

# How whistleblowing can help companies grow sustainably 1/21/24

Whistleblowing is not a novel concept in the European Union (EU) so it's not related to sustainability alone. However, the latest sustainability legislation enhances the significance of whistleblowing and the need to protect whistleblowers. This article explores how a whistleblowing system can drive sustainable growth in organisations.

## How the whistleblowing system developed in the EU

The 2019 EU directive on the protection of whistleblowers is a significant piece of legislation that aims to strengthen whistleblowing mechanisms across the EU. The member states (including Latvia) had passed their local whistleblowing laws before the directive was adopted. Yet they varied widely and offered disparate levels of protection, which caused difficulties, particularly in multinational enterprise groups wishing to set up a uniform whistleblowing system across the group. Adopting the directive was an EU attempt to make these disparate rules uniform and to strengthen whistleblower protections. Overall, the directive not only lays down minimum whistleblower protection standards but also encourages corporate sustainability efforts by urging organisations to report breaches of EU law on environmental protection, consumer rights, public health and other key areas.

Before the directive was adopted, the European Commission had discovered that potential breaches often went unreported for fear of negative consequences. If whistleblowers are not protected, they may face retaliation, ranging from demotion to legal action, causing them to lose their job and suffer damage to their honour and dignity. These risks prevent workers from reporting major breaches that may harm the public interest.

By setting up protections prescribed by the directive, the member states actually ensure that whistleblowers feel free to report potential breaches, which helps to create a more sustainable environment by encouraging timely interventions and solutions. Whether the whistle is blown on pollution, use of natural resources or breaches of labour law, this can raise awareness of sustainability issues and encourage organisations to be more responsible in any area.

## How a whistleblowing system aids sustainability

While the directive governs whistleblowing on breaches in various areas, it's extremely relevant to sustainability. To encourage organisations to act responsibly in every sustainability area, it's important to ensure that as many organisations as possible set up effective protections for whistleblowers. Creating a safe environment for whistleblowing on sustainability breaches promotes an appropriate corporate culture and ethical conduct.

Section G-1 of the European Sustainability Reporting Standards (ESRS) offers an overview of how organisations can integrate whistleblowing mechanisms into their corporate governance system. Specifically, the ESRS describe how organisations can report on their initiatives and policies to promote their corporate culture. And the ESRS provide that organisations should report on whistleblower protections they have in place, including how they protect workers who refuse to act unethically even if that may have a negative impact on business and how workers that qualify as whistleblowers under applicable law are protected against possible retaliation. The ESRS also stress the importance of training

on corporate culture, including determination of functions that are the most exposed to the risk of corruption, bribery or other unlawful actions. By raising awareness of ethical standards and providing workers with necessary knowledge and resources, organisations can strengthen their whistleblowing systems and promote sustainable business practices.

Looking forward, coupled with sustainability legislation, the directive forms a strong basis to ensure that integrating an effective whistleblowing system into an organisation's processes enhances its sustainability efforts. It's important to operate in ways that make the whistleblowing system more effective, with as many workers as possible becoming aware of the opportunity to report sustainability breaches. These efforts are crucial when it comes to creating a workplace focused on a responsible culture and sustainable growth.

Since organisations are under stakeholder pressure to improve their sustainability record, they need to be prepared to make bigger or smaller changes to their governance system in order to adapt to the new environment and requirements, including sustainability. Whistleblowing can work as a catalyst for such change. It helps to highlight issues, holds workers and management accountable for their actions, and urges everyone to do more for sustainability.

### Is the whistleblowing system a burden or an opportunity?

Organisations often fail to set up a whistleblowing system because they perceive it as a burden meaning extra effort. And the national laws through which the member states adopt the directive often provide for the option of reporting directly to the national authorities. Organisations tend to rely on that arrangement to avoid the extra cost of setting up a whistleblowing system at company level.

However, we suggest you consider the whistleblowing system as an opportunity. You can use it to identify risks in your operations so you can look for better solutions towards a more sustainable business. Management or risk management teams are often used to looking for solutions to traditional risks inherent in business. However, if you support and promote a whistleblowing system in a broader sense, this can help you identify various risks with negative sustainability impacts that would otherwise have escaped your attention. More staff involved in identifying such risks can help you find solutions more quickly and achieve faster sustainability growth.

If you are keen to set up an effective whistleblowing system that drives sustainable business, do reach out to us, and set up a meeting so we can discuss your needs.