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**BOARD CHARACTERISTICS AND EXTENSIVENESS OF
WHISTLEBLOWING POLICY AMONG MALAYSIAN PUBLIC
LISTED COMPANIES**

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Abstract

Whistleblowing has been recognised as the most effective fraud detection tool in companies, fifty percent of corruption cases were detected by a tip. To protect the interest of whistleblowers, whistleblowing policy is seen as an internal mechanism to reduce severe consequences of any mismanagement. Malaysian Code of Corporate Governance (MCCG) has introduced Practice 3.2 as a guideline of whistleblowing policy. Unfortunately, it does not detail out the item that should be included. However, at international level, Australian Standards has come out with suggested checklist of items that should be included in a whistleblowing policy. Therefore, the study would like to investigate to what extent the items listed have been disclosed by Malaysian public listed companies. In addition, the study also would like to investigate the role of board of directors in influencing the extensiveness of the whistleblowing policy. The results show that in average, the items disclosed by the most of the companies are still lacking. In terms of board characteristics, the study found that companies who have more directors with financial expertise tend to include more items in their whistleblowing policy.

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1. Introduction

Regarded as major business crime (Kapardis & Papastergiou, 2016), fraud and corruption have resulted in the collapses of large companies (Kummer et al., 2015). According to a report by Association of Certified Fraud Examiner (ACFE) in 2018, fifty percent of corruption cases were detected by a tip. The revelations of misconducts in companies demonstrate the significant role played by whistleblowers as well as the importance of whistleblowing in uncovering severe fraudulent activities. However, protection to whistleblower is still limited, which discourage the informer, especially employees to disclose these unethical activities.

1.1. The importance of whistleblowing policies

Due to lack of protection for whistleblowers, various regulators have urged for the implementations of whistleblowing policies and whistleblowing laws (Nurhidayat & Kusumasari, 2018; Tang & Ong, 2011). Whistleblowing policy is important to provide guidelines on the appropriate mechanism if there is any mismanagement in the companies (Tsahuridu & Vandekerckhove, 2008). When implemented successfully in a company, whistleblowing policy and procedure will act as early warning system to identify any misconduct before it is too late (Tan & Ong, 2011). As proven by the statistics in the United States, the most common method of detecting fraud in organisations is tips given by whistleblowers (ACFE, 2018). Incidentally, the same method of detection (tips) was also found to be the most effective way of rooting out corporate crimes among Malaysian organisations as was revealed in the PwC Global Economic Crime and Fraud Survey (2018).

1.2. The adequacy of whistleblowing policies

Since whistleblowing policy is still not compulsory for companies, it is quite indistinct what should be included in the policy. A study by Rachagan and Kuppusamy (2012) suggested that companies should identify what is the objective of their Whistleblower Protection Programme. Meanwhile, Malaysian Code of Corporate Governance (MCCG) has introduced MCCG Practice 3.2 which suggested that the board of directors and the management should establishes, reviews and implements policies and procedures on whistleblowing. However, MCCG did not spelled out what are the items that should be included in the whistleblowing policy.

On the other hand, at international level, Australian Standard on Whistleblower Protection Programs for Entities (2003) has come out with suggested checklist of item that should be included in a whistleblowing policy. Meanwhile, a study by PWC India in 2011 highlighted that the root of a whistleblowing policy lies in identifying risks and mitigating them through the use of a formal mechanism. Therefore, an effective whistleblowing policy should considers four elements, which are accessibility of whistleblowing policy, intended users, channels for communication and reporting, as well as anonymity and protection to whistleblower.

1.3. The Role of Board of Directors in Encouraging Policies

As the legal authority in a company, there are two fundamental fiduciary duties executed by the board of directors which are the monitoring and advising functions (Business Roundtable, 2012; Linck et al., 2008). Sena et al. (2018) further elaborated that the board can be an effective defense against corrupt activities in organisations because as a monitor, they are in a position to recognise and reject illicit projects. Whereby as an advisor, the board guides the management to better understand the local regulators and norms as well as their pitfalls. Previous studies highlighted the role of board of directors in terms of effectiveness of a policy (Garcia-Torea et al., 2016) and willingness to disclose or reporting items in the companies (Elfeky, 2017; Samaha et al., 2012).

In this study, three characteristics of the board is observed, which are board size, audit committee and financial expertise. A large board can significantly minimise the possibility of managerial opportunistic behaviour (Latif et al., 2016) and led to better decision-making and higher managerial monitoring (Ntim, 2015). Meanwhile, audit committee also fulfils a crucial role in deterring major financial risks and regarded as a significant component of the board with its responsibilities being largely fundamental for reliable and transparent financial information (Bhasin, 2016) by reducing information asymmetry (Al-Mamun et al., 2014). Therefore, audit committee will pressure the companies for a better whistleblowing system (Davidson et al., 2005) and leads to better whistleblowing disclosure (Lee & Fargher, 2012). Finally, having financial experts on board ensures transparent financial conduct and reporting which is a part of appropriate governance practice. The elementary belief is that having objective financial knowledge results in improved financial behaviour and decisions (Tang & Baker, 2016). Therefore, board of directors with more members with financial expertise are expected to have better whistleblowing policy.

2. Problem Statement

A number of empirical studies were conducted in order to understand the perception and attitude towards whistleblowing within the Malaysian setting. However, most of the studies focus on the intention to whistleblow and limited studies have been conducted on the whistleblowing policies. Meanwhile, the role of Board of Directors as the decision maker in a company is inevitably noteworthy to encourage the implementation of whistleblowing policy in a company. Lots of previous studies have this discuss the role of Board of Directors in ensuring the success of a company. Therefore, this study is intended to observe the extensiveness of whistleblowing policy among Malaysian corporations, as well as to investigate the role of Board of Directors in the implementation of this policy.

3. Research Questions

This study is conducted towards public listed companies in Malaysia that already have whistleblowing policy in their organisation. Based on the checklist by Australian Standard on Whistleblower Protection Program for Entities (2003), the study would like to observe how extensive the whistleblowing policy of these companies. Besides, the study is also interested to investigate whether board characteristics may influence the extensiveness of the policy. Therefore, the study has come out with the following research questions:

1. How extensive is the whistleblowing policy in the Malaysian public listed companies?
2. Is board characteristics influence the extensiveness of the whistleblowing policy?

4. Purpose of the Study

The purpose of this study is to investigate the extensiveness of whistleblowing policy among public listed companies in Malaysia. In addition, the study is also interested to investigate whether board characteristics influence the extensiveness of the policy. Therefore, the study has come out with the following research hypotheses:

H1: There is a significant relationship between board size and the extensiveness of the whistleblowing policy.

H2: There is a significant relationship between board financial expertise and the extensiveness of the whistleblowing policy.

H3: There is a significant relationship between audit committee and the extensiveness of the whistleblowing policy.

5. Research Methods

5.1. Population and Sample

The population in this research is the public listed companies in the main market listed in Bursa Malaysia that already have whistleblowing policy in their companies. However, the population later, has been further reduced by focusing only towards those companies that have in-house internal auditor. The reason why the study is focusing on this population because most of previous research on whistleblowing focusing on the role of internal auditors in whistleblowing activities. Coincidentally, most of reported whistleblowers are also internal auditors (i.e., Enron case). In total, the population of this study is 211 companies that have in house internal auditors. 65 companies have been selected as the sample, however only 55 companies have complete information needed.

5.2. Data Measurements

In this study, the independent variable which is board characteristics are consist of board size, board financial expertise, and audit committee. Board size is measured by the number of members in the board whereas audit committee is determined by the number of members in the committee. As for the board financial expertise, it is measured by the number of board of directors that have financial background (i.e. qualification in accounting and finance). Meanwhile, the dependent variable, which is the extensiveness of whistleblowing policy, is measured based on the items disclosed in the policy, based on the checklist provided by the Australian Standards (2003). Based on the standard, there are 18 items included in the checklist. Therefore, content analysis has been conducted towards the whistleblowing policies of companies to identify, out of 18 items in the checklist, how many items are disclosed in their policy. Whistleblowing policies are available either in their annual report or included in their website.

6. Findings

To answer the research questions, descriptive and frequency analyses have been conducted to observe the extensiveness of the items disclosed in whistleblowing policies. In addition, frequency analysis also has been conducted towards the independent variables, which are board characteristics to understand better the composition of the board. Meanwhile, for the second research question, correlation analysis has been conducted in order to investigate the influence of board characteristics toward the extensiveness of whistleblowing policy. Spearman Correlation Coefficient has been conducted since the data is not normally distributed.

6.1. Composition of the Board of Directors

Descriptive and frequency analyses have been conducted towards board characteristics in order to understand better the characteristics of board of directors. The analysis depicts that in average, most of the companies have around eight members of board of directors. The largest board size is twelve, where there are five companies in this category. Meanwhile, the smallest board size if four members, where there is only one company in this category.

As for the audit committee, the highest number of audit committee is six members (32 companies), meanwhile the lowest number is three members (3 companies). In average most companies have around four members of audit committee. Finally, in terms of the financial expertise of the board members, in average, most companies have at least five members with financial expertise in their board. The highest number is nine members where there are two companies in this category, meanwhile the lowest number is one, where there is one company in this category. The composition of the board is summarised in the Table 01 below:

Table 01. The Characteristics of Board of Directors

Characteristics	Board Size	Audit Committee	Financial Expertise
Mean	8.2364	3.6000	4.8000
Minimum	4.00 (1 company)	3.00 (3 companies)	1.00 (1 company)
Maximum	12.00 (5 companies)	6.00 (32 companies)	9.00 (2 companies)

6.2. The Extensiveness of the Whistleblowing Policy

The items disclosed by the sample measure the extensiveness of whistleblowing policy. In total, there are 18 items in the suggested checklist of items to be addressed in a whistleblower protection program issued by Australian Standard on Whistleblower Protection Program for Entities (2003). The results indicate that none of the companies included all the items suggested by the Australian Standard (2003) in their whistleblowing policy. The highest number of items disclosed is only sixteen out of eighteen, which is 88 percent of the checklist. There are four companies that have highest number of disclosure. Those companies are Malaysian resources Corporation Berhad, Kwantas Corporation Berhad, Dominant Enterprise Berhad and BIMB Holdings Berhad. Meanwhile one of the sample only included three items out of eighteen, which is only 16.6 percent of the suggested checklist. In average, most companies only disclosed ten items out of eighteen, which is only 55 percent of the suggested checklist.

In terms of frequency of the items disclosed, the forth item, which is on the scope applies to employees (including contractors and consultants) is the most disclosed item by the sample, where 51 companies included this item in their policy, which represents 92.7 percent of the sample size. Meanwhile, the least included item is the third item, which is provision of training. Only one company, which is Kossan Rubber Industries Berhad included this item in their whistleblowing policy. The findings on the extensiveness of the policy are summarised in Table 02 and Table 03 below:

Table 02. The Extensiveness of Items Disclosed

Total of Items Disclosed	Number of Companies
3.00	1
4.00	1
5.00	2
6.00	4
7.00	2
8.00	2
9.00	9
10.00	4
11.00	8
12.00	6
13.00	6
14.00	3
15.00	3
16.00	4
Total	55

Table 03. Frequency of Items Disclosed

Items	Number of Companies Disclosed
A statement of the entity's commitment to culture of high corporate compliance and ethical behavior	4
Commitment to regularly review the policy	25
Provision of training	1
Scope applies to employees (including contractors and consultants)	51
Scope applies to non-employees (customers, general public)	36
Guidelines on reportable issues	45
Guidelines on who to report to	50
Guidelines on how to report	46
A statement that report will be treated as confidential	44
A statement that different individuals will receive and investigate the report	28
A statement on how the report will be handled	29
A statement on whether whistle-blower will be notified on commencement of investigation	5
A statement on whether whistle-blower will be notified on whistle-blowing progress	6
A guarantee that whistle-blowers will receive feedback	14
Appointment of a welfare/whistle-blowing protection officer	4
No retaliation by company, if report made in good faith	45
A statement that protection is given	43
Description of the specific protection given from and the actions that will be taken	23

6.3. The Influence of Board Characteristics towards the Extensiveness of the Policy

As a monitor and advisor, the role of board of directors is inevitably crucial in the establishment of a policy in a company. Hence, this study is interested to observe the influence of board of directors in the formulation of whistleblowing policy. However, this study is only limited to three characteristics which are board size, board financial expertise and audit committee. The results however indicate that only board financial expertise have significant relationship with the extensiveness of the whistleblowing policy, where the significant level is than 0.05 (p-value 0.024). This finding indicates that companies that have more directors with accounting and finance background tend to have a more details policy, which will include more items as suggested by the checklist. However, the degree of correlation is not that strong where the correlation coefficient is only at 0.294 (29.4%). Meanwhile, other variables are not significantly influence the extensiveness of whistleblowing policy of a company. Hence, only H2 is supported in this study, while other hypotheses are not supported. Table 04 summarise the relationship between the variables.

Table 04. The Relationship Between Board Characteristics and the Extensiveness of Whistleblowing Policy

	Board Size	Audit Committee	Financial Expertise
The Extensiveness of Whistleblowing Policy	.150	.050	.304*
	.274	.720	.024
	55	55	55

7. Conclusion

Whistleblowing policy, which is identified as one of the mechanism to encourage whistleblowing activities, is still not compulsory for companies in Malaysia. Eventhough there is guidelines on whistleblowing policy under Practice 3.2 of MCCG, the guideline did not come out with the details of item that should be included in the policy especially in order to protect the interest of whistleblowers. Therefore, this study is referring to the Australian Standards on Whistleblower Protection Programs for Entities (2003) that come out with suggested checklist on the items that should be addressed in a whistleblower protection programme. The study is interested to observe the extensiveness of the items disclosed, as well as the role of board of directors on the extensiveness of the policy.

7.1. Summary of Findings

In terms of the extensiveness of the items included in the policy, the study finds that the level of disclosure is only moderate where in average, companies only included ten out of eighteen items suggested (55 percent). In terms of the items disclosed, the scope applies to employees (including contractors and consultants) is the most disclosed item; meanwhile provision of training is the least disclosed item. It shows that companies in Malaysia still did not provide adequate training to their employees in terms of the implementation of whistleblowing policy. As for the role of board of directors, companies with more directors that have financial expertise which are from accounting and finance background will include more items in their whistleblowing policy, compared to those who have less members with financial expertise. The results indicate that financial knowledge and awareness significantly influence the level of disclosure. Whereas other variables are not significantly influence the extensiveness of whistleblowing policy.

7.2. Limitation of the Study

The findings of the study provide evidence on the extensiveness of the whistleblowing policy in Malaysia. However, the findings is only limited to the companies with internal auditors and cannot be generalised to other companies. In terms of the role of board of directors, more characteristics should be observed to establish other factors that may influence the extensiveness of the policy. In addition, the study is only focusing on the extensiveness but not the effectiveness of the policy. Further investigation should be conducted to investigate whether the established policy is effective in curbing corruption in a company.

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