

Insights into Whistleblowing Practices in Malaysian Companies

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This study explores the understanding regarding whistleblowing among professional accountants in Malaysia, in order to gather insights into corporate whistleblowing practices. The expected role of professional accountants in identifying financial misconducts highlights the need for whistleblowing in the profession. Focusing on Malaysia, the institutional perspectives of an emerging market are considered in understanding whistleblowing practices. Data was collected through interviews with professional accountants according to their understanding on regulatory requirements, preferred mechanisms for whistleblowing, and consequences of whistleblowing. The findings indicated that respondents; i) are aware of whistleblowing, ii) have limited knowledge on related regulations, iii) prefer internal whistleblowing, and iv) have mixed opinions on their roles in whistleblowing. While acknowledging that whistleblowing can deter unethical conduct, they raised concerns regarding the effectiveness of the existing whistleblowing regulations. This study provides suggestions on further awareness and education to promote whistleblowing, especially to understand the correct procedures to follow in reporting unethical misconduct. Suggestions are made in relation to the independence of the unit or body receiving the report in order to protect and safeguard the whistleblowers.

Key words: *Whistleblowing, ethics, accounting professionals, Malaysia*

Introduction

Due to the vast number of corporate scandals that continue to occur, despite continuous corporate governance reforms, the importance of whistleblowing has been significantly elevated, and whistleblowing protection is considered as necessary to encourage ethical decisions. The role of the whistle-blower is anticipated to contribute practically towards improving corporate governance (Townsend, 1996), as it assists in detecting and preventing

ethical misconduct at an early stage. Employees, who are sufficiently trained to understand and differentiate between legitimate and non-legitimate business operations, will realise when activities or events stray beyond the norm and notice the unethical behaviour of their colleagues. Although whistleblowing seems theoretically feasible in practice, the implementation of whistleblowing is not straightforward given its dual-effect. For the whistle-blower, the act of whistleblowing reflects their high moral standing, but may inevitably pose various risks, such as a threat to their safety. For companies where misconduct is reported, whistleblowing can help to mitigate the risks but may also create negative perceptions, even in the event where misconduct cannot be proven, and the perpetrator(s) are found not guilty.

Within this ethical dilemma, internal whistleblowing is argued as a more logical and effective method, as it only involves informing relevant members of the organisation concerning potential wrongdoings. Whereas external whistleblowing occurs when allegations of misconduct or wrongdoings are reported through external channels such as regulatory agencies (Hirschman, 1970). Chung, Monroe, and Thorne (2004) suggest that internal whistleblowing is preferred as compared to external whistleblowing. Furthermore, an internal policy can help to prevent external whistleblowing (Vinten, 2004), which is noticeably more expensive to companies that are being reported, as well being expensive for legislators (Call, Martin, Sharp & Wilde 2018).

In the context of Malaysia, the lack of efficacy in the current legislation regarding whistleblowing (Krishnan, 2011; Meng and Fook, 2011, Caifen et al., 2018, Carter et al., 2017, CHE and Sundjo, 2018, Cossiga, 2018, Daniel, 2017, Vlasov and Kiseleva, 2017), justifies the preference towards internal whistleblowing. However, the effectiveness of internal whistleblowing may be jeopardised if the implementation is inadequate or managed inappropriately (Hassink de Vries & Bollen, 2007). An effective internal whistleblowing policy will only work in an organisational context where the employees perceive the procedures in place are equitable and reasonable. Employees need to be assured that management is supportive of whistleblowing, and that management will take appropriate actions towards resolving the alleged misconduct or act (Seifert, Sweeney, Joireman & Thornton, 2010). As highlighted in the 2016 report by the Organisation for Economic Co-operation and Development (OECD, 2016):

“Upon identifying wrongdoing, employees in the public or private sector may be uncertain of what to do with the information, where or to whom to turn, or whether they are protected by whistle-blower protection mechanisms. The many steps along the disclosure process can be daunting and vague. However, an effective and open organisational culture that promotes transparency and dialogue

can help to address these concerns and may make the difference between an employee speaking out or staying silent.”

There is a growing body of research examining: i) the regulatory framework for whistleblowing (Krishnan, 2011; Meng and Fook, 2011), ii) the determinants of whistleblowing (Ocozgun, 2014; Shawver, Clements, & Sennetti, 2015); and iii) corporate whistleblowing practices (Agnihotri & Bhattacharya, 2015; Lee & Fargher, 2013). To date, research on whistleblowing has managed to provide important evidence on the determinants of whistleblowing intention by employing proxies that range from demographic variables to social variables. Collectively, prior studies have indicated that there are variations in the likelihood towards whistleblowing. However, little is known about the application or use of whistleblowing in emerging countries such as Malaysia, especially from the perspective of professional accountants. Our focus in this study (on Malaysia) is justified by the fact that whistleblowing is highly needed in this country, especially considering the institutional context of the country. Firstly, as a democratic country, whistleblowing is well-suited to Malaysia given that a democratic society requires freedom of information and needs to provide support for employees who decide to speak out in good faith (Townsend, 1996). Second, within the weak institutional context of Malaysia, such as highly concentrated ownership and politically well-connected persons among the public-listed companies, whistleblowing provides an avenue through which misconduct can be reported. Third, given the likelihood of fraud and corruption in both the public and the private sectors in Malaysia, is prevalent and hugely alarming.

While whistleblowing can work in reporting various types of corporate misconduct, the scope of this study is related to financial misconduct. Accordingly, this study investigates whistleblowing from the perspective of professional accountants, a category of whistleblowing which is considered to be of prime importance (Alexander, 2005). Several reasons have warranted the focus on this domain. First, the nature of knowledge and skills associated with the accounting profession, either during formal education, fieldwork or ongoing continuing professional development (CPD) should enable them to identify unethical behaviour. For example, discrepancies in accounting records would raise concerns to initiate further investigations regarding the correctness of the financial statements. Second, their role in an organisation could be considered as a ‘gatekeeper’ as any financial transactions would be within their area of responsibility, such as in overseeing the processing of payments to suppliers or preparing financial reports. Third, being part of a professional body, they are bound by a professional code of conduct such as the Malaysian Institute of Accountants (MIA) by-laws, to which they are expected to comply. Therefore, this study aims to examine whistleblowing practices in Malaysia by looking at different perspectives in order to gain a better understanding of the regulatory requirements and methods associated with whistleblowing.

Accordingly, this study adds to the literature on ethics and the role of professional accountants in corporate ethical conduct. Moreover, given the context of this work, the study adds to the understanding of corporate whistleblowing practices by incorporating institutional perspectives of an emerging market. Regarding the practical contribution of this study, it will also provide significant input towards the policies and procedures that are required to support the regulatory whistleblowing requirements in order to encourage whistleblowing in deterring unethical conduct. The findings of this study will further benefit companies by promoting the development of internal whistleblowing mechanisms as a solution, rather than a fad, to ethical behaviour in a Malaysian corporate setting.

Accordingly, this paper is structured into the following sections. Section 2 presents and discusses the literature review. Section 3 describes the research design and sample selection. Section 4 presents the empirical results and Section 5 provides discussion of results. Section 6 contains concluding remarks and areas for future work.

Literature Review

Whistleblowing can be described as an act of reporting illegal misconduct by an organisation with the intention to prevent the adverse effects of misconduct on public interests (Shawver & Shawver, 2015). Whistle-blowers can be former or current employees (Near & Micel, 1985), members of an organisation, or people outside the organisation who seek to rectify perceived organisational wrongdoings by raising their concerns publicly. Illegal misconduct could take on many different forms including; fraud, breach of trust, and corruption.

Regulatory requirements related to whistleblowing

Krishnan (2011) examines various statutory provisions to understand the legal framework for the whistleblowing duties of auditors in Malaysia, which include; the Companies Act 1965, under the provisions of the duty to whistle-blow on breaches and non-observance in Section 178(4); the duty to whistle-blow on all fraud and dishonesty in Section 174(8A), and the duty to whistle-blow under the Banking and Financial Institutions Act 1989. Krishnan (2011) also highlights the Capital Market Services Act 2007, and the requirements within to whistle-blow via the Bursa Malaysia Listing Requirements and regulators such as the Companies Commission of Malaysia, the Securities Commission and Bank Negara Malaysia.

In addition to the statutory provisions highlighted by Krishnan (2011), Meng and Fook (2011) emphasise the Whistle-blower Protection Act (WPA) 2010, which is considered to be a major landmark by the Malaysian government in its' quest to combat corruption, fraud and unethical misconduct. The WPA (2010) emphasises the protection of whistle-blowers in three

forms, i) the protection of confidential information, ii) immunity from civil and criminal action, iii) and protection against 'detrimental action'. Reviews of this legislation by Krishnan (2011) and Meng and Fook (2011) highlight that the efficacy of the legislation is questionable due to several reasons. Krishnan (2011) reported mixed findings as to whether the auditor's role towards whistleblowing is realistic, practical and necessary and concludes that there are lacunae in the current legal framework that need to be improved to ensure that the duty to whistle-blow by auditors is legally realistic. On the other hand, Meng and Fook (2011) argue that the WPA (2010) does not provide adequate protection to employees who report actual or suspected misbehaviour to their employer since not all employers incorporate a whistleblowing policy in their organisation. Thus, the state of legal protection afforded in Malaysia to employee whistle-blowers is considered unsatisfactory and requires review and improvement. More specifically, the WPA (2010) needs to be broadened to include the scope of protection towards employees who resort to the internal mechanism of whistleblowing, rather than disclosing information to enforcement agencies as required under the current WPA (2010).

Preference in whistleblowing mechanisms

Whistleblowing can be classified into two types; internal and external whistleblowing (Ocozgun, 2014). Internal whistleblowing involves informing relevant members of the organisation about potential wrongdoings or misconduct, whereas external whistleblowing involves either internal allegations becoming public or the whistle-blower choosing to direct an allegation through external channels such as the media or regulatory agencies. Several theories have been proposed to justify the determinants of whistleblowing including the expectancy theory, power theory, and the diffusion of responsibility theory. The expectancy theory, highlighted by Near and Miceli (1985), suggests that the motive to whistle-blow is the desire to have the wrongdoing(s) corrected by management. Nevertheless, the power that one has explains the tendency to whistle-blow. This is evident in the research using power theories, such as resource dependence and value congruence (Near & Miceli, 1995). Under the 'diffusion of responsibility' theory, as highlighted by Grandossy and Sonnenfeld (2005), the greater the number of bystanders, the less likely one would be to whistle-blow, as one would expect others to do it, rather than themselves. Also, the factors that determine the tendency to whistle-blow include situational factors, such as the types of behaviour (See Near, Rehg, Van Scotter & Miceli, 2004), and the organisational factors, namely, the types of mechanisms for whistleblowing.

Collectively, prior studies indicate that there are many variations of whistleblowing due to the differences in factors, such as demographic variables (e.g. Ocozgun, 2014), self-efficacy (MacNab & Worthley, 2008), the effect of retaliation (Liyanarachchi & Adler, 2011), and moral intensity. Shawver et al. (2015) and Vinten (2004) argue that internal whistleblowing is

preferred to external whistleblowing as effective internal whistleblowing can in turn, prevent external whistleblowing. Moreover, internal whistleblowing is considered to be effective in detecting wrongdoings as employees are the ones having first-hand information regarding the possible wrongdoings by employers. Notably, the earlier wrongdoings are detected, the higher the possibility that they can be prevented.

The role of whistleblowing towards ethical corporate conduct

A whistle-blower is perceived to have a significant role towards promulgating ethical corporate behaviour and is seen as part of the ‘enforcement arsenal’ in an organisation. Furthermore, their role can range between simply providing a tip to full disclosure of information, both of which are likely to be useful in a regulator’s case for enforcement action. However, whistleblowing can be expensive as there are significant resources involved in promoting and rewarding whistleblowing activities. Whistleblowing can lead to additional workloads required by the regulators to investigate, leading to more protracted regulatory proceedings, and a greater number of resources involved (Call et al., 2018). Additionally, the resources required for whistleblowing include regulation, procedures involving the venue and system, and cost of reward.

The benefits of whistleblowing are unclear due to several reasons highlighted by Call et al. (2018). Firstly, due to the regulators having insufficient resources available to them to handle complaints, some whistle-blowers are likely to go unnoticed or neglected. Secondly, some complaints are so frivolous that the benefits are not predictable since the regulators cannot adequately distinguish credible from frivolous whistle-blowers’ ex-ante. Thirdly, there have only been a few whistle-blower awards, indicating the limited success of such programs and questioning the level of enforcement. Alexander (2005) agrees that whistle-blowers are a vital tool in the fight against financial and economic crimes in their various forms. However, he warns that various pressures can act forcibly to dissuade potential whistle-blowers from speaking or voicing out, ranging from a direct threat of violence, unfair dismissal, and breach of confidentiality. In brief, whistle-blowers are essential, but they will only exist and function if they have a reason to believe that they will be protected.

Methodology

This study aims to identify the whistleblowing practices employed by accounting professionals in Malaysia. More specifically, the objective is to explore their understanding and acceptance towards whistleblowing practices, as well as identifying the rationale behind their preferences. The objectives are laid out in order to find the gaps that need to be considered in the development of an effective internal whistle-blowing framework. Accordingly, the research questions are set as follows:

RQ1: What are the levels of understanding of professional accountants on the regulatory requirements involving whistleblowing in Malaysia?

RQ2: What is the preferred mechanism for whistleblowing between internal and external whistleblowing, among professional accountants?

RQ3: How would that choice reflect the consequences of whistleblowing to the organisation/accounting profession?

This study used an exploratory approach to enable an in-depth understanding of the state of whistleblowing practices in Malaysia. For data collection purposes, a semi-structured interview protocol was followed. First, the questions were formulated based on the literature review related to ethics and whistleblowing. Second, the questions were tested under pilot conditions, which consisted of three interviews to ensure that the protocol was valid. Third, modifications were carried out by i) clarifying some ambiguous questions, and ii) removing questions that were redundant to capture all the requirements needed for the study. The protocol consisted of a brief background about the purpose of the interview, the assurance of data confidentiality, and a list of examples of the interview questions that were segmented into three themes as follows:

Table 1: Interview Protocols

Theme	Examples of Questions
Level of understanding about whistleblowing	<p>I. How familiar are you with whistleblowing?</p> <p>II. How would you describe the regulations (including your company's internal policy, if any) on whistleblowing?</p> <p>III. What is your opinion on the enforcement aspects of the regulatory requirement (including your company's internal policy, if any) on whistleblowing?</p>
Preferable mechanism to whistle-blow	<p>IV. What would be your preferred mechanism to whistle-blow, internal or external whistleblowing?</p> <p>V. Why do you prefer internal (external) whistleblowing over external (internal) whistleblowing?</p>
Impact of whistleblowing	<p>VI. What is your opinion about the impact of whistleblowing on your organisation?</p> <p>VII. What is your opinion about the impact of whistleblowing on your profession?</p>

In order to begin the interview process, professional accountants were first contacted. Recruiting professional accountants as respondents was warranted as this study focuses on

the role of whistleblowing in the context of deterring financial misconduct, which is within the responsibilities and job scope of professional accountants, and therefore, respondents who conduct financial and statutory accounting, management accounting or internal auditing are required. Also, as the aim of this study is to explore the nature of whistleblowing in the Malaysian corporate sector, respondents from small, medium and large companies and from various industries are required. In selecting the respondents, an email was sent to potential participants to request their participation in the study. A brief overview of the research was also provided which described their intended involvement. Upon receiving their preliminary consent to participate, face-to-face interview sessions were scheduled, this step included the signing of the consent form to participate in the study.

The selection of participants was made by ensuring that there were variations between the sampled cases regarding job functions, size of organisations, and types of operations that the accountants were involved with. This approach was used to increase the richness and depth of each case to meet the research objectives. The details of the respondents, capturing the variations in the sample cases, are presented in Table 2. Of the 11 respondents in the study, seven (7) were female, and four (4) were male. The ages of the respondents varied between 28 and 40 years of age. The academic levels among the respondents included bachelor and master degrees in accounting. Two respondents had a bachelor's degree in engineering but they held a professional accounting qualification. One respondent was from a small-size company, three respondents from medium-sized companies and the remainder were from large-sized companies. Moreover, the respondents represent various industries including plantations, telecommunications, safety and healthcare waste management, insurance, oil and gas, transportation, investment and energy services.

Table 2: Respondents

Respondents	Gender	Academic Qualifications	Job Position	Size of the Company	Industry
R1	M	Degree in Engineering, ICAEW	Head of Department	Large	Plantations, Motors, Logistics & Healthcare
R2	F	Degree in Accounting	Finance Executive	Small	Telecommunications
R3	M	Degree in Engineering, ICAEW, CFA	Manager	Large	Plantations, Motors, Logistics & Healthcare

Respondents	Gender	Academic Qualifications	Job Position	Size of the Company	Industry
R4	F	Masters in Finance	Manager of Finance Operation	Medium	Insurances Services
R5	M	Master of Business Administration	Finance Senior Executive	Large	Plantation & Logistics
R6	F	Degree in Accounting	Manager of Compliance & Cost Allocation	Large	Oil & Gas Services
R7	F	Degree in Accounting	Manager	Large	Air Transportati on Services
R8	F	Degree in Accounting	Assistant Manager, Finance	Large	Investment Services
R9	F	Master of Accounting	Account Executive	Medium	Cleaning, Workshop, Healthcare Waste Management Services
R10	M	Degree in Accounting	Internal Auditor	Large	Electricity Services
R11	M	Degree in Accounting	Internal Auditor	Large	Electricity Services

A total of 11 interviews were conducted over a 6-month period. At the commencement of each interview, the respondents were informed about the study in relation to its purpose and related research questions. All interviews were conducted face-to-face and in most cases involved two (2) researchers. Each interview lasted between 15 to 45 minutes. Data analysis using thematic analysis was carried out to produce the qualitative results. All interview sessions were recorded upon receiving consent from the respondents and were later transcribed. The transcript from each interview session was analysed according to themes associated with the research questions.

Findings

The insights into whistleblowing practices in Malaysia are presented in this section based on the analyses of data collected from the semi-structured interviews. The findings are reported according to the three research questions; the level of understanding about whistleblowing including the regulatory requirements, preferred mechanisms towards whistleblowing and perception on the impact of whistleblowing.

Level of understandings about whistleblowing (RQ1)

The first research question focused on the need to understand the extent to which the professional accountants, who participated in this study, understood whistleblowing. The responses were sought in the context of how the respondents defined whistleblowing in order to gauge their familiarity with the practice. Understanding the scope of whistleblowing was considered important due to the practice being generally accepted as relevant; although, not much being known about it. The respondents mostly identified whistleblowing as a channel that can be used by a person to report unethical behaviour or conduct that he/she has detected in his/her job. The respondents mentioned that unethical conduct included those behaviours related to suspicious activities, illegal activities, misconduct, elements of fraud or corruption, and against the law or policy of the company. Whistleblowing can be described as the level of exposure made to a responsible and authorised authority that can take appropriate action. As claimed by one of the respondent:

“When you figure out something internally that requires further attention, which perhaps is quite sensitive, then you need to escalate to someone for further action especially something that involves fraud.” (Assistant Manager of Finance)

The respondents also mentioned that the purpose of whistleblowing is to ensure that appropriate actions are taken upon the reported misconducts. For instance, one respondent said that whistleblowing is:

“A channel to report cases of misconduct or fraud. We, as staff or front-liners, must identify and seek a channel to communicate the findings of our outcome to ensure that fraud will not continue. We need a channel to put a stop to that (fraud).” (Internal Auditor)

In order to answer the first research question, aspects of whistleblowing were next explored to understand further their comprehension of whistleblowing practices, namely; i) their experiences, ii) familiarity with the regulations in Malaysia, and iii) familiarity with their company's whistleblowing mechanism(s).

Experience in whistleblowing cases

In general, the majority of respondents indicated that they had never experienced any cases of whistleblowing directly, whether as a whistle-blower or as the person receiving the report, or the person being reported. A number of the respondents indicated that they were aware of rumours, but they were not so sure about them so as to warrant further discussion or investigation. However, several mentioned about having knowledge concerning cases involving whistleblowing in their organisation and seeing actions taken on particular perpetrators. Two of the respondents admitted having been indirectly involved in investigations reported through a whistleblowing channel.

Internal auditors are those individuals who have the most experience and exposure to whistleblowing activities, and are most commonly given information concerning unethical conduct. An interesting finding was the fact that there were cases where unconventional reporting methods had been chosen towards whistleblowing. For instance, as mentioned by one respondent:

“Quite a number of whistleblowing cases that I see in my position in internal audit. Basically, as internal auditors, we perform normal audit routine. However, we are also involved in some investigations. I can say that 95% of the investigations were started due to information from whistleblowing. We know there is something wrong based on information that we get from ‘surat layang’ (anonymous letter). There are many cases like that. What we will do is to go to the CEO or the Audit Committee or the Internal Affairs Department, depending on the case and the expertise needed to further investigate. Most of the anonymous letters are because of dissatisfaction, but some can be very useful as whistleblowing tools.” (Internal Auditor)

Familiarity with whistleblowing cases in Malaysia

Most respondents indicated that they believed that there were cases involving whistleblowing in Malaysia, as they had heard or known about them. Only one respondent, perhaps the least experienced respondent, presented as not having relevant knowledge about whistleblowing in Malaysia. However, those indicating their familiarity with whistleblowing cases in Malaysia, also said that they were not able to explain or describe it further, as not much information was available in this area. As mentioned by one respondent:

“No idea, but they (cases of whistleblowing) exist. Given that the cases are mostly private and confidential, I don't really know much about them. Normally it (whistleblowing) involved cases of contracts with vendors. It (whistleblowing) also depends on the organisation. In Government Listed Companies, it (whistleblowing)

surely exists. Sometimes, people whistle-blow due to jealousy or dissatisfaction with others. Among Malays, it may be common.” (Manager)

The respondent also mentioned their perceptions; that there is a lack of information on the actions undertaken for any case(s) reported and some participants highlighted their concern on the effectiveness of whistleblowing practices. In general, the respondents also mentioned that whistleblowing is something that is somewhat new in the Malaysian context, which helps to explain the reasons why it is not well-developed.

Familiarity with the regulations related to whistleblowing in Malaysia

Interestingly, the majority of respondents indicated that they knew about the regulation on whistleblowing in Malaysia, but were not able to explain them in much detail. Nevertheless, a few managed to state some important facts about the regulations, such as; identifying the name of the relevant act in Malaysia; ‘Whistle-blower Protection Act’. Also, several respondents identified that the act is aimed at protecting the whistle-blower. For example, one respondent stated:

“I didn't know much. What I know is that if someone becomes a whistle-blower in the company, he/she will be protected. That's what I know.” (Account Executive)

Familiarity with corporate internal whistleblowing mechanisms

All respondents indicated their agreement towards the fact that their companies had mechanisms for whistleblowing. However, there were variations in how effectively they could explain the details of the policy and practices that were related to whistleblowing in their respective companies. Those that knew about the existence of the policies were not able to explain it, and they argued that the primary reason was that they had never been in a position where they needed to use or refer to it. Some respondents strongly voiced that the existence of such a policy was to enable whistleblowing but they were unsure of the exact details, such as, the step by step procedures and/or the governance aspects of the related unit/department being in charge of the whistleblowing report.

As voiced by one respondent:

“There is a well-established policy, as my company is in a highly regulated industry, given that the parent company is in Singapore. All procedures are in place and complete in terms of forms, guidelines, reporting structure, and contact details. The procedures are accessible and can be referred to by staff at any time in staff net. The level of reporting would depend on the case. Predominant case is to be reported to

the Risk and Compliance Unit, an independent unit that reports directly to Singapore (parent).” (Manager of Finance Operation)

The respondents from larger companies highlighted that the whistleblowing policies are disseminated via their website, staff intranet and through email communication. Amongst the information highlighted regarding their internal whistleblowing policy, coverage included third parties dealing with their organisation, such as suppliers and customers, who are also able to use the whistleblowing channel. One interesting fact highlighted by one of the respondents was the use of an independent firm managing the whistleblowing report. As said by that respondent:

“Yes, I know there is an internal policy even though I have never used it. There is this one unit that manages all those, like an independent firm managing the whistleblowing. It is outsourced to this independent firm. There is a channel to report on unethical things. It is something new to us about this independent body. There are ways on how to report. They give their email so that we can report through that email. Also, we can call their hotline. The information is circulated to all staff through email, so we can report if we need to. They will issue document, such as circulars, informing things like who you would be seeking to whistle-blow. So information has been made known to all staff, it’s just a matter of whether you are aware or not. There are awareness programs being done through sessions like integrity; there is a manager heading this.” (Manager)

Preferable mechanisms to whistle blow (RQ2)

For RQ2, the respondents were asked about their preferences on whistleblowing mechanisms, i.e. between internal and external whistleblowing. Indeed, it was debated earlier in this study, that internal whistleblowing is more preferable in the context of an emerging country such as Malaysia. All respondents were able to differentiate between both types of mechanisms in indicating their preferences. For example, one respondent said:

“The standard operating procedure is different for internal and external whistleblowing. The impact will also be different for every case.” (Manager)

Preferable mechanisms

The majority of the respondents indicated their preferences towards internal whistleblowing, rather than external whistleblowing, further indicating that as an employee, they were bound by the company’s policy. However, several respondents mentioned the possibility of using

external whistleblowing in circumstances that would warrant them to do so, as one of the respondent mentioned:

“It depends. If our internal whistleblowing is transparent, honest and reliable, it is better to use internal (whistleblowing). If we feel secure about it, we may use internal whistleblowing. But we may not feel secure if we are not confident about it; with the unit, who is in charge, who has control, whom they favour, whether they will ‘screen’ our report, or keep silent about it. I have heard cases of the internal whistle-blower being transferred to another place - so internal whistleblowing is not so effective. In the situation where internal whistleblowing is not effective, I prefer external whistleblowing because there will be more impact. The top management will realise that there is a limit to their power.” (Senior Executive, Finance).

Other factors affecting preference

When seeking for more details about their preference, and the factors affecting their choices, an interesting observation highlighted the need to protect the image of their company by settling things internally. Several reasons were given for this, which included; ‘do not want things to go out of scope’, ‘able to check the accuracy of the accusations’, ‘prevent things from being known by external parties’, and ‘avoid speculations if things went outside the company’. As cited by one of the respondent:

“It depends. If you want to whistle-blow externally, the case must be a very high profile case and involve high-level stakeholders. For internal whistleblowing, the cases might just be the small cases such as those at the general manager level. But go internal first, look at the severity of the case. If the case is very serious, and you have solid evidence, and you know the case has gone too far; then you may want to go external. Also if you have a strong internal policy, you will choose internal. There are different impacts. Internally, the case might just involve internal audit, or the governance compliance unit. If we go external, it will go to court, involve Malaysian Anti-Corruption Commission (MACC), and may impact the company’s reputation as well. The safest is to go internally first. If you go external, they will take action first and check later, which will give a bad impression towards our company. But if we go internal, we can check first before the case becomes big.” (Manager of Cost Compliance & Cost Allocation)

Perceptions on the impact of whistleblowing (RQ3)

In the context of RQ3, the perceptions regarding the impact of whistleblowing are addressed. The purpose of this question was to explore the way whistleblowing is perceived among professional accountants in Malaysia, and to address the gaps and suggest areas for improvement. More specifically, it is argued that whistleblowing has a greater role in their line of duties as professional accountants. Moreover, whistleblowing is expected to be perceived as a mechanism that can deter unethical conduct.

Impact on the professions

Most respondents replied to this question in a general sense, by indicating the benefits of whistleblowing in the way in which they carried out their work and duties. Knowing that there is a possibility of a report being produced by whistle-blowers, employees typically perform their work ‘as what is expected of them’. The impact of whistleblowing, as said by one of the respondent is:

“Increases productivity because everyone work as he or she should. In terms of my job scope, that is in reporting, one needs to be transparent and honest, report what is true rather than ‘sugar-coating’ of things. Just report what actually happens and do not add unnecessary things here and there.” (Senior Executive, Finance).

Indeed, one respondent noted that whistleblowing might not be required in some accounting functions where there are strong internal controls in place. Whistleblowing may be more relevant in accounting functions where there is a high risk of fraud. As mentioned by one of the respondent:

“Not much in accounting, because the internal control is strong. There are procedures to follow in the accounting process, such as the need of invoice. The procedures are, sort of, slowing down the implementation of many things. But, strong internal control is actually good. There are checks and balances. Whistleblowing is more relevant to procurement function that involve contracts with suppliers. There is a very high risk (of fraud) in procurement process. The decision (in procurement) can’t be made alone. The evaluation of tender must be made by people from various expertise, from technical to commercial” (Manager)

Another interesting point that was raised by one of the respondents was the need to be careful in utilising the whistleblowing channel when identifying discrepancies in accounting records. This relates to the function of financial accounting and reporting, where reliance is made on

the relevant accounting standards such as the Malaysian Financial Reporting Standards (MFRS). As described by one of the respondent:

“In accounting, misunderstanding may arise because accounting standards change over time. Accounting discrepancies may exist because different standards are used, or differences in opinion on accounting treatments. The reason could be that the one doing it is not aware of the changes in the standards. Also, as there are lots of ambiguities in the standards, some people just tend to do what other people are doing. If you report on these people, you might not be doing any justice for them because they do not have the intention to do something wrong.” (Head of Department)

One of the respondent highlighted the role of accountants and why a professional accountant is the ‘perfect whistle-blower’ by saying that:

“As an accountant, you have first-hand information. Any transaction, at the end of the day, will somehow go to accountant. In procurement, from the start when entering into a contract, until the end when you want to make payment, all those involve accounting functions. In human resource, from recruitment to training, payment is needed such as for payroll and training costs. In all of these aspects, accountants are privy to this information. In operations, even doing daily operation job, you are able to spot if there is any potential problem. For example, if you want to process payment and you notice that there is no purchase order but there is invoice. So from there, you may start checking what is happening. That’s why if you really do internal control diligently, you will be the first to have information to become a whistle-blower.” (Manager of Cost Compliance & Cost Allocation)

Impact on the company

All respondents agreed that whistleblowing brings about many benefits, subject to it working as intended. However, a few respondents mentioned some caveats by mentioning the possibility of whistleblowing being exploited by employees for unnecessary purposes such as ‘complaining about others’. As mentioned by one of the respondent:

“If done correctly, it (whistleblowing) has a very good impact; increases productivity and prevents misappropriation of powers from all levels, from top to bottom. All fraudulent cases, whether big or small, can be prevented. This is because everyone will know that there is a strong whistleblowing unit that is untouchable. People will think before they do anything. If they are doing wrong things, they will stop due to the fear of whistleblowing.” (Senior Executive, Finance)

On the enforcement aspect

While whistleblowing is deemed to have a positive impact on the company, the issue of enforcement was not generally accepted to be at the expected or anticipated level. Indeed, at least half of the respondents indicated their satisfaction with the enforcement aspect of internal whistleblowing practices in their companies. However, when it came to external whistleblowing practices, most were unsure on several issues such as whether; ‘action has been taken’, ‘the outcome of the report’, and ‘the whistle-blower is protected’. As said by one of the respondent:

“Internally, I think enforcement-wise is sufficient as for now. In terms of Malaysian context, not everyone wants to be a whistle-blower. We can be ignored.” (Account Executive).

Towards promoting ethical conduct

In general, all respondents identified whistleblowing as being a mechanism to promote ethical conduct. Furthermore, they believed that it is important to have a whistleblowing practice in place. The risk of unethical conduct is immense, not only in the monetary aspect but also in sustaining the performance of companies. Importantly, whistleblowing works in deterring unethical conduct and behaviour by; ‘helping people to be more aware of the rules and regulations as they know they are being watched’, ‘preventing misuse of power by top management’, and ‘is important for sophisticated fraud cases’. Also, whistleblowing increases employees’ morale and integrity as it ‘motivates people to take action against unethical conduct’ through the availability of a reporting channel. As mentioned by one of the respondent:

“It’s very crucial in this company, since there are lots of projects involving millions of money. Fraudulent activities affect the financial conditions of this company. Therefore, whistleblowing is very important. I have been involved in investigations of fraudulent cases involving more than RM20 million, which is a huge amount of money. Whistleblowing is something like a control or defence. Once you have and publish a whistleblowing policy, people know they will be watched given that there is an open channel to go to make report. Therefore, there is a reasonable control to reduce the risk (of fraud).” (Internal Auditor)

Results and discussion

This study addresses three research questions: i) the extent to which professional accountants understand the regulatory requirements relating to whistleblowing, ii) factors on the preferred methods of whistleblowing, and iii) how professional accountants perceive whistleblowing in relation to their job function. Focusing on Malaysia, this study aims to provide valuable input towards the development of an internal whistleblowing framework, including policies and practices that can be effective in the strengthening of ethical corporate conduct. To achieve this purpose, a series of interviews were undertaken with 11 respondents whose job functions related to accounting; whether in financial accounting, management accounting, and internal audit.

The findings highlighted the following: Firstly, most of the professional accountants understood what whistleblowing is and its main function and purpose, although the majority had never directly experienced a situation with whistleblowing. Regarding their knowledge of whistleblowing, only a few of the participants, those in top management and internal audit function positions, had been indirectly involved with occasions where whistleblowing was used to report misconduct. Secondly, while professional accountants were aware of the existence of the regulatory requirements related to whistleblowing in Malaysia, they were not sufficiently aware of the detail regarding the process and structure. Indeed, this is expected given they have never experienced a situation where they needed to utilise the mechanism for reporting purposes. Nevertheless, they were aware that there was a channel afforded to them if they needed to report misconduct - whether internally or externally.

Thirdly, in comparing internal and external whistleblowing, the majority of the professional accountants identified internal whistleblowing as being the preferred approach towards reporting unethical behaviour. However, they also acknowledged the possibility to report via the external channel if they needed to do so. The main reason provided in this situation related to the requirement to adhere and follow the company's policy in the first instance, as in their capacity as an employee, they were bound by the rules and regulations of the company. The participants were also concerned about protecting the image and reputation of the company, which would be adversely affected if external whistleblowing was employed. Finally, the opinions of the participants were somewhat mixed about whether whistleblowing was important to the accounting profession.

Conclusions

In conclusion, the requirements and necessity for whistleblowing rely heavily on the effectiveness of an organisation's internal controls. Some respondents in this study perceived whistleblowing as unimportant in an environment that has robust internal controls in place and was regularly audited. Whereas, some respondents believed that whistleblowing is vitally important given that every transaction passes through to the accounting function, and as such, professional accountants are perfectly placed for whistleblowing. Nevertheless, the majority of the respondents' raised their concerns about the effectiveness of the whistleblowing regulations in Malaysia. Additionally, issues such as the outcome of the report and whistleblower protection were highlighted as a specific area for improvement and attention.

A public policy implication of these findings is that whistleblowing regulations in the context of Malaysia should be reviewed and revisited if this practice is to be widely adopted. Accordingly, education and awareness programs should be developed and implemented to enhance the understanding of the regulations to facilitate reporting through the proper channels and processes. In the context of the corporate sector in Malaysia, internal whistleblowing is seen to be preferable, effort should be made to increase the level of awareness and understanding about the Malaysian regulations and policies. Equally, independence of the unit or body receiving the report should ultimately protect and safeguard whistle-blower data and the dissemination of outcomes arising from the report. Lastly, future research could assist by providing further evidence on whistleblowing.



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