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 15 emerging market countries. It assesses the publicly available information on those companies in three different areas: anticorruption programmes, organisational transparency and country-by-country reporting. The 'transparency' performance of companies is then compiled and ranked.

2. Which company did best in the report and why?
Bharti Airtel, 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 which leads to very strong disclosure practices when it comes to the companies' organisational structure as well as its openness on key financial information in all countries where Bharti Airtel is doing business. Overall, Indian firms also performed the best which shows that strong regulation can in fact foster greater transparency.

3. Is there any evidence that anti-corruption reporting by emerging market multinationals is improving over time?
Unfortunately, the results point in the opposite: The survey shows a modest decline in disclosure practices compared to 2013 when we carried out the survey of emerging market multinationals for the first time. Compared to 2013, the overall score fell by 0.2 points.

However, it needs to be noted that the methodology was advanced since 2013 to keep pace with international policy developments. This led to more rigorous criteria particularly in the area of organisation transparency and partly on the disclosure of anti-corruption programmes. These changes were a strong factor in the overall weak results. Still, some companies were able to improve their score despite the stricter methodology which clearly shows that improvements are possible. The only Egyptian company in the sample, El Sewedy Electric, for instance, improved from an average score of 3.1 in 2013 to 5.7 in 2016. Similarly, the Chilean consumer goods company Falabella improved its score by 0.8 points.

4. What is the relationship between good corporate disclosure practices and actual anticorruption performance?
While recognising that reporting and compliance are not the same, there are strong arguments supporting the value of good reporting. Public commitments make a company more accountable and they facilitate monitoring by stakeholders and the general public. In addition, reporting focuses the attention of the company on its practices and drives improvement. The publication of anti-corruption policies by companies has a positive impact on employees at home and abroad because it underscores the company's commitment and support for ethical behaviour. We also believe that the legal and reputational risks to which a company exposes itself by making false public statements act as a deterrent to false or exaggerated claims. Finally we are beginning to see some empirical evidence of the benefits of public disclosure. The findings of a 2012 study by Harvard academics that investigated the "Causes and Consequences of Firms Self-Reported Anticorruption Efforts" conclude that: 'disclosed anti-corruption efforts reflect more than cheap talk by the sample companies. Firms

with high anticorruption efforts choose to expose themselves to costly monitoring from high quality auditors, subject themselves to costly enforcement from U.S. exchanges and courts, and operate in home countries where anticorruption laws are effectively enforced.'

5. How do the companies in this emerging markets report compare with the world's largest companies surveyed by Transparency International in 2014?

With an overall score of 3.8 points out of ten, the 124 global multinationals assessed in 2014 do slightly better than their emerging markets counter parts that achieve an average score of 3.4 points. It is interesting to note, however, that global multinationals outperform emerging market companies by far in the area of anti-corruption programmes. Interestingly, emerging market companies are ahead of the pack when it comes to organisational transparency and country-by-country reporting. This is mainly attributable to the strong performance of Indian companies which are subject to legal requirements that compels them to disclose all their subsidiaries and related key financial information.

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 by Transparency International 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 anticorruption 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?
Article 1504 of the US (the Dodd-Frank Act) and recent EU directives are a major step forward in fostering transparency in the extractive and banking sectors.
However, these rules do not apply to all sectors and the information disclosed is limited. Furthermore, Dodd Frank legislation only applies only to extractive companies listed on a US stock exchange. As for the EU legislation it applies to two sectors only: extractive companies listed on an EU stock exchange as well as to large unlisted companies and to credit institutions and investment firms, This is a start but until a global public standard is agreed and implemented, these requirements 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, recently-implemented EU rules require large European-based companies to be more transparent about sustainability issues, including governance and anti-corruption practices. This 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. This list then underwent two sets of modifications: First, five companies which overlapped with the sample of global companies assessed in the 2014 global report (Transparency in Corporate Reporting: Assessing the World's Largest Companies), America Movil, Gazprom, Petrobras, Reliance Industries and Saudi Basic Industries, were excluded. These companies were replaced with five of the largest (based on the Forbes ranking) newcomers to the 2014 Boston Consulting Group Global Challengers list: Sinopec Group, China Railway Construction Company, Alibaba Group, Tencent Holdings and MTN Group. Second, two companies from the initial sample were the targets of takeovers and were therefore replaced in the sample by their new parent companies: LAN Airlines was replaced with LATAM Group and Suntech Power with Shunfeng International Clean Energy.

14. How was the data gathered?
The data was collected by desk research conducted between November and December 2015, and reviewed in January 2016. 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 – 23 companies did so. This process resulted in a number of data point adjustments and in updates of some data sources.

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 changes were made?
Corrections were most often the result of one or more of the following reasons:

- Identification of documents or sources that were unintentionally omitted by the initial desk research
- Publication of documents or policies which were previously only available for a limited audience (e.g. for employees or investors)
- Changes or updates of certain policies or corporate documents
- Clarification of doubtful cases or specific terminology

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 which 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 whistle blower 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.

19. Were any changes made to the questionnaire or the methodology?
The questionnaire and codebook were updated in July 2013 to reflect more demanding standards of disclosure. The most significant changes were made to the organisational transparency section where we have made the requirement for the disclosure of subsidiaries more demanding by giving full points only for the disclosure of all subsidiaries, not just its material ones. This is consistent with the recommendation in the 2012 report that companies should report all their holdings, regardless of materiality.