

Employee Ethics and Corporate Governance: Evaluating Internal Whistleblowing Mechanisms

Cheng-Wen Lee¹ and Pei-Tong Liu²

Abstract

Unethical incidents occurring across domestic and international organizational contexts have underscored the vital role of employee ethical behavior in enhancing the integrity and effectiveness of corporate governance. Despite global advancements in enacting protective legislation to encourage ethical conduct and safeguard whistleblowers, Taiwan's regulatory framework in this domain remains relatively underdeveloped. High-profile cases of workplace bullying and the growing prominence of ESG (Environmental, Social, and Governance) standards have amplified public and institutional scrutiny of corporate ethical practices, reinforcing the urgency of strengthening ethical governance mechanisms. This study seeks to address existing gaps in the literature by developing a comprehensive conceptual framework that integrates insights from cognitive-behavioral theory, government-led governance evaluation mechanisms, and internationally recognized measurement instruments. By shifting the analytical lens from a traditionally legalistic focus to an interdisciplinary approach rooted in psychology and the social sciences, the research investigates the complex interplay between employee ethical behavior, the design and implementation of internal whistleblowing systems, and the effectiveness of protection mechanisms. It examines how these elements collectively contribute to the transparency, accountability, and overall ethical climate within organizations. Moreover, this study emphasizes the need for tailored approaches to governance assessment, recognizing that ethical behavior and whistleblowing dynamics may vary significantly across sectors. Such efforts would contribute to the development of more robust institutional frameworks and policy recommendations aimed at fostering a culture of ethical accountability and safeguarding moral conduct in organizational settings.

¹ Department of International Business, College of Business, Chung Yuan Christian University. Taoyuan City, Taiwan.

² Ph. D. Program in Business, College of Business, Chung Yuan Christian University. Taoyuan City, Taiwan.

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1. Introduction

The Enron case is particularly well-known in the financial history of the United States. This financial crime may have gone unnoticed if it hadn't been for the internal whistleblowers who exposed the wrongdoing. The fallout from this case not only impacted Enron itself but also influenced government regulations and measures. Similar cases and protection systems for reporting misconduct through internal whistleblowing exist not only in the United States but also in Europe.

The internal whistleblower system plays a crucial role in enhancing corporate governance by providing checks and balances (Stubben and Welch). Additionally, in today's climate of corporate sustainability and emphasis on Environmental, Social, and Governance (ESG) criteria, ethical behavior among employees is vital for the integrity and effectiveness of corporate governance. This behavior is instrumental in promoting transparency, maintaining the company's reputation, and mitigating potential risks. Employees' ethical actions reflect workplace ethics and personal values, which are closely tied to the company's overall reputation. This reputation ultimately affects the trust of external investors and other stakeholders.

Recently, there have been numerous reports in Taiwan about illegal violations committed by various organizations, including government bodies and businesses (Winn, 1994; Ip, 2008; Kuo, 2018). Many employees who have suffered from long-term workplace bullying feel too scared to speak out and have experienced significant physical and mental distress. In some instances, employees have been treated poorly after raising concerns through internal channels. As a result, many choose to act as whistleblowers by reaching out to reporters or outside entities instead of using internal reporting mechanisms.

There is a widespread lack of confidence in these internal systems, which are meant to provide a platform for individuals to report inappropriate behavior and address potential issues within the company through an internal monitoring mechanism. However, without comprehensive protection measures in place, whistleblowers face various risks, including retaliation, social isolation at work, and hindered career advancement. Therefore, establishing an effective reporting system and improving protective measures for whistleblowers has become a critical issue in corporate and government governance that cannot be overlooked.

The prolonged delay - now exceeding seven years - in enacting Taiwan's whistleblower protection law has contributed to the persistence of workplace bullying, corporate misconduct, and a lack of safeguards for whistleblowers. The absence of comprehensive protection measures has hindered ethical accountability within organizations. In light of the increasing frequency of workplace violations and ethical breaches, the government is currently reconsidering legislative action.

This study aims to identify the key factors that effectively enhance corporate

governance by examining the interrelationships among employee ethical behavior, internal whistleblowing systems, and protection mechanisms. Through this investigation, it seeks to address existing empirical gaps in the literature and provide actionable insights for strengthening governance frameworks. Specifically, the study explores the pivotal role of employee ethical behavior in shaping governance outcomes, with a focus on the design and effectiveness of internal whistleblowing systems and the protective mechanisms that support them. It investigates whether well-structured and effectively implemented whistleblowing systems can encourage employees to report unethical or inappropriate conduct without fear of retaliation. By analyzing the dynamic interplay between ethical behavior, whistleblowing infrastructure, and protection mechanisms, this research endeavors to offer a comprehensive understanding of how organizations can cultivate a transparent and accountable corporate culture conducive to long-term governance effectiveness. The conceptual foundation of this study is illustrated in Figure 1.

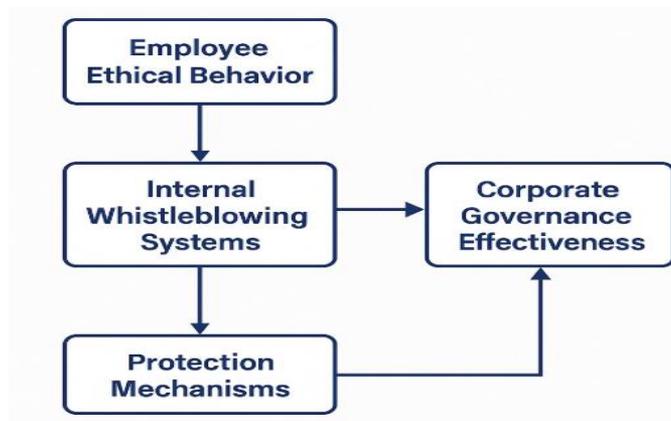


Figure 1: The Conceptual Foundation of This Study

Therefore, this study examines how employee ethical behavior, particularly whistleblowing, serves as a critical mechanism for enhancing corporate governance by improving organizational transparency, reinforcing regulatory compliance, and cultivating an ethical corporate culture. It underscores the centrality of internal whistleblowing systems as formalized channels through which employees can report misconduct, thereby promoting organizational accountability and deterring unethical practices. The effectiveness of such systems, however, is heavily contingent upon the presence of robust protection mechanisms. These safeguards are essential for building employee trust, ensuring confidentiality, and mitigating the risk of retaliation, all of which are vital to encouraging ethical disclosures.

By integrating theoretical perspectives with practical insights, this research seeks to deepen corporate managers' and policymakers' understanding of the pivotal role that employee ethics play in advancing good governance. It also aims to generate

evidence-based, actionable recommendations for both corporations and regulatory bodies striving to uphold higher ethical standards and enhance the efficacy of governance frameworks. The study specifically focuses on the internal whistleblowing system and associated protection mechanisms as central mediating and moderating factors in the relationship between employee ethical behavior and corporate governance effectiveness. It addresses three core dimensions: (1) the critical influence of employee ethical behavior in supporting effective corporate governance practices; (2) the design, structure, and operational function of internal whistleblowing systems in facilitating ethical conduct and disclosure; and (3) the role of protection mechanisms in reinforcing whistleblowing efficacy and safeguarding whistleblowers.

Drawing on an extensive review of the literature, comparative analysis of international regulatory frameworks, and evaluation of best practices from leading foreign corporations, the study explores the interrelationships among these elements. The ultimate goal is to construct a comprehensive theoretical framework that elucidates the dynamics between ethical behavior, whistleblowing infrastructure, and protection measures, thereby contributing to scholarly discourse and offering practical guidance for strengthening ethical governance and organizational accountability.

2. Literature Review

2.1 Employee Ethical Behavior

Before discussing the meaning of ethical behavior among employees, it is important to clarify what ethical behavior encompasses. Morality is described as the values, social opinions, traditional customs, and sentiments that arise from a specific society or community (Dahl, 2023). This belief system shapes how individuals evaluate and manage their interactions with others, providing standards that help differentiate between good and evil, honor and disgrace, as well as legitimacy and injustice. By establishing particular standards of conduct, morality governs interpersonal relationships and personal behavior. In doing so, it regulates social interactions and, together with the law, maintains order in social life. Ethical considerations influence various aspects of society, including social ethics, marriage and family ethics, and professional ethics. The definitions of employee ethical behavior are summarized in Table 1.

Table 1: The Summary of Employee Ethical Behavior

Aspect	Summary Description
Definition of Morality	Morality involves values, social norms, traditions, and sentiments shaped by a specific society; it guides how individuals distinguish between right/wrong and regulate social interactions (Dahl, 2023).
Ethical Behavior (General)	Ethical behavior refers to actions guided by moral standards in various social contexts, including professional settings.
Definition of Employee Ethical Behavior	Refers to ethical conduct within the workplace, influenced by organizational norms, values, and goals (Chen & Liu, 2024).
Core Elements of Employee Ethics	Includes acting with integrity, complying with company policies, and dealing with ethical dilemmas honestly (Evans, Trevino & Weaver, 2006).
Theoretical Framework	Rest's (1994) Moral Decision-Making Model: moral cognition → moral judgment → moral intention → moral behavior.
Influencing Factors	<ul style="list-style-type: none"> - Individual level: personal values, moral perception - Organizational level: ethical climate, norms, policies, compliance - External level: laws, regulations, societal expectations.
Scope of Ethical Behavior	Involves professional ethics, fulfilling job duties, and maintaining integrity in interactions with the organization and environment.
Measurement Tools	Few established scales; most are perception-based and assess attitudes toward ethical decision-making.

Employee ethical behavior specifically refers to the aspect of an employee's conduct that relates to ethical practices in the workplace. When you are employed, you inevitably interact with your organization, industry, or environment. The definitions and explanations of ethical behavior can vary in both domestic and international literature. According to Chen and Liu (2024), employee ethical behavior is shaped by the norms established by the organization based on its values and goals. Employees then use these norms as a basis for assessing the correctness of their actions.

Employee moral behavior is a crucial aspect of corporate ethics; however, previous research has often focused on more dependent variables, fewer independent variables, and has included limited studies on corporate governance. According to Evans, Trevino, and Weaver (2006), employee ethical behavior encompasses elements such as "acting with integrity," "complying with company policies," and "addressing ethical dilemmas honestly." Additionally, Rest's (1994) Moral

Decision-Making Model indicates that when individuals encounter moral situations, they must navigate through four stages: moral cognition, moral judgment, moral intention, and finally, moral behavior. These stages are necessary for producing ethical actions.

The scope of employees' ethical behavior should encompass adherence to professional ethics and the diligent fulfillment of work responsibilities. Given that employees will inevitably interact with their organization, industry, or environment, various factors can influence their ethical behavior, including personal values and moral perceptions. Additionally, knowledge and standards may be shaped by the organization's ethical policies, compliance status, and associated norms, as well as by external circumstances, such as laws and regulations. Therefore, employee ethical behavior is a multi-level and multi-dimensional concept influenced by the interplay of individual, organizational, and external factors.

Currently, there are not many established scales for assessing employee ethical behavior, and most existing tools focus on understanding employees' attitudes toward ethical conduct. These scales typically involve perceptual designs that provide insight into employees' potential decisions and actions.

2.2 Internal Whistleblowing Systems

Internal whistleblowers - employees who report potential issues within their company to management - are considered an essential resource for identifying and exposing wrongdoing within organizations (Stubben and Welch, 2020). Since the enactment of the Sarbanes-Oxley Act (SOX) in 2002, public companies in the United States have been required to implement internal whistleblowing (WB) systems, also known as internal reporting systems. However, the use and effectiveness of these systems are not well understood due to a lack of available data. For example, have public companies implemented internal whistleblower systems solely to comply with the Sarbanes-Oxley Act (SOX), or are these systems actively used by employees and other stakeholders? What characteristics do the submitted reports have? Are these reports restricted to accounting issues as required by SOX, or do companies gather information on a wider range of potential concerns? Which types of companies are more actively utilizing these systems, particularly those that receive a higher volume of reports, obtain more detailed submissions, and access the reports more frequently? Additionally, how effective are these systems? To improve employee reporting behaviors, organizations should place greater emphasis on the reflection process that employees undergo when deciding whether to disclose knowledge of corporate misconduct (Berry, 2004). By understanding the considerations employees weigh, along with the factors that facilitate or hinder whistleblowing, organizations can gain valuable insights into how they influence this reflection process and, ultimately, whistleblowing behavior.

Organizations seeking to establish a reputation for corporate integrity can use this knowledge to develop strategies and actions that encourage internal reporting of illegal, unethical, and improper practices. The literature has examined various

variables related to whistleblowing, highlighting that an employee's decision to report misconduct - whether at an individual or organizational level - is a complex process influenced by organizational, situational, and personal factors (Miceli et al., 1987). Many studies have broadened their perspectives on this topic, as illustrated in Table 2.

Table 2: Factors Influencing Whistleblowing Decisions

Factor Category	Specific Factor	Key References	Effect on Whistleblowing
Organizational	Ethical climate and culture	Victor & Cullen (1988) Kaptein (2011)	Encourages reporting
	Existence of whistleblowing policies	Near & Miceli (1995) Park & Blenkinsopp (2009)	Increases likelihood
	Leadership support (ethical leadership)	Brown & Treviño (2006)	Reduces fear, promotes openness
Situational	Severity and impact of the misconduct	Miceli & Near (2005)	More serious = higher reporting
	Clarity of evidence	Gundlach et al. (2003)	Clearer evidence = more likely
	Perceived organizational justice	Seifert, Stammerjohan, & Martin (2014)	Higher justice = greater trust
Personal	Moral identity and personal integrity	May et al. (2003) Treviño et al. (2006)	Strong morals = higher likelihood
	Job tenure, position, or security	Mesmer-Magnus & Viswesvaran (2005)	Seniority increases reporting
	Fear of retaliation	Miceli et al. (2008) Rothwell & Baldwin (2007)	Decreases likelihood

By providing employees with a secure and anonymous channel for reporting concerns, internal whistleblowing (WB) systems enhance an organization's ability to detect issues that may otherwise remain hidden through traditional reporting or oversight mechanisms. While employees may have the option to raise concerns directly with their supervisors, many are deterred from doing so, particularly when the supervisor is implicated, when they fear retaliation, or when they prefer not to be personally associated with the complaint. In such cases, anonymity becomes a critical feature that facilitates reporting.

Moreover, internal WB systems establish a direct line of communication between employees and senior management, a conduit that may not naturally exist in many organizational hierarchies. This enables management to proactively address emerging issues before they escalate in severity or attract external attention, potentially avoiding reputational damage or financial losses.

However, the implementation of WB systems is not without challenges. Some firms may adopt these systems primarily to comply with regulatory mandates, such as those outlined in the Sarbanes-Oxley Act (SOX), without actively encouraging their use. In such instances, the system may function more as a symbolic gesture than a meaningful tool for corporate governance. Additionally, management may perceive these systems as detrimental to corporate culture, fearing that anonymous reports could undermine open communication and erode trust between employees and supervisors.

There is also concern about misuse. Internal WB systems might be exploited by disgruntled or underperforming employees - particularly those facing termination - who file unsubstantiated or frivolous complaints in pursuit of legal protections. Furthermore, the digital records generated through these systems may be viewed as legal liabilities, as they can be subpoenaed during litigation. Consequently, the actual utilization and effectiveness of internal WB systems are likely to vary significantly across firms, depending on organizational culture, leadership attitudes, and the broader governance environment.

2.3 Protection Mechanisms

Several countries have established laws and regulations related to whistleblower protection systems. In the United States, the roots of the whistleblower protection system can be traced back to the Civil War in the 19th century. During this time, some unscrupulous businessmen engaged in fraudulent activities and other illegal means to make substantial profits, resulting in significant financial losses for the government. To address these illegal activities, the U.S. Congress passed the False Claims Act (FCA) in 1863. This act aimed to combat fraud against the government and allowed whistleblowers to file "qui tam" lawsuits on behalf of the government to promote internal reporting of fraud and enhance the government's ability to fight such activities. In 1989, the U.S. Congress enacted the Whistleblower Protection Act (WPA) to safeguard whistleblowers from retaliation when they expose wrongdoing. This act encourages individuals to report abuses by providing monetary rewards and establishing comprehensive remedies to protect whistleblowers from potential retaliation in their employment.

Following major fraud cases involving companies such as Enron and WorldCom, which led to a loss of investor confidence in the financial transparency and integrity of U.S. companies, a comprehensive reform of auditing and accounting procedures was implemented to restore trust in company financial reports and to reduce the likelihood of future financial fraud. In 2002, the Sarbanes-Oxley Act (SOX) was enacted to prevent securities fraud and false accounting, as well as to strengthen

internal reporting mechanisms within companies. The law also encourages employees to report corporate wrongdoing and provides protections for whistleblowers against retaliation from employers.

In 2019, the European Union enacted the Whistleblower Directive (Directive (EU) 2019/1937). This directive requires member states to incorporate its provisions into their domestic laws by December 17, 2021. It offers protection to individuals who, during their professional activities, become aware of actions that could result in penalties or fines, violations of federal or state regulations, breaches of EU law in specific areas, or misconduct by public officials that violates their duty of loyalty to the constitution.

Whistleblowers who report relevant information to the appropriate authorities or disclose it to the public are protected under the Whistleblower Protection Act. These individuals will not face legal consequences for obtaining this information. Additionally, any form of retaliation against whistleblowers, such as unfair treatment or negative actions in response to their reports, is considered illegal (Abazi, 2020). If employers do not create an internal whistleblowing system or provide adequate protections, they may face fines. This directive requires member states to incorporate its provisions into their domestic laws by December 17, 2021. It protects individuals who, during their professional activities, become aware of actions that involve penalties or fines, violations of federal or state regulations, breaches of EU law in specific areas, or misconduct by public officials that violates their duty of loyalty to the constitution (referring to Directive (EU) 2019/1937).

Whistleblowers who report information to the appropriate authorities or make it public are protected under the Whistleblower Protection Act. They will not face legal repercussions for obtaining this information (Wahid, 2022). Additionally, any retaliation against whistleblowers, such as unfair punishment or negative actions in response to their reports, is deemed unlawful. Employers who do not establish an internal whistleblowing system or fail to provide adequate protections may face significant fines (referring to Special Research Report of the Legislative Yuan Legislative Affairs Bureau, No. 1728).

In Taiwan, protection mechanisms for whistleblowers are found in various laws and regulations, such as labor-related statutes and financial laws. These include the Labor Incident Act, the Guidelines for Preventing Unlawful Infringement in the Performance of Duty, and the Securities and Exchange Act. However, there is currently no comprehensive internal reporting system or protection mechanism in place (Lin et al., 2020).

The Ministry of Justice has completed its deliberations on the Draft of the Whistleblower Protection Act (2018), which was reviewed and approved by the Executive Yuan today. The key features of this draft are as follows:

- (1) Enhanced Protection and Strict Penalties for Whistleblowers: To maximize the protection of whistleblowers' rights and interests, each competent authority may offer additional safeguards beyond what is outlined in this draft. These enhancements can vary by professional field and agency resources, allowing for a more comprehensive and effective legal protection framework for

- whistleblowers. Additionally, to effectively deter any retaliatory actions against individuals who report fraud, severe penalties will be imposed when existing laws allow for stricter consequences. Different types of administrative penalties may also be applied concurrently (referring to Article 1 and Article 2).
- (2) Malpractice items encompass both the public and private sectors. The draft includes the disclosure of illegal activities that undermine government integrity, such as criminal acts of corruption by civil servants, which impact the national economy and the livelihood of citizens, as well as endanger public health and safety. It also addresses other crimes and violations that concern public interests. Additionally, it incorporates malpractice projects from various departments and takes into account public needs by integrating social welfare projects that address community concerns. These include areas such as labor, finance, environmental protection, social welfare (for example, reporting incidents of child abuse as required by the Child and Juvenile Welfare and Rights Protection Act), food safety, education, and land conservation, which are recognized as issues related to private sector malpractice (referring to Article 3).
 - (3) Expanding the Scope of Protection for Internal Whistleblowers. This draft emphasizes the need to protect internal whistleblowers. To broaden this protection, it will encompass various legal relationships between employees and organizations, specifically the relationships of "employment," "customization," and "appointment." All of these relationships will fall within the scope of whistleblower protection. In terms of safeguarding the right to work, the protection will not only be extended to whistleblowers who report fraud but will also include individuals who cooperate with investigations, serve as witnesses, and refuse to participate in fraudulent activities (referring to Article 5 and Article 7).
 - (4) Hierarchical Reporting Procedures. The first level implements a parallel mechanism for internal reporting. The goal of exposing fraud is not only to eliminate corruption afterward but, more importantly, to prevent it beforehand. If the internal supervisor can make immediate corrections or reviews upon receiving a report of corruption, it will be more effective in curbing the expansion or occurrence of issues. Therefore, internal supervisors, chiefs, or their designees are identified as the primary agencies responsible for accepting and reporting fraud, alongside procuratorial organs, judicial police agencies, authorities overseeing targeted industries, the Supervisory Yuan, and political institutions. Additionally, public opinion representatives and the media, which serve external supervisory functions, are categorized as the second-level agencies that accept and report fraud, acting as a corrective measure for any failures of the first level in exposing fraud (referring to Article 4 and Article 6).
 - (5) Hierarchical Reporting Procedures. The first level implements a parallel mechanism for internal reporting. The aim of exposing fraud is not only to eliminate corruption afterward but, more importantly, to prevent it beforehand. If internal supervisors can make immediate corrections or reviews upon receiving a report of corruption, it will be more effective in curbing the

expansion or occurrence of issues. Therefore, internal supervisors, chiefs, or their designees are identified as the primary agencies responsible for accepting and reporting fraud. This responsibility also extends to procuratorial organs, judicial police agencies, authorities overseeing targeted industries, the Supervisory Yuan, and political institutions. Additionally, public opinion representatives and the media, which serve external supervisory functions, are categorized as second-level agencies that accept and report fraud. They act as a corrective measure for any failures of the first level in exposing fraud (referring to Article 7).

- (6) Protection of the Right to Work and Addressing Workplace Bullying. The specific protection measures for the right to work outlined in this draft include the right to claim job restoration, wage repayment, and compensation for damages. Workplace bullying that intentionally reveals the identity of the whistleblower to exclude or isolate them will be considered an adverse personnel action. To address the potential harm caused by workplace bullying, whistleblowers will have the right to seek compensation for mental damages (referring to Article 8).
- (7) Strengthen the procedural protections for whistleblowers and introduce the amicus curiae system: Whistleblowers often find themselves in a vulnerable position during litigation. To address this, the draft proposes implementing the "amicus curiae" system, which is commonly used in common law jurisdictions. This system allows for consultation during court hearings when necessary. With the agreement of both parties, public interest groups, bar associations, trade associations, trade unions, as well as competent authorities or prosecutorial offices, can present their opinions on factual issues and legal matters. This input will provide the court with valuable references to help determine facts and apply the law effectively (referring to Article 9).

In alignment with both domestic and international laws regarding internal whistleblowing systems and protection mechanisms, employees are encouraged to report misconduct to enhance corporate governance effectiveness. This is facilitated through clear reporting channels, confidentiality, and anti-retaliation measures. The improvement and implementation of whistleblowing systems and protection measures are crucial components of corporate governance in various countries.

2.4 Corporate Governance Effectiveness

Corporate governance is a crucial aspect of modern enterprise management and is directly linked to the operational efficiency, transparency, and sustainable development of businesses. It refers to a framework of management mechanisms, policies, and oversight systems that companies put in place to safeguard the rights and interests of all stakeholders, including shareholders, employees, customers, and suppliers (Shleifer and Vishny, 1997). Corporate governance involves the supervision and control of managers, striving to balance the interests of agents (management) and principals (shareholders) to prevent managers from abusing their

power or engaging in morally hazardous behavior (Meckling and Jensen, 1976). According to the Financial Supervisory Commission's Securities and Futures Bureau Global Information Network (<https://www.sfb.gov.tw>), corporate governance is a management and oversight mechanism that guides enterprise operators in fulfilling their responsibilities. It aims to protect the legitimate rights and interests of shareholders while also considering the interests of other stakeholders. Good corporate governance means that the board of directors and management work together to achieve operational goals in a manner that serves the best interests of the company and all its shareholders. This includes facilitating corporate management and providing an effective supervision mechanism to encourage companies to efficiently utilize their resources, improve performance, and enhance competitiveness, ultimately promoting the social well-being of all. Since its introduction in 1999, the OECD Corporate Governance Principles have been widely recognized as the international standard for good corporate governance (Juiz, Guerrero, and Lera, 2014).

In the revised Corporate Governance Principles released by the OECD in 2004, six key principles were proposed to serve as a framework for establishing effective corporate governance. The latest update in 2015 introduced additional recommendations to enhance institutional investors' role and prevent insider trading. The six principles are as follows: (1) Establish a foundation for an effective corporate governance structure, (2) Uphold shareholders' rights and ensure fair treatment of all shareholders, alongside fulfilling important ownership functions, (3) Recognize the roles of institutional investors, securities markets, and other intermediaries, (4) Acknowledge the role of stakeholders in corporate governance, (5) Promote information disclosure and transparency, and (6) Define the responsibilities of the Board of Directors.

In 1998, Taiwan faced a series of corporate scandals characterized by hollowing out and fraud, compounded by significant issues related to non-performing debts among financial institutions (Lien et al., 2005). This environment pointed towards an impending financial crisis. In response to these challenges, the Financial Supervisory Commission began to emphasize the importance of corporate governance for public companies in Taiwan. Since then, it has actively promoted various corporate governance mechanisms and established standards through relevant laws and self-regulatory regulations.

The implementation of corporate governance in Taiwan depends on collaboration among the government, non-governmental organizations, and companies (Chen and Yu, 2017). Additionally, it conducts corporate governance assessments and employs other methods to enhance the corporate governance landscape. Research indicates that effective corporate governance can improve corporate performance, reduce moral hazards, and foster sustainable corporate development. However, many factors influence corporate governance, including the structure and behavior of stakeholders such as internal boards of directors, senior management, and employees. These factors are also shaped by systems and external norms, including regulations, shareholder expectations, market pressures, and cultural differences.

Relevant research is mostly related to operational performance moral hazard or whistleblower systems. Corporate governance covers the comprehensive design of corporate management, supervision, and incentive mechanisms, and is affected by a variety of internal and external factors. Relevant research shows that good corporate governance can help improve corporate performance, reduce moral hazard, and promote sustainable corporate development.

3. Propositions

3.1 Organizational Commitment and Employee Moral Cognition/Behavior

Organizational commitment (OC), defined as an employee's emotional attachment, identification with, and involvement in an organization (Meyer, Bobocel, & Allen, 1991), plays a pivotal role in shaping employees' moral cognition and ethical behavior in the workplace. Employees with strong organizational commitment are more likely to internalize the organization's values and norms, which in turn fosters higher moral awareness, reasoning, and decision-making aligned with ethical standards (Rest, 1994). Moral cognition, as the mental process of evaluating actions as right or wrong, becomes more attuned to organizational expectations when employees feel a sense of loyalty and belonging.

Studies have consistently shown a positive and significant relationship between OC and ethical conduct. For example, Valentine and Barnett (2003) found that higher affective commitment correlates with increased ethical awareness and decreased tolerance for unethical practices. Similarly, Kim and Brymer (2011) emphasized that employees who are strongly committed to their organizations are more inclined to behave ethically, as they are motivated to maintain the organization's reputation and integrity. This is supported by Social Exchange Theory, which posits that employees reciprocate organizational support and trust by adhering to moral norms and engaging in pro-social behaviors (Blau, 2017).

Furthermore, committed employees are more likely to engage in ethical voice behaviors, such as whistleblowing or reporting misconduct (Near & Miceli, 1995), as they perceive such actions as protecting the organization's long-term interests. This connection underscores the importance of fostering a supportive ethical climate that reinforces both commitment and moral behavior. In conclusion, organizational commitment significantly enhances employee moral cognition and behavior, serving as a psychological anchor for ethical decision-making. Organizations that invest in building commitment through trust, fairness, and ethical leadership are more likely to cultivate a morally responsible workforce. Therefore, we posit the following proposition.

P1: Organizational commitment is positively and significantly related to employee moral cognition and behavior.

3.2 Employee Moral Cognition/Behavior and Corporate Governance Effectiveness

Employee moral cognition and behavior play a vital role in enhancing corporate governance effectiveness. Moral cognition refers to an individual's capacity to recognize, interpret, and act upon ethical issues, while moral behavior reflects the implementation of ethical actions in organizational contexts. When employees possess high moral reasoning and engage in ethical conduct, they help build a culture of integrity, accountability, and transparency - key pillars of effective corporate governance (Brown & Treviño, 2006).

Ethical employee behavior strengthens internal control mechanisms by reducing the likelihood of misconduct, fraud, or regulatory violations. Employees who demonstrate moral courage are more likely to report unethical practices, thereby supporting whistleblowing systems and increasing the organization's ability to detect and prevent wrongdoing (Kaptein, 2011). This proactive ethical stance aligns with governance goals such as compliance, risk mitigation, and stakeholder trust.

According to Donaldson and Preston (1995), stakeholder theory emphasizes that ethical behavior contributes to long-term value creation and corporate sustainability. When employees consistently uphold ethical standards, they reinforce the organization's legitimacy and public confidence, both critical to strong governance. Research by Treviño et al. (2006) supports this, showing that ethical employee conduct is positively associated with trust in leadership and governance structures. Furthermore, moral employees are more likely to support and implement ethical policies set forth by boards and executives, creating a feedback loop that institutionalizes good governance practices. As Sims and Brinkmann (2003) argue, ethical behavior at all organizational levels fosters a governance environment where policies are not just formalities but are genuinely enacted and respected. Summarily, employee moral cognition and behavior are significant drivers of corporate governance effectiveness. Organizations that invest in ethical training, clear codes of conduct, and leadership modeling of integrity are better equipped to maintain robust governance systems. Based on the foregoing discussion, we advance the following proposition.

P2: Employee moral cognition and behavior are positively and significantly related to corporate governance effectiveness.

3.3 Corporate Governance Effectiveness and Protection Mechanisms

Corporate governance effectiveness encompasses the systems, processes, and principles by which organizations are directed and controlled. A key dimension of governance effectiveness lies in safeguarding employee rights and ensuring ethical conduct across all levels of the organization. In this context, protection mechanisms for employees, particularly for those who report unethical or illegal practices, are a critical governance component.

Effective corporate governance frameworks increasingly emphasize the need for

internal accountability structures that empower employees to act ethically without fear of retaliation. These include legal protections, anti-retaliation policies, secure reporting channels, and organizational transparency. By embedding such mechanisms within governance policies, organizations demonstrate a commitment to fairness, justice, and the rule of law - principles that enhance stakeholder trust and organizational legitimacy (Aguilera et al., 2008).

One of the most vital protection mechanisms is the whistleblower protection policy, which is not only a legal safeguard but also a moral imperative in governance. Studies (e.g., Miceli et al., 2008; Kaptein, 2011) show that when employees feel protected against retaliation, they are more likely to report misconduct internally rather than externally, thereby reinforcing internal controls and mitigating reputational risks.

Furthermore, effective governance ensures that these protection mechanisms are not merely symbolic, but are backed by procedural justice—such as transparent investigations, due process, and timely resolution of complaints. Organizations that institutionalize these practices foster a culture of psychological safety, enabling ethical decision-making and accountability from the ground up.

Thus, corporate governance effectiveness is strengthened when it prioritizes the protection of ethical employees, particularly whistleblowers, as this builds internal trust, deters misconduct, and supports long-term organizational resilience and integrity. Hence, the following proposition is formulated.

P3: Corporate governance effectiveness is positively and significantly related to protection mechanisms for employees.

3.4 Protection Mechanisms and Internal Whistleblowing System

Miceli, Near, and Dworkin (2008) provide an in-depth analysis of whistleblowing in organizational contexts. It discusses the motivations behind whistleblowing, the importance of internal reporting channels, and the conditions under which whistleblowing systems succeed or fail. In Taiwan, it is also commonly referred to as the internal grievance system. Fundamentally, this system represents an internal mechanism established within an organization that allows employees to report inappropriate or unethical conduct, such as fraud, corruption, or other illegal activities, to a designated department within the company or, when necessary, to external regulatory bodies. Importantly, such systems are accompanied by legal and institutional protections for whistleblowers.

Kaptein (2011) examines how the perceived ethical culture within an organization influences employees' willingness to report misconduct internally. It supports the idea that effective internal systems, supported by ethical leadership and robust protection mechanisms, increase employee commitment and reduce the likelihood of external disclosures. An effective internal whistleblowing system is essential for fostering a culture of transparency and accountability. When properly implemented, it can enhance employees' perception that the organization upholds ethical

standards, thereby increasing their identification with and trust in the company. As the saying goes, "Water can carry a boat, but it can also overturn it." Similarly, a poorly managed whistleblowing system can erode trust, decrease employee morale, and damage organizational integrity.

Park and Blenkinsopp (2009) apply the Theory of Planned Behavior to investigate whistleblowing intentions. It highlights the importance of structural elements such as accessible reporting channels, assurance of confidentiality, and protective mechanisms in promoting internal reporting, and echoes the practical concerns, etc. These works collectively reinforce the importance of well-structured internal whistleblowing systems and their role in enhancing employee trust, organizational identification, and governance effectiveness. In light of the above, we put forth the following proposition.

P4: Protection mechanisms are positively and significantly related to the internal whistleblowing system.

To ensure its effectiveness, an internal whistleblowing system should be built on the following core elements: (1) Multiple reporting channels include telephone hotlines, dedicated email addresses, or secure online platforms, to facilitate accessibility. (2) Confidentiality safeguards protect the identity of the whistleblower and prevent unauthorized disclosure. (3) Whistleblower protection mechanisms shield employees from retaliation, such as termination, demotion, or workplace harassment. (4) A responsive handling mechanism ensures that reported cases are investigated and resolved in a timely and appropriate manner. A well-designed internal whistleblowing system not only strengthens internal controls and corporate governance but also contributes to a more ethical and resilient organizational culture. Based on the propositions presented in this research, we develop a conceptual framework, as illustrated in Figure 2. This framework outlines the hypothesized relationships among key constructs, including organizational commitment, employee moral cognition and behavior, corporate governance effectiveness, protection mechanisms, and the internal whistleblowing system. It reflects a sequential and theoretically grounded model that highlights the psychological, ethical, and structural drivers of ethical governance practices. Each link in the framework is supported by existing literature and forms the basis for empirical validation through the proposed propositions (P1–P4). By integrating individual-level ethical factors with institutional mechanisms, this framework aims to offer a holistic understanding of how internal governance processes can be reinforced through ethical employee engagement and robust protection systems.

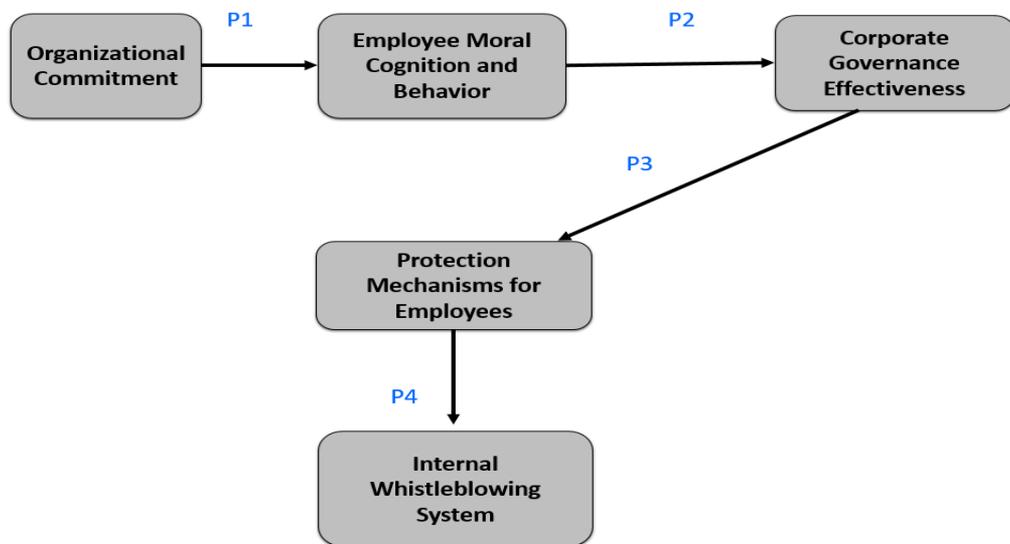


Figure 2: Ethical Governance and Internal

4. Conclusion and Implications

4.1 Conclusion

This study contributes meaningfully to the growing body of literature on the role of employee ethics in corporate governance by offering a comprehensive and theory-driven framework that highlights the interconnected relationships between employee moral cognition and behavior, internal whistleblowing systems, protection mechanisms, and overall corporate governance effectiveness. Drawing from cognitive-behavioral, stakeholder, and social exchange theories, the research advances four propositions that collectively position ethical employees as vital agents in shaping transparent, accountable, and sustainable organizational governance.

The findings underscore that organizational commitment significantly influences employee ethical behavior, suggesting that companies seeking to build a strong ethical foundation must foster a culture of trust, fairness, and shared values. Employees who feel emotionally attached and aligned with their organization's mission are more inclined to act in ways that uphold ethical standards and support long-term organizational integrity. This internalization of ethical values facilitates responsible decision-making and moral voice behavior, such as whistleblowing, which is critical in identifying and correcting misconduct.

The study also affirms that employee moral cognition and behavior are positively associated with governance effectiveness. Ethical employees reduce the likelihood of fraud and regulatory violations by strengthening internal controls and promoting compliance. Moreover, their ethical actions support the legitimacy and transparency of the organization, which enhances stakeholder confidence. This implies that

ethical conduct is not just a personal virtue but a strategic asset that reinforces the integrity of governance mechanisms.

A central emphasis of the study lies in the design and function of internal whistleblowing systems and protection mechanisms. The research highlights how poorly implemented systems can breed distrust and discourage reporting, thereby undermining governance efforts. Conversely, well-structured systems - characterized by accessible reporting channels, confidentiality protections, and responsive procedures - can empower employees to report unethical practices without fear of retaliation. These systems are most effective when complemented by robust protection mechanisms that include legal safeguards, anti-retaliation policies, and procedural justice.

The study's exploration of Taiwan's underdeveloped whistleblower protections further emphasizes the need for timely regulatory reform. Compared to jurisdictions like the United States and the European Union, Taiwan's legal infrastructure for protecting whistleblowers remains fragmented and insufficient. This lack of formalized safeguards has contributed to workplace bullying, suppression of ethical disclosures, and erosion of employee trust in internal systems. The proposed Whistleblower Protection Act, which expands legal coverage, enforces hierarchical reporting structures, and introduces penalties for retaliation, represents a critical policy step toward aligning Taiwan with international best practices.

4.2 Practical Implications

For corporate managers, the implications are clear: ethical governance cannot be achieved through compliance alone. Rather, it requires a holistic approach that integrates ethical leadership, employee engagement, and a supportive environment for ethical disclosures. Organizations should: (1) Invest in ethical training and leadership development programs that reinforce moral reasoning and accountability. (2) Design transparent and accessible whistleblowing systems that assure confidentiality and responsiveness. (3) Establish and enforce protection mechanisms to eliminate fear of retaliation and foster psychological safety. (4) Regularly audit and evaluate their governance structures to ensure alignment with ethical norms and stakeholder expectations.

For policymakers, the study provides an evidence-based rationale for strengthening legal protections for whistleblowers and institutionalizing governance reforms. Legislative initiatives should not only address procedural gaps but also promote ethical awareness, public participation, and inter-agency cooperation to create a culture of accountability across sectors.

In conclusion, this research illustrates that employee ethical behavior is both a moral imperative and a governance enabler. By aligning individual ethics with organizational structures and regulatory frameworks, companies and governments can build resilient institutions capable of withstanding ethical challenges and fostering long-term value creation.

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