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Whistleblowing policy disclosure: evidence from an Indian emerging market

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Abstract

Purpose – This paper aims to investigate factors which drive firms to disclose whistleblowing policies in one of the emerging markets, i.e. India.

Design/methodology/approach – A sample of 200 Bombay Stock Exchange-listed Indian firms is analyzed using Tobit regression.

Findings – Promoter shareholding, proportion of independent directors and specific positions like chief ethical officer influence disclosure of whistleblowing policies.

Originality/value – This paper presents the first empirical study where principal-principal conflict theory is extended to explain drivers of whistleblowing policy disclosure and, hence, brings new insights to the literature on whistleblowing policy disclosure.

Keywords Corporate governance, Corporate ethics

Paper type Research paper

1. Introduction

Whistleblowing is an effective mechanism for exposing unethical activities in firms. Corporate fraud in India is on the rise. Examples include the Satyam scam, more commonly known as the “Indian Enron” collapse (Economist, 2009), and the fraudulent acts unearthed in Ranbaxy, a highly reputed Indian pharmaceutical company. These instances highlight the need for effective whistleblowing policy disclosure. India, despite being a significant emerging economy, has a weak institutional environment, resulting in poor legal control mechanisms (Khanna and Palepu, 2000). Despite this weakness, some firms disclose whistleblowing policies extensively, while others prefer to shy away from such policy disclosure (Barman, 2011). Given that fraudulent activities have risen by 45 per cent in India in the past two years (Economic Times, 2015), it has become vital to explore whether Indian firms invest in whistleblowing policies and how they differ in their whistleblowing policy disclosure behavior. Hence, as an important area of concern, whistleblowing deserves both theoretical and empirical attention.

Currently only a few studies investigate the reasons for differences in firm whistleblowing policy disclosure behavior. The scant studies that do examine firm characteristics highlight the role of organizational culture as a determinant of whistleblowing (Berry, 2004; Park *et al.*, 2008). Furthermore, these studies have been conducted in the developed markets. Because of institutional and cultural differences, studies from developed markets cannot be generalized to the Indian emerging market (Henik, 2015; Kaptein, 2011; Miceli *et al.*, 2013; Zhuang *et al.*, 2005; Zhang *et al.*, 2009).

The objective of this paper is to identify and explore the differences in whistleblowing policies of Indian firms. In doing so, we rely on principal–principal (P-P) conflict theory (Young *et al.*, 2008) to explain the role of promoter shareholding, independent board members and special officers such as chief ethics officers in formulating effective

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whistleblowing policies (Acharya *et al.*, 2011). Indian firms are dominated by business groups where ownership by promoters is highly concentrated (Peng and Delios, 2006). Thus, conflicts of interest may arise between these dominant promoters and minority shareholders. By virtue of holding the controlling stake in the firm, promoters may take decisions considering only their self-interest while ignoring the interests of minority shareholders (Young *et al.*, 2008).

One way to mitigate P-P conflict is through the appointment of independent directors and special officers such as chief ethics officers. Independent directors in India are supposed to represent the interests of minority shareholders. Thus, they can encourage policy formulation to reveal fraudulent and unethical activities within an organization (Shleifer and Vishny, 1997). Similarly, the special officers hold credible positions in the organizations and have the power to influence judgments and implement effective internal control mechanisms (Hazarika *et al.*, 2012; Near and Miceli, 1995; Strand, 2014). Thus, they can reduce P-P conflict by stressing whistleblowing policy disclosure and hence take care of the interests of minority shareholders (Weaver *et al.*, 1999; Zhao and Olivera, 2006). We test our hypothesis on a sample of 200 Bombay Stock Exchange (BSE)-listed Indian firms. Our findings suggest that P-P conflict theory is indeed a useful perspective in predicting the quality of whistleblowing policies framed by firms.

This study contributes to the extant theory, practice and regulation of whistleblowing and P-P conflict theory literature in several ways. First, we extend P-P conflict theory to the whistleblowing literature. Earlier, P-P conflict theory was confined to the acquisitions or takeover decisions literature (Chen and Young, 2010; Li and Qian, 2013). We extend it to the whistleblowing literature. Thus, our paper presents the first empirical study where P-P theory is unfolded to explain drivers of whistleblowing policy disclosure and hence brings new insights to the literature of whistleblowing policy disclosure. Furthermore, only ownership structure of the firm, i.e. equity holding by promoters or minority shareholders, has been examined under the P-P conflict theory paradigm. We additionally incorporate the role of board members and special officers and examine their role in reducing this conflict. Moreover, extant studies on whistleblowing have mainly relied on organizational culture and its variants such as the ethical climate to examine how they influence whistleblowing policies and decisions in organizations (Berry, 2004; Hwang *et al.*, 2008). We examine the role of firm-level characteristics such as promoter shareholding, independent board members and special officers in governing whistleblowing policy disclosure in the Indian emerging market. The significance of these individuals with regard to whistleblowing is particularly important in institutionally weak countries, where laws alone cannot enforce strong ethics or governance mechanisms in organizations. The role of these entities has not been jointly examined to the best of our knowledge in the extant whistleblowing literature. The third contribution to the whistleblowing literature comes from our exclusive investigation in one emerging market – India. Thus, the study establishes a new research setting by applying P-P conflict theory to promoter shareholding, independent directors and special officers in a new context – the emerging Indian market.

The study is organized as follows: first, we review prior research in the field of whistleblowing. Next, we develop a model and state our hypothesis. This is followed by a data and methodology section. And last, we present our results and conclusions.

2. Background and theory

Although whistleblowing has been defined in literature in many ways (Jubb, 1999), the most commonly accepted definition is “the disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action” (Near and Miceli, 1985, p. 4). If implemented appropriately, whistleblowing policy can help in timely detection of fraud, correcting the wrongdoing before it gets too late and, furthermore, minimizing the losses and costs incurred due to fraud (Chung *et al.*, 2004).

As per the extant literature, whistleblowing determinants can be categorized at three levels: namely, the macro level, firm level and personal level. At the macro level, factors such as the firm's legal environment, national environment and economic environment have been explored to explain variation in quality of disclosure policy (Clarkson *et al.*, 2006; Holder-webb *et al.*, 2008; Lee and Fargher, 2013; Miceli *et al.*, 2009). At the firm level, the role of organizational culture and an ethical climate has been highlighted to some extent (Bowen *et al.*, 2010; Elankumaran *et al.*, 2005; Hassink *et al.*, 2007; Singh *et al.*, 2005). Rarely, scholars have also relied on legitimacy theory to explain how firms emphasize whistleblowing policies to enhance social value for the organizations (Decker, 2012; Pittroff, 2013). At the individual level, the effectiveness of a whistleblowing policy is explained by individual personality traits (Morrison, 2011; Nayir and Herzig, 2012; Premeaux and Bedeian, 2003).

However, India's unique characteristics such as institutional voids and business groups make P-P conflict theory more appropriate to investigate drivers of whistleblowing policy disclosure in the Indian context (Young *et al.*, 2008). As sizable equity ownership by promoters is found in many business groups and family businesses in India, this increases the chance of expropriation of minority shareholders. Such firms are more prone to window dressing (Zhang *et al.*, 2009), the tunneling effect (Bae *et al.*, 2002) and other weak governance mechanisms. As promoters act out of self-interest, they may not disclose all information to minority shareholders and the public in general (Lin and Chuang, 2011). For example, promoters in India instead of fair recruitment practices may support nepotism, yet employees may not be able to raise their concerns, especially against senior executives, because of fear of procrastination (Clapham and Cooper, 2005; Gao *et al.*, 2014). Thus, firms with high promoter shareholding may not promote healthy whistleblowing policies and hence may discourage employees from raising their concerns regarding unethical acts within the firm (Peeples *et al.*, 2009; Shirur, 2011).

Independent board members are expected to protect interests of minority shareholders especially when P-P conflicts are high (Anderson and Reeb, 2004; MacGregor and Stuebs, 2014). These individuals by virtue of their position and authority can institutionalize good governance and ethical practices in organizations, which are favorable to minority shareholders, thus also encouraging whistleblowing policies and mechanisms (Felo, 2011). Inside directors are more likely to act on behalf of promoters, but independent and outside directors have some control over firm policies and actions (Hermalin and Weisbach, 2003). Overall, independent directors can keep a check on activities of promoters and affiliated people by encouraging employees to participate through effective whistleblowing policies (Hunton and Rose, 2011).

Similarly, special officers such as chief ethics officers are a connecting link between the CEO, ethical values of the organization and the employees (Llopis *et al.*, 2007; Rafalko, 2003). Ethics officers are in charge of improving the image of their firm by ensuring ethical practices in the organizations (Brenkert and Beauchamp, 2010; Morf *et al.*, 1999). Hence, if ethics officers can influence ethics programs, codes and conduct in organizations, they can also be instrumental in framing and implementing ethics and whistleblowing policies in the organizations (Hoffman and Rowe, 2007; Hoffman *et al.*, 2008).

Broadly, high promoter shareholding increases P-P conflict, whereas independent board members and chief ethics officers diminish P-P conflict and take care of the minority shareholders' interests by advocating whistleblowing policy disclosure.

3. Hypotheses

3.1 High promoter shareholding

Business groups emerged in India as the consequence of institutional voids in the country (Khanna and Palepu, 2000). High promoter shareholding in these groups implies that promoters and their family members or relatives have a significant stake in the firm

(McConaughy *et al.*, 1998). High promoter shareholding in business groups fastens the strategic decision-making process, as conflicts are less compared to dispersed shareholding (Chittoor *et al.*, 2015). However, overall evidence regarding benefits and cost associated with high promoter shareholding has been mixed (Carney *et al.*, 2011). Hence, while high promoter shareholding may provide resource-based advantages to firms (Khanna and Palepu, 2010), at the same time, there are limitations also associated with high promoter shareholding (Selarka, 2005).

In economies where corporate ownership is highly concentrated in the hands of promoters of a firm, minority investor interests are only weakly protected (Busta *et al.*, 2014; Claessens *et al.*, 2000). Thus, promoters may informally channel cash from profit-making firms to loss-making units affiliated with the same business group, which minority shareholders may not support (George and Kabir, 2008). Furthermore, in firms with high promoter shareholding, professional management of the organization also suffers (Stewart and Hitt, 2012). This is because promoters tend to employ their close relatives and friends and indulge in political activities that may benefit the promoters but which may be detrimental to the minority shareholder welfare (Hadani, 2007; Kimber and Lipton, 2005).

As a consequence of high promoter shareholding, Indian business groups often suffer from problems of tunneling, nepotism and other related unethical activities (Bertrand and Schoar, 2006). When promoters or their relatives are involved in unethical activities, the level of disclosure and transparency in reporting practices is kept to a minimum, as promoters prefer to keep minorities in the dark (Aksu and Kosedag, 2006), especially when they themselves are involved in unfair business practices (Laidroo, 2009). Overall in India, business group-affiliated firms are less transparent compared to stand-alone firms (Kuan *et al.*, 2011; Pattnaik *et al.*, 2011).

Whistleblowing is one of the mechanisms through which fair business practices can be enforced and illegal acts can be deterred (Rachagan and Kalaithasan, 2013). In India, when promoters hold a majority stake, they are less likely to encourage whistleblowing policy disclosure, as this may make them answerable to minority shareholders. Hence, Indian firms with high promoter shareholding are more likely to have poor formulation and implementation of whistleblowing mechanisms (Claessens and Yurtoglu, 2013).

We thus hypothesize:

H1. Whistleblowing disclosure is negatively associated with promoter shareholding.

3.2 Boards of directors

In emerging markets like India, independent board members are representative of minority shareholders and are supposed to take care of their interests and rights (Klapper and Love, 2004). Inside directors act as agents not on behalf of minority shareholders but of the promoters themselves, thus further enhancing P-P conflict (Huse *et al.*, 2011). However, independent directors who are completely unrelated to management can demand more objectivity and transparency in a firm's disclosure practices (Caprio, 2008). In general, firms with a large percentage of independent directors have better ethics programs compared to their counterparts (Felo, 2001).

Thus, Indian firms with a high proportion of independent directors can be expected to have fair business practices that are enforced in favor of minority shareholders, and hence whistleblowing policies may also be encouraged (Filatotchev *et al.*, 2005; Jackling and Johl, 2009; Sarkar and Sarkar, 2000). By disclosing whistleblowing policies, independent board members encourage employees to raise their voice against any organization wrongdoing. Thus, fraud detection becomes easier when the proportion of independent directors is high; hence, the interests of minority shareholders are protected (Lee and Fargher, 2013):

H2. Whistleblowing policy disclosure is significantly positively associated with the percentage of independent directors on a firm's board of directors.

3.3 Special positions

The term "ethics officer" refers to a person who is responsible for overseeing that a firm's compliance and business are conducted in an ethical manner (Hoffman *et al.*, 2008). Chief ethics officers are generally appointed at the vice president and senior vice president levels. They indirectly resolve P-P conflict by taking strict action against fraudulent activities in an organization that may not be in the interest of minority shareholders (Bresnahan, 1999). Firms that are genuinely concerned about ethical aspects of business not only employ ethics or compliance officers but also empower them (Hoffman and Rowe, 2007). Having specific internal positions like that of an ethics officer also prevents organizations from the stigma that might attach to an employee using external whistleblowing mechanisms to raise concerns about wrongful practices in an organization (Warren, 2007). If whistleblowing policy is well-laid, chances are reduced that an employee will seek external help (Chavez *et al.*, 2001). Thus, chief ethics officers can encourage internal whistleblowing against unethical and fraudulent activities in the organization by extensively laying such policies (Kaplan and Schultz, 2007; Rains and Scott, 2007). We thus hypothesize:

H3. Hiring of dedicated ethics personnel is significantly positively associated with disclosure of whistleblowing policy.

4. Research design

4.1 Data and methods

India provides an appropriate context to empirically test these hypotheses for three reasons. First, owing to institutional voids, Indian legal systems are weak and not very effective (Khanna and Palepu, 2000). Consequently, firms are not pressurized by law to incorporate strict corporate governance whistleblowing practices. Thus, disclosure is mostly voluntarily. Second, business groups have evolved in India in response to these institutional voids. Thus, many firms are affiliated with these groups by virtue of equity holding by the corporate parent. This provides an adequate platform to test the relationship of family ownership and whistleblowing policy, as explained in the hypothesis above. Third, the few extant studies conducted on whistleblowing have focused largely on developed markets. Studies from developed markets cannot be generalized to emerging markets because of differences in institutional context. India is one of the fast-growing emerging markets and has evidenced serious corporate fraud in recent years. Hence, it provides an appropriate platform to explore the issue from an emerging market perspective. Furthermore, instead of selecting a few industries for the study, we have focused on the top 200 stock exchange-listed firms. The BSE is one of the well-established stock exchanges of India, with total of 5,688 listed firms, and is equivalent to the NASDAQ in the USA. Thus, we selected the top 200 firms listed on the BSE. We did this mainly to control for the reputation effect of firms. Because of weak legal systems, Indian firms are not very strongly driven to adopt appropriate disclosure practices. Top performers in any industry are generally pressurized by media to be transparent in their practices (Islam and Deegan, 2010). In all likelihood, an industry-specific sample would have shown biased results in favor of the top performing firms of a particular industry. Thus, to control for reputation effect, it is best to analyze how the top-most performing firms behave differently in terms of whistleblowing disclosure practices.

4.2 Operationalization of dependent variable

To operationalize the level of disclosure of whistleblowing policies in a firm, we have focused on the extent to which firms follow guidelines provided by the SEBI (the Indian equivalent of the SEC). Government regulations provide effective guidelines for employee protection and incentives are of high priority to them; thus, they can be used as a benchmark (Robinson *et al.*, 2012). The checklist along with the percentage of companies

complying with that checklist is provided in [Table I](#). The checklist has seven disclosure items. For example, according to the recommendations of SEBI, the existence of whistleblowing mechanisms should be appropriately communicated to employees by virtue of internal circulars and the like. Whistleblowing disclosure is mainly a communication phenomenon. Hence, it is vital that policies are effectively laid and communicated. Thus, the recommendations outline the need to provide adequate safeguards for employees who openly disclose fraud. Unless appropriate safeguard mechanisms are adopted, whistleblowers might suffer retaliation ([Near and Miceli, 1995](#); [Mesmer-Magnus and Viswesvaran, 2005](#)). [Appendix 1](#) lists all the policies recommended by the SEBI.

To operationalize our dependent variable, i.e. quality of disclosure, we calculated a disclosure score following the approach of [Lee and Fargher \(2013\)](#).

We thus searched the corporate governance code of conduct section of company annual reports and various other sections of the selected firms' Web sites to analyze whether the recommendations given by the SEBI had been adopted by the firm. Thus, if the checklist item was present in the annual report or ethical conduct policy of the firm, or any other section of the Web site, we coded it as 1, or else 0. As this required content analysis, we used inter-coder reliability to check if items were coded appropriately. For this purpose, 20 per cent of the firms were coded by two coders independently, and coder reliability exceeded 90. Following the approach of [Lee and Fargher \(2013\)](#), we calculated the total score of the quality of disclosure by following unweighted index approach and hence adding up all the disclosures made. This generated an ordinal measure of disclosure for the firms. So the minimum score that a company could get was 0 and the maximum score was 7. The greater the score, the better the disclosure policy of the firm was. [Table I](#) provides a glimpse of the frequency distribution of disclosure policies. It gives a rough estimate of the standard and quality of disclosure offered by the listed companies in India. To calculate the percentage of firms following disclosure for a particular item, total number of firms which adopted the policy was counted and was divided by total number of firms in the sample.

4.3 Operationalization of independent variables

4.3.1 Promoter ownership. Refers to percentage of equity shares owned by promoters of the target firm ([Giovannini, 2010](#)). Information on this construct was directly obtained from the Prowess database of the Centre for Monitoring Indian Economy (CMIE).

4.3.2 Percentage of independent directors. Independent directors in India as per The Companies Act (2013) are defined as directors who have no material relationship with the company or any related person and who receive only sitting fees[1]. Information on

Table I Disclosure items as recommended by SEBI and % of times those disclosures are made by companies

Disclosure items	% of firms disclosing an item (n = 200)
Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors	34.6
Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars	59.1
The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices	76.8
Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct)	18.07
Such affirmation shall form a part of the board report on corporate governance that is required to be prepared and submitted together with the annual report	79.6
The mechanism must also provide, where senior management is involved, direct access to the chairman of the audit committee	24.3
Audit committee periodically reviews existence and functioning of mechanisms	18.07

Source: www.sebi.gov.in/commreport/clause49.html

independent directors was obtained from annual reports of the firm. The ratio of independent directors to the total number of directors on the board was calculated.

4.3.3 Ethics officers. Refers to the persons responsible for overseeing firm ethics, compliance and business conduct efforts (Hoffman and Rowe, 2007). Based on extant literature, we searched for key words such as ethics counselor, ombudsperson, chief ethics officer and social responsibility officer to find persons who monitor a firm's ethics activities (Strand, 2013). When such a position existed, it was dummy coded as 1, or else 0.

Following the approach of Lee and Fargher (2013), we also controlled for firm size, age and geographic dispersion. We used a natural logarithm of total assets to control for size of the firm. This logarithm was used to reduce variability of the measure. Geographic dispersion was measured as export intensity, i.e. exports to sales ratio. Information on the three variables was again obtained from the CMIE Prowess database.

Thus, our model can be represented as:

$$D\text{Score}_{i,t} = \beta_0 + \beta_1\text{FO}_{i,t-1} + \beta_2\text{ID}_{i,t-1} + \beta_3\text{SP}_{i,t-1} + \beta_4\text{FS}_{i,t-1} + \beta_5\text{FA}_{i,t-1} + \beta_6\text{GD}_{i,t-1} + \varepsilon_{i,t}$$

Where Dscore is the total whistleblowing policy disclosure score measured on a seven-point scale; FO is family ownership measured as the ratio of promoter equity shareholding; ID is the ratio of independent directors; SP refers to special positions like chief ethics officer; FS refers to the natural logarithm of firm size; FA refers to the natural logarithm of firm age; GD refers to geographic dispersion; and PFE represents past fraudulent events.

5. Results

To gauge the effectiveness of whistleblowing policy disclosure, we first show the results from a qualitative survey of whistleblowing policy items disclosed by Indian firms. Table I presents policy disclosure measures and percentage of firms adopting those disclosure policies. The table shows that the most commonly adopted policy is protection of whistleblowers against termination (Item number 3), with 76.8 per cent of the firms adopting such a policy. This indicates that most firms encourage employees to raise their voice against fraudulent activities without threat of job loss. This was closely followed by Item number 5, with 74.3 per cent of the firms affirming that disclosure of protection of whistleblowers should form a part of their corporate governance or annual reports. The next most frequently formulated whistleblowing policy was related to approachability of audit committee members, as indicated in Item number 1. However, compared to the above two mentioned policies, very few companies (59 per cent) formulated this policy. This was followed by Item number 2, with only 34.6 per cent of the companies communicating the approachability of the audit committee to employees through written communication such as internal circulars. Furthermore, a drastic decline was noticed in formulation of whistleblowing policy against senior management, with only 24 per cent of the firms encouraging accessibility of the audit committee chairman when top management is involved in fraud (refer to Item number 6). The least favored whistleblowing policy was related to periodic review of such policies, with only 18.05 per cent of the firms having policies in this regard, as per the last item, i.e. Item number 7, in the paper.

5.1 Tobit regression analysis of determinants of disclosure policy scores

Our dependent variable, i.e. the whistleblowing policy disclosure score, is a bound or censored variable, with values ranging between 0 and 7. When the dependent variable is censored, then Tobit regression is more appropriate to estimate the linear relationship between dependent and independent variables (Maddala and Lahiri, 1992). Thus, we used Tobit regression instead of multiple linear regression to estimate the impact of our independent variables on whistleblowing policy disclosure scores.

Table II gives descriptive and correlation statistics. The significant correlation coefficients between policy disclosure scores and promoter shareholding, percentage of independent

directors and special positions indicate that a significant relationship could be expected between the dependent and respective independent variables. Results of the Tobit regression analysis are presented in Table III. The regression was run in a stepwise manner. In the first stage, only control variables were added. The pseudo R^2 obtained was 0.13 with control variables. Two control variables, namely, export to sales ratio and past fraudulent activities, were found to be significant. We enter our independent variables in Step 2 and find that the pseudo R^2 value rises to 0.28. All of the independent variables were found to be significant in the model at different significant levels. Our first hypothesis stated that promoter shareholding is significantly negatively associated with whistleblowing disclosure policy. As the beta coefficient is negative and statistically significant at 1 per cent, we find evidence in support of our first hypothesis ($\beta = -0.38, p < 0.01$). According to the second hypothesis, the proportion of independent directors is significantly positively associated with disclosure policy. As the beta coefficient is significant at 5 per cent ($\beta = 0.25, p < 0.05$), we find evidence in support of our second hypothesis as well. Similarly, significance of the beta coefficient for the special ethics officer position at 10 per cent indicates that when a special ethics officer is appointed, transparent disclosure of policy also increases ($\beta = 3.15; p < 0.1$).

5.2 Sensitivity analysis of disclosure scores

We used an alternative approach for measuring disclosure scores. According to this approach, we classified scores as high and low based on the median disclosure score, which was 3 in this case. We thus coded scores above 3 as 1, indicating high disclosure, and coded scores below 3 as 0, indicating low disclosure. All the beta coefficients remained significant and their values, especially for boards of directors, increased to a certain extent. The earlier beta coefficient for proportion of independent directors was 0.25, which rose to 0.46. Similarly, the promoter shareholding impact also rose to -0.501 .

Table II Descriptive statistics and correlation matrix

Variables	1	2	3	4	5	6	7
Whistleblowing score	1						
Promoter shareholding	-0.45***	1					
% of independent directors	0.371***	0.105	1				
Special position	0.25**	-0.16*	0.12	1			
Ln total assets	0.115	0.107	0.14*	0.072	1		
Ln age	0.132*	0.12	0.08	0.115	0.131*	1	
Export/Sales	0.106	0.105	0.109	0.064	0.098	0.11	1
Mean	2.5	50.1	49.8	0.384	2.192	10.12	0.42
SD	0.98	10.2	13.1	0.52	0.89	6.01	1.30

Notes: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Table III Tobit regression results

Variables	Coeff	SE	Coeff	SE
Promoter shareholding			-0.385***	0.20
% of independent directors			0.254**	0.10
Special officers			3.15*	0.68
Ln total assets	0.015	0.01	0.016	0.02
Ln age	0.24	0.19	0.24	0.18
Export/Sales	0.26**	0.17	0.25**	0.16
Past fraudulent activities	0.29***	0.12	0.28**	0.11
-2Log likelihood	235.25		279.75	
Pseudo R^2	0.13		0.25	

Notes: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

6. Discussions and conclusion

The key objective of this paper was to investigate why Indian firms differ in their whistleblowing policy disclosure behavior. India, though an emerging market, is characterized by a weak institutional environment. Consequently, firms are not subject to strong law enforcement and lack strict governance; hence, whistleblowing practices are unlike those in developed markets, (Klapper and Love, 2004). This results in turbulence and non-transparency in the Indian business environment such that not all firms emphasize whistleblowing policies (Doh *et al.*, 2003). Given rising corporate fraud in India, it is vital to investigate why some firms in India promote transparent practices of whistleblowing policy disclosure while others discourage it. Even in developed markets, this issue has been investigated to a much lesser extent (Lee and Fargher, 2013). Furthermore, no study explains this phenomenon in an emerging market context to the best of our knowledge. Thus, this is the first paper which explores firm characteristics associated with whistleblowing policies in emerging markets.

Our results indicate that promoter shareholding, the proportion of independent directors and appointment of special officers significantly influence firm disclosure of whistleblowing policies. In doing so, we build on P-P conflict theory to analyze the role of promoter shareholding, the proportion of independent directors and special positions such as chief ethics officer on whistleblowing policy disclosure. As per P-P conflict theory, promoters are more likely to suppress interests of minority shareholders and make decisions for personal gain (Morck and Yeung, 2003). Thus, as their equity stake in the firm increases, they become less likely to encourage whistleblowing policies which expose wrongdoings of managers in a firm. However, independent board members, who are representative of minority shareholders in emerging markets firms, can reduce the P-P conflict by positively influencing whistleblowing policies of a firm (Garrat, 1997). In this regard, our results are somewhat in disagreement with those for developed markets, where independent directors were associated with low voluntary financial information disclosure (Chrisman *et al.*, 2004; Eng and Mak, 2003). Similarly, special executives also act on behalf of minority investors through appropriate governance; hence, whistleblowing mechanisms function to ensure that the party at default is penalized, and that at least an investigation is initiated.

Broadly, our study suggests that P-P conflict in emerging markets makes the role of promoter shareholding, independent directors and special officers much more significant in influencing whistleblowing policy disclosure. As the concentration of promoter shareholding in the organization is reduced, the more explicit and detailed is the framing of the whistleblowing policy.

Extant whistleblowing studies have mainly emphasized on organizational culture (Berry, 2004; Kaptein, 2011; Keenan, 2002; Rothwell and Baldwin, 2006) in investigating aspects of whistleblowing in the organization. Though organizational culture plays a vital role, in emerging markets, corporate governance factors are more important as predictors of whistleblowing policies because of a weak institutional environment (Khanna and Palepu, 2000). Findings of our study indicate that indeed P-P conflicts decrease the level of disclosure of whistleblowing policies in the Indian emerging market. On the other hand, independent board members and special officers as representatives of minority shareholders enhance the level of disclosure of whistleblowing policies.

7. Limitations of and directions for future research

For this study, we have taken a sample of listed firms only. Thus, the determinants of whistleblowing policy disclosure cannot be generalized to private and unlisted firms. Furthermore, the results cannot be generalized to developed countries or emerging markets as well. This is because, first, the depth of recommendations made by the SEC and other such authorities is vast compared to the depth of such recommendations by authorities in emerging markets like that of India. For example, in Australia, legislation requires companies to disclose

whistleblowing policy on 18 aspects, whereas in the case of India, disclosure is required on only 7 aspects. Thus, the strength of the relationship may differ. Furthermore, we use the unweighted index approach, thus giving equal importance to all parameters, where some parameters could be a subset of other. Second, although family businesses are also present in developed countries, the extent of their dominant shareholding is far less as compared to that in India, so again it may not turn out to be a significant predictor of whistleblowing policy. Furthermore, our determinants only highlight effective formulation of the policy and not its implementation. This aspect could be better gauged through exploratory studies based on interviews and questionnaires. Though mere clarity of statements does not automatically ensure effective implementation of the policy, nonetheless it is a precursor of the same (Barnett *et al.*, 1993). Thus, compliance programs like whistleblowing do not necessarily generate positive behavior among employees (Collier and Esteban, 2007); however, they are definitely a stepping stone in the direction of building ethical organizations.

Broadly, representation of disclosure policy could be eyewash if it is not implemented properly (Hassink *et al.*, 2007). Though ethics officers and board of directors might formulate whistleblowing policies, this does not guarantee their effective implementation, especially if they are bounded by senior management (Hoffman *et al.*, 2008; Smith, 2003; Paine, 1994). Future research should focus on determinants of effective implementation of whistleblowing policy.

Note

1. www.mondaq.com/india/x/295386/Contract+Law/Independent+Directors+Under+The+Companies+Act+2013

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Further reading

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Appendix

1. Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors.

The policy recommended by SEBI regarding whistleblowing highlights that employees should be allowed to directly access audit committee members.

2. Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars.

SEBI guidelines further indicate that mere existence of policies in companies is not sufficient, they should be communicated as well to employees through means like internal circulars. This is vital because if employees are not aware about such policies, they won't be able to raise voice against faulty acts in the company.

3. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

Further, SEBI recommends that to raise the confidence in the policy and procedure, it is vital that unfair unemployment practices are not endorsed by the company. For this, it is vital that whistleblowing policies assures no unfair treatment of employees, when they blow whistles. Hence, recommendation of the above-mentioned policy.

4. Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct).

Next, SEBI recommends that an employee should not be denied access to audit committee even if employee does not have proof for misconduct. This is because committee members when informed of misconduct can search for evidences. The onus of producing evidences should not be in the hands of employees, as in many cases, junior employees may not have sufficient proof but can only guide about misconduct.

5. Such affirmation shall form a part of the board report on corporate governance that is required to be prepared and submitted together with the annual report.

As whistleblowing is a corporate governance issue, SEBI recommends that it should be present in the corporate governance report and, hence, should ultimately reach investors as well through annual reports.

6. The mechanism must also provide, where senior management is involved, direct access to the chairman of the audit committee.

Senior management may have some influence over the audit committee members. That is why in cases where senior management is involved in fraud, SEBI recommends that employee should have direct access to the chairman of the audit committee, instead of only committee members.

7. The audit committee must periodically review the existence and functioning of the mechanism.

Based on the problems faced in reporting or following up on the whistle blowers and defaulters, SEBI suggests that firms should periodically review and update their policies. External factors like change in government policies also may play a vital role in this.

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