



Whistleblowing Environment in Indonesian Financial Institutions

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ABSTRACT

This study investigates the whistleblowing environment in Indonesian financial institutions from Indonesian employees' perspective. Using primary data extracted from questionnaires this study to address two issues: investigate and explore the factor that encourages and discourages Indonesian employees to whistleblower in the Indonesian financial industry; and investigate and explore the Indonesian financial company's environment that affects whistleblowing activity. Results were consistent with previous research by Martens and Kelleher (2004), Curtis (2006), Hwang, Staley, Chen and Lan (2008), Dandekar (1991) and Worth (2013) in their relative domains. The Indonesian employees and financial institutions are less influenced by confusion culture (guanxi) which provides some variations in findings from prior research. Generally in Indonesia Financial Institutions there is a positive sign towards whistleblowing activity, "where" companies create a positive environment to support the activity although more could be done by government to regulate and enforce compliance to encourage trust in protecting employees when whistleblowing.

Keywords: Employees perspective, Financial Institutions, Indonesian, Whistleblowing.

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1.0 INTRODUCTION

This study investigates the whistleblowing environment in Indonesian Financial Institutions from Indonesian employees' perspective including ranking factors that both encourage and discourage reporting wrongdoings.

Indonesia in 2014 was ranked 107 out of 175 surveyed countries on the Corruption Perceptions Index (CPI) with a score 34 out of 100, which indicates that Indonesia is perceived as a high corruption level (Transparency International, 2014). Therefore, whistleblowing is an important part of the corporate world to disclose any wrongdoings or unethical actions, which bring harm to the company and others. The employees' perspectives take an important role to determine the decision whether they want to report any wrongdoings activities in the company.

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The primary data for this research consisted of 150 questionnaires distributed to three financial institutions in Jakarta, Indonesia from which 108 were returned and validated. The data is collated in Microsoft Excel and analysed with SPSS. Whilst acknowledging the limitations in respect to number of respondents and number of financial institutions it does provide the general climate within the industry and insight into the specific financial institutions to detect and reduce the losses from corruption, fraud or any wrongdoings activities.

Results are consistent with prior research by [Hwang, Staley, Chen, and Lan \(2008\)](#) amongst others with slight variations explained by the Confucius cultural dimension used in prior research. Indonesian employees are less likely to seek retribution individually rather than with the help from the organisation compared to [Curtis \(2006\)](#) research in Dallas USA where job protection is more developed and a culture of less corruption (USA ranked 17/175 CPI 2014) than Indonesia ([Transparency International, 2014](#)).

Recommendations from findings include more robust process and procedures and strong commitment from senior management in fostering the environment for whistleblowing in light of the social propensity for corruption in Indonesia.

This study will firstly discuss the prior research followed by the methodology employed in this research leading to the results and discussion and ultimately conclusion and recommendations.

2.0 PRIOR RESEARCH

There are many definition of whistleblowing in the workplace for example [Miceli and Near \(1992\)](#) define whistleblowing as reporting wrongdoing to an individual or organisation believed to have the power to stop it. [Camerer \(2001\)](#) suggest whistleblowing generally as including calling public attention to wrongful acts, usually in order to avert harm. [Anwar \(2003\)](#) describe whistleblowing as disclosure of information that the person reasonably believes to be evidence of contravention of any laws, regulation or information that involves mismanagement corruption or abuse of authority. [GOV. UK \(2015\)](#) explains a whistleblower is a worker and reports certain types of wrongdoing. This will usually be something seen at work - though not always. A whistleblower is protected by law where employees should not be treated unfairly or lose their job as a result of whistleblowing in the public interest.

The key theme amongst all researchers is protection of individuals who expose illegal and unethical behaviour that causes harm to the organisation or public where the disclosure is in the public interest.

Whistleblowing is an important activity especially in the workplace in Indonesia given its ranking in country corruption ([Transparency International, 2014](#)). This activity will help the company or organisation to reduce or prevent the unethical behaviours that will lead the company to suffer from huge monetary loss. There are several things are thought to be correlated with the intention of whistleblowing. For instance, the perception of whistleblowing, the factors that encourage or discourage whistle-blowing and the company's environment which also affect the intention of the employees to blow the whistle ([Curtis 2006; Hwang, Staley, Chen, and Lan 2008; Mustapha and Siaw, 2012](#)).

2.01 FACTOR THAT AFFECT WHISTLEBLOWING

The indulgence to or not to file a report of wrongdoings act in the organisation is caused by ethical, cultural, personal and the consequence that will affect their professional career ([Brody, Coulter and Mihalek, 1998](#)).

[Hwang, Staley, Chen, and Lan \(2008\)](#) research shows that the most important factor that will encourage whistleblowing is a general sense of morality and followed by the policy of the organisation that highlighted the whistleblowing activity. The other factors such as monetary reward, promotion, peer encouragement and job protection are not consider as important factor that will encourage them to whistleblow.

Ravishankar (2002) found the barriers to whistleblow internally are lack of trust in the internal system, unwillingness of employees to be “snitches”, misguided union solidarity, and belief that management is not held to the same standard, fear of retaliation and fear of alienation from peers. According to Vinten (1997) and Hwang, Staley, Chen, and Lan (2008) the fear of retaliation from management and organisation, also the fear of media coverage is the highest factors that discouraging people to whistleblow although in a Confucius cultural environment.

2.02 COMPANY’S ENVIRONMENT

The research by Curtis (2006) found that the organisational factors are vitally important, as the organisational culture is a determining factor of an individual’s enthusiasm to whistleblow. This ties into Hwang, Staley, Chen, and Lan (2008) research about Confucius culture impact on encouragement and discouragement dimension. Martens and Kelleher (2004) identified the hotline is important for the employees to report any wrongdoings as part of the company environment from the management side. The trust and willingness to further investigate the report confidentially of the whistleblowers identity are important factors that influence the whistleblower to report a case is highlighted in the work by Curtis (2006).

2.03 WHISTLEBLOWING PROTECTION IN INDONESIA

Whistleblowing in Indonesia comes under the authority of Komisi Pemberantasan Korupsi (KPK) (Corruption Eradication Commission). KPK was established in 2003 with the vision to become an anti-corruption drive institution of integrity, effective and efficient. KPK is a place to report corruption with these following criteria:

1. Comply with the Provision of Articles 11 of the laws of the Republic Indonesia No. 30 year 2002.
 - a. Involving law enforcement officers, state officials, and others in connection with acts of corruption committed by law enforcement officials or state officials.
 - b. Gained attention which plaguing the society; and/or
 - c. Concerning the state losses of at least Rp1,000,000,000 (one billion rupiah).
2. Explain who, did what, when, where, why and how.
3. Equipped with preliminary evidence (data, documents, images and recordings) that support/explain the TPK (Tindak Pidana Korupsi or criminal acts of corruption).
4. Expected to come with the data resources for further details.

KPK (2002) described a whistleblower as a person who reported acts of potential corruption that occurred within the organisation in which he/she works, and he/she has access to sufficient information on the indication of such corruption. An employee can report a corruption case that is being perpetrated by their senior to the internal supervision team in the company but there is no guarantee that the whistleblower identity will be kept confidential, however when reported to KPK, identity remains confidential.

3.0 METHODOLOGY

This study is twofold, firstly exploratory research using both secondary and primary data from questionnaires and secondly exploratory research about whistleblowing environment provided by these Indonesian Financial Institutions.

The survey is based on the questionnaire by Hwang, Staley, Chen, and Lan (2008) who investigated whistleblowing in Taiwan and used as a reference for comparison. It was distributed to 150 Indonesian employees in three financial institution located in Jakarta, Indonesia. The choice of financial institution is based on access provided to the researcher and limited time and resources. The secondary data is collated from various sources such as academic and industry journals, reference books, articles and

websites. Secondary research into documented processes in the three (3) Indonesian Financial institutions supported by interviews is used to conduct the second part of this research and objective 3.

3.01 OBJECTIVES

1. Investigate and explore the factor that encourages and discourages Indonesian employees to whistleblowing in the Indonesian financial industry.
2. Investigate and explore the Indonesian financial company’s environment that affects whistleblowing activity.

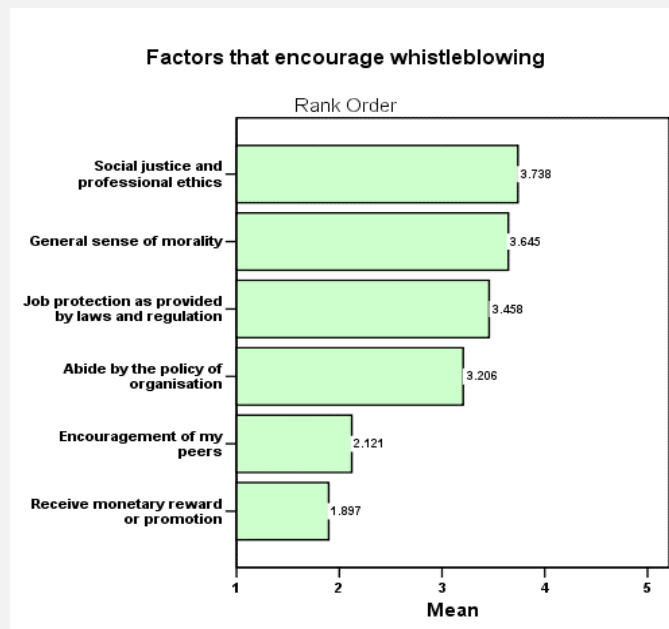
4.0 RESULTS AND DISCUSSION

4.01 FACTOR THAT ENCOURAGE WHISTLEBLOWING

As a basis for comparison, the factors used in this study originate from research by [Hwang, Staley, Chen, and Lan \(2008\)](#) who investigated whistleblowing in Taiwan. Their research shows that the most important factor that encourage whistleblowing in rank order were: (1) General sense of morality, (2) Social justice and professional ethics, (3) Abide by the policy of organisation, (4) Encouragement of my peers, (5) Job protection as provided by laws and regulation, (6) Receive monetary reward or promotion.

The six factors identified above that encourage the whistleblowing from this study had the following results. The results follow a similar ranking to [Hwang, Staley, Chen, and Lan \(2008\)](#) as there is marginal insignificant between (1) Social justice and professional ethics and (2) General sense of morality only a 0.093 mean difference, whereas [Hwang, Staley, Chen, and Lan \(2008\)](#) had 0.20 mean difference between rank 1 and 2.

Figure 01: Factors that encourage whistleblowing



Last rank (6) Receive monetary reward or promotion also similarly ranked position in the previous study. Even though monetary reward is the lowest factor that encourages the whistleblower in the financial institution in Indonesia, [Kelton \(2009\)](#) shows that as monetary reward is still part that encourages the whistleblowers to report any investor fraud happen in the Wall Street. The SEC Chairman Mary L. Schapiro reported in November 2012, "In just its first year, the whistleblower program already has proven to be a valuable tool in helping us ferret out financial fraud. When insiders provide us with high-quality road

maps of fraudulent wrongdoing, it reduces the length of time we spend investigating and saves the agency substantial resources." (Verschoor, 2013).

The most differences were (3) Job protection as provided by laws and regulation and (4) Abide by the policy of organisation which in the context of Hwang, Staley, Chen, and Lan (2008) research into confusion cultural effects in Taiwan (*guanxi*) explains the lower ranking of the Job protection as provided by laws and regulation ranked (5).

Overall, the findings from Hwang, Staley, Chen, and Lan (2008) are supported by the slight variances due to the cultural differences between the two studies and thus partly address objective 1 above.

4.02 FACTOR THAT DISCOURAGE WHISTLEBLOWING

As with encouragement factors the factors used in this study originate from research by Hwang, Staley, Chen and Lan (2008) for comparative purposes.

| Discourage factors (Rank order) | Mean | Hwang, Staley, Chen, and Lan (2008) Rank |
|---------------------------------|-------|--|
| Strong legal system | 3.196 | 4 |
| Strong internal control system | 3.167 | 5 |
| Receive attention from media | 2.870 | 2 |
| Retaliate | 2.602 | 1 |
| Ethic of reciprocity | 2.241 | 3 |
| Proverbs bias | 2.222 | 7 |
| Moral consciousness | 2.148 | 8 |
| Religious bias | 2.028 | 9 |
| Feeling of betrayal | 2.000 | 6 |

There was more variability in rankings between this study compared to Hwang, Staley, Chen, and Lan (2008), again the context of *guanxi* in the Taiwan study not present in Indonesia study can point to this variability. Retaliation by the organisation (4) in Indonesia is less prevalent than in Taiwan (1). Low variability in the lower ranked factors is not significant and a larger sample could result in rankings that are more comparable. These findings complete objective 1 above.

The research by Hwang, Staley, Chen, and Lan (2008) identifies attention from media is included in the top three factors that discourage employees to whistleblow. Research by Vinten (1997), Lennane (1996), and Weiss (1994) also support these findings where the whistleblowers are facing the negative consequences such as being terminated, media attention and revenge from the perpetrators or organisation.

Research by Hwang, Staley, Chen, and Lan (2008) where the lowest factors that can discourage employees to whistleblow are: moral consciousness frowns, religion frowns and feeling of betraying the company. Dandekar (1991) and Worth (2013) reveal that the whistleblower is having the feeling of betraying the company by the action they taken, so they are reluctant to report the wrongdoings in the company. Although the whistleblower may break their own ethical code if they failed to report the wrongdoings (Loeb and Cory, 1989), but they feel that it is too risky to blow the whistle.

4.03 COMPANY'S ENVIRONMENT ANALYSIS THAT AFFECT WHISTLEBLOWING ACTIVITY

The factors used in this study originate from research by Curtis (2006) who investigated whistleblowing in Dallas USA.

| Environment factors | Positive Response |
|-------------------------|-------------------|
| Availability of hotline | 65% |

| | | |
|--|-----|------------|
| Trust the report will be investigated | 90% | |
| Existence of code of conduct | 76% | 19% unsure |
| Foster conscience and trust | 95% | |
| Seek retribution if identity is being spread | 71% | |
| Company assist in seeking retribution | 76% | |

The finding reveals that approximately two thirds (65%) of the respondents have knowledge of the company providing a hotline where they can report any wrongdoings. Those employees who are not aware approximately one-third (35%) demonstrates the companies should increase their efforts to frequently update or inform the current and new employees about the hotline. Martens and Kelleher (2004) reveals the hotline is important for the employees to report any wrongdoings.

The trust and willingness to further investigate the report of wrongdoing and confidentiality of the whistleblowers identity are important factors that influence the whistleblower to report a case. This study indicates that most (90%) employees believe their report to the hotline will be investigated and kept private and confidential. The study also identifies that approximately half of the respondents still do not fully trust (somewhat trust – 52%) the hotline will lead to the hesitation to report any further incidents. This result agrees with previous result by Curtis (2006) as the respondents concur that the investigation and confidentiality should exist when they report wrongdoings to the hotline.

The respondents indicate a strong awareness of company code of conduct that requires them to report any unethical acts. Even though, some respondents are unsure about the code of conduct and 5% of respondents say there is no code of conduct; however, it demonstrates that there is good communication where the employees are knowledgeable about the company's code of conduct. In the future, the company may have to do better to inform and remind all of their employees about the company's code of conduct. This result shows that the Indonesian employees have higher awareness compare to the Dallas respondents that the code of conduct does exist (Curtis 2006).

The majority of the respondents (76%) indicated the company's foster conscience and trust, which impacts directly to intention and perception of whistleblowing. This result is in line with the previous research by Curtis (2006). According to the result, the company shows that they are aware of this issue and the environment is preventing any untrustworthy action to happen.

The last two questions (5 and 6) refer to retribution seeking if the respondent's identity is being spread. Approximately three quarters (71%) of respondents indicate that they will or likely to seek retribution by themselves, this corresponds with the same results by Curtis (2006).

When asking the company for assistance in seeking retribution from disclosure, most of the respondents (65%) indicated there is a possibility to ask the company for the retribution seeking and more people say no retribution seeking rather than yes, the result differs slightly from the previous research by Curtis (2006). The USA having a more robust legal protection and cultural view towards corruption in society and organizations. These results address objective 2 above.

5.0 CONCLUSIONS

Today, whistleblowing is an important part of the corporate world to disclose any wrongdoings or unethical actions that bring harm to the company and others. The employees' perspectives take an important role to determine the decision whether they want to report any wrongdoings activities in the company or not.

The strong factors that encourage the employees to whistleblow are their social justice and professional ethics, their moral and the laws that give the guidelines and protect whistleblower. On the other hand, the strong factors that discourage whistleblower are the company's legal system and internal control, media coverage, fear of retaliation by either the company or the perpetrators.

In Indonesia, there is a positive sign towards whistleblowing activity, “where” companies create a positive environment to support the activity. Most employees are aware about hotline availability and the majority trusts the hotline that the report will be investigated and any information remain private and confidential. While at the same time, the company has a strong code of ethics, and foster conscience and trust within the employees. Nevertheless, most of the employees are not sure to seek any retribution, either individually or with the help of the company, if their identity as a whistleblower is leaked.

Trust is central to encouraging employees to whistleblow and whilst Indonesia provides some basic legislative framework in supporting this, it still lags behind other OECD countries that have more robust regulation and penalties for companies that violate protection and thus undermining the trust needed to foster the environment to freely whistleblow in the internet of the public.

6.0 RECOMMENDATIONS

The creation of whistleblowing procedures and whistleblower protection act are important. The written guidelines are part of the proof and assurance that the company cares and aware of the importance of whistleblowing. They are also the assurance for the whistle-blower to relate back and being protected by the policies about identity disclosure.

The open-door policy from the management side is required to encounter any feedback and complaints from the employees. It is a good policy to allow employees to open-up about activities that are unusual which can lead to red flagging any fraud. The open door policy also foster trust and mutual respect which is the morale booster for the employees as they know that their voice is being heard, this will encourage them to blow the whistle in the future.

The company’s information and communication system under the company’s internal control system is vitally important. The improvement is where the right information is given to the right employees at the right time through the right channel so the employees receive the information, understand and may response to it. An effective communication system allows both parties to exchange information and connect each other must be managed. An effective communication channel will make whistleblowing activities easier and the whistleblower information may fall to the right person who can react and deal with the case.

Even though rewards are not ranked highly to encourage whistleblowers but it will still affects the whistleblower. A proper policy is needed regarding the reward and penalty of whistleblowing. Although reward is important but the penalty must be stated too in order to control the quality of the incoming report.

Lastly, more robust legislative protection within the institutions about disclosure and protection of employees where organisations have failed to provide the reassurance needed in a State with high corruption as identified by CPI 2014 (Transparency International, 2014).

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