2018 Ethics & Compliance Hotline & Incident Management Benchmark Report Webinar

Presented by
Carrie Penman | Chief Compliance Officer & Senior Vice President, Advisory Services
Scott Nelson | Partner | Baker McKenzie LLP
Presented By

Carrie Penman
Chief Compliance Officer & Senior Vice President,
Advisory Services
NAVEX Global

Scott M. Nelson
Partner
Baker & McKenzie LLP
Agenda

- Introductions
- Our Benchmarking Methodology
- Benchmark Statistical Snapshot
- Key Findings
- Key Takeaways & Best Practice Recommendations
- Q&A
- Additional Resources
Our Comprehensive Ecosystem

Manage Policies & Procedures
- PolicyTech® Policy Management
- Code of Conduct Development

Drive Value from Data & Community
- GRC Insights® Benchmarking
- Professional Services
- Compliance Next™

Assess & Monitor
- RiskRate® Enterprise Due Diligence
- Third Party Monitoring

Train & Engage
- NAVEXEngage® Online Training
- Awareness Solutions

Report & Resolve
- EthicsPoint® Incident Management
- Whistleblower Hotline Intake
Benchmark Methodology
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/)

1. Accommodation
2. Administrative and Support Services
3. Agriculture, Forestry, Fishing and Hunting
4. Arts, Entertainment, and Recreation
5. Beverage and Tobacco Product Manufacturing
6. Chemical Manufacturing - Pharmaceuticals
7. Computer and Electronic Product Manufacturing
8. Construction
9. Educational Services
10. Electrical Equipment, Appliance, and Component Manufacturing
11. Fabricated Metal Product Manufacturing
12. Finance and Insurance
13. Food Manufacturing
14. Food Services and Drinking Places
15. Health Care and Social Assistance
16. Information
17. Machinery Manufacturing
18. Management of Companies and Enterprises
19. Mining, Quarrying, and Oil and Gas Extraction
20. Miscellaneous Manufacturing
21. Plastics and Rubber Products Manufacturing
22. Professional, Scientific, and Technical Services
23. Public Administration
24. Real Estate and Rental and Leasing
25. Religious, Grant making, Civic, Professional, and Similar Organizations
26. Retail Trade
27. Transportation and Warehousing
28. Transportation Equipment Manufacturing – Aerospace and Defense
29. Utilities
30. Waste Management and Remediation Services
31. Wholesale Trade
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>Option</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)</td>
<td>5.6%</td>
</tr>
<tr>
<td>Documenting reports received from all sources (not just hotline and web – including email, walk-ins, etc.)</td>
<td>10.6%</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

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

Organizations That Track Reports from All Sources
Food Service Leads in Reporting Volume

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

Overall Median Rate: 1.4 reports per 100 employees

Highest Rate

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

Lowest Rate
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

- **Accounting, Auditing and Financial Reporting**: 6% Mining, Quarrying, and Oil and Gas Extraction
- **Business Integrity**: 27% Health Care and Social Assistance
- **HR, Diversity and Workplace Respect**: 85% Accommodation and Food Services
- **Environment, Health and Safety**: 12% Fabricated Metal Product Manufacturing
- **Misuse, Misappropriation of Corporate Assets**: 14% Agriculture, Forestry, Fishing and Hunting

*Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report*
Key Finding #3

Anonymous vs. Named Reporters
Anonymous Reporting Continues to Decrease

Median Anonymous Reporting Rate

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Little Progress In Follow-Ups to Anonymous Reports

Median Follow-Up Rate of 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

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Overall Substantiation Rate by Industry

Overall Median Rate: 44%

Highest Rate

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
Substantiated Anonymous vs. Named Reports

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
Substantiation Rate by Allegation Category

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

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

By Anonymous vs Named Reporter

By Report Categories

Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report
What do you think is the biggest factor in case closure times increasing?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Constraints: Resources not keeping pace with volume; “less serious” cases get stalled.</td>
<td>51.9%</td>
</tr>
<tr>
<td>Case Complexity: Cases are taking more time to resolve.</td>
<td>23.7%</td>
</tr>
<tr>
<td>Inefficiencies: Processes and tools used to assign and execute investigations are not streamlined as they should be, resulting in lag time.</td>
<td>13.1%</td>
</tr>
<tr>
<td>Ownership Confusion: Not clear who owns resolution for cases.</td>
<td>9.1%</td>
</tr>
<tr>
<td>Other: Please chat your reason.</td>
<td>2.1%</td>
</tr>
</tbody>
</table>
# Industry Case Closure Times

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

## Overall Median Rate: 44 Days

### Highest Rate

- 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

### Lowest Rate

---

**Copyright © 2018 NAVEX Global, Inc. All Rights Reserved.**
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
Key Finding #7

Reports of Retaliation
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

- **2011**: 0.52%
- **2012**: 0.70%
- **2013**: 0.64%
- **2014**: 0.71%
- **2015**: 0.91%
- **2016**: 0.93%
- **2017**: 0.66%

*Source: NAVEX Global’s 2018 Ethics and Compliance Hotline Benchmark Report*
Retaliation Substantiation Rates Increase

Substantiation Rate of Retaliation Reports

<table>
<thead>
<tr>
<th>Year</th>
<th>Substantiation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10%</td>
</tr>
<tr>
<td>2012</td>
<td>10%</td>
</tr>
<tr>
<td>2013</td>
<td>12%</td>
</tr>
<tr>
<td>2014</td>
<td>27%</td>
</tr>
<tr>
<td>2015</td>
<td>26%</td>
</tr>
<tr>
<td>2016</td>
<td>26%</td>
</tr>
<tr>
<td>2017</td>
<td>32%</td>
</tr>
</tbody>
</table>

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*

*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

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
Moving Beyond the Basics

Industry-Specific Benchmarking Provides More & Better Insight Into E&C Health

• Industry peer-to-peer comparison
• Board-ready reporting
• Reliable assessment of the effectiveness of your E&C program
• Regular tracking of program initiatives
• Strengthen corporate culture
Additional Resources

NAVEX Global offers many valuable resources for helping you increase program effectiveness by leveraging your hotline and incident management data. Visit our website www.navexglobal.com to find these resources and more:

White Papers:

- Maximizing the Benefits of Hotline Data: Analysis and Benchmarking
- Whistleblower Hotlines and Case Management Solutions—Major Challenges and Best Practice Recommendations
- Key Elements for Effective Compliance Program Board Reporting

On-Demand Webinars:

- Developing a Positive Whistleblower Culture
- What Data Can Tell You About Speak-Up Culture
- Top 10 Ethics & Compliance Predictions and Recommendations for 2018

Learn More About Our Solutions:

- Definitive Guide to Incident Management
- EthicsPoint Incident Management
- GRC Insights

Join the growing community of over 5,000 Compliance Professionals
Thank You for Your Participation

Carrie Penman, CCO & SVP of Advisory Services
cpenman@navexglobal.com