

## **An Examination of the Effectiveness of Sarbanes-Oxley Whistle-Blower Protection**

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The United States Congress was motivated to pass the Sarbanes-Oxley Act of 2002 after the public outcry from the accounting and fraud scandals at the turn of this century. Among its reforms, the Act provided protection from management retaliation to corporate whistle-blowers. In an experiment utilizing participants from the financial services industry, we examined the effect of protection in countering the negative influence of management retaliation on whistle-blowing. Our results indicated that threatened retaliation reduced the perceived likelihood of employee whistle-blowing. However, when an employee was aware of the protection provided under Sarbanes-Oxley, the likelihood of whistle-blowing significantly increased. In the presence of protection, the influence of retaliation disappeared, as whistle-blowing was perceived equally likely whether retaliation was threatened or not. Our results indicate that the protection provided by the Sarbanes-Oxley Act may achieve its intended effect of mitigating the negative impact of potential retaliation on whistle-blowing behavior.

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### **I. INTRODUCTION**

In 2002, the United States Congress passed the Sarbanes-Oxley Act of 2002, the largest securities law since the adoption of the 1933 and 1934 Securities and Exchange Acts. Designed to increase transparency, protect investors, and guard the public interest (Sarbanes-Oxley 2002), the Sarbanes-Oxley Act required the Securities and Exchange Commission to develop rules and regulations relating to auditor independence, financial disclosures, development and assessment of internal controls, and the redefinition of the responsibilities of management and the audit committees of public companies. Among the new requirements for audit committees of public companies, the Act mandates the creation of a formal system that would allow employees to anonymously submit concerns regarding questionable accounting or auditing matters (§301). In addition, Congress revised Chapter