhD School of Business and Management

Petra Benedek
Compliance management in services
Doctoral (PhD) dissertation theses

Tutor: Professor János Kövesi

Budapest
2019

Contents

Introduction 4
Research topic, theoretical background 5
Research questions and hypotheses 7
Research methods..... 10
Results, theses 13
Conclusions, further research..... 20
References 22
Author's publications related to the dissertation 23

Introduction

Over the past 20-25 years, the issue of corporate governance became part of the professional and public discourse. In the new millennium, the expression *compliance* has the novelty of treating non-compliance as a risk.

In the first part of the dissertation, I gave an overview of the development of the concept of compliance, the main trends, and its contradictions.

Based on literature research, this dissertation contains three distinct research parts. These are linked to three methodological units that, together with the diverse phenomenon of compliance, contribute to describing this complex approach and function.

In the first part, compliance concepts in the financial sector are presented, which can be considered as a sample area in terms of the domestic appearance of compliance. Practical application is illustrated by competent financial managers. The interview process and the professional discussions gave much valuable knowledge to the research as a whole, but at the same time, they illustrated the complexity of the topic.

The next part of the research was the presentation and analysis of the development background from the training side. The essence of my method in this respect is the comparative analysis of the training and output requirements (képzési és kimeneti követelmények, in the following referred to as KKK), sample curricula and relevant subject parameters of the Leadership and Management masters (MSc). that can be considered as representative of the Hungarian institutional higher education. Research and development at this point are in a specific way linked to an innovative

design: based on the analysis results, I proposed a study plan at the level of *learning outcomes* that allows a more structured presentation of the compliance topic in economics education.

Finally, the appearance and impact of the compliance awareness in public education are measured by an online questionnaire. Some of the leaders of the public education system were addressed and asked for their opinion on compliance. This gives a picture of the process of the appearance of the compliance concept, which is worth contemplating on for trainers and organizational leaders.

Research topic, theoretical background

From a scientific point of view, the phenomenon of *compliance management* involves a novel and complex field of science. The topic is current, diverse, and strongly related to business processes, and as a result, research results can be converted into business. A unique feature of the interdisciplinary topic is that disciplinary research can focus on only one slice of possible research directions.

Considering the background of my research, this topic is quite fresh; the first significant publications are describing the linkage between, transparency, business ethics and compliance (Paine, 1994; Trevino et al., 1999). The relevant thematic boom was brought by the post-millennium scandals and the research reports and articles that were written from a new point of view. Standing out of the many was Turner Review (Turner, 2009), which analyzed the management theory of global banking crisis, Silverman's comprehensive organizational Compliance Management (Silverman, 2008) and the Governance, Risk and Compliance Handbook (Tarantino, 2008).

To illustrate the emergence of this relatively new concept, the US is serving with the most significant samples of expectations of corporate compliance systems. The Federal Sentencing Guidelines for Organizations (FSGO) from 1994, the Sarbanes-Oxley (SOX) Act from 2002 and the COSO Framework (Silverman, 2008; COSO, 2015) can be considered as a minimum requirement for today's compliance systems. Each organization can tailor its use of the above to its business, and other standards related to the professional profile may also be relevant.

Major international organizations (e.g.: UN, World Bank), as well as national governments have also developed and published a number of general and thematic directives and best practice recommendations, such as the OECD Principles on Corporate Governance (2004), the Corporate Responsibility to Respect Human Rights (2003), UN Global Compact (2000), UN Principles for Responsible Investment (2006). Both OECD principles and SOX have had a significant impact on the practice of compliance in businesses in Hungary.

To comprehend the situation in Hungary, the joint survey of Deloitte and the Hungarian Organization of Internal Auditors in 2013 is a valuable compilation which identified the scarcity of resources - both material and competent human resources - as a major obstacle. Generally speaking, there is no adequate organizational, legal and economic expertise and experience compared to the quantity and quality of tasks in today's Hungarian companies. It has been a significant recognition that compliance awareness is growing and that a new profession has developed in Hungary, which is highly impacted by higher education. Demand for compliance expertise is on the increase, as professionals with knowledge of business and insight to organizations are few to fulfil the outlined tasks.

Significant standard development has been implemented to support compliance (Risk Management - Guidelines - ISO 31000: 2018, Compliance Management Systems - Guidelines - ISO 19600: 2014), which indicate the social need for compliance.

Research questions and hypotheses

The main objective of my research was to explore along with the concept of compliance the knowledge and competences that can be interpreted as a part of management activity.

Therefore, I examined the specificities of the financial sector, as compliance management first appeared in this area. Based on observations, I have attempted to identify and group the most critical components of compliance management.

In the following, I examined the appearance of compliance management components in a segment of higher education (Leadership and Management MSc) and public education.

The labour market processes experienced in the past decade have confirmed the preliminary assumption that compliance activities are becoming more and more independent, and that they appear explicitly in jobs and management tasks. This is verified by the fact that at the end of 2018, there were about 150 job vacancies for recruitment on the Hungarian labour market. Therefore, in the initial phase of the research, in addition to the theoretical and literary analysis, I conducted a series of semi-structured interviews among the leaders of the financial sector that were the first to encounter compliance.

Research question (1): *What are the components of compliance assurance? What is the role of leaders in the practical implementation of*

compliance? How has compliance management developed and become a professional activity in the Hungarian leadership culture during the last one and a half decade?

Hypothesis (1): *Identified components of compliance management can be implemented in many sectors (e.g. financial services, education). The compliance approach, the willingness to follow the rules are part of the organizational culture, and this is greatly influenced by the commitment of the leaders.*

At the level of the professional qualification, a legal or economics master's degree has been identified as an essential requirement. Here I narrowed down my research and, considering the hierarchical structure of the education system; I chose education in Economics, especially the Leadership and Management MSc, as the one with the broadest spectrum and traditions, for my analysis. I have assumed that in the process of compliance becoming an independent profession there are factors related to education. This process was revealed by a content analysis study of training and output requirements (KKK) defining the content structure of higher education, as well as an analysis of relevant sample plans in the higher education institutions.

Research question (2): *To what extent and in what content structures are the compliance concepts and attitudes present in the Hungarian higher education?*

Hypothesis (2): *The training and output requirements of the Master's degree in economics, the sample curricula of the institutions, and the content of the subjects related to the compliance topic only partially contain the concepts of compliance knowledge, and the elements of the documents defining the training do not show a stable pattern.*

I consider the importance of compliance in vocational education to be vital because it is the first stable form of organization in the life of an individual to familiarize themselves with organizational norms that are of crucial importance in later stages of their lives.

It is also essential to examine the social context of the regulatory environment when conducting compliance research. Thus, the study objects included kindergarten, elementary school, secondary school and higher education, wherein the latter case, I examined the appearance of the concept of compliance in the educational content as a more specific target.

Research question (3): *How aware are the headmasters, directors of the rules governing their work and how consciously do they pursue them? What effect does the ever-changing regulatory environment have on the operation?*

Hypothesis (3): *At the managerial level of education, stakeholders are identified to have varying degrees of regulatory compliance. Frequent changes in legal requirements create an operating environment in which legal compliance appears as a separate problem and can be identified as a new managerial task.*

Based on preliminary information and literature research, I started to assume that professional competencies, managerial commitment and related knowledge, as well as the lack of a qualified workforce, have an impact on compliance. In connection with the previous hypothesis, I also examined the dual role of research and training. On the one hand, when looking to improve compliance knowledge, it is worth treating the education system as a whole and especially at the managerial level, looking for answers given by practice. On the other hand, I explored the relationship between the regulatory environment and knowledge.

Research question (4): *To what extent is the lack of resources and the partiality of professional compliance expertise a problem for which education can give a relevant answer?*

Hypothesis (4): *Fulfilling expectations around documentation and administration appears as a separate problem and managers need support. On the one hand, education that is raising awareness and on the other hand education on specific regulations can be relevant in shaping behaviour.*

Research methods

The diversity of methods used is intended to illustrate that *compliance* as a phenomenon, its conceptual development and its appearance in work activities can be analyzed from a variety of approaches.

I have analyzed the literature with the methods of Online Desk Research. Over the past 10-15 years, individual studies and analysis have been published, most of which are electronically available. The methodology of systematic literature research applicable in the online environment has developed over the past decade, and I tried to use this procedure. The essence of SQLR (Systematic Quantitative Literature Review) is to analyze literary sources in steps that effectively support the delimitation of the topic, the selection of relevant sources, and the selection of data and resources that can be considered as references.

The following figure provides an illustrative overview of the methodology related to empirical research (interviews - content analysis - online questionnaire). I have tried to explore the factors that potentially form willingness to compliance of the individual and the organizations.



The three methods chosen are closely related to the research questions, hypotheses, and the areas - labour market, higher education, public education - in which I examined the topic. The chronology and logic of the research are also expressed in the vertical arrangement, according to which the interviews significantly contributed to the interpretation of compliance management processes. Potential education of the labour force is related to higher education where I have analyzed the content of Leadership and Management major. Finally, I tried to examine public education as a system, and in this way, I tried to analyze the awareness and attitude of the leaders, their conscious or even spontaneous reactions.

In the chronology of research, the first method is the interview, which is a widely used tool for data collection in many disciplines. This research was preceded by interviews with some bank compliance managers at the beginning of doctoral studies, which took place between 2010 and 2012. A total of 11 individual interviews were made and recorded with the consent of the interviewees. The transcript was sent to them and occasionally corrected. The post-correction version served as the basis for

the analysis. Finally, the results from the research were sent back to each interviewee for comment.

In the course of content analysis, I used the classic Desk Research method for examining the institutional appearance and validity of higher education training requirements. This method, though traditional, is efficient and cost-effective. In order to find answers to the pre-formulated research questions, I examined the content elements of the compliance activities in the case of Leadership and Management MSc.

Higher education requirements as a standard are essential for international comparability since the KKK's define the qualification obtained based on the Hungarian Qualifications Framework (MKKR), the European Qualifications Framework (EKKR) and the duration of the training. In addition to the KKK, the accredited sample curriculum of the selected institutions (5) for the training of the given subject and the datasheet of the courses directly linked to the subject of compliance (15 in total) were considered as input documents for content analysis. The task of the research was to assess the conceptual scope of the framework defined by the reference documents with the help of data mining methods.

The questionnaire survey among the educational directors with a dominant role in public education attempted to reveal the existence of a compliance approach. Within the classical framework of sampling and statistical processing, the study sought to find out what attitude the institutional leaders have in the public education system about the necessity of implicitly or explicitly designed compliance. During the research, I prepared a structured questionnaire. The sample size of the questionnaire was about 1,100 people. The willingness to respond was close to 32%, and the number of actual headmasters among the respondents was 249 (23.5%). According to KSH in the academic year

2017/18, there were 10580 public education institutions (4579 kindergartens, 3585 primary schools, 2416 secondary education institutions) (KSH Statisztikai Tükör, 2018). Thus, based on the size of the Hungarian public education institution system, based on the data of KSH for the academic year 2017/18, the sample has a representation of 2.28%. Treating demographic aspects (area, age and gender) as irrelevant, the sample can be considered significant from the study.

The data obtained with the questionnaire survey was processed with the help of MINITAB software. In doing so, I analysed descriptive statistical data processing, the reliability of the questionnaire, the shape of the distributions; I performed correlation tests, independence tests and hypothesis testing of the Likert scales.

Results, theses

In the first part of the empirical section of the research, I analyzed the appearance of the compliance concept and its application within the organization based on interviews, conducted with bank and insurance experts. With the help of the interviews, the research attempted to identify when and how compliance management became an integral part of responsible corporate governance and corporate values.

The compliance function for financial organizations is highly developed compared to other sectors. Based on the interviews and literature I could identify five groups of compliance activities. *Preventive, detective and corrective actions* describe a logical cycle. *Risk management* is related to these as the foundation of the above and *reporting* as part of organizational communication.

The question arises as how compliance could be implemented with other service companies based on good practices and experience in the field of financial services. GDPR compliance (since at some banks compliance officer is responsible for) is an excellent example of how solutions can be generalized. First and foremost, I would like to emphasize telecom companies who also handle large amounts of sensitive data so that they may face very similar problems in the area of data protection. Furthermore, the field of education is a well-regulated sector where it would be worthwhile to review the experiences and solutions of financial institutions and transfer good practices with the necessary modifications.

Based on the interviews, there is a glaring shortcoming or, in other ways, an excellent opportunity for the training of compliance professionals in Hungary.

Answers to research questions are included in my theses based on the results of the research related to the hypotheses. So, about the first research question, I accept Hypothesis 1 based on research in the field of finance and higher education and formulate thesis 1, 2 and 3.

Thesis 1: The main activities of compliance management can be identified. These are risk management, preventive, detective and corrective actions, and reporting. (S5, S4)

I have found that organizational culture plays a vital role in successful compliance management. Leadership commitment can be identified as a critical factor.

Thesis 2: Compliance awareness, compliance with rules is a part of organizational culture, in which the commitment of leaders plays is essential. (S3)

Based on empirical research, it can be stated that the new profession and business practice created at financial organizations can serve as an example to meet the compliance requirements of other services. Many of the good practices in the banking sector can be utilized in other sectors, such as public administration, healthcare, education and higher education. During the analysis of the content of higher education, I illustrated the practical examination of compliance with the compliance of the sample curricula in respect to the KKK.

Thesis 3: The philosophy and methodology of compliance management in the financial sector include general elements that can be used for compliance management in other sectors, such as higher education. (S5, S2)

In the course of the content analysis, I proceeded from the fact that according to the current legislation: “In higher education institutions the training is based on a training program. The training program or syllabus, for higher education, bachelor and master education is freely prepared by the higher education institution based on training and output requirements issued by the Minister.” (Act CCIV of 2011 on National Higher Education Section 15 (1))

In the field of economics education, I have chosen five universities with major traditions and good professional references: the Corvinus University of Budapest, Budapest University of Technology and

Economics, University of Debrecen, University of Miskolc and University of Pannonia. In the examined institutions it can be stated that the sample curricula for the credit criteria included in the KKK of the given program are almost fully compliant.

Then, I selected 3-3 course datasheets per institution, which are related to the compliance management topic. I have created vectors that show the strength of the presence of the reference words in the examined documents. The values in each dimension of the vectors showed which parts of the reference words appear in the documents. Based on this, classification and clustering were performed.

I found that the specific course datasheets contained only partially the competences to be developed. The selected courses provided the key concepts in the field of compliance management to a negligible extent. The KKK and sample plans are validated for accreditation, and therefore adding a new course is not a realistic goal. At the same time, parts of the curriculum, *teaching units* that are essential for acquiring and examinations that can be linked to learning goals and achievements, can play a crucial role in content development and methodological innovation. I have undertaken to describe the tasks, professional knowledge, professional skills, personal and social competencies as well as methodological competencies associated with the EKKR/MKKR descriptors that enable the acquisition of compliance concept in the course of training. This is how a compliance learning unit was created that can fit into the current course framework, and it can also be used as a potential option for the training of the selected courses.

In connection with the second research question, during the data mining of the course datasheets, I found that in the current practice the presence of compliance management is far from the needs of the market.

I accept Hypothesis 2 because I found that the training and output requirements of the Master's degree in economics, the sample curricula of the institutions, and the content of the courses related to compliance only partly contain the concepts of compliance knowledge and the elements of the documents defining the education do not show a stable pattern.

A part of the dissertation is a course draft that enables a more structured presentation of the compliance topic in economic education. In connection with this, I will make the following thesis:

Thesis 4: Based on the developed learning unit the theory and methodology of compliance management can be treated as part of higher education that supports shaping compliance behaviour. (S1, S2)

A total of 242 valid entries were received for the questionnaire survey among leaders with a dominant role in public education, according to the types of institutions: 114 kindergartens, 65 primary and 63 secondary schools. I assumed that the size of the institutions differentiates the leader's attitude related to the question of regulation and its practical use. In the course of the statistical analysis I found that the questionnaire was reliable, the respondents understood and interpreted questions in the same way, and there was consistency among their answers. The type of institution and the experience of institution leaders were two important variables that were independent. Main conclusions from the questionnaire:

- Examining the practice of complying with regulations it appears that the more people are aware of the rules of their work, the more they follow them.

- Transparency is considered relevant by the heads of institutions. The majority of respondents are well aware of the legal environment in which the institution operates. I asked which regulatory changes were

considered as a problem for the institutions last year. The responses received (GDPR, data protection, Defence Action Plan, rapidly changing legal environment, etc.) confirm the assumption that it is worth examining the issue of legal compliance in education.

- At 45% of the institutions, less than 50% of the employment contracts contain an obligation to report infringing cases. Of course, civil and criminal liability cannot be circumvented, but it is a relatively simple tool to enforce compliance if the employment contract contains such an addition. The problem can be well defined, and the solution is relatively trivial. About one-quarter of the institutions have an anonymous hotline. This is a possible development area.

- Staff in kindergartens are more aware of their work regulations than school staff. It can be assumed that the correct measurement of the knowledge acquired during the training has an impact on how this knowledge is incorporated into the work.

- I asked about the hardship and problems of being transparent in practice and comply with external regulations. There is a statistical link between the perceived difficulties; however further research would be needed to better understand this relationship. I examined the impact of the rigour or inadequacy of controls on compliance. You can identify groups whose compliance depends on authority, enforcement and constrain.

- Only 26% of heads of institutions thought they had the opportunity to propose legislation. Overall, this ratio is low and depends on the type of institution. The question arises whether the same communication channels are available for kindergarten directors as for other institutions, reasons why these channels are not known and used to a greater extent.

- Finally, there were two significant problems that affect regular operation. One is the lack of resources: a lack of pedagogues, a shortage of labour. Another major problem is the constantly changing legal

environment in which directors of public education institutions need support already at the level of legal interpretation.

Traditionally, school is “authoritative, formalized and well-regulated institution, with frequent checks and well-defined roles” (Serfőző, 2005), therefore is it suitable for studying compliance. However, the traditional inward focus has been challenged over the past 20 years (e.g., free school choice), so flexibility in effective operation has become a key factor. "It is inevitable for all schools to face the socio-economic changes that are taking place around them and the new tasks that result from them." (Rapos, 2012). It is a fact that the constantly changing legal environment is strongly present among the factors determining the operation of public education, and forces the institutions to continuously adapt and develop. In this adaptation, the heads of institutions, who play a vital role in the development of local institutions, the quality and regularity of their operations, have a significant role to play.

The third research question is answered by the analysis of the online questionnaire on compliance, which indicates that the heads of institutions perceive legal compliance as an independent problem, on which they need support. Institution leaders have varying degrees of compliance with regulations, and there are groups where compliance is dependent on external control and enforcement.

Regarding research question 4, based on the responses of the heads of institutions to the questionnaire, I found that education is relevant to support managers in the area of legal compliance. I accept Hypothesis 4 because I found that the one hand education on awareness, and on the other hand education related to specific regulations can be relevant in shaping compliance behaviour.

Thesis 5: In a rapidly changing legal environment, compliance requirements appear as an issue for leaders. Compliance management can be identified as a new management task. (S1, S3, S5)

Conclusions, further research

The essence of the compliance concept is a social and economic interpretation, a novelty of which is that it assesses non-compliance as a risk. The essence of the compliance concept is a social and economic interpretation, a novelty of which is that it assesses non-compliance as a risk. This risk consists primarily of two factors: penalties for non-compliance and reputational risk.

Based on empirical research, it can be stated that the new profession and business practice created by financial organisations can serve as an example to meet the compliance requirements of other services.

In my further research, I would like to broaden the scope of the research, and I would like to examine the characteristics of compliance functions in the production sector, especially the practices of pharmaceutical, food companies and healthcare providers.

On the other hand, I would like to compare the models of managing compliance risks, including the ISO 19600: 2014 flow chart and the risk management model with banking practices. Examining the domestic literature and empirical research, I have concluded that the knowledge of the ISO 19600: 2014 guidelines has not been widespread. This document describes the operation of compliance management systems in a risk-based approach, considering the process approach and described as universally applicable in any industry. The conclusion drawn from the bank interviews that the integration of risk management and compliance management is a forward-looking organizational operation confirms the

relevance of the topic and the potential for further research and publications.

I would like to examine the relationship between business excellence and compliance on a theoretical level shortly. Preventive and corrective actions of compliance management are all in line with efforts to achieve business excellence. However, measuring compliance results is not trivial especially in the area of services. Based on the EFQM self-assessment model, or by supplementing it, I see the possibility of developing a compliance self-assessment model, for which there is currently no generally accepted model available. This is a niche research direction, with the results of which can be useful for business.

Based on the experience of the financial sector, education in compliance management is relevant to both economists and lawyers. I see the possibility of expanding the content analysis of higher education by examining financial and legal education. I assume that the established compliance learning unit, organically built into other management courses (e.g. quality management, change management), can be used in these areas as well.

I would like to broaden research among public education leaders to a longitudinal study. By more precise formulation of difficult-to-understand and attitude related questions, it is advisable to investigate further the problems of compliance with rules and attitudes. Based on the analyses made so far, it is advisable to supplement the new questionnaire with risk management and integrity issues. A new manuscript on the questionnaire was accepted and will be released in May 2019. In the future phase of the research, new results can be published.

References

- A compliance (megfelelőség biztosítási) funkció működtetésének legjobb gyakorlata (Best Practice Kódex) (2017) Magyar Bankszövetség, Compliance Munkacsoport,
http://www.bankszovetseg.hu/Content/alapdokumentumok/6_melleklet_Compliance_Best_Practice_Kodex_HUN.pdf 2019/04/23
- Felmérés a belső ellenőrzés és a compliance helyzetéről 2013, Deloitte,
http://www.deloitte.com/assets/Dcom-Hungary/Local%20Assets/Documents/Surveys/IASurvey_HU_2013_FINAL.pdf, 19/10/2013
- Paine, L. S.: Managing for Organizational Integrity, *Harvard Business Review*, v72 n2 p106-17 Mar-Apr 1994
- Rapos N. (2012): Iskolafejlesztések: Mi végre?, TANÍ-TANI ONLINE,
http://www.tani-tani.info/iskolafejlesztések_mivegre
- Serfőző M. (2005): Az iskolák szervezeti kultúrája, *Iskolakultúra*, 2005/10, p70-83.
- Silverman, M. (2008): Compliance management for Public, Private, and Nonprofit Organizations, Mc Graw Hill
- Tarantino, A. (2008): *Governance, Risk and Compliance Handbook*, John Wiley & Sons
- Trevino, Weaver, Gibson, Toffler: Managing Ethics and Legal Compliance, what works and what hurts, *California Management Review*, Vol. 41, No. 2, Winter 1999, pp. 131-151
- The Turner Review, a regulatory response to the global banking crises, *Financial Services Authority*, March 2009,
http://www.fsa.gov.uk/pubs/other/turner_review.pdf, p.79-80

Author's publications related to the dissertation

S1. Benedek, P. (2019): Szabálykövetés az oktatási intézményekben. *Journal of Applied Technical and Educational Sciences, Volume 2019/2*, accepted manuscript

S2. Benedek, P. (2016): Compliance Issues in Higher Education. *Practice and Theory in Systems of Education, Volume 10 Number 1* pp. 55-61. DOI 10.1515/ptse-2016-0008

S3. Benedek, P. (2014): Compliance menedzsment HR szemmel. *Munkaügyi Szemle, 2014/5.* 50-61. o.

S4. Benedek, P. (2014): A vállalati compliance értékelése. *Vezetéstudomány XLV. ÉVF. 2014. 7–8. SZÁM / ISSN 0133-0179.* pp. 29-39.

S5. Benedek, P. (2012): Compliance Management – a New Response to Legal and Business Challenges. *Acta Polytechnica Hungarica, Vol. 9, No. 3:* 135–148. o.