

The frontline of the “Whistleblowing System” that is essential for global companies(Part 1)

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Why is a global Whistleblowing System essential now?

The environment in which companies operate today is more complex and changing faster than ever before. For companies operating globally, unexpected problems or irregularities can result in not just losses, but serious risks that could shake the very survival of the company.

In the past, the term “Whistleblowing” was often associated with a negative image. Today, however, amidst strong demands for transparency and soundness in corporate activities, the Whistleblowing System is being recognised as an important mechanism for companies themselves to identify and resolve problems at an early stage.



1. The changing environment surrounding companies and the importance of compliance

In recent years, companies have been under increasing pressure not only to comply with laws and regulations (Compliance), but also to fulfil broader social responsibilities. Specifically, investors, consumers and employees have come to attach importance to “ESG Management”, which evaluates companies from the three aspects of “Environment”, “Social” and “Governance”.

The Whistleblowing System plays a vital role in the “G” of ESG Management, i.e. corporate governance. If a company is prone to fraud and misconduct, its credibility will be shaken, no matter how environmentally friendly it is or how much it contributes to society. In order to build a healthy governance system, it is essential to have mechanisms in place to ensure that fraud and problems within the organisation are spotted and that employees feel comfortable voicing their concerns.

For example, say you have an overseas subsidiary where employees are being harassed, or where practices in breach of local laws and regulations have taken root. If there is no proper Whistleblowing System, these issues may not come to light and may be left unchecked until they become more serious. As a result, the company’s reputation could be damaged and business continuity could be affected.

2. Key to early detection and correction of risks: Whistleblowing System

Risks in corporate activities are not just about reduced sales or profits. Misconduct such as legal violations, harassment and information leaks directly lead to “reputational risk”, which can seriously damage a company’s brand image and cause a loss of market confidence.

In addition, if misconduct is uncovered, financial damage is inevitable, including administrative penalties, huge compensation for damages and a fall in share prices. Furthermore, it could lead to an exodus of consumers, business partners and talented personnel.

To minimise these risks, early detection and correction of problems are of the utmost importance. The Whistleblowing System acts as a “lifeline” for companies to detect signs of internal irregularities or problems before they leak out and to respond quickly. If employees feel safe enough to report a problem, it can be prevented the issue become bigger before it escalates, resulting in a dramatic reduction in the company’s losses.

Next, let's look at a specific case where whistleblowing saved a company from a crisis.

In the past, many of the accounting irregularities uncovered by leading Japanese companies came to light as a result of external suggestions or whistleblowing. For example, in the case of Olympus's massive loss concealment in 2011, an accusation in the Shukan Bunshun newspaper by a former foreign executive provided the catalyst for the whole story to come to light. If there had been a properly functioning Whistleblowing System within the company, the problem could have been rectified at an earlier stage and the loss of public trust and huge losses incurred by the company could have been minimised.

Also, in the Yamato Transport service overtime problem that surfaced in 2017, a whistleblowing by the trade union led to the payment of unpaid wages and improvement of the working environment. In this way, a functioning Whistleblowing System gives companies the opportunity to rectify legal violations themselves and regain the trust of their employees. Whistleblowing plays an important role not only in uncovering wrongdoing, but also in promoting corporate self-cleansing and leading to a healthy organisation.

3. A global Whistleblowing System enhances corporate value

So why does it need to be “global”? Modern companies operate across borders. We live in an era where an irregularity in one country can spread around the world in the blink of an eye and damage a company's global brand image.

A global Whistleblowing System can bring tremendous value to companies by establishing a consistent reporting and investigation system, while taking into account the laws, regulations and culture of each country and region, including the following.

(1) Enhancing corporate value and gaining recognition from investors.

A sound governance system is an important criterion for ESG investors. A well-developed Whistleblowing System is a witness to a company's commitment to risk management and transparency, and contributes to long-term corporate value.

For example, domestic and foreign institutional investors attach importance to a company's compliance system and ethical standards when making investment decisions. The material "Survey of Whistleblowing Systems in Companies in FY2023" published by the Consumer Affairs Agency¹ suggests that the development of a Whistleblowing System has a positive effect on a company's ESG assessment. Companies with properly functioning Whistleblowing Systems are assessed as having a lower risk of misconduct and are more likely to be chosen as a more stable investment destination.

(2) Improved employee reassurance and engagement.

Having a point of contact where employees feel safe to speak up when they witness wrongdoing increases their confidence in the organisation. This improves employee morale and the health of the company culture. If employees feel that it is useless to report wrongdoing or that they may be retaliated against, their sense of belonging to the company will decline, which in turn will lead to increased turnover and lower productivity. Conversely, if whistleblowing is handled appropriately and whistleblowers are protected, employees can focus on their work with peace of mind and a more positive corporate culture can be fostered.

(3) Reducing reputational risk and protecting brand value

External leaks of information and revelations of misconduct in the media can damage a company's reputation.

¹https://www.caa.go.jp/policies/policy/consumer_partnerships/whistleblower_protection_system/research/assets/research_240326_0002.pdf.

Early resolution of problems through the Whistleblowing System can significantly reduce such reputational risks and protect the brand value that a company has built up.

Think of the most memorable cases of misconduct. In many cases, the problem is already serious when it is discovered, and it takes a great deal of time and money to restore the company's image. A functioning Whistleblowing System, however, makes it possible to address the problem while it is still small or before it is leaked to the outside world.

For example, Nissan has introduced a global Whistleblowing System called SpeakUp, which reportedly receives more than 1,700 reports a year. The fact that such a large number of reports are received is evidence that an environment has been created in which employees feel safe to speak up, and that this contributes to maintaining the health of the organisation.

A Whistleblowing System is no longer a “nice to have”. For modern companies operating globally, it is an indispensable strategic tool for sustainable growth and increased corporate value. In the next article, we will delve into the specific points of whistleblowing legislation in key countries.

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