

Efficacy of Internal (Hotline) Reporting Systems

Empirical Evidence of the
Return on Investment in Compliance

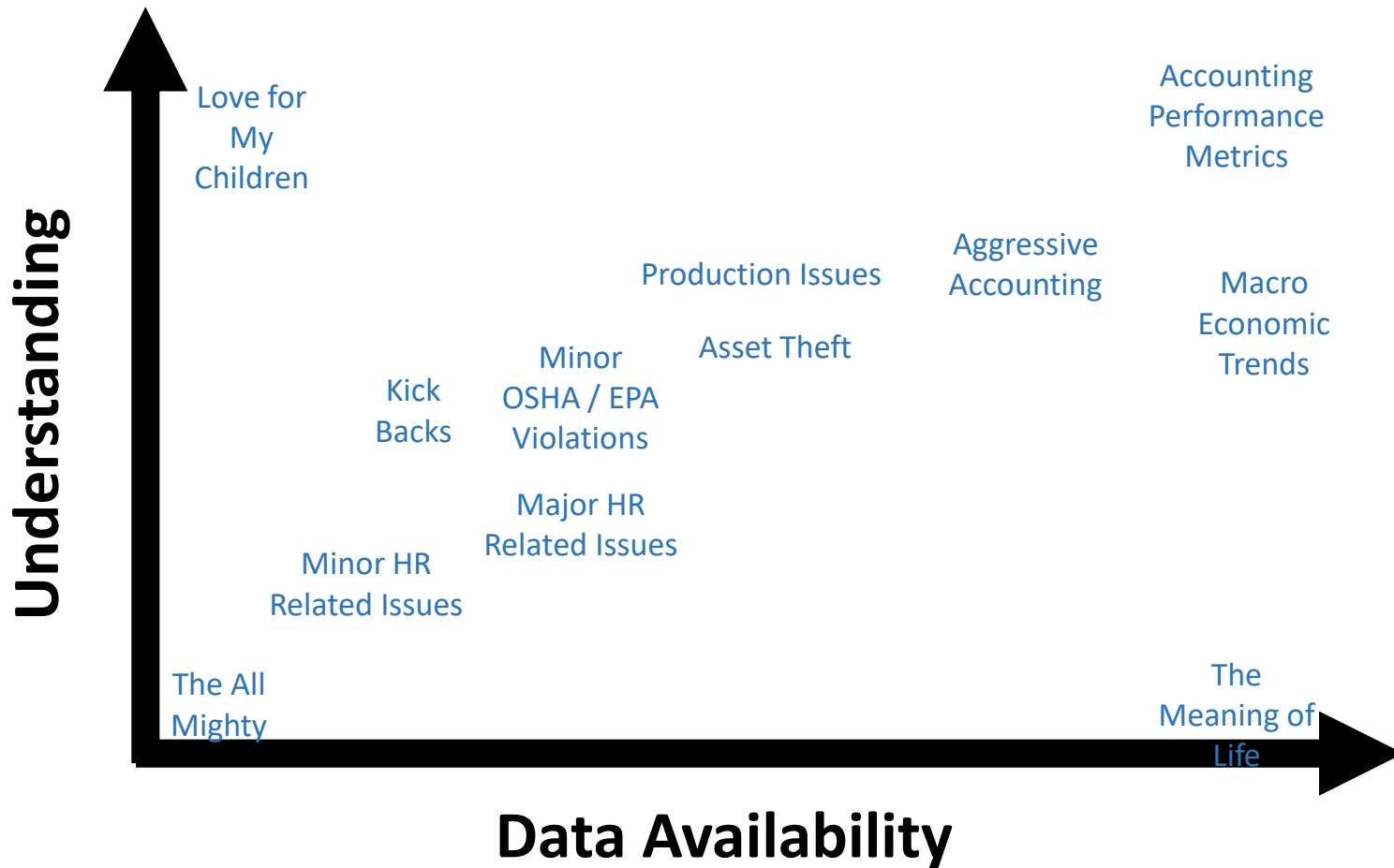
NAVEX Global Advisory Council 2019 - update

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Inspiration for this research

- Human capital is the most important corporate asset, and a window into the health & performance potential of the organization
- Existing “whistleblower” research is based on **externally** reported events that make it into the media or court room (frequently both)
 - Research shows that one bad public event tends to presage more
- We wanted to see what was happening inside of firms, before events are “public”



Working hypothesis

- **Internal** hotline reporting data, and the processes used for incident management, is instructive about workplace culture
- The data are likely indicative – and potentially **predictive** – of business results

Key Tension: What Does Whistleblowing Activity Indicate?

Conflicting perceptions internal Whistleblowing activity:

- Should management strive for fewer reports? No reports?
- Should management strive for more reports?
- Is there such a thing as too many reports?

Key Findings – Part I: Attributes of User Types

There is a significant difference between the types of firms that have a high level of usage of their hotline reporting system vs. those with low usage.

- 1. Power Users:** More profitable firms (ROA), large firms, and firms with higher quality governance
- 2. Limited Users:** Less profitable, smaller firms, and firms with lower quality governance

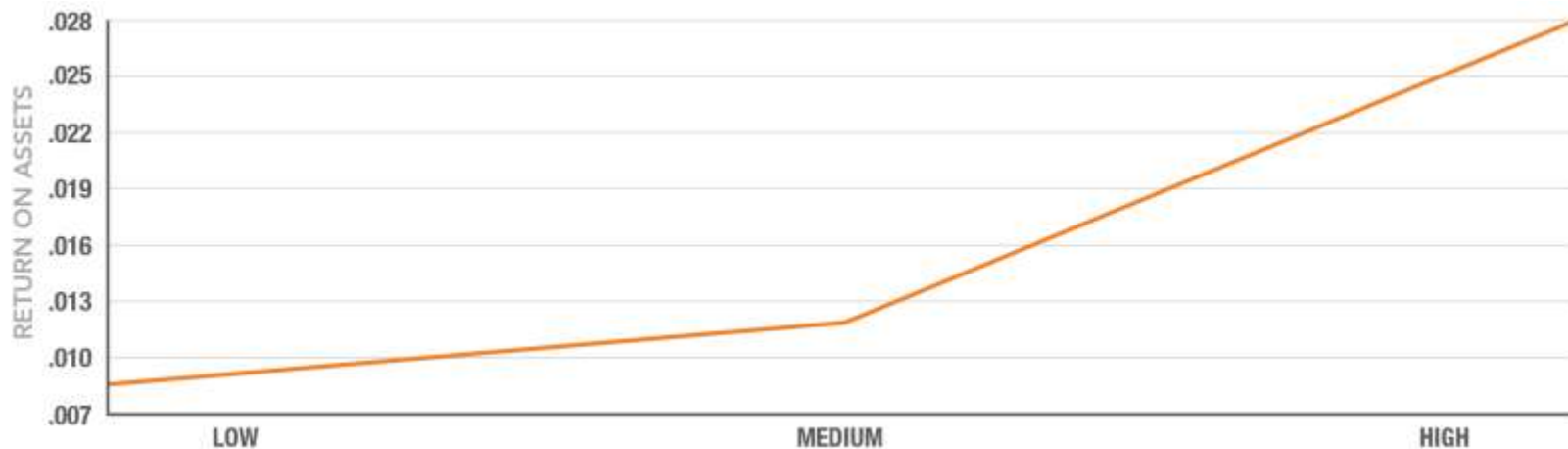
Key Findings – Part II: relationship to business results (partial list)

More active, robust hotline reporting & incident management usage is associated with:

1. Greater firm productivity as measured by return on assets (ROA)
2. Fewer material lawsuits & lower settlement costs
3. Fewer external regulatory agency inquiries & lower fine amounts
4. Fewer negative news stories in the business/financial media



1. Hotline Usage Associated with Greater Return on Assets*



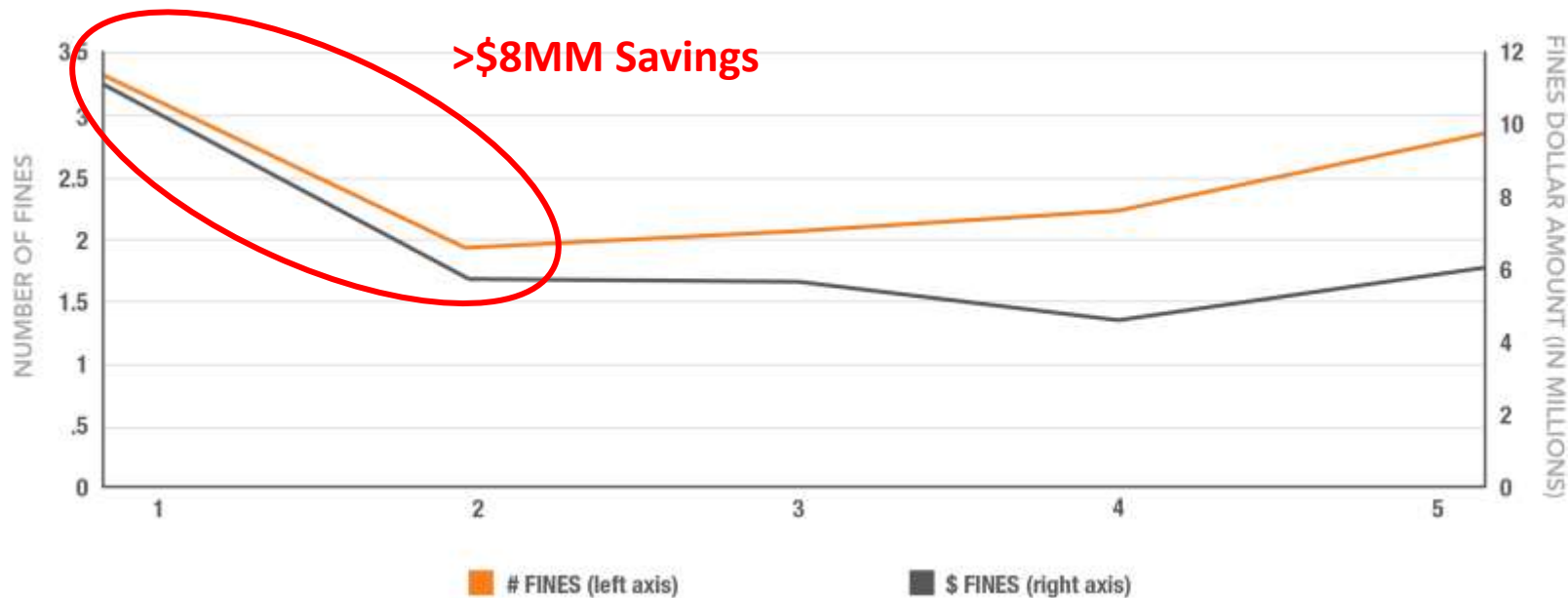
* Evaluates efficient use of resources: Net Income / Assets Used



2. Hotline Usage Associated with Fewer Material Lawsuits and Lower Settlement Costs



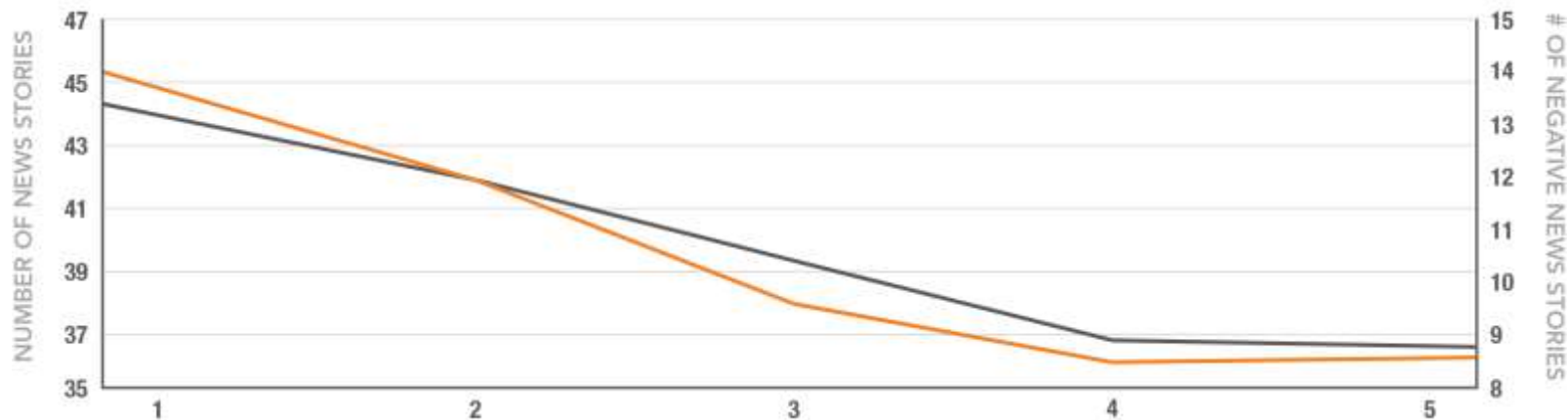
3. Hotline Usage Associated with Fewer Regulatory Agency Inquiries and Lower Fine Amounts



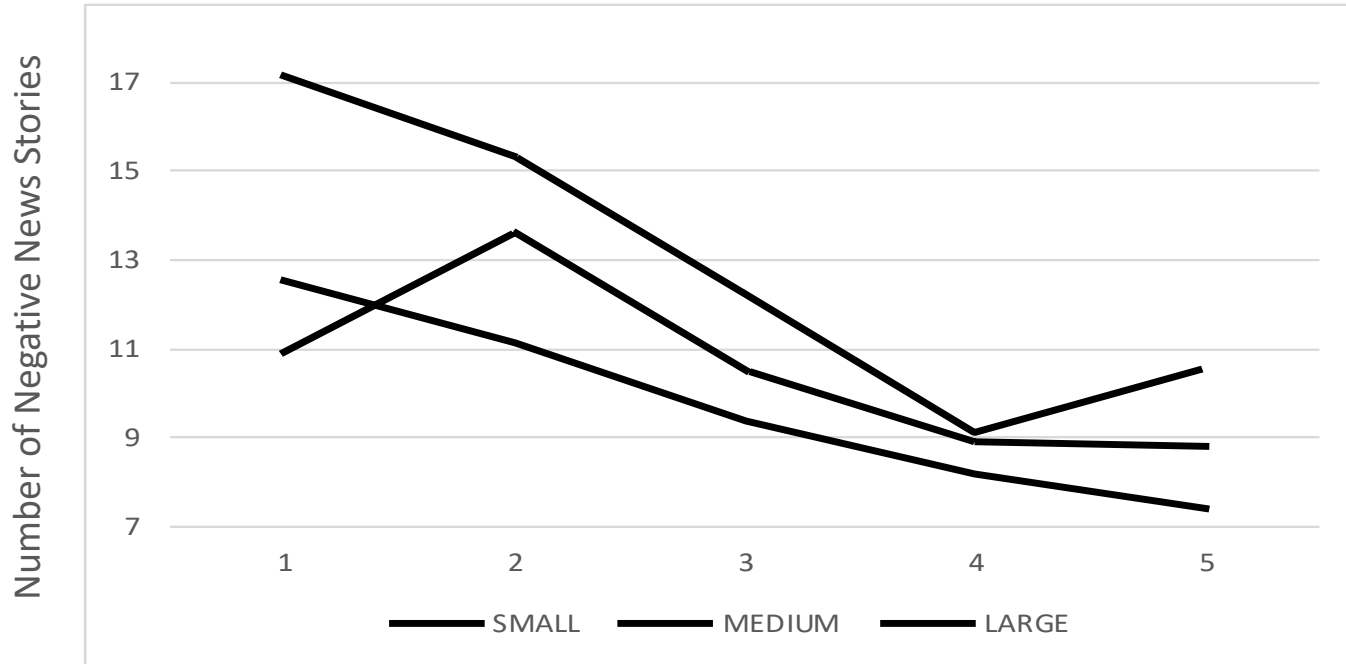
4. Fewer negative news stories impacting a firm's stock price

- Using the RavenPack Dataset we analyze how use of the system impacts negative news reports written about the firm
 - Dow Jones Edition analyzes relevant information from Dow Jones Newswires, regional editions of the Wall Street Journal, Barron's and MarketWatch going back to January 1, 2000
 - The dataset is mostly used by quant traders to vacuum up nickels by implementing trades related to news.
 - Negative news is determined by a Composite Sentiment Score (CSS). CSS combines 5 sentiment analytics (PEQ, BEE, BMQ, BCA, and BAM) using an intuitive set of rules while ensuring no sentiment disagreement exists amongst the analytics.
 - In short, the system uses text analysis, market response, and computer training algorithm (for predicting expert consensus), to understand if news is positive or negative.

4. Hotline Usage Associated with Fewer Negative News Stories in the Financial and Business Media



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Additional Findings related to the nature of the reporting systems

- The average report is reviewed 9.1 times before being closed in 43.7 days
- Reports are reviewed more frequently and take longer to close when they:
 - relate to accounting issues
 - contain more information about the alleged activity
 - are made by business partners rather than employees
 - allege retaliation by management
 - allege management involvement
 - allege activity over a longer period of time
- Anonymous reports contain more information, but also are less likely to be substantiated
- Firms that advertise their systems as “helplines” receive significantly more reports...
- However, these firms tend to receive reports with less actionable information



Thank You.