Study shows anonymous whistle-blowers less likely to be believed

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According to a new study, corporate directors, who are ultimately responsible for internal whistle-blowing systems, often do not take action at all regarding anonymous allegations, even when the allegation involves very serious accounting breaches. However, if an identical non-anonymous allegation surfaces, audit committees often launch into action and the corporate director allocates significant resources to the investigation at hand. The first study to investigate the whistle-blowing issue with practicing audit committee members is now published in the *Journal of Management Studies*.

Public corporations are required to provide anonymous whistle-blowing channels to their employees. Anonymous reporting channels are intended to protect shareholders from financial fraud by making it more likely that fraud will be reported to the board of directors. The study explores how these whistle-blowing channels allow employees at major U.S. corporations to report fraudulent accounting and auditing matters without fear of retaliation from management, how evidence of fraudulent activity is viewed by the board of directors, and how these situations are handled by the board of directors when they occur.

The study finds that anonymous allegations are treated very differently from non-anonymous allegations, and anonymous allegations are largely ignored, particularly when the allegation threatens a member of leadership's reputation. Over eighty audit committee members from U.S., publicly traded companies participated in the study. They were asked to determine and report on the credibility of whistle-blowing allegations from varied non-anonymous or anonymous sources.

"We found that when an allegation poses a threat to a director's professional reputation, a form of distortion of information occurs. An audit committee has an incentive to not investigate the allegation when it creates a reputation threat, and this causes the committee member to believe the allegation is less credible," said Jake Rose, Ph.D., an Associate Professor at the University of New Hampshire Whittemore School of Business and Economics, and co-author of the study. "Our presumption is that most corporate managers, auditors, and corporate directors are honest and ethical people. However, under certain circumstances, 'good' people can engage in 'bad' behavior."

The study finds an essential failure of U.S. corporations' first line of defense against financial fraud. Rose recommends that, "An independent body outside of the corporation needs to be in charge of investigating whistle-blowing allegations." The authors also point out the potential pitfalls of allowing directors to serve on multiple corporate boards.

More information: "Effects of Anonymous Whistle-Blowing and Perceived Reputation Threats on Investigations of Whistle-Blowing Allegations by Audit Committee Members." Jacob M. Rose and James E. Hunton. Journal of Management Studies; Published Online: February 24, 2010 [DOI:10.1111/j.1467-6486.2010.00934.x](DOI:10.1111/j.1467-6486.2010.00934.x)

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