

Discussion report



# Tone at the Top

Can accountants make a difference?

September 2012

  
NBA

*"The principles must also be given a lot of attention on the work floor - they must become the conscience of the company. This is who we are and what we expect from our employees. Naturally, it is essential for top management to take these principles seriously and to lead by example. Otherwise, this will never work... After all, humans are humans, not angels."*

*Professor Andreas Kinneging, Accountants day 2011*

# Contents

Foreword	4
Summary and theses	5
Reading guide	9
<b>1. What is Tone at the Top?</b>	<b>10</b>
1.1 Definition	10
1.2 COSO model	11
1.3 Corporate governance	13
<b>2. Top management</b>	<b>14</b>
2.1 Behaviour	14
2.2 Leadership	16
2.3 Effectiveness	18
<b>3. Supervisory bodies</b>	<b>21</b>
3.1 Internal supervisory bodies	21
3.2 External supervisory bodies	25
<b>4. Accountants</b>	<b>27</b>
4.1 Laws and regulations	27
4.2 NBA survey	29
4.3 Initial and continuing education	33
<b>5. Audit firms</b>	<b>34</b>
5.1 Laws and regulations	34
5.2 Supervision Financial Markets Authority	35
5.3 Transparency reports	35
5.4 Code for Accountants organisations	37
List of literature	38
Credits	40

# Foreword

'Tone at the Top' is a term that is increasingly being used to characterise the quality of management in an organisation. A lot is being written about Tone at the Top because people realise that role models play an important role in internal control. Nonetheless, it is a challenging theme. A variety of definitions is in circulation and a clear framework has not yet been identified. Tone at the Top could be seen as a topic that only applies to large organisations. However, this couldn't be further from the truth. In Small and Medium-sized Enterprises (SME's), the role model behaviour of the entrepreneur has an even greater direct impact on business culture than the chairman of the board or CEO at a multinational company. For professional accountants<sup>1</sup>, paying attention to Tone at the Top among their clients is part of their professional guidelines. That said, they have difficulty raising this issue among their clients, even though internal supervisory bodies would really appreciate this.

This motivated the Identification Board of the NBA to include Tone at the Top in the Knowledge Sharing programme. Because the theme still needs to be studied and discussed, a decision was made to develop a discussion report instead of the usual public management letter. The report was released on 20 September 2012 during a NBA debate.

Discussion meetings with experts and a survey among 1400 accountants were used to tease out the variety of opinions. A number of interviews were held with leading accountants and with the chairman of the Dutch Monitoring Commission Corporate Governance Code. Additionally, a round table meeting was held with prominent non-executive directors. The central question involved the opportunities and restrictions faced by accountants when raising the theme of Tone at the Top with their clients. This, together with literature research, resulted in the underlying discussion report.

The NBA would like to use this report to assume its social responsibility. Tone at the Top is one of the most important topics for improving the effectiveness of an organisation. The accountant also plays a role in this. In the report four theses are formulated, aimed at the various parties involved in Tone at the Top. Because self-reflection is healthy, the last thesis relates to Tone at the Top within audit firms. The report is part of a comprehensive programme. In June 2012 the Code for Accountants organisations was released and reserved a prominent place for Tone at the Top.

We would like to invite you to participate in the discussion and to react to the four theses included in the summary. You can provide your reactions to Johan Scheffe RA RO CIA (020 - 301 03 05 or [j.scheffe@nba.nl](mailto:j.scheffe@nba.nl)).

**drs. Ruud Dekkers RA**  
chairman NIVRA

**drs. Margot Scheltema**  
member NBA Identification Board

<sup>1</sup> Wherever this publication mentions 'accountant(s)', this should be interpreted as 'professional accountant(s)'

# Summary and theses

## Why Tone at the Top?

Tone at the Top relates to the attitude and conduct of top management at organisations. The lesson to be learned from the current economic crisis and the demise of numerous companies is that the conduct of top management, the way this conduct is perceived by employees and the culture of the organisation are decisive factors for success. It is irrelevant whether top management consists of the board of directors at an international stock market-listed company, a public organisation or the entrepreneur at an SME. The lesson remains the same; only the dimensions differ.

That is why Tone at the Top is also an important theme for accountants and supervisory bodies<sup>2</sup>. For supervisory bodies, it is a factor when evaluating the quality of management. For accountants, Tone at the Top has an impact on the quality of internal controls and thus on one of the foundations of effective organisational performance. Nonetheless, accountants still find it difficult to raise the issue with clients or in the organisation where they work as professional accountant in business or internal accountant. Supervisory bodies find Tone at the Top important but do not always discuss it with the internal or external accountant. This discussion report seeks to change this. This will be done, on the one hand, by more thoroughly specifying the term Tone at the Top and, on the other hand, by presenting four theses that offer a basis for further discussion.

*“Tone at the Top is the most decisive factor in risk management and is not something that can be managed by key controls. This is another reason why accountants must thoroughly evaluate companies and experience central and local management first-hand. All this gives the accounting profession purpose once again and, in particular, makes it more fun!”*

*Robert-Jan van de Kraats, CFO Randstad NV in ‘De Accountant’, October 2010*

## What is Tone at the Top?

In practice, it is not that easy to define Tone at the Top, let alone the norms needed to measure its quality and effectiveness. This was also clearly demonstrated by the survey that the NBA conducted among its members in 2012. This report uses the following definition, which is partly based on Howard Sklar:

**‘Tone at the Top is the visible willingness (or absence thereof) by top management to prioritise corporate values above other values in decision making and to expect all others in the organisation to do the same.’**

<sup>2</sup> The Netherlands has a two-tier board system, with a separate board of non-executive directors. In many other countries, including the US, the one-tier board system is more common, where executive and non-executive directors are part of the same board. This one-tier board system becomes an option by law as well in the Netherlands per January 1st 2013.

The principles of this report apply to both situations. For readability purposes, the following terms are therefore used: supervisory board for both a board of non-executive directors - whether separate (‘RvC’ in Dutch) or not - and a supervisory board (‘RvT’ in Dutch), non-executive director for a member of a board of non-executive directors (‘commissaris’ in Dutch), internal supervisory body for a body that has a supervisory role within an organisation (‘interne toezichthouder’ in Dutch) and external supervisory body for a body that has a supervisory role external to the organisation (‘externe toezichthouder’ in Dutch) covering both regulatory and oversight bodies.

Tone at the Top concerns the consistency between the (role model) behaviour of top management and the vision, strategy and values of the organisation established by the same top management. In short: show what you stand for and walk the talk. Tone at the Top has been defined in neutral terms, but can be given a negative or positive connotation. The COSO model from 1992 offers an important foundation. It is directly related to internal controls and corporate governance. The correct Tone at the Top forms the foundation for good governance.

## Tone at the Top and top management

An organisation's Tone at the Top is primarily determined by the top layer of management at the organisation. The vision, values and strategy established by the organisation will be undermined completely if they are not supported by top management. Organisations are created by people and it is the task of management to motivate them to realise the objectives of the organisation. In fact, Tone at the Top is about leadership.

Employees throughout the organisation must be able to understand the norms and values of the organisation and must want to respect and apply them because they represent the organisation's preferred culture. And these norms and values can be reinforced by the role model behaviour of respected and trusted top managers. After all, the best lessons are taught and learned when leading by example. Modern CEO's are visible and servant, they consider dilemmas carefully and balance the interests of all stakeholders. In order to be effective, the Tone at the Top must be consistent and visible and must help to realise an open culture based on trust. Checks and balances within the organisation must ensure the right tone and behaviour, from the work floor up to the very top.

Tone at the Top is also about perception - the way in which top management is perceived by the rest of the organisation. In large organisations, an important role is often played by middle management. Acting as a filter between top management and the work floor, they can have a positive or negative impact on the way Tone at the Top is implemented. However, the effectiveness of Tone at the Top is organisation-dependent and time-dependent. Each of an organisation's growth phases requires another type of leadership. Something that was successful in the past may no longer work in the future.

### Thesis 1:

**Tone at the Top is a prerequisite for good governance. That is why top management should regularly place Tone at the Top on the agenda and discuss it with the internal supervisory body.**

## Tone at the Top and supervisory bodies

Larger organisations normally feature an internal supervisory body, like a board of non-executive directors or supervisory board. The duties of these boards include supervising management of the organisation. Accountants are often in a position to provide relevant information to these boards. During his<sup>3</sup> activities, the accountant obtains a good understanding of the culture and the Tone at the Top through observations and conversations with employees. Internal supervisory bodies are increasingly asking internal and external accountants for their opinions on the Tone at the Top. They expect them to highlight potential concerns about the topic. They are not required to pass judgement, but are expected to provide some kind of indication. But at times, it appears as if accountants are not yet sufficiently prepared to offer assistance. On the other hand, supervisory bodies seem to be unaware that they can query their accountants on this topic. An important condition is for sufficient time to be set aside to discuss the topic on a periodic basis. The fact that external supervisory bodies also recognise the importance of Tone at the Top has been demonstrated in publications by De Nederlandsche Bank (DNB, Dutch Central Bank) and in the approach selected by the Dutch Tax Authority when implementing horizontal supervision of tax paying entities.

3 Wherever this publication mentions 'he', this should be interpreted as 's/he'

## Thesis 2:

The internal supervisory body should discuss the Tone at the Top at least once a year in the presence of the accountant, without the participation of top management. This will not strain the relationship of trust between the accountant and top management.

## Tone at the Top and accountants

Tone at the Top is actually not a new topic for accountants. They are required to pay attention to the integrity of their clients as soon as they propose an assignment. The Verordening Gedragscode (VGC, Dutch Code of Ethics for Professional Accountants) stipulates this as one of the fundamental principles of the profession. This involves evaluating the reputation, the business culture and the attitude of management towards reporting and internal controls.

Tone at the Top is also part of the control environment assessment and the risk analysis when an audit is being carried out. All accountants in an auditing role, be they external, internal or government accountants, are required to report their findings to the supervisory bodies at the organisation. Tone at the Top also plays an important role for accountants who do not actually act as auditors (the accountants in business). They are expected, based on the VGC, to promote a culture within the work environment that is based on fundamental ethical principles.

## Thesis 3:

Accountants should always address Tone at the Top in their discussions with top management and the internal supervisory body. A verbal explanation and well-founded indicators should generally be sufficient.

Many accountants experience hurdles when trying to place Tone at the Top on the agenda. The survey by the NBA shows that accountants miss a solid foundation for discussing the Tone at the Top. They are also fearful that their relationship may be harmed if the organisation's management is not open to this topic, specifically in SME's. However, accountants who actually discuss Tone at the Top have generally encountered a positive response. It is, therefore, important to place greater emphasis on Tone at the Top, as well as the other behavioural aspects of internal control, during the initial accountancy and continuing education.

## Tone at the Top within audit firms

The Tone at the Top within audit firms is also worth mentioning. In order to credibly address the Tone at the Top of their clients, accountants should also examine themselves. Inspection reports by the Autoriteit Financiële Markten (AFM, the Dutch Financial Markets Authority) have included critical comments on the culture within audit firms, particularly in relation to conflicting commercial and professional priorities. The firms have acknowledged the need to improve on this front and their legally mandated transparency reports are increasingly paying attention to Tone at the Top.

#### Thesis 4:

Even more so than other organisations, it is important for Tone at the Top within audit firms to not only be respected and applied by top management, but also by all other accountants, especially those employed at the firm as partners or in similar positions.

The NBA has not merely adopted a passive approach in this matter. On 28 June 2012, the Code for Accountants organisations with a licence to audit OOB's (Organisations of Public Interest) was signed by eleven out of the thirteen relevant firms. This code was part of the Plan of Action published by the NBA in the Autumn of 2010. One of the core features of the code is the Tone at the Top within audit firms.

# Reading guide

All facets of Tone at the Top will be explored in the following five chapters.

- Chapter 1 starts with a definition of Tone at the Top and its importance from the perspective of corporate governance and internal control. The COSO model from 1992 is the basis.
- Chapter 2 pays closer attention to the main factor within Tone at the Top: top management. The issues addressed include behaviour, leadership and conditions for effective Tone at the Top.
- Chapter 3 focuses on supervisory bodies and makes a distinction between internal and external supervisory bodies. A good insight into Tone at the Top is also in their best interest.
- Chapter 4 addresses the role of accountants in Tone at the Top, and is partly based on the NBA survey among accountants.
- A discussion report about Tone at the Top cannot ignore the Tone at the Top within audit firms. Chapter 5 has been dedicated to this.

The working group that helped to produce this report collected a number of anonymous case studies, which feature both negative and positive connotations. These case studies are referred to throughout this report. As part of the project, interviews were held with leading accountants and the chairman of the Monitoring Commission Corporate Governance Code. Quotes from these interviews have also been incorporated into this report and can be recognised by the orange text boxes. In addition, this report offers nine recommendations for dealing with Tone at the Top. They have been numbered and displayed in separate boxes.

## Interviewed persons



prof. dr. C. Cools RA, professor RUG and partner at Booz & Company



J.M.A. van Huut RA, chairman of the board Mazars and board member NBA



prof. dr. L. Paape RA RO CIA, Dean & Member Executive Board Nyenrode Business University



mr. drs. M.H.M. Smits RA, CEO Sara Lee and former CFO KPN



drs. J. Streppel, chairman Monitoring Commission Corporate Governance Code, former CFO Aegon and president board of non-executive directors KPN amongst others



Mrs. drs. J.M. van Zanen-Nieberg RA, general director ADR (Governmental Audit Department)

# 01 | What is Tone at the Top?

This chapter addresses the definition of Tone at the Top. The origins of the theme are found in the COSO model for internal controls and it is directly related to corporate governance.

## 1.1 Definition

Tone at the Top is about top management. In large organisations in the public and private sector, this will be the board or the directors; in SME's, this will often be the entrepreneur. The current economic crisis and the various company scandals have shown that the behaviour of top management and the culture of an organisation are important factors for success. More and more codes are being implemented, which are aimed at individuals, individual organisations or entire sectors. The codes are normally restricted to establishing general principles (principle-based approach). On the other hand, the increasing claim culture, the power of the media, countless examples of reputation damage and fear for assuming one's responsibility has resulted in a need to hide behind regulations (rule-based approach). When this report was being formulated, it became apparent that the people involved have different understandings of the term 'Tone at the Top'.

*"To me, Tone at the Top is a very broad concept. There is still too much emphasis on compliance ('we don't do things that are not allowed'). In my opinion, it all becomes a lot more pleasant, stable and more motivational when you see it as part of corporate social responsibility. This way, it is more a case of: 'We only do the good things here'. This is perfectly compatible with a strong focus on long-term value creation. On this front, I use the motto: 'know, do and want'. In my opinion, it is about ensuring people know what is and what is not appropriate; that they actually start doing the good things and that they are proud to work for a company where everyone is so engaged that they don't want to move elsewhere."*

*Marcel Smits*

*"I see Tone at the Top as a part of culture. You cannot see behaviour and culture separately from organisation development and standardisation/methods. These facets must be connected. It is about finding a balance, also between results and speed. In ministries, it's all about what the minister wants. This is determined by the government's policy agreement and the specific focus areas within it. The minister also rolls up his sleeves; the department lends a helping hand and continues to support the minister."*

*Anneke van Zanen-Nieberg*

Tone at the Top is an important factor in helping organisations to realise their objectives. It is not so much about concrete management measures like procedures, job specifications and physical security, but is more about factors that influence the behaviour of people within organisations - the so-called soft controls. Tone at the Top is seen as an essential compo-

ment in soft controls. The term has Anglo-Saxon origins and has been described in international literature by scientists like Merchant and Sklar. In Dutch literature, Swinkels is one of the few people to release a publication on Tone at the Top. He has identified three key components of Tone at the Top: leadership, communication and culture. They must be consistent and must be monitored.

This discussion report has adopted the following definition:

**‘Tone at the Top is the visible willingness (or absence thereof) by top management to prioritise corporate values above other values in decision making and to expect all others in the organisation to do the same.’**

Tone at the Top involves consistency between the (role model) behaviour of top management and the vision, strategy and underlying organisation principles established by the same top management. In this case, visibility is an important factor. It is actually about employees on the work floor seeing the desired norms and values and believing them, whereby they will start displaying the desired behaviour themselves. In short: do what you say, walk the talk.

*“I see Tone at the Top as being the influence of management on the desired behaviour of people within the organisation. Management must lead by example within socially accepted norms. And this must also be visible. The management of a company must plan the company’s future and be able to explain what they do and why they do it. Remuneration policy is part of Tone at the Top. However, it is uncertain whether variable remuneration results in improved performance. If one selects the wrong basis for variable remuneration then one will achieve unwanted behaviour, like management based on turnover instead of customer satisfaction, the level of encountered risks and employee satisfaction. Performance can also be appreciated using compliments like: “well done”. Opportunities given to employees to take responsibility for their work - without too many rules and bureaucracy - also result in satisfaction. This is also Tone at the Top.”*

*Jos Streppel*

*“Someone once said that ‘ethical’ is when directors do things they personally believe to be good and don’t mind having a microphone under the table so the supervisory board can hear everything. In this case, it will only be good if directors do good things when the microphone is not switched on. People must do things of their own accord, even when there is no supervision. An appropriate step-by-step plan could be: agree with yourself, be prepared to be accountable, be transparent and permit supervision.”*

*Jos van Huut*

Tone at the Top is relevant for every organisation; not only in the private sector, but also in the public sector. The difficulty with this topic is the absence of clear norms for measuring quality and effectiveness. The COSO model for internal control featured the first ever reference to the term.

## 1.2 COSO model

Interest in internal control and corporate governance can be traced back to a report by the Treadway commission in 1987. This commission made recommendations for improving the quality of internal control systems implemented by companies in the United States. The report emphasised the major importance of the control environment and codes of conduct. As a follow-up to this report, the COSO<sup>4</sup> Internal Control framework was released in 1992, which defined internal control as follows:

**‘Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:**

4 COSO is an abbreviation of The Committee of Sponsoring Organizations of the Treadway Commission. The participating organisations were: the American Institute of Certified Public Accountants, the American Accounting Association, The Institute of Internal Auditors, the Institute of Management Accountants and the Financial Executives Institute.

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations.’

According to COSO, internal control features five inter-connected components: control environment, risk assessment, control activities, information & communication and monitoring. The control environment is the basis for the other four components:

‘The control environment sets the tone of an organisation, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity’s people; management’s philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.’

## Recommendation 1: Evaluation internal control

Internal control can be assessed using specific questions. However, it is recommended to tailor these questions to the individual organisation. The questions sometimes resemble questions in employee satisfaction surveys. It may be effective to expand these surveys by including Tone at the Top questions:

1. Are the vision, mission and goals of the organisation (organisation values) comprehensive and specific enough?
2. Are they effectively communicated and implemented, for example, via business plans? Is the code of ethics appropriate, is it understood by all parties and how are dilemmas and breaches addressed?
3. Does management lead by example and show commitment to sound internal controls, are clear penalties in the event of breaches communicated and is this communication effective?
4. Are performance rewards based on realistic targets, without temptations, and are performance indicators reliable? Sufficiently focussed on the long-term?
5. Do employees possess the knowledge and skills to effectively perform their tasks, are there good job descriptions and are there effective human resource policies in place based on development?
6. Are the supervisory bodies effective and competent, do they possess sufficient sector knowledge? Are they provided with information in good time, are dilemmas shared and is attention paid to the control environment, including Tone at the Top?
7. What is management philosophy and operating style, is it consistent with the values of the organisation? What is the status of risk management? Is there a good balance between risk-taking and controls? Is there reasonable stability in key management? Are laws, regulations and compliance respected? Is there sufficient interaction with the work floor? Are decisions balanced? Is the organisation structure suitable (authorisations and responsibilities) for realising the mission?
8. Are information systems adequate, is communication clear and is compliance monitored?

*Based on: training IIA Nederland, James Roth, ‘How to evaluate corporate culture’*

When defining the control environment, there is little mention of the term Tone at the Top:

**‘Effectively controlled entities strive to have competent people, instill an enterprise-wide attitude of integrity and control consciousness, and set a positive Tone at the Top.’**

It is striking that Tone at the Top can have a positive connotation, which implies that it can also have a negative connotation. The following quote from COSO supports this:

**‘Tone at the top can be either a driver or a barrier to internal control.’**

Further, it appears that Tone at the Top is primarily related to behaviour, where top management must act as role models. At this moment in time, COSO is revising the text published in 1992. The first draft version mentions the following:

**‘Management and the board of directors or equivalent oversight body are expected to lead by example in developing values, a philosophy, and an operating style in the pursuit of the entity’s objectives. Such values balance the needs and concerns of different stakeholders, such as employers, suppliers, customers, competitors, regulators, investors, and the wider community.’**

## 1.3 Corporate governance

Since the COSO report was published, there has been increasing attention for corporate governance and the quality of internal controls. This has been demonstrated by the many studies, reports and codes that have been published since then. In the Netherlands, the most renowned is the Netherlands Corporate Governance Code (2003). All these publications show that the behaviour of top managers plays a significant role in the quality of management and eventually the continuity of the organisation. However, these publications did little to prevent the recent crises. Jules Muis wrote the following comment on the matter, on the website accountant.nl:

*“Despite the interest in tone at the top inspired by COSO and Sarbanes-Oxley over the past twenty years, the darker aspects of organisations were left unexplored throughout the entire period, in spite of a mountain of completed forms and check lists.”*  
*Jules Muis, blog February 2012*

In 2011, the International Federation of Accountants (IFAC) published a report based on interviews with 25 leading authors of annual reports, non-executive directors, accountants, standard-setters, supervisors and investors. The central question concerned the course of action that should be taken - in light of the financial crisis - to improve corporate government, financial reporting and auditing in organisations and increase the usefulness of annual reports.

Strong governance is a prerequisite for high quality reporting:

*‘Good Governance starts with Tone at the Top. The financial crisis has stressed that good governance counts. Corporate governance failure is at the core of all of the issues experienced during the global financial crisis. The strongest form of defence against governance failures comes from an organisation’s culture and its behaviours. Effective governance in organisations depends on employee’s integrity, which starts with management’s tone at the top. Interviewees recommended that boards should formulate the values to which they adhere in a code of conduct and, subsequently instill those values throughout the organisation.’*

*From: IFAC report ‘Integrating the business reporting supply chain’*

# 02 | Top management

This chapter discusses two main elements within Tone at the Top: behaviour and leadership. The prerequisites for an effective Tone at the Top include 'walk the talk', visibility and an open culture.

## 2.1 Behaviour

In recent decades, a lot of attention has been given to behavioural aspects within organisations. Apparently, people do not always behave as rationally as has long since been assumed in economics. Organisations consist of people and it is about motivating these people to help realise the objectives of the organisation. This is the most important task of top managers. The behaviour of top management is thus one of, if not the, most important factors for the success or failure of an organisation.

Even if the Tone at the Top is correctly implemented by top managers, in practice, this may not always reach the work floor. In large organisations, middle management plays an important role on this front. They are an important link for conveying the board's Tone at the Top. Acting like a filter between top managers and the work floor, they can have a positive or negative impact on the effectiveness of Tone at the Top. However, it is not necessary for the interests of middle management to be fully consistent with those of top management. When setting priorities, the role model behaviour preferred by top management can also be given less attention. The way in which management in the organisation is rewarded often plays an important role in this.

Research among large companies, by Ziegler in 2005, showed that the decisions of top management do not always reach the work floor. Over two thirds of managers and only one third of the work floor confirmed that 'the behaviour of my colleagues is consistent with the mission, vision and values of the company'.

### Positive example

---

#### **Board actively participates in cultural project**

*A large organisation in the Netherlands runs a project aimed at culture and recalibrating (integrity) norms and values within the organisation. The board of the organisation actively participates in this project. Not only via sponsorship, but also by participating in various work groups and personally conducting interviews.*

## Negative example

---

### From professional to personal control

*The Board of Directors (BoD) at a large multi-national holds monthly performance reviews with managers of the various business units. During these conversations, the BoD always emphasises the importance of transparency and asks for potential financial risks in large projects to be mentioned. If these risks become reality, it appears that the BoD conducts these conversations in a less professional manner, and becomes more personal. They think individual managers are to blame, so they must either find a solution or resign. This creates a culture of fear. The managers of business units and the project managers adopt a reserved attitude, which results in risks not being fully disclosed, which in-turn results in financial problems and unnecessary middle management redundancies. This also results in distrust between business units. The supervisory board does not conduct any investigations or exit interviews because the CEO has been performing really well for years.*

Tone at the Top is about the behaviour of top managers. The vision, values and strategy of the organisation become hollow concepts if they are not visibly implemented by the board and management. The importance they attach to these aspects can be expressed in various ways:

- concrete decisions that explicitly display the values of the organisation, like setting up a cultural change programme. The real test comes when profitable initiatives are ignored, in favour of other values like integrity.
- measures that cause employees to pause for thought when implementing policy in practice, like being held accountable.
- measures that cause employees to place greater focus on organisation values, like periodic dilemma training and mandatory internal consultation.
- initiatives that clearly demonstrate that failure to comply with rules in the organisation will not be accepted, with the accompanying monitoring, compliance and communication.

In practice, these measures often coincide with one another, for example employment contracts often contain a code of conduct. This means employees already become familiar with the code when they accept the job. This can be strengthened by including compliance with the code in periodic appraisals. Failure to comply with the code can result in, for example, loss of variable remuneration, suspension or even dismissal. Managers can also declare at set intervals (e.g. every quarter or six months) that they have operated in line with the current code of conduct.

There must be opportunities to discuss dilemmas and contradictions in the organisation's culture. For example, the relationship between profitability and the company's other values, the question whether the remuneration system is consistent with or contradictory to the Tone at the Top and the opportunity to openly have another opinion. This opportunity can be created via, for example, specific training, employee surveys or personnel meetings. It is important for top managers to provide feedback to employees about the highlighted bottlenecks and signals and to set up joint initiatives. This requires consistent behaviour, in terms of time as well as intensity. Interim modifications due to, for example, worsening economic indicators can quickly result in cynicism among employees and can create the perception that all the fancy plans were only set up as a token gesture.

## Negative example

---

### Inappropriate role model behaviour when accepting gifts

*The management of a business unit was informed by top management to communicate core values and integrity-related rules to all employees. To realise this, the concern supplied a presentation featuring underlying principles and rules. A specific point of attention concerned accepting gifts from suppliers. However, during the week of the presentation, the management of the business unit attended a luxurious dinner invitation from a major supplier. This completely undermined the credibility of the rules communicated to the employees. The purpose of the rules was clear and they were actually communicated by management. But because management did not act in accordance with the rules, the underlying principles of these rules were more or less ignored.*

## Positive example

---

### CEO close to the work floor

*After being appointed, a CEO at a large multi-national presented a clear vision for a new type of company. In order to lay the foundations for this vision, he spent half of his time flying around the world to keep abreast of the situation and to hold discussions. He believes he is close to the work floor and thus receives feedback because people are not afraid to say things. 'People don't only remember what you say, but also what you do. Show interest when someone's mother passes away. Write a letter if someone has been promoted. See the company like a family, and not like a hierarchy. A leader can positively influence that family via his behaviour. If you are positive, then people want to be around you. They want to join you'. The role of the CEO primarily involves giving everyone in the company the opportunity to be successful. This attitude allows the CEO to be successful by realising structural growth in, for example, results, number of innovations and market share.*

The board must clearly express its vision about topics that are directly related to company norms and values. This indicates the importance they attach to them and increases the engagement of employees with these topics. For example, establishing clear guidelines about clients and assignments that the organisation does not want to accept. Consistent compliance with norms and values within the organisation is one of the clearest signals that the board can give.

In many SME's, the culture is characterised by strong emphasis on loyalty and tradition. This applies to small companies where the entrepreneur automatically assumes a dominant position. It can quickly realise changes that have a direct impact on the organisation. The entrepreneur thus has an important role model position toward employees. They will know who they're working for and will be encouraged to do that bit extra when needed. The entrepreneur is accessible to everyone. In contrast with large organisations, in practice, most matters relating to Tone at the Top have not been formalised or established in, for example, codes and procedures. Middle management is limited in size, communication is often direct and is normally verbal.

Therefore, Tone at the Top is even more important for SME's. In SME's, management is more visible to people on the work floor and, for the most part, that is where an organisation's behaviour is actually expressed. This establishes strict requirements for consistency; doing what you say and leading by example. Management behaviour that is not consistent with this will be immediately highlighted. This has benefits if the Tone at the Top is positive. If this is not the case, there will be major disadvantages.

## 2.2 Leadership

Tone at the Top also clearly relates to leadership. Management style is thus an important component in Tone at the Top. The effectiveness of Tone at the Top is organisation and time-dependent. The organisation's current (growth) phase is also important. A dominant leader can be very effective in some organisations or phases, but this may not be the case in other situations. The ideal leadership type is also subject to change over time. A variety of research has shown that servant leadership is increasing in popularity.

Consultancy firm Boer & Croon performed a survey in 2011 concerning Dutch CEO's at twenty organisations. The firm concluded that the job of CEO has changed drastically. The ideal CEO is considerate, accepts input from his surroundings and realises at all times that he is less important than his organisation. He only gives interviews if he can say something about the company. In general, he realises that he is merely a passer-by and that he, as a person, is not important. A clear shift can be seen compared to the Nineties. Modern chairmen of the board are more approachable and more sensitive to the public opinion. One interviewed CEO expressed it as follows: "When times are good, a CEO gives credit to his employees; but when things get tough, he has to take the blame." According to Boer & Croon, a modern CEO is someone who is almost always considering dilemmas. He must be servant and visible to his employees.

In the Netherlands, collective management has been used as an underlying principle for many years. Due to Anglo-Saxon influences, the CEO emerged in the Nineties, as did the high (partly variable) rewards. This approach is accompanied by

certain risks. A few years ago, Professor Kees Cools from the RUG examined 25 large accounting scandals, like Enron, Worldcom and Ahold. He compared management at these companies with that of 25 similar companies where fraud was not encountered. Fraud did not appear to be caused by the absence of formal governance structures. The main causes were the exuberant behaviour of CEO's, excessive variable remuneration and the implementation of unrealistic targets. Among the fraudulent companies, there were many 'heroes'; people with excessive popularity in the business world and beyond. These CEO's were quoted over three times more often in the press than their fellow chairmen and were two to two and a half times more likely to be divorced. However, the biggest problem of exuberant behaviour is not the urge for glory, fame or hero worship. No, such people do not tolerate conflicting opinions, which is a lot more serious according to Cools. This results in checks and balances being ignored and people in power no longer being checked. In this case, success becomes the root of the problem.

*"As a non-executive director, you have to realise that the organisation does not have self-healing capacity in terms of tone at the top. That is something you have to enforce. Once again, acting tough in the board room is one of the main risks for an organisation."*

*Leen Paape*

Is exuberant behaviour always a threat to the organisation? According to the thesis of Antoinette Rijsenbilt from the Erasmus University Rotterdam, this need not be the case. A certain level of narcissism among top management is essential for effective leadership. However, excessive narcissism can be destructive. Her research showed that fraud is more often encountered when CEO's have a high level of narcissism, compared to CEO's who achieve lower scores for a narcissistic personality. This results in worsening financial performance, less resistance and high susceptibility to fraud. Rijsenbilt advises supervisory bodies to intervene if CEO's start showing increasing levels of narcissism.

## Recommendation 2: Indicators of exuberant behaviour

### Office:

Is the head office, work area (m<sup>2</sup>) and interior of the managing director/chairman of the board compatible with the values of the organisation?

### Car:

Are the director's car and the location of the parking space consistent with the values of the organisation?  
If there is a private chauffeur, is he also used outside work hours?

### Media:

How big are photos of the director in annual reports and the organisation's other publications? Has the director received prizes, e.g. best CEO of the year? Does the director regularly appear in the press and do these appearances relate to the organisation or him as a person? Is the director regularly spotted at VIP events which in no way represent the company's interests?

### Salary:

How does the salary of the director compare to other salaries in the organisation and by how many percent does his salary increase each year? Is it linked to high growth objectives and are private expenses sometimes declared?

*Based on: A. Rijsenbilt, 'CEO Narcissism: Measurement and impact'*

*“In terms of the control environment and Tone at the Top in the public sector, I think people are well accessible. I will be brief about attractive invitations without professional relevance - we don't do them! In fact, everyone should be required to follow ethical training.”*

*Anneke van Zanen-Nieberg*

## Negative example

---

### **Conflicting messages from the board of directors**

*The board of directors professes the importance of compliance, ethics and integrity. It invests a lot of time and energy on this front. The organisation has a code of conduct, implements compliance training and has a culture programme. At the same time, the board establishes very ambitious financial targets for management. This requires management to do their utmost, so that compliance, ethics and integrity fall by the wayside. Eventually, financial performance will determine the bonus, status and career opportunities of management. The board of directors has insufficient awareness of these risks and implements insufficient monitoring, but primarily looks at the financial performance. The internal audit department and the external accountant also fail to highlight the issue.*

An important principle of corporate governance is that power must always be checked. If power is too strongly concentrated with one person, the risk of the organisation coming off the rails will be greater than if sufficient countervailing power existed. Internal supervisory bodies play an important role in this. This will be further addressed in chapter 3.

## 2.3 Effectiveness

Tone at the Top requires role model behaviour and consistency. Directors must be visible and there must be a trust-based culture rather than one based on control. Three conditions are important for effective Tone at the Top:

### **1. Walk the talk:**

It is important for the (role model) behaviour of directors to be consistent with the core values of the organisation. Evaluation and reward criteria must be consistent. Directors must do what they expect from the rest of the organisation. People's perception of this role model behaviour is very important. Employees on the work floor must be able to understand the norms and values and want to adhere to them, because this is the preferred culture, which is also respected by managers.

*“When faced with dilemmas, people rarely seek guidance in rules and procedures. Factors such as personal moral judgement, perceived expectations of other important parties, the behaviour of colleagues and, in particular, the role model behaviour of managers play a much more significant role. This is shown time and time again by a variety of research.”*

*Muel Kaptein and Philip Wallage in Parool, October 2005*

## Negative example

---

### **Perception of employees**

*A large company held a Tone at the Top meeting with 100 of its most important employees. The chairman of the supervisory board led the meeting and emphasised the importance of effective Tone at the Top for organisations. However, when having a drink afterwards, he said he was relieved that this whining was over for another year. That's when everyone realised the real importance of the meeting and the real state of affairs in terms of Tone at the Top.*

## 2. Visibility:

The (behaviour of the) board must be visible to personnel. In some large organisations, the board is often invisible because it is shielded from personnel and the outside world. Sometimes, the chairman of the board never goes into the company canteen and uses his own lift or car park. In such cases, the only time the chairman of the board is seen is during receptions and the traditional New Year's speech, possibly via a video message. The behaviour of the board will thus have little or even negative influence on the organisation. Due to increasing social pressure to create transparency and due to the increasing use of social media, the board's visibility to the outside world increases automatically. However, reputation risks are also rising.

*"I write a weblog every day, which can be read internally by every ABN AMRO employee. It is actually a management instrument that can be used to implement change. It implicitly shows the way of working that we are aiming for at ABN AMRO. However, such an instrument only works if things remain spontaneous and personal. Another topic must be addressed every day and it often contains humour and mockery, because they help you to achieve a lot. It must be authentic, although I always bear in mind that not everything can be written because certain things may end up in the media."*

*Gerrit Zalm in KPMG publication 'Managing with feeling', June 2011*

## Negative example

---

### Insufficient board visibility

*In a large organisation, vision, mission and strategy, and the accompanying norms and values, are established in a variety of documents. They are also communicated via modern media like intranet, newsletters and e-mail. However, when conveying these elements, the board is not personally visible to employees. Employees have the impression that the board is unapproachable. Visible communication by the board within and outside the organisation puts the emphasis on (financial) results. According to employees, this means giving financial results priority over the organisation's other objectives. However, further discussions with the board reveal that it feels the balance between financial results and the organisation's other values is self-explanatory - but this is not communicated clearly. The board has insufficient awareness of the difference between thinking and doing.*

## 3. Open culture and trust:

Openness in an organisation is directly influenced by the Tone at the Top. Does management offer enough opportunities to highlight dilemmas? How is the Tone at the Top perceived by employees? Is management open to criticism? Which behaviour or results is/are rewarded by management and which are punished? Openness must be naturally associated with a culture where errors are addressed in a mature manner. If people genuinely do their best, then allow them to make the odd error. Excessive focus on control by top managers can have a negative impact on the motivation and performance of employees. Management based on trust, by giving more discretion to managers and employees, can be a lot more effective - it motivates people and encourages creativity

## Negative example

---

### Innovation and aggression result in inappropriate culture

*Company management placed great emphasis on two themes: 'innovation' and 'aggression'. This created a culture with strong focus on performance. One aspect that emphasised the focus on performance was the way in which employees were assessed. Each year, the system divided employees into two groups: 'winners' and 'losers'. The top ten percent could count on large bonuses and promotion. The last twenty percent could pack their bags. This unhealthy aggressive pressure on performance resulted in a culture that conflicted with socially acceptable rules and values. And although the tone may have been consistent, such a culture presents risks because it pushes the organisations to cut ethical corners. At a certain moment, this endangers the long-term continuity of the company.*

### Recommendation 3: Criteria for evaluating business culture

- there is a code of conduct, with its importance being emphasised by the board
- senior management demonstrates ethical values
- targets are realistic and feasible
- employees possess the knowledge and skills to do their jobs effectively
- employees learn from their mistakes
- employees are treated fairly
- management encourages open communication
- people understand each other within the organisation
- clear targets have been formulated
- there is uniformity in authority
- people are open to criticism
- performance is measured using fixed criteria
- management shows an interest in the personal problems of employees.

*From: 'The importance of insight in company culture 2' Ron de Korte and Adriaan Olsthoorn*

### Recommendation 4: Evaluating culture and behaviour: ten conscience-oriented questions

1. Which behaviour is expected from the organisation to realise brand promises, strategy, expectations of shareholders and governance objectives?
2. To what extent have culture and required behaviour been clearly and unambiguously defined in core values?
3. How does the organisation ensure that everyone in the organisation is familiar with the core values for behaviour expected in the various departments and jobs?
4. To what extent is the (role model) behaviour of top management consistent with core values and culture?
5. Which signals does management give via the choices and decisions it makes? To what extent are these signals consistent with strategy, objectives and core values?
6. To what extent are top and middle management under pressure to realise established financial (often short-term) objectives, possibly at the expense of trust in the long run?
7. How does the organisation evaluate and reward employees for good behaviour in line with core values (and not only for realising results)?
8. To what extent do the rules and internal control measures cover the governance objectives, while continuing to fit in the organisation's preferred culture?
9. How does the supervisory board obtain enough specialised and reliable information to hold well-founded discussions with management about the strengths and weaknesses of organisation culture?
10. To what extent does the supervisory board comply with its preferred culture and lead by example, via its own behaviour and the way in which individual board members deal with one another and the management?

*From: PwC publication, 'Controlling culture and behaviour'*

# 03 | Supervisory bodies

Tone at the Top is also an important topic for internal and external supervisory bodies. It should permanently feature in their agendas<sup>5</sup>.

## 3.1 Internal supervisory bodies

### Supervisory board

In many organisations, a supervisory board has been established to monitor management. For large organisations this is required by law. Various governance codes focus on quality of internal supervision. Legislation is also in the making in the Netherlands to encourage diversity and restrict the number of supervisory functions per person. In practice, this is not being implemented effectively. Non-executive directors are sometimes too far removed from business operations, lack expertise, are not critical or independent enough, invest too little time in their task or lack the required diversity. When performing their tasks, they primarily base themselves on information provided by directors or the board they must monitor. Thankfully, it appears that non-executive director duties are being implemented with increasing professionalism. Many non-executive directors now follow specific training and there are professional associations for supervisory bodies, for example, in the healthcare sector. There is also greater focus on self-evaluation, preferably under guidance from independent third parties. According to the Netherlands Corporate Governance Code, each year, the supervisory board examines areas in which non-executive directors need further training and education. The Banks Code stipulates the need for non-executive directors to follow continuous education.

*“Supervisory bodies always question whether ‘they hear everything that goes on’. Things sometimes appear better than they actually are. Perhaps an example from my experience will help. Members of the board of directors always had well coordinated, well prepared and well organised instructions for the supervisory board. However, a lot of failings were highlighted when a disagreement was encountered. The supervisory board must thus also look at the personality of the director, ask thorough questions, hold meetings without the director, also with the works council, and hold effective appraisals. In the case above, the accountant had failed to address the issue because he had little insight into the ‘softer’ aspects.*

*Jos van Huut*

A survey by KPMG in 2010, among 100 non-executive directors at Dutch stock market companies, shows that they pay increasing attention to the integrity of companies and their boards. The reasons given are the reputation of the company and the fact that integrity is an important prerequisite for good internal organisation. According to KPMG, this not only means that boards must themselves act with integrity, but must also be able to demonstrate that the same applies to the organisation.

<sup>5</sup> See footnote 2 on page 5 for an explanation of terms re. supervisory bodies.

Non-executive directors not only expect the board to report on the matter, but also the compliance officer, the internal accountant and even the external accountant.

*"I am of the opinion that a very broad definition for 'Tone at the Top' should be used. Namely, the behaviour of top management, coherence and cooperation among top managers, the impression that top management gives throughout the company and the credibility with which top management does this, should be a very important point of focus (if not the most important) for the supervisory board. If this is the case, then non-executive directors will ask very inquisitive questions about attitude, behaviour, motivation and actions. And this will create ample opportunity for dialogue with accountants who see a variety of things happening in the company - after all, they spend the whole day there. Demand pull from supervisory boards in the Netherlands would add legitimacy to the job of external accountants. In the meantime, I see supervisory boards doing little to realise this. Most supervisory boards seem content with the information they receive from top management."*

Marcel Smits

*"As a non-executive director, you must be certain that the presented information is actually accurate. This is something you discover via, for example, the accountant; you see if the organisation has appropriate structures around the CFO; you talk to the 1st and 2nd echelons under the board and with the internal accountant; you see how the board describes the problems it encounters and how other board members 'just sit there'; you see customer satisfaction surveys and employee satisfaction surveys; illness-related absence, complaints, how improvement processes are implemented and exuberant behaviour. Loyalty within the board is good, but it should be possible to openly share dilemmas with the supervisory board. If things are not in order and if norms are being breached, then something is wrong."*

Jos Streppel

## Allies

Non-executive directors are becoming increasingly important for accountants. Internal accountants are often given a direct line of reporting, while external accountants are also increasingly addressing the supervisory board. Non-executive directors and accountants are each other's allies in company supervision. In practice, accountants represent an important external source of information for the non-executive director. Effective cooperation between the supervisory board and the external accountant results in improved monitoring, although both parties must have more contact with one another.

*"Improving supervision is not a sign of distrust towards the executive directors, but is merely a way of realising effective corporate governance. Organisations will benefit from good checks and balances, and good boards of directors will not have a problem with this. Accountants need ethical commissioning. Contact that involves thirty minutes each year in a formal setting is not sufficient. In this case, the non-executive directors will complain that the accountant is way too formal, while the accountant gets the feeling that the supervisory board is not really interested and cannot really speak his mind."*

Ruud Dekkers, NIVRA chairman of the board in AccountancyNieuws, March 2012

If discussions between the accountant and non-executive directors are intensified, there will be more natural opportunities to talk about Tone at the Top. This is in the interest of both parties and, of course, in the interest of the organisation in question.

*"There must be teamwork between the supervisory board, internal auditors and the auditing accountant. This must involve: helping each other and supplying each other with clear information. Standard practice was different ten years ago. I still remember a non-executive director saying: leave the accountant out of it; it's a waste of my time listening to him. I will read later what he has to say. Thankfully, things have now changed: the non-executive directors place greater emphasis on verbal communication, they implement due process and the accountant is increasingly being used to gain further information about what is going on within the company."*

Piet Hoogendoorn, former Deloitte board member and non-executive director at ING in De Accountant June 2011

Questions have also been raised about the quality of supervision in the public sector. Vestia, Rochdale, InHolland, Meavita and the COA are renowned examples of failing supervision. According to research by PwC in 2011, supervision in the public sector is not strict enough. Supervisory bodies primarily focus on the figures and do little in terms of culture and behaviour in the organisation, while these are the factors that often result in problems. Only a limited group of supervisors feel it is their responsibility to examine culture, to address directors on their position as role models and to ask thorough questions. Supervisory bodies underestimate the importance of their role in this process.

It is important for accountants and non-executive directors to regularly sit around the table. There must be enough time to exchange ideas about internal control at the organisation, whereby Tone at the Top must be a fixed point on the agenda.

## Report NBA round table 29 April 2012

On 29 April 2012, five experienced non-executive directors discussed the importance of Tone at the Top and the role that accountants play in it, partly in response to the NBA survey described in chapter 4.2. Firstly, participants were asked to share their opinions on Tone at the Top. Non-executive directors see a relationship with ethics and norms and values. You must always ask yourself whether you can justify what you do to yourself, to your best friend and the media. According to the participants, consistency between the behaviour of top management and the identified vision, strategy and basic values of the company plays a role in Tone at the Top: walk the talk. Non-executive directors expect more from the accountant when it comes to sharing his impression about the company's Tone at the Top. The discussion with the accountant, without the board being present, can be used to place the matter explicitly on the agenda. The accountant can freely share his opinion and must present his concerns to the non-executive directors. He must also establish contact if something is wrong. The accountant will not be asked for a judgement, but an opinion. They feel accountants are too reserved in this respect. However, non-executive directors do realise that they can more actively question accountants on Tone at the Top. In this case, which questions would be asked? Will it relate to corruption, wrong emphasis in bonus policy, declaration behaviour, pressure to 'polish up' results, casual management culture, evaluation of strategic goals and risk management? Is a code of conduct sufficient? The conclusion of the meeting was that the theme still requires much deeper analysis and more discussion. Accountants need to be educated and trained in this topic.

### Participants

**Frans Cremers**, former CFO VNU and non-executive director at e.g. Fugro, NS, Vopak, SBM Offshore, Schiphol Group and Unibail-Rodamco.

**Jan Lobbezoo**, former CFO Philips Semiconductors, former board member NIVRA and non-executive director at ASMI, TMC Group, FEI Company Inc., Salland Engineering and A.L.S.I. BV.

**Robert Mul**, director public trust NBA.

**Henk Scheffers**, former CFO SHV and non-executive director at e.g. Aalberts, BAM, Friesland Campina, Wolters Kluwer and AON.

**Margot Scheltema**, former CFO Shell Netherlands, member Identification Board NBA and non-executive director at e.g. TNT Express, Schiphol Group, ASR Nederland, Triodos Bank, ABP and ECN.

**Huub Wieleman**, vice-chairman NIVRA.

**Jaap Winter**, lawyer De Brauw Blackstone Westbroek and non-executive director at e.g. Randstad.



*"When I have a discussion with the accountant alone, I receive little input. The accountant is afraid to say something about the Tone at the Top, while things are sometimes a miss."*

*Henk Scheffers*

## Recommendation 6: Three-way test for dealing with ethical dilemmas

1. Can I justify it to myself? Will I still be able to look at myself in the mirror if I do this?
2. Can I justify it to my best friend or parent?
3. What will I think about it if it is on the front page of a newspaper?

## 3.2 External supervisory bodies

### De Nederlandsche Bank

Due to the financial crisis, a lot of attention is given to supervision exercised by De Nederlandsche Bank (DNB, the Dutch Central Bank) over banks in the Netherlands. There is public demand to also focus on honest behaviour and business culture. A policy vision document by the DNB refers to the role model behaviour of top management as one of the seven elements of honest business culture:

**‘Directors of financial companies must have greater awareness of the risks of behaviour and culture. The most important lesson from the credit crisis is that profits cannot be the only motive. Culture and behaviour contain risks for the future of a company. By supervising behaviour and culture, DNB has started a new chapter. Directors must become more aware of the potential effects of their behaviour and/or the behaviour patterns within their companies. This will be no easy task. In addition to all the positive examples, a great deal of commitment will be needed to ensure that behaviour and culture becomes an element that improves performance and integrity in financial companies.’**

The Culture, Organisation and Integrity expertise centre (COI) at DNB recently started a research project into decision-making processes, and one of the topics being addressed is the role model behaviour of directors - the Tone at the Top. According to a publication by DNB from December 2011, evaluating the behaviour and culture of company boards of directors is a new and uncharted specialisation:

**‘But this should not prevent supervisory bodies from looking beyond the financial figures, because problems in a company’s culture and behaviour can have an impact on the company, its customers, its employees and other stakeholders. This will require preventive research because supervisory bodies want to address potential problems before they escalate.’**

The fact that DNB is placing greater emphasis on Tone at the Top was demonstrated in November 2011 when the front page of the Volkskrant led with the title “DNB president reproaches attitude Dutch bank directors”. According to Klaas Knot, boards of directors at banks sometimes lack counterweight, not enough attention is paid to risks, directors are generally too optimistic and do not appropriately evaluate their own performance. The DNB Magazine of December 2011 featured an interview with Jan Sijbrand, director Supervision at DNB, which paid specific attention to Tone at the Top:

*‘But you do not always reach the heart of the problem if you only look at the figures. That has been one of the lessons of the crisis. As a supervisory body, that is why we also consider the culture of an organisation more than we did in the past. Behaviour is an important indicator for future problems. How dominant is the CEO, are there enough contrasting views? Does the organisation respond opportunistically to market conditions, what is the attitude towards codes of conduct? (...) Question: How are you able to identify potential risks of a dominant top manager? Some companies actually flourish under strict leadership. Sijbrand: We look at the balance between commerce and control and then look at the experience of risk managers, the decision-making process for credit proposals, whether risk managers have enough say and the opportunities people are given to say ‘no’. That is something you find by reading meeting minutes and having conversations with people involved.(...) We also pay more attention to environmental factors and early signals of potential risks of culture and behaviour, like a dominant figurehead. In order to realise this, we also use different types of specialists, like psychologists and sociologists.’*

## Recommendation 7: Patterns that present a risk to decision-making

In 2011, DNB identified three patterns that may present a risk to balanced and consistent decision-making.

### **Excessively strong leader and a 'next please' organisation structure**

- the leader/director is very dominant, rules supreme and dictates
- limited contrasting views from senior management
- decision-making no longer based on arguments, but based on hierarchy

### **Insufficient (consistent) behaviour in line with objectives**

- board and employees are not familiar with vision, mission and company objectives
- opportunistic decision-making: objectives are selected that are consistent with the reigning behaviour at the time, instead of unanimous and consistent behaviour in line with previously established targets

### **Overly informal organisation structure**

- limited registration of decision-making process
- decisions are not appropriately supported
- formal meetings are primarily 'box ticking' exercises. Little time and opportunity for risk analysis, evaluation of interests and critical objections.

## Dutch Tax Authority

In 2005, the Dutch Tax Authority started implementing a new form of supervision for tax paying entities. The Dutch Tax Authority would like to use this Horizontal Supervision to place even greater emphasis on cooperation. This means running concrete checks in advance wherever possible, instead of inspections later down the line. With this in mind, the Dutch Tax Authority has been agreeing individual covenants with large and medium-sized companies for some years. These covenants refer to the desired behaviour and culture and make arrangements for supervision.

The Dutch Tax Authority modifies supervision to suit the extent to which companies are in control. To do this, the Dutch Tax Authority must have an insight into the organisation's fiscally-relevant internal controls. This is referred to by the Dutch Tax Authority as the Tax Control Framework. The Dutch Tax Authority regards Tone at the Top to be an important component in the Tax Control Framework.

Horizontal supervision has also been introduced for SME's but, in this case, covenants are primarily agreed with audit firms. In a way, these firms are delegated a supervisory role by the Dutch Tax Authority.

In June 2012, the Dutch Tax Authority Horizontal Supervision Committee (Committee Stevens) published its report entitled 'Tailor-made Fiscal supervision. Flexible wherever possible; strict wherever necessary'. This report contains an evaluation of the effectiveness of Horizontal Supervision since it was introduced in 2005. One of the report's conclusions was that, in practice, there appears to be greater need for unambiguous criteria for assessing the Tax Control Framework and the accompanying supervisory task. This also implicitly applies to criteria for assessing Tone at the Top.

# 04 | Accountants

Accountants who audit annual accounts must also pay attention to Tone at the Top. The results of such evaluations are often not presented to top managers or internal supervisory bodies. Accountants, also those who work as internal accountant or accountant in business (e.g. as CFO), encounter barriers when they attempt to raise the issue. Initial accountancy and continuing education is not yet addressing this issue appropriately.

## 4.1 Laws and regulations

Accountants are bound to a Dutch Code of Ethics (VGC), which establishes five fundamental ethical principles: integrity, objectivity, expertise & due care, confidentiality and professional conduct. The VGC is a principle based code. Accountants are expected to make the right choices based on their professional judgement. In terms of compliance with these fundamental principles, accountants must analyse potential threats and take measures to reduce such threats to a level they deem acceptable. The main legislation per group of accountants follows below.

### Public accountants

#### Client acceptance:

When accepting new clients and extending existing assignments, accountants must examine whether they could present a risk to the fundamental principles in the VGC. They will always evaluate the integrity of the client. In this case, the following aspects could be considered:

- the professional reputation of owners and managers in key positions
- the company culture
- information about the attitude of owners and managers concerning interpretation of financial accounting rules and the internal control environment
- indications that the client could be involved in money laundering or other criminal activities.

This aspect is also mandatory for accountants under the Law for preventing money laundering and financing of terrorism (Wwft).

#### Execution audit assignments:

When executing audit assignments, accountants are subject to specific laws and regulations that regulate the entire control process. The most important of these in the Netherlands are the Additional Audit instructions and Other Standards (NV COS) by the NBA. The process starts by planning the audit based on risk analysis. This provides an insight into the entity and its environment, including its internal controls. Accountants obtain relevant information by making enquiries among management and employees. Further, they will obtain an insight into the way in which management communicates with its

employees about its vision concerning professional conduct and ethical behaviour. During the entire process, accountants will continue to pay attention to these aspects of the Tone at the Top. This requires them to be alert to potential indications of fraud, partly due to the risk of internal control measures being breached by management. The assignment also involves communicating the results of the audit to the organisation's supervisory bodies.

Based on the above, it can be concluded that all public accountants evaluate the Tone at the Top of their (potential) clients. They report all important findings on the annual reports to internal supervisory bodies. Considering how important it is for accountants to have a professional critical attitude, in 2012, the NBA incorporated mandatory training in this area into the continuing education framework.

In many SME's, public accountants do not perform audits but actually compile the annual accounts of the companies in question. Accountants thus fulfil an important position of trust for the entrepreneur. They primarily serve as sounding boards and advisers, as sparring partners for the entrepreneur. In this capacity, it must be relatively easy to discuss Tone at the Top if needed. This does not detract from the fact that it remains a very sensitive topic, which can place client relations under pressure. Accountants in SME's must also be able to effectively assess how findings concerning the Tone at the Top reflect upon the client.

*"Tone at the Top is sometimes a touchier subject in family businesses. The supervisory board and the family council have full control. It is important to lead by example. The board occasionally takes liberties, but there is a risk that others may also feel entitled to do so, or that one can be held to ransom. Family businesses are also inspirational, put a lot of faith in personnel and are friendlier. In terms of Tone at the Top, it is important to have effective communication and to ensure that the right things are actually implemented in practice."*

*Jos van Huut*

## Internal accountants

The NBA survey on Tone at the Top showed that internal accountants have relatively more experience in examining Tone at the Top than other accountants. They are well placed to examine Tone at the Top and also have more experience in the matter. In the Netherlands over the past fifteen years, the role of internal accountants - in their capacity as internal auditor<sup>6</sup> - has developed significantly. That said, setting up this position is not mandatory in the Dutch Corporate Governance Code, although it has been recommended. An internal auditing department focuses on the quality of internal controls and provides additional assurance on the matter to top management and, to an increasing extent, to the supervisory board or the audit committee. From them can be expected to also pay attention to the Tone at the Top.

Internal auditors are in a perfect position to experience the day-to-day Tone at the Top in their organisations. In 2007, Professor Leen Paape investigated the time allocation of internal auditors in the Netherlands. He concluded that Tone at the Top audits only accounted for 1% of all internal audit activities. In his research, Paape also concluded that boards of directors do not regard this as a job for internal auditors, while supervisory boards actually expect Tone at the Top to be reported in case of problems.

Nonetheless, a positive development has been encountered in terms of the attention given by internal auditors to Tone at the Top. In 2010, KPMG published the results of a survey among Dutch internal auditors. This showed that internal auditors have started to pay more attention to behaviour and culture in their organisations (soft controls) and that they expect to do this even more in the future.

<sup>6</sup> Internal auditor is a more comprehensive term than internal accountant. There are many internal auditors in the Netherlands who are not qualified as accountants and are thus not members of the NBA.

Partly motivated by the current crisis, initiatives in this area have recently been introduced, for example, in the financial sector. Despite this, only 11% of companies report separately on Tone at the Top. The increasing interest in this topic not only requires new methods and techniques, but also requires more courage and confidence on the part of auditors, as well as more commitment from the board, states the research report. This will be an important challenge.

Collaboration between external accountants and internal auditors could be intensified in this area. According to joint research by NIVRA and IIA in 2009, this collaboration is effective in practice, but could be improved for broader governance objectives. When doing so, it is also important to mutually coordinate specific impressions and findings on Tone at the Top.

## Accountants in business

Accountants in business are often employed by an organisation and do not perform assurance assignments. They often hold financial positions like controller or financial director. In some organisations, accountants in business are part of the board and determine the Tone at the Top. Accountants in business are faced with less specific legislation than other accountants, but are still subject to the five fundamental principles of the VGC.

According to the VGC, accountants in business are expected to encourage a culture based on ethical principles in their work environment. They must support legitimate and ethically responsible objectives in their work environments and the rules and procedures based on them. They must take appropriate measures if compliance with the fundamental ethical principles is going to suffer. This can put them in a situation where their loyalty towards the work environment conflicts with their duty to comply with the fundamental principles. If this situation is not resolved, accountants may decide to take action to end their involvement in the organisation where they are active. Clearly, this is not an easy decision. This step is also the final option because leaving a position will not improve ethical behaviour within an organisation.

For many years, the NBA has offered the opportunity to have collegial discussions with a counsellor in case of ethical dilemmas. However, this option is only used occasionally. The professional journal MCA of February 2012, interviewed a few of these counsellors. They attribute their lack of activity to unfamiliarity with the counsellor position and the barriers people have to overcome to call another person about a particular situation. In the autumn of 2011, the NBA performed research into aspects of ethical behaviour among almost 900 accountants in business. The accountants see it as their role to improve ethical behaviour in their organisations, but feel it is difficult to exercise this responsibility in practice. For instance, they feel it is difficult to present counter arguments in ethical discussions. They also seek more support when making ethical decisions. In order to address this, in 2012, the NBA incorporated mandatory training on professional ethics into the continuing education structure for accountants in business.

## 4.2 NBA survey

In February 2012, a brief questionnaire was sent to all active members of the NBA, which was completed by around 1400 of them. A number of criteria were used to determine that the make-up of this group was representative of the entire active membership.

### What is understood by Tone at the top?

The survey used the definition for Tone at the Top in paragraph 1.1 as a benchmark. Accountants were asked which descriptions could be regarded as part of the term Tone at the Top. The five highest scoring descriptions are found below:

- The internal consistency between the (role model) behaviour of top management and the vision, strategy and underlying principles of the organisation (walk the talk).
- Visibility: the behaviour of top management must be visible enough to personnel in order to make norms and values effective.

- Open culture: does top management offer enough opportunities to discuss dilemmas? How does top management deal with errors?
- The way in which managers implement and act upon norms and values (code of conduct).
- The ethical and honest behaviour of top management.

## What is the importance for internal control?

Almost all respondents agreed that Tone at the Top is an essential foundation for being in control of an organisation. This means that accountants are aware of the importance of Tone at the Top. The survey showed that the majority of accountants believe that Tone at the Top is a theme that should be examined or placed on the agenda by accountants (also those in business). They generally expect Tone at the Top to become a more important topic for accountants in years to come.

*“The accountant is too cautious... So I say to him: you have been at this organisation for a year, you hear things and see things, so tell me what you think about them. Accountants are able to say a lot more about a company than is currently the case, but accountants are afraid, and that shouldn't be the case. I see there is room for this in the board rooms; fill that room.”*

*Ben van der Veer, former KPMG chairman of the board and multi-non-executive director, in De Accountant, April 2011*

## What investigation experience do they have?

Accountants have not yet been able to acquire a great deal of experience in specifically investigating Tone at the Top. Only a limited number of respondents indicated that they had performed such an investigation, or had one carried out, in the past two years. Even if specific research into Tone at the Top has not been carried out, it is still possible for accountants to report on the subject, for example, in their management letters, audit reports or internal reports (for accountants in business).

That is why the survey also addressed the reports by accountants. Opinions were mixed on the statement that Tone at the Top is addressed sufficiently in accountants' reports. Of the accountants who agreed with the statement, it appeared that public accountants were represented more often than accountants in business. A similar picture, albeit less pronounced, was painted for the following statement in the survey: 'I regularly discuss Tone at the Top with my clients or company managers.' Around half agreed with this statement, while a third disagreed with it. Apparently, Tone at the Top is discussed more often (verbally) than is actually reported by accountants. This is no surprise considering the sensitivity of the topic and the absence of concrete norms.

*“My experience is that accountants don't write too much about it. In terms of Tone at the Top, accountants are part of the financial pillar. One question that needs to be asked is, whether there is pressure from management that can result in incorrect outcomes or inappropriate developments within the company. I discuss such things with the accountant, for example, during lunch. If the Tone at the Top presents a risk to the company and the accountant notices this, then he has to say something and sound the alarm. If the supervisory board sees that targets are difficult to meet, then the supervisory board can itself examine if pressure is being applied. I see less in Tone at the Top being reported on in writing by accountants. This could have a negative impact on the accountant's relationship with the board of directors.”*

*Jos Streppel*

*“I would be very pleased if attention to Tone at the Top was a mandatory (larger) part of the audit assignment. Such a professional requirement legitimises the accountant to ask questions and make observations. This will help to eliminate a major hurdle. The most valuable information is often more subjective and 'softer'. You throw away the baby with the bathwater if you force accountants to document and report all their findings.”*

*Marcel Smits*

## Barriers

Accountants may feel the need to discuss the Tone at the Top, but eventually decide against doing so. In the survey, accountants were asked whether this had been the case in the past two years. Only a small number responded with a 'yes'. The majority of them disagreed, while the rest did not know or thought it was not relevant. However, another question in the survey shows that a third of accountants felt it was difficult to raise the issue of Tone at the Top. The survey asked this group about the barriers they encountered:

- my clients/top managers are not open to this topic
- I miss an appropriate basis for discussing this topic (primarily applied to public, internal and government accountants)
- I miss the tools needed to discuss Tone at the Top
- I miss the norms for Tone at the Top
- I miss guidance from my professional association
- It is not my position to highlight Tone at the Top
- I miss the knowledge needed for this topic
- I find the term too vague to start talking about it

*"Accountants evaluate the AO/IC and often perform system-oriented controls. According to the COSO framework, soft controls must be included in this case. There is a lot to be gained for accountants. Traditionally, measurement is knowledge. In other words, what you cannot measure is not important, so you need not pay attention to it. Accountants must be a lot more proactive in this area."*

*Kees Cools*

A large number of accountants stated in the survey that their clients or top managers were not open to discussing Tone at the Top. This begs the question, are they assuming this or do they have experience in trying to discuss the Tone at the Top. The survey addresses this point with the following statement: 'My clients or top managers appreciate that I pay attention to the Tone at the Top'. Approximately half of all respondents said they agreed with the statement. This group also appeared to discuss Tone at the Top on a regular basis. Only a limited number thought it was not appreciated if they paid attention to Tone at the Top. The rest did not know or thought it was not relevant. Results from the statement 'My clients or top managers appreciate it when I place Tone at the Top on the agenda' appear to support this; the answers had more or less the same distribution. On this basis, it can be concluded that clients or top managers are actually open to discussing Tone at the Top.

## Conclusions

The main conclusion of the survey is that accountants realise the importance of Tone at the Top but, for a variety of reasons, pay insufficient attention to it in their reports and discussions. The accountants who actually do so, have experienced that it is generally received positively. It is in the interest of accountants, as well as their clients, for Tone at the Top to appear more regularly on the agenda. For example, accountants can mention their findings in relation to remuneration policy. Is this policy encouraging targets that could encourage people to display inappropriate behaviour? Is there too much pressure to realise agreed targets? Could these incentives result in reports being manipulated?

“It would be good if the NBA developed a vision concerning the importance of soft controls. After all, the annual accounts are also the result of behaviour. As an accountant, you must be involved at the forefront of this process and serve as a sparring partner for managers.”

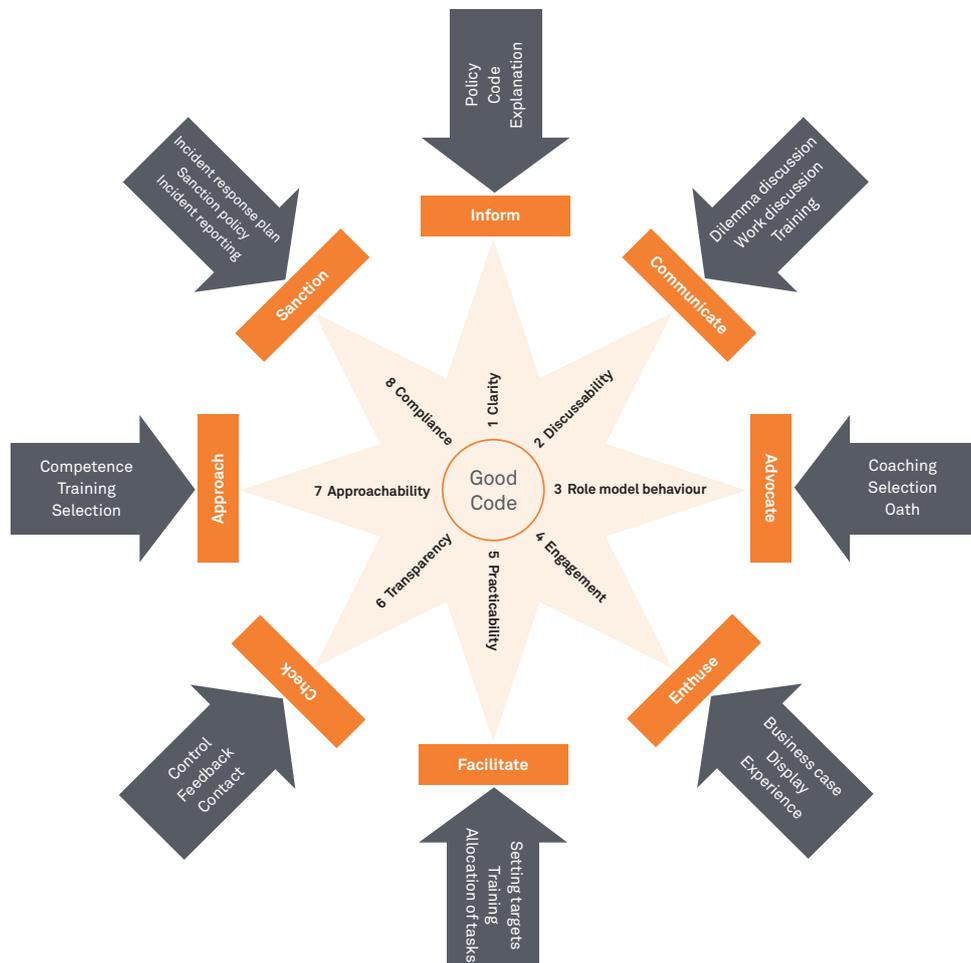
Kees Cools

## Recommendation 5: The concept of soft controls and the soft controls star

According to De Heus and Stremmelaar, soft controls are control measures that, more so than hard controls, influence and appeal to the personal performance of employees. Soft controls can be defined as measures that have an impact on, for example, motivation, loyalty, integrity, inspiration and the norms and values of employees.

Tone at the Top and soft controls are strongly related. The following ‘soft controls star’ by Muel Kaptein of KPMG shows eight elements that can be used to identify soft controls, and also shows initiatives that can be used to support these elements. This model can be used to qualitatively assess soft controls elements, including possible improvement initiatives.

### Initiatives per activity



## 4.3 Initial and continuing education

Tone at the Top is barely addressed in current initial accountancy education. This is partly demonstrated by the current learning outcomes established by the Commission Learning Outcomes Accountancy Education (CEA). The learning outcomes are partly based on EU guidelines from 2006, which identify the following core subjects: accounting, external reporting and financial auditing. In addition to this, the subject 'accounting information systems (incl. internal control)' is regarded as a core subject in the Netherlands. This subject includes the knowledge domain 'people', which is explained as follows

**'The human factor plays a dominant role in all organisations. In terms of the subject 'accounting information systems (incl. internal control)', we see it addressed in the following areas of focus:**

- **The effects of internal control measures on human behaviour in organisations and resulting information needs and the need to influence accountability information.**
- **The importance of the control environment and people's ethical behaviour for internal control and the risk of fraud.'**

The CEA learning outcomes do pay attention to topics relating to Tone at the Top, like management control, professional ethics, COSO model, corporate governance, organisation culture and management style (discipline Management & Organisation).

*"Accountants of the future must know something about economics, sociology, psychology, IT, etc. Extending the tasks of an accountant makes the profession more exciting and challenging and meets the requirements being imposed by society. People with considerable accounting experience, who now sit on the opposite side of the table as directors or non-executive directors, regularly say that accountants must dare to speak based on their gut feelings. They should be more assertive, share their personal opinions about company culture more often, etc."*

*Leen Paape*

In the past, other leading accountants have also aired their opinions about Tone at the Top in the journal De Accountant.

*"The risk structure of these three lines of defence relies on Tone at the Top. If this is not effective, then you need someone who can say to the CFO or the CEO: 'you're not doing it correctly'. Yes, that is difficult, but that is what we expect from an auditing accountant"*

*Jan Nooitgedagt, CFO Aegon and former chairman of the board at Ernst & Young*

*"The most important thing I have learned about accountancy since I moved to Schiphol is that the 'finance' discipline only offers limited cover for topics actually encountered in practice. Finance is less important than I thought. The profession of accountant has become way too procedure-based. An accountant's audit also requires one to evaluate people."*

*Jos Nijhuis, CEO Schiphol and former PwC chairman*

All accountants are obligated to keep their knowledge up to date once they have graduated. It is eye-catching that the courses offered by education institutions, including NBA Opleidingen, pay relatively little attention to the behavioural side of internal control. The two-day 'Auditing soft controls' course, which has been provided by NBA Opleidingen since 2006, is a positive exception to this. However, the course is mainly followed by accountants who do not work in an auditing role. Initial accountancy education and continuing education should pay more attention to the cultural and behavioural aspects of internal control and the way in which they can be evaluated by accountants. And Tone at the Top should be given a prominent place.

# 05 | Audit firms

If accountants want to discuss Tone at the Top, then they will have to lead by example. According to AFM, the Tone at the Top at audit firms needs to be improved. That is why the NBA has given the topic a prominent place in the Code for Accountants organisations.

## 5.1 Laws and regulations

Although most laws and regulations that apply to accountants relate to accountants as individual professionals, there are also laws and ordinances that focus on audit firms. This includes, for example, the Supervision Accountants organisation Act (Wta), the Supervision Accountants organisations Decree (Bta) and various ordinances by the NBA.

For instance, the reliability of people (partly) responsible for determining the policy of the firm must be unquestionable and a firm must have a quality control system. Operations must be set up in a way that ensures controlled and honest execution of business activities. Audit firms that audit Organisations of Public Interest (OOB's), like stock market-listed companies and financial institutions, must report on these topics in their annual transparency reports.

*"This means, for instance, more approachable managers, with teams having the ability to air their concerns. This is something that needs to be organised when dealing with 800 people. The board visits divisions, participates in breakfast sessions and encourages partners and other managers to communicate openly about potential risks."*

*Jos van Huut*

The people who determine day-to-day policy at audit firms must ensure that quality policy results in a culture where legal audits are carried out in accordance with pre-determined quality requirements.

This has also been stipulated by the IFAC, in the publication 'Tone at the Top and Audit Quality':

**'Much has been written over the last few years on the subject of Tone at the Top and the crucial role it plays in establishing and maintaining ethical and accountable work environments. While the Tone at the Top is a vital consideration in the development of a sound corporate governance policy, it has been recognized as equally important for accounting firms and other entities. The Transnational Auditors Committee acknowledges the importance of the Tone at the Top in contributing to audit quality and that audit quality must be a priority for every audit firm. If audit quality is to remain a real priority, audit firms must create and sustain a culture of positive and constant reinforcement. Importantly, this can be supported by the tone set by firm management through the policies and procedures they put in place, their communications on their**

expectations with respect to compliance, the system of reward and sanctions they implement and, of course the example they set through their own behavior.’

## 5.2 Supervision Financial Markets Authority

Since 2006, audit firms that are entitled to perform legal audits are supervised by the Financial Markets Authority (AFM). The AFM regularly investigates audit firms to determine whether laws and regulations are being adhered to. In September 2010, the AFM concluded, based on research into quality control at the so-called Big-4 audit firms (Deloitte, Ernst & Young, KPMG and PWC), that a fundamental change in behaviour is needed to improve the quality of accountants audits:

**‘Tone at the Top can be improved at various Big-4 firms when it concerns quality-oriented thinking and behaviour. Managers at the accountants organisation have an important task as role models. They must play a leading role in helping to realise the behavioural changes needed at accountants organisations.’**

In recent transparency reports<sup>7</sup>, all major accountants organisations have supplied information about findings of external quality reviews by the AFM. They identify reviews that took place in 2009, on which the AFM reported in November 2010. There are also references to the AFM survey in 2011 on ‘incentives for quality’.

All major accountants organisations realise the importance of reviews carried out by the AFM and have taken measures to further improve their quality control systems. In a number of cases, accountants organisations have taken disciplinary action against certain accountants. However, they have indicated that they do not always agree with the conclusions of the AFM.

### Recommendation 8: Implement concrete measures after AFM reviews

The findings of the AFM are extremely useful to readers of transparency reports, as a form of external evaluation of quality control policy. This gave the NBA cause to recommend major accountants organisations to clearly report in their transparency reports which measures have been taken as a result of AFM reviews.

## 5.3 Transparency reports

Creating and retaining a culture that focuses on quality requires more than internal regulations and monitoring alone. This has been further explained in the NBA brochure ‘More transparency in Transparency reports’, dated July 2012, which addresses the results of research into the most recent transparency reports.

The role model behaviour of policy-makers (or Tone at the Top) is an important prerequisite for retaining and improving internal quality control systems. Transparency reports must not only demonstrate the willingness of policy-maker to see quality as an important factor for success, but must also provide an insight into the way in which their vision is actually implemented by employees. Actively implementing fundamental principles of the VGC, and monitoring compliance with them, will help to realise an effective Tone at the Top.

This not only applies to the board, but also to all other accountants, especially those employed at the firm as partner, associate or another comparable position. The vision and role model behaviour of policy-makers must be reflected in the layout of the quality control system, in control instruments and in the manner of communication.

<sup>7</sup> The findings included in the following paragraph, in relation to recent transparency reports by accountants organisations, are based on the NBA brochure ‘More transparency in Transparency reports’ and the underlying ‘Transparency reports Research 2011’; both published in July 2012.

The points of attention included in the brochure are often 'hard' control measures which are important, but are actually based on the Tone at the Top. A code of conduct, for example, is one of the ways to reflect Tone at the Top throughout the entire organisation. It is about how policy-makers succeed in creating a culture that complies with pre-determined quality requirements.

A transparency report is the perfect document for reporting about this issue. And that is what accountants organisations do. It is not enough to merely say that a high level of ethical behaviour is being targeted and that all relevant legislation in this particular area is being complied with. One can, for example, explicitly mention that the implementation of high quality is appreciated and rewarded, that professional employees are given sufficient capacity to perform high quality audits, that financial incentives are never to be given priority over quality and that internal consultation is greatly valued. The NBA brochure has identified a number of best practices in this area.

### **Recommendation 9: Best practices in transparency reports at accountants organisations**

Deloitte and KPMG provide an overview of the number of consultations in the various professional areas. In this case, 'consultation' refers to consulting a colleague on an important issue. Deloitte specifically mentions when a consultation with the technical department is mandatory. Baker Tilly Berk and Mazars have also mentioned the number of professional consultations. Deloitte has provided two practical examples, which demonstrate the preventive effect of the accountants' audit. Deloitte also mentions a 'perception monitor' which measures the importance that employees attach to quality and independence.

Ernst & Young mentions the presence of a 'Fraud Panel' and a 'Going Concern Panel' within the technical department; they consist of specialists who support and consult with personnel in issues relating to fraud and the going-concern problems faced by clients.

PWC provides quantitative information on personnel turnaround and the number of training hours. PWC also dedicates a separate chapter to risk factors that could influence the firm's strategy, along with a brief explanation on control measures. PWC and KPMG provide information on an annual 'People Survey' that allows employees to indicate things they like and areas that could be improved.

KPMG has used research among stakeholders to create a top-5 of issues that have been incorporated into internal policy and procedures.

PWC explicitly mentions that concessions are not made when dealing with conflicts that present a risk to professional standards or ethical principles. All partners and directors must act as role models in providing and implementing quality.

BDO regards the investigation as an important indicator, which proves that current (2011) professional standards are not yet at the desired level. BDO is of the opinion that signals from internal and external investigations are so significant that the quality of professional control activities (and their monitoring) is a top priority for the organisation in 2012.

An example from the transparency report by Deloitte, on book year 2010/2011, under the title 'Quality awareness' can be found below:

**'Deloitte possesses codes of conduct and procedures for improving internal business culture, based on the recognition that quality is essential when performing assignments. In terms of quality, policy-makers and other managers at Deloitte are responsible for setting the 'tone at the top'. One of their core responsibilities is to emphasise and implement the engagement of our organisation and people towards the strictest integrity and quality standards. The chairman of the board and top management actively stimulate an internal culture that focuses on independence, quality and ethics.'**

The fact that this text does not always guarantee an effective Tone at the Top became apparent in March 2012 when the new CEO of Deloitte stepped down because he had breached Deloitte's independence regulations. In a press release, Deloitte explained this resignation as follows: "Due to his role model position as CEO, the person in question has, after consulting with the supervisory board, decided to resign as CEO and director of Deloitte with immediate effect in order to protect the interests of the organisation". The decision of Deloitte is an example of self-cleansing capacity.

## 5.4 Code for Accountants organisations

On 28 June 2012, the Code for Accountants organisations with an OOB license was signed by eleven of the thirteen accountants organisations. The Code is part of the NBA Plan of Action and is the professional association's response to criticism of the accounting profession since the credit crisis. The Code is aimed at the management of audit firms and is aimed at increasing people's confidence in audit reports. The Code has reserved a prominent place for Tone at the Top. It is the first principle that accountants organisations must comply with.

In the code, Principle 0.1 Role model position ('tone at the top') is as follows:

**'The management actively disseminates the desired values, both internally and externally, and in doing so fulfils an example role. Management applies itself to the fulfilment of the core values at all levels within the organisation and supervises this.'**

This compliments the following passage from Principe 0 Values in the Code:

**'In evaluating the various interests, public interest in the audit reports must remain paramount at all times. This is more important than the commercial interests of the accountants organisation and the network.'**

The code must be adhered to by accountants organisations that audit OOB's under an AFM license. Naturally, other accountants organisations are also free to voluntarily comply with the code. The code contains various principles aimed at improving management, supervision and transparency.

A 'public interests' commission must be set up in addition to or within the supervisory body of the firm, which primarily consists of independent third parties. Accountants organisations must also be publicly accountable for complying with the Code. The eleven accountants organisations that have signed the Code take their social responsibility seriously and hereby show their willingness to improve their governance, which includes their Tone at the Top.

# List of literature

- AFM, *Report general findings quality accountants inspection and quality control*, 2010.
- Baker Tilly Berk, *Transparency report 2011*, 2012.
- Dutch Tax Authority, *Horizontal Supervision Guidelines*, 2010.
- BDO, *Transparency report 2011*, 2010.
- Boer & Croon, *Brand and Reputation in the Boardroom*, 2011.
- Bouwens Jan c.s, *Ethical climate in organisations determines level of manipulation in statistics*, on Accountancynieuws.nl, April 2012.
- Cameron & Quinn, *Examining and changing organisation culture*, 2009.
- Commission Learning outcomes initial accountancy education 2008 version 2011, *Learning outcomes theoretical accountancy education 2008*. Update 2011/1.3.
- Commission Horizontal Supervision Dutch tax Authority (Commission Stevens), *Tailor-made Fiscal supervision. Flexible wherever possible; strict wherever necessary*, June 2012.
- Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, 1992.
- Committee of Sponsoring Organizations of the Treadway Commission, *Enterprise Risk Management-Integrated Framework*, 2004.
- Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control- Integrated Framework, Draft for Public Exposure*, 2011.
- Cools, Kees, *Control is good, trust even better*, 2006.
- Dekkers, Ruud, *Collaboration supervisory board and accountant can sometimes be improved*, on Accountancy-nieuws.nl, March 2012.
- Deloitte Accountants BV, *Transparency report 2010/2011*, 2011.
- DNB, *The 7 elements of an honest Culture*, 2009.
- DNB, *Supervision - not only for statistics*, DNBulletin, April 2011.
- DNB, *Interim report about DNB supervision of behaviour and culture*, 2011.
- Ernst & Young Accountants LLP, *Transparency Report 2011*, 2011.
- FEM Business, *Ethical behaviour is not an issue on the work floor*, (summary Ernst & Young survey 2006), Volume 9, number 5.
- Heus de and Stremmelaar, *Auditing soft controls*, 2000.
- Hoogendoorn, Piet, *Every era requires its own approach and rules*, in Accountant, June 2011.
- IIA Nederland, James Roth, *How to evaluate corporate culture (training)*, 2010.
- IFAC, *Tone at the Top and Audit Quality*, 2007.
- IFAC, *Integrating the business reporting supply chain*, 2011.
- Kaptein, Muel and Wallage, Philip, *Integrity of people and organisations can be measured*, in Parool, October 2005.
- Kaptein, Muel and Wallage, Philip, *Assurance about behaviour and the role of soft controls: a passing insight*, in MAB December 2010.

Kaptein, Muel, *Why good people sometimes do the wrong things*, 2012.

Kinneking, Andreas, *Lecture Accountants day 2011*.

Knot, Klaas, *DNB-president reproaches attitude Dutch bank directors*, in *De Volkskrant*, November 2011.

Korte, Ron de and Olthoorn, Adriaan, *The importance of insight into company culture 2*, 2011.

KPMG, *Industry finds ethical standards of students below-par*, September 2009.

KPMG, *Rules alone do not help integrity on the work floor*, (research among internal auditors), 2010.

KPMG, *Research into supervision of integrity by non-executive directors*, 2010.

KPMG, *Managing with feeling, a plea for more intuition in the boardroom*, 2011.

KPMG, *Insights into KPMG 2010/2011 (including Transparency report)*, 2011.

Kraats, Robert-Jan van de, *Accountant has become IFRS police*, in *De Accountant*, October 2010.

Lückerath-Rovers, Mijntje, *Mores Leren, Soft Controls in Corporate Governance*. Inaugural speech Nyenrode 2011.

Mazars, *Transparency report 2010 - 2011*, 2011.

MCA, *Counsellors - who are they, how do they work and what are their experiences?*, 2012.

Monitoring Commission Corporate Governance Code, *The Netherlands corporate governance code*, 2008.

Muis, Jules. *Tone at the top - a tone lower*, blog on *Accountant.nl*, February 2012.

NBA, *Lessons from the credit crisis, Plan of Action*, 2010.

NBA, *Advisory report The Supervisory board as the accountant's client*, 2011.

NBA, *Supervision and transparency, A Code for Accountants organisations with an OOB license*, 2012.

NBA, *Accountancy Regulations Handbook (HRA) part 1 and 1A*, 2012.

NBA, *Accountant in business and ethics*, 2012.

NBA, *More transparency in transparency reports & Transparency reports Research 2011*, 2012.

NIVRA and IIA, *Impact on governance. Internal and external auditor; an even bigger joint contribution to governance*, 2009.

Nooitgedagt, Jan, *Don't want to miss the advice of the inspecting accountant*, in *Accountant*, May 2011.

Nijhuis, Jos, *Let your feelings do the talking*, in *Accountant*, March 2011.

NVB, *Banks Code*, 2009.

Nyenrode Business University, *Leading family business through the crisis!*, 2011.

Paape, Leen, Corporate Governance, *The Impact on the Role, Position, and Scope of Services of the Internal Audit Function*, 2007.

PwC, *Managing Culture and behaviour: practical experiences, dilemmas and best practices from supervisory bodies in the public sector*, 2011.

PWC, *Transparency report 2010 - 2011*, 2011.

Rijsenbilt, Antoinette, *CEO Narcissism: Measurement and impact. Thesis. Series in Research in Management*, 2011.

Sklar, Howard, *Tone from the top - actions speak louder than words*, 2009.

Sijbrand, Jan, *Once we clamp on, we never let go*, in *DNB Magazine*, December 2011.

Sijbrand, Jan, *Now, as DNB, I would have had an exit discussion with the departing risk manager at ABN*, in *FD*, 4 February 2012.

Swinkels, Walter, *Tone at the top - consistency between words and actions - when does the tone at the top motivate employees*, 2003.

Veer, Ben van der, *Must be more assertive, firmer and more motivational*, in *Accountant*, April 2011.

Voort, Leo van der, *No more strategy pains*, 2010.

Ziegler, Richard F., *New Obstacles in Setting the Tone at the Top... and Some Solutions*, 2008.

# Credits

## Knowledge Sharing

This discussion report is the product of NBA's Knowledge Sharing programme. This programme uses the collective knowledge of accountants to timely identify risks in social sectors or in particular themes. The aim is to identify organisational risks in the areas of finance and administration. The Identification Board is responsible for selecting the sectors and themes and for the social assessment of the signals.

Tone at the Top is the first cross-sector theme that has been addressed in Knowledge Sharing. Because the theme needs further study and discussion, the decision was made to create a discussion report instead of the usual public management letter.

## More information

Further information about the contents of this publication can be requested from J. Scheffe RA RO CIA, telephone 020 - 301 03 05 or [j.scheffe@nba.nl](mailto:j.scheffe@nba.nl).

More information about the Knowledge Sharing programme can be found on NBA's website.

## Identification Board

prof. dr. mr. F. van der Wel RA (chairman)  
H. Geerlofs AA  
prof. dr. M. N. Hoogendoorn RA  
R. J. van de Kraats RA  
L. A. M. van den Nieuwenhuijzen RA  
mrs. drs. M. A. Scheltema

## Tone at the Top Working group

dr. O. P. G. Bik RA (PwC)  
mr. J. Buitenga (ING)  
T. W. Eysink RA (Stork Technical Services)  
prof. dr. S. P. Kaptein (KPMG)  
mrs. drs. A. M. W. J. Keijsers RA CIA (Ernst & Young)  
drs. W. H. A. Swinkels RO (Deloitte)  
drs. A. J. M. Weenink RA (Randstad)

## Knowledge Sharing Programme team

drs. R. B. M. Mul MPA (chairman)  
M. J. P. Admiraal RA  
mrs. drs. I. H. Kramer RC  
J. Scheffe RA RO CIA



Nederlandse  
Beroepsorganisatie  
van Accountants

---

# NBA

Antonio Vivaldistraat 2 - 8  
1083 HP Amsterdam  
Postbus 7984  
1008 AD Amsterdam

T 020 301 03 01  
F 020 302 03 02  
E [nba@nba.nl](mailto:nba@nba.nl)  
I [www.nba.nl](http://www.nba.nl)