

## TOWARD CONCEPTUAL MODEL OF WHISTLE BLOWING INTENTION AMONG INTERNAL AUDITORS AND THE CONSEQUENCES IN ORGANIZATIONAL PERFORMANCE

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### ABSTRACT

*The whistle blowing behavior has many perspectives based on different perceptions and images in public. The behavior will be represented in a good or bad action in responding the issues in organizational function. Internal auditor was selected as sample criteria because the profession has duality role in organization which was to examine the feasibility of operational procedures in organization, find out the weakness and give some advices or recommendation to support the organizational performance. In this term, internal auditors able to act as reviewers, examiners and also evaluator in internal control system, concerning with the evaluation of information and system. Hence, internal auditors have the depth information and be aware of organizational weaknesses, so as they can give recommendation to improve some weaknesses in organization and intensify the performance. This role may induce the conflict of interest or collide with the organization's need and it can create some problems. The purpose of this study is to develop the conceptual model of internal auditor as a whistle blower in organization and the factors which may encourage internal auditor's intention to report the corporate wrongdoing to public and their effects in organizational performance. The current study proposes the predictive factors as antecedents in the whistle blowing intention and organizational performance indirectly. The proposed study determines social, individual, organizational and situational as predictive factors in whistle blowing intention and their impacts toward organizational performance. The predictive factors were obtained from the behavioral theories. The newly development model can enrich the future research in auditing, organizational behavior and psychology.*

Keywords: Whistle blowing intention, Behavior, Organizational performance, Internal auditors

### Introduction

The study of whistle blowing behavior was still being a popular research's topic and becoming more prominent role among academic researchers and practitioners especially after the Introduction of Sarbanes Oxley Act, 2002. Whistleblowing has become an important monitoring mechanism in the wake of many corporate scandals which occur inside the company or accounting firm. The Sarbanes Oxley Act (2002) in the USA, The Public Interest Disclosure Act (PIDA) in the UK as well as the accounting codes of professional conduct (AICPA 2007; ICAEW 2007) strongly support internal reporting as the first step in the process. Whistleblowing can be an internal control mechanism which is important in organizations, benefitting organizational members and other stakeholders in society. For examples, the government, private organization and Internal Development Agency have recognized the need for developing an effective reporting mechanism (whistle blowing) as a key tool for combatting corruption and fraud. The main cause of corruption is mostly the absence of national ethics and moral values, lack of true patriotism, poor economic and educational empowerment of citizenship and also prevalence of dictatorial rule.

The act of whistleblowing was defined as the disclosure by organization members (former or current) of illegal, immoral or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action (Near and Miceli, 1985). The channels of whistleblowing were used not only through the normal procedures, but also through anonymous channel- telephone or hotline, media and regulatory bodies. Internal channels are preferred and should be exhausted before using external channels. The decision to whistle-blow is by using an individual's moral judgement of a questionable act which based on the equality principle, such as audit staff should have a moral obligation to protect the public's interest in the face of perceived regulatory violations and external auditor should promote the view that public interest is protected by making corporate managers and their companies accountable, despite they have limited knowledge about the client's business, obligation and financial affair.

Many empirical studies of whistle blowing, firstly documented during 1980's as have been done by Dozier and Miceli 1985; Elliston 1985; Miceli and Near 1985. Furthermore, the studies becoming more popular during 1990's and 2000's, The previous researches have shown the relation between ethical climate in whistleblowing behavior (see Nam et al 2007; Ahmad et.al 2014), organizational factors such as: reward systems and good corporate governance in whistle blowing behavior (see Eaton et al 2007; Seifert et al 2010; Rachagan et al 2013; Maroun et al 2014; Ayagre et al 2014), individual (personality) and also situational factors in whistleblowing behavior (see Ahmad 2000; Alleyne et al 2013). The construction of whistleblowing behavior was obtained from the prior theories which were taken from various academic disciplines, such as psychology, cross culture, organizational behavior, accounting and auditing (such as: pro social behavior, power and justice, ethical climate, goal theory and many more (see Dozier and Miceli 1985; Near et al 1993; Rothwell and Baldwin 2006; Ayagre and Buameh 2014).

The motivation of the study is to explain the predictive factors in whistleblowing behavior related with the organizational performance. The whistle blowing mechanism has been particularly important in the auditing profession to enhance the public interest role. Previous researches have proposed whistle blowing models, but the models fail to capture the important factors needed in external auditing. This paper is done to propose the conceptual model by exploring the other important factors (the suitable criteria for internal auditing environment ) in whistleblowing intention and the consequences in organizational performance

Mostly previous articles used external auditors or audit staffs as selected sample of whistleblower. The current study proposed internal auditors as selected sample of whistleblower because they acquire the early knowledge and information about the fraudulent in their companies, especially the ability to understand financial statement fraud. They suppose to search for and reveal the financial reporting irregularities. Therefore, internal auditors are more sensitive to the fairness of organizational whistleblowing policies and procedures (Seifert et al 2010). In this term, internal auditors often face the conflict of interest because of their duality roles. As an internal auditor, they are as a part of organization attempting to maintain their professional ethics by reporting intention the corporate wrongdoing but on the other side, they also act as employers who try to occupy their needs by working in companies.

The paper contributes to the ongoing public interest issue in ethics. The issue can improve the public's integrity particularly in auditing or accounting profession. This issue also mostly expected to create the "healty" corporate culture which emphasize on honesty, accountability, transparency and many more.

The reminder of the paper is organized as follows. The following outlines literature review which explain theoretical perspectives and previous researches that formulate certain hypotheses. The next section is to establish the model and followed by discussion and findings. Finally, the closing remark is the end of the section to conclude the paper.

## Literature Review

### Social Factors and Whistleblowing Intention

The existing literatures suggest that social influences such as subjective norms and social consensus can predict behavioral intentions. Social influences affecting the reporting intentions of auditors (Ajzen 1991; Gibson and Frakes 1991; Finn and Lampe 1992; Hooks 1994; Buchan 2005; Park and Blenkinsopp 2009 as stated in Alleyne et al 2013). Moreover, the whistleblower can be perceived in a favourable light if the societal norms encourage whistleblowing and the media can show the whistleblower only just a victim.

The whistle blowing should be viewed as a dynamic process, because it is driven by social factors surrounding such as subjective norms and social consensus. The three standard theories justifying whistleblowing. Firstly, an act permitted by morality thus whistleblowing is morally right, though the alternatives are morally right. Secondly, blowing the whistle is not only because it is moral, but because doing anything else is morally wrong. Thirdly, whistleblowers are understood by people out to prevent harm, not just enough to prevent moral wrong, their chances of success are not good. (Davis 1996 as represented by Ayagre and Buameh 2014)

Ha1 : The social factors influence the whistleblowing intention

### Individual Factors and Whistleblowing Intention

The whistleblowing is a form of prosocial behavior which provide clues about personality and structural variables predictive of whistle blowing. Researches on the social psychology of prosocial behavior may provide a good basis in building the whistleblowing's theory (see Dozier and Miceli, 1985). Prosocial behavior involve both selfish (egoistic) and unselfish (altruistic) motives on the part of the actor which propose the certain stable personality characteristics of individuals that may interact with their perceptions of organization situations and lead to whistleblowing behavior.

Many individual characteristics can be stated as personality traits, such as altruistic personality, religion, locus of control and many more. But, individual characteristics can be appeared in the form of demographic variables, such as age, gender, work experience, marital status and many more. Altruistic personality traits (integrity) proposed that the person's behaviour with integrity could be predicted from their moral principle which are from past behavior and their knowledge. Religion is associated with altruistic dispositional characteristics which appear that moral standard in religious may predict whistleblowing, because it generally will benefit persons (organizations) other than whistleblower. Schwartz et al (1969) agree with the statement of Dozier and Miceli (1985) which proposed that certain personality traits may relate with the solution in moral conflict. They examined the effect of personality characteristics in which relevant with the moral aspect of decision. Locus of control includes internal and external views in facing the impact of action. Internal views feel that the actions have the impact on what happen to them and their behaviors make differences in the world. On the other side, external feels that there is no use to blow the whistle on wrongdoings, because they think whatever they report, there is no change.

The existing of whistleblowing studies have used demographic variables such as gender, and age in reporting intention to public. Previous studies show that men and women have differences in making ethical judgements. The women are less likely to engage in whistleblowing behavior than men and the men may have credibility than women because men mostly occupy higher status positions in organization. Regarding with age, older organizational members tend to have a greater understanding of the authority and control system in organization and have minimal barrier in reporting intention to public (Sims and Keenan 1998;

Keenan 2000 as stated in Ahmad and Ismail 2000). Another studies showed the contrary results that age was not a significant predictor of the intention to report (whistle-blow)

Alleyne et al (2013) stated that individual factors (attitude toward whistleblowing, independence commitment) have a direct influence on his or her intentions to whistle blow, although the relationship was moderated by isomorphic factors (perceived organizational support and team norms) and specific factors issue (perceived moral intensity). Regarding the decision making literature, attitudes toward ethical behavior have emerged as a significant predictor of ethical intentions and behavior in environmental decision making ( Flannery et al 2000 as stated in Alleyne et al 2013).

Empirical findings on prosocial behavior can be integrated into a framework for predicting whistleblowing behavior as a political behavior alternatives. The continued study of whistleblowing may lead to the development of organizational policies that enable legitimate whistleblowers to come forward.

Ha2 : Individual factors influence the whistleblowing intention

### **Organizational Factors and Whistleblowing Intention**

Another alternative theory in explaining the whistleblowing process is provided by justice theories (see Adam 1965, Folger 1977; Greenberg 1987; Lind and Tyler 1988; as stated by Near et al 1993). The justice theories have been used to explain the organizational phenomena and reactions of two parties in the whistle blowing situation; those of whistle blower and those of the recipient of the whistle blowing behavior.

The reward system is one of the systems that encourage whistle blowing in organization, despite the presence of this system has not fully impacted on organizational productivity. The aim of reward system is to motivate the whistleblowing systems in organizations as stated in the goal theory. The goal theory proposed that human beings are more motivated to act when there is a reward at the end of the task or behavior performance. Robert et al (2009) as stated in Ayagre and Buameh (2014) identify the eight key indicators relevant to whistleblowing in organizations, such as positive employee attitude to reporting; level of employee awareness of reporting related legislation; level of employee awareness of relevant policies; whistleblowing propensity of employees; trust in organizational response to whistleblowing; low inaction in response to perceived serious wrongdoing; reporter's knowledge of whether investigation has occurred and positive treatment of reporters by management following report. The eight key indicators in organization have important role in creating people with the awareness of openness in organization

Another organizational factor is organization's ethical climate which also explain why employees resort to such behavior (see Barnett and Valleys, 2000; Rothwell and Baldwin, 2006 as stated in Ahmad et al, 2014). Ethical climate is the ethical dimensions of organizational culture that capture ethical identical of a particular organization. There are three types of ethical climates dimension such as egoism, benevolence and principle which can be potential predictors of whistleblowing within organization. Previous researches have recognized that organizational ethical climate could influence the behavior of its employees (see Barnett and Vaicy, 2000; Victor and Cullen, 1998 as represented by Ahmad et al 2014). The ethical climate theory explained that the theory varies along two dimensions, namely an ethical approach dimension and an ethical referent dimension. In ethical approach dimension, the decision making process include egoism, maximizing the self interest; benevolence, maximizing joint interest and principle. Regarding whistleblowing, organizational ethical climate theory can be used to show how reporting intentions are influenced by the organization's climate. Study Rothwell and Baldwin (2006) was the only study that investigate the relationship between ethical climate and whistleblowing behavior even if the result showed that ethical climates were not able to predict individual's whistleblowing intentions. Furthermore, the study of Cullen et al (2003) has shown the opposite result which stated that the climate characterized as egoism can be expected to promote the organizational member to consider what is in his/ her own self interest. The egoistic climate gives signals to internal auditors that organization supports and endorse the self interest behaviour and for this term, internal auditors will be less likely to whistle-blow. The benevolence climate is characterized by the expectation that organizational members are concerned with the well-being of others both within and outside the organization and for this term, internal auditors will be more likely to whistle-blow. The principle is based on the belief that there are universal principles of right and wrong and ethical decision are based upon the application or interpretation of rules, laws and standards.

Theoretically, the existence of whistleblowing can be based on the size of organization. The whistle blowing would be less effective in the large organization, because the larger organization mostly has broader procedures and wider bureaucracy in reporting the corporate wrongdoings comparing with small organization. Miceli and Near (1985) provide another two reasons why organizational could influence the whistleblowing process, Firstly, large organizations are less dependent on employee than small organization. Employee in large organization should report the corporate wrongdoing because they believe that retaliation can occur, therefore the whistleblowers can easily be replaced. Secondly, small organization have shorter and fewer communication channels and it encourage the act of whistleblowing. Furthermore, the more bureaucratic organizations and hierarchical authoritarian may keep upward communication and the environment become disaffected.

Whistleblowing provides the benefit to the good of organization. Organization that foster whistleblowing will be able to improve their effectiveness and efficiency. The absence of internal reporting channel will make employee who discover wrongdoings will disclose their findings to anyone and the organization in ultimate hazard. Internal whistleblowing gives the organization's opportunity to pay attention to the corporate wrongdoing without the pressure of external publicity. Moreover, by improving the corporate wrongdoing or the company problems, the management of company can ensure that internal problems remain confidential and encourage the company to learn and being an accountable organization.

Ha3 : Organizational factors influence the whistle blowing intention

### Situational Factors and Whistleblowing Intention

The nature and severity of the corporate wrongdoings may affect decision to whistle-blow. The seriousness can be viewed as financial consequences, safety, health risks and frequency of wrongdoing (Miceli and Near, 1985; Callahan and Dworkin 1994 as stated in Ahmad and Ismail 2000). The type of wrongdoing and the complexity have been positively related to whistleblowing (Near and Miceli 1996; Ayers and Kaplan 2005; Kaplan and Schultz 2007 as stated in Ahmad and Ismail 2000)

The status of organizational members who commit corporate wrongdoing or illegal acts may influence the propensity of observers to whistle-blow. The propensity of observers to report the wrongdoings may depend on the observers's perception that the reporting will result in corrective action (Miethe 1999 as stated in Ahmad and Ismail 2000). The wrongdoing committed by organizational members of a higher status, such as top management may not easily be addressed through termination of employment (Near and Miceli 1990)

Ha4 : The situational factors influence the whistleblowing intention

### The Whistleblowing Intention and Organizational Performance

The importance of whistle blowing in organization becomes paramount when there is a collusion between the client management and the audit profession. The client management has responded negatively to the audit profession when none of Arthur Andersen's staff blew the whistle on the unethical acts and other wrongdoing committed by other audit staff members and the client. As a result, the audit firm was perceived as being dishonest and unethical.

The whistleblower as an actor in whistle blowing behavior mostly take action to stop wrongdoing within organization with the intention of benefiting persons within or outside the organization as well as whistleblowers themselves. Whistleblowing as an internal organizational structure, is fundamentally important in preventing, deterring the corporate wrongdoing and questionable act. Therefore, the accounting profession and other interested regulatory bodies are now calling for whistleblowing as a prominent part of organizational culture (Alleyne et. al 2013). Ha5 : The whistleblowing intention influence the organizational performance.

### Establishing The Model

Theoretical and empirically based arguments were provided to justify the conceptual framework of our model. The model represents an attempt to formulate an integrated explanation in whistleblowing behavior (reporting intention) and organizational performance among internal auditors.

Model 1

Predictive Factors toward whistleblowing Behavior and Organizational Performance

#### Social factors

- a. Subjective norms
- b. Social consensus

#### Individual Factors

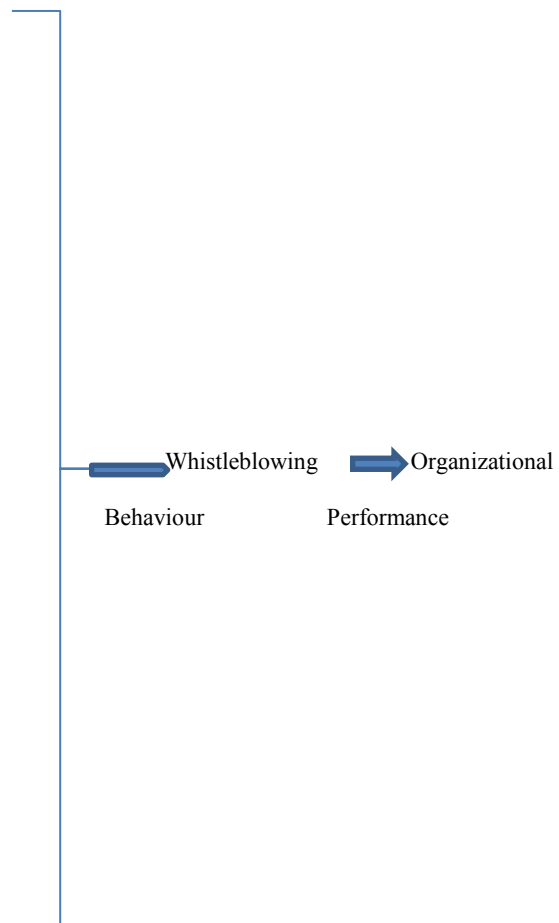
- a. Altruistic motive (integrity)
- b. Religious
- c. Locus of control
- d. Demographic variables
- e. Moral reasoning (moral conflict)
- f. Attitude towards whistleblowing

#### Organizational Factors

- a. Reward system
- b. Key indicators relevant in organization
  - positive employee attitude to reporting
  - level of employee awareness of reporting related legislation
  - level of employee awareness of relevant policies
  - whistleblowing propensity of employees
  - trust in organizational response to whistleblowing
  - low inaction in response to perceived serious wrongdoing
  - reporter's knowledge of whether investigation has occurred
  - positive treatment of reporters by management following report
- c. Ethical climate
  - Egoism
  - Benevolence
  - Principle
- d. Organization size

#### Situational Factors

- a. Seriousness of wrongdoing



b. Status of wrongdoer

**Discussion And Analysis**

The proposed conceptual model was based on the prior literatures and existing theories which discuss about the whistleblowing behavior and organizational performance. Regarding the previous results, the implementation of whistle blowing system can improve the organizational performance by focusing some predictive factors. The predictive factors were expected to encourage the people to act as whistleblower for the sake of good for organization. The predictive factors involve the social, individual, organizational and situational factor which consist of many items. This paper only describe "some items" in each factor. There are still remaining items have not yet been discussed in this paper. The area of future research suppose to consider the remaining items in the next conceptual model. This paper takes social factors which consist of subjective norms and social consensus; individual factors taken from social psychological and pro social behavior theory consist of integrity, religious, locus of control, demographic variables, moral reasoning and attitudes toward whistleblowing; organizational factors taken from justice theory (describing the organizational phenomena), goal theory (reward system) and ethical climate theory which is ethical climate consist of egoism, benevolence and principle. The next research should determine the measurement of these factors covering the suitable items needed.

**The Closing Remark**

**Conclusion**

The conceptual model was designed from the previous theories and previous literatures which attempt to connect the social, individual organizational and situational factors toward the whistleblowing intention and the consequences of the connection in organizational performance. The social factors include subjective norms and social consensus; Individual factors include altruistic motive, religious, locus of control, demographic variables, moral reasoning and attitude toward whistleblowing; Organizational factors include reward system, key indicators relevant in organization, ethical climate and organization size; Situational factors include seriousness of wrongdoing and status of wrongdoer

**Limitation and Recommendation**

The limitation of the study is only take the four predictive factors toward the whistle blowing intention and organizational performance. The four predictive factors were taken only from some behavioral aspects. There are still another behavioral aspects included in four predictive factors that have not been yet discussed in this paper such as independence (available for external auditors), organizational commitment managerial status, audit quality, spiritual aspect (more general than religious), the extent of job satisfaction, professionalism, complaint channel, type of wrongdoings in organization, legal operational procedure in organization, legal sanctions in organization, the level of organizational support, internal mechanism (ethics hotline, ethics partners and ethics training) and also other contextual variables. Those aspects can be classified in four or more predictive factors or the researcher can build the newly model by synthesizing the predictive factors that encourage the whistleblowing behavior and organizational performance. The application of Power Relation Theory also can formalize the framework in predicting the behaviors of both whistle blowers and their organizations when legal mechanism are used.

Organizations have distinct ethical climate and the previous study showed that internal auditors have a distinct principle ethical climate dimension within their own organizations or specifically within their departments. It means that the climates of egoism and benevolence do not exist within the internal auditing departments.

**Implication**

The potential area for future research is the development of a model specific to accounting profession in which the proposed model based on moral duty to act in the public interest and prevent harm, which is the corner stone of the accounting profession. From the conceptual model, the future research can examine the most influential factors in whistleblowing intention and organizational performance. The factors which meet the suitable criteria in internal auditing department can help the policy maker to encourage the whistleblowing behavior within organization and finally, these factors will support the management to establish the whistleblowing's mechanism in policy, system and procedures.

The whistleblowing system has its own distinct and uniqueness. From the broader perspective, the construction of system based on criteria such as: the dominant culture (tribe etc), the most highly influential people (powerful), the establishment of regulation and law in each country, in doing so, the other countries suppose to learn the criteria fully and understand them, so that they can establish the whistleblowing systems effectively regarding the suitable criteria.

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