Whistleblowing on accounting-related misconduct: A synthesis of the literature

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ABSTRACT

Whistleblowers have been credited for uncovering financial scandals in companies globally, including Enron, Olympus Corporation, and WorldCom. Despite increasing support and incentives for whistleblowing, there generally remains reluctance to blow the whistle. Thus, the purpose of this study is to review: (1) the determinants of internal and external whistleblowing on accounting-related misconduct, (2) U.S. whistleblowing legislation on accounting-related misconduct and related research, and (3) the effects of whistleblowing on firms and whistleblowers. Within each area, suggestions for future research are offered.

1. Introduction

Whistleblowing is the practice of disclosing questionable practices involving an organization or its members, internally or externally (Chiasson, Johnson, & Byington, 1995). Whistleblowing is an effective mechanism to detect fraud (Association of Certified Fraud Examiners, 2014; Deloitte Forensic Center, 2010; KPMG, 2010) and the accounting profession plays an important role in the whistleblowing process. Accountants and auditors are likely to witness accounting-related misconduct, thereby presenting them the opportunity to blow the whistle on misconduct (Liyanarachchi & Adler, 2011; Miethe & Rothschild, 1994). Regulators have acknowledged the importance of whistleblowers in unraveling accounting-related misconduct, stating “whistleblowers who report their concerns to the SEC [Securities and Exchange Commission] perform a great service to investors and help us combat fraud” (SEC, 2014) and “insiders may hold the key to helping our investigators unlock intricate fraudulent schemes” (SEC, 2015). Whistleblowing on accounting-related misconduct has become an important topic and receives attention in the mainstream media (Morgenson, 2017; Vaughan, 2017), in practitioner journals (Andrews & Leblanc, 2013; Archambeault & Webber, 2015), and, increasingly, in scholarly research journals (e.g. Carcello, Hermanson, & Ye, 2011; Trompeter, Carpenter, Desai, Jones, & Riley Jr, 2012 call for more research on whistleblowing in the accounting context).

Although there are prior reviews of the whistleblowing literature (see for e.g. Mesmer-Magnus & Viswesvaran, 2005; Near, 1992, 2005; Miceli, Near, & Dworkin, 2008; Near & Miceli, 1996; Vadera, Aguilera, & Caza, 2009), it is important to understand whistleblowing in the accounting context because different types of wrongdoings are inherently different in nature and therefore result in different whistleblowing processes (Dandekar, 1990; Near, Rehg, Van Scotter, & Miceli, 2004).\textsuperscript{1} The whistleblowing literature in the...
accounting context is diverse with rapid growth in recent years. This growth has been driven by the important implication of whistleblowing for firms and its stakeholders as well as the heightened concern about retaliation against whistleblowing. The topic has been examined through a variety of theoretical lenses, using archival (see for e.g. Bowen, Call, & Rajgopal, 2010; Call, Kedia, & Rajgopal, 2016; Lee & Fargher, 2017), experimental (see for e.g. Arnold & Ponemon, 1991; Boo et al., 2016; Kaplan, Pany, Samuels, & Zhang, 2009b; Seifert, Sweeney, Joireman, & Thornton, 2010) and survey research methods (see for e.g. Alleyne, Charles-Soverall, Broome, & Pierce, 2017; Reckers-Sauciuc & Lowe, 2010; Schultz, Johnson, Morris, & Dymes, 1993). The whistleblowing literature in the accounting context not only represents a great variety of perspectives, but also covers a wide range of research questions and issues. Despite the importance and breadth of whistleblowing literature in the accounting context, no comprehensive review of this literature is available. The objective of this paper is to synthesize the substantial volume of empirical work in the whistleblowing literature in the accounting context. This paper also attempts to identify critical gaps in our current knowledge in this area and to suggest potentially fruitful areas for future research.

Specifically, this paper reviews whistleblowing literature concerning the determinants, legislation, and effects of whistleblowing on accounting-related misconduct. First, this review synthesizes research on the factors that affect the decision to blow the whistle internally and externally on accounting-related misconduct. A whistleblower can report misconduct internally (internal whistleblowing) or externally (external whistleblowing). Both channels of whistleblowing have important but different implications for firms and their stakeholders. Internal whistleblowing is preferable to firms because it provides an opportunity for management to correct misconduct in a timely manner and minimize the costs of misconduct (Barnett, Cochran, & Taylor, 1993; Berry, 2004). In contrast, firms subject to an external whistleblowing allegation potentially face negative publicity, regulatory investigations, legal liability (Barnett et al., 1993). External whistleblowing is preferable to external parties (such as investors, regulatory agencies, and the public) who would otherwise not be aware of misconduct and is particularly valuable in cases where internal whistleblowing did not result in corrective action. Given that internal and external whistleblowing have different implications for the organization (Barnett et al., 1993; Paul & Townsend, 1996), understanding the factors associated with both decisions is important to firms, investors and regulators. This review thus synthesizes the determinants of internal and external whistleblowing.

Second, this paper reviews U.S. whistleblowing legislation on accounting-related misconduct. In the U.S., the passage of the Sarbanes-Oxley (SOX) Act in 2002 introduced provisions to protect corporate whistleblowers and provisions that mandate companies to establish an internal whistleblowing system. The Dodd-Frank Act, enacted in 2010, further introduced a whistleblowing rewards program that provides monetary incentives for corporate whistleblowers. Researchers have examined how these regulations alter whistleblowing behavior, and this review synthesizes research in this area.

Third, this paper synthesizes research on the effects of whistleblowing on accounting-related misconduct. A whistleblowing event affects both the firm involved in the misconduct and the whistleblower. This review summarizes research findings on the firm-level consequences of a whistleblowing event. This review also examines the effects of whistleblowing on whistleblowers, such as whistleblowing retaliation. The Ethics Resource Center (2014, p. 9) highlights that “the rate of retaliation is alarmingly high … [and] reducing retaliation is one of the most important challenges facing businesses as they strive for strong ethics culture.” To be able to effectively protect whistleblowers who report accounting-related misconduct, it is important to understand the factors that make a whistleblower more or less susceptible to retaliation. This review thus summarizes research findings on the factors associated with whistleblowing retaliation.

The remainder of this review is organized as follows. Section 2 describes the scope of this review. Section 3 describes the whistleblowing process. Section 4 reviews research on the factors associated with internal and external whistleblowing, and offers suggestions for future research. Section 5 discusses U.S. legislation relating to whistleblowing on accounting-related misconduct and related research. Suggestions for future research are provided. Section 6 reviews research on the effects of whistleblowing on the firm and the whistleblower, and offers suggestions for future research. Section 7 concludes this review.

2. Scope of review

The scope of this review includes empirical whistleblowing research published in peer-reviewed journals in the English language. To identify such studies, an internet search using the Google search engine was conducted using terms such as “whistleblowing” and “whistle-blowing”. Theses, dissertations, or working papers that were not published in peer-reviewed journals were excluded. Because the purpose of this review is to provide a comprehensive review of the whistleblowing in the accounting context, the scope of this review includes whistleblowing studies published in accounting journals as well as studies published in non-accounting journals that examined whistleblowing on accounting-related misconduct. The search resulted in 59 studies from years 1991 to 2017. A list of the empirical studies reviewed for this review and their key findings are presented in Table 1.

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2 A related paper is a recent review by Gao and Brink (2017) which summarizes accounting research on whistleblowing in experimental studies. Our review relates to but differs from Gao and Brink (2017) by expanding the scope of review to include all types of empirical work on whistleblowing in the accounting context. Our review also differs from Gao and Brink (2017) by reviewing other aspects of whistleblowing research including the legislative perspectives of whistleblowing and the effects of whistleblowing on firms in addition to the determinants of whistleblowing.

3 Whistleblowing retaliation is defined as an undesirable action taken against a whistleblower who reported wrongdoing internally or externally (Near & Miceli, 2008; Rehg, Miceli, Near, & Van Scotter, 2008).
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