Hotline Reporting is More Important Than Ever: The Latest Findings From the 2018 Hotline Benchmark Report

SCCE – Atlanta Regional Conference
June 8, 2018

Presented by
Carrie Penman | Chief Compliance Officer &
Senior Vice President, Advisory Services

Agenda

• Introductions
• Our Benchmarking Methodology
• Benchmark Statistical Snapshot
• Key Findings
• Key Takeaways & Best Practice Recommendations
• Q&A
• Additional Resources
Hotline Benchmark Statistical Snapshot

• Our database starts with **13,000+** NAVEX Global clients

• Of those **5,779 received a report** in 2017 through NAVEX Global’s Hotline and EthicsPoint Incident Management solutions

• **2,479** clients received 10 or more reports in 2017 (representing **42.1 million** employees)

• These **2,400+** clients received approximately **900,000** reports in 2017

• Data reflects all reports documented in clients’ EthicsPoint Incident Management system regardless of reporting channel (web, hotline, open door, mobile, email, mail, etc.)

• Data covers **31 industries**

• We use **medians** (or **midpoints**) rather than averages to reduce the impact of outliers
  - Normal ranges identify extreme data points as potential areas of concern
  - Medians and ranges provide context for benchmarks
North American Industry Classification System (NAICS)

- 2018 Hotline Benchmark Report Industry Codes are based on the North American Industry Classification System (NAICS)
  - Standardized, more accurate peer-to-peer comparisons
  - 31 Total Industries Based on NAICS Sector and NAICS Sub-Sector levels
  - Use of Sub-Sectors allows differentiation of generalized sectors (manufacturing) into specific industries (e.g. machinery manufacturing, computer and electronic product manufacturing)
- [https://www.census.gov/eos/www/naics/](https://www.census.gov/eos/www/naics/)

### Key Findings
Key Finding #1

Report Volume per 100 Employees

Median Report Volume Remains at Highest Level

How Does Your Report Volume Compare to Others?

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
What do you think is the biggest driver of report volume?

<table>
<thead>
<tr>
<th>Cause</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>E&amp;C initiatives and training helping employees know when and what to report</td>
<td>37.5%</td>
</tr>
<tr>
<td>Senior leaders encouraging a “speak-up” culture</td>
<td>22.5%</td>
</tr>
<tr>
<td>Providing additional methods for employees to use to report</td>
<td>12.5%</td>
</tr>
<tr>
<td>Departments outside of Ethics &amp; Compliance (HR, audit, security) documenting reports</td>
<td>5.5%</td>
</tr>
<tr>
<td>Documenting reports received from all sources (not just hotline and web – including email, walk-ins, etc.)</td>
<td>10.8%</td>
</tr>
<tr>
<td>A true increase in E&amp;C issues we need to address</td>
<td>5.5%</td>
</tr>
<tr>
<td>Other (please use the chat window to share specifics)</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

Impact of Using a Unified Incident Management System

Organizations That Track Only Reports from Web and Hotline

- 2017: 0.2 to 1.1
- Median: 73 reports per 100 employees

Organizations That Track Reports from All Sources

- 2017: 0.3 to 1.8
- Median: 14.8 reports per 100 employees

Source: NAVEX Global's 2018 Ethics and Compliance Hotline Benchmark Report
Food Service Leads in Reporting Volume

Highest Rate

Overall Median Rate: 1.4 reports per 100 employees

Lowest Rate

Source: NAVEX Global's 2018 Ethics and Compliance Hotline Benchmark Report

Key Finding #2

Report Allegation Categories
Categories of Reports Used

1. Accounting, Auditing and Financial Reporting
   (i.e. financial misconduct, internal controls, expense reporting)

2. Business Integrity
   (i.e. bribery, falsification of documents, fraud, COI, vendor/customer issues, HIPAA)

3. HR, Diversity and Workplace Respect
   (i.e. discrimination, harassment, compensation, general HR, and cases marked as “other”)

4. Environment, Health and Safety
   (i.e. EPA compliance, violence, safety, OSHA, substance abuse)

5. Misuse, Misappropriation of Corporate Assets
   (i.e. employee theft, time clock abuse)

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Categories of Reports Remain Relatively Consistent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting, Auditing and Financial Reporting</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Business Integrity</td>
<td>17%</td>
<td>18%</td>
<td>17%</td>
<td>15%</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>HR, Diversity and Workplace Respect</td>
<td>69%</td>
<td>73%</td>
<td>69%</td>
<td>71%</td>
<td>72%</td>
<td>72%</td>
</tr>
<tr>
<td>Environment, Health and Safety</td>
<td>7%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Misuse, Misappropriation of Corporate Assets</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Industries with the Highest Median Reporting Rate by Allegation Category

Highest Median Report Rate per Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Median Reporting Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting, Auditing and Financial Reporting</td>
<td>6%</td>
</tr>
<tr>
<td>Business Integrity</td>
<td>27%</td>
</tr>
<tr>
<td>HR, Diversity and Workplace Respect</td>
<td>85%</td>
</tr>
<tr>
<td>Environment, Health and Safety</td>
<td>12%</td>
</tr>
<tr>
<td>Misuse, Misappropriation of Corporate Assets</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Key Finding #3

Anonymous vs. Named Reporters
Anonymous Reporting Continues to Decrease

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Little Progress In Follow-Ups to Anonymous Reports

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Education Leads Anonymous Reporting by Industry

Overall Median Rate: 56%

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Key Finding #4

Substantiated Reports
Overall Substantiation Rates Increase by 10%

Median Overall Substantiation Rate

Overall Substantiation Rate by Industry

1) Religious, Grant making, Civic, Professional, and Similar Organizations
2) Arts, Entertainment, and Recreation
3) Health Care and Social Assistance
4) Professional, Scientific, and Technical Services
5) Wholesale Trade
6) Transportation Equipment Manufacturing - Aerospace and Defense
7) Finance and Insurance
8) Waste Management and Remediation Services
9) Computer and Electronic Product Manufacturing
10) Transportation and Warehousing
11) Miscellaneous Manufacturing
12) Chemical Manufacturing - Pharmaceuticals
13) Mining, Quarrying, and Oil and Gas Extraction
14) Accommodation
15) Food Services and Drinking Places
16) Construction
17) Information
18) Public Administration
19) Machinery Manufacturing
20) Educational Services
21) Administrative and Support Services
22) Agriculture, Forestry, Fishing and Hunting
23) Plastics and Rubber Products Manufacturing
24) Retail Trade
25) Food Manufacturing
26) Utilities
27) Electrical Equipment, Appliance, and Component Manufacturing
28) Management of Companies and Enterprises
29) Fabricated Metal Product Manufacturing
30) Real Estate and Rental and Leasing
31) Beverage and Tobacco Product Manufacturing

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Key Finding #5

Case Closure Time

Case Closure Increases Slightly in 2017

Median Case Closure Time in Days

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Case Closure Time in Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>32</td>
</tr>
<tr>
<td>2012</td>
<td>34</td>
</tr>
<tr>
<td>2013</td>
<td>36</td>
</tr>
<tr>
<td>2014</td>
<td>39</td>
</tr>
<tr>
<td>2015</td>
<td>42</td>
</tr>
<tr>
<td>2016</td>
<td>44</td>
</tr>
<tr>
<td>2017</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Case Closure Times

By Anonymous vs Named Reporter

By Report Categories

Accounting, Auditing and Financial Reporting

Business Integrity

HR, Diversity and Workplace Respect

Environment, Health and Safety

Misuse, Misappropriation of Corporate Assets

Source: NAVEX Global's 2018 Ethics and Compliance Hotline Benchmark Report

What do you think is the biggest factor in case closure times increasing?

- Resource Constraints: Resources not keeping pace with volume, "less serious" cases get stalled. 51.9%
- Case Complexity: Cases are taking more time to resolve. 23.7%
- Inefficiencies: Processes and tools used to assign and execute investigations are not streamlined as they should be, resulting in lag time. 13.1%
- Ownership Confusion: Not clear who owns resolution for cases. 9.1%
- Other: Please cite your reason. 2.1%
Industry Case Closure Times

Overall Median Rate: 44 Days

1) Agriculture, Forestry, Fishing and Hunting
2) Management of Companies and Enterprises
3) Mining, Quarrying, and Oil and Gas Extraction
4) Plastics and Rubber Products Manufacturing
5) Waste Management and Remediation Services
6) Chemical Manufacturing - Pharmaceuticals
7) Miscellaneous Manufacturing
8) Beverage and Tobacco Product Manufacturing
9) Computer and Electronic Product Manufacturing
10) Educational Services
11) Machinery Manufacturing
12) Wholesale Trade
13) Electrical Equipment, Appliance, and Component Manufacturing
14) Transportation Equipment Manufacturing - Aerospace and Defense
15) Food Manufacturing
16) Professional, Scientific, and Technical Services
17) Transportation and Warehousing
18) Religious, Grant making, Civic, Professional, and Similar Organizations
19) Information
20) Finance and Insurance
21) Public Administration
22) Utilities
23) Construction
24) Fabricated Metal Product Manufacturing
25) Administrative and Support Services
26) Accommodation
27) Arts, Entertainment, and Recreation
28) Real Estate and Rental and Leasing
29) Health Care and Social Assistance
30) Retail Trade
31) Food Services and Drinking Places

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Key Finding #6

Report Intake Methods
Small Changes in Report Intake Method

Report Intake Method Comparison

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

“All Other Methods” Has the Highest Rate of Substantiation

Median Substantiation by Intake Method

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
### Where does retaliation prevention fall on your list of E&C program priorities for 2018?

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Priority: We are actively looking for new tools, resources, training and investigation approaches to move the needle on the issue.</td>
<td>40.2%</td>
</tr>
<tr>
<td>Important, but not in Top Three Priorities: Other issues are more pressing than retaliation for us this year</td>
<td>46%</td>
</tr>
<tr>
<td>Not a Focus Area for Us: Not a focus for our organization this year; measures we've already put in place are effective</td>
<td>13.8%</td>
</tr>
</tbody>
</table>
The Low Rate of Retaliation Reports Drops Even More

Percentage of Retaliation Reports

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Retaliation Substantiation Rates Increase

Substantiation Rate of Retaliation Reports

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Key Finding #8

Geographical Data

Geography Reporting

Report Origination Breakdown by Geography

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Geography Reporting

Anonymous Reports by Geography*

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Asia</td>
<td>50%</td>
<td>47%</td>
</tr>
<tr>
<td>Australia</td>
<td>25%</td>
<td>33%</td>
</tr>
<tr>
<td>Europe</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>North America</td>
<td>50%</td>
<td>57%</td>
</tr>
<tr>
<td>South America</td>
<td>47%</td>
<td>57%</td>
</tr>
</tbody>
</table>

*Correction to the 2016 data from last year’s report.

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report

Key Finding #9

Impact of the #MeToo Movement
The Impact of the #MeToo Movement

Reports Classified as Harassment

<table>
<thead>
<tr>
<th></th>
<th>Before Oct 5, 2017</th>
<th>9.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>After Oct 5, 2017</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

Source: NAVEX Global's 2018 Ethics and Compliance Hotline Benchmark Report

Key Takeaways & Best Practice Recommendations
5 Key Takeaways

1) Increase focus on anti-retaliation efforts
2) Continue work on getting case closure times back within best practice ranges
3) Get a more complete picture of your risks by documenting all reports in one centralized incident management system
4) Make the business case for matching your report volume with appropriate resources
5) Encourage employees to see your hotline as a resource for information, not just a channel for reporting

Moving Beyond the Basics
Incident Management Systems Enhance Your Visibility & Program Effectiveness

- **Know Your Risk**: Collecting reports from all intake channels (not just web & hotline) into an incident management system creates nearly twice as much visibility into potential E&C risks
- **Processes that Work for You**: Ensure standard operating procedures with customized workflows, allowing you to capture, assign and resolve incidents consistently and expeditiously
- **Identify Trends**: Analytics give you the insight to proactively spots trends, address issues, measure program effectiveness and enhance your E&C program
- **Gather More Information**: Custom web forms provide a simple way to capture and route reports, and make it easy for your employees and managers a simply to document issues
- **Protect Your Organization**: Consistent documentation also provides a stronger legal defense in the event of a lawsuit or regulatory action
Thank You

Carrie Penman, Chief Compliance Officer & SVP of Advisory Services
openman@navexglobal.com
781-271-1317