“Importance of Corporate Governance with Special Reference to Whistle Blowing Mechanism”

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INTRODUCTION

The beginning of the twenty-first century was marked by the emergence of corporate governance, as a solution to the collapse of several high-profile corporations. Corporate governance in India is popularized after the 1990s after the new economic policy and later the collapse of gigantic firms’ reason of misdoings and fraudulent activities. The basic issue behind corporate governance is the separation of ownership and control. Whistle blowing mechanism is a tool to expose misgovern activities in the corporate and bridges the gap between the problem of separation of ownership and control and make the transparency in the company at the maximum possible extent. This paper deals with importance of corporate governance with special reference to whistle blowing mechanism.

KEY WORDS

- Corporate governance
- Whistle blowing
- Whistle blower

STATEMENT OF THE PROBLEM

Now a days’ stakeholders’ interest and trust upon companies are down because of misdoing by the companies. Corporate governance is a pivot element to overcoming these wrong doings and whistle blowing mechanism in corporate governance is a best practice against these problem. However the companies are not given much attention to the protection of whistle blowers and they fear being victimized, retaliation in form of retrenchment from job, demotion in the career and prosecuted due to the disclosure of sensitive and confidential information etc. in this respect there is a need to understand the importance of whistle blowing mechanism in companies and also understand how they act in companies.

OBJECTIVES

- To study the concept of whistle blowing mechanism.
- To understand the benefits of whistle blowing mechanism.
- To examine the role of whistle blowing mechanism in corporate governance.

METHODOLOGY

- The study is exploratory in nature.
- This study is based on the information collected from various secondary source.

RELEVANCE OF THE STUDY

This study will help to understand the importance of whistle blowing mechanism in companies in the light of increasing lack of transparency and fraudulent activities in the corporate world with an objective of
protection of whistle blowing mechanism and ensure corporate transparency.

WHISTLE BLOWING MECHANISM

- It means speaking out on malpractices, corruption, misconduct or mismanagement.
- It involves the act of reporting wrong doing within an organization to internal and external parties.
- It is raising a concern about malpractices within an organization or through an independent structure associated with it.

WHISTLE BLOWER

- A whistle blower is an employee, former employee, or member of an organization, especially a business or government agency.
- The person who reports misconduct to people or entities that have the power and presumed willingness to take corrective action.

Termed ‘internal’ when employee airs his complaint internally and ‘external’ when an employee blows the whistle outside the organization e.g. to media or a regulator body.

THE KEY ASPECTS OF FOUNDATION OF WHISTLE BLOWER POLICY

- Clear definition of individuals covered by the policy.
- Non retaliation provision.
- Confidentiality.
- Process.
- Communication.

BENEFITS OF WHISTLE BLOWING

- The presence of honesty allows for complete dedication to the organization’s mission and success.
- Increases the safety and well-being of organization.
- Protect before falling into insolvency.
- Protect the interest of all the stakeholders
- Strengthen organization’s code of ethics.
- Reduce organizational waste and mismanagement.
- Improve employee morale.
- Effective risk management.
- Ensure internal control.
- Help to discover insider trading.
- Resulting positive environment.
- Enhancing organization culture.

HOW WHISTLE BLOWING MECHANISM ENSURE GOOD CORPORATE GOVERNANCE

- System of internal control.
- Procedures through appropriate channel avoid reputational damage.
- Maximize shareholder value through better business practice and culture.
- Transparency in policies and procedures.

Enhances accountability

WHISTLE BLOWERS REPORT ON FOUR TYPES OF MISCONDUCT
 Illegal or unlawful conduct such as theft, fraud, bribery or money laundering.

Non Procedural conduct occurs when policies, rules or regulations in an organization violated.

Unethical conduct such as integrity, respect, honesty, responsibility and fairness.

Wasteful conduct occurs when resources are spent in a wasteful manner.

Some of the instances of unethical practices/improper activities adopted by certain organizations, which is required to be reported or for which whistle should be blown are

- Insider trading.
- Lack of independence of auditors.
- Financial statement misrepresentation.
- Lack of proper internal control.
- Lack of independence of board/committees.
- Improper director remuneration charges.
- Corruption.
- Fraud.
- Theft.

FINDINGS

- Active whistle blowing can protect the organization’s clients.
- It helps to expose fraud, misdoing, financial statement misrepresentation etc.
- It helps to enhancing transparency in the organization.
- Without whistle blowing mechanism fraud, misconduct and failure may dominate in organization.
- It serves an early warning system that reveals wrong doings before they turn into damage, abuse or illegality.
- It act as an anti-corruption tool.

SUGGESTION

- Create and publicize a whistle blowing policy.
- Top management must demonstrate the inclusion of whistle blowing in the culture.
- The organization’s commitment to whistle blowing must be emphasized and promoted.
- The management must give much attention to the protection of whistle blowers.
- Follow through a complete investigation after a whistle blowing event.

CONCLUSION

Today with scandals like Satyam, Enron, Worldcom need for more ethical governance has arisen. Whistle blowing has already been described as one of the basic tenets of corporate governance. If this tool of corporate governance is used in true letter and spirit, it can be saviour for protecting the stakeholders and the larger public interest. It can be success factor for survival of corporate, build their
brand image, which will support in raising funds. It can be effective tool in detecting and reporting corporate frauds, which earlier used to go unreported.

REFERENCE


