

Fraud Reporting: An Experimental Examination of the Effect of Security and Financial Incentives on Trust in Whistleblowing Hotlines

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Abstract: *Fraud reporting is a key element of effective corporate governance. This study empirically examines the effect of security and financial incentives on trust in whistleblowing channels and the intention to report fraud in government organizations. This study uses an internet-based experiment involving employees of government and private organizations. To test the hypothesis constructed, an analysis of variance is used. The study results show that greater channel security is associated with higher whistleblowing intentions. However, security does not affect the reporter's trust. The study also shows that financial incentives affect reporting trust and intent. The results also show that the effect of financial incentive moderation is significantly more substantial when the security of the reporting channel is low. This suggests that financial incentives can be an effective driver for organizational trust, resulting from the support of a security channel environment for whistleblowers. In a situation where reporting channel security is low, financial incentives also affect trust. The results of this study provide a new perspective on the effectiveness of fraud reporting from an organizational perspective. Research can provide theoretical support for the claim that financial incentives will increase trust when they do not yet believe that reporting channels are secure. The results of the study can inform the decision to provide financial incentives, while accounting for the ethical and practical sacrifices inherent in such decisions.*

Keywords: *Financial Incentive, Fraud Reporting, Security, Trust.*

Abstrak : *Pelaporan kecurangan merupakan elemen kunci tata kelola perusahaan yang efektif. Penelitian ini bertujuan menguji secara empiris pengaruh keamanan dan insentif keuangan terhadap kepercayaan pada saluran whistleblowing dan niat melaporkan kecurangan pada organisasi pemerintah. Penelitian ini menggunakan eksperimen berbasis internet dengan partisipan karyawan organisasi pemerintah dan swasta. Untuk menguji hipotesis yang dibangun digunakan analysis of variance. Hasil penelitian menunjukkan Keamanan saluran pelaporan yang tinggi akan akan mengakibatkan niat whistleblowing yang lebih tinggi. Namun keamanan tidak berpengaruh terhadap kepercayaan pelapor. Penelitian ini juga menunjukkan bahwa insentif keuangan mempengaruhi kepercayaan dan niat pelaporan. Hasil penelitian juga menunjukkan pengaruh moderasi insentif keuangan secara signifikan meningkatkan kepercayaan ketika keamanan saluran pelaporan rendah. Hal ini*

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menunjukkan bahwa insentif keuangan dapat menjadi pendorong yang efektif untuk kepercayaan organisasi yang dihasilkan dari dukungan lingkungan saluran keamanan bagi pelapor. Dalam situasi keamanan saluran pelaporan rendah, insentif keuangan juga mempengaruhi kepercayaan. Hasil penelitian ini memberikan perspektif baru dalam membahas keefektifan pelaporan kecurangan dari sisi organisasi. Penelitian dapat memberikan dukungan teoritis bahwa insentif keuangan akan meningkatkan kepercayaan pada saat mereka belum percaya bahwa saluran pelaporan aman. Hasil penelitian dapat digunakan sebagai bahan pertimbangan pemberian insentif keuangan dengan mempertimbangkan pengorbanan etis dan praktis yang melekat dalam keputusan untuk pemberian insentif tersebut.

Kata Kunci: *Insentif Keuangan, Keamanan, Kepercayaan, Pelaporan Kecurangan*

1. Introduction

An essential component of good corporate governance is identifying and correcting mistakes within the company, including fraud (e.g., asset theft, corruption, and financial reporting fraud). Whistleblowing, or reporting errors or violations, is the most widely used method (42.2%) to disclose such fraud (ACFE, 2020). Due to its effectiveness in detecting fraud, whistleblowing has become a topic of interest for businesses, the public, and governments. One way to encourage fraud reporting is to provide a channel through an anonymous reporting hotline that protects whistleblowers from retaliation, thereby guaranteeing their security (Peltier-Rivest, 2018). Nonetheless, research indicates that anti-retaliation rules do nothing to encourage whistleblowing (Yeoh, 2015). Scholars contend that the legal protections afforded to whistleblowers are comparatively limited in scope and distant from actual circumstances (West & Bowman, 2019).

Much research on whistleblowing has addressed individual factors (morality, courage, locus of control) (Nisar et al., 2019; Somers & Casal, 2011; Kyu Wang et al., 2018), organizational factors (ethical culture, management support) (Mustafida, 2020; Bhal & Dadhich, 2011; Liu et al., 2018; Farooqi et al., 2017; Utami, 2020), and system factors (hotlines, legal protection) (Wainberg & Perreault, 2016; Berkebile, 2018; Priyastiwi & Halim, 2018). However, recent studies indicate that there are still under-optimized areas. First, research on whistleblowing explains that many employees say

they support reporting, but in reality, behavioral adaptation (reporting) is lower. One of the disparities is closely related to psychological security, previous experience, and perception of reporting results. Varying levels of psychological security, with interpersonal trust between them, and fear of retaliation (Groot, 2024). Second, the regulation on whistleblower protection is evolving in response to innovations in communication technology, including big data, artificial intelligence, and blockchain, which are having a dramatic impact on the nature of whistleblowing (Nguyen & Nguyen, 2024). Technology is changing the nature of whistleblowers and whistleblower protection, including by blurring the distinction between whistleblowers and hackers (Pender et al., 2024). With the development of technology, digital trust (in the tools, processes, and institutions that host reports) is a transformative factor. If whistleblowers trust platforms and institutions, then whistleblowing increases. This trust is influenced by security, third-party independence, and procedural transparency (Asprion et al., 2023)

The threat of retaliation is one of the most critical factors that demotivates potential whistleblowers (Cassebatis & Wortley, 2013; Dhamija & Rai, 2018; Abidi & Khan, 2018). Encouraging employees to report wrongdoing is not only the legal (state) protection required, but also the protection guaranteed by the organization (Hersel et al., 2019). It is not surprising that the issue of retaliation and protection is widespread in scientific papers (Chordiya et al., 2020; Lee & Xiao, 2018a). The guarantee of whistleblower protection on anonymous hotlines affects whistleblowing intentions. However, research shows that managerial procedural protection (strong vs. weak) does not affect whistleblowing intent—or even the intention to blow a larger whistle under weaker procedural protection conditions. An interesting experiment conducted by Wainberg & Perreault (2016) suggests that the explicit protections included in the hotline policy can even demotivate possible whistleblowers.

Previous research has shown that misreporting establishes a social behavior (G. Lee & Xiao, 2018b). Pro-social behavior is broadly defined as any action by a member of an organization that benefits the intended recipient. However, not all whistleblowing is meant for social purposes. Antisocial reasons, such as revenge or retaliation, drive

some specific incidents or events (Perchtold-Stefan et al., 2022). However, whistleblowers often receive several benefits from their actions, including termination of offensive practices, recognition, and financial incentives. Therefore, in addition to protecting whistleblowers, some employers have begun offering monetary rewards to workers who report internal violations to the employer (ACFE, 2020).

The number of businesses providing cash incentives for whistleblowing rose following the SEC's introduction of a program (ACFE, 2020). In some countries, regulatory efforts are made through financial incentives to reward whistleblowers (Macgregor & Stuebs, 2014). Government Regulation Number 43 of 2018 was issued by the Indonesian government to award prizes for the prevention and eradication of corruption offenses, which may affect the fraud reporting procedure. This organizational governance mechanism is expected to encourage individuals to report information regarding violations through anonymous online portals.

Studies generally find that when regulators offer financial rewards for whistleblowing, the likelihood of whistleblowing is higher (Andon et al., 2018). The study introduced a positive association between financial incentives and whistleblowing (Wainberg & Perreault, 2016), while others found no direct effect (Brink et al., 2013). Andon et al. (2018) found that the perceived importance of the error and the availability of financial incentives had a substantial interaction effect on external whistleblowers' intentions. The study found that when infractions were deemed significant, external whistleblowing intentions were greater whether or not financial incentives were offered. However, introducing financial incentives increases the intention to engage in external whistleblowing when the perceived mistake is less significant.

Regulators' provision of financial incentives may weaken the anonymous reporting system, which has emerged as another concern (G. Lee & Fargher, 2013). Research can examine whether financial incentives do have unforeseen repercussions, such as a rise in fraud reports, a rise in employee mistrust (which could harm the company's culture or productivity), or a decline in the credibility of the whistleblower's testimony in court. The relationship between the auditor and the client may be affected by the offer of

financial incentives. The SEC's whistleblower award program allows auditors to receive financial rewards under certain circumstances, which might create a rift between auditors and their clients (Brink et al., 2013).

Investigating how financial incentives function and how they interact with other organizational and human variables that drive whistleblowing is crucial, especially given the growing use of rewards and the conflicting results from earlier research. Thus, anti-retaliation policies, trust, and financial incentives provided by organizations are positively associated with reporting violations (Guthrie & Taylor, 2017). However, few studies have examined how incentives affect other trust-related factors.

The discussion's result about the problems that arose in corruption reporting generates the questions of this research, which are: 1) How does the security of whistleblowing channels affect trust? 2) How does the security of whistleblowing channels affect the intention to report corruption? 3) How do financial incentives affect trust? 4) How do financial incentives affect the intention to report corruption? Is the existence of financial incentives reasonable for the influence of security on trust and intention to report corruption through the whistleblowing system?

A new perspective sees whistleblowing as a decision under risk (loss vs gain framing, financial incentives, fear of retaliation). There have not been many empirical studies that have directly tested how loss aversion or risk perception moderates reporting intention. More in-depth research is needed to understand when technology can be trusted and how trust and reporting behavior change after the implementation of new technologies.

This study used a 2 x 2 between-subjects factorial design in an internet-based experiment. The two treatment independent variables tested were financial incentives (with vs. without) and reporting channel security (high vs. low). The dependent variables were trust and whistleblowing intention, with demographic characteristics as control variables. The participants were employees from government and private institutions. The experiment was conducted online with 143 participants. However, after screening, only 106 participants (74%) passed the manipulation check, and their data were used in the analysis. Data analysis in this experimental study was conducted

to test the main and interaction effects of the two independent variables — financial incentives and reporting channel security — on the two dependent variables — trust and whistleblowing intention — using a Two-Way ANOVA.

This study finds that both factors positively affect the decision to report fraud. However, channel security does not impact trust. People feel protected, which lowers the barrier to reporting and increases their willingness to do so (Kaplan et al., 2015; Seifert et al., 2014). Financial incentives only increase trust when channel security is strong. This is because whistleblowers expect both financial rewards and consistent positive signals, like protection from reprisals (Voorberg et al., 2018; Hogic, 2023). However, if an institution sends mixed messages—such as weak security followed by financial incentives—trust declines. When creating incentive programs, managers should consider both consistent and inconsistent messaging (Mantzaris & Saruchera, 2024). Unease among whistleblowers can reduce program effectiveness.

Based on the research results, it can be concluded that the success of implementing financial incentives to encourage whistleblowing depends heavily on the presence of policies that protect whistleblowers from retaliation. Without strong protection, financial incentives will not be effective in increasing reporting intentions (Hogic, 2023). Furthermore, employee trust in the reporting system can be enhanced through consistent perceptions of organizational fairness and demonstrated management concern for ethical behavior (Seifert et al., 2014).

This study also highlights that as more companies introduce whistleblowing incentive programs, employee perceptions of fraud and reactions to whistleblowing can positively change. However, management must balance ethical and practical considerations when implementing financial incentive policies to avoid fostering an opportunistic culture that undermines the value of integrity. Incentive payments should be implemented proportionately and align with the organization's ethical culture (Utami, 2020). This study has several limitations. The experiment used only an asset abuse scenario and a single reporting channel (a hotline), so the results may not fully reflect real-world conditions across different organizational contexts. In addition, other individual factors, such as organizational commitment, personal ethical style, and

personality, may influence the effectiveness of reporting incentives but were not tested in this study.

Thus, this study offers a new contribution in two ways: (1) presenting an integrative approach that connects the security of the reporting system, trust, and whistleblowing intent through a combination of prospect theory and crowding out motivation theory; and (2) providing contextual evidence in Indonesia/Asia, a relatively minimally researched area, but which has unique cultural dynamics. This makes the research not only academically valuable but also practical in designing effective reporting systems in organizations with Asian cultural contexts.

The introduction is the first part of this article, followed by the review of the theory and the development of the hypothesis. The third part is the research method, which consists of participant selection, experimental procedures, research variables, validity testing, manipulation checks, and data analysis methods. The fourth part presents the research results and the discussion used to conclude.

2. Theoretical Fundamentals and Hypothesis Development

2.1. Crowding-Out Theory and Prospect Theory

When motivation with an internal locus declines, it's called 'crowding out' of intrinsic motivation (Kim & Bak, 2020). When performance results from intrinsic tasks based on personal objectives and values, motivation has an internal locus of causality (Corduneanu et al., 2020). On the other hand, when motivation does not align with a set of personal objectives, values, and preferences, it has an external locus of causality. When motivation with an internal locus is lost relative to motivation with an external locus, this is known as intrinsic crowding-out. Refers to a change in the total contribution's motivational mix from internal to external.

This study also uses the theory of prospects (Kahneman & Tversky, 2018), which explains that decisions under risk depend on the framing of the reference (gain vs. loss) and loss aversion (losses perceived as more than a comparable gain). Probabilities are often weighted (overweight small probs, underweight large probs) (Anugerah et al., 2019). The feeling of insecurity due to the threat of retaliation is seen as a very

prominent potential loss (loss-averse). Security that increases the likelihood of no loss shifts the framing from high risk to potential gain (a public good), thereby increasing intent. Financial incentives change the individual's reference point: when incentives are significant, attention shifts to the potential for immediate gain, reducing loss aversion (when the reward compensates for potential losses). However, because the lead theory also holds that individuals place more weight on small probabilities, incentives can lead individuals to estimate that the chances of being rewarded or the likelihood of retaliation differ, depending on the clarity of the mechanism and the probability of being paid (Guthrie & Taylor, 2017). If the incentive is communicated as high certainty, it reinforces the intent to whistleblow, even though the security is relatively low. If the incentive seems uncertain or small, it does not address loss aversion, so Security remains crucial.

The concept of crowding-out describes the relationship between public service motivation in related public sector organizations and the impact of externally awarded recognition on the work motivation of civil servants (Berger et al., 2017). The crowding-out hypothesis concerns the contingency relationship between performance rewards and internal motivation. Lee (2020) found that bonuses for clinical doctors in China not only crowd out motivation but also lower service quality. In addition, Wang & Niu (2024) provided evidence supporting the crowding-out hypothesis by showing that high extrinsic rewards in the public sector tend to reduce intrinsic motivation and performance.

Public sector employees have become increasingly valued through extrinsic rewards, with incentive schemes intended to encourage and improve performance (Huang, 2019). It's unclear, nevertheless, whether the incentive system has a beneficial or negative impact on public service motivation. Extrinsic interventions may have detrimental, crowding-out impacts on public service motivation, according to specific research. The findings indicated poor performance outcomes, low levels of employee satisfaction, and a desire to relocate (Cho & Perry, 2012). According to Wynia (2009), employees' internal motivation tends to be weakened when financial incentives are contingent on health practitioners. Based on a review of theoretical and empirical

research on the effectiveness of salary payments in the public sectors of the US, UK, and France, it is determined that public servants' public service motives affect their performance because public sector performance is typically hard to quantify.

Fischer (2021) showed that federal employees expect rewards to achieve high performance, regardless of whether they are motivated by a desire to serve the public or by monetary rewards. Thus, there is no evidence that the association between material rewards and performance is lower when employees have high public service motivation. Al Naqbi et al. (2018) discovered that public administration workers' job satisfaction was positively correlated with their performance-related pay, particularly for those who were more motivated to serve the public. This demonstrates that public service motivation is not always adversely correlated with the salary-performance connection.

Voorberg et al. (2018) found that financial rewards are not an effective mechanism in public services. These financial rewards do not eliminate the motivation for pro-social actions; therefore, the effect of performance rewards does not affect previous performance. Furthermore, Hennig-Schmidt et al. (2011) found that doctors provide much better services when using a fee-for-service scheme than under a general wage system. The increase in the provision of such awards does not necessarily damage the quality of care but is more beneficial, especially for patients with high medical service needs.

When people are motivated extrinsically, they engage in actions for external reasons or to achieve rewards for their work (Osa, 2014). For example, financial incentives may weaken or eliminate people's intrinsic motivation to engage in pro-environmental behavior, leading them to act for extrinsic reasons — e.g., financial rewards — rather than from a sense of doing the right thing (Black et al., 2022). Financial incentives can undermine people's intrinsic motivation to engage in pro-environmental behavior. When financial incentives are discontinued, extrinsic motivators to engage in behavior are removed. At the same time, intrinsic motivation becomes weak (Li et al., 2024).

2.2. Whistleblowing Channel's Security

One of the most significant concerns of potential whistleblowers remains the fear of retaliation (Khan et al., 2022). Such retaliation may take the form of severe measures, such as demotion or threats of violence, or less severe measures, such as declining a raise or promotion, or being kicked off the project or decision-making team. According to a business survey, nearly half (46 percent) of those who chose not to report observed violations cited fear of retaliation (Liyanarachchi & Adler, 2011). Organizational culture is one of the organizational characteristics linked to the desire to file a complaint and the risk of reprisal (Otchere et al., 2023), Management's ethical response (Mayer et al., 2013), Employees' perception of organizational fairness (Seifert et al., 2010), and organizational response (Taylor & Curtis, 2013).

To increase the reporting of violations such as fraud, the law requires public company audit committees to establish and supervise anonymous reporting channels for employees to report concerns about accounting, internal controls, or audit issues (Kaplan et al., 2009). In the next guideline, the audit committee is permitted broad discretion over the policies and procedures governing anonymous reporting channels. As a result, the security of anonymous reporting channels regarding staff availability and skills, and the control over the information received, may vary from relatively weak to strong.

Furthermore, there is some uncertainty about how companies will respond to reports of violations and about their policies for stopping fraud. According to research, 54 percent of employees who did not report were skeptical about the follow-up actions taken regarding the report (Taylor & Curtis, 2013). In addition, a potential whistleblower may expect a hotline with strong security measures to increase the likelihood that the company will appropriately respond to reports of fraud. The ACFE also shows that hotlines managed by third-party providers can represent procedural safeguards and generate perceived benefits (Chalouat et al., 2019).

In particular, the ACFE states that an external process provides greater protection against anonymity and even helps avoid the impression of impropriety (Johansson & Carey, 2016). For this reason, the strong hotline security is managed by a third-party

provider. Overall, the previous discussion showed the influence of the security factor on the decision to use a hotline to report fraudulent behavior. However, the discussion is not based on theory nor supported by evidence. Therefore, the hypothesis of the data research is stated as follows:

H1a: Trust is higher when Security is preferably high than low.

H1b: Intention to report corruption will be higher when security is perceived as higher than low.

2.3. Financial Incentives

It has been demonstrated that financial incentives increase the number of mistakes reported in businesses. However, the effects of extrinsic motivation (such as money) on pro-social activities, such as whistleblowing, are often the subject of conflicting studies. When people are treated with an emphasis on money incentives, they become less pro-social and more selfish.

Actions (Gino & Mogilner, 2014). One of the whistleblower's internal motivations, pro-social behavior, may be inhibited by financial incentives. Since financial incentives trump intrinsic motivation, they are the least effective whistleblower incentives. (Berger et al., 2017). Pro-social value-oriented people may respond to financial incentives differently than pro-self-oriented people (Boone et al., 2010). In this context, financial incentives may encourage pro-social employees who would otherwise not report violations (Berger et al., 2017).

The presence of monetary rewards for reporting represents a problem for managers, as the possibility of compensation may encourage staff members to report suspected infractions. More research is needed on the effectiveness of financial incentives in encouraging whistleblowing. Nonetheless, other research argues that financial incentives are necessary to promote reporting since whistleblowing is not necessarily an act of charity (Farrar et al., 2019). Nevertheless, others claim that financial incentives may have unforeseen repercussions, such as a rise in bounty hunters or extraordinary whistleblower disclosures (Chalouat et al., 2019; Khan et al., 2022).

According to Andon et al. (2018), businesses that rejected financial incentive schemes experienced increases in stock market returns following the implementation of

the Dodd-Frank Act. Some regulators outside the United States are hesitant to offer monetary incentives because they doubt their effectiveness in encouraging whistleblowing. The amount offered is also correlated with financial incentives. Cheng et al. (2019) investigated the impact of the SEC's financial awards and discovered that the larger the prize, the greater the desire to report to the SEC. Berger et al. (2017) examined the effect of whistleblowing reward programs with a minimum eligibility threshold for rewards and found that this feature can lead to unintended consequences.

Some research suggests that more employers should offer explicit financial rewards to workers for reporting violations (D. Chen et al., 2021). Employers lack agreement on whether offering financial rewards improves company results, and indeed, most do not offer such rewards (ACFE, 2020). The reporting errors are not influenced by money, but rather by the aim of improving the company's condition. Giving monetary rewards is considered insulting to potential whistleblowers and does not motivate people. Some management believes that ethical considerations should lead workers to whistleblow and opposes offering rewards that can degrade the company's ethical climate.

Employers must maintain consistent incentive systems even when hiring both pro-social and pro-individual workers. Consequently, it's critical to comprehend the whole impact of financial incentives. There is little research on the connection between financial incentives and internal whistleblowing that produces a range of outcomes. Berger et al. (2017) found that financial incentives and internal whistleblowing were significantly positively correlated, but only when the fraud was substantial enough to make the whistleblower eligible for the award. According to Farrar et al. (2019), internal auditors' desire to report internally was strongly correlated with monetary benefits. Research indicates that the effectiveness of monetary incentives depends on individual factors, with their influence greater among internal auditors with weaker moral reasoning skills. Therefore, the research hypothesis can be stated as follows:

H2a: Trust is higher when there are financial incentives than when there are none.

H2b: Intentions to report corruption are higher when there are financial incentives than when there are none.

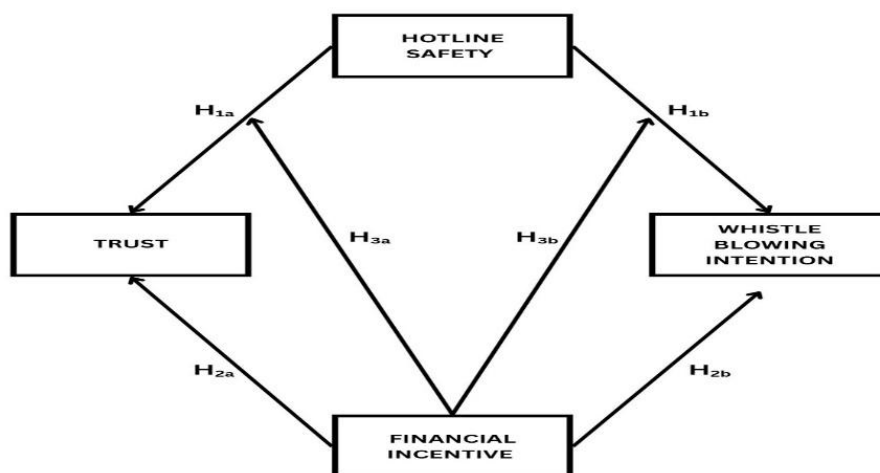
The purpose of this study is to investigate how trust-based financial incentives govern the security of anonymous channels. According to Lewicki (2006), Mistrust entails a dread of the other and a tendency to attribute malevolent intent to the other, whereas trust involves faith in a person or thing. Low trust will impede the organization's intended results if there is no consensus on the amount of trust (Keyton & Smith, 2009). Behaviors that undermine trust include dishonesty, inconsistency, ineptitude, apathy, disloyalty, and introversion. Inconsistent communications may seriously affect the company and swiftly erode trust (Ismail, 2015).

This study explores how the consistency or inconsistency of messages sent by providing monetary incentives affects organizational trust and their whistleblowing intentions. In a secure reporting environment where management has indicated support for whistleblowers by providing security, the addition of further monetary incentives will increase trust. Therefore, hypothesis 3 can be formulated as follows:

H3a: Financial incentives will increase trust when security conditions are high versus low.

H3b: Financial incentives will increase the intention to report corruption when security conditions are high versus low.

Figure 1.
Research Model



3. Research Methods

3.1. Participants

Participants in this study are employees in government and private institutions. This study examined fraud, specifically asset abuse, which is the most frequently reported type of fraud in government organizations. In addition, this fraud is most likely committed by employees (ACFE, 2016). Therefore, the right participants are individuals with current conditions or previous work experience. The online method in experimental assignments does not give different results from the surveys.

The number of participants for each cell was important in this study. This relates to the analysis technique that uses the average difference between cells. Analysis of mean differences requires a sample size of $n=10$ or 12 to achieve an $\alpha=0.05$ level of confidence (Montgomery, 2013). Therefore, this study used a minimum of 10 subjects per cell, so the minimum required is 80.

Table 1 shows the number of participants who participated in the experiment online. The number of participants was 143. However, 22 participants did not complete their tasks, so they were considered failures. Of the participants who completed the task, 15 (11%) failed the manipulation check. The number of participants who succeeded in checking the manipulation was 106 participants (74%).

Table 1.
Successful and Failed Participants

	Cell 1	Cell 2	Cell 3	Cell 4	Sum	Percentage
Participants in attendance	35	37	36	35	143	100%
Not completing tasks	7	0	7	8	22	15%
Participants fail manipulation checks	5	3	4	3	15	11%
Successful participants	23	34	25	24	106	74%

3.2. Experiment Procedure

The experimental procedure began by providing potential participants with a username via various channels, including direct telephone, email, and WhatsApp. Participants who expressed willingness were given a brief explanation of the task.

Participants were also informed that the published data did not display specific demographic information. In addition, the explanation includes the activities and the time required for them. Participants who agreed to participate were sent a link to perform the experimental task. The link was distributed randomly. Participants who open the link will immediately enter the group that has been randomly assigned. Each participant will only fill in the case that the group received. After opening the application, participants are asked to click on their willingness to participate. If participants press the "yes" button, they agree to participate; if they press the "no" button, they decline to participate. The next step is for participants to register by filling in demographic data. The last step is to complete the assignment given. The results of the assignments have been recorded in the system, which will be used for data tabulation and analysis.

3.3. Experiment Tasks and Research Variables

The experimental design uses a 2 x 2 between-subject factorial design consisting of two variables between subjects: (1) financial incentives (there are financial incentives and no financial incentives) and (2) security (high and low). Laboratory experiment applications are designed using an online system. Participants were randomly and automatically assigned to each cell, regardless of their demographic characteristics.

3.3.1. Financial Incentives

Financial incentives are explained over two financial incentive options: 1) the presence of financial incentives and 2) no financial incentives (Guthrie & Taylor, 2017). The whistleblowing channel is informed about the existence of financial incentives of IDR 200,000.00 (two hundred million rupiahs) in accordance with (Peraturan Pemerintah No. 43 Tahun 2018, 2018), which explains the process of providing financial incentives.

This treatment is used because the research was conducted in Indonesia. Previous research on financial incentives emphasizes their presence or absence (Guthrie & Taylor, 2017), and survey research has focused more on perceptions of financial incentives (Andon et al., 2018; Chen et al., 2017). The government chose 2% (0.2%) over a higher proposal, such as 1% of the loss, to avoid an overly large budget burden.

This amount is set as the upper limit to maintain a balance between appreciation to the complainant and the state's financial capacity. The purpose of this compensation is to encourage public participation in eradicating corruption, but in a manner that is logical and proportionate.

3.3.2. *Security*

Security is divided into two forms: high and low (Kaplan et al., 2009). On a weak security system, reporting channels are managed internally by the human resources department. This department oversees the staff who manage the hotline. The human resources manager is responsible for determining whether further investigation is needed and, if so, forwarding the information to the company's top management and ethics committee. The hotline is only available during normal business hours, and is not available at all during holidays. High-level security is a reporting channel managed by the largest independent third-party provider that manages the hotline. The hotline operates 24 hours a day, with properly trained admins, appropriate follow-up procedures, and no access to the caller's phone number. Furthermore, the chief officer reviews all reported cases to determine that the issues raised have been adequately considered and provides a summary of the report to the audit committee.

3.3.3. *Trust*

The dependent variable consists of two variables: 1) the trust and 2) the intention of the participant to whistleblow. Trust is measured by positive valency dimensions, such as knowledge, competence, reliability, fairness, and trustworthiness (Mishra & Mishra, 1994). The instrument has been tested for validity in Table 5.

3.3.4. *Intention to Report Fraud*

The dependent variable is the participant's intention to whistleblow. Participants were asked to answer the question on a 10-point Likert scale ranging from 1= impossible to report to 10 = very likely to report. To overcome social desirability bias, this study uses two scenarios of whistleblowing intent with the assessment of participants: (1) participants will report fraud using hotline secrets, and (2) others will report fraud using hotline secrets in each scenario. The research asks questions in 2 forms: for themselves and for others (Kaplan et al., 2009).

3.4. Control Variables

Employee demographic characteristics were used as control variables to address alternative explanations of the relationships between security and Channel Security, and between security and fraudulent reporting intent. These characteristics include gender, age, experience, type of work, and the organization they work for.

4. Results

4.1. Demographic Data of Research Subjects

Table 2 provides an overview of the participants' demographic data.

Table 2.

Demographic Data of Research Subjects

Information	Amount	%
Gender		
Female	54	50,9%
Male	52	49,1%
Total	106	100%
Age		
< 30	41	38,7%
>30-40	38	35,8%
>40-50	27	25,5%
Total	106	100%
Experience		
<10	54	50,9%
>10-20	37	34,9%
>20-30	15	14,2%
>30	-	-
Total	106	100%
Position		
Staff	92	86,8%
Management	14	13,2%
Total	106	100%
Affiliate		
Local Government	57	53,7%
Private	49	37,4%
Total	106	100%

From Table 2, it can be seen that of 106 participants, 54 (50,9%) are female and the remaining 52 (49,1%) are male. Participants aged under 30 years have the proportion of 38,7% (41). Participants aged 30-40 years are 35,8%, and the remaining people aged over 40 are 25,4%. The work experience of participants is as follows: under 10 years, 50,9%; between 10 and 20 years, 34,9%; and over 20 years, 15,2%. The position of participants is dominated by staff, that is 86,8% and the rest are in management positions. Based on affiliation, participants working in local government are 53,7% and the remaining participants are working in the private sector. The selected participants were individuals with knowledge of government fraud.

The research data are presented in Table 3, which includes subjects, averages, and standard deviations for the dependent variables, trust and reporting intention.

Table 3.
Descriptive Statistics (Average and Standard Deviation)

		Financial Incentives		Amount
		Present	Not Present	
Security and Reporting	High	n=23 μtrust 6.609 [.176] μwbin 7.294 [.144]	n=25 μtrust6.375 [.172] μwbin 6.560 [.153]	n=48 μtrust 6.56 [.796] μwbin6.584 [.111]
	Low	n=34 μtrust 6,08 [1,511] μwbin 6.647 [132]	n=24 μtrust 5,28 [1,376] μwbin 5.875 [157]	n=78 μtrust 6.51 [.978] μwbin 6.261 [.102]
	Total	n=57 μtrust6.951 [.114] μwbin6.628 [.104]	n=49 μtrust 6.448 [.120] μwbin 6.218 [.110]	N=106

Appendix:
μtrust: symbol of Average Trust Score
μwbin: symbol of the Average Intention Score
for reporting fraud
sd: standard deviation

Table 3 shows the average trust score on the high reporting channel security (6.56) and the channel security is low (6.51). Reporting intention is higher when channel security is high (6.584) than when it is low (6.261). The average trust score with an incentive (6.951) and without an incentive (6.448). Reporting intention is higher with present incentive (6.628) than when security levels are low (6.218).

4.2. Manipulation Check

The number of participants who were willing to take part in the experiment that succeeded in checking for manipulation was 106. Manipulation checks use five questions with answer scores ranging from 1 to 10. Channel security is categorized as "high" if the average answer score is above the median, and as "low" if it is below the median.

The manipulation check tests participants' understanding of the concept of hotline security (high or low) and of financial incentives (present or absent). Participants were given three questions for each action with alternative answers from 1 to 10. A participant's answer is considered to have escaped manipulation if more than 50% of the answers are correct. Table 4 presents the average manipulation-check answers for hotline security and financial incentives.

Table 4.
Average manipulation check scores

Manipulation Questions	Cell 1	Cell 2	Cell 3	Cell 4
Security Hotline	6,73	3,45	6,87	3,28
Financial Incentives	6,56	6,75	4,34	3,83

The results of the manipulation test, as determined by a t-test, are presented in Table 5 show that there is a significant difference between the average low- and high-security answers, and between those with and without financial incentives.

Table 5.
Differential Test of Manipulation Check Results

Manipulation	Number of squares	Df	Red Square	F	Sig
Low Security-High Security	19,715	5	4,025	2,342	,047
There Are Financial Incentives- No Financial Incentives	24,976	8	4,927	3,123	,043

The results of the manipulation test showed a difference in average answers between high and low channel security ($p=0.047$), and a trend toward a difference in average answers for financial incentives ($p=0.043$).

4.3. Research Validity

In this study, efforts were made to address threats to internal validity. Some of the efforts made include experimental design, experimental tasks, experimental procedures, selection of research subjects, randomization of research subjects, and control of participant demographic variables.

This study uses an inter-subjective experimental research design to facilitate researchers' identification of main, interaction, and simple effects of independent and moderating variables on dependent variables. An inter-subject design is important to address internal validity threats, including history, maturation, testing, instrumentation, mortality, regression, and selection (Nahartyo, 2013).

To overcome historical threats, the experimental task involves real corruption cases, simple language, and expert discussion. In this study, control was also maintained over participants' demographic variables, so that extraneous and historical events could be controlled for. To overcome boredom, experiments are conducted for about 15–30 minutes. The testing effect was anticipated because participants were not given the same questions at different times. Aims to prevent partisanship from improving its ability to answer questions. Table 6 shows the factor analysis for the measured trust variables.

Table 6.
Mean, Standard Deviation, and Result of Factor Analysis: Variable Trust

Factor	Items	Mean(SD)		Loading	Cronbach Alpha
CR= 0.914					0.865
AVE = 0.345	X1	3,612	0.948	0.865	
	X2	3.743	0.868	0.752	
	X3	3.858	0.881	0.766	
	X4	3,729	0.925	0.738	
	X5	3.861	1.056	0.830	

To overcome social bias of desire, this study uses two scenarios of whistleblowing intent with the assessment of participants: (1) participants, and (2) others will report fraud using Hotline secrets in each scenario. The research asks questions in 2 forms: for themselves and for others (Kaplan et al., 2009).

4.4. Randomization Testing

The application is designed as an online system so participants can work on experiments automatically assigned to each cell, regardless of their demographic characteristics, such as gender, age, experience, educational background, and affiliation. Randomization testing uses a two-way ANOVA to assess the effects of participant randomization by examining the influence of participants' demographic characteristics. The results showed that participants' placement did not account for demographic characteristics. Participants have the same opportunity in each case scenario within each cell.

Table 7.

Test of Differences in Individual Characteristics of Subjects

Characteristic		Number of squares	Df	Red Square	F	Sig
Gender						
Trust	Between-group	,021	1	,041	,030	,853
Whistleblowing Intention	Between-group	,342	1	,365	,287	,650
Age						
Trust	Between-group	2,432	3	,423	,256	,765
Whistleblowing Intention	Between-group	8,265	3	7,538	2,215	,283
Education						
Trust	Between-group	3,674	2	,753	,461	,643
Whistleblowing Intention	Between-group	7,080	2	4,270	1,054	,259
Experience						
Trust	Between-group	9,161	3	5,630	1,326	,137
Whistleblowing Intention	Between-group	9,876	3	9,468	1,756	,148
Position						
Trust	Between-group	1,749	1	,787	,538	,524
Whistleblowing Intention	Between-group	2,254	1	2,659	1,371	,267
Affiliate						
Trust	Between-group	7,887	2	2,879	1,439	,196
Whistleblowing Intention	Between-group	5,309	2	2,207	,927	,348

Table 7. Randomization was assessed by testing differences in the dependent variables—trust and whistleblowing intention—and in the independent variables—

demographic characteristics. Demographic factors did not affect trust or intention to report, with $p>0.05$. This implies that randomization runs effectively.

Correlation testing between group variables was performed to determine whether demographic factors would be included in the hypothesis testing. The results of the correlation test between group variables are presented in Table 8. The test results showed that demographic variables — gender, age, education, position, experience, and affiliation — were not correlated with the dependent variables, trust and whistleblowing intention.

Table 8.
Intervariable Pearson Correlation

	Gendr	Age	Education	Position	Experience	Affiliate	Trust
Age	,080						
Education	,031	,430**					
Position	,237**	,457**	,274**				
Experience	,089	,735**	,321**	,435**			
Affiliate	,037	-,236*	-,030	-,120	-,281		
Trust	-,025	-,043	,052	-,061	-,138	,083	
Intention Reporting	-,053	-,110	-,023	-,076	-,130	,072	,627**

**.. The correlation is significant at the 0.01 level (2-tailed).

*. Significant correlation at the level of 0.05 (2-tailed).

4.5. Results

This study predicts that the security of reporting channels positively affects trust (H1a). This means that trust is higher when the security of the reporting channel is high versus low. Table 9 of the results shows that the main effect of reporting channel security on trust is not significant ($p=0.106$, $F=2.662$). The average trust in the security of the high reporting channel (6.659) was not significantly different from that of the low reporting channel (6.51). The results showed that hypothesis 1a was not supported.

For H1b, it is predicted that the security of the reporting channel positively affects the intention to report fraud. The results of the study in Table 9 show that the main effect

of reporting channel security on reporting intention is significant at $p=0.034$ ($F=4.597$). The average score of fraudulent reporting intentions in the security condition of the reporting channel was high (6.584), higher than the security condition of the reporting channel (6.261). The results show that hypothesis 1b is supported.

Table 9.

Results of Intersubject-Key Effects of Channel Security and Financial Incentives

Panel A: Independent Variable Channel Security						
Dependent Variables	SS Type III	Df	MS	F	Sig	η^2
Trust	1.890	1	1.890	2.662	.106	.025
Reporting Intention	2.705	1	2.705	4.597	.034	.043
Panel B: Independent Variable Financial Incentives						
Dependent Variables	SS Type III	Df	MS	F	Sig	η^2
Trust	6.572	1	6.572	9.258	.003	.083
Reporting Intention	4.359	1	4.359	7.406	.008	.068

Hypothesis 2a states that financial incentives affect trust. The effect of financial incentives on trust shows a main effect at $p=0.003$, $F=9.258$. When there are financial incentives, the average trust score (6,951) is higher than when there are none (6,448). This shows that financial incentives affect reporters' trust in financial reporting channels. This shows that financial incentives affect whistleblowers' trust in fraud-reporting channels. Hypothesis 2a is supported.

Hypothesis 2b states that financial incentives affect reporting intent. The test results show that the main effect of financial incentives on reporting intentions is significant at $p=0.008$, $F=7.406$. When there are financial incentives, the average score for reporting intentions (6,628) is higher than when there are none (6,218). This shows that financial incentives affect whistleblowers' reporting intentions through the whistleblowing system. Hypothesis 2b is supported. Hypothesis 3a tests the effect of channel security interactions and financial incentives on reporting intent. H3a states that when channel security is high, the difference in reporting intention between non-existent and existing financial incentives will be smaller compared to when channel security is low. Table 9 shows that financial incentive moderates the effect of security on reporting intent. The results for the reporting intention variable showed that the interaction effect

was significant at $\alpha<0.05$ ($F=5,753$; $p=0.018$). The average difference in reporting intentions between the presence and absence of financial incentives in the high security condition was smaller by 0.049 (6,609-6,560) than in the low security condition, where it was 0.833 (6,708-5,875).

Table 10.
Results of Inter-Subject Test: Effect of Interaction Channel Security and Financial Incentives

Dependent Variables	SS Type III	Df	MS	F	Sig	η^2
Trust	4.462	1	4.462	6.286	.014	,058
Reporting Intention	3.386	1	3.386	5.753	.018	,053

Furthermore, H3a was tested using a simple effect analysis, namely the difference in the subject's response between the presence and absence of financial incentives, under a specific channel security level. The results of the contrast analysis show that, under high channel security, the effect of financial incentives on reporting intention is not statistically significant ($F=0.49$, $p=0.825$). Meanwhile, under low channel security, the effect of financial incentives on reporting intentions was statistically significant ($F=14,405$, $p=0.000$). Therefore, the difference in reporting intent between the presence and absence of financial incentives occurs only when channel security is low. These results confirm support for H3a. In addition, Table 11 shows that the pairwise comparisons analysis indicates a significant difference in the average trust score between the presence and absence of financial incentives under the channel security condition, 0.49 ($p=0.825$).

Meanwhile, under low channel security, the difference in the average trust score between the presence and absence of financial incentives was 0.833 ($p=0.000$). Under high channel security conditions, there is no difference in influence and no financial incentive to report. Regarding the low channel security condition, financial incentives have a significant influence on the intention to report ($F=14,405$, $p=0.000$). Based on these data, H3a is supported.

To test the effect of financial incentives and channel security on trust. The results showed a significant interaction effect of financial incentives and channel security on

trust at $\alpha < 0.05$ ($F = 6.286$; $p = 0.014$). The average difference in trust between the presence and absence of certification is smaller for high channel Security conditions than for low channel security conditions. The average difference in trust between the presence and absence of financial incentives was smaller under high channel security conditions (0.089; 6,609-6,520) than under low channel security conditions (0.875; 7,250-6,375).

Table 11.
Simple Effects Analysis – Pairwise Comparison

Panel A: Dependent Variables of Trust

Source of Variation	Mean Difference	Standard Error	Sig (0,05)	Interval Difference	
				Lowest	Highest
High Line Security Conditions					
Presence and Absence of	.079	.158	.342	-.304	.481
Low Line Financial Incentive					
Presence and Absence of Financial Incentives	.886*	.137	.001	.482	1.557

Source of Variation	Mean Difference	Standard Error	Sig (0,05)	Interval Difference	
				Lowest	Highest
High Line Security Conditions					
Presence and Absence of Financial Incentives	.089	.248	.722	-.404	.581
Low Line Security Conditions					
Presence and Absence of Financial Incentives	.875*	.248	.001	.383	1.367

The results of the simple-effect analysis are the differences in subjects' responses between the presence and absence of financial incentives at a given channel security level. Table 11 shows that under high channel security conditions, the effect of financial incentives on trust is not statistically significant ($p = 0.722$). Meanwhile, under low channel security, the effect of financial incentives on trust was statistically significant ($p = 0.001$). These results confirm that, under high channel security conditions, there is

no difference in trust between the presence and absence of financial incentives. When channel security is high, participants no longer consider financial incentives. However, when channel security is low, participants compensate with financial incentives.

4.6. Discussion

The decision to report fraud is somewhat complicated because it may simultaneously include extrinsic and intrinsic motivation (Farrar et al., 2019). This study investigates the effect of financial rewards and security on fraudulent reporting intentions. Our results show that security and financial incentives positively affect intentions to report fraud. However, the channel's security does not affect trust.

Secure, anonymous reporting channels increase whistleblowing intention, as individuals feel protected from retaliation or other negative repercussions. The availability of anonymous channels, confidentiality guarantees, and protections for whistleblowers encourages employees or members of the organization to be more courageous in reporting violations (Chalouat et al., 2019; Priyastiwi & Halim, 2018). Research supports the idea that safe reporting channels and whistleblower protection statistically increase whistleblowing intentions (Priyastiwi & Halim, 2018; Chalouat et al., 2019; Nguyen & Nguyen, 2024).

Individuals see a guarantee of protection, which reduces the psychological barrier to reporting and increases the intention to whistleblow. However, trust is formed not only from formal protection, but also from organizational consistency, integrity, and fairness (organizational justice theory) (Kaplan et al., 2012; Wainberg & Perreault, 2016). Trust is influenced more by factors such as organizational culture, transparency in the case follow-up process, and management's commitment to protecting whistleblowers (Utami, 2020; Seifert et al., 2014). A reporting system that not only offers anonymity but also guarantees that whistleblowers' information is acted upon fairly and professionally plays a big role in building trust (Seifert et al., 2014; Rabie & Abdul Malek, 2020). If employees view security as only a formality (a policy on paper), trust is not automatically established. So, security is not a strong enough predictor of trust when perceptions of fairness/organizational procedures are not supportive.

Financial incentives have been shown to increase both trust and an individual's intention to report a violation (C. X. Chen et al., 2017; Kartika & Sari, 2019; Andon et al., 2018). In empirical studies, incentives motivate whistleblowers, especially when the risk of reporting is high enough (Guthrie & Taylor, 2017). However, too large an incentive can degrade the quality of reporting, as whistleblowers tend to seek rewards regardless of the information's quality or correctness. As such, incentive design should balance encouraging reporting with maintaining the integrity and quality of the information delivered (Berger et al., 2017). Other research confirms that rewards are among the main drivers of employees' intention to report violations outside anonymous reporting channels.

In addition, financial incentives moderate the relationship between security and trust, increasing trust only when channel security is high (Guthrie & Taylor, 2017). This is due to the consistent, positive message that whistleblowers expect (that they will be protected from retaliation) and to the awarding of monetary rewards. When an organization sends inconsistent messages (e.g., initial negative messages that invite retaliation due to low security, followed by positive messages offering financial incentives), it erodes trust. Managers should be aware of the effects of both consistent and inconsistent messaging when implementing financial incentive programs, as these programs may be ineffective if whistleblowers feel insecure. Studies consistently show a positive correlation between financial incentives and reporting intentions, but caution that incentives should not be the only motivators in the whistleblowing system (Hogic, 2023; Mantzaris & Saruchera, 2024). Thus, the recommendation for designing a whistleblowing system is to combine a safe, anonymous reporting channel, legal protection for whistleblowers, balanced financial incentives, and follow-up transparency to maintain reporting effectiveness and information quality.

5. Conclusion, Implication, and Limitation

5.1 Conclusions

The decision of individuals to report observed cheating is a complex phenomenon influenced by organizational, individual, and situational factors (Nuswantara &

Maulidi, 2020). This study provides insights into how organizational factors offer financial incentives and the security of reporting channels, as well as individual factors influencing an organization's perception of trust and whistleblowing intentions. High security of reporting channels will lead to greater whistleblowing intent. However, security channels do not affect the whistleblower's trust. The study also shows that financial incentives affect reporting trust and intent. The results show that the effect of financial incentives' moderation significantly increases trust when the security of the reporting channel is low. This suggests that financial incentives can be an effective driver for organizational trust, resulting from the support of a security channel environment for whistleblowers. In a situation where reporting channel security is low, financial incentives also affect trust. This shows that financial incentives reinforce whistleblowers' trust and intention to whistleblow in low channel security conditions. This contrasts with the research by Guthrie & Taylor (2017), which found that when the threat of retaliation is high, monetary rewards do not significantly affect internal whistleblowing.

The research found that employees who are offered financial incentives may develop trust in the organization. When the security channel is low, financial incentives affect whistleblowing intentions; thus, extrinsic motivation plays a role in decision-making about reporting. The results of the study show that monetary rewards can affect employee trust levels differently based on the level of Security channels. Therefore, management should be cautious before assuming that offering monetary incentives for whistleblowing will necessarily improve reporting. Thus, predicting the effect of monetary incentives on whistleblowing intentions depends on the security factor.

5.2. Research Implications

Based on research findings, it is critical to have and enforce policies to protect whistleblowers from retaliation; only then can monetary incentives be effective. Management can increase employee trust in whistleblowing by paying attention to perceptions of organizational fairness that are consistent and show concern (Seifert et al., 2014). As whistleblowing becomes more publicized and accepted within the

company, employees can see it as a job responsibility.

In addition, as programs become better known, more companies may offer whistleblowing incentives. As such, employee perceptions of fraud and reactions to breach reporting can change. Nevertheless, management must continue to consider the ethical and practical trade-offs involved in deciding whether to pay for reporting incentives. Financial incentive payments for whistleblowing to reduce fraud may add up. However, management must pay for such financial incentives in a manner that supports an ethical culture.

5.3. Limitations and Recommendations

This study designed a fraud experiment using the most common asset abuse schemes. Nevertheless, the possible measurement of cheating may not accurately reflect the actual situation. The study limits reporting options to a single whistleblowing channel (a hotline) and presents scenarios in which organizations are likely to be interested in detecting and correcting such errors. Future studies may examine whether other factors not discussed affect the effect of monetary incentives on reporting violations. Individual factors may include organizational commitment, ethical style, and personality traits.

The suggested variations in organizational factors are stated below: Participants were aware that financial infractions or fraud could be reported through the designated whistleblower channels, which may have affected their trust in the company. Therefore, replies from workers in public and private firms may be compared in future studies. Financial incentives and reporting opportunities to internal and external channels are other study subjects. By creating and contrasting different financial schemes with those in this study, such as constant or variable rewards based on the fraud results, future research may further examine the framing of prizes and their effects.

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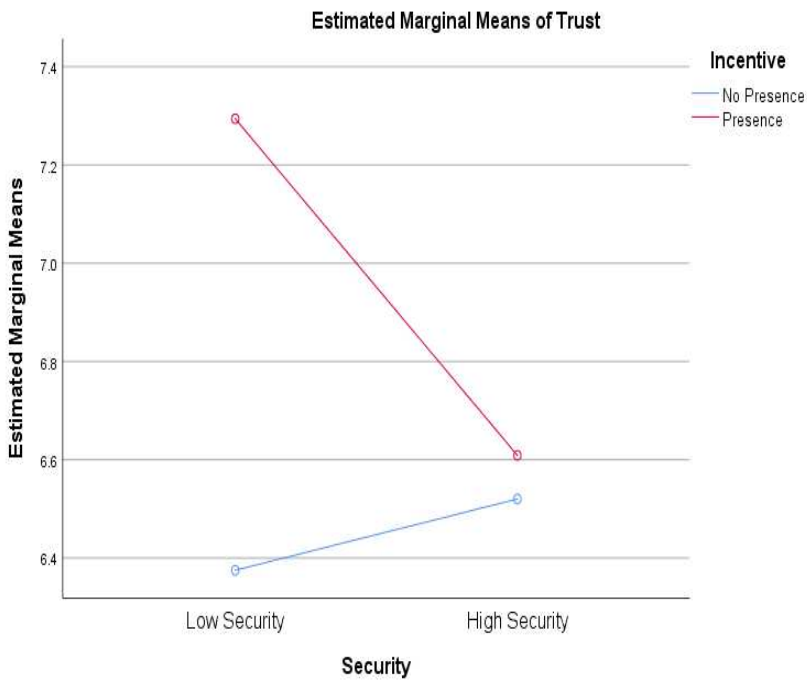
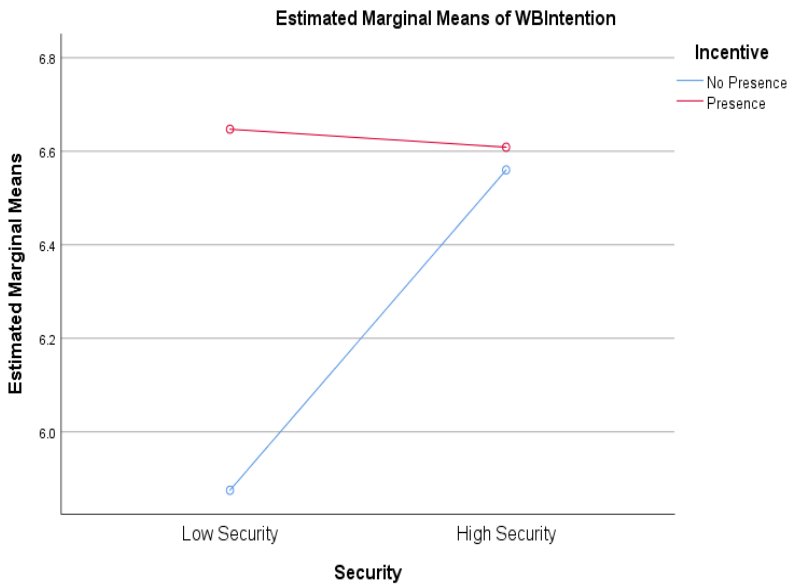
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Appendix



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