

Whistleblowing or Not: A Lesson from PT. XYZ

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ABSTRACT: In 2016, NPL in PT. XYZ increased significantly compared to 2015. Fraud, specifically committed by internal parties is one of the contributing factors for NPL. The company makes whistleblowing system via email as media to escalate problems. Even so, the whistleblowing reported in 2015-2017 was not optimal. The objectives of the study were to analyse employee perceptions of whistleblowing system (WBS) in PT. XYZ, to analyse determinants to do whistleblowing and to develop strategies to increase whistleblowing. The results showed that employees of PT. XYZ do not know the whistleblowing system terminology but they understand the concept of the WBS itself. Individual antecedents, which consist of integrity and trust in management, are effective to drive employees to do whistleblowing when the contextual antecedents are not. The strategy to increase whistleblowing is to increase employees' trust in management. PT. XYZ should make decisions which can satisfy employees. The decisions must be made fairly, transparently and to be implemented consistently.

KEY WORD: Whistleblowing, whistleblowing system, fraud, Structural Equation Modeling (SEM)

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I. INTRODUCTION AND LITERATURE REVIEW

In 2017, Indonesia has been developing actively, especially in economic sector. This aligns with the statement of President of Indonesia, Joko Widodo, in his speech on the 72nd Indonesian Independence Day at the House of Representatives (Majelis Permusyawaratan Rakyat) on August 2017 that the government's focus in 2017 is to create and to continue economic equality for all Indonesians¹. The financial service industries, both banks and non-banks, contribute to economic development by credit activities. Even so, the credit activities did not only have positive impacts for the country economy. Nationally, number of non-performing loans in 2016 increased significantly compared to 2015. **Non-Performing Loans (NPLs):** According to Bank Indonesia (2015), "Total loans with substandard, doubt and loss quality." PT. XYZ as one of the non-bank financial services companies also experienced it. In 2015 and 2016, the company's NPL was higher than the national NPL. The high NPL rate affected the company's business continuity. One of the worst impacts is difficult to find loans from banks (funding) because of the unhealthy quality. In mid 2016, PT. ABC as a holding company even threatened to limit the funding if the company's NPL would not decrease significantly. The funding from banks, especially from the holding company, is the main resource to drive company's business activities, so the high NPL is a major issue for management.

Basically, there are three main causes of high NPL or bad credit according to Sunindyo & Wijayanti (2010):

1. Weaknesses from the internal side of the debtor, including external fraud and the decreasing income that cause the debtor can't pay installments.
2. Weaknesses from the internal side of the company, including internal fraud and lack of employees' competency in managing credit.
3. Weaknesses from the external side of the company, which consists of force majeure and environmental changes.

Fraud: According to Komite Nasional Kebijakan Governance (KNKG; 2008), "Dishonest conduct that creates a potential loss or real loss to the company or employees or other people, but is not limited to money theft, goods theft, deception, forgery, which is also included in this action are documents / reports forgery, concealment or destruction, or using fake documents for business purposes, or leaking company information to other parties." The General Guidelines of Indonesian Good Corporate Governance 2006 by KNKG stated that to prevent and detect fraud, each company should facilitate violations report submission (whistleblowing) and protect whistleblowers. **Whistleblowing:** According to Kreshastuti & Prastiwi (2014), "A way of reporting carried out by members of the organization (active or non-active) regarding violations, illegal or immoral actions to parties inside and outside the organization." According to KNKG (2008), one of the benefits of implementing a whistleblowing system is to make people reluctant to commit violations because of trust in an effective reporting system. The existence of a whistleblowing system is not only a channel for reporting

¹Quoted from the news on Kompas.com, August 16, 2017

violations, but also as a form of supervision. Employees are afraid to commit fraud because this system can be used by all employees so that employees can supervise each other and afraid that other employees will report them when they are cheating.

In reducing the level of internal fraud occurrence, PT. XYZ has created a mechanism for reporting violations (whistleblowing systems) via email to escalating problems. In addition, the company has also made a set of rules that requires employees to report fraud or indications to management. Even so, the whistleblowing report received in 2015-2017 was not optimal. This is proven by comparing the frequency of the whistleblowing report with Internal Audit rating and branch performance. The average whistleblowing report received in 2015-2017 was 119 reports per year from 118 branches (± 1 report per branch per year). Even though, nationally, 13% of branches have a "Unsatisfactory" audit rating, 59% of branches have a "Fair" audit rating and only 28% of branches have a "Satisfactory" audit rating. Meanwhile, based on branch performance, 9% of branches are rated as "Red", 36% are "Yellow" and only 55% of branches are rated "Green". By this comparison, the number of whistleblowing reports currently is considered not to represent the actual conditions.

To understand this phenomenon, first, it is necessary to know about employees' perception of whistleblowing.

Perception: According to Kotler & Keller (2012), "The process of selecting, organizing, and translating information input to create meaningful images." Perception depends not only on physical stimulation, but also on the relationship of stimulation to the surrounding area and the conditions in each individual self. Employees' perception of the WBS show the employees' understanding of the concepts and functions of the WBS at the company. Employees, as potential whistleblowers, who know the concepts and functions of the WBS correctly will care more about the implementation of the WBS than employees who do not know.

Brief & Motowidlo (1986) mention whistleblowing as one of the thirteen forms of prosocial organizational behavior. **Prosocial organizational behaviour:** According to Brief & Motowidlo (1986), "Behavior / actions carried out by members of an organization towards individuals, groups, or organizations aimed at improving the welfare of individuals, groups, or organizations." Prosocial behavior might be caused by the motive of caring for oneself or purely by the desire to help others without the desire to take advantage or ask for a reply. Prosocial behavior theory has several antecedent variables which are grouped into two major groups, namely individual antecedents and contextual antecedents. Individual antecedents are aspects derived from individual prosocial actions such as the ability to internalize the standards of justice, individual responsibility for the social environment, ways of moral reasoning and feelings of empathy for others, while contextual antecedents are aspects of the organizational context and work environment such as norms, group cohesiveness, role models, leadership style, organizational climate, pressure, organizational commitment and other things that can affect mood, satisfaction or dissatisfaction.

1.2 Research Objectives

Based on the description above, the objectives of this research are:

1. To analyse the employees' perception of whistleblowing system applied in PT. XYZ.
2. To analyse the determinants of employees' willingness to do whistleblowing.
3. To develop strategy to increase the intensity of whistleblowing.

1.3 Research Methodology and Data Analysis

This research was conducted at the headquarters and nine office branches of PT. XYZ. The location of the research was chosen intentionally (purposive) according to the research needs. The field study was conducted in May 2018. It was a survey research that using primary and secondary data. Primary data was collected via direct research by using a questionnaire, while secondary data was obtained by literature research and company data analysis. The target population of this study were employees of PT. XYZ in the nine selected office branches except for position of field workers (surveyors and collectors). Researcher used purposive sampling method. **Purposive sampling:** According to Hanifah (2016), "A method of sampling that is done by deliberately selecting samples in accordance with the terms and objectives of the study." Respondent data obtained were 149 data.

The collected quantitative data were analyzed by using descriptive statistical methods and Structural Equation Modeling (SEM). Descriptive statistics are used to see the distribution of respondents' perceptions of whistleblowing and SEM is used to see the influences of individual and contextual antecedents to respondents' willingness to do whistleblowing. The implications of the SEM model will be used to develop a strategy for increasing the intensity of whistleblowing. The computer programs that used for this research are Microsoft Excel, SPSS 24 and AMOS 22.

The hypotheses highlighted in this research are (1) there is an influence of individual antecedents to willingness to do whistleblowing and (2) there is an influence of contextual antecedents to willingness to do whistleblowing. In this research, individual antecedents are represented by dimensions of employee integrity

and trust in management, while contextual antecedents are represented by dimensions of WBS administrator responsiveness, feedback for whistleblowing report and corporate culture internalization.

1.3.1 Employees' Perception of Whistleblowing

Measurement of respondents' perceptions of the whistleblowing system is done by measuring respondents' knowledge of the WBS's whole concept. The knowledge includes the definition of WBS; the existence of WBS at PT. XYZ according to the respondent's view; where to report if respondent knows that there are violations; types of violations that must be reported and who can report the violations (whistleblowers). The respondents' perception of whistleblowing can refer to Table 1.

Table 1: Respondents' Perception of Whistleblowing

Respondents' Perception	Category	Ever done Whistleblowing (%)		Willing to do Whistleblowing (%)		Total
		No	Yes	No	Yes	
Definition of WBS	Don't know	53.69	6.71	8.05	52.35	60.40
	Know	34.90	4.70	4.03	35.57	39.60
Existance of WBS	Don't know	55.03	6.71	8.72	53.02	61.74
	Know	33.56	4.70	3.36	34.90	38.26
Where to report the violation	Beside WBS	40.94	0.67	8.05	33.56	41.61
	WBS	47.65	10.74	4.03	54.36	58.39
The types of violations that must be reported	Don't know	25.50	4.70	4.70	25.50	30.20
	Know	63.09	6.71	7.38	62.42	69.80
Who can report the violations	Don't know	7.38	-	2.01	5.37	7.38
	Know	81.21	11.41	10.07	82.55	92.62

Source: Primary data, 2018

Most respondents did not know WBS definition and did not know that PT. XYZ has a WBS. Even so, employees know that if there is a violation, they should report the incident to management via a certain email address which is the WBS media at PT. XYZ. In addition, most employees also know what should be reported and who can report violations via that email. This shows that the employees do not know the terminology of a whistleblowing system but they understand the concept of the WBS itself. It happened due to the socialization of WBS terminology was not carried out at PT. XYZ. Socialization of WBS terminology is considered less important than the socialization of the reporting mechanism.

Based on the Pearson correlation test, it is known that respondents' perceptions of the place to report violations affect the willingness to do whistleblowing. It means that if someone chooses a whistleblowing system as a place to report violations, then that person will be willingly to do whistleblowing (refer to Table 2).

Table 2: Influence of Respondents' Perception and Willingness to do Whistleblowing

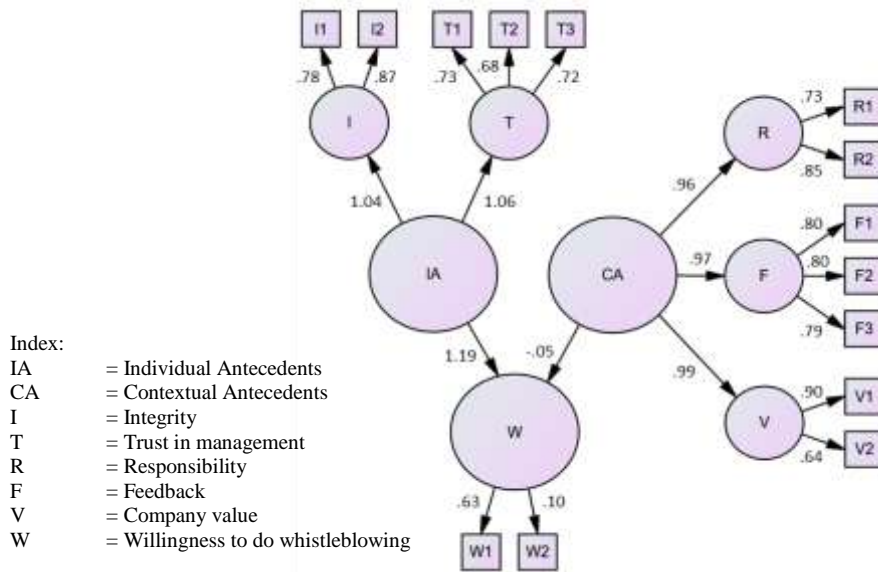
Respondents' Perception	Ever done Whistleblowing	Willing to do Whistleblowing
Definition of WBS	0.012	0.058
Existance of WBS	0.022	0.082
Where to report the violation	0.260**	0.212**
The types of violations that must be reported	-0.086	0.133
Who can report the violations	0.101	0.098

Source: Primary data, 2018

1.3.2 Determinants of Willingness to Do Whistleblowing

Before testing the hypotheses, it is necessary to do validity, reliability and goodness of fit (GOF) test on Structural Equation Modeling (SEM). The validity test shows that the questions asked are able to measure what researcher want to study, and the reliability tests show consistency of questions that if the questions are repeated on the same respondent then the answers obtained will be the same. Meanwhile, the goodness of fit test is conducted to know how well or not well a SEM model is by knowing how fit the model with research data. The validity test is done by looking at the value of loading factors between variables in Structural Equation Modeling (SEM). An indicator is valid if it has a loading factor of >0.5 . Meanwhile, the reliability test is done by looking at the value of the construct reliability (CR) of each variable. The minimum CR value required is 0.7 . Based on results of the validity test, only one of willingness to do whistleblowing indicators (W1) is invalid in which the value of loading factor is <0.5 but it remains left as a calculation requirement in the Amos application (latent variables must have at least 2 indicators). Overall the SEM model is reliable which the CR value is >0.7 . The goodness of fit test shows good results for all indices except the AGFI parameter, but AGFI's value is categorized as marginal fit so that overall SEM model is good (refer to Table 3).

Figure 1: Structural Equation Modelling – Final Model



Source: Primary data, 2018

Table 3: Goodness of Fit Index of Final Model

Goodness of Fit Index	Cut Off Value	Test Result	Information
X ² - Chi Square	≤177.390	76.193	Good Fit
Significance Probability	≥ 0,05	0.077	Good Fit
CMIN/DF	≤ 2,00	1.27	Good Fit
RMSEA	≤ 0,08	0.043	Good Fit
GFI	≥ 0,90	0.932	Good Fit
AGFI	≥ 0,90	0.881	Marginal Fit
TLI	≥ 0,90	0.975	Good Fit
CFI	≥ 0,90	0.983	Good Fit
NFI	≥ 0,90	0.928	Good Fit

Source: Primary data, 2018

The results of hypothesis testing show that individual antecedents have a positive effect on employees' willingness to do whistleblowing. It is indicated by the critical ratio value (C.R.) which is positive and greater than the t-table (4.466 > 1.976) and the significance probability value (P) <0.05. So, hypothesis 1 which states that there is an influence of individual antecedents to willingness to do whistleblowing is accepted. Meanwhile, contextual antecedents have no effect on employees' willingness to do whistleblowing. It is indicated by the critical ratio value (C.R.) <1.976 (-0.359) and the significance probability value (P) >0.05. So, hypothesis 2 which states that there is an influence of contextual antecedents to willingness to do whistleblowing is rejected. The hypothesis testing result can refer to Table 4.

Table 4: Hypothesis Testing (Regression Weights)

	C.R.	P
IA → W	4.466	0.00
CA → W	-0.359	0.72

Source: Primary data, 2018

1.4 Findings and Interpretation

The results of the study revealed that most employees of PT. XYZ does not know the WBS definition and that PT. XYZ has a WBS. Even so, employees know that in case there is a violation, the employee should report the incident to management via email which is the WBS media at PT. XYZ. In addition, employees also know what should be reported and who can report it. It shows that employees of PT. XYZ do not know the terminology of a whistleblowing system but understands the concept of the WBS itself.

Based on the results of SEM analysis, only individual antecedents that have a positive effect on employee's willingness to do whistleblowing while contextual antecedents have not. The individual antecedents consist of employee integrity and employee trust in management. The higher the employee integrity and trust in management, the higher the employee's willingness to do whistleblowing. Meanwhile, contextual antecedents consist of responsiveness and feedback from the WBS administrator and the internalization of the

corporate culture. The contextual antecedents did not affect employees' willingness to do whistleblowing because PT. XYZ has a policy that requires employees to report known violations or fraud. If auditor found that there are employees who are aware of any violations but have not reported it to management via the WBS, then the employees will receive the same sanctions as the offender. This indicates that whistleblowing reporting at PT. XYZ is forced. So, whether there is or there is not a response or feedback from the WBS administrator, it is not a concern for employees to do whistleblowing because the most important thing for employees is to report the violation so they can be free from the sanctions. Corporate culture is also not a part of the employee's consideration to do whistleblowing because the employees who did whistleblowing were more caused by encouragement of fear of sanctions if they do not report the violations rather than were caused by the internalization of the corporate culture. In addition, turnover rate of employees at PT. XYZ is high so that the employees' ownership towards the company is relatively low. It causes employees to care less about the workplace environment. Employees are more likely to focus on their daily routines and work targets. Therefore, even though the company build WBS systems and mechanisms properly, employees still unaffected to do whistleblowing.

Loading factor indicators of latent variable of employee integrity are greater than the loading factor indicators of employee trust in management, but based on the results of the study, the level of employee trust in management is lower than the employee integrity. It shows that although the influence of integrity is greater than trust in management, the integrity of PT. XYZ employees is good already. So, the strategy to increase whistleblowing intensity is to focus on increasing employee trust in management. Something that can be done to increase trust is to make decisions that satisfy employees. Decisions that satisfies employees can be formed in several ways such as:

1. Making fair decisions and ensure everyone is equal before the law.
2. Making transparent decision with a sufficient explanation of the reasons of the decision.
3. Involving employee or union representatives in decision making.
4. Paying attention to the aspirations of employees and provide constructive responses to those aspirations.
5. Ensuring the implementation of decisions runs consistently.
6. Requesting feedback or comments from employees about the implementation of decisions as evaluation for making the next decision.

Of the six points above, only points 2, 3 and 6 have not been implemented at PT. XYZ, while other points have been run to a certain level and can still be improved. At the current situation, decision making is carried out without adequate explanation of why and for what the decision was made, whereas employees will tend to be resistant to a decision if the employee does not understand the reason behind the decision. Decision making also only involves top level management without involving employee representatives. In addition, after a decision has been made and implemented, management does not ask for feedback or comments from the employees as the party who carried out the decision. Input from employee representatives, both before and after decisions are made and carried out, will greatly helps management in making strategic and effective decisions. Employees will also tend to be more committed to implementing a decision if the decision is the result of collective deliberation. Besides, there were employees who did not know the mechanism of whistleblowing yet, even though the knowledge about the mechanism affected the employees' willingness to do whistleblowing. Therefore, it is important to re-promote the whistleblowing mechanism to all employees, such as how to report and what is the media.

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