

# The Effect of Organizational Characteristics on Whistleblowing Behavior for Identifying Fraud

Elsa Imelda <sup>1\*</sup>, Yenyen Hendris <sup>2</sup>

*Universitas Tarumanagara, Indonesia <sup>1</sup>*

*Universitas Tarumanagara, Indonesia <sup>2</sup>*

*\*Corresponding author. Email: elsai@fe.untar.ac.id<sup>1</sup>, fransiskayenyen@gmail.com<sup>2</sup>*

## ABSTRACT

The purpose of this research was to obtain empirical evidence about the effect of organizational characteristics such as respect and openness, cooperation and flexibility, fair treatment, and trust in supervisory authority, on whistleblowing behavior to identify fraud. This research used questionnaires to collect data, which were distributed to 96 employees among private companies in Jakarta. This research found out that respect and openness, cooperation and flexibility have positive effects on whistleblowing behavior. Meanwhile, trust in supervisory authority and fair treatment have no effect on whistleblowing behavior.

**Keywords:** *Respect and Openness, Cooperation and Flexibility, Fair Treatment, Trust in Supervisory Authority, Whistleblowing Behavior*

## 1. INTRODUCTION

Fraud is one of the factors that will threaten a company's survival. Fraud is a fraudulent act that is done to meet the interests of some parties, but cause a loss on the others. The purpose of fraud can be in form of financial or non-financial benefit. Companies usually face the fraud, such as manipulation of financial statement or loss in the companies' assets.

The perpetrators of this fraudulent act tend to look for loopholes contained in the procedures, supervision, or company systems, and then use it for their own benefit. Despite of many internal controls applied by companies, the risk of fraud cannot be minimized into zero. Therefore, companies should be more aware because fraud can bring great loss and threaten their survival. Management and internal audit should be more sensitive in observing the signs of cheating or fraud that might occur.

The identification of fraud or the red-flag indicating the fraud usually comes from within the company or organization, because internal parties of such organization are more familiar with the organization as a whole. If the internal parties are aware of this fraud, they can either keep silent or report it. The action to report the fraud is called whistleblowing. But sometimes, it is not an easy way to report the fraud, because the related parties will just keep silent about such phenomenon in their companies.

The act of whistleblowing must be done by a company's official. If the disclosure of fraud is carried out by an outside party, such as policemen or journalists, then the action does not include whistleblowing behavior. The information revealed in this report is confidential in nature and is not categorized as public information. The report is legal and includes the evidence of the fraud. The act of reporting these violations is very important in maintaining

the companies' survival. For this reason, companies must concern on some factors that can influence the whistleblowing behavior in their organizations.

## 2. THEORETICAL REVIEW

### 2.1 Whistleblowing Behavior

According to [1], the attitude toward behavior and subjective norm can predict behavioral intention. This is called the Theory of Reasoned Action (TRA). The attitude toward behavior is a response that can take the form of positive or negative arising from an object or someone's behavior. Subjective norms are social pressures related to behavior and motivation to do or not to do an action. Meanwhile, these two variables will form a behavioral intention which is a desire or intention arising from the individual to show his/her behavior. This is a factor that can trigger actual behavior, such as the whistleblowing action.

This TRA is widely used to understand various kinds of human behavior, for example, it can be used to predict the ethical behavior of an individual. In the context of auditing, this theory can be used to explain the ethical behavior committed by an individual who is part of internal company to report violations that occur within.

According to [2], whistleblowing behavior is an event when an employee openly reports non-ethical or illegal practices at workplace when he/she sees it. The employee can report it to an authorized individual or entity in order to be able to stop such practices. Research by [3] concluded that the behavior of whistleblowing can be interpreted as the behavior of a person in giving information voluntarily as a form of moral protest. The

information is about the non-legal behavior of company's member that against public interests.

## **2.2 Respect and Openness**

Respect is a positive feeling or action, which is shown to someone or something that is considered important. Someone usually expresses admiration for good quality. Respect is also the process of honoring someone by showing concern or consideration to show their feelings [4], while openness is a transparent company environment that has unlimited free access to public information in the company, as well as how the management behaves in decision making [5]. Research by [6] showed that respect and openness has a negative and significant effect on whistleblowing behavior. This is because respect and openness can be negatively related to the possibility of whistleblowing, when employees find the ways to overcome mistakes without the need to report to outside authorities or leadership bodies. In addition, more open and respectable companies can really encourage more ethical behavior in aggregation groups, thereby reducing errors in the company to be reported. In this way, an open and respectable company can be associated with fewer or less frequent whistleblowing behaviors.

## **2.3 Cooperation and Flexibility**

Cooperation is a trait contained in a relationship by respecting the interests and opinions of others and alienating a sense of selfishness [7]. Research by [7] described the cooperation as how much people can accept others. Cloninger's research found that low collaboration could be linked to personality disorders, while flexibility is a change in, when, where, and how someone will work to better meet the needs of employees and businessman (employers). In a corporate climate, it is possible for changes in individual and business needs in terms of time, location, and the way in which an employee works. Companies must easily adjust themselves to deal with these changes well. The changes in such flexible conditions must be mutually beneficial for both companies and employees and produce superior results.

The research results from [6] stated that cooperation and flexibility has a negative and significant effect on whistleblowing behavior. This is because there is a possibility that violations are less likely to occur within the company. A cooperative and flexible company environment is characterized by employees who always share information and flexibility from the flow of communication among them, or the low level of error that results in a low likelihood of actions reporting violations by employees. Meanwhile, [8] found that a cooperative and flexible environment does not influence the whistleblowing behavior. A cooperative environment encourages workers to ignore mistakes or violations that occur within the company. They tend to accept any mistakes, because they are familiar with the situation. This

is different from the research conducted by [9], whereas strong ethics and friendly environment increases the likelihood of whistleblowing behavior. This is because employees will work according to the applicable ethics in the company, so that they do not tolerate the acts that are not in accordance with the ethics. A friendly environment can make employees do not feel threatened even though they conduct the whistleblowing behavior.

## **2.4 Fair Treatment**

Fair treatment is the principle of a company's actions towards its employees to treat the employees fairly [10] and [11]. Justice in the company has implications for both the economic well-being of employees and their psychological health by satisfying many of the socio-emotional needs at the workplace [12]. The research conducted by [13] found that fair treatment has a significant influence on whistleblowing behavior. This is because the more employees feel that their company is fair, the more they want to report the ethical issues to the management. Employees believe that the company treats them fairly, so they will be more concerned in helping the company handling problems that can hinder the company in achieving its goals. Research conducted by [8] and [14] also revealed the same phenomenon. However, unlike other research, the one conducted by [6] found out that fair treatment in companies reduces the possibility of whistleblowing behavior. This difference occurred due to different workplace environment, because the study was conducted among federal employees [1].

## **2.5 Trust in Supervisory Authority**

Trust in supervisory authority usually refers to a situation that an employee will depend on all the action and decision making from the supervisor. They have an assumption or belief that the supervisor's actions are good and right [15]. The results of a study conducted by [6] stated that trust in leadership has a negative and significant effect on whistleblowing behavior. This could happen because superiors' support will improve a good workplace environment, so that the possibility of errors that will lead to whistleblowing behavior will become lower.

Research by [16] suggested that there is a positive and significant effect of supervisory authority on whistleblowing behavior. This is because employees may be more inclined to report violations, when they find an error in the company knowing that their supervisor will support them. The perception of trust in the leader will build employee perceptions that supervisors will respect such whistleblowing behavior, whereas [17] argued that there is no significant relationship between whistleblowing behavior and trust in leadership.

## 2.6 Hypotheses

Based on the logical and theoretical thinking above, the hypotheses in this study consist of:

H<sub>1</sub>: Honor and openness has a positive effect on whistleblowing behavior

A respectful (honor and openness) workplace environment will further encourage whistleblowing behavior by employees. When the company is seen as an open party, or in another sense receives and sees all the votes of employees in the selection of company decisions, then employees will be more likely to report violations internally in an effort to redirect the company to achieve its goals.

H<sub>2</sub>: Cooperation and Flexibility has a positive effect on whistleblowing behavior

The employees will perform the work properly if there is a cooperative and flexible working environment. Such environment can provide comfort and safety for employees. Employees will work according to the prevailing ethics in the company, so that the higher level of cooperation and flexibility in the company will tend to make them conduct more whistleblowing behavior.

H<sub>3</sub>: Fair treatment has a positive effect on whistleblowing behavior

The existence of fair treatment in workplace environment can increase reporting errors in the company. In such environment, which is fair and full of integrity, employees feel more comfortable when talking to their superiors without the fear of retaliation from any party. Thus, employees will work to support the company's success by opposing ethical issues by reporting rather than just staying quiet when they find out the mistakes or fraud within.

H<sub>4</sub>: Trust in Leadership has a positive effect on whistleblowing behavior

Employees will be more inclined to report violations when they find out that their supervisor will support their actions. Thus, trust in leaders makes employees feel proud and confident that they will be rewarded for the whistleblowing behavior in identifying mistakes or cheating that may affect the company.

## 3. METHODOLOGY

The subject in this study was employees among private companies in Jakarta. Samples were selected by using non-probability method with convenience sampling techniques for questionnaires distribution, and the result were 96 questionnaires had been collected. The independent variables in this study consisted of Honor and Openness, Cooperation and Flexibility, Fair Treatment, and Trust in Leaders, while Whistleblowing Behavior became the dependent variable.

The whistleblowing behavior variable was measured by using 8 questions according to the model developed by [18]. Honor and Openness was measured by 12 questions as developed by [19], Cooperation and Flexibility was measured by 5 questions as developed by [19], Fair Treatment was measured by 6 questions as developed by [19], and Trust in Leadership was measured by 8 questions as developed by [19].

This study used SmartPLS 3, which started with a validity and reliability test, then performed a descriptive statistical test in order to test the sample data, and then proceeded with a multicollinearity test. Meanwhile, several tests were also conducted, such as the hypothesis testing using the Test-Path Coefficients, the Coefficient of Determination (Adjusted R<sup>2</sup>), and the Test of Accuracy by using F<sup>2</sup> Test. Data analysis method used the descriptive statistics and regression analysis.

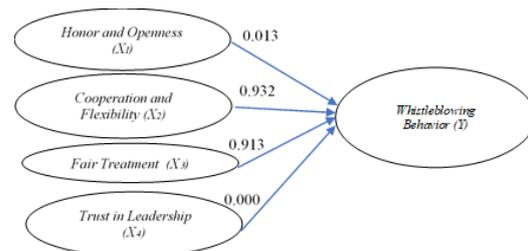
## 4. RESULTS

All indicators contained in the questionnaire had passed the validity and reliability tests, so all of them can be used in this study. Demographic characteristics of the respondents who participated in filling out the research questionnaire were mostly staff with a minimum of working period more than 2 years and having the age between 20-30 years with 54.17% of whom were females. Descriptive statistical tests for all variables are displayed in number 4 and 5.

The regression model equations could be developed as follows:

$$WB = \beta_0 + 0.284 HO + 0.494 CF - 0.008 FT + 0.480 TL + e$$

The results of t-Test can be seen in the figure below.



**Figure 1.** Test the Significance of *p*-Values in the Inner Model

Source: Output of *SmartPLS 3.0* processed, 2019

The first hypothesis test result showed that the coefficient of Honor and Openness is 0.284 with significance value of 0.013. This means that if the Honor and Openness increases by 1, then the whistleblowing behavior will increase by 0.284 assuming that the other independent variables remain constant. The value of t-Test (2.540) is greater than that of t-Table (1.960), and the *p*-value (0.013)

is less than  $\alpha$  (0.050) indicating that Honor and Openness had a significant effect on *whistleblowing* behavior.

The second hypothesis test result showed that the coefficient of Cooperation and Flexibility is 0.494, which means that if the Cooperation and Flexibility increases by 1, then the whistleblowing behavior will increase by 0.494, assuming the other independent variables remain constant. The value of t-Test (0.086) is less than that of t-Table (1.960), and *p-value* (0.932) is greater than  $\alpha$  (0.050) showing that Cooperation and Flexibility had no significant effect on *whistleblowing* behavior.

The third hypothesis test result showed that the coefficient of Fair Treatment is -0.008, which means that if the value of Fair Treatment increases by 1, then the whistleblowing behavior will decline by 0.008 assuming that the other independent variables remain constant. The value of t-Test (0.110) is less than that of t-Table (1.960) and *p-value* (0.913) is greater than  $\alpha$  (0.050), which shows that Fair Treatment had no significant effect on *whistleblowing* behavior.

The last hypothesis test results showed that the coefficient of Trust in Leadership is 0.480, which means that if Trust in Leadership increases by 1, then the whistleblowing behavior will increase by 0.480 assuming that the other independent variables remain constant. The value of t-Test (4.704) is greater than that of t-Table (1.960) and *p-value* (0.000) is less than  $\alpha$  (0.050), which indicates that Trust in Leadership had a significant effect on *whistleblowing* behavior.

**Table 1.** Coefficient of Determination *R-Square* ( $R^2$ )

Variable	Whistleblowing Behavior
<i>R-Square</i>	0.531
<i>R-Square Adjusted</i>	0.511

Source: Output of *SmartPLS 3.0* processed, 2019

Table 1 indicates that the magnitude of the dependent variable (*whistleblowing* behavior) can be explained by the variation in the independent variable as much as 51.1%, and the remaining 48.9% is explained by other variables not included in this study.

**Table 2.** *F-Square* Model ( $F^2$ ) Accuracy Test

Variable	Whistleblowing Behavior
Honor and Openness	0.065
Cooperation and Flexibility	0.000
Fair Treatment	0.000
Trust in Leadership	0.179

Source: Output of *SmartPLS 3.0* processed, 2019

The *F-Square* Test ( $F^2$ ), which is used to explain the accuracy or strength of the research model, showed the numbers of 0.065, 0.000, 0.000, and 0.179 for the variables of Honor and Openness, Cooperation and Flexibility, Fair Treatment, and Trust in Leadership respectively. The ability of the independent variables in explaining the dependent variable is moderate-weak.

## 5. DISCUSSION

The statistical test results showed that Honor and Openness, and Trust in Leadership could significantly affect the whistleblowing behavior. The result for the variable of Honor and Openness is in line with the research of [9]. A respectful (honor and openness) workplace environment will encourage whistleblowing behavior. Whistleblowing behavior is more likely to occur when a working group can accept and agree with the assessment of whistleblowing actors and provide emotional support in deciding to conduct the whistleblowing behavior. Likewise, when the company is seen as an open party, or in another sense receives and sees all the votes of employees in the selection of company decisions, then employees will be more likely to report violations internally in an effort to redirect the company to achieve its goals.

The result for the variable of Trust in Leadership is in line with the research of [16]. Employees will be more likely to report an error or fraud when they know that their superiors will support their actions. Thus, trust in leaders makes employees feel proud and confident that they will be rewarded for their whistleblowing behavior.

The result for the independent variables, which is Cooperation and Flexibility, and Fair Treatment shows that these variables did not significantly affect the dependent variable of whistleblowing behavior. This indicates that the hypothesis  $H_2$  and  $H_3$  were rejected.

Cooperation and Flexibility in the workplace environment, especially in a working team in a company, will create a sense of solidarity among employees and arise the feeling of not wanting to knock each other down. So, the employees are not compelled to conduct the whistleblowing behavior that can bring down the other team members. This result is in line with the research by [8], but did not support [6] and [9].

Fair treatment has some negative effect that makes employees feel undifferentiated in despite of their performance. Even if an employee reports fraud in the company, it does not make the employee get more than the others. The absence of additional benefits, such as rewards or more recognition felt by employees, makes fair treatment does not encourage employees to take the action of whistleblowing. This result supports the research conducted by [13], [8] and [14].

Respondents in this research were mostly on staff levels. This limitation can be considered for further research in order to get respondents from higher levels. Further research is still interested due to having the R-square over 50%. Future research can also add non-private companies for acquiring a broader scope of research.

## 6. CONCLUSION

This research showed that Honor and Openness, and Trust in Leadership can significantly affect the whistleblowing

behavior. If a workplace environment in company is kind and respectful (honor and openness), it will encourage the employees to do whistleblowing behavior. As a manager or higher level of organizational structure, we can use this opportunity to make employees deliver the whistleblowing in a kind of good pathway to their related manager. We must create a good environment to make our employees comfortable and feel supported.

The result for the variable of Trust in Leadership is also significant to whistleblowing behavior. Employees will be more likely to report an error or fraud, whenever they know that their superiors will support their actions. Thus, trust in leaders makes employees feel proud and confident that they will be rewarded for their whistleblowing behavior. Good leaders must have a nature of leadership, so that their employees will have a trust in their leader. The employees will feel comfortable to tell their related manager, if there is a fraudulent action.

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