

AUTHENTIC LEADERSHIP AND WHISTLEBLOWING: THE MEDIATING ROLES OF TRUST AND MORAL COURAGE

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Abstract

Studies have shown that internal whistleblowing is an effective way to reduce unethical behavior and fraud risk in organizations. This study aims to empirically examine the mediating effects of affective trust and moral courage on the relationship between authentic leadership and employees' internal whistleblowing intention. A convenience sampling method was utilized because the respondents were specific and there was no available public information about them. The survey was sent online to respondents who worked in a private company in Indonesia that applied a whistleblowing policy. One hundred sixty-three responses were analyzed by using SMART PLS 3. The findings suggest that both affective trust and moral courage improve the effects of authentic leadership on their employees' intention to report fraud through internal channels. A leader with authentic attributes promotes employees' trust in their leader and improves their moral courage so they are more willing to report fraud to internal parties, including their leaders. Hence, this research demonstrates the significance of a good control environment in companies.

Keywords: Affective trust; Authentic leadership; Internal whistleblowing intentions; Moral courage.

Abstrak

Studi telah menunjukkan bahwa pelaporan pelanggaran secara internal merupakan cara yang efektif untuk mengurangi perilaku tidak etis dan risiko kecurangan di dalam organisasi. Penelitian ini bertujuan untuk menguji secara empiris pengaruh mediasi kepercayaan afektif dan keberanian moral terhadap hubungan antara kepemimpinan otentik dengan intensi pegawai melakukan pelaporan pelanggaran secara internal. Metode sampel *convenience* digunakan oleh karena responden yang spesifik dan ketiadaan informasi publik mengenai mereka. Survei dikirimkan secara online kepada responden yang bekerja di sebuah perusahaan swasta di Indonesia yang telah menerapkan kebijakan pelaporan pelanggaran. Seratus enam puluh tiga respon dianalisa dengan menggunakan SMART PLS 3. Hasil penelitian menunjukkan bahwa baik kepercayaan afektif maupun keberanian moral meningkatkan pengaruh kepemimpinan otentik terhadap intensi pegawai melaporkan kecurangan melalui jalur internal. Seorang pemimpin yang memiliki atribut otentik meningkatkan kepercayaan pegawai kepada pimpinan dan keberanian moral pegawai sehingga pegawai lebih mau melaporkan kecurangan kepada pihak-pihak internal, termasuk pimpinan mereka. Oleh sebab itu, penelitian menunjukkan pentingnya lingkungan pengendalian yang baik di dalam perusahaan.

Katakunci: Intensi pelaporan pelanggaran secara internal; keberanian moral; kepercayaan afektif; kepemimpinan otentik.

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INTRODUCTION

Whistleblowing has become an important mechanism for companies to detect fraud. ACFE Indonesia Chapter (2019) reported that companies heavily rely on whistleblowing to detect fraud that causes 7 billion dollars in loss on average. Among the whistleblowers, employees play a significant role since around 50% of fraud cases are reported by them. This finding shows that companies need to encourage their employees to report fraud or any other unethical conduct internally as part of their organizational control mechanisms. Encouraging employees to report any ethical or legal violations to an internal authority will help the company to take immediate action to resolve the problem. Companies could also minimize any exposure that may damage companies' reputations if the fraudulent acts are known by the public.

One way to improve employees' intentions to report fraud is by establishing a whistleblowing policy. However, its effect is less effective if leaders in companies do not reinforce ethical behavior (Lewis, 2011). Positive leadership, such as authentic leadership, is needed to promote whistleblowing among employees. Authentic leadership is the integration of transformational and ethical leadership theories (Avolio et al., 2004). It is "a pattern of leadership behavior that draws upon and promotes both positive psychological capacities and a positive ethical climate to foster greater self-awareness, an internalized moral perspective, balanced processing of information, and relational transparency on the part of leaders working with followers, fostering positive self-development" (Walumbwa et al., 2008, p. 94). Authentic leaders, thus, are expected to promote internal whistleblowing because they could influence their followers' ethical and citizenship behavior (Kyei-Poku & Yang, 2020; Hannah et al., 2011).

Although prior studies have analyzed the determinants of whistleblowing, including leaderships (Sustika et al., 2020; Wen & Chen, 2016), values and commitments (Cho & Song, 2015; Nurdianawati & Rachmawati, 2020), the perception of seriousness (Andon et al., 2018; Hanif & Odiatma, 2017), type of corruption and organizational culture (Taylor, 2019), and so on, only limited studies provide insights into how an authentic leader influences employees' intention to report fraudulent acts internally in Indonesia, for example, Anugerah et al. (2019). Other leadership studies tend to focus on the impact of transformational and ethical leadership on promoting whistleblowing (Caillier, 2013; Hassan et al., 2014), ethical behavior and performance (Schaubroeck et al., 2016; C. S. Lu & Lin, 2014; Shin, 2012; Neubert et al., 2009), reducing fraud occurrence (Pulungan et al., 2020; Said et al., 2018), and so forth. More studies about the effects of authentic leadership on internal whistleblowing employees may provide more comprehensive insights to organizations to promote whistleblowing, especially when employees may face the risk of retaliation if they report any fraudulent acts.

Retaliation is one of the main problems that discourage employees to report fraud. Whistleblowers may receive harm or discomfort when they report any wrongdoing. Various studies have shown that threats and retaliation reduce employees' willingness to report violations (Latan et al., 2018; Chang et al., 2017; Liyanarachchi & Adler, 2011; Miceli & Near, 2013; Zhang et al., 2009). Further, when employees perceive that the retaliation cost is higher, their preference to do internal whistleblowing is likely to be lower than external whistleblowing (Yang & Xu, 2020). The retaliation could be in various forms, for example, downgrading, assigning more work, and so on. In Indonesia, retaliation is considered a serious risk. The Indonesian government

even issued UU No. 31 of 2014 to protect whistleblowers.

To encourage employees to do whistleblowing regardless of the risk of retaliation, employees need to have a certain level of trust in their leaders that they will not be harmed for a report they may make. Trust has been known to affect people's decision-making and relationships, including relationships between buyers and sellers (Calefato et al., 2015; Chandon, 2016), and leaders and followers (Calefato et al., 2015). Studies also have shown how trust affects the relationship between ethical and transformational leadership and employees' behavior, performance or perception, and so forth (X. Lu, 2014; W. Zhu et al., 2013; Y. Zhu & Akhtar, 2014). Trust even improves the positive impact of ethical leadership of project managers on the success of the project (Bhatti et al., 2021). However, those studies do not provide evidence about the role of trust in encouraging employees' intention to report fraudulent acts. Elaborating on the role of trust in the relationship between authentic leadership and internal whistleblowing will provide more evidence on the importance of leaders in organizations. This research, thus, is designed to provide evidence on how trust affects the relationship between authentic leadership and internal whistleblowing.

Besides trust, moral courage is also a personal factor that influences an individual's decision-making and ethical behavior. Moral courage is generally defined as "the ability to use inner principles to do what is good for others, regardless of the threat to self, as a matter of practice" (Sekerka & Bagozzi, 2007, p. 135). Just because individuals have strong moral courage, it does not mean that they act recklessly because they do it by considering the context in which they need to make decisions. It rather implies that the stronger the moral courage is, the more likely the individual will move from moral

motivation to ethical behavior and positive work outcomes (Deeg & May, 2021; Khelil et al., 2016; Morales-Sánchez & Cabello-Medina, 2013).

Nevertheless, studies about how trust and moral courage mediate the relationship between authentic leadership and internal whistleblowing need further elaboration due to the following reasons. First, studies about the mediating effects of moral courage and trust in whistleblowing topics focus more on ethical behavior, e.g. Lu (2014) and Hannah et al. (2011), rather than employees' decisions to report fraud through internal channels. Second, many studies about whistleblowing do not differentiate between legal and ethical fraud. Legal and ethical fraud is different from one another. Legal fraud is any fraud that breaches laws, while ethical fraud is any action that is not in line with norms or values (Anand et al., 2015). On many occasions, legal fraud can cause more harm to a company. Less serious fraud, usually ethical fraud, tends not to be reported by employees (Andon et al., 2018). Thus, our study aims to evaluate the mediating effects of moral courage and trust on the impact of authentic leadership on internal whistleblowing intention.

Our research contributes to whistleblowing literature and practices. This study does not only evaluate the impacts of authentic leadership on whistleblowing intention but also how the effects are mediated by trust and moral courage. Our findings give more reference to businesses about the importance of internal control, especially a controlled environment because leaders have a significant role to promote whistleblowing amongst employees. Thus, it may help the company to detect fraudulent acts sooner. The following sections present previous research and the hypotheses development; the research methodology; the results and discussion; and the conclusion.

LITERATURE REVIEW

Authentic Leadership and Internal Whistleblowing Intention

Exemplary leader behavior is needed because as role models, leaders set norms and values that may affect their followers' behaviors. They are considered to set the tone at the top, including the integrity and ethical values of the organization (Schandl & Foster, 2019). To promote organizational citizenship behavior (OCB), leaders need to build rapport with their subordinates (Koning & Van Kleef, 2015; Podsakoff et al., 2000). This is because subordinates' perceptions of their leaders' behaviors influence various aspects, such as their organizational commitment, work effort, job satisfaction, and performance (Kacmar et al., 2013; Kang, 2019; Mary & Ozturen, 2019; Qing et al., 2020; Walumbwa et al., 2011).

The concept of authenticity is rooted in Greek philosophy, which means "to thine own self be true" (Avolio & Gardner, 2005, p. 319). It was then applied to the leadership area. Avolio et al. (2004) identify an authentic leader as a leader who is deeply aware of one's thoughts and actions but is also perceived by others as a person who is optimistic with high moral values. Walumbwa et al. (2008) later empirically identified four related dimensions that form the authentic leadership construct. They are an internalized moral perspective, self-awareness, relational transparency, and balanced processing.

An internalized moral perspective gives a moral foundation for authentic leadership. Leaders' behaviors are guided by their internal moral standards and values, rather than by external pressure, such as pressures from organizations and society (Gardner et al., 2005). Self-awareness means the leaders understand themselves, including their strengths and weaknesses. They are also able to recognize how they are perceived by their followers. This description implies that self-awareness is

more like a living process rather than an end in itself (Ladkin & Taylor, 2010). High self-awareness promotes higher authenticity since the leaders have better knowledge about themselves (Hannah et al., 2011). Relational transparency refers to the level of a leader's self-disclosure and openness to others. By sharing information openly and expressing less inappropriate emotions, the relational transparency behavior may promote trust (Kernis, 2003). Balanced processing refers to leaders who objectively analyze relevant information, including people's views that may challenge their positions, before they make decisions (Petan & Bocarnea, 2016). Authentic leaders may encourage their followers to behave ethically (Hannah et al., 2011). Based on the social learning theory, people tend to observe and emulate certain behaviors that they consider as modeled behavior (Bandura, 1978). This modeled behavior is expected from leaders because of their positions in organizations. Authentic leaders are expected to be moral exemplars by displaying normative behaviors, such as integrity and fairness so that they may become role models for their subordinates. They need to be deeply aware of their values and how those values affect their followers (Gardner et al., 2005). Authentic leaders also regularly communicate their thoughts and rules to improve their followers' trust. When leaders share ethical values with their employees, they also reinforce those values through rewards, punishments, and ethical decision-making (Neubert et al., 2009). Employees who are inspired by their leaders' values will be motivated to reduce discrepancies between their values with their leaders' values (Lord & Brown, 2003). In other words, when employees observe their role models, they are also likely to mimic their role models' behaviors.

In terms of promoting employees' intentions to report fraud internally, several studies provide empirical evidence that

authentic leaders improve employees' intention to do internal whistleblowing, e.g. Anita et al. (2020), Anugerah et al. (2019), and Liu et al. (2015). There are several factors why authentic leaders are likely to promote internal whistleblowing among their employees. First, authentic leaders need to monitor their employees' behaviors (Neider & Schriesheim, 2011) and are aware of any corruption or other fraudulent acts (Algera & Lips-Wiersma, 2012). Second, since subordinates perceive that authentic leaders hold high moral standards (Sidani & Rowe, 2018), it is very likely that they reinforce their values by punishing employees who conduct fraud. This may motivate subordinates to blow the whistle when they find fraud in their company.

Third, prior studies have shown that a justice response is likely to promote whistleblowing (Kurniawan et al., 2019; Seifert et al., 2010; Near et al., 1993). Since authentic leaders have a balance processing characteristic, they are expected to analyze the information they receive objectively and with high integrity. It indicates that a higher authentic leadership provides a more justified internal whistleblowing channel that can be used by their subordinates to report fraud. When subordinates perceive that their reports to internal parties are fairly processed, they are motivated to report by using the internal channel (Anugerah et al., 2019; Liu et al., 2015). On the other hand, Liu et al. (2015) indicate that leaders with low authentic leadership may process wrongdoing reports more subjectively and unjustly. This may cause employees to become more reluctant to report fraud internally.

Based on the above discussion, this study suggests the following hypothesis:

Hypothesis 1: Authentic leadership positively affects employees' internal whistleblowing intention.

The Mediating Role of Affective Trust

Interpersonal trust plays a significant role in influencing individual attitudes and behaviors in organizations. It has cognitive and affective dimensions (McAllister, 1995). Cognitive trust is more based on evidence of trustworthiness. For example, an individual will trust another individual if they have sufficient knowledge that the other individual is competent and responsible. In contrast, affective trust relies more on emotional bonds between individuals. These emotional bonds tie connected individuals because they feel that they have faith in their relations. This study focuses on affective trust because prior research found that people's actions and attitudes tend to be influenced by effective trust rather than cognitive trust (Newman et al., 2014; X. Lu, 2014; Swift & Hwang, 2013).

According to the theoretical concept of authentic leadership, trust is a significant outcome (Avolio et al., 2004). Employees may effectively trust their leaders if they emotionally feel secure when they interact with their leaders. An authentic leader whose actions are guided by one's moral standards will show that the person does what he/she says. This will facilitate the leader's behavioral integrity, which is the alignment between the leader's words and acts (Simons, 2002). An authentic leader may also maintain transparency to one's employees to improve the leader-employee relationship. Prior studies have found that when a strong relationship of trust is established between a leader and one's employees, the employees' behaviors, commitments, and performance are improved. Fischer et al. (2020), Newman et al. (2014), and Berkovich (2018) asserted that affective trust significantly improves employees' organizational citizenship behavior (OCB). OCB refers to employees' discretionary behavior when they demonstrate more than their role or job expectations (Bateman & Organ, 1983). Moreover, when employees feel

that their leaders can be trusted, their commitments to their organization (Chiang & Lin, 2016; Hon & Lu Lin, 2010) and their performance (Saleem et al., 2020; Newman et al., 2016) are also increased. This empirical evidence suggests that employees are more likely to act beyond what they are required to do if they have strong affective trust in their leaders.

A strong relationship of trust between a leader and one's employees also influences employees' perception of a lower risk of retaliation (Rehg et al., 2008). It means that when a psychologically secure environment is built in a working place, employees may not be hesitant or afraid to discuss with their leaders when they face problems at work. They are also more likely to report any fraudulent acts (Liu et al., 2015). Thus, this study proposes the following hypotheses:

Hypothesis 2: Affective trust mediates the relationship between authentic leadership and whistleblowing intention

The Mediating Role of Moral Courage

Moral courage explains why individuals act ethically when others act in different ways. It is related to a person's willingness to face risks and dangers to uphold one's personal moral principles or values. Sekerka and Bagozzi (2007, p. 135) defined moral courage as "the ability to use inner principles to do what is good for others, regardless of the threat to self, as a matter of practice". Moral courage is "the behavioral expression of authenticity in the face of the discomfort of dissension, disapproval, or rejection" (Lopez et al., as cited in Comer & Schwartz, 2017, p. 706). With moral courage, individuals can withstand pressures from others to accept certain moral views that may be against their views.

An individual's moral courage does not instantly occur. Based on the social learning theory, authentic leaders will affect moral courage through social learning and role modeling processes. The

four dimensions of authentic leadership, which are balanced processing, self-awareness, an internalized moral perspective, and relational transparency help a leader to be a moral exemplary. Organizational members tend to seek inspiration from a role model who usually works closely with them (Weaver et al., 2005). When a leader is seen as exemplary, the followers are likely to observe and learn from their leaders, which then develops the followers' moral courage (Hannah et al., 2005). Although a role model in a workplace is not a perfect person, their relatability with others enables them to motivate others to seek certain goals (Moberg, 2000). Moreover, a role model who may bring negative consequences for doing the right thing, through his/her good intention to act may still positively influence others.

Employees in civilian organizations, such as private companies, tend to face contextual pressures, instead of physical threats, that may discourage employees to express their ethical concerns (Burris, 2012; Detert & Treviño, 2010). Moral courage motivates an individual to commit to personal moral principles under conditions where the person may be faced with contextual pressures. It improves the individual's willingness to resist pressure to act unethically. Kidder (2005) asserted that individuals with high moral courage will strive to do ethical acts. As employees try to balance their courage to act ethically with their needs to survive, such as to secure their jobs, they are likely to motivate themselves to choose ethical actions (Sekerka et al., 2009). In this way, employees with high moral courage can determine their value priorities. Prior research has demonstrated how moral courage positively influences employees' ethical behavior, including expressing their ethical concerns, such as reporting fraudulent acts (Anita et al., 2020; Fernando et al., 2021; Sekerka & Bagozzi,

2007). Based on the above discussion, the study puts forth the following hypotheses: Hypothesis 3: Moral courage mediates the relationship between authentic leadership and whistleblowing intention.

Figure 1 depicts the theoretical framework of this study.

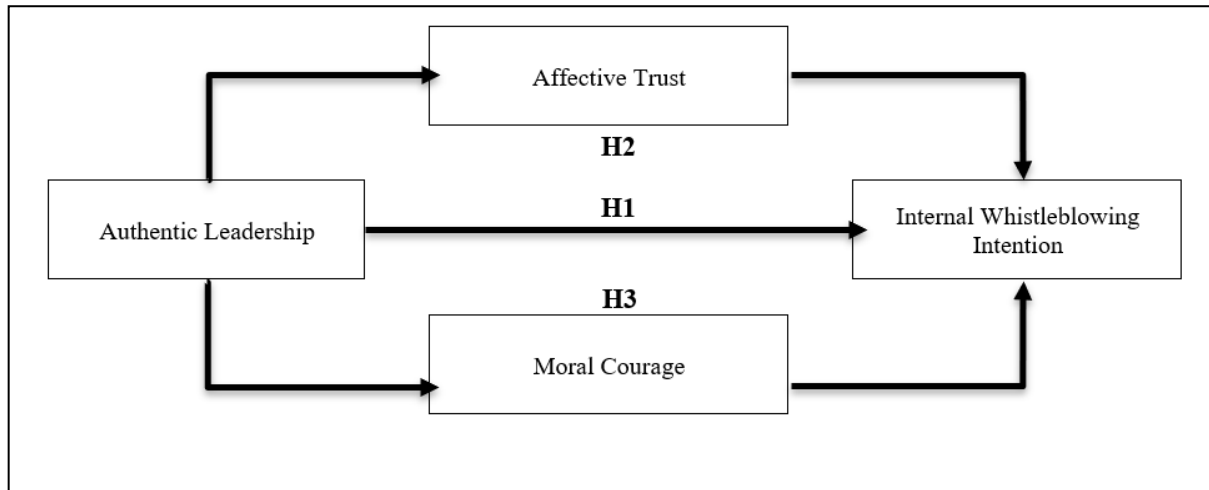


Figure 1. Research Model

RESEARCH METHOD

This study applied a quantitative method and used questionnaires to collect data from the respondents. Unlike Tyas and Utami (2020) that used students as surrogates of employees, our study surveyed actual employees as our respondents. The main issue of using employees is that students' responses may differ substantially from responses from employees who have certain working experience and knowledge (Ashton & Kramer, 1980).

The respondents in this research worked in a large multinational company that had an established whistleblowing system. This research specifically selects the respondents based on some criteria: (a) those who are employees in private enterprises and (b) those who work three years or more. Unfortunately, the researcher could not identify the population statistics on those criteria due to restricted data access. Thus, this study selects convenience sampling. These methods were devised as it was powerful to scope non-probability sampling selection in the absence of population

characteristics (Hair et al., 2018). With this sampling technique, Sugiyono (2010) suggests the approximate benchmarking respondents is in the range between 50-300 samplings. This study collects 163 samplings.

The survey was conducted online through a Google survey from March-May 2021. The link of the survey was sent to the company's human resource department. An online survey was chosen to provide access to the target respondents who were difficult to reach through other ways (Wright, 2005), including an offline survey due to the COVID-19 pandemic. Two hundred forty-eight (248) online responses were received, but only 163 responses (65.7%) could be analyzed further. The other 85 responses could not be analyzed because the respondents had less than three years of working experience or the questionnaires were incomplete.

The survey comprised four sections that focused on authentic leadership, affective trust, moral courage, and internal whistleblowing intention. Every measurement item in the questionnaire used a 5-point Likert scale as shown in

Table 1. It has been applied and validated in prior studies.

The first section of the questionnaire required the respondents to evaluate the authentic leadership of their supervisors by using sixteen measurement items developed by Avolio et al. (2007). The questionnaire was used in several previous studies such as research by Anita et al. (2020) and Kutluata et al. (2017). The items measured four components of authentic leadership, which were self-awareness, internalized moral processing, balanced information processing, and relational transparency. The scale was from not at all (scale 1) to frequently, if not always (scale 5).

The second section measured the degree of the respondents' affective trust in their supervisors. There were five measurement items in this section and they were adapted from Yang and Mossholder (2010). This questionnaire was also applied by Nguyen et al. (2020). In this section, the respondents were given four statements about their supervisors. The respondents were asked about their level of agreement to the given statements from strongly disagree (scale 1) to strongly agree (scale 5). For example, the respondents were asked about their agreement level of the

statement if they shared their problems with their supervisors, they knew their supervisors would respond with care.

The third section measured the participants' level of moral courage, as adapted from Gibbs et al. (1986) and May et al. (2014). The questionnaire was used in various previous research such as by Anita et al. (2020) and Cheng et al. (2019). The scales comprised four-item questions about moral courage. For example, "I would stand up for a just or rightful cause, even if the cause were unpopular and it would mean criticizing important others." The respondents were required to provide their level of agreement towards each statement.

In the fourth section, the respondents were required to inform the level of their willingness or intention to report any legal fraudulent acts. The items only focused on fraud instead of unethical conduct. The measurement items of internal whistleblowing were adapted from Park and Blenkinsopp (2009). The questionnaire was also applied in research by Yuswono and Hartijasti (2018), Anugerah et al. (2019), and Malik and Nawaz (2018). The scale was from not at all (scale 1) to very strong (scale 5).

Table 1: Measurement Instrument of the Variables

| Variable | Operational Definition | Indicators | Scale |
|--|--|---|----------------------|
| Authentic Leadership (AL) | Authentic leadership is a leadership behavior that fosters self-awareness and good morals to build transparent and strong relationships with followers. The relationships are also built on an ethical foundation. | Sixteen measurement items developed by Avolio et al. (2007) | 5-point Likert scale |
| Affective Trust (AT) | Affective trust is trust in one place in another based on feelings generated by the level of care and attention the person shows; it's more emotional than rational. | Five measurement items developed by Yang and Mossholder (2010) | 5-point Likert scale |
| Moral Courage (MC) | Moral courage is an attempt to correct problems generated by ethical dilemmas and to find ways to help people resist pressure and overcome fear to behave ethically. | Four measurement items developed by Gibbs et al. (1986) and May et al. (2014) | 5-point Likert scale |
| Internal Whistleblowing Intention (IW) | An internal whistleblowing intention is the level of willingness of an employee to report unethical and fraudulent acts through the company's internal reporting mechanisms. | Four measurement items developed by Park & Blenkinsopp (2009) | 5-point Likert scale |

In this study, data analysis was carried out through several steps. Firstly, the study investigates the demographic profile of respondents, consisting of participants, gender, age, work experience, and education level. Afterward, to initiate inferential statistics, researchers examine the representation of data collection through validity and reliability assessments. After the reliability and validity were found, the hypothesis assessment was carried out.

RESULTS

To ascertain that the respondents understood about their leaders at their current company, they had to indicate their working period at the company. Table 2 shows that almost half of the participants (45.6%) were at the company for at least

11 years, while 27.0% had 6-10 years of working experience. Only 37.4% of the respondents worked at the company for 3-5 years. Apart from working experience, the survey also collected other demographic information including age, gender, and education level. The number of male and female respondents was slightly different, which was 50.3% males and 49.7% females. Around 41.7% of the respondents were at least 41 years old. Only 29.5% of the respondents were less than 31 years old. Most of the male respondents (62.2%) and more than half of the participants (54%) were less than 41 years old. The minimum education level of the respondents was a diploma degree. Then 88.3% of the respondents had earned at least an undergraduate degree.

Table 2. Respondents' Profiles

| | N | Percentage |
|---------------------------|-----|------------|
| Total Participants | 163 | 100% |
| Gender | | |
| Male | 82 | 50.3% |
| Female | 81 | 49.7% |
| Age | | |
| 25 – 30 years old | 48 | 29.5% |
| 31 – 40 years old | 47 | 38.8% |
| 41 – 50 years old | 39 | 23.9% |
| 51 – 55 years old | 29 | 17.8% |
| Work Experience | | |
| 3 – 5 years | 61 | 37.4% |
| 6 – 10 years | 44 | 27% |
| 11 – 15 years | 36 | 22.1% |
| >15 years | 22 | 13.5% |
| Education Level | | |
| Diploma | 19 | 11.7% |
| Undergraduate Degree | 112 | 68.7% |
| Master's Degree | 32 | 19.6% |

Source: Microsoft Excel 365 (processed by the authors)

Validity and Reliability Test of the Measurement Model

The study applied SMART PLS 3 version 3.3.2 for the data analysis because SMART PLS 3 is a non-parametric statistical tool that analyzes a relatively small sample size and complex models with no distributional

data assumption (Hair, Jr. et al., 2020). To examine the inferential statistics, the study performed several tests. The first test was to detect the validity of the variable and sub-variable constructs. To test it, we compared the results of the loading factor and the benchmark loading factor values.

If the loading factor was less than 0.7 and the Average Variance Extracted (AVE) was at least 0.5, the variable and sub-variable constructs were valid (Hair, Jr. et al., 2020). Table 3 shows that all items are valid, except AL7 (loading factor = 0.638), AL14 (loading factor = 0.616), AL16 (loading factor = 0.542), and MC3 (loading factor = 0.662). The AVE values for all variables are above 0.5. The affective trust variable has the smallest AVE value (0.646), while the largest one is the moral courage variable (0.731). This indicates that each construct is able to explain more than half of the variance of its indicators on average.

Another validity test was the discriminant validity. Discriminant validity shows the extent to which a construct is unique compared to other constructs. Good discriminant validity is if the correlation between the construct and its indicator is higher than the correlation with indicators

from other block constructs. Table 4 demonstrates that each variable has good discriminant validity. For example, the loading value of all AL indicators, except AL7, AL14, and AL16 are larger in authentic leadership compared to their cross-loadings in other constructs. Similarly, the loading value of each AT indicator is larger in affective trust compared to their cross-loading values in authentic leadership, moral courage, and internal whistleblowing intention.

The next test was the reliability test which was performed by using a Cronbach alpha and composite reliability. If the empirical test of the Cronbach alpha or composite reliability was higher than 0.7, the latent variable could be considered satisfactory (Hair, Jr. et al., 2020). Table 3 reveals that the Cronbach alpha and composite reliability values for all constructs are above 0.70, which can be considered satisfactory.

Table 3: Convergent Validity and Reliability Test Results

| Factor Loading | Factor Loading | Average Variance Extracted (AVE) | Cronbach's Alpha | Composite Reliability |
|--|-----------------------|---|-------------------------|------------------------------|
| Authentic Leadership | | 0.656 | 0.956 | 0.961 |
| AL1: My leader says exactly what he or she means. | 0.862 | | | |
| AL2: My leader admits mistakes when they are made. | 0.878 | | | |
| AL3: My leader encourages everyone to speak their mind. | 0.792 | | | |
| AL4: My leader tells you the hard truth. | 0.743 | | | |
| AL5: My leader displays emotions exactly in line with feelings. | 0.721 | | | |
| AL6: My leader demonstrates beliefs that are consistent with actions. | 0.874 | | | |
| AL8: My leader asks me to take positions that support my core values. | 0.797 | | | |
| AL9: My leader makes difficult decisions based on high standards of ethical conduct. | 0.787 | | | |
| AL10: My leader solicits views that challenge his or her deeply held positions. | 0.785 | | | |
| AL11: My leader analyzes relevant data before coming to a decision. | 0.813 | | | |
| AL12: My leader listens carefully to different points of view before concluding. | 0.850 | | | |

| | | | | |
|---|-------|-------|-------|-------|
| AL13: My leader seeks feedback to improve interactions with others. | 0.867 | | | |
| AL15: My leader knows when it is time to re-evaluate his or her position on important issues. | 0.741 | | | |
| Affective Trust | | 0.646 | 0.863 | 0.901 |
| AT1: I am confident that my supervisor will always care about my personal needs at work. | 0.793 | | | |
| AT2: If I share my problems with my supervisor, I know (s)he will respond with care. | 0.800 | | | |
| AT3: I am confident that I can share my work difficulties with my supervisor. | 0.746 | | | |
| AT4: I am sure I can openly communicate my feelings to my supervisor. | 0.821 | | | |
| AT5: I feel secure with my supervisor because of his/her sincerity. | 0.856 | | | |
| Moral Courage | | 0.731 | 0.818 | 0.890 |
| MC1: I consistently stand by my principles. | 0.868 | | | |
| MC2: I will defend someone who is being taunted or talked about unfairly, even if the victim is only an acquaintance. | 0.878 | | | |
| MC3: I would prefer to not remain in the background even if a friend is being taunted or talked about unfairly. | 0.817 | | | |
| Internal Whistleblowing Intention | | 0.727 | 0.875 | 0.914 |
| IW1: I will report the fraud to the appropriate persons within the organization. | 0.750 | | | |
| IW2: I will use the reporting channels inside of the organization. | 0.903 | | | |
| IW3: I will let an upper level of management know about the fraud. | 0.899 | | | |
| IW4: I will tell my supervisor about the fraud. | 0.851 | | | |

Source: SmartPLS 3, 2021 (processed by the authors)

Table 4. Discriminant Validity Results

| Item | Authentic Leadership | Affective Trust | Moral Courage | Internal Whistleblowing Intention |
|------|----------------------|-----------------|---------------|-----------------------------------|
| AL1 | 0.862 | | | |
| AL2 | 0.878 | | | |
| AL3 | 0.792 | | | |
| AL4 | 0.743 | | | |
| AL5 | 0.721 | | | |
| AL6 | 0.874 | | | |
| AL8 | 0.797 | | | |
| AL9 | 0.787 | | | |
| AL10 | 0.785 | | | |
| AL11 | 0.813 | | | |

| | | | |
|------|-------|-------|-------|
| AL12 | 0.850 | | |
| AL13 | 0.867 | | |
| AL15 | 0.741 | | |
| AT1 | | 0.793 | |
| AT2 | | 0.800 | |
| AT3 | | 0.746 | |
| AT4 | | 0.821 | |
| AT5 | | 0.856 | |
| MC1 | | | 0.868 |
| MC2 | | | 0.878 |
| MC3 | | | 0.817 |
| IW1 | | | 0.745 |
| IW2 | | | 0.907 |
| IW3 | | | 0.903 |
| IW4 | | | 0.846 |

Source: SmartPLS 3, 2021 (processed by the authors)

Results of Hypotheses Testing

After the validity and reliability tests were examined, the assessment was continued on the significance of the independent and mediating variables towards the dependent variable. The test was done to compare the computation of t-statistics and benchmarked t-statistics or approximately to their converted P-value (Hair, Jr. et al., 2020). The research model in Figure B and Figure C displays that there were five direct and two indirect paths that had to be evaluated. The direct paths were authentic leadership and internal whistleblowing intention (AL → IW), authentic leadership and affective trust (AL → AT), affective trust and internal whistleblowing intention (AT → IW), authentic leadership and moral courage (AL → MC), and moral

courage and internal whistleblowing intention (MC → IW). The indirect paths were authentic leadership, affective trust, and internal whistleblowing intention (AL → AT → IW), and authentic leadership, moral courage, and internal whistleblowing intention (AL → MC → IW).

The adjusted R-Square value in Figure 3 displays that the coefficient determination of internal whistleblowing intention is 0.569. It indicates that authentic leadership along with affective trust and moral courage can explain 56.9% of the variation in the internal whistleblowing intention value. The authentic leadership variable may also explain 37.7% and 22.9% of the variation in the affective trust and moral courage values respectively.

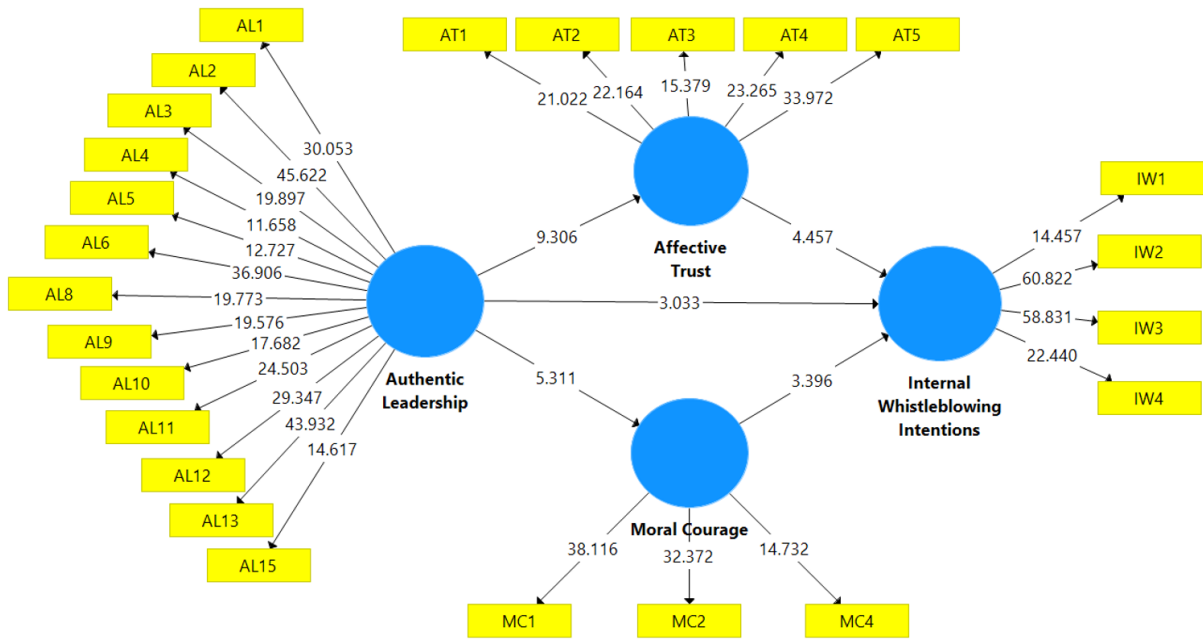


Figure 2. Significant Path (T-Statistics)

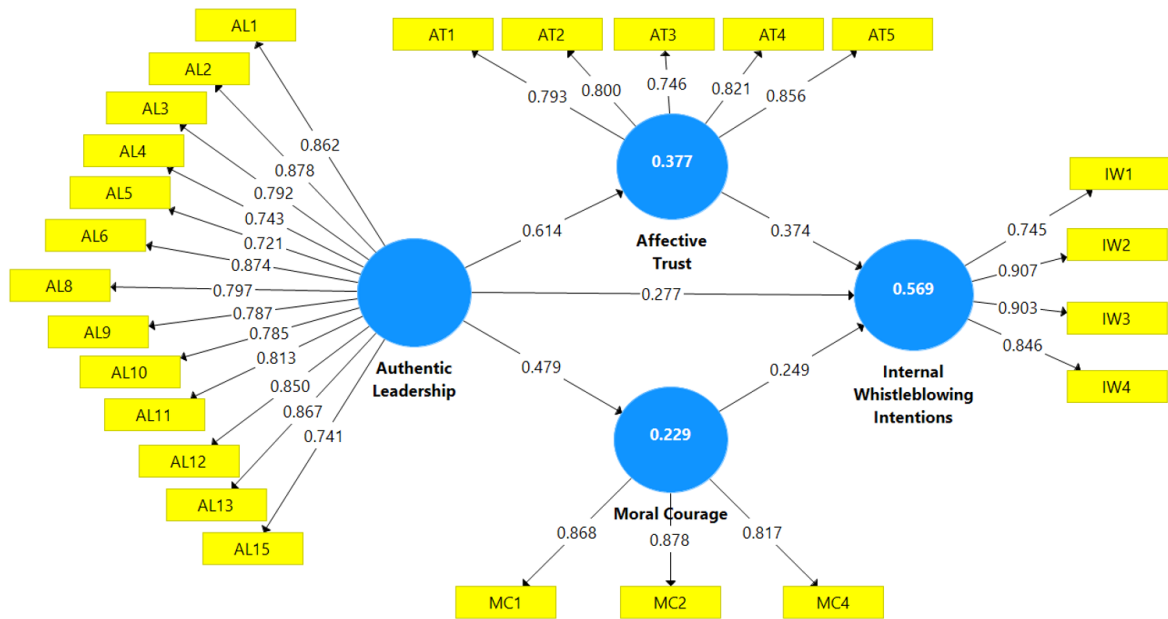


Figure 3. Coefficient Correlation and R-Square Results

Table 5 suggests that the hypotheses proposed in this study are accepted. The first hypothesis states that authentic leadership positively affects employees' intention to report fraudulent acts internally. The hypothesis testing shows that authentic leadership has a direct, positive effect on an employee's internal whistleblowing intention (AL → IW; $\beta =$

0.277; $p = 0.003$), which means that the first hypothesis is accepted. The hypotheses testing also shows that affective trust significantly mediates the effect of authentic leadership on employees' internal whistleblowing intention. Authentic leadership has significant and positive effect on an employee's affective trust (AL → AT; $\beta =$

0.614; $p = 0.000$), and then affective trust significantly and positively affects employees' internal whistleblowing intention ($AT \rightarrow IW$; $\beta = 0.374$; $p = 0.000$). Thus, the second hypothesis is accepted. Moreover, the study finds that moral courage significantly mediates the relationship between authentic leadership

and whistleblowing intention (H3 is accepted). It is shown by the significant positive effect of authentic leadership on employees' moral courage ($AL \rightarrow MC$; $\beta = 0.479$; $p = 0.000$), and the positive influence of moral courage on employees' intention to do whistleblowing internally ($MC \rightarrow IW$; $\beta = 0.249$; $p = 0.001$).

Table 5. Structural Equation Modelling Results

| Path | Estimated β | | t-value | P-value |
|--|-------------------|------------------|---------|---------|
| | Standardized | Non-Standardized | | |
| Authentic Leadership \rightarrow Internal Whistleblowing Intention | 0.277 | 0.271 | 3.033 | 0.003* |
| Authentic Leadership \rightarrow Affective Trust | 0.614 | 0.613 | 9.306 | 0.000* |
| Affective Trust \rightarrow Internal Whistleblowing Intention | 0.374 | 0.380 | 4.457 | 0.000* |
| Authentic Leadership \rightarrow Affective Trust | 0.479 | 0.471 | 5.311 | 0.000* |
| Affective Trust \rightarrow Internal Whistleblowing Intention | 0.374 | 0.380 | 4.457 | 0.000* |
| Authentic Leadership \rightarrow Moral Courage | 0.479 | 0.471 | 5.311 | 0.000* |

Source: SmartPLS 3, 2021 (processed by the authors)

The magnitude of the path analysis in Table 6 illustrates that the total effect of authentic leadership towards internal whistleblowing intention is 0.626. The total effect of authentic leadership is the combination of the direct effect ($\beta = 0.277$) and the indirect effect ($\beta = 0.349$). The total indirect effect is comprised of two specific indirect paths, which are $AL \rightarrow AT \rightarrow IW$ ($\beta = 0.230$) and $AL \rightarrow MC \rightarrow IW$ ($\beta = 0.119$). This finding strengthens the indication that both

affective trust and moral courage mediate the influence of authentic leadership towards an employee's whistleblowing intention of internal parties. Hence, based on the path analysis, it shows the strong magnitude of authentic leadership in affecting affective trust and moral courage, where in turn they channel into internal whistleblowing intention. Moreover, this authentic leadership has a significant magnitude on directly affecting the internal whistleblowing intention.

Table 6: Path Analysis

| Path | Total Effect | Direct Effect | Indirect Effect | Effect Size (f-square) |
|--|--------------|---------------|-----------------|------------------------|
| Authentic Leadership \rightarrow Affective Trust | 0.614 | 0.614 | | |
| Affective Trust \rightarrow Internal Whistleblowing Intention | 0.374 | 0.374 | | 0.182 |
| Authentic Leadership \rightarrow Moral Courage | 0.479 | 0.479 | | |
| Moral Courage \rightarrow Internal Whistleblowing Intention | 0.249 | 0.249 | | 0.099 |
| Authentic Leadership \rightarrow Internal Whistleblowing Intention | 0.626 | 0.277 | 0.349 | |

Source: SmartPLS 3, 2021 (processed by the author)

In Smart-PLS, the effect size of the mediating variable is measured by the f-

square value. That describes how powerful the magnitude of the mediating variables is

to the endogenous variable (Hair Jr et al., 2017). If the value is below 0,15, it is valued to have weak power. Since affective trust has an effect size of 0.15, it means that affective trust has sufficient magnitude power on internal whistleblowing (see table 6). On the other hand, moral courage has a weak magnitude on internal whistleblowing

DISCUSSION

Our findings highlight the significance of authentic leadership towards the influence of employees' intention to do whistleblowing internally. Authentic leaders will be beneficial to their organizations because when employees perceive that their leaders act consistently with authentic leaders' attributes, for example, the internalization of a moral perspective into leaders' actions and transparency to leaders' subordinates, they may be more willing to report any fraudulent acts to their leaders or other internal parties. When leaders act ethically, treat their employees fairly, and analyze information in an unbiased fashion, authentic leaders can help their followers by minimizing the risk of retaliation or avoiding them from reporting false information. This infers about how authentic leaders may even play more critical roles in Indonesian culture with a high value of power distance and collectivism (Hofstede Insights, n.d.). In high power distance and collectivist countries, power is centralized, employees rely on a hierarchy, their obedience to their leaders is high, and they are more willing to adjust their values with the values held by the society, for example, the culture in their organization. A potential problem with this culture is if fraud has been deeply internalized or systematically integrated into the company they work at, the employees tend to join the fraudulent acts rather than report the fraud. They find a rationalization to do the fraud. It will be considered incorrect or inappropriate to

disobey their fraudulent leaders or to report their colleagues. To mitigate that systematic fraud risk, authentic leaders who have higher positions are expected to be directive and control their subordinates. They need to share ethical values, transparency, and other authentic leaders' attributes with their members. Authentic leaders could promote internal whistleblowing to their organizations to avoid fraud to be internalized in the company's culture.

Our path analysis results also imply the importance of affective trust in mediating the role of authentic leadership in the social learning theory. Employees emulate their leaders' behavior not only because they see their leaders as role models, but also because they are emotionally attached to their leaders. When employees have faith in their leaders, they are likely to share the same values with their leaders, and thus not be involved in any action that may put their organizations at risk. By having the same values with employees, authentic leaders seem to establish a safe environment for their teams to make ethical decisions, including internal whistleblowing. When employees report fraud to internal parties, they often consider the costs and benefits (Cassemetis & Wortley, 2013). If the cost of facing retaliation outweighs the benefit of reporting fraud, for example, a company's reputation, the employees will choose to be silent. The established trust between authentic leaders and their employees influences the employees' perception that they feel safer to report any fraudulent acts since they perceive that they will face a lower risk of retaliation. This finding, thus, provides more evidence that affective trust does not only improve employees' organizational citizenship behavior (Fischer et al., 2020) but also reports fraud internally.

Besides affective trust, moral courage improves the relationship between authentic leadership and internal

whistleblowing intention. This finding extends prior research about whistleblowing, for example, Dungan et al. (2019). Moral courage does not only encourage employees to do whistleblowing, but it also encourages employees to choose internal channels as the media to report fraud. As an individual's ability to distinguish between right and wrong and to take a firm stand in favor of thinking and acting by moral ideals, moral courage plays a significant role in promoting internal whistleblowing. It is, thus, important that leaders demonstrate authentic values to their followers. When employees perceive that their leaders act ethically, transparently, and fairly, employees will have a greater urge to stand up and do what is right regardless of the risks that they may face. This courage, then, enables employees to report fraud either to their leaders or other internal channels. These findings should be useful for companies that need to promote internal whistleblowing.

Although our findings could not be surmised that moral courage has more of an association to internal whistleblowing rather than external whistleblowing, it provides evidence that organizations, specifically leaders, play a critical role in the whistleblowing process. Employees who feel that their leaders educate them about ethical values, including employees' rights to become whistleblowers, and who perceive that their leaders are fair, are more likely to utilize internal channels to report fraud. As presented by ACFE Indonesia Chapter (2019), disclosures by employees are the main source to detect fraud in Indonesia.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study aimed to examine the extent to which affective trust and moral courage mediate the effects of authentic leadership towards employees' internal

whistleblowing intention. The structural equation modeling results show that all hypotheses are supported. It demonstrates that both affective trust and moral courage mediate the relationship between authentic leadership and employees' whistleblowing intention towards internal parties in their company, e.g., direct leaders, internal auditors, and others. Employees' affective trust in their leaders and their moral courage improve authentic leaders' positive influence towards employees' whistleblowing intention. The evidence shows that leaders with high attributes of self-awareness, integrity, unbiased information analysis, and transparency are likely to establish a good rapport with their employees. A good relationship then improves employees' moral courage and emotional trust in their leaders. They will perceive that their ethical actions will be supported by their leaders. Thus, they are likely to be willing to report any fraud internally, including to their leaders. They will believe their leaders will evaluate their reports without any bias and will not act against the whistleblowers. Furthermore, the strong relationship between moral courage and internal whistleblowing intention suggests that employees are more willing to uphold their moral principles and values despite the risk of personal costs, e.g., the retaliation risk. Hence, our study reveals that the effectiveness of whistleblowing requires trust, morality, and courage. This underscores the significance of organizational reform to implement effective whistleblowing in the office environment.

Our study contributes to academic literature and companies. The study extends prior research about the role of authentic leadership, affective trust, and moral courage, and ethical leadership in improving employees' internal whistleblowing intention in companies in Indonesia. Our findings should also be useful to companies that need to promote internal whistleblowing to their

employees. The study provides empirical evidence about the importance of leaders, including directors, managers, and other leadership positions to encourage employees to report fraud internally rather than to external parties. By promoting internal whistleblowing, companies may avoid suffering from a loss of reputation while taking actions against fraudsters and improving better internal control. Employees may also become more reluctant to do fraud because they know that their actions can be reported through an internal whistleblowing channel. To do that, communication between leaders and their subordinates must be maintained continuously. Companies may also consider improving their training programs to produce leaders with high authentic attributes.

Recommendations

This research is not without limitations. First, although our sample was retrieved from employees of a multinational company that has a whistleblowing system, it also means that our sample may be homogeneous. Generalizing the research findings to other companies, especially small and medium enterprises must be done carefully. This opens opportunities for future studies to use samples from various organizations to provide insights into the research model in this study. Second, this study only examined two antecedents of employees' deciding to do internal whistleblowing. Future research should add other variables, for example, personal and situational factors, including organizational contexts and organizational settings to provide more comprehensive findings on how authentic leaders may promote internal whistleblowing in various organizations. Furthermore, future studies can examine a cross-comparison of whistleblowing implementation in multinational and domestic companies in Indonesia. This may provide comparisons on

whistleblowing implementation in those commercial institutions.

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