



International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 17 • 2017

Emergence of Whistle Blowing for Effective Corporate Governance in India

Aseervatham Achary¹, Amit Kumar Pandey², Garima Malik² and Sanjeev Bansal³

¹ Research Scholar, Amity Business School, Amity University, U.P.

² Assistant Professor, Amity Business School, Amity University, U.P.

³ Dean, FMS & Director, Amity Business School, Amity University, U.P.

Abstract: The concept of Whistleblowing is new to India. Successive Governments have never promoted this concept in India though this is very popular in US and other European countries. The reason for such a non-cooperative attitude of the Governments may be the reason that the corruption prevalent in the government sector will get exposed if Whistleblowing is given proper statutory shape through Parliament legislation. The best example of failure in whistleblowing may be described through the 2G Spectrum Scam. Had there been effective whistleblowing system in place, this Scam would not have happened at first place. The Scam came to light albeit very late through exposure of a former officer of the Department of Telecommunication who was an eye-witness of the scam during the period of scam. But, by that time the scam had happened and the country lost roughly around Rs. 1.76 lakh crores. This Study focuses on how can the Whistleblowing be encouraged in India so that both the governments and corporates will get benefit out of this. “A stitch in time saves nine” explains a saying. Whistleblowing is a fore-warner to what is going to happen to the society, if mechanism is put into place for such a concept in Indian context. Taking clue from what India lost money in 2G Scam to the vanishing of a big corporate entity to ashes could have been avoided if such a mechanism has been framed and put in place.

Keywords: Whistle blowing, Telecommunication, corporate Governance, 2G scam

INTRODUCTION

The term whistle blowing has been developed by the practices of English police men who alert people while observing the crime to be happened. The blowing of the whistle blow alerted others law enforcement officers and general public that a crime was being committed. The definition of the whistleblowing is explained like “The disclosure by organization members of unlawful, dishonest and prohibited practices under the control of their employers to person’s and organizations that may be able to effect action (Mathew 2007).

The power relations are also theories based explanations which based on few resources. The matter of the concern whistles blowing issues are from the perspective of theory of power. Whistleblowing is a process of influence where, the whistleblower tries to exert his power to influence the organization or some of its members to stop the wrongdoing being committed. The organization or its members, which in this case is the dominant party, may accept the power action of the whistleblower and stop the wrongdoing, or, may continue to commit the wrongdoing and additionally may retaliate against the whistleblower in order to correct the power balance. In following the viewpoint of resource dependency, the two parties engaged in a situation of conflict will try to exert power over each other and are also engaged in efforts to reduce their dependency over the other party. The dependency of the whistleblower on the organization and the dependency of the organization on the whistleblower, the act of wrongdoing, the perpetrator of the act and the party recipient to the complaint all affect the process (Near *et al.*, 1993).

As per The Institute of Company Secretaries of India (ICSI), Corporate Governance is defined as “The application of best management practices, compliances of law in letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders (Gabriel, Yiannis 2012).

Reporting system in any organization play an important role to control the cases of corruption. Whistle blowing is a policy in which any one can raise their voice against the corruption. Any illegal activities or misconduct at the work place having authority or to the director or the CEO who interrupt in the cases of the corruptions. Misconduct have many faces like fraud, Violation of law, avoidance of the rules and regulation, mismanagement and waste of any kind of money (Brown 2014).

More over the ability of the whistle blowers must be ensured otherwise information required may be disclosed and it will not help to achieve their goals for the concerned addressed. The audience in a different jurisdictions may react for the matter of the disclosure which desired by the whistle blower (Hyde (2013).

OBJECTIVE OF THE STUDY

Since inception of the civilization, corruption is being the part of our society. But measurable actions and precautions are always interrupts the way of thinking of the people to stop such nonsense. This paper focuses on the analysis of the role employee’s play in making the corporate structure work better emphasizing on the whistle blowing policy. It is a system in which any corruption or misgovernance can be reported directly to the CEO of the company by the employee or any other person anonymously. Whistle blowing plays a very vital role to alleviate corruption (Biswas, 2015).

- o To critically analyze the concept of Whistle Blowing in India.
- o To explore the impact of whistler blowing on corruption.

RATIONALE OF THE STUDY

Whistle blowing is an emerging concept in Indian context. There are few researches which has been conducted in this direction. Most of the time people got confused to correlate the cases of Whistle blowing with the corporate governance. In recent past there are many incidents of corruption took place in India which quantification is very difficult. There are certain laws created for the controlling of the cases but it

was very difficult to create a trap. The cost of the cases is very high which could not measure at the moment. So the relevance of the concept whistle blowing is like as precautionary measure which helps to reduce the cases of corruptions. Even few literature claims that next decades would be the decade of good governance.

So in this context this study is having sufficient back ground for the analysis of the concept of whistle blowing.

LITERATURE REVIEW

Since there are a lot of work done on whistle blowing outside the country, but India is still far behind from such concepts. Apart from that there are many acts which help this process to manage the concern of the whistleblowing. Different acts are explaining the paternal concept of the tentative outcomes of the corruption based cases. Even in judiciary system framework of the whistle blowing can be used.

Whistle blowing has been explored by several acts and implementation of the same made this field more attentive. The Sarbanes-Oxley Act, 2002 was stemming the happening of critical corporate governance scandals and to regain the trust of the investors in the financial markets, which were greatly suffering as a result of such scandals (Earle and Madek, 2007). The Act in addition to providing the overseeing of the prevalent corporate accounting practices and addressing issues relating to corporate governance and accountability, also significantly increased the protection to those employees of public companies who report acts of wrongdoing by their organization relating to financial securities or shareholder fraud. Whistle blowing policy is a policy through which anyone can report alleged dishonest or illegal activities or misconduct in the company directly to any person having authority or to the director or the CEO (Sithapathy 2006). A whistle blower is an employee or ex- employee or any other stakeholder who provides information about his or her company which he or she reasonably believes provided they have evidence to support it (Biswas, P. 2015). Whistle blower plays a very important role in contributing to the better corporate governance.

Another act like Whistleblower Protection Act, 1989 is a US federal law to guard federal whistleblowers, or government employee who reports any misconduct against government. An organization breaches the Whistleblower Protection Act if it takes wrongful action against any employee or applicant due to any disclosure of information by the employee or applicant that he or she reasonably thinks indications of a violation of a law, rule or regulation; gross misuse of funds and/or authority; or a considerable and explicit threat to public well-being (Eisenhardt, Kathleen M. 1989). The law appointed the Office of Special Counsel (OSC).

In order to encourage and protect the whistle blowers who come forward to disclose scams and wrong doings in government ministries and departments, the Central Vigilance Commission, which is the watchdog of vigilance enforcement in India, has come out with a Resolution. The Resolution is called Public Interest Disclosure and Protection of Informer (PIDPI) Resolution which was passed on 21st April, 2004. In order to take it forward, the Government of India has tried to give a legal mandate by way of introducing a Whistleblower Protection Bill in the Indian Parliament. The Bill has been passed in the House of People of Indian Parliament and is expected to be passed in the House of States during August-September, 2015. After the Bill is passed by the Indian Parliament, every citizen of India will get legal authority to disclose the wrongdoings in government offices (Savage 2015).

CORPORATE GOVERNANCE PRACTICES

In India the top five mechanisms, which are vital for implementing better and effective Corporate Governance in any organization, are:

1. Independence of Board
2. Role of Auditors (Internal and Statutory) and Audit Committee
3. Whistle Blowing
4. Shareholder Activism
5. Fast Track Redressal Forums and Independent compliant mechanisms.

The Whistle blower policies effective implementations not only reduce the fraudulent activities but also send a signal to both internal and external agencies that organizations exercises good corporate governance.

DEVELOPING AN EFFECTIVE WHISTLEBLOWER POLICY IN INDIA

All business entities often struggle with an appropriate level of segregation of duties making a whistle blower policy a good mitigating tool. The Whistle blower policies effective implementations not only reduce the fraudulent activities but also send a signal to both internal and external agencies that organizations exercises good corporate governance (Bankoff, G., Frerks, G. & Hilhorst, D 2004).

The same situation prevails in the private sector also. The Corporates find it difficult to introduce the whistleblowing because of the fear that the higher management will get exposed. The junior management, who are at the field level, collects lot of information as to how their higher-ups involve themselves in corrupt and unfair trade practices. But their mouths are sealed because they are afraid that they will lose their jobs, sometimes even lose their lives. The best example of such Corporate Whistleblowing is the Ranbaxy Laboratories' involvement in manufacturing spurious medicine (Uys, F.2006).

RESEARCH METHODOLOGY

This study is an exploratory study in which researcher has covered wide aspect of whistleblowing and its role in corporate governance. Whistleblower concept is really contemporary in current scenario. The Whistle Blower Policy may be drafted and implemented by management but it should be submitted to Audit Committee and Board of Directors. The foundation of Whistle Blower Policy is a clear and specific definition of Whistle Blowing. The key aspects are:

1. Clear definition of individuals covered by the Policy
2. Non retaliation provisions
3. Confidentiality
4. Process
5. Communication

A set of 5 measures were selected for the study after going through the literature. A structured questionnaire was constructed utilizing these measures with appropriate instructions for each section of

the questionnaire for the collection of data on the study. The questionnaire was specifically designed to accomplish the objectives of the study. This section collected information such as usage, advantages sought after, benefits used. To assess the validity of the questionnaire, expert judgment method was applied. So, the developed questionnaire, along with explanations regarding terms and concepts were presented to five university professors, five managers each from the two organizations.

DATA ANALYSIS

On the basis of structured questionnaire, collected data would be analyzed with the suitable methods. Here in this case we need comparison of the mean in a sequence for the result extractions. Value of correlation is also required in that case and we can analyze it with the quantitative methodology. Two-Sample t-Test The two-sample (independent groups) t-test is used to determine whether the unknown means of two populations like true loyalty or only behavioral loyalty are different from each other based on independent samples from each population. The sample size for this study is 200 in which a vertical population has been selected from the specific zone including corporate, public sector unit and judiciaries.

P value and statistical significance

The Two-tailed P value must be less than 0.500. By conventional criteria, this difference is considered statistically significant. Therefore, our P-value is less than 0.05 in this case; we reject our null hypothesis and accept our alternative hypothesis.

So, further it is clear that researcher may use t-test analysis for the data interpretation. On the basis of above statement researcher frame few hypothesis for the testing of data collected.

Hypothesis 1: Whistle blowing is an emerging tool which is having an impact to control the cases of corruption in India.

H0: There is no significant relationship between whistle blowing and cases of corruption in India.

H1: There is significant relationship between whistle blowing and cases of corruption in India.

Paired Samples Correlations

| | | <i>N</i> | <i>Correlation</i> | <i>Sig.</i> |
|--------|------------------------------|----------|--------------------|-------------|
| Pair 1 | Whistle Blowing & Corruption | 200 | 0.078 | 0.098 |

| | | <i>Mean</i> | <i>N</i> | <i>Std. Deviation</i> | <i>Std. Error Mean</i> |
|--------|-------------------|-------------|----------|-----------------------|------------------------|
| Pair 1 | Whistle Blowing & | 0.03214 | 200 | 0.82315 | 0.031654 |
| | Corruption | 0.06213 | 200 | 0.09856 | 0.098243 |

Paired Samples Test

| | | <i>Paired Differences</i> | | | | | | | |
|--------|------------------------------|---------------------------|-----------------------|------------------------|--------------|--|----------|-----------|------------------------|
| | | | | | | <i>95% Confidence Interval of the Difference</i> | | | |
| | | <i>Mean</i> | <i>Std. Deviation</i> | <i>Std. Error Mean</i> | <i>Lower</i> | <i>Upper</i> | <i>t</i> | <i>df</i> | <i>Sig. (2-tailed)</i> |
| Pair 1 | Whistle Blowing & Corruption | 0.06453 | 0.042134 | 0.093214 | 0.93421 | 0.03421 | 2.932 | 199 | 0.000 |

As we have done the testing in SPSS, we found that:

Assume Alpha (α) = 0.05 (level of significance)

Calculated Value of $t = 2.932$

Probable Value (p) = 0.000

Interpretation: Here the calculated value of p 0.000 is less than the stander value of α which is .050.

Therefore researcher is failing to accept the **null hypothesis (H0)**.

Hypothesis 2. Whistle blowing helps organizations to maintain the corporate governance.

H0: There are no significance relationship between corporate governance and whistleblowing.

H1: There are significance relationship between corporate governance and whistleblowing.

Paired Samples Correlations

| | | <i>N</i> | <i>Correlation</i> | <i>Sig.</i> |
|--------|---------------------------------------|----------|--------------------|-------------|
| Pair 2 | Whistle blowing –Corporate Governance | 200 | 0.086 | 0.054 |

Paired Samples Statistics

| | | <i>Mean</i> | <i>N</i> | <i>Std. Deviation</i> | <i>Std. Error Mean</i> |
|--------|----------------------|-------------|----------|-----------------------|------------------------|
| Pair 2 | Whistle blowing – | 1.9325 | 200 | 0.69220 | 0.03461 |
| | Corporate Governance | 1.6000 | 200 | 0.63719 | 0.03186 |

Paired Differences

| | | <i>95% Confidence Interval of the Difference</i> | | | | | | | |
|--------|--|--|-----------------------|------------------------|--------------|--------------|----------|-----------|------------------------|
| | | | | | | | | | |
| | | <i>Mean</i> | <i>Std. Deviation</i> | <i>Std. Error Mean</i> | <i>Lower</i> | <i>Upper</i> | <i>t</i> | <i>df</i> | <i>Sig. (2-tailed)</i> |
| Pair 2 | Whistle blowing – Corporate Governance | 0.21348 | 0.091234 | 0.031254 | 0.8213 | 0.2314 | 4.143 | 199 | 0.0065 |

As we have done the testing in SPSS, we found that

Assume Alpha (α) = 0.05 (level of significance)

Calculated Value of $t = 4.143$

Probable Value (p) = 0.0065

Interpretation: In above analysis the calculated value of p is less than the standard value, thus researcher is fail to accept the null hypothesis once again.

RESULTS

This Study focused on how can the Whistleblowing is encouraged in India so that both the governments and corporates will get benefit out of this. "A stitch in time saves nine" explains a saying. Whistleblowing is a fore-warner to what is going to happen to the society, if mechanism is put into place for such a concept in Indian context. Taking clue from what India lost money in 2G Scam to the vanishing of a big corporate entity to ashes could have been avoided if such a mechanism has been framed and put in place. After the analysis of the data set, it has been observed that against the hypothesis Whistle blowing is an emerging tool which is having an impact to control the cases of corruption in India, Here the calculated value of p 0.000 is less than the stander value of which is .050. In above hypothesis, rejection of null hypothesis means acceptance of the alternate hypothesis. Thus researcher concludes that there is significant relationship between whistle blowing and cases of corruption in India. In another hypothesis framed for the study is Whistle blowing helps organizations to maintain the corporate governance. Against this hypothesis the calculated Value of $t = 4.143$ and Probable Value (p) = 0.0065 which is less than the standard value, it means once again researcher is failing to accept the null hypothesis. Thus once again in this case alternate hypothesis would be accepted and we will reach on the conclusion that there are significance relationship between corporate governance and whistleblowing.

CONCLUSION

Corporate Governance is not merely the activity of filing Periodical Statements (Quarterly, Annual, etc.) and conducting Annual General Body Meeting, etc. The Scope of Corporate Governance has to be widened to incorporate Whistle Blowing as its part. Whistle Blowers have to be identified; encouraged and should be protected. They act as Watchdogs of the system as a whole. For them, honesty is the driving force and Nation comes first before "self". Prevention is better than Cure. Whistle Blowers are like Preventive Medicine for better corporate Governance.

The Whistle Blower Policy should include the methods to encourage employees, vendors, customers and shareholders to report evidence of fraudulent activities. It should properly address the processes that the employees should follow in filing their claims. Specific Reporting Mechanisms within the process could include telephone, emails, hotlines, websites or suggestion boxes. The first steps of creating an environment where a whistleblower will report problems that exist is the crucial one, to be fully effective whistle blower policy must be consistently implemented, claims investigated and evaluated and proper enforcement taken when necessary. A professional bureaucracy is the part of the good governance which characterized by open processes which is accountable. Good governance can be characterized by open processes, a

professional bureaucracy, an accountable executive branch all linked by a strong civil society and all acting under rule of law (Blagescu, 2005).

SCOPE OF THE STUDY

In India there are a lot to do on the whistle blowing. The prevention of the corruption act 1988 which covers the inter alia of the public servants is another area of the study which is missing. The cases of bribes and legitimate sources of the income must be tackling in the act of the whistle blowing (Dayal, 2016). The willful misuses of the power which may loss or to be dangerous for the common people or wrongful gain from others should be the matter of research in this series. There are another form of bribe in our society is commission from the government or public firms could be another aspect of the study in future. Overall the emergence of the concept of whistle blowing is an important subject which covers the case of the disclosures in right direction.

REFERENCES

- Bankoff, G., Frerks, G. & Hilhorst, D. (2004), Mapping vulnerability: Disaster, Development & People. Earthscan London Pg. 203-208.
- Bankoff, G., Frerks, G. (2004), Mapping vulnerability: Disaster, Development & People. Earthscan London pg. 220-230.
- Biswas, P. (2015), Role of Employees in Corporate Governance With Reference To Whistle Blowing Policy. *Lawctopus' Law Journal*, 112-123.
- Blagescu, M., De Las Casas, L., & Lloyd, R. (2005), Pathways to Accountability; the GAP Framework. A publication of one world trust.
- Bouville Mathieu (2007), "Whistleblowing and Morality", *Journal of Business Ethics*, Vol. 81, No. 3, pp. 579-585.
- Bowen Robert M, Call Andrew C and Rajgopal Shiva (2010), "Whistle blowing Target Firm Characteristics and Economic Consequences", 78-82.
- Brown, Andrew D. & Humphreys, M. (2006), Epic and tragic tales: Making sense of change, *Journal of Applied Behavioural Science* 39/22: 121-144.
- Brown, H., Luzon, R.T. & Sekino, C. (2014), US Whistleblower Programmes: An Invaluable Tool to Fight against Fraud and Corruption.
- Carson Thomas L, Verdu Mary E and Wokutch Richard E (2007), "Whistle blowing for Profit: An Ethical Analysis of Federal False Claim Act" Vol. 85, No. 4, pp. 1239-1271.
- Dayal, A. S. (2016), How are Whistleblowers treated in India? New Delhi: Ethic intelligence.
- Dworkin Terry M. (2007), "SOX and Whistle blowing", Vol. 26, No. 2, pp. 7-8.6.
- Dworkin Terry M. and Near Janet P. (1997), "A Better Statutory Approach to Whistle blowing", Vol. 7, No. 1, pp. 1-16.7.
- Eisenhardt, Kathleen M. (1989), Building theory from case study research. *Academy of Management Review* 14(4): 532-550.
- Gabriel, Yiannis (2012), Organizations in a state of darkness: Towards a theory of organizational miasma. *Organization Studies* 33(9): 1137-1152.
- Hyde, R., Savage, A., Desai, B. & Grace, J. (2013), 'Response to the Law Commission Consultation on Data Sharing between Public Bodies, pg. 123-129.
- Savage, A. & Hyde, R. Hyde (2015), 'The response to whistleblowing by regulators: a practical perspective' 35(3) *Legal Studies*. Pg. 408-412.
- Uys, F. (2006), Whistle blowing in disaster prevention and rehabilitation. *Journal of Public Administration: Special Issue* 1, 41, 218-230.
- V. Sithapathy & Ramadevi Iyer, *Taxman's (2006) Corporate Governance Practice and Procedures*, pp. 95-98.