



7 REASONS

to Implement a
Whistleblower Hotline

Anonymous Hotlines - A First Line of Defense

The importance of ethics is constantly spotlighted when scandals of major organizations and business leaders are publicized. No organization wants to wake up to find itself suddenly exposed to an unexpected liability or unwelcome scrutiny. That vulnerability is more significant with the increase in occupational fraud stimulated by the changing economy. The amount of money lost to occupational fraud each year represents a staggering drain on the global economy. It directly impacts an organization's ability to create jobs, produce goods and services, and provide public services.

The importance of understanding how and why crimes occur within a company can help that company direct its efforts towards building its future success, rather than financially helping the fraudster. All organizations, from publicly traded companies, to non-profit groups face many challenges maintaining proper controls. One of the simplest and most cost effective ways to accomplish this is by implementing an anonymous ethics reporting hotline. Fraud costs everyone more if it's ignored. No organization is immune to fraudulent or unethical behaviour, and no organization can afford the costly consequences. And beyond the direct financial impact, organizations can face regulatory violations or noncompliance issues. Public organizations face penalties for failing to meet regulatory obligations, and non-profit entities could face the loss of government funding.



Anonymous employee tips are the most common method of detecting fraud and abuse. It is well known that employees are an important source of information for discovering potential fraud, and providing valuable insight into a company's internal workplace culture when they are able to safely speak up to a hotline. In fact, according to the ACFE's latest Report to the Nations, the use of anonymous hotlines as anti-fraud measures has increased over 10% in the last decade. Interestingly also noted in the Report, the schemes used by occupational fraudsters have not really changed over the course of time, even considering we're living in the digital era with new ways to commit fraud. The way fraudsters operate, really has stood the test of time.

Today's Whistleblower

During the past 50 plus years, attitudes towards whistleblowing have evolved considerably from the early days of the “company man” atmosphere where loyalty to the organization was the ruling norm. Today, outrage over corporate misconduct has created a more encouraging climate for whistleblowing.

As we move into the next decade, the older generation will be retiring and the younger generation will be taking their place. And this new generation does not have any tolerance for being silenced.

The younger generation demands freedom of speech and the right to speak up without fear of retribution. They will be the future whistleblowers who shed light on the next global scandal. They will be the employees who change the internal culture of an organization that previously had a preference to silence those who speak up, or brush wrongdoing under the rug and pretend it never existed.

The attitude towards whistleblowing has progressively morphed from “snitch” and “lowlife” to “savior” and someone who “informs”. Not only are tips by whistleblowers the most common detection method, but organizations with hotlines detect fraud and wrongdoing quicker than those without a reporting hotline.

The use of hotlines as reporting mechanisms has increased notably over the last decade. But as the younger generation start to plant their feet, the use of other anonymous reporting mechanisms like email and web-based reporting will also increase to meet the need for digital preference.

Organizations should consider maintaining multiple reporting channels to fit the needs of those who submit anonymous tips.

Your employees are your first line of defense when it comes to learning of misconduct within the organization. They are the eyes and ears of your organization. Giving them the tools to safely speak up when they think they see something wrong is just plain smart business.





Why Implement an Ethics Reporting Hotline

There are plenty of reasons to implement an anonymous ethics reporting hotline. When an employee chooses to come forward, they want to know where to go, how to avoid supervisors, and how they can remain anonymous. An anonymous hotline removes many of the obstacles to reporting inappropriate behaviour and gives employees, suppliers, and vendors the ability to raise genuine concerns about illegal or unethical behaviour in a safe manner. As well, when a reporting mechanism is in place, they reduce the risk of individuals going elsewhere with their concerns, potentially damaging an organization's reputation and causing further financial harm.

The Ethics Reporting Hotline Should:

- ✓ Encourage employees to bring knowledge of ethical and legal violations to an internal authority so that action can be taken immediately to resolve the problem.
- ✓ Be accessible organization wide, including availability to vendors and suppliers. It's not just employees who observe misconduct.
- ✓ Meet regulatory requirements – specifically applicable to publicly traded organizations.
- ✓ Have an option to provide anonymity to anyone wishing to report concerns.
- ✓ Minimize the organization's exposure to the damage that can occur when employees circumvent internal mechanisms.
- ✓ Be cost-effective and available 24/7/365.
- ✓ Let employees and stakeholders know the organization is serious about adherence to the codes of conduct that have been put into place.

Effective ethics reporting tools help support cultures of integrity and responsibility within the workplace.

Ethical and Legal Violations

The regulatory environment is often changing. Ethics and compliance professionals charged with guiding their organizations away from non-compliance need to keep pace with best practices.

If there is no effective mechanism in place for employees to report their suspicions of ethical or legal violations, those violations can grow quite significantly over time to a point where the organization could face significant repercussions both legally and financially. Most employees within an organization have some form of control over their employer's cash or assets. The small percentage of people who do take advantage of their employer's trust in order to seek personal gain can cause significant damage.

Often, employees are the first to know of organizational irregularities before upper management becomes aware of them. Publicly traded companies are required to have a reporting mechanism in place. If employees have an anonymous means of reporting irregularities, management can find out about them sooner and take corrective action before they escalate into an ethical or legal nightmare.



Not all fraud can be prevented. Inevitably, it's likely that some type of unethical misconduct will eventually occur, even in the most secure organizations. However, quick detection of is vital to protecting an organization from potential damage. The median duration of fraud is 15 months. A proactive detection measure like an ethics hotline, is key to catching unethical behaviour early, and limiting loss.

Ethics Reporting Accessibility

Anonymous reporting hotlines play an important role in ethics and compliance programs. They provide an alternative path for communication between employees and management when more formal channels may present a barrier.

It is more crucial than ever that companies have effective reporting hotlines as part of their corporate compliance programs so that employees (and other company stakeholders, such as vendors) are motivated to report suspected unethical or unlawful conduct internally and not be incentivized to turn to regulators.

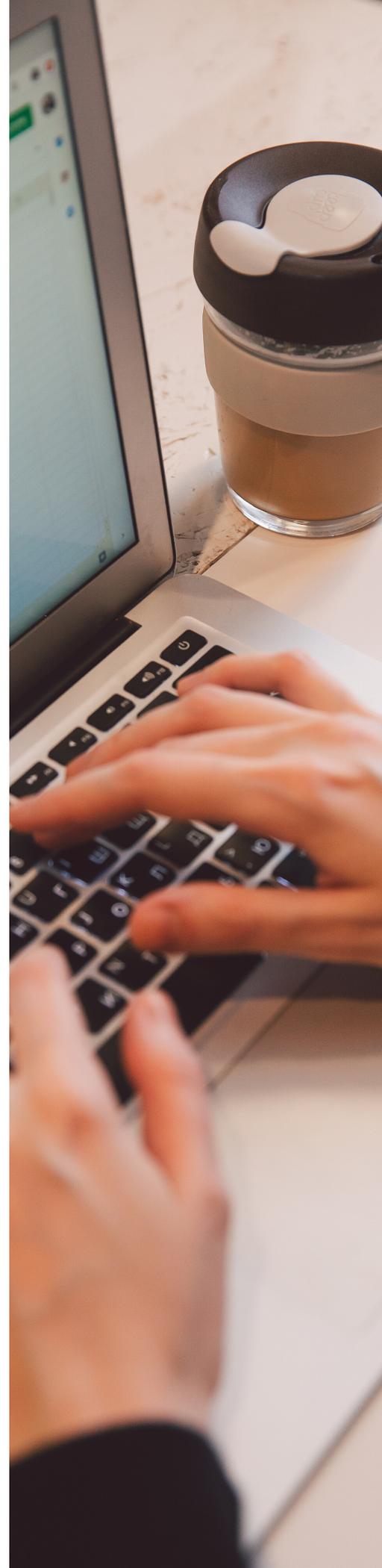
Your employees aren't the only people with eyes on the organization. Incidents of misconduct can be observed by multiple stakeholders including contractors, vendors, customers and members of the public. The problem is, internal systems often sit behind firewalls, completely inaccessible to non-employees. And there's a pretty good chance your employees, who would prefer to use your internal system from home, can't. An external third-party hotline increases accessibility to anyone who needs to report a concern.

Having a program in place that is accessible via phone, email, mail, fax, and web, offers all parties many different options for reporting possible wrongdoing. Multiple access points ensure any reporter can use the program in an easy to use format through an engagement point of their preference. This will increase program buy-in and usage.

Depending on a number of factors like employee location, educational background, age and level of employment, employees may differ on their preferred method of reporting compliance concerns.

Organizations with employee training on how to spot fraud or other misconduct are more likely to receive tips through their reporting channel. The ACFE's latest Report indicates that where there were lack of internal controls in place, this contributed to one out of every three reported frauds.

Multiple reporting methods offer alternatives for employees to reach out.



Regulatory Requirements

The GRC landscape is always changing and Ethics and Compliance professionals are constantly navigating through the complex world of regulations to ensure their companies are compliant.

The most notable regulations are the Foreign Corrupt Practices Act (FCPA), Sarbanes Oxley Act (SOX), Multilateral Instrument 51-110 (Canada), and the U.K. Bribery Act. However, other forms of misconduct are identified in regulations like HIPAA, and GDPR.

Organizations should understand the regulations that apply to them and ensure they have the right tools in place to meet these standards.

Some regulatory requirements stipulate that publicly traded organizations are mandated to have a whistleblower policy and procedure in place. The US requirements of Sarbanes Oxley and Canada's Multi-Lateral Instrument 51-110 state that a publicly traded organization must address and manage:

- ✓ The receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters
- ✓ The confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters

Other regulations like Australia's whistleblower legislation, requires any company to have a whistleblower program in place to allow employees to report unethical or illegal behaviour. But it's not just publicly traded companies that benefit from whistleblower policies and whistleblower reporting tools.

Nonprofit organizations have much to lose in the event of fraud or abuse. The threat of the loss of government funding can shut down a not-for-profit for good. Although the average amount lost to fraud in a typical nonprofit is less than a for-profit entity, the damage can be far greater given the nature of the business. This damage can also include loss of trust of the public, who these organizations heavily rely on for support.

Private and smaller organizations also can't afford to be penalized for violating rules and regulations, such as FDA. The cost of fighting potential legal battles and protecting the brand could become more than a private entity can handle and the prospect of going out of business is that much greater.

Organizations that are open about their ethical standards and conduct are more trustworthy than those who stay silent.

Anonymity

Over the last decade, there's been a surge in the adoption and usage of anonymous whistleblower hotlines. Efforts to increase the protection of whistleblowers are on the rise. As well, we've seen an increased push in the need to include reporting hotlines as a means to support ever-changing global regulations. These factors have seen more companies incorporating ethics reporting mechanisms into their existing ethics, compliance, and fraud detection policies.

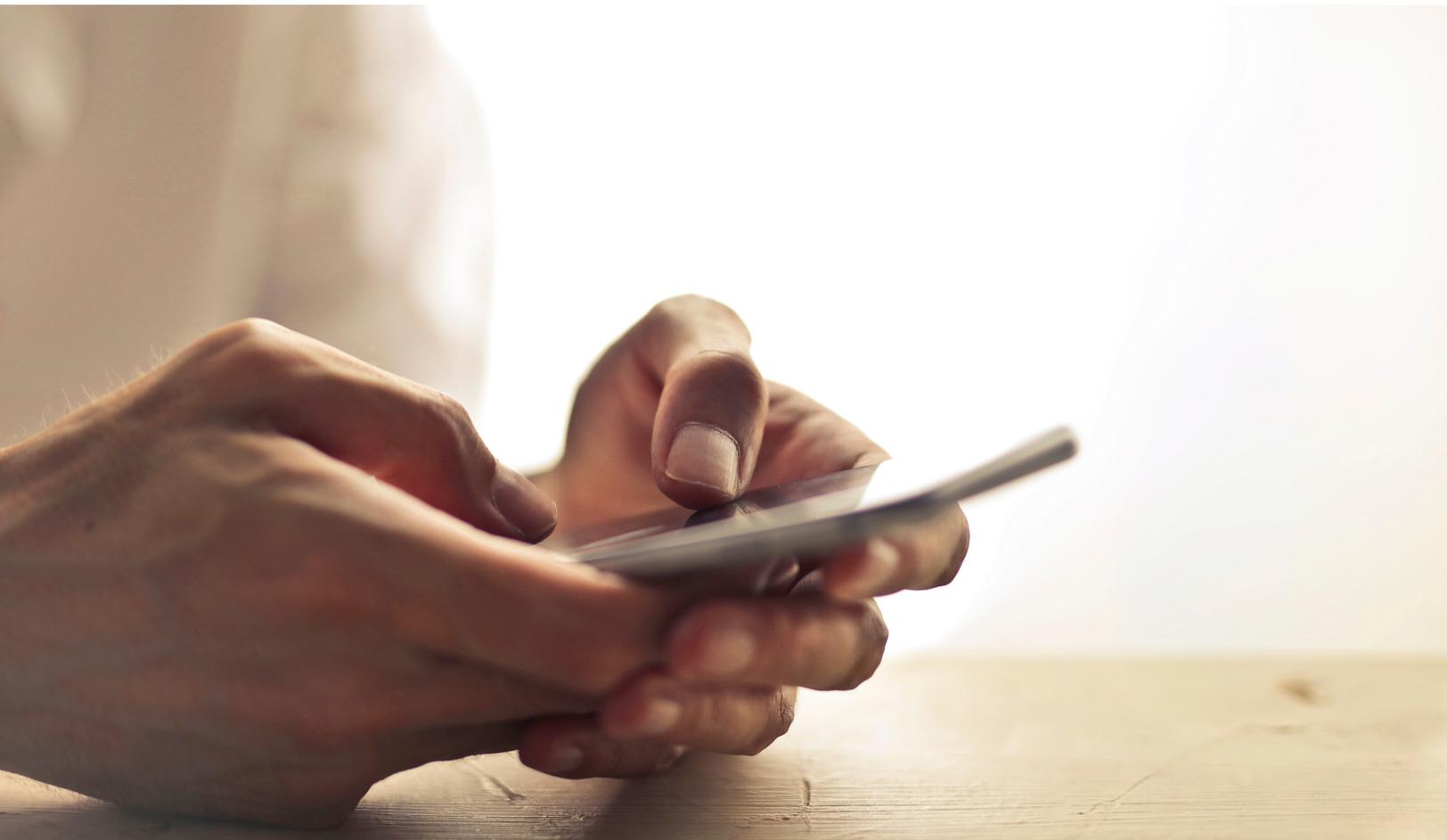
No organization is immune to fraud. These crimes can occur anywhere in the organization. And more organizations have adopted anonymous reporting hotlines over the past decade to detect fraudulent activity quicker.

We know the use of anonymous hotlines enables employees throughout all levels of an organization to speak up about something they think they see that is wrong. They may feel more comfortable about reporting anonymously instead of walking into the offices of management to talk about questionable and likely scary stuff.

With training on what types of ethical violations and fraudulent acts negatively impact the organization's code and culture, and training on how and when to report this misconduct, organizations will see an increase in employee engagement, employee satisfaction, the overall employee buy-in to being willing and excited participants in the execution of that company's future growth and success.

Employees are likely sit on their concerns for a very long time before deciding to finally speak up. A reporting program that gives employees the option to remain completely anonymous, or be fully transparent if they so choose, will provide employees the comfort and safety to speak up sooner about wrongdoing, and inform leadership on a variety of issues and enable them to investigate and remediate them sooner.

By providing anonymous reporting mechanisms to employees, an organization will give credence to the whistleblowing program.





Cost Effectiveness

Most companies do not have the capacity to operate an in-house ethics reporting hotline with translation capabilities. Employees can be skeptical about reporting misconduct directly in-house because they don't know who's on the other end of the report... or if they'll be recognized as the person who spoke up.

Third-party providers have the capacity to provide multiple methods of outreach that support many languages. This enables employees to report wrongdoing in a way they feel safe, in a language of their choice, and facilitates the ability to engage in anonymous dialogue between employees and their employer.

When it comes to putting any program in place, cost plays large role in determining how many features will be incorporated, and what type of service level will be utilized. When it comes to whistleblower hotlines, these factors play a role in determining if an organization is going to build their own internally run program, or outsource the program to a third-party.

An internally run ethics reporting program needs to take into account the costs associated with establishing and maintaining its infrastructure, reporting tools, and staffing. With an internal structure, all of these costs are sustained by the business itself.

The time, effort, and resources used to get an internal program built and running removes these resources from their regular duties, thus costing the organization more.

With an external third-party provided service, there's a significant reduction in the cost of implementing the program. The structure has already been build and established by the service provider:

- 24/7/365 capabilities
- Trained agents
- Case Management system
- Anonymous dialogue capabilities
- Development and production of marketing materials
- Ability to route reports away from implicated individuals
- Translation and interpretation capabilities

Ethics hotlines and their associated support networks are central to compliance, fraud mitigation and increasing shareholder confidence.

Minimize Damaging Exposure

Many organizations have seen their fair share of scandal, bankruptcy, and reputation damage. When companies behave negligently, customers' perceptions and purchasing decisions will be adversely affected. Leadership understands this, but they may get caught off guard by how far-reaching the aftershocks of a scandalous situation can be.

Let past scandals be a lesson for today's business practices. The focus on ethics in the workplace and the demand for ethics and compliance regulations soured as a result of the very highly publicized corporate accounting scandals of the early 2000s we know today as Enron, Tyco, and WorldCom.

It took more than a decade for the scandal Olympus to surface. Leadership who were allegedly the mastermind behind it were also responsible for the company's whistleblowing hotline. The culture at this company made employees afraid to speak up about views that were different to the dominating and authoritarian leadership.

Scandals like these are not limited to North America. Organizations the world over can be the subject of highly publicized scrutiny due to fraudulent activity that has been ignored and left to fester.



By implementing a third-party ethics reporting system where anyone can report on wrongdoing, and where the organization has the chance to seriously investigate and mitigate further risk, the “I wasn’t aware of it” plea, as used by CFOs and CEOs of previously unfortunate entities, can be eliminated.

Adherence to Codes

The Code of Conduct is the foundation of an organization's compliance program. An effective code is clear, concise, and easily accessible to every employee and those doing business with the organization.

Having an effective system for anonymous reporting of violations against the code will help the organization maintain the integrity of the ethics and compliance program.

Allegations of wrongdoing are going to be made. A well thought out compliance program is going to, no doubt, raise red flags that require looking into. What's important for the organization is that it implements a mechanism for individuals to come forward and anonymously communicate any suspicions they have of wrongdoing and illegal acts that can harm the organization.

This intake program should be efficient and reliable. By implementing an anonymous ethics reporting program, the message received by employees and stakeholders is that the organization is serious about the adherence to Code and there is a zero tolerance policy for retaliation.

In the ACFE's latest Report to the Nations, 81% of victim organizations had a code of conduct in place as an anti-fraud control method. Couple this with the increase in reporting hotline adoption over the past decade shows that organizations are taking detection of misconduct and the use of anonymous hotlines to detect misconduct seriously.

Effective compliance programs promote an acceptance within an organization that encourages a speak up culture, and a company-wide commitment to adherence to laws. Effective compliance programs protect an organization's reputation, brand, relationship with investors, protect assets, and helps in the detection and prevention of misconduct.

From inside the walls of an organization, the perspective might be that everything is running smoothly. But front-line employees are generally the eyes and ears to an organization's internal culture, and unethical conduct. Giving them the tools to speak up anonymously gives leaders a holistic view inside the organization's culture, and enables them to quickly put a stop to unethical misconduct.

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