

# **Do snitches get snitches? The role of compensation schemes on the willingness to blow the whistle**

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## ABSTRACT

Whistleblowing is a crucial tool for the enforcement of socially desirable behavior within organizations, particularly when external monitoring costs are high. In this paper, we study wrongdoing by employees in a setting where whistleblowing is possible but can influence the labor-market opportunities of those who blow the whistle. We investigate situations where wrongdoing negatively affects a principal and has either no externalities, negative externalities, or positive externalities on other employees. We assume that whistle blowing exposes wrongdoing and punishes the culprits but also exposes the identity of those who blow the whistle. Consequently, whistle blowing carries additional costs or benefits depending on whether it is penalized or rewarded in the labor market. We find that wrongdoing is most frequent and least likely to be reported in cases where it produces positive externalities on other employees. Moreover, irrespective of the type of externality, whistleblowers are less likely to be hired, even by organizations where no wrongdoing occurs.