

Whistleblowing Policy Disclosure Among Malaysian Listed Shariah-Compliant Companies

Syahrul Ahmar Ahmad (Corresponding Author)**

Email: syahrul.ahmar@uitm.edu.my

Orchid ID: 0000-0002-0352-0488

Noraisah Sungip**

Email: noraisah_sungip@punb.com.my

Rahimah Mohamed Yunos**

Email: rahim221@uitm.edu.my

**Faculty of Accountancy, Universiti Teknologi MARA, Malaysia

Abstract

Despite the fact that there are legislative safeguards to protect whistleblowers, there is no specific regulation requiring Malaysian firms to establish a standardised whistleblowing disclosure. The purpose of this research is to determine the level of whistleblowing policy disclosures among Malaysia's top 100 shariah-compliant listed firms. The study employed a content analysis approach to determine the level of disclosure of whistleblowing policies, which were evaluated using a self-developed checklist. The whistleblowing disclosure index was created specifically utilising the guidelines given by the MCGG (2021), the OECD (2011), and Standards Australia (2003). According to this research, a substantial majority of Malaysian Shariah-compliant companies in the Top 100 do not provide thorough disclosure in their whistleblowing policies. Despite those who achieved 81 percent to 100 percent disclosure of their whistleblowing policies, a large proportion of these Shariah-compliant organisations produced less than 50 percent of the desired disclosures of their whistleblowing policies. This study is consistent with the Minority Shareholders Watchdog Group's (MWSG) findings that the implementation of whistleblowing policies in Malaysian-listed corporations is poor. The findings of this study have significant implications for improving knowledge of the need for Shariah-compliant organisations to have effective and

comprehensive corporate whistleblower policies. Hopefully, this would help regulators establish effective tools to promote whistleblowing and demand the mandatory installation of an internal whistleblowing system among Malaysian Shariah-compliant enterprises to provide better responsibility and openness to the public, consistent with the teachings of Islam.

Keywords: Corporate governance, Disclosure index, Narratives, Whistleblowing policy.

Introduction

Research assessing individuals' whistleblowing intentions has risen significantly in recent years. The studies examined various factors that instigate individuals' whistleblowing intentions (e.g. Ahmad et al., 2014; Alleyne et al., 2019; Brennan & Brennan, 2020; Valentine & Godkin, 2019). The spectrum of this research has now expanded to include the study of companies' whistleblowing policy disclosure. This new area examines the contents and disclosure adequacy of companies' whistleblowing policies to ensure effective implementation of corporate governance practices. Having an appropriate internal control mechanism through adequate whistleblowing policy

disclosure would provide a positive signal to stakeholders that such a company is safeguarding their concerns and interests (Barnett et al., 1993; Rachagan & Kuppusamy, 2013). Studies on voluntary disclosure and financial reporting provided evidence that companies with certain characteristics of good corporate governance attributes disclose more voluntary information than their counterparts (Chi et al., 2020; Lu & Wang, 2021). As such, it is expected that companies that possess good corporate governance practices will have a higher tendency to disclose adequate whistleblowing policy contents (Lee & Fargher, 2013).

This new field of study is beginning to gain more interest in the local front, evident in the work of Ahmad et al. (2018), Al-absy et al. (2019), and Md. Salleh et al. (2019). Nevertheless, these studies acknowledged that Malaysian companies do not have a standardized whistleblowing disclosure. Al-absy et al.'s (2019) study merely identified whether Malaysian companies presented their whistleblowing policies via a box-ticking method and did not examine the content disclosure of whistleblowing policies. Their study then applied a logic regression analysis to seek the relationship between certain corporate governance attributes and the availability of whistleblowing policies. An earlier study by Ahmad et al. (2018) investigated the level of whistleblowing policy disclosure utilizing the Standards Australia (2003) checklist among the top 50 Malaysian public listed companies. The reason was simply to determine the current extent of disclosure made by these Malaysian companies. Md. Salleh et al. (2019) study, on the other hand, examine the effects of whistleblowing policy disclosure on the cost of equity among selected five Asian public listed companies. Interestingly, they examined the disclosure of whistleblowing

policies using an index developed based on the Asian-CG scorecard instead.

According to Ousama and Fatima (2010), Shariah-compliant businesses must also disclose evidence of their obligation. Consequently, Shariah-compliant businesses are expected to include a religious component in their disclosures, primarily for the benefit of Muslim stakeholders. Recent research on Shariah-compliant organisations focuses primarily on their corporate social responsibility disclosures (R. Said et al., 2018) or the quality of their voluntary disclosure policies in Malaysia (Ousama & Fatima, 2010). However, there is a lack of research analysing the extent of whistleblowing policy disclosures provided by these Shariah-compliant corporations in Malaysia. Islamic teaching that addresses issues of fairness, equality, and morality requires complete disclosure of corporate transactions. Consequently, the purpose of this study is to investigate whistleblowing policy disclosures among Shariah-compliant companies in Malaysia.

Literature Review

Whistleblowing from Islamic Perspective

The need to prevent corruption and misbehavior is mentioned in the Holy Quran, Surah Al Baqara verse 205, "*But whenever he prevails, he goes about the earth spreading corruption and destroying [man's] tilth and progeny: and God does not love corruption*". Corruption is an act that is forbidden by Allah in line with the concept of *Amar Makruf Nahi Munkar*, where humans follow what is commanded by Allah and avoid the forbidden act. Islamic practice, however, does not only emphasize avoiding such misbehavior; one is also responsible for bringing up matters that violate rules. Avoiding misconduct is one thing, and doing the right thing in response to others' misconduct is another

thing. Surah Al Baqara verse 177, “*Righteousness is not that you turn your faces towards the east or the west*” highlights the importance of whistleblowing as one of the Islamic teachings, to bring the truth to safeguard the interests of society. Whistleblowing can also be interpreted as one act of *Amar Makruf*, in which the whistleblower takes the path of goodness and justice to establish the Islamic essence of humane ethics.

Whistleblowing in Islam maintains the public interest (masalahah ‘ammah) that is based on scriptures rather than determined by social norms in western whistleblowing. During the era of the Prophet Muhammad (saw), there was the institution of Hisbah (duty of commanding good and preventing evil) and the whistleblower (known as Al-Muhtasib), and in the present time, the duty of Hisbah is an essential component of corporate governance and governance institutions to protect the public interest (Zainudin & Zahari, 2018). Whistleblowing has taken place since the lifetime of Prophet Muhammad. In hadith number 3, narrated by Zaid bin Khalid Al-Juhani from Imam Malik’s Muwatta, the Prophet Muhammad said, “*Shall I not tell you who is the best of witnesses? The one who brings his testimony before he is asked for it or tells his testimony before he is asked for it.*”

Disclosure of Corporate Information from an Islamic Perspective

In Malaysia, the Islamic Capital Market (ICM) was established, in which all transactions and activities adhere to Shariah principles and are devoid of forbidden elements. The objectives of establishing the ICM are to establish Malaysia as a global centre for ICM and to enable Muslims to recognise and have faith in Shariah-compliant investments through the Securities Commission of Malaysia (Securities Commission of Malaysia, 2020b). The ICM includes Shariah-

compliant companies listed on Bursa Malaysia as one of its components. As of November 2020, 79 percent of the securities listed on Bursa Malaysia are Shariah-compliant (Securities Commission of Malaysia, 2020a).

The disclosure of Shariah knowledge is crucial for many reasons. By including these disclosures in their annual reports, businesses can indicate to Muslim investors that they are Shariah-compliant (R. Said et al., 2018). Corporations that efficiently handle their annual report disclosures may enhance their corporate image and reputation. This will increase the confidence not only of Muslim investors, but also of non-Muslim investors who are interested in investing in ethical organisations. The Islamic perspective on disclosure is based on the ideas of social accountability and complete disclosure. In Islamic accounting, companies are held accountable to society (Baydoun & Willet, 1997), so they must provide information to help fulfil this responsibility. Haniffa and Hudaib (2002) asserted, as a result, that full disclosure of relevant and reliable information is necessary for users to make both economic and religious decisions while remaining accountable to God and society. Annual reports with accurate corporate disclosures would enhance their image and reputation among stakeholders searching for companies with strong Islamic principles (Che Azmi et al., 2016).

The Needs for Effective Internal Whistleblowing Policy

Whistleblowing is an essential mechanism to regulate, monitor and protect organizations against corruption and fraud (Said et al., 2018). Meng and Fook (2011) identified four benefits of establishing an internal whistleblowing policy for businesses. For starters, it enables the business to detect and prevent fraud at an early stage. Second, the policy may send a

message to investors that the company is serious about preventing fraud and malpractice in order to maintain an efficient corporate governance structure. Third, whistleblowers are assured of their safety, which will motivate them to expose internal information. Finally, the whistleblowing policy emphasises the significance of safeguarding the public interest by detecting any fraud or misconduct early on.

The results of empirical research indicate that companies with ethical standards have a positive effect on fraud prevention. Organisations with ethical codes had a rise in employee complaints of wrongdoing (Barnett et al., 1993), fewer instances of wrongdoing (Somers & Somers, 2001), and their employees were perceived as more ethical than those in companies without ethical codes (Adams et al., 2001). This could suggest that organisations with an effective whistleblowing policy influence the ethical and reporting behaviour of their employees. To ensure that the system is implemented effectively, however, it must be transparent to the personnel. The corporation must disclose the comprehensive procedures of its whistleblower policy to ensure that whistleblower rights are protected and that the information is transmitted to the appropriate individual for prompt action.

Research Methodology

Sample companies

The study is part of a bigger project, and for the time being, it examines the Top 100 Malaysian listed shariah-compliant companies measured by market capitalization. It is a cross-sectional analysis involving companies whose financial year ends in 2020.

Data Collection Method

This study utilised content analysis to determine the level of disclosure of whistleblowing policies among Malaysian companies. Disclosures are obtained from the corporate websites and corporate governance statements of the companies' annual reports. Disclosure of whistleblowing policies will be evaluated using a self-developed Malaysian Whistleblowing Policy Disclosure Index (WPDI) checklist based on the MCCG's (2021) guidelines, the OECD's (2012) Whistleblower Protection Report, and Australia's (2003) Standards Australia. These three guidelines could pave the way for the creation of a comprehensive and effective corporate whistleblowing policy, particularly in Malaysia. This WPDI, developed specifically for Malaysian companies, may serve as a "best practise" model for establishing the sound and comprehensive contents of whistleblowing policy disclosure (refer to Table 1).

Each company will use the checklist to determine their level of whistleblowing disclosures. A greater degree of disclosure indicates that a company has a reliable whistleblowing system in place. Each company's whistleblowing policy report was evaluated using the checklist to determine the scope of whistleblowing disclosures. For each disclosed item, the existence of the revelation was encoded with a '1' if it was present and a '0' if it was not. The study employs a weighted-average index score for all firm disclosures. The sample companies' whistleblowing policies were examined for 14 disclosed items, yielding a maximum score of 14. Higher scores would indicate greater whistleblowing policy disclosure overall.

Table 1: Suggested Checklist on Whistleblowing Disclosure

No.	Description of items disclosed	Source*
1.	A general statement of the entity's commitment to a culture of corporate compliance and ethical behaviour	1,2,3
2.	A statement that separate communication channels to receive complaints from internal and external parties is provided	1,2
3.	Clearly define a scope that applies to employees (including contractors and consultants)	1,2,3
4.	Clearly define a scope that applies to non-employees (customers, general public)	1,2,3
5.	A statement of the benefits and importance to the entity of having a whistleblowing mechanism	1
6.	A statement that reporting should be kept confidential and secured within the law	1,3
7.	A guarantee that whistleblowers must receive feedback	1
8.	Description of the specific protection given and the actions that should be taken	1,2,3
9.	A description of the types of concerns in which whistleblowing mechanisms are appropriate to use	1
10.	Guidelines on who to report to	1
11.	Guidelines on how to report	1
12.	A commitment to regularly review whistleblowing programmes for effectiveness	1,2
13.	No retaliation by the company if the report is made in good faith	1,2,3
14.	A commitment to appoint and maintain an appropriately qualified whistleblower protection officer is accessible to all staff members	1

*Note:

1. Recommended disclosure checklist provided by Standards Australia (2003);
2. OECD Whistleblower Protection Report (2011) (OECD 2011);
3. MCCG (2021)

Findings and Discussion

Table 2 displays the frequency of items mentioned in the whistleblowing policies of corporations listed on the Malaysian Shariah Stock Exchange. In spite of the fact that the sample is limited to the top 100 listed shariah compliance corporations in Malaysia, their whistleblowing policies are

not transparent. Five of these companies have surprisingly made no whistleblower disclosures. Despite providing acceptable exposure (greater than 50%) in eleven of the total fourteen items, the remaining three disclosed items were judged to have inadequate disclosure components for the remaining 95 companies (refer to shaded colour)

Table 2: Frequency of items disclosed in whistleblowing policies.

No	Description of items disclosed	No & % of items reported
1.	A general statement of the entity's commitment to a culture of corporate compliance and ethical behaviour	95
2.	A statement that separate communication channels to receive complaints from internal and external parties is provided	48

3.	Clearly define a scope that applies to employees (including contractors and consultants)	91
4.	Clearly define a scope that applies to non-employees (customers, general public)	59
5.	A statement of the benefits and importance to the entity of having a whistleblowing mechanism	91
6.	A statement that reporting should be kept confidential and secured within the law	90
7.	A guarantee that whistleblowers must receive feedback	52
8.	Description of the specific protection given and the actions that should be taken	91
9.	A description of the types of concerns in which whistleblowing mechanisms are appropriate to use	90
10.	Guidelines on who to report to	86
11.	Guidelines on how to report	87
12.	A commitment to regularly review whistleblowing programs for effectiveness	35
13.	No retaliation by the company if the report is made in good faith	88
14.	A commitment to appoint and maintain an appropriately qualified whistleblower protection officer is accessible to all staff members	49

The indexing of the total percentage of whistleblowing policy disclosures is presented in Table 3. Only 49 companies achieve 81 to 100 percent whistleblowing policy disclosure, while 5 of the Top 100 Malaysian shariah publicly traded companies achieve 0 to 20 percent disclosure. This study confirms the findings of the Minority Shareholders Watchdog Group (MWSG) that the implementation of whistleblowing policies in Malaysian-listed companies is inadequate. There were 19 companies that fulfilled 14 of the required

disclosure requirements. Given that the corporations are among Malaysia's top 100 publicly traded companies, this is hardly surprising. The largest corporations may suggest that they set a good example for others. This study also confirmed that, in contrast to some developed nations, whistleblowing implementation is still in its infancy in Asia. In Malaysia, however, whistleblowing is still in its infancy and is a less preferred method for reporting wrongdoing in organisations (Said et al., 2017).

Table 3 Total Companies with Percentage Whistleblowing Policies Disclosure

Percentage of disclosure (%)	No
81 - 100	49
61 - 80	34
41 - 60	7
21 - 40	5
0 - 20	5
	100

Conclusion

Whistleblowing is an internal control system designed to prevent corporate wrongdoing, and individuals who are aware of such acts must come forward and report them. As a result, a successful whistleblowing policy based on an ideal model and comprised of acceptable criteria should be formally accepted and implemented by all members of the organisation (Nurhidayat & Kusumasari, 2018). Rachagan and Kuppusamy (2013) also argued that corporate whistleblower practises, particularly in Malaysian publicly traded firms, should be encouraged to confront and handle ethical issues internally. In their annual report, Malaysian Shariah-compliant publicly traded corporations should reveal a clear and detailed whistleblowing policy. Full disclosure of whistleblowing procedures would increase investors' trust that the company is in good corporate governance shape and has enough internal control mechanisms.

This work makes a substantial contribution to the accounting literature. This research investigates how Shariah-compliant businesses implement and administer these regulatory requirements. It provides substantial evidence to raise awareness among Shariah-compliant organisations in order to improve their disclosure of a robust whistleblowing policy. In Islam, full disclosure and moral principles are encouraged, and stakeholders have the right to be informed about the consequences of their organisations' activities and operations. By doing so, Shariah-compliant businesses in Malaysia will be able to foster an environment in which their stakeholders have the opportunity and inclination to act ethically and responsibly, as required by Shariah. Consequently, the findings of this study could be incorporated into the recommended reform of the existing

whistleblowing guidelines for Malaysian listed companies.

Acknowledgements

The authors would like to acknowledge financial support from *Bank Pembangunan Malaysia* and *Universiti Teknologi MARA*, Malaysia.

References

- Adams, J. S., Tashchian, A., Shore, T. H., & Adams, S. (2001). Codes of ethics as signals for ethical behavior. *Journal of Business Ethics*, 29(3), 199–211.
- Ahmad, S. A., Yunos, R. M., Ahmad, R. A. R., & Sanusi, Z. M. (2014). Whistleblowing behaviour: The influence of Ethical Climates Theory. *Procedia - Social and Behavioral Sciences*, 164(August), 445–450.
- Ahmad, S. A., Yunos, R. M., & Amin, J. M. (2018). Whistleblowing policy: An analysis of disclosure level among Malaysian listed companies. *Global Business and Management Research: An International Journal*, 10(3), 36–44.
- Al-absy, M. S. M., Ku Ismail, K. N. I., & Chandren, S. (2019). Corporate governance mechanisms, whistle-blowing policy and earnings management practices of firms in Malaysia. *World Academy of Science, Engineering and Technology International Journal of Humanities and Social Sciences*, 13(6), 917–922.
- Alleyne, P., Haniffa, R., & Hudaib, M. (2019). Does group cohesion moderate auditors' whistleblowing intentions? *Journal of International Accounting, Auditing and Taxation*, 34, 69–90.
- Barnett, T., Cochran, D. S., & Taylor, G. S. (1993). The internal disclosure policies of

private-sector employers: An initial look at their relationship to employee whistleblowing. *Journal of Business Ethics*, 12(2), 127–136.

Baydoun, N., & Willet, R. (1997). Islam and accounting: Ethical issues in the presentation of financial information. *Accounting, Commerce and Finance: The Islamic Perspective*, 1(1), 1–25.

Brennan, N. M., & Brennan, N. M. (2020). Whistleblowing and whistleblowers. *Oxford Research Encyclopedia of Business and Management*, February, 1–29.

Che Azmi, A., Aziz, N. A., Non, N., & Muhamad, R. (2016). Sharia disclosures: An exploratory study from the perspective of Sharia-compliant companies and professional users. *Journal of Islamic Accounting and Business Research*, 7(3), 237–252.

Chi, W., Wu, S. J., & Zheng, Z. (2020). Determinants and consequences of voluntary corporate social responsibility disclosure: Evidence from private firms. *British Accounting Review*, 52(6), 1–20.

Haniffa, R. M., & Hudaib, M. A. (2002). A theoretical framework for the development of the Islamic perspective of accounting. *Accounting, Commerce and Finance: The Islamic Perspective Journal*, 6, 1–71.

Lee, G., & Fargher, N. (2013). Companies' use of whistle-blowing to detect fraud: An examination of corporate whistle-blowing policies. *Journal of Business Ethics*, 114(2), 283–295.

Lu, J., & Wang, J. (2021). Corporate governance, law, culture, environmental performance and CSR disclosure: A global perspective. *Journal of International Financial Markets, Institutions and Money*, 70, 1–20.

MCCG. (2021). *Malaysian Code on Corporate Governance 2021*.

Md. Salleh, M. F., Yusoff, W. S., & Basnan, N. (2019). Whistleblowing disclosure policy and cost of equity in ASEAN 5 publicly listed companies: A new establishment of regional whistleblowing disclosure scoring index. *Jurnal Pengurusan*, 55, 125–133.

Meng, T. P., & Fook, O. S. (2011). Adequacy of employee whistleblower protection (EWP) in Malaysia. *2011 International Conference on Social Science and Humanity*, 5, 29–33.

Nurhidayat, I., & Kusumasari, B. (2018). Strengthening the effectiveness of whistleblowing system A study for the implementation of anti-corruption policy in Indonesia. *Journal of Financial Crime*, 25(1), 140–154.

OECD. (2011). *Protection of Whistleblowers: Study on Whistleblower Protection Frameworks, Compendium of Best Practices and Guiding Principles for Legislation*.

<http://www.oecd.org/g20/topics/anti-corruption/48972967.pdf>

Ousama, A. A., & Fatima, A. H. (2010). Voluntary disclosure by Shariah approved companies: an exploratory study. *Journal of Financial Reporting and Accounting*, 8(1), 35–49. <https://doi.org/10.1108/19852511011055943>

Rachagan, S., & Kuppusamy, K. (2013). Encouraging whistle blowing to improve corporate governance? A Malaysian initiative. *Journal of Business Ethics*, 115(2), 367–382.

Said, J., Alam, M. M., Mohamed, D. I., & Rafidi, M. (2017). Does Job Satisfaction, Fair Treatment, and Cooperativeness

Influence the Whistleblowing Practice in Malaysian Government Linked Companies? *Asia-Pacific Journal of Business Administration*, 9(3), 220–231. <https://doi.org/10.1108/APJBA-06-2017-0053>

Said, J., Omar, N., Rafidi, M., & Syed Yusof, S. N. (2018). Are organizational factors more prevailing than individual factors in mitigating employee fraud?: Findings from Royal Custom officers. *Journal of Financial Crime*, 25(3), 907–922.

Said, R., Abd Samad, K., Mohd Sidek, N. Z., Ilias, N. F., & Omar, N. (2018). Corporate social responsibility disclosure index of Malaysian Shariah – compliant companies. *International Journal of Ethics and Systems*, 34(1), 55–69.

Securities Commission of Malaysia. (2020a). *List of Shariah-Compliant Securities* (Issue November).

Securities Commission of Malaysia. (2020b). Resolutions of the Securities Commission Shariah Advisory Council. In *Kuala Lumpur: Securities Commission* (Issue December).

Somers, M. J., & Somers, M. J. (2001). Ethical codes of conduct and organizational context: A study of the relationship between codes of conduct, employee behavior and organizational values. *Journal of Business Ethics*, 30(2), 185–195.

Standards Australia. (2003). *Whistleblower protection programs for entities. 1*.

Valentine, S., & Godkin, L. (2019). Moral intensity, ethical decision making, and whistleblowing intention. *Journal of Business Research*, 98(September 2017), 277–288.

Zainudin, N. H., & Zahari, W. M. Z. W.

(2018). Whistleblowing: A western and Shariah perspective. *IJUM Law Journal*, 26(1), 99–120.