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Source: *ILR Review*, Vol. 45, No. 1 (Oct., 1991), pp. 113-130

Published by: Sage Publications, Inc.

Stable URL: <http://www.jstor.org/stable/2524705>

Accessed: 12-01-2018 17:13 UTC

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WHO BLOWS THE WHISTLE AND WHY?

MARCIA P. MICELI, JANET P. NEAR, and CHARLES R. SCHWENK*

This study examines the effects of a number of perceptual variables on internal auditors' reporting of wrongdoing by employees and managers in their organizations. Survey responses of 653 Directors of Internal Auditing who observed what they perceived to be incidents of wrongdoing show that they were less likely to report these incidents when they did not feel compelled morally or by role prescription to do so, when they evaluated their job performance as below average, or when they were employed by highly bureaucratic organizations. Also, the auditors were more likely to report incidents to external agencies (as opposed to authorities within the organization) when they felt that the public or their co-workers were harmed by the wrongdoing, the wrongdoing involved theft by relatively low-level workers, there were few other observers, or the organization was highly regulated.

It is a rare day that the local newspaper does not contain at least one account of whistle-blowing—the disclosure by organizational members of illegal, immoral, or illegitimate organizational acts or omissions to parties who can take action to correct the wrongdoing. Although whistle-blowing

may present a threat to organizational authority structures (Weinstein 1979), it often can improve long-term organizational effectiveness, because whistle-blowers may suggest solutions to organizational problems (Brief and Motowidlo 1986). More important, organization members, stockholders, and society in general can benefit from the cessation of organizational wrongdoing such as fraud, unfair discrimination, or safety violations.

Previous published research on whistle-blowing has been anecdotal or has relied heavily on secondary analysis of data generated by questionnaires administered to federal government employees by the United States Merit System Protection Board. Thus, the effects of many theoretically interesting variables have not been investigated, and the extent of generalizability of prior findings to private sector organizations and their members is not known.

The present study examines the factors associated with whistle-blowing by internal auditors. The principal research question is whether whistle-blowing can be pre-

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The data for this study are being used in further research, and are not now available to other researchers. Also, the future availability of the data may be limited to preserve confidentiality. For further details and advice, contact Marcia Miceli, Department of Management and Human Resources, Ohio State University, 356 Hagerty Hall, 1775 College Road, Columbus, Ohio 43210-1399.

dicted by variables suggested by a model of whistle-blowing loosely based on the literature on prosocial behavior and bystander intervention (Latané and Darley 1970). A questionnaire designed to gain information pertinent to those variables was completed by more than 1,000 directors of internal auditing in a variety of both public and private sector organizations across the United States and Canada.

Internal Auditors and Whistle-Blowing

Internal auditors are of particular interest because it has been suggested that empowering them might have prevented the recent financial crises in various industries (*Internal Auditor* 1987:6). Internal auditors are employed to ensure the adequacy and effectiveness of their organizations' systems of internal control; they deter, investigate, detect, and report fraud and other wrongdoing in organizations (Professional Standards and Responsibilities Committee 1985). For example, when internal auditors obtain evidence that financial statements disseminated to the public are misleading or that theft is occurring, they must decide whether to report the incident and, if so, to whom. Internal auditors could report through the chain of command or to the audit committee on the Board of Directors at some companies. They could provide information to members of an external audit team—auditors from an independent accounting firm who are called in to verify the financial well-being of the company. Finally, internal auditors could report to others outside the organization, such as members of Congress or the media.

Given that internal auditors are supposedly required by their jobs to report wrongdoing, can they be considered whistle-blowers? We believe so, for three reasons. First, internal auditors are not alone in being formally required to report wrongdoing. In many organizations, whistle-blowing is formally role-prescribed for many individuals. For example, the ninth article of the Code of Ethics for Govern-

ment Service prescribes that federal employees "expose corruption wherever discovered" (Pottmyer 1987:30), and more than half of the codes of ethics in private sector organizations require all employees to report "possible illegal or unethical conduct" (Mathews 1987:116). Second, the signals sent to internal auditors and others who are under this formal requirement may be contradictory. Top managers may give "lip service" to encouraging reporting, but informal norms and reward systems may actually discourage it.

Third, whistle-blowing on *all* illegal or unethical acts or omissions is rarely, if ever, truly role-prescribed. In the case of internal auditors, the Institute of Internal Auditors—the primary professional organization that sets standards for auditing practice—encourages reporting through specified channels (for example, to the audit committee of the company's board of directors) of certain activities (such as "significant fraud"). But reporting other activities that an auditor may consider wrongful (such as safety violations) is not addressed specifically, and reporting to parties external to the organization, such as the media, is *discouraged*.¹

Thus, internal auditors should be considered whistle-blowers when they report wrongdoing. We are interested in the factors that might inhibit or facilitate their reporting of wrongdoing within the organization as well as those that might encourage reporting to parties outside the organization.

The variables examined in the present study are suggested by various models of

¹ For example, a bulletin of the Professional Standards and Responsibilities Committee (1985: 3–4) included the following question and answer:

Q: Does an internal auditor have a responsibility to notify outside authorities of suspected wrongdoing?

A: When an internal auditor's procedures lead to suspicion of some kind of wrongdoing, the auditor should determine the possible effects of the wrongdoing, discuss the matter with the appropriate level of management who (management or the internal auditor) should investigate or otherwise follow up the suspicion. When wrongdoing is suspected, the auditor's responsibility extends to the appropriate level of management within the organization.

whistle-blowing (Dozier and Miceli 1985; Graham 1983, 1986; Near and Miceli 1987). These models view whistle-blowing as a type of prosocial behavior in organizations—behavior intended to help others (Brief and Motowidlo 1986). Research on prosocial behavior developed from the pioneering work of Latané and Darley (1970), who investigated bystander intervention, such as the decision of a witness to an emergency, such as a crime, to get involved directly or by summoning help from others. According to these models, several steps must occur before whistle-blowing can take place, although they need not occur in sequence. The first step involves recognition of wrongdoing: is the organization member aware of activity she or he considers wrongdoing? Second, the observer assesses whether this activity warrants intervention, that is, whether it is intolerable. Third, the observer considers whether he or she is responsible for taking action. If the answer to any of these questions is no, then no report is made.

Fourth, the observer determines what actions are available; evaluates the appropriateness of these actions; and weighs the expected costs (such as retaliation) and benefits (such as the correction of the wrongdoing). If whistle-blowing is considered, the form that the complaint will take and the agency or person to whom it will be reported also will be a function of these determinations. In this step in particular, the potential power (to bring about change and escape retaliation) that the observer of wrongdoing believes he or she has is expected to play an important role.

Variables affecting any of these perceptions and decisions may determine whether the internal auditor will remain silent, and some variables affecting the last step also may affect whether a report is made externally. We now turn our attention to identifying variables that may affect the decision process.

Hypotheses

The Observer's Job Performance

As suggested by the fourth step in the

decision process, whistle-blowers are motivated by their wish to change an organizational practice (Farrell and Petersen 1982). Their effectiveness in bringing about change may depend on their ability to influence a group of others (usually co-workers); as such, whistle-blowing may represent a case of attempted minority influence (Greenberger, Miceli, and Cohen 1987:527). The ability of a minority to influence others depends on the minority's credibility within the group setting (for example, Moscovici 1976:39–41). Thus, the internal auditor may consider the extent to which he or she may be credible to others. Individuals who are viewed as competent have higher credibility (Greenberger et al. 1987:533). Further, research on "idiosyncrasy credits" (Hollander 1958:120) suggests that by demonstrating competence in different situations, members are freer to deviate from group norms without being rejected. This research suggests that observers of wrongdoing whose job performance is relatively poor may believe they will be less influential or that they will not escape retaliation; therefore, they may be less likely than their higher performing counterparts to blow the whistle.

Theories of attitude change and social persuasion (for example, Petty and Cacioppo 1986) might also explain the influence of the whistle-blower on any given individual. Since, however, most whistle-blowing occurs in the organization setting, with direct relevance for particular work groups within the organization, we think that the influence process in this case cannot be separated from the group context. That is, because group dynamics affect group members' view of the whistle-blower's credibility, we believe that theories of group change may be more useful than theories of individual attitude change.

Who Is Harmed by the Wrongdoing?

Targets of prosocial behavior can be co-workers, the organization as a unit, or consumers (Brief and Motowidlo 1986: 711). The target the whistle-blower intends to benefit is likely to be a victim of wrongdoing, though there may also be

other intended beneficiaries. Previous research, however, has not examined the role of the observer's perceptions concerning these targets.

Co-workers. Observers of wrongdoing may empathize more strongly with victims of the wrongdoing whom they personally know, such as co-workers, than with victims they do not know (Dozier 1988: 34). According to Dozier (1988:34–35), knowing the victim personally may lead to greater empathy than would shared characteristics (race, gender, home ownership, and so on) with an abstract class of people, though empathy may be greater when the observer knows of shared characteristics than when the characteristics of those harmed by the wrongdoing are unknown or are known to differ. Low empathy presumably would tend to lead observers to conclude that wrongdoing does not require action (step 2 of the decision process). Thus, empathy may predict prosocial behavior in organizations (Brief and Motowidlo 1986:716). Further, people become more emotionally involved when someone in their “we group” is in trouble, and they are likely to be more motivated to help a person from that group (Brief and Motowidlo 1986:718, citing Hornstein 1978). It follows that observers of wrongdoing may be more likely to ignore wrongdoing if they do not believe that co-workers are harmed by it.

Organizations. The assessment of wrongdoing and one's responsibility may be affected by perceptions of the organization as well. For example, an observer may believe that his or her organization's performance, climate, or culture is damaged when wrongdoing continues. But whether this belief leads to whistle-blowing may depend on how the observer views the organization. Brief and Motowidlo (1986:720) proposed that commitment may predict prosocial behavior toward the organization. Thus, unless observers perceive the wrongdoing to harm the organization in some way and they are highly committed to the organization, they will be unlikely to blow the whistle.

From a social exchange perspective

(Blau 1964), whistle-blowing is more likely to occur when individuals believe they have been fairly rewarded than when they do not. Those who believe that they have received satisfying outcomes from the organization may wish to reciprocate, in this case by helping the organization correct wrongdoing. Previous research has shown that employees who evaluated their pay highly relative to that of various comparison persons were more likely than other employees to engage in citizenship behavior, such as helping new employees learn the job and returning promptly from coffee breaks (Organ and Konovsky 1989:161; Scholl, Cooper, and McKenna 1987:127). Other research has shown that positive social comparisons are closely related to pay satisfaction (Heneman 1985:132). Because whistle-blowing generally can be considered a type of organizational citizenship (Brief and Motowidlo 1986:715), this research suggests that observers of wrongdoing who are dissatisfied with their pay will be less likely to blow the whistle than will observers who are satisfied with their pay. (A quite different view is that whistle-blowing is commonly an act of revenge against superiors or the organization and therefore more likely to be engaged in by observers *dissatisfied* with their pay. Most participants in the debate over this question, however [Kolarska and Aldrich 1980: 51], have concluded that the first interpretation is correct in most cases, and that interpretation is the one we accept here.)

Consumers or the public in general. Observers of wrongdoing may view reporting to authorities outside the organization to be more appropriate when they believe the wrongdoing victimizes the public than when they do not (step 4). On the other hand, whistle-blowing to external parties may be regarded as threatening to the organization (Brief and Motowidlo 1986: 714; Staw 1984:654) and may therefore carry some risk of retaliation against the whistle-blower by the organization. Given this potential source of discouragement of external whistle-blowing, we can make only a tentative prediction that external reporting will be associated with the belief

that the perceived wrongdoing harmed the public.

Observers' Moral Reasoning and Views of Their Roles

Research suggests that individuals with strong prosocial tendencies have internalized higher and more universal standards of justice, social responsibility, and modes of moral reasoning (Brief and Motowidlo 1986:717; Rushton 1984:278). These tendencies may influence the assessment of wrongdoing and one's responsibility for its correction. Experimental research on whistle-blowing, however, has produced mixed results. Students with higher levels of "moral reasoning" (as defined by Kohlberg's stage theory [1969]) were more likely than were lower scorers to point out their advisers' errors (Brabeck 1984:48), but students with *lower* levels of moral reasoning were more likely to report wrongdoing by a confederate "research assistant" to a confederate authority figure (Miceli, Dozier, and Near 1991:286).

Perhaps characteristics of the situation and the person interact to determine whether whistle-blowing is viewed as a "morally correct" action. Individuals with lower levels of moral reasoning may be less likely than those with higher levels to view certain situations as warranting reporting, whereas the reverse may be true for other situations. If so, it would be important to determine whether observers viewed themselves to be morally compelled to take action *concerning the particular activity observed*. Thus, we expect less whistle-blowing where the situation is viewed as less morally compelling.

The beliefs held by observers of wrongdoing concerning their roles may be important also (Brief and Motowidlo 1986:720). Reporting wrongdoing of some types of activity (serious fraud, for example) may be viewed as part of one's job, whereas reporting other types of activity (such as safety violations) may not. Most role prescriptions from organizations and from their professional associations encourage internal auditors to report only certain kinds of wrongdoing within their organizations.

We expect that internal auditors who do not report wrongdoing will be more likely than whistle-blowers to state that they believed that reporting of the particular activity was not role-prescribed. Similarly, in cases of wrongdoing of kinds not addressed (or not clearly addressed) by role prescriptions, we would expect reporting to be done outside the organization. For example, an internal auditor who blows the whistle on mismanagement may not be certain that the organization wants this activity to be reported and may fear that management will retaliate or refuse to change the practice. When both the expected costs of internal reporting and the need for resolution are high, the internal auditor may be likely to seek the support of parties outside the organization.

Diffusion of Responsibility

The assessment of responsibility and the evaluation of action (steps 3 and 4) may be affected by the presence of other observers. Research on the "diffusion of responsibility" effect on bystander intervention generally has shown that the larger the group of bystanders, the less likely any one bystander is to engage in the prosocial behavior of offering a victim help in an emergency (for example, Latané and Darley 1970). Such research suggests that wrongdoing may not be reported if many organization members could have observed it (Dozier and Miceli 1985; Graham 1986).

On the other hand, preliminary results suggest that the *opposite* effect occurs in whistle-blowing contexts (Miceli and Near 1988; Miceli et al. 1991). One possible cause of these discrepant results is the focus of these studies of whistle-blowing on reporting to parties *internal* to the organization. Co-workers are very unlike strangers in a transient situation (as in the case of bystanders), and they may support the whistleblower in internal reporting. *External* whistle-blowing, on the other hand, resembles bystander intervention (and differs from internal whistle-blowing) in the fact that the agency or person to whom the wrongdoing is reported is typically not personally known

to the reporter. Consequently, we will tentatively predict that the diffusion of responsibility effect occurs with respect only to external whistle-blowing, because this effect may be offset by the benefits of social support in the case of internal whistle-blowing.

The Nature or Type of Wrongdoing and the Wrongdoer

Research suggests that the nature or type of wrongdoing may influence observers' reactions to it, perhaps by affecting all the decision steps. For example, the public considers corporate crimes that cause bodily harm, such as intentionally failing to protect workers from hazardous chemicals, more deserving of severe punishment than most forms of street crime (see, for example, Braithwaite 1982:733; Mathews 1987:108).

Organizational members may have different reactions to different types of wrongdoing. For example, theft is often an act undertaken by an individual acting on his or her own behalf. Internal auditors are expected to look for employee theft and report it; they can also expect that top management will respond favorably to their reports, since theft generally hurts the organization whose interests top management is supposed to protect. Some wrongdoing, however, may be perceived as being committed to some extent on behalf of the organization (Braithwaite 1982)—for example, the release of fraudulent financial statements by a corporate executive to temporarily polish the corporation's image, or the tolerance by a hospital administrator of inappropriate risks that jeopardize the safety of the employees or patients because he or she believes costs will be reduced or profits will increase. In such cases, it may not be clear that wrongdoing requiring an auditor's action has taken place. The internal auditor may not view safety concerns, for example, as being within his or her scope of influence, and may fear retaliation for attempting to curtail managerial authority if the administrator is carrying out top management directives. In short, auditors

might be more likely to blow the whistle on an act of an individual who is trying to illegally enrich himself or herself at the organization's expense than someone who may appear to be acting on behalf of the organization.

The identity of the party engaging in wrongdoing may be directly relevant to the internal auditor's decision whether or not to report it. Specifically, an organization stands to gain and powerful organization leaders do not stand to lose by the correction of wrongdoing by persons at lower hierarchical levels, whereas high-level managers who steal (for example) may have enough power to suppress whistle-blowing. Furthermore, an internal auditor who observes mismanagement, release of questionable financial records, or certain other forms of high-level wrongdoing may perceive that the organization stands to lose if the wrongdoing is revealed and hence that it will react negatively to whistle-blowing; and public disclosure of high level theft might suggest organizational instability, negatively affecting stock prices or public perceptions. Thus, both internal and external reports of low-level theft may be more likely than reports of wrongdoing of other kinds and at higher levels of the organizational hierarchy.

Laws concerning activities other than theft may also influence whistle-blowing. When no law proscribes a particular activity, it may not be clear to parties outside the organization that wrongdoing has occurred. External reporting may seem more justifiable when the wrongdoing is illegal, because society has acted to stop the particular activity, such as discrimination, through the establishment of agencies to receive complaints. A review of legal protections and a survey of employees suggests that both are more supportive of whistle-blowing when the wrongdoing is illegal than when it is unethical but not clearly illegal (Callahan 1990). Thus, we expect wrongdoing involving a violation of law (safety violations or illegal personnel practices, for example) to be

reported outside the organization more consistently than other types of wrongdoing.

Bureaucracy

Organizations that are more hierarchical, bureaucratic, or authoritarian may be less open to whistle-blowing challenges (Weinstein 1979:108), but to date there is no empirical evidence examining this hypothesis. Whistle-blowing represents a form of organizational dissent (Near and Miceli 1987:321) and, frequently, deviation from majority views (Greenberger et al. 1987:527). Bourgeois (1985:562) argued that in bureaucratic organizations facing performance declines, diversity of views may be suppressed in the belief that unity will improve performance. Schwenk (1988:101–2) proposed that in rigidly structured organizations where a single view predominates, dissent introduced by “devil’s advocates” is likely to be ignored. An intensive study of decision making in eight organizations showed that CEOs with authoritarian decision styles were suspicious of open disagreement and regarded it as “foot dragging” (Eisenhardt and Bourgeois 1988:743–44). Such climates thus may discourage whistle-blowing in general; we speculate, however, that members of bureaucratic organizations who find wrongdoing intolerable may report it to parties outside the organization, because external parties may be more likely to bring about change than internal parties who by definition resist challenge to the hierarchy.

Regulated Industries and Government Organizations

There is no research specifically addressing the potential effects of industry regulation on whistle-blowing, but we can speculate as to why industry differences may exist. Whistle-blowers may be more powerful when whistle-blowing is legally encouraged through the establishment of offices to serve as complaint recipients or through regulatory agencies for reporting wrongdoing. The Civil Service Reform Act of 1978 established “hot lines” and

created agencies and subunits to protect federal employees against retaliation when they blow the whistle on wrongdoing in their agencies (USMSPB 1981:ii).

Similarly, more highly regulated industries such as financial services and insurance may experience more external whistle-blowing because of the existence of regulatory agencies to which observers of wrongdoing might logically and easily report. In short, highly regulated industries face greater scrutiny and offer more channels for whistle-blowing than do less highly regulated industries. A report by the Panel on Government and the Regulation of Corporate and Individual Decisions (1980:60–62, 67–70) supports this speculation by providing a discussion of some of the agencies responsible for regulation in the financial services and insurance industries and the uncertainty associated with regulatory changes. Thus uncertainty may increase external scrutiny of these organizations. The extent of this scrutiny and the reasons for it were documented in a recent *Wall Street Journal* article (1989). Although all organizations are regulated to some extent, researchers have identified the financial and insurance industries as being heavily regulated (Mintzberg 1983:575–79; Thompson and Strickland 1990:73).

Summary of Hypotheses

Based on the considerations described above, our two hypotheses are the following.

Hypothesis 1. The decision not to report perceived wrongdoing to anyone will be associated with observers’ beliefs that (a) their own job performance is relatively poor; (b) co-workers are not harmed by the wrongdoing; (c) the wrongdoing does not harm an organization to which the observer is highly committed; (d) their pay is unsatisfactory; (e) reporting the particular incident is not morally required; and (f) reporting the particular incident is not part of one’s job. Wrongdoing will also tend to go unreported when (g) the wrongdoing involves something other than theft committed by an employee

below top management and (h) the organizational climate is highly bureaucratic.

Hypothesis 2. Whistle-blowing to parties external to the organization will be associated with observers' beliefs that (a) the public is harmed by the wrongdoing and (b) reporting the particular incident observed is not part of one's job. External reporting will also be more likely when (c) there are few other observers; (d) the wrongdoing is a form of theft committed by an employee below top management; (e) the wrongdoing involves a legal violation; (f) the organizational climate is highly bureaucratic; and (g) the organization is a highly regulated or government organization.

Strategy of the Analysis

Subjects

In 1986, a 25-page questionnaire was developed following an extensive literature review, consultation with internal auditors, pilot testing, and reviews of the instrument by members of the Research Foundation of the Institute of Internal Auditors (IIA). (Details of the development phase are available from the authors.) In 1987, copies of the questionnaire were mailed to the office addresses of the 3,853 Directors of Internal Auditing (DIAs) in North America who were members of the IIA. Completed anonymous surveys were returned to the IIA's Director of Research by 1,046 respondents. The IIA did not reveal how many questionnaires were undeliverable. Thus, the response rate was at least 27%, which seems fairly high considering the length of the questionnaire.

To examine the representativeness of the sample, we compared the percentages of respondents in each 4-digit SIC industry code category with those of the IIA's total membership. The correlation was extremely high ($r(54) = .96, p < .001$). The sample was predominantly male (86.3%), married (85%), well-educated (90% held college degrees, with 34% holding graduate degrees), and managerial (61.1% in middle management positions and 30% in

top management). Respondents had a mean age of 41.2 years, a mean of 9.3 years of service with their employers, and average annual salaries between \$50,000 and \$60,000. These demographic characteristics closely resemble those obtained in an earlier survey of members of the same professional association (Mautz, Tiessen, and Colson 1984), even though the earlier survey was concerned with career development issues, which obviously were very different from issues covered in the present survey. In that survey, respondents were found to average 41 years of age, with 10 years of service with their employers and 5 years in their current positions; 89% held college degrees, and 28% held graduate degrees (1984:39).

Grouping of Respondents

Respondents were asked whether during the previous 12 months they had personally observed or obtained direct evidence of any of 14 activities: employees stealing organization funds; employees stealing organization property; employees accepting bribes or kickbacks; employees abusing their official position to obtain substantial personal services or favors; employees giving unfair advantage to a contractor, consultant, or vendor; employees creating or tolerating a situation that poses a danger to public health or safety; management permitting development or production of unsafe products or products not in compliance with government regulations; management permitting working conditions that could endanger the safety of or cause physical harm to employees; waste of organization assets caused by inappropriate parties receiving money, goods, or services; waste caused by the purchase of unnecessary or deficient goods or services; waste of organization assets caused by badly managed organizational operations (which the respondent described); management covering up poor performance, whether financial figures or non-financial measures; management making overly optimistic and false projections of future performance; or employees committing a serious violation of organization policy or division policy,

regulation, or general legal statute other than those described above.

Respondents who did not check “yes” to any activity were considered *nonobservers* ($n = 177$).² Data from nonobservers were excluded, because the hypotheses examined here concern circumstances that affect the reporting of wrongdoing, given that it has been observed. The remaining respondents were grouped into four classes—inactive observers, internal whistle-blowers, external audit team whistle-blowers, and external whistle-blowers—based on their answers to questions in the balance of the questionnaire.

Observers were asked to “select the *one* activity that represents the most serious problem you know about,” and to focus on this selected activity in answering the remaining questions on the survey. Observers who had not reported the focal activity to any individual or group were classified as *inactive observers* ($n = 65$); those who had done so were considered whistle-blowers.

Whistle-blowers were separated into three groups, based on the parties to whom they said they reported the wrongdoing. Those who said they reported the wrongdoing *only* to parties internal to the organization (to the head of the department responsible for the activity, to the CEO/CFO, or to the audit committee of the Board of Directors [or comparable body]) were considered *internals* ($n = 419$). The audit committee sometimes might be considered external to the organization, but we treated it as an internal complaint channel because (a) in most cases auditors were directed to provide reports routinely to the audit committee and (b) the professional standards of the IIA treat such reports as the final step in a reporting process through the chain of command (Professional Standards and Responsibilities Committee 1985:3–4).

Based on our preliminary interviews with internal auditors, we could not predict whether the process of sharing

information with external auditors would be conceptually similar to internal whistle-blowing, so we separated these categories. Whistle-blowers who said they reported the wrongdoing to *no parties outside* the organization *except* the external audit team were considered *external audit team (EAT) whistle-blowers* ($n = 164$). All but two of the EAT whistle-blowers also reported wrongdoing to at least one party internal to the organization.

Whistle-blowers who reported wrongdoing to the media, a government agency, or a professional organization such as the IIA were considered *externals* ($n = 108$). All but 13 of the externals also reported wrongdoing to at least one party internal to the organization.

Respondents were excluded who (a) did not answer all of the items necessary to classify them ($n = 103$), or (b) answered items inconsistently (for example, DIAs who said they reported wrongdoing that they did not observe) ($n = 10$). The number of valid responses was further reduced by the occurrence of missing data on any of the predictors or control variables (described below) ($n = 166$). Thus, data from 590 observers of perceived wrongdoing were used in the analysis.

Because all data were self-reported, the variables should be viewed as perceptual in nature. To avoid redundancy, however, we omit the word “perceived” in most cases.

Predictors and Control Variables

For *Observer's job performance*, respondents indicated how they would have rated their overall performance a year earlier, compared to that of others in comparable positions. Higher scores suggested higher performance (1 = bottom 50%, to 6 = top 10%).

Respondents were asked, “Who or what was harmed by the activity?” Respondents’ scores on each of the following dichotomous variables were “2” if harm was perceived and “1” if not: *Co-workers were harmed by wrongdoing*; *Public in general was harmed by wrongdoing*; *Organization was*

² Readers are cautioned that the data are self-reported and thus subject to perceptual biases.

harmed by wrongdoing. In the third case, "organization" referred to the organization's performance, climate, or culture.

A 12-item organizational commitment scale was factor-analyzed to determine if three subscales representing compliance, internalization, or identification emerged as they did in an important earlier study (O'Reilly and Chatman 1986:494). The analysis revealed that for this sample, one primary factor emerged, which we called *Organizational commitment*, allowing for a nine-item scale corresponding to a combination of the internalization and identification subscales (Cronbach's $\alpha = .89$). To represent the interaction term between the preceding two variables, their scores were multiplied to form *Organizational commitment* \times *Organization was harmed by wrongdoing*.

For *Pay satisfaction*, respondents completed the Pay Satisfaction Questionnaire (Heneman and Schwab 1985), comprising 18 items representing "various aspects" of one's pay, with accompanying five-point scales ranging from "very dissatisfied" to "very satisfied." An exploratory factor analysis revealed that for this sample, one predominant factor—a global pay satisfaction factor—emerged; scores on all items were summed and divided by 18 to yield an average satisfaction index (Cronbach's $\alpha = .93$). Because pay satisfaction is often correlated with salary level and seniority (Heneman 1985), two control variables were included. Respondents indicated their *Annual salary* (within \$10,000 ranges, 1 = \$20,000–30,000 to 9 = over \$100,000) and *Years with present employer*.

For *Morally compelled to report this activity* and *Blowing the whistle on the activity was role-prescribed*, respondents indicated whether they thought, at the time they witnessed the activity, that they were (a) morally compelled or (b) required by their jobs to report the activity. Respondents could select both, either, or neither. For each of the two measures, respondents received a score of "2" if the item was selected and "1" if not.

For *Number of other observers*, respondents were asked how many other persons in their organizations were aware that the

focal activity was occurring when they first became aware of it. Because many respondents answered with words such as "many" rather than a number, responses were recoded to retain a more representative set of cases. Responses of "I don't know" were treated as "0," because the diffusion of responsibility effect is predicated on the idea that if observers do not know that others are aware of the wrongdoing, they will feel greater responsibility to report it. Responses indicating single numbers ranging from 4 to 10 were collapsed and combined with responses of "several" or of ranges (such as "8 to 10"). Responses indicating single numbers in excess of 10 were collapsed and combined with responses of "many."

Respondents indicated the type of wrongdoing represented by the focal activity. If the wrongdoing involved *Employee theft* (stealing organization funds; stealing organization property; accepting bribes or kickbacks), respondents received a score of "2"; otherwise, they received a score of "1." Respondents were asked to indicate the hierarchical level of the persons who caused the wrongdoing. Responses on *Low hierarchical level of wrongdoer* ranged from 1 (top management) to 5 (non-exempt employee). To represent the interaction term between the preceding two variables, their scores were multiplied to form *Employee theft* \times *Low hierarchical level of wrongdoer*.

Legal violation, one classification of the type of wrongdoing observed, comprised violations of the law, such as the creation or toleration of conditions that posed a danger to public health or safety, other than theft. Respondents received a score of "2" if the focal activity involved a legal violation other than theft, and "1" if not.

For *Bureaucratic climate*, responses to a 24-item measure of organization climate were factor-analyzed to determine if three eight-item subscales representing a bureaucratic profile, an innovative profile, and a supportive profile emerged as hypothesized in Wallach (1983:28). For each item comprising this measure, respondents indicated on a four-point scale the proportion of time (4 = most of the time) that the item de-

scribed their organizations. The analysis revealed that for this sample, multiple factors emerged, but four items (rather than eight) loaded on the bureaucratic profile. Summed scores for these four items—"procedural," "structured," "ordered," and "regulated"—formed the predictor used in this study (Cronbach's $\alpha = .77$).

For *More highly regulated or government organization*, respondents indicated the 4-digit SIC code that best described the most important business of their organizations. Following the logic spelled out earlier in the paper, these codes were then collapsed into the following dichotomous categories (percentages of respondents selecting each category are in parentheses): organizations in the financial, insurance, and real estate industries (35.1%) and in government (11.6%) (coded 2); and all other organizations (53.3%) (coded 1).

Results

Means, standard deviations, and Pearson correlation coefficients appear in Table 1. As Table 1 shows, most correlations among predictors (except the interaction terms) were less than .40; therefore, multivariate analysis was not precluded by multicollinearity (for example, correlations above .60). The SPSS^X multiple discriminant analysis, with hierarchical stepwise entry of the variables according to the Wilks' lambda criterion, was performed to test the hypotheses (Table 2). Variables representing the predicted main effects were made eligible for entry in the first hierarchical phase of the analysis, and the interaction terms were made eligible for entry in the second hierarchical phase of the analysis. Although the assumption of normally distributed predictor values was violated in the case of the dichotomous predictors, discriminant analysis is quite robust with respect to such violations (Jackson 1983:106).

As Table 2 shows, all of the variables loaded on the discriminant functions (that is, they contributed significant explained variance), with the exception of the interaction terms (Organizational commitment \times Organization was harmed by wrongdo-

ing, Employee theft \times Low hierarchical level of wrongdoer), a control variable (Years with present employer), and two hypothesized predictors (Organization was harmed by wrongdoing, Legal violation). In other words, all of the variables that are shown in Table 2 explained variance in at least one of the two functions. The variables that do not appear there failed to explain variance either in whether wrongdoing was reported or in the person or agency to whom wrongdoing was reported. Two significant functions were produced: the first contrasted external whistle-blowers (positive centroid) with everyone else, and the second contrasted inactive observers (negative centroid) with whistle-blowers of all types.

Function 2 shows that, consistent with the first hypothesis, inactive observation was more likely to occur when the observer's job performance was poor; reporting the incident was not morally required and reporting the incident was not role-prescribed; and the organization had a relatively bureaucratic climate. Observers were less likely to blow the whistle when they were less committed to their organizations, regardless of whether the organization was viewed as a victim of wrongdoing. Contrary to our hypothesis, whistle-blowing was not related to the observer's belief that the wrongdoing was harmful to co-workers, nor was it related to employee theft, the hierarchical level of the wrongdoer, or their interaction. Inactive observers were *more* satisfied with their pay than whistle-blowers, though they had lower salary levels, and they believed that there were more fellow observers of wrongdoing than did whistle-blowers.

Function 1 shows that the second hypothesis also was partially supported. External whistle-blowing was associated with (a) the perceptions that the wrongdoing harmed the public and that few other observers were aware of the wrongdoing; (b) employee theft; (c) wrongdoing by employees at low hierarchical levels—though the predicted interaction between employee theft and the hierarchical level of the employee was not significant; and

Table 1. Whistle-Blowing by Internal Auditors: Pearson Correlations, Means, and Standard Deviations for the Predictors.^a

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 Observer's Job Perf.	4.94	1.21																	
2 Co-workers Harmed	1.20	0.40	03																
3 Org. Commitment	46.48	10.79	04	-02															
4 Org. Harmed	1.81	0.40	05	-11**	-09*														
5 Org. Com. × Harmed	83.51	26.41	07	-10*	68***	66***													
6 Pay Satisfaction	3.44	0.72	-05	-03	38***	-07	23***												
7 Annual Salary	4.21	2.08	07	-03	14***	10*	19***	30***											
8 Years	9.16	8.40	-02	-05	23***	05	21***	18***	38***										
9 Morally Compelled	1.65	0.47	05	02	01	-07	-04	-04	00	-06									
10 Role-Prescribed	1.74	0.40	00	05	01	01	01	01	-02	00	-23***								
11 Public Harmed	1.20	0.40	00	05	-03	-12**	-12**	-12**	-13**	00	03	05							
12 Number Other Obs.	2.69	1.71	-05	12**	-16***	-08*	-06	-04	-03	-10*	-03	15***	01						
13 Employee Theft	1.45	0.50	01	15***	18***	-13**	04	12**	04	06	12**	10*	-03	-22***					
14 Low Hier.																			
15 Wrongdoer	2.75	1.39	01	08*	21***	-13**	05	21***	-03	05	02	17***	01	-25***	53***				
16 Theft × Low Bureaucratic	4.34	3.15	01	13**	20***	-16***	03	15***	-02	05	07	14***	-01	-25***	80***	91***			
17 Climate	6.80	2.73	02	03	27***	-08*	14***	10*	00	11**	04	06	12**	-05	08*	14***	12**		
18 Legal Violation	1.04	0.20	-01	03	-01	-06	-05	03	01	-04	03	01	05	-04	-18***	-12**	-15***	02	
18 Regulated Org.	1.22	0.41	-01	06	02	-06	-04	-02	-20***	01	-01	03	19***	-04	07	08*	10*	28**	-03

Source: See "Strategy of the Analysis," above.

^a N = 590. Correlation decimals are omitted.

* Statistically significant at the .05 level; ** at the .01 level; *** at the .001 level (two-tailed tests).

Table 2. Results of the Discriminant Analysis Showing the Relationship of the Predictors to Whistle-Blowing.^a

Statistic	N	Function 1 ^b	Function 2 ^c
Significance Tests			
Eigenvalue		.25	.16
Wilks' Lambda		.67	.84
Chi-Square		232.27*	102.81*
Degrees of Freedom		39.	24.
Group Centroids			
Inactive Observers	53	-.28	-1.34
Internal Whistle-Blowers	328	-.11	.02
External Audit Team Whistle-Blowers	126	-.34	.36
External Whistle-Blowers	83	1.11	.24
Rotated Standardized Discriminant Function Coefficients			
Observer's Job Performance		.08	.24
Co-workers Were Harmed by Wrongdoing		.39	.03
Commitment to the Organization		.01	.25
Pay Satisfaction		.16	-.36
Annual Salary		-.16	.22
Morally Compelled to Report This Activity		.12	.35
Blowing the Whistle on the Activity Was Role-Prescribed		-.08	.84
Public in General Was Harmed by Wrongdoing		.26	.00
Number of Other Observers		-.30	-.25
Employee Theft		.31	-.06
Low Hierarchical Level of Wrongdoer		.27	.06
Bureaucratic Climate		.05	-.23
More Highly Regulated or Government Organization		.46	-.12

Source: See "Strategy of the Analysis," above.

^a N = 590. The coefficient of discriminant power (Tatsuoka 1970:48) was .31. All predictors shown below contributed significantly to the ability of the functions to differentiate the groups.

^b Predictors with relatively large positive or negative standardized rotated coefficients on Function 1 differentiate external whistle-blowers (positive scores) from all other groups (negative scores). Predictors with positive coefficients are positively associated with external whistle-blowing, whereas predictors with negative coefficients are positively associated with membership in the other groups.

^c Predictors with relatively large positive or negative standardized rotated coefficients on Function 2 differentiate internal, external audit team, and external whistle-blowers (positive scores) from inactive observers (negative scores). Predictors with negative coefficients are positively associated with inactive observation, whereas predictors with positive coefficients are positively associated with membership in the other groups.

* Statistically significant at the .0001 level.

(d) highly regulated or government organizations. Contrary to our hypothesis, external whistle-blowing was unrelated to wrongdoing involving a legal violation, to bureaucratic climate, and to the belief that whistle-blowing was role-prescribed for that incident. We found, but did not predict, that the belief that wrongdoing was harmful to co-workers was positively related to external whistle-blowing.

Discussion

Our findings suggest that a number of variables may lead to greater reluctance

on the part of internal auditors to blow the whistle and to others' willingness to go beyond the prescriptions for internal reporting. Below we discuss these findings and their implications for research and practice. Because of our reliance on perceptual, cross-sectional data, however, our interpretation of cause-effect relationships must be viewed as tentative; we discuss the study's limitations at greater length below.

What Suppresses Reporting of Wrongdoing?

Persons who observe wrongdoing do

not report it when they consider themselves to be relatively poor performers, and they earn somewhat lower salaries than persons who report wrongdoing. These findings are consistent with hypotheses concerning the behavioral effects of power supported in previous research on public sector whistle-blowing (Miceli and Near 1984:698, 1988:274), and they therefore suggest that such effects are not peculiar to the public sector. Inactive observers tended to be satisfied with their pay but not highly committed to their organizations; perhaps they stay with their organizations because of extrinsic rewards rather than because of loyalty or shared values. If so, inactive observers may feel their investments in the organization are lower and that they therefore have little to gain by trying to correct wrongdoing; or perhaps they feel less need to reciprocate by helping the organization. Clearly these speculations should be addressed in future research.

As predicted by models that view whistle-blowing as prosocial behavior, observers do not act when they do not view the form of wrongdoing in question as requiring action on moral grounds, nor do they act when they believe that their job does not require reporting the specific activity. These findings underscore the discretionary nature of whistle-blowing, even when it might appear that one's job requires the reporting of wrongdoing. Future research should examine whether the extent to which an observer of wrongdoing feels compelled to blow the whistle is a function of personal variables, situational variables, or both. This study shows that one situational variable, the presence of many other observers of wrongdoing, may diffuse responsibility for reporting, thus reducing whistle-blowing except to external parties. This finding, however, is not entirely consistent with previous findings in the public sector (Miceli and Near 1988:274) and in an educational institution (Miceli et al. 1991:286), which showed that internal reporting was associated with the presence of larger numbers of observers. Thus, research is needed to identify conditions that may interact with this

variable, such as the social support that the observer believes other observers may provide to him or her if the wrongdoing is reported. Finally, inactive observers tend to view their organizations as being bureaucratic, that is, highly procedural, structured, ordered, and regulated.

These findings provide three important implications. First, whistle-blowers are likely to be valued, committed members of the organization who feel compelled to report wrongdoing by their own sense of moral behavior and who believe they are doing their jobs as the organization has prescribed them. Consequently, managers who tend to dismiss such complaints by denigrating the whistle-blower may be misunderstanding the whistle-blower's reasoning and motives. Second, establishing "watch-dog" roles for organizational members, touted in the popular press and anecdotal accounts as critical, may indeed be effective in increasing whistle-blowing. Thus, organizations must spell out clearly under what circumstances an activity is considered wrongful and what members should do in response to it. Interestingly, since all our respondents could be considered to hold the same job, our findings suggest that it is less important to define a job as a whistle-blowing job than to communicate the conditions under which whistle-blowing is appropriate to organization members, regardless of the job title.

Third, there may be steps that organizations can take to encourage reporting through reducing bureaucracy, such as increasing participation and two-way communication. Because our measure of organizational structure was based solely on the perception of one member of the organization, however, it cannot be viewed as necessarily an accurate description of the organization, even if it does influence the individual's behavior. The validity of organization members' perceptions of their organizations' structures and policies and the consequences of changing structures and policies could be examined in further research.

Why Do Some Auditors Report Externally?

Largely consistent with our model of whistle-blowing, external channels were used when observers felt that the public or co-workers were harmed by the wrongdoing, when the wrongdoing involved theft, when it involved relatively low-level employees, and when there were few other observers. The present results taken together with prior results suggest that the presence of other observers may affect internal and external whistle-blowing differently; the "diffusion of responsibility effect" here was more pronounced for external whistle-blowers.

External channels were more likely to be used by respondents from government agencies and from the financial industries, which were more highly regulated. There are at least three possible explanations for this finding, although all must be viewed as highly speculative due to the exploratory nature of research on the role of industry in wrongdoing and whistle-blowing.

First, it may be that the total amount of wrongdoing is greater in these organizations than in others and that wrongdoing is more accepted in these organizations. Tacit acceptance of such wrongdoing by the companies involved would discourage internal reporting and leave whistle-blowers with only one option—external reporting. Second, these organizations may be more subject to external scrutiny than are companies in other industries (Swartz and Smith 1988), and potential whistle-blowers might therefore have better knowledge of the identity of relevant regulatory agencies as well as more opportunities (because of more frequent contacts) to report wrongdoing to them. Third, it is possible that whistle-blowers are more likely to use external channels in these organizations than in others simply because internal channels for blowing the whistle are less available or are perceived as less effective or powerful.

In any case, it is clear that more research is needed to investigate the impact that industry may have on whistle-

blowing. Some other industry variables that might affect whistle-blowing are industry profitability, stage of industry evolution, level of industry rivalry, and threat of entry into the industry (see Porter [1980] for a discussion of the effects of these variables).

Limitations and Suggestions for Future Research

The present study employed a cross-sectional questionnaire; the limitations of that method (such as biases in self-reports and same source bias) are well known. Because the variables investigated here involved ethical issues, it is particularly likely that the self-selection of respondents may have resulted in a sample that is somehow different from the population. For example, the respondents may have been more likely to view the topic as a matter of principled behavior. Further research is needed to test this proposition. Future research could also examine whether having characteristics in common with perceived victims may lead to more whistle-blowing.

Blackburn (1988:74) called for more cause-effect research, within the limitations of research designs that reflect the sensitivity of reporting wrongdoing. Unfortunately, most field experimental and longitudinal survey designs, which are frequently used to examine questions that involve cause-effect issues, are probably unworkable with regard to whistle-blowing. For example, because of obvious ethical concerns, one cannot randomly select employees to witness manipulated wrongdoing in order to determine which individual or situational characteristics are associated with whistle-blowing. Further, longitudinal survey designs require that the respondent be identified by name or by code in order for the experimenter to match data collected at different times. In the case of reactions to organizational wrongdoing, many sensitive issues are raised that might cause many persons who are reluctant to identify themselves not to respond to the questionnaire. Because of this potentially systematic self-selection bias, any data collected might be

of questionable validity. Finally, there is the issue of the representativeness of organizations that would be willing to sponsor intrusive or longitudinal research on whistle-blowing. Perhaps only "clean" organizations would allow researchers to investigate wrongdoing and whistle-blowing. Therefore, although research based on existing cross-sectional survey data has serious limitations, such data may be the best available for some time to come.

Generalizability is an empirical question and it should be examined in future research. We do not know to what extent the present findings would apply to other types of whistle-blowers. Finally, one other suggestion bears mention. We relied on measures developed specifically for this study because there *are* no other existing measures of many variables pertinent to whistle-blowing. Many of our measures were based on one questionnaire item because we did not want the questionnaire to be unreasonably long. As the literature develops, however, it may be possible for researchers to devise multi-item, standardized instruments.

Conclusion

The results of this study suggest that many variables influence internal auditors' decisions whether or not to report wrong-

doing and through what channels. Consistent with previous research suggesting that inactive observers feel rather powerless, we find that those who observe wrongdoing but do not report it tend to be relatively poor performers with lower salaries than those who report wrongdoing. They are satisfied with their pay but not highly committed to their organizations, which they perceive as relatively bureaucratic. Our findings demonstrate that internal auditors are more likely to report a form of wrongdoing the more specifically their responsibility for reporting that form of wrongdoing is addressed in their role prescriptions. One of our findings that does not accord with the results of some previous studies is that observers were *more* likely to report an incident of wrongdoing when they believed that there were many other observers of the incident.

Several of our predictions regarding the determinants of reporting to agencies outside the organization were confirmed. External channels (rather than internal channels) were used when observers felt that the public or co-workers were harmed by the wrongdoing, when the wrongdoing involved theft by relatively low-level workers, when there were relatively few other observers, and when the organization was highly regulated.

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