Alliance for Integrity

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# EMERGING MARKET MULTINATIONALS – STILL FALLING SHORT ON CORPORATE TRANSPARENCY

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In her roles with the organisation she helped establish an office of the TI Secretariat in London and served as Director of External Relations and Communications for the United Kingdom Chapter. She later worked in TI's United States chapter in Washington D.C., where she managed business integrity projects.

As Head of Transparency International's Business Integrity Programme, Susan leads projects aimed at raising standards of corporate anti-corruption practice and at building the capacity of TI Chapters to engage in business integrity work. She is a frequent speaker and panelist at business and NGO events. She also represents Transparency International in international initiatives aimed at raising the standards of corporate anti-corruption practice.

On 11 July, Transparency International made public a report assessing the transparency of 100 emerging market multinationals. The main conclusion: emerging market multinationals must strengthen their anti-corruption measures and become more transparent if they are to compete effectively in an increasingly global market place.

In the latest edition of *Transparency in Corporate Reporting: Assessing Emerging Market Multinationals*, 100 of the fastest-growing companies based in 15 emerging market countries and operating in 185 countries around the world scored a low average of 3.4 out of 10, where 0 is the least transparent and 10 is the most transparent. The average score fell slightly by 0.2 compared to the last time a similar assessment was undertaken in 2013.

The report, part of a series on corporate reporting first published by Transparency International in 2008, originally focused on the world's largest multinationals but it was expanded in 2013 to assess large emerging market multinationals.

This report assesses these companies' disclosure practices based on three dimensions: first, the reporting of key elements of their anti-corruption programmes; second, the disclosure of their company structures and holdings; and, third, the disclosure of key financial information on a country-by-country basis. This information was gathered by a team of Transparency International researchers from corporate websites and other publicly available sources.

With an average score of 48%, emerging market multinationals have barely improved their performance with respect to the transparency of their anti-corruption programmes since 2013 when their score was 46%. Once again, they trail behind the global publicly listed companies that in our 2014 review achieved an average score of 70% in this dimension.

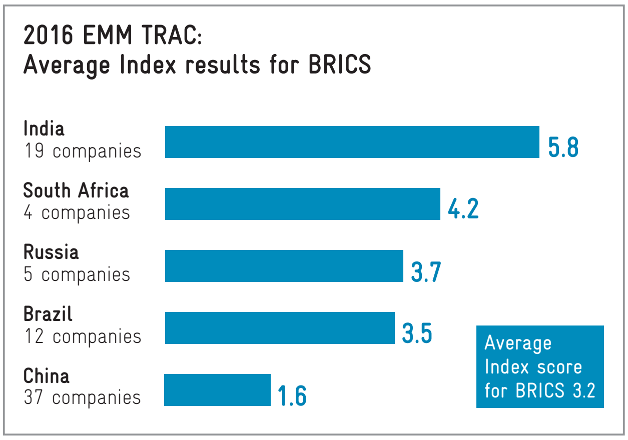
However, there were some positive surprises in the second dimension, where emerging market multinationals performed better than global companies with an average performance of 47% compared to 39% among global companies. Companies from India contributed to this stronger result because of legal requirements which force Indian companies to disclose their subsidiaries.

The telecommunications firm Bharti Airtel from India and the Malaysian state-owned oil company Petronas both obtained perfect scores in this dimension.

On the third dimension, country-by-country reporting, emerging market multinationals score a low 9%, which is nevertheless higher than the 6% score of global companies when they were measured in 2014. Chile's Falabella took the first position with a score of 80%. At the other end of the scale, 43 of the companies, or almost half of the sample, scored zero, which means they do not reveal any key financial information in the foreign countries where they operate.


## BRICS performance

The five emerging economies of the BRICS, Brazil, Russia, India, China and South Africa, are home to over three billion people and produce about 20% of the world's GDP. There are 77 BRICS-based companies included in the report. At 3.2 out of 10, the average overall result for the BRICS companies was slightly lower than the 3.4 out of 10 of the entire sample. This was mostly due to the weak performance of the Chinese companies, which scored an average of only 1.6. Indian companies scored by far the best among BRICS, achieving an average overall score of 5.8. This good result was mostly due to performance of Indian companies in the second and third dimensions.




## Raising the bar on corporate transparency

But what is so important about corporate transparency you may ask? For one thing, corruption is a risk for all companies whether they are based in Munich, São Paolo or Johannesburg. As witnessed by some of the recent scandals that have made headlines in Brazil and elsewhere, companies that engage in corrupt practices can suffer dire reputational and financial consequences. Corporate transparency must be part of a series of robust anti-corruption practices. Furthermore, greater corporate transparency demonstrates a company's commitment to countering corruption and makes it more accountable for its shortcomings.

As the world comes to grips with the fall-out from the Panama Papers and its exposure of large-scale use of offshore companies and tax havens, often for illicit purposes, there will be more demand for corporate transparency, not less. Emerging market multinationals will not escape this trend so it is in their interest to raise the bar on their transparency practices. Indeed all companies across emerging markets need to do much more to pursue comprehensive public reporting on their measures to address corruption and provide the transparency that is the basis for robust and accountable governance.

By Susan Côté-Freeman, Transparency International

## Transparency in corporate reporting Highlights

- 75/100 companies score less than five out of ten overall.
- Only one Chinese company, ZTE, ranks in the top 25 companies overall.
- 81/100 companies do not disclose an explicit policy prohibiting facilitating payments.
- 41 companies fail to report the existence of channels for employees to report suspected breaches of the company's anti-corruption policy.
- 72 companies, almost three quarters of the sample, disclose no information about tax payments in foreign countries.

## Recommendations to companies

- A transparent, informative and unrestricted corporate website available in at least one international language should be the standard communication tool for all large emerging market multinationals whether they are private, state-owned or publicly listed.
- Emerging market multinationals should make their anti-corruption programmes more robust and available for all to see. This will send a clear signal to all stakeholders, including employees and business partners, about the company's stance towards corrupt practices.
- Emerging market multinationals should explicitly prohibit facilitation payments.
- Emerging market multinationals companies should step up their disclosure practices by publishing information on all their related entities.
- Emerging market multinationals should publish individual financial accounts for each country. This is a relatively small incremental effort for multinational companies as the information is already available to them internally but it can have a big impact on the countries in which they operate.

## Recommendations to governments and regulatory bodies

- Governments should adopt rules for mandatory reporting on anti-corruption measures.
- Governments should implement strong anti-bribery laws and provide the necessary resources to enforce them. Strong bribery laws that are effectively enforced are critical for incentivising companies to adopt stronger anti-bribery measures.
- Governments should require all companies to publish financial accounts on a country-by-country basis. The primary purpose of country-by-country reporting is to increase the accountability and transparency of companies. Country-by-country reporting is gaining momentum with legislation in place in a number of developed countries. National governments in emerging economies should follow this trend and adopt laws that promote the highest possible reporting standard requiring that companies in all industry sectors publish their financial accounts on a country-by-country basis.

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