



Tone at the top,  
middle and frontline



## Introduction

Fraud and corruption at executive level have often resulted in financial losses for shareholders, massive job losses and even the demise of big corporates such as LeisureNet, Enron and Worldcom. Continuous fraudulent conduct by top management and ensuing scandals have made many executives realise that they need to create the right ethical tone through their own behaviours. As a result, the “tone at the top” has received international attention over the last few years, an example can be found in King IV where there is emphasis on ethical leadership and the governance outcome of an ethical organisational culture.

We have observed, over various fraud risk management engagements, that effective governance including setting the tone at the top is important in laying a foundation for mitigating fraud risks. But organisations need to realise that what really drives behaviours in an organisation is what employees see and hear every day from the managers they report to and the colleagues they work alongside daily.

This article explores how organisations can get their employees to understand that everyone is responsible for managing the risk of fraud.

## Tone at the top

There is no doubt that whatever ethical example (tone) top management sets, it has a trickle-down effect on the rest of the employees in the organisation. If the tone set by top managers promotes ethical behaviours and integrity, employees will be more inclined to hold the same values. If top management pursues profitability at all costs this might signal to employees that ethical conduct is not a focus or priority within the organisation leading to an increased risk of fraud occurring.

Does this then mean that if the right ethical tone is set at the top then we will not witness frauds as we have in the past? Certainly not. Setting the right tone at the top will help reduce the risk of fraud occurring but further action is needed at other levels in the organisation in order to mitigate the risk even further. The tone set at the top not only has to “trickle down” but has to be consciously filtered down. Middle managers play an invaluable role in filtering down the right ethical tone to the rest of the staff within the organisation.

## Middle managers

Middle management is the most representative voice and face of any organisation’s management. They have a greater influence on the day-to-day operational decisions of employees. Their example is more “in the face” of employees, and their discretion and affirmation is what guides decisions and behaviours of frontline employees. In addition, they also set an ethical tone for their peers. The tone set by middle managers also sends a message to top management that the middle managers will not stand by and allow unethical practices to be passed down to them or to go unchallenged.

Some middle managers may perceive that the message from top management is to focus on the quantifiable business goals and not on acting ethically. This is especially true when the middle managers are faced with a seemingly impossible or difficult financial target or

operational deadline. In these cases, middle managers may decide to take the expedient path for themselves. If middle managers are not committed to creating and maintaining an ethical culture, this is immediately apparent to frontline level employees.

The following are examples of what middle managers may do to create and maintain the right ethical tone at the middle:

- Seek clarity from top management on matters that have the potential to set an unethical tone
- Openly and honestly discuss seemingly unattainable performance targets that could result in ethical violations
- Obtain guidance from the organisation’s Ethics Officer/Champion on how to deal with ethical dilemmas
- Set a good example to other employees (both at more senior and junior levels) on how to act in an open and transparent manner

## Frontline

The tone set by frontline employees is as equally important as that set at the top and middle levels. Frontline employees are usually the implementers of decisions taken at more senior levels. This should be no excuse by frontline employees to turn a blind eye to unethical practices. How frontline employees respond to requests to act in an unethical manner informs the higher level employees as to the level of unethical practices that will be tolerated by frontline staff.

## In closing

Effectively fighting the scourge of fraud needs a collaborative effort. Setting and maintaining the right ethical tone is not only important at the top but is required at every level in an organisation to effectively manage the risk of fraud.

## How we can help

At KPMG, our Ethics team will assist your organisation to:

- Assess ethics risks related to the existing culture in the organisation, as well as employee beliefs, values and behaviours;
- Articulate your ethics message, including core values and drafting a code of ethics;
- Integrate ethics through an ethics program, ethics training and communications;
- Monitor ethics performance and reporting to management and relevant committees.

<https://home.kpmg.com/za/en/home/services/advisory/forensic.html>

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