Whistleblower Activity:
What the Data Says About Why It Works

Matt Kelly
Radical Compliance
mkelly@RadicalCompliance.com

IIA Philadelphia

Who is this guy again?

• Writing, blogging independently at www.RadicalCompliance.Com
• Previously editor at Compliance Week, 2006-2016
• Doing various research, writing projects for private clients
Agenda for today... Internal Reporting!

- How do levels of reporting correlate to corporate performance?
- What types of allegations are most likely to be true?
- How should boards and risk assurance handle whistleblowing, based on what the data tell us?
- Tools, tips, and ideas for effective internal reporting culture
- Q&A

Part I.

What is the ‘right’ amount of internal reporting?
Part I.
What is the ‘right’ amount of internal reporting?

A. As much as you can get.

First, a look at lots of data...

- George Washington University study of internal reports, Nov. 2018
  - 3 million+ internal reports
  - 5,000 firms
  - 2004-17

- How many reports did the firm receive?
- How many fields in the report were complete?
- How often did management review the file?
More reporting activity = better performance

- Fewer material lawsuits
- Lower litigation costs
- Fewer external whistleblower reports
- Greater profitability and productivity

The correlation is **constant**.
There is **no** point of diminishing return.

Q. Is this a surprise?
Q. Is this a surprise?
A. No.

It’s about willingness to speak up

- How confident are internal reporters?
- How curious are managers about reports?

What else can we infer from the findings?
It's about willingness to speak up

- How confident are internal reporters?
- How curious are managers about reports?

What else can we infer from the findings?

Reporting activity doesn’t measure willingness to report misconduct. It’s **willingness to talk about problems.**

Other Findings on Internal Reporting

- Fewer regulatory fines, in lower amounts
- Less negative news coverage
- Even the name of your system matters—
  - ‘Helpline’ vs. ‘Hotline’
Part II.
What reports are most likely to be true?

Second-Hand Rather Than First-Hand

- Management is 48 percent more likely to substantiate second-hand allegation rather than direct knowledge
- More likely to be about business conduct, accounting
Second-Hand Rather Than First-Hand

- Management is 48 percent more likely to substantiate second-hand allegation rather than direct knowledge
- More likely to be about business conduct, accounting

First-hand complaints...

- More likely to be about workplace misconduct
- More likely to have greater detail
- More likely to be frivolous

Q. Is this a surprise?
Q. Is this a surprise?
A. No.

Consider what’s motivating the reporters

- First-hand reporters: something has happened to them
- Second-hand reporters: something may be amiss at the company

Yes, take both types seriously; but appreciate the different motivations.
Part III.
How should boards and leaders handle internal reporting?

Encourage it every way you can

- More reporting is not about finding problems
  - IT’S ABOUT BUILDING TRUST
- Teams that trust are more collaborative; more efficient
  - Less employee turnover
  - Less external reporting
Focus on basics

- First rule of anonymous reporting: **protect anonymity**
  - Do your investigation protocols keep that priority foremost?
  - Do managers disregard identity of whistleblower?

- Want people to think about ethics?
  - Then have managers talk about ethics

Focus on basics

- [Survey Results]
  - “I would be willing to report the observed misconduct for the following reason(s)”
  - 84.4%: It is the right thing to do
  - 60.1%: Corrective action is necessary
  - 49.3%: My manager will support me
  - 40.9%: Senior leadership will support me
  - 40.2%: The reporting is anonymous
  - 34.9%: My coworkers will support me
  - 20%: If I don’t do it, no one else will
  - 2.1%: Other
Focus on basics

Example: Texas Health Resources

- Large nonprofit healthcare system in Texas
- 24,000+ employees
- 27 hospitals; 350+ patient facilities
- $4.8 billion annual revenue

The anti-harassment policy: managers must report harassment allegations to HR; and employees can report via hotline at any time.

Tools and policies mutually reinforce each other.
Related reading

Study: Second-Hand Reports More Reliable
Study Ties Internal Reporting, Business Outcomes
Notes on Managers & Internal Reporting

Thank you

Matt Kelly, editor & CEO
www.RadicalCompliance.com
mkelly@RadicalCompliance.com