Helplines & Hotlines: What We Know and Can Improve About Reporting

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Chair for Ethics Policy; Ethics Resource Center

About ERC

• Non-profit; established in 1922

• Promotes advancement of high ethical standards and practices in public and private institutions

• Key activities
  – Identify objective indicators for benchmarking program impact
  – Use expertise to inform public dialogue on ethics, ethical behavior
  – Analyze current and emerging issues
  – Offer insight to encourage behavior of highest integrity
  – Work to enhance public trust in capital markets
About EthicsPoint

- EthicsPoint is the market leader in business process optimization for Issue, Event, and Loss Management

- Key activities
  - Hotline Reporting System that addresses compliance on a Global Scale
  - Support for movement from disconnected Governance, Risk, and Compliance (GRC) solutions to centralized and consistent reporting, analysis, and management of incidents across the organization
  - State-of-the-art Software-as-a-Service (SaaS) incident management tools that enable enterprise-wide views of risk—including current trends and retrospective views

Contemporary Emergence of Hotlines

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>High risk companies install “fraud and abuse” hotlines</td>
<td>Defense Industry contractors begin compliance programs</td>
<td>US Federal Sentencing Guidelines encourage non-retaliatory reporting</td>
<td>CareMark decision defines director liabilities for non-compliance</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>SOX passes requiring a hotline for all publicly traded companies</td>
<td>US Federal Sentencing Guidelines amended to encourage both anonymous and confidential reporting</td>
<td>Senate Finance Committee introduces &quot;national not-for-profit governance&quot; white paper</td>
<td>California passes “SOX-type” requirements for non-profit organizations</td>
<td>France sets Data Protection guidelines following its “rejection” of McDonald’s hotline</td>
</tr>
</tbody>
</table>
We need Employees to Report Misconduct

It takes 20 years
to build a reputation
and five minutes to lose it.

Warren Buffett

What We Know…

This pie chart shows how much pie
I ate while making this chart.
High rates of misconduct + low reporting when observed = HIGH RISK

Awareness of Anonymous Reporting Mechanisms
Awareness of Misconduct Is on the Rise

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Pressured Employees Observed More Misconduct

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Many Employees Still Do NOT Report

Reporting Varies by Level
Reporting Also Varies by Function

U.S. Employees NOT Reporting Misconduct

2007 NBES Average = 42%

Percent not reporting misconduct

Professional/Technical 37%
Admin/Clerical 38%
Other 43%
Sales 44%
Skilled Laborer 48%
Manual Laborer 54%

Functional Lines

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Reality is...Hotlines Are Under-Utilized

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Perception vs. Reality Disconnect

The Retaliation Trust/Fear/Reality Disconnect

- 80 percent believe that management does not tolerate retaliation
- 36 percent of those who didn’t report feared retaliation
- Only 12 percent of those who did report experienced retaliation

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Perception vs. Reality Disconnect

Top Reasons for Lack of Reporting

Note: n/a represents items not asked in previous survey administrations
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Broadening Awareness of Incidents and Risk

Risk Reduction Framework

Issue Awareness

Alignment  Awareness  Management  Insight

Improved Data Quality
Resolution Process
Consistency
Reduced Retaliation

Policies & Controls

Feedback Mechanism

&
### What Matters Do Employees Report?

#### Percentage of Employees Who Did NOT Report Observed Misconduct

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improper hiring practices</td>
<td>67%</td>
</tr>
<tr>
<td>Discrimination</td>
<td>65%</td>
</tr>
<tr>
<td>Bribe</td>
<td>64%</td>
</tr>
<tr>
<td>Internet abuse</td>
<td>62%</td>
</tr>
<tr>
<td>Lying to stakeholders</td>
<td>59%</td>
</tr>
<tr>
<td>Lying to employees</td>
<td>58%</td>
</tr>
<tr>
<td>Sexual harassment</td>
<td>51%</td>
</tr>
<tr>
<td>Putting own interests ahead of org</td>
<td>47%</td>
</tr>
<tr>
<td>Misuse of confidential org info</td>
<td>47%</td>
</tr>
<tr>
<td>Misreporting hours worked</td>
<td>46%</td>
</tr>
<tr>
<td>Using competitors inside info</td>
<td>46%</td>
</tr>
<tr>
<td>Environmental</td>
<td>45%</td>
</tr>
<tr>
<td>Abusive behavior</td>
<td>45%</td>
</tr>
<tr>
<td>Alteration of documents</td>
<td>45%</td>
</tr>
<tr>
<td>Alteration of financial records</td>
<td>43%</td>
</tr>
<tr>
<td>Provision of low quality goods &amp; services</td>
<td>41%</td>
</tr>
<tr>
<td>Safety violations</td>
<td>37%</td>
</tr>
<tr>
<td>Stealing</td>
<td>36%</td>
</tr>
</tbody>
</table>

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### What Matters Are Being Reported?

#### Reports by Core Category, 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>AM</th>
<th>CPE</th>
<th>EEOC</th>
<th>E9</th>
<th>F</th>
<th>G</th>
<th>HR</th>
<th>I</th>
<th>K</th>
<th>MIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and Accounting Matters</td>
<td>3.1%</td>
<td>1.4%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>2.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Customer/Partner/Competitor Issues</td>
<td>1.2%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.8%</td>
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<tr>
<td>EEOC/EEO Issues</td>
<td>1.8%</td>
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<tr>
<td>Environmental, Health and Safety</td>
<td>1.8%</td>
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<td>1.8%</td>
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<tr>
<td>Corruption and Fraud</td>
<td>1.2%</td>
<td>1.2%</td>
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<td>1.2%</td>
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<tr>
<td>Government Activity / Regulatory</td>
<td>1.2%</td>
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<tr>
<td>Human Resources/Employees</td>
<td>1.2%</td>
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<tr>
<td>General Inquiry/Question/Other</td>
<td>1.2%</td>
<td>1.2%</td>
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<tr>
<td>Items not mentioned above</td>
<td>1.2%</td>
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</tr>
<tr>
<td>Asset/Information Misuse and Access</td>
<td>1.2%</td>
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<td>1.2%</td>
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*EthicsPoint internal data, 1700+ clients, all industries

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Hotlines Capture Some Issues More Than Others

Behaviors Reported to Hotline Most Frequently

- Using competitors inside info: 12%
- Improper hiring practices: 11%
- Discrimination: 8%
- Alteration of Financial Records: 5%
- Alteration of Documents: 5%
- Misuse of Confidential Information: 3%
- Sexual Harassment: 4%
- Alteration of Financial Records: 3%
- Misuse of Confidential Information: 4%

Note: Remaining behaviors assessed in survey reported at or below average hotline rate of 3%

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What We Can Improve…
**ERC Substantiates that Programs Increase Reporting**

<table>
<thead>
<tr>
<th>Implementation Level</th>
<th>Ethical Culture</th>
<th>Reporting Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little to No Implemented</td>
<td>weak ethical culture</td>
<td>25%</td>
</tr>
<tr>
<td>Poorly Implemented</td>
<td>weak ethical culture</td>
<td>50%</td>
</tr>
<tr>
<td>Well Implemented</td>
<td>weak ethical culture</td>
<td>70%</td>
</tr>
</tbody>
</table>

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**EP Client Experience Substantiates that Programs Increase Reporting**
EP Client Experience Substantiates that Programs Increase Reporting

Measuring a Well-Implemented Program

One-quarter of US workforce perceive company to have well-implemented ethics and compliance programs

**Awareness**
- Written standards of conduct
- Ethics training
- Advice line
- Anonymous or confidential reporting
- Discipline system
- Evaluation of ethical conduct

**Implementation**
- Willingness to seek ethics advice
- Receipt of positive feedback for ethical conduct
- Employee preparedness for misconduct
- Mgmt can be questioned without fear
- Rewards for following ethics standards
- Questionable means NOT rewarded
- Org encourages ethical conduct
- Employees believe org is ethical

One-quarter of US workforce perceive company to have well-implemented ethics and compliance programs.

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Reporting of Misconduct Varies by Sector

Types of Employment

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Union Membership is Relevant to Observations and Reporting

Recommendations

- Assess and tailor your hotline to meet your organization’s inherent risk factors and cultural challenges
- Ensure Organizational Readiness
  - Establish systems to capture reports that are made to management
  - Identify Stakeholders and Evaluate Resources
  - Address Retaliation
- Enable stakeholder feedback so that issues can be raised quickly and safely
  - Tone from the top and open door policies supported by a trusted hotline
  - Follow up with “reporters” to validate the value of the system
  - Train management to recognize, address and document reports of misconduct
  - Escalate issues to management / audit committee
- Ensure that issues raised are immediately assessed and resolved
  - Probe with follow-up questions to mitigate frivolous and unsubstantiated reports

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Recommendations

- Periodically assess all reports and review to identify “hot spots” or new risk areas
  - Geographically
  - Managerial
  - Training
  - Assimilation
  - Cultural

- Benchmarking
  - Incident categories
  - Post corrective outcome
  - Trend analysis

- Review and Improve the Process

- Consider policy approaches outside the box
  - Different methods of reporting: how viable?
  - Policy considerations: lessons from other sectors