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Sabine Clappaert
(sabine.clappaert@fticonsulting.com)
is Managing Director in the People & Transformation Practice for FTI Consulting in Brussels, Belgium.



Ilona Indra
(ilona.indra@fticonsulting.com) is
Managing Director in the People & Transformation Practice for FTI Consulting in Frankfurt, Germany.

Leading the way: Ethics and compliance as leadership responsibilities

By Sabine Clappaert and Ilona Indra

To thrive in a complex world of constant change and challenge, firms must continuously innovate by pivoting business models, creating disruptive products, and implementing new technologies. Keeping an organization innovative, aligned, and on course in these circumstances is no small feat. It requires a clear North Star in purpose and ethics as well as active, visible leadership to demonstrate what really matters and what is expected of everyone in the organization.

To successfully elevate ethics to be a strategic advantage, it must begin at the top. It must begin with ethics and compliance being owned by senior leaders as a leadership responsibility, and it must be part of strategic decision-making discussions.

“The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy.” – Martin Luther King Jr.

While many organizations equate ethics to compliance, that is not the case. Compliance relates to laws, which are a minimum threshold below which companies and people are punished, while ethics sets higher standards. While compliance is *extrinsically* driven, ethics is *intrinsically* motivated. It is a matter of doing the right thing against the background of one’s own moral standard—often against the backdrop of evolving social expectations that may not yet have been reflected in legal frameworks (e.g., society’s evolving expectations around environmental, social, and governance reporting or the evolving outlook of hybrid working).

Both compliance and ethics influence decisions, actions, and behaviors in organizations—sometimes, they conflict with each other. The key question for companies to consider is, what guidelines help us navigate complex situations, especially if there is a conflict between what is ethical and what is compliant?

Finding clarity in the tension between ethics and compliance starts with a clear understanding of “ethical leadership”:

- Ethical leaders look beyond *what* must be achieved and consider *how* things should be achieved. Although ethical principles may vary in different cultures and companies, there are universally acknowledged ethical values, such as trustworthiness, respect, responsibility, fairness, caring, citizenship, honesty, modesty, and sustainability.^[1]

- Ethical leaders are those who act both as a “moral person”—maintaining the universally acknowledged values in relationships with subordinates, peers, partners, and stakeholders—and as a “moral manager,” demonstrating and reinforcing the desired appropriate behaviors across their organization.^[2] *In times of challenge and controversy* (to return to the Martin Luther King Jr., quote), these leaders navigate complex situations by demonstrating consistent moral character and inspirational (and aspirational) organizational norms, standards, and behaviors. In doing so, moral leaders make ethics an explicit part of their leadership agenda and hold others in the organization accountable for applying the same standards.

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