Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions

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Abstract

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One way that can be done to minimize fraud that occurs in an institution is by using a whistleblowing system. This system serves as a reporting platform for employees who know of fraud that occurred in an agency. The whistleblowing system, if implemented, has various consequences on the continuity of the institution and on the person who reports the fraud. This study aims to determine the leader's support that affects the intention to whistleblowing BMT employees. This study uses descriptive qualitative research using in-depth interviews. The result of this research is that the whistleblowing system has not been fully implemented in several companies, meaning they do not know about the system. In one company, the leader already knows what whistleblowing is. In terms of understanding, they do not understand it, but for the implementation, they have done it with different terms. In this case, the leader also plays an important role in reporting fraud. A leader should support and protect the reporter since it may incentivize the employee's intention to become a whistleblower.

Keywords: *Sharia Audits, Whistleblowing, Leaders' Support, Employees, LKS, BMT*

I. Introduction

The number of violations that have occurred recently in financial institutions has been in the spotlight in several circles. One of them is the case that happened to Winda Earl, whose money was lost in a bank in Indonesia (Ulya, 2020). This case is evidence of fraud that

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

occurred in the banking world by employees and harmed customers. There is an opportunity for employees who work in financial institutions to commit this fraudulent act, so a system is needed to minimize the fraud that occurs.

The results of the 2018 Association of Certified Fraud Examiner (ACFE) survey stated that the industrial sector with a fairly high case rate was the banking and financial services industry. This is in line with the 2019 Indonesia Fraud Survey (SFI) report, which states that 19.2% of fraud perpetrators work in the financial sector (ACFE Indonesia, 2020). With so many frauds in Indonesia, especially in the service and financial industry sectors, a system is needed to minimize these incidents.

One way that can be done to minimize fraud that occurs in an institution is by using a whistleblowing system. This system serves as a reporting platform for employees who know of fraud that occurred in an agency. In order to minimize the level of existing fraud, it is necessary to implement a whistleblowing system in every existing institution. The whistleblowing system is indeed one of the most powerful ways that every institution must have to overcome the frauds that occur. This is also reinforced by research conducted by (Mausimkora et al., 2020), who said that if a whistleblowing system was implemented and with anonymous reporting, it would minimize fraud that would occur.

The implementation of this whistleblowing system, if implemented, has various consequences on the continuity of the institution and on the person who reports the fraud. The impact of using this system can accelerate the handling of fraud that occurs and reduce the risk that occurs in an institution resulting from the fraud. Employees who use this system will get a lot of pressure if the employee reports fraud that has occurred so that employees have their fears. (Mausimkora et al., 2020) said that the anonymous reporting line will minimize the risk experienced by employees who become whistleblowers.

The fear of employees as whistleblowers against the whistleblowing system can occur because the employee will be filled with fear of threats and terror from elements who do not like his existence. In addition, the fear of losing a job may be a whistleblower's consideration to make a decision. It is also possible that someone will experience a dilemma when they have to report fraud that their colleagues in the same company have committed. Many factors can influence a person's intention to do/not do whistleblowing, so leadership support is needed in this regard.

Leader support for employees who become whistleblowers in this whistleblowing system is needed to protect employees from various pressures when the employee wants to reveal existing fraud. Other support provided by leaders plays a role in whistleblowing decisions and provides rewards to employees who wish to reveal fraud that occurred. With the support from the leader, it is expected to be able to protect from threats to employees who wish to report fraud that occurred. This is reinforced by research conducted by (Anggi Arvianita and Tetty Rimenda, 2021). It is said that risk factors, rewards, and identity confidentiality affect the interest of employees to take whistleblowing actions.

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

Based on the description above, the researchers want to find out more deeply about the support of leaders in the whistleblowing system. The object of this research is BMT. BMT was chosen because it is known as a sharia cooperative with elements of justice, so the whistleblowing system should work properly. In addition, researchers want to see how much interest employees become whistleblowers in leader support. Therefore, researchers are interested in conducting research titled "Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions."

The effectiveness of the implementation of a system can be seen from the benefits provided. One example is the whistleblowing system. This system can be said to be effective, as seen from the number of violations that occur in a bank can be minimized. One way that can be done to achieve this is with the support of leaders so that employees have an awareness of the importance of preventing violations from happening so that employees at the bank concerned will contribute by becoming a whistleblower. However, this method is not always successful, considering many employees remain silent and do not report when they learn of the violation. This is because there are several considerations and also a factor that can affect the whistleblowing intention of BMT employees. The purpose of this study is to suppress all forms of crime in the financial industry, especially the Islamic finance industry. One way to suppress all forms of fraud in the financial industry is to use the whistleblowing method. Whistleblowing is an action taken by an individual or several people who decide to report illegal things that occur in the work environment. So that fraud that occurs in the Islamic finance industry can be suppressed.

II. Literature Review

2.1. Background Theory

Theory of Planned Behaviour

The theory proposed by Icek Ajzen is an extension of the theory of reasoned action. Starting in the 1980s, this theory was used to study human behavior and to develop more effective interventions. According to Ajzen (1991) in Siti Aliyah (2015), "interest is assumed to capture the motivational factors that influence a behavior, which is indicated by how hard an individual plan to try to do the behavior" (Ajzen, 1991). According to Ajzen (1991) in (Jadmiko, 2021), he explains that behavioral intentions are influenced by three factors, including attitudes towards behavior, subjective norms, and perceived behavioral control.
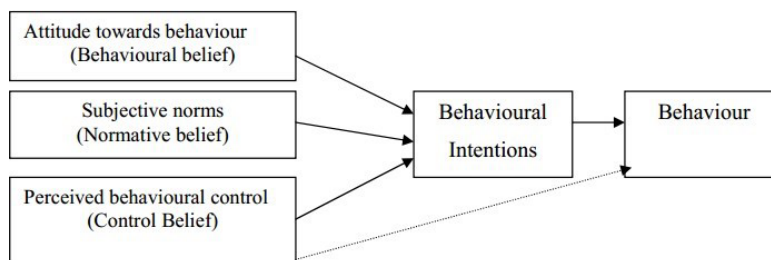

Figure 1. Planned Behaviour Theory
Source: Ajzen (1991)

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

According to Sulistomo (2012), "perception of behavior control is how a person understands that the behavior he shows is the result of control carried out by him". In this case, the relationship between the TPB theory and this research can be seen how the leader influences his employees to do whistleblowing so that there will be no more fraudulent acts in the future (Sulistomo, 2012).

Fraud

Despite its straightforward meaning, fraud is further described by some experts. According to Tuanakotta (2014), fraud is any illegal act characterized by deceit, concealment or breach of trust. This action is independent of the application of threats of violence or physical violence. Fraud is perpetrated by individuals and organizations to obtain money, wealth or services, to avoid payment or loss of services, or to secure personal gain (Tuanakotta, 2014). According to Bolagna (1989) in Tunggal (2014), basically, there are two types of fraud, external and internal. External fraud is fraud committed by outsiders against the company, while internal fraud is a non-illegal act of employees, managers and executives against the company (Tunggal, 2014).

Whistleblowing

a. Definition of Whistleblowing

Whistleblowing is an act carried out by an individual or several people who decide to report to the media, internal or external authorities about illegal things that occur in the work environment. In Kreshastuti (2014), Elias (2008) states that "whistleblowing can occur from within (internal) or from outside (external) internally (Kreshastuti & Prastiwi, 2014).

Whistleblowing occurs when an employee learns of fraud committed by another employee and then reports the fraud to his superior. Meanwhile, external whistleblowing occurs when an employee finds out about fraud committed by the company and then informs the public because the fraud will harm the community. Another definition states that whistleblowing is the act of a worker who decides to report to internal or external authorities illegal and unethical things that occur in the work environment or organization (Hanif dan Odiatma, 2017:14).

b. Whistleblowing in Islamic Perspective

Islam is a religion that there is no doubt about, both commands and prohibitions. One of them is to prevent munkar that can harm many people. Violation or fraud is one of the evils that must be prevented. This has been written in the Qur'an in Surah At-Taubah, verse 71, which means, *"The believing men and believing women are allies of one another. They enjoin what is right and forbid what is wrong."*

The Surah explains that every Muslim has an obligation to prevent the evil that occurs. Many forms of evil exist, one of which is a violation that occurs in companies such as BMT. Employees who become aware of the fraud that has occurred should report it. One way to report it is by whistleblowing.

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

Whistleblower

One of the "prosocial behavior" said by (Taylor & Curtis 2018) is whistleblower behavior that emphasizes helping other parties in the health of an organization or company. In whistleblower books, a whistleblower is often understood as a reporting witness. A person can be said to be a whistleblower when fulfilling two basic criteria. The first is that the whistleblower submits a report to the competent authority, the mass media, or the public. With this disclosure, it is hoped that the allegations of a crime can be uncovered. Secondly, a whistleblower is an 'insider'. What is meant in this case is a person who reveals an alleged violation and crime that occurred in his place of work or where he is located.

Whistleblowers are usually employees of the organization itself (internal parties) but do not rule out other whistleblowers from external parties. The Whistleblower must provide information, evidence or clear indications of the reported violation so that it can be traced or followed up.

Whistleblowing System

The Whistleblowing System is a violation reporting system still relatively new to be implemented in Indonesia. In encouraging the creation of Good Corporate Governance (GCG) and providing benefits for improving the quality of GCG implementation in Indonesia, the KNKG (National Committee on Governance Policy) issued a violation reporting system (SPP) or Whistleblowing System (WBS) in 2008 which companies can use to develop violation reporting manual system. (Intan Setyawati, Komala Ardiyani, 2015)

In order to carry out internal supervision of the company, this initiative created a whistleblowing system. This system is designed to prevent the occurrence of violations and crimes within the company. With this system, it is hoped that employees or people outside the company who know of fraudulent acts committed internally by the company can report it, making this whistleblowing system to prevent losses suffered by the company and also to save their business. The system that is built is then adjusted to the rules of each company, so it is hoped that this system will provide benefits for improving the implementation of corporate governance. (Semendawai, 2011).

Framework of Thought

The framework contains theoretical concepts that can show solutions to problems in research. This research with the theme of whistleblowing discusses the support of leaders in influencing employees' intentions to become whistleblowers. The number of violations and fraud triggered the implementation of a whistleblowing system in a company. This system plays an important role in reducing violations and fraud in the company. The existence of this system must be supported by the role of company leaders to achieve its goals. With the support of the leader, this system provides greater opportunities for employees who wish to report existing fraudulent acts so that the employee has the intention to become a whistleblower. Violations that occur in various

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

sectors cause many opportunities for fraud to increase. One of the sectors with the highest fraud rate is the banking and financial services sector. Although most Islamic banks in Indonesia have implemented this system, they have not been able to solve the existing problems. This can be seen from the number of cases in the banking sector in the banking reports of the Financial Services Authority (OJK).

2.2. Conceptual Framework (optional)

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┌──────────────┐   ┌──────────────┐   ┌────────────────────┐
│  Leaders'    │   │ Whistleblowing│   │ Employee Intention to│
│  Support     │   │   System     │   │ Become a Whistleblower│
└──────┬───────┘   └──────┬───────┘   └─────────┬──────────┘
       │                  │                     │
       └──────────────┐   │   ┌─────────────────┘
                      ▼   ▼   ▼
              ┌────────────────────────┐
              │ Is there a Whistleblower│
              └───────┬────────────┬───┘
                      ▼            ▼
            ┌──────────────┐  ┌──────────────┐
            │ If There is  │  │ If There is not│
            └──────┬───────┘  └──────┬───────┘
                   ▼                 ▼
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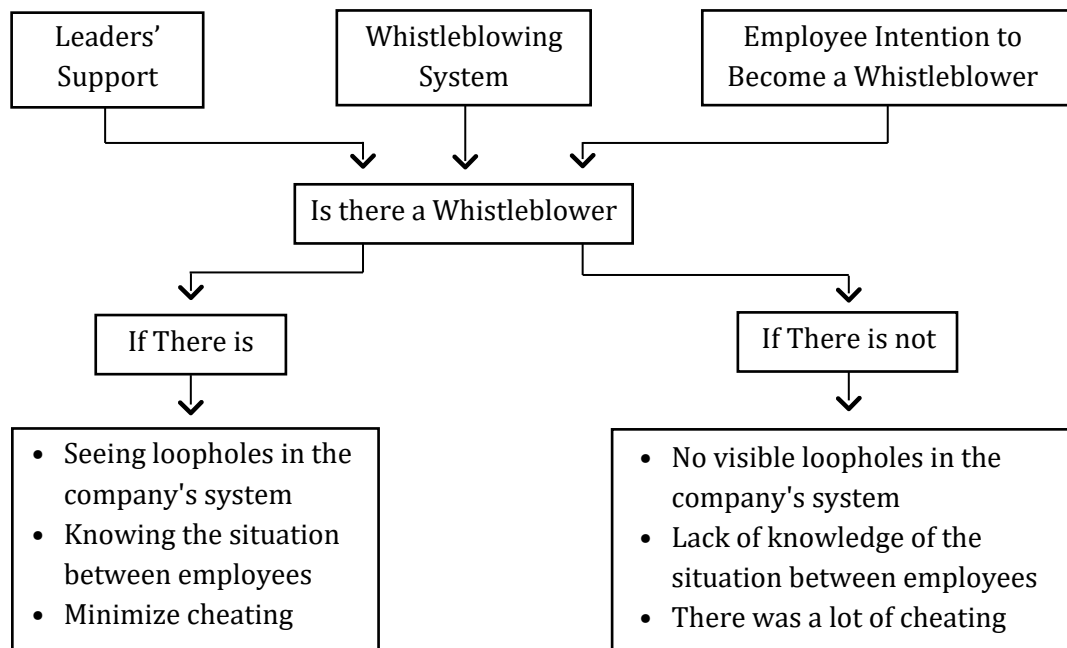| If There is	If There is not
• Seeing loopholes in the company's system • Knowing the situation between employees • Minimize cheating	• No visible loopholes in the company's system • Lack of knowledge of the situation between employees • There was a lot of cheating

Figure 2. Conceptual Framework

The number of violations and fraud triggered the implementation of a whistleblowing system in a company. This system plays an important role in reducing violations and fraud in the company. The existence of this system must be supported by the role of company leaders to achieve its goals. With the support of the leader in this system, it provides greater opportunities for employees who want to report existing fraudulent acts so that the employee has the intention to become a whistleblower.

Violations that occur in various sectors cause many opportunities for fraud to increase. One of the sectors with the highest fraud rate is the banking and financial services sector. Although most Islamic banks in Indonesia have implemented this system, they have not been able to solve the existing problems. This can be seen from the number of cases in the banking sector in the banking reports of the Financial Services Authority (OJK).

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

II. Methodology

This study applied qualitative research. Qualitative research is a research procedure that produces descriptive data in the form of written or spoken words from people and observed behavior. Qualitative research was applied to obtain in-depth data that contains meaning (Sugiyono, 2012). This study described the views of leaders and employees at BMT about the whistleblowing system and its application in the BMT.

The research sample was managers and employees who work at BMT. The selection of employees as a sample referred to a survey obtained by ACFE in 2019, which states that the discovery of fraud also occurs in many employees (ACFE Indonesia, 2020). This sample selection was to obtain data regarding the support of leaders in the whistleblowing system. The number of employees who were successfully interviewed was 7 people consisting of 2 managers, 1 supervisor, 1 accounting person, and 3 marketing people. There are several objects in this research:

1. BMT BIF Bugisan which is located on Jl. Sugeng Jeroni No. 54, Patangpuluhan, Wirobrajan, City of Yogyakarta, Special Region of Yogyakarta.
2. BMT UMY which is located on Jl. Ibu Ruswo No. 41-43, Prawirodirjan, Kec. Gondomanan, Kota Yogyakarta, Daerah Istimewa Yogyakarta.
3. BMT Surya Asa Artha which is located on Jl. Gamping-Bantulan, Meijing Kidul RT 04 RW 08, Ambarketawang, Gamping, Sleman, Daerah Istimewa Yogyakarta.

III. Results and Discussion

4.1. Results

The company's view of the Whistleblowing system

Whistleblowing is the act of a worker who decides to report to internal or external authorities regarding illegal and unethical matters that occur in the work environment or organization (Hanif & Odiatma, 2017). The following are the results of the interview obtained:

"In my opinion, whistleblowing is a system that aims to report fraud that has occurred. Then cooperate with those who handle it" (interview with informant 1 on December 13, 2021).

"As far as I know, whistleblowing is a system for handling fraudulent reporting" (interview with informant 2 on February 8, 2022).

"Whistleblowing, in my opinion, is a system to support fraud reporting in companies" (interview with informant 3 on February 8, 2022).

"In my opinion, whistleblowing is a system that aims to report the perpetrators of fraud and punish the perpetrators by removing them from their place of work" (interview with informant 4 on February 8, 2022).

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

"In my opinion, with this system, the perpetrators who commit fraud will be able to be reported by anyone who knows about it" (interview with informant 5 on March 4, 2022).

"In my opinion, this system is similar to the company where we work now, anti-fraud, and I think this system is the same, regarding reporting of fraudulent acts that occurred" (interview with informant 6 on March 04, 2022).

"My view on this system is about reporting the perpetrators of fraud at the place where he works" (interview with informant 7 on March 4, 2022).

The statements submitted by the respondents, in general, said about the reporting of fraudulent acts. The company has implemented this system to report fraud that occurred in its company. Internal controls must be designed to anticipate fraud involving other people colluding and assist perpetrators in solving crimes so that they are not detected. Thus, increasing knowledge and skills for internal controllers must be carried out continuously (Sudarmanto & Utami, 2021).

Implementation of Whistleblowing in BMT

With the whistleblowing system, the company can improve internal control. This system is designed to prevent violations and crimes within the company. With this system, it is hoped that employees or people outside the company who know about these actions can report them. This is related to research conducted by (Saputri & Zakiy, 2021). In the study, it was said that job insecurity occurs in every employee who works, where the individual's psychological state experiences confusion and insecurity due to ever-changing environmental conditions (Smithson & Lewis, 2000). A whistleblowing system is useful to prevent losses suffered by the company and also to save their business. The system that is built is then adjusted to the rules of each company, so it is hoped that this system will provide benefits for improving the implementation of corporate governance. (Semendawai, 2011)

Researchers get information from respondent 1, who says:

"For whistleblowing at our BMT, everyone who works here is regulated according to the SOP/rules which when finding an act of fraud must report it directly to their superiors" (interview with informant 1 on December 13, 2021).

This statement is in line with the statement given by Semendawai. Every employee who works at the BMT must follow the rules that have been set by management. This is in accordance with Semendawai's statement, which states that every fraudulent act must be reported to prevent losses for the company. This must also be supported by an optimal implementation, so the system runs smoothly. Optimizing the system impacts the job insecurity experienced by every worker in the company. This can have a positive impact if it is carried out optimally. The impact experienced if the leader supports the actions taken by the reporter is an increase in the employee's

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

performance and has a positive effect on the company going forward. While the second and fifth respondents said:

"agree if it is implemented in BMT, so far, the existing system only goes through direct checking or going to the field to monitor if fraud occurs. I also hope that if this system is implemented, it will make it easier to find out fraudulent acts that occur because everyone is responsible for the existence of the system" (interview with informant 2 on February 8, 2022).

"Agree if it is implemented in BMT because so far, it has only used internal control and is carried out by going to the field directly to monitor it. With the implementation of this system in BMT, from what was previously only direct supervision, it will be easier to monitor it because anyone who is in BMT will be associated with this system. And the existing system so far is only by appointing a person in charge who is ordered by the main office" (interview with informant 5 on March 04, 2022).

The company agrees to implement this whistleblowing system, but it is necessary to educate every employee so that employee performance improves and avoids internal problems within the company. The purpose of whistleblowing is to find out the actions in the company in order to minimize disputes that occur within the company. However, this system has not been able to run in this company due to a lack of education for leaders about the system. Ideally, a company can run the system if the leader also implements it because otherwise, the whistleblowers will not feel safe and will feel the distance between employees. This is reinforced by the research of (Kalimah & Zakiy, 2021) regarding employee professionalism. Professional employees can be relied on and trusted because they have expertise, responsibility, discipline and are serious in carrying out their duties. One of them is reporting fraud that occurs so that employees can be responsible for themselves and other employees when they see fraud in the work environment. However, some cases occur in several companies.

There are cases in BMT 2 and BMT 3, and the manager of the company is aware of cases of fraud that occurred in the company. The steps taken by the managers were to find out the issue directly by going into the field to find out the truth about the reports submitted regarding the fraud. After they confirm it, the next step is to take immediate action by dismissing the perpetrator from the BMT.

Leadership support for whistleblowers
Superior support is when superiors treat subordinates with respect, courtesy, and trust the correct information and explanations. Therefore, superiors support the behavior of subordinates with support, concern, trust and respect for potential whistleblowers (Eisenberger et al., 2002). With superior support, it will make a whistleblower dare to reveal the mistakes. The other support the leader provides is justice support to the reporter, which will form a good organizational culture within the company. This is reinforced by research conducted by (Nugraha & Zakiy, 2021)

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

said that the dimensions of organizational justice are able to form a good organizational culture in LKS in Yogyakarta. For that, in creating good organizational culture, justice is needed for all employees. The results that researchers got from interviews conducted are attached as follows. The first respondent said:

"First, I will support and appreciate him/her because he/she has carried out the mandate and responsibility that has been given and also maintains the good name of the team he/she is currently under. I will also protect the whistleblower from the threats given and will invite him/her to report it to my leadership so that it can be handled further" (interview with informant 1 on December 13, 2021).

Every employee who works at the BMT will receive support from their leaders when they find out that fraud has occurred and will invite them to report together. The support provided by this leader is very influential on employees who will report fraud that occurred. This can affect employees' intentions to become whistleblowers because when they report it, they will feel safe and supported by their leaders to report it. This is reinforced by research conducted by (Puspita & Zakiy, 2020). In the study, it was said that deviant bad behavior by employees is called deviant workplace behavior as a form of treatment for work experience that is considered unfair, work pressure, organizational control and reward systems, organizational culture, and leader actions. The actions taken by the leader are useful for influencing the intention of employees to become whistleblowers in order to report and minimize fraud that occurs. Leader support affects a person's intention to take action. In research conducted by (Zakiy, 2019), it is said that psychological uncertainty has a negative correlation to employee job satisfaction and a positive influence on psychological uncertainty on turnover intention. This greatly affects the employee's intention to do whistleblowing. Therefore, leadership support is needed when the employee wants to take whistleblowing action. Unlike the case with the second respondent saying:

"So far, the way to protect the whistleblower is not to tell who reported it because they have dared to reveal the fraud that occurred. And those who commit fraud, I will definitely stop them, or I will order them to resign because it is a character and is detrimental to the institution" (interview with informant 2 on February 8, 2022).

The statement given by the second respondent is different from the answer given by the first respondent, who said, "I will also invite him to jointly report to my leader so that it can be handled further". The first respondent said that he would invite him to report it to the party who would handle it, while the second respondent would protect the whistleblower and those who committed fraud would be dismissed from their place of work. The protection carried out by this leader is very useful for employees who report fraud. It is useful for minimizing fraud that occurs in the future at the company. This is reinforced in research conducted by (Puspita & Zakiy, 2020) that the interactional justice given by the leader to the employee was able to influence a

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

a person's behavior. This can be caused by employees feeling appreciated and treated well by the leader so that, as a result, it creates feelings within themselves to provide useful things for the organization. While the fifth respondent said:

"I will pretend to be a field person who saw the fraud happening, and I will never tell who reported it" (informant interview 5 on March 4, 2022).

The statement from the fifth respondent, a BMT leader, has a desire to find out whether the things conveyed by the reporter are true or not. The direct check carried out by the leader is useful for checking the fraudulent acts that occurred in the BMT. The checks carried out by the BMT leaders are useful for validating reports made by employees who report them so that there are no errors in decision making. The support provided by the fifth respondent relates to the performance of the employee concerned. In a study conducted by (Wulandari, 2021), employee performance is the result of work both in quality and quantity by the employee or the behavior displayed in accordance with the responsibilities given to him. If the employee knows of a fraudulent act that has occurred and reports it to his superiors, the employee's performance is both in quality and quantity, and he is able to take responsibility for the trust. This is different from what the first respondent said, who would invite him to report together and different from the second respondent, who would protect the reporter by not revealing his identity and would also dismiss the perpetrator of the fraud.

Whistleblowing Practices at BMT

The practice of this system in the field is, of course, related to how the leaders in that place apply this system. The existence of a leader in this system affects the progress of reporting. Having a supportive leader and a pathway that helps whistleblowers report fraudulent acts will make the whistleblower feel that their identities are safe. Leaders who support them in reporting will put them on an anonymous reporting channel, with this reporting channel useful for keeping their identity secret.

The reporting line is a pathway for someone to report fraud or actions that should not have occurred (Kaplan & Schultz, 2007). There are two reporting lines, anonymous and non-anonymous. An anonymous reporting line is a violation reporting line where the identity of the reporter will be hidden, while the non-anonymous reporting line is the opposite. The provision of anonymous reporting lines is expected to provide a sense of security for the whistleblower so that employees can report fraud without fear. All respondents said:

"Precisely with this route, employees who have the intention to report fraudulent acts that occur increase and on the other hand this facility is useful as a supervisor for himself and his co-workers" (interview with informant 1 on December 13, 2021).

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

"This anonymous reporting line may increase employee interest in reporting fraud that occurs" (interview with informant 2 on February 8, 2022).

"I, as an employee who works here, would really agree if I had to report fraud that occurred using this reporting line" (interview with informant 3 on February 8, 2022).

"If the existence of this reporting line will make other friends report fraudulent acts that have occurred, then I agree with this path" (interview with informant 4 on February 8, 2022).

"In my opinion, with this line, the intention of employees to report will definitely increase" interview with informant 5 on March 4, 2022).

"Personally, I will definitely do it because with this line, our identity will be safe" (interview with informant 6 on March 4, 2022).

"I agree with this route. Using this channel makes people who want to report can feel safe"(interview with informant 7 on March 4, 2022).

The above statement by leaders and employees is in line with the above theory. As a reporting line that hides the identity of the reporter, the employee's intention will increase to report fraud that has occurred. The feeling of security gained by using this line will also narrow the fraud that has occurred so far because each individual can report it without knowing who reported it.

IV.   Conclusion and Recommendation

5.1. Conclusion
The whistleblowing system has not been fully implemented in several companies, meaning they do not know about the system. In one company, the leader already knows what whistleblowing is. In terms of understanding, they do not fully understand it, but they have done it with different terms. The three companies implement the same system by supporting the reporter by inviting him to report the fraud that occurred and appreciating him for having the courage to reveal the fraud that occurred. In this case, the leader also plays an important role in the whistleblowing system. The leader acts as someone who supports and protects the whistleblower and also appreciates employees who dare to become whistleblowers.

5.2. Recommendation
The company is expected to give a gift in the form of a bonus secretly to the complainant so that he feels valued and his identity is kept secret. The company is expected to provide a sense of security and trust to employees and provide support so that they can report fraud that occurs. Companies that have not implemented this system are expected to implement it because this system is very useful in responding to existing fraud, and companies that have implemented this system are expected to pay more attention to the running of this

Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

system so that it can continue to run well without leakage. With the implementation of this system, the company will make it more effective in terms of reporting fraud. BMT, as a microfinance institution with a cooperative legal entity, needs to socialize this whistleblowing system at the Annual Members Meeting *(Rapat Anggota Tahunan)* to strengthen members' trust in the board and managers.

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Leaders and Whistleblowers: Application of Whistleblowing in Islamic Financial Institutions
Muhammad Irfan Daffa, Moh. Mas'udi, Ilmi Mu'min Musyrifin
Page: 76-89

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