

Why Employee Confidential, Anonymous Reporting Mechanisms are Necessary

The number of organizations around the world that reported incidents of fraud increased 22% in the last two years according to the 2005 biennial survey by PriceWaterhouseCoopers (PWC), which interviewed more than 3,000 corporate officers in 34 countries. A recent Ernst & Young indicated the average cost of each fraud exceeded \$200,000.

But fraud is not the only problem. There's also misconduct, unethical behavior, lying, falsification of records, sexual harassment, and drug and alcohol abuse.

The PWC survey found that organizations with a larger number of controls could better determine the full impact of the fraud, uncovering 3X as many losses as organizations with fewer controls.

While executives get the headlines, 43% of surveyed people admit to having engaged in at least one unethical act in the workplace in the last year, and 75% observed such an act and did nothing about it. Not spoken to the employee in question, not reported it. They did nothing. As much as we don't like to admit it, theft, fraud and malfeasance are common occurrences in organizations.

Unfortunately these practices exist in every level of the organization and irrespective of size or sector. Small organizations, government agencies, educational institutions and non-profits are stolen from in equal measure.

The Association of Certified Fraud Examiners *2006 Report to the Nation* indicates, "The most common method for detecting occupational fraud is by a tip from an employee, customer, vendor or anonymous source." It additionally comments, "The presence of an anonymous reporting mechanism facilitates the reporting of wrongdoing and seems to have a recognizable effect in limiting fraud and losses."

The report concludes, "Organizations with hotlines can cut their fraud losses by approximately 50% per scheme."

For maximum benefit to organizations and their stakeholders, a confidential, anonymous reporting mechanism must be operated by an independent, third party. Employees are understandably hesitant and reluctant to report another employee. There is not only the fear of retaliation; there is the fear of retribution and of being ostracized by co-workers. In fact, in an independent survey, 54% gave this as the main reason for their silence.

There is also a concern if the incident involves management, or the person required to take the report or initiate the investigation. Employees must be confident in knowing they can report an incident effectively, confidentially and anonymously. Furthermore, statistics prove that an internal hotline or reporting mechanism is rarely perceived as truly anonymous.

An external, confidential, anonymous reporting mechanism serves as an early warning system, enabling organizations to react quickly to investigate issues, and often resolve problems prior to increased malfeasance, costly stealing, litigation, or negative publicity. It also creates a culture of ethical behavior that over time will diminish the prospects of these actions.

When installed properly, confidential, anonymous reporting mechanisms can uncover a variety of information that can improve processes, resolve issues, and prevent catastrophic financial losses. Like a computer network and a website, an employee hotline was once just a good idea that top organizations had adopted. Now it's a mandatory part of doing business.

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