

Corporate Conformance in Practice

Maintaining the Social License to Operate

By

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Introduction

In recent years, conformance rather than compliance has gained attention in executive suites. While compliance with laws, regulations, statutes, and other formal legal frameworks for corporate activity have been on the agenda for several decades (Andreisova, 2016; Majluf and Navarrete, 2011), conformance with norms, values, ethics, and guidelines expected by stakeholders and others in society is recently reaching the top of executive agendas (Durand, 2019; Lewis and Carlos, 2022). An important reason in this shift of main attention from compliance to conformance is the speed as well as severity of damage and harm from breaches and violations of the social license to operate as compared to violations of the legal license to operate. While a legal process in the criminal justice system at corporate wrongdoing tends to last for years before a final outcome is reached, a social process in society at corporate misconduct tends to have serious consequences a few days after disclosure, exposure, and condemnation. An example is boycotts of companies quickly mobilized in social and traditional media as a reaction to corporate misconduct.

Several measures are taken to restore corporate conformance. One of them is termination of top executives by making them scapegoats of scandals. For example, in the financial industry, a number of chief executives have been dismissed: Birgitte Bonnesen at Swedbank in Sweden (Alabi, 2023), Thomas Borgen at Danske Bank in Denmark (Palma and Milne, 2022), Alison Rose at NatWest owning the bank Coutts in the United Kingdom (Makortoff, 2023), and Carrie Tolstedt at the bank Wells Fargo in the United States (Cowley, 2023). As argued by Hersel et al. (2023: 642), “dismissing the CEO demonstrates that a firm is addressing a serious problem that requires top-down remediation”. They found that executive dismissal is frequently deployed as a crisis management tactic.

This book starts in Chapter 1 by taking the issue of corporate behavior beyond compliance to conformance. Characteristics of both compliance and conformance are discussed to make the distinction between the two issues quite evident and obvious. While compliance is concerned with the legal license, conformance is concerned with the social license to operate as presented in the chapter. Bottom-up change of corporate practice is

also presented, as some top executives tend to have a commitment to the status quo.

Chapters 2, 3, 4, and 5 present studies of conformance cases. The first case addresses the difference between sanctions and blacklists during the war in Ukraine. While companies had to obey to sanctions, it was voluntary whether they would obey to blacklist. Sanctions relate to compliance, while blacklists relate to conformance. The second case presents a clothing store chain in Denmark that got its garments from factories controlled by the military junta in Myanmar. While procurement of garments was not part of the sanctions against Myanmar, many stakeholders in Denmark reacted to the clothing firm's business in the country. The third case in Chapter 4 presents a social housing company in Norway that was in the business of building ordinary homes for ordinary people. Suddenly, the new management started building luxury homes for rich people and selling apartment blocks to a rental enterprise. Stakeholders did not like it. The final case in Chapter 5 discusses an insurance firm in Norway that tried to get rid of an outlaw biker gang as customer, since there was suspicion that the insurance premium paid for the club house originated from organized crime. Then the insurance company could be accused of enabling money laundering. Convenience theory is applied in several of the case studies. The theory of convenience explains deviance by motive, opportunity, and willingness.

Chapter 6 dives into economic crime in the case of illegal and unregulated fishing. The purpose of the chapter is to illustrate the emerging theory of convenience that was also applied in the case studies. Financial motive based on possibilities or threats, organizational opportunity to commit and conceal wrongdoing, as well as willingness based on choice or innocence explain deviant behavior.

Chapter 7 returns to the case studies by focusing on the stakeholders in each case. Mondelez was on the blacklist in Ukraine. Bestseller was doing business in Myanmar. Obos housing was violating its heritage. The insurance company IF attempted to get rid of outlaw bikers.

The final Chapter 8 presents a case study of the Norwegian national authority for investigation and prosecution of economic crime and environmental crime in Norway. The authority is mainly concerned with compliance,

but might also sometimes step over to conformance. The case study presents research regarding impression management following a white-collar investigation and prosecution scandal at the authority. The authority issued 39 press releases in one year, which communicated focus on less serious crime cases combined with deterrence by taking on cases without ever bringing them to court. Deterrence strategy by investigations implies that the authority passes penalties on suspects who never have a chance to defend themselves in court. The penalty is suffering from negative public attention, lack of job opportunities, and time spent in detention and interrogation as an accused where they have to explain themselves. The authority then behaves like a court where they punish people. However, that is a role assigned to judges and not to investigators or prosecutors. The authority argues that it is difficult to obtain the necessary information without a thorough investigation. While this is certainly true, a policing principle seems forgotten that an investigation should only be launched when it is somehow obvious that crime has indeed occurred by a criminal.

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Chapter 1

Conformance Beyond Compliance

Business owners and executives are concerned with corporate conformance in practice for maintaining the social license to operate. A distinction is often made between the legal license to operate and the social license to operate. The legal license refers to compliance with laws, regulations, and rules that apply within the jurisdiction. The social license refers to conformance with norms, values, and guidelines that apply within the society. Compliance and conformance to avoid corporate deviance is not just a matter of individual and organization wrongdoing that can harm other individuals, organizations, and societies. It is also a matter of global sustainability as described by the United Nations. The United Nations' sustainability goal number sixteen concerns twelve targets for promoting peace, justice, and strong institutions (Windsor, 2022). As argued by Piazza et al. (2024: 249), "organizational theory has long emphasized the importance of conformity to prevailing norms, rules, and laws".

Characteristics of Corporate Compliance

Compliance refers to meeting legal and other formal obligations (Teichmann and Wittmann, 2022). Compliance refers to obeying the formal rules and regulations in force at a given time and place, where "compliance relates to formal mandatory regulations that typically enact only minimal conditions of institutional acceptability" (Durand et al., 2019: 300). Compliance is alignment to avoid violations of legally binding statutes, and it is typically pursued by formal controls (Andreisova, 2016; Antonsen and Madsen, 2021; Ballesteros et al., 2021; Desai, 2016; Fotaki et al., 2020; Majluf and Navarrete, 2011; Panda and Sangle, 2019; Rooij and Fine, 2020; Thottoli, 2021).

The word compliance can be defined as the act of adhering to a law, rule, guideline, code, demand, or request. In a business environment, legal adherence is referred to as corporate compliance. Corporate compliance involves keeping a watchful eye on an ever-changing legal, regulatory, and

moral climate, and making the changes necessary for the business to continue operating in good standing within its industry, community, and customer base to the satisfaction of all stakeholders. Baer (2009: 949) referred to compliance as “the internal programs that organizations adopt in order to educate employees, improve ethical norms, and detect and prevent violations of law”.

Corporate compliance is a matter of organizational ability to carry out business activities without violating formal laws, the spirit of the laws, regulations and rules, and other forms of legally guiding principles for the business. Corporate compliance is the ability to lead a group of people toward achieving certain standards of conduct when performing their activities. Corporate compliance programs require monitoring, auditing, corrective actions, and system modifications or redesign to prevent future problem behavior (Andreisova, 2016; Majluf and Navarrete, 2011; Peterson, 2013; Remisova et al., 2019). A company’s intolerance for wrongdoing is evidenced by corporate action taken consistent with its corporate compliance effort.

Durand et al. (2019) in their study of organizational responses to normative pressures distinguished between symbolic compliance and substantive compliance. A symbol is an object, an artifact, or a phrase to portraiture the company in a better light. Symbols can take the form of words, sounds, gestures, or visual images. Symbolic compliance is in line with window dressing that refers to the act or the instance of making something appear better than it actually is (Eberl et al., 2015). Substance is the real thing with unique properties. Substantive actions require a greater extent of resource mobilization that can close for other avenues in response to normative pressures.

New legislative rules reshape corporate impacts on society and the natural environment. The new regulations are often the result of social movements. However, since the strength of legislation may differ in terms of restrictiveness and enforcement, some legislation can be ambiguous as to both performance requirements and the related means for compliance. Legislation tends to take into account all imaginable circumstances and therefore remain full of weaknesses despite the social movements that might have triggered it. Legislative reform is therefore not necessarily the culmination of successful institutional change.

Adding to the challenges of compliance is regulatory complexity. As argued by Lehman et al., (2020), rule complexity can prevent compliance. Rule complexity can create a situation where nobody is able to tell whether an action represents compliance or not. It is impossible to understand what is right and what is wrong. Some laws, rules, and regulations are so complex that compliance becomes random. The regulatory legal environment is supposed to define the boundaries of appropriate corporate conduct. However, legal complexity is often so extreme that even specialist compliance officers struggle to understand what to recommend to business executives in their organizations. Then regulatory inspection does not work for compliance (Braithwaite, 2020). Business executives can thus find the large grey zone in legal matters a convenient space for misconduct and wrongdoing.

This is especially so when operating internationally and globally where states do not agree on what should be legal and illegal activities (Boghossian and Marques, 2019; Pontell et al., 2020). Eberlein (2019) argued that globalization opens markets for corporations but outstrip the capacity of states to regulate and enforce laws on cross-border business conduct for public good. Similarly, Schneider and Scherer (2019: 1147) argued that “the extent to which state authorities can regulate the externalities and the behavior of multinational corporations is limited”, and “gaps in governance abound in today’s globalized world”. There can be an erosion of state power and a shift towards private regulation. National governments collectively are taking limited initiatives through the OECD, European Union, United Nations, World Bank, and other multinational organizations.

Maher et al. (2019) found that governments not just in global business, but also in local business are reluctant to intervene. They observed ambiguity of the state to involve itself. This is in line with the observation by Pontell et al. (2014) that some companies are too big to fail, and some offenders in the elite in society are too powerful to jail.

Lack of compliance represents violations of laws and regulations. It can be a matter of issue salience and profitability in terms of benefits exceeding costs. However, “studies consistently demonstrate that regulations and sanctions directed against the firm can discourage offending” and result in compliance (Rorie et al., 2015). In fact, sometimes over-compliance can occur (Rorie, 2015).

One characteristic of corporate compliance argued by Fotaki et al. (2020: 19) is that compliance can complement corporate governance:

Compliance, although not sufficient in itself, serves as a complementary mechanism strengthening the effects of ethical values and creating the conditions by which instrumental values can act in favor of corporate governance. The results highlight that governance benefits can emanate from maintaining high ethical standards as well as from synergies between compliance and a focus on organizational values.

Many corporations have compliance functions that serve as advisors to management as a governance branch. People in such functions tend to cooperate with internal and external auditors as well as various controllers (Maher et al., 2019; Schneider and Scherer, 2019). Sometimes, they have the task of investigating suspicions by reconstructing past events and sequences of events. If they find sufficient evidence of law violations, then the case stops, moves internally or moves externally to the criminal justice system. If secrecy to protect corporate reputation is the main concern, then the case typically stops and remains internal. Sanctions can be implemented in complete secrecy.

In addition to the task of investigations at suspicions, compliance functions need to conduct compliance audits to develop potential suspicions. Compliance audits gauge how well organizations ensure adherence to various applicable laws and other regulatory matters (Thottoli, 2021: 137):

It helps avoid risk of fines, penalties and closure of business. Compliance audit gives specific attention to assessing compliance by criteria derived from responsible authorities.

Organizations with inefficient or non-existing compliance functions or governance branch generally tend to suffer from disorganized institutional deterioration. An institution is a system of interrelated elements governing relationships between institutional members within which members pursue their mutual interests (Gyöy, 2020).

Compliance risk assessment is about introduction of a systematic approach to “the entity’s identification of relevant risks to achievement of its objec-

tives, forming a basis for determining how risks should be managed” (Marchetti, 2012: 74). Risk assessment is a process that has to include potential deviant behaviors among board members and corporate executives to safeguard complaint decision-making. As Koller (2005: 28) noted, “fostering a risk assessment process upon an organization will not only change how opportunities or liabilities are assessed but will significantly alter the way an organization makes critical decisions”.

Fotaki et al. (2020: 23) argued that “compliance with a given set of structural corporate governance regulatory requirements guarantees that the firm adopts the relevant practices to avoid legal liabilities”:

This means that compliance is primarily a quantitative issue, i.e., it denotes the number of corporate governance practices the firm reports that it adopts out of the set of best practices that it adheres to. We argue that compliance can affect the influence of enacted ethical and instrumental values on corporate governance for the following reasons. On one side, compliance with codes of best practices can also provide a compass to principals and agents, educating and guiding them on governance best practice. It defines roles and increases actors’ participation in the governance-related issues, activating a process of learning and fostering a culture of corporate governance. (...) On the other hand, compliance safeguards the firm against legal liabilities resulting also in some levels of accountability over the long term. In this context, principals, being usually assigned the monitoring role, have the confidence that agents at least adhere to rules and regulations regarding corporate governance.

This quote reflects on principal-agent relationships as well as accountability. Agency problems occur when principal and agent have different risk willingness and different preferences as well as knowledge asymmetry regarding tasks to be completed. The agency perspective assumes narrow self-interest among both principals and agents. The interests of principals and agents tend to diverge, and each principal has imperfect information about each agent’s contribution (Bosse and Phillips, 2016). The above quote suggests that compliance by governance can reduce agency problems. Accountability refers to liability, answerability, and blameworthiness.

Accountability is the acknowledgement and assumption of responsibility for actions and decisions. Accountability refers to situations in which someone is required or expected to justify actions and decisions. Accountability is concerned with holding someone responsible to someone for something (Smith, 2009).

Fotaki et al. (2020) studied 234 companies listed on the Athens Stock Exchange in Greece. The companies had issued their balance sheets, and also their corporate governance statements. The findings suggest that interactions with compliance by corporate governance enhance the positive effects of ethical values, whereas compliance can also alter the role of instrumental values in favor of corporate governance. The study results suggest that compliance over a period of several years might increase the engagement of principals and agents with and learning of corporate governance issues.

Corporate compliance functions need internal and external intelligence to collect information on a continuous basis to prevent and detect deviant behaviors. Workplace deviance is voluntary behavior that violates significant organizational principles and legal obligations and in so doing threatens the well-being of an organization, its members, or both. If a corporate compliance function never prevents or detects actual incidents of wrongdoing, then it is likely that incidents escape under the radar (Desai, 2016; Williams et al., 2019), rather than it is a situation characterized by the absence of wrongdoing.

Actors in auditing and compliance functions in business and public enterprises seem to have a preference towards formal rules and guidelines in the form of window-dressing rather than detection of potential offenses and offenders (Desai, 2016). Alon et al. (2019) argued that accounting and auditing functions have undergone a legitimacy crisis in recent years because of formal rather than substantive financial reviews.

Compliance emerged as an important management topic following a stream of corporate scandals in the United States and many other nations. Companies and their industries adopted internal policies and procedures for reporting and trying to prevent misconduct (Chen and Soltes, 2018: 119):

Those efforts helped legislators who had sought to more heavily

regulate and penalize firms for dishonest practices. Self-policing appealed to business leaders as a way to avoid the cost and disruption of additional regulation. It also eased the investigative burden on regulators, and many people believed it would successfully deter wrongdoing.

But it did apparently not. Compliance programs did not deter wrongdoing. Compliance programs served mainly as window-dressing to indicate a clean and professional front-end of the organization with all its problems hidden inside. Chen and Soltes (2018) argued that the solution to this problem is to link compliance initiatives to business objectives.

A distinction can be made between external and internal compliance (Kawasaki, 2020). External compliance is concerned with the laws, rules, and other regulations from a government that spell out how an organization should conduct itself. Internal compliance is concerned with the internal statutes, regulations, policies, and procedures that are implemented in the organizational structure as well as the organizational culture, where structure refers to the division of labor to complete tasks, while culture refers to the binding norms among organizational members when completing tasks. It is a matter of external and internal constraints and restraints from control that influences organizational members towards compliance (Abadinsky, 2007).

Engdahl (2013: 332) found that duality in terms of segregation of duties might ensure regulatory compliance in banking and finance:

Today the segregation of duties is commonly used to ensure regulatory compliance in various industries. (...) The argument is made that an effective duality-based segregation-of-duties type control system presupposes social relations characterized by relative autonomy and third-party dependence, along with work task interdependence.

Corporations have a hierarchy where there is a duty to oblige others to comply with decisions. Hierarchy entails a form of organized power. Organizations can issue commands, and they can decide upon rules that its members are expected to follow in their actions. Organizations have the right to monitor compliance with commands and rules (Kawasaki, 2020;

Rooij and Fine, 2020). Organizations have the right to decide about sanctions, both positive and negative. They can decide to change a member's status by using promotions, grading systems, awards, diplomas, and medals. In this hierarchical perspective, compliance at the top is far more difficult to monitor than compliance further down in organizations. For example, chief executive officers (CEOs) typically enjoy substantial individual freedom in their professions with little or no control (Khanna et al., 2015).

In fact, white-collar crime research has consistently shown that deviance at the top of organizations is much more convenient than further down the hierarchy (Schoultz and Flyghed, 2021; Simpson, 2019; Simpson et al., 2022; Sutherland, 1983; Taylor, 2018; White, 2019). Convenience is a concept that was mainly associated with efficiency in time and effort. Today, convenience is associated with a number of other characteristics, such as reduced effort and reduced pain. Convenience is linked to terms such as fast, easy, and safe. Convenience says something about attractiveness and accessibility. A convenient individual is not necessarily neither bad nor lazy. On the contrary, the person can be seen as smart and rational (Sundström and Radon, 2015).

Cowen et al. (2016: 152) suggested that employment contracts for CEOs should have a clause related to misconduct and wrongdoing:

For example, a claw back could be triggered by a financial restatement that happens after an executive's dismissal or by new evidence that surfaces indicating he or she engaged in misconduct while serving as CEO. Claw backs can also force terminated executives to repay benefits if there is evidence their actions have violated restrictive covenants.

The popular choice of strengthening the formalistic compliance function in organizations seems to be no substantive action (Eberl et al., 2015: 1207):

Internal rule adjustments have the potential to signal a voluntary willingness to change the moral standards of an organization, whereas simple compliance with external legal requirements may prove less effective.

Legalistic remedies do generally have little effect on integrity when they

are inconsistent with individual and cultural values. Integrity is the quality of acting in accordance with rules that are considered valid and relevant within the context in which the actor operates (Loyens et al., 2021). Trust refers to the acceptance of vulnerability to another's action (Baer et al., 2021). Trust cannot be reestablished by formal, legalistic measures.

Compliance functions are sometimes introduced in companies after being hit by a scandal followed by a crisis. A scandal refers to "an unexpected, publicly known, and harmful event that has high levels of initial uncertainty, interferes with the normal operation of an organization, and generates widespread, intuitive, and negative perceptions" externally (Bundy and Pfarrer, 2015: 350). A scandal can develop into a crisis, where a crisis refers to a fundamental threat to the organization, which is often characterized by ambiguity of cause, effect, and means of resolution (König et al., 2020). An example is the Icelandic seafood company Samherji that was involved in corruption for fishing rights outside the coast of Namibia. The scandal developed into a crisis, which led Samherji (2020) to announce a compliance program:

All operations in Namibia were stopped already in 2019. On 17 January 2020, Samherji announced that it was in the process of launching a modern state-of-the-art compliance program which is being implemented throughout our global organization this year. That work is already well underway. Samherji's ambition is to be a pioneer in compliance, governance and internal control within the global fisheries industries. Samherji will also proactively keep reaching out to relevant authorities that show dedication to mutual cooperation, offering assistance and cooperation during ongoing investigations into the Namibia-related allegations.

Antonsen and Madsen (2021) suggested a maturity model for the compliance function where the function matures from being reactive and inconsistent to becoming a proactive and integrated part of the company's business practice. They defined a number of key enablers of a compliance function in the areas of technology, coordination, policies and processes, resources, and business integrity.

Characteristics of Corporate Conformance

Conformance refers to meeting and potentially exceeding societal and other informal norms and obligations. Conformance characterizes voluntary actions that constitute a response to social and normative expectations (Durand et al., 2019; Rorie, 2015; Rorie et al., 2015). Conformance is a concept of delivering the results within acceptable limits set by requirements (Pedersen et al., 2013). The term conformance has the same meaning as conformity and similar meaning to congruence, agreement, and harmony. Conformance is behavior in accordance with socially accepted conventions. Conformance is keeping or changing beliefs, attitudes, actions, or perceptions to match those held by others whose approval is desirable.

Corporate business conformance is the ability of corporate processes to meet the desired and required specifications indicated by stakeholders. The specifications represent an interpretation of what stakeholders expect. The term stakeholder refers to someone with an interest or concern for something, especially in business (Gomulya and Mishina, 2017). A stakeholder is someone who can affect or be affected by the business, and a stakeholder is someone who associates with the business and does or does not derive utility from the association (Lange et al., 2022).

Acceptance of business operations is a matter of corporate conformance (Lewis and Carlos, 2022). Durand et al. (2019: 314) argued that institutional conformity adaptation to normative pressure is stronger than “the more traditional list of strategic responses to institutional pressures”. Normative institutional pressure is concerned with conformance, where deviance is disliked, disapproved or even dismissed (Witt et al., 2022). Deviance refers to deviant behaviors that violate social norms, values, obligations, and expectations. Conformance can represent a reaction to pressure that result from professionalization and socialization, and imply a collective process of establishing a shared base of values and norms.

Social conformance pressure can occur in the form of rating systems as discussed by Lewis and Carlos (2022: 1094):

Private citizens, social activists, and non-governmental organizations have long attempted to motivate improvements in organi-

zational performance, transparency, and accountability. To incentivize organizational change, these third parties often introduce evaluation metrics to harness the mechanism of reactivity, the idea that organizations will change their behavior in reaction to being evaluated, observed, or measured. One increasingly prevalent way these groups stimulate reactivity is by formally rating organizations based on their past performance.

While companies want to avoid bad ratings and strive for good ratings, it is not obvious that they want to move beyond the requirements from social conformance pressure. If a company is perceived as conformant, Lewis and Carlos (2022) found that recognized firms may question the perceived value of achieving superior performance. For example, companies that were rated as generous and charitable organizations tended to decrease philanthropic contributions relative to firms that were not rated as generous.

Social conformance pressure can originate with social actors who “might decide to intervene because they feel that a shared norm has been violated – often in ways that threaten morality, health, safety, or the wellbeing of society – even if no laws are broken” (Piazza et al., 2024: 253). Social control agents can have the legitimate authority to define specific conduct as right and wrong. In well-functioning organizations, “social control agents will often intervene so that the rule system is not upended” (Piazza et al., 2024: 250). Criminal law plays the role of a social control mechanism and so do a number of norms and values that are generally agreed upon. Social control agents include nonprofits, neighborhood associations, interest groups, labor organizations, members, agencies, authorities, media, and social movement organizations. Social control agents “discipline organizations and draw the line between appropriate organizational behavior and misconduct” (Cattani et al., 2024: 785). More social control reduces criminogenicity that refers to the tendency of committing crime. Corporate deviant power can be countered by social control (Haines et al., 2022). As argued by Uygur and Napier (2024: 569), “stakeholders are the agents or performers of social control”. Cattani et al. (2024: 785) studied social control agents and found that violations of rule-based norms tended to generate greater engagement and agreement among agents as compared to violations of value-based norms:

Violations of rule-based norms generate more agreement because such norms are less ambiguous, and ascertaining when they are violated is easier to establish.

Mechanisms for social control of organizational deviance are relevant here to prevent and to terminate organizational participation in cartel activities and other deviant acts. (Piazza et al., 2024: 251) discussed the notion of social control:

In its broadest sense, social control is the normative aspect of social life. As such, it encompasses a wide range of behaviors: law is social control, but so are etiquette, custom, ethics, bureaucracy (...) While it is understood by some as the totality of practices and arrangements that contribute to the maintenance of social order, social control is also used as an umbrella term for how deviant behavior within society is identified and addressed. As a result, the scope of social control as a phenomenon is remarkably broad – it includes not only legal, and highly formalized, types of sanctioning such as property seizures, prison sentences, and capital punishment but also peer pressure and informal ostracism. Importantly, theories of social control have also been concerned with how deviant behavior is channeled via various pathways through which deviant actors and social control agents can interact with the purpose of resolving conflict and adjudicating differences.

Social conformance pressure does not always work. Witt et al. (2022) studied nonconformity. Despite the prevalence of norms and conformance pressure, they found that dominant block holders, strong labor rights, and small organizational size are some of the reasons for potential under-conformity that sometimes occurs. Managerial discretion can also be a reason where executives are powerful actors with influence over board members.

Adapting to the homogeneity pressure rather than creating response strategies seems to be a more successful path to achieve acceptance among stakeholders Pedersen et al. (2013: 358) suggested that three types of pressures promote homogeneity within organizational fields: coercive (from regulatory bodies or holders of critical resources), mimetic (imitating successful organizations as a standard reaction to uncertainty), and normative (result-

ing from a professionalization of a field)”.

Lack of conformance tends to have immediate and serious consequences when revealed. People react when corporations pollute rivers, do business with authoritarian regimes, provide favors to government officials, look another way at money laundering, and commit other forms of wrongdoing that might never end up in the criminal justice system. People express their reactions in social media, in the press, and also on the street in demonstrations. People stop buying goods and services from violators, and they avoid doing business with violators in the role of vendors. They avoid employment at companies that lack conformance, and they remove from being shareholders. The consequences include market value loss, executive dismissals, unemployment, and bankruptcy in the worst of circumstances.

Even when incidents end up being prosecuted in the criminal justice system because of compliance violations, the immediate and serious reactions to conformance violations can be much more challenging to a company. At conformance violations, the situation can get completely out of control for the company, while the criminal justice systems provide a well-known framework to understand procedures and to contribute contradiction in the defense of own activities. As mentioned in the introduction, an important reason in the shift of main attention from compliance to conformance is the speed as well as severity of damage and harm from breaches and violations of conformance requirements as compared to violations of compliance requirements. While a legal process in the criminal justice system at corporate wrongdoing tends to last for years before a final outcome is reached, a social process in society at corporate misconduct tends to have serious consequences a few days after disclosure, exposure, and condemnation. An example is boycotts of companies quickly mobilized in social and traditional media as a reaction to corporate misconduct where sometimes “news sources distort the reality of crime” (Horn, 2023: 2). Therefore, while it might seem intuitively more serious to violate laws than norms for corporations, the difference between the two in terms of seriousness can in many cases in fact be in the opposite direction when looking at the extent of damage and harm to business activities and the destiny of executives. If issue salience reflects the seriousness of non-compliance versus non-conformance, then corporations tend to suffer more from non-conformance than from non-compliance.

Responding to pressure regarding norms, values, and ethical issues by adaptation is very different from responding by strategy. When responding by strategy, executives believe they can handle the situation by various forms of actual and symbolic means. Window-dressing is a typical example of symbolic means where management claims adherence to pressures without really acting accordingly. At window-dressing, there is no real substance. As mentioned previously, window-dressing is the act or the instance of making something appear better than it actually is (Desai, 2016).

An example of symbolism in many business organizations is the ceremonial adoption of a code of ethics potentially copied from other business organizations or implemented in the organization by external consultants. Symbolic conformance is very different from substantive conformance (Durand et al., 2019: 300):

Symbolic responses, on the one hand, describe managers' promises to engage in practice changes they have not yet implemented or may not implement, as well as nominal actions to produce impressions of more material change. Substantive responses, on the other hand, refer to managers' implementation of significant changes that involve material costs and are not easily reversible, such as revamping deep-seated practices and inefficient distribution processes, or buying and selling divisions. While such distinction in responses is well observed in practice and well established in the literature, bridging symbolic and substantive responses with conformity and compliance is a distinctive contribution of the model we propose.

Legitimacy is a characteristic of corporate conformance. Demuijnck and Fasterling (2016: 680) referred to legitimacy as "conformity to social norms, values or expectations". Neuberger et al. (2023: 68) referred to organizational legitimacy as "a general perception that an entity is appropriate in the context of a socially constructed system of norms, values, beliefs, and definitions" based on "a collective social evaluation – a shared perception of the organization – on the part of a specific audience or set of audiences". Legitimacy is a matter of alignment of values and actions with those of the company's stakeholders and society. Business activities are then considered legitimate in the eyes of society.

Sometimes, three forms of legitimacy are discussed. First, pragmatic legitimacy is based on the self-interested calculations of a company's most immediate stakeholders (Saenz, 2019: 297):

Pragmatic legitimacy is based on the self-interests of the public and is most often exchange or influential in nature. Under exchange legitimacy, society supports a company's policy based on the expected material benefits to the society, such as technological improvements or employment opportunities. Influential legitimacy is attained by being responsive to stakeholders and incorporating society's wider interests into the company's decision-making process.

Next, moral legitimacy is based on a positive normative evaluation of the company and its business activities (Saenz, 2019: 297):

Moral legitimacy hinges on whether a particular action is viewed as acceptable by a company's powerful stakeholders. Moral legitimacy is comprised of four aspects: consequential, procedural, personal, and structural legitimacy. Consequential legitimacy is result-oriented and is based on visible achievements such as increased employment, reduced emissions, and fewer numbers of workplace injuries. With procedural legitimacy, the focal point is not merely results of an action; rather, emphasis is placed on the morality surrounding the means to achieve a particular outcome. (...) Structural legitimacy is based on the company's identity and whether or not it forms a part of a 'morally favored taxonomic category', whereas personal legitimacy is dependent on the character of the company's leaders.

Melé and Armengou (2016) emphasized the importance of moral legitimacy that might be achieved if the intended end of business operations contributes to the common good, if the means of business operations are acceptable, if stakeholder concerns are respected, and if possible risk of damage is minimized.

The third and final form of legitimacy is cognitive legitimacy is based on a perception of the company as a natural phenomenon in the community that is conforming to established cultural norms (Saenz, 2019: 298):

Cognitive legitimacy can be split into two elements: comprehensibility and being taken for granted. The former attempts to make society understand the company through providing logical and easily understandable explanations for its actions and plans whereas the latter relies on the very existence of the company being taken for granted as an integral part of the social fabric.

When conformance results from professionalization and socialization in establishing a shared base of values and norms, professionalization refers to standards that guide individuals in their work, while socialization refers to learning through the appraisal of specific events and incidents how to behave in a way that is acceptable (Ashforth and Humphrey, 2022). Socialization of employees starts when entering the organization where new members learn the value system, the norms, and the required behavior pattern (Orudzheva et al., 2020). For example, some organizations mainly focus on cooperation among employees by extensive knowledge sharing, while other organizations find some forms of competition among employees to benefit the organization. Homogenization of employees tends to occur over time based on both professional and social expectations. This is fine as long as newcomers enter an organization that is recognized by conformance.

However, socialization when entering an organization characterized by institutional deterioration, misconduct, and crime will have the opposite effect by socialization into deviance as exemplified by outlaw biker clubs (Barker, 2011: 208):

The selection and socialization processes ensure the perpetuation of the deviant culture and values of crime and violence. Many clubs or club chapters only invite for membership prospects that demonstrate criminal propensities, some making the commission of crimes a prerequisite for membership. Given the selection and socialization processes, many clubs have evolved into social criminal organizations.

While outlaw biker clubs are extreme examples, some corporations suffer from institutional deterioration (Rodriguez et al., 2005). Normative institutional pressure might in such cases work to restore conformance as exemplified by case studies in this book.

In their model of organizational responses to normative pressures, Durand et al. (2019) proposed that a corporation may choose to respond to some issues but not to other issues based on varying assessment of issue salience as well as of resource mobilization. Some issues might be met with complete inaction; some might be met with symbolic action, while other issues might be met with substantive action. In the model, assessment of an issue as salient is a necessary but not sufficient condition for initiating a response. In addition, the cost-benefit ratio should be less than one for taking action.

The concept of stakeholders is important in our understanding of corporate conformance. As mentioned earlier, the term stakeholder refers to someone with an interest or concern for something, especially in business (Gomulya and Mishina, 2017). A stakeholder is someone who can affect or be affected by the business, and a stakeholder is someone who associates with the business and does or does not derive utility from the association (Lange et al., 2022).

The rise of social media, nongovernment organizations, as well as the knowledge level among citizens has led to the strengthening of stakeholder demands (Panda and Sangle, 2019: 1085):

As a result, firms often find themselves in conflicts. The cost of these conflicts for the firm is the opportunity cost of future projects due to loss of reputation, and for the stakeholders, it is the loss of opportunities, both social and economic, that could be brought by the projects. The tension between firms and stakeholders creates a dynamic environment where following compliance is not enough, and social acceptance is equally important as government licenses.

Generally, stakeholder theory is concerned with business performance and corporate management in the promotion of justifiable ways to perform and manage organizational matters during varying environmental situations. The theory supports business issues by assisting decisions in line with stakeholder expectations (Waheed and Zhang, 2022). Stakeholder theory argues in favor of cooperation, which refers to an actor's behavior that benefits another actor as the recipient.

Stakeholders self-identify with a company when they believe that they affect and are themselves affected by the actions of the company. Individ-

uals come to self-identify as a company's stakeholders based on their own perceptions (Alvarez and Sachs, 2023).

In addition to stakeholder theory, institutional theory as well as convenience theory can provide insights into corporate conformance. Institutional theory suggests that opportunities are shaped by individuals, groups, other organizations, as well as society at large. The theory argues that business enterprises are much more than simple tools and instruments to achieve financial goals and ambitions. The theory says that organizations are adaptable systems that search conformance as they recognize and learn from the environment by mirroring values in society (Brammer et al., 2012).

Convenience theory suggests that normative pressure to cause conformance will be successful among business organizations when conformance to the pressure seems more convenient than lack of conformance. As mentioned above, convenience is a concept that was mainly associated with efficiency in time and effort. Today, convenience is associated with a number of other characteristics, such as reduced effort and reduced pain. Convenience is linked to terms such as fast, easy, and safe. Convenience says something about attractiveness and accessibility. A convenient individual is not necessarily neither bad nor lazy. On the contrary, the person can be seen as smart and rational (Sundström and Radon, 2015). The convenience triangle consists of motive, opportunity, and willingness (Gottschalk, 2022). When the motive for conformance is strong, when the opportunity for conformance is attractive, and when the willingness for conformance is high, then conformance is more convenient than non-conformance.

While compliance is mainly a matter of opportunity restrictions in the convenience triangle, conformance addresses motive and willingness as well. In the motive dimension, conformance is a matter of pursuing possibilities and avoiding threats by being consisted with norms and values. Similarly, the willingness based on choice and justification remains consistent with norms and values.

In addition to the theoretical perspectives of stakeholders, institutions, and convenience, conformance is also a matter of corporate social responsibility (CSR). CSR refers to the state or fact of having a duty and obligation to deal with issues and take actions that generate societal benefits for all stake-

holders who are influenced by or influence corporate business (Sajko et al., 2021; Sorour et al., 2021). CSR is “actions on the part of firms that appear to advance, or acquiesce in the promotion of some social good beyond that which is required by law” (Bachrach et al., 2022: 533). To take on CSR means to pay back to society. Pay-back is the opposite of causing costs to society. CSR is supposed to be a self-regulatory mechanism whereby a business monitors and ensures its active conformance with the spirit of national and international norms. CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in the interaction with their stakeholders on a voluntary basis.

A distinction is typically made between symbolic and substantive CSR. Symbolic CSR refers to the adoption of low-cost activities intended to signal social responsibility without effectively benefiting anyone in society (Nardi, 2022: 283).

Drawing on research on decoupling and symbolic management, the literature generally defines symbolic CSR as any set of activities, practices, or initiatives intended to promote a firm as a socially responsible entity while lacking more tangible socioenvironmental action. Typically, symbolic CSR combines CSR communication efforts and low-cost activities with no relevant social benefits. As an example of a symbolic CSR initiative, a company may publicly announce the creation of an internal CSR committee that, although serving as a signal of social responsibility, never really acts to improve the firm’s performance in social or environmental dimensions. Symbolic CSR is also often associated with greenwashing or social washing, a practice whereby firms claim to be more environmentally or socially responsible than they in fact are.

In contrast to symbolic CSR, substantive CSR includes resource-intensive initiatives with the potential to generate societal benefits. Substantive CSR requires the application of valuable resources with real potential to benefit society (Nardi, 2022). Resources refer to enablers of benefits. Substantive responses imply implementation of significant changes that involve material costs and are not easily reversible. Substance refers to the real thing with unique properties. Substantive CSR can be characterized by giving, while symbolic CSR can be characterized by taking. Substantive CSR are

sincere efforts, while symbolic CSR are scripted efforts. Conformance based on symbolism rather than substantial efforts can be a risky endeavor for companies as detection and disclosure of window-dressing can lead to a scandal followed by a corporate crisis.

To be successful, corporate conformance should be characterized by substance rather than symbolism, and by adaptation rather than strategy. The company should strive for legitimacy, credibility, and trust. While legitimacy and trust have already been defined in this book, credibility refers to consistent provision of accurate information and fulfilment of commitments to the community. Credibility is achieved through morally defensible business relations that resemble implicit agreements or social contracts.

Weber and Stepien (2020) distinguished between passive conformance and proactive conformance in the case of sanctions against a country such as Russia, where the company is not on the sanction list. Passive conformance refers to reducing activities on the sanctioned market and using cash reserves to hibernate, while proactive conformance refers to establishing new markets and relocating activities. Case studies later in this book illustrate those two alternatives, where Mondelez did not withdraw from Russia, while Bestseller withdrew from Myanmar. None of them were violating sanctions, but Mondelez chose passive conformance, while Bestseller chose proactive conformance.

Corporate conformity does not need to be an obstacle for corporate differentiation where the business attempts to distinguish itself from its competitors. Difference “is especially rewarded when it conforms to popular expectations about what constitutes novelty”, and “organizations gain positive attention when they are moderately different from their competitors” (Gouvard et al., 2023: 783):

To gain legitimacy, organizations need to conform to fundamental audience expectations. Those that manage to do so while remaining distinct from their competitors are judged favorably by outside audiences.

When there is a gap between company opinion and opinion expressed by stakeholders, stakeholders are not always right. Conformance is thus not necessarily a matter of closing the gap by corporate adaptation to stake-

holder demands. Sometimes, stakeholders have to be challenged. However, CSR requires that the company succeeds in closing the gap in an active clarification and communication process with key stakeholders to secure the social license to operate as discussed below.

Characteristics of the Social License

As emphasized in the introduction, the shift of many executives' main attention in many corporations from compliance to conformance is the speed as well as severity of damage and harm from breaches and violations of the social license to operate as compared to violations of the legal license to operate. While a legal process in the criminal justice system at corporate wrongdoing tends to last for years before a final outcome is reached, a social process in society at corporate misconduct tends to have serious consequences a few days after disclosure, exposure, and condemnation. While a legal process is well-defined with opportunities for accused to defense by contradiction in the courtroom, a social process is normally out of control for the accused when a scandal develops into a crisis. While a scandal is a sudden harmful event (Bundy and Pfarrer, 2015), a crisis is a lasting threat to the corporation (König et al., 2020).

The legal license refers to compliance with laws, regulations, and rules that apply within a jurisdiction. The social license refers to conformance with norms, values, and guidelines that apply within the society (Demuijnck and Fasterling, 2016; Melé and Armengou, 2016; Saenz, 2019; Sale, 2021). The rise of social media, nongovernment organizations, as well as the knowledge level among citizens has led to the strengthening of stakeholder demands where "the tension between firms and stakeholders creates a dynamic environment where following compliance is not enough and social acceptance is equally important as government licenses" (Panda and Sangle, 2019: 1085). Corporate social responsibility is one of the important perspectives to close the gap between business and stakeholders to secure the social license to operate.

Thomson and Boutilier (2011) proposed a cumulative pyramid model of social license that emphasizes the independence and varying degrees of importance of three components: legitimacy, credibility, and trust. Accord-