

# CHAPTER I

## INTRODUCTION

### A. Background of The Problem

عَنْ أَبِي سَعِيدٍ الْخُدْرِيِّ رَضِيَ اللَّهُ عَنْهُ قَالَ : سَمِعْتُ رَسُولَ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ يَقُولُ : مَنْ رَأَى مِنْكُمْ مُنْكَرًا فَلْيُغَيِّرْهُ بِيَدِهِ، فَإِنْ لَمْ يَسْتَطِعْ فَبِلِسَانِهِ، فَإِنْ لَمْ يَسْتَطِعْ فَبِقَلْبِهِ وَذَلِكَ أَضْعَفُ الْإِيمَانِ

[رواه مسلم]

“Whosoever of you sees an evil one let him change with his hand; If not able, then with his tongue; if he is still unable, then with his heart and that is as weak as faith”. (Muslim)

The Hadith emphasized that as a Muslim we have to be a full Muslim by run all of His commands and stay away from any restrictions. Not only do the *Mahdhab* worship but also the *Ghairu Mahdah* worship. In the aspect of the daily human relationship (*Muamalah*) there is something to be done as a Muslim when looking at an evil that prevents it. Based on the hadith above, every effort must be done until our last ability and do not forget to pray because prayer is the weapon of a believer. Moreover, many occurrence of a wrongdoing in the world of work. Therefore, the role of organization elements is important from the top element to the bottom element to reduce wrongdoing within the organization. One of the action to reduce wrongdoing is to report it or better known as whistleblowing.

The history of whistleblowing began in the early year of 2000 in the case of the largest telecommunications company at that time, WorldCom. This scandal also involved a big company called Enron in the same year that also has an involvement with the beginning of fraud disclosure to the company. Velasquez (2006) explained that one of Enrons' employee was dubbed a courageous whistleblower because the employee was called by the House to explain the Enron scandal, about the accounting activities of the company. This scandal also happened in Indonesia in November 2015. When the Minister of Energy and Mineral Resources at that time reported the Chief of the House to the Court of Appreciation Council. The report contains allegations that the Chief of the House has requested a number of shares to Freeport Indonesia Co. on behalf of the President and Vice President of Republic Indonesia. Although the case has been declared over, the Chief of the House then reports the Minister of Energy and Mineral Resources related to Act of ITE Number 11 Year 2008 on Information and Electronic Transactions. Starting from the biggest fraud incident in history. Then the person who report wrongdoing is considered as a person who blew a whistle when seeing any form of wrongdoing within the organization or company.

Whistleblowing is the disclosure of information about illegal or unethical activities by government and private organizations. Whistleblowing can also improve the internal organizational culture of organizations in both the public and private sector to prevent or reveal mistakes, accidents and improve internal management and efficiency of organization (Banisar, 2011). Whistleblowing is an effort to achieve not only a social

objective but also an economic objective, so the whistleblower expects various parties always support to achieve a common goal, nevertheless, many retaliations block whistleblowing intention (Putri, 2016). This common goal will have a good effect on the existence of an organization because any wrongdoing can be prevented by reporting it to the board of director through the structural model mechanism. A person who reports the wrongdoing in an organization (whistleblowing) is called a whistleblower. A whistleblower is the person who reveals allegations of offenses and crimes that occurred in the organization. Because the crime scandal is always organized, it is common for a whistleblower to be a part of the perpetrator of the crime in the group itself. Because the whistleblower was involved in a scandal and then revealed the crime that occurred.

Considering the importance of whistleblowing, an effective reporting system is needed in an organization to encourage the disclosure of wrongdoing (Putri, 2016). This has led to the formulation of United States federal law, the Sarbanes-Oxley Act 2002 especially Section 301 and 806 which requests audit committees of company directors who have go public to implement anonymous reporting channels to refuse and detect accounting fraud and control weaknesses. Similarly, in Indonesia the regulation on whistleblowing has been regulated in Act Number 13 Year 2006 concerning Protection of Witnesses and Victims and Circular Letter of the Supreme Court 4 Year 2011 on the Treatment of the Discloser of Facts and Witnesses of Perpetrators Working Together.

This regulation is highly relevant to today's organizational conditions, the fact that there are evidence of employees or the media succeed in disclosing cases of major fraud, not by the auditor as an authoritative party. Dyck (2007) proved in his research that media (including academic publications) accounted for 23.5% and 16.8% of employees in the disclosure of the fraud. Only few research related to factors affecting whistleblowing in management accounting or behavioral accounting context, whereas management accountants have full responsibility for the running of financial operational process within an organization. As established in the code of ethics for management accountants at the Institute of Management Accountant, stated that: management accountants have a responsibility to refrain from disclosing confidential information, to confirm unfavorable information and to disclose all relevant information.

So that, any wrongdoing have to be prevented by all stakeholders in the organization, disclosing of wrongdoing causes by few factors such as reward, organizational supporting, horizontal equity, and religiosity. Research that conduct reward as the factor of whistleblowing are Nixon (2013) and Wahyuningsih (2016). While, other factor is Organizational Support that studied by Alleyne and Hudaib (2013) and Saud (2016). Another factor is Horizontal Equity that studied by Moser and Evans (1995), Kim and Evans (2005) and Matuszewski (2010). Different from Burks (2005), Bloodgood and Mudrack (2008) and Walker and Debode (2012) studied Religiosity as the factor of whistleblowing.

Giving rewards believed can encourage the employee to disclose fraud or any kind of wrongdoing. The reward may be a financial reward or another reward likely promotion if the case is big and maybe a legal protection reward from the company for the whistleblower. This statement is supported by the research of Putri (2016) which states that the financial reward encourages employee to do whistleblowing. In other research Nixon (2013) states that there is a legal protection reward for whistleblowers regulated by Indonesia Act and Circular Letter of Indonesia Supreme Court. However, the opposite stated by Wahyuningsih (2016) which is in that research shows that any reward has no significant effect on whistleblowing, this research examines the Empirical Study on PT. PLN (Persero) office of West Sumatera with questioner method that spread to all of the employees.

Organizational supporting is also a determining factor, Alleyne and Hudaib (2013) states that organizational supporting is important for individuals within the organization to disclose or report actions outside the code of ethics. That research is based on the theory of social exchange, in which the sense of duty and belonging to the organization within the employees arises because of the good treatment of the organization so that employees feel they have to fulfill their obligation to give benefit for the organization by responding to all fraud or unethical behavior. This research result is in line with Saud (2016) that organizational supporting has significant influence as moderating variable which strengthens the influence of the perceived behavior control toward the internal-external whistleblowing intention. From these two

studies shows that high organizational supporting positively impact on the behavior of employees or members of the organization to perform a virtue that has benefits for the organization, in this context that is disclosed or report any acts of wrongdoing or whistleblowing

Horizontal equity means equality treatment between an employee and peer. Only few research which examines this factor, as in the context of taxation which done by Kim and Evans (2005); Moser and Evans (1995) that research result is honesty in tax settings reporting affected by equity preferences, this study suggested for next research is to know and understand the combination effect of equity preferences and honesty in a non-tax setting. Whistleblowing is closely related to honesty, for example, is honesty in making managerial reporting, this topic has examined by Matuszewski (2010). The research examines the influence of horizontal equity towards honesty in making managerial reporting. The result shows that honesty will occur when conditions are more favorable to the perpetrator (participant) compare to the peer or in the same condition with the peer, this condition is Horizontal Equity Increased. However, honesty will not occur when conditions are more not favorable to the perpetrator (participant) compare with the peer, this condition is Horizontal Equity Decreased. This research suggested further study should to add or change another dependent variable to be examined.

Religiosity is believed to prevent someone to do fraud and wrongdoing. As stated by (Bloodgood et al., 2008), the research shows that religiosity will be negatively related to the extent of cheating; as a result that highly religious business students will be less likely to cheat than less religious business students. This condition occurs because religiosity is directly related to the moral improvement of the individual. In line with it, religiosity is effects job sanctification and there is a positive relationship between job sanctification and ethical judgment (Walker et al., 2012). However, in other studies also stated that ethics is separated from the concept of religiosity (Burks, 2005). From several studies above, there is an inconsistency relationship between ethics and religiosity.

The research which examines horizontal equity were conducted by Matuszewski (2010) that has similarity topic with this research. That research examined horizontal equity of salary towards honesty in managerial reporting. Honesty in managerial reporting is something that very close to the reporting of wrongdoing in the organization. So that, this research will add new contribution because there is no previous research that examines between horizontal equity towards reporting of wrongdoing or whistleblowing, so researcher intends to examine it.

Based on the explanation of the research gap from some research above and further suggestion from some researches. Researcher takes an interesting subject matter of research and has never been studied before, the researchers filed the title that is:

**The Influence of Horizontal Equity towards Whistleblowing Intention**

## **B. Limitations of Problem**

This study will not be out of the subject as intended, the authors limit the factor that influences the whistleblowing intention, that is horizontal equity. Examining horizontal equity between the participant and the peer's salary amount. In the term of condition when horizontal equity of salary increased, when horizontal equity of salary decreased and when horizontal equity of salary not changed. It uses experimental research method with undergraduate accounting student in the third and fifth semester as the participants.

## **C. Research Question**

Researcher formulated a research question based on the explanation above, as follows:

1. How whistleblowing intention is influenced when horizontal equity is restored?
2. How whistleblowing intention is influenced when horizontal inequity is introduced?

## **D. Research Objective**

This study has the objectives to be achieved by researchers, namely:

1. Examines and finding empirical evidence of horizontal equity influence the whistleblowing
2. Examines and finding empirical evidence of horizontal inequity influence the whistleblowing



## **E. Research Benefit**

There are contributions to knowledge and related parties are certainly expected to be a benefit of this research. The expected benefits of this study are as follows:

### **1. Practical Benefit**

#### **a. Company / Management**

Researchers really hope this research can contribute to providing information that has benefits and of course relevant to the management company to be reference materials in the decision to making good policies related to prevent any wrongdoing and know how to treat an employee. Researcher hopes every company should establish a strong whistleblowing system so that the justice can be upheld.

#### **b. Society**

Researchers really hope this research can contribute to giving awareness and encouragement to the public to be proactive in all operational activities and the company's policies related to wrongdoing preventive action and human resource quality

## **2. Theoretical Benefit**

### **a. Academician**

The results of this study are expected to bring the benefit of insight into the science that can be practiced. To contribute in the form of reference considerations for academics related to the horizontal equity towards whistleblowing. Provide an alternative reference for further research of whistleblowing topic

### **b. Company**

It is expected to be able to inspire companies to pay more attention to the program of establishing and strengthen the whistleblowing system by doing research because wrongdoing can happen anytime not only because of the intentions of the perpetrators but also because there is a chance. So, this compulsory program can be done really earnestly by the company.