

# Can Authentic Leadership and Ethical Climate Encourage Whistleblowing Intention?

**Fika Mayasari Sajarwaningdyah<sup>a</sup>, Intiyas Utami<sup>b</sup>, I Wayan Sudiana<sup>c</sup>,  
Fitria Husnatarina<sup>d</sup>, Nafsiah Mohamed<sup>e</sup>,** <sup>a,b</sup>Faculty of Economics and  
Business, Satya Wacana Christian University, Indonesia, <sup>c</sup>Faculty of  
Economics, Business, and Tourism, Hindu Indonesia University, Indonesia,  
<sup>d</sup>Faculty of Economics and Business, Palangka Raya University, Indonesia,  
<sup>e</sup>Accounting Research Institute UiTM Mara, Malaysia, Email:  
<sup>a</sup>[fikamayasaris@gmail.com](mailto:fikamayasaris@gmail.com), <sup>b</sup>[intiyas@staff.uksw.edu](mailto:intiyas@staff.uksw.edu),  
<sup>c</sup>[wayansudiana74@unhi.ac.id](mailto:wayansudiana74@unhi.ac.id), <sup>d</sup>[fitria.husnatarina@feb.upr.ac.id](mailto:fitria.husnatarina@feb.upr.ac.id),  
<sup>e</sup>[drkancil@gmail.com](mailto:drkancil@gmail.com)

Rampant illegal actions in many companies and organisations such as corruption, misappropriation asset, fraudulent financial reporting, and other similar actions encourage the creation of a disclosure system of unethical behaviour (whistleblowing system). This study uses an experimental method with a 2 x 3 matrix design involving 294 students of accounting study program from private universities in Central Java, Bali and Kalimantan. This paper presents the results of the laboratory experiment study on authentic leadership and ethical climate in relation to whistleblowing intention. Students acted as inspectorate staffs in one of the cities in Central Java, and they were given a treatment to reveal frauds in the procurement of goods. The results of this study indicate that authentic leadership can encourage whistleblowing intention when a leader has an internalised moral perspective. Decision making on whistleblowing intention was based on three types of ethical climate, namely egoism, benevolence, and principal. Of the three ethical climates, the principal ethical climate has the most significant influence on whistleblowing intention because the existing laws, rules, codes of ethics, and professional codes govern one's behaviour.

**Key words:** *Authentic Leadership, Ethical Climate, Whistleblowing.*

## Introduction

Increasingly prevalent fraud in the business world triggers the intention to conduct whistleblowing. Whistleblowing is a disclosure made by both internal and external parties regarding the practices or actions of company members that violate the applied rules and norms in the community (Miceli & Near, 1985). Whistleblowing is increasingly intensified after the disclosure of famous cases of large companies such as Enron, Worldcom, and Xerox. Many well-known Indonesian companies and organisations have implemented a whistleblowing system, including Garuda Indonesia, Ministry of Finance, and Telkom Indonesia. This disclosure greatly helps companies and organisations to reduce fraud, corruption, collusion, nepotism, information leakage, and violation of the code of ethics.

Leadership is an important thing in the running of a company or organisation because the leadership possessed by a leader will be used as a model for his members. Leadership as a model usually has an impact on some people. A leader has the authority to direct every activity in a company or organisation. Leadership should be able to minimise harmful or fraudulent actions. The intention of whistleblowing can be formed in a company and organisation when the existing leadership has an impact on its members.

Leadership owned by a leader can influence the members' intention to do whistleblowing. A leader can see if there is an ethical crisis in his company. A leader should also capture the positive self-development of values that are digested by each member (Clapp-smith, Vogelgesang, & Avey, 2009). The leadership model that applies ethical values can encourage behavior in accordance with prevailing values and morals. Good leadership is believed to be able to optimise all available resources in the company. Ethical climate, employee performance, and motivation are products of leadership existence.

Companies or organisations cannot be separated from business ethics. The view of business ethics and its daily application results in an ethical climate within a company. The ethical climate is part of a company or organisation that is able to explain what lies behind a person behaving in a certain way (Gbadamosi, 2004). The code of ethics is proof that an ethical climate is necessary for a company or organisation (Bullock & Panicker, 2003). Through the existence of a good corporate ethics climate, a company can create a good work environment and can treat all employees fairly that in turn, it will minimise the possibility for someone to engage in fraudulent practices. Members of a company will absorb the things in the company, in the form of information, habits, and applicable values. A good ethical climate will also tend to encourage someone to have the intention to uncover actions that are not in harmony with the rules (whistleblowing intention).

The ethical climate in a company and organisation can influence the behaviour of each member, and potentially it will trigger a whistleblowing intention. Three dimensions of ethical climate that can prompt whistleblowing intention are 1) Egoism; 2) Benevolence; and 3) Principal (Victor & Cullen, 1988). The dimension of egoism means the pursuit of maximising one's own needs in one's decision making. On the other hand, the benevolence dimension maximises group interests. Meanwhile, the principal dimension is related to applicable laws and rules

The whistleblowing intention cannot be separated from the improved profession development day by day. Professionalism and code of ethics can influence good corporate governance, namely transparency, accountability, responsibility, independence, and equality or fairness (Bowen, Call, & Rajgopal, 2010). Liu, Liao, & Wei (2015) show that authentic leadership can create psychological security in encouraging whistleblowing intention. It happens because authentic leadership focuses on followers' responses (Gardner, Fischer, & Hunt, 2009). The moral and steps taken by an authentic leader also relate to the moral identity and behaviour of his followers (Zhu, Avolio, Riggio, & Sosik, 2011).

Near & Miceli (1995) showed that organisational structure and organisational climate affect the willingness of employees to change. The whistleblowing intention can be influenced by the encouragement of a company, namely on how the company responds to certain fraudulent actions. Dalton & Radtke (2013) studied 116 students of Master of business administration by applying experimental methods. The study concluded that the ethical climate had an impact on increasing whistleblowing intention.

Previous researchers examined the whistleblowing intention associated with social value (Miceli & Near, 1988). Nayir & Herzig (2012) examined the whistleblowing intention towards subjective norms of whistleblowers. The whistleblowing intention is not only driven by factors that have been studied before but can also be driven by various other factors. These factors are: leadership style, moral intensity, the commitment of members in an organisation, professional identity and ethical climate. Authentic leadership can produce an ethical climate of a company. The ethical climate can show and explain the whistleblowing intention based on ethical climate dimensions, namely egoism, benevolence and principal. This study focuses on whistleblowing intention that is associated with authentic leadership and ethical climate. This subject is interesting to be studied because there are gaps that have not been studied in previous research (Miceli & Near, (1988) and Nayir & Herzig, (2012)) i.e. the interaction of authentic leadership and ethical climate with whistleblowing intention.

The purpose of this study is to examine the causal relationship between leadership and the company's ethical climate towards whistleblowing intention. This study aims to determine the causal relationship caused by leadership (which in this study focuses on authentic leadership)

and ethical climate and consequently on whistleblowing intention. The benefits of this study are expected to increase knowledge about the whistleblowing intention that can occur if there is a good influence in the company in the form of leadership and ethical climate. Practitioners are expected to be able to anticipate the fraud and illegal actions from occurring that can harm an organisation and other related parties. Anticipation can be done by increasing of whistleblowing intention through the authentic leadership of a leader and building a good ethical climate in the work environment.

## Literature Study

### *Whistleblowing Intention*

The rampant behavioural deviations among members of the company encourage whistleblowing intention. Whistleblowing is an action to reveal the existence of fraudulent actions deviating from existing values, norms and ethics because these fraudulent actions will harm a company and other related parties. Whistleblowing is carried out as protection for companies because the intention of whistleblowing can reduce detrimental effects for companies (Bhal & Dadhich, 2011).

A person's intention for whistleblowing means that the person has the intention to be fully involved in whistleblowing or disclosure of illegal actions (Chiu, 2003). This intention can be done internally or externally. Someone who participates in whistleblowing is called a whistleblower. There are two assessments regarding a whistleblower, which the first assessment is that a whistleblower is considered a hero for a company. This is because a whistleblower is courageous to reveal actions that are not in harmony with applicable values, norms and ethics. A whistleblower also conducts a whistleblowing action because he wants to report any actions that are considered as detrimental toward his company.

However, a whistleblower is not only considered as a hero but also from the organisations perspective can be considered a traitor. The courageous action in revealing illegal practices and actions does not guarantee that a whistleblower is considered as a hero because some people perceive this disclosure action as not the right decision. A whistleblower is considered a traitor because he is considered leaking confidential and sensitive information to the leadership and to the public. Whistleblowers will often get pressure on the risks they take because they reveal unethical actions. Whistleblowers need a guarantee that when they decide to do whistleblowing, they are free from any pressure from any parties for the disclosure that they make.

Henik (2008) stated that there are five stages in the disclosure of unethical or illegal actions. The first step is to observe how illegal actions can occur. In the second step, someone who

has the intention of carrying out whistleblowing will determine to do whistleblowing or not by considering several things. Someone who participates in whistleblowing in the third step will be called a whistleblower. In the fourth step, the whistleblower reports to the head of his organisation for any illegal actions observed. In the fifth or final step, the organisation that receives the whistleblowing report will give feedback and consider necessary steps that will be taken in the future.

Whistleblowing is very beneficial for all companies. Whistleblowing not only can secure the assets and reputation of a company, but it can also secure public interests. Someone will tend to do whistleblowing when there is a trusted relationship between members of a company and the company leadership. A company leader who is trusted by members of the company must have exemplified leadership.

### ***Authentic Leadership***

Leadership and any things related to company management have impacts on whistleblowing intention. There are several models in leadership, such as transformational leadership, transactional leadership, authentic leadership, participatory leadership, and so on. Every leadership style has its unique characteristics.

The authentic concept dates back to the days of Greek philosophers. Etymologically, the Greek word *authento* means "has a lot of power" (Trilling, 1972). Authentic leadership consists of authenticity, intentionality, spirituality, and sensibility (Bhindi & Duignan, 1997). Bill George in his book, defines that authentic leadership is a leader who uses his abilities but also recognises his weaknesses and the efforts will be made to overcome those weaknesses (2003).

Authentic leadership, in theory, is leadership where a leader provides a positive example that can shape organisational behaviour and ethics for his members (Avolio, Gardner, Walumbwa, Luthans, & May, 2004). An authentic leader can be an example that self-awareness of the beliefs he holds can have an impact on his followers. Transparency conveyed by an authentic leader in the form of thoughts, values and regulations can increase the trust of his followers. In authentic leadership, trust is gained through communication, mutual trust, and openness. Authentic leadership has four dimensions, namely self-awareness, balanced processing, relational transparency, and internalised moral perspective. Self-awareness is attached to an authentic leader to recognise his strengths and weaknesses. Balanced processing is the process of analyzing relevant information and considering other opinions or other possibilities in determining decisions. Relational transparency refers to openness to all perceptions, opinions, and expressing thoughts in general. An internalised moral perspective shows that good values and morals guide a leader under any circumstances. This study uses

only two dimensions of authentic leadership, namely self-awareness and internalised moral perspective. According to the experimenter, these two things are crucial for an authentic leader to recognise his weaknesses and strengths, balanced processing and relational transparency that can be done based on an internalised moral perspective.

### ***Ethical Climate***

Miesing & Preble (1985) defines ethics as a framework for human behaviour that relates to moral principles that can distinguish between right and wrong. A series of rules in a company that determines how one must act will form business ethics (Gbadamosi, 2004). Psychological factors and his surrounding environment influence someone who determines to do whistleblowing. The surrounding environmental factors can come from the organisational culture of the place where a person works. One of the things that encourage people to do whistleblowing is an ethical climate. One's job position can influence ethical climate, so too can how long one has worked in a company, the individuals work group and management status.

The ethical climate is an organisational or corporate culture that can form an ethical dimension (Cullen, Victor, & Bronson, 1993). This ethical climate captures special values that have become a corporate culture. There are three dimensions of ethical climate, i.e. egoism, benevolence, and principal (Kohlberg, 1981). These three dimensions are related to ethics in deciding a step or determination.

The dimension of egoism is a condition when a person is faced with an ethical dilemma in decision making, he will prioritise his own interests. In benevolence, dimension is decision making that considers group interests. The benevolence dimension is more concerned with mutual welfare both inside and outside of a company or organisation. In principle dimension, one will obey the existing law and ethics in his decision making. The principal dimension considers that the general principles of ethics are good and bad depending on the implementation of the existing laws, rules, and standards.

### ***Relationship between Authentic Leadership and Whistleblowing Intention***

The example and social values provided by an authentic leader with his integrity and his good moral perspective can form ethical values in his group (Hsiung, 2012). An authentic leader who has good morals can encourage the behaviour of his followers to behave ethically when they encounter a dilemma (Walumbwa, Luthans, Avey, & Oke, 2011). The motivation of an authentic leader can influence a person's potential to become a whistleblower. Anyone can become whistleblowers, but they must be in harmony with the existing ethics and morals.

Whistleblowers are very helpful for organisations, but those who have the potential to do whistleblowing should be responded well and fairly by authentic leaders (Seifert, Sweeney, Joireman, & Thornton, 2010). Workers may not report illegal and unethical practices because reporters are treated unfairly, so the intention to become a whistleblower will tend to be small.

**H1:** An authentic leadership with an internalised moral perspective has a higher whistleblowing intention than an authentic leadership with self-awareness

### ***Relationship between Ethical Climate and Whistleblowing Intention***

Unethical behaviour is not only detrimental to a company but also the community (Barsky, 2019). An ethical climate can be applied to see whether a reporting of unethical behaviour is influenced by organisational culture. Previous research concluded that the dimensions of the ethical climate, namely the principal dimension was more prominent among internal auditors in Malaysia (Ahmad, Smith, & Ismail, 2013). This proves that an internal auditor needs to comply with the code of ethics, professional code, and all applicable laws and regulations. With the certainty of law, standards and codes of ethics & profession, an internal auditor is more intent on carrying out whistleblowing. This indicates that other professions can own not only the profession of internal auditors who have the intention to conduct whistleblowing but also the intention because the principal dimension of the ethical climate applies universally and comprehensively.

A research conducted by Cullen (2003) examined the criteria of the three dimensions of ethical climate. The egoism dimension of the ethical climate has characteristics to prioritise one's interests. Members of companies with an egoism ethical climate will protect their interests compared to other considerations.

Meanwhile, in the second dimension, which is the benevolence dimension, a person will hope to be promoted when he behaves well either in or outside of his organisation (Victor & Cullen, 1988). This encourages that person to act wisely for others. This dimension expects everyone to behave well towards everyone else from any circles and put aside their respective egos. The last dimension, which is the principal dimension, is based on the application or interpretation of the existing rules, laws, standards, and codes of ethics & profession (Victor & Cullen, 1988). A member of a company who commits unethical behaviour will encourage other members who are in the principal dimension to disagree with his behaviour. It prompts someone to tend to have whistleblowing intention.

**H2:** A subject in the condition of principal ethical climate will have the strongest whistleblowing intention compared to subjects in the conditions of egoism, climate and benevolence

### ***Relationship between Authentic Leadership and the Ethical Climate with Whistleblowing Intention***

An authentic leader can encourage his members to do whistleblowing. An authentic leader can create a positive relationship based on the trust, integrity and openness of a leader. It is indicated by the response from his members who have whistleblowing intentions while still adhering to internalised norms and morals. Authentic leadership can help whistleblowers as a group and as individuals not to be treated as traitors.

Authentic leadership has four dimensions, namely, self-awareness, balanced processing, relational transparency, and internalised moral perspective (Avolio et al., 2004). Self-awareness means the extent of strengths, weaknesses, motivations of a leader and the extent of how members can judge him. Balanced processing means asking for an opinion that challenges the authority of a leader, which can reflect how a leader can manage the opinions of others. Meanwhile, relational transparency means self-expression of a leader, which this can be in the form of expressions, thinking results, perceptions and information. Lastly, the internalised moral perspective shows the behaviour of a leader which is influenced by his moral values and beliefs. This internalised perspective or values will be used as guidelines and while ignoring all external pressures.

Previous research conducted in China showed that authentic leadership had a positive impact on encouraging whistleblowing intention (Xin, Pearce, Academy, & Dec, 2007). With a good response given by authentic leaders in responding to reporting on unethical action had made company members be aware of the importance of whistleblowing. The acceptance and treatment of whistleblowers are also the results of authentic leadership.

**H3:** There is an interaction between authentic leadership and an internalised moral perspective and the principal dimension of the ethical climate towards whistleblowing intention.

## **Research Method**

### ***Experimental Method***

Model for this study uses an experimental method with a factorial 2 x 3 between-subjects design in which the experimenter wants to see the causality relationship between variables. It

is the causality relationship between independent variables and dependent variables. The independent variable is authentic leadership and ethical climate, and the dependent variable is whistleblowing intention. The experimental design of this study uses a full laboratory experimental design to obtain accurate results regarding causality between dependent variables and independent variables by providing strong control. This design includes elements of randomisation, control over manipulation and creating of compared group and control group.

**Table 1:** Matrix of Authentic Leadership and Ethical Climate

|                      |                                | Ethical Climate |             |           |
|----------------------|--------------------------------|-----------------|-------------|-----------|
|                      |                                | Egoism          | Benevolence | Principal |
| Authentic Leadership | Self-awareness                 | 1               | 2           | 3         |
|                      | Internalised moral perspective | 4               | 5           | 6         |

The subjects of this experiment were students of the accounting study program at the Faculty of Economics and Business, Satya Wacana Christian University Salatiga. Previous studies that used students as the subjects of the research were done by Miceli, Dozier, & Near, (1991) and Marriott (2014). The experiment was carried out by the experimenter which the experimenter entered the class that was conducting teaching and learning activities in an audit course. The experimenter served as an instructor by distributing randomised research modules to students. The experimenter made a condition of the class by manipulating the existing modules. The modules of this study contain manipulated information regarding the influence of authentic leadership and ethical climate towards whistleblowing intention. The final results are in the form of decision making made by students as to whether they will do whistleblowing or not.

### ***Experimental Order***

Students as the subjects of this study acted as staff members of the Inspectorate Office in one of the cities in Central Java. During three years of working in the Public Reporting and Personnel Evaluation Sub-Division, there was fraud. The fraud was in the form of corruption for the procurement of goods amounted to Rp.1,000,000,000. The staffs were faced with the authentic leadership of an Inspector and the ethical climate that existed in the work environment. The staff would be given an opportunity to reveal the occurring frauds to the Inspector.

In the first stage, the experiment distributed the modules for groups randomly. There are six (6) modules with different information distributed to the subjects of study. In the second stage, the experimenter distributed modules randomly according to the student's sitting

position. Modules are distinguished because there is different information between each module so that the experimenter will get different results on different conditions according to the information in each module.

The subjects in group 1 received a module containing information about self-awareness in authentic leadership on the egoism dimension of ethical climate. The subjects in group 2 received a module containing information about self-awareness in authentic leadership on the benevolence dimension of ethical climate. The subjects in group 3 received a module containing information about self-awareness in authentic leadership on the principal dimension of ethical climate. The subjects in group 4 received a module containing information about internalised moral perspective in authentic leadership on egoism dimension of ethical climate. The subjects in group 5 received a module containing information about internalised moral perspective in authentic leadership on benevolence dimension of ethical climate. Finally, the subjects in group 6 received a module containing information about internalised moral perspective in authentic leadership on principal dimension of ethical climate.

In the third stage, the experiment allowed students to fill in their identities and profiles. This identities include gender, age, GPA, and the semester of the research subject. After filling in the personal data, the experimenter explained the rules that must be considered and general instructions during the experiment. Next, students were allowed to enter the fourth stage, namely, answering a number of provided questions. In general, those questions were about the material of accounting and auditing, and it is the fifth stage of the experiment. After students completed a number of questions, they were allowed to continue to the sixth stage, namely, the reading of a case which students were required to answer questions related to the case. In addition to answering questions, students would also be given manipulation checks to determine the extent of their comprehension about the assignments. In the seventh stage, the fully completed modules were collected. The eighth stage as the last stage is the debriefing. Namely, the experimenter will restore the condition and situation of subjects to their original state.

### ***Experimental Tasks and Procedures***

The subjects of the study were divided into six (6) groups randomly with different treatment for each group. This different treatment includes authentic leadership with internalised moral perspective and self-awareness and the three dimensions of ethical climate in the form of egoism, benevolence, and principal.

The experimental process lasts for sixty minutes with preparation for each class. Within sixty minutes, students are expected to complete the assignment well even though the treatment

given will vary for each module. After completing the experiment in the delivered modules, those modules will be then collected. The series in the experiment will be closed by debriefing. The experimenter will restore the class condition or subjects to their original condition before they receive manipulation to follow a series in the experiment. The debriefing given by the experimenter is to give information about the purposes and benefits of the study and in accordance with the research ethics that the identity of subjects will not be revealed to the public.

### ***Analysis Techniques***

The experimental presented a statistical description of the characteristics of the subjects of study. The test was done by using One Way Analysis of Variance (ANOVA). ANOVA testing was conducted to test the subject description and the effectiveness of randomisation. This test was intended to determine whether the characteristics of subjects will determine their decision making. The first hypothesis testing uses an independent t-test. The second hypothesis is tested using One Way Anova. The second hypothesis testing uses One Way Anova to see the difference in the average of more than two independent populations (egoism dimension of ethical climate, benevolence dimension of ethical climate, and the principal dimension of ethical climate). The third hypothesis is tested by using Two Way ANOVA to see the interaction caused by the two variables.

## **Research Results**

### ***General Description of Research Subjects***

The series of experiments were carried out in three islands, namely, Java, Bali, and Kalimantan. Experiments conducted in Java took place at the Faculty of Economics and Business of Soegijapranata Catholic University, Semarang. The experiment in Bali took place at the Faculty of Economics, Business and Tourism of University of Hindu Indonesia, Bali. The experiment in Kalimantan Island took place at the Faculty of Economics and Business, University of Palangka Raya, Kalimantan. Subjects who met the experimental treatment criteria and passed manipulation were 294 students. The student characteristics are gender, age, GPA, and the semester the students participating in the study. The profiles of subjects who had participated in the experiments are shown in Table 2.

**Table 2:** Subject Profile

| Information                | Total | Percentage |
|----------------------------|-------|------------|
| Gender:                    |       |            |
| Male                       | 89    | 30,3%      |
| Female                     | 205   | 69,7%      |
| Age:                       |       |            |
| 19-20                      | 151   | 51,4%      |
| 21-23                      | 143   | 48,6%      |
| Grade Point Average (GPA): |       |            |
| 2,01-2,99                  | 38    | 12,9%      |
| 3,00-3,49                  | 214   | 72,8%      |
| >=3,5                      | 42    | 14,3%      |
| Semester:                  |       |            |
| 6                          | 294   | 100%       |

**Source:** Processed data, 2019

### ***Testing of Randomisation***

Randomisation testing of the demographical subject profiles was performed using One Way Anova Test. The purpose of this test is to ascertain whether demographic factors influence whistleblowing intention. The results of randomisation testing are shown in the following Table 3 and Table 4.

**Table 3:** One Way Anova Test Results for Authentic Leadership

|                            | <i>Mean Square</i> | <i>Sig.</i> | <b>Information</b> |
|----------------------------|--------------------|-------------|--------------------|
| Gender:                    |                    |             |                    |
| <i>Between Groups</i>      | 0,333              | 0,114       | No Influence       |
| <i>Within Groups</i>       | 0,208              |             |                    |
| Age:                       |                    |             |                    |
| <i>Between Groups</i>      | 0,530              | 0,541       | No Influence       |
| <i>Within Groups</i>       | 0,601              |             |                    |
| Grade Point Average (GPA): |                    |             |                    |
| <i>Between Groups</i>      | 0,703              | 0,064       | No Influence       |
| <i>Within Groups</i>       | 0,386              |             |                    |
| Semester:                  |                    |             |                    |
| <i>Between Groups</i>      | 0,004              | 0,327       | No Influence       |
| <i>Within Groups</i>       | 0,003              |             |                    |

**Source:** Processed data, 2019

**Table 4:** One Way Anova Test Results on the Ethical Climate

|                            | Mean Square | Sig.  | Information  |
|----------------------------|-------------|-------|--------------|
| Gender:                    |             |       |              |
| Between Groups             | 0,298       | 0,176 | No Influence |
| Within Groups              | 0,209       |       |              |
| Age:                       |             |       |              |
| Between Groups             | 0,976       | 0,098 | No Influence |
| Within Groups              | 0,587       |       |              |
| Grade Point Average (GPA): |             |       |              |
| Between Groups             | 0,451       | 0,330 | No Influence |
| Within Groups              | 0,394       |       |              |
| Semester:                  |             |       |              |
| Between Groups             | 0,003       | 0,648 | No Influence |
| Within Groups              | 0,003       |       |              |

**Source:** Processed data, 2019

The results of randomisation testing show that the four characteristics, namely, gender, age, GPA, and semester have no influence on the assessment of whistleblowing intention. Significance value (Sig.) of the four characteristics is greater than alpha 0.05. Randomisation can be said to be effective because the four characteristics do not affect whistleblowing intention and the only treatment that can affect the subject's intention to do whistleblowing.

### Testing of Hypothesis 1

#### *Relationship between Authentic Leadership and Whistleblowing Intention*

The first hypothesis in this study states that authentic leadership with an internalised moral perspective has a higher intention of whistleblowing than authentic leadership with self-awareness. Testing of the first hypothesis uses the Independent T-test. Groups 1, 2, and 3 received treatments in authentic leadership information with self-awareness. Groups 4, 5 and 6 received treatments in authentic leadership information with an internalised moral perspective.

**Table 5:** Testing Results of Hypothesis 1

|                                | Mean  | Std. Deviation | t      | Sig. (2-tailed) |
|--------------------------------|-------|----------------|--------|-----------------|
| Authentic Leadership           |       |                |        |                 |
| Internalised Moral Perspective | 85,00 | 14,347         | 29,185 | 0,000           |
| Self-Awareness                 | 33,24 | 16,002         | 29,207 |                 |

**Source:** Processed data, 2019

Table 5 shows that the intention of exposing fraud or whistleblowing on the self-awareness treatment of authentic leadership amounted is 33.24 while in the internalised moral perspective treatment of authentic leadership is 85.00 with a significance level of 0.000 ( $p \leq 0.05$ ). These results indicate that the intention to conduct whistleblowing is higher in the condition of authentic leadership with internalised moral perspective than in conditions of authentic leadership with self-awareness.

An employee who is under the leadership of a leader who has an internalised moral perspective will have a higher intention of whistleblowing. This can occur because the employee will feel more comfortable and safe in revealing frauds. The reported fraud will be responded faster and given feedback by the leader. A leader with internalised moral perspective will be trusted more by his staffs in exposing frauds. An internalised moral perspective can show that a leader's behaviour is based on moral values coming from him rather than coming from external pressure. On the other hand, a leader who has self-awareness will only be known by his members from his advantages and disadvantages. Staffs will tend not to reveal frauds when they see the attitude of their leader who is ignorant and does not give appreciation for staffs' performance.

The results of testing this hypothesis are in accordance with research of Berry (2004) which states that workers will trust their whistleblowing to leaders that they have trusted. Authentic leadership can also have a positive role on the whistleblowing of an entity or an organisation. Hannah, Avolio, & Walumbwa (2014) stated that authentic leadership can encourage behaviour that is in accordance with social values. Thus authentic leadership has a strong influence on individuals in an organisation to conduct whistleblowing.

## **Testing of Hypothesis 2**

### ***Relationship between Ethical Climate and Whistleblowing Intention***

The testing of the second hypothesis aims to find out the type of ethical climate where an employee will have the strongest intention to do whistleblowing among the three types of ethical climate (egoism, benevolence, and principal). The second hypothesis is tested using ANOVA. From the comparison of the three types of ethical climate, the highest intention of whistleblowing can be found in one of those types.

**Table 6:** Testing Results of Hypothesis 2

|                 | Mean  | Std. Deviation | Sig.  |
|-----------------|-------|----------------|-------|
| Ethical Climate |       |                |       |
| Principal       | 93,60 | 8,06           | 0,000 |
| Benevolence     | 74,79 | 13,48          |       |
| Egoism          | 64,62 | 13,14          |       |

**Source:** Processed data, 2019

Table 6 shows that among the three types of ethical climate, the strongest intention to do whistleblowing is on the principal ethical climate at a value of 93.60. It is followed by the benevolence ethical climate at a value of 74.79 and then followed by the egoism ethical climate at a value of 26.16.

**Table 7:** Testing Results of Hypothesis 2

|                 | Mean Square | Levene Statistic | Sig.  |
|-----------------|-------------|------------------|-------|
| Ethical Climate |             |                  |       |
| Between Groups  | 119,042,199 | 15,292           | 0,000 |
| Within Groups   | 140,290     |                  |       |

**Source:** Processed data, 2019

The Test of Homogeneity of Variances in Table 7 shows the Levene Statistics at 15,292 with a significance of 0,000. The Anova test shows Between Groups and Within Groups with a significance of 0,000. Multiple Comparisons for the ethical climate of egoism, benevolence, and principal show the significance of each ethical climate at 0,000. Testing of this hypothesis concludes that an employee will have the strongest whistleblowing intention when he is in the principal ethical climate.

A diverse organisational climate can be a characteristic of an organisation or entity (Schneider & Reichers, 1983). An ethical climate can have an impact on whistleblowing intention because an ethical climate can create an improvement in an organisation. The characteristics of an organisation can be seen from the organisational climate, whether it encourages or rejects behaviour that is not in accordance with the rules as well as its disclosure. An organisation can be a medium for the behaviour of their members when there is the pressure that requires them to act ethically. A dilemma can occur among organisational members on how to respond to unethical behaviour. It is the dilemma on what should be done and on how to respond a conscience when an unethical behaviour occurs. Ethical climate can be a factor in dealing with this problem because the ethical climate can influence the performance of an organisation and its members (Barnett & Vaicys, 2000).

Decision making should be made amid an ethical dilemma to produce the best decisions that in accordance with ethics. The testing results of the second hypothesis show that decision making that must be made at the lowest whistleblowing intention is at the egoism dimension of ethical climate. The egoism ethical climate is where decision making is based on maximising one's own benefit.

When experiments were carried out, subjects who got an egoism ethical climate in Group 1 and Group 4 tended to choose small numbers related to whistleblowing intention (10-50). Whereas, the modules that contain information on benevolence ethical climate in Group 2 and Group 5 have the high intention of whistleblowing (60-80). This occurs because the benevolence ethical climate prioritises common interests. It means that when people find a fraud that can harm many parties; they will choose to report the fraud. The principal ethical climate in Group 3 and Group 6 has the highest score (80-100) because decision making in this ethical climate is based on applicable laws, rules, codes of ethics, and professional codes. Thus, it can be concluded that the whistleblowing intention to expose a fraud can occur when there are rules, laws, and codes for that purpose. Thus, when there are clear rules for disclosing unethical behaviours, whistleblowers will consider that they are safe for related rules and laws protect them.

### Testing of Hypothesis 3

#### *Relationship between Authentic Leadership and Ethical Climate with Whistleblowing Intention*

Testing of the third hypothesis examines the interaction between authentic leadership and ethical climate with whistleblowing intention. Tests were carried out using Two Way Anova, and the results of descriptive statistics are presented in Table 8.

**Table 8:** Descriptive Statistics

| Authentic Leadership           | Ethical Climate | Mean  | Std. Deviation | N   |
|--------------------------------|-----------------|-------|----------------|-----|
| Self-Awareness                 | Egoism          | 33,73 | 15,49          | 99  |
|                                | Benevolence     | 34,08 | 19,35          | 49  |
|                                | Total           | 33,85 | 16,80          | 148 |
| Internalised Moral Perspective | Benevolence     | 81,22 | 10,33          | 49  |
|                                | Principal       | 93,60 | 8,06           | 97  |
|                                | Total           | 89,45 | 10,62          | 146 |
| Total                          | Egoism          | 33,73 | 15,49          | 99  |
|                                | Benevolence     | 57,65 | 28,27          | 98  |
|                                | Principal       | 93,60 | 8,06           | 97  |
|                                | Total           | 61,46 | 31,19          | 294 |

Source: Processed data, 2019

Table 8 shows that the highest dependent variable is expected to be fulfilled. A total of 294 respondents were given modules randomly by getting different treatments for authentic leadership with modules with self-awareness and internalised moral perspective. 148 respondents received modules with self-awareness treatment, and the remaining 146 respondents received modules with the treatment of internalised moral perspective. Authentic leadership has two factors, namely, self-awareness and internalised moral perspective. This shows that a leader must hold on to his internal moral values and beliefs, not on the external pressure. The internalised moral perspective is more important than the self-awareness of a leader. Whistleblowers who are afraid of all potential retaliation from their whistleblowing can feel safer because they get support from leaders who prioritise internalised moral perspective for all deviant and unethical behaviours.

The principal ethical climate is at the highest position on authentic leadership with an internalised moral perspective with a value of 93.60. Meanwhile, the ethical climate of egoism is only at 33.73, and the benevolence ethical climate is at 57.65. The results of the study indicate that authentic leadership influences whistleblowing intention, and also the ethical climate has an influence on whistleblowing intention. The interaction on testing of the third hypothesis means that whistleblowing intention can occur optimally when there is authentic leadership and the principal ethical climate that encourages the intention to conduct whistleblowing.

**Table 9:** Test of Between-Subjects Effects on Data of Hypothesis 3

| Source                                | Mean Square | Sig.  |
|---------------------------------------|-------------|-------|
| Corrected Model                       | 201122,12   | 0,000 |
| Intercept                             | 1146778,54  | 0,000 |
| Authentic Leadership                  | 28309,273   | 0,000 |
| Ethical Climate                       | 11323,142   | 0,000 |
| Authentic Leadership* Ethical Climate | 18258,994   | 0,000 |

**Source:** Processed data, 2019

Table 9 shows the significance value of the interaction of authentic leadership and ethical climate ( $p \leq 0.05$ ). The principal ethical climate is at the highest position in whistleblowing intention. This is in accordance with the testing results of hypothesis 2, which shows that the highest intention of whistleblowing occurs when a person is in the principal ethical climate. The applicable laws, rules, codes of ethics and professional codes help whistleblowers to disclose a fraud because they feel safer. The results of this study are in accordance with the research of Hannah et al (2014) which authentic leadership can support ethical behaviour and behaviour that is in line with social values.

Liu et al. (2015) examined the authentic leadership and whistleblowing intention that was associated with psychological security and personal identification. The study shows that authentic leaders can encourage whistleblowing of their members because authentic leadership has a positive effect on whistleblowing intention. Psychological security also has a positive effect on the interaction between authentic leadership and whistleblowing. Specifically, an authentic leader can create a psychologically, safe climate that can encourage fraud reporting.

Karabay, Akbas, & Elçi (2016) studied the interaction of ethical climate and job satisfaction in whistleblowing stated that the ethical climate influences the act of whistleblowing. This research is in line with the research that has been done previously by Kaptein (2011), who explained the significant effect of whistleblowing action in ethical climate.

The results of this study have confirmed the interaction of the authentic leadership and ethical climate on whistleblowing intention which are in harmony with previous studies by Liu et al. (2015) and Karabay, Akbas, & Elçi (2016). Authentic leadership and ethical climate are variables that have a significant effect on whistleblowing intention. Authentic leaders can respond to any violations that can be used as an indicator of whistleblowing behaviour. Organisational members who are in an ethical climate will have a low tendency to engage in an unethical act. Whistleblowing as disclosure of unethical actions can reduce the losses incurred and protect the organisation.

## **Conclusions, Limitations, and Recommendations**

### ***Conclusion***

This study aims to examine the influence of authentic leadership and ethical climate on whistleblowing intention. The experimental study conducted shows that first, authentic leadership with an internalised moral perspective has a stronger influence on whistleblowing intention than that of leadership with self-awareness. Authentic leadership with an internalised moral perspective can reflect a leader's behaviour that is in accordance with the values owned by the leader. An internalised moral perspective does not allow all forms of pressure to control it because it adheres to moral values. Moral values are used as guidelines as a leader. Self-awareness of a leader is only based on the awareness of the leader both in his strengths and weaknesses. Whistleblowing intention can be driven by leadership with an internalised moral perspective because solving problems and occurring violations are based on moral values.

Second, the principal ethical climate has a significant effect on whistleblowing intention. The first consideration in decision making on the principal dimension of ethical climate is

whether the decision is contradictory to all applicable laws, rules, codes of ethics, and professional codes. This is especially true when the decision making is made to meet strict legal standards and professional standards. The principal ethical climate has the highest influence compared to the ethical climate of egoism and benevolence. The intention of whistleblowing can be driven by an ethical climate that prioritises all applicable laws, rules, and standards. It is not to gain benefit for one's own interests (egoism) and the interests of certain groups (benevolence).

Third, there is an interaction between authentic leadership and ethical climate on whistleblowing intention. This proves that an authentic leader with an internalised moral perspective can encourage whistleblowing. A person who is in the ethical climate of the principal dimension will tend to prioritise all applicable laws, rules, standards, codes of ethics, and professional codes. Thus, it can be said that this study proves the interaction between authentic leadership and ethical climate on whistleblowing intention.

### ***Research Implications***

The results of this study can be applied theoretically which means that the results of this study provide evidence that there is an interaction between authentic leadership and ethical climate and that authentic leadership has an impact on whistleblowing intention. Practically, this study provides information for organisations that authentic leadership with an internalised moral perspective and principal ethical climate can encourage disclosure of illegal actions in organisations. A whistleblowing design requires a guarantee of protection for whistleblowers that carry out whistleblowing.

### ***Limitations and Suggestions for Research***

This study has limitations i.e. because the experiments were conducted in three locations – Denpasar, Palangkaraya, and Semarang – there might be uncontrollable factors, such as the experiment rooms. However, the strength of this experiment is on its internal validity so that this condition has been anticipated by testing the statistical effectiveness of randomisation. Future research is suggested to develop an ethical climate model associated with the local wisdom of a region.

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