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Whistleblowing behaviour: The influence of ethical climates theory

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Abstract

The study investigates the influence of three types of ethical climate dimensions (egoism, benevolence and principle) on three types of wrongdoing in examining individuals' whistleblowing behaviour. It was found that, depending on types of wrongdoing, principle ethical climate is able to predict whistleblowing intentions. As for contextual predictors, seriousness of wrongdoing is the most consistent predictor for internal whistleblowing intentions. Results of this study are consistent with ethical climate theory and the finding confirms those from previous studies, by suggesting that organisational members have different reactions to different types of wrongdoings. Implications of the findings on Malaysian organisations for research and practice are discussed.

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1. Introduction

The study of whistleblowing behaviour has garnered a prevalent attention among academic researchers globally. Early studies of whistleblowing, first documented during the 1980s (see Dozier & Miceli, 1985; Elliston, 1985; Miceli & Near, 1985), began by identifying factors that could initiate such a dissent behaviour. More empirical studies were then initiated soon after the devastating corporate aftermath in year 2001 which has then led

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to the introduction of Sarbanes-Oxley Act, 2002 (Eaton & Akers, 2007). Despite various studies that have been undertaken, one thing is common - each case of whistleblowing behaviour are distinctive (Miceli, 2004) and the actions taken by those said to be whistleblowers are driven by various psychological and sociological factors (Gobert & Punch, 2000). The act of whistleblowing can be defined as: “the disclosure by organisation members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organisations that may be able to effect action” (Near & Miceli, 1985, p. 4). Despite encouragement for employees to rectify any forms of wrongdoing within their organisations, that employee actually struggles with divided loyalty - either towards his own organisation or towards his own personal belief (Jennings, 2003). Vinten (1996) associated the whistleblowing act as similar to a “bee-sting phenomenon” which could only be used once before the act itself jeopardise the career of the said whistleblower. This shows the apparent dilemma faced by a genuine whistleblower while trying to rectify any forms of wrongdoing within his own organisation.

Researchers agree that whistleblowing is an important medium to prevent and deter corporate wrongdoing (Bhal & Dadhich, 2011). If this form of medium is absent within an organisation, this will eventually affect the organisation a costly ordeal (Near & Miceli, 1995). Such sensitive nature of reporting prohibits the study in this field to completely understand what actually motivates whistleblowing act. The quests for answers are not limited to the whistleblowers’ individual factors alone. Organisational factor such as organisation’s ethical climate may also explain why employees resort to such behaviour (Barnett & Vaicys, 2000; Rothwell & Baldwin, 2006). Cullen et al., (1993, p. 103) define ethical climates as “the ethical dimensions of organization culture” that captures the ethical identity of a particular organisation. Various researches have recognized that organisational ethical climate could have an influence on the behaviour of its employees (Barnett & Vaicys, 2000; Victor & Cullen, 1988). As such, this paper contributes to the literature by suggesting that ethical climates, as represented by three types of ethical climates dimensions: *egoism*, *benevolence* and *principle*, can be a potential predictor for whistleblowing within organisations in a Malaysian environment. It is apparent that empirical studies on whistleblowing behaviour are very limited in Malaysia (Ahmad, Smith, & Ismail, 2013). At the moment, the research are mainly being dominated in North American region (Miceli & Near, 2013). Consequently, Brennan and Kelly (2007) reminded that more studies are needed in order to understand the motivation behind employees’ whistleblowing intentions.

2. Literature review

Victor and Cullen (1988) who developed the ethical climate theory explained that the theory varies along two dimensions, namely – an *ethical approach dimension* and an *ethical referent dimension*. The first dimension – an ethical approach dimensions, looks at the decision making processes namely: (a) egoism, or maximising self-interest; (b) benevolence, or maximising joint interests; and (c) principle. In brief, if the ethical approach dimension of the organisation possesses an *egoistic* criterion, employees would consider mainly their own self-interest in decision-making when facing an ethical dilemma. In a *benevolence* type of organisation, employees would mostly consider the welfare of others in solving their ethical decisions while, where the organisation possesses a *principle* climate, employees would consider the application of rules, principles and laws in making their ethical decisions. The second dimension – ethical referent dimension is represented by: (a) individual, (b) local and (c) cosmopolitan referents. If the locus of analysis is *individual*, the basis for the individual’s ethical decision-making comes from within one’s personal moral belief; *local* locus of analysis refers to expectation that comes from within the organisation such as the organisation’s code of practice; and *cosmopolitan* refers to ethical decision-making that is external to the individual and organisations such as a code of ethics established in professional associations. Cross tabulation of these two dimensions produces nine possible theoretical ethical climate types as shown in Table 1.

These nine theoretical climates produce an ethical criterion that guides the decision-making process in an organisation (Cullen, Parboteeah, & Victor, 2003). The outcomes of previous studies however, clearly shows that Victor and Cullen’s (1988) empirical nine-type of ethical climates are not expected to exist in all organisations. Peterson (2002) states that it is uncertain how many ethical climate dimensions exist in a particular organisation as well as items of ECQ that are representative of each dimension. With regards to whistleblowing, organisational ethical climate theory can be used to show how reporting intentions are influenced by the organisations’ climate (Rothwell & Baldwin, 2006). Rothwell and Baldwin (2006) study was the first and only study that investigated the relationships between ethical climate and whistleblowing behaviour. They concluded that ethical climates may

have limited capacity to affect whistleblowing act due to the complexities and sensitivities associated with such act. They acknowledged that their study did not control for social desirable response, and their respondents were also not very much exposed to workplace misconducts. Furthermore, the fact that their samples were drawn from employees in public organisations might have made the ethical climate theory less generalisable to such an organisation. In general, Rothwell and Baldwin (2006) claimed that ethical climates are not able to predict individuals' whistleblowing intentions. Despite the results, Rothwell and Baldwin (2006) had suggested that future studies need to be conducted in private organisations.

Table 1: Theoretical ethical climate types

Ethical criteria	Locus of analysis		
	Individual	Local	Cosmopolitan
Egoism	Self-interest	Company profit	Efficiency
Benevolence	Friendship	Team interest	Social responsibility
Principle	Personal morality	Rules, standard operating procedures	Laws, professional codes

Source: Victor and Cullen (1988)

Contrary to the studies by Rothwell and Baldwin (2006) and following the approach by Cullen et al. (2003), this study offers a proposition based on the three basic criteria of moral judgment: egoistic, benevolent and principle. As stated previously, a climate characterised as *egoism* can be expected to promote the organisational member to consider what is in his/her own self interest (Cullen et al., 2003). An egoistic climate signals to internal auditors that the organisation is supporting and endorsing self interested behaviours, even at the expense of others and in such a climate it is hypothesised that internal auditors will be less likely to whistleblow. The second type of climate - *benevolence* is characterised by the expectation that organisational members are concerned with the well-being of others both within and outside the organisation (Victor & Cullen, 1988). Because of this promotion of well-being, it is hypothesised that internal auditors will be more likely to whistleblow in benevolence type of climate. The last climate – *principle* is based on the belief that there are universal principles of right and wrong and ethical decisions are based upon the application or interpretation of rules, laws and standards (Victor & Cullen, 1988). If the organisation or its members are engaging in unethical behaviour, another member would then likely feel compelled to dissent. As such, in this type of climate internal auditors will be more likely to whistleblow.

3. Research method

The respondents for this study are members of Institute of Internal Auditors of Malaysia (IIAM) that are employed in listed and non-listed companies from various types of industrial sectors. Their nature of work allows the opportunity for internal auditors to confront various types of wrongdoing within their organisations. Their unique profession allows them to possess confidential access (Tsahuridu & Vandekerckhove, 2008) and whistleblowing is considered to be part of the profession's responsibility (Miceli, Near, & Dozier, 1991). Ironically, there have been very limited whistleblowing studies that have utilised internal auditors as their subject of interest (Ahmad, Ismail, & Azmi, 2014), and especially on their tendency for whistleblowing behaviour. The pressing matter is that internal auditors could easily fall into conflict of interest while executing their duties towards their organisations as well as towards their profession (Arnold & Ponemon, 1991; Taylor & Curtis, 2010). Surveys by way of mailed questionnaire were used for this study by strictly emphasizing an assurance of protecting respondents' confidentiality and anonymity. As the study collected sensitive information from the respondents, the issue of social desirability bias need to be controlled. Social desirability bias is a situation where, "... respondents give a "normative" response or a socially acceptable answer rather than a honest answer" (Neuman, 2006, p. 285). It means that individuals may have the tendency to overstate (understate) reports that are deemed to be culturally desirable (undesirable) behaviours to them (Bernardi & Guptill, 2008). Bernardi and Guptill (2008) reported that majority of previous studies have infrequently controlled social desirable response bias in ethics research and if such bias is not control for this may then affect the validity of the studies (King & Bruner, 2000). Specifically, it can be noticed that Rothwell and Baldwin's (2006) study did not control for this type of bias.

Based on the respondents’ feedback, only 180 out of 1,000 questionnaires were usable for the study. Such low response is typical when dealing with mail surveys among Malaysian respondents (Jusoh & Parnell, 2008; Salleh & Dali, 2009). The sections of the questionnaire consist of; (a) Victor and Cullen’s (1988) 26-items Ethical Climate Questionnaire (ECQ) that measure the organisations’ ethical climate types, (b) a section that measures the contextual variables such as size of organisation, job level, and tenure, and finally, (c) a section that measures internal auditors’ internal whistleblowing intentions through the use of three ethical vignettes. Vignettes are defined as, “short descriptions of a person or a social situation which contain precise references to what are thought to be the most important factors in the decision-making or judgement-making processes of respondents” (Alexander & Becker, 1978, p. 94). The first vignette concerning a Marketing Executive taking unreported paid time off was modified from a study by Wortman (2006). Next, a vignette about a request for reduction in doubtful debts by the Chief Executive Officer was adapted from Cohen, Pant, and Sharp (1996). The last vignette, about a request from a Chief Financial Officer to ignore an amount of unrecorded liabilities to be recorded in the financial statements, was adapted from Knapp (1985). These three vignettes were chosen for the following reasons. First, they cover a wide range of ethical issues that internal auditors may face within their work settings. Second, previous research suggested that individuals do not view moral issues generically but may respond to the type of moral issues (Weber, 1990). Evidence has shown that reporting intentions are case sensitive (Kaplan & Schultz, 2007; Near & Miceli, 1995) and these prior research studies have indicated that the nature or type of wrongdoing can affect observers’ reactions to it.

4. Findings

Standard multiple regressions analyses were conducted utilising the 8 independent variables stated above. The study ran three regression models, one for each vignette, to assess the intentions of internal auditors to internally whistleblow. The results in Table 2 show that all of the regression equations are statistically significant. All the three models generally explain moderate amount of variations ($R^2 = .259$ to $.301$) in the measures of internal whistleblowing intentions. Among the ethical climates dimensions, benevolence was significantly related to internal whistleblowing intentions only in Vignette 1, while principle climate was found to be significant only in Vignettes 2 and 3. As for the contextual factors, only two variables show significant results. Seriousness of wrongdoing is significantly related to internal whistleblowing intentions consistently in all three vignettes and its standardised beta coefficients for the variables were also large in all vignettes (.446 to .505). Job level were found to be significantly related only in Vignette 1.

Table 2: Results of multiple regression analyses on internal whistleblowing intentions

Independent variables	Dependent variable – Internal whistleblowing intention					
	Vignette 1		Vignette 2		Vignette 3	
	Beta	SE	Beta	SE	Beta	SE
Egoism	-.019	.204	.008	.525	-.007	.210
Benevolence	-.026	.188	-.084	.232	-.174	.195
Principle	.096	.248	.158*	.310	.274**	.255
Size of Organisation	.004	.143	-.100	.176	-.059	.146
Job Level	.192***	.153	.046	.187	.102	.157
Tenure	.028	.157	-.033	.192	-.064	.164
Seriousness of Wrongdoing	.446***	.091	.505***	.088	.449***	.094
Status of Wrongdoer	.032	.072	.012	.135	-.030	.098
R^2	.270		.301		.259	
F	7.485***		8.713**		7.063***	

Note: *** p < .01, ** p < .05, * p < .10

5. Discussion

The study explored the links between the three types of ethical climate dimensions - *egoism*, *benevolence* and *principle* with the internal auditors’ internal whistleblowing tendencies. Victor and Cullen (1988) argued that organisations have distinct ethical climates and the result of this study proved that that internal auditors have a distinct principle ethical climate dimension within their own organisations or specifically within their departments.

The multiple regression results showed that, only perception of principle climate was significant in predicting internal auditors' internal whistleblowing intentions (except for Vignette 1). As such, the results supported the principle environment possessed by these internal auditors in Malaysia who are expected to be rule-abiding organisational members. Although the scenario in Vignette 1 did show that internal auditors have some concern (as shown in descriptive results for Vignette 1), it is more likely that internal auditors in this study regard the financial type of organisational wrongdoing in Vignettes 2, and 3 to be far more serious than the non-financial type of wrongdoing as portrayed in Vignette 1 (merely taking unreported time off). The study conforms to Miceli, Near, and Schwenk's (1991) suggestions that organisational members have different reactions to different types of wrongdoing.

In the current study, obviously the principle climate adhered to by the internal auditors was shown to be more outstanding than egoism and benevolence climate within the internal auditing environment. This suggests that the climates of egoism and benevolence do not exist within the internal auditing departments in Malaysia. In other words, the internal auditing departments in Malaysian organisations do not foster an environment where members behave entirely for their own self interest (as denoted within egoism climate dimension) or concern for the well-being of others within and outside of their organisations (as represented by the benevolence climate dimension). This indicates that the internal auditors has internalised the value of principled reasoning that is related to their occupational task. Internal auditors as rule-abiding professionals ought to conduct their audit work objectively as required by the IIA's rules and conduct of the internal auditing profession. As in any whistleblowing studies, this study is not without its own limitations. First, the most apparent shortcoming of the current study is the use of self-reported data to determine internal auditors' internal whistleblowing intentions. Some internal auditors may perceive themselves as being bolder, more ethical or more capable than their colleagues. However, Miceli and Near (1984, p. 703) highlighted that, "although self-reported data may be flawed, it is not known how better data can be obtained practically". Chiu (2003) has also suggested that it is difficult to find a second source of information about an individual's ethical behaviour, which is neither distorted nor biased. The results of the current study have potential implications for both Malaysian researchers and local regulators to promote internal whistleblowing mechanisms within Malaysian organisations. As in most social studies, the results of this study also revealed the need to expand current knowledge and to explore the influence of additional factors involved in internal auditors' internal whistleblowing decisions.

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