**Chapter title**

Compliance

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**Definitions and Introduction**

The term ‘comply’ is derived from the verb comply early 14c., "to fulfill, carry out" from Old French compli, past participle of complir "to accomplish, fulfill, carry out" from Vulgar Latin complire, from Latin complere "to fill up“. The sense of "to consent" began c.1600. Compliance (n) from comply+ance dates from the 1640s. Compliance can be defined as “the function of identifying relevant legislative, regulatory and best practice requirements and implementing the necessary arrangements, systems and controls so as to facilitate adherence to these obligations” (Mills and Haines, 2015:18).

**Synonyms**

Compliance is synonymous with the terms conformity, consent, acquiescence, assent, concurrence and observance, and is used in association with rules, regulations, conventions, practice or custom which would need to be complied with.

**The debate about the need for regulatory compliance**

There is no consensus about the necessity of regulation and compliance (Dragomir, 2012), and this is considered to be “heavily contested intellectual territory” (Davies, 2008:12). Arguments range from rigid state control to no regulation. On the one hand there is a view that free markets, left to themselves, do not always deliver the optimal good to society, and that when employment stagnated, government must step in (Keynes, 1936). On the other hand, regulation can be found to be too detailed and intrusive. There may be over-demand from consumers who perceive regulation as a free good, and oversupply by the regulator who is risk averse (Goodhart et al, 1998). There is also the moral hazard of the assumption that if something is not covered by regulation it does not have a regulatory dimension, and that care/compliance is not needed There is some consensus for the view that “regulation approved in a crisis must be subsequently fine-tuned” (Greenspan, 2007:374). In the context of the rising consciousness of the need for corporate sustainability, from both environmental and social contexts, there are increasing calls being made for compliance with sustainability standards.

**Compliance and Innovation in relation to Sustainability**

Sustainability is broadly defined as an organization's ability to balance short-term and long-term needs of stakeholders (direct and indirect) through the sale of value-adding goods and services, which are produced in line with the earth's carrying capacity, and exert a maximum positive social impact (Nidumolu et al., 2009; Porter and Van Der Linde, 1995). Challenges are faced by companies when they seek to ensure compliance with corporate sustainability standards. They would need to examine their practices in the light of compliance standards and take corrective action as required (Grimm et al, 2016).

Firstly, in the context of sustainability, compliance relates to certifiable management systems in various areas such as quality, health, safety, and environment. For example, ‘sustainability management accounting and control’ envisages the inclusion of social and environmental measures, in addition to the conventional focus on financial outcomes. Environmental quality and economic growth were viewed as trade-offs, but this view is rapidly changing to one of identifying simultaneous targets for growth, sustainability and societal development (Ambec et al., 2013; Porter and Van der Linde, 1995).

Secondly, in the context of sustainability, compliance also relates to corporate governance, specifically corporate governance codes, where companies and executives are asked to 'comply or explain': comply with such codes or explain why they do not. Doyle et al (2019) explore the link between Governance, Risk and Compliance (GRC) and innovation in the context of sustainability; they propose a practice-based concept of Compliance-Innovation and set out its significance for sustainability. The concept envisages the central role of knowledge integration across business domains as the basis of modern competitive advantage. They outline how the integration of GRC and innovation domains drive commercial exploitation for both environmental sustainability and business sustainability.

**Sustainability Compliance Index (SCI)**

Corporate concern has been expressed for introducing a sustainability perspective early in the manufacturing and other processes, and address this concern, Hallstedt (2017:258) attempts to identify and develop sustainability criteria and index in relation to product life-cycle stages and socio-economic sustainability principles; his index demonstrates to what degree a product or process concept performs in relation to a sustainable solution as indicated in the table below:

|  |  |
| --- | --- |
| **Sustainability Index Compliance (SCI) Scale** | |
| SCI 9 | The strategic sustainability criterion is fulfilled. Reached excellent level. |
| SCI 6 | Have implemented a strategy with concrete actions for how to move step-wise towards more sustainable solutions. Moving strategically towards excellent level (SCI9) |
| SCI 3 | Compliance with socio-ecological related regulations. A low but acceptable level |
| SCI 1 | Lowest level of sustainability compliance. Not acceptable level. |
| 0 | No information to score a SCI value. Need more research and investigation |

The SCI scale is listed in descending order of compliance, and the final row represents unavailable information. The index is useful for flagging up the current level of compliance, and underlines the need to undertake further work in order to reach the top excellent level.

**Compliance and due diligence**

Due diligence refers to the process of collecting, examining, analysing and researching information in order to make decisions that comply with regulatory requirements. Prieto *et al* (2021:1) describe the concept of due diligence as “a methodology for assessing risks”. While due diligence processes may differ from industry to industry, the overarching aim of the process of due diligence is to mitigate risk and facilitate compliance. Thus, the process of due diligence could help ensure compliance with sustainability requirements and mitigate risks that may arise on account of non-compliance.

**Summary / Conclusion**

Compliance has implications for sustainability. It is crucial that corporate dealings in their day-to-day practices are compliant with relevant regulations and conventions, not only for sustainability and ethical issues but also for preserving the long-term health of companies and businesses. Firms would need to recognise that in the long term, profits are linked to sustainability.

**Cross-references**

Corporate Governance

Corporate Governance Compliance

Corporate Social Responsibility

Due Diligence

Enlightened Self Interest

Management Control Systems and Sustainability

Moral Hazard

Sustainable Community

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