

## THE PHENOMENON OF LEADERSHIP IN CONGLOMERATE SUBSIDIARIES IN CREATING ANTI-FRAUD CULTURE<sup>1</sup>

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### ABSTRACT

*Leadership is a process of influencing leaders and followers to achieve organizational goals through change, where there are elements of Leader-Followers, Influence, Organizational Objectives, Change, and People. The existence of a corporate conglomerate can create an interconnected fraud link between conglomerate subsidiaries. Two main factors are the strong culture of nepotism and mental readiness of the heads of subsidiaries which are usually mostly employees placed from the holding company.*

*Being a whistleblower is a step to get to a tiger cage, so if one of the tigers can be caught, then the other tiger is ready to pounce and make it a meal. One factor of ineffectiveness of the whistleblowing system (WBS) as part of the internal company or state institution, is the low level of employee or community participation due to fear of the consequences of being a whistleblower, so whistleblowing system (WBS) only becomes a system contained within a company to qualify for GCG sustainability.*

*The ineffectiveness of the whistleblowing system (WBS) and the occurrence of social inequality, especially on income or salary among employees of the same rank, but having the background as the genuine employees of subsidiaries with former employees or placements of the holding company can create intentions to commit fraud or corruption within the internal conglomerate subsidiaries.*

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## **I. INTRODUCTION**

### **1.1 Background**

The development of the business world has changed along with the increasing awareness of business people in utilizing capital markets and corporate diversification strategies. In running the company, business people will always try to maintain their business competitive advantage and increase the value of their company. The capital market utilization strategy is carried by purchasing shares of a company in the country or in other countries. Initially the purchase of shares of a company is used to obtain an income outside the company's operations, such as obtaining dividends, and to get capital gains on the profit margin of share sales

The company's diversification strategy aims to expand market share, such as in the segmentation of product marketing areas, to create new product variants, to open company branch offices, to form new subsidiaries, and to merge or acquire a company. In addition, diversification of the company can be done through the purchase of shares with the aim of being a controlling shareholder, so that indirectly, the company can control another company to support the survival of the company's business.

In the business world, the Japanese philosophy of "Zaibatsu" and "Keiretsu" and the Korean philosophy of "Chaebol" are better known as supply chain management as has been suggested by economists in the West. With various models of business conduct, it is then increasingly narrowed to the company's goals, that is, to create a business group of companies, or better known as corporate conglomerates, as currently being proclaimed by the Ministry of SOE, namely forming financial holding.

### **1.2 Identification of the Problem**

The leadership model of a conglomerate subsidiary in creating an anti-fraud culture is based on several aspects:

- a. The aspect of the leadership model that forms an anti-fraud culture that can be used as an example by all company employees.
- b. The aspect of the implementation of the company's anti-fraud culture through a whistle-blowing system.
- c. The aspect of the relationship between leadership power and feelings of injustice among company employees that raises the intention to commit fraud or corruption.

### **1.3 Limitation of the Problem**

This study is limited to subsidiaries incorporated in 1 (one) conglomerate company which then makes a consolidated financial report in the holding company or makes financial statements separately.

### **1.4 Formulation of the Problem**

This study examines the extent to which the leader's leadership style in a subsidiary company incorporated in 1 (one) conglomerate company is able to be a benchmark in creating an anti-fraud culture within the subsidiary.

### **1.5 Objectives of the Study**

This study aims to determine:

1. The leadership aspect becomes the main factor in providing examples to form anti-fraud culture in subsidiaries incorporated in 1 (one) conglomerate company.
2. Whistle-blowing system can be effective in identifying cases of fraud or corruption in subsidiaries incorporated in 1 (one) conglomerate company.
3. The level of feeling of injustice among employees can create intentions to commit fraud or corruption.

## 1.6 Benefit of the Study

This study is expected to be able to provide a description and contribution in shaping the leadership character of a company in a conglomerate company, so that it can be used as a reference for practitioners, lecturers and students to be further developed in subsequent research.

## II. LITERATURE REVIEW

### 2.1. Leadership

According to Achua & Lussier (2010) in Wibowo (2016), leadership is a process of influencing leaders and followers to achieve organizational goals through change, where there are elements of Leader-Followers, Influence, Organizational Objectives, Change, and People. In understanding leadership, it is necessary to recognize the myths that are known in leadership. One of the myths that is quite famous is "the leader is born, not made". This myth is formed from the belief of some people that to be a leader is the innate nature of the offspring of a family, while some others believe that leaders are born based on experience to form an individual more skilled and capable in making a decision. In its development, based on a psychological perspective, the next step is how to combine the factors contained in these two points of view to interact and support each other in the formation of leadership.

The formation of an interaction in a factor of leadership in the view of Islam as explained in the Qur'an surah Shad: 26 is as follows:

*"(Allah says), O Dawud! Indeed we make you a caliph (ruler / leader) on earth, then give a decision (to the problem) among men fairly and do not follow lust, because it is misleading from the path of Allah. Indeed, those who go astray from the path of Allah will receive a severe punishment,*

*because they forget the day of reckoning. "*

From the above paragraph, it can be taken an explanation as follows:

1. Prophet Dawud (a human being exemplified by Allah) where all human beings on this earth were created by Allah as caliph (leader). It already includes the myth that leadership is the innate nature of the family, where the family is broadly defined as humans created by Allah. This means that all humans have the nature of leadership from birth in the world.
2. Giving a fair decision and not following lust. It already includes the myth that leadership is born because of experience. In a broad sense, experience means that in giving a decision, it must be followed by a calm and firm nature or character, so that it is not enslaved by lust

Based on the above verse, it can be concluded that leadership requires a personal figure in his personality as reflected in the behaviors of Shidiq, Tabligh, Amanah and Fathonah as exemplified in the leadership style of the Prophet Muhammad.

### 2.2. Organizational Structure

According to Robbins & Timothy (2007), organizational structure is a formal framework pattern of an organization by grouping people and work frameworks that are divided and conditioned to remain organized and controlled. Saputri (2016) concludes that the organizational structure describes the framework and arrangement of relationships between functions, charts, or positions. Organizational structure also shows the organizational hierarchy and structure as a place to exercise authority, responsibility and

reporting system to superiors and ultimately provide stability and continuity that allows the organization to survive even though people come and go and coordinate relationships with the environment.

### **2.3. Organizational Culture**

According to Andaningsih (2010) in Saputri (2016), organizational culture is a factor that determines the characteristics of an organization. According to Wirawan (2007) in Saputri (2016), organizational culture is as a norm, values, assumptions, beliefs, philosophy, organizational habits, etc. (contents of organizational culture) developed in a long time by the founder, leader, and organizational members that are socialized and taught to new members and applied in organizational activities so that they influence the mindset, attitudes and behavior of organizational members in producing products, serving consumers, and achieving organizational goals.

### **2.4. Conglomerate Company**

Based on several previous studies, it is known that most public companies listed on the Stock Exchange are conglomerate subsidiaries under a holding company with many subsidiaries operating in various fields or business sectors. Therefore, business diversification is done not only by mergers or acquisitions, but also by having the ability as a controlling shareholder. This can give strength to the holding company that the company's diversification strategy has proceeded according to the company's plan.

According to Lim et al (2007) in Aryati (2013), on average, companies that diversify will be more likely to do earnings management than companies that focus on one business area only. According to Aberg (2014), the decline in the level of corruption can have a significant impact on the diversification of export companies in Sub-Saharan Africa

### **2.5. Anti-Fraud Policy through Whistle-blowing System (WBS)**

Whistle-blowing System is closely related to the courage of the whistleblower in providing information about fraud or corruption occurring within a company or state institution. In implementing this system, a strong guide is needed in providing administrative immunity to an employee. The administrative immunity in question is a protection provided by the company to the complainant, even if the reporter has involvement in fraud or corruption or not.

A detailed explanation of the whistle-blowing system can be used by each company as stated in the guideline of Whistle-blowing System (WBS) issued by the KNKG in 2008. One of the benefits of the WBS, according to the KNKG (2008), is the availability of early warning system for possible problems due to a violation. This can be very useful for business continuity in minimizing fraud and corruption.

But until now, in Indonesia there is still no a special law related to WBS. So, the law that handles WBS is still partial, as in Law Number 13 of 2006 article 10 paragraph 1 concerning the protection of witnesses and victims, Regulation of Government No. 57 of 2003 concerning special protection procedures for whistleblowers and witnesses of criminal acts of money laundering, as well as other regulations.

The partial legal umbrella for WBS has an impact on the courage of the whistleblower in giving information, because there is a fear that the whistleblower can be made as a suspect if he does not have enough and strong evidence to report the occurrence of fraud or corruption. According to Gonzales (2010) in Nixon et al. (2013), a whistleblower can be the subject of exile and will be neglected by his coworkers after reporting an action to the internal part of the organization.



One example in implementing WBS in Indonesia is Khairinsyah Salman, a BPK auditor who acts as a whistleblower in the case of bribery in procuring election ballot boxes. Initially, Khairinsyah received an Integrity Award from the Transparency International Institute, but after receiving the award, Khairinsyah was indicted and later became a suspect in the misappropriation of the ummah's endowment fund by the former Minister of Religion.

Based on this case, the author thinks that the people or company employees who become whistleblowers, this means that they are stepping onto the tiger cage, so that if one tiger can be caught, other tigers are ready to pounce and make him a meal. Therefore, perhaps the paradigm that the author conveys is one of the factors of ineffectiveness of WBS as part of internal company or state institution. The low

level of employee or community participation is caused by the fear of the consequences of being a whistleblower, so that WBS is merely a system contained in a company to fulfill the requirements for the sustainability of GCG.

### III. RESEARCH METHODOLOGY

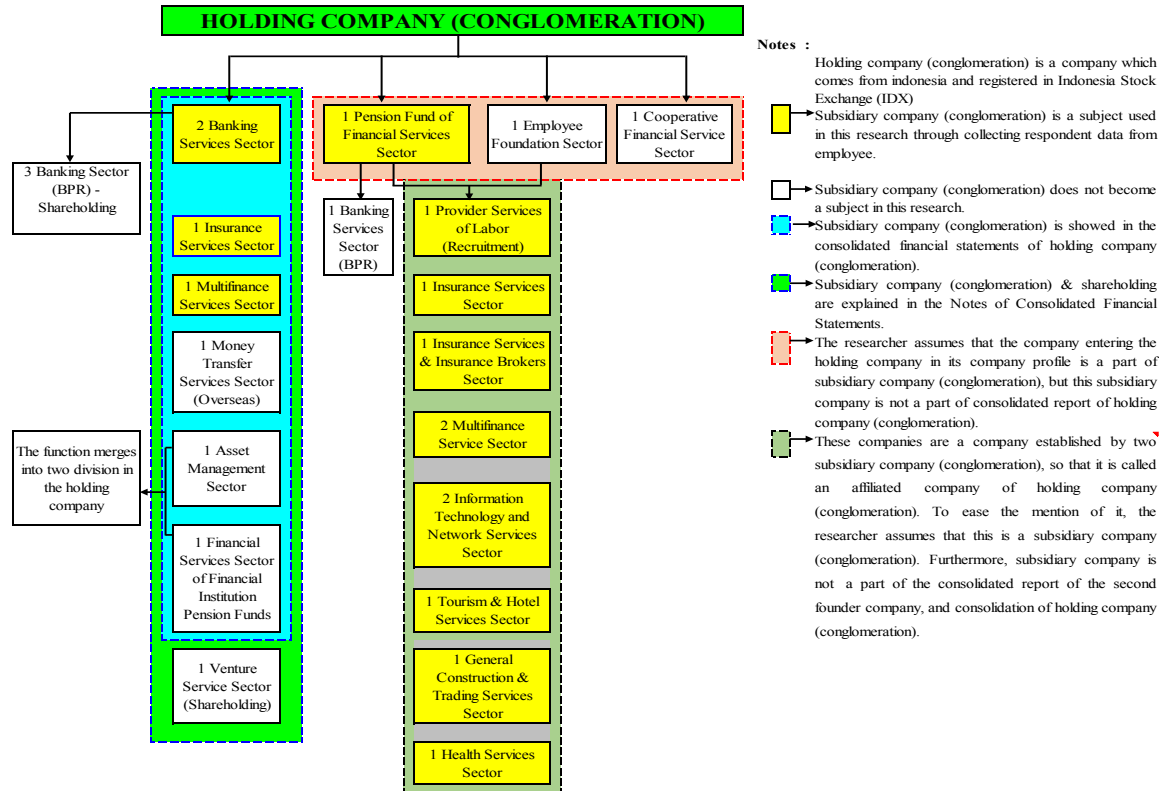
#### 3.1 Research Method and Design

This study uses a qualitative approach. The approach used by researchers is based on historical approaches and ethnographic approaches.

#### 3.2 Types and Sources of Data

The types of data used in this study are primary data and secondary data as supporting data. The source of data is obtained from a conglomerate subsidiary that has a conglomerate holding company in Indonesia, with the following picture:

Fig. 1. Conglomerate Company Integration



Source: Researcher's Descriptive Analysis, processed (2018)

The use of the term subsidiary by the researcher refers to Article 29 and explanation of Article 29 of Law No. 1 of 1995, Article 84 of Law No. 40 of 2007, Article 14 paragraph (3) letter g, explanation of Article 22 paragraph (1) letter c and explanation of Article 86 paragraph (1) of Law No. 19 of 2003, while the use of the term subsidiary company is based on Section 736 and 736A Act 1989. So the term company which is established by a conglomerate subsidiary of is also called subsidiary.

### 3.3 Data Collection Technique

Data collection technique used in this study is questionnaire, telephone interviews with several speakers who initially filled out the questionnaire and were willing to provide information, and online data search.

## V. Demography and Research Results

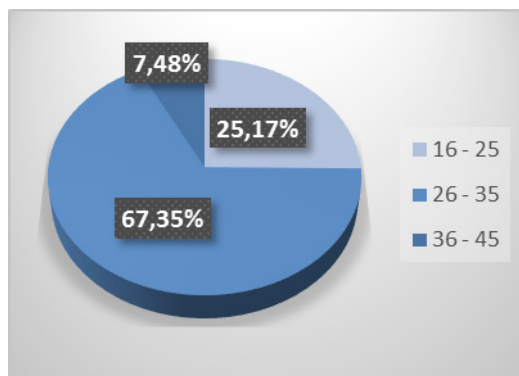
According to Kotler (2016: 96) in ACFE Indonesia Chapter (2017):

*“Demography is the study of human population in terms of size, density, location, age, gender, race, occupation, and other statistics.”*

Based on this definition, demography can be interpreted as a science that studies population (ACFE, 2017). Matters related to population are the number, distribution, territorial, product composition and changes and causes of the existence of these changes, which usually arise due to birth rate or fertility, morality, territorial movement or location migration and social mobility (changes in status) such as age, gender, and position.

This demographic analysis aims to provide an overview of the data that has been collected by researchers in the form of primary or secondary data as supporting information about respondents. The number of data collected is 147 questionnaires.

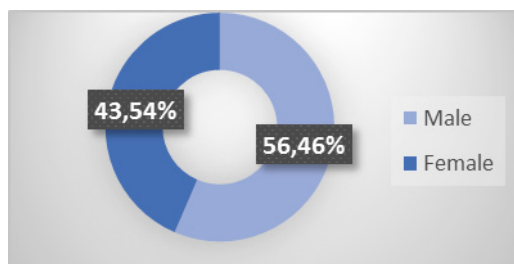
Fig. 2. Distribution of respondents based on age



Source: Questionnaire Data, processed (2018)

At the beginning of filling out the questionnaire, we asked respondents to fill in the identity in the form of age range. The result shows that 67.35% or 99 respondents are 26-35 years old, while 25.17% or 37 respondents are 16-25 years old, and 7.48% or 11 other respondents are 36-45 years old.

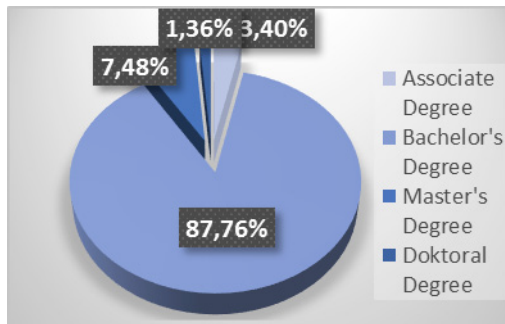
Fig. 3. Distribution of respondents based on gender



Source: Questionnaire Data, processed (2018)

Based on the demographics of the entire respondents, 56.46% or 83 respondents are men, while the remaining 43.54% or 64 respondents are women.

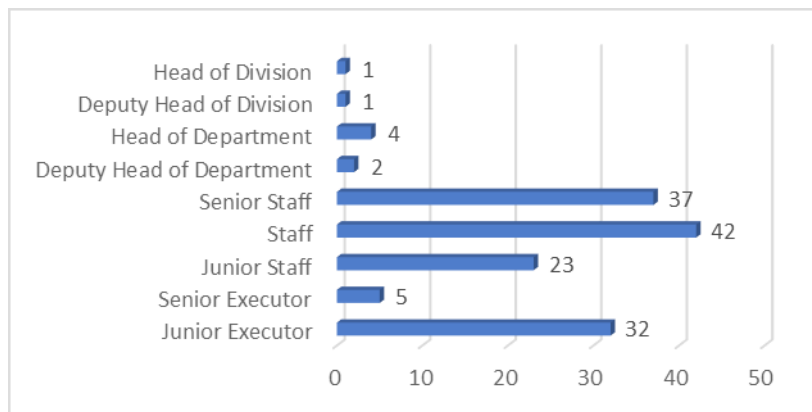
Fig. 4. Distribution of respondents based on educational background



Based on the demographics of the entire respondents, the result shows that 87.76% or 129 respondents are Bachelor's degree graduates, 7.48% or 11 respondents are Master's degree graduates, 3.40% or 5 respondents are Associate degree graduates, and 1.36% or 2 respondents are a Doctoral degree graduates.

Source: Questionnaire Data, processed (2018)

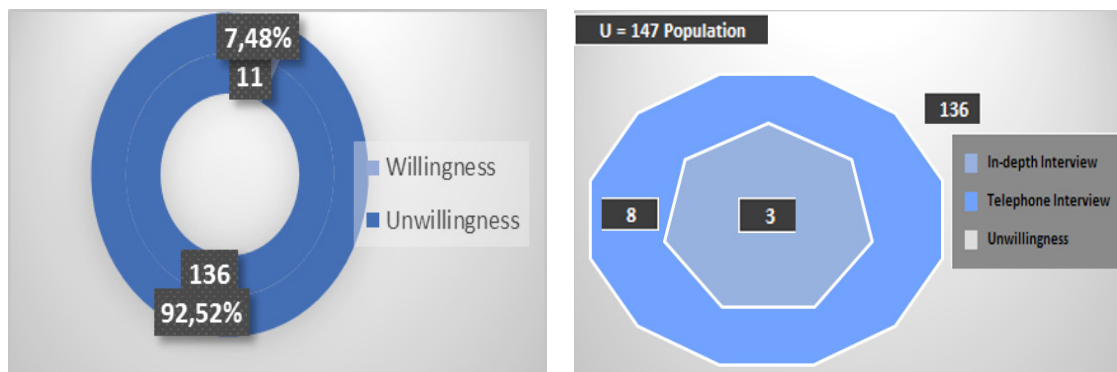
Fig. 5. Distribution of respondents based on position



Source: Questionnaire data, processed (2018)

Next we asked the respondents to fill out the questionnaire based on the job title. The results show that 28.57% or 42 people are staff, 25.17% or 37 people are senior staff, 21.77% or 32 people are junior executives and 15.65% or 23 people are junior staff, 3.40% or 5 people are senior executives, 2.72% or 4 people are department heads, 1.36% or 2 people are deputy heads of departments, 1 person is deputy head of division, and 1 person is the head of division.

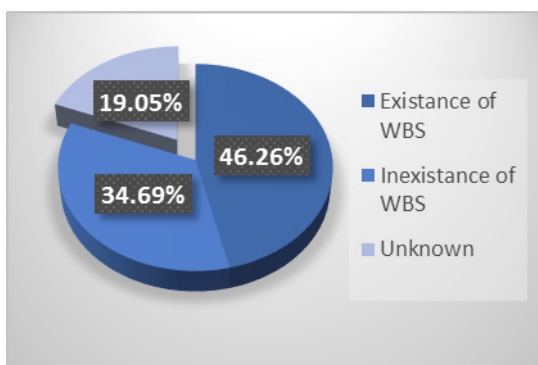
Fig. 6. Distribution of respondents based on telephone interviews and in-depth interviews



Source: Questionnaire Data, processed (2018)

The results show that 7.48% or 11 people are willing to do telephone interviews, while 92.52% or 136 people are not willing to do telephone interviews. Moreover, the people who are willing to do in-depth interview are 3 people or 27,27% of the people willing to do telephone interview, and 2,04% of the total population. The reason of people are not willing to do it because most respondents are afraid if the telephone interview questions and in-depth interviews are spread or leaked among conglomerate subsidiaries. They still depend so much on their current work due to their age and pessimism of getting a new job.

Fig. 7. Distribution of respondents based on knowledge about the application of Whistle-blowing System (WBS) in the company where they work.

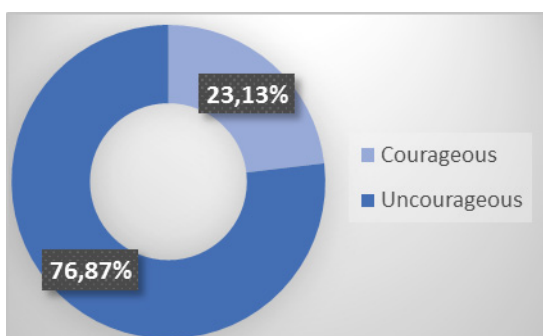


Source: Questionnaire Data, processed (2018)

Based on the demographics of the respondents, the results show that 46.26% or 68 people know that there is an application of WBS in the company where they work, 34.69% or 51 people answer that there is no WBS in the company where they work, and 19.05% or 28 people answer that they do not know the presence or absence of WBS in the company where they work.

Based on the author's observation, there has been WBS in some companies where the respondents work. This indicates the lack of socialization about WBS to employees in each company.

Fig. 8. The distribution of respondents based on the courage to be a whistleblower.



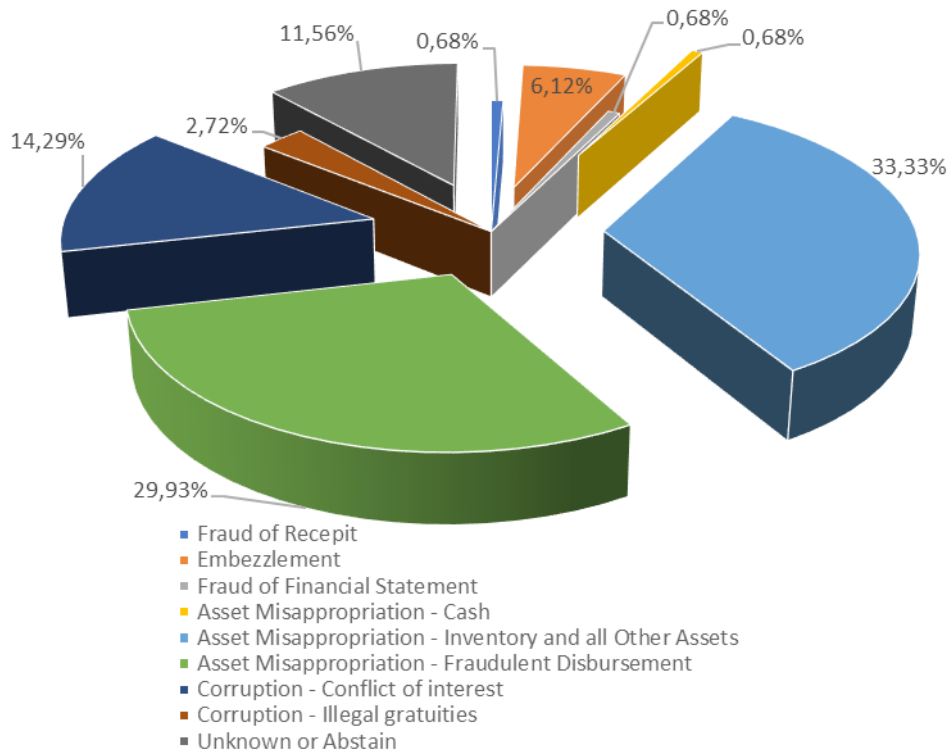
Source: Questionnaire Data, processed (2018)

The results show that 76.87% or 113 people do not have the courage to become a whistleblower, while 23.13% or 34 people have the courage to become a whistleblower



Based on the results above, it can be concluded that the most respondents are afraid of being whistleblowers because of dismissal. Some say that they are lazy to find new jobs and think that the current place of work is the only one to make a living. In addition, there is an explanation from the respondent that the company where he works has conducted socialization about the WBS including the functions and confidentiality and security for the person who becomes a whistleblower, but after the internal fraud case has been resolved, shortly afterwards the employee who becomes the whistleblower is suddenly dismissed.

Fig. 9. The distribution of respondents based on knowledge of fraud occurring in the company where they work.



Source: Questionnaire Data, processed (2018)

The last demographic that we asked the respondents to fill out the questionnaire was the respondents' knowledge of fraud that occurred in the company where they worked. 33.33% or 49 people chose frauds on Asset Misappropriation - Inventory and all other Assets, 29.93% or 44 people chose frauds on Asset Misappropriation - Fraudulent Disbursement, 14.29% or 21 people chose Corruption - Conflict of Interest, 6.12% or 9 people chose Embezzlement, and 2.72% or 4 people chose Corruption - Illegal Gratuities, 11.56% or 17 people chose not

to know or abstain, 0.68% or 1 person chose Frauds on Checks, 0.68% or 1 person chose Fraud on Financial Statements, and 0.68% or 1 person chose Fraud on Asset Misappropriation - cash.

Based on the results of filling out questionnaires, telephone interviews and in-depth interviews, it can be obtained the data as follows:

1. Fraud on Asset Misappropriation - Inventory and all Other Assets

includes the usage or recognition of office facilities, in large or small amounts, as property rights for personal gain. In this condition, it is usually done by someone who has power such as an official or even a director. For examples, the use of office cars along with office drivers to pick up the families of officials who come to visit the local area, or even sometimes there is a claim for overtime from office drivers due to serving company officials but not given service fees for picking up the official's family. In addition, sometimes an official borrows an office's projector to see football matches at home, including controlling office assets such as laptops and tablets for personal interest, and not returning the office assets when he or she gets retired.

2. Fraud on Asset Misappropriation - Fraudulent Disbursement occurs due to social inequality between the company's original employees before the acquisition of the holding company and the employees who are placed or former employees of the holding company in terms of the amount of salary paid in accordance with the rank level. The surprising thing is that there were several former employees of holding company who seemed to be placed in a conglomerate subsidiary whose status of rank level were supposed to be staff, but they were treated differently, or having position at the same level as the head or deputy head of division. In addition, there was an employee

who was placed by the holding company in the conglomerate subsidiary and directly occupied a new position, without having subordinates, and then a new division or department was then formed for the new official.

During the telephone interview, the respondent admitted that his background was management trainee (MT) (the same level as junior staff & staff) and senior staff. Here is his statement:

*“For us (MT respondents), we think that we have no definite place for career levels in conglomerate subsidiaries as candidates for leadership, especially in the head office of the subsidiaries. We think so because based on our observations there are some original employees of subsidiaries (senior staff) who have not been promoted for a long time. The highest position we will get is only as the head of the branch office, and if we want to be an official at the head office, then at least we must have close relationship with officials at the head office, such as being a child of an official in the holding company or conglomerate subsidiary, or having a level of achievement that is beyond expectations of the initial target. And as has happened at this time, most of the officials in conglomerate subsidiaries*

*are retired employees or former employees and even placement employees from conglomerate holding companies. “*

3. Corruption - Conflict of Interest occurs in connection with the occurrence of Fraud on Asset Misappropriation - Fraudulent Disbursement. This condition is closely related because of the decision of the stakeholders and power holders in subsidiaries that consciously or unconsciously have caused social inequality between employees. In addition, it also occurs if there are projects for the procurement of goods or renovation of office buildings, where there are several vendors or third parties that are acquaintances of the officials of the stakeholders (company directors). These conditions make employees at lower level follow the cultural rhythm. There should be an independent auction. But in fact the auction mechanism system is carried out only to meet the company's SOP, so fraud is not easily detected when an inspection is conducted by either internal or external auditors.
4. Embezzlement occurs in employees who are accustomed to and aware of a gap in the company's SOP. The fraud usually occurs in the procurement of goods at the subsidiary branch. The purchase of goods that are used by the head of the branch is turn out to be claimed to the company and recorded as company assets.

5. Corruption - Illegal Gratuities occur when there is a project to purchase goods, land or buildings, and others. Related to the occurrence of fraud, one respondent provides information that the company where he works once bought land to expand his office. After the buying and selling process was completed, an employee who participated in the buying and selling team suddenly bought a car for employee cooperative in cash in which an open auction was being held.

Fraud, as explained above, according to the researcher, is caused by the power possessed by officials or leaders to enrich or benefit themselves. They have known the loopholes in the company's SOP and the ineffectiveness of the Whistle-blowing System and the internal auditor division in the conglomerate subsidiaries.

## V. CONCLUSION AND SUGGESTION

Based on the observations, the existence of a conglomerate of companies can create a chain of fraud and corruption that are interrelated between holding companies and conglomerate subsidiaries. The two main factors are the strength of the culture of nepotism and the mental readiness of the leaders of subsidiaries who are mostly the employees who are placed from the holding company. So, with the power in his hand, the leader unconsciously has committed fraud or corruption with his heart.

In addition, the ineffective function of the WBS and the occurrence of social inequality, especially in income or salaries between employees who have the same rank can lead to intentions to commit fraud or corruption in internal conglomerate subsidiaries.

The suggestions that can be put forward, especially in the formation of an anti-

fraud culture that starts from the behavior of the leaders, are as follows:

1. For the internal conglomerate company
  - a. There should be an improvement in the structure of the subsidiary with the involvement of the holding company in determining the direction of the business processes of its conglomerate subsidiaries
  - b. The holding companies should conduct an assessment in advance and see the track record of the employees who will be placed in the subsidiary.
  - c. There should be legal umbrella for the standard operation of the company either in group or conglomeration so that the Whistle-blowing System (WBS) can run effectively to minimize fraud in holding company and conglomerate subsidiary
  - d. There should be a synergy between the internal audit division at holding companies and internal audit division at subsidiaries or between subsidiaries and other subsidiaries which can be used as a place to exchange information about how to deal with fraud and corruption.
2. For the Government
  - a. The government should establish a Law which is then explained in a Government

Regulation devoted to the implementation of Whistle-blowing System (WBS) which can then be used by government agencies and other private institutions. Based on the author's observation, there is still no regulation which specifically regulates whistle-blower or justice collaborator. The researchers only see that the regulation about whistleblower is only attached to other laws as in Law No. 13 of 2006 and SEMA No. 4 of 2011, so that the application of WBS in government institutions or agencies and other private institutions only binds to relevant agencies or institutions, without having a strong legal umbrella for whistleblowers. There is a mindset that with reverse proof, a whistleblower can be designated as a suspect in cases of fraud, corruption, or others. The stigma of thought was formed because whistle-blowing system in Indonesia did not run well.

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