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Whistleblowing in Audit Firms: Do Explicit Protections from Retaliation Activate Implicit Threats of Reprisal?

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ABSTRACT: Despite the increasing number of statutory protections now provided to whistleblowers, fear of reprisal remains a primary reason why individuals fail to report misconduct. In order to alleviate such fears and encourage reporting, hotline policies often describe explicit whistleblower protections from specific types of retaliation (e.g., harassment, threats or intimidation, loss of job, etc.). However, we posit that such vivid descriptions may actually achieve the opposite of their intended effect by increasing the salience of retaliatory threats, thereby discouraging whistleblower reporting. We conduct an experiment and find evidence that when explicit protections are added to an audit firm's whistleblower hotline policy, auditors assess the risk of reporting as higher and, as a result, are less likely to indicate that the misconduct will be reported through the hotline. To our knowledge, our study is the first to demonstrate that offering explicit protections to whistleblowers can have these unintended and counter-intuitive consequences.

Keywords: whistleblowing; corporate governance; vividness congruency theory.

INTRODUCTION

Despite the importance of whistleblowing within professional service firms, few studies have examined the determinants of this form of reporting in public accounting settings. Whistleblower hotlines are particularly important in audit firms since auditors are generally viewed as the first line of defense against corporate malfeasance (Weiss 2002; Kaplan 2004). As a result, audit firms have been explicitly called upon to establish and promote employee use of whistleblower hotlines (McDermott Will & Emery 2011; Walsh 2011). Indeed, audit firms are increasingly relying on such hotlines to detect unethical and/or fraudulent behavior (Bedard, Dies, Curtis, and Jenkins 2008; Curtis and Taylor 2009). Unfortunately, surveys consistently indicate that a substantial number of employees who witness misconduct still choose not to report (Hudson Employment Index 2005; Miceli, Near, and Dworkin 2008; Ethics Resource Center 2012). A primary reason for this finding is the fact that individuals are fearful that they will suffer workplace retaliation as a consequence of reporting observed misconduct. Indeed, there are numerous well-publicized examples of lives and careers that have been irreparably damaged as a result of whistleblower retaliation (Brickey 2003; Ramirez 2007).

In order to help alleviate the fear of workplace retaliation and encourage reporting, the Association of Certified Fraud Examiners (ACFE 2012) recommends that organizations specifically emphasize anti-retaliation protections offered to employees (e.g., protection from harassment, loss of job or promotion, and/or financial forms of retaliation) in addition to basic assurances of confidentiality and anonymity in their whistleblower hotline policies. Ostensibly, such explicit protections from retaliation are important since reporting can still be risky for the whistleblower even when anonymity provisions are present.

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This is due to the fact that true anonymity is often impossible to guarantee, given that evidence obtained during an investigation may identify the whistleblower and expose them to retaliation (Fasterling and Lewis 2014).¹

While emphasizing that these specific protections are intended to encourage whistleblower reporting, vividness congruency theory suggests that the inclusion of these protections in whistleblower hotline descriptions may actually inhibit such reporting. This is because such explicit protections may activate fearful imagery that is incongruent with the message of protection being offered (e.g., Smith and Shaffer 2000). We report the results of an experiment that examines the reporting of misconduct within an auditing firm. Consistent with this hypothesis, we find that explicit protections from specific forms of retaliation in the whistleblower hotline policy reduce auditors' perceived likelihood that the misconduct will be reported through the hotline compared to a policy where such protections are absent. In addition, further analysis indicates that auditors' perceptions of reporting risk mediates the relationship between the inclusion of explicit protections in the hotline policy and the subsequent reporting decision.

To our knowledge, this study is the first to demonstrate that promoting explicit whistleblower protections can have the unintended consequence of actually inhibiting reporting of misconduct by intensifying the perceived risk of retaliation. As such, our results have important implications for the promotion of whistleblower reporting in audit settings.

DEVELOPMENT OF HYPOTHESES AND RESEARCH QUESTION

Whistleblower Hotlines and Explicit Protections

The 2012 *Report to the Nations on Occupational Fraud and Abuse* issued by the Association of Certified Fraud Examiners (ACFE 2012) found that whistleblowing continues to be the most common method of initial fraud detection. Indeed, whistleblower tips were credited with uncovering 43 percent of all fraud reported. Given the critical role that auditors play in detecting fraudulent financial reporting, whistleblower hotlines have an especially important role to play within audit firms. Whenever it is discovered that auditors are associated with ethical violations, the credibility of the entire profession can be severely damaged.²

A number of prior studies have investigated the use of whistleblower hotlines within public accounting contexts. This research has largely examined the impact of whistleblower anonymity provisions and reporting outlet options on decisions to blow the whistle. For example, Curtis and Taylor (2009) conducted a survey of auditors and found that participants indicated less willingness to report unethical behavior when their identity might be disclosed. A subsequent study by Robertson, Stefaniak, and Curtis (2011) found that auditors prefer to report anonymously when the wrongdoer has a reputation for being unlikeable, but prefer to report using non-anonymous outlets when the individual has a reputation for likeability.

Of particular interest to the issue we investigate, Kaplan, Pany, Samuels, and Zhang (2009) specifically examined the effects of strong versus weak hotline safeguards on whistleblower reporting. They found that participants were significantly less likely to report misconduct when the whistleblower policy contained stronger anonymity safeguards (e.g., the hotline was administered by an external third-party, information was maintained in a tightly controlled confidential environment, etc.) as opposed to weaker safeguards (e.g., the hotline was administered internally, no information controls were present). The authors note that these results "were unexpected" (Kaplan et al. 2009, 285) and speculate that they may have been attributable to participants' reluctance to "get a third party involved" or that the study's descriptions of procedural safeguards may have been insufficient to create trust in an anonymous reporting channel. While our study does not specifically investigate auditor preferences for anonymous versus non-anonymous reporting, it does examine another possible explanation for these unexpected findings. That is, we posit that explicit protections in whistleblower hotline policies may actually make the dangers of whistleblowing more salient thereby intensifying, rather than diminishing, the fear of retaliation.

Despite the prevalence of whistleblower hotlines within organizations, prior research indicates that approximately half of the misconduct that is identified by employees goes unreported (Hudson Employment Index 2005; Miceli et al. 2008). Since it is common knowledge that the careers of whistleblowers are often harmed by their decision to report (e.g., Brickey 2003;

¹ Furthermore, we discussed this issue with a Chief Compliance Officer employed at a large North American company. He reported that when an anonymous whistleblower complaint is filed with his office, his first order of business is to try to identify the individual making the report so as to assess the credibility of the claim. In addition, he stated that it was often an easy task to deduce the whistleblower's identity given the finite number of people with access to the specific information being reported.

² Note that when an auditor's reputation becomes damaged, the effects can also have far-reaching consequences for clients audited by that firm. For example, Chaney and Philipich's (2002) study found that Andersen clients, in general, experienced significant negative cumulative abnormal market returns around the announcement that the firm had engaged in the shredding of Enron audit documents. Furthermore, Weber, Willenborg, and Zhang (2008) found that KPMG's clients experienced negative abnormal returns surrounding the disclosure of events related to the firm's failed audit of ComROAD. In addition, Franz, Crawford, and Johnson (1998) demonstrated that litigation against an audit firm affects the market value of its publicly traded clients. As such, auditor reputation has also been shown to affect such factors as a client's cost of debt (Pittman and Fortin 2004; Mansi, Maxwell, and Miller 2004), as well as cost of equity capital in IPO offerings (Copley and Douthett 2002).

Ramirez 2007), individuals may be fearful that they will suffer workplace retaliation as a consequence of reporting observed misconduct.³ As a result, it is not surprising that prior research identifies a strong negative relationship between fear of retaliation and intention to report misconduct (see Arnold and Ponemon 1991; Miceli and Near 1994; Mesmer-Magnus and Viswesvaran 2005).

As a means of reducing the fear of retaliation, and thereby increasing the willingness of employees to report, organizations often choose to include, in their whistleblower hotline policies, the various types of protections the organization has put in place in order to protect the whistleblower. That is, in addition to providing confidential and anonymous reporting, hotline policies often include detailed protections from specific forms of retaliation (such as harassment, loss of job or promotion, or other personal, professional, or financial forms of retaliation). In their recent annual report, the ACFE (2012) recommended such an emphasis on anti-retaliation protections offered to employees. Further, recent survey work conducted by Hassink, de Vries, and Bollen (2007) and Lee and Fargher (2013) suggest that many organizations are now choosing to include such explicit protections in their policy manuals.⁴

Vividness Congruency

Prior research in psychology and accounting indicates that vivid language can have a significant impact on the persuasiveness of a message (see e.g., Smith and Shaffer 2000; Hales, Kuang, and Venkataraman 2011). We draw upon a working definition of vivid language as language that “excite[s] the imagination to the extent that it is (1) emotionally interesting, (2) concrete and imagery-provoking and (3) proximate in a sensory, temporal, or spatial way” (Nisbett and Ross 1980). Within the context of the whistleblower reporting decision, language that explicitly describes personal protections from retaliation fits this definition, since such language is likely to elicit an emotional response and evoke imagery associated with possible retaliation.

Since vivid messages are often rich in cues, these messages are likely to create a substantial number of mental associations when processed in working memory. For example, an individual’s exposure to vivid language describing a specific form of whistleblower retaliation (such as a whistleblower losing his/her job), may engender associations with mental representations of other known instances of similar retaliations. As a result, the processing of a vividly rich message is more likely to also facilitate retrieval of other associated examples of retaliation than a pallidly encoded message. The extent to which vivid language use enhances or reduces the persuasiveness of a particular message depends on the valence of the information retrieved from memory when encountering the message (Kisielius and Sternthal 1984; Stanovich 2004). If the information retrieved is supportive of the tenor of the message, then persuasion will be enhanced. However, if the vivid imagery generated by the language is incongruent with the overall tenor of the message, then persuasion is likely to be undermined.

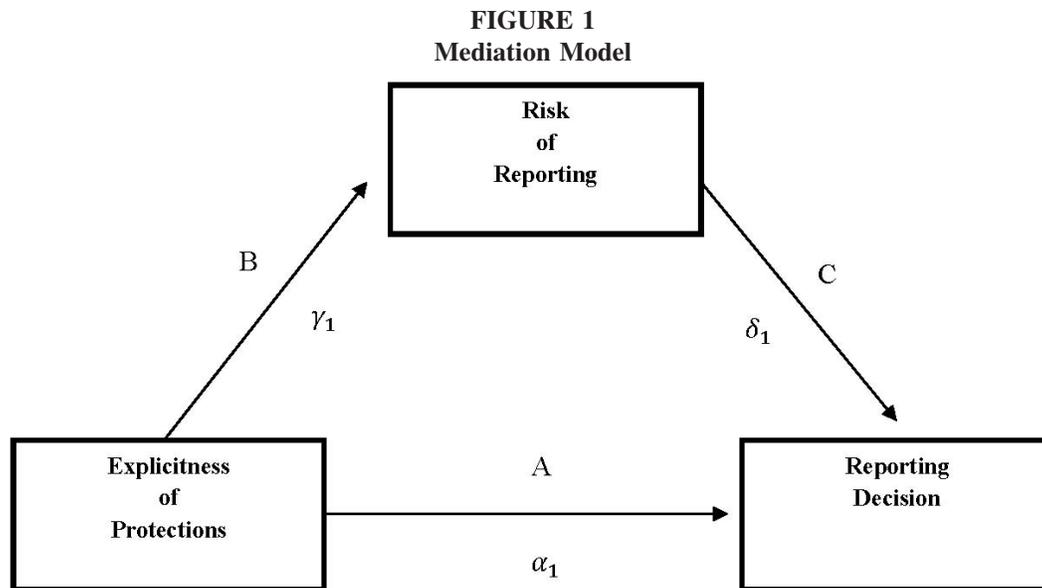
As noted above, it is common knowledge that whistleblowers are often harmed, rather than protected, as a result of reporting unethical behavior.⁵ Therefore, vivid language that points a reader’s attention to explicit instances of retaliation is likely to evoke fearful mental imagery, even if the intent of the vivid language is to engender a feeling of protection. As a result, the perceived risk of reporting may be greater when such examples are brought to mind. Therefore, the inclusion of explicit protections may have the unintended consequence of actually discouraging the reporting of misconduct through whistleblower hotlines by bringing to mind imagery incongruent with the message of protection being offered.⁶ To test this expectation, we specify our first hypothesis as follows:

³ In addition to suffering loss of their current employment, Quskas and Kleiner (2001) find that whistleblowers also face significant challenges when attempting to secure new employment. Furthermore, Rothschild and Miethe (1999) indicate that whistleblowers are at greater risk for anxiety and depression.

⁴ For example, Hassink et al. (2007) examined whistleblower policies in place at 56 major European companies, finding that most policies (73 percent) contained specific prohibitions against retaliation and that nearly one-third of all hotlines examined provided explicit guarantees that retaliation against whistleblowers would be punished. In a similar study of 107 Australian public companies, Lee and Fargher (2013) observed that approximately 78 percent of company hotline policies stated that no retaliation against whistleblowers would be tolerated, while 27 percent explicitly described the specific protections from retaliation being offered.

⁵ Even though auditors may not have direct personal experience of retaliation, most are likely to be well aware that whistleblowers are often harmed as a result of their decision to report. This is supported by numerous high-profile incidents of retaliation, such as the case of Sherrin Watkins, which have generated international media attention and are regularly covered in business classes. In addition, exposure to the whistleblower anti-retaliation provisions of The Sarbanes-Oxley Act of 2002 (U.S. House of Representatives 2002) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (U.S. Congress 2010) have increased auditors’ sensitivity to the significant problem of whistleblower retaliation. Furthermore, Ramirez (2007) notes that the expectation for whistleblower retaliations is even embedded in basic cultural norms that scorn snitches and tattletales.

⁶ A failure to report misconduct would represent a violation of the auditors’ professional code of conduct that explicitly requires them to report any identified ethical violations (American Institute of Certified Public Accountants [AICPA] 2006).



This figure represents the hypothesized mediating relationship of reporting risk on the explicitness of the protections presented in the hotline policy and the final reporting decision. Per our second hypothesis, we specifically predict a negative relationship between the perceived explicitness of protections and the subsequent reporting decisions (path A). In addition, we predict a positive relationship between the explicitness of the protections and perceived reporting risk (path B) and a negative relationship between perceived reporting risk and the subsequent reporting decision (path C). Finally, we predict that the relationship between the explicitness of the protections and the subsequent reporting decision will become insignificant in the presence of the perceived reporting risk variable.

H1: Auditors will assess a lower likelihood that identified misconduct will be reported through a firm's whistleblower hotline when the hotline policy includes explicit protections from specific forms of retaliation versus when it does not.

Note that our theoretical development for H1 is dependent upon explicit protections from specific forms of retaliation intensifying the perceived risk of reporting, resulting in a lower likelihood that the identified misconduct will be reported. As such, to the extent that our prediction for H1 is explained by incongruent imagery evoked by the inclusion of explicit protections, perceptions of reporting risk should mediate the relationship between the inclusions of explicit protections and reporting likelihood. This mediating relationship is presented visually in Figure 1. Specifically, while we predict a negative relationship between the presence of explicit protections in the hotline description and reporting likelihood (path A in Figure 1), we believe that this relationship will be specifically attributable to the increase in perceived reporting risk arising from the inclusion of the protections, leading to the following mediation hypothesis:

H2: Perceptions of reporting risk will mediate the relationship between the inclusion of explicit protections from specific forms of retaliation in a firm's whistleblower hotline policy and the likelihood of reporting through the hotline.

Job Security

Job security represents employee expectations regarding continuity in their place of employment (Davy, Kinicki, and Scheck 1997). While research has yet to directly test the relationship between job security and employee whistleblowing, related research within the field of organizational management implies that a relationship may exist between these two variables. For example, related research on employee error disclosure suggests that employees' willingness to disclose errors they have committed is impacted by the extent to which they feel their career would be threatened by such disclosure (Edmondson 1999; Zhao and Olivera 2006).

The career of an auditor who has a reputation for being a hard worker and who is well respected within the audit firm (i.e., one with high job security) may be less adversely affected by retaliation than one who is considered expendable and is only marginally respected (i.e., one with low job security). Such an individual may be more likely to believe that they can withstand potential retaliation and enact change within the organization by blowing the whistle than those with lower levels of job security (Mesmer-Magnus and Viswesvaran 2005). Alternatively, since careers are often irreparably harmed as a result of

whistleblowing, auditors with high job security may be hesitant to “rock the boat,” thereby jeopardizing their valued position within the firm. Indeed, [Jennings \(2006\)](#) notes that, when individuals with a strong vested interest in an organization identify misconduct, they will often choose to remain silent in order to protect their own personal interests.⁷ In light of this discussion, we investigate this additional factor via a research question:

RQ1: Does an auditor’s level of job security affect the assessed likelihood that the identified misconduct will be reported through a firm’s whistleblower hotline?

METHOD

Sixty-eight participants with significant auditing experience enrolled in a graduate auditing course at a large North American university completed our experiment. On average, participants had 11.8 months of prior audit work experience, approximating that of a staff-level auditor in an audit firm.⁸ Our examination focused on this particular population because staff-level auditors are often considered the first line of defense against audit failure. Indeed, if during the audit evidence gathering phase, staff-level auditors fail to identify and document important issues they uncover, then those issues are unlikely to be addressed by the more experienced auditors on an engagement ([Kaplan 2004](#)).⁹

The Task

The vignette presented to participants describes the case of a hypothetical staff auditor assigned to an audit engagement team. The case materials explain that, during the course of performing audit test work, the auditor uncovered evidence that the engagement partner had engaged in behavior that clearly violates auditor independence and professional conduct requirements. We manipulated whether the audit firm’s hotline policy included explicit protections from specific forms of retaliation. In the *non-explicit* conditions, the firm’s hotline policy simply described the basic purpose of the hotline and indicated that all responses would be kept anonymous. In addition to this basic description, the hotline policy in the *explicit* conditions provided assurances that whistleblowers would “not be subject to intimidation or retaliation” that included “threatening behavior, harassment, loss of job or promotion, or any other professional, personal, or financial form of retaliation both now and in the future.” The full whistleblower hotline policy description provided to auditors in each condition is reported in Appendix A.¹⁰

Job security was also manipulated in the vignette. In all conditions, the vignette indicated that “in one month’s time, the [firm’s] principal partners will consider promotions for the current crop of staff auditors” and that “staff auditors who are not promoted . . . are generally let go.”¹¹ In the *high job security* condition, the staff auditor was described as being a high performer who had a “very high chance of being promoted” and that, should the promotion not go through, it would likely be “very easy to find another job.” Alternatively, in the *low job security* condition, the instrument stated that the staff auditor only had about a “50/50 chance of being promoted,” and indicated that it would likely be “very difficult” for him to find another job should he not receive this promotion.

Participants were asked to indicate the likelihood that the identified misconduct would be reported through the whistleblower hotline. This likelihood was expressed on a nine-point Likert-type scale with endpoints labeled 1 = “Extremely Unlikely” and 9 = “Extremely Likely.”¹² We also measured participants’ perception of the risk of reporting the identified

⁷ Recent survey data suggest that even employees with high job security are likely to be retaliated against if they choose to report misconduct. Indeed, the [Ethics Resource Center \(2012\)](#) finds that managers are more likely to experience retaliation than non-managers and that senior managers, in particular, are more likely to experience retaliation than all other levels of management.

⁸ The median reported experience was 16 months and the standard deviation of our experience measure was 7.5 months.

⁹ While [Kaplan \(2004\)](#) discusses the critical role of staff-level auditors in performing audit procedures to identify financial statement misstatements, our study focuses on the decision to report an independence violation committed by a fellow auditor. However, as we describe further in the manuscript, our experiment is designed in such a way that the violation is discovered during the staff auditor’s performance of substantive procedures. As a result, we believe that [Kaplan’s \(2004\)](#) point is still applicable within our context. Furthermore, [Abdolmohammadi \(1999\)](#) reports that the audit task described in our study is likely to be performed by auditors with up to one year of experience, indicating the appropriateness of our participants.

¹⁰ The explicit protections used in this condition were adapted from publicly available whistleblower hotline policies (e.g., [Columbia University Teachers College 2014](#); [Insight Center for Community Economic Development 2009](#)).

¹¹ Our discussions with audit practitioners indicates that this “up or out” promotion philosophy is common in public accounting firms.

¹² Note that, because our study involves morally intense judgments, these dependent measures did not assess the likelihood that the participants themselves would choose to report the issue (and be exposed to possible retaliation) but rather asked participants to draw upon their experiences to assess how another auditor might experience the situation (see [Fisher 1993](#); [Chung and Monroe 2003](#); [Feldman and Lobel 2010](#)). Prior research indicates that individuals consistently overestimate the likelihood that they themselves will act in an ethical manner, while their predictions of the behavior of others are significantly more accurate ([Epley and Dunning 2000](#)). As a result, asking participants to report the likelihood that they would report the issue may lead participants to indicate a greater likelihood of reporting than might actually occur in practice. Therefore, we follow the example of prior experimental audit studies that examine how auditors make ethical decisions by requiring participants to take a third-person perspective (e.g., [Stefaniak and Robertson 2010](#); [Gronewold, Gold, and Salterio 2013](#)).

TABLE 1
Reporting Likelihood: Descriptive Statistics and ANOVA Results (Mean [S.D.])

Panel A: Reporting Likelihood by Condition

Security	Explicitness		Marginal Means
	Non-Explicit	Explicit	
High	5.97 (1.99) n = 16	4.78 (1.99) n = 18	5.34 (2.04) n = 34
Low	5.88 (2.08) n = 18	5.44 (2.03) n = 16	5.68 (2.04) n = 34
Marginal Means	5.93 (2.01) n = 34	5.09 (2.01) n = 34	

Panel B: ANOVA of Reporting Likelihood

Source	df	Mean Square	F-Statistic	p-value ^a
Intercept	1	2,063.49	503.94	0.000
Explicitness	1	11.42	2.79	0.050
Security	1	1.42	0.35	0.557
Security × Explicitness	1	2.31	0.56	0.455
Error	64	4.09		
Total	68			

^a Reported p-values are one-tailed in the presence of hypothesized predictions, two-tailed otherwise. This table presents the descriptive statistics and results of the ANOVA analysis for the reporting likelihood variable.

ethical issue through the anonymous ethics hotline. Specifically, participants were asked to indicate their agreement with a statement indicating that reporting the issue would harm the staff auditor's chances of being promoted at the firm. Again, responses were measured using a nine-point Likert-type scale with endpoints labeled 1 = "Strongly Disagree" and 9 = "Strongly Agree."¹³

RESULTS

Hypotheses

Panel A of Table 1 presents the cell means and marginal means for the reporting likelihood dependent variable. We find that the likelihood of reporting the ethical violation in the *explicit* condition was significantly lower than the likelihood of reporting in the *non-explicit* condition (5.09 versus 5.93; $F = 2.79$; $p = 0.050$). This finding indicates that auditors were less likely to report the misconduct through the hotline when the policy included explicit protections from specific forms of retaliation, supporting H1.¹⁴

¹³ Our instrument also included measures designed to assess the effectiveness of our job security manipulation (discussed below). However, given the nature of the explicit protections manipulation (simply showing one version of the hotline versus the other), we did not believe that there was a need to include a manipulation check measure for this factor specifically, since asking participants to rate how "explicit" they believed the hotline language to be would likely be confusing and not particularly diagnostic. However, we believe that our measure of perceived reporting risk indirectly serves as a check of the explicit protections manipulation. That is, an increase in perceived reporting risk resulting from the inclusion of explicit protections in the whistleblower hotline policy would suggest a successful manipulation of this factor.

¹⁴ In addition, using the same nine-point agreement scale, we also asked participants whether the ethical issue described in the case represented a violation of auditor independence standards. The mean response was 7.63 and this score did not differ by condition ($p > 0.10$). We also re-performed our ANOVA analysis using audit work experience, gender, and perceptions of whether the issue violated auditor independence standards as covariates in our model. None of these covariates were significantly related to our dependent variable ($p > 0.10$) and our results remain qualitatively unchanged as a result of this analysis.

TABLE 2
Risk Perception: Descriptive Statistics and ANOVA Results (Mean [S.D.]

Panel A: Risk Perception by Condition

Security	Explicitness		Marginal Means
	Non-Explicit	Explicit	
High	4.84 (2.41) n = 16	5.88 (2.03) n = 18	5.32 (2.27) n = 34
Low	5.12 (2.73) n = 18	6.44 (2.09) n = 16	5.82 (2.47) n = 34
Marginal Means	4.97 (2.53) n = 34	6.18 (2.05) n = 34	

Panel B: ANOVA of Risk Perception

Source	df	Mean Square	F-Statistic	p-value ^a
Intercept	1	2,101.97	388.31	0.000
Explicitness	1	23.61	4.36	0.021
Security	1	3.14	0.58	0.449
Security × Explicitness	1	0.32	0.60	0.808
Error	64	5.41		
Total	68			

^a Reported p-values are one-tailed in the presence of hypothesized predictions, two-tailed otherwise. This table presents the descriptive statistics and results of the ANOVA analysis for the risk perception variable.

Panel A of Table 2 presents the cell means and marginal means for our risk perception measure. Our results indicate that participants believed that reporting was significantly more risky in the *explicit* condition than in the *non-explicit* condition (6.18 versus 4.97; $F = 4.36$; $p = 0.021$). Recall that H2 predicts that reporting risk will mediate the relationship between the inclusion of explicit protections and reporting likelihood.

Table 3 reports the results of the regressions to test for mediation (see Baron and Kenny 1986). As indicated in the table, the first condition is satisfied, as the coefficient on *EXPLICIT* is negative and significant ($p = 0.045$) when *REPORT* is regressed on *EXPLICIT*. This confirms that the inclusion of explicit protections decreased perceived reporting likelihood. Additionally, the coefficient on *EXPLICIT* is positive and significant ($p = 0.017$) when *RISK* is regressed on *EXPLICIT*, satisfying condition 2. This confirms that the inclusion of explicit protections increased the perceived risk of reporting. Regarding the third condition, when *REPORT* is regressed on *RISK*, the coefficient on the latter variable is also negative and highly significant ($p = 0.001$). This confirms that participants perceived a lower reporting likelihood when risk was perceived as being high. Finally, when *REPORT* is regressed on both *RISK* and *EXPLICIT*, the coefficient on the latter variable becomes insignificant ($p = 0.193$). These results collectively indicate that auditors' perceptions of reporting risk mediate the relationship between reporting risk and the explicitness of the protections described in the hotline policy.¹⁵ This finding provides evidence that vividness congruency theory explains our pattern of results.

Research Question

Our research question investigates whether an auditor's level of job security will affect the likelihood that s/he will report identified misconduct through a whistleblower hotline. As reported in Table 1, Panel B, we do not find a significant difference in reporting likelihood for this factor ($F = 0.35$; $p = 0.557$) nor do we find a significant interaction between the job security and hotline

¹⁵ In addition, we conducted a second mediation analysis adding job security as an independent variable within each regression. Our results remain qualitatively unchanged.

TABLE 3
Mediation Analysis Results

Step	Regression	Coefficient	t-statistic	p-value ^a
1	$REPORT_i = \alpha_0 + \alpha_1 EXPLICIT_i$	$\alpha_1 = -0.838$	-1.722	0.045
2	$RISK_i = \gamma_0 + \gamma_1 EXPLICIT_i$	$\gamma_1 = 1.206$	2.159	0.017
3	$REPORT_i = \delta_0 + \delta_1 RISK_i$	$\delta_1 = -0.384$	-4.051	0.001
4	$REPORT_i = \beta_0 + \beta_1 RISK_i + \beta_2 EXPLICIT_i$	$\beta_1 = -0.362$ $\beta_2 = -0.402$	-4.626 -0.871	0.001 0.193

^a Reported p-values are one-tailed in the presence of directional predictions, with the exception of β_2 , which is two-tailed as the sign on the insignificant coefficient differs from our prediction.

This table reports the results of the Baron and Kenny (1986) tests for mediation.

Variable Definitions:

EXPLICIT = a dichotomous variable coded as 1 if the participant was presented with the hotline description containing explicit protections, 0 otherwise; *REPORT* = a continuous variable representing participants' perceived likelihood that the violation would be reported (higher numbers equal higher perceived likelihood); and

RISK = a continuous variable representing participants' perceived likelihood that reporting the violation would harm the auditor's chance of being promoted (higher numbers equal higher perceived likelihood).

explicitness factors ($F = 0.56$; $p = 0.455$). We also do not find that the job security manipulation affects participants' perceived reporting risk ($F = 0.58$; $p = 0.449$) nor do we find a significant interaction for this dependent variable ($F = 0.60$; $p = 0.808$).

While these results provide some initial evidence that auditors' job security does not significantly affect their whistleblower reporting decisions, we believe these findings should be interpreted with some caution. First, it may be the case that, as relatively new auditors, our participants may have had difficulty relating to the job security construct. This may have inhibited the effectiveness of our job security manipulation, even though our check questions appear to indicate successful manipulation.¹⁶

Finally, prior literature suggests that auditor performance evaluations are highly dependent on perceptions surrounding the auditors' technical competence (Tan and Jamal 2006). As such, participants assigned to our low job security condition may have perceived the staff auditor's competence as lower than those assigned to the high job security condition. While competence and job security are strongly linked within the audit setting, readers should be cautious when extending our finding to settings where the relationship between technical competence and job security may not be as significant.

DISCUSSION

Given the critical importance of whistleblowing as a means to detect fraud, factors that influence the decision to report misconduct should be of significant interest to all stakeholders interested in good organizational governance. Prior research indicates that fear of retaliation is a primary factor that discourages whistleblower reporting. In order to address this fear, whistleblower hotline policies are increasingly emphasizing explicit anti-retaliation protections offered to employees. While the inclusion of such protections should ostensibly make it more likely that employees will report misconduct, empirical evidence evaluating the effectiveness of such protections in hotline policies has been lacking.

Our results suggest that the inclusion of explicit protections from specific forms of retaliation can lead to an increase in the salience of such threats, thereby significantly lowering the likelihood that the misconduct will be reported through whistleblower hotlines. Indeed, rather than diminishing the fear of retaliation, our mediation analysis indicates that auditors' perceptions of reporting risk were, in fact, intensified by the presence of explicit protections in the hotline policy. While these findings may appear counter-intuitive on the surface, our results are consistent with predictions based upon vividness congruency theory.¹⁷

¹⁶ In support of the effectiveness of the job security manipulation, participants in the high job security condition indicated that there was a higher probability that the staff auditor would be promoted to senior auditor compared to those in the low job security condition (7.83 versus 3.79; $t = 12.45$; $p < 0.001$). In addition, participants in the high job security condition indicated that it would have been easier for the staff auditor to find another job if he needed to (7.58 versus 3.22; $t = 12.30$; $p < 0.001$).

¹⁷ It is possible that the manipulation of explicit protections may have influenced our participants' perceived responsibility to report the ethical violation. Since our instrument did not directly measure our participants' perceived reporting responsibility, a limitation of our study is that we are unable to examine this issue. Future research may wish to examine whether perceived reporting responsibility might impact auditors' decisions to report unethical acts within our context.

Our results suggest that auditing firms, as well as other organizations, should carefully craft their whistleblower hotline policies so as to minimize the salience of retaliation risk. This could be done in a number of ways. As an example, rather than describing explicit protections offered from retaliation, organizations could instead more explicitly describe the organization's commitment to good corporate governance and ethical behavior. Furthermore, organizations may wish to publicize successful instances of employee whistleblowing as a means of increasing the availability of instances in which whistleblower retaliation did not occur. Note that we are not suggesting that whistleblower hotline policies should omit a statement indicating that retaliation is forbidden, rather our results indicate that explicitly and vividly describing the types of retaliation that are prohibited (as is increasingly being done in hotline policy descriptions) may have unintended consequences.

In addition, our study examines the likelihood that auditors will report misconduct through a firm's whistleblower reporting hotline. Although tips received through hotlines represent the primary source of fraud identification (ACFE 2012), it is possible that auditors may choose to report fraud through other channels, such as personal discussions with superiors or documenting the issue in the audit workpapers. Future research may wish to examine the impact of explicit protections on the likelihood that auditors will report through non-hotline related channels. Last, our study only examined the reporting behavior of junior auditors. While we believe that our results would generalize across auditors with different levels of experience, future research may wish to explicitly test whether audit experience influences the effects demonstrated in our study.

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APPENDIX A Hotline Policy Descriptions¹⁸

Non-Explicit Protections Hotline Description

The Gamma Partners, LLC *Ethics and Compliance Hotline* is a method for reporting conduct that may be unethical, illegal, or improper. All responses are kept anonymous.

Explicit Protections Hotline Description

The Gamma Partners, LLC *Ethics and Compliance Hotline* is a method for reporting conduct that may be unethical, illegal, or improper. All responses are kept anonymous.

Individuals who make such a report shall not be subject to intimidation or retaliation. This includes threatening behavior, harassment, loss of job or promotion, or any other professional, personal, or financial form of retaliation both now and in the future.

If you believe that you are being retaliated against, you should report such conduct immediately to your direct supervisor or to the Human Resources Department.



¹⁸ Appendix A presents the hotline policy descriptions provided to participants in both the non-explicit and explicit conditions.