INTERNAL REPORTING MECHANISMS FOR COMPANIES

Effective internal reporting mechanisms help protect companies from the effects of misconduct – including legal liability, lasting reputational harm and serious financial losses. Such mechanisms enable staff to speak up about unethical or illegal conduct, fostering a corporate culture of trust and responsiveness. They provide real benefits to a company’s culture, brand, value creation and growth.

Internal reporting mechanisms provide real and highly valuable benefits to organisations of all types.¹

1. Public signal of commitment to integrity and social responsibility
Shareholder demands for effective internal ethics programmes to support long-term value creation are growing. Internal reporting mechanisms signal to investors and the public that an organisation prioritises risk management, social responsibility and integrity.

2. Prevention and mitigation of liability
Early detection gives organisations the opportunity to address wrongful conduct before a situation escalates to trigger liability. It also provides an opportunity to voluntarily self-report to relevant regulatory agencies, before an agency initiates action and reaches an adverse conclusion because the organisation failed to act.

3. Prevention and mitigation of financial losses
Internal reporting mechanisms can prevent or mitigate financial losses from fraud and liability, such as civil or criminal fines. Knowledge that a reporting mechanism exists can discourage individuals from misconduct through fear of being reported.²

4. Continuous improvement in compliance and risk management
Information on issues raised through an internal reporting mechanism enables organisations to improve their policies and procedures, and identify where more resources are needed to reduce risk exposure.

5. Strong reputation
An ethical breach or legal violation can destroy an organisation’s brand value, with severe consequences, including lower investment, lost profits and low staff morale. By enabling internal reporting, leaders can prevent or mitigate reputational damage.

6. Enhancement of organisational culture
Backed by encouragement from leaders and corporate responsiveness to reports of misconduct, internal reporting mechanisms can build an organisational culture of openness, trust and integrity.
“Effective internal reporting procedures demonstrate a company’s commitment to integrity, protecting corporate reputation and driving brand loyalty. They emphasize that operational successes and competitive differentiation are born of exceptional ethical standards.”
– Adrian D. Mebane, VP, Deputy General Counsel, The Hershey Company

The potentially disastrous consequences of unethical or illegal conduct in business have been demonstrated in numerous high-impact cases. Effective internal reporting mechanisms would have helped the organisations involved to avoid dire consequences, such as fatalities and environmental damage, and their repercussions for business.

Also known as “speak up” or whistleblowing mechanisms, internal reporting mechanisms encourage employees and stakeholders to raise concerns internally about potential misconduct. They protect those reporting concerns from retaliation and guide an organisation’s response. It is important that private-sector leaders nurture internal environments conducive to speaking up. This could avert harmful consequences and bring real financial and cultural benefits to their organisations.

Four components of an internal reporting mechanism:

1. **Active encouragement to speak up:** A company’s leadership must urge employees and stakeholders to report misconduct and commit to protecting those who do so.

2. **Confidential reporting channels:** Organisations must provide accessible and reliable channels to report misconduct, guaranteeing confidentiality or anonymity.

3. **An effective response system:** Procedures must ensure thorough, timely and independent investigations of reports of misconduct.

4. **Robust user protection:** People reporting misconduct must be protected from all forms of retaliation, with transparent procedures for investigating retaliation complaints.

Transparency International developed a topic guide on internal whistleblowing mechanisms, which provides an overview of the current debate and a list of the most up-to-date and relevant studies and resources on the topic.


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1. The Institute of Business Ethics (IBE), Corporate Ethics Policies and Programmes Survey of the UK and Continental Europe, 2016; Le Cercle d’Ethique des Affaires, Foretica and IBE, Usage Levels of Speak Up Systems in European Companies, 2015; Survey on Business Integrity and Corporate Governance, OECD, 2015; Association of Certified Fraud Examiners (ACFE), Report to the Nations on Occupational Fraud and Abuse, 2016; Ernst & Young, Global Fraud Survey, 2016; and NAVEX Global, Ethics and Compliance Hotline and Incident Management Benchmark Report, 2017.


4. www.transparency.org/whatwedo/publication/business_case_for_speaking_up