THE UNEXPECTED COST OF STAYING SILENT

Not blowing the whistle may seem like the easy way out, but those who choose silence pay a price.

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By Amy Fredin

"…AND ANOTHER MASSIVE FRAUD WAS JUST UNCOVERED TODAY thanks to a whistleblower who came forward with critical information…" We've all heard these reports on the news and read about them in the newspapers, but this type of activity wouldn't happen in *my* organization, right? And even if it did, certainly *my* employees would quickly take corrective action, right? Let's take a look at the current landscape for organizational wrongdoing, including fraud, as well as the prevalence of whistleblowing in response to these activities. The findings alone may be surprising.

To bring these topics a little closer to home, additional analysis outlines the situations of wrongdoing some of our fellow IMA members encountered. Many individuals in the survey did blow the whistle in these wrongdoing cases, but others chose not to report the situations. This article looks further at their reasons for staying silent and their subsequent feelings of regret associated with that decision.

What Do the Surveys Say?

PricewaterhouseCoopers (PwC) has conducted several global studies of economic crime over the past decade. Most recently, its 2011 study reports data from nearly 4,000 companies worldwide, including 156 from the United States. (See www.pwc.com/gx/en/economic-crime-survey/index.jhtml for PwC's 2011, 2009, and 2007 Global Economic Crime Surveys.)

Data from the 2011 study indicates that 34% of all companies (45% of U.S. companies) reported having uncovered a significant economic crime during the previous 12-month period. The term "significant" means the crime had a definite impact on the business, either from direct, tangible damage or from collateral or psychological damage. These crimes occurred in companies of all sizes and industries. The noted wrongdoings included such instances as cybercrime, bribery and corruption, accounting fraud, and, most frequently, asset misappropriation.

Just two years earlier, more than 3,000 companies worldwide (71 U.S. companies) responded to PwC's 2009 survey where 30% of companies (35% of U.S. companies) reported experiencing a significant economic crime over the previous 12-month period. Considering both of these recent surveys, the prevalence of these crimes is disturbing, to say the least. The loss amounts are staggering as well. In 2011 (and 2009), 54% (44%) of U.S. companies estimated their fraud losses to be between $100,000 and $5 million, with another 10% (8%) reporting that their losses amounted to more than $5 million.

PwC also identified detection sources for these crimes. In 2009, 34% of the incidences worldwide were initially found because of internal or external "tips," but the largest source of detection during that time frame came from companies' own internal controls, which accounted for 46%. In 2011, the global survey reported similar rankings but an even larger disparity between these two detection methods, with only 23% of frauds being detected by "tips," while 50% were detected from a variety of internal control procedures. Kalaithasan Kuppusamy and David Yong Gun Fie reported similar rankings in their October 2004 article, "Developing Whistleblowing Policies: An Aid to Internal Auditors," in *Accountants Today*. They reported global survey results where auditors ranked first and whistleblowers ranked second in terms of detection sources for economic crime.

Though detail for U.S. detection sources in 2011 wasn't reported, the sources of detection in the U.S. in 2009 looked very different from the global results. "The single most common way that fraud was detected among U.S. survey respondents was through tip-offs," the report notes, where whistleblowers alerted officials to 48% of the crimes; internal controls initially detected 28% of the crimes during this time period.

With the prevalence of crime and the importance of whistleblowing well-documented, it might lead you to believe that more and more individuals are coming forward to report organizational wrongdoing. But what percentage of individuals who either know about or suspect wrongdoing come forward? Going back to 1992, a U.S. federal government survey of its own employees reported that as many as 50% of individuals who were aware of a crime chose to remain silent.

A slightly later study, "Whistle-Blower Disclosures and Management Retaliation" by Joyce Rothschild and Terance Miethe, published in the February 1999 issue of *Work and Occupations*, reported a similar level of nonreporting, but does that level still apply today? As we head into a new era where whistleblowers have the potential to be rewarded financially for their information because of the recently instituted Dodd-Frank Wall Street Reform and Consumer Protection Act, it seems appropriate to take an even more current look at the landscape around those who observe organizational wrongdoing.

The IMA Study

In an effort to understand this issue from an insider's perspective, I surveyed attendees at IMA's Annual Conference & Exposition in 2007. Attendees could complete an

Table 1: Instances of Reported Wrongdoing

TYPE OF ACTIVITY OBSERVED	NO. OF REPORTS	EXAMPLES NOTED
Theft of Company Property/Cash	2	Theft of company computer
		Mishandling of petty cash
Unauthorized/Inappropriate Use of Company Assets	5	Unauthorized use of company vehicle
		Misappropriation of funds
		Inappropriate use of grant money
		Purchase misuse
		Irrelevant advertising expenditures that weren't approved
Financial Statement Manipulation	5	Misstated product line P&L
		Aggressive estimates affecting income
		Income statement misrepresentation
		Financial statement misstatements
		Overstatement of inventory value
Claiming Personal Expenses for Reimbursement	4	Airfare for spouse purchased with company credit card
		Inappropriate personal spending on company credit card
		Improper expense submission
		Questionable expense receipts/charges
Sexual Harassment	2	Sexual harassment of a coworker
		Sexual harassment
Inappropriate Human Resources/Payroll Practices	4	Fraud in the selection process
		Hiring spouse of executive
		Back pay being withheld inappropriately
		Inappropriate untaxed bonuses
Other	5	Kickbacks
		Overbilling client
		Employee using counterfeit money in vending machine
		Inappropriate use of cash-basis accounting
		Violation of corporate risk management policy
TOTAL	**27**	

anonymous survey, which included questions predominantly related to whistleblowing and internal controls, in exchange for a chance to win one of 10 $50 cash prizes. Of the 75 individuals who completed the survey, 45 reported having observed wrongdoing within their organizations, and 27 of these 45 individuals stated that they reported this information to the appropriate authorized party, suggesting a 60% report rate.

The 60% rate suggests we may be making strides in encouraging whistleblowers to come forward. Yet five of the 27 individuals who blew the whistle on one situation admitted to staying silent on at least one other. The remaining 18 of the 45 individuals who had observed one or more incidences of wrongdoing didn't report any of them. If this last group of 18 nonreporters is analyzed on its own, it suggests that the nonreporter rate is 40%. But if the five individuals who both reported and stayed silent on different issues are allowed to be included in both groups, then the nonreporter rate goes up to 51% (23 out of 45). At this level, we're back to where we started—the 50% range of reporting and nonreporting that previous studies have documented.

In order to better understand the situations behind these reports (and nonreports), the survey asked respondents to describe incidence(s) of wrongdoing that they observed. Table 1 outlines the situations on which individuals blew the whistle. These reported wrongdoing activities varied greatly from mishandling petty cash to

Table 2: Instances of Unreported Wrongdoing…and Regret Associated with Staying Silent

TYPE OF ACTIVITY OBSERVED	NO. OF SIMILAR REPORTS	EXAMPLES NOTED	LEVEL OF REGRET EXPERIENCED*
Theft of Company Property/Cash	2	Employee stealing supplies from the company	no regret
		Unauthorized purchases; incorrect recording of cash	some regret
Inappropriate Use of Company Assets	1	Accessing pornography on work computer	little regret
Financial Statement Manipulation	5	Inappropriate month-end adjustments	great regret
		Accounting estimate adjustments for bad debt	no regret
		Manipulating revenue and expenses	some regret
		Earnings manipulation	some regret
		Income smoothing using accrual manipulation	little regret
Claiming Personal Expenses for Reimbursement	4	Personal travel of children	great regret
		Misclassifying expense reports	little regret
		Personal assets purchased by company	no regret
		Personal expenses purchased on corporate card	little regret
Sexual Harassment	1	Sexist comments	little regret
Inappropriate HR/Payroll Practices	3	Inappropriate time-sheet reporting	little regret
		Profit-sharing calculations unverifiable	little regret
		Reporting payments to employees as travel vs. wages to avoid payroll taxes	little regret
Other	7	Collusion within upper management; sharing inside information	great regret
		Executive cover-up	some regret
		Violation of federal manufacturing law	great regret
		Fraudulent information reported on tax returns	little regret
		Controller cover-up on missing equipment	great regret
		Noncompetitive supplier selected	no regret
		Sabotage of a new process change	great regret
TOTAL	**23**		

* Subjects were asked if they were currently experiencing (or had in the past experienced) any regret associated with their decision to stay silent. They were asked to respond in one of the following ways: no regret, little regret, some regret, great regret.

misrepresenting the company's income statement to sexual harassment.

Table 2 describes the other situations—the ones on which individuals remained silent. These unreported situations of wrongdoing also varied greatly—from an employee stealing company supplies to manipulating revenues and expenses to claiming personal expenses for reimbursement. When comparing the situations in Tables 1 and 2, the uncanny crossovers are hard to dismiss. The situations described in both tables are very similar, suggesting that it isn't just the event's nature or the significance that drives an individual to report—or not report—wrongdoing.

Table 3 provides a closer look at the survey respondents to see if there are any key demographic differences between those who reported wrongdoing and those who didn't. This information is provided for the entire group of survey respondents along with comparison detail for the two different reporter groups (reporters—the 27 who reported at least one situation of wrongdoing; nonreporters—the 23 who stayed silent on at least one instance of wrongdoing). There doesn't appear to be much difference in the ages and length of time at current companies of those who blew the whistle as opposed to those who stayed silent. The average age across the board was approximately 47, and average time with their current company was also quite steady at approximately eight or nine years.

Table 3: Survey Respondents

	ALL		REPORTERS		NONREPORTERS	
Age (in years)						
Mean	47.5		46.7		49.1	
Range	27 to 71		29 to 67		30 to 71	
Tenure with Organization (in years)						
Mean	8.6		9		8.3	
Range	0.25 to 31		2 to 20		0.75 to 30	
	N	**PERCENTAGE**	**N**	**PERCENTAGE**	**N**	**PERCENTAGE**
Gender						
Male	41	55%	13	48%	16	70%
Female	33	44%	14	52%	7	30%
Missing Data	1	1%	0		0	
Total	75		27		23	
Industry Membership						
Manufacturing	27	36%	10	37%	7	30%
Professional Services	17	23%	7	26%	6	26%
Education	7	9%	2	7%	5	22%
Government	5	7%	1	4%	1	4%
Pharmaceuticals/Healthcare	4	5%	1	4%	0	0%
Other/Missing	15	20%	6	22%	4	17%
Total	75		27		23	
# of Employees in Company						
Less than 100	20	27%	11	41%	6	26%
101 to 500	19	25%	5	19%	6	26%
501 to 2,000	10	13%	5	19%	5	22%
2,001 to 10,000	11	15%	1	4%	3	13%
More than 10,000	13	17%	4	15%	3	13%
Missing	2	3%	1	4%	0	0%
Total	75		27		23	
Certifications Held						
CMA (w/o CPA)	22	29%	8	30%	7	30%
CPA (w/o CMA)	16	21%	6	22%	3	13%
CMA & CPA	20	27%	8	30%	5	22%
Others (no CMA or CPA)	3	4%	1	4%	1	4%
None/Missing	14	19%	4	15%	7	30%
Total	75		27		23	
Highest Degree Completed						
Associate's	1	1%	1	4%	1	4%
Bachelor's	29	39%	10	37%	7	30%
Master's	41	55%	16	59%	14	61%
Doctorate	3	4%	0	0%	1	4%
Missing	1	1%	0	0%	0	0%
Total	75		27		23	

But there are some gender differences between the groups. Though 55% of the entire sample was male, only 48% of those blowing the whistle were male. Further, of the individuals who remained silent, 70% were male. A meta-analysis by Jessica Mesmer-Magnus and Chockalingam Viswesvaran, "Whistleblowing in Organizations: An Examination of Correlates of Whistleblowing Intentions, Actions, and Retliation," in the Spring 2005 issue of the *Journal of Business Ethics*, looked at four specific studies on actual whistleblowers and noted a similar gender difference across those studies: Women blew the whistle more often than men did.

In addition to a gender difference in my study's respondents, the remainder of the data shows that these individuals come from businesses of all types and sizes and that the whistleblowing reports are spread fairly evenly among all such companies. Further, both the reporter and nonreporter groups appear to be composed of similar individuals in regard to their certifications held and degrees completed: The vast majority are either a CMA® (Certified Management Accountant) or CPA (Certified Public Accountant) or both, and the majority in both groups also have a master's degree. In other words, even these highly educated individuals with valued credentials and experience find it difficult to deal with wrongdoing in the workplace.

…the most common reason for not blowing the whistle was fear of retaliation in one form or another…

Table 4: Reasons for Not Reporting the Wrongdoing

REASON GIVEN	NUMBER OF SIMILAR REPORTS
Fear of job loss and/or other retaliation	10
Not that big of a deal	4
Didn't have enough proof	3
Thought somebody else would report it	2
Chose to leave the company instead	2
Other	5
Total*	26

* Three individuals each gave two reasons for staying silent, thus the total adds up to 23 + 3 = 26.

Although this detail portrays the background information of all respondents as well as the wrongdoing situations that they observed, the survey asked more probing questions of the silent observers. Since the rate of whistleblowing has remained constant at around 50% for at least the past 18 years, there must be something more that we can learn from these nonreporters—something that can help us "break through" to future observers that may give them the courage to come forward with their information.

One such survey question asked these individuals to explain why they chose to remain silent. Table 4 reports the reasons they gave. Not surprisingly, the most common reason for not blowing the whistle was fear of retaliation in one form or another, including job loss and difficult working conditions. Others noted reasons such as the wrongdoing wasn't serious enough to worry about; they didn't feel they had enough proof to bring the allegation forward; and/or they felt somebody else would report the situation. Two individuals further noted that they voluntarily left the company because of what was going on.

Regret From Not Blowing the Whistle

But what have these individuals experienced since their decision to remain silent? Did they avoid the retaliation they were hoping to avoid, or were there other negative consequences associated with staying silent, too? One question asked these silent observers whether they were currently experiencing (or had in the past) any regret associated with their decision to remain silent. This data speaks for itself. Presented alongside the unreported situations in the last column of Table 2, the vast majority of silent observers, 19 of the 23 individuals who chose not to report the wrongdoings, acknowledge having experienced at least some regret (rated as either little, some, or great) associated with their decision to remain silent.

It further appears that these individuals have experienced regret—to varying degrees—for many different types of wrongdoing situations. Not only did some experience regret for the "bigger" issues, such as "fixing" the numbers or theft of property, but individuals also experienced regret for letting "smaller" issues go unreported, including such things as bypassing proper procedures in order to justify a purchase or letting some personal expenses count for reimbursement.

Tone at the Top

It's clear that there's no easy way to deal with wrongdoing in the workplace. Once an individual becomes aware of illegal and/or unethical activity, there are ramifications for reporting and not reporting it. Unfortunately, organizational wrongdoing occurs in companies of all sizes and in all industries. Further, given that many businesses today find themselves in fragile financial positions with lower-than-desired headcounts, there are fewer resources to allocate toward enhanced internal controls and ethics training.

But there's still something companies can do, at relatively no cost to them, to combat and prevent fraud and wrongdoing. Businesses can espouse an ethical culture, one that truly is motivated from the top tiers of the organizational chart, to show their employees that they mean business. The importance of a company's "tone at the top" certainly it isn't a new phenomenon (see "Tone at the Top: Insights from Section 404" by Dana Hermanson, Daniel Ivancevich, and Susan Ivancevich in the November 2008 *Strategic Finance*). And this is getting even more pronounced attention as a fraud prevention factor in today's fast-paced, risk-laden marketplace. PwC captured this message loud and clear when it concluded its 2011 global economic crime survey with the following statement: "Establishing the right 'tone at the top' is key in the fight against economic crime."

No Easy Way Out

The data in this article suggests that the level of whistleblowing has stayed relatively constant over the past two decades at around 50% and gives reasons as to why the remaining 50% chose to remain silent on these issues. Yet through this analysis it becomes clear that these silent observers don't come out unscathed because they have to live with their decision, knowing that some individuals are benefitting at the expense of others. They have to live with their regret—knowing that their silence may be perpetuating fraud, harassment, law violations, and the like, within that company. The stress associated with this regret may be a cost that they didn't anticipate, but it's a cost nonetheless. Perhaps the potential for financial rewards will now give some of these otherwise silent observers enough incentive to come forward with their information. And perhaps these and other reward opportunities will eventually give all whistleblowers the compensation they desire and deserve to help offset the personal costs that come with whistleblowing.

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One thing is certain, though. We can all learn something from the survey respondents. Blowing the whistle on organizational wrongdoing isn't an easy thing to do, but staying silent on these issues may not be an easy way out, either. **SF**

Amy Fredin, Ph.D., is an assistant professor of accounting at St. Cloud State University in St. Cloud, Minn. She also is a member of IMA's Central Minnesota Chapter. You can reach her at (320) 308-3287 or ajfredin@stcloudstate.edu.