

CHAPTER II

LITERATURE REVIEW

2.1 Theory of Planned Behavior

The theory of Reasoned Action (TRA) was proposed by Fishbein and Ajzen (1975). This theory was further developed by Ajzen (1985) to become the Theory of Planned Behavior (TPB) which is intended to predict individual behavior more specifically. TPB encompasses three components which predict intention to engage in a specific behavior and subsequent event in the behavior. The three components are mentioned as follows:

1. Attitude toward the behavior, i.e. beliefs about behavior or its consequences
2. Subjective Norm, i.e. normative expectations of other people regarding the behaviour
3. Perceived Behavioral Control, i.e. the perceived difficulty or ease on performing the behavior.

TPB is very suitable to explain whistleblowing intentions, in this case actions that are based on very complex psychological processes (Gundlach et al, 2003). Furthermore, Ajzen (2005) said TPB had been widely accepted as a tool to analyze the differences between attitudes and intentions as well as intentions and behaviors.

2.2 Reinforcement Theory

Reinforcement is everything that a leader uses to improve or maintain individual specific responses. Reinforcement motivation theory was proposed by B.F Skinner (1904-1990) and his colleagues. It states that individual behavior is a function of the consequences. This is based on "law of effect", that is, the behavior of individuals with positive consequences tends to be repeated, but the individual behavior of negative consequences tends not to be repeated.

Reinforcement motivation theory faces the internal state of the individual, that is, the inner feelings and control of the individual ignored by Skinner (1945). This theory really focuses on what happens to the individual when he takes several actions. Thus, according to Skinner (1945), the organization's external environment must be designed effectively and positively to motivate employees. There are four types of reinforcement, namely:

1. Positive reinforcement, which is reinforcement carried out towards positive performance;
2. Negative reinforcement, which is reinforcement done because it reduces or stops the situation that is not liked.
3. Extinction (appeasement), which is not confirming a behavior, so that the behavior subsides or extends altogether. This is done to reduce unexpected behavior;
4. Punishment, namely unpleasant consequences of certain behavioral responses.

Reward is an exchange (award) given by a company or service that is given an award, which is broadly divided into two categories, namely:

1. Salary, profit, vacation;
2. Promotions and positions, bonuses, promotions, symbols (stars) and interesting assignments.

2.3 Fraud

SAS No.99 defines fraud as a deliberate act to produce wrong material review in the financial statements. Tuanakotta (2010), explains that fraudulent financial reporting is a deliberate or carelessness in doing something or not doing something that should be done, which causes the financial statements to be misleading materially. PricewaterhouseCoopers (2009) reported that 30% of respondents from the survey which has claimed to have been cheated in the past 12 months. Of the three types of fraud that occur such as accounting fraud, bribery and corruption, as well as misappropriation of assets, the most common type of fraud is accounting fraud which has increased almost four-fold. KPMG (2009) also reported that 65% of executives surveyed stated that cheating is a common risk to their companies. Although fraud cases are frequent, but often internal and external auditors are unable to disclose the fraud. The survey results of the Association of Certified Fraud Examiners (ACFE, 2010) show that internal audit is only capable of detecting fraud as much as 13.7% of cases, while external auditors are only able to detect 4.2% of the total reported fraud cases. Given the difficulty of revealing fraud, whistleblowing is considered to be the most effective method of reporting the fraud that occurs.

2.4 Whistleblowing

Whistleblowing is the disclosure of unlawful, unethical / immoral actions or other acts which may harm the organization or the stakeholders, which is carried out by the employee or the head of the organization to the head of the organization or other institution which may take action on the offense. This disclosure is generally done in confidential terms (KNKG, 2008). The importance of the existence of whistleblowing in disclosing fraud or financial scandals has been widely evident in the early decades of the twenty-first century (Dyck, Morse, & Zingales, 2010). The effectiveness of whistleblowing in disclosing fraudulent financial statements is not only recognized by accountants and regulators in the United States, but also in other countries. The existence of globalization of securities firms trading in the national exchange has also motivated legislatures in various countries to adopt laws designed to enhance and protect the existence of whistleblowing (Miceli, Near, & Dworkin, 2008). Given the importance of the role of whistleblowing in expressing financial fraud, the understanding of underlying factors of intent to report fraud or misuse of assets is a very important topic (Bame-Aldred, Sweeney, & Seifert, 2007)

A whistleblower is often understood as a reporting witness. Whistleblower is someone who provides reports or testimony of an alleged criminal act to law enforcement officials in criminal proceedings. However, to be called a whistleblower, as stated by Semendawai, et al. (2011) the witness must at least meet two basic criteria. The first criterion, whistleblower submit or disclose reports to the competent authorities or to the mass media or the public. By

disclosing to the competent authorities or the mass media it is hoped that a crime allegation can be revealed and uncovered.

In general, the whistleblower will report the crime in its environment to the internal authority first. On the other hand, a whistleblower does not stop reporting crimes to internal authorities when the investigation process report stagnates. They may report crimes to higher authorities, such as directly to boards of directors, commissioners, heads of offices, or to public authorities outside the competent organizations and the media (Semendawai, et al., 2011). This step is done so that there is an internal action of the organization or legal action against the perpetrators involved. It's just that there is an inconceivable tendency that if there is a crime within the organization, then that authority is counterproductive. On the contrary, the organization will close the case instead of disassembling.

The second criterion of whistleblower according to Semendawai et al (2011), a whistleblower is from inside the company, someone who reveals alleged offenses and crimes that occurred in his place of work or he was. Since the crime scandal is always organized, a whistleblower is sometimes part of the perpetrator or the mafia group itself. He was involved in a scandal and then revealed the crime that occurred. Thus, a whistleblower really knows the allegation of an offense or a crime of being or working in an organized group of people suspected of committing a crime, in a company, a public institution, or a government institution.

Reports submitted by whistleblowers are a factual event or really known to the whistleblower, not an untruthful information. Agus Condro's case is the best

example of this. The former member of the House of Representatives of the 1999-2004 periods from the PDI Perjuangan Party revealed to the public that he and some of his colleagues received traveler checks as bribes in the election of the Senior Deputy Governor of Bank Indonesia in the early 2000s.

A whistleblower can in addition be openly addressed to individuals in an organization or scandal, such as Agus Condro with his corrupt politician can also be addressed to internal auditors. Internal auditors have the formal authority to report any irregularities in a company. This formal authority distinguishes the internal auditor from the above individuals in his capacity as a whistleblower.

Miceli, et al. (2008) argues that there are three reasons why an internal auditor can also be considered a whistleblower. First, is having a formal mandate-though not the only organ in the company-to report when something goes wrong. Every employee of the company also has the right to do so as well, although in general internal auditors are more understanding about errors that occur within the company.

Second, internal auditors' reports may conflict with top managers' statements. If managers tend to cover up mistakes in order to polish the company's condition, then the internal auditor's report on mistakes is just the opposite, making the stakeholders discouraged (Miceli, et al., 2008).

Third, the act of uncovering wrongdoing is an act that is rarely asserted in corporate rules. Only a few professional associations emphasize the possibility of reporting errors that have been determined through certain channels within the company. Thus in principle a whistleblower or also called a whistle blower is a

pro-social behavior that emphasizes to help others in healthy an organization or company (Miceli, et al., 2008).

The collapse of Enron and Arthur Andersen is a phenomenon caused by whistleblowing behavior. Spreitzer and Sonenshein (2004) stated that when employees are aware of illegal practices within organizations and dare to disclose this to authorities, whistleblowing is considered a positive deviation act because it is deliberate, and boldly out of the organization's norm. In the whistleblowing literature, there is a controversial debate about factors that motivate individuals to do whistleblowing. Some may see whistleblowers as brave or respectable while others consider whistleblowing as unethical behavior toward their organization (Gundlach, Douglas, & Martinko, 2003). Nonetheless, Appelbaum, Iaconi, and Matousek (2007) argued that whistleblowing acts as aberrant behavior that benefits organizations and society.

The term whistleblowing in Indonesia is identified with the behavior of a person who reports acts that indicate a criminal act of corruption in the organization where the work has access to adequate information on the indications of corruption. In fact, whistleblowing is not only reports corruption, but also other scandals that violate the law and cause harm to the public. The case of whistleblowing that is Agus Condro's case when the rampant news that befell the police related cases broker case scandal. In addition, the submission of bribery information in the election of Senior Deputy of BI conducted by members of parliament.

Appelbaum, et al.,(2007) also stated that the whistleblower's role is enormous to protect the country from more severe losses and lawlessness. However, the risk they face is also great when exposing the crime, ranging from threats to security until expelled from the agency where he worked. Thus, whistleblower is important to protect.

2.4.1 The condition of Whistleblowers in Indonesia

Semendawai, et al.(2011) stated that the testimony of a whistleblower to a witness protection agency can be handled properly if the institution handling the report is expressly stated and acts effectively. However, the extent to which the institution can handle it is better, very much depends on the product laws that govern. For example, there is legal protection in the statutory provisions specifically for whistleblowers.

In Indonesia, awareness of the importance of the reporting system and protection of whistleblowers began to increase. Some institutions, such as the National Committee on Governance Policy (KNKG) continue to promote good governance practices, including in the private sector. Large companies and good management have also begun to implement a reporting system to receive reports from employees or whistleblowers.

However, in Indonesia, there are indeed undeveloped institutions that can receive whistleblower reporting in the private sector. Whistleblower reporting in the private sector is still dominantly handled internally by the company. For example, through an ombudsman institution or an audit team formed by the company or the Company's Board of Commissioners.

While for the government sector, only supervisory institutions or ad hoc State institutions have received reports of alleged deviations from Government officials. For example, the Corruption Eradication Commission (KPK), the Financial Transaction Reporting and Analysis Center (PPATK), the National Police Commission (Kompolnas), the Prosecutorial Commission, the Judicial Commission, the National Human Rights Commission (Komnas HAM) and the Ombudsman (Semendawai, et al., 2011).

The role of the whistleblower in the government sector is not yet evident due to how the reporting mechanism and protection of whistleblowers or whistleblowers have not been fully regulated clearly and explicitly with legislative products. Nonetheless, several institutions, such as the KPK or PPATK, have developed clearer reporting and protection systems. Institutions that have a whistleblower reporting system can actually work with LPSK. LPSK has a clearer reporting system and witness protection because it is explicitly regulated in *Undang-undang Republik Indonesia No. 13 Tahun 2006, tentang Perlindungan Saksi dan Korban*.

Semendawai, et al. (2011) explain that the rules of the game or the provisions of the reporting system seem to have been reinforced. For example, what reports can be reported, what requirements must be met to be able to report, how the follow-up reports have been submitted. Such clear rules are very important to convince the whistleblower that his report regarding an alleged crime is actually being followed up.

Semendawai, et al. (2011) also specified that system errors or whistleblowing disclosure is not only related to the reporting system, but also the whistleblower protection system. The protection system includes protection against whistleblower physically and non-physically.

Physical protection, for example related to the placement of a whistleblower in a safe place, a change of identity, including the protection of whistleblowers family. Through this physical protection, it is expected that the whistleblower can be avoided from acts of revenge, intimidation, or other threats. Non-physical protection regarding whistleblower protection from the risk of dismissal from where they work, criminalized, psychological counseling, and effective communication with institutions that deals with handling reports to ensure the development of the report (Semendawai, et al., 2011). The protection system is also related to giving rewards to whistleblowers.

2.5 Giving Reward

A person's motivation to work depends on the reward he receives and the punishment he will experience later (Arep & Tanjung, 2003). The reinforcement theory of Skinner (1945) is a powerful tool for analyzing control mechanisms for individual behavior. However, it does not focus on the causes of one's behavior. As a result, according to reinforcement theory of Skinner (1945), a person's motivation to work depends on the rewards he receives and the consequences of what he will experience later. This theory states that a person's behavior in the future is formed by the consequences of his current behavior. The results of this theory are part of the incentive systems.

This theory is based on the premise that human behavior is driven by the need to obtain rewards and eliminate unwelcome things (Putri, 2012). Therefore, intended to reinforce the behavior in the organization, the organization can provide a reward for it, and vice versa. One's behavior will be driven by the need to obtain rewards. Reward given can be in the form of material reward and non-material. Giving rewards to employees who want to do whistleblowing aims to motivate employees in expressing fraud or violations that occur, so as to minimize fraud or violations.

2.6 Legal Protection

For a whistleblower, the occurrence of organized crime needs to be realized can damage public life. Law enforcement does not work, the state's income is corrupted, or the adverse effects on other public if the public scandal is not immediately revealed. However, whistleblowing requirements are not without foundation. Strong ethical choice is the basis of all motives of the whistleblower in exposing the fraud. With the values of morality that are believed, a whistleblower is ultimately able to break down various crimes that are usually neatly and organized.

The dominant ethical dilemma surrounding one's consideration to uncover organized crime scandals should be minimized through a reporting system and protection for a strong whistleblower. Fitzgerald (1966) explained about Salmond's legal protection theory that laws aim to integrate and coordinate interests in society because in a traffic interest, the protection of a particular interest can only be done by limiting interests on the other. The legal interest is to

take care of human rights and interests, so the law has the highest authority to determine the human interest that needs to be regulated and protected.

According to Raharjo (2000) the protection of the law is to provide guidance on human rights which are harmed by others and the protection is given to the community to enjoy all the rights granted by law. The law can be enabled to realize protection that is not only adaptive and flexible, but also predictive and anticipatory. Law is needed for those who are weak and not yet strong socially, economically and politically to gain social justice.

In the opinion of Hadjon (1987) legal protection is for the people as a preventive and repressive government action. Preventive legal protection aims to prevent the occurrence of disputes, which direct government actions to be cautious in decision-making based on discretion, and repressive protection aims to resolve disputes, including their handling in the judiciary.

Therefore, the protection system is also important in order that whistleblowers 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.

In the reporting and protection system, a whistleblower cannot carelessly tell testimony to other people, other institutions, or the mass media, when he has

reported an alleged violation or crime to the institution that handles whistleblower reports (Semendawai et al. 2011). The aim is so that witness protection agencies or whistleblowers can truly protect them, and the reports revealed can be examined and followed up by witness protection agencies properly. On the other hand, by entering into a witness protection system, the whistleblower also has rights.

The rights of the whistleblower who is also a witness (reporter) have been regulated in *Undang-undang Republik Indonesia No. 13 Tahun 2006, tentang Perlindungan Saksi dan Korban*. The rights are as follows;

1. Obtain protection from a witness protection agency. Even the family of a whistleblower can get protection. The forms of protection also vary. For example, getting a new identity, safe new residence (safe house), psychological services, and living costs during the period of protection.
2. Provide information or testimony regarding a violation or crime that is known freely, fearlessly or threatened.
3. Obtain information about the follow-up or development of the handling of the Witness Protection Agency against violations or crimes that have been revealed.
4. Obtain remuneration or reward from the State for the testimony that has been revealed because the testimony is able to uncover a greater crime.

2.7 Gender

Gender issues are introduced by social scientists to explain the differences between women and men that are innate as God's creations and those that are

culturally shaped, learned and socialized since childhood. According to Wade and Tavris (2007), the term gender with gender has a different meaning, namely gender is physiological and anatomical attributes that distinguish between men and women, while gender terms are used to show differences between men and women learned. Gender is part of the social system, such as social status, age, and ethnicity. It is an important factor in determining the roles, rights, responsibilities and relationships between men and women. Appearance, attitude, personality, responsibility are behaviors that will form gender.

According to Friedman and Schustack (2008) there are several areas where we can find gender differences that are reliably related to psychological abilities, especially in areas that concern thinking, perception and memory. In general, men (from childhood to adulthood) exhibit better spatial abilities, while women (from childhood to adulthood) show more advanced verbal abilities. Gender differences also certainly have differences in thinking, decision making, and rationalization.

In an exploratory study Roxas and Stoneback (2004) analyzed the responses of students from eight different countries, including Canada and China, to questions about their possible actions for an ethical dilemma. The results show that in Ukraine accounting male students have a higher ethical level than female accounting students; in China female accounting students have a higher level of ethics than their male counterparts. There were no significant differences found with other countries: The United States, Australia, Philippines, Germany, Canada and Thailand. This shows that gender affects ethics.

Based on Coated and Frey (2000), there are two approaches commonly used to provide opinions on the influence of gender on ethical behavior and individual perceptions of unethical behavior, namely a structural approach and socialization approach. A structural approach stating that the differences between men and women are caused by the initial socialization of work and the needs of other roles. Initial socialization is influenced by rewards and incentives given to individuals in a profession. Because the nature and work that is being run forms behavior through a reward and incentive system, men and women will call and develop ethical and moral values together in the same work environment.

Unlike the structural approach, Coated and Frey (2000) explain that the gender socialization approach states that men and women bring a different set of values and values into a work environment and into a learning environment. These differences in values and traits based on gender will be able to influence men and women in making decisions and practices. Men will compete to achieve success and are more likely to violate existing rules because they view achievement as a competition. Whereas women, in contrast to men who emphasize achievement are the ultimate success or relative performance, women will be more concerned with self-performance. Women will be more focused on the process of carrying out the work well and a harmonious working relationship. Hence, women are more obedient to existing regulations and women will be more critical of those who will violate the rule.

2.8 Previous Study

In this section will be explained about the basis of previous research. In this study, reference was made to previous studies from Samudra (2014); Mustapha and Siaw (2012); Rustiarini and Sunarsih (2015); Hawver (2008); Wahyuningsih (2016); Wibisono (2015); and Putri (2012).



Table 2.1
Previous Study

| No. | Author | Variable | | Sample | Findings |
|-----|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Independent | Dependent | | |
| 1. | Samudra (2014) | 1. Seriousness of the problem 2. Gender 3. Academic Performance | Whistleblowing | Accounting Students Universitas Diponegoro and Universitas Dian Nuswantoro | All of the independent variable have a significant influence on the dependent variable |
| 2. | Mustapha and Siaw (2012) | 1. The seriousness of the questionable act 2. Gender 3. Academic Performance | Whistleblowing | Malaysia Accounting Students | The independent variable has positive significant related to the dependent variable, except the relationship between gender with whistleblowing intention is negative. |
| 3. | (RUSTIARINI and SUNARSIH 2015)Rustiarini and Sunarsih (2015) | 1. Attitude toward behavior 2. Subjective Norm 3. Perceived Behavioral Control 4. Intention 5. Behavior | Whistleblowing | Auditor in BPK and BPKP in Bali | All of the independent variable has positive relationship with dependent variable except for variable attitude toward behavior . |

Table 2.1 – Continued

| No. | Author | Variable | | Sample | Findings |
|-----|---------------------|----------------------------------------------------------------------------------|----------------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| | | Independent | Dependent | | |
| 4. | Shawver (2008) | 1. Materiality levels 2. Job Guarantee 3. Cash Reward | Whistleblowing | Accounting Students | The relationship between independent variable and dependent variable is positive, except the relationship between reward and whistleblowing. |
| 5. | Wahyuningsih (2016) | 1. Giving Reward 2. Organization Commitment 3. Gender 4. Period of work | Whistleblowing | Employee of PT PLN Sumatera Barat | The independent variable has positive significant related to the dependent variable, except the variable for giving reward and gender. |
| 6. | Wibisono (2015) | 1. Reward and Punishment 2. Job Rotation | Fraud | Accounting Students Universitas Negeri Yogyakarta | All of the independent variable have positive relationship with the dependent variable. |
| 7. | Putri (2012) | 1. Structural Model 2. Reward Model | Whistleblowing | Accounting Students from Private University in Yogyakarta | The relationship between independent variable and dependent variable is positive. |

2.9 Development of the Hypothesis

2.9.1 Giving Reward Influences on Intention to do Whistleblowing

Giving rewards to a person can help to disclose the fraud that occurred in a company or organization. According Skinner (1945) reinforcement theory is a theory where behavior has a function of the consequences that occur. People are motivated to perform certain behaviors because they are associated with an ever-present reward for the behavior.

The influence of rewards in encouraging individuals to report whistleblowing has been proved by Xu and Ziegenfuss (2008) whose research proves that an internal auditor has a great tendency to report fraud to a higher authority when rewarded. 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 revealing the fraud. The logic of giving high rewards to employees will increase employee loyalty to the company, so 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. Based on the description of theory and supporting research results, formulated the following hypotheses:

H1: Reward has a positive effect toward whistleblowing intention.

2.9.2 Legal Protection Influences on Intention to do Whistleblowing

It should be the role of a whistleblower more highlighted in the life of society. The reason is clear, in order to prevent any crimes that harm the public. Similarly, if the whistleblower works in the private sector, then the roles it plays

can create a more transparent and accountable corporate internal climate. 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 (Nixson, Kalo, Kamello, & Mulyadi, 2013).

In addition, the protection system is 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 (Hadjon, 1987). Applicability of reporting and protection systems may encourage a person's courage to become a disclosure of fraud. Based on the above, the hypothesis is formulated as follows:

H2: Legal protection have positive effect toward whistleblowing intention.

2.9.3 Gender Influences on Intention to do Whistleblowing

Gender is one of the factors that influence a person's intention to do whistleblowing. Gender is a variable that expresses a biological category, so that it is a human nature related to culture and is often considered to be a determinant of a causal relationship in the workplace because of the disparity of power that distinguishes humans, so it has an important role in the socialization process (Slamet, 2001).

Vermeir and Van Kenhove (2008) also explain that based on gender, men and women carry different values and thoughts that can influence ethical decision making, even though they are in the same work environment. Where women use their feelings more to judge whether an action is good or not and women are more obedient to the rules. Women will be more inclined to be quiet and not dare to be a whistleblower, because women are more concerned about the impact that will be received if they reveal the fraud they know. Whereas men use logic more so that men are more likely to engage in whistleblowing. Previous research regarding gender have been tested by Samudra (2014) that male students are more likely to take unethical actions compared to female students so male students are more likely not to do whistleblowing compared to female students. However, Mustapha et, al. (2012) and Wahyuningsih (2016) found that gender is not influence toward intention to do whistleblowing. Based on the description of theory and supporting research results, formulated the following hypotheses:

H3: Gender have positive effect toward whistleblowing intention.

2.10 Research Model

From the explanation and hypotheses that are already explained previously, the proposed research model of this research is showed in Figure 2.1.

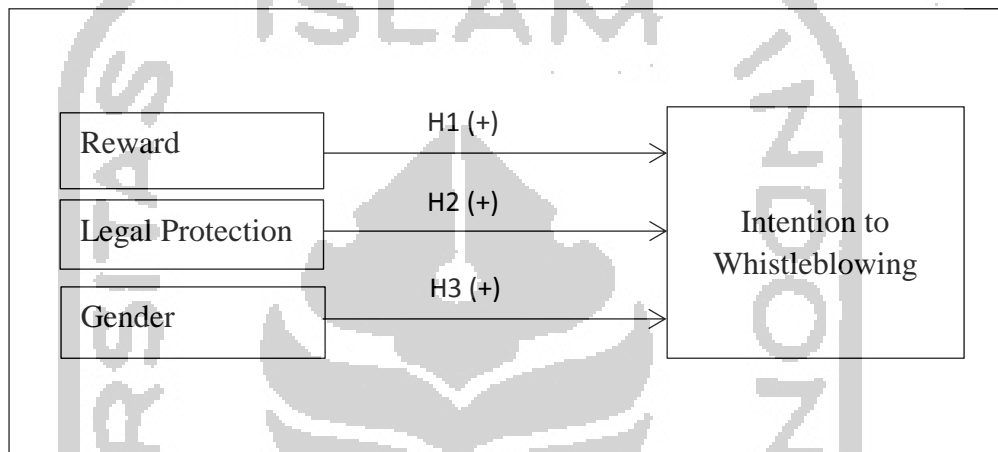


Figure 2.1 Research Model