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Psychology and Behavior

Truth Be Told: Unpacking the Risks of Whistleblowing



The stakes are high for employees who report potential malfeasance at their companies. **Aiyesha Dey** and **Jonas Heese** discuss how companies benefit from whistleblowers and steps regulators could take to empower them.

In 2018, HBS associate professors Aiyesha Dey and Jonas Heese wrote a case about a whistleblower at a multi-national gambling company who exposed financial misstatements, first to his manager and later to the US Securities and Exchange Commission. The case focused on the company's response to the complaint, but the class discussion turned to the motivations of the man who revealed the wrongdoing.

Have you ever thought about blowing the whistle? Dey asked her students. Their response: *We've thought about it, but it is so costly.*

At a time when regulators and employers alike are increasingly relying on whistleblowers to prevent and investigate fraud, the professors realized, there is little understanding about the real risks faced by an employee who steps forward. Dey and Heese set out to study the experiences of about 2,400 whistleblowers who filed lawsuits under the False Claims Act, which rewards whistleblowers who report fraud against the federal government with a percentage of the money recovered. "We need to understand the costs," explains Heese,

“and how to empower the people who have important information to share that information.”

April White: Do you think regulators have the necessary tools to encourage people to come forward with information?

Jonas Heese: Our research focuses on specific legislation known as the False Claims Act, which was the first cash-for-information whistleblower law in the world. It goes back to the Civil War, and it has been adopted by modern regulators, such as the SEC whistleblower program [a similar program authorized in the 2010 Dodd-Frank Act], the DOT’s Motor Vehicle Safety whistleblower program, and more recently the Treasury’s anti-money-laundering whistleblower program that was passed into law in 2021.

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The big thing is that “cash for information” may not be the right way to talk about it, because it comes across as if someone is making a lot of money without any costs. It’s more like an insurance payment. Whistleblowers incur a lot of costs and get some money as compensation. That changes how we think about whistleblower incentives; it isn’t a reward.

White: Is there abuse of these statutes?

Aiyesha Dey: The debate is about whether it is frivolous, disgruntled employees going to regulators for financial motives, or whether people are coming forward when it is needed and they just get compensated for some of the cost they incur.

Heese: The concern in most countries around the world, in many different types of whistleblower regimes, is that you will get all of these frivolous tips. Regulators and politicians are more willing to talk about laws prohibiting retaliation. But we can show that it’s very difficult to prevent retaliation just with provisions that say you are not allowed to retaliate. Ultimately, the most effective way to protect whistleblowers is to compensate them financially for the costs they incur. We also found that cash-for-information regimes do not increase the number of frivolous tips filed with regulators or change the probability that the employee whistleblower will first report the issue internally.

White: What risks do whistleblowers face?

Dey: There are social and emotional consequences, and there are also career consequences. A lot of whistleblowers are fired. Some may need to move to another state or another industry to find a job, and they may not find a job at the same level.

But when we expanded to a longer term, looking at a variety of consequences over time, we found that the amount of money whistleblowers get seems to compensate, on average, for the financial costs. When they receive financial compensation, the costs are not as high. A slight caveat is that our main findings are for lower-level employees, where the compensation for whistleblowing is a larger percentage of their lifetime earnings.

White: Why do whistleblowers contact regulators?

Heese: In our research, the reason that someone went to the regulator was not a financial motive. It was because their allegation was ignored. In almost two-thirds of the cases, the company just ignored the complaint. In another 10 percent of cases, the company is actually engaging in a cover-up. And then on top of that, some companies retaliate against the whistleblower, with firing being the most severe form of retaliation.

White: Should companies do more to encourage employees to report misdeeds internally?

Heese: Companies have to understand that their employees can be a big source of information for them, too. Whistleblower is a loaded term, but essentially what we're talking about is how a company can create a culture where an employee feels comfortable telling a boss, "Oh, I just observed that no one is wearing a helmet in the factory. Maybe we should change that." The upside for the organization when someone speaks up is that it can prevent additional costs or bigger fraud events.

The problem is that the current structure incentivizes employees to report issues where the penalty is high.

Dey: There are a lot of issues that well-meaning managers and boards may not know about. There may be something bad going on in one subsidiary, or one factory, or with one supervisor. If there is a way that the firm can know about such things, they can resolve it internally more quickly and in a more efficient way than if it goes to regulators.

Although we don't study this, I think it could also empower employees to feel ownership of the company because they're helping in the overall growth and productivity of the firm. On the flip side, it could create—again, we haven't tested this—distrust among employees. But, in general, having employees with the right ethics and values, who come forward when they see something, can actually help companies overall.

White: How could these statutes and policies be improved?

Heese: These statutes are effective in terms of getting the right information in a financially sound way. The problem is that the current structure incentivizes employees to report issues where the penalty is high. For a workplace safety violation, the penalty can be as low as \$5,000. A percentage of that may not be enough to encourage an employee to report it.

At the same time, we know that thousands of workers still die or get injured due to workplace safety violations. But in securities fraud or tax fraud, where the penalties can be in the millions, it makes more sense.

White: What is next in your research?

Dey: It would be interesting to understand the other avenues of motivating employees to come forward. To do that, we would need to study to what extent the environment within a company or specific society plays a role. What elements of corporate culture could empower employees to take ownership and report possible fraud? What kinds of internal control levers, employee training programs, or perhaps even internal (nonfinancial) rewards and recognitions lead to a greater number of internal whistleblower reports? Subject to data availability, we would also be interested in studying the types and levels of financial and nonfinancial incentives that can encourage whistleblowing at the senior management levels.

This article originally appeared in the [HBS Alumni Bulletin](#).

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Featured Faculty

Aiyesha Dey

James R. Williston Professor of Business Administration

Jonas Heese

Professor of Business Administration

Article By:

April White

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Featuring [Aiyesha Dey](#) and [Jonas Heese](#). By April White on December 10, 2021