

5.10: Emerging Trends in Ethics, CSR, and Compliance

Learning Objectives

1. Identify forecasts about contemporary ethical and corporate social responsibility issues.

Predicted trends in ethics, compliance, and corporate social responsibility for Fortune 500 companies, governments, groups, and professionals by [Navex Global for 2024](#) include the following:

1. *AI needs governance too*
While the technology behind AI is powerful, companies need to properly govern the channel. Compliance officers will play a role in guiding the enterprise adopt AI in an ethical, legal, sustainable way, establishing enterprise-wide governance.
2. *The EU continues to lead global sustainability*
ESG regulation driven out of the EU, such as CSRD, CSDDD, and the German Supply Chain Act, are affecting organizations globally. Organizations will need to boost efforts to build a foundation as the ESG landscape continues consolidating and enforcing ramps up.
3. *The nth supplier will enter daily supply chain vernacular*
There are laws on the horizon likely to upend supply chain due diligence and reporting requirements. Regulators will expect companies to collect and report on large amounts of data about their suppliers' suppliers as scrutiny of supply chains by all stakeholders grows stronger.
4. *Data related laws continue to proliferate*
As cyber-attacks escalate and sanctions regimes become more common and stringent, governments – from the U.K. to California and China – will continue passing legislations to keep citizens' data under control.
5. *Boards of directors get risk and compliance savvy*
The increased attention to cybersecurity, data privacy, human rights, third-party risk, and sanctions enforcement means boards will become more fluent in compliance programs, laying the groundwork for risk and compliance to be viewed as a strategic imperative for the board.
6. *Sanctions: the “new” FCPA*
The growing prominence of sanctions and the associated expansion of ESG factors will likely continue unabated, especially as the DOJ labeled sanctions enforcement as the “new FCPA.”
7. *Evolving DOJ compliance program expectations*
Next year will see evolving expectations when it comes to corporate claw backs, messaging app communication channels and M&A due diligence. Hinting at things to come, DOJ officials emphasized data analytics as a key part of an effective compliance program.
8. *Compliance and cybersecurity leaders take their relationship to the next level*
As cyber threats intensify, and regulatory expectations increase, partnerships between cybersecurity and compliance leaders will be key to mitigating insider threats, protecting confidential information, and fortifying programs that can withstand governmental enforcement scrutiny.
9. *Compliance data becomes critical for decision making and business resiliency*
The best defense against unfavorable outcomes is comprehensive knowledge of an organization's risk and compliance environment because the regulatory burden of proof requires data. As the number of regulations continues to grow, a framework that ties together data from different systems will be critical to GRC success.
10. *Remote workforces introduce new risks*
Forward thinking organizations will pay close attention to their own data and published trends to proactively address the emergence of increased susceptibility to fraud, new cyber exploits, and red flags signaling the erosion of ethical culture. CEOs will acknowledge the challenges of this new paradigm, empowering organization-wide ownership of a safe and ethical workplace.

Ethics and compliance go hand in hand, as stated earlier. With a strong ethical culture, compliance is more effective in preventing risks, and without a compliance program, those who deliberately choose to break laws and codes of conduct would create disorder. According to Keith Darcy, an independent senior advisor to Deloitte & Touche LLP's Regulatory and Operational Risk practice, “Strong cultures have two elements: A high level of agreement about what is valued and a high level of intensity with regard to

those values. In the long run, a positive culture of integrity is the foundation for an effective ethics and compliance program, which, when properly embedded into an organization, can create a competitive advantage and serve as a valuable organizational asset” (Deloitte, 2018).

Moral Entrepreneur: A New Component of Ethical Leadership?

An innovative development in ethics and business is the concept of “moral entrepreneur” (Kaptein, 2017). Brown and Trevino found that people who have been exposed to a **moral entrepreneur** are more likely to become moral entrepreneurs themselves because they have experienced its potential and experienced how it is done. Inspiration certainly takes place, and the person’s well-being is improved (Brown & Trevino, 2006).

Related to moral entrepreneurship is ethical leadership. Brown and Trevino’s ethical leadership is defined as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making.” Examples of such conduct include openness, honesty, and treating employees fairly and thoughtfully. Social learning theory was used to gain an understanding as to why ethical leadership is important to employees and how it is perceived to work.

Ethical leaders are models of ethical conduct who become the targets of identification and emulation for followers. For leaders to be perceived as ethical leaders and to influence ethics-related outcomes, they must be perceived as attractive, credible, and legitimate. They do this by engaging in behavior seen as normatively appropriate (e.g., openness and honesty) and motivated by altruism (e.g., treating employees fairly and considerately). Ethical leaders must also gain followers’ attention to the ethics message by engaging in explicit ethics-related communication and by using reinforcement to support the ethics message (Brown & Trevino, 2006).

In addition to social learning theory, which focuses on why and how supporters follow a leader, a social development approach to the concept of ethical leadership is also needed because it focuses on the direction that leadership should take. Studies on corporate social responsibility are concerned with how companies can contribute to societal development, not only in the sense of solving social problems but also in the sense of improving social welfare, promoting social progress, and creating new social value.

Muel Kaptein argues that ethical leadership has a third component—moral entrepreneurship, in addition to the already defined components of the moral person and the moral manager (Kaptein, 2017). He believes that moral entrepreneurship opens avenues for studying various antecedents and outcomes of ethical leadership that hasn’t been acknowledged adequately to date.

Studies of the antecedents of ethical leadership, at both the situational and personal levels, have found that leaders who have had ethical role models are more likely to become ethical leaders (Brown & Trevino, 2006). These studies have also found that the personality traits of agreeableness and conscientiousness are positively related to ethical leadership. And studies on corporate social responsibility are concerned with how companies can contribute to societal development, not only in the sense of solving social problems but also in the sense of improving social welfare, promoting social progress, and creating new social value.

According to Kaptein (2017), someone who creates a new ethical norm is called a moral entrepreneur. Becker believes that those people who make moral reform happen are the moral entrepreneurs. He differentiates between two kinds of moral entrepreneurs: those who create new norms and those who enforce new norms. The moral entrepreneur experiences something horrific that prompts him to want to do something to solve the issue, as Kaptein describes, a want to correct by translating a preferred norm into legal prohibitions: however, he risks becoming an outsider himself if he is unable to congregate support for the new norm.

Kaptein (2017) states that the component of moral entrepreneurship complements the two other components of ethical leadership (moral person and moral manager) because it highlights the creation of new norms instead of only following and implementing current ethical norms. Becker suggests that helping others is important and having the altruistic trait is important for a moral entrepreneur. Yurtsever, in developing a scale for moral entrepreneurship personality, suggests that moral entrepreneurs demonstrate high moral virtues, such as justice and honesty (Gregory, 2017). Moreover, being a moral manager is important to be able to get the support of others to follow the new ethical norm. To be successful as a norm creator, one needs the support of others. Even though the three components of ethical leadership complement each other, it is still possible for someone to exhibit only one or two of the components, making ethical leadership a multidimensional construct. For instance, one can be a moral entrepreneur without being a moral manager (what Becker calls the norm creator), or one can be a moral manager without being a moral entrepreneur, what Becker calls the norm enforcer.

Concluding Comments

So, does it pay to be ethical and moral, whether an entrepreneur and an individual or a corporation and organization? We have discussed this question in this chapter and presented different arguments with different views. Scholars and ethicists who have debated whether or not corporations can be ethical differ in their responses. One such conference at the INSEAD Business School in France closed with the following statement: “Theoretically, a strong case can be made for the moral responsibility of firms. However, this does not preclude individual moral responsibility for acts as a corporate member. Moreover, it was also evident that considerable concern exists about corporate misconduct going unsanctioned and the possibility that both good and bad corporate behavior is profoundly influenced by the extent to which individuals and corporate entities are held morally responsible” (Smith, 2014).

This statement implies that both corporations and individuals bear the possibility and responsibility for unethical—as well as illegal—acts. While corporations are not individuals, people work and relate in corporate and work settings. That is why organizational leaders and cultures play such important roles in setting the tone and boundaries for what is acceptable (ethically and legally) and what is not. Ethical values and legal compliance codes of conduct work together to prevent and, if necessary, seek correction and justice for unlawful actions. As noted earlier, promoting and rewarding ethical actions are more desirable and, in the long-term, more profitable.

Prooijen and Ellemers’s social identity analysis study found that individuals are attracted to teams and organizations with positive features such as organizational “competence and achievements” and “moral values and ethical conduct.” Since these two features do not always cohere in working environments, the authors’ study had students choose in three different studies which they would prefer in seeking employment: “perceived competence vs. morality of a team or organization.” They found that “[results] of all three studies converge to demonstrate that the perceived morality of the team or organization has a greater impact on its attractiveness to individuals than its perceived competence” (Van Prooijen & Ellemers, 2014).

? Concept Check

1. What are some emerging national and global issues and trends in ethics and business ethics?

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