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FLATTENED ORGANIZATIONAL MODELS: A BENEFIT OR CURSE FOR COMPLIANCE?

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To reduce fraud and misconduct, regulators are increasingly issuing new guidance that companies must comply with. In September 2025 in the United Kingdom, a new "failure to prevent fraud"[1] offense was introduced, like "failure to prevent criminal facilitation of tax evasion"[2] and "failure to prevent bribery."[3] Typically, regulators request companies to have a "tone from the top," conduct a risk assessment, provide training to employees, conduct auditing and monitoring, and have the necessary policies and controls in place to prevent the above-mentioned noncompliance.

At the same time, a new leadership approach is emerging in numerous companies: flat hierarchies. Contrary to traditional organizations, where decision-making is centralized, in a flatter organization, there are fewer levels of middle management, and employees are given autonomy to make decisions. It is believed that a flatter organizational structure makes employees more active participants in the company's mission and vision, increases employees' sense of responsibility and accountability for the company's success, improves communication, and leads to improved decision-making.

At first glance, the new, flatter leadership model and less oversight by managers is contrary to the guidance from regulators who want stronger preventive controls. What does this mean for the compliance culture and compliance management system? And what incentives need to be in place to ensure employees act with integrity and remain compliant while having increased autonomy and decision-making power?

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What impact does the new model have on risk?

The flattened organizational/leadership model eliminates numerous middle management layers, empowering employees to make decisions. There might be an increased sense of personal responsibility for decisions, and employees might be more empowered to speak up about compliance violations; however, numerous additional compliance risks must also be considered.

Decentralized decision-making
When employees are given increased autonomy, there is an increased risk that those uninformed about the legal and compliance environment — and company policies and regulations — create additional risks for the company. The lack of oversight by a manager (another pair of eyes) to evaluate and spot risky or noncompliant transactions no longer exists.

Reduced supervision and oversight
Most employees are intrinsically motivated to act with integrity and compliance, but not all. By empowering employees to make decisions without managerial oversight and controls, noncompliant activities may go undetected for a longer period.

Blurred accountability
In flatter organizational structures, there is an increased risk of unclear roles and responsibilities, leading to confusion about who owns compliance in a specific situation.

Reduced guidance and policies
To allow employees to be agile and empowered to make decisions in a flatter organizational model, many divisional policies, procedures, and controls need to be removed or eliminated; otherwise, employees would not be empowered. Finding the right balance between empowering employees and not giving up minimum mandatory guidance on the most important compliance risks is one of the biggest challenges. Clearly, in today's volatile and complex world, it is wishful thinking that all employees understand the legal and compliance implications of things like the EU AI Act, environmental, social, and governance factors, Russian sanction packages, etc.

How to overcome risk under the new model?

More compliance training
For empowered employees to make smart and compliant decisions, they need to be trained more extensively than in the traditional model, where employees would come to compliance to get advice or approval.

Additional monitoring
Because approvals by compliance or line managers are eliminated in the flattened organizational model to empower employees, companies should consider implementing additional monitoring activities or enhancing their data analytics capabilities to spot outliers and noncompliant transactions.

Increased communication on culture and values
In the traditional organizational model, the main control mechanisms were managerial approval, approval thresholds within IT system workflows, and segregation of duties between various functions. In the flattened organization model, all these controls disappear, and the main control mechanism is the frontline employee "doing the right thing." As such, the compliance function and management need to communicate more frequently about the importance of integrity and ethical values.

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Define accountability and responsibility for compliance
In the traditional organizational model, individuals are responsible for compliant behavior. When deviating from company policies and procedures, circumventing controls, or sidestepping existing laws and industry codes, the compliance department usually initiates a compliance investigation. When allegations are confirmed, the compliance management system allows for remediation.

In the flattened organizational model where representatives from various departments work together in autonomous project teams, the accountability and responsibility for compliance must be clearly defined.

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Individual project team members should not be able to hide within team structure to initiate noncompliant activities.

Strengthening the speak-up culture

In the flattened organizational structure where employees are more closely connected to the company's mission and vision, they have an increased sense of responsibility and accountability for the company's success. Therefore, employees have a direct interest in speaking up when they see noncompliant behavior. Companies should reinforce the speak-up culture by removing obstacles that might hinder employees from speaking up:

- Provide guidance to middle managers on how to create an open and safe working environment where employees feel comfortable speaking up.
- Implement a nonretaliation policy.
- Make the investigation process transparent.
- Ensure that speak-up channels are easily accessible and regularly communicated about.

Additional proposed measures to put in place

Besides the above-mentioned measures to overcome additional compliance risks coming from the flattened organizational model, to have an effective compliance management system, the following activities should (continue to) exist.

Compliance as part of performance evaluation and promotion

To strengthen compliant behavior and integrity, noncompliant behavior should be sanctioned, and compliant behavior should be incentivized. This is typically done by incorporating compliance as part of performance evaluation. Also, the ethical track record of individuals should be considered prior to promoting employees.

Cultural surveys

In the flattened organizational structure, employees' attitudes toward and perceptions of compliance become increasingly significant. As such, companies should consider running ethical surveys and/or inquire about employees' intrinsic motivation toward ethics and compliance. If the survey results show that employees in the flattened organizational model do not have a high intrinsic motivation for compliance, then additional controls and monitoring should

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be implemented to mitigate these additional risks.

Conclusion

In today's volatile and complex world, companies like to be agile and able to make swift decisions. For this reason, many companies are setting up a flattened organizational/leadership structure where oversight by managers is eliminated to increase trust, increase employee satisfaction, improve decision-making, and create greater connectivity with the company's mission and vision. The increased empowerment of employees and elimination of governance instruments, such as managerial approval, policies and guidelines, segregation of duties, authorization thresholds, etc., without compensating measures, are creating additional compliance risks for companies.

In a traditional organizational model, employees reached out to their managers or compliance department for advice or approval (in the case of riskier transactions). In a flattened organizational structure where compliance and managerial approval are reduced, the main control mechanism is for employees to do the right thing. This might work if employees have a strong intrinsic motivation for integrity, ethics, and compliance. We all know that decisions by employees are not always driven by values and can be influenced by extrinsic motivations (bonuses or other financial rewards) or peer pressure. As the number of regulations and laws for companies to comply with is constantly increasing, it is hard for even compliance or legal officers to stay current on these regulatory actions, and it is even harder for employees to remain compliant. It is wishful thinking that employees can suddenly replace the understanding of laws, regulations, or changes in industry code that the compliance and legal departments have. CEP

Endnotes

1. UK Government, Home Office and the Rt. Hon. Lord Hanson of Flint, "New failure to prevent fraud guidance published," news release, November 6, 2024, https://www.gov.uk/government/news/new-failure-to-prevent-fraud-guidance-published.
2. UK Government, His Majesty's Revenue & Customs, "Corporate offences for failing to prevent criminal facilitation of tax evasion," guidance, September 6, 2017, https://www.gov.uk/government/publications/corporate-offences-for-failing-to-prevent-criminal-facilitation-of-tax-evasion.
3. Bribery Act 2010, c. 23 (UK), https://www.legislation.gov.uk/ukpga/2010/23/contents.

Takeaways

- Employees need to be provided with more in-depth compliance training than in traditional organizational models, where the compliance department was an adviser and trusted business partner.
- To have a reasonable degree of assurance that transactions are handled in a compliant way, companies should consider additional monitoring activities or enhance their data analytics capabilities to spot outliers and noncompliant transactions.
- The compliance function and management need to communicate more frequently about the importance of integrity and ethical values.
- Implement a nonretaliation policy and make the investigation process transparent.
- In the flattened organizational model, the accountability and responsibility for compliance might not always be clear. Individual project team members should not be able to hide within the team structure to initiate noncompliant activities.

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