The Effectiveness of Hotlines in Detecting and Deterring Malpractice in Organisations

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Chapter 1 : Introduction to the Research

1.1. Reason for the Research

1.1.1.   The inspiration for this research came from a post on the IIA-UK/Ireland internal audit discussion forum by 'Guvnor Hans', an internal auditor, who said that his organisation's whistleblowing policy had been running for 2 years and there had not been a single response. He posed the question: "does this mean that everything is OK inside the organisation, or that the scheme to prompt people to report wrongdoing has failed?" The ensuing thread indicated that a number of other auditors had similar experiences in their organisations.

1.1.2.   Hotlines for the reporting of wrongdoing have been in the news since the 1970s, but have seen a surge in uptake since the start of the 21st century. Following a number of corporate scandals in the late 1990s and early 2000s, organisations have begun to understand the potential for internal hotlines as an early warning system to detect wrongdoing within the organisation before it spreads too far. Bad publicity associated with the external reporting of wrongdoing which has gone un-noticed, un-treated, or, in the worst case, has actually been accepted internally, has brought a number of major companies down. Hotlines have been introduced as part of a tool kit which help organisations to avoid such catastrophic outcomes.

1.1.3.   As the appetite for hotlines has grown, legislation and best practice guidance extoling the benefits of hotlines has proliferated. Comprehensive benchmarking reports compare activity on hotlines across a range of organisations and countries. Impressive statistics are available on the savings made through fraud detection following hotline introduction, and published opinions, particularly in the fraud detection and prevention community, are almost unanimous as to the benefits of hotlines. What is missing from this hotline euphoria, however, is whether or not hotlines are universally effective, or indeed, how to measure their effectiveness in areas other than fraud detection. Statistics showing the effect of hotlines on fraud detection in certain large, multi-national organisations where fraud risk is greatest, are easily produced. Smaller organisations on the other hand, or those which have a lower risk of fraud or those which exist in cultures where whistleblowing is not acceptable, may report that their hotlines have received few, if any, calls during years of operation. How can effectiveness be determined when no calls have been received? This research seeks to assess the effectiveness of hotlines as a detective and preventative control across the range of different types of wrongdoing in a range of organisation types and sizes and over a range of different countries and cultures.

1.2. Aims and objectives of the study

1.2.1.   Whistleblowing is a broad, multi-faceted subject, with a range of definitions and purposes depending on its context. This study looks specifically at internal whistleblowing and more specifically at the use of hotlines as a conduit for blowing the whistle. Hotlines are only one of a number of channels available to whistleblowers, but they are considered by many as one of the most effective channels. The aim of this survey is to determine just how effective hotlines

are. It aims both to establish whether they are effective and if so, whether they are equally effective for all types of wrongdoing, for all types of organisation and across a range of different countries and cultures.

1.2.2.   Internal whistleblowing is by definition contained within the organisation and therefore excludes whistleblowing to external parties such as the press, parliamentary representatives, regulators, etc. However, internal hotlines are often open to external whistleblowers (for example customers or suppliers) so there is some blurring of the distinction between internal and external whistleblowing. Furthermore, hotlines may be outsourced to a third party which operates the hotline on behalf of an organisation. Such an arrangement is considered 'internal' for the purposes of this study as the hotline provider reports back to the organisation and ensures confidentiality of information passed to its client organisation.

1.2.3.   This study attempts to answer the questions:
-    Are hotlines an effective way of detecting malpractice in its various forms (fraud, conflict of interest, harassment or other HR-related incidents, inappropriate disclosure of information or security-related incidents, non-compliance with laws such as health and safety law and environmental law)?
-    Are hotlines equally effective across all organisation types & sizes, and countries?
-    Are hotlines effective in reducing malpractice (acting as a deterrent for individuals who might otherwise have acted incorrectly)?
-    How is the effectiveness of a hotline measured? What factors lead to successful hotlines?
    o   Do hotlines result in changes to policy and other improvements in internal control?
    o   Do hotlines provide value for money – is the cost of running the hotline outweighed by the savings made?

Chapter 2 : Background

2.1. Whistleblowing legislation, regulations and guidance

2.1.1.   Countries which opt to introduce whistleblowing legislation or guidance must first ask themselves a number of questions:

- Should the implementation of whistleblowing mechanisms be mandatory or advisory?
- How far do we want to go in protecting whistleblowers? – should we allow them to remain anonymous or simply assure confidentiality? What protection should we give against retaliation?
- Should legislation incentivise whistleblowing by, for example, allowing for financial rewards to whistleblowers?
- Does existing legislation cover all or some of our requirements?
- What have other countries already done that we can use?
- What would be acceptable to our citizens while also satisfying our stakeholders at home and abroad?

2.1.2.   In answering these questions it is not surprising that a range of different legislation and guidance has resulted, and that different countries are at different stages of implementation, although it is equally unsurprising that most laws and guidance share a common core. The following paragraphs give a sample of the current status of the implementation of whistleblowing legislation and guidance in place in various countries.

2.1.3.   USA - The Sarbanes Oxley Act (SOX) (2002) is a comprehensive response to corporate scandals and failures which includes extensive provision for whistleblowing and whistleblower protection. Section 301 of SOX requires that the Audit Committees of publicly-traded companies establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the submission by employees of concerns regarding questionable accounting or auditing matters. Sections 806 and 1107 provide for civil and criminal penalties for companies and individuals that retaliate against employees who make whistleblowing reports. While sections 301 and 806 only apply to publicly-traded companies, the criminal anti-retaliation provisions of section 1107 apply to all businesses, whether publicly traded or not. SOX places the Audit Committee at the centre of the reporting mechanism. Companies can install an internal reporting mechanism by designating an employee of the company to be responsible for receiving, reviewing and transmitting a report to the Audit Committee. Alternatively, companies can engage an external hotline provider to assist the company's Audit Committee to meet the requirements, or employees can be allowed to transmit their complaints directly to members of the Audit Committee. However, it is a SOX requirement that the individual making the report remains anonymous and that the report itself is kept confidential from management. The SOX requirements apply to all Securities and Exchange Commission listed companies, regardless of where they operate in the world.

2.1.4. <u>UK</u> - The Public Interest Disclosure Act (PIDA) came into force in the UK in 1998. It was borne out of the enquiries into several major disasters (such as the sinking of the Herald of Free Enterprise, the Clapham rail crash and the collapse of BCCI). While the enquiries into these disasters focused on the adequacy of laws and regulatory controls, they revealed that staff had been aware of the danger but had not felt able to raise the matter internally or to pursue it when their concern was not taken seriously. The Act sought to address this reticence to report by providing protection to those who disclose information either internally or externally, provided that the disclosure is made in the reasonable belief:

- o that a criminal offence has been committed, is being committed or is likely to be committed,
- o that a person has failed, is failing or is likely to fail to comply with any legal obligation to which he is subject,
- o that a miscarriage of justice has occurred, is occurring or is likely to occur,
- o that the health or safety of any individual has been, is being or is likely to be endangered,
- o that the environment has been, is being or is likely to be damaged,
- o that information tending to show any matter falling within any one of the preceding paragraphs has been, is being or is likely to be deliberately concealed.

As a direct result of the introduction of the PIDA, many employers introduced internal hotlines, aimed at keeping disclosures internal to the organisation and also as an insurance against prosecution under the PIDA – an employee choosing to disclose externally to the organisation rather than using internal mechanisms would be considered to have acted unreasonably and would be less likely to receive protection under PIDA. Similar legislation to PIDA has been introduced in various other countries (e.g. Australia, New Zealand, South Africa).

2.1.5. <u>Other European Countries</u> - There has been resistance to the implementation of whistleblowing legislation in European countries outside the UK and Ireland. Various reasons have been suggested to explain this phenomenon, most related to the recent history of mainland Europe – occupation and collaboration during the Second World War, followed by the imposition of police states in which denunciations were a part of daily life in the Eastern bloc countries of the second half of the 20th century. In France however, resistance to whistleblowing hotlines runs deeper and is related to the belief that adequate control in the corporate environment should obviate the need for whistleblowing and that furthermore, placing responsibility for reporting malpractice on the staff is to shift the burden of responsibility from senior management. In a 2005 interview for "Le Bien Commun" on France Culture, Claude Mathon (magistrate and director of the SCPC – la Service central de la prévention de la corruption) stated :

> *"there are…a number of elements of internal control in France…audit, the external auditors, corporate boards, analysts, rating agencies etc., in summary, a range of people who monitor the business and if we are reduced to introducing whistleblowing systems, it is undoubtedly because in the U.S. the conventional systems of corporate internal control have not worked well enough."* *(Le Bien Commun, 2005)*

France's resistance to whistleblowing manifested itself in the CNIL's (Commission Nationale de

l'Informatique et des Libertés) refusal to authorise 2 whistleblowing programmes submitted in accordance with SOX requirements by McDonalds and CEAC on the following grounds: "that employees might be deprived of certain rights to which they are entitled under French law, and that such programmes are tantamount to systems of "professional incrimination" or "professional denunciation" that could be slanderous." This ruling was in line with the Data Protection Directive 95/46/CE (1995). France's subsequent reluctant acceptance of whistleblowing mechanisms is conditional on strict rules on the type of confidential reporting that is acceptable. Anonymous calls are not encouraged and the hotline's scope is limited to specific types of incident (fraud related only). Germany also has reservations about whistleblowing in general and SOX requirements in particular.

2.2. What makes a good whistleblowing hotline?

2.2.1. To answer this question we need to break it down into two further questions: "How can the hotline help the organisation?" and "How can witnesses of wrongdoing be encouraged to come forward?" Clearly there is little point in implementing a hotline (aside from its use as a deterrent) if it is not used. Conversely, overuse can bog down hotline operators and investigators with frivolous reports. Management's aim in implementing a hotline is to detect and deter – detect wrongdoing early enough to 'nip it in the bud' and deter future potential wrongdoers from embarking on unethical behaviour. In order to achieve these aims, the hotline must be effective, which means striking a delicate balance between encouraging individuals to report incidents without fear of reprisal, while at the same time not encouraging a flood of frivolous or trivial reports. Subsequent investigations must be complete, balanced, and fair. Furthermore, reported incidents must be made on the basis of reasonable evidence and in good faith to avoid an atmosphere of fear where denunciation becomes commonplace.

2.2.2. From the whistleblower's point of view, the key factor is confidence – confidence in the policies and procedures themselves, confidence that confidentiality and (where permitted by policy) anonymity will be respected, confidence that the case will be thoroughly investigated and that appropriate action will be taken as a result, confidence that there will be no repercussions or retaliation as a result of whistleblowing. Such confidence can take a long time to build and can come quickly crashing down if one or two whistleblowers have bad experiences.

2.2.3. Hotlines need to be trustworthy, but employees do not always trust them. The first Nolan Committee report stated: "one of the conditions in which fraud and malpractice can occur...is the absence of a mechanism by which concerns can be brought to light without jeopardising the informant". D Crook, in "*How to encourage whistleblowing" (1993)* also stressed the importance of the credibility of a hotline. He quoted a survey undertaken by the Ethics Research Centre in which 54% of 4000 participants stated that they would not report malpractice that they had observed through fear of reprisals, despite the fact that the same survey population reported as having witnessed malpractice in the following percentages: misconduct and unethical behaviour at work (33%); lying to managers/supervisors (56%);

falsification of records (41%); theft (35%); sexual harassment (35%); abuse of alcohol/drugs (31%). By 2007, as general acceptance had increased, reporting figures had improved somewhat in the extensive *"Whistling while they work"* survey undertaken in Australia by Griffith University. They found that 28.5% of respondents who witnessed 'very' or 'extremely' serious wrongdoing did not report it. This figure still remains high and indicates that many people are not prepared to report wrongdoing that they witness. They do not believe that confidentiality will be maintained and fear retaliation. In order to improve confidence in the integrity of the hotline, it may be outsourced to a specialist third party and may be configured to accept anonymous reports.

2.2.4.   Regardless of whether the hotline is outsourced, it must be taken seriously by management and run professionally by its operators. *The IBE Good Practice Guide on Speak up Procedures (2007)*, prepared by the Institute of Business Ethics in the UK, emphasises the need to determine from the outset where responsibility lies for its implementation; what issues and concerns are covered. Hotlines must be operated by professional, trained, staff with clear operational procedures to follow, who can obtain all the relevant information from a caller who may be under stress.

2.2.5.   The IIA, AICPA and ACFE sponsored guide to managing the risk of fraud states that a key to successful hotline implementation is "demonstrating that [whistleblowers'] reporting will result in appropriate and timely action being taken. To preserve the integrity of the whistleblower process, it must also provide a means of reporting suspected fraud that involves senior management, possibly reporting directly to the audit committee". In a presentation to the Institut Français d'Audit et Contrôle Interne (IFACI) in Paris in June 2012, Michael Woodford (former CEO of Olympus) highlighted the ineffectiveness of the internal whistleblowing hotline within Olympus as a channel for reporting wrongdoing involving the Chairman of the Board. The impossibility of reporting internally led to an employee leaking problems related to financial irregularity to the Japanese press. This brought the issue to the attention of Mr Woodford who, even as CEO, had no success when challenging the Chairman and eventually had to leak the story to the Financial Times – he was subsequently dismissed. The Olympus Affair was an extreme case, but it demonstrates the need for clear procedures for handling reported incidents impartially and quickly.

2.2.6.   Protection of the whistleblower is critical to the hotline's success. In 2007 Ernst & Young undertook a survey *Fraud Risk Mitigation in 13 European Countries* which surveyed employees' perceptions of anti-fraud controls in 13 Western and Eastern European countries. It found that 34% of companies in Eastern Europe and 41% in Western Europe have a whistleblowing hotline. Of those, employees in 50% (E Europe) and 56% (W Europe) said it was used, 20% said it was not used. The main reason given for non-use was the fear of reprisal. The need to protect staff who report fraud was almost unanimous amongst respondents (94%), although only 55% (in E Europe) and 76% (in W Europe) thought that their employers would protect them. It is clear that potential whistleblowers need internal protection against reprisals in addition to the protection afforded by legislation such as the PIDA. Many employers do provide such protection. The United Nations Development Programme (UNDP), for example, offers the option of anonymous or not anonymous calls. For those which are not anonymous,

a clear policy of protection exists. Staff who feel that they have experienced retaliation will have their cases investigated by Internal Audit and if they are unsatisfied with the outcome, they can request a review with the Chair of the UN Ethics Committee.

2.2.7.   In addition to protection for whistleblowers, support mechanisms are another important element which encourage would-be whistleblowers to finally 'take the plunge'. Such mechanisms can either be internal to the organisation (Ethics officers, welfare officers, HR etc.) or can be external to the organisation in the form of self-help groups or voluntary organisations. In the US there are a number of websites set up by former whistleblowers to help and encourage existing whistleblowers. In 1993 in the UK the Joseph Rowntree foundation funded the creation of Public Concern at Work (PCAW) whose aim was to provide confidential, independent advice to would-be whistleblowers . It runs a voluntary helpline for advice on whistleblowing and it is funded by modest contributions from employers. It received more than 2500 calls between January 2005 and October 2007, covering: safety (33%); financial malpractice (28%); abuse in care (12%) and 'others' (28%). Calls were received from: private sector (55%); public sector (36%); voluntary sector (9%) (Public Concern at Work, 2007).

2.2.8.   The success of a whistleblowing hotline clearly depends on more than simply putting the hotline in place. In *Creating an open and non-retaliatory workplace (2006)* E Heard and W Miller emphasise that the effectiveness of a hotline depends on focusing on the wrongdoing rather than punishing the whistleblower (don't shoot the messenger) and getting to the root cause of the problem, rather than just treating the symptoms (i.e. just punishing wrongdoers). They suggest the following:

-    that investigation processes should be clear and responsibility for undertaking them should be clear;
-    that investigations should be quick;
-    that the focus should be on the complaint and not the complainant;
-    that internal communication (e.g. between Internal Audit, Human Resources and the Ethics Office) should be complete;
-    that reports of retaliation should be taken seriously and followed up;
-    that wrongdoers should be disciplined;
-    that feedback should be provided to complainant.

M P Miceli, J P Near and T M Dworkin suggest in *Whistleblowing in Organisations (2008)* that "encouraging reporting and immediate correction about which employees are informed may have desirable effects almost as good as those resulting from preventing wrongdoing in the first place". They state further that some benefits of a good whistleblowing mechanism are not tangible: "managers who prevent or correct wrongdoing may engender positive feelings and favourable consequences among employees."

2.2.9.   In line with good quality management, the hotline procedures should be continuously reviewed and improved. The IIA, AICPA and ACFE sponsored guide to managing the risk of fraud states: "An effective hotline program should analyse the data received and compare results to norms for similar organizations" (benchmarking) and "the whistleblower process

should be independently evaluated periodically for effectiveness, including compliance with established protocols".

2.3.   Effectiveness of hotlines

2.3.1.   Miceli et al propose the following list of questions that hotline operators should ask when assessing the effectiveness of their hotline:
- Holding everything else constant, do hotlines produce more complaints than other methods, such as informally encouraging employees to report concerns to their supervisors?
- Are the hotline complaints valid and do they offer evidence of actual wrongdoing, or do they reflect petty concerns, efforts to embarrass someone, etc.?
- What is the "signal-to-noise" ratio of hotlines versus other methods? Must someone listen to and process 10 or more complaints in order to hear one valid complaint?
- What difference does it make to offer anonymous complaining as an option? Do more employees come forward, or is it harder to follow up when investigating such complaints?
- What are the characteristics of more successful hotlines versus other methods?
- Is it better and more cost effective NOT to encourage whistleblowing, but instead to endeavour to avoid wrongdoing in the first place?
- Is there some way to quantify the benefits of correcting wrongdoing identified in hotline complaints with the cost of establishing and maintaining hotlines?
- Are there net advantages of outsourcing the hotline function (e.g. employees may feel freer from potential retaliation if reporting to a third party), and if so, do they outweigh the net advantages, if any, of in-house hotlines?
- Do industry, organisational, or employee characteristics make a difference? For example, if a hotline system has worked successfully in a relatively newer and smaller organisation with highly educated, young employees, is there evidence it will be equally successful in a large, bureaucratic organisation in which employee demographic (or job) characteristics vary widely?

Having set out the criteria for determining the effectiveness of hotlines Miceli et al then go on to say that research using these criteria is "rare to non-existent".

2.3.2.   The IBE Good Practice Guide on Speak Up Procedures stresses the need to regularly review the effectiveness of whistleblowing procedures. It says that without comprehensive records measurement is impossible. It proposes that the following questions should be asked when reviewing the effectiveness of whistleblowing:
- is there evidence that the Board considers whistleblowing procedures as part of its review of internal control?
- are there incidents which have come to the attention of the Board which they would have expected to have been aware of earlier under the whistleblowing procedure?
- has internal audit undertaken an audit of whistleblowing procedures?
- are actions tracked and followed-up?

- are procedures for retaining evidence adequate?
- has confidentiality been correctly handled?; is there evidence of timely, constructive feedback?
- have events come to the Board's attention to suggest that a staff member has not been fairly treated as a result of raising a concern?
- are staff aware of the procedures?

According to the Guide, the number of calls is not an effective measurement of success as just one call can make a difference to a company's reputation. In their 2011 report "Corruption and conflict of interest in the European Institutions: the effectiveness of whistleblowers" PwC supported this statement. The report said: "More important than the number of disclosures made is their significance and whether investigation showed them to be well-founded, partially substantiated, or unsubstantiated. One single solid disclosure over a period of several years can more than justify the expense of a whistleblowing programme as part of an integrity policy." On the other hand, Glaxo Smithkline reported an increase in the number of employees disciplined in 2005 as compared to 2004 which they attributed to "better reporting of breaches, as people become more familiar with what should be reported and when. It is anticipated that the numbers may continue to increase during 2006, as detection and reporting mechanisms are further refined", so an increase (at least initially) in the number of reported incidents can be an indicator of the effectiveness of a newly-established hotline.

2.3.3.   The 2009 Transparency International report *Alternative to Silence* also referred to the need for accurate and complete records in order to be able to assess the effectiveness of whistleblowing mechanisms. It reviewed whistleblowing policies and procedures in 10 EU countries and stated that "although internal reporting mechanisms are available both for public sector workers and employees in private companies…there is little information about their procedures, effectiveness and results", and "there is no systemic data collection on the number of whistleblowing disclosures or the proportion of cases that result in legal action. Owing to the lack of data, it is impossible to assess the public benefit of whistleblowing, or the damage to the public interest when wrongdoing is not disclosed" - the study was referring to the effectiveness of whistleblowing on a national scale, but the observations can equally be applied to individual organisations.

2.3.4.   The Association of Certified Fraud Examiners (ACFE) is a strong advocate of the use of hotlines as an effective control in the prevention and detection of fraud. It conducts an annual survey of cases handled by Certified Fraud Examiners (CFEs) and hotlines consistently rank as amongst the most effective anti-fraud controls in those cases surveyed. The ACFE survey considers only anonymous hotlines (with no distinction between telephone and internet reporting) and only in the context of fraud – not as a control against other forms of malpractice. The data produced by the ACFE in its *2010 Report to the Nations on Occupational Fraud and Abuse* (2010 was the first time that its research included countries outside North America) provides strong evidence of the effectiveness of anonymous hotlines in the fight against fraud.

2.3.5.   The 2010 survey used data from 1,843 fraud cases investigated by CFEs between the beginning of 2008 and the end of 2010. Of these cases, 960 took place in North America, 271 in Asia, 129 in Europe, 102 in Africa, 60 in Central/South America/Caribbean and 37 in Oceania. These figures are likely to more accurately reflect the distribution of CFEs in the global arena than the

number of cases of fraud in each of the covered regions. For that reason, percentages are used hereafter to indicate patterns and trends. The survey showed that 40.2% of frauds were detected by tip-offs. This was considerably higher than any other detection method (the next highest being the use of management reviews which detected only 15.4% of frauds). Tip-offs came from a number of sources: employee – 49.2%; customer – 17.8%; unknown (as anonymous) – 13.4%; vendor – 12.1%; others – 7.5%, which indicates the importance of opening certain hotlines up to external users. Within each region, the percentage of cases detected by tip-off was as follows: Africa – 49.5%; Canada – 46.4%; Ocean – 46.0%; Central/South America/Caribbean – 44.3%, Asia – 42.3%; Europe – 40.0%; USA – 37.8% and by sector, the figures were: government – 46.3%; not-for-profit – 43.2%; public company – 41.1%; private company – 35.8%. For all regions tip-offs were the largest form of detection by a long way. It is interesting to note that tip-offs detect a higher proportion of fraud in developing countries than in developed countries. This may be the result of a relative lack of alternative detection methods. This may also be the case for not-for-profit organisations when compared with private companies.

2.3.6.   Despite the high proportion of tip-offs as a fraud detection method, less than half of the surveyed organisations had a hotline in place and the report concludes that there would be more cases reported if hotlines were in place both because of the presence of a mechanism and the fact that the mechanism would be introduced with a high level of publicity. By region, the percentage of companies with a hotline in place was as follows:

Region	Percentage of organisations with hotline
Central/S America and Caribbean	52.9%
USA	52.0%
Africa	47.3%
Europe	46.9%
Asia	43.3%
Canada	41.4%
Oceania	26.0%

Table 1: Organisations with hotlines by region (source: ACFE Report to the Nations, 2010)

The regional differences in the presence of hotlines may be in part due to their cultural acceptance (this is particularly true for the USA). Another explanation might be that the hotline is a relatively new technique so that organisations in emerging economies may implement the mechanism at the outset, by-passing more traditional anti-fraud controls, whereas those mature organisations in developed countries may have well-established fraud prevention and detection mechanisms in place which do not include hotlines.

2.3.7.   The ACFE report states "the presence of fraud hotlines correlated with an increase in the number of cases detected by a tip. In organizations that had hotlines, 47% of frauds were detected by tips, while in organizations without hotlines, only 34% of cases were detected by tips." It states further that "In 67% of the cases where there was an anonymous tip, that tip was reported through an organization's fraud hotline. This strongly suggests that hotlines are an effective way to encourage tips from employees who might otherwise not report misconduct." The report made a comparison between fraud committed in those organisations

with a hotline and fraud committed in those organisations without a hotline. It observed that the median dollar loss as a result of fraud in those organisations with a hotline was $100,000, whereas the median dollar loss in those without a hotline was $245,000 – almost 2.5 times as much. This was partly the result of much quicker fraud detection time in organisations with a hotline (average 13 months) compared with those without a hotline (average 20 months).

2.3.8. The effectiveness of hotlines in detecting fraud is echoed by Roberta Johnson in *Whistleblowing: when it works and why (2002)*. She reports that hotlines introduced by US government departments receive "a high volume of calls. The Department of Defense hotline received 9,720 calls in 1991, 12,268 in 1992 and 8,220 calls in April to September 1997. In March 1993 the Department of Defense claimed that since its inception the hotline had saved the department $163m, by 1997 the cumulative saving had increased to $391m." She also mentioned the National Performance Review hotline, introduced in 1993, which was designed to reduce fraud, waste and abuse, but also to achieve efficiency, customer satisfaction and bureaucratic streamlining. Although Johnson's research focuses in external hotlines, it does indicate that hotlines in general are effective in detecting fraud. Johnson considers a measure of the wider effectiveness of hotlines to be based on whether or not policies were introduced or changed, but concedes that "working with whistleblowing cases with an eye toward measuring policy impact can be methodologically difficult. Case studies are rooted in different fields, which makes them difficult to compare systematically."

2.3.9. As Miceli et al and the IBE Good Practice Guide suggest, benchmarking is one tool that can be used to try to assess the effectiveness of a whistleblowing mechanism. In 2010 'The Network' and 'BDO Consulting' prepared the *2010 Corporate Governance and Compliance Benchmarking Report* which compared the hotlines of 1,101 organisations between 2005 and 2009, covering 524,628 reported incidents reported by a potential population of 13 million employees. The main findings were:
-   73% of incidents reported in 2009 warranted an investigation, 40% of those resulting in corrective action;
-   71% of participants did not inform management before making a report in 2009 (roughly same as for previous years);
-   The majority of participants remained anonymous, although in some industries this dipped to 50% in 2009;
-   The number of incidents per year per 1,000 staff reported by sector ranged from 1.21 (construction sector in 2006) to 18.00 (retail sector in 2005);
-   By type of incidents, personnel management incidents were consistently the highest at 47-51% across the 5 years, next was company/professional code violation with 10-17%, although in 2009 (when it accounted for 11%) it was overtaken by corruption/fraud (13%) and employment law violation (12%);
-   At the case outcome stage a large number of reports across all industries do not have any information available. In 2009, where data was available, only 40% of cases were investigated and corrective action taken (33% investigated - no action; 17% no investigation warranted; 10% other);

- Data on what happens in terms of sanctions is scant. In 2009, 10% were cleared with no action; 14% were disciplined; 4% were dismissed; 0% were prosecuted and 72% were 'other/unresolved'.

2.3.10.   A number of interesting observations can be drawn from the Network/BDO benchmarking report. Considering the large number of organisations surveyed and the number of years studied, the paucity of post-incident data is striking. As the IBE Good Practice Guide indicates, "without comprehensive records, measurement is impossible". That said, the number of reported incidents is also low. The highest rate (in 2005 – of 18 incidents per 1,000 staff in the retail sector) was a rate of < 0.02 incidents per staff member. The low number of reported incidents was similarly reported by the International Monetary Fund Ethics Office in its annual report for 2011. Its 'integrity hotline' received 285 calls in 2011 (up by 104% on previous years). However, an analysis of these cases showed that 149 calls were from the public (related to email scams), 79 were requests for information and only 19 were considered "substantive allegations". However, only 2 of the incidents resulted in investigations - the other 17 were closed "due to insufficient information, informal resolution, no finding of ethical misconduct or referral to another office". Assessing the effectiveness of a hotline that receives only 2 calls in a year resulting in an investigation would be a challenge.

Chapter 3 : Methodology

3.1. Participants

3.1.1. One of the aims of the study was to reach a wide range of organisations in terms of sector, size, country of operation and type of organisation. With that in mind various international professional institutes were approached with requests to mail-shoot their members with a questionnaire. The following institutes were approached:
- The Institute of Internal Auditors (USA and global)
- The Institute of Internal Auditors (UK and Ireland)
- The Institute of Internal Auditors (Australia)
- The Institute of Internal Auditors (India)
- The Institute of Internal Auditors (Malaysia)
- The Institute of Internal Auditors (Singapore)
- Institut Français d'Audit et Contrôle Interne (France)
- Ethics and Compliance Officer Association (USA and global)

Of these institutes/associations only the IIA (UK & Ireland), the IIA (Australia) and IFACI (France) agreed to circulate the questionnaire to their members. Five external service providers of whistleblowing hotlines were approached and two of them agreed to circulate the questionnaire to their members. Furthermore, the questionnaire was circulated to the Ethics Offices or Internal Audit Departments of 15 UN/International Organisations known to the author through a network group. Given the large number of organisations circulated the questionnaire, the response rate of 137 useable responses was somewhat disappointing, but it was an adequate number of responses to be able to produce a meaningful analysis with which to address the research questions and on which to base conclusions related to the achievement of the research objectives.

3.2. Survey

3.2.1. A questionnaire was designed using the Survey Monkey on-line electronic survey design tool. It aimed to obtain a range of information related to: the responding organisation itself; its whistleblowing hotline features (where a hotline existed); its hotline policy and communication and the effectiveness of its hotline. Given the sensitive nature of some of the information requested, care was taken to give assurance of the confidential handling of the information and to offer the possibility for respondents to remain anonymous (both the organisation name and the respondent's email address could be disclosed on an optional basis). Apart from their (optional) email address, survey respondents were asked for no details about themselves – again to provide assurance of the confidential nature of the survey. Responses were requested from organisations with hotlines as well as those which do not have a hotline.

3.2.2. The questionnaire was constructed in 5 sections. The first section requested information about the organisation – its name, type of organisation, sector, main country(ies) of operation, number of staff, budget/turnover. This information was requested in order to be able to analyse statistics provided later in the survey according to features of the organisation. However, only the type of organisation was a mandatory field – once again to reduce the risk of discouraging recipients who were concerned about confidentiality from responding.

3.2.3. The second section collected information on the features of the hotline. Those who responded that they did not have a hotline were asked whether they intended to introduce one and if so, when – or, if they did not intend to introduce a hotline, why not. All other respondents were asked various questions about the features of the hotline – why it was introduced, who operates it and how, what types of incident it handles, whether it is manned 24 hours, whether it is outsourced, whether operators are trained, whether it accepts anonymous calls and/or assures confidentiality. These questions were asked in order to be able to analyse responses on the effectiveness of hotlines in relation to the hotline features.

3.2.4. The third section related more generally to whistleblowing policy, communication and training. Its aim was to determine the context in which the hotline operated – whether it formed part of a policy initiative and whether that policy included protection for whistleblowers, whether there was training for both operators and users, whether measures were taken to ensure that staff were aware of the whistleblowing hotline. This information was collected to gain an understanding of the commitment of the organisation to the success of the hotline. An organisation which begrudgingly implements a hotline as a legal requirement is less likely to actively promote the hotline and this could have a direct impact on the hotline's success.

3.2.5. The fourth section asked questions related to the effectiveness of the whistleblowing hotline. It included questions on the number of incidents reported, their validity, and the outcomes of those reports. It asked the opinion of the respondent on the effectiveness of the hotline and the reason for their opinion where it was negative. This section also asked respondents what they had done to measure effectiveness and asked a question aimed at looking at trends in the number of reported incidents. Given the limited available data on the effectiveness of hotlines in published papers, the aim of this section was both to try to produce some meaningful data on hotline effectiveness and to gather the opinions of organisations running hotlines on their effectiveness. Where respondents indicated that they had attempted to measure effectiveness they were asked to provide details on how this had been done.

3.2.6. The final section of the questionnaire gave respondents the opportunity to provide general comments and asked if they would be prepared to be interviewed on a confidential basis. The aim of this was to allow for triangulation of responses through follow-up interviews.

3.3. Procedure

3.3.1. The Survey Monkey software allows the distribution of questionnaires through a secured web link. At the request of some of the bodies which helped in the distribution of the survey, 4 separate "collectors" were created for the collection of questionnaire responses. This enabled

analysis of results by collector or, collectively, for all collectors. For example, IIA (Australia) wanted an overall summary of results as well as a separate summary for its members only. Using a separate collector, with its own web link, for IIA (Australia) members allowed this flexibility. The first collector was opened on 31 May 2012 and respondents to the survey were given a deadline of 6 July 2012 to respond, although the survey remained open after that date and responses continued to be received until 11 July 2012. Sanitised summary results were sent to respondents who had provided their email addresses on 22 August 2012 and similar summaries were sent to the bodies which had helped in the distribution of the survey. Nineteen survey responses were unusable as respondents had not proceeded beyond the question "Do you have a hotline for the reporting of wrongdoing (telephone, email, web-based etc.)?" These responses were not considered useful to the analysis and were deleted. All other responses (even those which had not been fully completed) were retained.

3.3.2. All survey responses were reviewed in order to identify candidates for follow-up interview. Ten respondents were identified based on their responses. Particular attention was given to those who had indicated that they considered their hotline to be ineffective and to those who had indicated that they had attempted to measure the effectiveness of their hotline. Emails were sent to invite interviewees on 22 August 2012 and interviews were conducted between 23 August 2012 and 12 September 2012. Interviewees were informed that interviews would not be recorded, but that notes would be taken which would subsequently be typed up.

3.3.3. Results of the survey were compiled and analysed in 2 ways. Firstly, direct responses to questions were summarised into charts and the results in these charts were explained by seeking feedback from respondents via interviews, by comparing with previous research data and by using other responses in the questionnaires to help explain the results. Secondly, data from more than one response to the questionnaire were combined to perform a 'cross-analysis' of responses in order to refine results to be able to address the research questions more directly. A major advantage of this approach was that it could act as a check of the validity of subjective responses by comparing 'opinion'-type responses with 'data'-type responses.

Chapter 4 : Findings and Analysis

4.1. Results of the survey

Features of participating organisations

4.1.1. There were 137 usable responses to the survey of which more than 90% represented a cross section of 5 different types of organisation. The remainder represented a mix of "other" types of organisation.

Chart 1: Type of organisation
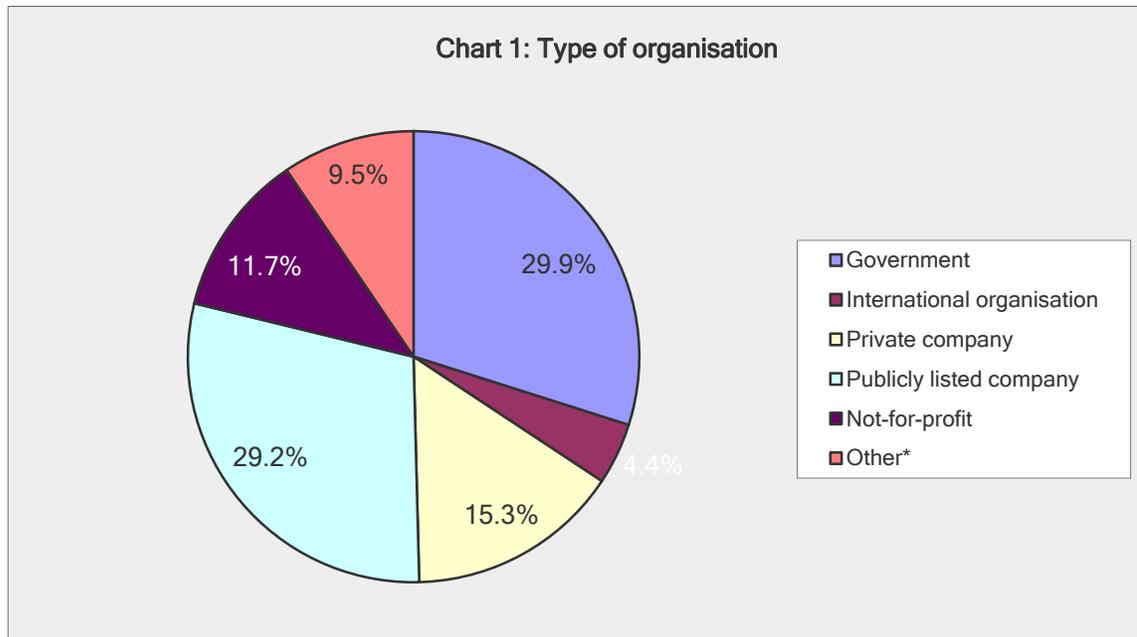
(* - 'other' includes: Statutory body; Customer Owned Financial Institution (Mutual); State owned corporation; Government trading entity; Agribusiness/Automotive; Local Authority; Tertiary sector; University; Credit Union; Public not listed; Local government; ADI; Subsidiary of Public Listed Company; Independent Regulator; Division of a PLC)

The responses represented a good mix of organisation types with no bias towards any one particular business type.

4.1.2. Of the 137 usable responses, 126 indicated the sector in which they were working. Table 2 gives a breakdown of the sectors covered by the organisations represented by respondents to the survey.

Sector	Count of Responses
Agriculture/Forestry	3
Aviation	2
Charity	5
Construction	3
Consultancy	3
Education	11
Finance/Banking	18
Food & Drink	2
Health	6
ICT	4

Sector	Count of Responses
Manufacturing	5
Media	5
Public Sector	15
Resources	4
Retail	8
Services	8
Transport	7
Utilities	9
Others	8

Table 2: Survey responses by Sector

The results indicate a good spread of organisations by sector with a slight skew towards finance/banking and the public sector. The high response from financial/banking institutions is not surprising given that whistleblowing and hotlines have for a long time been associated with fraud and other financial irregularities rather than other forms of wrongdoing. As indicated in Chapter 2, whistleblowing hotlines have had their biggest success when related to the reporting of financial impropriety. The large number of responses from the public sector is related to the breadth of this category of sector. It covers government at all levels (central, federal, local), emergency services, civil service (excluding education, part of health care and transport) etc.

4.1.3. Respondents to the survey were asked to indicate their main countries of operation. They were given a free text field in which they could enter as many or as few countries as applied. Since it was free text respondents could also answer more generally with responses such as "global", "Europe" or "Asia". Table 3 summarises the responses. Apart from the Benelux countries and UK/Ireland, Western European countries have been indicated separately.

Country/Region	Count of Responses
Africa	6
Australasia	79
Middle East	5
North America	16
South America	4
India/Nepal	4
China including Hong Kong	9
South East Asia	7
Eastern Europe	4
Austria	1
Benelux	4
France	7
Germany	5
Italy	1
Spain	5
UK/Ireland	30
EU (not specified)	3
Asia (not specified)	1
Global (not specified)	9

Table 3: Survey responses by main countries/regions of operation

The responses to the survey gave a wide range of geographical regions, but with a significant skew towards those countries/regions where whistleblowing is well established and supported by national legislation (Australasia, UK/Ireland, North America). Responses are weighted heavily towards Australasia and the UK/Ireland because the Institutes of Internal Auditors in those countries agreed to distribute the questionnaire to their members. Although this was also the case in France, the number of responses from members of the French institute is not significantly higher than those of other European countries. This could be partly explained by the fact that the questionnaire was distributed in the English language (although the cover email was in French), but may also be indicative of a more general resistance to the concept of whistleblowing in France.

4.1.4. Table 4 indicates the number of organisations responding within ranges of staff size. It indicates that the organisations responding to the survey had a wide range of organisation sizes.

No. of employees	0 – 100	101 – 1000	1001 – 10000	10001 – 100000	>100000
No. of organisations	9	33	58	26	4

Table 4: Number of organisations responding to survey in ranges of numbers of employees

Organisations without hotlines

4.1.5. Of the 137 respondents to the survey, 87 (63.5%) had a whistleblowing hotline in place, 50 (36.5%) did not. Respondents who indicated that they do not have a hotline were asked if they were considering implementing one. Forty-six responses were given, of which 8 (17.4%) indicated that they were considering implementing a hotline and 38 (83.6%) indicated that they were not. Those respondents who did not have a hotline and were not considering implementing one were asked to give a reason for this decision. Chart 2 indicates the responses. It shows that 43% of respondents had considered implementing a hotline, but had dismissed the idea. However, 24% had never considered implementing a hotline. Interestingly, none of the organisations had implemented and subsequently abandoned a hotline.
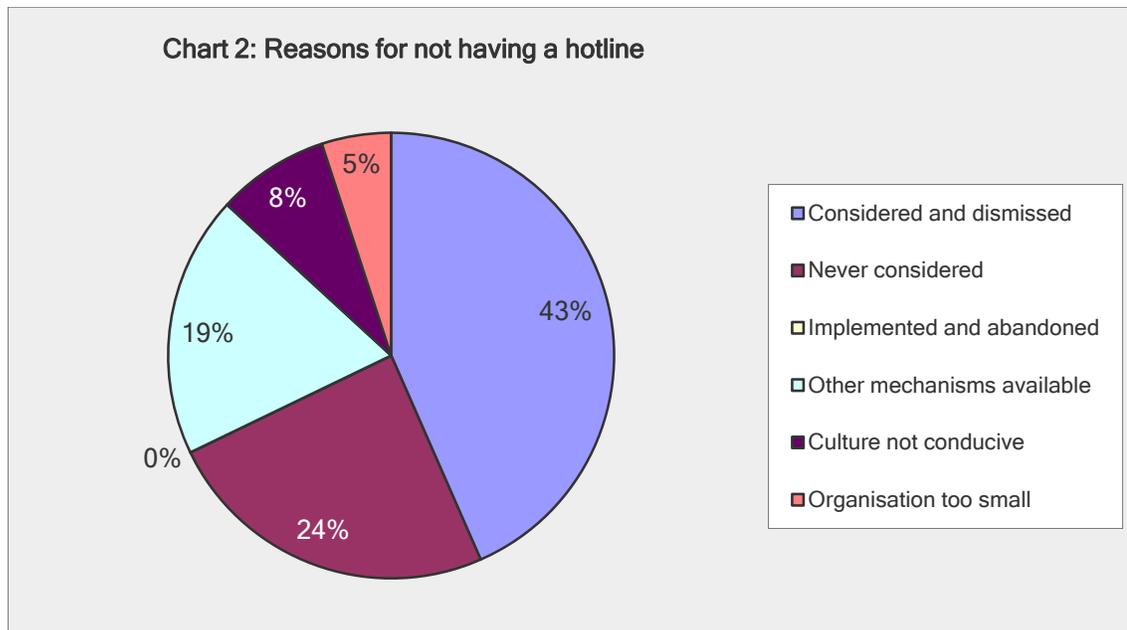
Hotline features

4.1.6. Chart 3 summarises responses from those organisations which have a hotline in place regarding the reasons for implementing their hotlines. It shows that the majority (68) of responding organisations had implemented hotlines as it was considered best practice, but there was a sizeable number (16) which had implemented hotlines as a legal requirement. Of the 'other' responses, the most common were that it was a request from the auditors or Audit Committee or it was implemented with the objective of providing staff a confidential channel for reporting incidents.

Chart 3: Reasons for launching a hotline (more than one response possible per respondent)
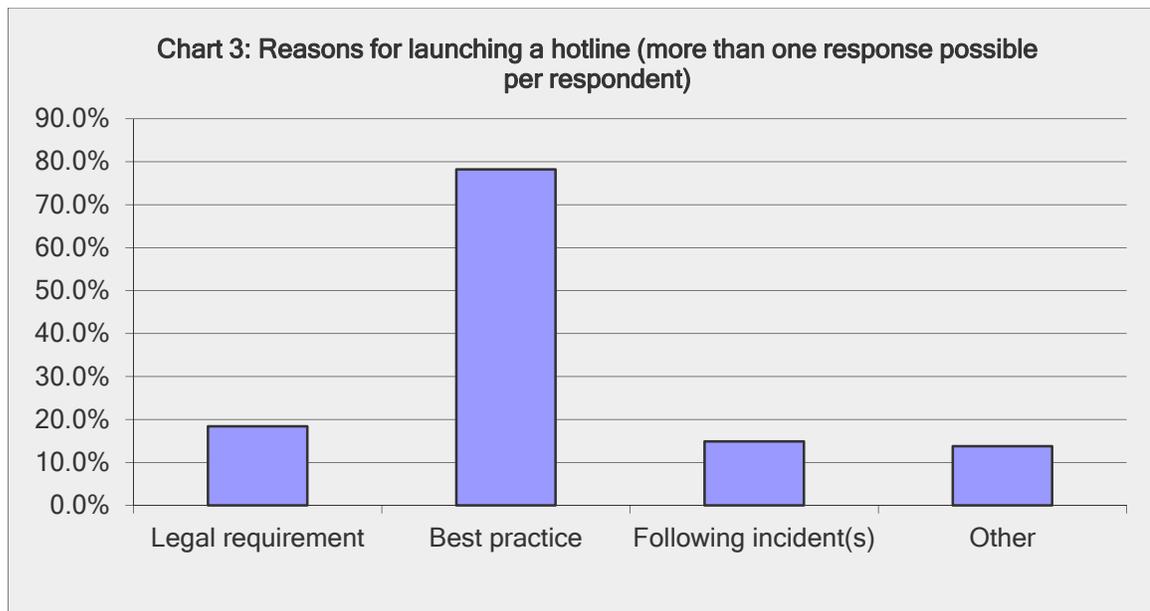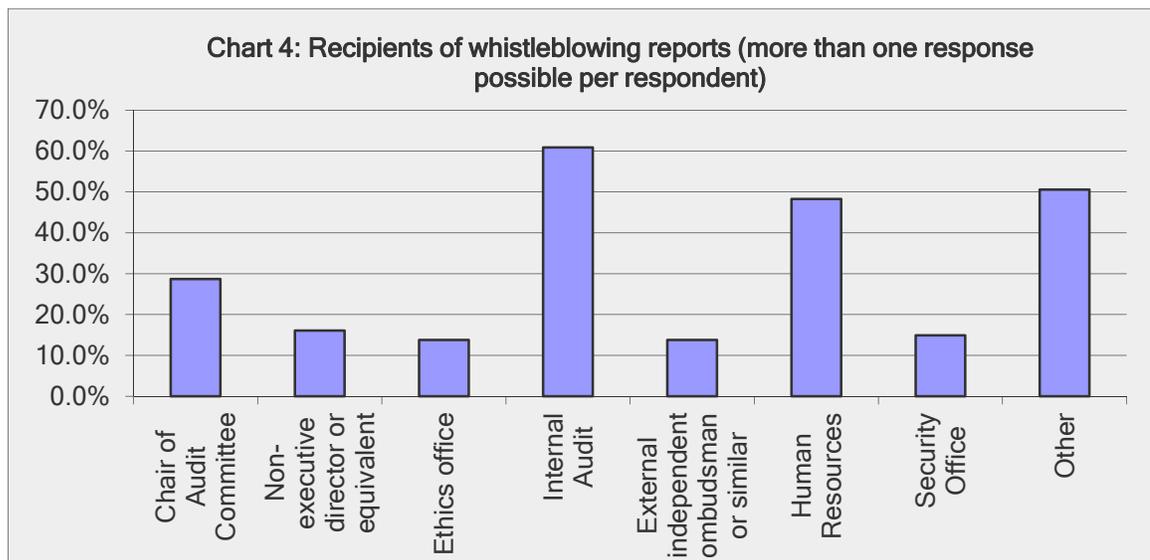
Chart 4 shows that Internal Audit and Human Resources are the main recipients of whistleblowing reports.

Chart 4: Recipients of whistleblowing reports (more than one response possible per respondent)

This is not surprising since hotlines are most commonly used for reporting suspected fraud or inter-personal issues. Among the 50 'other' responses were: the CEO or company secretary; the Legal office; the Compliance team; designated senior managers; external audit.

Chart 5 shows that there is a fairly even split between the reporting channels available to whistleblowers, with 98% of respondents with a hotline indicating that incidents can be reported by phone. Among the 'other' responses were fax and SMS.

Chart 5: Incident reporting channels (more than one response possible per respondent)
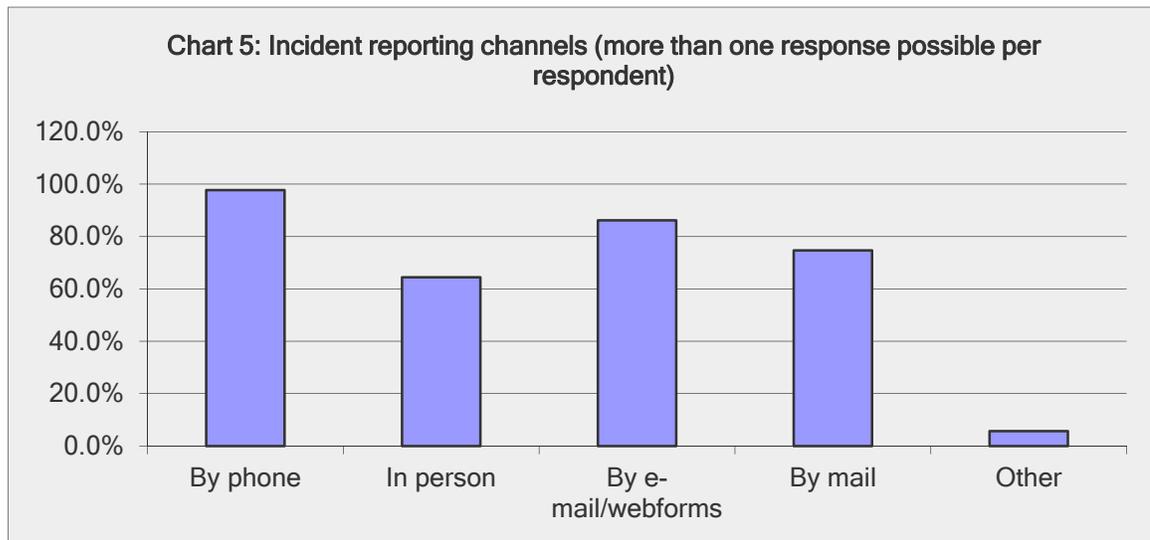
Charts 6 and 7 indicate a close correlation between organisations with outsourced hotlines (60%) and those whose hotlines are manned 24 hours (62%), with in fact slightly more outsourced (52) than manned 24 hours (49). Given the small volume of calls reported to hotlines, it would be difficult to man an in-house hotline 24 hours a day. A major advantage of outsourcing to a dedicated hotline provider is that they have the volume of calls across their full range of customers to be able to provide 24 hour coverage.

Chart 6: Is hotline manned 24 hours?

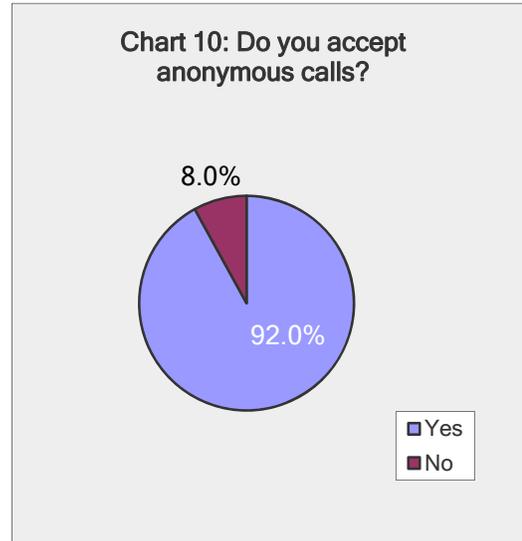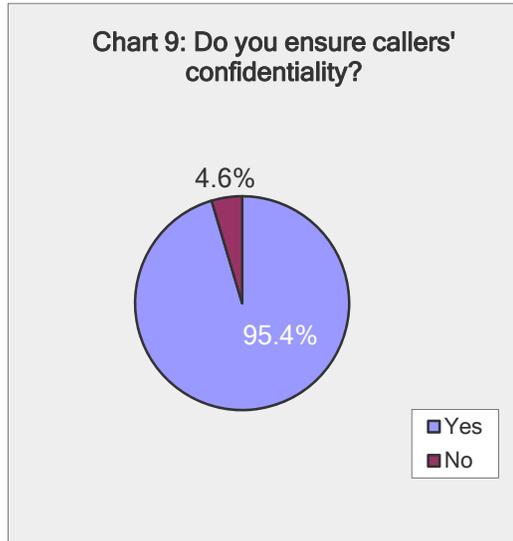

Chart 7: Is the hotline outsourced?
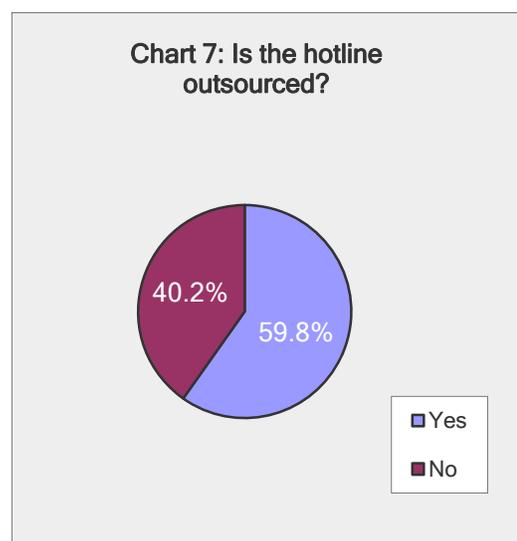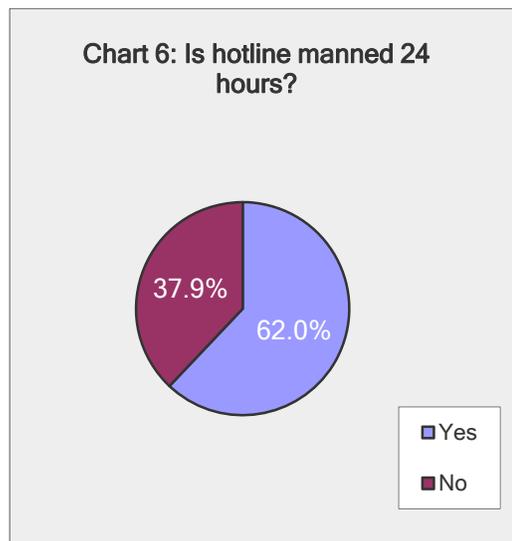
Unsurprisingly, Chart 8 shows that the main use for hotlines is the reporting of fraud or conflict of interest (99% of respondents with a hotline indicated that this was one of its uses). What is more surprising is that the reporting of confidentiality/security issues (84%) scores more highly than the reporting of personnel related issues (74%). This may be partly explained by the fact that some organisations have separate hotlines (so-called 'grievance hotlines') for the reporting of personnel-related issues. One of the interviewees who was questioned on her questionnaire response indicated that her organisation had a separate hotline for reporting grievances and in fact, the British Standards PAS 1998:2008 - Whistleblowing Arrangements Code of Practice advises that the 2 issues should be treated separately, with separate hotlines. However, Chart 4 would seem to contradict this explanation since it shows that HR (with 48%) is the second highest recipient of hotline calls in the survey responses.

Chart 8: Type of incidents that can be reported to the hotline (more than one response possible)
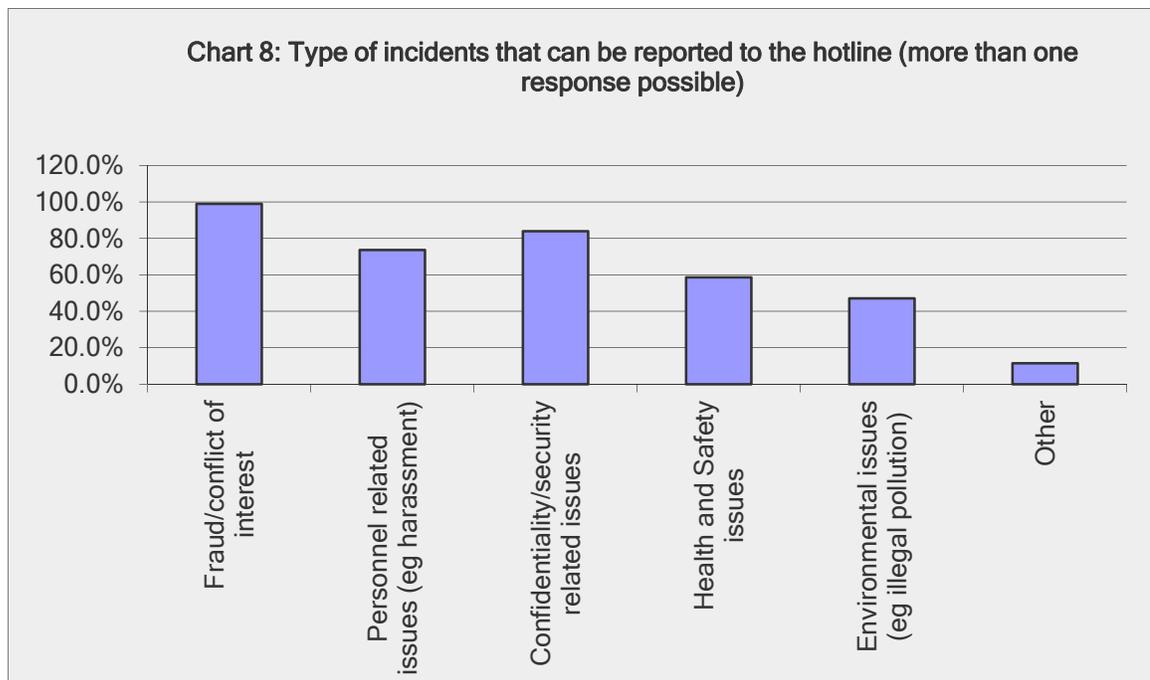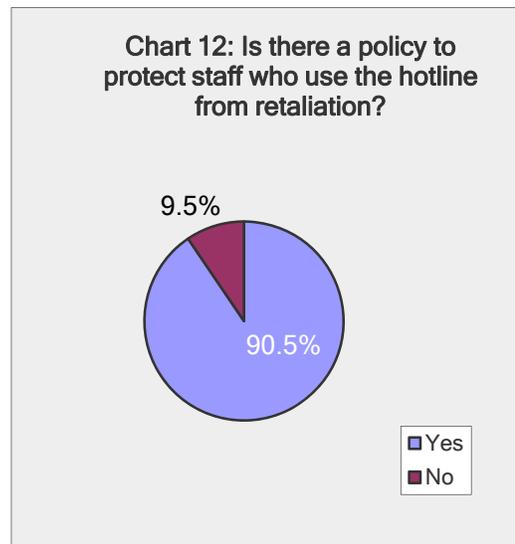
Charts 9 and 10 suggest that there is less concern from the survey respondents than previous research would suggest over the question of whether hotlines should accept anonymous calls. In *Lukewarm on the hotline (1997)* Singer for example said that hotlines, particularly anonymous hotlines, can create an "atmosphere of mistrust". Similarly, the Transparency International 2009 report *Alternative to Silence* quoted the EU's Advisory Body on Data Protection and Privacy, the Article 29 Data Protection Working Party, which "expressed a number of concerns about anonymous reporting" including "the risk that an organisation may create a culture of anonymous reporting". In France, CNIL has concerns about a whistleblowing system's potential for "slanderous denunciations" from anonymous sources. The survey results, on the other hand, show that almost the same proportion of hotlines permit anonymous calls (92%) as offer caller confidentiality (95%). Whereas the need to ensure confidentiality is widely accepted, assuring the anonymity of a caller is far more contentious. The results are therefore surprising, but may

be explained to some extent by the population of respondents – the majority coming from countries where whistleblowing is well established and reasonably well accepted.

Chart 9: Do you ensure callers' confidentiality?

4.6%

95.4%

- Yes
- No

Chart 10: Do you accept anonymous calls?

8.0%

92.0%

- Yes
- No

Policy and publicity of hotlines

4.1.7.   The following charts consider the policy coverage and requirements of hotlines, their publicity and promotion and training efforts undertaken to ensure their effectiveness.

Chart 11: Is your hotline referenced in policy documents?

1.2%

98.8%

- Yes
- No

Chart 12: Is there a policy to protect staff who use the hotline from retaliation?

9.5%

90.5%

- Yes
- No
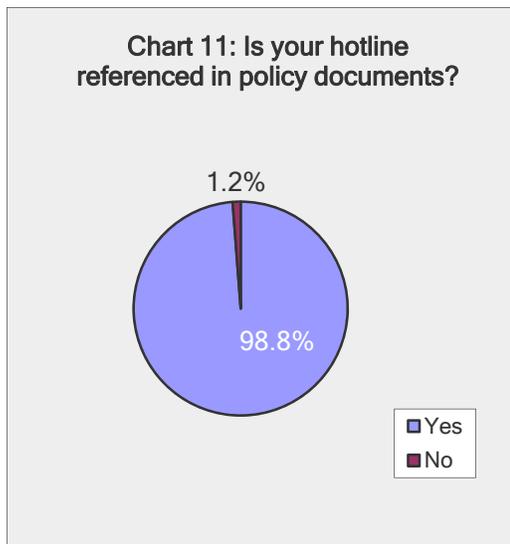
Ninety-nine per cent of those organisations with a hotline refer to it in policy documents. In the single response for which the hotline is not referenced in policy documents, the hotline is referred to in the Code of Ethics. Nearly 10% of respondents with a hotline do not offer protection against retaliation through a formal policy. This is a high proportion given the emphasis on the need for whistleblower protection in the best practice guides and in national and international legislation (such as the Public Interest Disclosures Act in the UK and SOX in the USA).

Chart 13: Is there a policy obligation for staff to report wrongdoing that they witness?

26.2%

73.8%

■ Yes
■ No
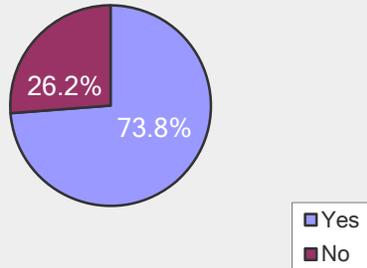
Chart 14: Is there any staff training on the use of the hotline and protection against retaliation?

45.2%

54.8%

■ Yes
■ No
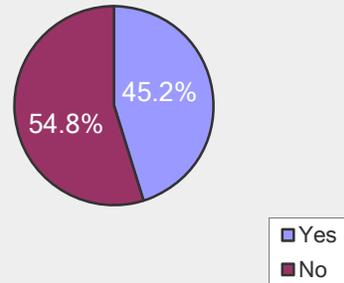
It is interesting to note that 74% of responding organisations oblige their staff to report wrongdoing that they witness and yet only 45% offer training related to the use of the hotline and protection against retaliation. Follow-up interviews indicated that the 'obligation' to report is difficult to enforce in practice as it can be difficult to prove whether an individual had been aware of the wrongdoing. None of the interviewees was aware of sanctions having been taken as a result of an individual not reporting wrongdoing that they had witnessed.

Chart 15: Was the hotline communicated to all staff at launch?

8.3%

91.7%

■ Yes
■ No
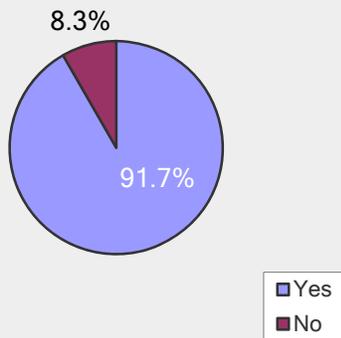
Chart 16: Are there periodic reminders of the hotline?

26.2%

73.8%

■ Yes
■ No
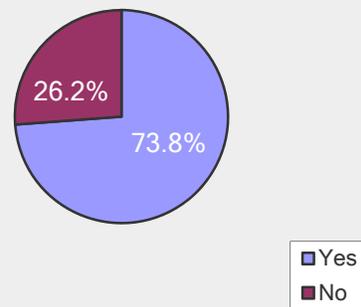
In terms of publicising the hotline, only one respondent indicated that there was no communication of the hotline's implementation. The proportion of organisations notifying all staff at launch of the hotline is high, at 92%, but the fact that the proportion of organisations giving periodic reminders is much less (74%) indicates that, for some organisations at least, the initial interest in a hotline is lost once it has been implemented. When the initial momentum is

lost there is a risk that the awareness and use of a hotline decrease and its effectiveness is likewise affected.

The effectiveness of hotlines

4.1.8. The charts which follow give an indication of the effectiveness of hotlines in those organisations which have a hotline in place.

Chart 17: The consequences of implementing a hotline (more than one response possible)
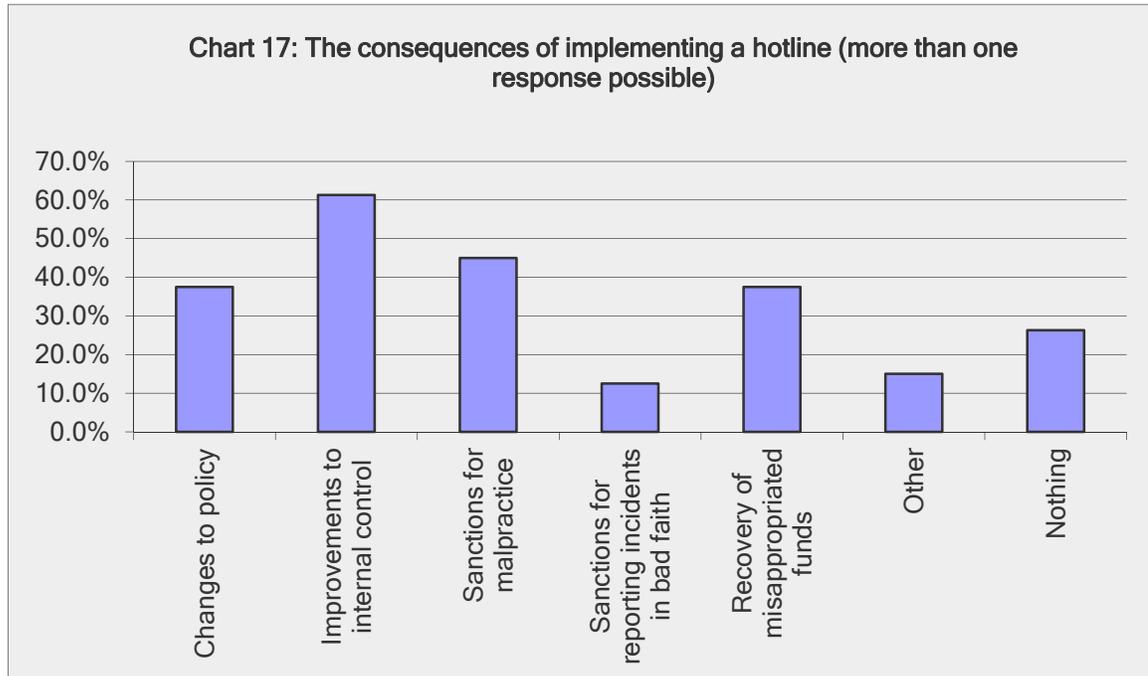
The questionnaire asked the survey participants to indicate what had been the consequences of implementing a hotline (Chart 17). Eighty of the respondents answered this question, although 21 of them indicated that there had been no effect. Of the 'other' category most responses involved some form of punishment and some said that investigations found that wrongdoing had not occurred. Consequently 59 of the total of 87 (or 68%) of respondents whose organisations have a hotline considered that there had been positive effects following its introduction. This closely matches the 76% (51 responses) who responded to the general question: "In your opinion, is the hotline an effective control?"

Chart 18 shows the number of organisations which have received a total of hotline calls within certain ranges over the years 2007 to 2011. Seventy-three of 87 respondents with hotlines answered this question. The chart shows an increase of the total number of calls which can be explained both by the fact that many of the hotlines have been implemented recently (of the 76 respondents who supplied a year of implementation, 8 were implemented in 2007, 7 in 2008, 6 in 2009, 13 in 2010, 7 in 2011 and 1 in 2012), and because some respondents did not have data available for the earlier years. However, the proportions have remained reasonably stable over

Chart 18: Number of incidents reported via the hotline in each of the 5 previous years
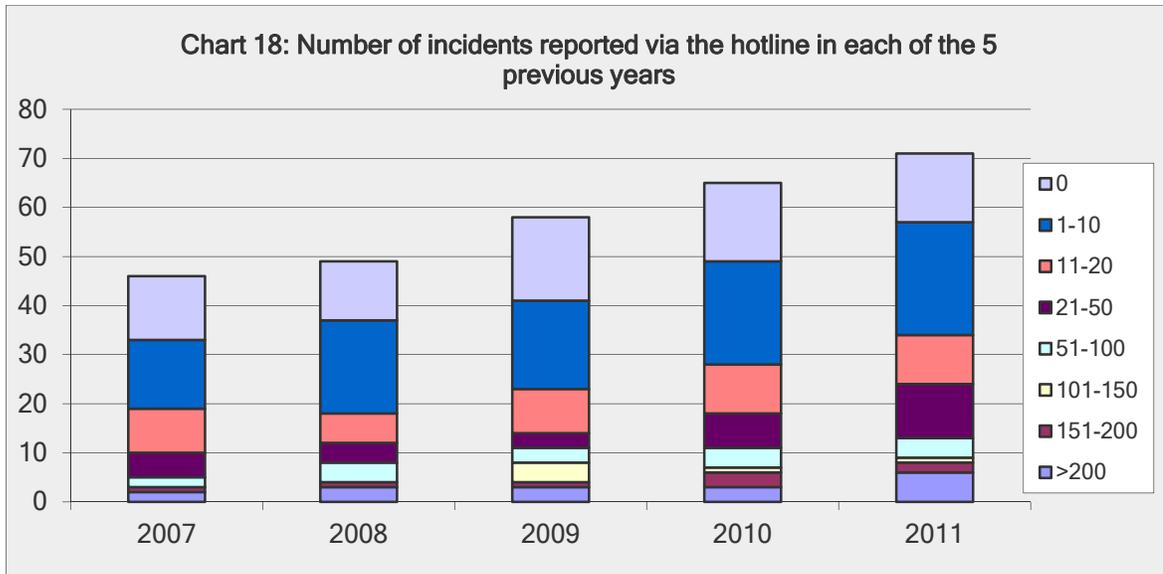
the five year period with the bulk of organisations receiving between 0 and 10 calls per year. The percentages of calls falling in this range for each of the 5 years were: 2007 – 59%; 2008 – 63%; 2009 – 60%; 2010 – 57%; 2011 – 52%. This closely reflected the PwC 2011 survey results which reported 48% of organisations receiving between 0 and 10 calls per year. At the high end, the percentages of hotlines receiving more than 200 calls per year were: 2007 – 4%; 2008 – 6%; 2010 – 5%; 2011 – 8%; 2011 – 16%. Number of calls received is not necessarily a good indicator of the effectiveness of a whistleblowing hotline. Different organisations' hotlines accept different types of call and larger organisations' hotlines are likely to receive more calls than those of smaller organisations. Furthermore, when participants were asked to estimate the percentage of calls which are valid and offer actual evidence of wrongdoing, 37 of 64 respondents (58%) indicated that 50% or fewer of calls were valid. In implementing a hotline, organisations would expect to receive at least some calls. As chart 18 indicates, a sizeable proportion of hotlines have received no calls at all over the last 5 years (2007 – 28%; 2008 – 24%; 2009 – 29%; 2010 – 25%; 2011 – 20%). Rather than absolute numbers of calls, better indicators of effectiveness of hotlines are the trends in the numbers of incidents reported, the costs incurred in handling incidents or the value of detected fraud.

Chart 19 shows responses to questions related to trends in the numbers of reported incidents, costs of handling incidents and value of detected fraud. Seventy of the 87 organisations with hotlines responded to these questions. As an overall observation, the number of organisations reporting responses of "unchanged" is high, ranging from 49% for the number of personnel related incidents handled internally to 82% for the number of detected environment related incidents. If this figure is adjusted to include the "marginally increased" and "marginally decreased" categories, the range is from 83% for the estimated value of detected fraud and the number of personnel related incidents handled internally to 95% for the number of detected health and safety related incidents. "Significant" changes are in the range 2% for the number of

detected confidentiality/security related incidents to 16% for the number of personnel related incidents handled internally.

Chart 19: Evolution in the instances of detected wrongdoing since the introduction of the hotline
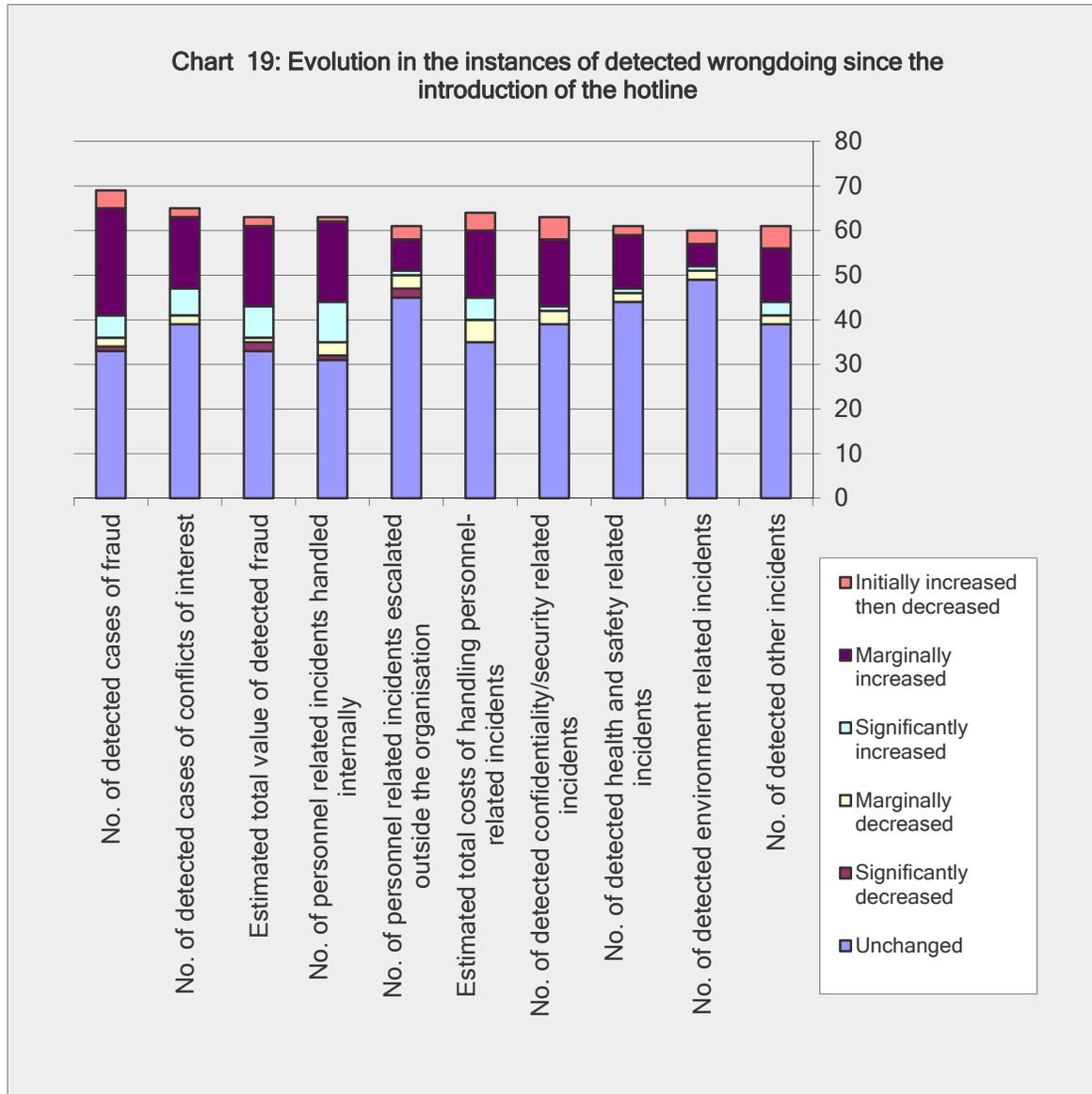
Turning now to the specific responses to each of the questions:

- The number of cases of detected fraud had significantly increased in 5 organisations, but had significantly decreased in one. A follow-up interview revealed that in this case the hotline had been introduced following a major fraud and there had been no fraud detected since its introduction. Although it was not confirmed, this is also a possible explanation for the 2 'marginally decreased' responses. What might be expected as a trend in reported fraud is an initial increase as a consequence of a channel being made available to report long-running fraud, followed by a decrease as the initial flurry tails off and the deterrent-factor kicks in. This trend has been observed in only 4 organisations.

- Similar trends to those for the number of cases of detected fraud might be expected in the number of cases of detected conflict of interest and, although the numbers are smaller (there are more organisations indicating 'unchanged' figures), this is generally the case.
- Decreases in the value of detected fraud (indicated by 3 organisations) can be explained in the same way as the reported decrease in the number of detected cases – the hotline may have been introduced following a fraud and no frauds have been detected since. Seven organisations reported a significant increase in the value of detected fraud following hotline implementation and 18 organisations reported a marginal increase. These organisations account for 40% of respondents.
- The number of personnel related incidents handled internally has seen the biggest increase following the introduction of hotlines. Twenty-seven respondents (43%) indicated an increase (marginal or significant) in personnel-related incidents handled internally. This is a positive result for those organisations because personnel-related incidents which are escalated outside an organisation are expensive both financially and in damage to reputation.
- In terms of personnel-related incidents being escalated outside the organisation, there has been a decrease in 5 organisations (2 of which saw a 'significant decrease'), but there has also been an increase in 8 organisations (1 of which was 'significant'). This increase may be explained to some extent by the fact that the hotline exposed cases which were subsequently escalated outside the organisation. One organisation indicated that their standard procedure is for personnel-related incidents to be handled externally.
- The trend in the estimated total costs of handling personnel-related incidents has been upwards in 20 organisations (31%), 5 of which have seen a significant increase. Only 5 organisations have seen a marginal decrease in the cost of these incidents and none have seen a significant decrease. These results indicate that there can be an additional financial cost resulting from the implementation of a hotline to handle personnel-related incidents. However, the benefits of the detection and addressing of personnel-related incidents in terms of corporate responsibility and staff morale, may outweigh the financial costs of handling the cases. Those organisations that have seen a decrease in handling costs may be benefitting from the early detection of incidents which can be handled more quickly and at lower cost than incidents detected later.
- The trends in reported incidents related to confidentiality/security, health & safety and the environment are all very similar, with slightly different levels of increase. Where decreases are reported (between 2 and 3 organisations reported marginal decreases in response to each question) they may have the same explanation as for the decreases in detected fraud – the hotline may have been implemented following an incident and there have been no subsequent incidents.
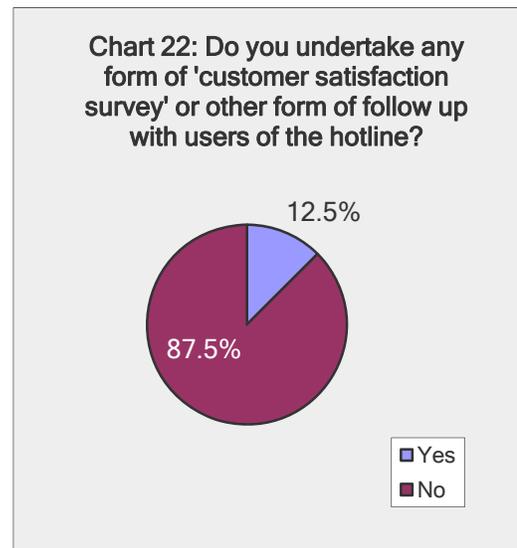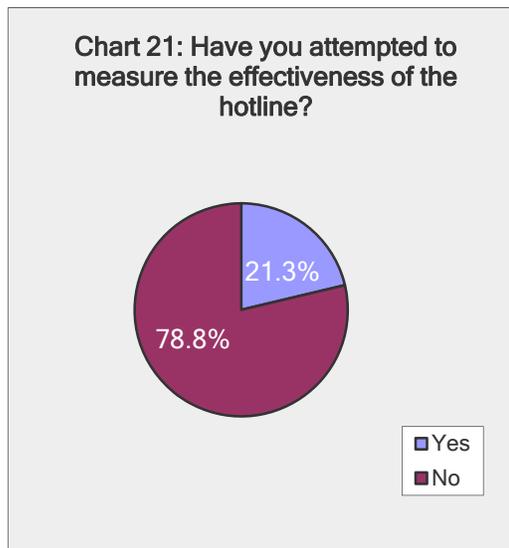
4.1.9. The 24% of survey participants who responded "no" to the question: "In your opinion, is the hotline an effective control?" were asked to explain their opinion. Results are in chart 20.

Chart 20: Explanations for considering hotline ineffective (more than one response possible)
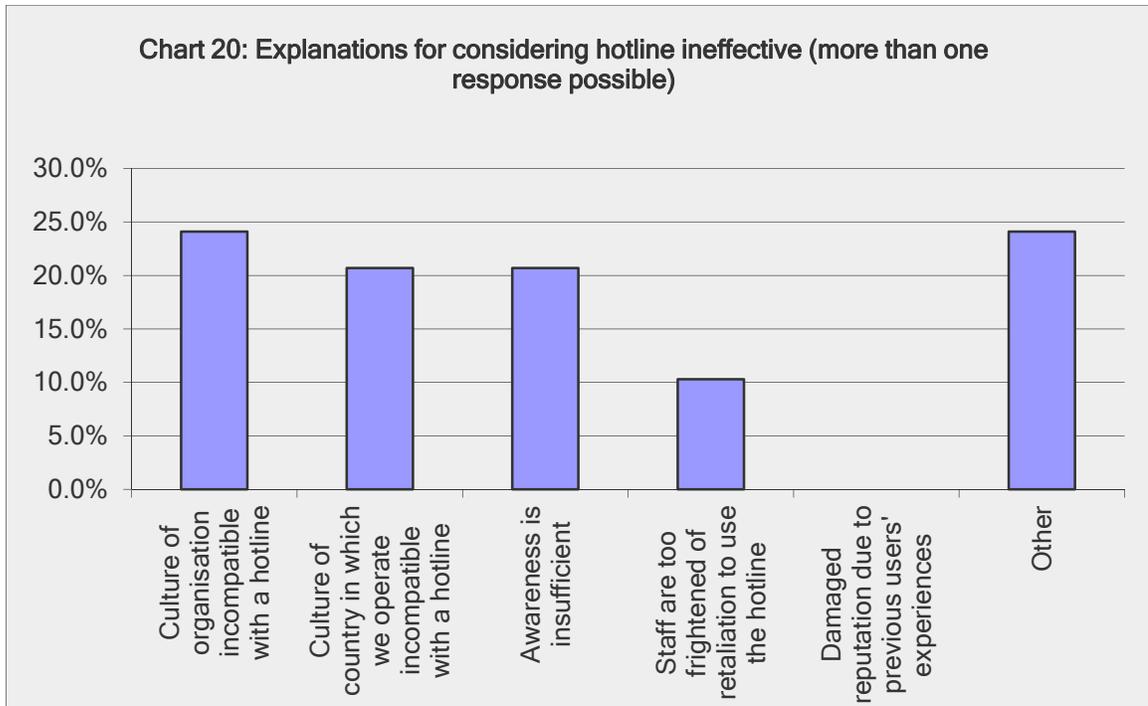
Among the 'other' responses were 'apathy', a reluctance to "dob on your mates" and a preference for the use of other channels to report wrongdoing. In total there were 29 responses to this question. There is roughly an even spread of responses but, interestingly, none of the respondents considered the negative opinions of previous incident reporters to be a reason for the lack of success of the hotline. Culture (organisational and national) featured highly as a reason for hotline ineffectiveness, as did a lack of staff awareness. Fear of retaliation received surprisingly few responses as an explanation for hotline ineffectiveness (only 3 responses).

4.1.10. Participants of the survey were asked 2 questions related to what they had done to measure the effectiveness of their hotlines. The purpose of these questions was to determine whether organisations had actively attempted to measure the effectiveness of their hotlines and where they indicated that they had, follow-up interviews were conducted to determine how this was done. Seventeen organisations (21% of respondents) indicated that they had undertaken some form of measurement of the effectiveness of their hotline. Follow-up interviews, however, did not reveal any formal attempts at measuring hotline effectiveness. One interviewee indicated that effectiveness was reviewed through an analysis of calls received. Such an analysis does not consider the effectiveness in attracting new calls. Another interviewee assessed effectiveness by attempting to identify those incidents that had not been reported to the hotline but which should theoretically have been reported through it. This was an attempt to measure the effectiveness of the hotline in capturing all reported incidents (in line with IBE Good Practice Guide), again rather than its effectiveness in attracting calls which might not otherwise be reported. One interviewee had used benchmarking to measure effectiveness which was an attempt to measure performance against performance in similar organisations, but this

comparison depends on other organisations having adequately measured the effectiveness of their hotlines.

Chart 21: Have you attempted to measure the effectiveness of the hotline?

21.3% Yes
78.8% No

Chart 22: Do you undertake any form of 'customer satisfaction survey' or other form of follow up with users of the hotline?

12.5% Yes
87.5% No

4.1.11. Most of the 12.5% of responses to the question related to customer satisfaction or other follow-up (Chart 22) described customer response in terms of following up with individual complainants, keeping them informed of progress in handling incidents etc. Since follow-up and keeping complainants informed are listed in most good practice guides as important elements of whistleblowing procedures, the number of organisations providing feedback seems low. This is possibly because individual complainant feedback was not considered part of customer satisfaction by most respondents to the questionnaire. Two responses referred to staff surveys which would gauge the attitude of all staff to the effectiveness of the hotline, rather than only those who had actually used the mechanism. All but 2 of the interviewees said that they had not included whistleblowing in their staff surveys in the past, but that they might consider it for the future.

4.2. Cross-analysis of survey results

The effectiveness of hotlines by geographical region

4.2.1. The data in Table 3 was combined with the data in Chart 19 to produce an analysis of whistleblowing effectiveness by geographical region (chart 23). In order to have sufficient data to provide a useful analysis, countries were combined into regions with a similar business culture – hence a separation of eastern Europe, western mainland Europe and the UK/Ireland, but a combination of countries in the Middle East. Organisations with operations in more than one region (multi-nationals) appear in each region's data. The data are represented as percentages to ease comparison – the absolute number of organisations in each region is indicated in brackets after the region name. These are the numbers of organisations in each of the geographical regions which have a hotline in place. While these respondents were obliged to

answer "Yes" or "No" to the question: "In your opinion is the hotline an effective control?", they were not obliged to answer questions related to trends in detection of wrongdoing. Where they did not offer answers to specific questions they were not included in the statistics for that question. The first column for each region represents the percentage of respondents whose opinion is that their hotline is effective. The subsequent columns indicate the percentage of organisations where there has been any increase (a moderate increase, a substantial increase or an initial increase followed by a decrease) in the detection rate or the value of detected fraud for different types of wrongdoing since the introduction of the hotline. These values are proportions of those organisations providing a response (moderate or substantial decrease and 'no change' making up the remainder of the whole).

4.2.2.   Chart 23 indicates that survey respondents across all geographical regions are largely positive about the effectiveness of their hotlines. These figures may be influenced by the fact that questionnaires were sent to those individuals or departments which are most likely to be responsible for the implementation and management of the hotline. A survey of staff or management might give different opinions on the effectiveness of the hotline. In Africa, the Middle East, S America and SE Asia 100% of respondents (albeit of small response populations) consider their hotlines to be effective. Not surprisingly, impressions in mainland Western Europe (which includes France and Germany) were less positive, although 82% of respondents considered their hotlines effective in that region. Interestingly, respondents from regions where whistleblowing is well established and supported by comprehensive legislation (Australasia (70%), N America (86%), UK/Ireland (88%)) were less positive than those from other regions. This could be partly as a result of resistance to the imposition of whistleblowing mechanisms. Legislation requires organisations to implement procedures, some of which do not want either to implement or to manage whistleblowing mechanisms. One interviewee indicated that in his organisation a whistleblowing mechanism had been set up to meet legal requirements, but that it was never manned and consequently received very few calls.

4.2.3.   The data in Chart 23 indicates either that survey respondents have a more positive impression of the effectiveness of their hotlines than is the reality, or that they are using factors other than the increase in detected wrongdoing as a measure of effectiveness. A number of comments provided by survey respondents, as well as by follow up interviewees indicated that a primary purpose of implementing a hotline was as part of the corporate responsibility of the organisation – to provide staff with a formal, confidential channel to report wrongdoing. Effectiveness need not necessarily be determined by an increase in detection, and could be determined simply by the presence of the hotline since this presence indicates the organisation's willingness to support staff who wish to report wrongdoing. The British Standards Whistleblowing Code of Practice PA 1998:2008 supports the view that whistleblowing hotlines' effectiveness may not be apparent over a period of years, until "one single, well-founded concern [which] can more than justify the modest expense that whistleblowing arrangements incur."

4.2.4.   Ultimately though, unless its purpose is purely as a deterrent, or in cases where the hotline is also an advice line, one aim of a hotline must be to receive at least some valid tip-offs of

wrongdoing. This argument is supported by the following comments received from survey respondents who considered their hotlines to be ineffective:

- "There has been no measurable difference in wrongdoing being reported or uncovered since the Hotline has been introduced"
- "As no reported incidents in 18 months via Hotline it has questionable effect".

4.2.5. For the following analysis an increase in reporting following hotline implementation is used as an indicator of the effectiveness of the hotline. Chart 23 shows that for many organisations there has been no increase (not even 'marginal') in detected cases of wrongdoing. Of those regions with a reasonably-sized response population (Australasia, N America, Mainland Western Europe and UK/Ireland) the largest increase has been in cases of detected fraud. However, in 54% of responses (Australasia), 42% of responses (N America), 54% of responses (mainland W Europe) and 47% of responses (UK/Ireland), there has been no increase in the cases of detected fraud. For other forms of wrongdoing in these regions, the number of organisations reporting an increase in the number of reported incidents is lower than for fraud. The proportion of organisations reporting no increase in reported confidentiality/security, health & safety and environment-related incidents ranges between 67% and 87%. In Australasia, Mainland Western Europe and the UK/Ireland there is a more level spread of organisations reporting an increase in detected wrongdoing across the various types of wrongdoing than there is in N America, where increased activity is related mainly to fraud and HR cases.

4.2.6. For the other regions, smaller response populations distort the statistical validity of observations, but with that caveat in mind, the following observations are made. Seventy-five per cent of Eastern European respondents consider their hotlines effective, but they report no increased detection of wrongdoing except in fraud cases (where 50% of respondents report an increase). One hundred per cent of African respondents consider their hotlines to be effective, but there has been an increase in detected wrongdoing for only around 60% of respondents across the various types of wrongdoing. Similarly, for the Middle East, S America and SE Asia 100% of respondents consider the hotline effective but organisations reporting an increase in detected wrongdoing range between 0% and 75%, depending on the type of wrongdoing.

Chart 23: Hotline effectiveness by geographical region
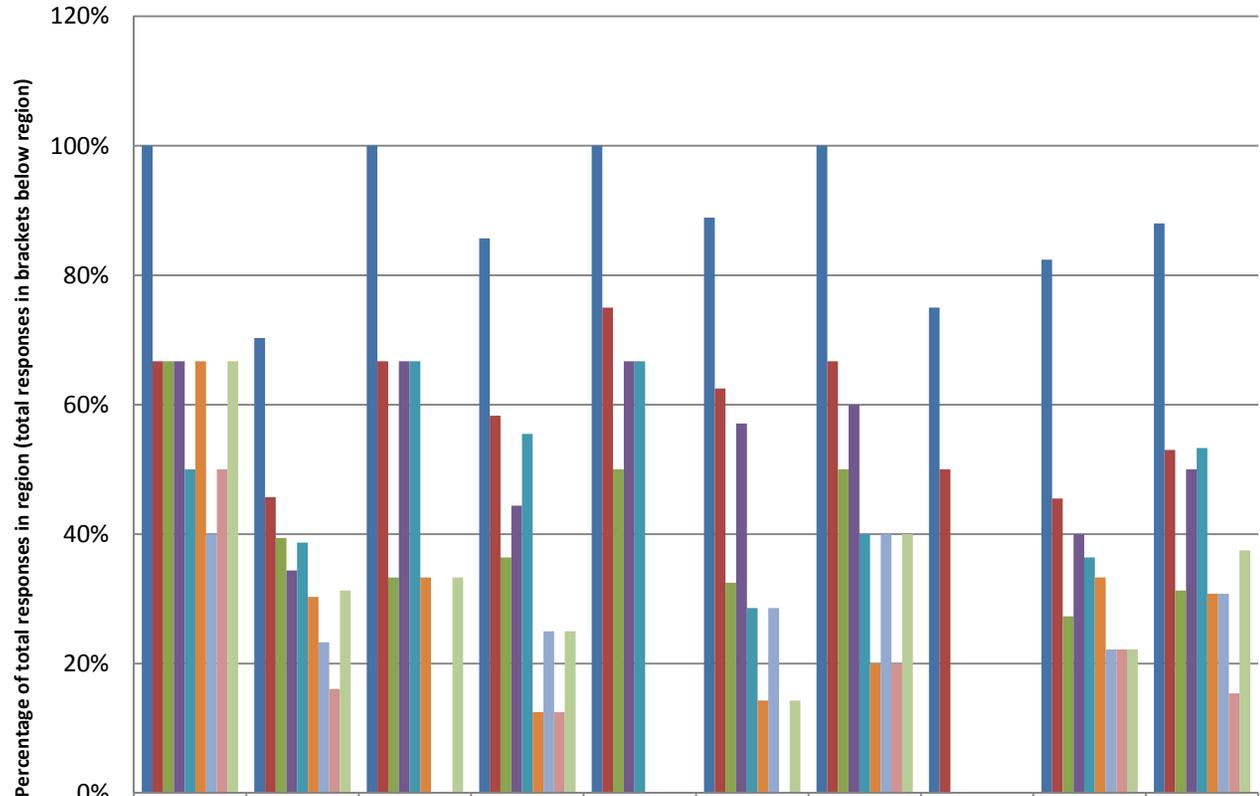
	Africa (5)	Austral-asia (43)	Middle East (4)	North America (16)	South America (4)	China inc. HK (9)	SE Asia (6)	Eastern Europe (4)	Mainland Western Europe (18)	UK/ Ireland (26)
■ Consider Hotline Effective?	100%	70%	100%	86%	100%	89%	100%	75%	82%	88%
■ Increase in cases of detected fraud	67%	46%	67%	58%	75%	63%	67%	50%	46%	53%
■ Increase in detected conflict of interest cases	67%	39%	33%	36%	50%	33%	50%	0%	27%	31%
■ Increase in total value of detected fraud	67%	34%	67%	44%	67%	57%	60%	0%	40%	50%
■ Increase in detected HR-related cases handled internally	50%	39%	67%	56%	67%	29%	40%	0%	36%	53%
■ Increase in detected confidentiality/ security cases	67%	30%	33%	13%	0%	14%	20%	0%	33%	31%
■ Increase in detected H&S cases	40%	23%	0%	25%	0%	29%	40%	0%	22%	31%
■ Increase in detected environment cases	50%	16%	0%	13%	0%	0%	20%	0%	22%	15%
■ Increase in detected 'other' cases	67%	31%	33%	25%	0%	14%	40%	0%	22%	38%

4.2.7. Questionnaire response data on organisation type was combined with the data in Chart 19 to produce an analysis of whistleblowing effectiveness by organisation type (chart 24) which uses the same layout as Chart 23.

Chart 24: Hotline effectiveness by organisation type

	Government (15)	International Organisation (4)	Private Company (16)	PLC (35)	Not for Profit (9)
■ Consider Hotline Effective?	71%	100%	75%	78%	86%
■ Increase in cases of detected fraud	50%	50%	43%	58%	43%
■ Increase in detected conflict of interest cases	46%	50%	39%	40%	29%
■ Increase in total value of detected fraud	30%	50%	50%	48%	57%
■ Increase in detected HR-related cases handled internally	50%	50%	53%	43%	29%
■ Increase in detected confidentiality/ security cases	46%	25%	50%	27%	29%
■ Increase in detected H&S cases	30%	25%	29%	27%	0%
■ Increase in detected environment cases	10%	25%	31%	14%	0%
■ Increase in detected 'other' cases	36%	25%	46%	32%	29%

4.2.8. Since the same data were used as for the analysis by geographical region, the percentages of respondents indicating that their hotline is effective is once again significantly higher than the percentages which have experienced any increase in the detection of wrongdoing. Again, this could be related to the target population for the questionnaire. It is, however, interesting to note the relative opinions of the effectiveness across different organisation types. International organisations (of which there were only 4 respondents with hotlines) have a 100% positive perception of their hotlines' effectiveness, possibly partly explained by their relatively recent implementation in these organisations. Not-for-profit organisations have the second highest opinion of hotline effectiveness, followed by public limited companies, private companies and government. Not-for-profit has the highest number of organisations experiencing an increase in the value of detected fraud and this may partly explain the positive opinion of their effectiveness in this sector. In terms of an increase in detected wrongdoing, government does not perform significantly worse than the other organisation types, but respondents from government do have a
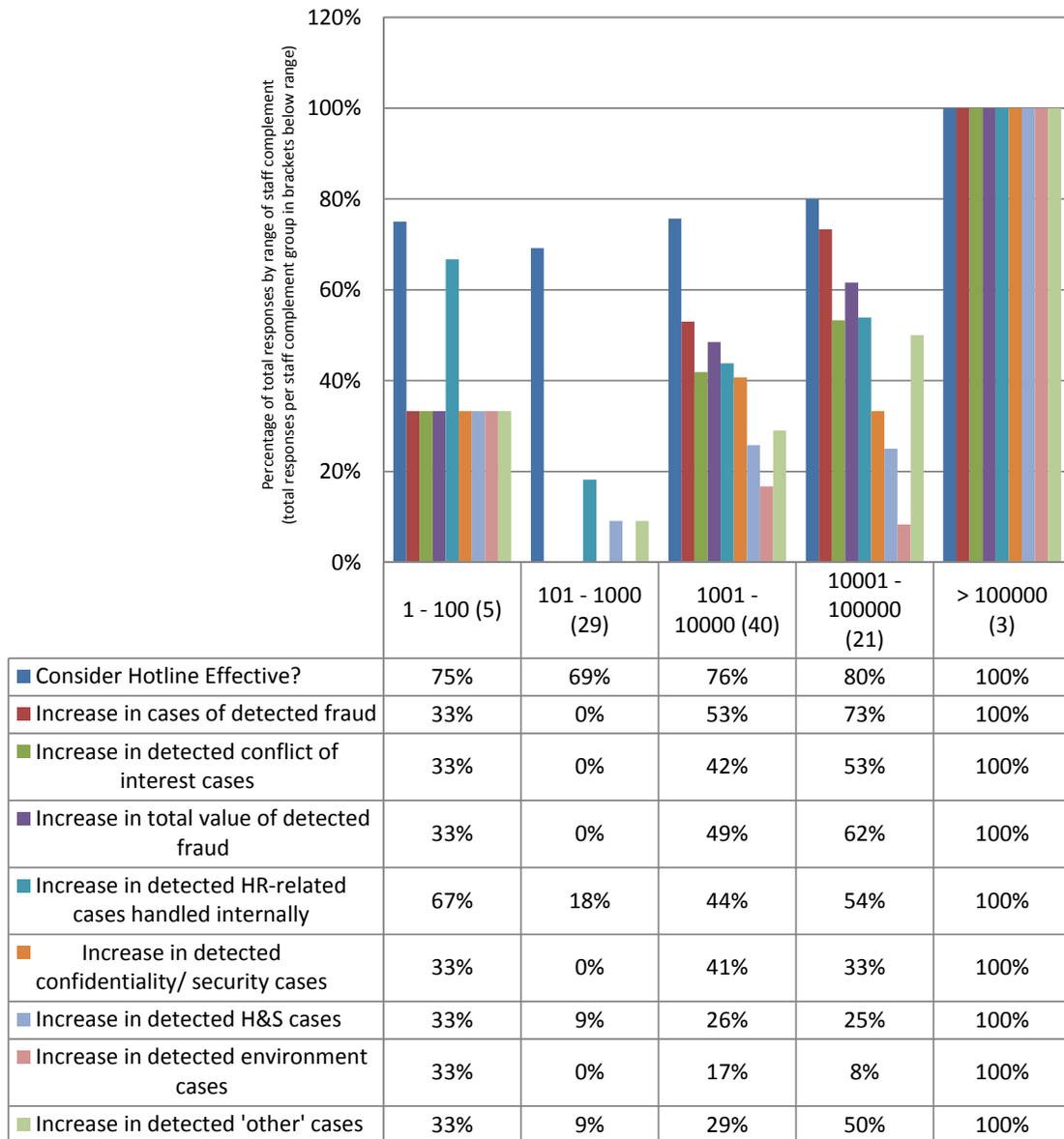
slightly more negative opinion of the effectiveness of their hotlines. The comments provided with questionnaire respondents did not give a clear indication as to why government respondents consider their hotlines less effective than their peers in other organisation types.

The effectiveness of hotlines by organisation size

4.2.9. The data in Table 4 was combined with the data in Chart 19 to produce an analysis of whistleblowing effectiveness by organisation size. The size of an organisation was determined by the number of employees stated in questionnaire responses, and these numbers were banded into ranges: 0 – 100; 101 – 1000; 1001 – 10000; 100001 – 100000; >100000. Chart 25 uses the same layout as Charts 23 and 24.

4.2.10. Chart 25 indicates that, despite the very small response population for organisations with more than 100,000 employees, responses from those 3 organisations were unanimous in their opinion that their hotline is effective and in their reports of trends showing an increase in detection of all types of wrongdoing. Each of these hotlines has received a significant number of calls over the last 5 year (one consistently in the range 51-100 calls per year, the second in the range 151-200 calls per year and the third constantly at >200 calls per year). Since the costs and other resources to implement a hotline do not vary considerably from one organisation to another, the fact that a large employer invariably receives a higher volume of calls than a smaller employer automatically means better value for money for a larger organisation. That, coupled with the tangibility of activity on hotlines in large organisations, explains the unanimous perception of their effectiveness.

4.2.11. Survey responses from organisations of 1001 – 10000 employees and those of 10001 – 100000 have similar opinions on the effectiveness of their hotlines (76% and 80% respectively) and increase in detected wrongdoing as a measure of effectiveness is also similar for these 2 ranges (again less than the perception in both cases). Responses from organisations with employees in the range 1 – 100 are also similar, but with a response population of only 5 (the other 4 organisations with employees in this range do not have hotlines), the results cannot be considered as statistically reliable.

4.2.12. Perhaps the most striking finding in chart 25 is the almost complete lack of an increase in detected wrongdoing following the implementation of hotlines in organisations with numbers of employees in the range 101 – 1000. The figures are statistically sound as the response population in this range was relatively high, at 29 organisations. Only in HR related cases, health & safety related cases and 'other' cases were there any reported increases in detection and these were reported in only a small proportion of responding organisations. Interestingly, although this range of organisation sizes had the lowest percentage of positive opinions of the effectiveness of hotlines, opinions were still generally high in the range – 69% of respondents were of the opinion that their hotlines were effective. The correlation between the size of an organisation and the effectiveness of its hotline can be partly explained by the fact that fewer staff simply report fewer incidents, but this does not fully explain the almost complete lack of an increase in reported incidents for organisations with 101 to 1000 staff. It is possible that the intimacy of a small organisation increases the fear of a loss of confidentiality, and possibly consequent reprisals for whistleblowing, or equally that such intimacy among staff in a small organisation might lead to lenient sanctions – fuelling the belief that it is not worth reporting. A more positive interpretation might be that there is less wrongdoing in small organisations, where everyone knows everyone else and works towards common organisational goals. Whatever the explanation, the data clearly indicates that, as a

mechanism to increase detection of wrongdoing, a hotline is not effective in an organisation of 101 – 1000 employees.

**Chart 25: Hotline effectiveness by organisation size**

	1 - 100 (5)	101 - 1000 (29)	1001 - 10000 (40)	10001 - 100000 (21)	> 100000 (3)
■ Consider Hotline Effective?	75%	69%	76%	80%	100%
■ Increase in cases of detected fraud	33%	0%	53%	73%	100%
■ Increase in detected conflict of interest cases	33%	0%	42%	53%	100%
■ Increase in total value of detected fraud	33%	0%	49%	62%	100%
■ Increase in detected HR-related cases handled internally	67%	18%	44%	54%	100%
■ Increase in detected confidentiality/ security cases	33%	0%	41%	33%	100%
■ Increase in detected H&S cases	33%	9%	26%	25%	100%
■ Increase in detected environment cases	33%	0%	17%	8%	100%
■ Increase in detected 'other' cases	33%	9%	29%	50%	100%

4.3. Other tests of hotline effectiveness

4.3.1. As mentioned in chapter 2, a number of criteria were proposed by Miceli et al and Heard & Miller to measure the effectiveness of whistleblowing hotlines. Where possible, the data gathered through the questionnaire is used in this section to measure effectiveness according to the criteria set out in these two research papers. Miceli et al's criteria for measuring effectiveness focussed on the effectiveness in increasing the detection rate of wrongdoing. Heard & Miller's criteria, on the other hand, related more to improving the confidence of would-be whistleblowers by focussing on the complaint rather than the complainant, by ensuring effective, quick investigations, by taking reports of retaliation seriously and disciplining wrongdoers appropriately and finally by providing feedback to

the whistleblower. The survey questions can test effectiveness against both sets of criteria to some extent, but are better placed to address Miceli et al's criteria.

4.3.2. Miceli et al referred to the "signal to noise ratio" as one of the criteria for measuring hotline effectiveness. They suggested that organisations with hotlines should ask themselves whether complaints are valid and offer evidence of actual wrongdoing, or reflect petty concerns or efforts to embarrass others. Question 28 of the survey asked participants: "Approximately what percentage of reported incidents are valid and offer evidence of actual wrongdoing?" There were 64 responses to this question. The results are grouped in percentage ranges in chart 26. The results indicate that there is a high proportion of "noise" in reported incidents. Almost a quarter of respondents (15/64) said that less than 10% of calls offer evidence of actual wrongdoing. Interviewees were asked to explain these figures and a number of explanations were offered. One interviewee explained that the hotline received a lot of calls related to personal grievances of an interpersonal nature which were not classed as wrongdoing. Another stated that the hotline was also used to provide advice on ethical issues (for example an individual wishing to establish whether he could accept a gift from a customer). However, all interviewees said that there are a certain number of calls which are either frivolous or could not be substantiated because they have been made anonymously and with insufficient information to conduct to thorough investigation. Some of the comments received in the questionnaire responses echo this view. For example:

- "[The] only reported incident appeared to be vexatious (reported anonymously)"
- "Most of the reported incidents turn out to be unsubstantiated and many of the anonymous allegations are malicious or vexatious and cause an enormous amount of undue stress and grief for the targets who are investigated."

Chart 26: Count of organisations receiving valid reported incidents by percentage range
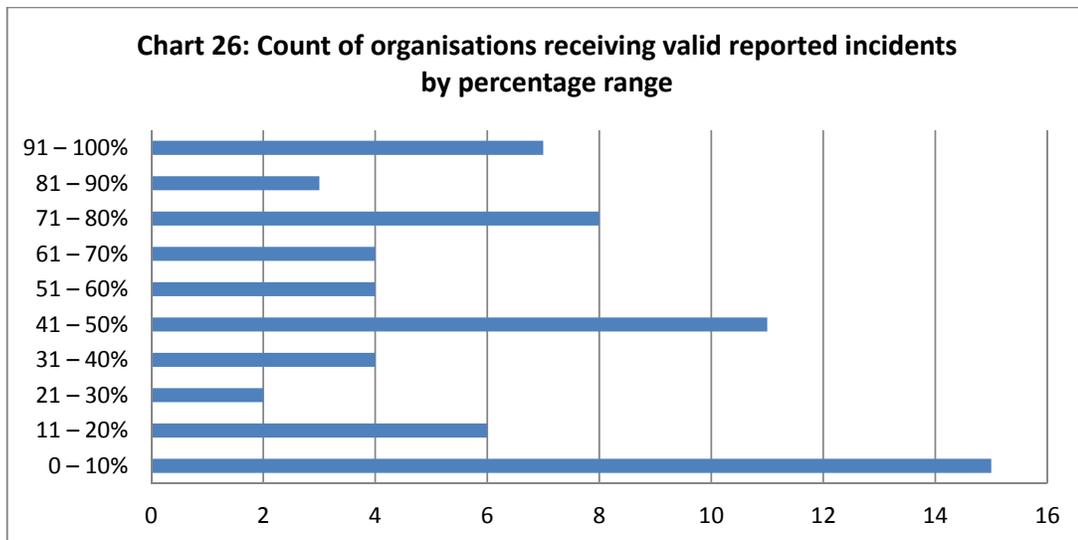
4.3.3. Miceli et al proposed that organisations running hotlines ask themselves whether the cost of establishing and maintaining the hotline could be quantified against the benefits of correcting wrongdoing resulting from the hotline. Question 33 of the questionnaire asked survey participants: "In your opinion, does the hotline pay for itself (money recovered and costs avoided outweigh the cost of operating the hotline)?" There were 80 responses to this question, 51 of which (64%) were "yes". The accompanying comments to these responses were interesting, many of which indicated that costs of hotline implementation and operation were minimal or insignificant. For example, one respondent said "Costs vs
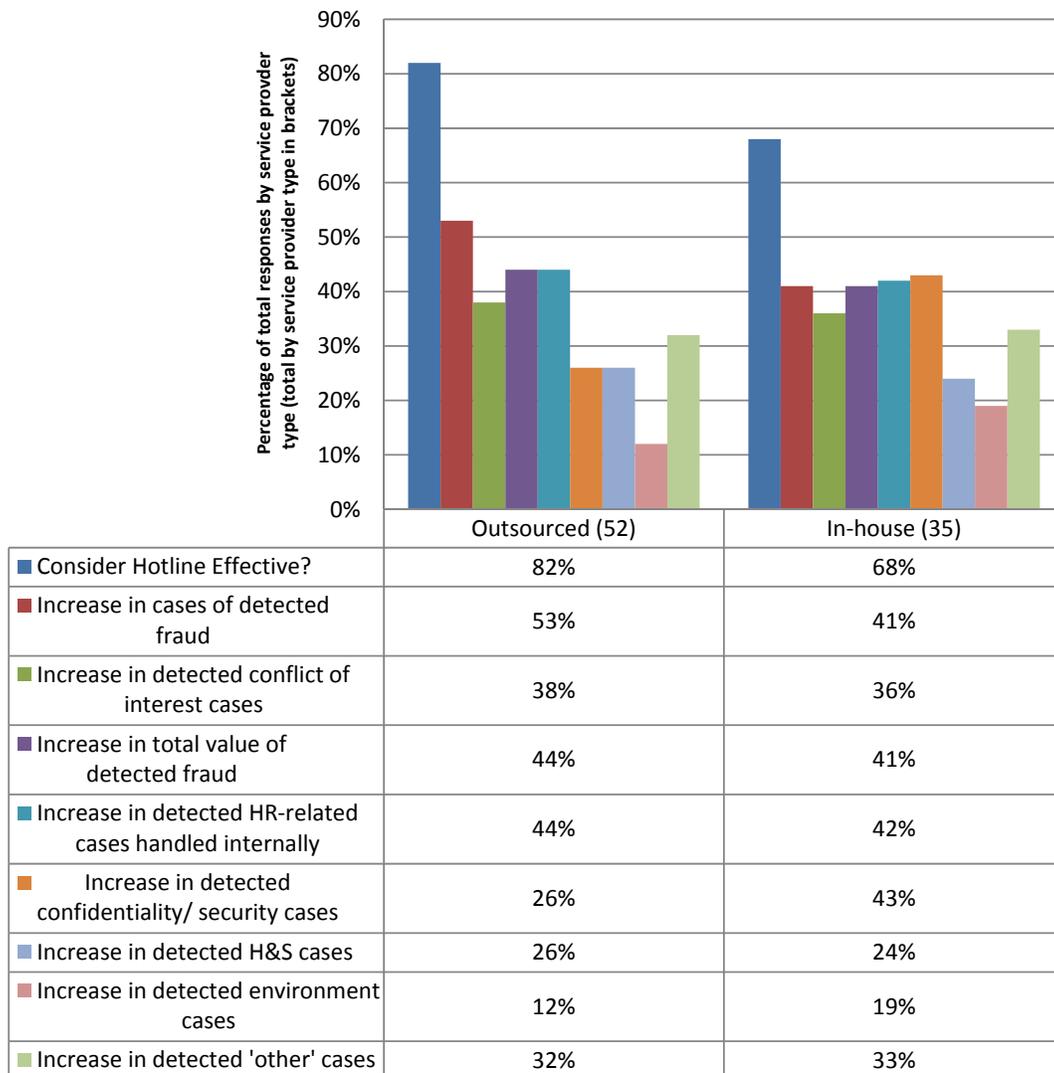
benefits is not an issue. It is an independent reporting mechanism", another stated "It isn't provided to pay for itself as such, but a necessary back stop to help information be provided" and a third stated "The reason for the line is not purely about saving money. The biggest advantage is the reputational one derived by our employees feeling they have a forum where they can express concerns without the fear of retribution". Other respondents objected to the nature of the question. One felt that comparing money recovered to running costs was an "Inappropriate comparative" They continued: "we gain loads of information through the facility – which makes it money well spent". A further response was of the opinion that improvements in corporate culture outweighed costs – "The existence of the hotline helps develop corporate culture of openness and integrity which are invaluable". These responses indicate that there is limited effort invested in measuring whether hotlines pay for themselves. The attitude of respondents is that the mere existence of a hotline is adequate 'pay-back' for the minimal costs incurred. These statements do not, however, take into account the time, effort and cost that might be incurred on investigating incidents which do not turn out to be valid or do not have sufficient evidence to prove their validity, particularly where anonymous reporting is accepted. Hotlines which receive no calls are indeed cheap to run – hotlines which receive a lot of calls which do not result in the identification of valid cases of wrongdoing may incur significant costs, with no payback.

4.3.4. The acceptance or non-acceptance of anonymous calls was another criterion on which Miceli et al proposed that hotline operators attempt to measure effectiveness. Their proposal was to measure whether more employees come forward when anonymous calls are accepted and whether it is harder to follow up when investigating these complaints. The survey data can address the first of these two issues. While the population of responding organisations with hotlines which do not accept anonymous calls and which have provided statistics on numbers of calls received is small (6 organisations), chart 27 does indicate that these organisations are less likely to receive calls than those which accept anonymous calls. Eighty-three per cent of responding organisations which do not accept anonymous calls did not receive more than 10 calls in 2011, whereas for organisations which accept anonymous calls, the figure was 49% of responding organisations. These findings echo Ernst & Young's 2006 research, which found that 39% of surveyed individuals would be more likely to report fraud if anonymity was guaranteed.

Chart 27: Calls received in 2011 according to hotline's acceptance or non acceptance of anonymous calls
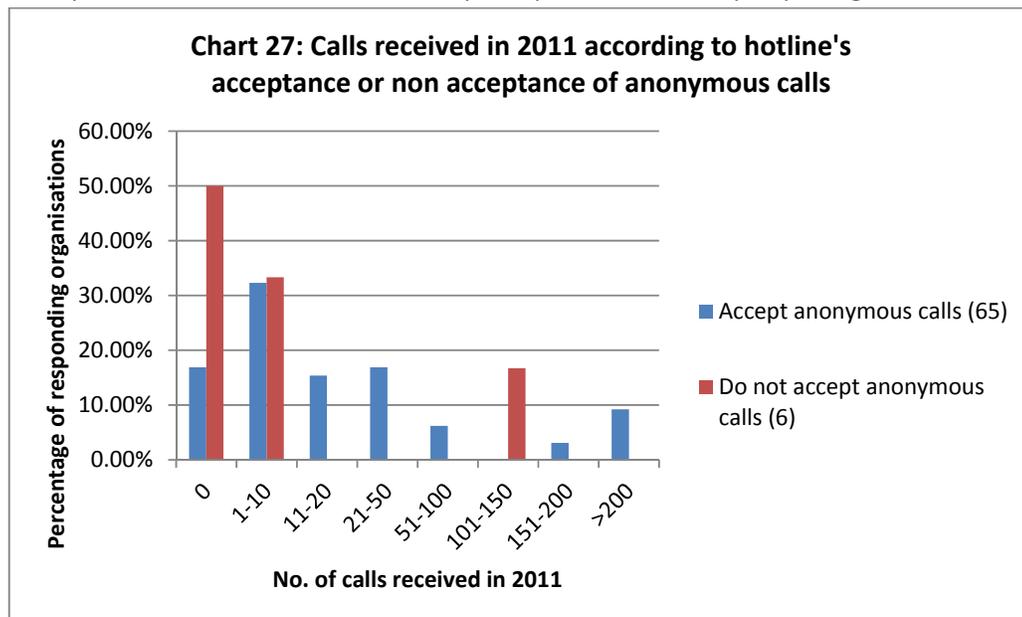
4.3.5. An attempt to determine whether the percentage of valid calls was higher or lower for hotlines accepting anonymous calls was not possible because of the extremely small number of responses from respondents whose hotlines do not accept anonymous calls to the question "Approximately what percentage of reported incidents are valid and offer evidence of actual wrongdoing?" Only 3 responses, each with widely ranging percentages was given and it was not considered statistically sufficiently sound to make a valid comparison.

4.3.6. Using the same measurement of hotline effectiveness as in section 4.2 (respondents' opinion of effectiveness, followed by trends showing any increase in detected wrongdoing), a comparison was made between the effectiveness of hotlines which are outsourced and those which are run in-house. This was another of Miceli et al's effectiveness criteria. The results are in chart 28. There is a reasonably significant difference in the opinions of the effectiveness of outsourced and in-house hotlines (82% of respondents consider outsourced hotlines effective, whereas only 68% of respondents consider in-house hotlines effective). However, the actual performance in terms of an increase in detection of wrongdoing does not vary significantly between in-house and outsourced hotlines. In some areas (such as detection of fraud), outsourced hotlines perform better, but in other areas

Chart 28: Hotline effectiveness by service provider type

	Outsourced (52)	In-house (35)
■ Consider Hotline Effective?	82%	68%
■ Increase in cases of detected fraud	53%	41%
■ Increase in detected conflict of interest cases	38%	36%
■ Increase in total value of detected fraud	44%	41%
■ Increase in detected HR-related cases handled internally	44%	42%
■ Increase in detected confidentiality/ security cases	26%	43%
■ Increase in detected H&S cases	26%	24%
■ Increase in detected environment cases	12%	19%
■ Increase in detected 'other' cases	32%	33%

(such as confidentiality and security related incidents) in-house hotlines perform better. The reason for the more favourable impression of outsourced hotlines may be the result of the time and effort invested by survey respondents in identifying and selecting a service provider and the image of professionalism given by the service provider.

4.3.7. Heard & Miller's criteria for successful hotlines related more to outcomes rather than incident detection. Chart 17 addresses to some extent their questions related to sanctions for wrongdoers and also whether or not reports of retaliation are taken seriously. According to the table, 45% of respondents report sanctions for malpractice as one of the consequences of implementing a hotline. This is a reasonably high figure which would suggest that the hotlines have been effective in those organisations. Similarly, the percentage of respondents indicating that sanctions have been taken against individuals reporting incidents in bad faith is also high, at 12.5%.

Chapter 5 : Overall Conclusions

5.1. Outcomes

5.1.1. In order to be able to measure the effectiveness of a hotline, organisations need first to be clear of what they are trying to achieve in implementing their hotline. Once the objectives have been clearly defined, criteria can be determined to measure whether they have been achieved. Benchmarking reports such as by 'the Network & BDO Consulting' in 2010 can be a useful tool both for setting objectives and for measuring their achievement by comparison to other similar organisations. However, benchmarking statistics can have their drawbacks – they assume that averages across a group of organisations are 'correct' and cause organisations to gravitate towards these averages rather than striving for maximum effectiveness.

5.1.2. When interviewees were asked their objectives in setting up hotlines the most common responses related to meeting best practice guidance (such as 'The Combined Code') or legal requirements (such as 'SOX') or simply meeting their corporate responsibilities in providing staff with a confidential channel for reporting wrongdoing. Such objectives are easily achieved – achievement is measured as a simple yes/no. There is a risk in setting such objectives that hotline implementation becomes an end in itself. One interviewee cynically stated that he felt that his employer did not want wrongdoing detected, so they set up a hotline (to tick a box), but then failed to man it so that no calls would be received. Every time he tried test calls to the hotline he was greeted by a recorded message. This view was echoed by the 2011 PwC report which, referring to Staff Regulations aimed at protecting whistleblowers, stated: "It appears…that the EU Institutions are looking to avoid negative news rather than intrinsically seeking to promote correct and transparent culture."

5.1.3. In addition to the questions "Is there a hotline in place?" and "Does it meet legal requirements?" we could equally easily answer the question "Does the hotline function properly?" Two interviewees stated that they had placed dummy calls to the hotline in order to answer this question and had assessed how effective the hotline was in handling their call. All of these tests of effectiveness are valid, but they do not tell us of the achievement of objectives in detecting and, ultimately, deterring wrongdoing. None of the survey respondents who indicated that they had attempted to measure the effectiveness of their hotlines had looked at effectiveness in terms of an increase in detection and/or deterrence in wrongdoing.

5.1.4. This study has shown that measuring effectiveness of hotlines in reducing or preventing wrongdoing is rarely undertaken by the organisations operating them, partly because to undertake such measurement is not straightforward. Given the extremely small number of valid calls to most hotlines, the data needed to measure hotline effectiveness is often not available to a hotline operator. In 2011 the IMF received only 19 "substantive allegations" of which only 2 resulted in investigations. With such a small pool of data (in a large organisation such as the IMF), detecting trends is very difficult. Miceli et al found that research using the criteria which they listed to test hotline effectiveness was "rare to non-existent". Apart from a lack of data, one of the main problems is choosing appropriate data by which to give a reasonable measure of effectiveness. The number of calls received by a hotline is not necessarily a good indicator of effectiveness, particularly when benchmarking

with different organisations. Different hotlines are open to different types of call and larger staff complements are likely to result in a higher volume of calls. Culture (both corporate and national) can also be a factor affecting the number of calls. Some hotlines may receive a large number of frivolous calls (Chart 26 shows that almost a quarter of survey respondents said that less than 10% of calls offer evidence of actual wrongdoing) or may accept calls for advice in addition to reported incidents (such organisations would be likely to receive high numbers of calls). A large number of calls which do not offer evidence of actual wrongdoing waste an organisation's time and resources.

5.1.5.   Although all interviewees listed a range of hotline objectives related to best practice, legal requirements and corporate responsibility, none of them specifically stated that an objective was to increase the detection of wrongdoing. In implementing a hotline, one of the aims must be to increase detection of wrongdoing. The analysis in this study uses trends in the number of reported incidents as an indicator of hotline effectiveness and compares these trends to the overall opinions of effectiveness expressed by the respondents. Following the introduction of a hotline, one would expect an increase in the number of detected cases of wrongdoing, or ideally, an initial increase followed by a steady decrease as the deterrent element kicks in. However, such "ideal" trends were only observed in a small number of organisations (between 1 and 5 organisations for each type of wrongdoing, depending on the type of wrongdoing – Chart 19).

5.1.6.   Given the small numbers of organisations experiencing the "ideal" trend, a more general trend of 'any increase in detection of wrongdoing' (marginal increase or significant increase or initial increase followed by a decrease) was used as the measure of hotline effectiveness. Using this measurement, chart 19 shows that hotlines are effective in less than 50% of the organisations which implement hotlines across all types of wrongdoing. The highest proportion of respondents reporting an increase was in fraud detection (48%), the lowest was in detection of environmental issues (15%). Despite these relatively low figures, 76% of survey respondents with hotlines considered them to be effective. The disparity between the percentage of organisations seeing any increase in detected wrongdoing and the percentage considering their hotlines effective is significant. It can be partly explained by the population of survey participants, the majority of whom were in some way involved with the implementation of the hotline, and therefore more likely to consider it in a positive light. The PwC 2011 survey of its Fraud Academy members asked the question slightly differently: "In your opinion, does the actual level of activity reconcile with your own expectations of your organisation's whistleblowing reporting channels?" to which 43% of responses were 'no' and 41% were 'yes'. This lower positive response could have been a result of the way the question was worded or as a result of the difference in survey populations. On the other hand, effectiveness may be legitimately measured by factors other than an increase in reported wrongdoing. A hotline's value as an indication of management's commitment to an ethical work environment, for example, is difficult to measure, although it could be measured more objectively than by asking implementers' opinions, through a staff survey. Two interviewees stated that they had asked questions related to the hotline in general staff culture surveys, but these questions had been about awareness of the hotlines rather than effectiveness. Follow-up surveys with users of the hotline are generally based on how the process had worked rather than on its overall effectiveness as a control against the risk of wrongdoing. Most of the 12.5% of responses to the question related to customer satisfaction or other follow-up (Chart 22) described customer response in terms of following up with individual complainants, keeping them informed of progress in handling incidents etc. Since follow-up and keeping complainants

informed are listed in most good practice guides as important elements of whistleblowing procedures, the proportion of organisations providing feedback is low.

5.1.7. Continuing to use the increase in detection of wrongdoing as a measure of hotline effectiveness, several cross-analyses were undertaken to determine whether hotline effectiveness varied according to geographical region, organisation type or organisation size. The range of geographical regions in responses was skewed towards those countries/regions where whistleblowing is well established and supported by national legislation (Australasia, UK/Ireland, North America) and in that respect, was not truly representative of global variations. There was no significant variation in hotline effectiveness according to geographical region or organisation type using the increase in detected wrongdoing following hotline implementation as a measure. Opinions of effectiveness did vary, however, with those geographical regions with established whistleblowing legislation and guidance showing a slightly more negative opinion than other, emerging (in whistleblowing terms) regions. Mainland Western Europe (which includes France and Germany where whistleblowing has not been universally embraced), along with Eastern Europe, has the lowest opinion of hotline effectiveness, although 82% of respondents in this region consider their hotlines effective (see Chart 23). Perhaps a more significant point regarding geographical regions is the fact that only 5 survey responses were received from French organisations even though distribution of the questionnaire was supported by IFACI (by comparison, there were 93 responses from Australian IIA members).

5.1.8. For organisation type there was also no significant variation in hotline effectiveness using increase in detected wrongdoing as a measure, although government organisations experienced the lowest increase in value of detected fraud (at 30% of respondents) (see chart 24). Furthermore, the opinion of the effectiveness of hotlines in government organisations was the lowest of all organisation types, at 71% of respondents. There may be several explanations as to why hotlines are (or are perceived to be) less effective in government organisations than in other organisation types. The opportunity for fraud may be lower in government organisations than in other organisations. There may also be a resistance to the obligatory implementation of hotlines under central direction, which can result in less commitment to the hotline's success.

5.1.9. Analysis of hotline effectiveness by organisation size using increase in detected wrongdoing as the measure showed that hotlines have little effect in medium-sized organisations (of between 101 and 1000 employees) (see Chart 25). This may be partly explained by smaller organisations having fewer staff, or that smaller complements increase fears of loss of confidentiality. The intimacy of a small organisation might lead to more lenient sanctions for wrongdoers or, conversely, might lead to less wrongdoing. Hotlines in very large organisations on the other hand, are both effective and are considered effective. The economies of scale for such organisations also render the costs of implementing and running a hotline almost negligible.

5.1.10. All of the various analyses of hotline effectiveness indicated that hotlines are most effective in the detection of fraud. This finding reflects the findings in the ACFE Report to the Nations for 2010. It states that in organisations that had hotlines, 47% of frauds were detected by tips, while in organizations without hotlines, only 34% of cases were detected by tips. It states further that in 67% of the cases where there was an anonymous tip, that tip was reported through an organisation's fraud hotline and it concludes "this strongly suggests that hotlines are an effective way to encourage tips from employees who might otherwise not report misconduct."

5.1.11. The survey indicates that the benefits of a hotline outweigh the costs in establishing and maintaining it. Sixty-four per cent of respondents said that their hotline pays for itself, but most of those respondents who did not share this opinion argued that the aim of a hotline was not for it to pay for itself. The attitude of respondents is that the mere existence of a hotline is adequate 'pay-back' for the minimal costs incurred. These statements do not, however, take into account the time, effort and cost that might be incurred on investigating incidents which do not turn out to be valid or do not have sufficient evidence to prove their validity, particularly where anonymous reporting is accepted.

5.1.12. A hotline accepting anonymous calls receives more calls than a hotline which doesn't. As indicated above, 83% of responding organisations which do not accept anonymous calls did not receive more than 10 calls in 2011, whereas for organisations which accept anonymous calls, the figure was 49% of responding organisations. However, accepting anonymous calls brings with it the risk of frivolous or malicious calls which are time-consuming and difficult to investigate. Miceli et al refer to such calls as "noise".

5.1.13. The perception of effectiveness of outsourced hotlines is that they are more effective than their in-house equivalents (82% of respondents with outsourced hotlines consider them effective as opposed to 68% with in-house hotlines). In reality, using increase in number of calls as a measure of effectiveness, outsourced hotlines are not consistently more effective than in-house hotlines, despite their 24 hour coverage and guarantees of confidentiality. The positive perception of outsourced hotlines may be the result of the professional 'look' of the service provided by the supplier, or the result of the investment of time and effort by the survey respondent to the implementation of the outsourced service.

5.1.14. As a tool for increasing the detection of wrongdoing or deterring future wrongdoing, the effectiveness of hotlines across all organisation types, geographical regions and sizes of organisations (except the very largest) is somewhat limited, regardless of whether the hotline accepts anonymous calls or is outsourced. The perception of hotline effectiveness is much more positive than the reality and this may be explained by other, sometimes less tangible, benefits of having a hotline in place. Respondent comments and interviews indicated a positive attitude to the implementation of hotlines as part of a wider "ethics toolkit" which includes training & awareness, policies, various reporting channels, comprehensive investigation procedures, appropriate sanctions, whistleblower protection and feedback etc., all of which are essential to give would-be whistleblowers the confidence to come forward. They did not believe that hotlines could be considered in isolation. The survey indicated that hotlines have, for example, had an effect on policy. Chart 17 indicates that 37.5% of respondents reported changes in policy as a consequence of implementing a hotline. Also, appropriate sanctions (for both wrongdoers and individuals reporting wrongdoing in bad faith) had resulted from hotline implementation in 45% and 12.5% of responding organisations respectively, indicating another positive effect of hotline implementation.

5.2. Lessons Learned

5.2.1. Organisations which implement hotlines should set clear objectives of what they are attempting to achieve by implementing the hotline. These objectives should include targets for the increased detection of wrongdoing or other tangible targets. Regular collection of relevant data and regular monitoring using this data should be undertaken in order to be able to measure whether these objectives are being met.

5.2.2. Measures of effectiveness should consider outcomes of whistleblowing as well as detection rates (inputs) and hotline effectiveness as a deterrent. Since future success of a hotline is directly dependent on past performance, it is essential that performance is constantly monitored and actions are taken to make improvements where necessary.

5.2.3. Benchmarking against the hotlines of similar organisations is a useful exercise both in setting up a hotline and in knowing what to expect in terms of performance. It may be that such a benchmarking exercise could lead to a decision not to implement a hotline (for example in a medium-sized organisation where hotline effectiveness might be questionable). However, given the small number of organisations that measure hotline effectiveness, such benchmarking data may not always represent best practice and could lead to less than optimal implementation of a hotline.

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