

Leadership, Reward and Whistleblowing: Experimental Study of Governmental Internal Auditor

*Halim Dedy Perdana¹, Nafsiah Mohamed², Corina Joseph³, Intiyas Utami⁴

¹Universitas Sebelas Maret, Surakarta, Indonesia.

²Accounting Research Institute Universiti Teknologi MARA, Malaysia.

³Universiti Teknologi MARA, Sarawak, Malaysia.

⁴Satya Wacana Christian University, Salatiga, Indonesia)

Abstract

Purpose: This study aims to test the causality of leadership and reward as the organizational factor and whistleblowing intention of governmental internal auditors. **Design/methodology/approach:** The study uses a 2x2 between-subjects true experimental design. The subjects comprise of 107 governmental internal auditors from East Nusa Tenggara and Central Java, Indonesia. **Findings:** The results of this study show that individuals' fraud intention will be higher when they have transformational leadership and reward. **Research limitations/implications (if applicable):** The limitation of this research is that there are some subjects who did not complete the experiment completely. **Practical implications:** The results of this study can be used to design whistleblowing policies in the government sectors. **Social implications:** The existence of a whistleblowing system will encourage parties who find frauds to report them to the leadership or to fraudulent prosecutors. **Originality/value (mandatory):** Whistleblowing research is mostly carried out in the private sector, even though the phenomenon of fraud occurs in the government sector. Thus, the focus of this study is that governmental internal auditors are used to test the causality relationship between leadership styles and rewards in a new research.

Keywords: leadership, whistleblowing, internal auditor

I. INTRODUCTION

Corruption cases in Indonesia are still frequently found by the Corruption Eradication Commission. Currently, Indonesia is at 93th place in Transparency International. In 2018, *Report to the Nations* that was published by the Associate Fraud Examiners [1] showed that whistleblowing can reveal more frauds using monetary payment rather than using internal auditor and management review. Whistleblowing system is an internal control mechanism in an organization to reduce fraud. The term of whistleblowing is derived from members of an organization who are aware of any illegal or fraudulent activities; they report them to the authorities to act against those activities.

Factors that influence whistleblowing intention are situational factor, organizational factor and individual factor [12], Xu & Ziegenfuss (2008) [23], Brink, Lowe, & Victoravich (2013) [7]; Andon, Free, Jidin, Monroe, & Turner (2016) [3]; and Brink, Lowe, & Victoravich (2017) [8] examined whistleblowing intentions associated with reward system

(incentives system). Xu & Ziegenfuss (2008) [23] showed that internal auditors tend to report errors when they obtain cash monetary rewards or employment contract benefits. Organizations can provide various types of rewards, but monetary incentives are considered as more effective than other types of rewards. Brink et al. (2013) [7] investigated the effect of the strength of evidence and monetary incentives on whistleblowing intention in internal and external reporting channels. The results of the study of Brink et al. (2013) [7] show that when evidence is strong, incentives from an organization will increase reporting to the Securities and Exchange Commission (SEC), but intention of reporting to SEC will decrease when the evidence is weak despite incentives are provided.

A leader in an organization has a role in influencing the decisions and behaviors of his members. A leader should be able to realize the goals to be achieved by his organization such as commitment and performance according to organization's standards, trust and dedication. Any illegal or fraudulent actions that violate the applicable rules should be able to overcome by the existence of a leadership. The leadership types that will be discussed in this study are transformational and transactional leaderships.

The focus of performance and all things that need to be done by members of an organization are the processes in achieving of organizational goals [18]. The existence of a reward can be an interesting offer for each individual to improve their performance. This reward is a motivation that can be given to members of an organization so that their performance can be in accordance with existing standards to achieve organizational goals.

This study departs from the phenomenon of cases of Corruption, Collusion, and Nepotism (KKN) within the scope of public sectors in Indonesia. In fact, these cases occur whether accountants are implicated or not. One example is the case of bribery concerning the Unqualified Opinion from the Audit of Financial Statement of the Ministry of Villages, Disadvantaged Regions and Transmigration in 2016.

Theory of Planned Behavior is a theory that can predict ethical or unethical behavior (Ajzen, 1991). This theory is consistent with whistleblowing intention because it needs complicated psychological processes in the disclosure of a fraud. Since the Theory of Planned Behavior can explain attitudes and behaviors, the intention of whistleblowing can be predicted with this theory.

Social Cognitive Theory (SCT) is an important framework in understanding and explaining risky behaviors [22]. This theory is based on the assumption of social-cognitive determinants, i.e. self-efficacy, motivation, expectation, and social support as tools to predict behaviors [5]. Based on this assumption, motivation is the most important factor in achieving long-term success. Motivation is important because it can overcome risky situations that prompt an individual to behave and to make decisions.

Leadership should not indicate illegal acts and fraudulent behaviors. A leader has influence on his members to be free from all fraudulent actions and can even encourage whistleblowing intention [9]. Whistleblowing can be realized through ethical climate, accountability pressure, reporting system, and types of leadership. Meanwhile, the phenomenon in Indonesia is that this country has issued a system containing rewards for whistleblowers which effectiveness of this system needs to be tested to increase whistleblowing intentions.

This study examines the causal relationship between leadership, reward, and whistleblowing. Leadership in this study is based on the transformational and transactional leadership types that can have an impact on whistleblowing reporting coupled with the existence of rewards for each member of an organization. The benefit of theoretical research is to test the theory of planned behavior in the context of the governmental internal auditors in exposing frauds found in the audit process. Practically, this research contributes to the development of proper whistleblowing policies for the government sectors.

II. LITERATURE REVIEW

II.I Theory of Planned Behavior

Theory of Planned Behavior is the development result of Theory of Reasoned Action (TRA). In general, Theory of Planned Behavior explains that an intention is formed and influenced by certain factors. This intention is the beginning of continual behavior of an individual (Ajzen, 1991). Theory of Reasoned Action explains that there are two key factors that affect individual intention, namely, subjective norms and attitude towards behavior. In its development, the Theory of Planned Behavior adds that there are three key factors, namely, attitude towards behavior, subjective norms and perception of behavioral control [19].

Transformational leadership has a specific approach in providing motivation to its members. Transformational leaders understand how to motivate their members through behaviors and practices that they perform. Inspiring motivation is given by transformational leaders through interesting communication with their members [11]. The motivating process is carried out also to challenge members in meeting predetermined standards in achieving future goals [4]. Transformational leaders can provide an ideal example of how a leader sets high standards regarding morals and ethics. Bass (1997) [6] revealed that transformational leadership motivates members to get used to being aware of the importance of the results to be achieved by setting aside personal interests.

Transactional leadership contains communication made by a leader regarding the goals of his organization and in giving an offer in the form of rewards for members in achieving those

goals. Transactional leadership has clear performance targets, observations of members' performance in achieving targets and rewards and punishment. Dimensions in transactional leadership are: (1). Giving of rewards for member performance; and (2). Monitoring violations and deviations committed by members so that they can be corrected. The result of transactional leadership is that individual goals are more emphasized than organizational goals [15].

Givati (2016) [13] examined the reward theory for whistleblowers who disclose frauds. The study was based on an optimal measure of reward for whistleblowers and based on whether to choose an authorized officer or a whistleblower to reveal frauds. The results of the study showed that the reward for whistleblowers is consistent with the existing trend.

Aidoo-buameh (2013) [2] examined the rewards of whistleblowers and their application in organizations that have implemented a whistleblowing system. The results of the study indicated that the organizational reward system for whistleblowing can reduce fraud. It showed that reward system in reporting fraud in an organization can motivate an individual to behave in accordance with established standards.

owing intention than subjects in condition of no reward

II.II Relationship between Leadership and Whistleblowing Intention

Zhu, Avolio, Riggio, & Sosik (2011) [24] found that transformational leadership's positive effect was stronger on attitudes that were consistent with whistleblowing than that of transactional leadership. This stronger impact may be due to the fact that transformational leadership has been overwhelmingly found to have a greater impact on positive outcomes, in general, than transactional leadership. Lowe, Kroeck, & Sivasubramaniam (1996), for instance, conducted a meta-analytic study and found that the correlation between a transactional leadership dimension and outcomes was .41, while it ranged from .60 to .71 with the transformational leadership dimensions. The rationale behind this occurrence is that transformational leadership is caused by intrinsic motivators, which has a more enduring effect on attitudes and behaviors than the periodic extrinsic motivators, like rewards, used by transactional leaders [6; 25]. The transformational leadership that has a greater impact on behaviors of whistleblowing may also be due to transformational leaders' greater ability to motivate followers to set their own ethical standards and moral perspectives [24]. In addition, transformational leaders play a critical role in communicating organizational core values, beliefs, and interests with followers; constructing structures and mechanisms to make ethical decisions; and finally drawing out 'socially responsible changes' in their organizations [14].

H2: Subjects in an organization with transformational leadership type have higher whistleblowing intentions than subjects with transactional leadership

III. RESEARCH METHOD

This study uses an experimental laboratory design with subjects of governmental internal auditors in Kupang, East Nusa Tenggara Province and in Semarang, Central Java Province, Indonesia. The manipulated variables are leadership styles and

rewards, while the dependent variable is whistleblowing intention. The experiment was led by the experimenter in a workshop which was attended by the governmental internal auditors. Internal auditors as the subjects of the experiment were divided into four groups (Table 1). The randomization process was conducted experimentally by distributing four types of experimental modules to all participants randomly.

Table 1. Experimental Matrix 1 for Hypotheses 1

		Leadership Style	
		Transformational	Transactional
Reward	Exist	Group 1	Group 3
	No	Group 2	Group 4

III.I Setting of the Experiment

The experiment presents the situation of government audit activities in the procurement of goods and services in the Department of Education. The scenario in the experiment presents information that there is a whistleblowing system in the Education office. Internal auditors are illustrated that they know there is a fraud in the procurement activities but on the other hand they have to deal with the internal auditor leader who has a leadership style potentially supporting or preventing them from conducting whistleblowing.

The fraud in this experimental scenario in providing manipulation of leadership types (transformational/transactional) as well as in the existence of reward/no reward whistleblowing systems is presented in the procurement of the Office of Education equipment. The fraud is shown in the form of bribery from suppliers who actually do not meet the qualifications to buy goods and services to the procurement team.

The leadership styles are manipulated in two types, i.e. transformational and transactional styles. Transactional leadership style is based on reciprocal relationships between leaders and auditors formed by the presence of rewards (promotions, tourist facilities, and money), supervising directly to subordinates and giving warnings and sanctions to subordinates if there are mistakes. Transformational leadership style is shown by the condition that a leader is able to influence the hearts and minds of his subordinates. Leaders consider subordinates to be meaningful individuals. Transformational leaders are portrayed as leaders who stimulate subordinates to act innovatively and creatively, give attention as mentors and provide useful advices, and motivation and inspiration for all internal auditors as staffs.

The whistleblowing system implemented by the Office of Education provides an opportunity for internal auditors to report various forms of fraud found in the information system. Governmental internal auditors should report the findings in the audit report, though this reporting has the potential to create conflict and pressure faced by internal auditor [26,27]s. The existence of a whistleblowing system will potentially encourage internal auditors to reveal the frauds that they find. The scenario in the experiment is depicted by two conditions, namely, a whistleblowing system with reward and a whistleblowing system without reward. Reward is given in the form of cash as this is the condition occurring in Indonesia. This

condition reflects the true description to provide ecological validity in this study.

III.II Analysis Techniques

The first stage of data processing is checking of manipulation which is giving of five questions to the subjects over the manipulation given. If a subject answers correctly two of the three questions, he is declared to have passed the manipulation. The next stage, the effectiveness of randomization testing was carried out using One Way ANOVA to test whether there is an influence of demographic characteristics (gender, age) on whistleblowing intention. Randomization is declared as effective if the probability of each demographic characteristic is above 0.05. Hypothesis testing was performed using two-way ANOVA, and the hypothesis is accepted if the probability of the independent variable is below 0.05.

IV. RESULT AND DISCUSSION

Experiments were held in two locations, namely, Kupang of East Nusa Tenggara Province and Semarang of Central Java Province. Workshop was used as mechanism of data collection with a topic “anti-fraud system” and the workshop was attended by governmental internal auditors as experimental subjects. One of the events in the workshop was a simulation of an anti-fraud model containing experimental manipulation and was led by the experimenter. The majority of subjects were male, having 3 up to 5 years of service (Table 2).

Table 2. Subjects’ Demographic Characteristics

Demographic Characteristics	Number of Subjects	Percentage
Gender	Male	70 65.4%
	Female	37 34.6%
Length of Work	<3 year	16 15%
	3-5 year	51 47.7%
	≥ 5 year	40 37.4%

IV.I Manipulation Checking

Manipulation checking was done in the form of testing five questions after manipulation given. The first manipulation is the leadership styles (transformational or transactional). Subjects who received leadership manipulation were given five questions about the leadership conditions described in the case. All subjects answered correctly with correct answers above 50%. Thus, the subjects have been internalized in the leadership conditions. Likewise, the questions about reward manipulation have been answered correctly (above 50%). Overall, the test results show that all subjects correctly answered five questions of manipulation checking so that it can be said that all subjects passed the manipulation checking.

IV.II Testing of the Effectiveness of Randomization

Table 3 presents the test of the effectiveness of randomization using one-way ANOVA.

Table 3. Results of the Randomization Test

	F-Statistics	Sig.	Explanation
Sex	0.830	0.590	No Effect
Length of work	0.895	0.533	No Effect
Knowledge of Audit	1.770	0.584	No Effect

One-way ANOVA test shows that all demographic characteristics of our subjects (gender, length of work) exhibit significance value greater than alpha 0.05 respectively. The findings indicate that these three demographic characteristics do not affect the subjects' fraud intention. Thus, our randomization test suggests that the randomization is effective because only manipulation, and not demographic characteristics, affects the dependent variables.

IV.III Hypotheses Testing

IV.III.I Result of Hypothesis 1

Hypothesis testing one with the Independent t-test and our statistical test demonstrates that the mean value of subjects' fraud intention who received the transformational leadership style is 88.2 and transactional leadership style is 65 (sign 0.001, $p \leq 0.05$). The results indicate that subjects with transformational leadership tend to exhibit greater fraud intention than subjects with transactional leadership.

Table 4. Testing Results of Hypothesis 1

	mean	Std Deviation	t	
Transactional (N=56)	65.00	24.64	-	†
Transformational (N=50)	88.20	19.55	-	‡
			4.632	
			4.707	

IV.III.II Result of Hypothesis 2

Hypothesis 2 predicts that individuals in reward condition will exhibit greater fraud intention than subjects in no-reward condition. We test this hypothesis using an independent sample t-test by comparing subjects in reward condition and no-reward condition. The mean of whistleblowing intention for subjects who received manipulation in the form of reward is 83. The mean of whistleblowing intention for subjects who received no-reward manipulation is 52.85. The whistleblowing intention between the two groups that received a reward and no reward showed a significant difference (sign 0.000, $p \leq 0.05$).

Table 5. Testing Results of Hypothesis 2

	Mean	Std Deviation	t	df	Sign
Reward (N=51)	83.13	17.60	6.934	105	0.000
No (N=56)	52.85	26.26	7.060	96.75	

Table 4 explains that the potential mean for undertaking whistleblowing in the treatment of whistleblowing system by giving a high amount of monetary incentives is 90.53 while in the treatment of whistleblowing system by giving a small amount of monetary incentives of 85.38. The statistical test results of H1 interpret the value of Sig. (2-tailed) equal variances assumed in the t-test for equal of means are 0.022 and 0.023, which is smaller than alpha (0.05), so it can be concluded that there are significant differences in the subjects' decision to undertake whistleblowing between control groups with experimental group at a 5 percent probability. The test results show that whistleblowing intentions are based on the amount of monetary incentives that are given in different organizations. The whistleblowing intention with a high amount of monetary incentive is higher than whistleblowing intention with a small amount of monetary incentive.

When employees are confronted with a high amount of monetary incentives in a whistleblowing system, they believe that the monetary incentives actually are used as a behavioral control that can make it easier for them to do whistleblowing, because they tend to do something if they can get benefits from it. With the existence of a reporting system that provides the amount of monetary incentives, employees can be confident that the act of whistleblowing is supported and justified by applicable regulations, thus it creates a social pressure to display certain behaviors. Employees can be sure that a whistleblowing system by providing a high amount of monetary incentives is the right way to prevent fraud.

The result of this hypothesis test supports the research of Xu & Ziegenfuss (2008) [23]; Andon et al. (2016) [3]; and Brink et al. (2013) [7] which show that monetary incentives and individual views of monetary incentives encourage whistleblowing intention. With a certain amount of monetary incentive system, prospective whistleblowers are more motivated to reveal known fraud in the organization. The result of this hypothesis test also supports the research of Brink et al. (2013) [7] which states that the existence of monetary incentives prompts prospective whistleblowers to be more motivated to do whistleblowing. Therefore, a whistleblowing system that provides a high amount of monetary incentives will motivate people because people tend to do something when they are convinced that they can get benefits from it.

V. CONCLUSION

This study gives empirical findings that in government sectors, there is a causal relationship between leadership styles and rewards with whistleblowing intention. Transformational leadership style tends to increase the whistleblowing intention of governmental internal auditors. The existence of rewards will also increase the whistleblowing intention of governmental internal auditors. These findings have implications for the government in designing the right whistleblowing policy. Theoretically, these findings can support the theory of planned behavior in explaining the behavior of governmental internal auditors in their braveness to reveal the frauds that they find.

REFERENCES

- [1] Abubakar, I., & Obansa, S. (2020). An Estimate of Average Cost of Hypertension and its catastrophic effect on the people living with hypertension: Patients'

- perception from two Hospitals in Abuja, Nigeria. *International Journal of Social Sciences and Economic Review*, 2(2), 10-19.
- [2] ACFE. (2018). Report to the Nation: Occupational Fraud and Abuse. Association of Certified Fraud Examiners (2018).
- [3] Ahmad, I., & Ahmad, S. (2018). Multiple Skills and Medium Enterprises' Performance in Punjab Pakistan: A Pilot Study. *Journal of Social Sciences Research*, 7(4), 44-49
- [4] Ahmad, I., & Ahmad, S. (2019). The Mediation Effect of Strategic Planning on The Relationship Between Business Skills and Firm's Performance: Evidence from Medium Enterprises in Punjab, Pakistan. *Opcion*, 35(24), 746-778.
- [5] Ahmad, I., Sahar. (2019). Waste Management Analysis From Economic Environment Sustainability Perspective. *International Journal Of Scientific & Technology Research* 8(12), 1540-1543.
- [6] Aidoo-buameh, J. (2013). The Effect of Entry Grades on Academic Performance of University Accounting Students : A case of Undergraduates of Central University College (Vol. 4).
- [7] Alam, H. R., & Shakir, M. (2019). Causes of the Passive Attitude in Children at Early Grade Level. *International Journal of Social Sciences and Economic Review*, 1(1), 16-21. doi:<https://doi.org/10.36923/ijsser.v1i1.25>
- [8] Andon, P., Free, C., Jidin, R., Monroe, G. S., & Turner, M. J. (2016). The impact of financial incentives and perceptions of seriousness on whistleblowing intention. *Journal of Business Ethics*, 151(1), 165–178. <https://doi.org/10.1007/s10551-016-3215-6>
- [9] Bacha, E., & Walker, S. (2013). The Relationship Between Transformational Leadership and Followers' Perceptions of Fairness Author (s): Eliane Bacha and Sandra Walker Linked references are available on JSTOR for this article : The Relationship Between Transformational Leadership and. In *Journal of Business Ethics* (Vol. 116). <https://doi.org/10.1007/s10551-012-1507-z>
- [10] Bandura, A. (1986). From Thought to Action: Mechanisms of Personal Agency. In *New Zealand Journal of Psychology* (Vol. 15). Retrieved from http://ezproxy.msu.edu/login?url=http://search.proquest.com/docview/617373501?accountid=12598%5Cnhttp://za2uf4ps7f.search.serialssolutions.com/?ctx_ver=Z39.88-2004&ctx_enc=info:ofi/enc:UTF-8&rft_id=info:sid/ProQ%3Apsycinfo&rft_val_fmt=info:ofi/fmt:kev:mtx
- [11] Bass, B. M. (1997). Does the transactional–transformational leadership paradigm transcend organizational and national boundaries? *American Psychologist*, 52(2), 130.
- [12] Bhatti, A., & Akram, H. (2020). The Moderating Role Of Subjective Norms Between Online Shopping Behaviour And Its Determinants. *International Journal of Social Sciences and Economic Review*, 2(2), 1-09. doi:<https://doi.org/10.36923/ijsser.v2i2.52>
- [13] Brink, A. G., Lowe, D. J., & Victoravich, L. M. (2013). The effect of evidence strength and internal rewards on intentions to report fraud in the Dodd Frank Regulatory Environment. In *Auditing: A Journal of Practice & Theory* (Vol. 32).
- [14] Brink, A. G., Lowe, D. J., & Victoravich, L. M. (2017). The public company whistleblowing environment: Perceptions of a wrongful act and monetary attitude. *Accounting and the Public Interest*. <https://doi.org/10.2308/apin-51681>
- [15] Caillier, J. G., & Sa, Y. (2017). Do transformational-oriented leadership and transactional-oriented leadership have an impact on whistle-blowing attitudes? A longitudinal examination conducted in US federal agencies. *Public Management Review*, 19(4), 406–422. <https://doi.org/10.1080/14719037.2016.1177109>
- [16] Dalton, D., & Radtke, R. R. (2013). The Joint Effects of Machiavellianism and Ethical Environment on Whistle-Blowing. *Journal of Business Ethics*, 117(1), 153–172. <https://doi.org/10.1007/s10551-012-1517-x>
- [17] Effelsberg, D., & Solga, M. (2013). Transformational Leaders' In-Group versus Out-Group Orientation: Testing the Link Between Leaders' Organizational Identification, their Willingness to Engage in Unethical Pro-Organizational Behavior, and Follower-Perceived Transformational Leadership. In *Journal of Business Ethics* (Vol. 126). <https://doi.org/10.1007/s10551-013-1972-z>
- [18] Gao, L., & Brink, A. G. (2017). Whistleblowing studies in accounting research: A review of experimental studies on the determinants of whistleblowing. In *Journal of Accounting Literature* (Vol. 38). <https://doi.org/10.1016/j.acclit.2017.05.001>
- [19] Givati, Y. (2016). A theory of whistleblower rewards. In *Journal of Legal Studies* (Vol. 45). <https://doi.org/10.1086/684617>
- [20] Groves, K. S., & LaRocca, M. A. (2011). An Empirical Study of Leader Ethical Values, Transformational and Transactional Leadership, and Follower Attitudes Toward Corporate Social Responsibility. In *Journal of Business Ethics* (Vol. 103). <https://doi.org/10.1007/s10551-011-0877-y>
- [21] Hamstra, M. R. W., Van Yperen, N. W., Wisse, B., & Sassenberg, K. (2014). Transformational and Transactional Leadership and Followers' Achievement Goals. In *Journal of Business and Psychology* (Vol. 29). <https://doi.org/10.1007/s10869-013-9322-9>
- [22] Lowe, K. B., Kroeck, C., & Sivasubramaniam, N. (1996). Kevin B. Lowe*. In *Direct* (Vol. 7).
- [23] Near, J. P., & Miceli, M. P. (1995). *Effective Whistle-Blowing* (Vol. 20).
- [24] Oberfield, Z. W. (2014). Accounting for time: Comparing temporal and atemporal analyses of the business case for diversity management. In *Public Administration Review* (Vol. 74). <https://doi.org/10.1111/puar.12278>
- [25] Park, H., & Blenkinsopp, J. (2009). Whistleblowing as planned behavior - A survey of south korean police officers. In *Journal of Business Ethics* (Vol. 85). <https://doi.org/10.1007/s10551-008-9788-y>
- [26] Seifert, D. L., Sweeney, J. T., Joireman, J., & Thornton, J. M. (2010). The influence of organizational justice on

accountant whistleblowing. *Accounting, Organizations and Society*, 35(7), 707–717.
<https://doi.org/10.1016/j.aos.2010.09.002>

- [27] Taylor, E. Z., & Curtis, M. B. (2013). Whistleblowing in audit firms: Organizational response and power distance. *Behavioral Research in Accounting*, 25(2), 21–43. <https://doi.org/10.2308/bria-50415>