Protections, not money, can boost internal corporate whistleblowing

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New research from North Carolina State University and Bucknell University finds that strong, reliable anti-retaliation policies can encourage employees to notify internal authorities of possible wrongdoing, but that offering monetary incentives does not necessarily influence whistleblowing behavior - or at least not right away.

"The work supports the idea that companies who want to encourage internal reporting of wrongdoing should focus on developing and implementing anti-retaliation policies to protect whistleblowers," says Dr. Eileen Taylor, co-author of a paper on the work and an associate professor of accounting at NC State.

The Securities and Exchange Commission (SEC) has a whistleblower program designed to encourage and support people who report fraudulent practices at publicly traded companies. But companies want to find ways to get their employees to report problems internally, so that companies have a chance to address those problems before the SEC is notified.

"Managers want to know how to encourage internal whistleblowing," Taylor says. "To see what was most effective, we evaluated two approaches used to encourage internal reporting: anti-retaliation policies and monetary payments made for reporting problems."

The researchers surveyed 283 adults who were asked to respond as though they were employees of a company that appeared to be committing fraud. The participants were split into three groups: one in which there was no payment for reporting fraud; one in which employees received a percentage of their salary as payment for reporting fraud; and one in which employees received a percentage of the fraud reported as payment. Each of these three groups was then split in half: half of each group received no promise of protection from retaliation, while the other half were told they'd be protected from retaliation.

"Protection from retaliation made people significantly more likely to report possible wrongdoing," Taylor says. "However, that was contingent largely on whether the employee trusted the company.

"Money, on the other hand, was not a significant factor in determining whether someone would report a problem."

However, there was an interesting secondary effect regarding money.

After the first set of questions, all study participants were offered a much larger amount of money for reporting the fraud internally. Participants who were not offered money in the first place were no more likely to report. But both groups that had been offered money in the first set of questions (based on salary or the size of the fraud) were more likely to report the fraud when the amount of monetary compensation increased.

"This suggests that the initial offer of money for reporting framed reporting as an economic decision, rather than as an altruism decision - so when the money went up, they were more likely to report," Taylor says.

"This tells me that companies should think twice before offering money to whistleblowers, since it may actually discourage reporting if employees deem the monetary benefit to be insufficient," Taylor explains. "Instead, corporate managers should focus on ensuring that their companies have good - and trusted - anti-retaliatory measures in place."

More information: The paper, "Protect or Pay? Promoting Internal Whistleblowing," was co-authored by Dr. Cynthia Guthrie of Bucknell. The paper will be presented at the 2015 Forensic Accounting Research Conference, March 13-14, in Denver, Colorado. papers.ssrn.com/sol3/papers.cf … ?abstract_id=2555712

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