

Anna Romberg

Is it not just common sense to do the right thing?

On corporate (mis)conduct, corporate governance
and management control in a Nordic context





Anna Romberg

Born 1979

Previous studies and degrees

Master in Economics and Business Administration, Åbo Akademi University, 2006

Bachelor in Business Administration, Sydväst Polytechnic, 2003

Anna Romberg is a corporate governance and compliance professional. She was responsible for the Anti-Bribery program at Telia Company AB and has worked with numerous global companies with governance and compliance related matters through her own business and as an executive. Anna is co-founder of the Nordic Business Ethics initiative (www.nordicbusinessethics.com) and has co-authored 'The Grey Zone – a practical guide to corporate conduct, compliance and business ethics'.

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Anna Romberg

Business Administration
Faculty of Social Sciences, Business and Economics
Åbo Akademi University
Åbo, Finland, 2021

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When was the last time I heard that it is very common to start off with a clear picture of what the problem is and how to solve it? As an aspiring researcher I was no different. From the perspective of a practitioner, I viewed corporate governance and management control as the solution for ethical challenges and corporate misconduct. Now, eight years later, I have arrived at a conclusion: before we can view corporate governance and management control as the solution, we have to ensure that it does not become part of the problem.

Even if a research project feels like a lonely journey, I could not have done it without so many amazing people around me. I can only imagine the patience required to share life with a person that rarely says no to a new challenge, who is juggling an international professional career, authoring a book, speaking engagements and trying to master an ambiguous research project. I could not have done this without my dear husband Christian at my side, always willing to listen and believe in me. Even if I doubted my capabilities to complete this project, he never did. He'd tell me, "with all that time invested into it, you should be done soon...". Thank you, Christian, for being such a patient and loving companion, thank you for sharing life with me.

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During these eight years, I have been excited and frustrated, motivated and discouraged and ultimately challenged by how little I know. How fascinating it is when theory illuminates reality, when a phenomenon makes perfect sense! For me, this was when I realised that ethical business will and should feel uncomfortable. How would it not when issues that have been ignored suddenly matter and when externalities such as the environment and society have a value that are not part of the financial statements?

The purpose of corporate governance and management control in this context is to enable and endure ethical struggles, to ensure that it is the system, not the individuals, that experiences frictions. Otherwise, the system will shield the ethical struggles and little will change, apart from individuals who may become disengaged, exhausted and move on. My belief is that companies and leaders that build resilience to navigate the grey zone and endure ethical struggles will have a competitive advantage as intensified scrutiny and increased regulation will keep raising the bar.

Barösund, December 2020

Anna Romberg

To all responsible leaders

Abstract

In the wake of a corporate scandal, stakeholders question how the misconduct, such as payment of bribes, enabling money laundering and management fraud, was possible. The organisations, their directors, managers and auditors, may be caught off guard because they have presumed that adequate governance and management control practices were in place. Especially in a Nordic context corporate conduct is perceived to be 'common sense', and employees are expected to somewhat intrinsically 'do the right thing'. Formal practices and ethics and compliance programmes may not be prioritised, but even when they are, formal programmes are not necessarily the solution, as they may become part of the problem in some instances.

Corporate scandals reveal that the management of Environment, Social and Governance (ESG) risks have, to some extent been, outsourced to active owners, investigative journalists and social interest groups. This study traces the internalisation process and implementation of improved corporate governance and management control in response to stakeholder expectations on ESG responsibilities. The study explores what happens in one organisation when a formal system, an ethics and compliance program (ECP), is implemented. The main question is how an ECP could be designed and implemented to have a lasting impact on corporate conduct and culture. One analytical framework and one practical framework for managing corporate (mis)conduct are proposed to respond to the main question. Both frameworks have theoretical and practical implications.

This study contributes to the literature on both management control and ethics and compliance and provides managerial and legislative implications. The ethics and compliance literature is complemented by proposing an integration of formal and informal ECP. An integrated ECP will surface information that is uncomfortable and will challenge existing beliefs, norms and practices and ethical corporate conduct will become more complex than just 'doing the right thing'. One purpose of management control is to reduce friction and streamline information. This study challenges this as frictions and ethical struggles are an essential part of the internalisation of ESG responsibilities and ECP implementation. The struggle theory (Kaptein, 2017) is complemented with a fourth struggle, the struggle to decouple, which refers to continuing formal ECP implementation whilst knowing that the work has little impact on the actual context and culture.

The key finding is that the implementation of renewed management control practices, i.e., an ECP, is not the solution for managing ESG risk and corporate (mis)conduct per se. In fact, an ECP may become part of the problem if the governance structures fail to accommodate the subjectivisation processes. The struggles and frictions are absorbed by individuals, and the ECP effectiveness depends more on the individual than on the ECP. The ECP, such as new policies and training, remains as isolated activities that provide false comfort and does not advance ethical corporate conduct into institutionalised practice.

Sammanfattning på svenska

Efter en företagsskandal står många frågande inför hur dessa oegentligheter såsom – mutbrott, penningtvätt och förskingring – har kunnat ske. Företagens styrelseledamöter, chefer och revisorer är förvånade eftersom dessa har antagit att företagets styr- och kontrollsystem varit tillräckliga. I en nordisk kontext kan affärsetik upplevas som sunt förnuft och medarbetare förväntas intuitivt fatta rätt beslut. Formella styr- och kontrollsystem, såsom system för etik och regelefterlevnad (ethics and compliance program; ECP), prioriteras nödvändigtvis inte. Där formella system prioriteras är det inte en självklarhet att dessa är en del av lösningen, utan de formella systemen kan även bli en del av problemet.

Många företagsskandaler påvisar att hanteringen av risker som gäller miljö, sociala frågor och bolagsstyrning (Environment, Social and Governance; ESG) till en viss del hanteras av externa parter såsom aktiva ägare, grävande journalister och sociala intressegrupper. Denna studie granskar hur företag internaliserar hanteringen av dessa risker. Studien undersöker effekterna av implementeringen av ett formellt system för etik och regelefterlevnad inom ett företag. Huvudfrågan är hur detta system kunde utformas och implementeras för att ha en varaktig påverkan på affärsbeteenden och -kulturen. Studien föreslår ett analytiskt ramverk och ett praktiskt ramverk som svar på denna huvudfråga. Båda ramverken har teoretiska och praktiska implikationer.

Denna studie har både praktiska och regulatoriska konsekvenser och bidrar till litteraturen gällande styr- och kontrollsystem samt litteraturen gällande etik och regelefterlevnad. Som en komplettering till litteratur gällande etik och regelefterlevnad föreslås en integration av formella och informella ECP. Ett integrerat ECP bidrar till att i vissa fall obekvämt information, som utmanar existerande övertygelser, normer och handlingssätt, synliggörs. Affärsetik blir mer komplext än att endast 'göra det som är rätt'. Ett huvudsyfte med styr- och kontrollsystem är att förenkla och effektivisera. Denna studie utmanar detta syfte eftersom friktioner och etiska dilemman är centrala för internaliseringen av ESG riskhantering samt vid ECP implementering. En fjärde dimension föreslås till "ethical struggle" teorin (Kaptein, 2017). Denna dimension beskriver en fränkoppling mellan formella aktiviteter och verklig påverkan. I praktiken betyder detta att man medvetet fortsätter med att implementera formell ECP, trots en vetskap om att arbetet har en obetydlig påverkan på verkliga affärsbeteenden och -kultur.

Implementering av nya styr- och kontrollsystem, såsom ECP, är inte i sig en lösning på etiska affärsföreteelser samt ESG riskhantering. Om systemen inte tar hänsyn till individualiseringsprocesser så kan ett ECP, såsom nya riktlinjer och utbildning, bli en del av problemen. Det etiska affärsbeteendet utvecklas inte till institutionell praxis då etiska dilemman och friktioner hanteras på individnivå och ECP förblir isolerade aktiviteter som inger en falsk trygghet.

List of abbreviations

ABC = Anti-Bribery and Corruption

CECO = Chief Ethics and Compliance Officer

DOJ = Department of Justice

E&C = Ethics and Compliance

ECP = Ethics and Compliance Program

ESG = Environmental, Social and Governance

GES = Global Engagement Services

LOC = Levers of Control

MCS = Management Control System

Keywords

Corporate Governance, Corporate Scandals, Environment, Social and Governance (ESG), Ethics and Compliance, Management Control Systems

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1. Introduction

“Right is right even if no one is doing it; wrong is wrong even if everyone is doing it.” — **Saint Augustine**

Corporate conduct, in particular misconduct, is a reoccurring theme in both the academic and the professional communities, where we see a continued stream of alleged misconduct, and the ethics of organisations and their managers are scrutinised and challenged. Stakeholders are questioning how the misconduct, such as payment of bribes and enabling money laundering and management fraud, is possible. The expectation is that organisations have governance and control systems in place to both prevent and detect this type of misconduct. The organisations, their directors, managers and auditors, may be taken off guard because they have presumed having adequate governance, management control systems and a good ‘corporate culture and values’ in place to prevent such conduct. Especially in a Nordic context, with a high level of public trust and transparency, corporate conduct is perceived to be ‘common sense’, and employees are expected to somewhat intrinsically ‘do the right thing’.

Recent scandals, such as the Telia Company AB (Telia) scandal explored in this thesis, reveal shortcomings in this regard. Failure and disappointment tend to be catalysts for the formation of new accounting objects, proposing improved governance and management systems and control as the solution (Power, 2015). The proposed improvements in Telia’s case were related to implementing an ethics and compliance program (ECP), focusing specifically on promoting anti-bribery policies and preventing corruption.

This thesis traces the implementation of improved corporate governance and management control as a response to stakeholder expectations on Environment, Social and Governance (ESG) responsibilities. The thesis explores what happens in organisations when a formal system for managing corporate conduct, in relation to ESG, is implemented. It is argued that a failure to acknowledge the complexities around corporate conduct in relation to corporate governance and management control may result in the system not only failing to become the solution but also, in fact, becoming part of the underlying problem. The work remains on the activity level with little lasting impact on employee conduct and corporate culture. The main question is, how an ECP could be designed to evolve from activities into institutionalised practice i.e., have a lasting impact on corporate

conduct and culture?

This thesis depicts the epistemological underpinnings for corporate conduct as an interplay between formal and informal ECPs. Apart from acknowledging this interplay a key driver for ensuring improved corporate conduct is to endure and, to some extent, to encourage frictions and struggles. The struggles may arise when the objectives of the formal and informal ECPs are misaligned. Frictions and struggles are however to be expected as a natural consequence of integrating stakeholder expectations and a longer-term perspective into the business operations and decision-making processes. What is legal is not always the right thing to do, and the decisions that are made today relate to the corporate scandals that will surface in five years' time. This part of the operation is commonly not accounted for in the financial statements, although a failure to manage corporate conduct risk may have a significant financial impact on the company when the invisible debt materialises, as in the Telia case.

The origin of this thesis can be traced to my observations and frustrations as an audit and management control professional in late 2000s. I was working then at the Swedish telecommunications company Telia within its internal audit department. I had been tasked with setting up the internal audit operations within the Eurasian region and it was a fascinating time, both professionally and personally. The business operations were booming in countries such as Azerbaijan, Kazakhstan, Tajikistan and Uzbekistan, which were exciting countries to visit for an adventurous soul. I remember my first trip to the region, to Almaty in Kazakhstan, where I had to use a map to locate my destination. That country, which proved to be rich in heritage, culture and cuisine, did not exist when I had studied geography.

During my trips in the region I observed how governance and control systems were implemented for financial reporting related risks, however left 'non-financial' risks unattended creating an invisible debt for the company. A debt that after a few years would come to be exposed in the media, leading to a corporate scandal of global proportions. The subsequent years and experiences that followed provided both a professional and intellectual challenge and a fertile breeding ground for this research project.

The professional experience of the limitations of management control practices and systems, towards what I then labelled as 'non-financial risk management', led me to search for alternative paths to make sense of what I was experiencing. My initial research question regarded how we, as management control professionals, understand and deploy systems for controlling 'non-financial risk', especially in Nordic organisations with a decentralised and trust-based approach

towards corporate governance. The concept of ‘non-financial risk’ would subsequently evolve into Environment, Social and Governance (ESG) and the ethical and behavioural aspects of the organisation, i.e., to corporate conduct and, more specifically, to managing the risk for corporate misconduct. An area that is becoming more regulated in response to corporate scandals.

1.1. Approach and structure of the thesis

This thesis consists of a compilation of three research papers that trace the formation of an accounting object, an ECP, through mixed methods. Figure 1 visualises how the research moves from a macrolevel perspective, shareholder expectations, to an organisational response and, finally, to a microlevel perspective, employee conduct.

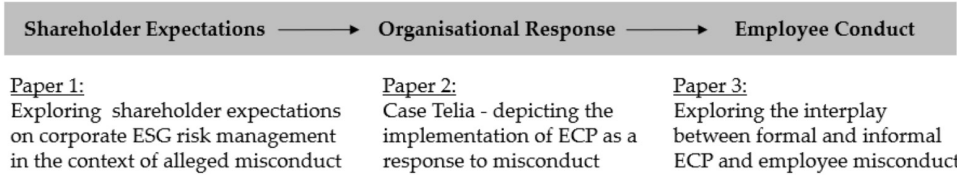


Figure 1. Overview of research perspective and papers

One consideration at the outset was to perform multiple in-depth case studies; another consideration was to perform a qualitative study on the implementation of an ECP in several companies. These considerations were not pursued due to the unique access to the Telia case and a decision to explore various perspectives. Mixed methods were considered the most appropriate approach, considering the multifaceted discipline of corporate conduct, the various perspectives and levels of analysis and my unique access to the case as an actor and observer. Table 1 details each perspective’s unique epistemological insights into the formation of an ECP to manage corporate conduct.

Table 1. Generating theory through mixed methods

Paper	Perspective	Level of analysis	Unit of analysis	Method
1	Field-level	Shareholder expectations	Organisations subject to allegations of misconduct	Qualitative content analysis of secondary data
2	Organisational level	Company response to external expectations	Telia ECP (i.e., management control system)	Single descriptive case study, participant observation and action research
3	Employee level	Employee perception and conduct	Employees in various organisations	Analysis of survey data through quantitative methods

As a devoted corporate governance and management accounting scholar and ethics and compliance (E&C) professional, my passion is to bridge theory and practice. As such, the objective of this research is twofold: to inform management control and ECP theory and to contribute to ECP design in practice, especially in a Nordic context.

This thesis consists of a compilation of three research papers that are referred to throughout the thesis, in particular in chapters 2, 4, 5 and 7. The papers are enclosed at the end of the thesis. Chapter 3 presents the theoretical landscape and chapter 4 the empirical settings and methods. As a response to the research question and objective one analytical framework and one practical framework for managing corporate (mis)conduct are presented in chapter 5. The theoretical and practical contributions are presented in the concluding chapter 6.

1.2. List of original publications

I Romberg, A. (2020). Nordic Private Shareholder Engagement as an ESG Risk Management Strategy – From Agents to Stewards. *Nordic Journal of Business*. 69 (4): 23-38.

II Holmberg, I., Romberg, A. and Ahlberg, M. (2017). Telia Company - Paving the Way for Responsible Business. *SSE Working Paper Series in Business Administration*, Stockholm School of Economics. No 2017:6.

III Romberg, A. and Sihvonen, S. (2020). Employee misconduct and ethics and compliance programs in Nordic organisations - on the interplay between formal and informal control. *Under review by Accounting, Auditing and Accountability Journal*. (ISSN: 0951-3574)

1.3. Contributions by the author

The following outlines my contribution to the co-authored papers.

II Main author of the Telia case description. Introducing ethical struggles and frictions into the case narrative.

III Developing research questions and the theoretical framework, identifying current research and gaps, supporting data analysis (second author main responsible) as well as main writer of discussion and conclusions.

2. Embarking on a journey

The Telia case is a watershed moment in both my academic and corporate career, so the thesis summary is auto-ethnographical in some parts. This chapter presents my journey as a researcher and the evolvement of the research questions.

2.1. Initial ideas and ‘non-financial’ risk management

When working at Telia from 2007 to 2016, I experienced the corruption scandal that evolved from within and eventually would cost the company at least MUSD 965¹ and an exit from the Eurasian markets. As a former US-listed company, Telia had deployed a formal internal control framework over financial reporting, and much effort had been put into maintaining and developing this framework.

After establishing the internal audit operations in the Eurasian region, I was tasked with a project manager role to update the internal control framework. I was intrigued by the fact that so much effort was put into controlling the ‘financial reporting dimension’ of the company, while the ‘non-financial aspects’ were not specifically included in the formal controlling framework. My years travelling in the Eurasian region had opened my eyes to corporate conduct-related risks such as corruption and fraud, which I labelled then as ‘non-financial risks’ because they were not directly related to the financial reporting and numbers governed by International Financial Reporting Standards (IFRS) and financial statement auditing procedures. That led me to explore the concept of ‘non-financial risk management’ from an academic viewpoint, and my first research question aimed to understand, ‘how could the internal control frameworks for financial reporting be utilised to support the control of non-financial risks?’.

I was exploring traditional management control literature from a theoretical perspective, such as the Simons (1995) levers of control (LOC) framework and the Malmi and Brown (2008) management control systems (MCS) as a package, to gain knowledge about the design and deployment of management control systems. I continued to read about corporate responsibility and understood that we knew little about the role of management control systems in advancing corporate responsibility (Arjaliès and Mundy, 2013).

1 On September 21, 2017, Telia announced it had agreed to pay MUSD 965 to settle U.S. and European criminal and civil charges relating to paying bribes to win business in Uzbekistan <https://www.teliacompany.com/en/news/press-releases/2017/9/telia-company-reaches-a-global-settlement-with-the-authorities-regarding-uzbekistan-investigation/>

My theoretical exploration gradually transitioned towards Ethics and Compliance (E&C)-related literature, and I remember how I excitedly called the group General Counsel at Telia in late 2012 and explained my recent discoveries to him, relating how companies respond to allegations of misconduct by implementing formalised ECPs. At the same time there was an ongoing intensive debate in the media about alleged corruption and fraud in Telia's Eurasian operations, which some investigative TV shows had spurred. It was alleged that Telia had paid bribes to enter the Uzbek market and that human rights were violated in Azerbaijan.

The company had deployed a 'sustainability action programme' during the autumn of 2012 and engaged an external law firm to conduct an independent review of its Uzbek market entry to respond to the criticism. My research had concurrently taken me deeper into the world of E&C, and I was studying how companies deploy an ECP as a response to stakeholder expectations on ethical corporate conduct (e.g., Weber and Wasieleski, 2013; Treviño et al., 2014). I was also learning more as a practitioner about the regulatory requirements, e.g., in the US and UK, to deploy such a program to proactively manage the risk for corruption.

2.2. Integrating a perspective on shareholder activism

My research question evolved during 2013 from having an internal control focus to having a focus on stakeholder expectations on the control of ESG-related risks. I received access to data from Global Engagement Services (GES), data that portrayed the dialogue between companies accused of ethical misconduct and GES, an intermediary for investors wanting to understand and influence corporate conduct and practices.

The research aimed to advance the understanding of how shareholders, through the private engagement dialogue, aspire to impact the risk management processes of companies subject to allegations of misconduct. It explored the themes arising from these dialogues to advance the understanding of shareholder impact on corporate risk management processes in the context of alleged misconduct. The research resulted in the paper, *"Nordic shareholder engagement as an ESG risk management strategy – from agents to stewards"*, that I presented at two conferences in Montreal (October 2014) and in Brussels (April 2015). An updated version of the conference paper has been published in the Nordic Journal of Business in December 2020.

My theoretical understanding of the limitations of the agency theory was broadened, because the data showed me that stakeholders expect the company managers to be both agents and stewards. Promoting stewardship behaviours may benefit not only an organisation and its actors but also the owners and wider stakeholders (Donaldson, 2008; Donaldson and Davis, 1991). The stewardship theory presumes an

understanding and responsibility to steward such joint assets as the environment and the society where the companies operate.

The companies that were subject to the engagement dialogue facilitated by GES were challenged in this regard to be both agents and stewards catering to stakeholder and ethical expectations and risk. In contrast to financial risk management, whereby the consequences for failure can be measured and reported as part of the financial statements, the consequences of ESG risk management and ethical failures are largely external to the corporation or on a longer time horizon, building an 'invisible debt' that is not reflected in a company's balance sheet (Sveiby, 1990). Telia was being heavily scrutinised by stakeholders, such as shareholders, the media and regulators, for its lack of stewardship in the Eurasian region even as I was exploring the engagement literature and shareholder activism from a theoretical standpoint.

2.3. Implementing ECP and enduring struggles at Telia

I was immersed in theory and practice during the autumn of 2013 and put my research on hold for a period to take lead of Telia's global anti-corruption compliance program. Telia established an Ethics and Compliance (E&C) function to drive the work and employed a Chief Ethics and Compliance Officer (CECO) who became my manager. I was thrilled for this opportunity, not only because I have a passion for change management projects and challenging markets but also because my academic endeavour had brought me from the world of management accounting into the world of E&C, and I saw an opportunity to professionally move into this field.

The period that would follow would be very intense, because Telia received a letter from the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC) in the spring of 2014. Michaela Ahlberg, Telia CECO, and I knew that the ECP relating to anti-corruption that we were implementing was going to be assessed and judged by the most advanced regulators in the world. We understood that the adequacy and effectiveness the ECP would be tested in real time. I found myself travelling between the Eurasian countries and Washington D.C. during the next few years to implement and defend the anti-corruption ECP. During this period I became intrigued by the actual impact from our work and the phenomena arising from within the organisation.

We experienced both victories and setbacks during the practical implementation work and were particularly puzzled by the frictions and struggles that we experienced. We knew we were doing the right thing for the company, its management and its shareholders and were being scrutinised real time by the regulators. At the same time we had to battle issues such as engaging third parties rejected in the due diligence process, continuing sponsorships of governmental institutions and severely

delayed implementation of disciplinary actions. We wondered whether we were doing something wrong and whether the program that we were vigorously implementing would have any lasting impact. Implementing an ECP under duress and regulatory scrutiny is an intense effort, and the reading of academic papers gave me and the Telia CECO tools to cope with the stress and understand the underlying phenomena.

Reading Kaptein's work (2017²), which implies that ethical struggles are necessary for an organization to be and stay ethical, provided a relief and further motivation for our work. We understood that the struggles and frictions we were experiencing were signs not of failures but of change actually happening. Kaptein (2017) argues that not only is struggle required due to the pressures and temptations that coexist within an organisation but also that the issue is not the struggle and that organisations do not struggle enough. I refined my research question following this insight into depicting 'what happens in an organisation when a formal system for controlling corporate conduct is implemented?'

A vital part of the work at Telia was to transparently share lessons learned and the evolving practice. The CECO and I were both frequent speakers at various events and seminars to advance this. We arranged, together with Ingalill Holmberg from the Stockholm School of Economics, a responsible business roundtable series in which activities and evolving practice around responsible business were shared and discussed with a group of collaborating partners³. An outcome of these discussions was that we co-authored and presented a Telia case study at a roundtable discussion co-hosted by Stanford University and the Nordic Innovation House in Palo Alto in November 2017.

The case study "*Telia Case Study- Paving the way for responsible business*" was published in 2017 in the SSE Working Paper Series in Business Administration (Telia Case, 2017). A refined version, "*Case Telia - Addressing (ir)responsible business behaviour*", was made available online in 2019 (Telia Case, 2019). Telia Case 2017 is enclosed to this thesis.

2.4. Intrigued by actual impact - an employee perspective

The two first papers focus on corporate governance and management control from the shareholders' and organisation's perspective. I found myself lacking one piece of the puzzle, the employee perspective. The Telia case also made it very evident that the implementation of formal ECP

2 The article, "The Battle for Business Ethics: A Struggle Theory", was first available online in August 2015.

3 Collaborating partners in the 2016-2017 roundtable series were EQT, Telia Company and Stora Enso and VINNOVA, <https://www.hhs.se/en/about-us/news/center-for-advanced-studies-in-leadership/2016/vinnova---round-table/>

cannot be done in isolation from more informal aspects, e.g., what is said and done in practice in contrast to formal policy and training. I observed the crucial role of an informal ECP as part of the problematization and subjectification process in the Telia case.

An ECP's ultimate goal is to influence employee conduct, so I decided to conduct a final research project on the interplay between formal and informal ECPs and employee conduct. Together with Niina Ratsula, a business ethics professional and researcher, we conducted the Nordic Business Ethics Survey⁴ in spring 2019. The survey data were gathered in collaboration with TNS Kantar⁵; 1.506 responses were gathered from employees in the public and private sectors in Finland, Norway and Sweden. The survey asked employees about how ethical misconduct is displayed and managed within their organisations.

The general results were published in April 2019, revealing that a majority of employees do not speak up when witnessing ethical misconduct at their workplaces and that those who break the rules do so mainly because their manager asked them to. The published results presented a simplistic view of the responses, omitting analysis of the composition of formal and informal ECP and correlations. The data also provided for applying an unexplored gender lens.

To provide for further analysis of the data I developed a theoretical framework for analysing the interplay between informal and formal ECPs and employee conduct in terms of observing misconduct, reacting to misconduct, and personally engaging in misconduct. The framework was applied to the data with the support of PhD and researcher Siru Sihvonen, who conducted the quantitative data analysis. Our conclusions from the research are presented in a co-authored paper, *“Employee misconduct and ethics and compliance programs in Nordic organisations - on the interplay between formal and informal control”*, the paper is finalised and in a submission process for peer-review and publication. The conclusions from this research have been further refined when developing the practical framework, i.e., the integrated ECP presented in this thesis summary.

4 <https://www.nordicbusinessethics.com/survey/>

5 <https://www.tnsglobal.com/>

3. Exploring the theoretical landscape

This chapter discusses ontological and epistemological considerations in relation to management control in general and the design of ethics and compliance programs in particular.

3.1. Management control: ontological and epistemological underpinnings

This research focuses on organisational conduct or, more precisely, misconduct as expressed through corporate scandals and employee conduct. Four main perspectives can be applied within the functionalist organisation theory: action frame of reference, theories of bureaucratic dysfunctions, social system theory and objectivism. The social systems theory expresses the most objectivist perspective and is also the one most commonly applied. The social systems theory describes the organisational context as a concrete natural phenomenon with an evident causal relationship of cause and effect. The employees are viewed as passive actors, wherein the context should be in focus when attempting to control corporate conduct (Burrell and Morgan, 1979).

The study of corporate conduct can, according to Burrell and Morgan (1979), be approached from three complementary perspectives: the formal organisation, the sociology of organisations and the conduct of individuals within an organisation. The classical school of management and administration theory studies formal organisations through managerial problems and outcomes in practice (Burrell and Morgan, 1979).

The sociology of organisations and the bureaucracy theory proposed by Max Weber (1978) focus on organisations from a sociological rather than a managerial perspective. This approach allocates tasks as official duties, and written rules govern employee conduct. Chester Barnard (1938) takes a more psychological perspective and studies individuals' conduct within an organisation. Barnard (1938) applies a systems perspective to organisations, a system that is both formal and informal in nature, to understand the complexities relating to employee conduct.

Barnard defines formal organisations as "organic and evolving social systems" (1945: 178) that comprise informal groups that form the informal organisation. His conclusion is that efficient and effective management is ultimately about managing the relationship between the complementary formal and informal organisation (Barnard, 1945). A vital role for leaders is to enforce responsibility, defined by Barnard as the "quality which gives dependability and determination to human conduct, and foresight and ideality to purpose" (1938: 260). Drawing upon this, organisations could talk about delegation of responsibility in contrast to

delegation of authority (Wolf, 1973).

I have been inspired by the work of Chester Barnard due not only to the nature of his ideas in relation to the formal and informal organisation but also to the context in which these ideas were born. Barnard also developed his ideas based on practical observations while working as an executive at AT&T (the telecommunications company).

Golding (1991) presumes an ontological position in which the reality is a product of individual consciousness. According to this view, management control is described as routines, patterns and a sense-making activity. The organisational world is constructed by actors involved in symbolic interactions in which daily tasks form systems of rituals and patterns of control, labelled 'artful practice' by ethnomethodologists.

The phenomenological symbolic interactionists emphasise the context in which the interaction occurs, in contrast to ethnomethodologists, who focus on the individual's sense-making process. The employees are, at least partially, constrained by the context in contrast to having an unconditional free will (Golding, 1991). The informal context should be assessed and understood to ensure that the Ethics and Compliance Program (ECP) has an actual impact (Smith-Crowe et al., 2015). Thus, I find it important to focus not only on the actors but also on the context when developing the analytical framework presented in this thesis summary.

3.2. Management control and employee conduct

A management control system (MCS) is integral to functionalist organisation and social system theory (Burrell and Morgan, 1979). Malmi and Brown (2008) argue that the desire to direct employees' conduct and decisions through systems, rules, practices, values and other activities is at the core of management control. This demonstrates an evolvement from a conventional, functionalist-based approach (Anthony, 1965) towards a more sociologically orientated management control approach. Malmi and Brown (2008) distinguish between systems designed for decision-making purposes and systems designed for directing employee behaviour and regard the latter as management control system (MCS).

A set of MCS aimed at directing employee behaviour is viewed in an organisational context as a 'package of systems' comprising various control components, e.g., cultural, planning, cybernetic, reward and compensation and administrative controls (Malmi and Brown, 2008). Planning controls are described as an ex-ante form of control for initially setting an organisation's goals and then setting the standards against which these goals should be measured. Planning and cybernetic controls can similarly be used either to inform the managers' decision making or to alter and direct employees' decision making through, e.g., budget and measurement systems. Administrative controls use both governance and

decision-making structures and specific policies and procedures to control employee behaviour (Malmi and Brown, 2008).

Research has called for more insight about the interrelationships and correlation between MCS and the various components in MCS packages (Malmi and Brown, 2008) or about the interactive effects of formal and informal components, especially with regard to specific components (Kaptein, 2015; Smith-Crowe et al. 2015). The levers of control (LOC) framework developed by Simons (1995) define a four-layered management control system that taps into the positive and negative forces of controlling and managing the business strategy. The belief system and the interactive system are driving the positive aspects, whereas the boundary system and the diagnostic control system are defined as more negative. Otley (1999) builds on the LOC and develops a more dynamic management framework by integrating considerations of organizational objectives, the importance of strategies and plans, performance setting, reward systems and information flows to monitor performance.

Ferreira and Otley (2009) further refine the LOC and present a framework that include aspects of informal control and is arguably less top-management focused and is a better fit for general implementation throughout global operations. The theory proposed by Power (2015) allows for tracing the process of change, emergence and implementation, in contrast to the management control theories proposed by, e.g., Ferreira and Otley (2009), Otley (1999) and Simons (1995).

Power (2015) presents four phases in the emergence of new accounting forms initiated by *policy object formation* at the field level, transitioning into *object elaboration* on an organisational level through, e.g., the design of a formal ECP, then moving on to *activity orchestration* that will transition over time into *infrastructure* and practice stabilisation through new roles, oversight and data collection. The policy object, i.e., responsible corporate conduct, is reproduced through structures and routines with the aim of creating a “new normativity or performance capability at the centre of the organisation” (Power, 2015: 50).

The organisational agents are reconfigured throughout this process to relate to the new infrastructure through a *subjectivisation* process, in which actors such as employees now operate in a context where they are able to relate to the norms that consequently may influence decision making and action (Ahrens and Chapman, 2007). Power (2015) emphasises the importance of understanding the subjectivisation process in creating a new infrastructure that “permeates the organisation, generating visibilities and orientations which are hard-wired into the routines and governance systems” (Power, 2015: 52).

Reflecting on the issue of emergence, Power (2015) argues that new accounting objects and systems tend to build on disappointment and a

promise of improvement through the construction of a new 'performance object'. The implementation of the ECP as a performance object in this research was initiated as a response to stakeholder and regulatory expectations. As such, the theory proposed by Power (2015), allowing for understanding the issue of emergence and process, was deemed the most appropriate theoretical lens in this research.

3.3. The rise of ethics and compliance programs

An ECP can be defined as the formal or tangible as well as the informal organisational control systems designed to create an ethical culture and, directly or indirectly, to impede unethical conduct and promote ethical conduct (Kaptein, 2015). The ECP as a 'performance object' has its roots in U.S regulatory requirements and the introduction of laws and regulations such as the Foreign Corrupt Practices Act⁶ of 1977, Sarbanes-Oxley Act⁷ of 2002 and U.S. Organization Sentencing Guidelines⁸ of 1991 (amended in 2004 and 2010) (Weber and Wasieleski, 2013). Following the US approach, European legislation such as the UK Bribery Act⁹ of 2010, French Sapin II¹⁰ of 2016 and amendment of the Spanish Criminal Code¹¹ in 2015, as well as the UK Modern Slavery Act¹² of 2015, increasingly expects companies to implement ECP and 'adequate procedures' to drive ethical and compliant corporate conduct.

Some research studies indicate that an MCS should be kept relatively simple and do not necessarily need to be formalised (Sandelin, 2008; Lukka and Granlund 2003). Other studies advocate for a more formalised approach, arguing that the lack of a formal MCS may restrain growth and even cause firms to fail, especially in hostile and turbulent environments (Davila, 2005). It could be argued in relation to ECP implementation that the importance of the formal ECP increases in a growth firm and an emerging-market context (Davila, 2005) and in a context with informal pressures for misconduct (Smith-Crowe et al., 2015). Research also indicates that the value of a formal ECP may go beyond responding to regulatory requirements, because employees in companies that have implemented a formal ECP are more likely to do the right thing, seek advice and speak up in case of concerns (Weaver and Treviño, 1999) and, arguably, unethical conduct happens less in organisations that have

6 <https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act>

7 <http://www.soxlaw.com/>

8 <https://www.ussc.gov/guidelines/organizational-guidelines>

9 <https://www.legislation.gov.uk/ukpga/2010/23/contents>

10 http://www.cjoint.com/doc/16_12/FLknuHuFltM_loisapin2.pdf

11 <http://www.boe.es/buscar/doc.php?id=BOE-A-2010-9953>

12 <http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

implemented a formal ECP (Kaptein, 2015). Smith-Crowe et al. (2015) distinguish between the effects of formal and informal systems and argue that formal systems are those that “pull the employee to do right and informal systems that push the employee to do wrong” (pg.792).

Ruiz et al. (2015) argue that the cultural and national contexts should be considered when designing an ECP and raise consistency between various organisational practices and systems as a key component for success. This will require not only implementation of a formal ECP but also understanding the informal structures, such as culture, management behaviour, discussion of dilemmas and level of transparency, throughout the operations. Sandelin (2008) links formal and informal control in a growth-firm context and finds a reduced need for a formal MCS if coherence exists between the formal and informal components. The results and outcomes may be equally satisfactory, even if an ECP may be designed and implemented in a variety of ways with both formal and informal components. A tailored approach depending on the context and the coherence of the components is key for ECP effectiveness (Malmi and Brown, 2008; Sandelin, 2008). One component, such as reward and compensation, may be perceived as effective when studied in isolation, e.g., sales incentives may result in increased revenue but may have a detrimental effect on ethical conduct through, e.g., facilitating sales by extravagant hospitality and gifts to customer. The effectiveness of the ECP is thus not a matter of pure design but its outcome is more dependent on internal coherence between the formal and informal ECP. The distinction between formal and informal ECP components is not always straightforward, however, and there may be formal and informal aspects of the same components (Smith-Crowe et al., 2015).

3.3.1. Formal and informal ECP components

Formal ECP components are those that are documented and could be assessed by an independent party (Tenbrunsel et al., 2003), whilst informal components are, for example, when people are promoted or rewarded in contradiction with the stated ethical intent as well as management decisions and discussions undermining the importance of ethics, (Smith-Crowe et al, 2015). Kaptein (2015) has explored the construction of a formal ECP consisting of the following nine components: accountability policies, code of ethics, ethics officer, ethics report line, incentive policies, investigation and correction policies, monitoring and auditing, training and communication and pre-employment screening of prospective employees.

Kaptein (2015) further explores the preferred design, composition and sequence of the components and concludes that five components – code of ethics, training and communication, accountability policies, monitoring

and auditing and investigation and correction policies – have a direct, negative relationship with ethical behaviour. The ethics officer, ethics report line and ethics policies components are found to have an indirect negative relationship with unethical behaviour.

Weaver et al. (1999) conducted an empirical study regarding ethics and compliance work in Fortune 1000 companies. This study identified formal ECP components such as the ethics policy statement, requirement of employee certification, personnel and organisation, monitoring activities, standardised procedures for handling and investigating concerns, whistleblowing system, top management involvement and communication and training. The authors conclude that a high degree of formal implementation exists among the researched companies, such as having a code of ethics and policy documents in place. However, there may be great variety in how these formal components are implemented and followed in practice; thus, the sole reliance on a formal program is insufficient to ensure ethical business conduct (Weaver et al., 1999).

Management control is socially constructed and maintained according to Golding (1991). Communication is used as an example of the hierarchical construct of management control (Golding, 1991); communication is also an integral component of an ECP. In the context of an ECP, it is not only about the formal communication campaigns and training, but it is also, more importantly, about understanding the informal communication channels. For example, employees may feel insecure about which topics can be discussed within the teams and whether to raise concerns due to an ambiguity about 'who knows what'.

Information is either a powerful tool or a real threat for creating a unified view of social reality for 'those who manage' if meaning is socially constructed through the interaction of the actors involved. A central ECP component is 'tone at the top' as a tool for creating organisational identity (Amernic et al., 2010; Heracleous and Barrett, 2001). The display and definition of 'tone at the top' may vary between organisations despite it being recognised as key by both academia and regulators. Broadly speaking, 'tone at the top' is ultimately a core element of how the informal ECP is manifested, but it can also be seen in a formal ECP, e.g., resource and budget allocation.

The framework proposed by Ferreira and Otley (2009) includes clarifications on vision and mission, how the objectives are brought to the attention of managers and employees and how the system actually is used in practice. Having a code of conduct, an anti-bribery policy and a formal trainings does not matter if what is actually done in practice does not correspond to the formal statements. Research studies indicate that distinguishing between what is said (formal) and what is actually done (informal) in terms of an ECP may have a detrimental, decoupling effect.

A decoupled ECP can lead to misconduct in organisations by creating a façade that protects the misconduct from being detected, supports the normalisation of misconduct and weakens employees' perceptions of compliance to ethical norms and standards (MacLean et al., 2015; MacLean and Benham, 2010; Treviño et al., 1999).

Decoupling also has a potentially significant impact on individual behaviours regarding how the formal program is perceived compared to how it is formally designed and is critical for program effectiveness (MacLean et al., 2015). Working in a decoupled environment may lead to frictions and struggles for employees who are instructed to do one thing while seeing the opposite behavior being rewarded and praised. Understanding the origin and role of ethical struggles is fundamental to ECP design and effectiveness.

3.3.2. Ethical stewardship and struggles

The increased social pressure on corporate conduct in relation to the environment, society and social well-being of employees has implications for the MCS (Granlund and Lukka, 1998; Gond and Herrbach, 2006). Ethical corporate conduct presumes taking responsibility for the long-term consequences and externalities, such as the environmental and social impacts of the business operations. Johanson et al. (2019) argue that a critical success factor for implementation of a [performance] management system is integration of both financial and non-financial factors.

Companies are expected to be stewards, emphasising more long-term and sustainable goals in contrast to short-term and individual goals (Hernandez, 2012). The antecedent is a belief that stewardship behaviours benefit not only the organisation and its actors but also stakeholders and the wider society (Donaldson, 2008; Donaldson and Davis, 1991). Little is known about which organisational factors influence stewardship behaviour in organisations; previous theories have also focused on theorisation rather than on providing practical insights into how to actually sustain stewardship behaviour in organisations (Hernandez, 2012).

The increased expectations for ethical conduct lead to tensions in organisations arising from conflicts between the expectations for financial results and environmental and social responsibilities, from conflicts from corporate level activities and programs that do not address the sustainability issues at a systemic or societal level, and conflicts between organisational and individual objectives and desires (Hahn et al., 2015).

Frictions may arise not only due to conflicting external stakeholder expectations but also due to conflicting internal stakeholder expectations (Johanson et al., 2019). It is argued within Hahn et al.'s (2015) framework that managers need to acknowledge and integrate the tensions within

the decision-making processes when confronted with complex situations relating to sustainability. The tensions should be embraced instead of ignored or removed, e.g., through prioritising one aspect over another. This view is consistent with the struggle theory (Kaptein, 2017) that argues that such struggling is required due to the tensions and ethical dilemmas that coexist within an organisation.

Kaptein (2017) identifies three struggle levels: the struggle against unethical behaviour and breach of existing ethical norms, the struggle to improve and the struggle to meet the emerging demands. The struggle may also exist on different dimensions, such as between individuals or organisational parts, as a one- time struggle or one with a longer duration that varies in intensity over time. Kaptein (2017) proposes that the lack of success in an ECP implementation may be due to organisations and individuals not struggling enough, because struggles do not undermine the legitimacy of the ECP but demonstrate it (Treviño et al. 2014).

The ethics officer or other persons in key positions may experience exhaustion or helplessness if their organisation has undergone a significant ethical crisis. Wisdom is to know when to struggle and when to stop struggling. The challenge is for managers to realise that it is not a managerial failure when a struggle exists and to know when to struggle and when to give in. However, little is known of the nature and origin of struggle on either the organisational or the individual level (Kaptein, 2017).

Corporations should not only become ethical but stay ethical, because an ethics gap may form (Hahn et al., 2015) if their actual conduct starts slipping. The struggle theory argues that an ethics gap exists and grows due to the lack of ethical struggles against the pressures and temptations arising from the external context, such as shareholders and market expectations, and from within the organisation through conflicting goals, individualism and a wish to conform (Kaptein, 2017). Organisations should keep struggling to remain ethical, which could facilitate stewardship through creation of psychological ownership and commitment (Hernandez, 2012).

Intergenerational decision-making deal with bringing distant and future consequences from decisions closer to the decision making and decision makers. This presumes seeking for transformational leadership and an understanding of the social network in which the leaders operate, in which the motivator is a long-term organisational interest in contrast to someone's own short-term gain. Hernandez (2012) proposes building shared behaviours, a psychological connection to other stakeholders and a commitment through mutual social exchange, which in turn will promote stewardship and influence the structural factors.

The challenge may be that the temptations and struggles are not

acknowledged within the organisational and managerial context. Concepts such as ethical blindness highlight the fact that people can make decisions that run counter to their own values and principles without being aware of it (Palazzo et al., 2012). People who are ethically blind may be unaware of the wrongdoing, behave carelessly and be non-compliant while not perceiving their actions as immoral or illegal.

Palazzo et al. (2012) argue that (un)ethical decision making is more intuitive and automatic and, thus, less rational and deliberate. As such, the ethical dimension of a decision is not necessarily visible to the decision maker, thus leading to the undesired behaviour's normalisation (Palazzo et al., 2012) and a failure to promote stewardship behaviour (Hernandez, 2012). The gorilla experiment (Simons and Chabris, 1999) also visualises the tendency to overlook unexpected situations and failing to anticipate unintended consequences.

The purpose of control is to reduce friction and temptations (Simons and Chabris, 1999); consequently, the MCS or ECP may become counterproductive if the existence of tensions (Hahn et al, 2015), ethical struggles (Kaptein, 2017) and need for transformational leadership and intergenerational decision making (Hernandez, 2012) is ignored. The struggle theory proposes that more intense pressure and temptations require a greater struggle and recognises the individual efforts required.

The struggle theory proposed by Kaptein (2017), described earlier, had a significant impact on how we approached the challenges encountered during Telia's ECP implementation. We experienced the struggles described by Kaptein in real life and found his theoretical application both enlightening and empowering. The struggle theory has thus been a central part of the research process.

4. The empirical setting and methods

The introductory section mentioned that this research has its roots in my practical observations and frustrations around how MCS are designed and deployed in terms of ethical- and corporate conduct-related aspects. I experienced a gap between theory and practice that related to how existing internal control systems are utilised to manage ethics- and compliance-related risk when I was immersed in practice during my Telia years (2008 - 2016). The scenario that unfolded at Telia placed me, as an author and researcher, in the midst of the empirical setting.

My main discourse as a managing accounting scholar subsequently and gradually transitioned towards corporate governance, compliance- and business ethics-related literature. I experienced how normative systems not only may be a benefit but also may become part of the problem if evolving dilemmas and informal dimensions are not an equal part of the system. This thesis seeks to bridge this gap between theory and practice in terms of managing corporate (mis)conduct. This aim and the exploration of how corporate conduct risk is [expected to be] managed in organisations were approached through a combination of methods such as qualitative content analysis, case- and action-based research and survey research. The thesis is mainly based on qualitative descriptive and explorative methods with the exception of some qualitative methods applied in paper three.

The ultimate objective of this research project is to provide a deep insight into the phenomena of how to manage corporate (mis)conduct and contribute to existing theory, in contrast to a wider perspective and theory validation that could have been enabled by using more statistical analyses. I made a deliberate choice not to focus on financial data, e.g., exploring actual financial consequences or costs due to the explorative nature of this research.

The data used to explore how Nordic organisations manage the risk for misconduct through the Ethics and Compliance Program (ECP) implementation are multifaceted, as Table 1 presented. The secondary data collected by the engagement consultant were used in the first paper to explore shareholder expectations of organisations accused of misconduct. These data were analysed through qualitative content analysis. The second paper presents the Telia case through which I was immersed in the action and empirical setting and had access not only to first-hand experience of the phenomena but also to internal presentations, meeting minutes, board materials and statements by the Chief Ethics and Compliance Officer (CECO) as part of the roundtable series discussions. External material presented by the company was also used. The third paper is based on survey data gathered on behalf of the Nordic Business

Ethics Network¹³, data that were analysed through quantitative methods.

The project provided me not only with new theoretical and practical insights but also with an opportunity to learn and master new research methods. A practically oriented researcher, I was constantly looking for what the empirical setting was teaching me and what the data were showing. Sometimes I struggled to find the appropriate theoretical lens and method to give justice to the richness of the empirical setting I was experiencing first hand. One key learning was the need to distance myself from day-to-day activities and to let the data speak for itself, yet to support this, I found it critical to be able to collaborate with other researchers who could apply further rigor in terms of methods and theory.

4.1. Qualitative content analysis and shareholder engagement

I received the opportunity at the outset of my research project to explore a secondary data set from Global Engagement Services (GES), a Swedish-based company specialising in facilitating dialogues between shareholders and organisations. The engagement dialogue is commonly initiated in response to public allegations of misconduct, and the data I received were related to the documentation of these dialogues by the GES engagement consultants. The data provided a summary of the information and explanations of the alleged misconduct provided by the company to the engagement consultant and was limited to 'the shareholder view'.

It should be mentioned that, as part of my role at Telia, I interacted with GES as part of their dialogue with Telia. As such, I experienced the engagement process from within and had several meetings with the GES engagement consultants who were gathering information about the alleged misconduct and, more specifically, providing recommendations and asking for evidence of improvements. The Telia dialogue was not included in the data I was analysing, because my data set had been provided prior to the initiation of the Telia dialogue. Nevertheless, the experience of the engagement process from within gave me a first-hand experience of the process, the types of questions asked and the level of documentation generated with formal sign off of meeting minutes and verification of company statements recorded in the case file.

The complete GES engagement case database that was available for analysis comprised 858 engagement case reports documented by the engagement consultant during the period 2005 – 2012. The consultant acted as a facilitator of the engagement dialogue in these cases on behalf of the mainly Nordic institutional investors, such as public pension funds, who had a stake in Morgan Stanley Capital International (MSCI) global companies. The case reports were sorted at the outset of the analysis

13 www.nordicbusinessethics.com

into reports containing rich descriptions and omitted reports with either no or minimal descriptions, as well as reports in certain categories that were considered irrelevant to the research question. The main objective of the research was to respond to an inquiry relating to the main themes arising from the engagement dialogues, because such a richness of data was incremental. The analysis included a total of 47 case reports.

The engagement case reports were studied using an inductive approach, whereby concepts and theories were developed based on the secondary data set. The case reports were initially explored based on the classical grounded theory (GT) methodology that provides a method for interaction and emergent discourse with the participants' experiences. Classical grounded theory (Glaser 1978, 2007) was chosen as a dynamic research method, in contrast to the prescriptive method of the Straussian school. The focus was not on testing hypotheses taken from the existing theoretical frameworks but rather on developing a new theory that would be substantially grounded in the secondary empirical data.

Based on feedback on the paper's initial versions and the limitations of the data set, which was secondary data documented by the engagement consultant, I decided to explore other methods that would be a more appropriate fit for the data. Qualitative content analysis (QCA) was chosen as the final method after exploring various forms of qualitative methods. GT and QCA include similar features in that both arrive at categories through a systematic data analysis and coding process.

The data for the coding, based on both methods, can be derived from various sources, for example, interviews, observations, visual materials and documents. The differences between the methods are more philosophical than practical: GT is rooted in the sociological field with a focus on social interactionism, whereas QCA has its roots in communication and linguistics (Cho and Lee, 2014). The philosophical stance of the GT theory challenges the positivistic view of science, whereas QCA springs from a reaction to quantitative approaches for analysing content. The ultimate goal of GT is to arrive at a substantive theory, while QCA arrives at a description of categories and themes.

The paper *"Nordic shareholder engagement as an ESG risk management strategy – from agents to stewards"* aimed to conceptualise the main themes addressed in the private engagement dialogue, so QCA was deemed the more suitable method. The method was also well suited to analyse the textual data (Elo and Kyngäs, 2007) and allowed me to describe the data systematically and reduce it to answer my particular research question (Schreirer, 2012).

4.2. Case Telia – living and breathing the action

I found myself an actor in a corporate scandal with global proportions during the research project. The story begun in 2007 when Telia entered the Uzbek market through a joint venture with a local partner. Uzbekistan is a challenging country, known to be one of the most corrupt countries in the world ruled by an autocratic and kleptocratic regime. Telia, a telecommunications company with its headquarters in one of the least corrupt countries in the world, was seeking growth outside the Nordic home market.

I joined the company during this time, December 2007, and would assume various roles within the internal audit (2007 – 2012), internal control and risk management (2012 – 2013) and ethics and compliance (2013 - 2016) functions during my almost nine years at the company. Table 2 presents my role and the major events at Telia.

Table 2. Major events at telia and my role

	2007	2012	2013	2014	2015	2016	2017
My role at Telia	Group Internal Auditor: implementing internal audit processes and conducting audits in Eurasia	Global Internal Control Project manager: designing and implementing new governance, risk and compliance framework	Global Anti-Corruption program lead & Regional E&C Officer Eurasia				
			Designing ECP program and establishing organisation in Eurasia	Developing team in Eurasia and implementing ECP program	Continued ECP implementation, interaction with authorities and reporting to Telia management and Board of Directors		
Telia major events	Acquisition of subsidiary Ucell in Uzbekistan	TV shows relating to market entry in Uzbekistan, corruption allegations	CEO resigns	Letter from US and Dutch authorities relating to market entry in Uzbekistan	BoD communicate decision to exit Eurasia	Initial settlement proposal	Final settlement with authorities
			New chairman of the BoD and CEO				
		Sustainability action programme	New Chief Ethics and Compliance Officer	Implementation of ECP program			
		Swedish prosecutor initiates a criminal investigation	New Sustainability and Ethics Committee of the BoD	New Governance, Risk, Ethics and Compliance forum			
		BoD initiate external law firm review	BoD initiate extended review in Eurasia by external law firm				

Telia's governance was divided into the Eurasian and Nordic operations, where the Eurasian operations had been left out of many of the otherwise standardised corporate processes, such as a common enterprise resource planning (ERP) system, purchasing function, internal controls and internal audit. The Eurasian operations had generated considerable revenue and growth to the group, and a strategic decision had been made not to integrate these operations into the more mature Nordic operations. Commissioned by the Audit Committee, the mandate of the Group Internal Audit function was, however, broadened into Eurasia in 2009 – 2010, and I found myself travelling throughout the Eurasian region.

The introductory setting of this thesis described that it was during this period when I experienced the gap between theory and practice, when the internal control framework provided rigorous control over the financial reporting but not so much over how things were done regarding control of unethical conduct. Telia had highlighted some risks in Eurasia in their annual reports, such as political risk and risk of breaches of personal privacy, but it was not until April 2012 that the general public understood the real risks in Telia's Eurasian operations when a series of investigative TV shows shed light on issues relating to corruption and human rights. The public media rage that followed spawned a sequence of events in which the CEO resigned, a fundamentally new Board and Chair were elected, a new CEO and renewed management team assumed their roles and the commitment to ethical and responsible business was exemplified by appointing a CECO, reporting to the CEO, in September 2013. The company embarked on a complete overhaul of its governance and control systems, including implementation of a revised strategy and announced the exit from the Eurasian region in September 2015.

The Telia case demonstrates how the company's governance and control practices were fundamentally flawed with regard to managing the corporate conduct-related risks while operating in emerging markets and in some of the world's most corrupt countries. Several regulators consequently initiated investigations into the company's conduct; Telia agreed to pay one of the largest settlements ever in September 2017, under the U.S. Foreign Corrupt Practices Act, of MUS\$ 965 in total penalties for bribes amounting to MUS\$ 331¹⁴.

At Telia the ECP became a tool for rebuilding reputation and trust with various stakeholders throughout the process, including the law enforcement agencies that accredited the company a sizeable reduction of the initial penalties due to the substantial remedial and compliance efforts. I was responsible for the Global Anti-Corruption Compliance (ABC) program during my three last years at Telia, from September 2013 to June

14 <https://www.justice.gov/opa/pr/telia-company-ab-and-its-uzbek-subsidiary-enter-global-foreign-bribery-resolution-more-965>

2016, and was part of the regional management team in Eurasia, heading the ethics and compliance function and remedial efforts in the region.

I was responsible for designing the ABC program during this period, including overseeing the implementation in the country's operations and preparing and providing reports to the executive management, the Sustainability and Ethics Committee of the Board and the regulators in the Netherlands, Sweden and US. In practice this entailed working cross functionally within Telia to develop and improve processes and controls that aimed to prevent and detect misconduct, particularly corrupt behaviour and activity. The role also included vast training and communication efforts, not only internally regarding awareness and understanding of the improved processes and controls but also externally to stakeholders and regulators. A critical part of the work was also to manage the team of a dozen ethics and compliance officers who were spread out through the region and to support and oversee their implementation efforts at the grass roots level.

Together with the CECO and the wider Ethics and Compliance (E&C) team, I was a key player in the orchestration efforts of the new ECP, so the research is action based in its true sense. The purpose of my role at Telia was to bring change in a specific context (Parkin, 2009), i.e., the business practices and related management control processes in the Eurasian region. It should be noted, however, that the work was practice driven, so that the practice was informing theory through documentation of the experiences in case-based research. The strengths of action-based research are that it is focused on a specific context and on finding solutions to practical problems and implementations either through research of one's own practice or being an outside researcher, monitoring and reflecting upon the process (Meyer, 2000).

The action-based research focused on my own practice, because I was employed by Telia and mainly responsible for the improvements in terms of the ABC work during parts of the research process. The findings emerged throughout the process and through critical reflection, and the responsible business roundtable series were a vital part of the process. An outcome was two case studies that were written within the context of the Roundtable research project that explored the linkages between responsible leadership, sustainable business, innovation, and growth in Swedish-based corporations with a global outreach.

The purpose of the roundtable research project was to use an interactive dialogue between companies to capture how ideas about responsible behaviour are expressed in daily work and practices. A handful of organisations, including Telia, were invited to participate in a series of roundtable discussions focusing on their own challenges and evolved practices. The participants in these discussions were leading

professionals, business managers, academics, and policy makers. The discussions that formed the basis for the collaborative and action-based research occurred between March 2016 and February 2018. The documentation of the Telia-related experience was documented as part of Stockholm School of Economics Working Paper series (Telia Case, 2017) and a refined online publication (Telia Case, 2019). The case is structured around the Telia E&C program (see figure 2).

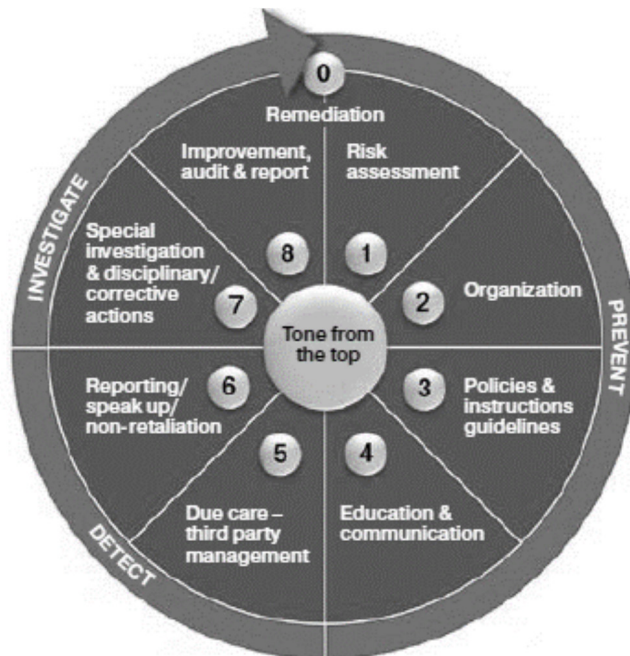


Figure 2. Telia Ethics and Compliance Program

The Telia case study's goal was to collect, present and analyse the phenomena in a fair manner and provide a summary of the events in 'everyday terms' (Sandelowski, 2000). A fundamental concern with case studies is lack of rigor, nonsystematic work or biased interpretations and conclusions. Case studies are not intended to provide sufficient grounds for empirical generalisation; nonetheless, they can serve as illustrations and grounds for theoretical arguments that, in turn, have theoretical generalisability.

The descriptive (Yin, 2009), single-case Telia study offered a unique

opportunity to learn and theorise the experience-rich and complex situation within the company at that time (Flyvbjerg, 2006). Cooper and Morgan (2008) argue that a good case study includes the reflections of the researcher, and they promote the concept of 'reflection-in-action' when this 'in a unique case may be generalised to other cases, not by giving rise to general principles, but by contributing to the practitioner's repertoire of exemplary themes from which, in the subsequent cases of his practice, he may compose new variations' (Cooper and Morgan, 2008: 164). The responsible business roundtable series provided an opportunity for reflection, identification and understanding of what is relevant, why it is relevant and for whom it is relevant.

One challenging part of the research process was to remain critical towards the data and the sources (Gummesson, 2005), because I was immersed in the empirical setting and action. The particular setting posed its particular challenges with regards to my subjective experiences of the action and emerging phenomena. The theoretical lens, in particular the ethical struggle theory (Kaptein, 2017), became a central part of elevating myself above the day-to-day activities and for analysing the phenomena from a distance. The Telia case study described and further elaborated in the practitioner-oriented book, *"The Grey Zone – a practical guide to corporate conduct, compliance and business ethics"*¹⁵, that the subjective reality was draining at times, and we struggled with making sense of the contradictory impact our work had. The work was highly regarded by regulators, the board and management, yet at the same time the E&C team felt pressured and questioned and wondered whether the work had any true impact.

The ability to interpret the subjective reality from a theoretical perspective by understanding the vitality of ethical struggles and the fact that the struggles in themselves are not the issue but that we do not struggle enough became a key learning for us, which reinvigorated our motivation for continued work. This learning also became a key component of ensuring that ECP activity orchestration evolved into institutionalised practice.

The struggles regarded, e.g., a struggle between stakeholders (Kaptein, 2017) about reporting the results from the risk and human rights impact assessments. The assessments illustrated the fundamental challenges of doing business in countries with oppressive regimes and could perhaps be perceived as insulting to local governments and local shareholders. Many stakeholders demanded transparent reporting of the results, and the questions were who should have the information and how should it be presented and shared? Another struggle related to exceptions to the rules,

15 Book co-authored with Michaela Ahlberg, published by Vulcan Media in July 2019, www.thegreyz.one

especially when a particular transaction could be done from a strictly legal point of view but which could be severely questioned from an ethical perspective. Does zero tolerance of corruption mean not taking any risks when there are red flags, or does it mean not to break the law when you have absolute facts? The E&C team had to struggle both for and against ethical behaviour (Kaptein, 2017).

However, remaining close to the data and the emerging phenomena as well as a close interaction with the real context and management was not an issue. The purpose of the Telia case study was not to be a critical case, as such, but more paradigmatic or exemplary in its nature (Cooper and Morgan, 2008), providing insights into how ethics and compliance are exemplified within an organisation. A researcher conducting a descriptive case study is not bound by theoretical and philosophical constraints as much as other qualitative research methods are (Sandelowski, 2000), because the purpose is to create knowledge in the early stages of management theory that is relevant to managers (Gibbert et al., 2008).

Reliability in qualitative research is also synonymous with consistency from the traditional and modernist perspectives. Some argue that it is not possible to generalise based on a single case study, but Flyvbjerg (2006) argues that generalisation is just one way to gain knowledge and that a single case can still contribute to the accumulated body of knowledge. The phenomena, as such, cannot be replicated, so we ensured that the Telia case documentation included rich descriptions, such as quotes, source descriptions and actual scenarios. However, the participant observation and action-based nature of the research means that it is not possible to make public the confidential discussions, such as interactions with the Board and regulators. The large public interest in the case has resulted in rich, externally available data in the form of company statements and reports, including the documents published by the U.S. Department of Justice¹⁶ and Securities and Exchange Commission¹⁷ as part of the settlement proceeding, which would allow for partial replication.

4.3. A quantitative study of ECP and employee conduct

The Nordic countries enjoy a reputation of being low in corruption and high in transparency. This may be true in relative terms and on a societal level, but recent scandals indicate that, like any global company, even Nordic organisations struggle with misconduct. Two of the biggest resolutions from the Foreign Corruption Practices Act involve Nordic companies: Telia Company AB settled in 2017 and Telefonaktiebolaget LM

16 <https://www.justice.gov/opa/pr/telia-company-ab-and-its-uzbek-subsiidiary-enter-global-foreign-bribery-resolution-more-965>

17 <https://www.sec.gov/litigation/admin/2017/34-81669.pdf>

Ericsson¹⁸ settled in 2019. Ongoing regulatory investigations assert that several Nordic banks have also been instrumental in money laundering schemes of global proportions. Nordic organisations tend to emphasise trust and may underestimate the need for formal management control and governance systems.

Based on survey research, this paper explores the impact of formal and informal ethics and compliance program components on the prevalence of witnessed misconduct, employee willingness to raise concerns and decisions to violate rules or ethical norms. The data for this research were gathered through the Nordic Business Ethics survey conducted by the Nordic Business Ethics Network in 2019. The survey assessed employee perceptions of ethics at work in Finland, Norway and Sweden and gathered a total of 1,506 responses through a web-based survey. The paper's objective is not only to contribute to the theory regarding formal and informal components of ECP design and implementation but also to advance the practice on how to effectively implement ECP in a context with a high reliance on values and culture.

Building upon the work of Kaptein (2015), the paper includes the following components as part of the formal ECP: (1) code of ethics, (2) dedicated ethics and compliance officer, (3) training and communication, (4) confidential reporting channel, (5) discipline of unethical conduct and (6) incentivising ethical conduct. The informal components, such as unwritten rules, norms and behavioural codes (Smith-Crowe, et.al. 2015), were defined for the purpose of this research as (1) managers provide good example, (2) managers promote integrity in their speech, (3) ethical issues are considered in daily operations (i.e., in meetings and decisions), (4) leaders and other employees play by the same rules and (5) employees feel confident to raise concerns without a fear of retaliation.

The paper further explores the interrelation between these components and the prevalence of witnessed misconduct and people's own behaviour in terms of speaking up and personal violation of the rules and norms. Ten unethical behaviours were explored that an employee could experience. These ten behaviours were selected based on results of a previous study by Kaptein (2008).

This research applies a descriptive research method using statistical analysis of the survey data. The data reveal a positive link between the prevalence of formal and informal ECPs; however, neither formal nor informal ECPs are dominantly reported by the respondents. Only one in six employees (17.1 percent) work in organisations with well-developed ECPs, i.e., ECPs with more than four of both formal and informal components. As expected, the prevalence of informal ECP components is more often

18 <https://www.ericsson.com/en/press-releases/2019/12/ericsson-reaches-resolution-on-u.s.-fcpa-investigations>

reported than formal ECP components. The most common combination of formal and informal ECP components is organisations with some formal ECP components (1-3) and several informal (4-6) components. One third of employees (29.0 %) work in such an organisational context.

In line with previous research (e.g., Ashforth & Anand, 2003; Campbell & Göritz, 2014 and MacLean et.al., 2015), we find that unethical behaviours happen less in organisations with an ECP and, more specifically, in organisations with an informal ECP in place. The number of formal ECP components did not have association with this set of observations. This is consistent with the view that manager behaviour has the most significant impact on employee behaviour (Treviño et al., 2006, Brown et al., 2005). However, our analysis indicates that formal ECPs are also needed.

The maturity of the formal ECP (4-6 components) has a greater impact than the maturity of the informal ECP on whether employees intervene when witnessing something unethical. It seems that the formal ECPs provide security for employees when deciding to speak up. The informal ECPs have a greater impact on the individual behaviours, communicating and setting an example of shared behaviours and values. We also found that one formal ECP component, the Code of Conduct/Code of Ethics, does influence employee behaviour, further emphasising that employee conduct is guided by communicating and binding employees to shared values.

Both academia and practice regard 'tone at the top' as central to ECP design and implementation, because leadership practices shape the organisational context (Patelli and Pedrini, 2015; Treviño et al., 2006). The informal ECP may be regarded in this research as one attempt to define 'tone at the top' in practice. Based on the correlation of informal ECPs, two main themes emerge from our data: being a fair, speak-up culture and responsible leadership. A fair, speak-up culture is one in which employees and managers play by the same rules; it is nonretaliatory and consequences exist for misconduct. Responsible leadership is displayed through integrity in both the walk and the talk and by being an example in terms of ethical conduct and decision making.

It is argued that a dynamic interplay between, and an integration of, formal and informal ECPs are pivotal to implementing and maintaining ethical conduct. It is both, not either/or. It cannot be concluded that an informal ECP in itself would be a breeding ground for misconduct, but solely relying on an informal ECP may not allow management to fully become aware of and adequately address misconduct. The value of a formal ECP is revealed when it provides clarity on what is to be regarded as unethical and encourages employees to react to misconduct. It is argued that organisations should apply a dynamic approach in ECP implementation without overly relying on informal components to guide

employee conduct or downplaying the investment needed in formal components such as policy, whistleblowing and dedicated competence, and resources.

The paper *“Employee misconduct and ethics and compliance programs in Nordic organisations - on the interplay between formal and informal control”* makes an important contribution to the ECP literature by exploring the interplay between formal and informal ECPs and employee conduct and presenting an integrated ethics and compliance framework. The research asserts that Nordic organisations need to implement formal ECPs to support the implementation of a fair, speak-up culture and responsible leadership. Asking employees ‘to do the right thing’ without providing formal governance, dedicated resources and procedures is insufficient for implementing and maintaining ethical conduct in a context with high expectations of transparency and increased regulatory and stakeholder scrutiny.

5. Two frameworks for managing corporate (mis) conduct

One analytical framework and one practical framework are presented to address the twofold aim of this research, which is to inform both theory and practice. The frameworks build upon the accounting-for-impact process proposed by Power (2015) and the ethical struggle theory developed by Kaptein (2017). The analytical inductive framework depicts how an accounting object emerges at the field level and transforms from activity into institutionalised practice through subjectivisation. The practical Ethics and Compliance Program (ECP) framework integrates both formal and informal components.

A practitioner-oriented presentation of the analytical framework was published in July 2019 in the book *“The Grey Zone – a practical guide to corporate conduct, compliance and business ethics”*, written by Michaela Ahlberg and Anna Romberg. The ideas for the integrated ECP framework are developed based on the ‘compliance, conduct and culture’ components in the analytical framework as well as on research findings in paper 3. Figure 3 visualises the research perspective and frameworks.

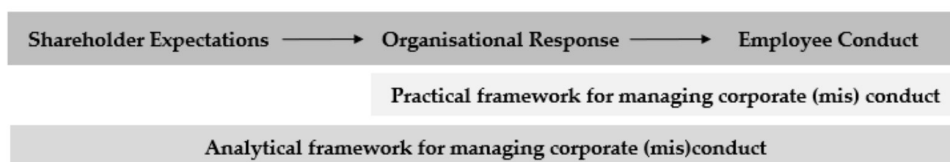


Figure 3. Overview of research perspective and frameworks

5.1. An analytical framework for managing corporate (mis) conduct

The analytical framework has evolved during the research project and from being immersed in practice implementing the ECP at Telia and has subsequently been refined based on theory. The framework’s purpose is to provide an analytical model for how to manage ESG risks and corporate (mis)conduct and move from activity to practice. The analytical framework is based on ‘five C’s’: context, content, compliance, conduct and culture (see figure 4). The last three ‘C’s’ are further elaborated in the proposed practical ECP framework.

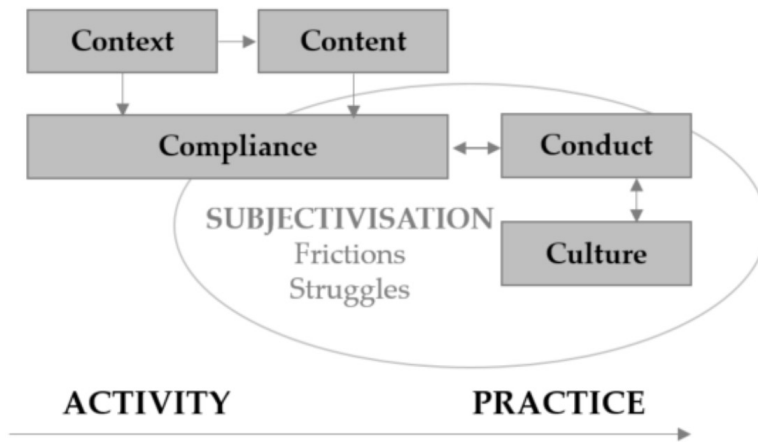


Figure 4. Analytical framework for managing corporate (mis)conduct

5.1.1. Understanding your context and content

The framework is based on a fundamental understanding that context matters. The contextual factors commonly arise at the field level, depending on both the external operating environment and on the stakeholders' expectations and regulatory requirements. *Paper one* explores the concept of misaligned expectations on a field-level. The engagement dialogue is initiated by the shareholders as a response to public reporting on alleged misconduct. The case reports portray how the initial stage of the dialogue is to align the situational context to ensure that the shareholders and the company have a mutual understanding of the alleged misconduct.

The engagement dialogue promotes an alignment of what is expected, and the case reports analysed indicate that organisations initially refute responsibility for alleged misconduct and have externalised the management of these risks to external stakeholders to a certain extent. The case report reveals how an organisation has not done a thorough assessment of the external context, such as the high risk for corruption, when applying for governmental permits in a particular market or the risk for human rights abuses and violations throughout the supply chain. The management of these risks has been externalised instead to external stakeholders who brings the concerns to an organisation's attention.

The case reports demonstrate, e.g., how the organisation did not detect, or at least did not react to, the detrimental environmental consequences from their operations prior to being questioned by stakeholders such as the media, social interest groups and owners. Some case reports also

indicate systematic misconduct in several cases, which would indicate a fundamental lack of understanding of the context in which an organisation operates. The theoretical argument is that management, when acting as stewards, are more responsive to stakeholder expectations on Environmental, Social and Governance (ESG) risk management.

An organisation moves towards defining its risk-based priorities, i.e., content areas, based on its assessment of the contextual factors. The identification of the content areas is incremental to ensure that the work is tailored to the areas to which an organisation is most exposed or have the greatest impact on. The content areas may arise from a disappointment in policy level which was the case for the case company Telia (*paper two*). The case portrays how Telia gradually increased its understanding of both the context and the content areas relevant for its compliance work. The content areas should be revised as the context evolves, which in practice means that guidance from regulators on effective compliance and adequate procedures is referred to as a recurring and periodic risk assessment.

The U.S. Department of Justice Criminal Division guidance for Evaluation of Corporate Compliance Programs, released in an April 2019 note, says “Prosecutors should consider whether the program is appropriately ... designed to detect the particular types of misconduct most likely to occur in a particular corporation’s line of business ... and complex regulatory environment” (U.S. DOJ, 2019: 2).

5.1.2. Activity orchestration and compliance

An ECP can be defined as “the formal organisational control system designed to impede unethical behaviour” (Kaptein, 2015, pg. 415). *Paper one* explores how active owners, through the engagement dialogue process, aspire to *influence the internal context*, i.e., the design and implementation of an ECP that is also a regulatory requirement in several jurisdictions. It expects an organisation to establish formal procedures, designate and appoint a high-level officer responsible for compliance and provide evidence of effective communication of related standards and of formalised procedures for monitoring actual compliance.

The systematic ECP work consists of risk assessment, organisation and resources, policies and procedures that include managing business partners, training and communication, whistleblowing and investigations as well as remediation, discipline and continuous improvement. *Paper two* describes how Telia designed and implemented its ECP and provides practical examples of its impact on the organisation. A way to manage the agency conflict and misaligned expectations in an organisation is, in *paper one*, to provide, e.g., proactive and voluntary disclosures and to work transparently. Transparency is also brought forward in *paper two* as a key

component of managing the ethical struggles and frictions that arise from the ECP's implementation.

A key learning from the case is the practical understanding and experience of the theoretical concept of ethical struggles (Kaptein, 2017). Summarizing the process, the Telia CECO stated, "It was a journey where not all answers were clear from the outset. A journey of over three and a half years with unexpected challenges, mistakes, and new insights from which we developed a framework and a methodology for enhancing responsible business at Telia." The case further explores the dilemmas and historical issues that the ECP encountered.

Paper three investigates the relationship between formal and informal ECP components and employee behaviour. The data show a clear impact from both formal and informal ECPs and support the argument for an integrated ECP, which not only emphasises the formal implementation of risk assessments, policies, procedures and trainings but also manager behaviour, rewards and incentives and actual decision making. Employees who work in organisations that have a formal ECP are more likely to speak up and raise concerns; however, an informal ECP, such as manager behaviour, is instrumental in whether or not employees act in a noncompliant way themselves.

5.1.3. Evolving practice through conduct and culture

The Telia case (*paper two*) demonstrates how an organisation, and particularly the ethics and compliance team, develops an increased understanding of the context and content as it encounters compliance frictions and struggles throughout the implementation. Issues that previously had been ignored, either intentionally or from ignorance, were then put to management for action and decisions. Implementation of business partner- and third-party-related policies and procedures especially gave rise to friction. The CECO has admitted that this was the most challenging part of the ECP and an area in which Telia also struggled with conflicting interests, such as long-term partners who were now questioned, along with its dependency on suppliers with dubious ownership structures.

The ECP's purpose is to identify the relevant risks, design relevant policies and guidance, train employees, investigate suspicions of noncompliance and work with monitoring and remediation programs. This work will trigger a subjectivisation process by revealing new information that the decision makers must take into consideration when running the operations. The ECP cannot steer all the conduct in an organisation, and the work's effectiveness will be highly dependent on what employees and managers actually do, i.e., the informal ECP. The actual conduct will demonstrate the effectiveness of the integrated ECP and whether the ECP

remains as a formal activity or evolves into institutional practices and culture. Whether a particular supplier with a dubious ownership structure or a sponsorship to an organisation with ties to politically exposed persons will continue will determine what type of culture is built in an organisation.

Culture is a result of what is done and decided, ranging from which type of conduct is rewarded to who is promoted and who is chosen as a business partner. *Paper two* depicts how parts of the organisational culture were flawed and had been allowed to operate in isolation and with a separate governance structure. Even if the executives at Telia's head office said that the company stood for good Nordic values and had a culture with zero tolerance for corruption, the actual conduct in Eurasia fostered a different culture.

Leadership's and managers' actual behaviour have a significant impact on employee conduct and willingness to report concerns (Treviño et al., 2006; Brown et al., 2005), which *paper three* explores further. This study reveals how employees in organisations with a formal ECP are more willing to raise concerns; however, they are not less inclined to break the organisation's rules. The Telia case (*paper two*) provides insight into how the reports of possible misconduct rapidly increased during the initial phase of ECP implementation. However, formal implementation is not the most important factor for encouraging right employee conduct. *Paper three* identifies the more informal practices as having the most significant impact on how employees behave, i.e., whether they speak up when witnessing misconduct or whether they decide to break the rules.

The most significant impact on employee conduct is when ethical considerations are integrated into the daily operational decision-making processes. The practice of considering ethical factors in the reward and incentive structures is also of great importance to foster the right employee conduct, i.e., for employees to become stewards. There is a risk that the ECP will become a formal exercise on an activity level, providing some comfort to management relating to the existence of a program but having limited impact on the actual practice, such as the conduct and culture (Hernandez, 2012). This is also true for an ECP that ignores or succumbs to ethical struggles, which may be a reality if the CECO does not have adequate support from the CEO and the Board and if they consider struggles as a sign of that the CECO is noncollaborative or ineffective. Kaptein (2017) implies that ethical struggles are necessary for an organisation to be and stay ethical and that struggling is required due to the pressures and temptations that coexist within an organisation due to, e.g., conflicts between formal and informal ECPs, different stakeholder expectations and short- versus long-term perspectives.

A sound culture will foster the right behaviours but only if the Board

and management are aware of and acknowledge the vitality of the existence of ethical struggles. The Telia case demonstrates how dedicated forums, i.e., infrastructure, were established to manage the struggles constructively. The subjectivisation process, with struggles and frictions as a key component, is vital to ensure that the impact of the ECP is sustained and institutionalised. The fundamental idea is that the ECP become a tool for bridging field-level expectations and requirements (i.e., context and content) and organisational level activity (i.e., compliance). Furthermore, it is essential that the ECP become a catalyst for the employee subjectivisation process and for how dilemmas and frictions are managed (i.e., conduct), which in turn builds the corporate culture.

The framework depicts how the ECP, through an elaborative process, evolves from activity to practice from the influence of shareholders and regulators at the field level to emerging practice at the organisational and employee level. Managing the subjectivisation process and the problematisation that follows from arising frictions and struggles (e.g., when established practice and norms are challenged and reconfigured) becomes a critical component in whether the ECP remains at the activity level or evolves into a new normative practice, i.e., an integrated ECP. A key component to manage the subjectivisation process is to establish formal governance and accountability i.e., ensure that frictions are not absorbed by employees but elevated to the right forums and individuals for decision making and transparent reporting of exceptions and non-compliance.

5.2. A practical framework for managing corporate (mis)conduct

A dynamic interplay between and an integration of formal and informal ECPs are fundamental to managing corporate conduct. A practical framework to design an integrated ECP is presented. This framework builds upon the analytical framework, in particular the elements of compliance, conduct and culture, that its ECP developed for Telia (*paper 2*), and on the findings relating to the interplay between formal and informal ECPs and employee conduct (*paper 3*). The integrated ECP framework is visualised in figure 5.



Figure 5. Integrated ECP

The design of an ECP has largely been depicted as a system of formal components (e.g., Kaptein, 2015; Weaver et al., 1999) while recognising the importance of integrating informal considerations (Smith-Crowe et al., 2015). The integrated ECP framework aims to depict the interplay between the formal and informal ECPs. The informal ECP components within this framework are also one attempt to provide a precise definition for ‘tone from the top’ as a means of nurturing the conduct and culture (Amernic et al., 2010; Heracleous and Barrett, 2001).

The proposed formal ECP components are 1) Code and policy-formalising the rules, processes and controls; 2) Organisation and governance – dedicated and qualified resources as well as formal governance such as escalation processes, decision forums and reporting of deviations; 3) Training and communication-regular, relevant, informative and interactive training and communication; 4)

Whistleblowing and investigations–confidential reporting channels and investigation processes; 5) Discipline, reward and remediation – addressing noncompliance and misconduct in terms of people, process and root causes, ensuring that incentives do not promote misconduct (e.g. aggressive selling practices) and that ethical conduct is promoted (e.g. hire and promotional practices) and 6) Monitoring, reporting and improvement–ensuring that adequate monitoring is in place to monitor both the implementation and effectiveness of the work.

The proposed informal ECP components are 1) Managers provide good examples–ethical conduct is visible in their walk; 2) Managers promote integrity–ethical priorities are visible in their talk; 3) Ethical issues are considered in decision making– deliberate and transparent discussions of dilemmas; 4) The same rules apply to leaders and employees–there is fairness and transparency in how policies are applied; 5) Employees feel confident raising concerns–they have no fear of retaliation; and 6) Employees perceive that there are consequences for misconduct. Management oversight and independent auditing is not proposed as a separate component; however, the integrated ECP should be subject to management and board oversight as well as independent audit just as any other Management Control System (MCS) is.

The correlation of the informal ECP (*paper 3*) proposes two main themes: *a fair, speak-up culture and responsible leadership*. The same rules apply to both managers and employees in a ‘fair, speak-up culture’, there is no fear of retaliation and there are consequences in case of misconduct. Responsible leadership is manifested by integrity in what is said (talk) and done (walk) and by integrating ethical considerations into decision making. These two themes are at the core of the integrated ECP framework presented. The framework visualises the interplay between the formal and informal ECPs and is designed to support building not only a fair, speak-up culture in which employees feel respected and confident enough to raise concerns but also responsible leadership, in which the actual management practices support doing the right thing.

The general purpose of an MCS is to enable management and control of employee conduct, to support the achievement of the organisational objectives, to reduce friction and to streamline information. The systems deployed within an organisation are not isolated from the increased expectations of ethical corporate conduct. A failure to realise that the expectations of ethical corporate conduct may challenge contemporary and static management practices (Granlund and Lukka, 1998; Gond and Herrbach, 2006; Hahn et al., 2015) may result in the co-existence of parallel and conflicting formal and informal systems. Regarding an ECP implementation in particular, the system’s risk is to become a source of false comfort that eventually may be revealed in a public scandal that

sheds light on an ethics gap.

Organisations should not only maintain the current ethical norms but also adopt and embed these norms into actual practice to avoid the formation of an ethics gap (Hahn et al., 2015), i.e., they should align the formal and informal ECPs as proposed in the integrated ECP framework. There is a risk of false comfort in a scenario in which an ethics gap exists (Hahn et al., 2015), when directors and executives rely on the various activities reported, e.g., appointment of a CECO, a Code of Conduct document and training, policies and procedures for managing third parties and implementation of a whistleblowing hotline, and thus consider their monitoring responsibility fulfilled. What perhaps is not understood is that the information reported regards only the formal ECP but omits information about how the informal ECP is designed and the interplay between these, i.e., possible conflicts, frictions and struggles between the systems, stakeholder expectations and immediate and long-term considerations. The management school of “bring me solutions, not problems” may result in intensive debates on red flags and decisions made in the grey zone not being transparently accounted for, which in turn may hinder the creation of an integrated ECP.

6. Conclusion and contribution

Corporate scandals reveal that the management of Environment, Social and Governance (ESG) risks have to some extent been outsourced to active owners, investigative journalists and the media and to social interest groups. The corporate scandals ignite an internalisation process and the building of corporate infrastructure needed to manage these risks and the invisible debt.

This thesis explores what happens in organisations when a formal system for managing corporate conduct is implemented by tracing the internalisation process and formation of an accounting object, i.e., an Ethics and Compliance Program (ECP). The internalisation process evolves from policy disappointment to organisational activity and established organisational practice and employee conduct. One analytical framework and one practical framework for managing corporate (mis)conduct are proposed to respond to the main question, how an ECP could be designed to have a lasting impact on corporate conduct and culture. The frameworks have both theoretical and practical implications.

The analytical framework depicts how an ECP emerges at the field level and transforms into institutionalised organisational practice and employee conduct through subjectification (Power, 2015). Enduring and managing the ethical struggles and frictions, as part of the subjectivisation process, is pivotal to ECP implementation (Kaptein, 2017). Drawing upon Power (2015) and Kaptein (2017), the framework suggests acknowledging the need for and building the necessary infrastructure to manage the struggles and frictions that arise from the implementation process. A failure to accommodate the subjectivisation processes, through formal governance, may result in limited cultural impact from the ECP. The struggles and frictions are absorbed by individuals, and the success of the ECP is more depending on the individual than on the actual ECP design and effectiveness.

Recognising the importance of enduring the ethical struggles (Kaptein, 2017) and of the struggle to remain ethical (Hernandez, 2012), a fourth level of struggle is proposed as a complement to the ethical struggle theory (Kaptein, 2017). The fourth struggle, *the struggle to decouple* complement the three levels proposed by Kaptein (2017): the struggle against unethical behaviour, the struggle to improve and the struggle with ethical dilemmas.

The struggle to decouple becomes a coping mechanism and relates to succumbing to the existing informal ECP, to give in and to focus on maintaining the formal ECP while knowing that the cultural impact is limited. Loosing this struggle impede that the ECP work is part of the problem, not the solution. A culture will be created in which the reality is simplified and misconduct shielded. The formal activities may impede

a cultural change, resulting in the actual and more informal culture remaining a breeding ground for misconduct (MacLean et al., 2015; MacLean and Benham, 2010; Treviño et al., 1999).

This thesis proposes *formalising the informal to manage the struggle to decouple* and to ensure that the ECP evolves from activity into practice with a true impact on employee conduct and culture. The practical, integrated ECP framework is proposed as a tool for formalising the informal. The framework complements existing research and practice by providing an example for how an informal ECP could be depicted. The reality, i.e., culture, is constructed by the actors and by the context in which they operate (Golding, 1991). The practical framework aims for creating a context and culture that encourage and constrain employee and management conduct by integrating formal and informal ECP. The purpose of the formal ECP is to establish policies, controls and mechanisms for raising concerns, discipline and monitoring (e.g., Kaptein, 2015; Malmi and Brown, 2008).

The purpose of the informal ECP is to create and maintain a culture of accountability, responsibility and stewardship (Barnard, 1938; Donaldson, 2008; Smith-Crowe, 2015). In practice this means to acknowledge and assess the informal ECP, to bring transparency around how it is displayed in practice and to provide training to managers for how to deal with this as part of operational responsibilities. If the response to disappointments and promises of improved corporate conduct (Power, 2015) focus on formal ECP and disregard informal ECP the work risk becoming part of the problem (MacLean et al., 2015; MacLean and Benham, 2010). It is proposed that formal governance should be implemented to manage the subjectivisation process and to ensure accountability, escalation and transparency around ethical dilemmas, frictions and struggles that may arise from misaligned formal and informal systems (Kaptein, 2017; Ruiz et al., 2015).

The world is experiencing a crisis of unprecedented proportions, the Covid-19 pandemic, at the time of writing this thesis. The gap between formal activities and informal practice become evident when the stated company culture and values are tested. Relying solely on the informal ECP in an environment where the workforce is distributed and supply chains are constrained has obvious risks when struggles and frictions are inevitable.

The value of a formal ECP in this context is to avoid the risks arising from the lack of transparency, from urgency leading to non-fact-based decisions and from an urge to take immediate action, forgetting the long-term perspective and the invisible debt. The resilience of organisations' ECP will be revealed in the years to come when the dust has settled and investigative journalists and enforcement bodies scrutinise corporate

conduct during these exceptional times. Ethical corporate conduct is ultimately about informed decision making, taking into consideration not only financial and immediate aspects but also stakeholder and longer-term perspectives. Ex post controlling will always have its place but cannot be the main driver for corporate conduct and the strategic considerations needed.

Organisations need dynamic management control systems that integrate the evolving stakeholder expectations, regulatory requirements and a wider time horizon into the business practices through appropriate governance. Appropriate governance is needed to secure transparency in decision making processes and exception approvals, to encourage deliberate discussions on ethical dilemmas, diverse opinions and a speak-up culture. The corporate governance will secure that the ECP are not isolated activities, momentary or dependent on individuals.

Implementing an integrated ECP will bring uncomfortable information to the table and challenge existing beliefs, norms and practices on that ethical corporate conduct is simply to 'do the right thing'. In a Nordic context, with a high degree of trust, it is important to acknowledge the value of formal ECPs. An ECP, integrating both formal and informal components, is imperative to guide corporate conduct and for the Board of Directors and executive management to prove that they are responsible stewards of the organisation. The need to formalise the informal is evident as what is common and what makes sense depend on who you ask and on the context.

7. Introducing the papers

Paper 1: Nordic private shareholder engagement as an ESG risk management strategy – from agents to stewards

This research aims to advance the understanding of how shareholders, through the private engagement dialogue, aspire to impact on the risk management processes of companies subject to misconduct allegations. The research analyses 47 engagement dialogue case reports documented by an engagement consultant over eight years. The reports depict how environmental, social and governance (ESG) risk management has been externalized to active institutional owners on a collaborative platform.

A conceptual model for ESG risk management is developed based on a qualitative content analysis of engagement forum data. Three empirically grounded concepts emerge in the model: *aligning situational context*, *impacting internal context* and *managing the external context*. The concepts are explored through the lens of agency and the stewardship theory and a more nuanced view of managements as self-centred agents is proposed. The paper contributes by clarifying that ESG risk management is, at its core, stewarding shared resources and embracing management of risks external to the corporation. Responsiveness to shareholder expectations on stewardship is the key to successful private engagements in a situation when ESG risk management is externalised to active owners and their consultants.

- Presented at UNPRI Academic Network Conference, Montreal, September 23, 2014
- Presented at EDEN Doctoral Seminar in Case Based Research in Management Accounting, Brussels April 13, 2015
- Published in Nordic Journal of Business, Vol. 69 No. 4 (Winter 2020).

Paper 2: Telia Company – Paving the way for responsible business

This case provides an example of how (ir)responsible business behaviour was addressed in a Swedish telecommunications company. The company was in a crisis mode after allegations of bribery and human rights violations in its Eurasian business. The change process covers the creation of an Ethics and Compliance function whose purpose was the development of a compliance framework with a particular focus on the design and implementation of an effective anti-corruption program.

This case is written within the framework of a research project that explores the linkages between responsible leadership, sustainable business, innovation, and growth in Swedish-based corporations with a global outreach. The case is aiming for new insights regarding how to create a methodology to implement responsible business behaviour.

The case has been presented and peer reviewed at Stockholm School of Economics (SSE) seminars and has been published as part of SSE Working Paper Series in Business Administration, no. 2017:6. A refined version was made available online at Research gate in February 2019. The case has also been subject to review by Telia representatives.

- Presented at “Innovation and growth through responsible leadership – Roundtable Silicon Valley”, organised by Vinnova, Stockholm School of Economics and Stanford University, Palo Alto, November 7, 2017 as well as during several SSE seminars.
- Published in two formats whereof the case “Telia company – paving the way for responsible business,” is enclosed to this thesis.
 - Holmberg, Ingalill & Romberg, Anna & Ahlberg, Michaela, 2017. *“Telia company – paving the way for responsible business,” SSE Working Paper Series in Business Administration 2017:6*, Stockholm School of Economics, revised 29 Jan 2019. https://swoba.hhs.se/hastma/paper/hastma2017_006.1.pdf
 - Holmberg, Ingalill & Romberg, Anna, February 2019. “TELIA Case Study Addressing (ir)responsible business behaviour” https://www.researchgate.net/publication/331328022_TELIA_Case_Study_Addressig_irresponsible_business_behavior

Paper 3: Employee misconduct and ethics and compliance programs in Nordic organisations - on the interplay between formal and informal control

Recent ethical scandals involving Nordic organisations reveal shortcomings in policy and practice. Regulatory frameworks in the Nordic countries do not explicitly acknowledge the concept of an ethics and compliance program (ECP), yet an ECP is imposed through extraterritorial legislation and stakeholder expectations. This research explores ECP implementation in a context where there may be hesitation to implement 'overly formalistic US-style program' and a reliance on 'trust and Nordic culture'.

We apply a descriptive method and use survey data gathered from the general population in Finland, Norway and Sweden in 2019 (n=1416) to explore the interplay between informal and formal ECP and employee conduct in a Nordic context. Our initial objective is to inform theory on ECP design. Secondly, we aim to inform the literature on the practical implementation of an ECP in a context where the perceived level of corruption is low. We will also consider ECP implementation through the lens of gender.

We argue that an interplay between and the integration of the formal and informal ECP is pivotal to implementing and maintaining ethical conduct in Nordic organisations. The formal ECP supports intervention when witnessing misconduct, while the informal ECP reduces the risk of personal misconduct. Based on correlations of informal ECP components, two themes emerge: *a fair, speak-up culture and responsible leadership*. Based on this, we propose a more distinct definition for 'tone at the top'.

- Under review by Accounting, Auditing and Accountability Journal (ISSN: 0951-3574)
- Accounting, Auditing and Accountability Journal is a peer-reviewed interdisciplinary journal covering the interaction between accounting and auditing and their impact on policy, practice and society.
 - Scopus' CiteScore (2019) 4.9
 - Scopus Score Tracker (2020) 5.7
 - Clarivate Analytics (2019) impact factor 3.497
 - Clarivate Analytics 5-year impact factor (2019) 4.680.

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Anna Romberg

Is it not just common sense to do the right thing?

On corporate (mis)conduct, corporate governance and management control in a Nordic context

Corporate scandals reveal that the management of Environment, Social and Governance (ESG) risks have, to some extent been, outsourced to active owners, investigative journalists and social interest groups. This study traces the internalisation process and implementation of improved corporate governance and management control in response to a corporate scandal.

The key finding is that the implementation of renewed corporate governance and management control practices is not the solution for managing ESG risk and corporate (mis)conduct per se. In fact, they may become part of the problem if failing to accommodate the subjectivisation processes, ethical dilemmas and frictions.



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