

# Ethical Reasoning as Contextual Predictor of Whistle-Blowing Intention

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## ABSTRACT

*The move toward better public governance exacerbates the conditions leading to instances of whistle-blowing. The initial prediction of this paper was ethical failure is the ground reason for organizational collapse. This paper provides an analysis of ethical reasoning as an indicator to whistle-blowing intention in Public Sector. The study uses data from questionnaire received from 242 respondents of public agencies in Klang valley for the year 2013. Of greatest importance is the finding that ethical reasoning strongly influences whistle-blowing intention among public servants due to the inherent ethical standing of the individual. Our final analysis calls for the need to refine this research by enumerating the role of culture as a moderating variable in future research.*

**Keywords:** *Corporate Governance, Whistle-blowing, Ethical reasoning, Malaysia, Ethics, Public sector.*

## Introduction

Corporate governance has been at the forefront in today's environment following the case of massive malpractice behaviour in corporations worldwide. The Enron saga in late 2001 has thrown up a myriad of questions about the effectiveness of contemporary corporate governance practices. The situation may be avoided if Enron's auditors *blow the whistle* earlier.

Consistent with Near and Meceli(1985), the research defines whistle-blowing as a deliberate intention by a person to disclose any wrongdoing either past, present or future to the respective authority who have the power to rectify the wrong doing. The whistle-blowing process contains six basic elements; the whistleblower agent; the subject matter; the target organization; the target employee; the act of disclosure and an outcome (Peter B. Jubb, 1999).

In early research, the researcher came out with idealism and relativism as determinants of the whistle-blowing mode choice. Proponent of idealism believes that whistle-blowing action is

driven by individual choices as their sense of duty. In contrast, relativism describes that universal moral principles are varies from one individual to another, thus, they are more to ignore wrongdoing action (Forsyth, 1992).

In Malaysia, whistle-blowing action is not yet received popular attention among Malaysian organizations (Ngui 2005). In a report issued by the Pricewaterhouse Coopers Global Economic Crime Survey 2005, it was found that 23% of Public companies in Malaysia are subjected to misconduct in terms of unreported fraud (PricewaterhouseCoopers 2006).

In 2012, the political issue of NFC (National Feedlot Council) going after whistle-blower Rafizi who has exposed on the RM250million scandal has received media attention widely. More importantly, this issue was coming into the limelight a year after the enactment of the Whistleblower Protection Act 2010. This 'persecution' issue may deter future whistle-blowers as the fear of being punished will remain in their head (The Malaysian insider, 2012)

A red flag statistic found by Asiye (2013) underlines that cases such as attempt to theft, computer fraud, vandalism, sabotage, or absenteeism are common in all organizations. Since prevalence of organizational wrongdoings has become widespread throughout the world, workplace deviance has been hot debated in research for years.

Due to these occurrences, integrity issues become frequently discussed and reported among reporters and society. As we know, integrity is now becoming increasingly important. Subsequently, various alternative measures are taken by the government to raise the level of integrity in organization. Recently, whistle-blowing protection was introduced in order to prevent any unethical behaviors in organization such as fraud, corruption, abuse of power and so on. Collectively, this research aims at investigating the role of ethical reasoning as a predictor to whistle-blowing intention. Building from a theoretical and literature review, the research will test the theory by explaining the whistle-blowing intention from ethical judgment perspective.

## **Literature Review**

### **Agency Theory**

The shareholder-centric definition of corporate governance concern on the agency problem that arise in organization due to the failure of the agent (management) to act at the best interest of the principle (shareholders) (Jensen and Meckling, 1976). This shareholder-oriented perspective has been widely used and incorporates in most corporate governance policy documents and codes of practice. For example, in Malaysia, Malaysian Code of Corporate Governance Code (2012) has highlighted the need for board to discharge their duties as set out in the board charter in the most ethical manner. Failure to meet with the principle render agency cost to arise. By definition, managers in public sector are the managerial and non-managerial position in the public sector that has been entrusted to run the public money.

## **Whistle-Blowing Scenario in Malaysia**

In view of governance enhancing initiatives, there has been a significant effort undertaken in Malaysia. Throughout the year 2002 to 2012, various initiatives have been taken including the establishment of a Review Committee by the Malaysian Institute of Accountants (MIA), the Ethics Standards Board and the enactment of Whistleblower Protection Act 2010. The unilateral aim is to issue standardized ethical standards with the objective of enhancing the integrity of the accounting profession and to encourage whistle-blowing action (Rachagan and Kuppusamy, 2013 and David Lehman, 2010). This has been one of the major agenda under Government Transformation Programme (GTP) (The Star, 2012).

Despite many efforts have been taken by Malaysia to increase encourage whistle-blowing action by individuals, the willingness of these individuals to take part as whistle-blowers are still in doubt. Following the case of whistle-blowers being threaten by way of sue by the alleged parties such as the case of NFC (National Feedlot council),

### **Ethical reasoning**

Ethical reasoning and judgment refers to ability of an individual to apply values and standards to socio-moral issues and at the same time to determine a course of action (Sivanathan & Fekken, 2002). Meanwhile, as quoted by Coleman (2006); Piaget (1985) defined ethical reasoning as the ability of individual to think reasonably when they encounter with an action that put them in an ethical dilemma. The reason is because of an individual's capacity to put themselves imaginatively in the place of others and able to recognize the effects that might occur to them if someone were to act toward them as they are acting towards others (Paul & Elder, 2009). Therefore, ethical reasoning will drive a person to make a decision that is morally right (Pettifor et al, 2000). Thus, it happens only when ethical principles manifested in behavior (Paul & Elder, 2009). Trevino (2013) stated that since people's reasoning is intangible, previous research has used. Meanwhile, Davis, Johnson & Ohmer (1998) point out that "individuals regularly make ethical reasoning based on incidents they have heard or read about" (Henik, 2008). Ethical issues may be complex as one case may be dissimilar to the precedent one (Clegg et al., 2007).

Various scholars such as Near and Miceli (2005) extolled the virtues of investigating the relationship between ethical reasoning and whistle-blowing intention. The decision to blow the whistle or not depends on their personality type, the environment and the courage level they posses (Liyanarachchi & Newdick, 2008). Thus, they suggested that organizations need to be serious in enhancing individual's ethical reasoning ability among their employees via ethics education and training programs as to help encourage ethical behavior, ethical development and increase ethical awareness (Ab Ghani et al., 2011). Richmond (2001) mentioned that employee's drive to whistle blow is also influenced by their sensitivity to the workplace environment.

Another scholars concurs the strong positive relationship between reasoning of the ethicality and whistle-blowing intentions through result found from using a summed total of

Reidenbach and Robin's ethical judgment scale (Multidimensional Ethics Scale (MES)) (Chiu,2003). It is due to the ability of would-be whistle-blower to assess wrongdoing, and decide what to do if wrong doing present (Miceli et al., 2001). Moreover, most whistle-blowers are more concerned on the societal issues than their organizational loyalty (Rohca & Kleiner, 2005). Empirical analysis carried out by Near and Miceli (2005) found that employees are more likely to report on wrongdoing that are more harmful such as bribery, sexual intimidation or others hefty legal violations than minor stealing, waste, safety problem, or discrimination. Thus, the types of wrongdoing affect the level of whistle-blowing intention. In general, individuals are more likely to whistle blow if they possess higher level of ethical reasoning than the lower one, and this depends on the level of wrongdoing committed.

Similarly, Thorne et.al. (2003) states that several assumptions have been made by many researchers, based on the theory, which propose that individuals sequentially progress through stages in the development of ethical reasoning. The would-be whistle-blower with lower level of ethical reasoning will calculate the costs and benefits of the reporting if they do. (Gökçe, 2013) also mentioned that money also plays important factor to encourage individuals to whistle-blow such as offer of incentives for cash rewards and employment contracts. As for the would-be whistle-blower with higher level of ethical reasoning; they are more guided by self-chosen ethical principles and the need to act for social justice (Jordan et al., 2013)

In contrast, negative association was found between ethical reasoning and whistle-blowing intention due to situation-related variables (such as fear of retaliation, loss of friends, discriminated by management) which act strongly to discourage whistle-blowing action (Gökçe, 2013).

As quoted by Richmond (2001) and Ponemon (1992), ethical reasoning was not significantly correlated with whistle-blowing intention when the participant view himself as the person faced with ethical dilemma or when the participant evaluated the third party's ethical choice. McNab et. al. (2007) suggested further research to compare the role of different personality type in different countries such individualistic type (like the US and Canada) with collectivist type (like China or Japan) in ethical choice.

## **Methodology**

### **Sample**

Public sector was chosen as the sample for this study because it presents an interesting case as the level of corruption remained high particularly in public service despite the various strategies and campaigns run by the government (Siddique, 2009). Furthermore, a recent finding found by the MCB (Malaysian Corruption Barometer) in 2014 found that the incidence of bribery was mostly found in the three important public service organizations in this country that provide necessity service to the society. They are the education and medical or health services along with the

utilities services. This situation is exacerbated when citizen's willingness to whistle-blow had declined from 79% (in 2013) to only 51 % (in 2014). (Satar D.A., 2014). The other instance of public service that practice bribery is JPJ (*Jabatan Pengangkutan Jalan*) due to the unrigorous monitoring system, as highlighted by the Former Director of JPJ (Sobry, 2014).

A total of 300 set of questionnaires have been distributed to the public agencies in Klang Valley, and the percentage of total questionnaires returned is about eighty-one per cent (81%) or equal to 242 respondents. Klang Valley has been chosen as sample because of its nature of the highest income generator in West Malaysia. This feature seems interesting as misappropriation of the state's prosperity will compromise nation's economy. Hence, it is critical to see the extent to which public servants are willing to be part of the whistle-blowers. Figure 1 shows that Selangor is a rich state which records the highest GDP growth of 10.8 per cent (2009: -1.0 per cent). The main sector that contributes to the number is manufacturing sector.

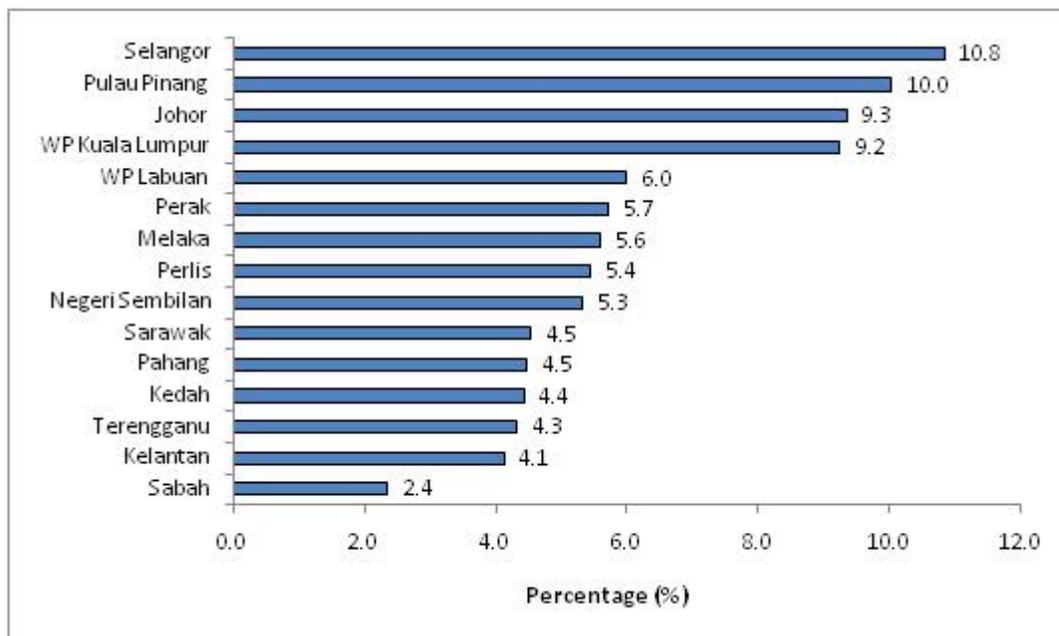


Figure 1: GDP Growth (%) by State at Constant Price 2000 Year 2010

(Source: Department of Statistics Malaysia, 2011)

As seen in Table 1, among the respondents, 33.9 per cent are managers in public sectors. Their role is even more influential as they are the decision makers in the organization. Their decisions determine partly the direction of the economy of the state and the nation.

Table 1: Profile of Respondents

	Profile	Frequency	Percentage (%)
Gender	Male	115	47.5
	Female	127	52.5
Age	20-24 years old	35	14.5
	25-29 years old	68	28.1
	30-34 years old	60	24.8
	35-39 years old	31	12.8
	40 and above	48	19.8
Qualification Level	Non-Managerial employees	151	62.4
	Managerial employees	82	33.9
	Others	9	3.7
Race	Malay	214	88.4
	Indian	15	6.2
	Chinese	9	3.7
	Others	4	1.7
Year of Services	1-5 years	108	44.6
	6-10 years	69	28.5
	11-15 years	32	13.5
	16 years and above	33	13.6

## Data Analysis and Measurement

Pearson correlation analysis was used to test the association between whistle-blowing intention and ethical reasoning. A short vignette was used to test the respondents' ethical reasoning and whistle-blowing intention by using a hypothetical ethical scenario. Consistent with previous research such as Chin R. K. (2003), the multidimensional scale was used to assess the level of intention to whistle-blow based on their ethical standing, courageous and belongingness to the organization. The scale used was rating scale of 1 for lowest intention up to 5 for the highest intention.

A four-item semantic differential scale was adapted to measure whistle-blowing intention.

The subjects were asked the their stance on whether they would attempt to whistle-blow as they feel more protected with the existence of Whistle-blowing Act now, they feel that malpractice may only harm the organization; and they feel confident to whistle-blow due to the positive reaction from the organization. The alpha reliability for this scale was 0.614

The ethical reasoning was measured using item such as ethical reasoning is considered to be essential in moral decision making; their judgment of either the behaviour is right or wrong, their courage to compromise cash rewards, employment contracts and relationship with peers or boss for the sake of doing the right thing. The alpha reliability for this scale was 0.864.

## Results

Three hundred questionnaires were distributed to the public agencies within the vicinity of Klang Valley. 242 sets were returned, which constituted a response rate of 80.67%. Table 1 shows that among the subjects, 88.4% are Malays, 52.5% are female with an average age between 25-29 years old. Table 2 presents the descriptive statistics among the variables under study. The Cronbach's alpha for the ranges from 0.614-0.864, which indicated that each scale had a moderate to moderately high internal consistency. It is interesting to note that the mean score for whistle-blowing intention is 3.581 (see table 1) on the likert scale of 1 to 5, with the standard deviation of 0.660. This finding suggests that, in general, the subjects in this study are willing to blow the whistle. Nevertheless, the result is inconsistent with previous research by Chin R. K. (2003) which found that Chinese subjects appearing to be reluctant to blow the whistle with mean score of only 2.35.

The result found that ethical judgement was significantly related with whistle-blowing intention with significance level of 0.000 and  $r = 0.302$ . Based on this finding, putting all the puzzles together, Malay managers in public agencies are ready to whistle-blow whenever they sense wrong behaviour without advancing their own personal interest.

Table 2: Mean and standard deviation of the variables

<b>Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>
Organizational Culture factor	3.372	0.647
Motivation factor	3.324	0.647
Ethical reasoning factor	3.852	0.55
Organization commitment factor	3.772	0.598
Whistle-blowing intention (Average)	3.581	0.60

Table 3: Correlation between ethical reasoning factor and whistle-blowing intention

<b>Variable</b>	<b>Person Correlation (r) Whistle-blowing Intention</b>
Ethical reasoning factor	0.302**
Sig	0.000
N	242

\*\* . Correlation is significant at the 0.01 level (2-tailed).

## Discussion and Implications

An initial finding in this study shows the readiness of Malay managers to whistle-blow when they think it is a right thing to do. In addition, the results of the correlation analysis found a significant positive relationship between ethical reasoning and whistle-blowing intention. As majority of them are Malays and Muslim, ethics has been an inherent education in Islam. According to this teaching, moral conscience seeks to shun some actions that are not consistent with the dignity of soul and self-esteem (Rafiee, 2004). Thus, it is suggested that respondents' intention to whistle-blow are strongly driven by their belief and religion. Moreover, as suggested by Rohca & Kleiner (2005), individual are more concerned on the societal justice than their interest at the organization.

However caveat need to be viewed to the other half of the subjects who are still not ready to blow the whistle. They view that blowing the whistle may render them been retaliated by the managers and their colleagues. They tend to weigh the costs and benefits of the reporting which may end up more costs to them when their employment is at stake.

## Recommendation

In providing an initial explanation for the result of this study, the research suggests that: ethical-based education and training should be provided to employees in organizations. At times, spiritual-based training may also be offered to build the positive spiritual and mind. The result of this study also suggests that the role of culture may be investigated in future research to confirm this assumption.

Since the result of whistle-blowing intention among public servant is not excellent, organizations need to take a proactive measure by not putting whistle-blowing instrument as the only corruption solution. Monitoring mechanism need to be strengthened to successfully combat

corruption in public service.

## Conclusion

Whistle-blowing issue has been at a forefront in recent years. This has prompted the recent introduction of whistle-blowing protection Act in Malaysia in 2012. Despite the potential for protection under this act, it is disheartening to learn many employees are still reluctant to whistle-blow.

Of greatest importance is the finding that ethical reasoning strongly influences whistle-blowing intention among public servants due to the inherent ethical standing of the individual. Our final analysis calls for the need to refine this research by enumerating the role of culture as a moderating variable in future research.

Despite its limitations, this study provides empirical evidence about ethical factors that may encourage intentions to whistle-blow. We concur that potential whistle-blowers in Malaysian cultures are guided by their own personal morality and the recent protection highlighted under the Whistle-blowing Act 2012.

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