

THE EFFECT OF MORAL REASONING, RETALIATION AND NEGATIVE EMOTIONS ON WHISTLEBLOWING OF INTERNAL AUDITORS

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Abstract: The purpose of this study is to investigate the effect of moral reasoning, retaliation and negative emotions (guilt and shame) on the tendency of internal auditors to conduct whistleblowing. This study uses a survey method, with questionnaires distributed to 56 internal auditors working at universities in Yogyakarta. Participants were asked to rate the questionnaire with a five-point Likert scale. All the questionnaires collected were analysed using multiple regression. The results of this study prove empirically that moral reasoning and guilt have a significantly positive influence on the tendency of internal auditors to conduct whistleblowing. Meanwhile, retaliation has a significantly negative effect on the tendency of internal auditors to conduct whistleblowing, but shame does not have a significant effect on the tendency of internal auditors to conduct whistleblowing. This research is expected to provide a basis for organisations to consider establishing whistleblowing systems for fraud and wrongdoing prevention

Keywords: Moral reasoning; Retaliation; Guilt; shame; Whistleblowing

Abstrak: Tujuan dari penelitian ini adalah untuk menyelidiki pengaruh penalaran moral, pembalasan dan emosi negatif (rasa bersalah dan malu) terhadap kecenderungan auditor internal untuk melakukan whistleblowing. Penelitian ini menggunakan metode survei, dengan kuesioner didistribusikan kepada 56 auditor internal yang bekerja di perguruan tinggi di Yogyakarta. Peserta diminta untuk menilai kuesioner dengan skala Likert lima poin. Semua kuesioner yang dikumpulkan dianalisis menggunakan regresi berganda. Hasil penelitian ini membuktikan secara empiris bahwa moral reasoning dan guilt berpengaruh positif signifikan terhadap kecenderungan auditor internal untuk melakukan whistleblowing. Sementara itu, retaliasi berpengaruh negatif signifikan terhadap kecenderungan auditor internal untuk melakukan whistleblowing, namun rasa malu tidak berpengaruh signifikan terhadap kecenderungan auditor internal untuk melakukan whistleblowing. Penelitian ini diharapkan dapat memberikan dasar bagi organisasi untuk mempertimbangkan membangun sistem whistleblowing untuk pencegahan penipuan dan pelanggaran.

Kata Kunci: *Moral reasoning, Retaliation, Guilt, shame, Whistleblowing*

INTRODUCTION

The phenomenon of whistleblowing in recent decades has begun to attract public attention, starting from the financial scandal of the Enron and Worldcom cases which had a big impact on accounting practices (Baker et al., 2017; Emerson et al., 2007). The cases of Enron, Worldcom and Global Crossing occurred due to wrongdoing, fraud and discrepancy in financial statements (Oppong et al., 2016). The presence of such financial scandals has triggered the question of what exactly is the role of internal auditors in evaluating an organisation. To date, the public considers that internal auditors as an internal party of a company are individuals who know everything about their organisation, especially when it comes to finance. As a means of control and prevention, internal parties are better at communicating wrongdoing or fraud than external parties (PONEMON & GABHART, 1990). Therefore, internal auditors should be more scrupulous in detecting the possibilities of wrongdoing and fraud.

Based on the knowledge of the organisation in which they work, internal auditors are having great potential to become whistleblowers if wrongdoing or fraud happen within the organisation. Internal auditors have the ability to report fraud. However, individuals who have the potential and intention for whistleblowing will not necessarily follow them up This unethical behaviour of an internal auditor is somehow a way of protecting himself (Norman et al., 2010; Roussy, 2013).

More research shows that internal auditors tend to stay in silence, afraid of unsettling personal and professional consequences from the organisation (Everett & Tremblay, 2014; James, 2003; Norman et al., 2010). The decision to execute whistleblowing is understandably not that simple because the consequences and threats will always be present at every whistleblowing action (Rocha et al., 2003). Internal auditors will face a dilemma of “talking or staying in silence” (Berry, 2004). Therefore, the individual who finally decides to become a whistleblower should really be appreciated, since whistleblowing is an ethical action (PONEMON & GABHART, 1990)

Currently, research related to factors affecting individuals' tendency to conduct whistleblowing continues to grow (Bjørkelo et al., 2012; G. A. Liyanarachchi & Adler, 2011; G. Liyanarachchi & Newdick, 2009). However, the results still show inconsistency, especially on the relationship of whistleblowing to retaliation (Bjørkelo et al., 2012; G. A. Liyanarachchi

& Adler, 2011; Mesmer-Magnus & Viswesvaran, 2005). Find that the threat of retaliation does not affect whistleblowing practices (Mesmer-Magnus & Viswesvaran, 2005). Furthermore, provide evidence that retaliation does not correlate with whistleblowing (G. A. Liyanarachchi & Adler, 2011)

However, some studies have shown that retaliation has a negative effect on the possibility of individuals performing whistleblowing (Bjørkelo et al., 2012). Contradictions about the effects of retaliation on whistleblowing make it difficult to pinpoint the effects themselves in detail. Therefore, researchers are motivated to close the literature gap related to the influence of these two variables and this will be the contribution of this research.

The developmental stages of moral reasoning of an individual will greatly determine how the individual thinks about ethical dilemmas, while the process of deciding right and wrong will end in ethical decision-making (Trevino, 1986). Research on the moral reasoning of whistleblowing shows consistent results in which moral reasoning has a significant effect on whistleblowing (Brabeck, 1984; Miceli & Near, 2005). This research will re-examine the effect of moral reasoning on the tendency of internal auditors to conduct whistleblowing. This has been done to reconfirm the relationship between moral reasoning and the tendency of internal auditors to conduct whistleblowing.

In addition to moral reasoning, emotions play a crucial role in decision making (Cohen et al., 2011). Guilt makes individuals who behave unethically to change their actions into ethical ones (Cohen et al., 2011). point out that shame is a part of the negative emotions that are particularly related to decision making for ethical behaviour (Tangney et al., 2007). As we know, whistleblowing is one manifestation of ethical decision making. Suggest that negative emotions such as feeling of guilt will ultimately affect a person's decision to speak out. However, such a statement has not been tested empirically (Blenkinsopp & Edwards, 2008). Shame is described as a negative feeling resulting from an action that has taken place and will lead to confusion in thinking, and the inability to speak and reveal (Lewis, 2022)

To the best of the researchers' knowledge, investigations into how such emotions influence individuals to execute whistleblowing have not been conducted. This is a huge opportunity for researchers to investigate the influence of new variables associated with the tendency of individuals to conduct whistleblowing. The purpose of this study is thus to

investigate the effect of moral reasoning, retaliation and negative emotions (guilt and shame) on the tendency of internal auditors to conduct whistleblowing

METHOD

Participant

The participants of this study were 56 internal auditors who work at the University in Yogyakarta. They were chosen by using purposive sampling technique and the sample criterion in this research is internal auditors who have the experience of working at least one year and at least 21 years old. The researcher chose the internal auditors as a sample in this study based on several considerations. First, internal auditors as internal parties are more aware of their organisational situation. Therefore, it is assumed that the auditors are more aware when there is wrongdoing in the organisation where they work, especially in financial scope.

Second, internal auditors experience more ethical dilemmas than external auditors (Roussy, 2013) because internal auditors are tied to the organisations they work for and if they perform whistleblowing then they will get retaliation directly from the organisations they work for. Third, internal auditors have responsibility for their work in the organisations for which they work. The description of data in this study shows that most of the respondents are male, i.e. 35 people (62.5%), and the rest were women 21 people (37.5%). The majority of respondents working over the age of 30 years is 34 people (60.7%), while the majority of respondents have experience working over 10 years are 25 people (44.6%).

Instrument

The measurement of the whistleblowing variable in this study adapts the case instrument formulated by Schultz et al. (1993). The whistleblowing variable is translated into four question items to be given to the participants. Moral reasoning was measured using the Defining Issue test (DIT), as an instrument developed by (Welton & Lagrone, 1994). The instrument is considered to be the most appropriate when used to measure the perceptions of accounting students and the accounting profession (Welton & Lagrone, 1994). In this research, moral reasoning measurement is translated into a scenario with twelve items of question made in accordance with the situation in Indonesia.

The measurement of retaliation variable in this study uses an instrument adapted from (Arnold & Ponemon, 1991) research and utilised and re-developed by (G. Liyanarachchi & Newdick, 2009). This research adapts and re-develops the instrument to fit this research

method. The measurement of guilt and shame variables in this study uses the Guilt and Shame Proneness Scale (GASP) adopted from (Cohen et al., 2011). The Guilt and Shame Proneness Scale (GASP) consists of 16 question items AND includes two measurements to measure guilt (1, 2, 5, 9, 11, 14, 15, 16) and shame (3, 4, 6, 7, 8, 10, 12, 13). Participants were then asked to evaluate the statements on all research variables using the Likert scale (1 = highly impossible, 2 = impossible, 3 = quite possible, 4 = possible, 5 = highly possible). Researchers do not use the neutral choice because individuals must each pick an option.

RESULTS AND DISCUSSION

Validity and reliability tests for the research instrument were performed before the questionnaires were distributed to the internal auditors in the Yogyakarta area. The validity test in this research used Confirmatory Factor Analysis (CFA). Question item validity was then obtained from $KMO\ MSA > 0.5$ and significance < 0.05 . The results of our analysis show that the value of Kaiser-Meyer-Olkin-Measure of Sampling Adequacy (KMO-MSA) is $0.513 > 0.5$ so that the factor analysis can be conducted. Likewise, Bartlett's Test of Sphericity has a significance of 0.000 as can be seen in Table 1.

Table 1. KMO Dan Bartlett's Test

<i>Kaiser-Meyer-Olkin-Measure of Sampling Adequacy</i>		0.513
<i>Bartlett's Test of Sphericity</i>	<i>Approx. Chi-Square</i>	2.1743
	<i>Df</i>	861
	<i>Sig.</i>	0.000

Table 2. Rotated Component Matrix

		Component				
		1	2	3	4	5
Moral Reasoning	1	0.705				
	2	0.690				
	3	0.794				
	4	0.646				
	5	0.669				
	6	0.595				
	7	0.821				
	8	0.815				
	9	0.754				
	10	0.676				
	11	0.832				
	12	0.630				
Retaliation	1		0.637			
	2		0.836			

	3	0.783	
	4	0.821	
	5	0.792	
	6	0.763	
	7	0.845	
	8	0.734	
	9	0.661	
	10	0.757	
Guilty feeling	1		0.774
	2		0.842
	3		0.853
	4		0.825
	5		0.899
	6	0.910	
	7	0.821	
	8	0.845	
Feelings of Shame	1		0.872
	2		0.864
	3		0.802
	4		0.664
	5		0.768
	6		0.739
	7		0.654
	8		0.802
Whistleblowing	1		0.786
	2		0.807
	3		0.814
	4		0.664

The test results from KMO MSA and Bartlett's Test of Sphericity indicate that testing for loading factor can be done. The loading factor is successful if the diagonal axis Anti-image correlation is > 0.5 and only forms one factor in component matrix by seeing factor loading (Jr et al., 2018). Test results show that all items are > 0.5 and grouped on their respective variables, as can be seen in table 3. In this study the measurement of reliability is established by statistical tests looking at the value of Cronbach's Alpha for each construct. The construct can be said to be reliable if Cronbach's Alpha value > 0.60 entailing that the questionnaire is reliable (Jr et al., 2018).

Table 3. Reliability Test

Variables	Cronbach's Alpha
Whistleblowing	0.880
<i>Moral Reasoning</i>	0.918
Retaliasi	0.929
Guilty Feeling	0.917
Feelings of shame	0.933

Analysis Data

This research has four independent variables: moral reasoning, retaliation, guilt and shame. The dependent variable in this research is whistleblowing. Four hypotheses have been formulated in this study. These four hypotheses are tested using multiple regression. SPSS software is used for data processing. Hypothesis testing by using multiple regression is concluded to be significant when <0.05 , when the hypothesis is accepted.

RESULT

Prior to hypothesis testing, the researchers have conducted a test of (F) goodness of fit model to measure the accuracy of regression function in samples and see if the model is acceptable. The regression model is significant if the significance value of F is smaller than 0.05. The result of F test in research $F_{count} (5,583) > F_{table} (2.56)$. The test results (F) can be seen in table 4.

Table 4. Result of F Test

F count	F table	R ²	Adjusted R ²	Sig	Conclusion
5.583	2.56	0.305	0.250	0.000	Model Fits

Our research findings show that the hypothesis one, the moral level of reasoning, has a positive influence on the tendency of internal auditors to perform whistleblowing that will be accepted. The test results showing that the value of t variable of moral reasoning of $2.336 > 1.676$ with the significance of 0.023 can be seen in table 5. They confirm that the moral reasoning has a positive influence on the tendency of individuals to do whistleblowing. Hence, individuals with higher moral levels have a greater tendency to do whistleblowing.

The results of the H1 testing in this study are in line with several previous studies which suggest that auditors with high moral reasoning will have a higher tendency to conduct whistleblowing than auditors with lower moral reasoning (Brabeck, 1984; PONEMON & GABHART, 1990). Previous studies are also consistent with research conducted by (G. Liyanarachchi & Newdick, 2009) which states that, in general, individuals with high moral

reasoning tend to perform whistleblowing compared with those with low levels of moral reasoning.

Table 5. Test Result of t

Variables	Regression Coefficient	t count	t table	Sig
Constant	3.287			
Moral reasoning	0.259	2.336	1.676	0.023*
Retaliation	-0.222	-2.516	1.676	0.015*
Guilt	0.272	2.482	1.676	0.016*
Shame	-0.118	-1.433	1.676	0.158

Notes : * $p < 0,05$ ** $p < 0,01$

The second hypothesis of retaliation has a negative effect on the tendency of the internal auditor to conduct whistleblowing is accepted. This can be seen from the test results that show that $t \text{ count} > t \text{ table}$ or level of significance $< 0,05$. The test results in table four show the value of t variable of retaliation $2.516 > 1.676$ with significance 0.015. Thus, H2 supports the theory that retaliation has a negative influence on the tendency of individual to perform whistleblowing.

In contrast, individuals faced with high retaliation have a smaller tendency towards whistleblowing. The results of this study are consistent with previous research (Arnold & Ponemon, 1991; Bjørkelo et al., 2012; G. Liyanarachchi & Newdick, 2009) these studies conclude that retaliation has a negative effect on the tendency of individual performing whistleblowing. Basically, before undertaking their actions, whistleblowers always tend to analyse the forms and retaliations they will receive.

The research results show that hypothesis three on guilt has a positive influence on the tendency of internal auditors to perform accepted whistleblowing. The test results show that the value of t of guilt variable $2.482 > 1.676$ with 0.016 significance, as seen in table 4. Thus, H3 is validated that guilt has a positive influence on the tendency of individuals to perform whistleblowing. An individual who has feelings of guilt after he conducts fraud or wrongdoing has a greater tendency to perform whistleblowing. The results of this study prove empirically that the actual feeling of guilt greatly affects the tendency of individuals to perform whistleblowing.

This research then answers the questions of (Blenkinsopp & Edwards, 2008) on how other emotions such as feeling of guilt will ultimately affect individual's decision to speak. This is because individual who feels guilty will try to make up for their mistakes by behaving

ethically (Leith & Baumeister, 1998). Whistleblowing is considered to be one of the ethical acts able to make up the individual's mistakes.

The research findings conclude with the rejection of hypothesis four concerning shame has a negative influence on the tendency of internal auditors to do whistleblowing. The test results show that the value of t of guilt variable $1.433 < 1.676$ with a significance of 0.158 can be seen in table 4. The results explain that shame does not have a negative influence on the tendency of individual to perform whistleblowing. The results of this study do not match the researchers' hypothesis in H4.

Shame is thus thought to be a form of negative emotion that can determine the behaviour of individual based on moral standards (Baumeister et al., 1994). When individual conduct or confronted with an unethical situation, then negative emotions (guilt and shame) will naturally arise as a reflection of personal or social moral standards. Researchers assume that the reason why this hypothesis is not supported is because of the high moral standards of individual who feels ashamed when committing fraud or wrongdoing. Therefore, encouraged by his moral, the individual is still likely to conduct whistleblowing.

CONCLUSION

The purpose of this study is to investigate the impact of moral reasoning and retaliation on the tendency of individuals to perform whistleblowing. In addition, researchers have also observed and test empirically the effect of negative emotions (guilt and shame) on the tendency of individuals to perform whistleblowing.

This research uses purposive sampling techniques and a survey method using questionnaire instrument. Questionnaires are distributed to 56 internal auditors working at all the State Universities located in Yogyakarta. All collected questionnaires are analysed using multiple regression. There are four hypotheses proposed in this study. This study provides empirical evidence that moral reasoning, retaliation and guilt significantly affect the tendency of individual to do whistleblowing. Meanwhile, we show that shame does not have a significant effect on the tendency of individual to do whistleblowing.

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The limitations of this study is that it still uses a research subject that is not too broad and internal auditors who work at the State University located in Yogyakarta. Therefore, careful consideration must be taken when generalising the results of this study. This research

uses survey method through questionnaire. Researchers do not have the opportunity to meet directly with respondents.

In addition, this study does not set a standard on the high or low moral reasoning of internal auditors. Hence, the one limitation of this study is that can be an excellent opportunity for further research. Subsequent research is expected to expand the research sample and reach a wider range of territories so that the results obtained can be further generalised. Subsequent research can observe the shape of other negative and positive emotions because the emotions that appear in human beings will influence their decision to take ethical action. Researchers hope that the next study could set the high and low standards of an individual's moral reasoning.

This research is expected to provide meaningful implications for all parties. First, it can provide an extension of the literature and complement previous research related to whistleblowing. Secondly, this research is expected to be useful as a reference for educational institutions to emphasise business ethics education to the students so that they can act more ethically in the future. Third, in the practical world, the results of this study are expected to be the basis of consideration for organisations to start forming a whistleblowing system. Hence, it is intended to aid the prevention of fraud and wrongdoing. Fourth, for regulators, they are expected to begin to establish regulations that specifically regulate matters related to whistleblowing

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