Whistleblowing Incentives – A Way to Fight Bribery?

Dr. Dr. Fabian Teichmann
Attorney-at-Law and Public Notary
Teichmann International (Schweiz) AG

Abstract

Corruption continues to dominate the business world in Easter Europe. Multinational corporations are legally obliged to prevent their employees from paying bribes. However, not all employees are willing to stick to the rules. Hence, additional control mechanisms seem to be needed. This article discusses whether whistleblowing incentives could help to combat bribery in multinational corporations.

Keywords: Bribery, Incentives, Whistleblowing, Compliance.

Introduction

Ideally, employees of multinational corporations could partially solve the conflict described by agency theory—namely, information asymmetry—by reporting one another's wrongdoings to an internal or external office established by the principal. "Whistleblowing" is described as complaining either publicly or within an organizational framework about a corporation's unethical practices (Larmer, 1992: 125). It has further been defined as "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 affect action" (Near & Miceli, 1985: 4). Whistleblowing is also classified as a social act, in which one party observes a second party's wrongdoing and reports it to a third party (Near & Miceli, 1996: 508). Ultimately, it is prospectively a valuable element of anti-bribery systems in multinational corporations.

Whistleblowers are usually individuals who have access to private information, are highly motivated, and are willing to accept the idea that they will be viewed as a traitor or hero (Jensen, 1987: 321). Through their observations of how bribes are paid and their reporting such behavior to an internal or external ombudsman, bribery can be effectively combatted. That is, whistleblowing could help to solve the agency theory problem described above.

Unfortunately, not all employees are happy to blow the whistle. Many of them are presumably afraid of jeopardizing their career chances (Miceli & Near, 1984: 703). Several predictors and obstacles of whistleblowing have been identified in the literature (Near & Miceli, 1996: 512). While it is valuable to be aware of all of these predictors and obstacles, only a few of them can be influenced by multinational corporations in the short and medium term.

Thus, the subsequent analysis emphasizes which factors are likely to increase or decrease whistleblowing in multinational corporations, and then focuses on analyzing those that can be actively influenced. In light of the study questions, particular

attention to monetary aspects will be paid. In addition, obstacles that should be taken into account when designing whistleblowing systems will be briefly analyzed. Last but not least, potential ways of overcoming these obstacles will be suggested.

Predictors of whistleblowing

Whistleblowing characteristically consists of at least four elements: a whistleblower, the act of blowing the whistle, the entity that receives the complaint, and the organizational framework and structure (Near & Miceli, 1985: 2; King, 1999: 325 f.). In addition, it can be argued that the type of wrongdoing, the corporation's size, the evidence provided, and the motive and the outcome of the complaint should also be taken into account (Near et al., 2004: 236; Barnett, 1992: 949 f.; Chiu, 2003: 65; Jubb, 1999: 78). Multinational corporations can only influence these elements up to a certain point. While they can optimize procedures for receiving and optimally handling complaints within a suitable organizational framework, they can only influence whistleblowers and the act of blowing the whistle in a very limited way.

Multiple variables that can determine whether the whistle is going to be blown or not have been identified. Generally speaking, employees are more likely to blow the whistle if they have solid evidence of a serious wrongdoing that directly affected them (Miceli & Near, 1985: 525 f.). However, other factors also play a crucial role, and differentiation can be made between predictors that determine how likely someone is to blow the whistle, the whistleblower's thought process when evaluating actions and deciding whether to report them, and the organization's ways of dealing with such reports. The subsequent analysis takes this scheme into account, and analyzes predictors before discussing a whistleblower's evaluation process and the organization's reactions.

Several factors that could predict whistleblowing activities have been identified. For example, personality traits, moral views, demographic characteristics, and job situation characteristics seem to play a crucial role in determining whether an employee is going to blow the whistle or not. Personality characteristics include but are not limited to intolerance for ambiguity, levels of self-esteem and self-monitoring, and an employee's external locus of control (Near & Miceli, 1996: 512). While the literature on these personality characteristics' impact on the whistleblowing process is certainly interesting, it is of limited use for the purpose of this study. After all, multinational corporations in this situation are dealing with the employees who are already working for them, and cannot base their future hiring process on choosing ideal whistleblowers either.

Moral and demographic issues also seem to play a role in prompting employees to blow the whistle. That is, employees can be influenced by their moral judgement, their individual opinion about whistleblowing, or their religious and social views. Furthermore, age, education, and gender appear to influence employees' predisposition to blow the whistle (Near & Miceli, 1996: 512; Sims & Keenan, 1998: 416). Again, these predictors are valuable to be aware of but not the sole key to significantly increasing whistleblowing in multinational corporations. After all, morals and demographics are given factors in most multinational corporations and

can only be adjusted over significant periods of time.

Job situation characteristics also determine whether employees blow the whistle or not. These aspects can be divided into monetary and non-monetary job situation characteristics. For instance, both an employee's supervisory and professional status as well as their role responsibility seems to influence their decision to blow the whistle (Near & Miceli, 1996: 512). Again, these aspects are interesting but of limited use when attempting to increase anti-bribery whistleblowing in multinational corporations. After all, one cannot simply adjust all potential whistleblowers' professional statuses or role responsibilities.

Indeed, all of these personality traits, moral views, and demographic characteristics can only be influenced up to a certain extent. While multinational corporations could certainly take these aspects into account when recruiting new employees, they cannot be the only determining factors when deciding whether to hire someone or not—firms require expertise and cannot base their hiring process on recruiting whistleblowers.

On the other hand, while the above-outlined predictors for whistleblowing are of little use because they can only be adjusted to a limited extent and over long periods of time, there are factors that can be changed in the short term. Interestingly for the purposes of this study, it has been found that monetary job situation factors, such as pay, pay satisfaction, and pay equity satisfaction, also play a determining role when people decide whether to blow the whistle or not (Near & Miceli, 1996: 512). Moreover, while the overwhelming majority of the above-mentioned factors can only be influenced to a certain extent by multinational corporations, pay and so also pay satisfaction and pay equality can indeed be adjusted by companies.

However, employees are sensitive to other factors too, and, while pay could be an important element of a successful anti-bribery whistleblowing system, employees who fear that their career could be jeopardized are less likely to blow the whistle (Miceli & Near, 1984: 703). Hence, creating sufficient levels of job security and assurance in the confidential treatment of reports is essential.

In addition, prosocial factors may determine whether employees blow the whistle or not. Particularly, young employees with high socioeconomic status and a supervising role in an organization who observe serious misbehavior of a low-status violator of the rules are likely to blow the whistle (Dozier & Miceli, 1985: 832). Once again, though, such factors cannot be easily adjusted in order to increase anti-bribery whistleblowing in multinational corporations.

Cultural factors seem to play a role as well (Tavakoli et al., 2003: 56 f.; Park et al., 2008: 930 f.). For instance, it may make a difference whether a culture is shaped by Confucianism or by collectivism (Park et al., 2005: 388), and it has been suggested that whistleblowing could be a more effective control mechanism in Australia than in India or China due to cultural differences too (Patel, 2003: 90). Such differences should presumably be taken into account when designing whistleblowing systems.

In conclusion, multiple predictors of whistleblowing have been identified in the literature. However, these predictors, which include personality traits and demographics, are of limited use for both this study and in multinational corporations. After all, they can only be influenced up to a certain extent. Hence, there is a need for further analysis when it comes to increasing anti-bribery whistleblowing.

The idea of fostering anti-bribery whistleblowing can be approached from two different angles: obstacles to whistleblowing need to be analyzed and overcome, and incentives for whistleblowing should be created. Both are covered in the sections that follow.

Obstacles to whistleblowing

Whistleblowing is not just determined by predictors such as personality traits and demographic characteristics. Employees seem to go through a careful evaluation process before initiating a report, a process featuring potential obstacles and that can be divided into several steps, as follows.

First, whistleblowers seem to evaluate whether the actions that they are considering reporting are illegal, immoral, or illegitimate. Their decision whether to report such actions depends on their individual values, the available evidence, and the degree of conflict with organizational standards (Near & Miceli, 1985: 5). During this first phase, the degree of illegitimacy is evaluated. Note that, if the employee holds unethical values, they could potentially fail to recognize the undesirability of certain actions.

Secondly, whistleblowers seem to evaluate whether the actions that they consider to be immoral, illegal or illegitimate should be reported. In making this decision, they apparently take the potential impact of the observed activity as well as the potential reaction to the whistleblowing report into account. In addition, employees presumably do not ignore the personal costs of blowing the whistle and will assess their alternative employment opportunities. Ultimately, the observer's personal traits and characteristics, such as his or her age or levels of self-esteem, seem to play an important role in determining the decision for or against a whistleblowing report (Near & Miceli, 1985: 5). Hence, if an employee has the impression that they will incur excessive personal costs, they could abstain from blowing the whistle.

In fact, the fear of retaliation could pose a massive threat towards whistleblowing. The chances of retaliation appear to depend on the characteristics of the employee who blows the whistle, the means of reporting wrongdoing, situational and environmental factors, and the characteristics of the person being reported (Mesmer-Magnus & Viswesvaran, 2005: 282). In this context, a lack of anonymity can play an important role (Elliston, 1982: 170): that is, employees who have to fear retaliation are less likely to report undesirable behavior.

Retaliation can take many forms, including "encompassing," "discharging," "suspending" or "harassing" (Dworkin, 2007: 1762). Organizations tend to base their decision regarding whether the whistleblower should be penalized or not on their dependence on the employee in question, the legitimacy of the charge, and the alternatives to the reported activity (Near & Miceli, 1985: 5). However, retaliation could undermine the legitimacy of the entire whistleblowing system and hence become a significant obstacle.

During the next phase, organizations evaluate how to handle the report. Multinational corporations seem to assess both the potential costs associated with inaction and the alternative options to the reported activity (Near & Miceli, 1985: 5). In this context, it is important to take all necessary steps to discover the truth and take adequate legal

steps in order to avoid depriving the whistleblowing system of its credibility, which could pose a significant obstacle to future whistleblowers.

Throughout this entire process, multinational corporations typically face an ethical dilemma: they have to protect both the whistleblower and the alleged wrongdoer (Barnett et al., 1993: 128). After all, whistleblowers should not be discouraged from reporting undesirable actions, but one can also not simply take repressive measures against the wrongdoer without having thoroughly analyzed the case. This can lead to unpleasant situations, especially when the alleged wrongdoer is the whistleblower's supervisor.

Another common obstacle is if the organization depends or seems to depend on the wrongdoing (Near & Miceli, 1995: 683). For instance, anti-bribery whistleblowing reports could be unpopular in companies that base their sales in certain regions of the world on the payment of significant bribes. In these cases, multinational corporations might not even wish to eliminate the ostensibly illegal behavior. This scenario could be even worse if significant capital market pressure forces the management to deliver extraordinary results. In addition, rapid growth, past performance, and firm reputation can pose a threat to whistleblowing (Bowen et al., 2010: 1244 f.). However, it should be noted that, for most companies, compliance now seems to be a priority, and it is questionable whether corporations would still choose to depend on wrongdoing.

Additionally, a lack of convincing evidence of wrongdoing and a weak legal foundation for a report can also pose significant obstacles to whistleblowing (Near & Miceli, 1995: 683). In many cases, employees may be aware of wrongdoings but they might not have access to the evidence proving their accusations. In such circumstances, filing a report will be associated with a definite uncertainty for these employees.

Unclear internal communication channels and excessive loyalty toward corporations can also prevent potential whistleblowers from filing a report (Bowen et al., 2010: 1245; Duska, 2007: 158). For instance, if employees do not know to whom they can report undesirable behavior, they might simply abstain from blowing the whistle. A lack of discrete and reliable internal communication channels could therefore pose a significant obstacle to whistleblowing. Similarly, employees who are overly loyal to their company might abstain from reporting illicit behavior due to a (false) belief that, in doing so, they could damage the corporation.

Overcoming obstacles

The above-outlined obstacles to whistleblowing have to be overcome. Due to the large variety of obstacles described, a multidimensional approach is going to be suggested. While this study focuses on incentive systems, it is also emphasized that simply paying a bonus for valid whistleblowing reports is most likely not going to be sufficient. Therefore, complementary measures will also be described, highlighting that several aspects need to be taken into account when fostering anti-bribery whistleblowing in multinational corporations.

First, wrongdoing needs to be clearly defined (Miceli & Near, 1994: 66). Then, a climate that supports whistleblowing, simplified bureaucratic processes, low organization,

and a culture of ethics need to be created in order to overcome the above-mentioned obstacles (Near & Miceli, 1995: 683; Kaptein, 2011: 513).

The way whistleblowing reports are handled depends on several factors. Organizations seem to take characteristics of a whistleblower, such as credibility and power, into account. In this context, anonymity could interact with credibility. However, the accused wrongdoer's credibility, accountability, and power also seem to play a crucial role (Near & Miceli, 1995: 682; Berry, 2004: 5).

It should be kept in mind that whistleblowing is only beneficial when the report is valid and effectively handled. Hence, the whistleblowing report should result in one or more positive changes (Near & Miceli, 1995: 679), during which process, several potentially conflicting interests need to be balanced. That is, the whistleblower's interests, the wrongdoer's rights, the organization's needs, and society's expectations should all be taken into consideration (Dworkin & Callahan, 1991: 268), and the integrity of the whistleblowing process needs to be ensured at all stages.

An organization's willingness to change and its support for either the whistleblower or the wrongdoer both significantly impact the potential termination of wrongdoing as well as future organizational performance. These factors also affect the organization's control of external factors (Near & Miceli, 1995: 682). Accordingly, early detections and interventions appear to be beneficial (Zhang et al., 2009: 37).

Additionally, as discussed above, whistleblowing decisions are also influenced by monetary aspects, in the form of pay (Near & Miceli, 1996: 512). Hence, it is reasonable to assume that monetary incentives could increase the number of employees willing to blow the whistle when they observe wrongful behavior (Callahan & Dworkin, 1992: 284). In particular, whistleblowing incentives could help to compensate for the personal costs incurred by reporting undesired behavior (Teichmann, 2017: 1 pp.).[1]

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