

CORPORATE GOVERNANCE THROUGH WHISTLE BLOWING

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ABSTRACT

The purpose of the study is to investigate the impact of Whistle blowing on corporate governance through the moderating effect of the employee's age and to analyze the factors affecting whistle blowing in an organization. A sample of 200 employees were studied from Public sector organization through simple random sampling technique. Regression technique was employed to study and analyze the impact of Whistle blowing on corporate governance. The results of the study suggested significant relationship between the whistle blowing and corporate governance. Working Motivation to Whistle Blowing and Training Employee to Whistle Blowing were revealed as having a positive relationship with the Corporate Governance in Public Sector Organizations. Furthermore, this study also aimed at finding the impacts of demographic variable of gender in the context of independent variables and dependent variables in Pakistani public sector organizations.

KEYWORDS: Whistle blowing, Corporate Governance, Regression Analysis, Pakistan

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1. INTRODUCTION

Whistle blowing excludes whatever the perception is in official perspective because of the scattered and non-diffused knowledge among professional peoples in different areas of the world. The word whistles blowing has been emerging from the Bobbies. It is the starting story which emerged from a positive thinking of the people belonging to an organization. This term is also used in the games when referee wants to freeze the game due to some actions against the game rules (Zanchetti, 2007).

Whistle blowing has now become a symbolic measurement which prevents big mishaps, including World Com. For further improvement of governance and service quality, Whistle blowing Policy plays a prominent role and it has significant part of the company's rules and regulation. Workers and the other concerned people and organizations are always motivated to get the benefit from the guidance given by this activity for intimating the offenses. It may be noted that the given strategy is basically to help out people who believe in indecency. It does not emerge the interrogative sign towards the steps of any organization in its normal business operations and also not guides towards the repetitive actions to the problems already fixed. Security and Exchange Commission of Pakistan (S.E.C.P) lays down the code of corporate governance, and just mentions that company should formulate the whistle blowing policy. Nothing is mentioned in detail about the security of the whistle blower.

The SECP is responsible for regulating the policies regarding corporate governance in Pakistan. It is mentioned in code of corporate governance that, every company should formulate the whistleblower policy and also set a mechanism for the security of whistleblower. As different companies have different types of business, so they should formulate their own way to follow the rules of corporate governance and whistle blowing. e.g. UBL fund Management, for attaining the highest standards of quality accountability, incorporated a whistle blowing policy. If they want the whistle blower to point out a genuine concern, then whistle blower must be free from all types of harassment.

The intention of the policy must be enabled, encourage employees and as well as must raise serious concerns for stakeholders within the organizations.

The person, who raises any issue, shall be reported confidentially. In case where whistleblower is not identified, his/her blows would not be entertained. By through the essence of this policy encouragement to mention his name is the appropriate, because in follow up investigation

question may become difficult unless the source of information is identified. But however, if protection is concerned about keeping in confidence, this his/her personal information will not be disclosed to anyone without his consent. (UBL fund managers whistle blowing policy 2013). Pakistan state oil (PSO) incorporates a policy for encouraging and guiding of worker for whistle blower. The policy intention is to assist the individual worker for discovering the wrong practice inside the organization. The company shall not apply policy for any personal criticism concerning in individual term of disciplinary and employment matters. This policy deals with concerns, which are particularly in the interest of companies or public interest. (Whistle blowing policy "Speak Up" Pakistan State Oil Company Limited). In UK legislation set up the routes for whistle blower i.e. an internal procedure means company, authority, second approaching the public agencies such as regulators, auditor, at the last use media outlet for highlighting the issues. The objective of this study is to find out the factors affecting the whistle blowing in the organization. Which factor encourages the employee for whistle blowing as well as the problems occur in result of whistle blowing? And the second objective of the study is to study the impact of whistle blowing on corporate governance. In the next phase the previous research in this area gives blow.

2. LITERATURE REVIEW

Whistle blowing is very important in the activities of top management of the company. For example the Sherron Watkins did the same action demanded by this term on Enron's management during the resistance by Harry Templeton against the Robert Maxwell's various funding policies. It is considered as the earliest action against the workers or top management. If an organization want to requires an efficient controlling system, it should provide security to the individual who are willing for whistle blowing as it may have numerous consequences.

Nagari & Vihar, (2013) posited that control of moral identity and social structure on the perceived likelihood of whistle blowing by studying the individual and social factors of 181 employees for more than 100 companies. Furthermore, the reliability model has developed for the purpose to maximize the responsiveness in the employees regarding whistle blowing policy of their company and the endeavor in use by companies to train their employees on the Whistle blowing policy.

Miceli & Near, (1992) proved that majority of the workers do not report about wrongdoing in their organization. In the same way, Rothschild & Miethe (1999) discovered that the individual whistleblower has to bear the huge cost in organizations.

It has highlighted the positive aspect as well as negative aspects related to whistle blowing in differing disciplines, psychology, human relation, management, law, and ethics of business. Its positivity invites the interest of the employees to implement the whereas its drawback hinders them to follow the techniques (Zalkind & Casal, 1995; Heilman et al; 2003; Near et al; 1985; Dworkin, & Callahan 1994; Dandekar, 1990; Singer, et al; 1998; Chiu, 2003)

Olive, (2003) found that whistle blowing is an activity which is entirely related to public interest, its objectives are more important than results. Similarly, Fledderman, (1999) whistle blower conducts his activity for public interest and not for the benefits of his coworkers, or the supervisors of his company. Further, it has found that an employee who is involved in whistle blowing or observing of wrongdoing, can make analysis of his positive action for his work/policy.

Hall & Davies, (1999) studied that it is necessary that the whistle blowing modes agree with the workers' perceptions, because the behavior of workers are in line with with the rules of whistle blowing and in this way he can save himself lawfully. It must enable the workers to stand during the interrogation.

A little work has been done in this area. Information Technology, Finance and Banking Sectors enclosed in the previous researches (Nagari & Vihar, 2013). So there is a scope for further studies in different sectors. This study was conducted in Public Sector Originations by using some more optimization methods to make the most of the motivation of employees through whistle blowing in the organizations matter to the different restraints.

3. THEORETICAL FRAMEWORK

The following model is modified form of Nagari & Vihar, (2013) research model, which is constructed according to their recommendations. In his research Nagari & Vihar, (2013) studied the association among different variables through chi-square technique. In this study Whistle blowing is measured through Index of Working motivation to whistle blowing and Employee training to Whistle blowing and Age of Employees taking as moderating variable.

3.1. MODEL SPECIFICATION:

$$CG = \alpha + \beta_1 (TE) + \beta_2 (WM) + \mu$$

$$CG = \alpha + \beta_1 (WM) + \beta_2 (WM) \times Age + \beta_2 (WM) \times Age^2 + \mu$$

$$CG = \alpha + \beta_1 (TE) + \beta_2 (TE) \times Age + \beta_2 (TE) \times Age^2 + \mu$$

$$CG = \alpha + \beta_1 (WM) + \beta_2 (WM) \times D + \mu$$

$$CG = \alpha + \beta_1 (TE) + \beta_2 (TE) \times D + \mu$$

Where

CG = Index Corporate governance

WM = Index Working Motivation to whistle blowing

TE = Training of Employees to whistle blowing

Age = Moderating Variable

Gender = Dummy Variable

3.2. STATEMENT OF HYPOTHESIS:

H_{0a}: Working Motivation to whistle blowing does not influence corporate governance in Government organization

H_{1a}: Working Motivation to whistle blowing influence corporate governance in Government organization

H_{0b}: Training of Employees to whistle blowing does not influence corporate governance in Government organization.

H_{1b}: Training of Employees to whistle blowing influence corporate governance in Government organization.

H_{0c}: Relationship between Working Motivation for whistle blowing and corporate governance is not moderated by age in Government organization

H_{1c}: Relationship between Working Motivation for whistle blowing and corporate governance is moderated by age in Government organization.

H_{0d}: Relationship between Training of Employees for whistle blowing and corporate governance is not moderated by age in Government organization

H1d: Relationship between Training of Employees for whistle blowing and corporate governance is not moderated by age in Government organization.

H_{0e}: Effect of working motivation for whistle blowing is same on corporate governance on male and female in Government organization

H_{0e}: Effect of working motivation for whistle blowing is different on corporate governance on male and female in Government organization

H_{0f}: Effect of training of employees for whistle blowing is same on corporate governance on male and female in Government organization

H_{1f}: Effect of training of employee for whistle blowing is same on corporate governance on male and female in Government organization.

4. RESEARCH METHODOLOGY:

The research is aimed to explore the impacts of “Whistle blowing” on corporate governance and the moderating effects of “Age of Employees” dimension.

For the population of interest this research consists of employees of Government Pakistani organizations; accordingly targeted population was restricted to organizations located at four major cities of the country that is Islamabad, Peshawar, Queta, Rawalpindi, Lahore and Karachi. Cities were selected to ensure the wholesomeness of study due to expected variation in responses because of differences in cultures and working environments of cities. Another reason for selection of these cities was that being the province and country capitals these cities also base most of the mainstream public organizations. Survey questionnaires were administered to 397 employees, however, only 216 responses (54%) were retrieved. Study participants included employees from both genders and also supervisory or non- supervisory staff. They varied in academic qualifications and also the work experience they had. Employees, including both genders were the respondents for data collection. In this study, three questionnaires were adapted for data collection. The first instrument used for Survey was Questionnaire. Narrative of these questionnaires was adapted to suit own study’s framework.

Primary data based study method was adopted to the effect. All public sector organizations under study were personally visited by the researcher, however, prior coordination was made by the administration and managers of the respective departments for selection of appropriate time when the maximum number of employees were present in offices. Accordingly, sets of questionnaires were distributed amongst the employees and the responses were collected the

same day. In order to facilitate certain respondents who were more comfortable with computers rather than simple paper and pencil, the same set of Questionnaire was also floated through Goggle Doc via internet medium and social media such as Facebook, accordingly Email was used for retrieving of requisite responses. Demographic section was added to get the demographic details and organization names of the participants.

5. DATA ANALYSIS AND RESULTS:

5.1. Reliability:

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	2.843	28.425	28.425
2	2.383	23.828	52.254
3	1.127	11.271	63.524

The results in the table composed of variables used in questioner, these questions asked from the target population. The results also indicate that factor analysis of 8 variables in the component transformation matrix form. The factor analysis confirmed three variable values ensures the significance level. Which are 28.45 in first variable and second shows 23.82 and collectively 52.25. And third variable shows 11.27% of the variation. Collectively the total outcome of three values is 63.52. Which is more than 0.50 or above 50 %. It means the question asked in survey load the information required in finding of the study.

5.2. Regression Results:

Coefficients^a

Model		Unstandardized Coefficients		Standardized	T	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	12.584	1.296		9.711	.000
	WM_index	-.671	.257	-.459	-2.61	.002
	WM_Age	.423	.022	.783	19.252	.000
	WM_Age2	-.015	.013	-.439	-1.089	.277
	TE_Age	-2.013	.128	-4.847	-15.716	.000
	TE_Age2	.281	.038	3.828	7.422	.000
	EmployeeStraining	3.940	.891	.828	4.421	.000
	Gender_WM	.619	.183	.980	3.376	.001
	Gender_ET	-1.108	.438	-.649	-2.531	.012

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.913 ^a	.833	.826	1.32861

a. Predictors: (Constant), Gender_ET, WM_index, WM_Age, Employees training, WM_Age2, TE_Age, Gender_WM, TE_Age2

6. DISCUSSION:

The result in the above table shows there is a significant relationship between working motivation index and corporate governance. T-test value is 2.61 which is more than 2 confirmed the positive significant impact of working motivation on corporate governance. In the same way the ET (Employee training) is also positively significant to corporate governance. The regression results stated in the table indicate that WM to whistle blowing is statistically significantly related to CG by virtue of its Sig value of 0.002, thereby rejecting the Hypothesis “ H_{0a} ” and accepting “ H_{1a} ”. Thus, it implies that WM is significantly related to CG. The regression results further suggest that TE to whistle blowing is also statistically significantly related to CG by virtue of its Sig value of 0.000 thereby rejecting the Hypothesis “ H_{0b} ” and accepting “ H_{1b} ”. The regression results mentioned in the table suggest that AGE insignificantly moderates the relation between WM and CG thereby accepting the Hypothesis “ H_{0c} ” and accepting “ H_{1c} ”. The regression results mentioned in the table suggest that age of employees significantly moderates the relation between ET and CG by virtue of its Sig value of 0.000 thereby rejecting the Hypothesis “ H_{0d} ” and accepting “ H_{1d} ”. The table further suggests that Age of Employees is significantly playing its role of the moderator as the value of the unstandardized coefficient (B) is now strengthened and sign of associated term is reversed. Hence the hypothesis, Age of Employees moderates the relation between ET and CG is accepted.

The regression results mentioned in the table suggest that for both male and female groups WM significantly affects Dependent Variable Corporate Governance, as is evident by virtue of its Sig value of 0.000, thereby rejecting the Hypothesis “ H_{0e} ” and accepting “ H_{1e} ”. The effects on

female group are found to be 0.186 units more impact on corporate Governance (CG) due to WM.

The regression results mentioned in the table suggest that for both male and female groups ET significantly affects Dependent variable corporate Governance, as is evident by virtue of its Sig value of 0.000, thereby rejecting the Hypothesis “ H_{0f} ” and accepting “ H_{1f} ”.

In the table the R –square value 0.83 shows that 83% of variation in Corporate Governance is explained by whistle blowing and the remaining is due to some other factors.

7. CONCLUSION:

The purpose of the present study is to examine the relationship between Whistle blowing on Corporate Governance independently and under the moderating effects of AGE of employees. Furthermore, this study also aimed at finding the impacts of demographic variable of gender in the context of independent variables and dependent variables in Pakistani public sector organizations. The results of the study accepted all the Hypotheses thereby suggesting a significant relationship between the variables. Working Motivation to Whistle Blowing have a positive impact on corporate governance and the results are in line with (Zalkind & Casal, 1995; Heilman et al; 2003; Near et al; 1985; Dworkin, & Callahan 1994; Dandekar, 1990; Singer, et al; 1998; Chiu, 2003) and Training, Employee to Whistle Blowing were found to have a positive relationship with the Corporate Governance in Pakistani Sector Organizations, and was aligned with the recent studies (Nagari & Vihar, 2013).

The limitation of this study that, study the only public sector organization and sample was small. Further study can be conducted for the large sample size. Organization and there is direction for future study that the need to conduct this type of study whistle blowing and corporate governance in private sector organization.

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