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WHISTLEBLOWING FOR FRAUD: PERSPECTIVE OF LEADERSHIP TYPES AND ACCOUNTABILITY PRESSURE

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ABSTRACT

The increasing number of frauds has become a serious threat to stakeholders. The best method for preventing fraud is to disclose fraud in an organization. This study aims to examine the potential for whistleblowing actions undertaken by employees under transformational and transactional leadership styles. The method used in this study is a 2x2 experiment between research subjects involving 96 undergraduate students of a state university in Central Java. The results of this study prove that the subjects have greater whistleblowing intentions when they are under transformational leadership than transactional leadership, the subjects have greater whistleblowing intentions when they are under high accountability pressure than low accountability pressure, and the interaction between transformational leadership and high accountability pressure has a significant influence on whistleblowing intentions.

Keyword: Whistleblowing, Type of Leadership, Accountability Pressure

1. INTRODUCTION

A 2016 survey conducted by the Association of Certified Fraud Examiners (ACFE) showed that the level of fraud in Indonesia was still quite high, or at 67 percent, and the whistleblowing, at 20.6, percent was the best prevention method. Stakeholders recognize the importance of whistleblowing to detect all forms of irregularities and fraud (Schmidt, 2005). The same thing was also stated by the Organization for Economic Co-operation and Development (OECD) and the Global Economic Crime Survey (GECS) that preventing the deviant act in organizational governance can be done through whistleblowing. The Enron case proves that in manipulating profits there is the involvement of stakeholders in the organization, such as the Enron Finance Director from Andersen public accounting firm, the Board of Directors, and the former Head of Enron's Internal Audit. This can actually be minimized through the role of leader with the appropriate type of leadership and accountability pressure, so as to make individuals comfortable in conducting whistleblowing.

In general, there are two types of leadership: transformational leadership and transactional leadership. Leaders with transformational leadership style motivate employees for organizational goals, while leaders with transactional leadership style motivate employees with rewards for some desired output (Caillier & Sa, 2017). Leadership can be interpreted as a positive thing for the organization and at the same time as a threat, such as the type of leader in an organization that tends to exploit his power so that it can cause ethical dilemmas when individuals are given a distorted order, which in turn can trigger fraud. This consequence is quite severe. Therefore, whistleblowing intention in each individual becomes necessary so that

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the mistakes made by leaders or other parties in the organization can be corrected.

Accountability pressure on units and superiors is important to do, so that the performance of an individual determines the decision-making response, including in terms of whistleblowing. Individuals under the pressure of accountability, when confronted with orders or professional ethics that must be obeyed, will have a sense to account for their actions. Government rules and policies have been designed to protect, reward and support fraud disclosers, but many people still remain silent as a result of the low accountability pressure to have whistleblowing intentions.

This study develops previous studies which connect two types of leadership (transformational leadership and transactional leadership) and add accountability pressure variable to whistleblowing intentions. Caillier and Sa (2017) also conducted a study by examining the types of leadership by adding transactional leadership variable to whistleblowing intentions using the panel data method. Previous research on accountability pressure was conducted by Hoogervorst (2011) and Gberevbie, Joshua, Excellence-Oluye, and Oyeyemi (2017). The results show that the role of leader's accountability has positive effect on behavior in an organization.

Leadership in organizations should not indicate fraud. The figure of the leader must be free from fraud in order to minimize illegal actions committed by individuals that can harm the company (Caillier & Sa, 2017). The Association of Certified Fraud Examiners (ACFE) proves that, based on surveys, the highest number of the causes of fraud (30.3%) is the behavior of superiors who are unable to be a role model. In an organization, accountability pressure is basically able to build conditions that minimize fraud. According to Tetlock (1983), high accountability pressures can increase an accountable decision. On previous research, it was stated that accountability pressure did not lead to fair and moral behavior but deliberately overrode matters in adaptation to social pressure because of accountability (De Cremer & Dijk, 2009). The whistleblowing intention in organizations arises with the encouragement of several factors, such as ethical culture, justice, reporting systems, ethical climate, accountability pressures, and types of leadership. This research focuses on whistleblowing intentions on leadership types and accountability pressures. Comparison of two types of leadership: transformational and transactional leadership, as well as the high and low pressure of accountability with reference to how individuals report fraud using an experimental approach is interesting to study.

This study aims to examine the effect of leadership types (transformational and transactional) and accountability pressure (high and low) on whistleblowing intentions. This study contributes to developing behavioral research, especially in the field of internal auditing through whistleblowing intentions. Practitioners are expected to be able to anticipate organizations related to illegal actions so as to be able to influence the sections under their authority to have whistleblowing intention. This study also provides input to organizations in designing effective whistleblowing policies and procedures.

2. LITERATURE REVIEW AND HYPOTHESIS

Types of Leadership

Transformational leader is a leader who motivates employees for organizational goals (Caillier & Sa, 2017). Each individual is challenged to follow and improve moral and ethical standards, be optimistic about long-term goals, and do their jobs appropriately (Bacha & Walker, 2013). Two-way considerations make individuals feel involved in organizational needs (Grant, 2013). Individuals who are in the type of transformational leadership are driven by the need to fight for a goal and take a higher moral attitude when faced with a matter of interest.

Transactional leader is a leader who communicates a certain goal and offers rewards according to the agreement (Caillier & Sa, 2017). Transactional leaders determine what employees need to do such as setting a focus on performance, observing the achievement of these targets, and individual sanctions are given based on performance for the achievement of organizational targets (Oberfield, 2014). Transactional leaders have an impact on the emergence of individual goals that are not the goals of the organization (Hamstra, Van Yperen, Wisse, & Sassenberg, 2014). Rewards for attracting individuals are the basis for improving their performance, so that individuals in transactional leadership are extrinsically motivated.

Accountability Pressure

According to Gberevbie et al. (2017), accountability is an important concept of successful implementation of organizational policies and programs. Accountability makes individuals act more ethically by thinking that individuals can make strong rejection of negative evaluations by other parties (Buckley, 2001). Each individual justifies his actions and decisions to others, worries about reputation increase and motivation arises to show fair, normative, and socially responsible behavior (De Cremer & Dijk, 2009). Conditions when stakeholders refuse to be responsible for their actions or decisions, according to (Hoogervorst, 2011), can be a strong reason that there are blemishes in which the professionals act in a way that benefits their own interest rather than the common welfare and goodness.

Organizational efforts to meet existing standards show that accountability pressure is able to help the company in meeting this and encourage stakeholders to be careful when making concepts and decisions. Indicators to measure the high and low accountability pressure, according to Libby and Lipe (2006), are how high: (1) the desire to complete the work given; (2) the efforts to complete the work; (3) the confidence in the work inspection by superiors.

Whistleblowing Intention

Whistleblowing is a disclosure, by members of an organization, of illegal actions with the role of superiors to control people or organizations (Michalos & Poff, 2013). Caillier and Sa (2017) define whistleblowing as an effort made by current or past members of the organization with the aim of giving a warning to the public or top management of the organization for acts of fraud that are kept secret by the organization. This whistleblowing treatment makes companies choose this effective way to not tarnish the organization's reputation for illegal actions. Kurniawan, Utami, & Pesudo (2018) explained that accountants and employees of Enron and WorldCom believed that the number of financial statements was incorrect but still chose to remain silent. Conditions in the form of communication with a focus on disclosure of illegal actions relating to the target organization, or parties acting on behalf of the organization for personal gain, become necessary.

Whistleblowing intention can occur due to the roles of four elements: (1) the reporter; (2) complaints or errors reported; (3) organizations, individuals or some people who take part in organizations where they make mistakes; and (4) parties receiving complaints of violations (Dasgupta & Kesharwani, 2010). Companies choose this effective way to maintain the organization's reputation.

HYPOTHESIS DEVELOPMENT

The Effect of Leadership Types on Whistleblowing Intentions

Transformational leader is the leader who cares and supports each individual consideration to improve the quality of relations between employees and leaders and make employees feel comfortable and not threatened by the existence of the leader (Caillier & Sa, 2017).

Transactional leader, with the focus of error correction, makes employees not afraid of doing whistleblowing. This is due to the assumption that they are helping the leader in monitoring efforts (Caillier & Sa, 2017). There should be a higher push so that employees have a whistleblowing intention. This situation proves that the environment created by the leader must be able to reduce individual anxiety about whistleblowing. Transformational leader has a greater effect on whistleblowing intentions because of his ability to motivate individuals to set performance according to existing rules or standards (Zhu, Weichun; Sosik, John J.; Riggio, Ronald E; Yang, 2013). The role in communicating the vision, mission, trust and involvement of each individual related to the structure and mechanism of the organization to implement ethical decisions is capable of creating responsible situations in the organization (Groves & LaRocca, 2011). Thus the first hypothesis can be formulated as follows:

H1: Subjects who are under transformational leadership have higher whistleblowing intentions than those who are under transactional leadership.

The Effect of Accountability Pressure on Whistleblowing Intention

Government Regulation Number 71 of 2010 concerning Government Accounting Standards explains that accountability is the responsibility of managing the implementation of policies on resources to reporting entities to achieve the objectives that have been set regularly. Accountability pressure increases motivation to fight potential objections by others who are not responsible. Motivation is a growing impulse in a person, originating from both within and outside himself to work using all the abilities and skills he has. Accountants are motivated to improve performance internally through their abilities and externally through the pressures of accountability for their performance. The higher the accountability pressure, the higher the potential for reducing fraud and has the impact on the intention, one of which is to complete the work that is determined appropriately (Gberevbie et al., 2017). The existance of accountability pressure not only realizes organizational goals, but also shapes each individual to be able to report more realistic decisions. The second hypothesis can be formulated as follows:

H2: Subjects who are under high accountability pressure have higher whistleblowing intentions than those who are under low accountability pressures.

The Effect of Transformational Leadership and High Accountability Pressure on Whistleblowing Intention

Previous research on the effect of accountability was not focused on leaders. In fact, leaders, as the main role, control other parties over the authority they have (Hoogervorst, 2011). One important way, in which leaders can create good organizational conditions, is by creating situations where individuals are pressured to be able to take responsibility for their performance. Accountability is less successful in creating whistleblowing intentions especially when the leader personally takes benefits from illegal behavior (Hoogervorst, 2011). The transformational leaders who encourage their followers to act morally, even if it is contrary to organizational culture (Caillier & Sa, 2017) and the high pressure of accountability, will put social pressure to produce disapproval of acts of fraud. This condition is able to increase the desire of individuals to disclose fraudulent actions (whistleblowing). Based on the arguments and results of previous research, the third hypothesis can be formulated as follows:

H3: Transformational leadership type and high accountability pressure have an effect on whistleblowing intentions.

3. METHODS

This study used an experimental method with a laboratory-type experiment, using a

2 x 2 factorial experimental design (between subjects). Undergraduate students of the Accounting Study Program of the Faculty of Economics and Business at Satya Wacana Christian University were chosen as subjects. The independent variables used were leadership types in organization and accountability pressure, while the dependent variable was whistleblowing intentions. The whistleblowing intention in this research was measured on a scale of 10 to 100. The research was conducted in a class of accounting students who took an internal audit course in the third year of the even semester as experimental subjects. The research design used was an experimental matrix as shown in Table 1.

The first stage of data analysis is to choose subjects who qualify and do not qualify. The second stage is the One Way Analysis of Variance (ANOVA) to determine the characteristics of influential subjects. The first and second hypotheses testing are processed using the independent t-test. The third hypothesis testing sees the presence or absence of interactions between the two independent variables using a Two-Way Anova.

4. RESULT AND DISCUSSION

Overview of Research Subjects

Female research subjects are 75 people (78.1 percent) and male research subjects are 21 people (21.9 percent). In terms of age, 3 people are 19 years old (3.1 percent); 51 people are 20 years old (53.1 percent); 36 people are 21 years old (37.5 percent), and 6 people are 22 years old (6.2 percent). 82 people (85.4 percent) are in the third year in the even semester of the 2018/2019 school year, while the rest are in the fourth year study period. 8 people (8.3 percent) have a GPA with a range of 2.50-2.99; 50 people (52.1 percent) have a GPA with a range of 3.00-3.50; while the rest have a GPA of more than 3.50.

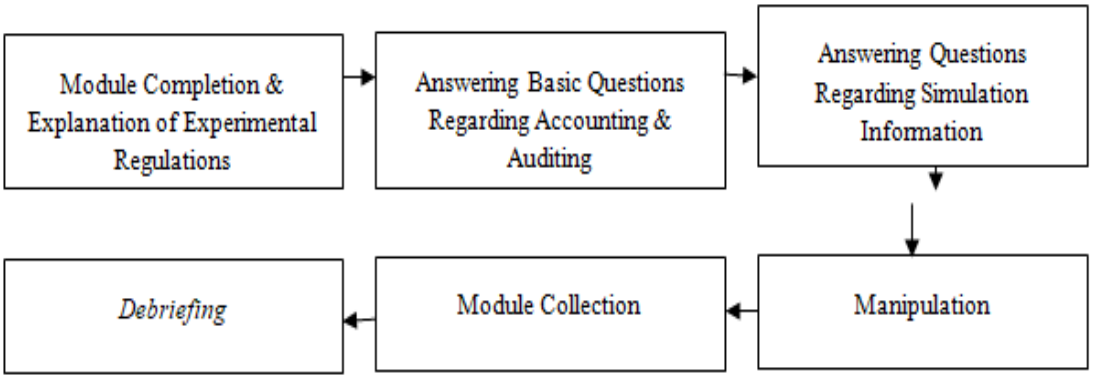
Manipulation Checking and Randomization Testing

The result of manipulation checking shows that all subjects have received treatment manipulation that is in accordance with the concept of leadership through transformational leadership and transactional leadership and accountability pressure. Randomization testing of the subject's demographic profile using the

Table 1. **Research Experiment Matrix**

Transformational		Leadership Types	
		Transactional	
Accountability Pressure	High	Group 1	Group 2
	Low	Group 3	Group 4

Figure 1. **Experiment Flow**



Source: Processed Primary Data, 2019

Table 2. **Results of the First Hypothesis Test**

	Mean	Std. Deviation	t	Sig. (2-tailed)
Leadership:				
Transformational Leadership	84.16	11.998	9.157	0.000
Transactional Leadership	53.75	19.637		

Source: Processed Primary Data, 2019

Table 3. **Results of the Second Hypothesis Testing**

	Mean	Std. Deviation	T	Sig. (2-tailed)
Accountability Pressure:				
High	78.54	199.998	10.250	0.000
Low	38.95	17.777		

Source: Processed Primary Data, 2019

One Way Anova test is conducted to determine whether demographic factors influence decision making. The test results show that the four characteristics (gender, age, Grade PointAverage (GPA) and semester) do not affect the assessment of whistleblowing intentions given by individuals. Randomization is said to be effective because it is only treatment that affects the subject's whistleblowing intentions.

The First Hypothesis Testing
The Effect of Leadership Types on Whistleblowing Intention

Table 2, shows that the individual's whistleblowing intention is higher when he is under transformation leadership, compared to the individual's whistleblowing intention when he gets transactional leadership.

The results of the first hypothesis are in line with the results of previous research on leadership conducted by Groves & LaRocca, (2011); Zhu, Weichun; Sosik, John J.; Riggio, Ronald E .; Yang, (2013); Caillier & Sa (2017) that when staff or employees are under transformational leadership, they do whistleblowing intention without facing retaliation. Transformational leaders who trigger intrinsic motivation are proven to have a greater impact on individual attitudes and behavior, compared to the leaders who use extrinsic motivation and prioritize short-term targets. This happens because these leaders create a non-threatening work environment, thus encouraging openness to differences of opinion. In addition, transformational leaders also increase the desire of individuals to do the right thing when faced with ethical dilemmas.

The Second Hypothesis Testing
The Effect of Accountability Pressure on Whistleblowing Intention

Table 3 shows that whistleblowing intention is higher when the subjects are under high accountability pressure, compared to the whistleblowing intenion when the subjects are under low accountability pressure.

The results of the second hypothesis testing are in line with the results of previous research on accountability pressures conducted by Tetlock (1985); Hoogervorst (2011); Gberevbie et al. (2017)) that subjects who receive high accountability pressure are able to account for their behavior well. Accountability pressure is proven to be able to motivate individuals to continuously improve their work and avoid poor work results. This will further encourage individuals to do ethical things. Individuals are increasingly responsible to other parties to fulfill their obligations and duties according to predetermined standards.

Accountability, in environmental situations that have high consequences such as negative evaluations and the loss of job opportunities in the future, makes individual performance according to the expected standards, and even tend to be higher than the expected standards. Individuals who are oriented towards the interests of the organization, when they are held accountable, will be motivated to engage in behavior that is consistent with the code of ethics, rules and standards in an organization. So, the impact that arises is that individuals will be more careful and earnest in doing their work. This shows that with a high degree of accountability, individuals in an organization will do right things morally, including reporting illegal or unethical activities.

The Third Hypothesis Testing

The Effect of Transformational Leadership and High Accountability Pressure on Whistleblowing Intention

The third hypothesis predicts an interaction between the two independent variables on whistleblowing intentions. The third hypothesis testing is done using a Two-Way Anova by comparing the mean difference between groups that have been divided in the two independent variables.

Based on Table 4, the Sig. Corrected Model value is 0.000 which is smaller than alpha (0.05). This means that all independent variables (type of leadership, accountability pressure, and the interaction between the type of leadership and accountability pressure) significantly influence the dependent variable. So, this model is said to be valid. The variables of type of leadership and accountability pressure have a significant influence on whistleblowing intentions. This is indicated in the type of leadership with Sig. Value of 0.000 and accountability pressure with Sig. Value of 0.000. Likewise, the interaction between leadership types and accountability pressures has a Sig value of 0.000. It can be concluded that the effect of the types of leadership on whistleblowing intentions depends on accountability pressures. Likewise, the effect of accountability pressure on whistleblowing intentions depends on the types of leadership. Therefore, there is an interaction between the types of leadership and accountability pressure.

Table 4. **Test Between Subjects Effect on the Third Hypothesis Data**

Source	Mean Square	Sig.
Corrected Model	13,786,111	0.000
Intercept	299,266,667	0.000
Leadership	9,204,167	0.000
Accountability Pressure	27337,5	0.000
Leadership*Accountability Pressure	4,816,667	0.000

Source: Processed Primary Data, 2019

Table 5. ***Estimated Marginal Means*** **on the Third Hypothesis Data**

	Mean	Std. Error
Leadership		
Transformational Leadership	65.625	2.378
Transactional Leadership	46.042	
Accountability Pressure		
High Accountability Pressure	72.708	2.378
Low Accountability Pressure	38.958	

Source: Processed Primary Data, 2019

The results of this hypothesis testing support the results of previous research conducted by Hoogervorst (2011) and Gberevbie et al. (2017) that the types of leadership and accountability pressure are able to produce resistance to fraud. This indicates an increased individual intention to do whistleblowing in an organization. The results of this research prove that individuals in an organization need to have a high intention to whistleblow over the illegal behavior they know. Whistleblowing intention will increase when it is done in an organization. A leader who is assertive and cares about every employee's consideration that prioritizes work discipline can increase the employee's intention to do whistleblowing. This is also inseparable with the existence of performance standards that are in accordance with the existing code of ethics and organizational rules. Thus, transformational leadership and high accountability pressure encourage individuals within organization, both companies and public accounting firms, do whistleblowing. Organizational and personal reputation, costs incurred, and long-term organizational sustainability are important when driven by an individual's desire to do the right things normally, including whistleblowing.

5. CONCLUSION

The conclusion of this research shows that the subjects will have greater whistleblowing intentions when they are under transformational leadership type than transactional leadership type. So, transformational leadership can be used as an effort to act honestly and increase the intention to do whistleblowing. Second, whistleblowing intentions in an organization will be greater when the subject is under high accountability pressure compared to low accountability pressure. The higher the perceived accountability pressure, the higher the whistleblowing intentions. Employees who experience low accountability pressure in an organization choose to remain silent and not do whistleblowing, even doing what is desired by the perpetrators of fraud that are contrary to professional standards and ethics. Individuals who are under conditions of high accountability pressure will have the courage to do whistleblowing by revealing facts and evidence found. Thus, the whistleblowing intentions carried out by individuals in organizations under high accountability conditions are higher. Third, the interaction between transformational leadership type and high accountability pressure has a significant influence on whistleblowing intentions. The risk of losing their jobs when they have the intention to do whistleblowing is low when getting transformational leadership with high accountability pressure compared to making complaints on transactional leadership with low accountability pressure. The limitation in this research is that the time of the experiment to be carried out was in several stages with different times, thus allowing the permeation of information from a subject od one class to the subject of the next class. This has been anticipated with the time lag that is not too long and the provision of manipulation in situations that are attempted not to differ between classes. Future studies are expected to use a larger sample, for example employees in the company or internal auditors or external auditors, and explore other factors that might influence whistleblowing intentions.

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