

## **Whistle blowing mechanism validates a commitment to high ethical standards and prevents imminent losses**

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### **ABSTRACT:**

Whistle blowing is an essential tool for an organization to control fraud, misconduct, corruption and failure as well. Most of the companies do not have a whistle blowing policy that tolerates employees to raise trepidations about malpractices within the organisation. An employee feels very risky to tell the truth and facts about the wrong doings. As a result very few are willing to come forward. Whistle blower enact to help prevent corruption and encourage people to expose misconduct, illegal, or dishonest activity for the good of society. Although whistle blowers are often protected under law from employer retaliation, there have been many cases where punishment for whistle blowing has occurred, such as termination, suspension, demotion, wage garnishment, and/or harsh mistreatment by other employees. Therefore in present days it is very important and suitable to conduct a research study to know different whistle blowing practices prevailing in various Public companies.

**KEYWORDS: Whistle-blower, whistle-blowing, whistle-blowing practices**

### **1. Introduction:**

Whistle-blowing means when a person reports about unethical or illegal activities happened or happening at work place to the designated officer or to the public. A whistleblower is a person, who could be an employee of a company, or an external agency or a government regulator, disclosing information to the public or some higher authority about any wrongdoing, which could be in the form of fraud, corruption, misbehaviour etc. Whistle blowing in public companies is an issue which has recently received public attention at large. Some of the largest frauds and wrong doings have been seen in the last few years which are discovered by the whistle blowers. Today in India whistle blowing has become very risky for a person who blow whistle because that much legal protection is not given to the whistle blowers. They have been agitated from an unauthorized practices, humiliation, or even physical abuse.

The social impression of whistle blowing through loss of livelihood and sometimes pension and family worry may also impact on whistleblowers' psychological well-being. Mostly whistle blowers are retaliating from organization or group. In India Whistle Blower Protection Act, 2011 came into force. Only act can provide safeguard which will help people to speak about corruption. The main purpose of the act is to instill confidence in employees by encouraging employers to set up a system that would ensure they act on reports of malpractice rather than against whistleblower.

As growing number of scams related to corrupt practices in India, market watchdog SEBI<sup>1</sup> has decided to make it mandatory for listed companies to have a whistle bower mechanism for their employees and directors. The mechanism would also need to have necessary safeguards to

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<sup>1</sup> "*Whistle Blowers Protection Act, 2011*" (PDF). Gazette of India. Retrieved 13 May 2014

protect whistle blowers from victimisation. By promoting a whistle blowing culture within the organization, employees will feel comfortable speaking up when necessary. In the present age of cut-throat competition, it becomes highly necessary for an organization to be dynamic. It should respond effectively and timely to the changes in the business climate. Therefore companies should have effective whistle blowing policy or mechanism which provides information about wrongdoings at the workplace on time. Recently importance of whistle blowing practices has been increased. Hence, an extensive research has done to study significance of whistle plowing practices and its implementation in the public companies. It is also important to study the impact of whistle blowing on the management of public companies and on whistleblowers.

Therefore in present days it is very important and suitable to conduct a research study to know different whistle blowing practices prevailing in various Public companies.

## **2. NEED OF THE STUDY:**

Whistle blowing is still at a promising stage in India, and most Indian companies do not use it as an effective tool against fraud and illegal activities. There have been multiple instances of threatening, harassment and even murder of various whistleblowers. Whistleblowers face legal action, criminal charges, social disgrace, and termination from any position, office, or job. Organisations should encourage whistle blowing so that problems will be solved within the organization before employees feel they must go outside to get action. The study is helpful in understanding the system, functioning of whistle blowing practices in public companies. This study depicts how whistle blowing practices are essential for every public company which will help to them to survive in the long term. It will also be helpful to create awareness about the whistle blowing among the employees. Employees will get encouraged once they come to know about the ways of reporting wrong doing. They will also come to know whether blowing a whistle can have positive or negative effects on their job.

## **3. OBJECTIVES OF THE STUDY:**

1. To know the whistle blowing mechanism, protections given to the whistle blowers by the Ministry of Law and Justice, Government of India under the Whistle Blowers Protection Act, 2011.
2. To know the fact finding procedure and its reporting system used by the organisation.
3. To study significant consequences of whistle blowing on the organisation climate.
4. To make suggestions about how to encourage whistle blowing in organisation.

## **Research methodology:**

**Primary Sources:** The data collection is consisting of mainly the primary data. Interviews of the HR Heads and Employees were conducted by systematically designed questionnaire. Separate questionnaires were designed for the HR Heads and employees. Data is collected by meeting respondents personally and by sending Google Form also to their mail. Overall 723 Employees and 38 HR head filled questionnaire.

## **Secondary Sources:**

- 1) Disclosures made in Annual Financial Reports
- 2) Risk Factor mentioned in Company's Prospectus
- 3) Reports – Government, Regulatory Authorities, Professional Bodies etc.
- 4) Research Articles / Papers
- 5) Relevant Websites

**4. SAMPLE SIZE:**

The research is conducted in selected public Automobile and IT companies located in and around Pune city and aims to study whistle blowing practices in listed Public Automobile and Informational technology Companies. There are 127 Public Automobile Companies and 239 Informational technology Companies listed with the BSE and NSE. Out of these 10% (Ten) from both sectors i.e. total 36 top listed companies are chosen for the study which includes from Automobile sector 13 companies and from Informational technology 23 companies are selected. Two important sectors i.e. Public Automobile Companies and Information Technology Companies (IT) listed with either BSE or NSE included in the study. These 36 top companies are selected on the basis of profitability. To make collected data more trustworthy and reliable the data is collected from 38 HR Heads and 723 employees working in these public companies.

**5. LIMITATIONS OF THE STUDY:**

- 1 This Present research study was restricted by geography to companies located in Pune only.
2. Companies considered were from two primary sectors Automobile and Information technology which are situated in and around Pune.

**6. STATEMENT OF HYPOTHESIS AND ITS TESTING:**

**H1: Employees refrain from whistle blowing practices due to want of sufficient protection.**

**Table No.1: Employees refrain from whistle blowing practices due to want of sufficient protection.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	376	52.0	52.1	52.1
	Disagree	49	6.8	6.8	58.9
	Neutral	218	30.2	30.2	89.1
	Agree	39	5.4	5.4	94.5
	Strongly Agree	40	5.5	5.5	100.0
	Total	722	99.9	100.0	
Missing	System	1	.1		
Total		723	100.0		

**Table No.2 :One-Sample Statistics**

Employees refrain from whistle blowing practices due to want of sufficient protection		
N	Valid	722
	Missing	1
Mean		2.06
Mode		1
Skewness		.767
Std. Error of Skewness		.091

In the above table, the mean value shows as 2.06, which is close to the option of disagreeing. The value for 2.06 is disagree according to the Five Point Likert scaling used. For the purpose of testing this hypothesis, the responses of the employees were considered relevant. Following were their responses.

Data was normally distributed, as assessed by Shapiro-Wilk's test ( $p > .05$ ) and there were no outliers in the data, as assessed by inspection of a boxplot. It is necessary to note that as far as a few variables are concerned, the data is 5-point Likert type of data. Since a parametric procedure has been chosen, it has been made sure that we have strong results before making claims. Parametric and non-parametric tests conducted on Likert scale data do not affect the conclusions drawn from the results and thus, a correlational analysis can be safely performed to reach meaningful conclusions.

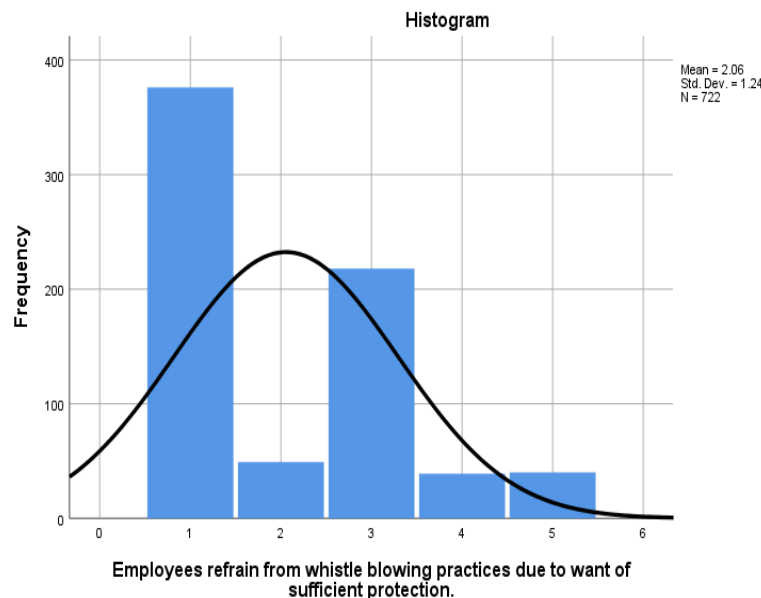
**Table No.3: One-Sample Test**

	Test Value = 2					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
<b>Employees refrain from whistle blowing practices due to want of sufficient protection.</b>	1.201	721	.230	.055	-.04	.15

At a test value of 2, the P value is greater than 0.05 which shows that the assumed mean of 2 and actual mean are not statistically different.

This means that the employees disagree that they refrain from whistle blowing practices due to want of sufficient protection. Thus, the original hypothesis can be safely rejected as the tables confirm that they do not refrain from whistle blowing practices due to want of sufficient protection.

Graph 1 **Employees refrain from whistle blowing practices due to want of sufficient protection**



The curve can also be seen to be skewed to the left, towards “disagree”. As mentioned earlier, the value for 2.06 is disagree according to the Five Point Likert scaling used. We need to now check whether there is any difference statistically for which one sample T test has been used.

H2: “An implementation of whistle blowing practices in an organisation prevents frauds and malpractices.”

**Table No. 4 :Frauds and Malpractices can be considerably prevented with the help of whistleblowing**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	28	3.9	3.9	3.9
	Disagree	17	2.4	2.4	6.2
	Neutral	44	6.1	6.1	12.3
	Agree	214	29.7	29.7	42.0
	Strongly Agree	419	58.0	58.0	100.0
	Total	722	100.0	100.0	

**Table No. 5 :One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Frauds and Malpractices can be considerably prevented with the help of whistleblowing	723	4.3555	.97875	.03640

In the above table, the mean value shows as 4.35, which is close to the option of “Agree”. The value for 4 is “Agree” according to the Five Point Likert scaling used. For the purpose of testing this hypothesis, the responses of the employees were considered.

**Table No. 6 :One-Sample Test**

	Test Value = 4					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence	
					Lower	Upper
Frauds and Malpractices can be considerably prevented with the help of whistleblowing	9.765	722	.000	.35546	.2840	.4269

It can be seen that the P value is less than 0.05. Data was normally distributed, as assessed by Shapiro-Wilk's test ( $p > .05$ ) and there were no outliers in the data, as assessed by inspection of a boxplot. Satisfaction score was statistically significantly higher by 0.36 (95% CI, 0.28 to 0.42) than the score of 4.0 (For Agree),  $t(722) = 9.765$ ,  $p < 0.05$ . It should be noted that P is not zero. It is shown zero above as the value of P is significantly small.

Thus, the mean is higher than the value of 4. This means that the employees agree that an implementation of whistle blowing practices in an organisation prevents frauds and malpractices. The original hypothesis can be safely accepted.

**The second set of responses were from HR Heads. They were as follows:**

Table No. 7

Frauds and malpractices can be considerably prevented with the help of whistleblowing					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	2	5.3	5.3	5.3
	Agree	19	50.0	50.0	55.3

Strongly Agree	17	44.7	44.7	100.0
Total	38	100.0	100.0	

The above table shows that 50% of the HR heads agreed that frauds and malpractices can be considerably prevented with the help of whistleblowing. 44.7% strongly agreed whereas the remaining two respondents chose to remain neutral.

**Table No. 8: One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Frauds and malpractices can be considerably prevented with the help of whistleblowing	38	4.3947	.59455	.09645

**Table No. 9: One-Sample Test**

	Test Value = 4					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
<b>Frauds and malpractices can be considerably prevented with the help of whistleblowing</b>	4.093	37	.000	.39474	.1993	.5902

It can be seen that the P value is less than 0.05. Data was normally distributed, as assessed by Shapiro-Wilk's test ( $p > .05$ ) and there were no outliers in the data, as assessed by inspection of a boxplot. Satisfaction score was statistically significantly higher by 0.39 (95% CI, 0.19 to 0.59) than the score of 4.0 (For Agree),  $t(37) = 4.093$ ,  $p < 0.05$ . It should be noted that P is not zero. It is shown zero above as the value of P is significantly small. Thus, the mean is higher than the value of 4. This means that the HR Heads also agree that an implementation of whistle blowing practices in an organisation prevents frauds and malpractices. The original hypothesis can be safely accepted.

**H-3: “The whistle blowing disclosures made by the organisation increases trust of stakeholders”.**

Following were the responses of HR Heads: Table No. 10

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	15	39.5	39.5	39.5
	Strongly Agree	23	60.5	60.5	100.0
Total		38	100.0		

**Table No. 11: One-Sample Statistics- of the responses from the HR Heads**

	N	Mean	Std. Deviation	Std. Error Mean
<b>The whistle blowing disclosures/results made by the organization increases trust of stakeholders. Do you agree?</b>	38	4.61	.495	.080

In the above table, the mean value shows as 4.61, which is close to the option of “Agree”. The value for 4 is “Agree” according to the Five Point Likert scaling used. For the purpose of testing this hypothesis, the responses of the HR Heads were considered relevant as due to their position (Closer to the top levels of management) and administrative maturity, they are in a better position to comment issues that are relevant to satisfaction of the stakeholders.

**Table No. 12 :One-Sample Test**

	Test Value = 4					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
<b>The whistle blowing disclosures/results made by the organization increases trust of stakeholders. Do you agree?</b>	7.532	37	.000	.605	.44	.77

The data distribution was normal. Satisfaction score was statistically significantly higher by 0.605 (95% CI, 0.44 to 0.77) than the score of 4.0 (For Agree),  $t(37) = 7.532$ ,  $p < 0.05$ . It should be noted that P is not zero. It is shown zero above as the value of P is significantly small.

As 4 is for agree and the mean value is higher than that, we can say that the whistle blowing disclosures/results made by the organization increases trust of stakeholders.

## **7. FINDINGS AND CONCLUSIONS**

Findings and conclusions are divided into the two parts. Some of the important findings and conclusions are described below:

### **A. Findings and conclusions based on data collected from Employees:**

1. 92.7% of the employees have responded that they are aware about how to report the wrong doings/ complaints or misconducts and grievances that exist in the organization. Only 7.3% of the employees said that they are not aware about how to report the wrong doings/ complaints or misconducts and grievances.
2. 97.5% employees responded that their company has formal mechanism or system to report complaints /misconducts /grievances whereas 0.1% employees have denied and 2.4% responded that they don't know about the formal mechanism. The existence of a

formal system helps to get everything into procedure and creates a sense of harmony for the purpose of the resolution of the complaint.

3. 96.1% of the employees responded that their company create the awareness among employees on the existence of the whistleblowing system.0.4% of the employees denied to this and 3.5% of the employees said that they don't know whether company create the awareness among employees on the existence of the whistleblowing system.
4. 89.9 percent of the employees responded that making a face to face complaint is suitable channel available in the system to report about misconducts. 34.7 % of the employees responded that telephone hotlines to a designated official are one of those available channels to report complaints whereas 19.5% employees says Email to a common mail-box is suitable channel of reporting to the management.
5. 65.5% of the employees responded that the identity of the whistle-blower is kept anonymous. 33.1% of the employees stated that they don't know whether the identity of the whistle-blower is kept anonymous or not. Only 1.4% of the employees said that the identity of the whistle-blower is not kept anonymous. The system that protects the whistleblowers would mean that whistleblowing is encouraged within the organisation and has very less tolerance to any kind of misconduct, misbehavior or any wrongdoing against any of the individuals or the organisation itself.
6. 52.1% of the employees have responded that they strongly disagree about employees refraining themselves due to want of sufficient protection. 30.2% of the employees have been neutral as far as their response to this question is concerned.5.4% of the employees agreed and 5.5% of the employees strongly agreed that employees refraining themselves due to want of sufficient protection. We can also interpret that the employees feel empowered and strong enough and the mere want for protection does not discourage them from the act of whistleblowing.
7. 80% of the employees either agree or strongly agree that the whistleblowing system has been seriously looked upon by the company so that it remains effective and maintains the required discipline and vigilance in the company's operations. 11.2% of the respondents were neutral whereas 7.5% of the respondents disagreed and 1.2% disagreed strongly that the company is serious towards implementing and maintaining an effective whistleblowing system. Management need to be serious when it comes to the implementation and maintenance of an effective whistleblowing system.

#### **B] Findings and conclusions based on the data collected from HR Heads:**

1. 97.4% of the HR Heads responded that the identity of the whistleblower is not disclosed. Only one (2.6%) HR Head responded that he/she was not sure about the element of anonymity within the whistleblowing system. It is necessary for the entire whistleblowing system to protect the identity of the whistleblower so that the negative effects upon that particular person will be minimised if not entirely eliminated.
2. 94.7% of the HR heads responded that external whistleblowers also have an access the whistleblowing system of the company.5.3% of the HR Heads stated that they don't know whether that external whistleblowers have an access the whistleblowing system.it seems that the whistleblowers may be external or internal. The entire objective of whistleblowing is to increase the productivity and profits of the organisation and also maintain a very harmonious atmosphere within the organisation.



3. 94.7% HR heads responded that the company reports the whistleblowing results and discloses the outcomes of the various complaints which have been filed through the system. Only 5.3% of the HR Heads responded that they don't know or not sure whether company report whistleblowing disclosure or results of complaints. It seems that proper care is taken by the organisations to disclose the outcomes of the complaints. This would discourage the people from committing frauds and mistakes and increase a sense of well-being and harmony within the organization.
4. 94.7% the HR Heads strongly agreed and 5.3% agreed that the management is effective to solve the issues related to whistleblowing. When the management responds immediately and effectively, it leads to an increased belief in the whistleblowing system. Once a particular matter of concern is reported to the whistleblowing system it is essential that the management should be effective and responsive in investing that particular allegation.
5. 97.4% of the HR heads, the major purpose that their whistleblowing system should serve is the minimization of losses or prevention of losses. 81.6% of the HR Heads stated that positive effect on employee morale and motivation is expected. 76.3% of the HR Heads desire that whistleblowing system should leads to development and prevents frauds and malpractices. 57.9% (the lowest of the responses) of the HR heads said that the benefit that the company expects to drive is that of having a good corporate image.
6. 94.7% of the HR Heads responded that the company rewards the whistleblower by giving him or her an appointment to the administrative committee of the system. On the 2.6% of the HR heads responded that the employees are offered a promotion or are allowed to participate in the profits of the company. 100% of the HR heads responded that an oral or written felicitation or appreciation is offered to the whistleblower.
7. 71.1% of the HR Heads stated that there was an improvement in the performance of the employees. 39.5% of the HR heads responded that after whistleblowing a 'speak up' culture was developed. In very less number of cases 5.3% HR heads respond that the policies were changed in a way to benefit the employees. 23.7% of the HR Heads responded that all functional activities are closely supervised after whistleblowing. It seems the act of whistleblowing has many positive effects that the company may experience.
8. According to the opinion of 97.4% of the HR heads none of the negative effects of whistleblowing were experienced by the company. 2.6% (One) HR Head stated that employees became suspicious about the company after whistle blowing. Only one HR Head responded that there were symptoms of anxiety or stress on employees after whistle blowing.
9. 50% of the HR heads agreed that frauds and malpractices can be considerably prevented with the help of whistleblowing. 44.7% strongly agreed whereas the remaining two respondents 5.3% chose to remain neutral. The whole idea of whistleblowing revolves around making the workplace more profitable.
10. 60.5% of the HR heads strongly agreed whereas 39.5% agreed that the whistleblowing disclosures made by the organisation increase the trust of the stakeholders.

#### **10. SUGGESTIONS:**

Suggestions are also divided into the two sections. Some of the important suggestions are given below:

##### **A] Suggestions to the Employees:**

1. Employees should not raise issue casually or orally, it will not work. The issue has to be raised in writing and clearly stating about the misconduct or wrong doings. Reporting in writing form generates reference that can be used in future. Action taken report can be obtained in future using the reference of the report submitted earlier.
2. The employees who reports wrong doings or suspected things must have proper documentation. These documents must be unambiguous and clear to understand. Documents should be convincing and pertinent to the fact and can be used as a strong evidence about the suspected things or misconduct that happened in the organisation. It is also necessary that all the copies of the documents should be kept at a secure place and completely away from the reach of the individuals who would be exposed through these documents.
3. Whistleblowers should report wrong doings through the channels available in the system of the organisation. They should first follow internal policy of the company and ensure correct procedure is followed. Many laws states that the employee report internally first to give an opportunity to the employer to correct the matter. Apart from this when whistleblower choses internal reporting system sources, it will be quite easier to the company to investigate such complaint appropriately and justifiable. Company would give him/her enough support, protection, appreciation and he might be eligible for an award also.
4. It is noticed that very less number of employees consult with the lawyers in whistleblowing. It's very much worthwhile to consult a lawyer before whistleblowing to know consequences of whistle blowing. Lawyers can help employees in predicting of all possible outcomes of the whistleblowing that can happen in the future.
5. Whistleblowers must avoid releasing any kind of information that would be against the organisation's policy of protecting trade secrets and most important corporate information. It is a responsibility of each and every employee that they should take care of corporate image and confidential information of the company. Whistleblowers must analyse the nondisclosure policies of the company and accordingly they should take decision about the whistleblowing.
6. After bringing a complaint, the concerned person or management might try and buy you off. Culprits or management may strongly urge you to accept the money offer or a particular tempting settlement. Whistleblowers should not change their mindset. They should remain with the truth and welfare of the company. If they change their mindset afterwards, they might get victimized by a trap laid down deliberately by the culprits. It's better to assume that your enemies are stronger than you expect.
7. All the concerns about the safety of the whistleblower should be taken into consideration. If whistleblower wants protect his anonymity, he/she should consult with the management of the company so that he/she can minimise the negative impact of whistleblowing on their livelihood.

**B] Suggestions to the HR Heads:**

1. HR Head should make sure that their policies and procedures are updated on a regular basis and that their employees will get training frequently and they will be informed of any changes made by the organisation. HR head should encourage their employees to

report any perceived issue, suspicious activities and wrong doings internally. HR heads also ensure that such reporting will not impact negatively on the whistleblower career.

2. Policy manuals, periodic compliance training, regular communication are actually necessary through which individuals are informed about the existence of the whistleblowing system. More training programs, workshops should be conducted to create awareness about the whistleblowing and confidence must be given to the employees that their anonymity will be protected in case of whistleblowing issues. The training programs should be designed exclusively to teach related skills, behaviours and obligations that are required for the purpose of whistleblowing.
3. It is required to have periodical audit to determine whether whistleblowing system is actually working as designed. Simulation exercises must be conducted from time to time. Internal reporting system should be that much robust so that the employer can also identify the unlawful activity very easily.
4. In-charge of the whistleblowing system or compliance officer supposed to live up to its commitment to transparency and accountability. Managers who lead the human resource department are competent enough to own the process. It is quite possible that these managers are well versed with the rules and the policies that are supposed to be followed by the employees as far as misconduct or misbehaviour is concerned.
5. Employees or whistleblowers may consult the lawyer before blowing a whistle to know consequences of whistle blowing. Lawyers can help employees in predicting of all possible outcomes of the whistleblowing that can happen in the future. HR Heads or management should ensure that company will reimburse the expenses, fees, compensation born by the whistleblowers in winning cases.
6. Telephonic hotlines channel is effective way of reporting complaints as studies have shown. Yet, the HR heads have different opinions and so do the employees. It is essential that in every organisation telephonic hotlines must be properly maintained and used to increase the effectiveness of whistleblowing.
7. The HR heads have largely disagreed that the employees refrain from whistleblowing due to the want of protection. In reality the situation may be totally different from what they feel. Therefore, it is essential that the HR heads must create an atmosphere that would offer a proper protection to whistleblowers.
8. HR Head should provide a safe environment for communications. It is needed to maintain the element of friendliness and openness in the conversations or communications that happen between the HR heads and the employees. Very few HR heads came up with useful suggestions such as the need and the purpose of maintaining a very free line of communication between the two entities. Others have chosen to remain silent which means that they must understand that for a proper communication and the development of an effective speak up culture.