

Transparency in Corporate Reporting: Assessing the World's Largest Companies - 2014

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 124 largest multinational companies taken from a Forbes *List of Biggest Public Companies* and selected by market value calculated in May 2013. The report 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?

Eni, the Italian oil and gas company is the best performer overall. The company obtained high marks in the anti-corruption programmes and the organisational transparency dimensions and this contributed to its high overall score. It performed less well in country-by-country reporting. The overall score is an un-weighted average of these three dimensions.

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

Yes, we are starting to observe some positive trends. The 124 companies evaluated in our study achieved an average result of 70 per cent in the dimension focusing on anti-corruption programmes. In the previous edition of this report, issued in 2012, the average result was 68 per cent. Considering that the current criteria were made more demanding than the ones applied in 2012, this indicates progress. Had we applied the same criteria as in 2012, average performance on anti-corruption programmes would have been 77 per cent, which again shows some gains. It's interesting to note that although the samples are not entirely comparable we conducted a similar report in 2009 and the average performance in this dimension was only 47 per cent.

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

4. What information is Transparency International assessing for each company to determine the extent to which they are transparent?

The questionnaire covers three dimensions: anti-corruption programmes, organisational transparency and country-by-country reporting. Our questions on anti-corruption programmes are based on the [Transparency International Business Principles for Countering Bribery](#). The Business Principles, last revised in 2013, were originally developed by Transparency International working with a multi-stakeholder group including private sector participants, civil society, labour and academia. 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 organisational transparency and country-by-country reporting. By meeting these standards,

companies provide citizens with the information they need to monitor and evaluate corporate behaviour.

5. What is the relationship between good corporate disclosure practices and actual anti-corruption 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.'

6. 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, as well as tax evasion and other harmful behaviour.

7. What is country-by-country reporting?

Country-by-country reporting refers to the publication of financial data for each country 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.

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

In order for citizens to evaluate the behaviour 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.

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.

9. Why is country-by-country reporting the weakest scoring dimension for most companies the report?

Companies tend to focus on those compliance issues that are required of them. Until recently there have been no legal requirements to report on revenues, taxes, royalties, etc. on a country-by-country basis. With the arrival of Dodd Frank in the United States and similar 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.

10. Will the Dodd-Frank legislation passed in the United States and the recent EU legislation compel companies to become more transparent in line with the types of corporate reporting outlined 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. While these laws are an important way to create transparency, the next step is to bring this level of reporting to all corporate sectors.

11. Oil, gas and mining companies perform relatively well in the report. How can this be explained since this sector is seen to be prone to corruption?

The 2014 report includes 24 companies engaged in the exploration of natural resources: 19 of them belong to the “oil & gas” industry and natural gas sector. The remaining five operate in the mining 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. 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 and greater transparency including country-by-country reporting and reporting on a project-by-project basis.

12. 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.

Methodology

13. How were the companies in the report selected?

The selection of companies was based on the 2013 Forbes ranking of the World’s Largest Public Companies. The 100 largest multinational companies by market value (as calculated by Forbes in May 2013) were selected out of a list of 103 companies. Three companies were eliminated from the sample because they could not be assessed on country-by-country reporting since they operate in one country only (China Mobile, Sinopec Corp. and China Life Insurance) We then added to the sample 24 companies that were evaluated in the 2012 edition of this report, but did not feature in the 2013 Forbes ranking.

14. How was the data gathered for the report?

The data was collected in August 2013 by a team of researchers. The sources included company websites and the relevant links and documents directly accessible through them. Only sources available in one of the six United Nations languages: Arabic, Mandarin, English, French, Russian and Spanish were taken into consideration. Data for each question was recorded and the exact sources documented (e.g. corporate documents with page numbers or websites with date of download). The research was based on the latest available documentation. The reporting periods covered in these

documents may differ among the selected companies. In September 2013 all collected data was verified by the Transparency International researchers.

On September 30th, 2013 preliminary data sets were shared with the target companies, and each company was given the opportunity to review its own data for completeness and accuracy. Feedback was accepted until October 28th, 2013. Of the 124 companies covered in the survey, 84 provided feedback on their data.

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

Companies most often provided feedback for one or more of the following reasons:

- Changes or updates to certain policies or corporate documents
- The publication of documents or policies which were previously available to limited audience (e.g. for employees or investors)
- Identification of documents or sources that were unintentionally omitted by the initial research

16. 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 Partnering Against Corruption Initiative 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 Principles include, for example, an explicit commitment to anti-corruption with a policy that applies to all employees, agents, intermediaries, suppliers and contractors, as well as 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).

17. What do the scores mean?

Ten is the highest possible overall 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. The score for the individual dimensions are expressed in percentages with 100 per cent the highest score and 0 per cent the lowest.

18. Did these companies see the full findings of the report before it was published?

No, they did not see the report. However we did share both the methodology and their own individual data, giving the companies the opportunity to provide feedback at relevant points during the process.

19. 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.

20. 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.