



Strength in Numbers: The ROI of Compliance Program Hotline Reporting

Corporate ethics and compliance officers have long sought to quantify the business value of internal hotline reporting systems.

A groundbreaking new study out of George Washington University – *Evidence on the Use and Efficacy of Internal Whistleblowing Systems*¹ – examines the relationship between internal reporting system usage and business performance. To conduct this study, researchers were granted access to the industry’s largest internal whistleblowing, database which is maintained and secured by NAVEX Global. Visibility was limited to report tallies and classification of type. No personally or company-identifiable information is included in this report. The data examined includes hotline reports over a fourteen-year period, 2004-2017.

Findings

The study reveals a clear correlation between increased use of internal hotline reporting systems and improved business performance across several important dimensions. The study also finds that those benefits increase with usage.

Specifically, increased hotline use is associated with:

 2.8%

Key Finding #1: Higher ROA

Companies with higher hotline usage have ROA up to 2.8% higher than similar companies with lower hotline usage.

¹Stubben, Stephen and Welch, Kyle T., Evidence on the Use and Efficacy of Internal Whistleblowing Systems (October 26, 2018). Available at SSRN: <http://ssrn.com/abstract=3273589>

V 6.9%

Key Finding #2: Fewer material lawsuits

Companies with higher hotline usage experience 6.9% fewer material lawsuits over a three-year period relative to similar companies with lower hotline usage.

V 20.4%

Key Finding #3: Lower settlement costs

Companies with higher hotline usage see 20.4% smaller litigation settlement costs over a three-year period relative to similar companies with lower hotline usage.

Implications

This research dispels the notion that more internal complaints are inherently bad; they are not. The data shows that higher internal whistleblower activity never correlates with negative business outcomes. Rather, increase use of an internal reporting system is associated with better business results, and suggests a positive workplace culture.

Companies with fully implemented, actively advertised, and widely used internal reporting systems benefit from a flow of information from employees, thus being in a position to more quickly identify and rectify problems before they become larger and more costly to the company.

The research implications for a company's efforts to improve its corporate culture; to achieve a true "culture of compliance." If hotline activity measures employees' willingness to raise and discuss problems, then tracking reporting activity reveals how willing employees are to raise and discuss problems. It measures how the organization's sensitivity to ethical conduct might be changing.

For example, if a company sees a sudden spike in hotline reports it can mean the company is experiencing some new wave of misconduct; or perhaps the level of concern has always been there, but something prevented employees from speaking up. Compliance officers would need to investigate that question. However, a spike in reports does mean that employees are more willing to raise the issue. In turn, that willingness to raise issues shows that the company's efforts to drive a culture more attuned to ethical concerns is succeeding. And this new research suggests that the increase in reports is a positive for the organization.

Fundamentally, compliance officers now have the first empirical evidence of something that has always felt right: that investing in compliance brings a strategic advantage to the organization. It helps companies to identify and resolve problems more quickly, which translates into fewer external complaints to regulators, fewer lawsuits, and lower legal settlements.

Compliance professionals should continue from there, exploring how this research has implications for program management, policy, training, data collection and more. The key point: compliance officers no longer need to wonder how much activity is "enough." More internal reporting activity is always better.

WWW.NAVEX.COM | info@navex.com | +1 866 297 0224

NAVEX is the worldwide leader in integrated risk and compliance management software and services. Our solutions are trusted by thousands of customers around the globe to help them manage risk, address complex regulatory requirements, build corporate ESG programs and foster ethical workplace cultures.

© 2022 NAVEX, INC. ALL RIGHTS RESERVED. | 12.21.21