

Transparency in Corporate Reporting: Assessing Emerging Market Multinationals

Frequently Asked Questions

The project and the issues

1. What is the “Transparency in Corporate Reporting: Assessing Emerging Market Multinationals” report?

The report is a survey of 100 companies that are based in 16 emerging market countries. It assesses the publicly available information on those companies in three different areas: anti-corruption programmes, organisational transparency and country-by-country reporting. The ‘transparency’ performance of companies is then compiled and ranked. We have also included a section with an overall ranking of companies in the BRICS countries (Brazil, Russia, India, China and South Africa) given their importance worldwide and among emerging markets.

2. Which company did best in the report and why?

Tata Communications, an Indian firm, is the best performer overall. This is due to a combination of factors: the company’s stated commitment to conducting business ethically; its domestic legal and regulatory environment; and the recognition by management of the risks of corruption. Among the countries of the BRICS, Indian firms also performed the best.

3. Is there any evidence that reporting on anti-corruption programmes is improving over time?

It is too early to point to consistent trends, but we have observed gains among the global companies assessed in our previous reports. For example, of the 97 of the companies covered in our 2012 report that were also assessed in a similar report in 2009, the average score for reporting on anti-corruption programmes rose from 47 per cent to 68 per cent.

In the current report, there is a small overlap between the companies surveyed and those covered in the 2012 study. Five companies were included in both reports: América Móvil, Gazprom, Petrobras, Reliance Industries and Saudi Basic Industries. While the performance of Petrobras remained almost unchanged, the scores for reporting on anti-corruption programmes improved considerably in this study. For example América Móvil’s score in this dimension went from 31 per cent in 2012 to 73 per cent in 2013. Gazprom moved up from 0 per cent to 65 per cent. Reliance Industries went from 23 per cent to 65 per cent and Saudi Basic Industries from 69 per cent to 85 per cent. These improvements are mostly attributable to the publication of updated or new documents on these companies’ websites.

For the remaining 95 companies covered in this report, we have no data on which to base a comparison over time.

4. How do the companies in this emerging markets report compare with the world’s largest companies surveyed by Transparency International in 2012?

On average, the world’s largest companies performed better in the first two dimensions (Reporting on anti-corruption programmes and organisational transparency) and the emerging market companies did better in the third dimension (Country by Country reporting).

5. How do these types of reporting elements fit with other standards for reporting on Environmental, Social and Governance issues?

Sustainability reporting has not, until now, focused on corruption as a separate issue in a detailed manner. Earlier this year, standard-setters for sustainability reporting (Global Reporting Initiative or “GRI”) issued their new Sustainability Reporting Guidelines (G4) and these may help mainstream anti-corruption reporting.

6. What are you looking at from each company to determine the extent to which they are transparent?

The questionnaire covered three dimensions: anti-corruption programmes, organisational transparency and country-by-country reporting. Our questions on anti-corruption programmes are based on the [Business Principles for Countering Bribery](#). The Principles were developed ten years ago by Transparency International working with a multi-stakeholder group including civil society, labour, academia and private sector participants. They aim to assist companies in the design and implementation of effective anti-bribery policies through detailed standards of best practice. A company demonstrates its commitment to anti-corruption behaviour by having a programme that meets the standards of the Business Principles and by making that information public. Commitment to anti-corruption behaviour is further enhanced by organizational transparency and country-by-country reporting. By meeting these standards, companies provide citizens with the information they need to monitor and evaluate corporate behaviour.

7. Why should companies report publicly on their anti-corruption programmes?

The information a company reports about its anti-corruption systems is an indicator of awareness and commitment to combatting corruption. While robust disclosure practices do not necessarily reduce all risks of corruption, they are a sign of the right tone from top management, reflecting an awareness of corruption risks that is essential for companies operating globally.

8. What is “organisational transparency” and what difference does it make that the public knows so much about how a company chooses to arrange itself?

Organisational transparency refers to complete, clear and comprehensive reporting on information related to company holdings, such as subsidiaries, branches, affiliates, joint ventures, and the like. This information is relevant in the context of combatting corruption because it lets citizens, members of civil society, regulators, lawmakers and investors know where a company is operating, and it makes the company accountable in those countries. Good organisational transparency makes it possible to trace financial flows. It can also expose potentially abusive intra-group trading known as transfer pricing, tax evasion and other harmful behaviour.

9. What is country-by-country reporting?

Country-by-country reporting refers to the publication of financial data for each country of operation where a company operates. We are looking for companies to consolidate key financial information for all their holdings in a particular country even if such holdings would not otherwise be consolidated under the company’s prevailing reporting standards or practices.

10. Why is country-by-country reporting important?

For citizens to evaluate the behaviour of a company operating in their country, they need financial data regarding that company’s activity in that country. Businesses generate revenues and profits in the country and contribute to public coffers through royalty payments, taxes and other payments. In the absence of country-by-country reporting, the public is unable to determine how much profit a company is earning in their country, how much the company is contributing to public budgets and most importantly for purposes of exposing corruption, whether or not the company has any especially attractive deals with the government.

In addition, if all companies in a particular country were to provide country-level financial data, citizens would be in a position to identify outliers – in other words those companies that appear to be making disproportionately low government payments compared to their peers. A significant

deviation could be the basis for further enquiry into whether a company is engaged in corruption in that country.

11. How can companies, investors, governments and civil society use this report?

Companies can use this report to change current practices and demonstrate a stronger commitment to combatting corruption. Investors can use it to identify those companies that may be exposed to corruption-related risks and demand that these risks be better managed. Governments can use the report to identify areas that may require better legislation or better enforcement of company activities. Civil society can use the report to monitor company reporting as the basis for anti-corruption advocacy with both the private sector and government.

12. Will the Dodd-Frank legislation in the United States or recent similar European Union legislation compel companies to be more transparent in line with the types of corporate reporting highlighted in this report?

Recent legislation in the US (the Dodd-Frank Act) and the EU is a major leap forward in the transparency of the natural resource sector, particularly mandatory disclosure of payments to governments by oil, gas and logging companies. However, these rules do not apply to all sectors and the information disclosed is limited. Furthermore, Dodd Frank legislation only applies to extractive companies listed on a US stock exchange. As for the EU legislation it applies to extractive companies listed on an EU stock exchange as well as to large unlisted companies. Until a global standard is agreed and implemented, they do not effectively level the playing field for all companies. So while they raise the standards for some companies, the standards remain inadequate for others. With respect to anti-corruption programmes, most reporting by companies is done on a voluntary basis. However, a recent European proposal may change that. The proposal, if accepted, would compel large European-based companies to be more transparent about sustainability issues, including governance and anti-corruption practices. This proposal if it becomes law will raise the level of anti-corruption disclosure for the largest European companies and it may become relevant to emerging market companies as they move into developed markets and seek to partner with or acquire European companies.

Methodology

13. How were the companies in the report selected?

Transparency International drew the sample from the list of *Global Challengers* (2011 edition) published by the Boston Consulting Group.

14. How was the data gathered?

The data was collected by desk research conducted between 21 January and 18 March 2013. The team included one lead researcher and five research assistants fluent in English, Mandarin, Portuguese or Russian to ensure thorough understanding of original-language source materials. The sources included company websites and the relevant links. All data points collected were independently validated by a second researcher. Each company was given the opportunity to review its own data and to provide feedback or propose corrections prior to publication -- 17 companies did so. This process resulted in a number of data point adjustments and in updates of some data sources; it improved the scores for 12 of the 17 companies that provided feedback.

15. Did these companies see this report before it was published?

No, they did not see the report. However, they were sent both the methodology and their own data prior to publication and had the opportunity to provide feedback at relevant points during the process.

16. What kind of feedback on the data was received from companies? What kinds of changes were made?

Some of the feedback related to information that was not available publicly. For example, a company might tell us that they have an adequate internal training policy. Nevertheless, if it was not disclosed publicly, it did not earn credit in the survey.

Some of the feedback related to questions of interpretation. These cases were reviewed and discussed and sometimes resulted in a change in score. In some cases, companies pointed out an error or omission in our preliminary research. This feedback generally resulted in an adjustment in the score.

Some companies simply wanted more information on the methodology of the report. Others wanted to let us know that they had changed specific policies or published new documents or policies. The publication of a new document prior to 18 March 2013 would have been taken into consideration in the final score.

17. What standards are the companies being measured against?

The anti-corruption programme standards are based on Transparency International's Business Principles for Countering Bribery. The Business Principles, which have influenced leading standards such as the World Economic Forum's [PACI Principles for Countering Bribery](#), the [International Chamber of Commerce Rules on Combating Corruption](#) and the [UN Global Compact Reporting Guidance on the 10th Principle against Corruption](#), provide companies with a roadmap for robust anti-corruption behaviour.

The Business Principles include, for example, an explicit commitment to anti-corruption with a policy that applies explicitly to all employees, agents, intermediaries, suppliers and contractors, a prohibition of facilitation payments and whistleblower protections.

The standard for disclosure of corporate holdings is complete transparency of the existence, name and location of the holding. This information is the minimum necessary to monitor and evaluate companies' behaviour.

For country-by-country reporting, the standards were developed to ensure sufficient information to understand the top-line revenues and expenses in a particular country of operations.

Taken together, these standards represent both minimum acceptable standards (in organizational transparency and country-by-country reporting) and best practices (in anti-corruption programmes).

18. What do the scores mean?

Ten is the highest possible index rating, 0 is the lowest. A company with a high score is showing a greater commitment to transparency while a company with a low score is showing a weak commitment.

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