

CHAPTER I

INTRODUCTION

1.1 Study Background

Accounting fraud has attracted a lot of media attention, and is the most prominent issue in the eyes of the world community. Fraud is a form of dishonesty that is intentionally done to get personal or some parties gain within the organization, and also even for the organization itself. Fraud can cause harm without being realized by the aggrieved party. Indications of possible accounting fraud can be seen from intentional policies and actions aimed at fraud or manipulation that harm other parties. Accounting fraud can be in various forms, such as the tendency to commit acts of corruption, tendencies for misuse of assets, and tendencies to commit fraudulent financial reporting (Thoyibatun, 2009).

Fraud can cause for public trust of the professionalism and ethical behavior of the accounting profession today is widely considered. This is also a consequence of the many cases of major financial problems scandals carried out by large companies involving large accounting firms and professional accounting figures. The case then resulted in a decline in public trust in the accounting profession in general.

The human tendency that accumulates the wealth and other material benefits makes people forget the ethics, morals and public interests. Harahap (2008) judges that although a number of professions, including the profession of accountants have ethical profession but ethics is built on the basis of mere economic

rationalism, reasonable ethics is not able to prevent people from moral and ethical violations to pursue material profits.

Whistleblowing has caught the world's attention for now. This is because the number of cases concerning the misuse of expertise, especially the accountant profession shows the image of an unprofessional and non-ethical accountant greatly affects the public's trust in the accounting profession. Abuse of expertise in making misleading and incorrect accounting information to reap personal gain, later this has caused many economic losses in society (Lee, 2005).

The importance of whistleblowing to detect and disclose fraud or wrongdoing that occurs within an organization or company has been recognized by many regulators around the world (Putri, 2012). Putri (2012) also stated that whistleblowing is an effort to achieve an economic and social goal, so that the perpetrator expects support from various parties so that the goal is achieved. In a book entitled "Understanding Whistleblower" issued by the Witness and Victim Protection Agency (LPSK) in 2011 whistleblower is defined as a person who reports an act of cheating in an organization to another party.

As an example of the Washington Mutual (WaMu) corporation that occurred in 2008, which is the largest savings and loan institution in the United States. WaMu is bankrupt after a fraud case and management failure in the face of internal problems. WaMu is proven to be fraudulent by lending to customers at high risk pay. In its cheating practices, former CEO, former President and Chief Operating Officer of WaMu polished the high-risk credit of default as if it is not risky. In fact, the indication of fraud and potential losses to be experienced by

WaMu has been reported by Ronald J. Cathcart, the Chief Enterprise Risk Officer of Bank Washington Mutual at that time. However, the report from Cathcart can be considered as whistleblowers were not taken seriously even Cathcart was ostracized and often excluded from important corporate meetings. The incident that affects Cathcart can show that the application of whistleblowing system has not been effective because the reports are even ignored and even the whistleblower in question is subjected to compassion due to his act of disclosing the fraud that occurred at the retaliation of the organizations concerned and other employees is difficult to avoid by a whistleblower (Alleyne, Mc Clean, and Harper, 2013)

Not only in a foreign country, in Indonesia cases of fraud that eventually revealed also occurred in government institutions. Like the case of Gayus Tambunan who is an employee at the Directorate General of Taxes who was involved in tax evasion case and Century case, then finally revealed by Susno Duadji statement which is considered a whistleblower. (Susno Duadji sang Whistle Blower, 2011)

Professional ethics for accounting practice is governed by the 2014 edition of the Code of Ethics for Professional Accountants used by all professional accountants worldwide and issued by the International Federation of Accounts (IFAC). In the book contains five principles of ethical standards such as (1) integrity, (2) objectivity, (3) professional competence and due care, (4) confidentiality, (5) professional behavior. The Indonesian Institute of Certified Public Accountants (IAPI) also issued a code of ethics of public accountant

profession. The code established the basic principles and rules of professional ethics that every individual in the public accounting firm must adopt. It is explained that the basic principles of professional ethics are the principles of integrity, objectivity and competence as well as the attitude of professional precision, prudence, and principles of professional conduct.

There are already enough names listed as whistleblowers or people who report fraud or abuse. Some of them are Sherron Watskin for Enron company case, and Susno Duadji for mafia practice cases in the jurisdiction of Indonesia. Actually the whistleblowers already know the risks that may be received. The consequences of being a whistleblower are the demotion; can lose jobs, and worse is the emergence of retaliation from various parties that disliked a fraudulent disclosure (Near & Miceli, 1985).

This is supported by a study that proves that there are some actions that someone does if they know there are irregularities in the company that is ignoring (inaction), reprimand and talk to the perpetrator (confronting with the wrongdoer), report to the management (reporting to the management), report through internal organization (calling internal hotline), and report through external organization (calling external hotline) (Kaptein, 2011). Furthermore, the 2007 Institute of Business Ethics survey found that one in four employees were aware of a violation but more than half (52%) were silent and did nothing.

Seeing the importance of the whistleblowing, a way is needed to encourage its effectiveness to uncover fraud that occurs within the organization. However, the reality that often happens is that those who do whistleblowing will get a lot of

threats (retaliation). Retaliation is one of the bad consequences of whistleblowing. Research related to retaliation that will be received by employees who do whistleblowing has been widely carried out such as Elliston & Coulson (1982), and Liyanarachchi & Newdick (2009). As a result, people will hesitate to do so in a public area and instead they will do so behind a veil of secrecy (Elliston & Coulson, 1982).

Being a whistleblower is not easy. It takes courage and confidence to do it. This is because a whistleblower does not close the possibility will get the terror of the elements who do not like its existence. However, with an ethical orientation that belongs to each individual, it will encourage them to behave ethically and perceive unethical behavior that occurs within their environment. This is in accordance with the results of the research Sugianto, Habbe, and Tawakkal (2011) that ethical orientation has a significant positive relationship to the student's intention to become a whistleblower.

Forsyth (1992) asserts that the decisive factor of an individual's ethical behavior is their personal moral philosophy. Personal moral philosophy is defined as a set of beliefs, attitudes, and values that provide a framework for remembering ethical dilemmas. To assess an individual's ethical orientation, Forsyth developed a questionnaire called the Ethics Position Questionnaire (EPQ). In the EPQ there are questions that can measure the level of an individual's idealism and relativism. With the existence of EPQ then can be known various perceptions of an individual to an ethical behavior or unethical behavior seen from the level of idealism and relativism them. As an example of the case Agus Sugandhi working in Garut

Government Watch (GGW) an organization that actively oversees corruption in Garut. Agus gets threats against him and his family. However, the government now has made cooperation with various parties to ensure protection and security for a whistleblower. In fact, Minister of Finance issued a whistleblowing system. The system is named WISE was launched on October 5th 2011 in building Djuanda 1 financial ministry complex (Kementerian Keuangan Luncurkan 'Whistleblowing System', 2011).

Whistleblowing, often associated with the accounting profession, reminds us that an accountant should have the courage to disclose the fraud even though it has to endure many risks. Thus an accountant's ethics is of particular concern as stated in Abu Bakar, Ismail, and Mamat (2010) that ethical action recognized as an important element in education and accounting profession. Contrary to the results of research conducted by Ristiyana (2014) that the perceptions of subjective norms, attitudes on behavior and perceptions of behavior control are not proven to affect the intention of accounting students to do whistleblowing.

There are several things that may affect intention to do whistleblowing. First, whistleblowing can be done by anyone, both men and women. On the other hand, there are differences in ethics between men and women. Regarding gender, Schminke, Ambrose, and Miles (2003) indicated that the evidence has shown that men and women differ in terms of ethics, beliefs, values, and behavior. Vermeir and Van Kenhove (2008) indicated that women are more ethical in judgment and behavior than men. It is hoped that women can also become whistleblowers, but in reality women are more likely to be silent and hide fraud, because women are

more likely to think about the impact that will be received if they take a whistleblowing action compared to revealing fraud or violations that occur.

Second, based on reinforcement theory by Skinner (1945), one's behavior will be driven by the need to obtain rewards. Given a reward to someone, can increase the motivation of employees to want to do whistleblowing. Reward given can be in the form of material reward and non-material. Giving rewards is an action done by companies and organizations to motivate employees in doing whistleblowing action. By giving rewards it will give a satisfaction for a whistleblower in expressing cheating. The logic of giving high rewards to employees will increase employee loyalty to the company, so that every employee will be motivated to know there are colleagues and bosses cheating to immediately reveal it, and can minimize the fraud that happened to the company.

Third, efforts to boost the whistleblower's role can at least start from the workplace, such as private companies, government institutions and the public. In those places there is a need for a whistleblower reporting and protection system that needs to be continuously socialized and developed. In addition, Semendawai, et al. (2011) stated that protection system is also important in order that whistleblowers or reporters are not subjected to self-harming treatment, such as dismissal from workplace, physical threats, intimidation or criminalization. The protection that needs to be given is physical protection and legal protection.

One's consideration of uncovering an organized crime scandal should be minimized through a strong whistleblower reporting and protection system. Applicability of reporting and protection systems may encourage a person's

courage to become a disclosure of facts. Sarbanes-Oxley Act 2002, Sections 301 and 806, are specifically designed to encourage whistleblowing and provide protection from employee retaliation which reveals unclear matters regarding accounting and auditing matters. Sections 301 and 806 require the audit committee of directors of publicly listed companies to install anonymous reporting lines to reject and detect accounting fraud and control weaknesses.

Similarly, Indonesian's regulations regarding whistleblowing have been regulated in *Undang-undang Republik Indonesia No. 13 Tahun 2006, tentang Perlindungan Saksi dan Korban* and *Surat Edaran Mahkamah Agung Nomor 4 Tahun 2011 tentang Perlakuan Terhadap Pelapor Tindak Pidana (Whistle Blower) dan Saksi Pelaku Yang Bekerjasama (Justice Collaborator) di dalam Perkara Tindak Pidana*. With the existence of these rules, the whistleblowing system is very important for the organization, so that an effective whistleblowing system is needed, because the reality shows that large fraud cases are revealed by internal parties such as employees or the media, not by the auditor as the party who has the authority to express cheating in the organization.

Whistleblowing can be viewed from two sides, from the auditor's side and from the accountant's side or management accountant. Internal auditors have a job role as those who seek and disclose nonconformities or irregularities in financial reporting. While management accountants and accountants as parties who have a position to observe, participate or have knowledge in financial report fraud (Seifert, Sweeney, Joireman, & Thornton, 2010).

Accountants have an obligation to the organization they serve, their profession, the public and themselves. The Institute of Management Accountants (IMA) in its code of ethics standards for accountants, states that; Management accountants have the responsibility to refrain from disclosing confidential information, confirming bad information, and disclosing all relevant information. Therefore, if an accountant is faced with irregularities, the IMA code of ethics rules state that the accountant has a responsibility to communicate the information about the deviation. Responsibility for the delivery of unfavorable information can be understood as the responsibility of an accountant to behave as a whistleblower (Chiasson, Johnson, & Byington, 1995).

There are many different findings related to the rewards toward whistleblowing intention. Shawver (2008); and Wahyuningsih (2016) found that giving rewards did not have significant effect toward whistleblowing intention. However, Wibisono P (2015); and Putri (2012) found that giving rewards have positive significant effect towards whistleblowing intention.

Based on previous research, Mustapha and Siaw (2012); and Wahyuningsih (2016) found that gender did not have any significant effect toward whistleblowing intention. Meanwhile, Samudra (2014) found that gender can affect the whistleblowing intention.

Based on the background above, this research is intended to examine the factors that influence the students to do whistleblowing as outlined in the thesis titled **“The Effect of Gender, Giving Reward and Legal Protection to Intention to do Whistleblowing (Study on Student Perception in FE UII).”**

1.2 Research Problems

Based on that background, then the identification of the problem that the author put forward is as follows:

1. Does Giving Reward influence on the intention to do whistleblowing?
2. Does the Legal Protection influence the student's intent to do whistleblowing?
3. Does Gender influence on the intention to do whistleblowing?

1.3 Research Limitation

Based on the background and research problem that has been formulated, it is necessary to limit the problem in order to limit discussion and problem solving to be more focused.

1. Research respondents are active students of the Faculty of Economics, Universitas Islam Indonesia, in accounting, economics and management majors.
2. The variables that used to analyze focus on three independent, namely: Reward, Legal Protection, and Gender. While the dependent variable is whistleblowing.

1.4 Research Objectives

As for the purpose of making this research is to test, know and understand:

1. To examine the effect of giving reward on FE UII students' intentions to do whistleblowing.
2. To examine the effect of Legal Protection on FE UII students' intentions to do whistleblowing.

3. To examine the effect of Gender on FE UII students' intentions to do whistleblowing.

1.5 Research Contribution

The research aims to contribute theoretically, below are the contributions of the research:

1. Enrich the study of the concept of whistleblowing to reduce and prevent fraud.
2. Enrich testing the factors that may affect the intention to do whistleblowing such as giving reward, legal protection and gender.

1.6 Systematics of Writing

The writing systems of this research are:

Chapter I: Introduction

In this chapter, the researchers are giving a brief explanation about the research background, problem formulation, study objective, and significance of the research.

Chapter II: Theoretical Review

In this chapter, the researchers are giving a brief explanation about the review of literature about fraud, whistleblowing, gender, giving reward, legal protection, and the development of the hypothesis.

Chapter III: Research Methodology

In this chapter, the researchers are giving a brief explanation about methods that are going to use in this research and how the data that collected being processed.

Chapter IV: Data Analysis and Discussion

In this chapter, the researchers are giving a brief explanation about the data collecting, description of the data, result of the validity and reliability test, and result of the hypothesis after being test.

Chapter V: Conclusions and Recommendations

In this chapter, the researchers are giving a brief explanation about the conclusion based on the research, implications, limitation during the research progress, and also suggestion and recommendation.

