1. EXECUTIVE SUMMARY

Transparency International conducted research into the public reporting practices of 100 emerging markets companies comprising a list of *Global Challengers* 2011.[1]

Based on the methodology of previous Transparency International studies, researchers collected and analysed publicly available data on three dimensions of transparency:

- **Reporting on anti-corruption programmes:** covering *inter alia* bribery, facilitation payments, whistleblower protection and political contributions.
- **Organisational transparency:** including information about corporate holdings.
- **Country-by-country reporting:** including revenues, capital expenditure and tax payments.

These three elements were assessed because of their importance in raising the level of corporate transparency and accountability which in turn helps minimise the risk of corruption.

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

Reporting on information related to company holdings, such as subsidiaries, branches, affiliates, joint ventures and the like is relevant in the context of combatting corruption because it lets citizens, civil society, regulators, lawmakers and investors know where a company is operating, and it makes the company more accountable in those countries.

Country-by-country reporting provides the transparency needed for companies to be held accountable for their activity in a particular country. Disclosing key financial data enables citizens to evaluate whether the company is contributing in a manner appropriate to its level of activity and, as such, to identify potential cases of corruption. Despite some encouraging results the report finds that the disclosure practices of emerging market companies are inadequate. The observed levels of transparency fall short of the standards expected of large companies aspiring to become global players. Based on the data analysis, the average company score is 36 per cent (3.6 out of a maximum of 10 points in the overall index). Only one in four of the 100 companies achieved an overall score of at least 50 per cent.

This result reflects a lack of recognition of the importance of transparency as a building block of good governance, including the management of corruption risks. These emerging market companies also lag behind in their acceptance of the responsibility that falls upon multinational companies to fulfil the transparency expectations of stakeholders. However, the fact that some companies perform well in certain aspects of the survey indicates that improvement is possible and dispels the argument often put forward by companies that disclosure puts them at a competitive disadvantage.

The report dedicates a section to the performance of companies from the BRICS.[2] This is of interest in view of their importance within emerging markets and in the world economy as a whole.

Results show that companies from China lag behind in every dimension with an overall score of 20 per cent (2 out of a maximum of 10). Considering their growing influence in markets around the world, this poor performance is of concern. In contrast, Indian firms perform best in the BRICS with a result of 54 per cent (5.4 out of a maximum of 10) and several occupy the top positions in the overall Index. In the third (country-by-country reporting) dimension of the study, an area of disclosure that has proven to be a challenge for most companies, Indian firms stand out against the weaker performances of the other BRICS firms with a score of 29 per cent.

Publicly listed companies, whose shares are traded on stock exchanges, perform considerably better than unlisted companies which include privately held and state-owned companies. For example, the publicly listed firms score 53 per cent on reporting on anti-corruption programmes – whereas the state-owned and private companies score 30 per cent and 27 per cent respectively. Stock market listing requirements definitely have a positive impact on a company's level of disclosure. This was also observed in a previous Transparency International study on the extractive sector where listed companies performed better than state-owned companies.[3]

Companies included in this report operate in a range of different industries. The biggest sub-sample is Basic Materials, comprised of 28 companies, followed by Industrials with 23 and Consumer Goods with 20 companies. The rest of the sample is distributed among six other industries (See Annex 1 for the details of the sample).

REPORTING ON ANTI-CORRUPTION PROGRAMMES

With an average score of 46 per cent, company performance in this dimension varies widely. Whilst some companies achieve a near-perfect score, others, half of which are privately held, do not register a single point. Although public reporting on anti-corruption programmes is only a proxy for actual company performance in this area, weak levels of reporting may indicate poor or non-existent anti-corruption programmes and a lack of commitment to countering corruption. But there is ground for optimism. Fifteen companies achieve a score above 80 per cent which demonstrates that strong performance is possible and that substantial improvement over the next few years is an attainable target.

ORGANISATIONAL TRANSPARENCY

The average result achieved in this dimension is 54 per cent. Approximately 10 per cent of the sample scores zero.[4] A majority of companies provide information on their subsidiaries, but in spite of these results the concept of "materiality" – a threshold for disclosure which is defined by accounting standards, regulators and stock exchange rules – limits detailed disclosure by many companies. Very few companies disclose the countries of operations of their subsidiaries and other related entities, which means that these remain hidden from public view and scrutiny.

COUNTRY-BY-COUNTRY REPORTING

Emerging market companies in the sample achieve an encouraging result in country-by-country reporting. Although it may appear low, the average score of 9 per cent registers well above the 4 per cent result of the 105 largest global companies assessed in the 2012 Transparency International report on transparency in corporate reporting.[5] This result is largely due to the 20 Indian companies in the survey which score an average of 29 per cent.

In India, domestic legal requirements have led to Indian companies providing more extensive financial information on their subsidiaries. They also report on the countries in which their subsidiaries are incorporated. This information is useful and beneficial, although it is not a perfect substitute for country-by-country reporting. Information on country-level operations by the 20 Indian companies is therefore much more complete than the other companies in the sample. This demonstrates not only the transparency benefits of such legal requirements but also that companies can readily provide such information if they are so inclined or motivated.

With the notable exception of the Indian companies, most emerging market companies in the sample are still a very long way from disclosing financial data across all countries of operations. Most of the companies disclose little or no financial data on a country-by-country basis, with companies from China disclosing the least.

RECOMMENDATIONS

Based on these findings, Transparency International recommends that emerging market companies should, first and foremost, become more publicly accountable. An initial but critical step is for emerging market companies to recognise their responsibility to be transparent for the benefit of stakeholders, both domestic and international. The BRICS, in view of their importance among emerging markets and of their current efforts to formalise and expand the influence of their grouping, should collectively take the lead on this issue. BRICS companies should challenge firms from developed economies in all aspects of their activities including their anti-corruption practices.

Emerging market companies should develop and implement best practice anti-corruption policies and programmes and publish comprehensive information on these programmes. They should also publish complete lists of their subsidiaries, affiliates, joint ventures and other related entities, including their stake in those entities and their locations and make public individual financial accounts for each country of operations.

Governments and civil society also have a role to play in fostering greater transparency among emerging market companies. Governments can do so by strengthening the legal requirements for corporate disclosure.

Civil society organisations can help shift company attitudes by focusing advocacy efforts on multinational businesses located or operating in their countries to encourage them to improve the depth and scope of their commitments to transparency, and in particular, to improve their level of anti-corruption reporting.

Likewise, investors can exert additional pressure by demanding that emerging market companies report on anti-corruption programmes, organisational transparency and country-by-country reporting and factor this information into their investment decisions.

An expanded list of recommendations can be found on page 38 of this report.