DOING WELL BY BLOWING RIGHT: HOW WHISTLEBLOWING PRACTICE ENHANCES CORPORATE RISK DISCLOSURE

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Abstract

Given the prevalence of corruption scandals in State-Owned Enterprises (SOEs), it is crucial to assess the effectiveness of whistleblowing systems in promoting transparency of risk management information. Therefore, this study investigates the relationship between whistleblowing practices and the level of corporate risk disclosure. Using archival methods, observations were conducted between 2016 and 2021 at SOEs listed on the Indonesia Stock Exchange (IDX). As expected, using stakeholder theory and the doing well by doing good perspective, effective whistleblowing provides information about current and potential risks that are not easily detected. Therefore, regulators and investors need to critically evaluate information in risk disclosures, by considering whistleblowing as a positive signal of reliable corporate governance.

Keywords: Whistleblowing; Risk Disclosure; SOEs; Corporate Transparency

INTRODUCTION

With increasing corporate transparency, risk disclosure has become an important element in reporting practices. Risk disclosure provides a granular view of present and potential risks (Jin et al., 2024) through the eyes of management (Caruana, 2011) that could affect their sustainability (Ibrahim et al., 2022). Almost 96% of companies disclosed the majority of issues in sustainability reporting, including risk management, business, and MD&A topics, an increase compared to previous periods (Deloitte, 2025). Especially in the context of state-owned enterprises (SOEs) in Indonesia, the implementation of risk management is regulated by a specific regulation, namely PER-2/MBU/03/2023 (Peraturan Republik Indonesia, 2024). Therefore, it is crucial to explore the risk activities in the form of disclosure within SOEs to evaluate corporate internal control.

A crucial component supporting the implementation of internal control is the whistleblowing practice (Triantoro et al., 2019). Employees and other stakeholders will be motivated to monitor the company to mitigate risks (Miceli & Near, 1992). Furthermore, it also encourages more transparent reporting of illegal practices and misconduct (Rani et al., 2022). A report from the ACFE (2025) also showed a 55.40% increase in employee complaints, making this a better medium for minimizing fraud (Call et al., 2018; Wijayanti et al., 2024) and increasing the company's commitment to risk management transparency.

Whistleblowing plays a role in transparency in risk management. First, the anonymity encourages independent oversight, allowing undetected illegal practices to be uncovered (Lee & Xiao, 2018; Yulan et al., 2024). Second, it also motivates companies to actively improve their performance before their image is damaged (Lee & Xiao, 2018; Yulan et al., 2024). Third, companies could also identify existing weaknesses and risks, thereby enriching risk information that can be disclosed transparently. Thus, as part of corporate governance, a whistleblowing system makes companies more open and accountable.

Freeman (1984) stated that a company's success is determined by its ability to balance the demands of various stakeholders, particularly those related to transparency and accountability in its operations (Khaireddine et al., 2020).. Therefore, whistleblowing encourages better risk management in line with stakeholder expectations. This aligns with the theory of "doing well by doing good," where a company's CSR activities serve not only social but also financial goals (Baron, 2001; Besley & Ghatak, 2005). Whistleblowing is seen as a form of corporate responsibility as well as a company's financial strategy (Benabou & Tirole, 2010; Falck & Heblich, 2007). This is because companies can identify weaknesses and risks early, thus having a long-term impact on financial metrics such as loyalty, reputation, and profitability (Lin et al., 2023). Supported by previous research, effective whistleblowing practices encourage better CSR performance (Lin et al., 2023; Yulan et al., 2024), thereby increasing the extent of transparent corporate fraud disclosure (Putri et al., 2022; Suryani et al., 2024).

The urgency of this research lies in the public demand for transparency and accountability in state-owned enterprises (SOEs), particularly in Indonesia. Although regulators have encouraged this through laws, the numerous corruption cases (ACFE, 2025) raise questions regarding the reliability of risk management. Furthermore, in the context of developing countries, inconsistent regulation and transparency create a paradox that requires further investigation. Furthermore, research related to risk disclosure has focused solely on company attributes and governance (Al-Maghzom et al., 2016; Kahar et al., 2025; Raimo et al., 2022). Furthermore, research related to whistleblowing systems has focused on fraud prevention (Triantoro et al., 2019; Wijayanti et al., 2024) and fraud disclosure (Putri et al., 2022; Suryani et al., 2024). Thus, there is still a gap between the relationship between whistleblowing and risk management disclosure, especially from the perspective of stakeholders and the theory of do well by doing good as the basis of analysis.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

From a stakeholder theory perspective, every corporate activity is aimed at meeting stakeholder expectations (Freeman, 1984). Their active involvement provides incentives for good governance and transparent risk management. This is also in line with the theory of "doing well by doing good" (Benabou & Tirole, 2010), which states that ethical corporate behavior not only contributes to social value but also minimizes risk and catalyzes corporate image. Therefore, a whistleblowing system, as a component of corporate governance, is a form of company responsibility towards stakeholder interests, supporting early reporting mechanisms for violations and potential risks. Ultimately, an effective reporting system encourages transparency and is part of a company's efforts to improve the quality of risk disclosure.

A whistleblowing system is a pillar of social elements that support good governance and an effective internal control system (Utami et al., 2019). It lets employees and others report violations without fear of retaliation (Wijayanti et al., 2024). As an early warning tool, whistleblowing helps companies spot and manage risks before they become crises that could damage the company's reputation (Miceli & Near, 1992).

Whistleblowing systems significantly improve the transparency of a company's risk management. First, whistleblowers expand management's knowledge of current and potential risks, offering more robust information for disclosure. Second, confidentiality in the whistleblowing system builds a culture of openness and a more transparent environment. Third, because every complaint requires the company to follow up, it encourages companies to strengthen internal oversight and respond quickly by disseminating risk information to the public. Thus, effective whistleblowing encourages widespread corporate risk disclosure. This is because risks are not only well-managed but also transparent to stakeholders as part of social responsibility.

Previous studies have found that effective whistleblowing can strengthen the effectiveness of internal controls (Yulan et al., 2024). A whistleblowing system can create social control because employees and other stakeholders monitor each other's operations (Wijayanti et al., 2024). Furthermore, this system is also positively related to a company's CSR performance because it aligns with the concepts of ethics and accountability (Lin et al., 2023) by prioritizing the protection and trust of whistleblowers in filing complaints (Lee & Xiao, 2018). This condition ultimately increases the likelihood of fraud being uncovered and increases the extent of fraud disclosure (Lee & Xiao, 2018). Therefore, it can be hypothesized:

H1: Whistleblowing practice has a positive relationship with corporate risk disclosure.

RESEARCH METHOD

This study employs archival methods to investigate the relationship between whistleblowing systems and the level of corporate risk disclosure. Observations were taken from 2016 to 2020 at state-owned companies in Indonesia. A purposive sampling technique was used based on the specified criteria, namely state-owned enterprises listed on the IDX that had complete data as required by the study. Thus, the final sample was 55 company-year observations.

The dependent variable, risk disclosure, measures the extent to which a company shares information with the public about its risk management practices. The types of risks measured include financial risk, compliance risk, technological risk, economic risk, and reputational risk, resulting in 25 indicators for risk disclosure. Therefore, the risk disclosure variable is measured by the number of items disclosed by the company divided by the total number of disclosure items (Melani & Anis, 2019).

The independent variable, the whistleblowing protection system, is part of the social pillar of ESG performance. A whistleblowing system is defined as the primary contact point for employees, customers, the public, and other stakeholders to report company violations (von Rosing et al., 2025). It is measured using the whistleblowing protection score issued by the Thomson Reuters database, ranging from 0 to 100, with a higher score indicating a better system. This score methodologically reflects whether the company has provisions or regulations protecting whistleblowers, including whether the company offers protection against retaliation and information on safeguarding employees who report illegal activities (Thomson Reuters, 2022).

Table 1
Variable Description

Variable	Measurement	Sources
Corporate Risk Disclosure (CRD)	The number of items disclosed by the company/25	Annual Report
Whistleblowing System (WBS)	Whistleblowing protection score	Thomson Reuters Database
Profitability (ROA)	Net Income After Tax / Total Assets	
Firm Size (SIZE)	Log natural Total Assets	
Risk Management Meetings (RMM)	Number of committee meetings within a year	Annual Report
Corruption Controversies (CORR)	Bribery, corruption & fraud controversies score	Thomson Reuters Database

Control variables include profitability, company size, risk management committee, and corporate corruption scandals. Higher profitability leads to broader risk disclosure as a form of responsibility towards investor trust (Allini et al., 2016). Similarly, larger companies tend to disclose more extensively to attract more investors (Sulistyaningsih & Gunawan, 2016). Furthermore, the existence of risk committee meetings provides effective oversight of risk management so that more comprehensive information is obtained regarding existing risks (Alshirah & Alshira'h, 2024). Finally, companies are more likely to disclose more information about risks in line with economic responsibility when they are under increased scrutiny for financial fraud (Arnaud & Giordano-Spring, 2024). To test the relationship between variables, this study uses multiple regression analysis with the following research model:

CRD = α + β1WBS + β2ROA + β3SIZE + β4RMC+ β5CORR+ ε …...………… (1)

Where: α is Constanta; β are Coefficients; CRD is Corporate Risk Disclosure; WBS is Whistleblowing System; ROA is Profitability; SIZE is Company Size; RMM is Risk Management Meetings; CORR is Corporate Corruption Scandal; ε represents to Error.

RESULTS AND DISCUSSION

Table 2 presents descriptive statistics, showing that risk disclosure during 2016-2020 ranged from 56% (lowest) to 84% (highest), with an average of 75%. Overall, all SOEs disclosed risks, indicating quite transparent in conveying information, although it has not yet reached the optimal level of disclosure. The whistleblowing system variable has a mean of 67,59, with the lowest value being 60,995 and the highest being 75,75. This means that the whistleblowing system in the sample has begun to be implemented but still needs to be strengthened to be more effective in encouraging reporting courage and increasing company transparency.

Table 2
Descriptive Statistic Analysis

Variables	Mean	Standard Deviation	Minimum	Maximum
CRD	74,255	7,494	56	84
WBS	67,596	3,908	60,995	75,758
ROA	12,322	11,881	-48,430	32,440
SIZE	32,736	1,357	30,553	34,952
RMM	18,727	11,508	3	44
CORR	59,728	8,345	0,017	67,702

Meanwhile, the average number of risk management committee meetings was 18, in accordance with OJK Regulation No. 33/POJK.04/2014. This reflects a relatively high level of oversight, which supports increased corporate transparency regarding risk exposure. The corporate corruption scandal variable had an average score of 59.728, with the lowest score of 0.017 and the highest score of 67.71. This indicates that cases of corporate corruption and bribery from state-owned enterprises in the sample are frequently exposed to the public.

Table 3
Classical Assumption Test

Test	Shapiro-wilk test	VIF	Breusch–Pagan
Result	Prob>z: 0,606	Average VIF: 1,16	Prob > chi2: 0,157
Decisions	Normal Distribution	No Multicollinearity	No Heteroscedasticity

The steps of classical assumption testing consisted of normality, multicollinearity, and heteroscedasticity checks. As presented in Table 3, all assumption check results were met, allowing the data to be used to test the hypothesis. The results of Model 1 indicate that the WBS variable has a positive coefficient (0.495) and $p < 0.05$, which supports hypothesis (H1) (see Table 4). This view suggests that companies with good whistleblowing systems and procedures tend to disclose risk management broadly, in line with the stakeholder and doing well by doing good theory lens, thus supporting hypothesis H1.

Table 4
Regression Results

Model	Coefficients	t	Sig.
Constanta	-57,471	-2,130	0,039
WBS	0,495	2,380	0,021
ROA	0,103	1,490	0,142
SIZE	3,201	5,290	- 0,000
RMC	-0,130	-1,780	- 0,000
CORR	-0,090	-0,950	0,349
Adjusted R Square	0,446		
Sig. F	0,000		

A whistleblowing system plays a crucial role in increasing the breadth of corporate risk disclosure by strengthening corporate governance. A secure and structured reporting mechanism enables whistleblowers to report indications of violations or potential risks early, enabling the company to detect and mitigate them before they escalate. An effective WBS also fosters a culture of transparency, where guaranteed confidentiality and protection encourage whistleblowers to disclose critical information. Thus, the WBS not only strengthens the internal control system but also enhances the quality and depth of a company's risk disclosure.

In the context of state-owned enterprises in Indonesia, the relationship between the WBS and the CRD is becoming increasingly important given the continued prevalence of irregularities, corruption, and weak transparency. SOEs operate under public scrutiny and bear a significant responsibility for transparency and accountability in the management of state resources. Effective WBS implementation in SOEs can strengthen risk disclosure by providing an early reporting mechanism for potential irregularities, fraud, and internal control weaknesses that are often difficult to identify through formal channels. This system creates a bottom-up information flow that helps management obtain more accurate and comprehensive risk data, thereby improving the quality of risk disclosure in company reports. Therefore, effective WBS implementation is a crucial driver of transparency and accountability in SOEs' efforts to rebuild public trust.

CONCLUSIONS AND SUGGESTIONS

Empirically, this study found that the existence of a whistleblowing mechanism is positively related to the extent of a company's risk disclosure. Companies tend to disclose more information about risks in line with their responsibilities to stakeholders when whistleblowing systems and safeguards, as part of internal control, are effective. This study focuses solely on the context of Indonesian state-owned enterprises, so future research could explore diverse institutional settings. Furthermore, it should consider other factors, such as the presence of corporate corruption scandals, and distinguish between the types and media of whistleblowing.

These findings are beneficial for regulators and investors. For regulators, the findings in this study highlight the importance of strengthening whistleblowing governance in both state-owned. Regulators need to ensure regulations related to whistleblower protection, transparent follow-up, and integrity in comprehensive corporate risk management. Furthermore, for investors, these findings are a positive signal regarding the existence of a whistleblowing system as an indicator in assessing the quality of corporate governance and risk management. A credible whistleblowing system encourages early detection of corporate risks, thereby increasing investor confidence in the reliability of the corporate risk information.

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