Ethics/Compliance Hotline Benchmarking:

Best Practices and Data Trends

Society of Corporate Compliance and Ethics
2010 Compliance and Ethics Institute
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Carrie Penman, President, Ethical Leadership Group™

About Global Compliance

- Global Compliance is a leading provider of integrated ethics and compliance solutions – worldwide
- Founded in 1981, Global Compliance pioneered whistleblowing hotlines
- Today, we offer a scalable and intuitive end-to-end compliance solution that leverages our proprietary software, database and deep industry experience.

GLOBAL COMPLIANCE® COMPLETE

<table>
<thead>
<tr>
<th>Hotline Solutions</th>
<th>Training &amp; Education</th>
<th>Expert Advice</th>
<th>Performance &amp; Benchmarking</th>
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<tbody>
<tr>
<td>Proprietary Data Repository</td>
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About Global Compliance

- **Expert and Experienced**
  - 4,000+ customers currently serviced across diverse industries; 50% of the Fortune 100 and large government organizations
  - 25+ million end users supported and managed worldwide

- **Global**
  - Over 200 countries and territories represented by current client portfolio; 150+ language capability
  - Nearly 25% of the Global 500 in long-standing customer relationships; 700 multi-national corporations on current client roster
  - Fully compliant North American and European data centers

- **Comprehensive and Integrated Solutions**
  - Best-in-class, scalable SaaS-based point solutions (continuously updated); First to market with Mobile Hotline and Case Management solution for iPhone® devices and Blackberry® smartphones
  - Global Compliance® Complete: Fully outsourced compliance program capability

- **Largest proprietary insight and benchmarking database**
  - Millions of Alertline® hotline calls, web reports, online training LMS transactions handled, tracked and trended

Ongoing challenges for ethics and compliance officers

- **So much data**, but not always clear what it means

- Need to **demonstrate program effectiveness**

- Need to report **meaningful and actionable data** to senior leadership and the Board

- Need to know **how the company compares** to other organizations inside and outside of the industry

- Finding **context**...
The only sure things...

- Too many calls is not good news
- Very few calls is not good either

Some Factors Influencing Call Volume and Types of Calls

- Company and industry risk areas
- Workforce breakdown and staffing
- How reporting system is advertised
- Alternate reporting channels available to employees and access to them
- Geographic location of employees
- Organizational culture
- Economic climate…
Context is best conveyed through:

- **Comparisons** and **trend analysis** using internal and external **benchmarking**

- Look for:
  - **Significant changes** in internal data
  - **Deviations** from internal and external norms

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**Internal benchmarking**

- Review the following for trends and red flags:
  - Types of reports - call categories
  - Allegations versus inquiries
  - Anonymous versus named reporters
  - Sources and allegation types – by groups, locations, businesses or services
  - Substantiation percentage – for both named and anonymous reports
  - Discipline/remediation actions
  - Case cycle time
  - Online vs. telephone reports
  - Source of awareness
  - Follow-up contacts from anonymous calls
Internal benchmarking

- Other useful reviews
  - Geographic locations calling (and not calling)
  - Levels of employees calling (and not calling)
  - Characteristics of anonymous calls
  - Comparisons against prior years or quarters
  - High volume of, or spikes in, HR related calls
  - Retaliation cases and outcomes
  - Case closure time by investigating department or investigator
  - Substantiation rate by investigating department/investigator
  - Disciplinary actions taken -- by business, by location, and by level of employee
  - Any anomalies

The value of internal benchmarking

Reports per 100 Employees by Business Unit, 2010
(Extrapolated through end of year)
The value of internal benchmarking
Anonymous Report Rate by Business Unit, 2010

Why use medians and ranges and not averages?

- Median - *midpoint of the data*
  - Eliminates skew due to company/bus. unit size or outlier data
  - Reflects general trend of all companies/organizations in the database

- Ranges – *capture the spectrum of experiences*
  - Takes into account the variety of cultures
  - Flags the most extreme examples as potential areas of concern
What may cause changes in reporting trends?

- Training and communication initiatives
- Published (or rumors of) internal cases and disciplinary actions
- Internal restructuring /management changes/layoffs
- Policy changes – Code or HR
- Mergers/acquisitions/changes in lines of business
- Regulatory changes
- News articles re: industry, competitors, or the latest compliance scandal
- A real problem

Reporting to leadership: the most frequently asked question...

- **How are we doing** compared to others in the industry?
- Requires: **External Benchmarking**
Demonstrating context to leadership

- Acme’s 2008 anonymous report percentage
- The range of anonymous report percentages of the central 80% of Acme’s industry
- The median anonymous report percentage of Acme’s industry
- The median anonymous report percentage of all industries
- The range of anonymous report percentages of the central 80% of all industries

Data on this slide is fabricated for demonstration purposes

Demonstrating context to leadership – trends over time

- Severity
- Calls Made Anonymously
- Reports per 100 Employees
External benchmarking – our research

- Data analysis of Global Compliance database – approximately 225,000 reports in 2009
- **Number** industries evaluated

Categories of calls used:

- Accounting, Auditing, and Financial Reporting
  - Financial Misconduct, Internal Controls, Expense Reporting
- Business Integrity
  - Falsification of documents, Fraud, COI, etc.
- Diversity, HR, and Workplace Respect
  - Discrimination, Harassment, Compensation, General HR
- Environment, Health, and Safety
  - Environmental Compliance, Assault, Safety, OSHA Reporting
- Misuse, Misappropriation of Corporate Assets and Information
  - Computer Usage, Employee Theft, Time Clock Abuse
We currently calculate:

- By industry and client, with cross tabulations using these categories:
  - Types of reports
  - Case closure time
  - Anonymous vs. named reports
  - Allegation priority
  - Substantiation percentage
  - Anonymous substantiation percentage
  - Online reports
  - Follow-up contacts

Some interesting findings:
Some data points had very wide ranges across all industries

- Report volume
- Human Resource issues
- Anonymous reports
- Case closure time
- Online reporting versus phone calls
Percent of Employees Reporting (2009)

Median Percent of Employees Reporting

- Education: 0.4%
- All industries: 0.9%
- Miscellaneous Retail: 2.5%

Report breakdown

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of 2008 Reports</th>
<th>Percentage of 2009 Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inquiries</td>
<td>26%</td>
<td>17%</td>
</tr>
<tr>
<td>Reports</td>
<td>50%</td>
<td>57%</td>
</tr>
<tr>
<td>Follow-ups</td>
<td>24%</td>
<td>26%</td>
</tr>
</tbody>
</table>
2009 Data – How often do the same employees call with new issues?

- **First time callers** = 82%

- **Repeat callers** (as identified by the caller and includes prior years) = 18%

2009 Data – Repeat reporters varied significantly by industry

Repeat Callers by Industry

- **Industrial Manufacturing**: 37%
- **All Industries**: 18%
- **Construction**: 11%
2009 Data – Substantiation rates by caller frequency

- Which caller do you expect to be more credible – the first time caller or the repeat caller?

<table>
<thead>
<tr>
<th>Substantiation Rates</th>
<th>Substantiated</th>
<th>Unsubstantiated</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Time Caller</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>Repeat Caller</td>
<td>37%</td>
<td>63%</td>
</tr>
</tbody>
</table>
HR-Related Reporting

% of Reports Which are HR-Related

- Health Care: 63%
- All Industries: 71%
- Wholesale Trade: 85%

Range of Human Resources/Diversity calls

- Diversity/Human Resources/Workplace Respect
  - 2008
    - Range = 55% to 80%
    - Median = 73%
  - 2009
    - Range = 43% to 89%
    - Median = 71%
Anonymous Reporting

- **Source of frustration** for Ethics Officers and senior leadership because of missing data and inability to talk directly with the reporter

- **Senior Leaders often push back** on accepting anonymous calls because:
  - Fear of malicious calls
  - Fear of inability to receive case
  - Strong belief that reporters with real issues should be willing to give their name
2009 Data – High range of anonymous calls across industries

Rate of Anonymous Reports

![Graph showing rate of anonymous reports across industries (Accommodation and Food Services: 56%, All Industries: 65%, Education: 79%).](graph)

2009 Data – Substantiation rates of anonymous versus named reporters

- Is there a difference in substantiation rate if the reporter gives his or her name?

<table>
<thead>
<tr>
<th>Call Type</th>
<th>Median 2008</th>
<th>Median 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of cases substantiated with a named reporter</td>
<td>28%</td>
<td>36%</td>
</tr>
<tr>
<td>Percent of cases substantiated with an anonymous reporter</td>
<td>28%</td>
<td>28%</td>
</tr>
</tbody>
</table>
CASE CLOSURE TIME

Number of days to close a case involving an investigation

- Median = 15 days
- Average = 28 days

<table>
<thead>
<tr>
<th>Days</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3 days</td>
<td>20%</td>
</tr>
<tr>
<td>4-10 days</td>
<td>19%</td>
</tr>
<tr>
<td>11-21 days</td>
<td>21%</td>
</tr>
<tr>
<td>22-30 days</td>
<td>9%</td>
</tr>
<tr>
<td>30+ days</td>
<td>31%</td>
</tr>
</tbody>
</table>
Range of Case Closure

Median Days to Close Cases

<table>
<thead>
<tr>
<th>Category</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Trade - Specialty</td>
<td>17</td>
</tr>
<tr>
<td>All Industries</td>
<td>32</td>
</tr>
<tr>
<td>Utilities</td>
<td>74</td>
</tr>
</tbody>
</table>

INTAKE METHOD
How do cases come in? Online reporting on the rise…

Median Web Reporting Rate – 2008 vs 2009

Intake Method

Substantiation Rate of Reports by Intake Method
OTHER FINDINGS

Which types of reports are most likely to be substantiated?

Substantiation Rate by Allegation Category (% of total reports tagged with disposition)

- Accounting and Financial Reporting (52%)
- Business Integrity (39%)
- Diversity, HR, Workplace Respect (25%)
- Environment, Health, Safety (40%)
- Misuse, Misappropriation of Corp. Assets (53%)
# Reports of retaliation and the outcomes

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Retaliation</td>
<td>0.90%</td>
<td>0.89%</td>
<td>0.67%</td>
</tr>
<tr>
<td>Reports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substantiation Rate</td>
<td>20%</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>of Retaliation Reports</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

# Industries with the highest frequency of each call type

<table>
<thead>
<tr>
<th>Allegation Type</th>
<th>Industry</th>
<th>Median Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and Financial Reporting</td>
<td>Prof., Scien., and Tech. Services</td>
<td>8%</td>
</tr>
<tr>
<td>Business Integrity</td>
<td>Health Care</td>
<td>21%</td>
</tr>
<tr>
<td>Diversity and HR</td>
<td>Wholesale Trade</td>
<td>85%</td>
</tr>
<tr>
<td>Environment, Health, and Safety</td>
<td>Mining</td>
<td>13%</td>
</tr>
<tr>
<td>Misuse of Corporate Assets</td>
<td>Utilities</td>
<td>8%</td>
</tr>
</tbody>
</table>
FINAL THOUGHTS AND RECOMMENDATIONS

Five most common mistakes we find in ethics Hotlines:

1. Discouraging callers with questions or requests for advice
2. Investigations missteps:
   - Investigations that take too long
   - Poorly trained investigators
   - Maintaining objectivity and professionalism
   - Not vigorously protecting confidentiality
3. Not publishing sanitized outcomes to employees
4. Not looking for trends and related variables
5. Call data to Board and senior management without context
Some advice and best practices:

- Use a robust case management system
- Run your data different ways
- Research anomalies
- Drill down to locations and businesses; issue types and topics; anonymous calls; substantiated allegations;
- Sometimes you “don’t know it until you see it”
- Follow your gut instincts on brewing problems
- Track and report on quality of case management and investigations
- Track disciplinary actions by offense, level of employee, or group…

Questions? Ideas?
Thank You

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