The Effects of Wrongdoer Motivation and Internal Versus External Reporting Channel on Intention to Report Fraud

Blaise M. Sonnier*

ABSTRACT

Using an experiment, this study examines the impact of the motivation of the wrongdoer and characteristics of the corporate reporting channel on the likelihood that in-house accountants will report fraudulent financial reporting to an employee hotline. The results indicate that in-house accountants are more likely to report a fraudulent financial misstatement when motivated by the wrongdoer’s personal gain. In addition, the study provides evidence that in-house accountants are more likely to report to a hotline managed by the internal audit department than to a hotline managed by a third-party contracted by the corporation. Employees may be hesitant to report wrongdoing to an external channel given the traditional duty of loyalty and obligation of confidentiality of corporate employees. In addition, the education, training, and codes of conduct of accountants all place an emphasis on confidentiality. Based on the results of the study, corporations should explore implementing an employee reporting hotline managed internally for reporting accounting or auditing irregularities.

Keywords: Employee hotline, fraudulent financial reporting, reporting intentions, whistle blow, whistleblowing

*The author is an Assistant Professor of Tax Accounting and the Wilcox Endowed Professor of Accounting at University of Colorado - Colorado Springs. The author thanks the anonymous reviewer and the editor, D. Larry Crumbley, for helpful comments and suggestions that improved the manuscript. All errors are that of the author.