

INTERNAL WHISTLEBLOWING INTENTIONS BY INTERNAL AUDITORS: A PROSOCIAL BEHAVIOUR PERSPECTIVE

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ABSTRACT

Despite extensive research having been undertaken on the issue of whistleblowing globally, empirical study in this area is still scarce in Malaysia. This paper examines internal whistleblowing intentions among internal auditors in Malaysian organisational settings. Although, internal auditors hold a unique position in their organisations to prevent, deter and detect corporate wrongdoings, the role of this profession in investigating their ethical decision-making behaviour towards internal whistleblowing has been much neglected. A mail survey was conducted to investigate a variety of demographic, organisational and situational factors that could influence the internal auditors' ethical decision-making process. Results are generally consistent with predictions based on a model of whistleblowing as a type of prosocial behaviour. The findings confirm those from previous studies, suggesting that organisational members have different reactions to different types of wrongdoings. Implications of the findings on Malaysian organisations for research and practice are discussed.

Keywords: *ethics, internal auditors, prosocial behaviour, whistleblowing*

Introduction

The issue of “whistleblowing” has garnered widespread attention globally over the past decades, and was further being influenced by series of organisational wrongdoing occurring in Enron and WorldCom. The aftermath of this infamous cases have not only resulted in the introduction of Sarbanes-Oxley Act of 2002 (Eaton & Akers, 2007; Lacayo & Ripley, 2003) but have triggered extensive whistleblowing studies in academic field. Such studies try to examine what actually motivates whistleblowing act and the factors that cause employees to whistleblow. Unfortunately, understanding of these factors and the whistleblowing process has been complicated by the sensitive nature of reporting. The act of whistleblowing has been considered as challenging the organisational hierarchy (Mesmer-Magnus & Viswesvaran, 2005). Should the employees discover organisational wrongdoing in their organisation, they will struggle not only with organisational loyalty but may also face difficulties to voice out their concern (Jennings, 2003). Furthermore, there is no typical case of whistleblowing as each case of corporate wrongdoing is extremely complex (Miceli, 2004). Gobert and Punch (2000) added that, no two individual whistleblowers are alike and their actions are driven by complex psychological and sociological factors. As such, further empirical studies are needed to understand the causes of employees’ whistleblowing behaviour.

The objective of this study is to examine selected demographic, organisational and situational factors that may affect internal auditors’ whistleblowing intentions. The study attempts to make two contributions to the whistleblowing theory and practice. The first is to determine the theoretical fact that whistleblowing is a prosocial behaviour. The second and final contribution is to extend the whistleblowing research to a Malaysian context. There have been very limited empirical studies on whistleblowing in Malaysian organisations (see Chavan & Lamba, 2007; Patel, 2003). An understanding of factors influencing the decision to internally blow the whistle among internal auditors in Malaysian organisations is very much needed. Moreover, further research is warranted to examine how individuals within organisations form their whistleblowing intentions (Ayers & Kaplan, 2005; Brennan & Kelly, 2007).

Literature Review and Hypotheses Development

Internal Whistleblowing

In general, whistleblowing has been defined as: “the disclosure by organisation members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organisations that may be able to effect action” (Near & Miceli, 1985, p. 4). The definition acknowledged that whistleblowing about organisational wrongdoing can either be made internally or externally. Though there are arguments contending that internal reporting of whistleblowing does not qualify as whistleblowing (see Courtemanche, 1988; Jubb, 1999), other researchers contended that whistleblowing includes both internal and external reporting channels (see Dworkin & Baucus, 1998; Park & Blenkinsopp, 2009; Zhang, Chiu, & Wei, 2009). Internal whistleblowing occurred when the wrongdoing is reported to parties within the organisation, while external whistleblowing is said to occur when the wrongdoing is reported to parties outside of the organisation. Ethically, internal whistleblowing is preferred as external whistleblowing may cause serious damage to organisations (Park & Blenkinsopp, 2009). Zhang et al. (2009, pp. 25-26) suggest that “disclosing insider information to outsiders breaches obligations to the organisation, violates the written or unspoken contract, and elicits damaging publicity”. As such, internal whistleblowing gives an organisation the opportunity to deal quickly with a concern without the pressure of external publicity.

Internal Auditors as Whistleblowers

There have been limited whistleblowing studies have utilised internal auditors as subjects (e.g. Arnold & Ponemon, 1991; Miceli, Near, & Schwenk, 1991; Seifert, Sweeney, Joireman, & Thornton, 2010; Xu & Ziegenfuss, 2008). It is ironical for a profession with a unique position to prevent, deter and detect organisational wrongdoing (Hillison, Pacini, & Sinason, 1999; Pearson, Gregson, & Wendell, 1998) was not being fully studied on their propensity for whistleblowing behaviour. Their unique position actually allows internal auditors to know more about their own organisations than anyone else. Such a gap could be due to some researchers arguing that the reporting made by internal auditors are role-prescribed, hence the act of reporting is not considered as whistleblowing (see Jubb,

1999, 2000). Despite such contention, Pearson et al. (1998) advocate that the reporting of illegal activities within organisations by internal auditors to higher management, boards of directors or government agencies be referred to as an act of whistleblowing. As such some studies advocated that internal auditors may also be potential whistleblowers (Arnold & Ponemon, 1991; Miceli, Near, & Schwenk, 1991; Pearson, et al., 1998; Xu & Ziegenfuss, 2008). Furthermore, Tsahuridu and Vandekerckhove (2008) highlighted that, one of the characteristics that constitutes an act of whistleblowing is that the whistleblower has privileged access - whistleblowers know exactly what is going on at work and their jobs enable them to access specific information about their organisation. Therefore, this study contends that reporting by internal auditors within the organisation should be regarded as internal whistleblowing acts. Internal auditors' scope of work enables them to access and hold such important corporate information and require them to report any form of corporate wrongdoing.

In reality, however, the more pressing matter for internal auditors is to decide whether or not to whistleblow should they discover the wrongdoing. Internal auditors may face situations that involve conflict of interests while executing their dual-role duties (Arnold & Ponemon, 1991; Taylor & Curtis, 2010). Basically, internal auditors are employed by the organisation and are subject to the needs and requirements of their employment, but on the other hand, as members of a professional body, they are also required to adhere to the profession's ethical requirements, as well as the needs of other stakeholders. Ahmad and Taylor (2009) shared the same view with regards to this type of conflict of interest. They assert that the role of internal auditors in providing auditing tasks for their organisations may cause ongoing conflicts. It is therefore essential for the current study to examine factors affecting internal auditors' internal whistleblowing intentions as Arnold and Ponemon (1991) stated that there is limited information about the complexities underlying the internal auditors' whistleblowing decisions.

Whistleblowing as A Prosocial Behaviour

There is no comprehensive theory of whistleblowing (Miceli & Near, 1988; Near & Miceli, 1985) however, past research on behavioural studies could explain the act of whistleblowing (Miceli & Near, 1988). The theory underpinning this study is derived from prosocial behavioural theory that

has motivated much empirical and conceptual research on whistleblowing (Brennan & Kelly, 2007; Brief & Motowidlo, 1986; Dozier & Miceli, 1985; Miceli & Near, 1988). Specifically, Brief and Motowidlo (1986, p. 711) defined prosocial behaviour as: “behaviour which is (a) performed by a member of an organisation, (b) directed toward an individual, group, or organisation with whom he or she interacts while carrying out his or her organisational role, and (c) performed with the intention of promoting the welfare of the individual, group, or organisation toward which it is directed.” With regards to whistleblowing, it is considered as a positive social behaviour (Miceli, Near, & Dworkin, 2008) whereby, the whistleblower takes action to stop the wrongdoing within the organisation with the intention of benefiting persons within and outside the organisation. Dozier and Miceli (1985) explained that whistleblowing is a form of prosocial behaviour as the act involves both selfish (egoistic) and unselfish (altruistic) motives on the part of whistleblowers. In other words, whistleblowers take action to stop the wrongdoing within the organisation with the intention of benefiting persons within and outside the organisation, as well as, the whistleblowers themselves.

The prosocial approach of whistleblowing is based on Latane and Darley’s (1968) work on the bystander intervention model. The model proposes that a bystander will respond by helping in an emergency situation. According to Latane and Darley (1968), the decision process for whistleblowing behaviour goes through five steps and each step is critical in making the whistleblowing decision. The five steps are: (1) the bystander must be aware of the event; (2) the bystander must decide that the event is an emergency; (3) the bystander must decide that he or she is responsible for helping; (4) the bystander must choose the appropriate method of helping; and (5) the bystander implements the intervention. This process view emphasises the stages in the ethical decision making process for the would-be whistleblower and in doing so highlights the ethical dilemmas inherent in the decision for individuals to whistleblow (Brennan & Kelly, 2007).

Previous studies have focused largely on three general influencing factors: (1) demographic factors, (2) organisational factors and, (3) situational factors. The present study examines the impact of these variables on the internal auditors’ reporting intentions. The variables examined for demographic variables are gender, age and tenure in an organisation.

The organisation factors are size of organisation and job level, while the situational factors are seriousness of wrongdoing and status of wrongdoer.

Demographic Variables

Literature suggests that demographic characteristics such as gender (Near & Miceli, 1985), age (Brennan & Kelly, 2007) and working tenure (Miceli & Near, 1988) may be related to respondents' whistleblowing intentions. Although there have been consistently mixed results to date regarding the direction of the relationships between these demographic variables and whistleblowing, any possible effect of these factors in the current study should be investigated. With regards to gender, studies have shown that men and women differ significantly in making ethical judgments. Specifically, evidence has indicated that men and women differ in terms of ethics, beliefs, values, and behaviour (Schminke, Ambrose, & Miles, 2003), with women theorised to be more ethical in their judgment and behaviour than men (Vermeir & Van Kenhove, 2008). Judging from these statements, women are expected to be more willing to whistleblow. However, to the contrary, in whistleblowing studies, women are found to be less likely than men to engage in whistleblowing acts (Dworkin & Baucus, 1998; Miceli & Near, 1988; Miceli, Near, & Dozier, 1991; Sims & Keenan, 1998). Men are more likely to whistleblow as they tend to occupy higher managerial positions in organisations and have more credibility than women (Near & Miceli, 1995). Furthermore, women whistleblowers are said to experience more retaliation than men (Rehg, Miceli, Near, & Van Scotter, 2008), thus making them more reluctant to risk their careers. It is expected that similar findings would occur with regard to internal auditors' reporting intentions in this study.

With regards to age, older organisational members would tend to have a greater understanding of the authority and control systems within their organisations and have minimal restraints to whistleblow as compared to new members (Keenan, 2000; Sims & Keenan, 1998). Brennan and Kelly (2007) found that older subjects are more concerned about the effect of reporting on their own career. Previous studies generally support these statements (Brennan & Kelly, 2007; Keenan, 2000; Miceli & Near, 1988). However, some studies also found that age is not a significant predictor of the intention to whistleblow (Sims & Keenan, 1998). This study proposes that older employees have a greater tendency to report wrongdoings to management.

Organisational tenure can also be expected to be related to the likelihood of whistleblowing. Senior employees are more likely to whistleblow because they are closer to retirement, possess high levels of power and organisational commitment (Mesmer-Magnus & Viswesvaran, 2005; Near & Miceli, 1995). New employees on the other hand, may not know how the corporate culture operates and are less concerned with stopping the wrongdoing (Dworkin & Baucus, 1998). Furthermore, a newcomer may be less familiar with appropriate channels for whistleblowing (Miceli & Near, 1992). This study expects that these demographic variables in general may be associated with the internal auditors' tendency to whistleblow, leading to the following set of hypotheses:

H1 Internal auditor is more likely to whistleblow if the person: (a) is male; (b) is older; and (c) has a longer tenure in the organisation.

Size of Organisation

Theoretically, bystander theory, a construct of prosocial behaviour theory, suggests that the incidence of whistleblowing would be lower in larger organisations than in smaller ones. According to the theory, the larger the group of bystanders, the less likely any one bystander is to engage in prosocial behaviour to help out a victim. Latane and Darley (1968) used the term "diffusion of responsibility" to explain that the likelihood of a person intervening in an emergency situation will decrease should there be other people witnessing the event. If a person is alone when they notice such an emergency situation, they are solely responsible to cope with it, but if they believe that there are other people present, they may feel less responsible to take action and are less likely to offer assistance. The bystander theory would then suggest that, whistleblowing (intervention to an emergency situation) would be more likely to occur in small organisations than in larger organisations due to this diffusion of responsibility.

Miceli and Near (1985) provide two reasons why larger organisations could hinder the whistleblowing process. First, large organisations are less dependent on any single employee than in small organisations. Employees in larger organisations believe that retaliation would occur should they report the wrongdoing, therefore resulting in the whistleblowers losing their jobs. Secondly, small organisations have shorter and fewer

communication channels, thus encouraging the act of whistleblowing. Due to such circumstances, whistleblowing would be more likely to occur in smaller organisations. Miceli and Near (1992) cited a reason why internal whistleblowers would be more likely in smaller organisations: they argued that, employees in smaller organisations are more concerned with the wellbeing of the company, and therefore choose to minimise potential harm by reporting the wrongdoing through internal means. Keenan (2000) who performed an empirical study among executives and managers shared the same feeling, stating that individuals in smaller organisations usually feel more personally involved and affected by wrongdoings, than those in larger organisations. King (1999) added that larger, hierarchical, authoritarian and more bureaucratic organisations may stifle upward communication and are therefore making it a more hostile environment to whistleblow (Barnett, 1992). Due to these reasons, previous studies have hypothesized that whistleblowing would be more likely in smaller organisations and as such, the next research question is stated as follows:

H2 The internal auditors' intentions to whistleblow will be negatively associated with size of organisations.

Job Levels

Holding a supervisory status or higher managerial level in an organisation may influence whistleblowing activity as Miceli and Near (1984) indicated that position reflects the degree of power and minimises risk to challenge organisational authority. Persons holding higher managerial levels are usually seen as persons who set the ethical climate and culture for their subordinates and have more power and authority than other employees in organisations (Keenan, 2000, 2002b; Keenan & Krueger, 1992). Apart from that, those who hold a supervisory position are often held responsible for regulating employees' behaviour and enforcing standards (Rothwell & Baldwin, 2006, 2007a, 2007b). The role prescriptions of supervisors have mandated them to report misconduct, and blowing the whistle is said to be consistent with that role (Rothwell & Baldwin, 2007a). Therefore, it is expected that those who hold a supervisory status at higher managerial level are seen to be more responsible for reporting cases of wrongdoing and unethical acts than are those employees at lower levels.

The prosocial behaviour literature (see Latane & Darley, 1968) suggests that observers of a wrongdoing consider themselves as responsible for correcting it. The nature of the position one holds in an organisation may influence the assessment of this responsibility, hence, persons of higher status are expected to be more likely to whistleblow (Miceli & Near, 1988). Further research by Keenan (2002a, 2002b, 2007) confirms that different managerial levels i.e. upper-level, middle-level and first-level managers have different perceptions towards whistleblowing. Keenan's studies found that there existed significant differences across the three managerial levels with upper-level managers being more positive about whistleblowing and more likely to whistleblow than their middle-level and first-level manager counterparts. The study extends this line of research by examining the differences between junior level internal auditors, seniors, managers and those higher than the manager level with respect to their internal whistleblowing intentions. It is thus expected that the likelihood to whistleblow will be positively associated with internal auditors holding higher job levels as compared to those who do not. Therefore, the following hypothesis is offered:

H3 Internal auditors holding higher managerial positions are more likely to whistleblow than those in lower managerial positions.

Seriousness of the Wrongdoing

Type of wrongdoing and its perceived severity have been found to be significantly related to whistleblowing (Miceli & Near, 1985; Miceli, Near, & Schwenk, 1991; Near & Miceli, 1996; Near, Rehg, Van Scotter, & Miceli, 2004). Each type of wrongdoing is in some way unique (Miceli, et al., 2008, p. 47) and Miceli, Near, and Schwenk (1991, p. 118) suggest that, "organisational members may have different reactions to different types of wrongdoing". In their survey of a large military base, Near et al.'s, (2004) study found that employees who observed perceived wrongdoing involving mismanagement, sexual harassment, or unspecified legal violations were significantly more likely to report it than were employees who observed stealing, waste, safety problems, or discrimination.

Previous studies using case scenarios have shown that whistleblowing behaviour is related to the facts of the case (Ayers & Kaplan, 2005; Kaplan & Schultz, 2007; Schultz, Johnson, Morris, & Dyrnes, 1993). Kaplan and

Shultz (2007) provided evidence that individual's reporting intentions are influenced by the nature of the case. Their study focused primarily on the characteristics of the wrongdoing and investigated the reporting behaviour across three different cases involving financial fraud, theft and poor quality work. Kaplan and Shultz (2007) found that economic and non-economic factors shown in the three cases resulted in significant differences in their subjects reporting intentions. In an earlier study, Schultz et al. (1993) used an experimental approach to examine the reporting intentions of managers and professional staff members in three different countries (France, Norway and United States). For each of six hypothetical scenarios, participants were required to assess the seriousness of the act and then indicate their reporting intentions. Schultz's et al. (1993) results showed that seriousness was significantly related to the reporting intentions of the pooled sample containing all participants from these three countries. Similar results were also found in Ayers and Kaplan's (2005) study. Using a similar experimental approach (via hypothetical case scenarios) they found that perceptions about the seriousness of wrongdoings are related to reporting of such wrongdoing in both anonymous and non-anonymous reporting channels. Other ethics studies utilising case scenarios or vignettes have consistently shown that seriousness of the case is significantly related to individuals' reporting or whistleblowing intentions (see Curtis, 2006; Taylor & Curtis, 2010). Therefore, this study proposes the following hypothesis:

H4 The more serious the wrongdoing, the higher the influence on internal auditors' intentions to whistleblow.

Status of the Wrongdoer

The status of organisational members who commit corporate wrongdoings or illegal acts may also influence the propensity of observers to whistleblow (Miceli, Rehg, Near, & Ryan, 1999; Miethe, 1999). Miethe (1999) states that the propensity for observers to report the wrongdoing may depend on the observers' perception that the reporting will result in corrective action and the particular position held by the wrongdoer in the organisational hierarchy. Wrongdoing committed by organisational members of a higher status, such as top management, may not easily be addressed through termination of employment (Near & Miceli, 1990). If the wrongdoer sits at a higher hierarchical level within an organisation, he or she may have enough power to suppress whistleblowing.

More specifically, Cortina and Magley (2003) cautioned that exposing the misbehaviour of a higher status individual in organisational hierarchy actually questions that hierarchy. Near et al. (1993) added that the dominant coalition in an organisational hierarchy, including the wrongdoer, may retaliate against the whistleblower to correct this challenge against organisational higher authority. Furthermore, other organisational members who are close and supportive of the whistleblower would respond with distance and rejection, particularly when a powerful wrongdoer is involved, as they may fear reprisals for aligning with the less powerful (and thus more deviant) whistleblower. This group may also retaliate as a means of signaling to the whistleblower that he or she has deviated from behavior prescribed by social-structural norms (Miceli & Near, 1992). Preliminary findings show that the likelihood of an observer blowing the whistle on organisational wrongdoing decreases when the status of wrongdoer is higher rather than lower (Miceli, Near, & Schwenk, 1991). As higher level wrongdoers have power in their organisations, whistleblowers are likely to suffer retaliation when they pursue such people (Cortina & Magley, 2003). Therefore, with regards to this situational factor, the study hypothesises that:

H5 The higher the status of wrongdoers in the organisational hierarchy, the less the influence on internal auditors' intentions to whistleblow.

Research Method

Participants

The participants chosen for this study were internal auditors who are registered with the Institute of Internal Auditors of Malaysia (IIAM). They were employed in various listed and non-listed companies and came from diverse industrial sectors. These groups were selected due to their on-field nature of work and experience that affords them the opportunity to confront corporate wrongdoings in their organisations. The samples in these groups held internal auditors positions at various managerial levels within their organisations and were considered suitable for the purposes of this study. Mailed questionnaires were distributed at random with the assistance of IIAM personnel. Each questionnaire was accompanied with a covering letter explaining clearly the research purposes and written instructions

to complete the questionnaire. A letter of support from IIAM was also enclosed to enhance response rates from participants. According to Fowler (1993), anything that will make a mail questionnaire look professional may enhance respondents' response rates. Written assurance was also provided to guarantee confidentiality and ensure participants' anonymity as these would minimise the problem of social desirability bias (M. F. King & Bruner, 2000). Participants returned the completed questionnaire with the replied paid envelope provided. A total of 1,000 questionnaires were sent to registered individual internal auditors and 186 questionnaires were returned. However, only 180 questionnaires were found to be usable for the study (an 18% response rate).

Despite the extreme care taken in the survey administration, such low response rates from Malaysian respondents were expected and not considered as unusual. Previous Malaysian studies have noted that such a phenomenon is typical of Malaysian respondents coming from a developing country who are very reluctant to participate in any mail surveys (see Jusoh, Ibrahim, & Zainuddin, 2008; Jusoh & Parnell, 2008; Ming-Ling, 2008; Salleh & Dali, 2009; Smith, Abdullah, & Abdul Razak, 2008). These studies, in various research fields, have reported response rates of 12.3% (Jusoh & Parnell, 2008), 18.8% (Salleh & Dali, 2009), 19.6% (Smith, et al., 2008) and 22.7% (Ming-Ling, 2008) respectively. A recent study by Ahmad and Taylor (2009) who utilised IIAM members, only managed to get a 17.9% response rate.

Survey Instrument and Questionnaire Design

The questionnaire collected information on selected demographic, organisational and situational variables deemed to influence internal auditors' intentions to whistleblow. The questionnaire also includes four vignettes to measure internal auditors' internal whistleblowing intentions. Vignettes are defined as, "short descriptions of a person or a social situation which contain precise references to what are thought to be the most important factors in the decision-making or judgement-making processes of respondents" (Alexander & Becker, 1978, p. 94). The vignettes approach, borrowed from ethics research (Ellis & Griffith, 2001) requires respondents to rate the ethics of a subject in a vignette using a single scale item with endpoints specified as "ethical" and "unethical", for example. Randall and

Gibson (1990) reminded users that vignettes need to be developed with a greater concern for realism in order to mitigate the problems of ambiguity and vagueness. A realistic context of a given vignette shall allow the respondents to put themselves in the position of a character portrayed in a hypothetical situation (Patel, 2003). Weber (1992) recommends the use of vignettes from previous studies as they facilitate comparison of results across studies and avoid the need to test for validity and reliability.

The first vignette concerning a Marketing Executive taking unreported paid time off was modified from an unpublished dissertation by Wortman (2006). The second vignette with regards to an act of overstating purchases amount was developed by Brennan and Kelly (2007). Next, a vignette about a request for reduction in doubtful debts by the Chief Executive Officer was adapted from Cohen, Pant, and Sharp (1996). The last vignette, about a request from a Chief Financial Officer to ignore an amount of unrecorded liabilities to be recorded in the financial statements, was adapted from Knapp (1985). In a generic fashion, the vignettes ask the respondent to indicate how likely they would be to whistleblow in their company (internal whistleblowing) in the given hypothetical situations. The vignettes (see Appendix) were earlier piloted with the assistance of four accounting postgraduate students and, fifteen internal auditors attending a continuous professional training programme. Respondents were asked to answer four questions after reading the vignettes, each on a 5-point Likert scale. The first question requires them to rate the ethical level of the behaviour (unethical/ethical). The second and third questions asked the respondents to rate the level of seriousness of the case (not at all serious/serious) and the status of the wrongdoer (not at all powerful/very powerful). Finally, respondents were asked to rate the level of their internal whistleblowing intentions.

These four vignettes were chosen for the following reasons. First, they cover a wide range of ethical issues that internal auditors may face within their work settings. Second, previous research suggested that individuals do not view moral issues generically but may respond to the type of moral issues (Weber, 1990). Evidence has shown that reporting intentions are case sensitive (Kaplan & Schultz, 2007; Miceli, Near, & Schwenk, 1991; Near & Miceli, 1995; Near, et al., 2004; Schultz, et al., 1993) and these prior research studies have indicated that the nature or type of wrongdoing can affect observers' reactions to it. Third, using vignettes from similar studies

(even though modified) allows for cross-study comparisons (Weber, 1992). The choice for utilising these four vignettes is deemed as appropriate for this study as O'Fallon and Butterfield (2005) cautioned that, the use of too many vignettes may cause respondents to experience overload and get fatigued, while with too few vignettes, it may limit the chance to manipulate the study's variables of interest, thus resulting in response bias.

Measurement of Variables

Gender was represented by a dichotomous variable, coded as "1" for male and "2" for female. All other information (age, tenure in organisation, size of organisation, and job level) were collected on categorical variables, each categorised into four size groupings. 5-point Likert-scale data were recorded for ethical variable, internal whistleblowing intentions (the study's dependent variable) and two situational variables (seriousness of wrongdoing and status of the wrongdoer).

Data Analyses

Multiple regression statistical techniques were used to test the research hypotheses and investigate the relative influences of the study variables on internal auditors' internal whistleblowing intentions. The following equation illustrates the full regression model that is used to predict internal auditors' internal whistleblowing intentions, where, " " is the predicted value for internal auditors' internal whistleblowing intentions, " α " is the estimate of the Y – intercept, " β " is the slope of the regression line, and " ϵ " is the representative of the errors of prediction.

$$= \alpha + \beta_1 (\text{Gender}) + \beta_2 (\text{Age}) + \beta_3 (\text{Tenure}) + \beta_4 (\text{Size of Organisation}) + \beta_5 (\text{Job Level}) + \beta_6 (\text{Seriousness of Wrongdoing}) + \beta_7 (\text{Status of Wrongdoer}) + \epsilon$$

Findings

Descriptive Analyses

Table 1 presents the descriptive profiles of the study's respondents. Descriptive statistics indicated that, the majority of internal auditors were male (i.e. 54.4%). The largest age group was represented by the 25–35

years old range (51.1%), and most of these internal auditors have lower working tenure (less than 5 years) with their current organisations (a total of 57.8%). In terms of job level, the majority of them were at Senior and Manager levels (37.2% and 37.8%, respectively). The largest representation of respondents (34.4%) worked in smaller organisations (having less than 500 employees).

Table 1: Profile of Respondents (N = 180)

Variables		N	%
Gender	Male	98	54.4
	Female	82	45.6
	Total	180	
Age	< 25 years old	6	3.3
	25 – 35 years old	92	51.1
	36 – 45 years old	49	27.2
	> 46 years old	33	18.3
	Total	180	
Tenure	< 2 years	46	25.6
	2 – 5 years	58	32.2
	6 – 10 years	31	17.2
	> 11 years	45	25.0
	Total	180	
Job level	Junior	23	12.8
	Senior	67	37.2
	Manager	68	37.8
	Higher than Manager	22	12.2
	Total	180	
Size	< 500 employees	62	34.4
	501 – 1,000 employees	27	15.0
	1,001 – 3,000 employees	37	20.6
	> 3,001 employees	54	30.0
	Total	180	

Table 2 shows the results of internal auditors' assessment on each vignette. The table shows the descriptive analyses of the study's variables across all four vignettes. An interesting observation can be made in Vignette 1. The vignette can be regarded as a type of non-financial wrongdoing since it involved a situation where a Marketing Executive (the wrongdoer) took paid-time off without reporting it to his superior. The internal auditors rated the situation as very unethical ($M = 1.56, SD = .785$) and as a serious type of wrongdoing ($M = 4.11, SD = .806$). Status of the wrongdoer (level of power) and the respondents' intention to whistleblow were rated as moderate. Overall, the table shows that, Vignette 2 was rated as very unethical ($M = 1.16, SD = .541$), the nature of wrongdoing was rated as very serious ($M = 4.83, SD = .512$) and the event was more likely to be whistleblown either by respondents themselves or by their colleagues ($M = 4.49, SD = .895$ and $M = 4.00, SD = 1.091$ respectively). Vignette 2 involved a Production Manager (the wrongdoer) who overstated company's cash purchases from a supplier and misappropriated the remaining cash balance for an amount of RM12,000. Other interesting observations were with regard to Vignettes 3 and 4. The situation in Vignette 3 was about a request by the Chief Executive Officer (CEO) of the organisation to the accountant to reduce the provision for doubtful debts in order to increase the company's reported income. Vignette 4 on the other hand, was related to a Chief Financial Officer (CFO) who was reluctant to record a substantial amount of unrecorded liabilities into the company's financial statements, as the CFO argued that it will affect the company's current year's bonus payment. Though both the wrongdoers were acknowledged as very powerful persons within the organisations ($M = 4.68, SD = .657; M = 4.41, SD = .789$), as compared to the other two wrongdoers in Vignettes 1 and 2, the means for whistleblowing were clearly lower than those in the other two vignettes, with Vignette 3 showing the lowest mean ($M = 3.56, SD = 1.328$) of internal whistleblowing.

Table 2: Analysis of Responses for each Vignette

Vignette	Variables	N	Mean	Std Dev	Min	Max
1	Ethical	180	1.56	0.785	1	4
	Seriousness of wrongdoing	179	4.11	0.806	2	5
	Status of wrongdoer (level of power)	180	3.07	1.003	1	5
	Internal whistleblowing intention - You	179	3.74	1.050	1	5
	Internal whistleblowing intention - Colleagues	179	3.32	1.047	1	5
2	Ethical	180	1.16	0.541	1	4
	Seriousness of wrongdoing	180	4.83	0.512	1	5
	Status of wrongdoer (level of power)	180	4.09	0.821	1	5
	Internal whistleblowing intention - You	179	4.49	0.895	1	5
	Internal whistleblowing intention - Colleagues	179	4.00	1.091	1	5
3	Ethical	180	1.99	0.918	1	5
	Seriousness of wrongdoing	180	3.80	1.022	1	5
	Status of wrongdoer (level of power)	180	4.68	0.657	1	5
	Internal whistleblowing intention - You	179	3.56	1.328	1	5
	Internal whistleblowing intention - Colleagues	179	3.25	1.234	1	5
4	Ethical	180	1.78	0.836	1	4
	Seriousness of wrongdoing	180	4.30	0.845	1	5
	Status of wrongdoer (level of power)	180	4.41	0.789	1	5
	Internal whistleblowing intention - You	179	4.10	1.071	1	5
	Internal whistleblowing intention - Colleagues	179	3.63	1.175	1	5

Table 3 provides descriptive statistics for internal whistleblowing intentions in each of the four vignettes across the five study variables - *Gender*, *Age*, *Tenure*, *Job Level*, and *Size of Organisation*. The discussion centred on each individual variable with regards to the differences of internal whistleblowing intentions across the four vignettes.

There were different reactions on the decision to internally whistleblow between genders. Female internal auditors were more likely to whistleblow in Vignettes 2, 3 and 4, while their male counterparts more likely only in Vignette 1. Judging from the types of wrongdoing in each vignette, the situation in Vignette 1 only involved a minor type of organisational wrongdoing, i.e. taking unpaid time off by its Marketing Executive, unlike major types of wrongdoings in Vignettes 2, 3 and 4. As females are said to possess lower tolerance for illegal and unethical behaviours (Yu & Zhang, 2006), such behaviour is typified in this sample. This is also consistent with the theory put forward by studies suggesting that women are thought to be more ethical in their judgment and behaviour than men (Vermeir & Van Kenhove, 2008). The result showed that older internal auditors (more than 36 years old) are more likely to internally whistleblow than those in younger age categories (35 years old and lower). Basically, the notion as suggested by previous studies that older organisational members have minimal restraints to whistleblow appears to be true (Keenan, 2000; Mesmer-Magnus & Viswesvaran, 2005; Sims & Keenan, 1998).

Table 3: Analysis of Responses for Internal Whistleblowing (N = 179*)

Variables		N	Vignette 1		Vignette 2		Vignette 3		Vignette 4	
			Mean	SD	Mean	SD	Mean	SD	Mean	SD
Gender	Male	98	3.80	1.074	4.38	.969	3.46	1.310	4.04	1.064
	Female	81	3.68	1.023	4.63	.782	3.69	1.348	4.17	1.082
Age	< 25 years old	6	3.17	1.472	3.83	1.472	2.83	1.602	3.17	1.835
	25 – 35 years old	91	3.51	1.047	4.51	.848	3.60	1.332	4.08	1.147
	36 – 45 years old	49	4.02	.989	4.55	.843	3.63	1.220	4.24	.723
	> 46 years old	33	4.09	.879	4.48	.972	3.48	1.439	4.12	1.083

Cont...

INTERNAL WHISTLEBLOWING INTENTIONS BY INTERNAL AUDITORS

Tenure	< 2 years	46	3.46	1.110	4.46	.912	3.74	1.357	4.04	1.192
	2 – 5 years	57	3.70	1.085	4.47	.966	3.40	1.462	4.23	1.069
	6 – 10 years	31	3.61	1.086	4.55	.810	3.71	1.071	4.00	1.033
	> 11 years	45	4.18	.777	4.51	.869	3.49	1.290	4.07	.986
Job level	Junior	23	3.52	1.275	4.48	.898	3.39	1.588	3.78	1.476
	Senior	66	3.50	.996	4.39	.909	3.48	1.256	4.00	1.081
	Manager	68	3.85	1.011	4.46	.984	3.57	1.331	4.21	.971
	Higher than Manager	22	4.36	.790	4.91	.294	3.95	1.253	4.41	.734
Orgn Size	< 500 employees	62	3.82	1.124	4.52	.805	3.69	1.249	4.11	1.088
	501 – 1,000 employees	27	3.67	1.038	4.67	.679	3.59	1.394	4.26	.903
	1,001 – 3,000 employees	36	3.67	.926	4.50	.910	3.33	1.242	4.03	.971
	> 3,001 employees	54	3.74	1.067	4.37	1.069	3.56	1.449	4.06	1.204

Note: Mean results are based on 5-point likert scale.

* 1 missing value.

Bold item = Highest mean.

There were mixed results with regards to working tenure of the respondents and their internal whistleblowing intentions. By comparing the differences across the vignettes, it is clear that, internal auditors who possessed longer working tenure (6 years and more) are more likely to whistleblow on lower level wrongdoers such as the Marketing Executive in Vignette 1 and Production Manager in Vignette 2. Those who have shorter working tenure (5 years and below) are seen to be more likely to whistleblow on higher status wrongdoers such as CEO in Vignette 3 and CFO in Vignette 4. All vignettes displayed the highest means of internal whistleblowing intentions in the “Higher than manager” level group. The table shows that organisational members holding a higher managerial level, i.e., higher than manager position, are most likely to internally whistleblow. Clearly, this group of organisational members are said to have more power and authority in their organisation and hence have greater responsibility to

report any cases of corporate wrongdoings. The highest means for internal whistleblowing intentions were found in smaller size organisations. The results show that internal auditors in organisations having less than 1,000 employees were more likely to whistleblow. This finding is consistent with bystander theory, suggesting that the instance of whistleblowing would be lower in a larger organisation, hence consistent with the notion of “diffusion of responsibility” suggested by Latane and Darley (1968).

Multiple Regression Analyses

A standard multiple regression was conducted using the seven independent variables to further investigate the hypothesised relationships among the variables. The study ran four regression models, one for each vignette, to assess the intentions to internally whistleblow. Since this study involves multivariate analysis, all of the variables together were examined with respect to multivariate normality. Major assumptions of multiple regression analyses, which include normality, linearity and homoscedasticity, could be assessed simultaneously through the examination of residual statistics and graphical examination of scatterplots, histograms, and normal probability plots for each regression model (Tabachnick & Fidell, 2007). Graphical observation of histograms showed that the assumption of normality had been met in all four models. All histograms showed a roughly normal distribution (a bell-shaped curve), where data were distributed almost symmetrically around the centre of the distribution. Multicollinearity was assessed through the examination of variables’ tolerance scores and variance inflation factor (VIF). Specifically, all of the models had independent variables with tolerance scores above the cut-off point of .10 and VIF scores less than 10 (Pallant, 2007). This indicates the absence of serious multicollinearity. Therefore, all variables were retained for analysis.

For multiple regression analysis purposes, ordinal variables such as *Size of Organisation* (coded 1 = 1,000 and more employees, 0 = Less than 1,000 employees), *Job Level* (coded 1 = Lower level, 0 = Higher level), *Age* (coded 1 = Older, 0 = Younger) and *Tenure* (coded 1 = More than 5 years, 0 = Less than 5 years) were re-coded dichotomously. Table 5 displays the standardised regression coefficients or beta weights (β), standard error, and the coefficient of determinations (R^2), for each vignette.

All of the regression equations in Table 4 are statistically significant. The regression also generally explain a minor to moderate amount of variation ($R^2 = .081$ to $.305$) in the measures of internal whistleblowing intentions. The results in Table 5 demonstrate that seriousness of wrongdoing is significantly related to internal whistleblowing intentions consistently in all four vignettes. The significant standardised beta coefficients for seriousness of wrongdoing are also large in all, except for one vignette, i.e. Vignette 2. Gender is significantly related to internal whistleblowing intentions only in Vignettes 2 and 3. Age and job level are found to be significantly related only in Vignette 1. Status of wrongdoer on the other hand is significantly related to internal whistleblowing only in Vignette 2.

Table 4: Multiple Regression Analyses Predicting Internal Whistleblowing Intentions

Independent variables	Dependent variables – Internal whistleblowing intention							
	Vignette 1		Vignette 2		Vignette 3		Vignette 4	
	Beta	SE	Beta	SE	Beta	SE	Beta	SE
Gender	-.058	.143	-.200**	.142	-.120*	.180	-.062	.154
Age	.190**	.190	-.006	.182	-.084	.235	.052	.200
Tenure	-.038	.170	.046	.162	.030	.208	-.046	.181
Size of Organisation	.027	.139	-.075	.133	-.104	.172	-.041	.147
Job Level	.138*	.168	.082	.163	.117	.207	.112	.178
Seriousness of Wrongdoing	.453***	.086	.159**	.134	.532***	.084	.441***	.092
Status of Wrongdoer	.047	.070	-.175**	.087	-.008	.132	-.036	.098
R ²	.285		.081		.305		.224	
F	9.686***		2.150**		10.739***		7.042***	

Note: *** $p < .01$, ** $p < .05$, * $p < .10$

Discussion

Multiple regression analyses reveal that seriousness of wrongdoing is the most consistent and one of the better predictors of internal whistleblowing intentions, especially when regressed in the presence of other independent variables. Other variables such as gender, age, job level and status of wrongdoer demonstrate limited capacity to predict internal whistleblowing intentions. Although the study predicted that size of organisation and tenure, would have relationships with internal whistleblowing, the findings fail to predict this. The failure for some variables to predict internal whistleblowing intentions in some or all vignettes might be explained in several ways.

Demographic Factors

With regards to gender, significant relationships contributed to internal auditors' whistleblowing intentions, were evidenced only in Vignettes 2 and 3. The contributing factors for these significant associations were; Vignette 2 in the study was rated by internal auditors as very unethical, and had a very serious nature of wrongdoing as compared to other three vignettes, while the wrongdoer in Vignette 3 was a Chief Executive Officer. Hypothesis 1 (a) which proposed that male internal auditors would be more likely to whistleblow than their female counterparts is only true in situations where the fact of the case is being regarded as very serious and very unethical in nature or the wrongdoing was perpetrated by someone from the highest management level. As such, this is consistent with prior studies that have found that women are less likely than men to engage in whistleblowing acts (Dworkin & Baucus, 1998; Miceli & Near, 1988, 1992; Miceli, Near, & Schwenk, 1991; Sims & Keenan, 1998). However, such a finding would only be limited to highly serious and very unethical types of organisational wrongdoings as portrayed in Vignettes 2 and 3. Furthermore, although previous studies indicated that men are more likely to whistleblow than women, such differences are said to be minimal and the reasons are not entirely clear (Miceli & Near, 1988, 1992). Overall, more recent studies have acknowledged that gender does not account for differences in individual whistleblowing tendencies (MacNab & Worthley, 2008; Miceli, et al., 2008; Zhang, et al., 2009). This is clearly portrayed by the insignificant relationships in Vignettes 1 and 4 respectively. These findings are consistent with much of the work on gender differences in

accounting and auditing research generally (see Coram, Ng, & Woodliff, 2003; Gammie & Gammie, 2009; Radtke, 2000).

The study also investigated the influence of age in internal auditors' internal whistleblowing intentions. The finding showed that whistleblowing is not significantly associated with age in any of the vignettes, except in Vignette 1. As such, Hypothesis 1 (b) is not entirely supported. Age seems to be a significant predictor only if status of wrongdoer is lower. Although the study predicted that younger internal auditors are less likely to blow the whistle, Miceli and Near (1992, p. 116) have actually argued that "it is difficult to assume whether younger members will be more or less likely to blow the whistle than older members". This again confirmed that the relationship between age and whistleblowing intention is fairly weak, as evidenced by insignificant relationships in Vignettes 2, 3 and 4.

Tenure was also hypothesised to have a positive impact on internal whistleblowing intentions (H 1 (c)). However, multiple regression results showed that this relationship was not supported in all vignettes. Similar with the age variable, the outcomes for working tenure also show weak support for internal whistleblowing intentions. The link between tenure and whistleblowing is inconclusive due to insignificant results found in this study. The current findings fall in line with the previous research (Barnett, Cochran, & Taylor, 1993; Mesmer-Magnus & Viswesvaran, 2005; Rothschild & Miethe, 1999; Rothwell & Baldwin, 2007a; Sims & Keenan, 1998; Singer, Mitchell, & Turner, 1998) that fail to substantiate the significance of these variables to whistleblowing.

In conclusion, review of previous whistleblowing studies have validated that these demographic variables have shown consistently mixed results when being tested. Even in the review of literature concerning ethical decision making, these demographic variables have consistently been found to be insignificant and unrelated to ethical decision making (see Loe, Ferrell, & Mansfield, 2000; O'Fallon & Butterfield, 2005). In whistleblowing studies, Brennan and Kelly (2007) stated that these demographic variables offer weak and conflicting results on the influence of individual's whistleblowing behaviour, while Park et al. (2005) showed that demographic variables made no significant difference in whistleblowing intentions.

Organisational Factors

Initially, descriptive results in all four vignettes showed that internal auditors working in organisations having more than 1,001 employees (larger organisations) have lower means for internal whistleblowing (refer Table 3). Although multiple regression results showed the expected negative relationship between the size of organisation and the likelihood of internal auditors' whistleblowing intentions across three out of four vignettes, the results are not significant in all the vignettes and as such, failed to support the notion of Latane and Darley's (1968) "diffusion of responsibility". The result showed that size of organisation was not strongly associated with whistleblowing, and this is similar with the findings in other previous studies (see Barnett, et al., 1993; Mesmer-Magnus & Viswesvaran, 2005; Read & Rama, 2003; Rothwell & Baldwin, 2006, 2007a, 2007b). These prior studies however, did not acknowledge the concept of "diffusion of responsibility" in developing their hypotheses. One possible explanation for such insignificant outcomes resulting in this study could be due to the type of wrongdoings portrayed in the vignettes. As highlighted by Latane and Darley (1968), the term "diffusion of responsibility" is used to explain the likelihood a person (the whistleblower) would intervene in an emergency situation. Although these internal auditors acknowledged that such wrongdoings in some vignettes were regarded as serious, to them, the situations in the vignettes may not be regarded as emergency situations that require immediate solutions. Whistleblowing is a complex phenomenon and internal auditors in this study would necessarily examine various internal measures before taking further actions. Furthermore, Latane and Darley (1968) stated that the decision process for whistleblowing behaviour goes through five steps and each step is critical in making the whistleblowing decision. The five-step processes showcased such tedious ethical decision-making that is required to be made prior to the decision to internally whistleblow and also highlighted the dilemmas that could be faced by these internal auditors in mitigating the so-called "emergency situation".

Hypothesis 3 proposed that internal auditors holding higher managerial positions are more likely to internally whistleblow than those in lower level positions. Results from the descriptive statistics showed that a majority of internal auditors who are willing to whistleblow in all four vignettes came from the "Higher than managers" group level (refer Table 5.3). However,

multiple regression results demonstrate a significant relationship between internal auditors' job level and their internal whistleblowing intentions only in Vignette 1. Again, this could be due to status of wrongdoer represented in the vignette is lower. The reason for such insignificant outcomes in the other three vignettes could be due to several reasons. Rothschild and Miethe (1999) argued that contrary to the general expectations, whistleblowing by higher job levels may be seen as a retaliatory action as their acts are seen as a serious violation of normal company loyalty norms. Furthermore, Fritzsche (1988) reasoned that though higher job levels are more likely to undertake sound ethical decisions, they actually have lower ranking in organisational power structure. As such, this brings us back to the notion of power theories by Miceli et al., (2008) and Near and Miceli (1995) earlier. Even though whistleblowing represents an influence process (Near & Miceli, 1995), it is however, not influential to those in higher rankings of organisational power structure (higher management levels). Though internal auditors may be said to have the credibility and knowledge to react, they may be not able to persuade those of higher ranking levels to agree to such action. These outcomes actually validate the kind of dilemmas that the internal auditors are currently facing.

Situational Factors

As discussed earlier, a number of studies have examined, and consistently provided evidence that seriousness of the wrongdoing is the primary predictor of individual whistleblowing intentions (e.g. Ayers & Kaplan, 2005; Curtis, 2006; Schultz, et al., 1993; Taylor & Curtis, 2010). This finding was consistent with previous research and showed that it is the best predictor of internal auditors' internal whistleblowing intentions in all the vignettes. Internal auditors who perceived the wrongdoings to be more serious were more likely to report these behaviours than internal auditors who perceived the wrongdoings to be less serious.

As with status of wrongdoer, Hypothesis 5 posits that internal auditors would be less likely to whistleblow on a more powerful wrongdoer compared to a less powerful one. Descriptive results indicated that status of wrongdoers in Vignette 3 was rated as very powerful ($M = 4.68$) and this is followed by Vignette 4 ($M = 4.41$), Vignette 2 ($M = 4.09$) and Vignette 1 ($M = 3.07$) respectively. Although the beta direction in Vignettes 3 and 4 was as

expected (negative signs), the multiple regression results however, showed that only Vignette 2 indicated such a relationship as significant (only at 10% level). The wrongdoer in this vignette holds only a lower organisational position in their organisation (i.e. Production Manager, as opposed to CEO or CFO as in Vignettes 3 and 4). The results showed that internal auditors are more likely to whistleblow on less powerful wrongdoers. This is in contrast to findings from previous studies (e.g. Cortina & Magley, 2003; Miceli, Near, & Schwenk, 1991). These internal auditors acknowledged that powerful wrongdoers have significant control in their organisations in terms of resources as well as having the required technical and management skills. Hence, it is not easy for the internal auditors to terminate wrongdoing conducted by these powerful wrongdoers in their own organisations due to fear of many forms of negative consequences, including retaliation.

Conclusions

This is the first study that has tested whistleblowing decision making process among internal auditors in Malaysia. The study examined seven type of variables in three categories of factors: demographic, organisational and situational variables. The findings from this study reveal that each type of wrongdoing portrayed in each vignette is unique and that the internal auditors' ethical behaviour is case specific. This conforms to Miceli, Near, and Schwenk's (1991) suggestions that organisational members have different reactions to different types of wrongdoing. The study provides preliminary evidence of internal auditors' ethical behaviour and shows that generally whistleblowing behaviour among Malaysian internal auditors is consistent with the theory of prosocial behaviour.

As in any whistleblowing studies, this study is not without its own limitations. First, the most obvious shortcoming of the current study is the use of self-reported data to determine internal auditors' internal whistleblowing intentions. All data were obtained from one source – the respondents. This may raise some concerns regarding the validity and generalisability of the findings. Some respondents may perceive themselves as being bolder, more ethical or more capable than others. However, Miceli and Near (1984, p. 703) highlighted that, “although self-reported data may be flawed, it is not known how better data can be obtained practically”. Chiu (2003) has also

suggested that it is difficult to find a second source of information about an individual's ethical behaviour, one that is neither distorted nor biased. As the study relied upon the perceptions of internal auditors, the usefulness of the results depend entirely upon the accuracy and honesty of the self-reported data. As such, the decisions for internal auditors to whistleblow is a personal experience that can only be captured through enquiring their intentions. Second, the study utilised a "set of vignettes" approach to investigate the respondents' internal whistleblowing decisions. Although scenarios or vignettes are said to be the most widely used approach in ethics research (O'Fallon & Butterfield, 2005), the use of hypothetical vignettes carries with it further limitations. While the use of a vignette approach allows one to address potentially sensitive issues by presenting the issues hypothetically (Alexander & Becker, 1978; Morris, Rehbein, Hosseini, & Armacost, 1995), respondents may feel free to indicate their intentions with no real commitment to the actual behaviour. This may then lead to the social desirability bias problems. Third, researchers have acknowledged that whistleblowing is a function of many different individual, organisational and situational variables (G. King, 1999; Miceli & Near, 1988; Near & Miceli, 1985). As this study only explores certain variables, further studies need to be conducted in examining other potential variables that may enhance internal auditors' internal whistleblowing intentions.

The results of the current study imply that internal auditing profession ought to be regarded as internal whistleblowers, in order to mitigate organisational wrongdoings. As in most social studies, the results of this study also revealed the need to expand current knowledge and to explore the influence of additional factors involved in internal auditors' internal whistleblowing decisions.

Appendix

Vignette 1

Last week, you overheard a Marketing Executive, talking to his colleague about taking paid time off (PTO) and how he did not report it to his manager. The Marketing Executive even mentioned to his friend that his manager will not likely follow up on the missed work time.

You know that this behaviour is against company policy and is facilitated by inconsistent management practices in your organisation. You know that as long as the Marketing Executive's manager is unaware of his behaviour, he will continue to take PTO without reporting it.

Vignette 2

While auditing the stock purchases you discover that the Production Manager insists on paying one of the suppliers in cash only. When you ask the Production Manager about this situation he explains that he is able to negotiate discounts by paying for the goods in cash.

However, upon further investigation you discover that the Production Manager is in fact overstating purchases from this supplier and taking the money for himself. The transaction has gone unnoticed because of weak internal controls and the close relationship between the Production Manager and the Managing Director. You estimate the amount of the cash misappropriated in the current year to be RM12,000.

Vignette 3

During the audit of trade receivables, the accountant told you that the Chief Executive Officer (CEO) of your company has requested him to reduce the estimate for doubtful debts in order to increase reported income. The CEO argued that it is a common practice in the industry when times are hard.

Historically, the company has made very conservative allowances for doubtful accounts, even in bad years. The CEO's request would make it one of the least conservative in the industry. In order to satisfy the request by the CEO, the accountant makes the adjustment.

Vignette 4

In the current year's financial audit, you discovered a substantial amount of unrecorded liabilities. You consulted the company's Chief Financial Officer (CFO) to discuss the matter, however he argues that the amount is immaterial and therefore it is unnecessary to make adjusting entries to the financial statements. The CFO believes that he should know as well as anyone what financial statement readers would or would not deem to be material.

You feel that the amount is material and the financial statements should be adjusted accordingly, however the CFO is firm with his decision as he explains that the adjustment will affect current year' bonus payments to all employees of Jackson Manufacturing Bhd.

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