

A Comprehensive Review of Factors Influencing Compliance

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Abstract: Compliance, as a very important aspect of corporate governance, has developed earlier in the world, while China's compliance management has developed relatively late and is currently lacking in development. However, many enterprises suffer serious losses without compliance management, especially import and export enterprises, which are forced to exit the market due to poor compliance management. This article is based on the urgent need of Chinese enterprises for compliance management, but the lack of research by scholars. It summarizes the literature on the factors affecting compliance, hoping to be helpful for the study of compliance management.

Keywords: Compliance; Influencing factors; Internal control; Executive compensation; Shareholding structure

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1. Theoretical basis and connotation of compliance

1.1. The origin and connotation of compliance management

The term “compliance” first appeared in the regulatory process of the US banking industry. In the long economic activities of mankind, due to the psychology of human pursuit of interests, economic crimes have been committed one after another. Society and the government are urgently demanding stricter systems to ensure the fairness of economic activities. In terms of compliance, the most important regulation is the Sarbanes-Oxley Act. This bill innovatively proposed that the management of the company needs to be responsible for the authenticity of the financial audit report and fill the loopholes in the company's operations legally. In this way, the honesty of the company's operations is forced to be enforced by senior executives through compulsory means.

In 2006, the China Banking Regulatory Commission issued the “Guidelines for Compliance Risk Management of Commercial Banks,” pointing out that compliance means that the business activities of commercial banks are consistent with the laws, administrative regulations, departmental regulations and other normative documents applicable to banking business activities, ensuring that the enterprise has legal business rules and becomes a legal self-regulatory organization, and its code of conduct and professional ethics are consistent. With the development of economic activities in all aspects, financial institutions play an increasingly important

role in economic activities, and financial organizations are increasingly aware of the importance of compliance. At the same time, non-financial institutions, such as enterprises, have also begun to pay attention to the importance of their compliance. In this way, through effective control methods, they can constrain their economic activities from violating basic ethics and reduce possible economic risks in this regard.

At present, to enhance the compliance of enterprises themselves, more and more enterprises are carrying out structural reforms in their structures, adding internal compliance management and internal audit departments. The increase of these departments, to a certain extent, reflects that enterprises are aware of the importance of compliance to their development. At the same time, this measure is also a response of enterprises to the overall emphasis on compliance by the country and society from Wang, and it is also a favorable guarantee for improving enterprise risk management and internal control under the pressure of upstream customers to assess their cooperation risks by Christina. Scholars have made sufficient research on the correlation between internal audit and compliance management by Roy, Sheila PL, and Kelly N.

Regarding internal audit, more studies focus on the relationship between corporate governance and risk management and internal control (Xiong and Zheng). In terms of compliance management, more studies focus on individual compliance characteristics, model research, and system construction in the securities, banking, and insurance industries (Yu and Yang). At the same time, “compliance audit” only emphasizes the audit model that meets established standards (Zheng and Li), with a single connotation.

1.2. Measurement of business compliance

In research, researchers often use whether listed companies have been administratively punished by government departments for illegal and unethical behavior as a substitute variable for business compliance. Similarly, according to research needs, the illegal and irregular data that researchers often need are usually manually collected through channels such as company announcements and official websites of regulatory agencies and processed accordingly by Wang.

2. Compliance construction in various industries

At present, many industries have entered the process of compliance management assessment. In terms of industry, almost all major supporting industries in China are involved, such as aerospace, infrastructure, coal mining, automobile manufacturing, etc.

In the study of Li *et al.*, the concept of “Internet +” was introduced into the coal industry, combining “Internet +” with coal production to achieve transparency and openness of production and improve production safety and production efficiency;

In his study, Chen explored the relationship between compliance and risk control related factors and set up the implementation evaluation steps of specific risk control through compliance management in the aerospace field, laying a certain foundation for the application of compliance in the aerospace field.

For infrastructure projects, Yang *et al.* conducted research and proposed a RFID-based hazard identification system, which can identify the hazards in the on-site compliance management and personnel safety of infrastructure projects. In the automobile manufacturing industry, Yang believes that the use of compliance should be targeted ^[1]. In the field of automobile production, automobile manufacturing companies should consider the company’s situation when considering the production safety of employees, and design targeted compliance management regulations to improve the production safety factor of employees. Chen conducted an in-depth analysis of the risks existing in automobile manufacturing plants ^[2], conducted an in-depth investigation of the regulations and environment faced by workers, and proposed specific optimization measures based on the

investigation content to rationally use the control measures formulated by corporate compliance and improve the reliability of the company's comprehensive safety development. Formela *et al.* explored the application of compliant ship pollution issues. Based on the safety of ship operation, scholars explored research trends from multiple perspectives, such as material risks, human risks, and accidental risks, and analyzed and predicted future research directions from the perspectives of ship risk assessment and collision avoidance risk quantification.

3. The relationship between compliance and other variables

3.1. Compliance and executive compensation

Liu constructed a model of executive compensation level and internal control information disclosure compliance through empirical research and believed that executive compensation level is significantly negatively correlated with internal control information disclosure non-compliance. The higher the compensation level, the stronger the executive awareness, the more effective the internal control operation, and the lower the incidence of information disclosure violations. Moderate executive compensation incentives are conducive to reducing internal control information disclosure violations of listed companies.

Wei constructed a regression model for empirical research, using the classic interaction coefficient test and the group regression coefficient variability test. The results show that the vertical compensation gap of the executive team is significantly positively correlated with corporate misconduct. When controlling other influencing factors, the greater the vertical compensation gap of the executive team, the more serious the corporate misconduct.

Lu verified its main research hypothesis through eight multivariate regression analysis models, using the regression coefficient significance test and group regression coefficient difference test. The empirical results show that executive compensation incentive strategies can significantly reduce the incidence and severity of violations, providing evidence for executive compensation incentives.

3.2. Compliance and shareholding structure

Chen concluded that shareholding concentration is significantly negatively correlated with the possibility of corporate misconduct. The higher the shareholding concentration, the lower the possibility of corporate misconduct. This conclusion still holds after using three methods for robustness testing. Empirical research has found that major shareholders play an active role in corporate governance. The empirical analysis used 6548 Chinese A-share sample observation data collected and processed from the Guotai Junan main board database, and the analysis software used was STATA 12.0.

Wang verified the research hypothesis through regression analysis of nine models. The empirical results show that there is a significant negative correlation between ultimate control and corporate misconduct; that is, the greater the ultimate control, the lower the possibility of corporate misconduct, and the concentration of ultimate control can inhibit corporate misconduct. The conclusion is that there is a significant negative correlation between ultimate control and corporate misconduct; that is, the greater the ultimate control, the lower the possibility of corporate misconduct, and the concentration of ultimate control can inhibit corporate misconduct.

3.3. Compliance and internal control

Goh BW found that if a company has certain defects in internal control, then the company is more likely to need to carry out financial restatements, which puts the company at a greater operating risk. Barger *et al.* believe that when a company's internal control is better, the company's information to the society is more accurate and transparent, which can further reduce the impact of information asymmetry and help achieve the company's compliance goals. Byungjin Kwak and Byung T believe that if a company has effective internal control, it can

achieve positive development of the company to a certain extent by strengthening its information transmission and increasing its financing opportunities. On the contrary, bad internal control is often prone to fraud and loss of public trust.

He used the Dibo Index released by Shenzhen Dibo Company to measure the quality of internal control and found that the quality of internal control was significantly negatively correlated with the possibility of financial restatement. The better the internal control, the lower the possibility of financial restatement. Chen used corporate litigation as a substitute variable for litigation risk to study the relationship between internal control and legal risk and found that the higher the quality of internal control, the lower the legal risk of the company^[3]. Bai conducted a study on the relationship between internal control quality and earnings management, indicating that high-quality internal control can effectively suppress earnings management behavior^[4]. Wang conducted an empirical test based on the internal control index of Xiamen University and found that the higher the quality of internal control^[5], the lower the probability of financial restatement, indicating that internal control is an effective factor in inhibiting management from financial restatement; Dai and Li found in their research that if the internal control of an enterprise is good, the profitability of the enterprise will increase, that is, the internal control of the enterprise is consistent with the change of the enterprise performance. Fang found that in terms of enterprise risk, high-quality internal control can inhibit the possibility of enterprise risk to a certain extent, and in terms of financing, high-quality internal control can help the stock growth of the enterprise and enable the enterprise to obtain more development space.

Wang used the company reports of China's A-share listed companies in 2014 as samples and studied the specific relationship between internal control and corporate violations through empirical research. The study found that within the scope of accounting information and business compliance research, the better the internal control, the lower the risk of corporate violations. Chen analyzed the data of Chinese main board companies from 2012 to 2016, used the data to conduct a Logit empirical test, and found that companies with internal control defects are more likely to violate regulations. Chu found through empirical research that the quality of internal control is significantly negatively correlated with corporate violations^[6]. Wang selected non-financial listed companies and paired listed companies that violated regulations in Shanghai and Shenzhen A-shares from 2008 to 2017 as research samples^[7]. The quality of internal control is negatively correlated with the probability and severity of corporate violations. Xi also found through empirical research that the quality of internal control of listed companies is negatively correlated with their violation rate.

4. Conclusion

Facing increasingly fierce market competition, to respond to the needs of the market and the country, compliance control has become a sector that enterprises must face. Facing important aspects such as enterprise risk assessment and corporate financial information, compliance control has become irreplaceable for enterprises. This article summarizes relevant literature to provide a reference for researchers.

Disclosure statement

The authors declare no conflict of interest.

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