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January 30, 2020

Hon. Gerald E. Connolly
Chairman
Subcommittee on Government Operations
Committee on Oversight and Reform
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Re: Hearing on "Protecting Those Who Blow the Whistle on Government Wrongdoing," held January 28, 2020

Dear Chairman Connolly:

Thank you again for inviting me to participate on behalf of the National Whistleblower Center in the Hearing on "Protecting Those Who Blow the Whistle on Government Wrongdoing," held on Tuesday, January 28, 2020, before the House Subcommittee on Government Operations. I am writing to provide supplemental information to address three issues that were discussed at the hearing. Please make this supplemental letter a part of the hearing record to assist the Members as they consider possible reforms of the laws governing whistleblower protection that apply to the federal workforce.

I. THE UKRAINE WHISTLEBLOWER IS LEGALLY PROTECTED BY 50 U.S.C. § 3234.

First, recent public comments by President Donald Trump's campaign, and supporters of President Trump, as recently as Wednesday January 29, 2020, asserting that the intelligence community whistleblower who reported alleged abuse of authority and misconduct related to the Ukraine scandal is "not a real whistleblower." This misinformation is being spread as a means of justifying publishing the alleged name of the Ukraine whistleblower, which itself is a violation of the whistleblower's confidentiality and other provisions of law.[1]

[1] It is a criminal offense to knowingly out the identity of a confidential whistleblower or confidential information who discloses wrongdoing to law enforcement. See, 18 U.S.C. § 1513(e). Also see, *United States v. Edwards,* 783 Fed.Appx. 540 (6th Cir. 2019); *U.S. v. Edwards,* 291 F. Supp.3d 821 (S.D. Ohio 2017).

Such comments suggesting that the Ukraine whistleblower is "not a real whistleblower" and, therefore, not legally protected are reckless, flat wrong and unsupported by the Intelligence Community whistleblower protection statute. 50 U.S.C. § 3234(b).

Every member of Congress must read the plain words of 50 U.S.C. § 3234 because it is instructive and clear on this issue. In 2014, Congress enacted this statute to expressly protect any intelligence community employee who discloses alleged wrongdoing to the Inspector General, the Intelligence Committees of Congress, or any Member of an Intelligence Committee.[2]

It is not possible for anyone to argue that the whistleblower who triggered the impeachment process is not legally protected by 50 U.S.C. § 3234(b). This is not subject to any debate given the plain words of the statute and the facts surrounding the whistleblower's complaint. See Exhibit 1 (a copy of the current whistleblower statutes as published by the Intelligence Community Inspector General).[3]

It is even more troubling that confusion on this issue exists and misinformation is being spread by supporters of President Trump because 50 U.S.C. § 3234(d) expressly requires the President to ensure that the protections of the whistleblower law for intelligence community employees are enforced. That has been the law since 2014 when 50 U.S.C. § 3234 was enacted by Congress.[4]

It would be legal malpractice for any whistleblower attorney to advise intelligence community employees that they are not legally protected if they make a complaint to the Inspector General. We should expect the President and his supporters, every public official, and all federal contractor and agency employees to know this basic principle set forth in the whistleblower statute.

II. EMPLOYEES OF CONTRACTORS IN THE INTELLIGENCE COMMUNITY ARE PROTECTED BY 50 U.S.C. § 3234.

Second, at the hearing Rep. Thomas Massie noted that public disclosures of classified information were made by Edward Snowden and Mr. Massie asked Inspector General Horowitz whether employees of contractors in the intelligence community currently have whistleblower protections. We commend Mr. Massie for asking the question because it is critically important. However, in response to that question Mr. Horowitz indicated he was not completely sure.

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[2] PL 113-126, 128 Stat 1390 (July 7, 2014).

[3] https://www.dni.gov/ICIG-Whistleblower/resources/WB%20Stat.pdf.

[4] When Congress originally passed 50 U.S.C. § 3234 the provision requiring the President to ensure that these whistleblower protections are enforced was listed as 50 U.S.C. § 3234(c), but that provision was changed to 50 U.S.C. § 3234(d) when the statute was amended in 2018 to add express protections for employees of contractors in the intelligence community. See, PL 115-118, 132 Stat 3 (Jan. 19, 2018), FISA Amendments Reauthorization Act of 2017.

We would like the record to be clear that in January of 2018 Congress did add express whistleblower protections for employees of contractors in the intelligence community. Those protections can be found at 50 U.S.C. § 3234(c). See, Exhibit 1.

The uncertainty by which this was discussed at the hearing might be due to the fact that the statute was amended in January 2018 to provide whistleblower protections for intelligence community contractor employees. But uncertainty by government officials is nonetheless troubling because employees in the intelligence community can be criminally prosecuted if they don't follow the law and bring their concerns anywhere other than those places listed in 50 U.S.C. § 3234(b) or (c).[5] Every member of Congress and every Inspector General and all employees in the intelligence community should be made aware what type of disclosures under 50 U.S.C. § 3234 are permitted given the serious risks of liability for employees in the intelligence community if they don't follow the whistleblower law.

III. WHISTLEBLOWERS WHO PROVIDE "SECONDHAND" INFORMATION ARE PROTECTED BY EVERY FEDERAL WHISTLEBLOWER STATUTE AND UNDER SIMILAR STATUTES PROTECTING WHISTLEBLOWERS IN THE PRIVATE SECTOR.

At the hearing held on January 28th, Rep. John Sarbanes asked me a question about the value of "secondhand" information provided by whistleblowers. In my response to Mr. Sarbanes' question I cited to a recent study that was mentioned in an article in the Harvard Business Review by the authors of a new research study "on employee whistleblowing, using previously unavailable data." Exhibit 2, Welch, Kyle and Stubben, Stephen, "Throw Out Your Assumptions About Whistleblowing," *Harvard Business Review* ("HBR") (Jan. 14, 2020).[6] The research study analyzed more than 2 million whistleblower disclosures at more than 1,000 companies between 2004 and 2017. As the researchers wrote in the HBR article, there are three lessons to be learned from the analysis of this data:

1. More issues reported is a good thing.
2. Second Hand reports are more credible and valuable.
3. Reports with few details can be the starting point for something more.

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[5] For example, in 2017, Reality Winner, an employee of a federal contractor of the National Security Agency, was arrested for disclosing one document that contained classified information to the *Intercept*. The subject matter of the document disclosed by Ms. Winner described Russian attempts to interfere with the 2016 presidential election by hacking a U.S. voting software supplier and sending spear-phishing emails to more than 100 local election officials just days before the November 8, 2016 election. On August 23, 2018, Ms. Winner was sentenced to five years and three months in prison for violating the Espionage Act. Ms. Winner's sentence was the longest ever imposed in federal court for an unauthorized release of government information to the media.

[6] https://hbr.org/2020/01/throw-out-your-assumptions-about-whistleblowing

See, Exhibit 2.

The authors of this research study reported that "companies that have more complaints whistleblower hotlines actually have fewer lawsuits, smaller bills from legal settlements and fewer fines." *Id.* They also concluded that "companies with more internal reports have more positive attributes (e.g. they are more profitable and have better governance practices)." *Id.*

Additionally, the researchers concluded that "reports based on secondhand information are not only credible, but also more likely to provide information that helps prevent litigation and government fines." *Id.* They note, that other researchers have also concluded that, "'Secondhand reports are often the most valuable because there is less emotion and bias associated.'" *Id.* (citation omitted). They also noted that "a secondhand report can be the starting point for an investigation and subsequent response that could not have happened otherwise." *Id.*

A copy of the full report is also attached hereto. See Exhibit 3, Stubben, Stephen R. and Welch, Kyle T., "Are Secondhand Internal Whistleblowing Reports Credible?" (Oct. 2019). In the Abstract of the study, the authors state:

> This study examines the characteristics, credibility, and value of internal whistleblowing reports based on secondhand information. We analyze over two million reports submitted to over one thousand publicly traded U.S. firms between 2004 and 2017 and *find that the claims in secondhand reports are 47.7% more likely than firsthand reports to be substantiated by management,* which suggests that management views many secondhand reports to be credible.

Exhibit 3, Abstract (emphasis added).

Notably, the researchers found that the results of the study "have implications for companies' use of their internal [whistleblower] systems." *Id.*, Report, p. 15. They continued by stating that "*secondhand reports may be the only source of information* about certain activities, *in particular those were it is especially costly for an individual with firsthand knowledge to step forward.*" *Id.* (emphasis added).

The authors were also aware that the results of this research study "may also provide insight into the current debate in the United States on the credibility of internal [whistleblower] reports based on secondhand information," and that the findings of this study "may inform regulators of their potential utility in a variety of settings." *Id.* A number of references cited at the end of the report are articles and

materials concerning the Ukraine whistleblower[7] and the reporting process for intelligence community whistleblowers. *Id.*, pp. 16-18.

Finally, we note that there is no requirement in any of the federal whistleblower statutes requiring that whistleblowers provide firsthand information in order to be protected. In fact, the only requirement to obtain legal protection is that whistleblowers make a disclosure of information that the employee "reasonably believes evidences—

> (A) a violation of any Federal law, rule, or regulation (including with respect to evidence of another employee or contractor employee accessing or sharing classified information without authorization); or
>
> (B) gross mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety."

See, Exhibit 1, 50 U.S.C. § 3234(b).

If you have any questions about any of the information contained in this supplemental letter please do not hesitate to contact us. Thank you again for your interest in this important issue.

Sincerely,

David K. Colapinto
On behalf of the
National Whistleblower Center

Attachments

Exhibit 1 - A copy of 50 U.S.C. § 3234(b), as amended.

Exhibit 2 - Welch, Kyle and Stubben, Stephen, "Throw Out Your Assumptions About Whistleblowing," *Harvard Business Review* ("HBR") (Jan. 14, 2020).

Exhibit 3 - Stubben, Stephen R. and Welch, Kyle T., "Are Secondhand Internal Whistleblowing Reports Credible?" (Oct. 2019).

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[7] We note that according to the public record, the Ukraine whistleblower complaint reportedly contained both firsthand and secondhand information.

EXHIBIT 1

SELECTED EXCERPTS: WHISTLEBLOWING STATUTORY PROTECTIONS

50 U.S.C. Section 3234, Prohibited personnel practices in the intelligence community
[Includes changes from S. 139, the FISA Amendments Reauthorization Act of 2017 (January 19, 2018)]

(a) Definitions

(3) Personnel action

The term "personnel action" means, with respect to an employee in a position in a covered intelligence community element (other than a position excepted from the competitive service due to its confidential, policy-determining, policymaking, or policy-advocating character), or a contractor employee—

(A) an appointment;
(B) a promotion;
(C) a disciplinary or corrective action;
(D) a detail, transfer, or reassignment;
(E) a demotion, suspension, or termination;
(F) a reinstatement or restoration;
(G) a performance evaluation;
(H) a decision concerning pay, benefits, or awards;
(I) a decision concerning education or training if such education or training may reasonably be expected to lead to an appointment, promotion, or performance evaluation; or
(J) any other significant change in duties, responsibilities, or working conditions.

(4) CONTRACTOR EMPLOYEE.—The term 'contractor employee' means an employee of a contractor, subcontractor, grantee, subgrantee, or personal services contractor, of a covered intelligence community element. [NEW IN 2018]

(b) AGENCY EMPLOYEES.

Any employee of an agency who has authority to take, direct others to take, recommend, or approve any personnel action, shall not, with respect to such authority, take or fail to take a personnel action with respect to any employee of a covered intelligence community element as a reprisal for a lawful disclosure of information by the employee to the Director of National Intelligence (or an employee designated by the Director of National Intelligence for such purpose), the Inspector General of the Intelligence Community, the head of the employing agency (or an employee designated by the head of that agency for such purpose), the appropriate inspector general of the employing agency, a congressional intelligence committee, or a member of a congressional intelligence committee, which the employee reasonably believes evidences—

SELECTED EXCERPTS: WHISTLEBLOWING STATUTORY PROTECTIONS

50 U.S.C. Section 3234, Prohibited personnel practices in the intelligence community
[Includes changes from S. 139, the FISA Amendments Reauthorization Act of 2017 (January 19, 2018)]

(1) a violation of any Federal law, rule, or regulation; or
(2) mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety.

(c) CONTRACTOR EMPLOYEES. [NEW IN 2018]

(1) Any employee of a contractor, subcontractor, grantee, subgrantee, or personal services contractor, of a covered intelligence community element who has authority to take, direct others to take, recommend, or approve any personnel action, shall not, with respect to such authority, take or fail to take a personnel action with respect to any contractor employee as a reprisal for a lawful disclosure of information by the contractor employee to the Director of National Intelligence (or an employee designated by the Director of National Intelligence for such purpose), the Inspector General of the Intelligence Community, the head of the contracting agency (or an employee designated by the head of that agency for such purpose), the appropriate inspector general of the contracting agency, a congressional intelligence committee, or a member of a congressional intelligence committee, which the employee reasonably believes evidences—

(A) a violation of any Federal law, rule, or regulation (including with respect to evidence of another employee or contractor employee accessing or sharing classified information without authorization); or
(B) gross mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety.

(2) A personnel action under paragraph (1) is prohibited even if the action is undertaken at the request of an agency official, unless the request takes the form of a nondiscretionary directive and is within the authority of the agency official to request. [NEW IN 2018]

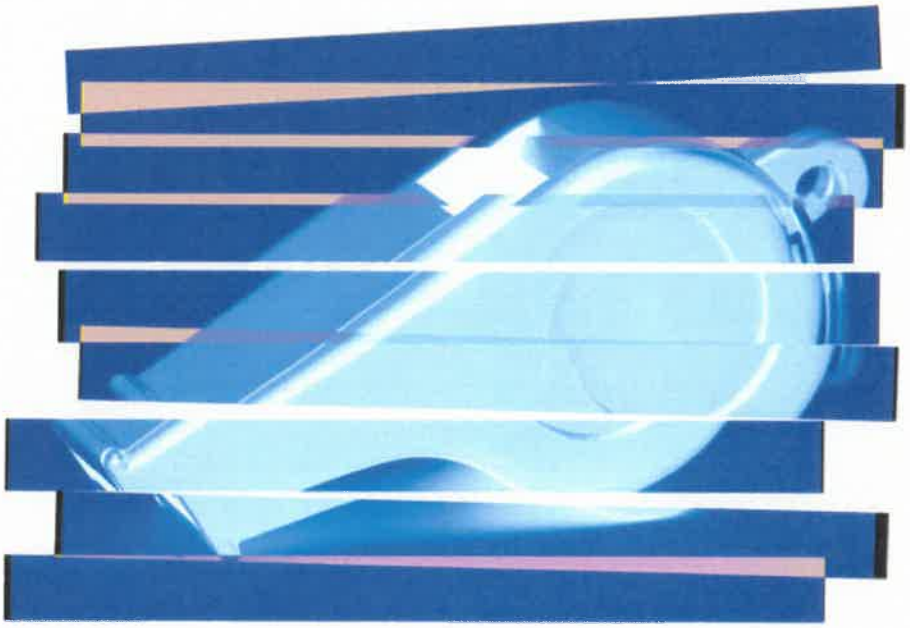
EXHIBIT 2

MANAGING PEOPLE

Throw Out Your Assumptions About Whistleblowing

by Kyle Welch and Stephen Stubben

January 14, 2020



_laurent/Getty Images

Whistleblowing stories are all over the news. Some observers have attributed this to a systemic change in society. There are more stories about whistleblowing, the argument goes, because there are more crimes to report.

However, rather than an increase in criminal activity, we may instead be observing an increase in the willingness of employees to speak up. Consider the dramatic increase in claims of sexual harassment in 2017 as the #MeToo movement gained momentum. Was this a sudden increase in harassment, or an increased willingness to speak up about problems that have been ongoing for years?

Our research on employee whistleblowing, using previously unavailable data, shows for the first time that we may be in the golden age of accountability systems. In 2018, NAVEX Global, the leading provider of employee hotline and incident management systems, provided us secure, anonymized access to more than 2 million internal reports made by employees of more than 1,000 publicly traded U.S. companies.

Our study of the data led us to two important findings: First, whistleblowers are crucial to keeping firms healthy. The average manager seems to take these reports seriously and uses them to learn of and address issues early, before they evolve into larger, more costly problems. We also found that second hand reports are more credible and more valuable, on average, than firsthand reports.

Based on our research we've identified three lessons for leaders on effectively managing whistleblower systems.

Lesson 1: More issues reported is a good thing.
Which company would you rather lead — one with more issues reported through internal whistleblowing systems, or one with fewer issues reported?

Our first study found that companies that have more complaints from whistleblower hotlines actually have fewer lawsuits, smaller bills from legal settlements, and fewer fines. Moreover, companies with more internal reports have more positive attributes (e.g. they are more profitable and have better governance practices).

On the surface, most people would assume that companies with more issues being reported are more troubled, but the number of internal reports seems to reflect a positive feedback culture more than the extent of problems occurring within the company. All companies have their share of concerns, but not all companies have a culture where employees feel secure and valued when sharing feedback. We found that on the balance, more reports are a good thing, reflecting greater trust in management by employees and a greater flow of information to management about

potential problems.

Internal whistleblowing systems are a tool to see what you otherwise wouldn't. Not all problems are observable in operations metrics and accounting reports. Daniel Garen, principal at Pivot Point Compliance Management and a former compliance officer at Danaher and Siemens, notes, "Employee hotlines have been the single greatest source for uncovering problems at the organizations I have worked with."

Those who view a higher number of internal reports as a bad thing have been known to take actions like changing the hotline's phone number, ignoring reports or retaliating against employees who speak up. "Nothing will destroy a hotline and the culture of compliance in an organization faster than retaliation against good-faith whistleblowers," Garen explains. Managers who seek to have fewer reports submitted should know that companies with fewer reports actually tend to have worse outcomes in terms of litigation and fines.

The question directors and managers need to ask is not how to lower the number of whistleblowing reports. Instead, savvy managers and directors look at an increased volume of reports and ask, "Does our compliance team have enough resources to investigate these reports?"

Lesson 2: Secondhand reports are more credible and valuable.
Which internal report would you trust more — one submitted by an employee with firsthand information or one submitted by an employee based on secondhand information?

Compliance officers seeking to allocate resources efficiently have developed assumptions about managing and investigating reports. One is to discount secondhand reports. While this might make intuitive sense, our research suggests otherwise. We find that reports based on secondhand information are not only credible, but also more likely to provide information that helps prevent litigation and government fines.

and government files.

Garen explains this counterintuitive finding, noting, "Secondhand reports are often the most valuable because there is less emotion and bias associated. Even when the claim is not entirely validated, these reports often alert you to issues before they become more serious."

While a firsthand account of any single event will usually be more reliable, when it comes to internal whistleblowing reports, the types of issues reported firsthand differ from those reported secondhand. Firsthand reports are more likely to identify minor, self-serving claims, such as "My thermostat is broken." Secondhand reports are more likely to identify critical issues that implicate other employees, such as "I think a co-worker may be embezzling company funds."

Guidance provided in compliance training manuals is often misinterpreted by those investigating internal reports. For example, guidance from the Society of Corporate Compliance and Ethics (SCCE), the largest and most active compliance officer association, states: "The basis of the witness' knowledge is always important. You must determine whether the witness is speaking from personal knowledge or just relying on the hearsay statements of others." Likewise, the form used within the U.S. intelligence community to make internal whistleblowing reports to the Inspector General of the Intelligence Community (ICIG) had stated (through August 2019): "In order to find an urgent concern 'credible,' the ICIG must be in possession of reliable, first-hand information."

To be clear, we do not recommend taking decisive action based solely on a secondhand report. When investigating claims, it is important to seek out witnesses and material evidence. However, a secondhand report can be the starting point for an investigation and subsequent response that could not have happened otherwise. Managers who view secondhand reports as not credible tend to under-allocate resources toward investigating these claims, which our empirical results suggest can result in significant consequences.

Lesson 3: Reports with few details can be the starting point for something more

Which internal report is more useful — one with more details provided or one with fewer details?

Finally, a surprising aspect of our second study is that the reports submitted with only a few details end up being particularly useful in avoiding litigation and government fines. Conversations with chief compliance officers revealed that this is something they frequently see. These reports are from employees who want to have a conversation about what they observed but don't want to submit a document with details. These employees are in effect reaching out to see who will show up and talk to them. When they finally have a personal conversation, they then unload the information.

"There have been cases where a reporter has concerns about their manager, another co-worker or a toxic work environment but their initial report is very scant in details," explains Kimberly Kaminski, chief ethics officer at BAE Systems Inc. "The reporter is looking for someone they can trust, and when they find that person, they provide a treasure trove of information."

A manager who focuses resources on investigating reports with the greatest amount of detail may miss out on some of the most important and, ironically, detailed information available.

The key insight is that not all employees utilize internal whistleblowing systems in the same way. Some want to include all they know in the initial report, while others prefer to have a conversion in person. The initial report is just a starting point.

For the 71.5% of reporters who disclose their identity, it is the eventual follow up and conversation that engenders trust, improves communication lines, and provides actionable information to prevent minor issues from becoming larger, most costly problems.

Kyle Welch is an assistant professor of accountancy at The George Washington University School of Business.

Stephen Stubben is an associate professor at the University of Utah.

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EXHIBIT 3

Are Secondhand Internal Whistleblowing Reports Credible?

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October 2019

We thank NAVEX Global for providing data on internal whistleblowing reports and the Corporate Research Project of Good Jobs First for providing data on government fines.

Electronic copy available at: https://ssrn.com/abstract=3477551

Are Secondhand Internal Whistleblowing Reports Credible?

October 2019

ABSTRACT

This study examines the characteristics, credibility, and value of internal whistleblowing reports based on secondhand information. We analyze over two million reports submitted to over one thousand publicly traded U.S. firms between 2004 and 2017 and find that claims in secondhand reports are 47.7% more likely than firsthand reports to be substantiated by management, which suggests that management views many secondhand reports as credible. Further, we find negative associations between the number of secondhand reports and negative outcomes including lawsuits and government fines. These findings are consistent with secondhand reports providing valuable information that allows management to identify and address issues before they become more costly to the firm.

JEL codes: G34; G38; J53; J88; M54

Keywords: whistleblowing; employee hotlines; secondhand information

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1. Introduction

This study examines the characteristics, credibility, and value of internal whistleblowing reports based on secondhand information. Internal whistleblowers (WB), employees who report potential problems within their firm to management, can make reports based on firsthand experience (i.e., direct involvement in or observation of the reported activity) or secondhand information (i.e., information passed along by another employee or person outside the firm, or information learned unintentionally by observing evidence of the reported activity). Though findings from studies reported in the psychology literature suggest that secondhand information is typically less reliable than firsthand information (Gilovich, 1987; Inman et al., 1993; Baron et al., 1997; Inman et al., 2004), the credibility and value of secondhand internal WB reports is not well understood, largely due to the lack of available data on internal WB reports. Using data from the world's largest provider of internal WB systems, NAVEX Global, we provide the first empirical examination in the academic literature of secondhand internal WB reports.[1]

Even if secondhand internal WB reports are less credible than firsthand reports, secondhand reports may still contain valuable information for management. Further, it is possible that secondhand reports may be even more valuable on average than firsthand reports due to a selection issue. Whereas firsthand information may be more credible than secondhand information about the same event, the types of internal WB events reported firsthand may differ from those reported secondhand for at least two reasons. First, firsthand reports may be more likely to benefit the reporter rather than the company. Although some firsthand reports may contain vital information that helps the company address critical problems, others may relate to minor issues

[1] NAVEX Global granted us limited and secure access to its EthicsPoint® Incident Management system, a hotline system it provides to clients. We observed summary information about reported incidents, but at no point were any individuals or details about specific incidents identified to us.

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intended to benefit primarily the reporter.[2] Second, individuals with firsthand knowledge of some critical problems may be reluctant to come forward because of the costs borne by whistleblowers. Individuals who participated in a questionable activity may fear being penalized for their involvement in the activity, and individuals who were victims or observed a questionable activity may be unwilling to speak out of fear of retaliation (Friman et. al., 2004; Ingram and Bering, 2010; and Natapoff, 2004). This reluctance to come forward is likely to increase with the severity of the activity, because the potential costs to reporting are higher. If individuals with firsthand knowledge of a major concern don't report it, then secondhand reports could be the only source by which management can discover the issue.

We conduct our analyses using over two million reports submitted to over one thousand publicly traded U.S. firms between 2004 and 2017. When submitting a report, the employee has the option to identify how she became aware of the reported event. In about half the reports, the employee did not identify this source of awareness. Of the remaining reports, the reporter was directly involved in 44.3% of events reported, a firsthand witness in 20.6% of events, was told secondhand by another employee in 12.9% of events, was told secondhand by someone outside the company in 1.8% of events, and accidentally overheard a conversation or uncovered evidence in 1.7% of events.

We find that firsthand reports, relative to secondhand reports, are more frequently made in person, more frequently involve reports of human resource (HR) issues such as harassment and

[2] Compliance attorney Michael Volkov (2016) notes, "When you ask compliance professionals and others who monitor the reporting system if it is valuable, you hear the common statistic – 80 percent of the reports are trivial employee relations matters – my boss was mean to me; my co-worker insulted me, and on and on. A dismissive attitude towards a company hotline reflects a dismissive culture. The value of a hotline is not the number of the complaints and the types of complaints. Instead, a carefully managed and operated hotline can promote the company's responsiveness and interest in hearing employee concerns."

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discrimination, and contain more details about the reported event. By comparison, reports based on secondhand information are disproportionately reports of accounting and financial concerns and business integrity issues (i.e., illegal or unethical business practices such as conflicts of interest, falsification of company records, bribery, etc.). Thus, firsthand reports differ from secondhand reports both in the nature of the activities being reported and the characteristics of the report.

We assess the credibility of reports based on whether management eventually determined their claims to be substantiated. Claims in secondhand reports are 47.7% more likely than those of firsthand reports to be substantiated by management. The rates of substantiation also vary across types of firsthand and secondhand reports. For example, reports made by employees who were involved in the alleged activities are less likely to be substantiated than reports made by firsthand witnesses (17.9% vs. 23.0%). Also, reports made based on secondhand information provided by another employee have the highest rate of substantiation (30.4%). We confirm these descriptive results on rates of substantiation in regressions that control for a variety of characteristics of the reporter and reported activity.

Though secondhand reports are more likely to be substantiated by management, on average, it is not clear how important this secondhand information is in preventing significant problems from occurring. We assess the value of information provided in firsthand and secondhand reports by examining their ability to prevent costly outcomes like litigation and government fines (Stubben and Welch, 2019). Our results indicate that the number of secondhand reports based on information provided by other employees is negatively associated with the number of lawsuits filed against the company in the subsequent year and the dollar amount of legal settlements associated with these lawsuits. Further, the number of secondhand reports based on

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information provided by individuals outside the firm is negatively associated with the number and dollar amounts of government fines in subsequent years. These findings are consistent with secondhand reports providing valuable information to management that allows management to address issues before they become more costly to the firm. We do not observe similar negative associations with the number of firsthand reports by eyewitnesses or those directly involved, which suggests the potential value of these reports is limited to other settings.

Any conclusions drawn from our analysis are limited by at least three factors. First, we provide descriptive results that do not conclusively prove that secondhand reports lead to fewer negative outcomes. How each firm and reporter engage with the internal WB system is a choice, and it is possible that unknown variables omitted from our analyses explain the associations we document. Second, because we study only public companies and data from one provider of internal WB systems, inferences based on our sample may not generalize to the broader universe of organizations. However, while NAVEX Global clients tend to be larger and more profitable than other firms in the Compustat database, we are not aware of any systematic differences between how our sample firms and other organizations utilize internal WB systems. Further, as NAVEX Global's client base represents over half of the Fortune 500, our sample should be of interest in its own right. Third, because we examine only two outcomes—litigation and government fines—we cannot speak to the potential benefits of firsthand and secondhand reporting in other settings. We acknowledge that each internal WB report is unique, and our study does not legitimize any individual secondhand account, or delegitimize any firsthand account reported on an internal WB system.

Subject to these limitations, we believe our study makes two primary contributions. First, we provide counterintuitive findings about secondhand WB reports with implications for managers

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who review and respond to internal reports. Although firsthand reports typically contain more information than secondhand reports, and the information contained therein is presumably more accurate because it comes from direct knowledge of the reported activity, secondhand reports may be the only source of information about certain activities, in particular those when it is especially costly for an individual with firsthand knowledge to step forward. Even though the information provided by a reporter with secondhand information may not be sufficient to make definitive conclusions about the reported activity, it can be a starting point for an investigation and subsequent response that could not have happened otherwise.

Second, our results may provide insight into a current debate on the credibility of internal WB reports based on secondhand information. On September 24, 2019, an impeachment inquiry began following an internal WB report that implicated the President of the United States. Because the report was argued to be based on secondhand information, its credibility and relevance to the inquiry has been debated (Basu, 2019).[3] By providing evidence on the credibility and value of internal WB reports based on secondhand information, our study may inform regulators of their potential utility in a variety of settings.[4]

2. Background and Motivation

[3] The President of the United States criticized the whistleblower noting that the "so-called 'Whistleblower' has all second hand information." (Trump, 2019a), and that the "first so-called second-hand information 'Whistleblower' got my phone conversation almost completely wrong, so now word is they are going to the bench and another 'Whistleblower' is coming in from the Deep State, also with second hand info. Meet with Shifty. Keep them coming!" (Trump, 2019b).

[4] For example, the form used within the intelligence community to make internal WB reports to the Inspector General of the Intelligence Community (ICIG) was changed in August 2019 (e.g., McCarthy, 2019). An earlier version of Form 401 explicitly stated: "FIRST-HAND INFORMATION REQUIRED. In order to find an urgent concern 'credible,' the ICIG must be in possession of reliable, first-hand information. The ICIG cannot transmit information via the [Intelligence Community Whistleblower Protection Act] based on an employee's second-hand knowledge of wrongdoing" (ICWSP, 2018). The form was updated to remove this disclaimer, and whether that change affected the types of internal WB reports that are allowable continues to be debated (Associated Press, 2019; FactCheck.org, 2019).

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Because data on internal WB reports is not publicly available, prior research has focused primarily on surveys and external WB reports either to the press or regulatory agencies (e.g., Bowen et al., 2010; Dyck et al., 2010; Wilde, 2017; Call et al., 2018). However, two recent studies have examined internal WB systems. Soltes (2018) attempted to report misconduct through hotlines at 231 firms, finding that while obstacles to reporting exist at 20% of firms, more than 90% responded in a timely manner to the reports. Stubben and Welch (2019) analyzed nearly 2 million actual internal WB reports, finding that the volume of internal WB reports is positively associated with various attributes of high-quality firms and negatively associated with material lawsuits and government fines. The results of Stubben and Welch (2019) suggest that internal WB reports provide valuable information to management that helps to discover and resolve issues.

While Stubben and Welch (2019) document potential benefits to *companies* from internal WB reports, there is ample evidence that speaking up is potentially costly to whistleblowers themselves. Despite WB protections in place, whistleblowers are often met with retaliation by their employer and also on the job market and at subsequent employment (Eisenstadt and Pacella, 2008). Zingales (2004) describes the findings from a survey of 1,500 federal government employees who reported misconduct: 25% were verbally harassed, 20% were shunned by coworkers, 18% were reassigned to less desirable duties, and 11% were denied promotions. Kesselheim et. al. (2010) studied subjects who submitted qui tam WB cases, noting the stress that reporting caused on personal health and family relationships as reporters faced intense pressure, uncertainty, anxiety, and threats to their employment.[5] Similar negative experiences are frequently noted in periodicals (e.g., Khan, 2019; Kolhatkar 2019; Kristian, 2019). After interviewing over 200 whistleblowers,

[5] One WB noted, "I would not advise anybody to do it," while another said, "Don't do it. Either try to find another job or just shut your mouth" (Kesselheim et al., 2010).

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Mueller (2019) documents the social and emotional costs of whistleblowers noting that "whistleblowers are routinely attacked, demoted to dead-end jobs, subjected to criminal investigations and fired. Even those who have halted billion-dollar frauds or saved lives are frequently blackballed from future work in their industries."

These costs to internal WB can affect the types of reports that are made in practice. For example, given the potential personal cost borne by an internal WB, one may be more inclined to report issues that may lead to personal benefits rather than just benefits to the company as a whole. Thus, firsthand internal WB reports may be skewed toward those seeking some personal gain. In addition, individuals with firsthand knowledge of some critical problems may be more reluctant to come forward than individuals with secondhand information. Individuals who participated in a questionable activity may fear being penalized for their involvement in the activity, and individuals who were victims or observers of a questionable activity may fear (more so than those with secondhand information) being identified as the WB. If this reluctance to come forward increases with the severity of the activity, it is possible that secondhand reports are the only source of information to management about certain problems, including some more severe problems, occurring with the firm. Therefore, even though secondhand information is typically less reliable than firsthand information (Gilovich, 1987; Inman et al., 1993; Baron et al., 1997; Inman et al., 2004), internal WB reports based on secondhand information are not necessarily less valuable than firsthand reports.

3. Data and Research Design

3.1. Data Sources

We obtained data on 2,119,756 internal WB reports filed with 1,064 publicly traded U.S. companies from NAVEX Global, a provider of internal WB hotline and online reporting systems.

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Due to the sensitivity of details relating to internal WB cases, we received only limited data on each WB event. We observe the date of each report, the category of the complaint (e.g., financial reporting issues, harassment or other HR issues, illegal or unethical business practices, health and safety issues, and misuse or theft of corporate assets), how the report was filed (e.g., by web form, by email, by phone, or in person), and the number of times the report file was accessed. In addition, we observe categorical information reporters may provide about their association with the company and the activity being reported. Further, after a review of the case, a company representative may document the outcome of any investigation: the claim was substantiated, the claim was not substantiated, or neither (e.g., there was insufficient information, the report was redirected to another department, or the report was withdrawn).

We obtain financial accounting data from Compustat, market data from CRSP, institutional ownership data from Thomson Reuters, litigation data from AuditAnalytics, and data on corporate fines and penalties from Violation Tracker.

3.2 Research Design

3.2.1 Characteristics of Internal Whistleblowing Reports

We conduct our first set of analyses at the report level. We present means and frequencies, by source of awareness, of the various characteristics events being reported and rates of substantiation. We also evaluate rates of substantiation across different types of firsthand and secondhand reports using a regression approach that controls for a variety of characteristics of the reporter and reported activity, including the nature of the reported activity, how the report was provided, whether the reporter chose to remain anonymous, whether the report alleged retaliation against a previous claim, the reporter's connection to the company, whether the report alleged

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management awareness of or involvement in the reported activity, and the amount of time the reported activity has been occurring. We estimate the following equation:

$$SUBSTANT_{it} = b_0 + \Sigma\, b_i\, SOURCE_{it} + \Sigma\, b_i\, CATEGORY_{it} + b_{12}\, DIRECT_t + b_{13}\, ANON_t + b_{14}\, RETALIAT_t + \Sigma\, b_i\, REPORTER_{it} + \Sigma\, b_i\, MGTAW_{it} + \Sigma\, b_i\, MGTINV_{it} + \Sigma\, b_i\, LENGTH_{it} + firm\ FE + year\ FE + e_t, \quad (1)$$

where *SUBSTANT* is an indicator variable for whether the allegations in the report were later determined by management to be substantiated. *SOURCE* represents indicator variables for how the reporter became aware of the reported activity: involvement in the reported activity (*1ST_INVOLVED*), eyewitness to the reported activity (*1ST_WITNESSED*), secondhand information provided by another employee (*2ND_INTERNAL*), secondhand information provided by an individual outside the company (*2ND_EXTERNAL*), secondhand information obtained by accident (*2ND_ACCIDENT*), or some other source (*OTHER*). We include an indicator for reports with no source of awareness provided (*MISSING*) and omit the indicator for reports based on firsthand involvement so that the coefficients on the remaining indicators can be interpreted relative to reports based on firsthand involvement.

We include the control variables used in Stubben and Welch (2019). *CATEGORY* represents five separate indicator variables for the type of issue that has been reported: accounting and financial concerns (*AC*), business integrity issues (*BI*), human resource complaints (*HR*), misuse of corporate assets (*MU*), and workplace safety concerns (*SF*). Because we omit the indicator for uncategorized reports, each of these five coefficients represents a difference relative to uncategorized reports. *DIRECT* is an indicator variable representing whether the reporter was submitted directly to a person (e.g., by phone or in person) or not (e.g., by web form or by email). *ANON* is an indicator variable representing whether the reporter chose to remain anonymous (i.e., the reporter may identify herself as an employee but choose not to provide her name and contact

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information), and *RETALIAT* is an indicator for whether the report alleged retaliation by management. *REPORTER* represents indicators for whether the reporter was an employee (*EMPL*), business partner (*PART*), customer (*CUST*), or other identified party (*OTH*). With *REPORTER* and the following three variables, we omit indicators for missing data fields so coefficients on included indicators capture effects relative to a report with this data item missing. *MGTAW* (*MGTINV*) represents indicators for whether management was alleged to be aware of (involved in) the activity—*YES* or *NO*. Finally, *LENGTH* represents indicators for how long the alleged activity had been occurring at the time of the report: once or less than one month (< *1*), between one and three months (*1 to 3*), between three months and one year (*3 to 12*) and more than one year (> *12*).

We include firm fixed effects to isolate differences in report characteristics within a firm, and we include year fixed effects to control for variation in the amount of information provided that occurs over time. We estimate Equation (1) using ordinary least squares with standard errors clustered by firm.

3.2.2 Outcomes Associated with the Use of Internal WB Systems

Following Stubben and Welch (2019), we examine two outcomes that may be related to active use of internal WB systems—government fines and litigation. As Stubben and Welch (2019) note, companies with fully implemented, actively advertised, and widely used internal WB systems can potentially benefit from a flow of information from employees, thus being in a position to more quickly identify and rectify problems before they become reported externally or discovered by regulators. If management uses its internal WB system to learn of and address issues arising within the organization, we expect a negative association between report volume and fines and litigation in subsequent years.

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We analyze the associations between internal WB report volumes across different sources and outcomes by estimating the following regression:

$$\begin{aligned} OUTCOME_{t+k} = {} & b_0 + b_1\, log(RPRTS_1ST_INVOLVED_t) + b_2\, log(RPRTS_1ST_WITNESSED_t) \\ & + b_3\, log(RPRTS_2ND_INTERNAL_t) + b_4\, log(RPRTS_2ND_EXTERNAL_t) \\ & + b_5\, log(RPRTS_2ND_ACCIDENT_t) + b_6\, log(RPRTS_OTHER_t) \\ & + b_7\, log(RPRTS_MISSING_t) + b_8\, SIZE_t + b_9\, ROA_t + b_{10}\, GROWTH_t + b_{11}\, VOL_t \\ & + b_{12}\, OWN_t + b_{13}\, AGE_t + b_{14}\, LITRISK_t + firm\ FE + year\ FE + e_{t+k}, \qquad (2) \end{aligned}$$

where *OUTCOME* represents one of four subsequent outcomes we analyze. $log(\#LEGAL_{t+1})$ is the natural log of one plus the number of lawsuits filed against the firm in the subsequent year, and $log(\$LEGAL_{t+1})$ is the natural log of one plus the aggregate amount of settlements relating to lawsuits filed against the firm in the subsequent year.[6] $log(\#FINES_{t+1\ to\ 3})$ is the natural log of one plus the number of government fines received by the firm over the subsequent three years, and $log(\$FINES_{t+1\ to\ 3})$ is the natural log of one plus the total dollar amount of government fines received.[7] Following Stubben and Welch (2019), we shift the measurement of outcomes to subsequent years to reduce the possibility that these outcomes affect the submission of reports through the internal WB system. We include controls variables and firm and year fixed effects to control for underlying amount and severity of wrongdoing. That is, we attempt to measure the association between the number of internal WB reports and outcomes that is not attributable to underlying factors driving problems that could potentially be reported.

[6] The AuditAnalytics Litigation Database includes federal securities class action claims, SEC actions, and material federal civil litigation. AuditAnalytics collects data on federal cases from disclosures of material legal proceedings under SEC Reg S-K. In addition, AuditAnalytics includes data on securities class action suits, litigation initiated by the SEC, and federal litigation involving the top 100 accounting firms.

[7] The Violation Tracker database, prepared by the Corporate Research Project of Good Jobs First, combines enforcement data obtained from over 40 federal regulatory agencies and the U.S. Justice Department. Included violations relate to banking, consumer protection, environmental concerns, unfair labor practices, health and safety concerns, workplace discrimination, price-fixing, bribery, false claims, civil rights abuses, and tax evasion, among others. Whereas with litigation we know the date the lawsuit was initiated, with this data we know only the concluding date of the investigation. For that reason, we calculate fines based on decisions made over the three subsequent years.

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log(RPRTS_1ST_INVOLVED$_t$) is the natural log of one plus the number of reports per 1,000 employees that were made by those involved in the reported activity. We also calculate corresponding variables based on the number of eyewitness reports (*RPRTS_1ST_WITNESSED*), reports based on secondhand information provided by another employee (*RPRTS_2ND_INTERNAL*), reports based on secondhand information provided by an individual outside the company (*RPRTS_2ND_EXTERNAL*), reports based on secondhand information obtained by accident (*RPRTS_2ND_ACCIDENT*), reports based on some other source (*RPTS_OTHER*), and reports with no identified source of awareness (*RPRTS_MISSING*). The controls for firm size (*SIZE*), profitability (*ROA*), growth (*GROWTH*), volatility (*VOL*), institutional ownership (*OWN*), firm age (*AGE*), and litigation risk (*LITRISK*) are defined in Appendix B.

4. Results

4.1. Report-Level Analyses

Table 1 presents descriptive statistics on internal WB reports grouped by the reporter's source of awareness of the reported issue. Panel A reveals that that firsthand reports, relative to secondhand reports, are more frequently made by phone or in person (64.0% vs. 37.5%), are more likely to be made anonymously (49.1% vs. 46.7%), and contain more details about the reported event (72.2% vs. 65.2% of fields are filled in). However, secondhand reports, relative to firsthand reports, are accessed more frequently by management (13.26 vs. 12.22 times), take longer to close (56.80 vs. 53.33 days), and are 47.7% more likely to be substantiated by management (28.8% vs. 19.5%). In addition, the rates of substantiation also vary across types of firsthand and secondhand reports. For example, reports made by employees who were involved in the alleged activities are less likely to be substantiated than reports made by firsthand witnesses (17.9% vs. 23.0%). Also,

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reports made based on secondhand information provided by another employee have the highest rate of substantiation (30.4%).

Panel B presents the distribution of source of awareness across report categories. Firsthand reports, relative to secondhand reports, more frequently involve reports of HR issues such as harassment and discrimination. Reports based on secondhand information are disproportionately reports of accounting and financial concerns and business integrity issues (i.e., illegal or unethical business practices such as conflicts of interest, falsification of company records, bribery, etc.). Thus, firsthand reports differ from secondhand reports both in the nature of the activities being reported and the characteristics of the report itself.

Table 2 revisits the analysis in Table 1, Panel B, using regressions that control for a variety of characteristics of the reporter and reported activity. The results reveal that, relative to firsthand reports made by individuals directly involved in the reported activity, firsthand reports by individuals who witnessed the reported activity (coef. = 0.045, t = 5.16), secondhand reports based on information provided by other employees (coef. = 0.085, t = 5.31), and secondhand reports based on information accidentally discovered (coef. = 0.049, t = 4.41) are more likely to be substantiated.

4.2. Firm-Level Outcomes Associated with The Use of Internal WB Systems

Our report-level findings suggest that management views reports based on secondhand information as being more credible than reports based on firsthand information, on average. We next assess the value of information provided in firsthand and secondhand reports by examining their ability to prevent costly outcomes like litigation and government fines.

The results presented in Table 4 indicate that the number of secondhand reports based on information provided by other employees is negatively associated with the number of lawsuits

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filed against the company in the subsequent year and the dollar amount of legal settlements associated with these lawsuits (t = –1.85 and –1.69, respectively). Further, the number of secondhand reports based on information provided individuals outside the firm is negatively associated with the number and dollar amounts of government fines in subsequent years (t = –2.51 and –1.88, respectively). We do not observe significantly negative associations with the number of firsthand reports by eyewitnesses or those directly involved, which suggests the potential value of these reports is limited to other settings. The number of reports that don't identify the reporter's source of awareness of the reported activity is also significantly negatively associated with each of the four outcomes (t = –2.72, –2.65, –2.84, –2.89, respectively). However, because this number likely contains a mix of firsthand and secondhand reports, we are not able to determine which reports are driving these associations.

Taken together, these findings are consistent with reports based on secondhand information providing valuable information to management that allows management to address issues before they become more costly to the firm.

5. Summary and Conclusions

This study examines the characteristics, credibility, and value of internal whistleblowing reports based on secondhand information. We analyzing over two million reports submitted to over one thousand publicly traded U.S. firms between 2004 and 2017 and find that claims in secondhand reports are 47.7% more likely than those of firsthand reports to be determined by management to be substantiated, which suggests that management views many reports based on secondhand information as credible. We assess the value of information provided in firsthand and secondhand reports by examining their ability to prevent costly outcomes like litigation and government fines. We find negative associations between the number of second-hand reports and negative outcomes

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including lawsuits and government fines. These findings are consistent with reports based on secondhand information providing valuable information to management that allows management to address issues before they become more costly to the firm.

Our results have implications for companies' use of their internal WB systems. Although firsthand reports typically contain more information than secondhand reports, and the information contained therein is presumably more accurate because it comes from direct knowledge of the reported activity, secondhand reports may be the only source of information about certain activities, in particular those where it is especially costly for an individual with firsthand knowledge to step forward. Our findings may also provide insight into the current debate in the United States on the credibility of internal WB reports based on secondhand information. By providing evidence on the credibility and value of internal WB reports based on secondhand information in public U.S. companies, our study may inform regulators of their potential utility in a variety of settings.

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APPENDIX A
Database Description

Report categories and common examples

AC = Accounting and financial issues

Accounting and auditing practices
Accounting, auditing and internal financial controls
Accounting/audit irregularities
Financial fraud
Financial misconduct

BI = Business integrity concerns

Conflict of interest
Falsification of contracts, reports or records
Potential illegal activity
Violation of law or policy

HR = Human resource issues

Concerns with manager
Discrimination or harassment
Misconduct or inappropriate behavior
Sexual harassment
Unfair employment practices
Violation of HR policy

MU = Misuse of corporate assets

Embezzlement
Disclosure of confidential information
External theft
Internal theft
Privacy and data security

SF = Workplace safety concerns

Employee injury
Gas leaks
Hazardous substance incident
Health, safety, environmental concern or violation
Odors
Security incidents
Unsafe working conditions

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Sources of awareness and common examples

1ST_INVOLVED (Involved in activity)
It happened to me
I was involved

1ST_WITNESS (Personally witnessed activity)
I observed it
I saw it happen

2ND_INTERNAL (Learned from person inside the company)
Told to me by a co-worker
I heard it

2ND_EXTERNAL (Learned from person outside the company)
Told to me by someone outside the company
Told to me by a non-employee

2ND_ACCIDENT (Learned of activity by chance)
I overhead it
Accidentally found a document or file

OTHER (Provided source not listed above)
Other
[reporter identifies the source of awareness of the internal WB website, not the reported activity]

Other report-level variable definitions

DIRECT	Indicator for whether the report was made directly to a person (e.g., by phone or in person).
ANON	Indicator for whether the reporter chose to remain anonymous.
INFO	Fraction of *REPORTER*, *SOURCE*, *MGTAW*, *MGTINV*, and *LENGTH* that are non-missing.
ACCESS	Number of times the report was accessed.
TIME	Number of days from the submission of the report until the case was closed by management.
SUBSTANT	Indicator for whether allegations were later determined by management to be substantiated.

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APPENDIX B

Firm-Level Variable Definitions

RPRTS_1ST_INVOLVED	Number of reports per 1,000 employees in the calendar year made by those involved in the reported activity.
RPRTS_1ST_WITNESS	Number of reports per 1,000 employees in the calendar year made by eyewitnesses.
RPRTS_2ND_INTERNAL	Number of reports per 1,000 employees in the calendar year made by those with second-hand information provided by another employee.
RPRTS_2ND_EXTERNAL	Number of reports per 1,000 employees in the calendar year made by those with second-hand information provided by an individual outside the company.
RPRTS_2ND_ACCIDENT	Number of reports per 1,000 employees in the calendar year made by those with information obtained by accident (e.g., overheard a conversation or discovered a document).
RPRTS_OTHER	Number of reports per 1,000 employees in the calendar year that are based on some other source not identified above.
RPRTS_MISSING	Number of reports per 1,000 employees in the calendar year that are have no identified source of awareness.
#LEGAL	Number of lawsuits filed against the company in the subsequent year (AuditAnalytics).
$LEGAL	Aggregate amount of settlements relating to lawsuits filed in the subsequent year (AuditAnalytics).
#FINES	Number of government fines received over the subsequent three years (Violation Tracker).
$FINES	Aggregate amount of government fines received over the subsequent three years (Violation Tracker).
SIZE	Natural log of the firm's total assets (Compustat).
ROA	Net income before extraordinary items divided by total assets (Compustat).
GROWTH	Year-over-year growth in the firm's sales revenue (Compustat).
VOL	Standard deviation of monthly stock returns during the fiscal year (CRSP)
OWN	Percentage of the firm's shares held by institutional owners as reported in 13F filings (Thomson Reuters).
AGE	Natural log of the number of years since the firm's first appearance on Compustat.
LITRISK	Litigation risk, as calculated by Kim and Skinner (2012).

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TABLE 1
Internal Whistleblowing System Data

Panel A: Means of internal whistleblowing report characteristics by source of awareness

SOURCE	*N*	*DIRECT*	*ANON*	*INFO*	*ACCESS*	*TIME*	*SUBSTANT*
1ST_INVOLVED	420,412	70.3%	37.8%	73.5%	11.87	51.39	17.9%
1ST_WITNESS	195,189	50.4%	73.6%	69.4%	12.99	57.47	23.0%
1ST	615,601	64.0%	49.1%	72.2%	12.22	53.33	19.5%
2ND_INTERNAL	122,502	38.4%	44.9%	65.9%	13.02	55.47	30.4%
2ND_EXTERNAL	17,327	33.8%	34.2%	60.6%	13.00	57.76	23.0%
2ND_ACCIDENT	15,766	34.5%	74.2%	64.7%	15.40	66.17	22.9%
2ND	155,595	37.5%	46.7%	65.2%	13.26	56.80	28.8%
OTHER	176,915	32.2%	24.8%	55.6%	10.91	47.99	33.0%
MISSING	1,171,645	22.4%	16.3%	2.4%	6.72	37.86	19.0%
ALL	2,119,756	36.4%	28.8%	31.7%	9.15	44.71	21.0%

Panel B: Distribution of source of awareness by report category

Year	*AC*	*BI*	*HR*	*MU*	*SF*	*UN*	*ALL*
1ST_INVOLVED	11.3%	9.3%	28.5%	4.2%	9.6%	16.2%	19.8%
1ST_WITNESS	13.9%	7.9%	10.2%	6.8%	8.5%	8.9%	9.2%
1ST	25.1%	17.2%	38.7%	11.1%	18.2%	25.1%	29.0%
2ND_INTERNAL	11.8%	6.2%	5.6%	5.6%	6.4%	5.6%	5.8%
2ND_EXTERNAL	1.5%	1.4%	0.5%	1.1%	1.4%	0.7%	0.8%
2ND_ACCIDENT	3.3%	1.1%	0.7%	0.8%	0.4%	0.7%	0.7%
2ND	16.5%	8.6%	6.7%	7.4%	8.2%	7.1%	7.3%
OTHER	14.3%	8.1%	8.9%	8.1%	8.3%	5.1%	8.3%
MISSING	44.1%	66.0%	45.6%	73.4%	65.4%	62.7%	55.3%
ALL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
N	16,525	343,603	1,151,842	243,287	174,144	190,355	2,119,756

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Table 1 presents descriptive statistics on our sample of 2,119,756 internal WB reports. Panel A presents means of report characteristics by source of the reporter's awareness of the reported activity: involvement in the reported activity (*1ST_INVOLVED*), eyewitness to the reported activity (*1ST_WITNESSED*), secondhand information provided by another employee (*2ND_INTERNAL*), secondhand information provided by an individual outside the company (*2ND_EXTERNAL*), secondhand information obtained by accident (*2ND_ACCIDENT*), some other source (*OTHER*), or no source of awareness provided (*MISSING*). Report characteristics include whether the report was made directly to a person (*DIRECT*), whether the report was anonymous (*ANON*), the percent of categorical fields that were filled in the report (*INFO*), the number of times the report was accessed (*ACCESS*), the number of days until the report was closed (*TIME*), and whether the report was substantiated (*SUBSTANT*). Panel B presents the distribution of source of awareness across report categories: accounting, *AC*; business integrity, *BI*; human resources, *HR*; misuse of assets, *MU*; workplace safety, *SF*; and uncategorized, *UN*.

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TABLE 2

Regression Analysis of Internal Whistleblowing System Data

$$SUBSTANT_{it} = b_0 + \Sigma\, b_i\, SOURCE_{it} + \Sigma\, b_i\, CATEGORY_{it} + b_{12}\, DIRECT_t + b_{13}\, ANON_t + b_{14}\, RETALIAT_t + \Sigma\, b_i\, REPORTER_{it} + \Sigma\, b_i\, MGTAW_{it} + \Sigma\, b_i\, MGTINV_{it} + \Sigma\, b_i\, LENGTH_{it} + firm\ FE + year\ FE + e_t \quad (1)$$

Dep. Var. =	*SUBSTANT$_t$*		*SUBSTANT$_t$*	
	Est.	t-stat	Est.	t-stat
SOURCE=1ST_WITNESSED	0.035	4.46	0.045	5.16
SOURCE=2ND_INTERNAL	0.095	5.35	0.085	5.31
SOURCE=2ND_EXTERNAL	0.034	1.77	0.022	1.09
SOURCE=2ND_ACCIDENT	0.041	3.86	0.049	4.41
SOURCE=OTHER	0.056	3.60	0.045	3.32
SOURCE=MISSING	-0.049	-2.66	-0.043	-1.40
CATEGORY=AC			0.053	2.86
CATEGORY=BI			-0.033	-1.00
CATEGORY=HR			-0.023	-1.77
CATEGORY=MU			0.023	1.08
CATEGORY=SF			0.005	0.26
DIRECT			-0.020	-1.37
ANON			-0.046	-2.51
RETALIAT			-0.063	-3.19
REPORTER=EMPL			-0.020	-0.57
REPORTER=PART			-0.085	-2.50
REPORTER=CUST			-0.083	-2.25
REPORTER=OTH			-0.061	-2.23
MGTAW=YES			0.020	2.42
MGTAW=NO			-0.019	-2.08
MGTINV=YES			0.014	1.27
MGTINV=NO			0.074	5.55
LENGTH<1			0.013	0.75
LENGTH=1 to 3			0.010	0.59
LENGTH=3 to 12			0.004	0.24
LENGTH>12			-0.011	-0.64
Firm and Year FE	Yes		Yes	
Adjusted R^2	0.212		0.220	
N	2,119,702		2,119,702	

Table 2 presents results from OLS estimations of Equation (1). The dependent variable is an indicator for whether the report was substantiated (*SUBSTANT*). The reporter's source of awareness of the reported activity is identified as eyewitness to the reported activity (*1ST_WITNESSED*), secondhand information provided by another employee (*2ND_INTERNAL*), secondhand information provided by an individual outside the company (*2ND_EXTERNAL*), secondhand information obtained by accident (*2ND_ACCIDENT*), some other source (*OTHER*), or no source of awareness provided (*MISSING*). We exclude the indicator for firsthand reports by those involved in the activity, so

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that each of the remaining coefficients can be interpreted relative to firsthand reports by those involved. All other explanatory variables are defined in Appendix A. t-statistics are based on standard errors clustered by firm.

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TABLE 3
Firm-Level Descriptive Statistics

	N	Mean	Std. Dev.	Q1	Median	Q3
$log(RPRTS_1ST_INVOLVED_t)$	6,441	0.72	0.87	0.00	0.39	1.25
$log(RPRTS_1ST_WITNESSED_t)$	6,441	0.61	0.72	0.00	0.33	1.07
$log(RPRTS_2ND_INTERNAL_t)$	6,441	0.42	0.60	0.00	0.06	0.67
$log(RPRTS_2ND_EXTERNAL_t)$	6,441	0.08	0.19	0.00	0.00	0.03
$log(RPRTS_2ND_ACCIDENT_t)$	6,441	0.12	0.25	0.00	0.00	0.13
$log(RPRTS_OTHER_t)$	6,441	0.50	0.70	0.00	0.17	0.76
$log(RPRTS_MISSING_t)$	6,441	0.72	1.06	0.00	0.15	1.11
$log(\#LEGAL_{t+1})$	6,441	0.22	0.43	0.00	0.00	0.00
$log(\$LEGAL_{t+1})$	6,441	0.47	2.67	0.00	0.00	0.00
$log(\#FINES_{t+1\ to\ 3})$	5,670	0.57	0.92	0.00	0.00	1.10
$log(\$FINES_{t+1\ to\ 3})$	5,670	4.42	6.57	0.00	0.00	10.88
$SIZE_t$	6,441	7.96	1.84	6.65	7.97	9.27
ROA_t	6,441	0.02	0.11	0.01	0.04	0.07
$GROWTH_t$	6,441	0.08	0.21	-0.03	0.05	0.15
VOL_t	6,441	0.10	0.06	0.06	0.09	0.13
OWN_t	6,441	0.67	0.32	0.51	0.78	0.91
AGE_t	6,441	3.02	0.73	2.57	3.00	3.61
$LITRISK_t$	6,441	-0.92	1.36	-1.86	-1.11	-0.25

Table 3 presents summary statistics for our sample of 6,441 firm-year observations. $log(RPRTS_1ST_INVOLVED_t)$ is the natural log of one plus the number of reports per 1,000 employees that were made by those involved in the reported activity. Variables for the number of eyewitness reports (*RPRTS_1ST_WITNESSED*), reports based on secondhand information provided by another employee (*RPRTS_2ND_INTERNAL*), reports based on secondhand information provided by an individual outside the company (*RPRTS_2ND_EXTERNAL*), reports based on secondhand information obtained by accident (*RPRTS_2ND_ACCIDENT*), reports based on some other source (*OTHER*), and reports with no identified source of awareness (*RPRTS_MISSING*) are calculated similarly. $log(\#LEGAL_{t+1})$ is the natural log of one plus the number of lawsuits filed against the firm in the subsequent year, and $log(\$LEGAL_{t+1})$ is the natural log of one plus the aggregate amount of settlements relating to lawsuits filed against the firm in the subsequent year. $log(\#FINES_{t+1\ to\ 3})$ is the natural log of one plus the number of government fines received by the firm over the subsequent three years, and $log(\$FINES_{t+1\ to\ 3})$ is the natural log of one plus the total dollar amount of government fines received. All other variables are defined in Appendix B.

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TABLE 4

Internal Whistleblower Report Volume and Subsequent Outcomes

$$OUTCOME_{t+k} = b_0 + b_1\, log(RPRTS_1ST_INVOLVED_t) + b_2\, log(RPRTS_1ST_WITNESSED_t) + b_3\, log(RPRTS_2ND_INTERNAL_t) + b_4\, log(RPRTS_2ND_EXTERNAL_t) + b_5\, log(RPRTS_2ND_ACCIDENT_t) + b_6\, log(RPRTS_OTHER_t) + b_7\, log(RPRTS_MISSING_t) + b_8\, SIZE_t + b_9\, ROA_t + b_{10}\, GROWTH_t + b_{11}\, VOL_t + b_{12}\, OWN_t + b_{13}\, AGE_t + b_{14}\, LITRISK_t + firm\ FE + year\ FE + e_{t+k}, \quad (2)$$

Dep. Var. =	$log(\#LEGAL_{t+1})$		$log(\$LEGAL_{t+1})$		$log(\#FINES_{t+1\ to\ 3})$		$log(\$FINES_{t+1\ to\ 3})$	
	Est.	t-stat	Est.	t-stat	Est.	t-stat	Est.	t-stat
$log(RPRTS_1ST_INVOLVED_t)$	0.006	0.75	0.033	0.51	-0.001	-0.12	0.003	0.03
$log(RPRTS_1ST_WITNESSED_t)$	-0.008	-0.87	-0.023	-0.40	-0.012	-1.05	-0.080	-0.81
$log(RPRTS_2ND_INTERNAL_t)$	-0.021	-1.85	-0.121	-1.69	0.016	1.14	0.180	1.50
$log(RPRTS_2ND_EXTERNAL_t)$	-0.020	-0.71	-0.044	-0.31	-0.112	-2.51	-0.706	-1.88
$log(RPRTS_2ND_ACCIDENT_t)$	-0.005	-0.26	-0.131	-0.93	-0.003	-0.11	0.043	0.22
$log(RPRTS_OTHER_t)$	-0.007	-0.73	0.061	1.02	0.001	0.11	0.055	0.62
$log(RPRTS_MISSING_t)$	-0.022	-2.72	-0.138	-2.65	-0.039	-2.84	-0.309	-2.89
$SIZE_t$	0.104	4.34	0.359	3.32	0.082	3.06	0.483	2.26
ROA_t	0.096	1.95	0.088	0.25	0.070	0.78	1.048	1.44
$GROWTH_t$	-0.017	-0.61	0.114	0.48	0.047	1.67	0.064	0.26
VOL_t	-0.120	-1.61	0.664	1.02	0.041	0.47	0.076	0.11
OWN_t	0.059	0.16	-0.263	-0.09	-0.175	-0.42	-4.423	-1.12
AGE_t	0.006	0.43	0.017	0.16	0.000	0.02	0.074	0.55
$LITRISK_t$	-0.052	-0.99	-0.312	-1.23	-0.018	-0.41	-0.512	-1.07
Firm and Year FE	Yes		Yes		Yes		Yes	
Adjusted R^2	0.375		0.049		0.842		0.744	
N	6,281		6,281		5,506		5,506	

Table 4 presents results from OLS regressions of subsequent outcomes onto internal WB report volume by source and control variables. Dependent variables include $log(\#LEGAL_{t+1})$, the natural log of one plus the number of lawsuits filed against the firm in the subsequent year; $log(\$LEGAL_{t+1})$, the natural log of one plus the aggregate amount of settlements relating to lawsuits filed against the firm in the subsequent year; $log(\#FINES_{t+1\ to\ 3})$, the natural log of one plus the number

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of government fines received by the firm over the subsequent three years; and $log(\$FINES_{t+1\ to\ 3})$, the natural log of one plus the total dollar amount of government fines received. $log(RPRTS_1ST_INVOLVED_t)$ is the natural log of one plus the number of reports per 1,000 employees that were made by those involved in the reported activity. Variables for the number of eyewitness reports (*RPRTS_1ST_WITNESSED*), reports based on secondhand information provided by another employee (*RPRTS_2ND_INTERNAL*), reports based on secondhand information provided by an individual outside the company (*RPRTS_2ND_EXTERNAL*), reports based on secondhand information obtained by accident (*RPRTS_2ND_ACCIDENT*), reports based on some other source (*RPRTS_OTHER*), and reports with no identified source of awareness (*RPRTS_MISSING*) are calculated similarly. All other explanatory variables are defined in Appendix B. t-statistics are based on standard errors clustered by firm.

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