TRANSPARENCY INTERNATIONAL
the global coalition against corruption

TRANSPARENCY IN REPORTING ON ANTI-CORRUPTION

A Report on Corporate Practices

www.transparency.org

Transparency International is the global civil society organisation leading the fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption and works with partners in government, business and civil society to develop and implement effective measures to tackle it.

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Foreword

In the past decade, companies have begun to take more seriously the need to manage the risk of bribery and corruption. At the same time, there is a growing expectation from stakeholders that companies will not only adopt and implement robust anti-corruption programmes, but also that they will report publicly on these efforts in the spirit of greater transparency. Public reporting is an essential link in the accountability chain and of particular importance when it comes to combating corruption. Little has so far been documented about the scope of disclosure of corporate anti-corruption commitments, or about emerging best practice in the field.

Transparency International's *Transparency in Reporting on Anti-Corruption – A Report of Corporate Practices* (TRAC) assesses the extent to which close to 500 leading listed companies have reported the strategies, policies and management systems they have in place for combating bribery and corruption. Results are based on the analysis of publicly available documentation. Company performance has been aggregated by country and industry sector to provide an overview of reporting performance.

The results of the TRAC report show that, on average, leading companies still have a long way to go in disclosing that they are integrating anti-corruption practices into their organisations. Transparency International (TI) believes that the risks and responsibilities associated with corruption demand a greater level of transparency from companies than is shown by the findings of this report. TI encourages companies to review their reporting practices to assess whether they meet stakeholders' current expectations. By assessing leading companies in this way, this report attempts to identify potential areas for improvement and to serve as a basis for raising corporate reporting standards on bribery and corruption.

Huguette Labelle
Chair

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Executive summary

Bribery and corruption remain endemic problems in many countries, weakening governance and posing a major impediment to development. At the same time, bribery and corruption are a significant risk for companies around the world: not only must companies comply with anti-bribery legislation, but corrupt company practices are increasingly scrutinised and punished by both investors and society at large who demand that companies behave as responsible corporate citizens. To ensure compliance with laws and to manage the broader risk of corruption, firms must adopt coherent policies and systems to prevent and redress bribery and corruption.

This report, the first of a Transparency International (TI) project called – *Transparency in Reporting on Anti-Corruption* (TRAC)– focuses on the extent and quality of information provided by leading companies on the policies and measures they are taking to combat bribery and corruption.

The TRAC report achieves this by examining the publicly available documents of close to 500 leading global companies and evaluating the extent to which they report on the strategy, policies and management systems in place for combating bribery and corruption. The information analysed comes from corporate websites, company annual reports and sustainability reports. The results are then translated into country and industry sector rankings.

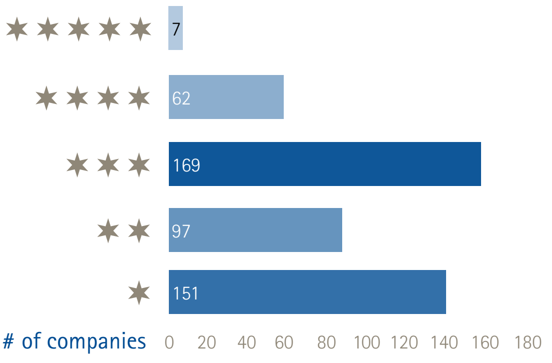
TI, which commissioned this research, believes that companies must take the problem of combating corruption more seriously. Robust policies and management systems should be in place to limit the likelihood of being involved in corrupt practices – or to ensure that corrective action is taken when it occurs. Companies must also make these policies and systems publicly available to stakeholders as a measure of enhanced transparency. Although non-financial reporting by companies is relatively new, it is a practice that is increasingly expected of companies committed to improved corporate governance and corporate citizenship.

This report is not intended as an assessment of the completeness or effectiveness of company policies and programmes to counter bribery and corruption. Its premise is that enhanced and more meaningful disclosure of these measures is key to better corporate transparency, which in turn underpins good corporate governance. While it is important to draw a distinction between the actual effectiveness of anti-bribery systems and merely reporting on their existence, it is TI's assumption that the degree of reporting on anti-bribery and anti-corruption policies and management systems can, in most cases, be a strong indicator of the quality and comprehensiveness of a company's efforts in addressing bribery and corruption. TI believes that better reporting advances anti-corruption efforts, as well as other aspects of good corporate governance.

The TRAC report comes at a time when demand from the socially responsible investment movement is growing for companies to disclose anti-bribery and anti-corruption policies and systems, and to comply with anti-bribery initiatives such as the UN *Global Compact* and the World Economic Forum *Partnering Against Corruption Initiative* (PACI). The financial and credit crisis that began in 2008 will heighten the need and demand for greater transparency. TI believes that enhanced disclosure will, in time, help dispel stakeholder scepticism as well as help shape and improve company anti-bribery and anti-corruption practice. TI already works with many companies identifying where and how they can better implement and then report on anti-bribery and anti-corruption efforts. In follow up to this work, future editions of the TRAC report are expected to include named company rankings.

The results of this first TRAC report show that there is much work to be done. On average, leading companies still have a long way to go in demonstrating that they are embedding anti-corruption practices into their organisations. The average company analysed scored only 17 out of a possible 50 points – and was awarded two stars out of a possible five. Only seven companies achieved a five-star score. Another 62 received a four-star rating.

Chart 1: NUMBER OF COMPANIES BY RATING CATEGORY



Note: Five-star = highest standard, one-star = lowest
75 companies that scored zero are included in the one-star rating

When analysing the largest of the companies – the *Forbes' Global 250* – approximately one in six of the world's leading listed companies achieved only the very undemanding one-star standard.

Overall the results show that while companies may often report high-level strategic commitments to anti-corruption, they do not always report on the necessary support systems required to meet these commitments. In short, information about management systems lags behind companies' stated anti-corruption and anti-bribery policies.

The study analysed the average scores of companies from a range of countries, mainly from major global economies. The weakest country averages were found in Belgium, China, Japan, Russia and Taiwan.

There was a wide range of scores across industry sectors. Companies in some sectors with a higher corruption risk, such as Basic Materials (including Forestry & Mining) and Oil & Gas, had relatively high scores, on average. This suggests that some companies in these sectors have taken measures to avoid bribery and corruption, often in the wake of high-profile scandals, and now report on these efforts. Companies in other high risk sectors, such as Construction and Capital Goods (including Engineering), have much lower average scores, which reflects the fact that they are failing to communicate the measures, if any, that they are taking to tackle the problem of corruption. In all sectors, there is an indication that some companies are putting substantial policies and systems in place to counter corruption, while many others are reporting little, if anything at all. For leading international firms, this lack of commitment to openness about anti-corruption practices is an omission that must be redressed immediately.

Table 1: AVERAGE SCORES FOR COMPANIES BY COUNTRY

Stars	Country/Territory
★★★	Canada
★★★	United States
★★★	Switzerland
★★★	Netherlands
★★★	United Kingdom
★★	Spain
★★	Italy
★★	Average*
★★	Germany
★★	Sweden
★★	France
★★	South Korea
★★	Hong Kong (PRC)
★	Japan
★	Belgium
★	China
★	Taiwan
★	Russia

Note: Figure only shows countries with more than 10 companies evaluated by the TRAC.
** Average results for 486 companies.*

Background

Bribery and corruption are endemic problems in many countries and an impediment to development. There is widespread recognition by policy makers of the importance of good governance – and the absence of corruption – for enabling sustainable economic development. There are also signs of growing investor concern about the extent of corruption-related risk[1] and mounting evidence of the damages that a lack of transparency can cause to companies. For instance, a December 2008 report by *Deloitte & Touche* illustrates the importance of corporate transparency in mandatory financial reporting, showing that companies cited for financial statement fraud by the United States' *Securities and Exchange Commission* 'tend to have higher incidences of drop in their stock values, investor suits, and bankruptcies'[2].

There has been a range of efforts to measure the extent of corruption and the quality of governance globally. At Transparency International (TI) the focus has been on three key global measurement tools: the *Corruption Perceptions Index*, which places governments, regulators and bribe-takers in the spotlight; the *Bribe Payers Index*, which ranks the world's most influential economies according to the perceived bribery of their exporting firms; and the *Global Corruption Barometer*, which evaluates public opinion on and experience of corruption. Despite these and other efforts, there has thus far been limited attention to measuring corporate actions to redress corruption risk.

The purpose of the TRAC report[3] is to assess the extent to which leading global companies report that they have in place strategies, policies and management systems for combating bribery and corruption. TRAC reports the results on a country and industry-sector basis. The report does not directly evaluate allegations of corruption or even litigated cases of corruption by companies, but rather how companies report on their approach to corruption and the efforts they are making to prevent or address it.

The focus of the report[4] is both on bribery – the giving or receiving of bribes, kickbacks, facilitation payments or similar – and on payments which can be disguised bribes, such as gifts, entertainment and hospitality, agents fees or similar. It also looks at, but not in detail, the broader area of political contributions and lobbying activity by the corporate sector, which can sometimes be construed as (but by no means always are) inappropriate or corrupt.

The normative assumptions of the report are:

- Bribery and corruption need to be explicitly combated and companies should have and communicate clear statements of their activities to this effect;
- Gifts, entertainment and hospitality, agents fees, commissions and similar need to be regulated and monitored by companies to ensure they are appropriate, legitimate and are not bribes;
- Alertness is needed in relation to political contributions and lobbying activity to ensure these are not used to facilitate corrupt outcomes.

Methodology summary

The research analysed public company documents including those on company websites, as well as the latest annual reports and sustainability reports. Reporting is part of a holistic approach to anti-bribery that TI has been promoting for more than a decade. The results include information available through June 2007.[5]

Information was sought in relation to three areas: Strategy, Policy and Management Systems. Many of the questions were based on the *Business Principles for Countering Bribery*, a dedicated anti-bribery code which was developed by a multi-stakeholder group including leading companies and TI. The overall approach comprises anti-corruption policy formulation, programme implementation, programme monitoring, continuous improvement, and internal as well as external or public reporting.

Box 1 summarises the information that was looked for in analysing each company and the maximum number of points available for each element. While all three areas of assessment are important to understand the scope of a company's approach, more weight was placed in the analysis on the reporting of actual management systems, such as training and verification, than on the reporting of strategy, as an overarching approach to corruption and stopping it, or policy, which indicated what kinds of practices were prohibited or regulated as part of anti-corruption commitments. Management systems indicate practical measures taken to monitor and stop corruption rather than statements of intent.

The TRAC report does not measure the extent to which companies are corrupt. Nor does it imply that companies with higher scores are not involved in corrupt practices, or conversely that companies with lower scores are engaged in corrupt practices.

As already indicated – the purpose of this research is to assess the extent to which leading global companies publicly report that they have in place policies and management systems for combating bribery and corruption. The assumption made is that reporting is a critical aspect of demonstrating commitment by companies to prevent, monitor and address corruption.

Box 1: WHAT INFORMATION ON ANTI-CORRUPTION EFFORTS WAS SOUGHT?

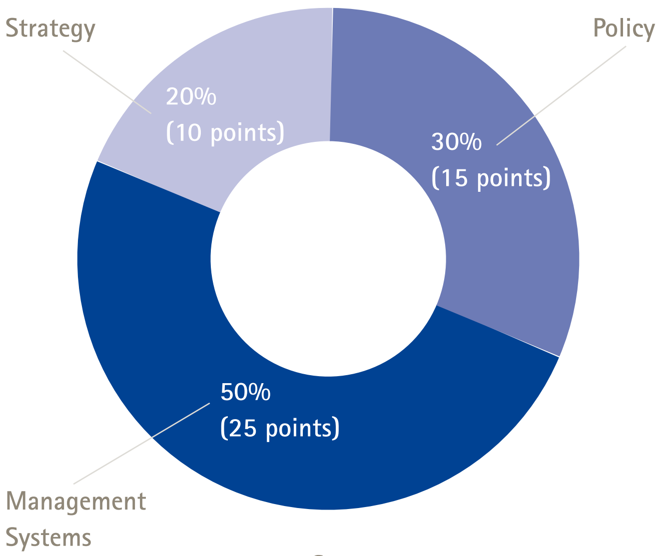
STRATEGY (maximum 10 points)
- An overall code of conduct or statement of principles including a reference to anti-bribery (2)
- Membership of key multi-stakeholder initiatives with an anti-corruption component (*Global Compact*, PACI, various sectoral initiatives etc.) (3)
- A specific corporate anti-bribery or anti-corruption policy (2)
- The extent of the application of this policy to employees, business partners and others (3)

POLICY (maximum 15 points)
- Anti-bribery policy commitment (5)
- Prohibition of facilitation payments (3.5)
- Regulation of inappropriate giving and receiving of gifts by employees (2.5)
- Regulating and making transparent political contributions (2)
- Commitment to making lobbying activities transparent (2)

MANAGEMENT SYSTEMS (maximum 25 points)
- Requirement for business partners compliance with the company's anti-corruption approach, including due diligence and training of partners, as appropriate (5)
- Training to employees and agents and clear communication of company policies, including in indigenous languages, as appropriate (5)
- Existence of a whistleblowing and employee help/guidance system, including non-victimisation provisions (5)
- Existence of review and verification systems to monitor corruption-related issues and breaches, and procedures to act against employees involved, including the external verification/auditing of these systems (5)
- Reporting of relevant Key Performance Indicators (KPIs), including the number and nature of complaints, the number of disciplinary actions for corruption and bribery, and the extent of bribery-related training. (5)

As there may be legitimate differences in interpretation on specific points, the final score for each company has been converted into a star scoring system, where five stars represents the highest standard and one-star the lowest. This system is summarised in Graph 1. The star rating system is a representation of the absolute score companies received and does not represent the company's performance relative to the other companies included in the report. No company achieved the maximum possible score of 50 points. Seventy-five companies scored zero points; they were awarded one-star.

Graph 1 : STAR SCORING APPROACH



Scores

0 – 9.9 points = ✶
10 – 19.9 points = ✶✶
20 – 29.9 points = ✶✶✶
30 – 39.9 points = ✶✶✶✶
40 points plus = ✶✶✶✶✶

Companies were analysed to see what publicly disclosed information existed on each of the elements outlined in Box 1. Every company was then given a score in each of the three categories: Strategy, Policy and Management Systems. The total score was then converted into a number of stars. Companies were classified by country of primary listing and sector of operation (using the *Forbes* classification), and findings are presented in this report at this aggregate level.

As stated in Box 1, it was felt important to give credit (up to 3 points) to companies that are engaged with multi-stakeholder initiatives aimed at improving the level of ethical standards in relation to bribery. This included involvement as a signatory or participant in key sectoral or cross-sector initiatives:

- *Business Principles for Countering Bribery* whose development was facilitated by TI (www.transparency.org/global_priorities/private_sector/business_principles)
- World Economic Forum *Partnering Against Corruption Initiative* (PACI) (www.weforum.org/en/initiatives/paci/index.htm)
- International Chamber of Commerce Anti-Corruption Commission (ICC) (www.iccwbo.org/policy/anticorruption/id3902/index.html)
- *Extractive Industries Transparency Initiative* (EITI) (www.eitransparency.org)
- UN *Global Compact* (http://www.unglobalcompact.org/index.html)

Box 2 summarises the features that would typically lead to a company scoring between 40 and the maximum 50 points, based on publicly available information and reporting.

Box 2: WHAT MAKES A FIVE-STAR TRAC SCORE?

A five-star company will typically:

- Have an overall code of ethics and a detailed anti-bribery code
- Be a Communication on Progress compliant signatory to the UN *Global Compact*[6] and a member or supporter of other relevant anti-corruption initiatives (such as PACI or the ICC, or a sectoral initiative such as EITI, or a supporter of the *Business Principles for Countering Bribery*)
- Make explicit that its anti-bribery code applies to all employees to business partners, and to other relevant groups such as board members their families and close associates
- Have an explicit and detailed policy which makes clear that bribery, kickbacks and similar are not permitted
- Prohibit facilitation payments and commit to recording and reporting these when they occur
- Have clear guidelines on giving and receiving gifts and hospitality, including upper limits, and have awareness of the cultural context of gift giving
- Be committed either to not making political contributions, or to making explicit and public when such contributions are made
- Show an awareness that lobbying activities are an area of potential corruption concern, and commit to transparency regarding lobbying activities
- Not tolerate bribery and corrupt practices by its business partners, and encourage and assist them to have robust anti-corruption policies in place
- Communicate its anti-corruption policies to employees and agents and provide extensive training to employees and agents
- Have a robust, confidential reporting system in place, and a commitment not to victimise *bona fide* whistleblowers, and have a system in place to provide less formal guidance and advice on these issues
- Regularly review its policies and monitor and act on breaches, and have its systems externally monitored and verified/audited
- Report a range of meaningful Key Performance Indicators (KPIs), such as those recommended by the Global Reporting Initiative (GRI)[7]

Company selection

500 of the world's largest publicly-traded companies were analysed. Table 2 lists the number of companies analysed by country. They were chosen from a baseline index – the *Forbes* ranking of the largest 2000 global listed companies (March 2007). The choice to assess listed companies rather than state-owned or privately owned companies reflects the need of these companies to adhere to the extensive regulatory and reporting standards prescribed by financial authorities, thereby ensuring a greater commonality of reporting criteria.[8] See Appendix for the complete version of the selection criteria. In summary, the 500 companies comprised:

- **TOP 250** – the largest 250 companies
- **HIGHER RISK SECTORS** – 107 additional companies were added from sectors generally regarded as higher risk: Oil & Gas, Basic Materials (including Forestry & Mining), Aerospace & Defence, Capital Goods (including Engineering), Construction, Telecommunications and Utilities.
- **TOP GLOBAL EXPORTERS** – 143 additional companies from each of the 25 largest global exporting nations were added to ensure a minimum level of representation.

All companies analysed would be considered large in terms of asset value, market capitalisation and profits. The average asset value for a company in the sample was US$147 billion, average market capitalisation US$45 billion and average profits US$3 billion. The largest company analysed had assets in excess of US$1,884 billion and the smallest had assets estimated at US$2.05 billion.[9]

Table 2: SUMMARY OF COMPANY SELECTION BY COUNTRY

Country/Territory	Number of companies selected
Australia	6
Austria	2
Belgium	10
Bermuda	1
Brazil	6
Canada	21
China	30
Denmark	2
Finland	4
France	30
Germany	40
Hong Kong (PRC)	10
India	5
Ireland	2
Italy	20
Japan	41
Malaysia	8
Mexico	10
Netherlands	20
Norway	3
Russia	10
Saudi Arabia	3
Singapore	9
South Africa	5
South Korea	10
Spain	11
Sweden	10
Switzerland	10
Taiwan	10
Thailand	1
United Kingdom	30
United States	120
Grand Total	500

14 companies were excluded from the final results for a range of reasons. Either they were no longer listed, were a holding company of another company analysed, or researchers found inadequate information in English or a language they could access. In cases where researchers could not be confident they were doing a company justice, that company's results were excluded from this study. The analysis of the findings which follows is based, therefore, on a *de facto* sample of 486 companies.

Results

The key findings of the first TRAC report are presented below, as follows:

- Overall distribution of results
- The Global 250
- Strategy, Policy and Management Systems
- Country scores
- Sector scores
- Higher risk sectors
- UN Global Compact signatories and non-signatories

Overall distribution of results

The average score for the complete sample was 17 out of 50 – a two-star rating.

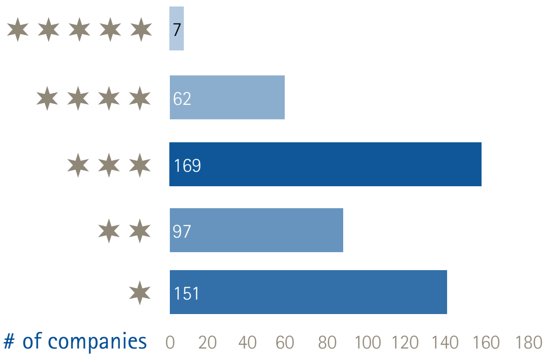
Only seven companies achieved a five-star classification.

62 companies obtained four stars. Overall, only 14 per cent of the companies analysed received a four- or five-star rating. The vast majority about 86 per cent of companies – did not reach this level, despite being major companies, and despite most being global operators. More than 31 per cent – 151 companies – received only one-star and 75 of these companies did not score a single point. This is a major concern, especially for those companies operating in higher risk environments.

Top performing companies tended to score well in each category: Strategy, Policy and Management Systems. Middle performing companies tended to score only moderately in each category or had better scores in Policy compared to Management Systems.

Some of the one-star companies (those scoring close to 10 points) acknowledge the issue of bribery and corruption in their publicly available reports, but, in general, those scoring one-star can be regarded as doing extremely little. The one-star companies may have systems in place, but little was found in the public domain at the time the research was conducted. Some, but relatively few, may argue that they have little need for a detailed anti-bribery policy and programme because they operate only in countries or sectors where bribery and corruption are not significant.

Chart 1: NUMBER OF COMPANIES BY RATING CATEGORY



Note: Five-star = highest standard, one-star = lowest
75 companies that scored zero are included in the one-star rating

Half of the companies that achieved a four- or five-star rating came from higher risk sectors where corruption, or the threat of it, is regarded as widespread. This could indicate that companies in these sectors recognise that putting robust policies and systems in place to address bribery and corruption is a form of risk management.

As many companies in vulnerable sectors are aware, corruption damages corporate reputation, raises liability issues for the executives involved, harms the bottom line (whether through the imposition of heavy fines under the United States' *Foreign Corrupt Practices Act* or similar legislation; or through the risk of losing contracts gained illegitimately) and can have extremely negative impact on other stakeholders and society. Furthermore, investment analysts are increasingly including such factors as corruption in their assessment of corporate risk and their determination of corporate value.

The Global 250

How did the largest 250 companies in the sample fare?

Although most of the four- and five-star companies come from the Global 250, no company met all the TRAC criteria.

Moreover, 28 companies in this group (11 per cent of the Global 250) only achieved a one-star rating. They showed little, if any, sign of policies or systems related to combating corruption.

A high number of banks are included in the Global 250. Banks may consider they already meet anti-corruption reporting criteria because of anti-money laundering and other regulatory requirements but the global credit and financial crisis, that began in 2008, suggests that banking and other financial institutions have a huge task ahead to improve their standards and practices related to anti-corruption and transparency.

Strategy, Policy and Management Systems

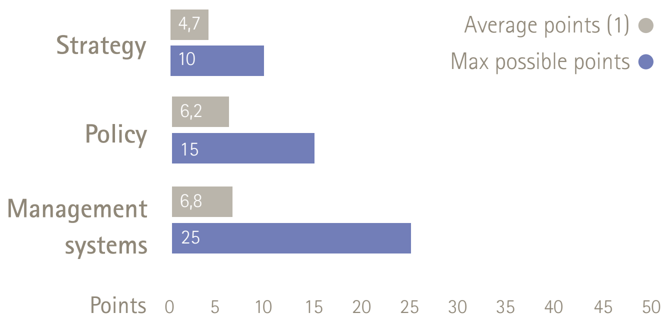
Which of these components was strongest?

On average, scores for Policy and Strategy were better than those for Management Systems. The implication of this is that while companies may often publicly adopt high-level commitments to combating corruption and bribery, they do not always accompany these with equivalent reported levels of supporting systems.

It is difficult to say whether this means that words are not being matched by actions. Some may argue that this simply reflects that information about management systems may not always exist in a public forum and is only found on a company's intranet or similar.

But this approach – which assumes that systems exist but are not made public in reports of any kind – is not sustainable. Some components of management systems, such as whistleblowing or helpline systems, are difficult to implement if they are not publicised. For example, more than 37 per cent (182 companies) of the sample demonstrated no evidence of a whistleblowing system of any sort. This included a number of companies with relatively advanced scores in relation to strategy and policy.

Chart 2 RESULTS FOR STRATEGY, POLICY AND MANAGEMENT SYSTEMS



[1)] *Average results for 486 companies evaluated*

Country scores[10]

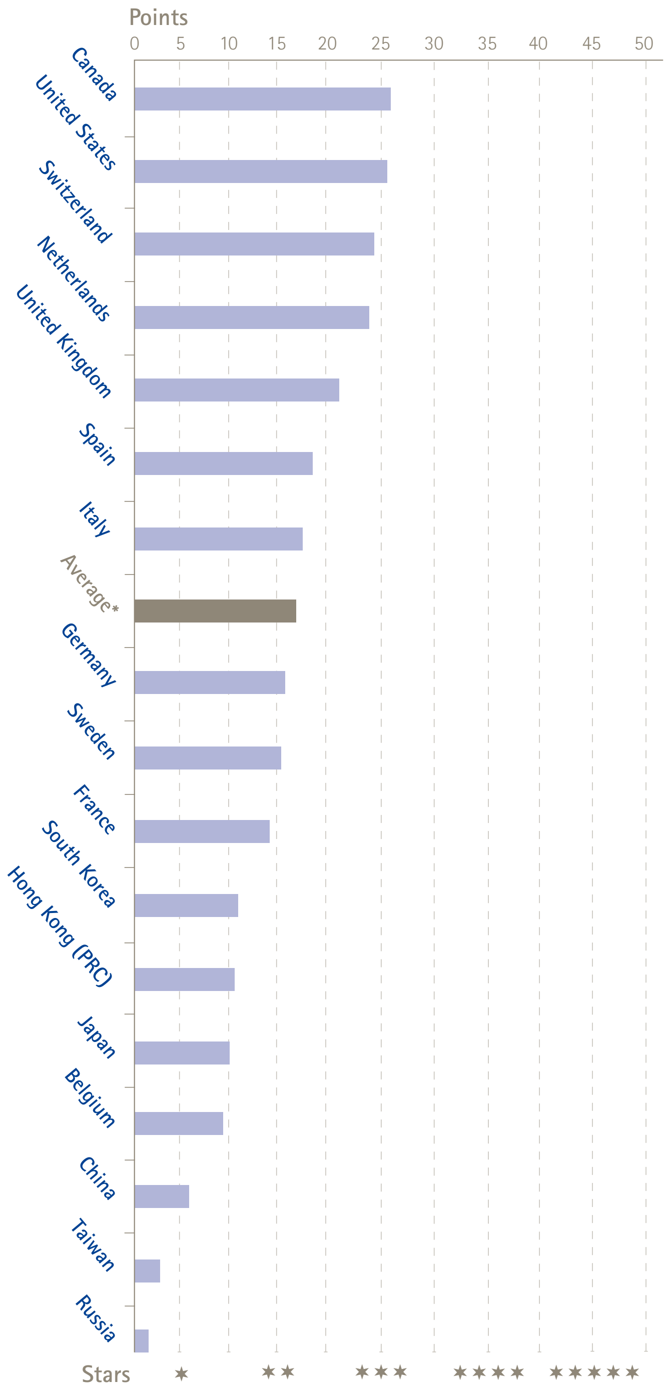
The average country score in the sample of 486 companies was 17 (equivalent to a two-star rating). However, this conceals a major variation between country averages.
At the top end of the scale, the average score for Canadian and United States companies places them (but only just) in three-star terrain. This is likely because both countries have detailed regulation governing corporate anti-corruption.
Among the weakest country/territory averages were companies from Belgium, China, Japan, Russia and Taiwan. Companies at the bottom end of the scale, on average, show little or no evidence of published policies and systems related to tackling bribery and corruption.

Table 3: AVERAGE SCORES FOR COMPANIES BY COUNTRY

Stars	Country/ Territory	Number in sample	Average Score
★★★	Canada	21	27
★★★	United States	119	25
★★★	Switzerland	10	25
★★★	Netherlands	20	24
★★★	United Kingdom	30	22
★★	Spain	11	19
★★	Italy	20	18
★★	Average*	486	17
★★	Germany	40	16
★★	Sweden	10	15
★★	France	29	14
★★	South Korea	10	11
★★	Hong Kong (PRC)	10	11
★	Japan	32	10
★	Belgium	10	9
★	China	30	6
★	Taiwan	10	3
★	Russia	10	2

Note: Figure only shows countries with more than 10 companies evaluated by the TRAC.
** Average results for 486 companies.*

Chart 3: AVERAGE SCORE BY COUNTRY/TERRITORY



Note: Figure only shows countries with more than 10 companies evaluated by the TRAC.
** Average results for 486 companies.*

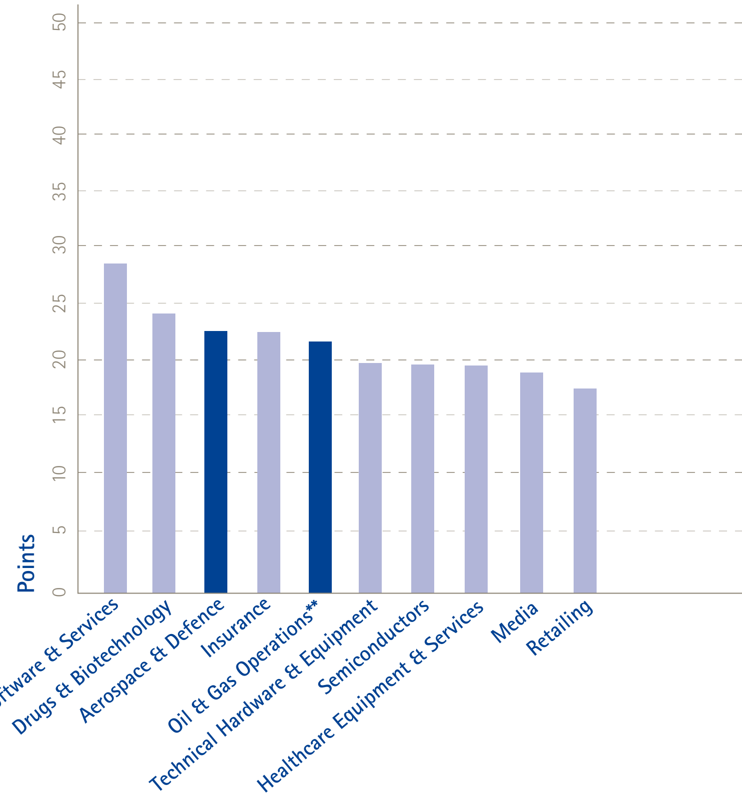
Sector scores

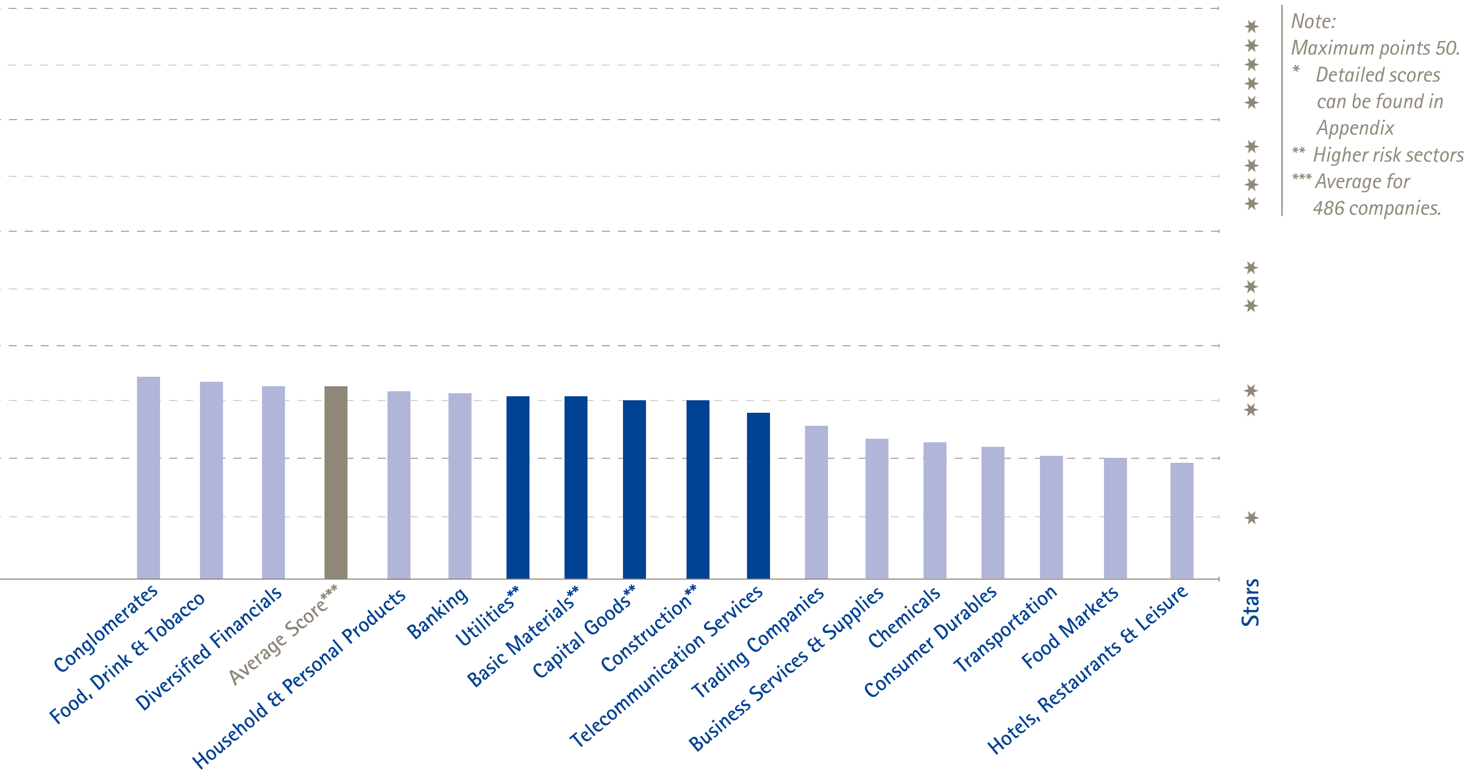
The Software & Services and the Drugs & Biotechnology sectors received the highest average ratings in the TRAC report. Hotels, Restaurants and Leisure and Food Markets fall at the bottom of the list. Although corruption risks vary across sectors, it is clear that companies from some sectors approach bribery with much stronger public reporting strategies, policies and management systems than others.

Some higher risk sectors score better than average, which as noted earlier may reflect their general acknowledgement that anti-corruption and anti-bribery systems are a key aspect of risk management. Several high risk sectors, such as Construction and Capital Goods, also show poorer than average results, which means that they are not only at risk of corruption, but have not yet risen to the challenge of putting appropriately disclosed anti-corruption systems in place.

Conversely, the Software & Services sector is not typically seen as high risk, but has scored well in the TRAC analysis. Its average score is relatively high, although the sector has few leading companies from an anti-corruption perspective. This may be a result of 'new economy' features where advanced systems for monitoring bribery are being put into place from the outset. It may also reflect the fact that many companies in this sector are based in the United States, and therefore operate within a relatively stronger compliance regime. This result deserves further investigation in future studies of anti-corruption activities.

Chart 4: AVERAGE SCORE BY SECTOR *





Higher risk sectors

Seven sectors were selected as higher risk, based on findings from TI's *Bribe Payers Index*[11] and on expert opinion gathered by the researchers. These sectors are Oil & Gas Operations, Basic Materials (including Forestry & Mining), Aerospace & Defence, Capital Goods (including Engineering), Construction, Telecommunication Services, and Utilities.[12]

Companies are thought at higher risk when their operations involve them in regular licensing or contracts from, or regulation by, the public sector and/or where the company operates in multiple countries, including those where corruption is widespread, and/or where there is significant use of agents and other business intermediaries.

On average, the 225 companies in these seven higher risk sectors overall scored almost identically to companies in the remaining sectors. However, the relatively high average TRAC scores achieved by a minority of companies in some high risk sectors boosts the overall average and masks the fact that these sectors also include some of the poorest performers.

Some observations on higher risk industry sectors:

- Two high risk sectors – Oil & Gas Operations and Basic Materials – have a significant number of major companies reporting that they have more advanced systems in place. However, in both sectors there are major players who appear to be doing little or nothing on the issue, based on the information they communicate publicly. Reporting practices in these sectors appear especially polarised between leaders and laggards.

  There has traditionally been an emphasis, for obvious reasons, on examining the Oil & Gas and Aerospace & Defence sectors. The study suggests that other high risk sectors may not be getting the attention they deserve – in particular the Construction and Capital Goods sectors. In sectors such as these, the number of leaders is few and the number of laggards many. These results reflect the findings of several editions of the TI *Bribe Payers Index*, which shows that business experts view corruption as a very real risk in the Construction and Engineering sectors.

A surprisingly large number of major players in the Capital Goods industry, many associated with major global engineering projects, disclose little or no information on their policies and systems to combat bribery.

- North American companies in higher risk sectors are more inclined to report that they have some policies and systems in place, probably for regulatory reasons. This suggests that a strong regulatory environment is helpful in raising the overall minimum standards in a country.

- Chinese, Indian and Russian companies in higher risk sectors are disproportionately rated as laggards.

Global Compact companies

The *Global Compact* (GC) is a voluntary UN initiative, providing a framework for businesses committed to aligning their operations with ten basic principles. The tenth principle – "Businesses should work against corruption in all its forms, including extortion and bribery" – was added in June 2004.[13] To ensure the integrity of the initiative, GC requires signatory companies to submit annual reports, known as Communications on Progress (CoP).

Slightly more than one-quarter (26 per cent or 127 companies) of the sample were signatories of the GC. Signatories scored slightly higher in the TRAC report than non-signatories. The average score of GC signatories was 20.4 (a borderline three-star average score).[14] For non-GC signatories the average was 15,6 (within the two-star rating).

GC signatories are likely, on average, to have slightly more publicly available information in the area of policy and management systems related to anti-corruption and anti-bribery. Average scores for reporting on strategy are similar to non-GC companies.

17 GC signatory companies in the sample had little or no information in the public domain, and were on the bottom end of the one-star range. This indicates that some GC signatories may not be compliant with reporting on the GC tenth principle.

Table 4: REPORTING BY GLOBAL COMPACT SIGNATORIES AND NON-SIGNATORIES, AVERAGE SCORE

	Overall	Strategy	Policy	Management Systems
Global Compact Signatories	20,4	5,3	6,2	8,9
Non-Signatories	15,6	4,1	5,4	6,0

Note: Only signatories of the UN Global Compact as of June 2007 have been included

Conclusion

Transparency International's *Transparency in Reporting on Anti-Corruption* (TRAC) report is a first attempt at assessing the extent and quality of disclosure by companies of their corporate strategy, policy and management systems in relation to bribery and corruption. TRAC does not equate a company's performance to a company's reporting on anti-bribery and anti-corruption practices, but it does reflect TI's belief that public reporting of anti-corruption activities is an essential element of a company's commitment to transparency and integrity in its business practices.

In addition, TRAC does not equate good disclosure with the absence of corruption. Rather, TRAC aims to encourage and set a standard for company reporting practices, based on the understanding that reporting, as part of a broader range of preventive measures that strengthen corporate governance, can help improve actual anti-bribery and anti-corruption practices. This standard for disclosure is guided in both scope and focus by the *Business Principles for Countering Bribery*, which TI has been promoting since 2002.

In this first edition of the TRAC report, TI has refrained from producing a named ranking of companies. This allows time for companies to understand the approach taken to assess individual company disclosure. As TI promotes the findings of the TRAC report, the expectation is that companies will respond by raising standards of reporting on anti-corruption.

TI intends to repeat the TRAC assessment and believes the results over time will reflect substantial improvement, as a response to stakeholder demand and a changing regulatory environment. Stakeholders, shareholders and investors deserve no less than robust corporate efforts to break the corruption cycle that engenders so much long-term economic damage. Commitments to corporate integrity are essential to the compact that defines the responsibilities of business within and across societies.

A number of observations and generalisations can be ventured, however, based on the results of this initial TRAC report.

First, it is obvious that most major global companies are doing very little in the way of systematic reporting on bribery and corruption. This is not entirely surprising given that non-financial reporting is relatively new. Moreover, there is presently a lack of detailed guidelines for meaningful reporting on bribery and corruption – a gap that TI is working to fill. But, perhaps most worrisome, the lack of disclosure of anti-bribery policies and systems highlighted in the TRAC results may reflect the real absence of such measures in corporate codes of ethics and corporate governance practices.

Despite the improvement in global regulation of bribery and corruption in recent years in OECD and other countries, there are still low-levels of public disclosure by companies of the policies and systems they should have in place to reduce the paying of bribes.

Second, the results show four levels of corporate disclosure practices on bribery and corruption. About 30 per cent of the companies in the survey sample are doing little or nothing of note with respect to public disclosure. A further 20 per cent report the existence of only a strategic approach. A third of companies comply with basic standards of strategy, policy and management systems. A final 15 per cent of companies are ahead of the pack. The leaders comprise two clusters. As few as fifteen companies report substantial anti-corruption policies and systems embedded in their organisations. The remainder of the leaders still have considerable room to improve in their reporting. They need to be encouraged to progress further.

Third, it may be appropriate to think of different types of approaches to each of the above categories of disclosure. It is striking that most existing campaigning attention to date has been paid to companies that are, relatively speaking, more advanced. This may be because these companies are more responsive to external pressure and willing to engage. However, this may have the counterproductive effect of encouraging some companies to stay safely hidden in the middle of the pack. There may well be a case for a differentiated strategy to win further commitments by new groups of companies to implement best practices in their anti-corruption activities, including public anti-corruption reporting.

Fourth, the ranking by country shows that anti-bribery reporting is still lagging in most countries, both developing and developed. Some countries had too few companies in the study to be able to generalise with any degree of confidence. But the very poor performance of several major exporting and emerging market economies raises the concern that companies in these countries do not have in place developed policies and systems to prevent bribery. From the TRAC evidence this includes Belgium, China, Russia and Taiwan, among others.

Fifth, many of the strongest company results in the TRAC report come from those in high risk sectors. This likely reflects the fact that a number of leading global companies in high risk sectors have measures in place precisely because of the risks involved with regards to corruption. They are aware that corruption can damage corporate reputation, undermining a company's capacity to fulfil its social responsibility and hurt the bottom line. whether through the imposition of heavy fines under the United States' *Foreign Corrupt Practices Act* or similar legislation, or through the risk of losing contracts gained illegitimately. In this sense, putting robust policies and systems into place can be seen as a form of risk management.

Finally, what should companies do with the information presented in this report?

Since the aim of TRAC is to understand the levels of corporate disclosure on bribery and corruption, TI hopes that companies will read this report and take stock of its findings.

TI's aim in disseminating the results of this report is to improve company practice by providing a baseline for company disclosure of anti-bribery and anti-corruption measures. TI expects that firms will study the assessment criteria and the results, to see where they can improve their reporting in future.

TI welcomes company feedback on the assessment criteria and looks forward to engaging with companies wishing to improve their anti-bribery and anti-corruption practices. TI also hopes that investors, those providing director liability insurance, regulators and others will use the results of this report to engage more substantively with companies on the topic of disclosure – and on the very real need to address bribery and corruption as part of best corporate practice.

Moving forward, TI also expects that existing reporting initiatives will consider the assessment criteria and will use them to augment their guidelines or requirements pertaining to bribery and anti-corruption reporting. Leading global companies cannot overlook the risk of corruption – or avoid the consequences of ignoring it. The stakes are high and the effects of corruption hit hard at all levels, from company profits to trade and investment.

Finally, TI believes that companies should promote integrity and transparency in their practices, which includes disclosing their policies, strategies and management systems with regards to bribery and corruption. Only then can all stakeholders be suitably satisfied that companies are working to break the supply-side of the corruption equation.

Appendix:
Detailed Methodology

COMPANY SELECTION CRITERIA

STEP 1 largest 250 global companies	The 250 largest listed companies globally, as taken from *Forbes*' March 2007 list of the Global 2000.[15] This sample included a significant number of United States companies (87).
STEP 2 boost presence of higher risk sectors	Using the *Forbes' Global 2000* list, further companies from higher risk sectors were selected to ensure the sample included: • the largest 20 companies in Aerospace & Defence • the largest 40 companies in Oil & Gas • the largest 40 companies in Basic Materials (including Forestry & Mining) • the largest 20 companies in each of the following sectors: - Capital Goods (including Engineering) - Construction - Telecommunications - Utilities At the end of Step 2 there were 357 companies selected for analysis. At this stage the selection included: • 120 United States companies (24 per cent) • 91 companies from the three financial sectors (Banking, Diverse Financials and Insurance)
STEP 3 ensure coverage of top 25 global exporting countries	Using the same *Forbes* list, companies were added to include a significant sample from each of the largest 25 global exporting countries (as defined by the World Bank using 2005 data). The aim was to ensure: • at least 40 companies from the three largest exporting countries (United States, Germany, Japan) • at least 30 companies from next three largest exporting countries (China, France, United Kingdom) • at least 20 companies from next three largest exporting countries (Italy, Canada, Netherlands) • at least 10 companies from 10th to 20th largest exporting countries (not fully possible in case of Saudi Arabia, Malaysia and Singapore as each had less than 10 companies on the *Forbes* 2000) • at least 5 companies from 21st to 25th largest exporting countries This was applied where the previous two steps (Global 250 plus additional higher risk sectors) failed to produce the indicated minimum number of companies. Finance sector companies were not included at this stage to avoid excessive representation. Larger companies were chosen ahead of smaller companies. Two Additional Oil & Gas companies were added to bring the total number to 500.

COMPANY SELECTION BY COUNTRY AND CRITERIA

Country/Territory	Top250	Extra from High Risk Sectors	Additional	Total	OECD convention signatory	UNCAC signatory[16] (* = signatory but not yet ratified)	Top 25 exporter
Australia	6	0	0	6	y	y	y
Austria	0	2	0	2	y	y	
Belgium	3	0	7	10	y	y*	y
Bermuda	1	0	0	1		na	
Brazil	4	2	0	6	y	y	y
Canada	8	9	4	21	y	y*	y
China	7	2	21	30		y	y
Denmark	2	0	0	2	y	y	
Finland	1	3	0	4	y	y	
France	19	7	4	30	y	y	y
Germany	15	2	23	40	y	y*	y
Hong Kong (PRC)	2	2	6	10		na	y
India	1	3	1	5		y*	y
Ireland	1	1	0	2	y	y*	
Italy	7	1	12	20	y	y*	y
Japan	22	12	7	41	y	y*	y
Malaysia	0	0	8	8		y*	y
Mexico	2	1	7	10	y	y	y
Netherlands	10	1	9	20	y	y	y
Norway	2	1	0	3	y	y	
Russia	5	5	0	10		y	y
Saudi Arabia	1	0	2	3		y*	y
Singapore	0	2	7	9		y*	y
South Africa	0	0	5	5	y	y	y
South Korea	5	2	3	10	y	y*	y
Spain	6	5	0	11	y	y	y
Sweden	4	4	2	10	y	y*	y
Switzerland	8	2	0	10	y	y*	y
Taiwan	0	1	9	10		na	y
Thailand	0	1	0	1		y*	
United Kingdom	21	3	6	30	y	y	y
United States	87	33	0	120	y	y	y
Grand Total	250	107	143	500			

COMPANY SELECTION BY SECTOR

Sector	Top250	High Risk Sectors	Additional	Total
Aerospace & Defence	5	14	0	19
Banking	51	0	0	51
Business Services & Supplies	1	0	2	3
Capital Goods	2	18	2	22
Chemicals	5	0	7	12
Conglomerates	10	0	10	20
Construction	5	15	4	24
Consumer Durables	10	0	5	15
Diversified Financials	16	0	1	17
Drugs & Biotechnology	12	0	4	16
Food Drink & Tobacco	7	0	13	20
Food Markets	2	0	6	8
Healthcare Equipment & Services	4	0	2	6
Hotels, Restaurants & Leisure	1	0	2	3
Household & Personal Products	2	0	6	8
Insurance	24	0	0	24
Basic Materials	10	30	7	47
Media	5	0	4	9
Oil & Gas Operations	23	17	8	48
Retailing	6	0	3	9
Semiconductors	2	0	5	7
Software & Services	3	0	1	4
Technology Hardware & Equipment	9	0	6	15
Telecommunications Services	13	7	10	30
Trading Companies	3	0	3	6
Transportation	5	0	17	22
Utilities	14	6	15	35
Grand Total	250	107	143	500

A. Assessment criteria

To be assessed, the data needed to be available in the public domain via the company website. Typically the company's latest annual report, latest sustainability report (or similar), website, and any relevant codes of practice were examined. Information after end-June 2007 has not been included. Information on the company's intranet or in internal systems was not included. Each company was assessed against a maximum possible score of 50 points. Point scores were then converted into a star category, as explained in Box 1 (p. 7) of the report.

The scoring system reflects the weighting given to each component. The decision was taken to allocate half of the scoring towards Management Systems. It was felt that Policy and Strategy need to be supported by robust and extensive Management Systems if they are to be regarded as credible and effective. There was also a sufficient number of available data points to make such an approach viable in practice.

The report proved to have a number of limitations which will be addressed in future iterations. These include:

- TRAC measures publicly available information. This presents two risks: what companies report may not exist in practice, and companies may not be reporting all that they are doing. Additional resources might improve this aspect of information gathering and assessment.

- The star rating system involves placing companies in bands. In any such system, including this one, some at the top of one band may be closer to others at the bottom of the band above than they are to those at the bottom of the band in which they have been placed. The analysis aimed to understand the general patterns and clusters, and to identify the broad categories within which companies from each country and sector fell.

- Every reasonable effort has been made to avoid errors, including training of researchers, spot-checks on results, and consistency checks. However, in a project involving the interpretation of a number of documents for each of the 500 companies, and the collection of approximately 50,000 datapoints, there will invariably be errors of detail and differences of interpretation. The research methodology aimed to keep these to a minimum, and the methodology for deriving the final score took these factors into account to avoid compounding any errors.

- Perhaps the biggest limitation was language. There were not enough resources to conduct the research in every language used in corporate reporting in the 32 countries and territories covered. The emphasis was placed on analysing documents in English. Most large companies, operating and being traded globally, have significant website sections and reports in English. Beyond English, the language skills of the research team best allowed for Chinese language documents to be assessed. For major European languages researchers were able to detect and identify significant additional material not in English (although in relation to corruption policy in global companies, it is perhaps reasonable to expect that multiple languages are used). In cases where researchers could not be confident they were doing a company justice, then the company's results were excluded from this study. Because of this, the report may understate to a small degree the scores of a number, but by no means most, Japanese companies.

DETAILED QUESTIONNAIRE: An effort was made to capture all the measurable elements of the *Business Principles for Countering Bribery*. The number of questions associated with each element does not reflect the relative importance; this is rather addressed in the weighting of the three components.

	STRATEGY (Maximum 10 points)
Overall code	Does company have an overall code of conduct or statement of principles or similar?
Overall code	Does this include a reference to anti-bribery?
Overall code	Which of the following does the overall code of conduct apply or refer to: employees board their families and close associates senior managers unclear not applicable (NA)
Initiatives	Which of the following initiatives does the company belong to or support? Sectoral initiatives *Global Compact* *Partnering Against Corruption Initiative* (PACI) *Business Principles for Countering Bribery* (BPCB) International Chamber of Commerce (ICC) *Rules of conduct to combat extortion and bribery*
Anti-corruption policy	Does Company have an anti-bribery policy?
Anti-corruption policy	Which of the following does the anti-corruption policy apply to: employees board and families and close associates senior managers business partners and agents unclear not applicable (NA)
	POLICY (Maximum 15 points)
Overall	Which of the following does anti-corruption policy refer to: anti-bribery facilitation payments gifts political contributions charitable donations lobbying
Bribery	How extensive is company anti-bribery policy?
Facilitation payments	How extensive is facilitation payments policy?
Facilitation payments	Is it policy to keep a record kept of all facilitation payments?
Gifts	How extensive is company policy on gifts?
Gifts	Does gifts policy cover hospitality?
Gifts	Does gifts policy cover "expenses"?
Gifts	Does gifts policy set an upper value limit?
Gifts	Does gift policy refer to cultural context?
Contributions	How extensive are guidelines on political contributions?
Contributions	Are political donations prohibited or regulated?
Lobbying	How extensive is policy on lobbying?

	MANAGEMENT SYSTEMS (Maximum 25 points)
Overall	Which of the following aspects exist within the company's management systems: - systems for managing and monitoring business partners / agents - anti-corruption related training and communication - a whistleblowing and reporting mechanism - internal management and review systems - external auditing or verification
Agents	How extensive are business partner related anti-corruption systems?
Agents	Does company conduct corruption-related due diligence on business partners?
Agents	Is company a TRACE member?
Agents	Does company sanction business partners involved in corruption?
Training	How extensive is training of employees on company's corruption programme?
Training	How extensive is training of business partners on company's corruption programme?
Training	Does anti-corruption policy forms part of employee induction training?
Training	Is training provided for agents on corruption programme?
Training	Does training provide guidance on handling specific situations?
Training	Is there anti-corruption training for board members?
Training	Is anti-bribery and corruption policy communicated to the company's employees?
Training	Is policy translated into other languages?
Whistle-blowing	How extensive is the company's corruption whistle-blowing facility?
Whistle-blowing	How extensive is the facility for employees to seek guidance or raise concerns related to bribery?
Whistle-blowing	Is there a commitment to no victimisation for *bona fide* reporting of corruption?
Review & controls	Is there regular senior management monitoring and review?
Review & controls	Regular reports to senior management, board or audit committee on complaints made?
Review & controls	Does company sanction employees involved in corruption?
Audit	How extensive is external audit and verification?
Audit	Does auditor report on effectiveness of company's internal anti-corruption controls?
KPIs used	Are any corruption-related Key Performance Indicators reported?
KPIs used	Is there public reporting on number or nature of complaints?
KPIs used	Are the number of dismissals/disciplinary cases for breach of anti-corruption policies reported?
KPIs used	Is the number or percentage of employees trained on anti-corruption policies and/or procedures reported?
KPIs used	Are details of political contributions reported?
KPIs used	Are details of charitable donations reported?
KPI details	What is the content of reported Key Performance Indicators?

B. Average scores by sector

Industrial Sector	Average Score
Software & Services	28
Drugs & Biotechnology	24
Aerospace & Defense**	22
Insurance	22
Oil & Gas Operations**	22
Technology, Hardware & Equipment	19
Semiconductors	19
Healthcare Equipment & Services	19
Media	19
Retailing	18
Conglomerates	18
Food, Drink & Tobacco	17
Diversified Financials	17
Average Score*	17
Household & Personal Products	17
Banking	16
Utilities**	15
Basic Materials**	15
Capital Goods**	15
Construction**	15
Telecommunication Services**	14
Trading Companies	13
Business Services & Supplies	12
Chemicals	12
Consumer Durables	12
Transportation	10
Food Markets	10
Hotels, Restaurants & Leisure	9

Note: Maximum points = 50
**Average for 486 companies*
*** Higher risk sectors*

Endnotes

1 See the study by Lee and Ng which concludes that corruption has significant consequences for shareholder value: Lee, C M.C. and Ng, D. (2006). "Corruption and International Valuation: Does Virtue Pay?" Johnson School Research Paper No. 41-06. Or Lascelles, D. (2005) "The ethics of influence: political donations and lobbying", Institute of Business Ethics.

2 "Ten Things About the Consequences of Financial Statement Fraud: A Look at Some of the Adverse Consequences Companies Have Experienced" is available at http://www.deloitte.com/dtt/cda/doc/content/us_dfcttafsfconsequences_26112008(2).pdf

3 Project commissioned by Transparency International and conducted by an independent research team led by Jeremy Baskin (Cambridge Programme for Sustainability Leadership) and with research assistance from Flora Gilbert, Sylvia Seldon, Yongqiu Shao, Morgan Squires, Nitasha Tuli, Sandra Wendlandt and Anna White.

4 General business ethics, money-laundering, as well as sector-specific issues such as certain marketing practices, are not evaluated.

5 Information publicly available since July 2007 is not included but will be captured when the TRAC report is repeated. The materials accessed to evaluate company reporting did not include Securities and Exchange Commission filings or other documents submitted to public authorities unless they were available on the company website or in company reports.

6 To remain a recognised UN *Global Compact* signatory companies are expected to provide a regular Communication on Progress (CoP).

7 For more information on the GRI reporting standards see (http://www.globalreporting.org/Home)

8 The questionnaire could be used to evaluate reporting by state-owned and privately-held companies and as international reporting standards develop, it may be appropriate to widen the scope of future editions of TRAC.

9 Market valuations have, altered significantly since early 2008.

10 Only countries with more than ten companies from the sample of 486 were included in these comparisons. See Appendix for a full list of countries whose companies were assessed in the TRAC report.

11 For detailed findings of the TI *Bribe Payers Index* please visit www.transparency.org/policy_research/surveys_indices/bpi

12 The *Forbes* sector classifications made it difficult in some cases to identify companies operating in higher risk sectors. For example some companies are classified as Conglomerates but operate in sectors where corruption pressures are generally regarded as high.

13 See UN *Global Compact* Principle 10 for further details. A detailed Guidance document is also available. www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/principle10.html

14 For this analysis, the UN *Global Compact* signatories have had their score adjusted to remove the portion of their score gained simply from being a signatory.

15 See www.forbes.com/2007/03/29/forbes-global-2000-biz-07forbes2000-cz_sd_0329global_land.html

16 Data valid as of June 2007.

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