Transparency in Corporate Reporting: Assessing the World's Largest Companies

Frequently Asked Questions

The project and the issues

1. What is the "Transparency in Corporate Reporting" report?

The report is a survey of the world's 105 largest multinational companies taken from a list published by Forbes in 2010. It assesses the publicly available information on those companies in three different areas related to corporate reporting: anti-corruption programmes, organisational transparency and country-by-country reporting. The 'transparency' performance of companies is then compiled and ranked.

2. Who did best in the report and why?

Statoil is the best performer. They have made a commitment to be a leader in combatting corruption. This may be due to a combination of factors: their local legal and regulatory environment, the recognition by management of the risks of corruption (legal, regulatory, financial and reputational) and to address the expectations of all relevant stakeholders including investors, employees and customers.

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

Yes, there is. With respect to the 97 companies that were the subject of the 2009 report, we can note an improvement to 68 per cent of the companies from 47 per cent in the dimension of reporting on anti-corruption programmes. This report is the first time the other two dimensions are assessed in this group of 105 companies, so we cannot establish any trends in these areas.

4. 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, dealt specifically with corruption. We are pleased that the standard-setter for sustainability reporting (Global Reporting Initiative or "GRI") has decided to include anti-corruption disclosures in their new guidelines.

5. 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 TI Business Principles for Combatting Corruption. The Business Principles were developed by Transparency International working with a multi-stakeholder group including civil society, labor, 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 behavior by having a programme that meets the standards of the Business Principles and by making that information public. Commitment to anti-corruption behavior 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 behavior.

6. Why should companies focus on creating strong 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.

7. 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 organizational 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 behavior.

8. 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. For example, if a company has several holdings in one country, they would be consolidated as one entity under country-by-country reporting even though the company does not otherwise bring them together for reporting purposes.

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

In order for citizens to evaluate the behavior of a company operating in their country, they need some 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 will be 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.

10. 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.

11. Why do oil, gas and mining companies rank so highly in the report when so much corruption is identified in this sector?

Oil, gas, mining as well as other resource companies have traditionally been identified as being high risk in terms of corruption. As such, they have been the focus of advocacy and reform for many years. Indeed many initiatives including the Extractive Industries Transparency Initiative and Publish

What You Pay are in place to promote cleaner business practices and greater transparency in the extractives industry. Transparency International's 2009 and 2011 reports *Promoting Revenue Transparency,* as well as this report, are part of these broader efforts to shine a spotlight on extractive industries. Many of the natural resource companies have demonstrated a positive response in several areas. However, as a high risk industry, the publication of information on anti-corruption programmes is not enough and more needs to be done to ensure robust implementation of the highest possible standards, including country-by-country reporting and eventually reporting on a project-by-project basis.

12. Will Dodd-Frank legislation passed after the financial crisis in the United States or any other recent or pending EU legislation compel companies to become more transparent in line with the types of corporate reporting outlined in this report?

Because of their limited scope of application Dodd-Frank and EU legislation alone are not enough. Although they apply to many of the big players in the extractives industry, these rules do not apply to companies that are not listed on a US or EU stock exchange. As such, they do not effectively level the playing field. So while they raise the standards for some companies, the standards remain inadequate for others. Furthermore, companies engaged in non-extractive industries will generally be unaffected by this legislation and as a result, will not be subject to these reporting requirements.

Methodology

13. How were the companies in the report selected?

The list of companies surveyed was taken from the 2010 Forbes list of the world's largest companies. The selection was made on the basis of largest market value. 105 companies were surveyed in order to ensure that the final report covered 100 companies, even in the event that some of the companies merged or ceased to exist during the course of the research.

Companies were eliminated from the list if they only operate in the country where they are headquartered. The sample therefore draws from the top 116 largest companies according to Forbes' 2010 list. Nine companies were eliminated because they operated almost exclusively in their domestic markets. They are China Mobile, Wells Fargo, Sinopec, China Life Insurance, China Shenhua Energy, Rosneft, Sberbank, Ecopetrol and Ping An Insurance Group.

14. How was the data gathered for the Transparency International report?

The data was gathered initially through desk research by a research consultant during the period from April to August 2011. Data was taken exclusively from information or documents publicly available on each listed company's website, including relevant links embedded in those websites. Each company was provided with its data from the report in August 2011. Companies were invited to provide feedback and 52 did so.

15. 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 have an adequate internal training policy, but if it was not disclosed publicly, it did not earn credit in the survey. Some of the feedback related to the presentation of information or if an error or omission was spotted.

16. What standards are the companies being measured against?

The anti-corruption programme standards are based on Transparency International's Business Principles. The Business Principles, which have influenced leading standards such as the World Economic Forum's PACI Principles for Countering Bribery, the ICC 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 behavior.

The 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' behavior.

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).

17. 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 weaker commitment.

18. Why is country-by-country reporting the weakest scoring dimension for all companies measured?

Companies tend to focus on those compliance issues that are required of them. Until now with the Dodd-Frank bill and potential EU legislation, there have been no requirements to report on revenues, tax, royalties, etc. on a country-by-country basis. With the arrival of Dodd Frank and EU legislation, many companies in the extractive industries will have no choice but to report on a country-by-country basis, and in some cases, on a project-by-project basis.

19. 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 and had the opportunity to provide feedback at relevant points during the process.

20. Why doesn't the report include companies that are privately held?

Public companies have certain legal obligations to disclose information that private companies do not. Indeed, some companies, even very large ones, prefer to stay private precisely in order to avoid having to disclose information.