

CHAPTER I

INTRODUCTION

A. Research Background

The high level of corruption around the world has meant that many companies have to go through a difficult period to survive the crisis. Corruption in the private sector has also occurred in the United States, one of the most well-known cases is the manipulation of accounts in WorldCom's financial statements. Where \$3.8 billion in profit is reported in its financial statements, WorldCom will collect \$3.8 billion, which is the normal operating cost on the investment account. This allows companies to keep costs low for years. With the cessation of these operating expenses, the revenue report will be higher because the costs that are supposed to reduce its profit are reduced. The advantages that look like that would indicate that WorldCom is performing very well.

Meanwhile, in Indonesia the corruption case that was widely discussed on November 16, 2008 was a corruption case of Century bank that cost the country up to Rp. 6.7 trillion. This case dragged many big names, one of them was Budi Mulya, who at that time served as Deputy Governor of Bank Indonesia for Monetary Management in 2007. Budi Mulya is subject to articles on the abuse of authority, opportunity or means available to him in office or office to harm the country's finances and economy. Jiwasraya corruption case is also the most hotly discussed case at the end of 2019 to 2020 because it costs the country up to 32 trillion rupiah, this case began when the Minister of state-owned enterprises, Rini Soemarno reported the alleged corruption to Jiwasraya on October 17, 2019 to the attorney general. A total of 3 people became suspects in this Jiwasraya corruption case, namely Benny Tjokosaputro (President

Director of PT Hanson International Tbk/MYRX), Commissioner of PT Trada Alam Mineral Tbk namely Heru Hidayat and Hary Prasetyo (Finance Director of Jiwasraya period 2013-2018).

The corruption cases mentioned above are only a small part of the corruption cases that occur in Indonesia, even after a decade has passed according to the journal by (Kenny & Warburton, 2020) which discusses corruption cases in Indonesia still puts the cost of corruption at more than 5 percent of global GDP (US\$2.6 trillion) with more than US\$ 1 trillion paid in bribes every year. The results of the study stated that 33.2% of companies reported that they had been asked to pay fees outside the official statement, 30.6% of the reports had made payments of such fees and 35.7% of companies had been used to paying such prohibited fees. Moreover, survey results from the Institute of Business Ethics (2007, as cited in Alfian et al., 2018) stated that one in four employees knew of a violation, but 52% chose to remain silent and did not report the violation. This shows that there is still a lack of individual interest in reporting events that have occurred.

Therefore, whistleblowing system (WBS) is one of the implementations of good corporate governance and a way to help reduce the level of fraud that occurs in organizations. According to Effendi (2009) in his book *The Power of Good Corporate Governance*, the definition of GCG is the company's internal control system whose main goal is to manage significant risks to achieve its business objectives by protecting the company's assets and the investment value of shareholders in the long term. The practice of good corporate governance in a company requires principles to be observed, namely the principles of honesty, transparency, and accountability. In fact, when conducting

good corporate governance, it is not always smooth and stable sometimes the integrity of the company's employees is tested so that it raises issues such as fraud that will disrupt the performance of the company. However, with the whistleblowing system can be the right way to achieve the effectiveness good corporate governance.

According to Brandon (2013), whistleblowing is an action taken by a person or several employees to leak fraud committed by the company or its superiors to other parties. With the existence of whistleblowing in the event of fraud in a company, someone can complain about it both internally and externally (third parties). Although complaining of fraud to internal company parties can have the advantage that there will be no leakage of information to other parties, but it can also have a negative impact, namely that the information about the fraud cannot be reached because the party who received the information may turn out to be the party being reported. Using a third party or external party also has positive and negative sides. The positive side of using a third party is the guarantee that the information about the fraud is fully conveyed and followed up. However, the negative side is that there is a greater possibility for information leakage to the public.

Whistleblowing allows for early prevention of fraud that occurs. The obligation of a person when he finds out that there is fraud is to disclose it. This is in line with the *hadith* which explains that Muslims are prohibited from being silent about the existence of evil. The obligation to change this evil was stated by the Prophet Sallallaahu alaihi wa sallam in one of the authentic *hadiths*:

عن أبي سعيد الخدري رضي الله عنه قال: سمعتُ رسولَ الله صلى الله عليه وسلم يقول: "مَنْ رَأَى مِنْكُمْ مُنْكَرًا فَلْيُغَيِّرْهُ بِيَدِهِ، فَإِنْ لَمْ يَسْتَطِعْ فَبِلِسَانِهِ فَإِنْ

لَمْ يَسْتَطِعْ فَيَقْلِبْهُ، وَذَلِكَ أضعفُ الإِيمَانِ

Abu Said Al-Khudri RA said: I heard Rasulullah Sallallaahualaihi wa sallam said: " If those among you see evil then you should change it with your hands. If you cannot do that, use your words and if you cannot do that, use your heart. Thus, that is how weak the faith is."

Becoming a whistleblower is something that must be considered carefully because it has a lot of risks. Starting from the risk of being considered a traitor for leaking company problems to receiving threats and sanctions of dismissal. However, having a whistleblower is something that is very much needed at this time, when there can be a fraud. There are several factors that can trigger someone to reveal a fraud. The further discussions of those factors are as follows.

The first factor is managerial status, according to Miceli and Near (1984, as cited in Ahmad, 2010) saying that managerial status in a person can reveal the intention to do whistleblowing. This is because someone who is at the top level tends to be more courageous to do whistleblowing than a manager at the lower and middle levels of an organization or company. Etzioni (1987, as cited in Septiani,2013) defines power as a person's ability to make others follow what he wants or follow the norms he supports.

The next factor is organizational commitment. According to Nurkholis (2015) organizational commitment starts from the commitment of a company leader. If the employee is very committed to the company, the employee will side with the company and will carry out the rules according to the company's goals. An employee who is committed also will not easily decide to leave the company and will try his best for the company. This includes if the employee is aware that fraud has occurred at the company

and will have the intention to do whistleblowing. Because of the employee's sense of responsibility, he does not want the company where he works to be destroyed just because of the interests of other employees.

The third factor is locus of control. Locus of control is the belief in individuals that what happens to them is caused by two factors (Hirayappa, 2009). Furthermore, the first factor is self-control (internal factors) and the second factor is beyond self-control (external factors). Locus of control is responsible for how the individual acts regarding the events that happen to them. If someone with a high internal locus of control, they will assume what happens to them is entirely their own responsibility, while if someone with a high external locus of control then they will think that what happens to them is out of control. They tend to blame others as well as destiny.

The next factor that can also influence someone to do whistleblowing is gender. The gender factor will be a consideration for whether someone will do whistleblowing when they see a cheating. Miceli and Near (1985) revealed that men tend to do whistleblowing when compared to women. However, if we look back at some of the cases of fraud that have occurred, such as the well-known female whistleblower case, namely Cynthia Cooper, who is an internal auditor at WorldCom. She reports indications of fraud from WorldCom to the head of the company's audit committee. Therefore, that it does not rule out that being a whistleblower is not only a man but also a woman.

The fifth factor is personal cost, personal cost on a person can affect whistleblowing because it is an employee's view of the risk they might get from the organization or company so that it can reduce an employee's intention to do

whistleblowing (Schultz et al., 1993 in Bagustianto, 2014). The personal cost factor will greatly affect someone if they feel that the level of personal cost on the employee is high. The higher the personal cost they have, the smaller their intention to do whistleblowing. However, the smaller the risk the greater the intention to do whistleblowing.

The last factor is ethnicity. Based on Kontjaraningrat (2001) this factor is based on each ethnic group in Indonesia. Indonesia is famous for its various tribes that exist and spread from Sabang to Merauke. This ethnicity factor can influence a person to have the intention to take whistleblowing action. For example, people with Javanese ethnicity tend to prefer silence if they see violations. This is because Javanese people prefer peace and avoid conflict. This is very different from the employees who come from the Batak tribe in Sumatra, they are more likely to say everything if they feel something is wrong. Therefore, ethnic factors allow it to become a factor that will influence whistleblowing intentions.

Based on the background above, the researchers are interested to conduct research with the title "**the influence of managerial status, organizational commitment, locus of control, personal cost, gender and ethnicity factors on whistleblowing intention**". This research is a replication study from Bernawati and Napitupulu (2018). With independent variabel organizational commitment, managerial status, locus of control, personal cost, gender, and ethnicity. Where in this study the difference with Bernawati and Napitulu (2018) lies in the object of the research samples.

In the previous research owned by Bernawati and Napitulu (2018) using samples from financial and development supervisory bodies (BPKP) in east Java province, while

in this study The researcher samples from banking employees in jambi city. The reason researcher chose to take data on the banking sector is because based on a survey from RSM (2020) as many as 80% of respondents said that the level of fraud in their organization has increased during the corona pandemic. RSM Indonesia is one of the leading public accounting and consulting firms in Indonesia that provides the best audit, taxation and consulting services in various areas critical to the growth and survival of an organization. Where from the survey of 130 respondents as many as 21% is from government, 15% are employees in the banking sector and 14% is from other. Furthermore, bank employees are the second largest respondent in the research survey so that it can be said to affect the results of the survey. Also, the possibility of fraud is relatively high because of the weak internal supervision of the bank and the lack of customer concern for the security of its data. Fraud cases also can occur both internally and externally and with any position whether it is a top-level manager or frontline staff.

Moreover, according to Alfian et al.,(2018) the banking sector has an obligation to implement good corporate governance, this is due to several factors including banks having a dominant role in the economy especially economic growth, the risk involved in running the banking industry is high because it is directly related to financial management and lastly, the increasing competition in the banking business makes business people to always maintain the trust given by customers. This prompted researchers to examine more deeply about the influence of managerial status, organizational commitment, locus of control, gender, personal cost and ethnicity that can influence the intention of whistleblowing to uncover fraud in the banking sector.

B. Problem Formulation

Based on the various things that have been described in the background to the problem, then in brief the problems in this study can be formulated as follows:

1. Managerial Status has a positive effect on whistleblowing intention
2. Organizational commitment has a positive effect on the whistleblowing intention
3. Locus of control has a positive effect on whistleblowing intention
4. Personal cost has a positive effect on whistleblowing intention
5. Gender has a positive effect on whistleblowing intentions
6. Ethnicity has a positive effect on whistleblowing intention

C. Research Objectives

In connection with the background and problem formulations described above, the following are the objectives of this study:

1. To test and find empirical evidence of the effect of managerial status on whistleblowing intention
2. To test and find empirical evidence of the influence of organizational commitment on whistleblowing intention
3. To test and find empirical evidence of the effect of locus of control on whistleblowing intention
4. To test and find empirical evidence of the effect of personal cost on whistleblowing intention

5. To test and find empirical evidence of the influence of gender on whistleblowing intention
6. To test and find empirical evidence of the effect of ethnicity on whistleblowing intention

D. Benefits of Research

The results of this study are expected to contribute, namely:

1. Theoretical Field

- a. For Accounting students, this research can be using a reference in conducting further research related to the factors affecting the intention to do whistleblowing.
- b. For Accounting literature, this research is expected to develop the scope of accounting science, especially in the fields of management accounting, auditing and public sector accounting and can be used as a reference as useful reading material.

2. Practical Field

- a. For member of banking company, this research is expected to be used as reference material by the member of banking company to increase their intention to do whistleblowing. And it is expected to make it easier for companies to implement good corporate governance.
- b. For management in banking institution, this research is expected to make management in banking institution pay more attention to how the whistleblowing system is implemented in their company.
- c. For community, this research is expected to provide information to the public on the importance of whistleblowing and provide education about what a

whistleblowing system is. This can also provide awareness to the public that people can become a whistleblower.

- d. For government, this research is expected to provide a reference for the government to make specific, organized, and appropriate regulations to provide protection for whistleblower.