A Word to the Wise: How Managers and Policy-Makers can Encourage Employees to Report Wrongdoing

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ABSTRACT. When successful and ethical managers are alerted to possible organizational wrongdoing, they take corrective action before the problems become crises. However, recent research [e.g., Rynes et al. (2007, *Academy of Management Journal* **50**(5), 987–1008)] indicates that many organizations fail to implement evidence-based practices (i.e., practices that are consistent with research findings), in many aspects of human resource management. In this paper, we draw from years of research on whistle-blowing by social scientists and legal scholars and offer concrete suggestions to managers who are interested in encouraging internal reporting of problems requiring attention, and to observers of questionable activity who are considering reporting it. We also identify ways that research suggests policy-makers can have a more positive influence. We hope that these suggestions will help foster evidence-based practice regarding whistle-blowing.

KEY WORDS: human resource management, legal issues, organizational wrongdoing, retaliation, whistle-blowing

Whistle-blowing – when current or former employees disclose illegal, immoral, or illegitimate organizational activity to parties they believe may be able to stop it – clearly benefits societies, when the process works as it should (Near and Miceli, 1985). For example, if a whistle-blower reports that a toy has been manufactured with lead-based paint or parts that could pose a choking hazard, prompt corrective manufacturing action or recall can save the lives of children whose parents would purchase these toys for them. Similarly, when an employee convinces management that financial reports are overly rosy, and management corrects errors before the reports are released to the public, prospective buyers and sellers of the company's stock will not be misled.

Whether whistle-blowing can benefit the organization in which wrongdoing may occur may seem less clear. Obviously, the ethical position to take regarding possible organizational wrongdoing is to try to stop it before it happens or – after the fact – to respond fully and quickly by investigating any complaint of wrongdoing and taking corrective action if needed. But there may also be benefits to the organization, though from its managers' perspective these benefits of whistle-blowing may appear less obvious or seem outweighed by the costs. For example, some managers may worry that the financial cost of whistle-blowing will reduce stock prices or even result in bankruptcy. Or, they may be concerned that complaining, particularly to outsiders such as the media or the courts, is disloyal or could undermine managerial authority, relationships, trust, or the organization's reputation.

Employees, perhaps sensing that managers will not welcome complaints, often do not speak up. Media reports and prior research indicate that: (a) many, if not most, employees believe they have encountered some wrongdoing on the job in the previous year or two; (b) most employees who perceive that wrongdoing is occurring do not act on it, in many cases because they believe nothing can or will be done to correct the problems; and (c) these beliefs are often well-founded (e.g., Gogoi, 2007; Miceli and Near, 1992; Schulman, 2007).

Yet recent research shows that whistle-blowing, and appropriate responses to it, also benefit the organizations in which wrongdoing is occurring, for

at least three reasons. If firms self-correct their wrongdoing, then employees have no need to notify outsiders of problems, saving the firm's reputation and sparing potential legal costs incurred in the firm's defense; for example, it is often cheaper to redesign or recreate unsafe products than to recall them and pay litigation costs. Second, the culture may be enhanced; employees may be more satisfied and feel more committed to organizations where wrongdoing does not occur or where it is quickly corrected (e.g., Glomb et al., 1997; Magley and Cortina, 2002; Miceli and Near, 1994; Miceli et al., 2001). Third, when employees do not blow the whistle or those who do so are ignored, negatively impacting society at large, legislators may act to restrict organizational discretion, as with the Sarbanes-Oxley Act (SOX) (Dworkin, 2007; Sarbanes-Oxley Act, 2002).

Happily, effective *internal whistle-blowing* (whistle-blowing to parties within the organization or through confidential hotlines), provides an ethical way to stop wrongdoing that can be profitable, save the firm's reputation, and protect from legal and legislative reactions to wrongdoing. Nowhere is this point better exemplified than in the comments of one of the world's leading investors:

> Warren E. Buffett, chairman of the board of Berkshire Hathaway, a global investment firm with 180,000 employees, praised the company's recently installed hotline in his 2005 chairman's letter. "Berkshire would be more valuable today if I had put in a whistleblowing (hot)line decades ago," he wrote. "The issues raised are usually not of a type discoverable by audit, but relate instead to personnel and business practices" (Slovin, 2006, p. 46).

Similarly, an eminent professor of management at Stanford Business School said recently: "…I've met corporate CEOs who are adamant about uncovering problems in their organizations. They know that they can only make sound decisions and fix problems when they know the 'hard facts'." (Pfeffer, 2007, p. 48). As one example outside the USA, respondents to a recent survey of Philippine companies showed that more than 60% of them said their companies had established mechanisms to encourage potential whistle-blowers to alert management about poor business practices within the workplace (*BusinessWorld*, 2008). As another example, nearly all of the respondents to a British

survey of FTSE top 250 companies said they had a whistle-blowing reporting procedure (Lewis and Kender, 2007a).

On the other hand, a recent survey of employees working for multinational companies in Europe indicated that, while 86% of respondents in the United Kingdom said they would feel comfortable blowing the whistle, fewer than half of the respondents from France, the Czech Republic, and Austria agreed (Ernst and Young, 2007). These results suggest that, although companies can take steps to improve conditions for preventing, reporting, and correcting wrongdoing within the organization, many managers may not know of these steps, and that companies vary as to the levels of perceived success in encouraging internal whistle-blowing.

Toward this end, our first purpose is to identify steps that managers can take to avoid the potentially negative effects of both unreported wrongdoing and external whistle-blowing. Second, we discuss points that potential whistle-blowers should consider before taking action. Finally, we address legal and social issues that we believe are important to the actions of legislators and other policy-makers, and that should be explored before they pass legislation or set policy.

Ideally, an article offering advice about whistle-blowing would be thoroughly grounded in a comprehensive body of controlled research. Too often, conventional wisdom is flawed when it comes to advice about how to deal with whistle-blowers. For example, it may seem obvious that threatening retaliation will reduce the incidence of whistle-blowing because threats impose a cost and suggest high risk of more costs to potential whistle-blowers, e.g., ruining one's career. However, empirical evidence strongly suggests that threatening retaliation does not discourage many whistle-blowers, and indeed encourages some to report wrongdoing to the media or other outsiders, as documented in the film about the tobacco industry, *The Insider*, profiling whistle-blower Dr. Jeffrey Wigand (Armenakis, 2004; Miceli and Near, 1992). As this example suggests, research findings about whistle-blowing are often counterintuitive and do not always support our stereotypes. In recommending actions to managers, we rely on results from existing research, rather than conventional wisdom.

Whistle-blowing: an international phenomenon

Whistle-blowing occurs throughout the world (e.g., Miceli et al., 2008). For example, its occurrence has been noted in the following countries:

- Anguilla (e.g., Mitchell, 2006)
- Armenia (e.g., Garbis, 2007)
- Australia (e.g., Anonymous, 2002; Brown and Australian Research Council Linkage Project, 2007; Callahan et al., 2004; De Maria, 1997)
- Austria (e.g., Ernst and Young, 2007)
- Canada (e.g., Laver, 1996; Thiessen, 1998)
- The Czech Republic (e.g., Ernst and Young, 2007)
- Croatia (e.g., Tavakoli et al., 2003)
- France (e.g., Ernst and Young, 2007)
- Great Britain (e.g., Anonymous, 2002; Callahan et al., 2004; De Maria, 1997; Dobson, 1998; Figg, 2000; Lewis, 2002; Lewis and Kender, 2007a, b)
- Hong Kong (e.g., Chua, 1998; Near and Miceli, 1988)
- India (e.g., Keenan, 2002)
- Ireland (e.g., Feldman, 2002)
- Israel (e.g., Day, 1996; Seagull, 1995)
- Jamaica (e.g., Sims and Keenan, 1999)
- Japan (e.g., Akabayashi, 2002; Yoshida, 2001)
- Korea (e.g., Park et al., 2005; Rehg and Parkhe, 2002)
- The Netherlands (e.g., Bates, 1999)
- New Zealand (e.g., Beattie, 2000)
- The Philippines (e.g., *BusinessWorld*, 2008)
- Russia (e.g., Knox, 1997)
- Singapore (e.g., *Business Times Singapore*, 2004)
- Somalia (e.g., Anonymous, 1996)
- South Africa (e.g., Camerer, 2001)
- Sri Lanka (e.g., Ranasinghe, 2007)
- Thailand (Audit Committee Institute in Thailand, 2007)

In this article, we focus primarily on advice to people in organizations in the USA, for several interrelated reasons. The first reason is that much of the research has been conducted in North American settings, but that research may not generalize to other cultures, nor even to areas in North America.

Further, because the body of empirical literature concerning whistle-blowing outside of North American settings is in its infancy, we simply do not know to what extent the research findings in each country outside of North America might be representative.

Second, societal cultures and organizational environments that may influence whistle-blowing differ. It is easy to imagine how country or culture characteristics could affect whether observers believe they have witnessed wrongdoing, whether they or anyone has the responsibility for reporting it, and the costs and benefits of acting. For example, whistle-blowing may be more widely accepted in the USA than in other cultures, and definitions of wrongdoing may vary (Ethics★Point, 2005), e.g., some types of bribery of certain officials may be considered merely a cost of doing business in some environments, but in others, wholly unacceptable. Theories about cultural differences imply intriguing research questions about the international context of whistle-blowing (e.g., Keenan, 2002; Sims and Keenan, 1998, 1999; Tavakoli et al., 2003). Unfortunately, there is little cross-cultural research testing these theories, and consequently a taxonomy that includes a comprehensive treatment of legal, economic, and organizational conditions that may differ across countries has not yet been developed. Recent attempts to specify a taxonomy have focused primarily on cultural influences as predictors of whistle-blowing within countries (Rehg and Parkhe, 2002), and the extant research has been described in more depth elsewhere (e.g., Miceli et al., 2008).

Third, as we implied above, laws relevant to whistle-blowing vary substantially across countries. There is a growing and ever-widening array of whistle-blowing legislation. While the USA may be the most active country in term of enacting whistle-blowing legislation, it is not unique in its increasing focus on whistle-blowing as a means to combat wrongdoing. Many other countries and international organizations have enacted some form of whistle-blower legislation, and these legal developments have been explored in depth elsewhere (e.g., Miceli et al., 2008).

Legislatures in several countries have adopted whistle-blowing laws to encourage whistle-blowing, heighten transparency, and deter wrongdoing.

The majority of these countries have a common law tradition or a legal system strongly influenced by that tradition. Many have been influenced by US whistle-blowing legislation. Countries with legislation include the United Kingdom, New Zealand, Australia (state and territorial legislation), Canada, Ireland, Israel, South Korea, and Japan. In addition, multinational organizations such as the United Nations have adopted rules protecting whistle-blowers. Of these countries, the USA, the UK, and Australia have probably most closely documented and discussed the effects of their laws. In fact, results from a recent survey in Australia (Brown and Australian Research Council Linkage Project, 2007) show rates of wrongdoing and whistle-blowing very similar to those found in the Merit Systems Protection Board (MSPB) surveys in the USA (e.g., Miceli et al., 1999), perhaps in part because of similarities in the laws in the two nations.

As in all US whistle-blowing statutes, these laws protect whistle-blowers from retaliation. As in US state legislation, they also tend to encompass a broad array of wrongdoing. However, they vary in important ways in other aspects such as whether external reporting must be done to particular recipients, whether protection of the whistle-blower should depend on the motive behind the whistle-blowing, whether financial incentives are offered, whether the whistle-blower must first report the wrongdoing within the organization, and whether only reporting on public sector wrongdoing is protected. To make these points clearer, we take legislation from the UK and Australia as examples, and compare and contrast them with US legislation.

One key similarity is that whistle-blowing to the media is frowned upon or not protected in any of these countries. No US state identifies the media as a proper recipient, and the UK protects reporting to the media only when strict perquisites are met under limited circumstances (e.g., Miceli et al., 2008). In Australia, only the state of New South Wales authorizes a media report, and this only under limited circumstances (Protected Disclosure Act, 1994). This reluctance is likely the result of legislators' mistrust of media whistle-blowers' motives.

A second similarity is that, in all three, protection under the statute is denied for bad faith whistle-blowing (Callahan et al., 2004). Virtually all US jurisdictions require a reasonable belief that wrongdoing is occurring; most Australian statutes are similar. The UK similarly does not protect bad-faith reporting, but in addition also requires that the disclosure tend to show one or more of specified violations listed in the statute (Employment Rights Act (Eng.), 1996). A third similarity is that public-sector employees receive greater protection than those working in the private sector. Often private-sector employees are not included in statutory protections.

In general, employer–employee confidentiality is more important in the UK than in the USA and Australia. This is reflected in the fact that the UK legislation requires internal reporting in most circumstances. Australian and the large majority of US statutes favor external reports. In terms of the severity of the wrongdoing, the UK and US statutes do not use normative terms regarding the wrongdoing, whereas several Australian statutes do (Callahan et al., 2004; Miceli and Near, 1992).

Probably the biggest difference between the US, and UK and Australian whistle-blowing laws is the reluctance or refusal of the last two to reward whistle-blowers, as is done under the False Claims Act and equivalent state statutes. Indeed, the UK legislation specifically denies protection to whistle-blowers who give information for gain. Motive for reporting is less important than getting useful information in the US (e.g., Miceli et al., 2008).

Despite these limitations, and unanswered questions, we believe that the research does suggest some actions that managers can take, and other practical advice. The legal and some other cultural similarities across Australia, the UK, and the US suggest that advice regarding whistle-blowing might be most generalizable among these countries, with adaptations reflecting differences, some of which are discussed above. Managers in countries outside of North America, the US, and Australia could consider the extent to which the advice offered would be pertinent or require further modification in their environments. Therefore, we now turn our attention to describing these actions.

Actions that managers can take

One way to stop wrongdoing in organizations is for external forces (e.g., government regulatory agencies

or the free market) to exert influence over the organization to convince top management to terminate ongoing wrongdoing or avoid new wrongdoing. A second method is for internal forces within the organization to exert pressure on members not to engage in wrongdoing to start with. Once wrongdoing has become entrenched, internal forces may not work, because dismantling an organizational culture that normalizes wrongdoing – or makes it seem normal and legitimate – is very difficult (Misangyi et al., 2008). Cultures that normalize wrongdoing provide a "logic of corruption" that may be best disrupted by "institutional entrepreneurs" who attempt to reframe the culture, through "legitimating accounts" that support symbolic identities and meanings that lead to a new, "anticorrupt logic" (Ashforth and Anand, 2003; Misangyi et al., 2008). It strikes us that whistle-blowers might be one of the most important types of institutional entrepreneurs to launch such a change in the culture of the organization that supports normalization of wrongdoing. The question then is how to encourage whistle-blowing to powerful parties within the organization who will take appropriate action. Managers who do so may avoid the obviously intrusive external forces that would otherwise exert pressure on them to avoid new wrongdoing or terminate existing wrongdoing.

Other than articles focused on improving ethical behavior in general (e.g., Treviño and Weaver, 2001;

Treviño et al., 1999; Weaver and Treviño, 1999; Weaver et al., 1999a, b), we know of only one study involving interviews and surveys with managers focused *specifically* on identifying actions to encourage whistle-blowing. This study, which has been described in two preliminary reports, was conducted jointly by the International Business Ethics Institute (IBEI), in partnership with others, including the Ethics and Compliance Officer Association (Heard and Miller, 2006a, b). At the time of our writing, no comprehensive report, including more specific information about methodology, had yet been published. Below, we have integrated recommendations from that study with information from research studies on whistle-blowing, and other sources.

In Table I, we have summarized action steps that we recommend. In general, the results of the IBEI study and of prior empirical research support the notion that top managers should create a culture for encouraging good performance that is ethical. Preventing behavior that undermines this goal, and responding appropriately to irregularities, including perceived wrongdoing, obviously must be a part of such a culture, because these actions promote self-correction and reinforcement of ethical values and standards. In fact, Weaver noted that organizations have the opportunity to create the development of moral agency among their members, thereby leading to stronger moral identity among those members: "moral actions can reinforce moral identity,

TABLE I

A summary of some action steps for managers

Before concerns are expressed
- Encourage the development of moral identity and moral agency.
- Create a tough antiretaliation policy that permits disciplining or dismissing employees who retaliate against whistle-blowers.
- Disseminate the policy through the intranet, in orientation materials, and elsewhere.
- Search for and select employees who possess attributes associated with observation of wrongdoing, and whistle-blowing.
- Orient and train employees about what the organization considers wrongful, and what to do if wrongdoing is observed.
- Consider building incentives for valid internal whistle-blowing into the reward structure.

Once concerns are expressed
- Focus on the wrongdoing alleged in the complaint and not on the complainant.
- Investigate reports fully and fairly.
- Take swift corrective action when the complaint is well-founded.
- Provide feedback so that management gets credit for taking action.
- Provide multiple communication channels so that employees can choose to report to someone with whom they are comfortable.

making it more central in one's overall self-concept''
(Weaver, 2006, p. 351). He suggested that moral
behavior should not be the primary focus; instead,
managers should be concerned about developing
moral identity among organization members,
because only a strong sense of moral identity can lead
an employee to develop a schema of moral agency
that will allow him or her to engage in moral
behavior on a consistent basis. Organizations rein-
force the development of moral identity through
their actions, and moral behavior, engaged in by
employees, reinforces the culture of moral identity
among organization members as a group. However,
organizations ''that foster moral muteness'' provide
less opportunity for the development of moral
identity, likely leading to less moral behavior among
members (Weaver, 2006, p. 352).

The creation and maintenance of a positive culture
is a long-term, comprehensive goal, and there are
many systems that can support the development of
that culture. These can be roughly categorized into (a)
policies and human resource systems, e.g., involving
organizational entry, training and development, and
employer financial incentives for whistle-blowers;
and (b) systems to investigate and respond to concerns.

Policies and human resource systems

According to a recent *Wall Street Journal* article, ex-
perts on sexual harassment advise that employers
should create a tough anti-retaliation policy that
permits the dismissal of employees who retaliate
(Lublin, 2006). Similar policies may be appropriate for
other types of wrongdoing as well, and policies to
encourage whistle-blowing should go beyond pro-
tection from retaliation and punishing the wrongdoer,
as has been detailed elsewhere (e.g., Heard and Miller,
2006a). Policies can be incorporated into the materials
given to employees during orientation and made
available on company intranet systems. Below we
discuss how organizations can support policies and
take actions that go beyond mere lip service.

Organizational entry

To the extent that dispositions and other individual
differences are important determinants of employee

behavior, the selection process can make a differ-
ence. Employers can search for and select employees
who possess attributes associated with observation of
wrongdoing, and whistle-blowing. Among those
attributes that seem to influence observation of
wrongdoing are negative affectivity and proactive
personality.

Findings from one study of negative affectivity
suggest that it is associated with observation of
wrongdoing, but not necessarily with whistle-
blowing (Miceli et al., 2001). Negative affectivity is
an enduring disposition (or personality trait) to
experience subjective distress (Watson and Walker,
1996). Persons high in negative affectivity are more
critical of themselves and others, and they experi-
ence more stress, anxiety, nervousness, anger, fear,
and guilt (Watson and Clark, 1984). Obviously,
recruiters might be inclined to pass over applicants
who are high in negative affectivity, because they
may come across as unenthusiastic, hard to get along
with, or hard to please. But employees with high
negative affectivity may recognize wrongdoing more
correctly than do people with low negative affectivity
scores. If so, people with this trait would bring a
valuable ability to the workplace, if they are other-
wise well qualified. On the other hand, if they tend
to be *overly critical*, perhaps training would help to
clarify organizational definitions of wrongdoing.
Obviously, more research is needed to determine
whether the judgments of people with high negative
affectivity are more accurate and realistic, or just
more negative. Perhaps a middle ground, or a
commitment to diversity of personalities, will be
shown to be ideal.

The limited research to date suggests that proac-
tivity is associated with whistle-blowing by
employees who have observed wrongdoing (Miceli
et al., 2001). Proactive personality stems from peo-
ple's need to control their surroundings, and it is
reflected in the extent to which individuals take
action to influence their environments. There seems
to be little downside risk regarding recruiting and
hiring highly proactive people, because proactive
personality is associated not only with whistle-
blowing within the organization, but also with other
positive outcomes such as sales success (Bateman and
Crant, 1993; Langer, 1983). These findings provide
even more reason for those critical of whistle-
blowing to rethink their views. Proactive people can

provide a very positive resource to the organization – in sales, in prosocial organizational behavior, in problem-solving – though some managers may feel threatened by them.

After newcomers join the organization, orientation materials can be helpful. In many larger organizations, employees are provided with employee handbooks at the time of orientation. Many companies include codes of ethics and antiretaliation policies in these handbooks (Lublin, 2006). For example, Michaels Stores Inc. recently added an antiretaliation policy to its corporate code of conduct, which middle and upper managers must sign annually. "Management primarily wanted to ensure 'a pleasant working environment free from all types of harassment'," says a spokeswoman for the Irving, Texas, company. "'The fact that it could potentially reduce legal exposure was a secondary focus'" (Lublin, 2006, p. B4).

Code standards should show how seriously the organization takes employee concerns, tell employees what to expect when raising concerns, and, most importantly, where to take concerns (Heard and Miller, 2006a, b). Clear procedures, actively and effectively maintained (e.g., when employees are asked to sign that they have read the code or take an online test about its contents, after reading a webpage), reduce not only harassment and reliability liability but also the likelihood of punitive damages. They can also help reduce fines and penalties under the Corporate Sentencing Guidelines (United States Sentencing Commission, 1991).

Training and development

Organizations have been advised to provide training to reduce the incidence of wrongdoing (such as discrimination, including sexual harassment) and retaliation against those who complain about perceived wrongdoing (Lublin, 2006). For example, Cardinal Building Maintenance Inc., a commercial janitorial service, requires supervisors and managers to attend an annual 5-hour class about workplace bias and harassment, and one-fourth of the course focuses on retaliation (Lublin, 2006, p. B4). However, a recent survey of companies in the UK indicated that fewer than half of the respondents said

they provided training for managers in how to handle concerns, and only 23% offered training for potential users of the whistle-blowing procedures (Lewis and Kender, 2007a).

It has been recommended that training – for both managers and for employees – should be dedicated exclusively to raising concerns, avoiding retaliation, and recognizing when retaliation is occurring (Heard and Miller, 2006a). Among their specific suggestions on the content and process of such training were recommendations that trainers should discuss reasons to report concerns, show how concerns will be addressed, and emphasize that speaking up produces a positive impact (Heard and Miller, 2006a). The vast body of research on training and development has identified many ways to enhance the value and transfer of training in general, and it could be applied to whistle-blowing training as well (e.g., Hatala and Fleming, 2007; Shapiro et al., 2007). Additionally, one scholar (Fine, 2006) has argued that the profession of industrial psychology should insist that whistle-blowing be a normal part of worker training.

While all of this advice is reasonable, we know of no controlled research demonstrating the effectiveness of training regarding whistle-blowing, and such research is sorely needed. Despite this dearth of research, the federal government has begun to require training about whistle-blowing (Gibeaut, 2006). This mirrors what many states have done in the area of sexual harassment (Gibeaut, 2006).

Employer financial incentives for whistle-blowers

Complementary to their organizational entry and training efforts, employers can consider encouraging the reporting of concerns through financial incentives, such as a percentage of savings recovered as a result of internal whistle-blowing (e.g., where embezzlement is caught), a salary increase in a merit system, a one-time cash bonus (e.g., in a suggestion system), or some other financial reward for whistle-blowing. Often employers provide incentives for employees who provide useful suggestions (e.g., in a suggestion box format), especially if they lead to greater productivity or lowered production costs, as in gain-sharing programs (Arthur and Huntley,

2005). Workplace rewards might be similarly implemented for whistle-blowers who provide information that helps reduce costs due to ongoing wrongdoing. As for financial incentives offered by entities *other* than the employing organization, such as the federal and state governments in the case of fraud committed by contractors, we discuss these in the section of this article focusing on advice for policy-makers.

As results from previous research indicate (Miceli and Near, 1992), observers of wrongdoing consider the costs and benefits of acting, along with other factors. The simplest interpretation of motivation theory would suggest that providing valued employer rewards for internal whistle-blowing would increase its frequency, all other factors such as potential retaliation being equal or minimized. Consistent with this view, a KPMG survey showed that "workers said rewards or incentives for adhering to company standards would reinforce ethics programs" (Ridge, 2000, p. A1).

However, we are aware of no private-sector US organizations that provide direct financial incentives specifically to reward whistle-blowing (Near and Miceli, 1996), other than in the case of accountants and internal auditors, e.g., at the consulting firm BDO Seidman, and thus no published research studies of them (e.g., Rankin, 2004). Because financial incentives for whistle-blowing are exceedingly rare, we cannot say whether they result in more actual whistle-blowing.

One early survey study asked employees in general (not just observers of wrongdoing or whistle-blowers) whether, hypothetically, they would be more willing to blow the whistle if they received financial rewards for reporting wrongdoing (US Merit Systems Protection Board, 1981). Somewhat surprisingly, a large majority said this would *not* affect their behavior. On the one hand, this is consistent with the fact most whistle-blowers to date have acted without clear financial incentives. Maybe they could see important nonfinancial benefits already in the situation, are extremely selfless, or process information in ways most people might consider "emotional" rather than a rational assessment of expected costs and benefits. On the other hand, we believe that most past whistle-blowers' experiences and the survey result do not necessarily

demonstrate that the majority of employees really are uninfluenced by financial incentives, for at least four reasons.

First, some form of variable pay is widely used by private employers in the USA and the vast majority of these programs are individually based merit pay (salary increase) programs or bonus systems (Zall, 2001). Managers would be unlikely to continue such systems – which are costly and difficult to administer – if they did not believe or find through experience that employees could be encouraged, via pay, to behave in desired ways. It would seem that valid internal whistle-blowing could be rewarded in the same way as strong job performance.

Second, in the USA at least, taboos and privacy concerns often discourage employees from admitting that they value money or that it influences their level of effort on the job. Even CEOs are expected to say that they work for the challenge first and foremost. Millionaire athletes are not worthy of respect unless they play "for the love of the game." Yet, clearly the amounts and nature of compensation influence their behavior.

The third and fourth reasons have to do with how whistle-blowing is studied. People who have been identified as whistle-blowers to date may not be typical of employees in general; we know they are a small minority of all workers, and what it takes for them to come forward may be different from what it takes to encourage others. Further, regarding the survey and scenario studies, social scientists have long debated the extent to which people's descriptions of how they would act in a given situation (when presented with a hypothetical scenario by a researcher) reflect real behavior when actually in that situation. People may want to please the researcher or respond in ways that are consistent with the image they want to have of themselves. Of course, variables such as social desirability (whether biases or dispositional tendencies) may influence actual workplace behavior (in this case, actual whistle-blowing) as well (e.g., Hewlin, 2003; Premeaux and Bedeian, 2003; Smith and Ellingson, 2002; Turnley and Bolino, 2001). However, the key point is that what people say they would do is not necessarily the same as what they would actually do, and what people say would influence their behavior is not necessarily what actually influences them. More specifically, a recent

meta-analysis of whistle-blowing studies showed that the predictors of whistle-blowing intentions (e.g., what study participants say they would do when confronted with a hypothetical case of wrongdoing described on paper) are not necessarily the same as the predictors of actual whistle-blowing, as reported by employees who actually blew the whistle on wrongdoing they observed during the past year (Mesmer-Magnus and Viswesvaran, 2005).

Fourth, the survey study participants may have thought they were being asked whether they must be bribed in order to behave in a morally correct or appropriate way. The vast majority of participants had indicated in a previous question on the same survey that they approved of the reporting of wrongdoing. Since it may be unacceptable to most people to admit that cash incentives would be necessary to do the "right" thing, it may have been easier simply to say that incentives would make no difference.

For any of these reasons, then, survey responses regarding incentives may not reflect what employees actually think and do, and more research is needed to determine whether and how compensation can be structured to encourage whistle-blowing. In some cultures, monetary rewards for whistle-blowing may be viewed as unacceptable. However, in the USA, as we will discuss later, rewards paid by the government to certain whistle-blowers have significantly spurred whistle-blowing under the False Claims Act. Therefore, we recommend that managers consider implementing performance review systems that specifically assess employee reporting of questionable activity through appropriate channels, and reward systems that provide incentives for valid whistle-blowing.

Systems to encourage, investigate, and respond to expression of concerns

Other employer actions can focus specifically on the systems for handling concerns. Particularly since the passage of SOX, US organizations have established systems to encourage, investigate, and respond to expression of concerns, even if it is as simple as urging employees to discuss sensitive issues with their supervisors. Four general recommendations can be implemented, which we summarize, and then describe our reasoning and support in greater detail.

- Managers should establish and support a culture supporting communication, including multiple channels for reporting concerns.
- When a concern is voiced, we encourage managers to focus on the wrongdoing alleged in the complaint and not engage in attacks on the complainant.
- Managers should undertake a full and fair investigation, followed by swift corrective action when the complaint is well founded. This sometimes includes appropriate punishment for wrongdoers.
- To the extent that confidentiality is not at issue, positive feedback indicating how the problem has been corrected should be shared with others as well, e.g., "thanks to a report from one of our associates, we were alerted to this problem and took the following actions."
- Where complaints are unfounded, employees can be counseled on what is lacking; for example, is the evidence unclear?

Below we discuss systems that can help facilitate this general advice.

Internal communication channels and hotlines

According to a KPMG survey of private- and public-sector employees (e.g., Grimsley, 2000), more than four-fifths of respondents would choose their supervisor or another manager as the complaint channel, if they were to report concerns (Heard and Miller, 2006b). However, the same survey showed that "'people are not reporting misconduct because they are not encouraged to do so,' says Richard Girgenti, a KPMG executive" (Ridge, 2000, p. A1). Thus, managers should "create a corporate culture where dialogue and feedback are regular practice – and this should extend to every level of employee throughout the organization. Such a culture can build the foundation of an open problem-solving environment, demonstrate to employees that it is safe to raise concerns, and exhibit that the organization

takes retaliation seriously'' (Heard and Miller, 2006a, p. 2).

Heard and Miller recommended anonymous surveys to assess employee perceptions, as a first step in a two-way communication process in which employees express their views (Heard and Miller, 2006a, p. 7). They offered specifics about the content and analysis of the surveys, and recommended follow-up focus groups. They also recommended that multiple, effective communication channels be available, to enable employees to select the person(s) with whom they are most comfortable sharing sensitive information. Alternative channels are essential to avoiding liability in sexual harassment cases so that the victim does not have to report to the harasser; the same logic would apply here. Alternative reporting routes were implemented under Sarbanes-Oxley (SOX), partly as a way to address similar concerns.

Consistent with this advice, researchers have found a positive correlation between increased internal whistle-blowing and having specific, identified routes for whistle-blowing, a particular person identified to receive and follow-up the information, and a strong nonretaliatory policy encouraging whistle-blowing (Barnett et al., 1993; Miceli and Near, 1992). Open-door policies do not meet these requirements. They are also unlikely to result in compliance under the Federal Sentencing Guidelines.

Interestingly, some multinational corporations have provided international hotlines, with protection standardized to some extent; for example, Heineken International's website (Heineken International, 2008) noted: ''Safeguarding confidentiality and anonymity – If, for any reason, the reporter does not think it possible or desirable to report to the line manager or the Trusted Representative, or if (s)he chooses to remain anonymous, a world-wide toll-free external multi-lingual telephone service is offered (24/7) for reporting or advice regarding the procedure to be followed. This international help line will establish contact between the whistle blower and the local Trusted Representative or the Integrity Committee.'' Detailed advice on implementing international hotlines and other internal channels has been offered elsewhere (e.g., Audit Committee Institute in Thailand, 2007; Ethics★Point, 2005).

The investigation process and correction of wrongdoing

The primary purpose of the investigation process is to determine whether the complaint has merit, so that appropriate actions can be taken. Organizations and their members are not well served by ignoring real wrongdoing, such as discrimination or serious unsafe working conditions. However, they are also not well served by rewarding the gadfly or chronic low performer seeking to distract attention, nor by wasting time on frivolous complaints. As Perry noted, ''although the authenticity of a whistle-blower's complaint may be irrelevant for the organization that chooses to ignore it or to retaliate against the whistle-blower, it is clearly relevant to the organization that wishes to respond appropriately. Responsive organizations are faced with investigating the complaint to identify whether it is authentic or inauthentic'' (Perry, 1991, p. 12).

Determining merit or authenticity is often easier said than done. Obviously some whistle-blowers can be mistaken, or may find objectionable certain types of behavior that are not widely defined as wrongdoing, but there have been many documented cases where valid concerns were ignored. Further, many complaint recipients perceive that only a tiny minority of complaints are valid, but other data suggest that in reality many more have substance, at least under certain circumstances (e.g., Miceli and Near, 2005).

Unfortunately, the validity of complaints, and predictors and consequences of validity, have rarely been studied systematically; so, findings must be considered preliminary. However, they certainly raise a critical point: Obviously, employers who perceive that complaints are frivolous are unlikely to take corrective action, and if they refuse to act on a large proportion that are valid, then even employees with valid concerns will quickly conclude that nothing will happen if they complain. This creates a vicious circle in which employees rarely report real wrongdoing, so officials take few corrective actions, to which employees react by believing nothing would be done to correct wrongdoing if it were reported, and reports drop further. The extant information suggests that organizations should examine not only the numbers of complaints filed, but also what proportion of complaints is found to be meritorious. They should look for ways to

improve investigations or take other steps – such as clarifying what wrongdoing is and what evidence employees should provide – where these numbers are low.

Too often, we have heard managers allege that a whistle-blower is just a troublemaker who has had a pattern of reporting wrongdoing repeatedly – apart from the question of whether the wrongdoing might be real in the present incident. In their study of employers' advice and practices, Heard and Miller identified two key tendencies that should be avoided: (1) "shooting the messenger," in which focus is misdirected from resolving the wrongdoing and toward punishing the whistle-blower, and (2) eliminating the "bad apples" (punishing the wrongdoers) but failing to "identify a systemic cause or rectify the actual problem" (Heard and Miller, 2006a, p. 7). They offered some other steps for employer consideration, including ensuring that effective processes are in place for conducting investigations quickly and ensuring that human resources, ethics, and other offices communicate effectively (to avoid problems, e.g., under SOX) (Heard and Miller, 2006a).

Heard and Miller emphasized that, if a whistle-blowing report, an anonymous survey, or other assessment of employee perceptions reveals problems, it is important for organizations to rectify the problems. Once a specific incident of wrongdoing has occurred, it is not too late to realize benefits, if communications from management to employees are open. After a specific incident has been reported and wrongdoing remedied, companies can publish "scrubbed reports of actual cases to illustrate the action taken by the organization to rectify problems and punish wrongdoers" (Heard and Miller, 2006a, p. 7). Providing feedback helps reinforce the right behavior from employees and enables them to credit management for doing the right thing. Implementing this recommendation would likely help counteract employees' tendency – demonstrated in controlled research – to believe nothing could or would be done if wrongdoing were reported. Consistent with this advice, research suggests that encouraging reporting and immediate correction about which employees are informed may also have desirable effects almost as good as those resulting from preventing wrongdoing in the first place (Miceli et al., 2001). These benefits go *beyond*

reducing tangible costs to the organization associated with wrongdoing itself (e.g., adverse publicity, damaged reputation, lawsuits); managers who prevent or correct wrongdoing may engender positive feelings and favorable consequences among employees.

We would call particular attention to advice offered by Heard and Miller, and others, that reports of retaliation should be taken seriously. Litigation regarding retaliation is the largest source of discrimination claims currently. As noted in a recent article appearing in *Business Week*, in 2005 and 2006, retaliation claims represented 30% of all charges individuals filed with the Equal Employment Opportunity Commission, an increase from about 20% 10 years ago. Further, a recent Supreme Court ruling clarified that excluding an employee from meetings, relocating his or her office, or other actions falling far short of firing could lead to liability (Orey, 2007). We agree with Heard and Miller that it is often appropriate to "discipline those that commit wrongdoing (with) feedback (provided) to the individual that reported the wrongdoing" (Heard and Miller, 2006a, p. 7). Even if the wrongdoing is stopped, if there are no negative consequences for the wrongdoer(s), employees may believe that the response has not been sufficient.

Again, because of a dearth of controlled empirical research specifically examining the effects of implementing such recommendations, we cannot offer citations in support of them. However, all seem reasonable, based on the research on how and why whistle-blowing occurs and on the importance of effectiveness in the process.

Monitoring and following up

Implementing programs and actions intended to encourage whistle-blowing is not sufficient; managers need to monitor the success of the programs and make changes where needed. For example, in the case of sexual harassment, the *Wall Street Journal* recommends that a thorough follow-up be conducted several months after the initial intervention to ensure that retaliation does not occur (Lublin, 2006). Similarly, Heard and Miller recommend steps for maintaining effective communication, e.g., by reminding employees about the available channels

(Heard and Miller, 2006a). Periodic republication also reduces legal liability and is required under certain federal laws.

Although our focus to this point has been on managers and organizations' actions, two other parties are important in the process: the prospective or actual whistle-blower and policy-makers who may be interested in encouraging valid whistle-blowing. We turn now to the first of these parties.

Advice to whistle-blowers and potential whistle-blowers

We would argue that other people in the organization will be less likely to support whistle-blowers or to listen to them if the whistle-blowing is not believed to be legally or morally justified. Therefore, prospective whistle-blowers should consider whether the conditions associated with justification are present. Prevailing legal arguments, both in US (Miceli and Near, 1992) and British law (Callahan et al., 2004; Vinten, 1994), suggest that ''whistle-blowing is warranted if the whistle-blower believes, in good faith, that the wrongdoing has implications for public policy; that is, some portion of society is endangered by the organization's actions'' (Near and Miceli, 1996, p. 508). Further, ethicists have indicated that one condition necessary for the justification of whistle-blowing is that ''the whistle-blower has acted after a careful analysis of the danger: (a) how serious is the moral violation; (b) how immediate is the moral violation; (c) is the moral violation one that can be specified?'' (Bowie, 1982, p. 143).

These perspectives highlight the importance of the accuracy of the potential whistle-blower's observation of the facts surrounding the wrongdoing (Near and Miceli, 1996). They also imply that two other factors should be considered by prospective whistle-blowers: the nature of the wrongdoing and the fairness and appropriateness of the processes that could be used. For example, a whistle-blower who appears to be motivated to solve an important problem will likely be viewed more favorably than someone who seems bent on embarrassing a perceived wrongdoer or on interfering with legitimate work processes (Miceli and Near, 1997).

Therefore, it is not surprising that many experts who work with whistle-blowers emphasize the importance of having sound evidence and following good process (e.g., Devine, 1997). This process should be informed by the relevant law (to enable the whistle-blower to retain the maximum protection available) and the literature on distributive, procedural, and interactional justice (e.g., Miceli and Near, 1997). Unfortunately, because there is little research on specific tactics and their relative effectiveness, we cannot be as specific here as we would like to be.

Advice to policy-makers

Turning our attention now to policy-makers, we would note that legal scholars as well as managerial scholars have investigated whistle-blowing. Both literatures can inform policy.

In some sense, it is remarkable that anyone ever chooses to challenge organizational wrongdoing by blowing the whistle, given the risks and costs, such as the perception on the part of many managers that few cases have merit, and the limited direct rewards for whistle-blowing. Research suggests that legal changes focused on encouraging organizations to change the wrongdoing, and punishing organizations that ignore whistle-blowers, would have greater impact than current policy, which seems to emphasize protection of whistle-blowers from specific and serious retaliation, and has not proven very effective (Miceli and Near, 2006).

Effects of SOX on corporate actions

Research on corporate response to legal changes showed few corporate changes in policy or practice, at least early on. A 1990s era survey of human resource executives from Fortune 1000 firms (Near and Dworkin, 1998) asked whether their firms changed their whistle-blowing policies in response to new state statutes (Dworkin et al., 1995; Near and Dworkin, 1998). The authors expected that firms might have created internal channels for whistle-blowing in response to the new legislation, but very few firms indicated that they had created such policies in responses to legal changes. For most, this meant reliance on an open-door policy as their primary mechanism for internal whistle-blowing.

Unfortunately, most employees do not see open-door policies as effective or protective, and they have not been used successfully to encourage internal reporting of wrongdoing (Keenan, 1990).

These studies, of course, predated passage of SOX. One legal scholar, Richard Moberly, recently described how pre-SOX legislative attempts designed to encourage whistle-blowing fit what he termed the ''antiretaliation model,'' and were largely unsuccessful because the laws focused only on discouraging retaliation against whistle-blowers and not on encouraging whistle-blowing behavior (Moberly, 2006). He argued instead for the ''structural model,'' exemplified by SOX. The structural model provides incentives for whistle-blowers by showing them clearly that whistle-blowing is not disloyal to the firm but supports it. It also provides clear, safe, and effective channels for whistle-blowing by providing that the complaint recipient should be an independent member of the Audit Committee of the Board of Directors (among other designated recipients).

As Moberly noted, prior to the most recent wave of scandals in the late 1990s, several legislative attempts in both the antiretaliation model and the structural model were unsuccessful, because they were not implemented properly. Moberly was optimistic that success could be attained if the legislative models prohibit retaliation against whistle-blowers, provide sufficient incentive to persuade whistle-blowers that coming forward is in the best interests of society and the firm, and encourage the creation of effective channels for reporting the wrongdoing, anonymously or otherwise, to safe complaint recipients outside the chain of command in the firm and at the top of the firm (e.g., the Audit Committee of the Board of Directors).

Unfortunately, preliminary evidence on the effectiveness of SOX has not supported Moberly's optimism (Dworkin, 2007). Instead, the whistle-blowing legal cases related to SOX have produced few victories for the whistle-blowers. It is perhaps too early to draw conclusions, but whether SOX will have a supportive effect on the incidence of whistle-blowing and on termination of organizational wrongdoing may well depend on how well it is implemented. Ultimately, SOX may need to be revised in order to provide stronger support to whistle-blowers, if it is to have any tangible effect on wrongdoing in organizations.

Other legal influences on organizational actions

Laws that require whistle-blowing procedures and encourage whistle-blowing should also have the effect of making whistle-blowing more acceptable and positive in the public eye. When employees and private citizens demand less corruption and wrongdoing, private employers have changed their policies to discourage wrongdoing. For example, in 2000, a survey by the Ethics Resource Center found that 79% of employers have a written ethics standard, up from 60% in 1994 (Grimsley, 2000). We believe that employers will be more likely to take such actions in the future, because of pressures from individual employees who are increasingly responding to legislative changes aimed directly at potential whistle-blowers (Dwyer et al., 2002).

The literature on sexual harassment law provides a model for improving whistle-blowing law and corporate actions (e.g., Dwyer et al., 2002). Over the past 20–25 years, US Supreme Court decisions have provided more incentives to employers to discourage sexual harassment and penalties when they do not follow through, and many employers have initiated or tightened policies and sanctions and provided training (the latter also required by many state statutes). Survey results have indicated that there is much greater awareness and disapproval of sexual harassment in varying forms than previously (e.g., Erdreich et al., 1995). Thus, one ultimate effect of oversight of employers seems to be that employees show greater awareness of wrongdoing and their legal rights in the workplace.

Laws applied to federal agencies have gone even further in sanctioning sexual harassment. In fact, a new law requires them to pay for settlements and judgments against them in discrimination and whistle-blower cases, out of their agency budgets, and thus ''will hit agencies in their pocketbooks'' (Barr, 2002, p. B2). Further, agencies are required to file reports with Congress and the attorney general on data such as the number of complaints filed against them by employees, the disposition of these cases, the total monetary awards charged against the agency, and the number of agency employees disciplined for wrongdoing involving discrimination or harassment (Barr, 2002).

Other legal changes have aimed to reduce fraud against the federal government. There are potential

financial incentives for citizens who save the federal government money by informing it of fraud by contractors or other activity (e.g., Zingales, 2004). The False Claims Act, dating to the Civil War, allows whistle-blowers to collect up to 30% of the damages (Callahan and Dworkin, 1992; Seagull, 1995). The information they provide must be useful and new (i.e., not effectively revealed by others) and lead to a conviction, in order for the whistle-blower to claim a reward. In 1986, the False Claims Act was revised, such that whistle-blowers were more likely to receive a reward (Callahan and Dworkin, 1992). Prior to 1986, about six false claims for government funds had been reported per year by whistle-blowers. Since 1986, the number has jumped substantially, with more than 3,000 *qui tam* cases filed by 2004 (Phillips and Cohen, 2004). False Claims Act recoveries have exceeded $17 billion, with nearly $1 billion recovered in the first quarter of 2006 (Taxpayers Against Fraud Education Fund, 2006), and it has produced awards as high as $77 million (Haddad and Barrett, 2002). States with similar false claims laws have had similar results (e.g., State of Florida, 2005; State of Illinois, 2004).

If some potential whistle-blowers are motivated to act by financial rewards, then private employers may be more likely to protect themselves – as well as to help other members of society – by changing their policies and procedures to prevent wrongdoing in the first place and to terminate it when informed by their employees that wrongdoing is ongoing. It will be interesting to see whether the legal environment eventually will have an important impact on encouraging employees who observe wrongdoing to blow the whistle, but at this point the evidence seems mixed.

Conclusion

A *Wall Street Journal* columnist recently observed, "executives know success in business depends on identifying and fixing problems before they become crises. It is the most basic rule in management: No matter how smart your strategies seem on paper, if you don't know how they're being executed and whether there are urgent problems, you won't be successful. The higher executives climb, the less

likely they are to know what is and isn't working at their companies. Many are surrounded by yes people who filter information; others dismiss or ignore bearers of bad news" (Hymowitz, 2007, p. B1). Whistle-blowers can help break through the communication barriers and provide the information that executives need. With increasing international interest in encouraging whistle-blowing as a means of combating global corruption and corporate misconduct (Ethics★Point, 2005), managers can utilize what is known about whistle-blowing to create positive conditions.

Throughout this article, we have attempted to provide concrete suggestions to executives and other parties involved in the whistle-blowing process. Unfortunately research has not developed to the point where we can offer specific, unequivocal evidence in support of all of our recommendations. However, we do believe that our suggestions are consistent with what has been done to date. We hope that this article will be useful to those interested in improving the whistle-blowing process, whether they be managers, potential whistle-blowers or legislators/policy-makers.

Acknowledgments

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