

the cracks.¹ Further, regulators have historically conferred relatively few whistleblower awards, raising questions about the usefulness of whistleblowers in enforcement efforts.² Given that regulators have the power to subpoena documents and interview employees with or without a whistleblower, it is unclear whether whistleblower involvement is associated with more severe enforcement outcomes.

Using the universe of SEC and DOJ enforcement actions for financial misrepresentation since the passage of the Sarbanes-Oxley Act of 2002 (hereafter, SOX) (Karpoff, Lee, and Martin [2008a,b], Karpoff et al. [2017]), we investigate whether whistleblower involvement is associated with more severe enforcement outcomes. Specifically, we examine the associations between whistleblower involvement and: (i) monetary penalties against targeted firms; (ii) monetary penalties against culpable executives; and (iii) the length of prison sentences imposed against employee respondents.³ We also investigate the association between whistleblower involvement and penalties assessed against third-party respondents (e.g., the firm's auditor, bankers, suppliers), as well as the duration of the discovery and regulatory proceedings periods. Notably, we examine the role of whistleblowers conditional on the existence of a regulatory enforcement action. This distinction is important because our tests exploit variation in consequences to SEC and DOJ enforcement with and without whistleblower involvement; we do not examine whistleblower allegations for which there are no corresponding regulatory enforcement actions.

To identify whistleblower involvement in enforcement actions, we use two distinct data sources. First, we begin with a data set of employee whistleblowing allegations we obtained from the U.S. government using a Freedom of Information Act (FOIA) request (Bowen, Call, and Rajgopal [2010]), Wilde [2017]). The Sarbanes-Oxley Act of 2002 tasked the Occupational Safety and Health Administration (OSHA) with fielding employee complaints of discrimination for blowing the whistle on alleged financial misconduct. OSHA is required to communicate these allegations to the SEC (OSHA [2012]), after which the SEC can choose to investigate the underlying allegations or refer the allegations to the DOJ. We obtain 934 allegations of financial misconduct in complaints filed with OSHA from 2002 to 2010.

¹ A whistleblower in the Bernie Madoff Ponzi scheme made multiple attempts over a nine-year period to alert the SEC concerning the fraud. He stated, "In May 2000, I turned over everything I knew to the SEC. Five times I reported my concerns, and no one would listen until it was far too late." (Markopolos [2010], p. 3).

² The U.S. federal government has offered financial rewards to whistleblowers since 1863. Between the creation of the SEC Whistleblower Office in 2011 and the SEC's report to Congress on the Dodd-Frank Whistleblower Program in 2016, only 34 whistleblowers received bounties under the program (SEC [2016a]). Many, including the Government Accountability Office, have criticized agencies for being slow and inefficient in addressing whistleblower concerns related to the OSHA whistleblower program (Scott [2010]).

³ The respondent is the party (either a firm or an individual) targeted by the SEC/DOJ.