
TONE AT THE TOP - ORGANIZATIONAL CULTURE

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ABSTRACT

This research suggests that the top management must set the tone by professing and embracing integrity. The culture of an organization is propagated by the owners of a company and then passed down to executive management; then to middle management; and ultimately to the lower levels of a company's hierarchy. If a company's ownership takes on a cumbersome attitude towards fraud detection, then the majority of the company's employees will also take on a similar lackadaisical attitude towards fraud detection.

Key Words: Risk of Fraud, Executive Management, Fraud Detection, Fraud Environment, Organizational Culture, Fraud deterrence, Forensic Accounting.

1. INTRODUCTION

Re: Tone at the top - I am absolutely in agreement that the risk of fraud within an organization is driven by the owners and executive management of a company. They are the ones who set the tone of the entire organization. Ghosh (2008) concludes that, "... to promote ethics, executives need to start at the top, becoming not only exemplary managers but also the moral compass of the company. The current research suggests that the top management must set the tone by professing and embracing integrity." (p. 81) The culture of an organization is propagated by the owners of a company and then passed down to executive management; then to middle management; and ultimately to the lower levels of a company's hierarchy. If a company's ownership takes on a cumbersome attitude towards fraud detection then the majority of the company's employees will also take on a similar lackadaisical attitude towards fraud detection.

Re: Opportunity for employees to report fraud without retribution by management – Albrecht et al (2019) says that certain types of work environments breed fraud. The following list contains examples of cultural characteristics that the textbook presents as establishing a fraud rich environment:

Lack of recognition for job performance

Imposition of unrealistic budget expectations

Expectations that employees live a certain lifestyle (politics)

Autocratic or dictatorial management

Management by crisis

Rigid rules

Negative feedback and reinforcement

Repression of differences

Poor promotion opportunities

Hostile working environment

High turnover and absenteeism

Poor training

Lack of clear organizational responsibilities

Poor communication practices (p. 108)

I have worked for managers and companies that demonstrated all of these characteristics. It is an absolute nightmare working for these types of companies and these types of managers. I find it interesting how managers that exercise these types of traits justify their actions by threatening people's jobs if they do not comply with their dejected mindset.

No doubt it is probably better for an employee who witnesses this type of attitude to move on to, hopefully, a company that instills more of a transformational type of leadership style. To continue to work for a company that allows managers to act in a manner that resembles those actions on this list is not wise. Moreover, it should create a sense of concern for anyone who understands how this type of management style can lead to fraud. Unfortunately, politics plays a role in keeping people in place that drive this negative attitude. Moreover, when an employee tries to leave due to recognizing this sort of behavior he or she is labeled a "job hopper" or "poor performer" and looked down upon simply for wanting to move on. It is extremely frustrating.

Re: All levels of employees should be able to voice their opinions and ideas when assessing business risks, especially fraud risk – Agree 100%. This, again, goes back to the culture of an organization. If the so called "leaders" (I would not call people like this leaders) exude mindsets and attitudes similar to the list above then employees are not able to voice their opinion. An autocratic or dictatorial management typically will snuff out any hope of fraud prevention and detection by simply ruling with an iron fist. It is a horrible experience to work for these types of bosses.

Re: Those completing the day to day task have a first-hand look at possible areas where fraud may occur – Yes. Absolutely agree. I like the example that Albrecht et al (2019) provided on page 114 where a fraudster was living a lavish life due to the embezzlement of funds. It was her peers and direct reports who noticed the inconsistency with her salary level and her extravagant lifestyle. Because the lower levels of an organization's employee base has access to and experience with the granular details tied to a company's daily operations these employees will typically recognize before an auditor or upper management when fraud is taking place.

Re: Every single person in the company plays a vital role to the overall success of a fraud detection and prevention - Bryan (2012) says that ethics policies and formal codes do not create a principled culture; nor do policies by themselves prevent fraud. Bryan (2012) continues by saying that it is the “walk” of the owners of an organization that truly deter fraudulent activities. This mindset is predicated on the saying, “If you talk the talk then walk the walk.” Deterrence is simply following through with the programs that exist and holding people accountable when those policies and procedures are not upheld. Only when upper management and ownership of a company fully buy in to fraud deterrence can every other employee of an organization be effective in fraud deterrence. This is why the culture of an organization is so important.

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