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Internal Whistleblowing Practices in Enhancing Good Corporate Integrity at Public Listed Companies in Malaysia

Introduction

This study focuses on the issue of whistleblowing at a workplace specifically on internal whistleblowing. Whistleblowing is one of the ways for a company to overcome any unethical problems that has happened in the organization. However, whistleblowing always being a difficult task to be practiced in an organization due to a lot of pressure which comes from both side either management or society (Brennan & Kelly, 2007). In increase understanding and investigating what factors may influence internal whistleblowing, this study focuses on public listed companies’ employees specifically in financial and banking sector which being listed under Bursa Malaysia, Kuala Lumpur.

Whistleblowing is a disclosure of information by an employee who knows misconduct that being carried out by an individual or anybody within the organization (Figg, 2000). Besides, whistleblowing can also be defined as reporting the wrongdoing and unethical conduct which happened in a company. Whistleblowing can either being report internally or externally (Brennan & Kelly, 2007).

Nowadays, public has become more aware on the ethical issues and ethical conducts which portrayed by an organization. Having a good ethical image is really important especially for companies which focus on being profitable. This is because the company needs to increase its profit by having good relationship with the public and its shareholders. Due to that condition whistleblowing phenomenon seems clearly give a strong signal to the companies to being ethical in its business activities (Lilanthi, 2003). Previous research indicates that practicing the whistleblowing in a company can prevent the company from being unethical and it also can improve the relationship between the employees and the management of the company (MacDougall, 2016).

Internal whistleblowing can be defined as an act of reporting the misconducts of an employee or superior in the organization to another person within the organization. However, whistleblower is always seeing as a bad person for reporting the issues that happened in the organization. Other than that, most of the employees choose to keep silent even tough, they know any misconduct done by the company because they are afraid of the pressure that they might get for being a whistleblower (Mannion & Davies, 2015). There are various cases where employees were fired after they blow the whistle on misconducts of the organization. Moreover, colleagues also keep distance from the whistleblower because they are also afraid of getting the same treatment as accomplice. All these issues lead to employees for not practicing the whistleblowing in an organization.

Whistleblower also view that external whistleblowing will take faster action on regards of the matter (Barnett, 1992). Since, external whistleblowing was always seen as an effective tool to overcome the unethical problems, companies should consider to focusing on practicing internal whistleblowing as there are various benefits which the companies can gain from the internal whistleblowing practices. This study was conducted to identify whether through encouraging internal whistleblowing practices among employees may enhancing good corporate integrity in the organization. As the culture of integrity may functions as a potent risk-management tool, most of the organizations still have low reporting rates. This is because employees often observed and see misconduct but choose to stay silent since the employees are having lack of confidence that a report will induce positive change to the organization. Therefore, this study will identify the most influential factor that helps to encourage the internal whistleblowing practices.

Problem Statement

A study by the Association of Certified Fraud Examiners (ACFE) of U.S. organizations in 2016 reported that about 39% of frauds and unethical behaviours are detected through whistleblowing, compared to 16% for internal audits, 5% by accidents and 13% through internal controls. This indicates that whistleblowing is one of the effective ways to detect the misconduct and helps to maintain ethical environment in the workplace as well as protecting reputation of the organization. However, most of the employees that observed the wrongdoings within organization faces dilemma in deciding whether to report or not and the most important thing is to whom to blow the whistle without experience risk of retaliation (Dworkin & Baucus, 1998).

KPMG Malaysia Fraud, Bribery and Corruption Survey 2013 have reported that the level of corruption and corporate scandals in Malaysia is on the rise due to the poor internal control and lack of awareness in dealing with the unethical behaviours (KPMG, 2013). Corruption, fraud and corporate scandals are common in Malaysian business these days which happened in every industry (Sidhu, 2014). KPMG also revealed that the fraud cases have increased nearly by 100% in Malaysia over the past three years. According to Global Economic Crime Survey 2016 by PricewaterhouseCoopers, almost all of the companies in Malaysia make the staff aware that bribery and corruption are unethical. Moreover, the economic crimes in Malaysia still increase sharply from 19% in 2014 to 30% in 2016. Transparency International reported that Malaysia ranked 50th out of 175 countries in the Corruption Perception Index (CPI) 2014.

Malaysia has introduced whistleblowing legal protections like Companies Act 1965 and it has been emended into the new Companies Act 2016, Capital Market and Services Act 2007 and the most crucial one is Whistleblower Protection Act 2010 to encourage whistleblowing practices among employees. It showed that the whistleblowing practices should be embraced. Other than that, whistleblowing can lead a company to achieve peace and justice at a workplace, good corporate integrity practices as well as sustainability in business because it is one of the effective ways in detecting fraud and misconduct in an organization (Mak, 2007). Moreover, it is the main obligation of all members in the organization to minimize the unethical conduct in order to increase the productivity of work (Rossouw, 2002). Despite on how helpful the whistleblowing practices in an organization, most of the employees are still lack of courage to come forward to blow the whistle in an attempt to counter misconducts and fraud of companies. This is because Section 6 of Whistleblower Protection Act 2010 (WPA 2010) only protects people who disclose if the misconduct to the enforcement agency based on his reasonable belief that a person engaged in improper conduct (Meng & Fook, 2011). Arguably, there is no protection from WPA 2010 granted to disclosure made to the employer or in the course of seeking legal advice. It is unfortunate for the employees who wish to report the misconduct internally especially if the employees are unsure whether the information to be disclosed may lead to violation of law (Lewis, 2011).

Currently, there is no requirement by any Malaysian law for a corporation to implement whistleblowing policy (Meng & Fook, 2011). However, Bursa Malaysia did recommend company to have appropriate whistleblowing policies because protection granted for whistleblower is different depending to whom the information disclosed to. This is because although whistleblower is protected under WPA 2010, implementing policies will protect whistleblower internally. Absence of culture to report the wrongdoings in companies lead to discourage of whistleblowing (Steven, 2007). Other than that, most of employees are afraid to whistle blow because of skepticism of being labelled as betrayal when they choose to disclose misconducts in the organizations (Mannion & Davies, 2015). Decision to speak up on wrongdoings bring out the worst for everyone because the management can cover up the misconduct or pretend to listen to the concern and appoint the whistleblower to find the solution but deny access to any information needed by the whistleblower. Then, the whistleblower accused as scapegoat for the wrongdoing. Besides, lack of knowledge regarding on how an individual can whistle blow in company discourage employees to report it internally (Vadera, Aguilera & Caza, 2009). So, it is important for whistleblower to know their rights, along with the duty to disclose misconduct, must be made known within the workplace. The company should provide a clear picture and structure for the ways on how the employees can report the wrongdoing. Hence, this study tries to highlight the factors that may influence the practices of internal whistleblowing among employees on enhancing good corporate integrity in the company.

Research Questions

Internal whistleblowing practices will lead to good corporate integrity among employees. It is to know and understand whether there are any effects for employees being integrity towards company’s operation especially in public listed companies.

1. Does an internal whistleblowing practice by the public listed companies can influence the corporate integrity from the perspectives of employees?
2. What is the main factor that influences internal whistleblowing practices from the perspectives of employees?

Research Methodology

Research Design

This study used quantitative method which researcher has adopted correlational and cross-sectional study design. The result is based on careful observation and measurement and interpretation of objective reality. Focus of this study is to know how implementation of internal whistleblowing can enhance corporate integrity among employees in financial and banking sector which has been listed under Bursa Malaysia. There are independent variables consists of implementation of whistleblowing policy, whistleblowing protection, communication channels and organizational support. Correlational analysis indicates the strength of relationship of those independent variables with corporate integrity which is the dependent variable in this study. this study chooses cross-sectional design to collect all the relevant information to make hypothesis about a population of interest at one point in time with varied characteristics and demographics. All the data gathered through questionnaire survey method. As for sampling, the convenience sampling technique is used in this study.

Unit of Analysis

The unit of analysis used in this study is based on individual. The unit of analysis emphasized on individual from the perspective of employees from the selected companies. The data will be obtained from the employees who worked in the financial and banking sector of public listed companies which located in Kuala Lumpur. This study chose to focus on the company that have been listed because companies can be listed in two types of market which are Main market and Ace market which by listing it can help the companies to improve its corporate governance (Sharifah, 2005). The companies listed under Bursa Malaysia will have to follow Bursa Malaysia Listing Requirement in its operation such as to disclose information including its financial information. This can be related to the internal whistleblowing practices because whistleblowers will enhance the company to follow the guideline that has been stated in order to avoid any wrongdoings happen in the companies. The financial and banking sector is being used in this study because it plays a crucial role in contributing towards sustainable growth of the Malaysian economy (Bank Negara, 2017). According to Paresh (2015), as end of 2011 the financial sector which comprises banking intermediaries, insurance companies and capital market intermediaries with overall assets of close to 400% of GDP indicates that Malaysia’s financial sector is well diversified.

Employees are the focus in this study because employees are an important source to detect the wrongdoings due to their on-nature field of work and experience, so, they are probably needed to confront with the corporate wrongdoings within organization. Other than that, employees have highest probability to know any wrongdoings that happened in the companies and they are the one who decide either to report the wrongdoings or not. The respondents consist of male and female employees range from age 21and above that comes from various levels from low level employees to high level employees.

Sample Size

Based on the sample size determination table by Krecjie and Morgan (1980) the sample size determination of 800 population is 260. 400 copies of questionnaire have been distributed to the employees who work in financial and banking sector located in Kuala Lumpur. However, due to limitation of time only 270 sample collected and used in this study. The sample collected based on the questionnaire distributed and Google Form.

Measurement

There are four independent variables that has been identified in this study which are the implementation of whistleblowing policy in an organization, legislative protection on whistleblower, existence of communication channels and organizational support towards whistleblower. The dependent variable for this study is enhancing good corporate integrity. This study used a structured questionnaire that consists of 38 close ended multiple-choice questions and the questions are differentiated by sections based on the variables of study. Nominal scale used in this study to measure demographic factors of respondents in Section A like gender, age and race. As for Interval scale Likert scale of five-point statement of preferences is adopted and it range from strongly disagree to strongly agree is used in the questionnaire.

Findings and Discussion

The findings for research question number 2 which is ‘does an internal whistleblowing practice by the public listed companies can influence the corporate integrity from the perspectives of employees?’ shows that there is positive influence between internal whistleblowing practices among employees in enhancing corporate integrity in public listed companies. There are factors that may influence to the internal whistleblowing practices. First factor is the implementation of whistleblowing practices in the organization, second is the legislative protection enforced in Malaysia to protect the whistleblowers and encourage whistleblowing practices in Malaysia, third factor is the communication channels established in the organization for the employees to report on the wrongdoings and the last factor is the organizational support to encourage employees to report on the wrongdoings internally instead of externally.

Table 1.0

*Impact of internal whistleblowing to corporate integrity*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variables** | **Pearson Correlation (R)** | **Standard Coefficient (B)** | **t** | **Sig.** |
| **Whistleblowing policy (IV1)** | 0.352 | 0.251 | 3.640 | 0.000 |
| **Legislative protection (IV2)** | 0.139 | -0.100 | -1.411 | 0.159 |
| **Communication channels (IV3)** | 0.289 | 0.120 | 1.480 | 0.140 |
| **Organizational support (IV4)** | 0.301 | 0.164 | 2.316 | 0.021 |

Table 1.0 summarizes the results of hypotheses tested for this study. In order to test first hypothesis, Pearson Correlation coefficient was calculated between whistleblowing policy as independent variable and corporate integrity as dependent variable. The results showed that first independent variable of whistleblowing policy with the R-value of 0.352 indicates that there is positive relationship between whistleblowing policy and corporate integrity. The significant value for whistleblowing policy is 0.000 which means that the value is very significant. So, the relationship between whistleblowing policy and corporate integrity, H1 (a) is accepted.

For the first hypothesis as shown in Table 1.0, Pearson Correlation coefficient was calculated between legislative protection as an independent variable two and corporate integrity as dependent variable. Second independent variable which is legislative relationship showed the R-value of 0.139 and the significant value of 0.159, so, it indicates that there is significant positive relationship between independent variable of legislative relationship and dependent variable of corporate integrity. The relationship between legislative protection and corporate integrity H1 (b) is accepted.

While fourth hypothesis as summarizes in Table 1.0, Pearson Correlation coefficient was calculated between communication channels as an independent variable and corporate integrity as dependent variable. The third independent variable of communication channels showed the value of R is 0.289 and the significant value is 0.140, therefore, the result accepted that there is positive relationship between the communication channels and corporate integrity which is H1 (c).

By using the same method for the fifth hypothesis was tested as shown in Table 1.0 as Pearson Correlation coefficient was calculated between organizational support as an independent variable and corporate integrity as dependent variable. Fourth independent variable of organizational support has the R-value of 0.301 and significant value of 0.021. It indicates that there is also significant and positive relationship between organizational support as independent variable and dependent variable of corporate integrity. Therefore, hypothesis five that is H1 (d) is accepted.

All the findings in this study showed that internal whistleblowing practices by the public listed companies may influence the corporate integrity in the perspective of employees. This is because all the independent variables showed positive relationship with the dependent variable. It concluded that the hypotheses can be accepted.

Based on the results it can be analysed that employees are the most possible individual to report on the wrongdoing as the employees involved directly in the operation and employees are the highest number of people that will interact with the organizations. However, internal whistleblowing has not been much practice especially in Malaysia due to various reasons although the government has implemented and enforced different initiatives to encourage the internal whistleblowing practices in an organization. Therefore, this study focusing on what are the factors that may influence the internal whistleblowing practices especially to enhance good corporate integrity in the companies. Corporate integrity has been viewed as the cornerstone towards the organization sustainability. This is because the corporate integrity covered all aspects of values that much needed in an organizational operation to ensure that the organization practices good business activities and not involved in any corporate scandals, wrongdoings or unethical conducts that can bring the company down like the cases of Enron and WorldCom.

The result for research question number 2 which is ‘What is the main factor that influences internal whistleblowing practices from the perspectives of employees?’ can be referred in Table 2.0 as follow.

Table 2.0

*Impact of internal whistleblowing to corporate integrity*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variable** | **Pearson Correlation (R)** | **Standard Coefficient (B)** | **t** | **Sig.** |
| **Whistleblowing policy (IV1)** | 0.352 | 0.251 | 3.640 | 0.000 |

Hypothesis two for the second objective is regarding the main factor that has strongest influence on enhancing good corporate integrity is implementing whistleblowing policy to encourage internal whistleblowing practices. Table 2.0 shows the relationship between whistleblowing policy and corporate integrity. The R-value for the whistleblowing policy is 0.352 and the significant value of 0.000 which indicates that the independent variable is very significant. The beta value of whistleblowing policy is the highest beta value of 0.251 in which it means that the whistleblowing policy is the most influential factor in encouraging internal whistleblowing practices. Therefore, the hypothesis two which is H2 is accepted since there is positive relationship between dependent and independent variables in this study.

Table 3.0

*Summary*

|  |  |
| --- | --- |
| **Hypotheses** | **Results** |
| H1 (a): Implementation of whistleblowing policy influence internal whistleblowing practices in enhancing good corporate integrity | Accept |
| H1 (b): Legislative protection influence internal whistleblowing practices in enhancing good corporate integrity | Accept |
| H1 (c): Establishing communication channels influence internal whistleblowing practices in enhancing good corporate integrity | Accept |
| H1 (d): Organizational support influence internal whistleblowing practices in enhancing good corporate integrity | Accept |
| H2: The main factor that has strongest influence on enhancing good corporate integrity is implementing whistleblowing policy to encourage internal whistleblowing practices. | Accept |

The result shows that the most influential factor that influence the internal whistleblowing practices is through the implementation of whistleblowing policy. This is supported by Teen (2007) of which the researcher found out that the whistleblowing policy should be established by the organization because the legislative protection alone is insufficient. This is because internal whistleblowing practices involved the whistleblower and employers or upper management of the company, where, the whistleblower will report on the witnessed wrongdoings to the person inside organization and not the outsiders. Study by Janssen (2006) also found that the factors that influence whistleblowing action are the policies and regulations regarding whistleblowing. Organizations need to have policies and practices which support the whistleblowing acts. Two aspects that need to be considered in designing the policy are to have effective and proper legal mechanisms and avenues for whistleblower to freely report corruption and there is a need to change perceptions of whistleblowing and whistleblower. This is because the policy will be one of the ways to protect whistleblower when they blow the whistle internally. MacDougall (2016) also found that internal whistleblowing is highly desirable; however, even if it were possible to legislation to have a complete protection for whistleblower, such legislation would be undesirable. This is because the employees more fear on the perceptions from colleagues and employers after decided to whistle blow. Therefore, implementation of whistleblowing policy much needed in encouraging employees to report on the witnessed or observed wrongdoings instead of remains silent. Policies that aim to encourage internal whistleblowing should achieve the standard that all the typical fear of retaliation gone vanished.

Sahazam (2013) also found that whistleblowing would enhance better corporate governance if the organization adopting effective whistleblowing policy. Research conducted by Hassink, De Vries and Bollen (2007) found that the organization which is implementing and practicing a policy will encourage whistleblowing. It supported the hypothesis of the whistleblowing policy as the most influence factors because the studies showed that it is crucial for an organization to implement a policy since non-existence of the policy will reduce the probability that employees will disclose any witnessed illegal practices within an organization. This showed that the organization can provide adequate mechanisms or policy in the form of perceived organizational support, creating strong ethical codes of conduct, rewarding ethical behaviour and promoting sound work ethics in its organizational operation. The findings from the previous research indicated that the hypothesis in which there is positive relationship between whistleblowing policies is accepted. Eventually, the findings also support the second hypothesis in which the most influential factor to encourage internal whistleblowing practices is whistleblowing policy, therefore the second research question or objective has been met.

Recommendation and Conclusion

As for the future research on whistleblowing, several recommendations are listed. First, the number of participants should be increased and more different situations or issues about whistleblowing should be used. Due to limitation of time, the sample used in this study only 270 that involved only employees who work in financial and banking sector. The sample size is actually not large enough to be generalized to the whole population of employees in financial and banking sector located in Kuala Lumpur. Therefore, second recommendation is that future studies would be done in other industries or private companies or Government Linked Company (GLC) and not only focusing on Public Listed Companies (PLCs). Based on that, knowledge from this study can be used by employers in order to be more open and encourage internal whistleblowing practices as it can give various benefits to the organizations. By focusing on various industries in the future research, it may help future researcher to obtain respondents from different races and more working experience since the scope will be larger. Third, it is also needed to add some open ended questions to the research questionnaire in order to learn more about employees views on whistleblowing because it will also new additional knowledge to the employees when they respond to the survey. Future research should consider using more rigorous qualitative approaches such as face-to-face interviews and focus groups to gain opinions and feelings on the topic.

As a conclusion, the internal whistleblowing practices is vital in enhancing good corporate integrity among employees at public listed companies, and the study meets the objective needed. It can be concluded based on the discussion that internal whistleblowing practices is associated with good corporate integrity. Therefore, it is important for an organization to focus and practice as well as encourage internal whistleblowing practices in the organization. This is crucial as any involvement in any corporate scandals or issues ultimately can bring down the organizations image and would not be able to sustain in the market. Internal whistleblowing practices also help the organization increase justice and peaceful at a workplace and improve its productivity as well as to be more comply with laws and regulations. Moreover, internal whistleblowing practices also may contribute to Malaysia to be less corrupted country and have high level of integrity country. This is because currently Malaysia still at the low level of practicing and encouraging internal whistleblowing practices due to various reasons such as culture to embrace the whistleblowing practices, legal protection less likely to support whistleblower who blow the whistle internally and perceptions from the society regarding the issue of whistleblowing.

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