

Independent Ground-Breaking Research Shows Strong Return on Investment for Whistleblower Hotline Use

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PORTLAND, Ore.--(BUSINESS WIRE)--Nov 1, 2018--Leading ethics and compliance software and services company NAVEX Global ® highlighted today independent research by George Washington University Professor Kyle Welch showing a clear association between increased use of internal hotline reporting systems and improved business performance. The findings will be presented during NAVEX Global's [2018 Ethics & Compliance Virtual Conference \(ECVC\)](#), Thursday, November 8, and are featured in a white paper released today, available [here](#).

Key findings from the study show that a company's increased use of their internal reporting hotline is correlated with:

Greater profitability and workforce productivity as measured by Return on Assets (ROA). Fewer material lawsuits brought against the company overall, and lower settlement costs if a lawsuit does occur. Fewer external whistleblower reports to regulatory agencies and other authorities.

“With this new study, compliance officers now have the first empirical, independent evidence that investing in compliance brings a material advantage to the organization,” said Bob Conlin, NAVEX Global President and CEO. “Executive leadership and board members can start to consider hotline reporting data as a key indicator of workplace culture health.”

“Our analysis of real-world hotline data led us to some academically counterintuitive findings,” said Welch. “An outsider might assume that more internal whistleblower reports indicated a troubled corporate culture. We found the opposite is true. Companies with higher levels of whistleblower activity suggest a healthier workplace culture; one that helps management identify and address concerns before they become more costly to the firm.”

To conduct this study - [Evidence on the Use and Efficacy of Internal Whistleblowing Systems](#) - the researchers requested and were granted secure and anonymized access to the industry's largest internal whistleblowing report database. Secured and administered by NAVEX Global, the dataset examined exceeded 3 million internal report records dating to 2004 from approximately 5,000 public companies.

“From a legal and compliance perspective, this report dramatically underscores the value of investing in a robust reporting system,” said Greg Keating, Chair of the Labor and Employment and Whistleblower Defence practice groups at Choate, Hall & Stewart.

Other findings show that the absence of hotline activity was associated with suspect corporate governance or financial reporting practices. Companies with lower levels of hotline activity rated poorly on the [Bebchuk Entrenchment Index](#), which reflects governance practices such as staggered boards, limited shareholder rights, and golden parachute payments for senior executives -- all of which correlate to lower firm valuations.

Also, firms with lower levels of whistleblower activity tend to claim discretionary accruals more often, sometimes an indicator of overly aggressive earnings management. Companies with more discretionary accruals, however, also tended to see more external whistleblower reports in subsequent years.

“It has been an article of faith among compliance professionals that a link exists between hotline usage and better business performance,” said Conlin. “Now that faith is supported with data.”

About this Research and NAVEX Global

NAVEX Global maintains the world’s largest hotline reporting database. GWU researchers submitted an unsolicited request to use the dataset for this study. After a rigorous vetting process, NAVEX Global allowed for secure, anonymized access to the requested reporting records. Neither George Washington University, nor any members of the research team, received any financial consideration for this work. No company-identifiable information is included in the GWU report.