Whistleblowing Policy and Financial Reporting Quality: Evidence from Nigerian Publicly Listed Companies

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ABSTRACT

This study investigates the influence of whistleblowing policy on financial reporting quality (FRQ) among publicly listed companies in Nigeria. Although whistleblowing is intended to reduce information asymmetry and expose financial misconduct, its effectiveness may depend on the institutional and organisational conditions under which reporting mechanisms operate. Using a quantitative cross-sectional survey, data were obtained from 109 internal audit professionals in Nigerian publicly listed companies and analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM). The measurement model demonstrated acceptable reliability and convergent and discriminant validity. The structural model showed a weak positive but statistically insignificant relationship between whistleblowing policy and FRQ ($\beta = 0.035$, $t = 0.457$, $p = 0.600$), and the hypothesis was therefore not supported. Consistent with Agency Theory, the finding indicates that a formal governance mechanism does not automatically reduce information asymmetry or managerial opportunism unless it is trusted, accessible, protected, and effectively enforced. The study contributes evidence from an emerging-market institutional setting and distinguishes policy adoption from policy effectiveness. It recommends that regulators, boards, and audit committees evaluate the operation and outcomes of whistleblowing systems rather than their formal existence alone.

Keywords: Whistleblowing policy, financial reporting quality, corporate governance, publicly listed companies, Nigeria.

INTRODUCTION

Financial reporting quality (FRQ) is central to corporate accountability, investor confidence, and efficient capital allocation. High-quality reports provide relevant, faithfully represented, timely, comparable, verifiable, and understandable information to investors, regulators, creditors, and other users. Weak financial reporting can instead increase information asymmetry and create opportunities for earnings management, financial statement manipulation, and other forms of misconduct (Muhammad et al., 2024; Ozegbe et al., 2024). The persistence of financial reporting irregularities despite improvements in accounting standards and conventional governance mechanisms has increased attention to whistleblowing. Employees may possess information about accounting irregularities, procurement fraud, regulatory violations, or management misconduct that is not immediately visible to boards, auditors, or external stakeholders. A credible reporting mechanism can therefore complement internal controls, internal audit, audit committees, and external audit by enabling concerns to be raised before misconduct becomes embedded in published financial statements.

The Nigerian context is particularly important because whistleblowing has received formal policy and governance recognition through the Federal Government's Whistle-blowing Policy introduced in 2016 and the Nigerian Code of Corporate Governance (NCCG) 2018, which encourages confidential mechanisms for reporting misconduct. Nevertheless, formal adoption does not necessarily mean effective use. Concerns about retaliation, victimisation, confidentiality, weak legal protection, and management's response to complaints may discourage reporting. These institutional conditions can determine whether whistleblowing functions as a substantive governance mechanism or merely as a compliance requirement. Existing empirical evidence is mixed. Some Nigerian studies report positive relationships between whistleblowing mechanisms and financial reporting outcomes (Boluwaji et al., 2023; Adewara et al., 2024), whereas other evidence suggests that whistleblowing is effective only where organisational culture, governance structures, enforcement, and protection arrangements are sufficiently strong (Belgacem, 2025; OECD, 2024; UNODC, 2023). This inconsistency creates a need for evidence across publicly listed companies operating in different sectors of the Nigerian economy.

Against this background, the study examines whether whistleblowing policy has a positive and significant effect on FRQ among publicly listed companies in Nigeria. The study makes three contributions. First, it provides cross-sector evidence from an emerging-market setting in which formal governance requirements coexist with implementation challenges. Second, it uses Agency Theory to distinguish the potential governance function of whistleblowing from the practical conditions necessary for that function to operate. Third, it shows empirically that policy adoption should not be treated as equivalent to whistleblowing effectiveness. The findings therefore have implications for regulators, boards, audit committees, internal auditors, and researchers concerned with governance effectiveness in emerging markets.

LITERATURE REVIEW

Theoretical Foundation: Agency Theory

Agency Theory explains the relationship between shareholders (principals) and managers (agents), emphasising the possibility that managers may pursue interests that diverge from those of owners because they possess superior information about organisational activities (Jensen & Meckling, 1976). Information asymmetry can facilitate earnings management, financial statement manipulation, and other opportunistic behaviour that reduces the credibility of financial reporting.

From an Agency Theory perspective, whistleblowing can reduce information asymmetry by creating an additional channel through which employees can communicate evidence of managerial or organisational misconduct to those capable of taking corrective action. It therefore complements internal controls, internal audit, audit committees, and external audit. However, the theory also implies an important condition: a governance mechanism reduces agency problems only when it operates effectively. A policy that employees do not trust, cannot access confidentially, or believe will trigger retaliation may have little practical capacity to constrain managerial opportunism.

The Nigerian institutional environment makes this distinction especially relevant. Formal corporate governance expectations may require reporting channels, while concerns about protection, confidentiality, enforcement, and organisational commitment can affect whether employees actually use those channels. Thus, Agency Theory predicts a potential positive relationship between effective whistleblowing and FRQ, but the existence of a policy by itself does not guarantee that the agency problem will be reduced.

Financial Reporting Quality

Financial reporting quality refers to the extent to which financial statements faithfully represent underlying economic events and provide useful information for decision-making. The IASB identifies relevance and faithful representation as fundamental qualitative characteristics, supported by comparability, verifiability, timeliness, and understandability. Within corporate governance research, FRQ is also associated with lower levels of earnings management, financial statement manipulation, fraud, and material misstatement (Muhammad et al., 2024; Ozegbe et al., 2024).

Accordingly, FRQ can be viewed not only as a consequence of compliance with accounting standards but also as an outcome of governance effectiveness. Controls, audit oversight, ethical culture, and mechanisms for reporting misconduct can all contribute to the reliability and credibility of financial information.

Whistleblowing Policy and Financial Reporting Quality

Whistleblowing involves reporting illegal, unethical, fraudulent, or otherwise improper organisational conduct to persons or institutions capable of taking corrective action. A whistleblowing policy provides formal reporting channels and procedures intended to facilitate confidential reporting and protect reporters from retaliation. Such

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mechanisms can help identify fraud and financial reporting irregularities that conventional control and audit processes may not detect promptly. Empirical evidence, however, remains inconclusive. Boluwaji et al. (2023) and Adewara et al. (2024) report positive relationships between whistleblowing mechanisms and FRQ in Nigerian corporations. International evidence also suggests that whistleblowing can deter aggressive reporting and improve responses to financial misconduct (Duong et al., 2025; Zhou et al., 2024). Conversely, Belgacem (2025), OECD (2024), and UNODC (2023) emphasise that reporting systems are less effective where retaliation risks, weak confidentiality, inadequate protection, and poor enforcement undermine employee confidence.

The mixed evidence suggests that policy adoption and policy effectiveness should be distinguished. In Nigeria, a formal policy may satisfy a governance expectation without necessarily generating reporting behaviour or corrective action. If employees do not trust the channel, if management controls investigations, or if reported cases do not lead to credible remediation, the mechanism may have little effect on FRQ. The present study therefore tests whether the formal whistleblowing policy construct is associated with FRQ among publicly listed companies.

H_1: Whistleblowing policy has a positive and significant effect on financial reporting quality among publicly listed companies in Nigeria.

METHODOLOGY

The study adopted a quantitative cross-sectional survey design. The target population comprised internal auditors of publicly listed companies operating across multiple sectors in Nigeria. Internal audit professionals were selected because their responsibilities include internal controls, risk management, governance, and financial reporting, giving them relevant knowledge of whistleblowing mechanisms and reporting quality. A total of 109 internal auditors were surveyed, with a valid response of 101 through a structured questionnaire using a five-point Likert scale. Measurement items were adapted from prior studies with minor contextual modifications.

Data were analysed using SmartPLS 4. The measurement model was assessed for indicator reliability, internal consistency, convergent validity, discriminant validity, and collinearity. A covariance-based confirmatory factor analysis (CFA) was also conducted as an initial assessment of factorial structure. The structural model was then assessed using PLS-SEM with 5,000 bootstrap resamples. PLS-SEM was selected as the main analytical approach because the study is prediction-oriented and uses latent constructs measured through multiple indicators with a moderate sample size (Hair et al., 2022).

Respondent Profile

Characteristic	Categories	N (%)
Age	25–30; 31–35; 36–40; 41–45; 46–50	27 (26.73%); 24 (23.76%); 32 (31.68%); 16 (15.84%); 2 (1.98%)
Gender	Male; Female	67 (66.34%); 34 (33.66%)
Job role	Audit Executive; Manager (Audit)	67 (66.34%); 34 (33.66%)
Education	B.Sc.; M.Sc.; Ph.D.	34 (33.66%); 49 (48.51%); 18 (17.82%)
Professional qualification	I CAN; ANAN; ACCA	46 (45.55%); 49 (48.51%); 6 (5.94%)
Years with company	1–5; 6–10; 11–15; 16–20	49 (48.51%); 32 (31.68%); 19 (18.81%); 1 (0.99%)
Business sectors	Agriculture, Conglomerates, Construction, Consumer, Financial Services, Health Care, ICT, Industrial Goods, Natural Resources, Oil & Gas, Other Services	Cross-sector sample; ICT was the largest category: 31 (30.69%)

RESULTS

Descriptive Statistics

Construct	Mean	SD	MADrobust	Variance	Min–Max
Financial Reporting Quality (FRQ)	3.094	0.738	0.809	0.545	1.364–4.909
Whistleblowing Policy (WBP)	2.219	1.083	0.847	1.174	1.000–5.000

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FRQ recorded a relatively favourable mean score (3.094), whereas WBP recorded a lower mean score (2.219) and greater dispersion. The relatively low WBP mean is consistent with the study's central finding that the formal presence or perceived availability of whistleblowing policy does not necessarily translate into stronger financial reporting outcomes.

Concise CFA and PLS-SEM Measurement Results

Assessment	Key statistic/result	Interpretation
CFA model fit	$\chi^2(902)=1{,}447.94$, $p<.001$; CFI=.782; TLI=.771; IFI=.785	Incremental fit indices below conventional good-fit levels
Approximation error	RMSEA=.077; SRMR=.099	Moderate/acceptable approximation, with some room for improvement
Factorability	KMO=.699; Bartlett $\chi^2(946)=2{,}884$, $p<.001$	Data suitable for factor analysis
CFA indicator issue	FRQ13=.44, p=.021; FRQ14=.35, p=.076	Two weaker indicators; FRQ14 was not statistically significant
PLS reliability	CA=.887–.927; rho_A=.890–1.126; CR=.909–.934	Construct reliability generally satisfactory
Convergent validity	AVE=.526 (FRQ); .669 (WBP)	Both exceed .50
Discriminant validity	HTMT=.104; Fornell–Larcker satisfied	Constructs empirically distinct
Collinearity	VIF=1.057	No multicollinearity concern

The CFA results indicate a modest overall fit rather than a strong covariance-based model fit. This limitation, together with the study's prediction-oriented purpose and the satisfactory PLS-SEM reliability and validity evidence, supports the use of PLS-SEM as the principal inferential method. The weaker CFA indicators should nevertheless be reconsidered in future instrument refinement rather than treated as evidence of perfect measurement fit.

Structural Model

Hypothesis	Path	β	SE	t	p	Decision
H1	WBP → FRQ	0.035	0.077	0.457	0.600	Not supported

The structural model shows a weak positive relationship between whistleblowing policy and FRQ, but the relationship is statistically insignificant ($\beta = 0.035$, $t = 0.457$, $p = 0.600$). The result does not provide sufficient evidence that the formal whistleblowing policy construct, as measured in this study, directly improves FRQ among the sampled Nigerian listed companies.

DISCUSSION

The central finding is that whistleblowing policy has a positive but statistically insignificant effect on FRQ. The result rejects H1 and indicates that the existence of a whistleblowing policy should not be interpreted as evidence that financial reporting quality will automatically improve. This distinction is important because the policy may provide a reporting channel without ensuring that employees use it, that reports are investigated independently, or that corrective action follows. The finding can be explained directly through Agency Theory. The theory assumes that information misalignments give managers opportunities to pursue interests that may diverge from those of shareholders (Jensen & Meckling, 1976). Whistleblowing can theoretically reduce this asymmetry by transmitting information about misconduct to governance actors. However, the present evidence suggests that the formal mechanism did not produce a measurable direct effect on FRQ. In Agency Theory terms, the governance mechanism may exist without sufficiently changing the information, incentives, or monitoring conditions that constrain managerial opportunism. A policy therefore has limited agency-reducing capacity when employees do not trust the channel or when reported information does not result in credible corrective action.

The Nigerian institutional environment provides an important contextual explanation. Nigeria has formal governance expectations supporting whistleblowing, including the NCCG 2018, yet employees may still face concerns about retaliation, confidentiality, victimisation, legal protection, and management commitment. These factors can create a gap between formal governance design and actual governance practice. The present result is therefore consistent with the proposition that institutional enforcement and organisational trust are necessary complements to formal policy adoption. In such an environment, companies may have a policy on paper while the mechanism remains underused or ineffective in practice.

The finding differs from Boluwaji et al. (2023) and Adewara et al. (2024), who reported positive relationships between whistleblowing mechanisms and FRQ in Nigerian corporate settings. The difference may reflect variation in sector, organisational culture, implementation quality, respondent perceptions, and the operational maturity of reporting systems. The present study covers publicly listed companies across several sectors, making it possible that heterogeneous governance environments weaken the average direct relationship. The finding is nevertheless consistent with Belgacem (2025), OECD (2024), and UNODC (2023), which emphasise that whistleblowing is more effective when supported by protection, confidentiality, enforcement, and credible institutional responses.

The result should therefore not be interpreted as evidence that whistleblowing is unimportant. Rather, it suggests that effectiveness depends on the conditions under which whistleblowing operates. The broader implication is that regulators and corporate governance actors should evaluate whether employees can safely report, whether cases are independently investigated, whether management responses are documented, and whether recurring control weaknesses are corrected. This moves the discussion from policy adoption to governance effectiveness.

Practical Implications and Actionable Recommendations

The study has implications for regulators, boards, audit committees, internal auditors, and corporate managers. The recommendations below translate the empirical findings into specific governance actions.

Stakeholder	Actionable recommendation	Expected governance benefit
FRCN, SEC and NGX	Assess the operation of whistleblowing systems during governance/compliance reviews; require evidence of reporting channels, case handling, protection measures and remediation rather than policy documents alone.	Shifts oversight from formal compliance to demonstrable effectiveness.
Boards of directors	Approve clear escalation routes that allow serious reports to reach the board or an independent committee; require periodic reporting on cases, response times and unresolved issues.	Strengthens board visibility and reduces management control over sensitive cases.
Audit committees	Receive confidential periodic reports on whistleblowing cases; review investigation independence, management responses and unresolved control weaknesses.	Improves oversight of financial-reporting risks and corrective action.
Management	Provide multiple confidential channels, communicate non-retaliation expectations, document investigation procedures and apply consistent sanctions for substantiated misconduct.	Builds employee trust and increases the practical usability of reporting mechanisms.
Internal audit	Test whistleblowing controls periodically, assess whether reported matters are reflected in risk assessments, and track remediation of control weaknesses arising from reports.	Integrates whistleblowing into the internal control and assurance framework.
Professional bodies/policymakers	Strengthen ethics training and practical guidance on reporting, confidentiality, retaliation and escalation; support stronger protection for reporting persons.	Improves awareness and reduces barriers to reporting.

The common principle across these recommendations is that effectiveness should be monitored through observable outcomes. Useful indicators include the accessibility of reporting channels, employee awareness, time taken to acknowledge and investigate cases, protection of reporters, independence of investigations, closure of substantiated cases, and remediation of control weaknesses. These indicators would allow organisations to distinguish an active governance mechanism from a policy that exists primarily for compliance.

Limitations and Future Research

The study has several limitations. First, its cross-sectional design captures perceptions and relationships at one point in time and therefore cannot establish how whistleblowing effectiveness changes as organisational policies mature. Second, the study relies on 109 survey responses from internal audit professionals; their expertise is valuable, but their perspectives do not fully represent employees who report misconduct, board members, audit committee members, regulators, or external auditors. Third, the study examines a direct relationship between whistleblowing policy and FRQ and does not test institutional or organisational variables that may explain when or why the relationship becomes effective. Fourth, the CFA results show only modest global fit and include weaker indicators, although the PLS-SEM measurement assessment provides acceptable reliability and validity evidence.

Future research should address these limitations in four ways. First, longitudinal studies could examine whether the effectiveness of whistleblowing systems changes after policy implementation, regulatory intervention, or major governance events. Second, multi-stakeholder studies should combine the perspectives of employees, internal auditors, external auditors, audit committee members, directors, and regulators. Third, future models could test mediating or moderating factors such as organisational ethical culture, perceived retaliation risk, confidentiality, management commitment, legal protection, and investigation independence. Fourth, comparative studies across Nigerian sectors or across emerging markets could determine whether institutional differences explain variation in whistleblowing effectiveness. These approaches would provide stronger evidence about the conditions under which whistleblowing reduces agency problems and improves financial reporting quality.

CONCLUSION

This study examined whether whistleblowing policy improves financial reporting quality among publicly listed companies in Nigeria. Based on 109 survey responses from internal audit professionals and PLS-SEM analysis, the study found a weak positive but statistically insignificant relationship between whistleblowing policy and FRQ ($\beta = 0.035$, $t = 0.457$, $p = 0.600$). The hypothesis was therefore not supported. The study's main contribution is not to suggest that whistleblowing is ineffective, but to distinguish formal policy adoption from effective whistleblowing. Viewed through Agency Theory, a reporting mechanism can reduce information asymmetry and constrain managerial opportunism only when employees trust it and governance actors act on the information received. In Nigeria's institutional environment, protection, confidentiality, enforcement, investigation independence, and management commitment may therefore be as important as the existence of the policy itself. The broader significance extends beyond Nigeria. For emerging markets, where formal governance reforms may coexist with implementation and enforcement constraints, the effectiveness of whistleblowing should be assessed by what the mechanism enables organisations to detect, investigate, and correct—not simply by whether a policy exists. Strengthening these operational dimensions can make whistleblowing a more credible component of corporate governance and, ultimately, support the reliability of financial reporting and investor confidence.

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