

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **A. Theoretical Framework**

##### **1. Theory of Equity**

This theory is usually known as a theory of justice by focusing on the relative comparison between the inputs and the results of other individuals. If a result that received by people shows balance with the of thers receives, then people will feel satisfied. Conversely, if there is an unbalance with the others receive, people will feel dissatisfied, fair or unfair is obtained by comparing what people acquire with others who have equal employment situations. The main components of this theory are:

1. Input refers to the valuable thing for someone which is considered to support his work, such as education, experience, proficiency, effort, working hours, and personal tools used for his work
2. Outcomes refer to the valuable thing which employee earned from his jobs, such as salary, bonus, position, symbols, rewards, and opportunities for success or self-expression.
3. Comparison Person refers to comparing someone in the same company or elsewhere, even same position or same work experience in the past

There are various ways an employee to uphold justice, such as

1. Increase or decrease personal inputs, particularly attempts to persuade comparable people to increase or decrease their personal inputs.
2. Persuading the organization to change the outcome of an employee or peers
3. Abandonment of peer's inputs or outcomes.
4. Choosing a different comparable person.

People who attempt to decrease injustice will be determined by the assessment of the difference of input and result and also the relative costs of alternative reactions in certain situations. The theory of justice has implications for the implementation of employees' performance besides job satisfaction. This theory predicts that an employee will change the input if this action is more feasible than the other reaction to injustice situation.

## **2. Theory of Social Exchange**

Cropanzano (2005) explained the theoretical basis of social exchange is an increasing relationship time by time into mutual trust relationships, loyalty and commitment as long as both parties obey the 'rules' of exchange. Regulations on exchanges generally involve reciprocal relationships or repayment rules in the form of parties actions in response to others actions (Cropanzano, 2005). The social exchange approach integrates trust about how employee treats the organizations and how the organization treats the employee (Eisenberger, R., R. Huntington, S. Hutchinson, 1986). Thus, if employees

believe that the organization treats fairly, then the organization also believes that employees will contribute to the organization

Social exchange theory is also used to describe various studies on attitudes and behavior in economics. In addition, this theory is also used in communication research, for example in the context of interpersonal, group and organizational communication. Therefore, the social exchange theory, add to explaining the attitude in the economic activity and explains the relationship in communication.

### **3. Definition of Whistleblowing**

Miceli (1985) defined whistleblowing as a disclosure by members of the organization about illegal practices, immoral or illegitimate practices under the control of their chairman to employees or organization. Whistleblowing may also be defined as the current efforts or past by members of the organization to alert any wrongdoing to the board of director by structural model or to the public that made and hidden by the organizations (Ahern, 2002). Someone who does whistleblowing are called as whistleblowers. Miceli (1985) explained that people who called as whistleblower has four characteristics, namely (1) employees or ex-employees of cheated organizations; (2) has no authorization to prevent or stop any fraud; (3) allowed or not allowed to create reports; (4) does not occupy positions whose duties require to report or disclose corporate fraud

Whistleblowing can occur through both internal and external. Internal whistleblowing occurs when an employee is knowing of fraud that conduct by another people in the organization and then reports the fraud to the board of director. Meanwhile, an external whistleblowing occurs when an employee is knowing of a fraud that conduct by people in the organization, then report it to outside the organization or law enforcement because the fraud is detrimental to society (Elias, 2008).

Park (2009) explained that whistleblowing is not only internal and external but also consists of four dimensions, namely formal and informal, anonymous and identifiable. The internal and external pathway is an option for the employee. Kaplan (2012) found that whistleblowers behave differently in making the choice of reporting pathways that appropriate for them. Specifically, the results of his research indicate that the whistleblowing intentions in terms of anonymous or identified influences when retaliation action considerate.

#### **4. Definition of Horizontal Equity**

Horizontal equity is a tax principle that states persons with same income or ability to pay should have the same amount of tax burden. Horizontal equity should apply to individuals considered equal regardless of the tax system in place. The more neutral a tax system is the more horizontally equitable it is considered to be.

The term of horizontal equity in some previous research often exists in taxation research because of many cases of taxpayers that have the same job with other taxpayers but different tax amounts. In the context of this study horizontal equity is a condition that describes the similarity of degree or employees' position with his peers who should normatively treated equally. Equal treatment means that equal in daily relationships and salary.

## **B. Hypothesis Development**

### **1. Influence of Horizontal Equity towards Whistleblowing**

In behavioral accounting, research about whistleblowing is still rare to be examined by any researchers. Moreover, especially for examining the variable of horizontal equity towards whistleblowing. The study makes a unique contribution by examining horizontal equity of salary increased, decreased and even not changed compared with peers towards whistleblowing. However, Matuszewski (2010) studied whether changes in the horizontal equity of salary influence the degree of honesty in managerial reporting. Honesty has very close meaning with whistleblowing because someone who has the intention to do whistleblowing certainly has honesty behavioral in daily life. The result shows that honesty in managerial reporting is higher when horizontal equity increase or the organization treated employee fairly than if the organization treated employee unfairly.

Horizontal equity also examined by (Bø, Lambert, & Thoresen, 2012), the research examined factors that affected changes of Norway taxation system in 2006. The result stated that justice in tax payment is reached when government implements the horizontal equity principle. As cited from (Case, 2007) actually horizontal equity is a tax principle, which stated that a person who has the same ability to pay should bear the same tax burden. There other researches that explain what horizontal equity is and examined implementation of horizontal equity in the taxation system, such as (Rosen, 1978) (Moser, D. V., J. H. Evans III, 1995), (Kim and Evans, 2005) and (Elkins, 2006).

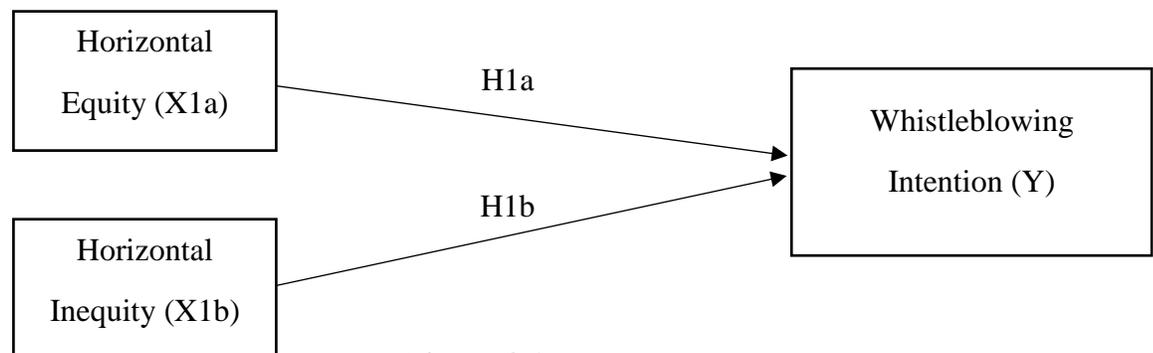
So based on those research, this accounting behavioral research will examine horizontal equity towards whistleblowing by proposing two hypothesis. In equity theory, justice will be felt by the employee if he/she able to obtain appropriate results according to the input (education background of the employee, employees' effort, etc) attempted for an institution and someone will compare the results with the colleagues who are in the same position. When justice has been perceived by the employee, so in accordance with the social exchange theory, a person (or employee) will provide good feedback to the institution because the employee has been treated well by the institution. One of the good feedback from an employee is to maintain the integrity and existence of the institution by reporting any known frauds or wrongdoings that occur within the institution.

However, an employee will also be indifferent to the institution if the employee is not being treated well, especially in terms of salary in accordance with the performance of employees. In this experimental research, the researcher suspects that when the employee is in different condition, so the intention to report the fraud will be different too. Based on that explanation, researcher propose two hypothesis:

H1a: The change in whistleblowing intention will be greater when horizontal equity is restored through a salary increase for the individual (Cell 2) than when it is restored through a salary decrease for his peers (Cell 1).

H1b: The change in whistleblowing intention will be greater when horizontal inequity is introduced through a salary decrease for the individual (Cell 4) than when it is introduced through a salary increase for his peers (Cell 3)

### C. Research Model



Picture 2.1  
Research Model