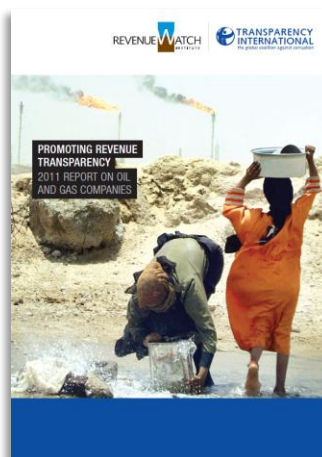
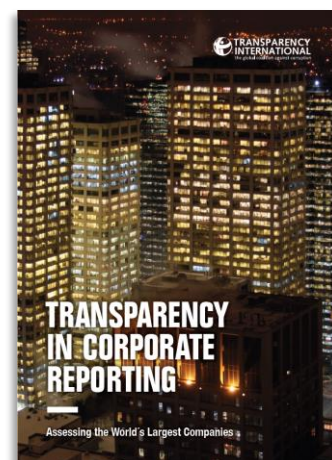




**HUMBOLDT-VIADRINA  
Governance Platform**

# **Evaluation of Transparency International's Transparency in Corporate Reporting (TRAC) tool Recommendations for enhancing relevance and impact**



# Contents

- ABBREVIATIONS AND TERMS ..... 4**
- A. EXECUTIVE SUMMARY ..... 5**
- B. INTRODUCTION ..... 7**
  - 1. Three transparency dimensions of the TRAC..... 7
  - 2. A brief history of TRAC ..... 10
- C. OBJECTIVES OF THIS EVALUATION ..... 13**
- D. METHODOLOGY OF THE EVALUATION ..... 14**
- E. KEY FINDINGS AND RECOMMENDATIONS..... 16**
  - 1. TRAC is a very useful tool for engaging with companies ..... 16
  - 2. TRAC improves corporate reporting, but not in all dimensions alike ..... 16
  - 3. The TRAC methodology is strong, with room for improvements ..... 18
  - 4. Main recommendations ..... 19
- F. ASSESSMENT OF THE METHODOLOGY ..... 22**
  - 1. Target group of companies ..... 22
  - 2. Transparency of anti-corruption reporting (ACP) ..... 24
  - 3. Organizational transparency (OT) ..... 27
  - 4. Country-by-country reporting (CBC) ..... 28
  - 5. Current and potential future trends in corporate transparency ..... 31
    - i. Transparency on political engagements of companies ..... 31*
    - ii. Transparency on beneficial ownership ..... 32*
    - iii. Transparency on tax governance ..... 33*
    - iv. Other..... 33*
- G. ASSESSMENT OF THE TRAC’S ADVOCACY USE AND IMPACT ..... 34**
  - 1. Provide and entry-point with companies for Chapters..... 34
  - 2. Improve level of corporate reporting and practice ..... 36
    - i. Improved corporate reporting ..... 37*
    - ii. Improved corporate practice ..... 40*
  - 3. Create visibility for TI in the media ..... 42

- 4. Increased awareness, action and use across stakeholders..... 45
- H. ASSESSMENT OF RESEARCH PROCESS AND RESOURCES ..... 48**
  - 1. Research process..... 48
  - 2. Resources and fundraising ..... 49
- I. CONCLUDING REMARKS ..... 52**
- ANNEX I: INDICATORS OF TRAC IN THE THREE DIMENSIONS (ACP, OT, CBC)..... 54**
- ANNEX II: DOCUMENT PROVIDED BY TI-S FOR EVALUATION ..... 56**
- ANNEX III: ALIGNMENT OF TRAC WITH STRATEGY 2020..... 56**
- ANNEX IV: MEDIA COVERAGE OF GLOBAL TRAC (2014)..... 59**
- ANNEX V: TRAC CHANGES 2014 COMPARED TO 2012 ..... 63**
- ANNEX VI: GOOD PRACTICE: COMPARING RESULTS BETWEEN TRACS ..... 64**
- ANNEX VII: EVALUATION QUESTIONS..... 66**
- ANNEX VIII: TRAC IMPACT LOG FRAME ..... 67**
- ANNEX IX: TRACS ..... 68**
  - 1. Cross-sectoral international TRACs ..... 68
  - 2. National TRAC Reports (selection of available reports in English online) ..... 71
  - 3. Overview of TRAC Outcomes (as provided by TI-S, November 2018) ..... 77

The Report was established between November 2018 and March 2019 by Sebastian Wegner (HUMBOLDT-VIADRINA Governance Platform gGmbH). Contact point at TI-S was Coralie Pring (Transparency International). For questions, please send an email to [cpring@transparency.org](mailto:cpring@transparency.org) and/or [swegner@governance-platform.org](mailto:swegner@governance-platform.org).

**About the HUMBOLDT-VIADRINA Governance Platform gGmbH:**

The HUMBOLDT-VIADRINA Governance Platform is a not-for-profit, limited liability company, based in Berlin / Germany. Its mission is to strengthen participation and transparency for sustainable solutions of societal challenges. [www.governance-platform.org](http://www.governance-platform.org)

## Abbreviations and Terms

<b>AO</b>	Advocacy Objective
<b>ACP</b>	Reporting on Anti-Corruption Program (TRAC Dimension I)
<b>CBC</b>	Country-by-Country Reporting (TRAC Dimension II)
<b>OT</b>	Organizational Transparency (TRAC Dimension III)
<b>CTE</b>	Corporate Transparency Expert
<b>GRI</b>	Global Reporting Initiative
<b>Indicator</b>	Refers to questions under each of the three dimensions
<b>MNE</b>	Multinational enterprise
<b>SME</b>	Small and mid-sized enterprise
<b>SOE</b>	State-owned enterprise
<b>Stakeholder</b>	Refers to all information sources consulted for this evaluation
<b>TI</b>	Transparency International
<b>TI-S</b>	International Secretariat of Transparency International
<b>TI-CH</b>	National Chapter of Transparency International
<b>TRAC</b>	Transparency in Corporate Reporting (Tool, Report)
<b>UNGC</b>	United Nations Global Compact

## A. Executive summary

As an evidence-based advocacy anti-corruption organization, measuring and assessing corruption risk is the heart of Transparency International's (TI) work. Since 2009, TI has been conducting research to look at transparency in corporate reporting ('TRAC').

The objective of TRAC is to influence companies to make more information public thereby holding themselves to higher levels of scrutiny from a broad group of stakeholders. It also aims to facilitate engagement with the private sector.

The TRAC Report of TI assesses the **public disclosure practices of companies based on three dimensions:**

- the reporting of key elements of their anti-corruption programmes ('ACP');
- the disclosure of their company structures and holdings ('OT'); and
- the disclosure of key financial information on a country-by-country basis ('CBC').

Since the first release in 2009, TI has published two global TRAC reports, two reports on multinational companies in emerging market economies, one sectoral study on oil and gas and one on the telecommunications sector, and over 20 country TRAC reports, conducted by TI National Chapters ('TI-CHs').

The evaluation is based on responses of

- 15 Chapters who have conducted at least one TRAC as well as selected and follow-up interviews;
- interviews with 6 Chapters who have not conducted a TRAC;
- TI-S;
- 3 companies;
- 2 international impact investors;
- 2 corporate transparency experts;
- analysis of existing TRAC reports and additional documentation.

## **KEY FINDINGS**

- **TRAC is a very useful tool for engaging with companies:** It serves as an entry point to engage with companies. It helps with gaining visibility in the media and amongst government officials and civil society. TRAC provides TI with a practical tool to increase its advocacy capacity regarding business integrity.
- **TRAC improves corporate reporting, but not in all dimensions alike:** It supported major improvements in corporate transparency regarding anti-corruption programs, led to minor improvements in organizational transparency (e.g. subsidiaries and holdings), but to no significant improvements with respect to country-by-country reporting of companies (e.g. revenue and tax transparency abroad).
- **The TRAC methodology is robust, with room for improvements:** Whilst the requirements on reporting on anti-corruption programs are considered as not demanding enough, the requirements on organizational transparency and country-by-country reporting are considered as either too demanding and/or not applicable to all companies alike. Assessing company reporting was, in general, considered a valuable and solid approach which balances costs and risks whilst ensuring the comparability of results.

## **MAIN RECOMMENDATIONS:**

1. **Increase flexibility for national implementation** by taking steps towards tailoring transparency requirements towards different company types and sizes;
2. **Update transparency requirements** by revisiting the existing three dimensions and considering the addition of new aspects such as political contributions, tax governance and beneficial ownership transparency;
3. **Implement sector TRACs** to increase relevance and pressure on companies;
4. **Enhance internal capacities for coordination** to fully utilize the potential TRACs for advocacy purposes;
5. **Strengthening partnerships** with other civil society organizations, users (e.g. investors as well as information providers for investors), and multipliers such as media outlets.

## B. Introduction

As an evidence-based advocacy anti-corruption organization, measuring and assessing corruption risk is the heart of Transparency International's (TI) work. Since 2009, TI has been conducting research to look at **transparency in corporate reporting ('TRAC')**.

The objective of TRAC is to influence companies to make more information public thereby holding themselves to higher levels of scrutiny from a broad group of stakeholders. It also aims to facilitate engagement with the private sector.

The specific **advocacy objectives** (AO) are:

- AO1. Improve the level of anti-corruption reporting and transparency practices of companies through incentives and competition (ranking)
- AO2. Increase awareness and understanding among companies of the benefits and necessary components of the anti-corruption and transparency standards as advocated by TI;
- AO3. Provide an entry point and content basis to start a dialogue with companies on their practices with the goal of a longer-term engagement;
- AO4. Support Chapters' capacity and expertise on corporate reporting and corporate engagement;
- AO5. Create visibility for TI-S and Chapters and establish them as the go-to organisation on corporate reporting and transparency;
- AO6. Increase awareness and understanding across a range of stakeholders including the media, the general public, government officials and civil society of the positive impact of greater corporate transparency.

### 1. Three transparency dimensions of the TRAC

The TRAC Report of TI assesses the **public disclosure practices of companies based on three dimensions**<sup>1</sup>:

- **Reporting on anti-corruption programs ('ACP')**: 13 questions derived from the UNGC-TI Reporting Guidance on the 10th Principle against Corruption to:
  - Show that company's basic preventive measures against corruption are in place;

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<sup>1</sup> For a detailed list of questions for each dimension, ref. "ANNEX I: Indicators of TRAC in the three dimensions (ACP, OT, CBC)".

- Demonstrate company's public commitment to anti-corruption;
- Increase company responsibility and accountability to all stakeholders.
  
- **Organizational Transparency ('OT'):** 8 questions checking a company's disclosure of its international corporate structures: subsidiaries, associates, joint-ventures to:
  - Increase transparency of intra-company financial flows and operations;
  - Facilitate detection of illicit financial flows – corruption preventive measure;
  - Reveal inter-connections between companies and potential conflicts of interest (also between private and public sectors).
  
- **Country-by-Country Reporting ('CBC'):** 5 questions checking a company's disclosure of financial data on a country-level – relevant only for multinational companies - to:
  - Allow local citizens and civil society organizations to monitor of taxes and other transfers to governments and the so-called 'corruption gap' (difference between money paid by companies to governments and that registered as budget income);
  - Decrease probability of corruption and money laundering by increasing financial transparency;
  - Detect value sharing and profit transferring practices, and reveal the actual impact of multinational business on host economies;
  - Improve management of public resources.

**TRAC assesses the disclosure of information by companies but does not verify the implementation of these practices.** The information is gathered from corporate websites and other publicly available sources by a team of Transparency International researchers. Before publication, companies are contacted and asked to comment on the gathered information. This gives companies the opportunity to point to other sources on the company website which might have not been identified by TI researchers and/or provide requested information to increase their score(s).



Assessed companies are sorted according to the composite score in the three dimensions:



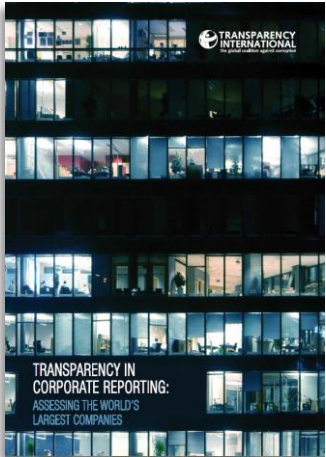

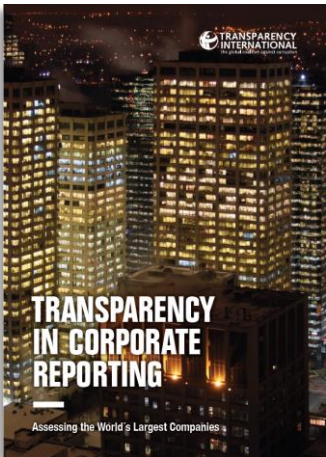
Figure 1: 50 high-ranking companies in 2014 TRAC



## 2. A brief history of TRAC

Since the first release in 2009<sup>2</sup>, TI has published two global TRAC reports, two reports on multinational companies in emerging market economies, one sectoral study on oil and gas and one on the telecommunications sector, and over 20 country TRAC reports conducted by TI National Chapters ('TI-CHs').

Year	TRAC	
2009	<p><b>Transparency in Reporting on Anti-Corruption – A Report on Corporate Practices</b></p> <p>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</p>	
2011	<p><b>Promoting Revenue Transparency – 2011 Report on Oil and Gas Companies</b> (together with Revenue Watch)</p> <p>Assesses 44 major oil and gas producers with respect to</p> <ul style="list-style-type: none"> <li>• Reporting on Anti-Corruption Program;</li> <li>• Reporting on Organizational Transparency;</li> <li>• Country-by-Country reporting.</li> </ul>	

<sup>2</sup> A CTE mentioned that one advocacy target of the first report on oil and gas was to promote sectoral legislative change. The interviewee suggested to move back to writing sector reports and advocating for industry standards, since these reports have a stronger impact on companies' behavior. Based on the experience with the extractives Report 2011, it was intended to push towards a global transparency standard – and therewith promote cross-industry legislation through the global TRACs (especially by TI-EU). However, the CTE summarized this was not successful.

<p>2012</p>	<p><b>Transparency in Corporate Reporting – Assessing the World’s Largest Companies</b></p> <p>Assesses 105 largest publicly traded MNEs according to Forbes with respect to</p> <ul style="list-style-type: none"> <li>• Reporting on Anti-Corruption Program;</li> <li>• Reporting on Organizational Transparency;</li> <li>• Country-by-Country reporting.</li> </ul>	
<p>2013</p>	<p><b>Transparency in Corporate Reporting – Assessing Emerging Market Multinationals</b></p> <p>Assesses 100 emerging market MNEs drawn from the Boston Consulting Group’s 2011 “Global Challengers” list with respect to</p> <ul style="list-style-type: none"> <li>• Reporting on Anti-Corruption Program;</li> <li>• Reporting on Organizational Transparency;</li> <li>• Country-by-Country reporting.</li> </ul>	
<p>2014</p>	<p><b>Transparency in Corporate Reporting – Assessing the World’s Largest Companies</b></p> <p>Assesses 124 largest publicly listed MNE according to Forbes with respect to</p> <ul style="list-style-type: none"> <li>• Reporting on Anti-Corruption Program;</li> <li>• Reporting on Organizational Transparency;</li> <li>• Country-by-Country reporting.</li> </ul>	

<p>2015</p>	<p><b>Transparency in Corporate Reporting - Assessing the World's Largest Telecommunications Companies</b></p> <p>Assesses the 29 largest telecommunications companies and eight telecoms equipment companies based on the 2014 Forbes Global 2000 with respect to</p> <ul style="list-style-type: none"> <li>• Reporting on Anti-Corruption Program;</li> <li>• Reporting on Organizational Transparency;</li> <li>• Country-by-Country reporting.</li> </ul>	
<p>2016</p>	<p><b>Transparency in Corporate Reporting – Assessing Emerging Market Multinationals</b></p> <p>Assesses 100 emerging market MNEs drawn from the Boston Consulting Group's 2011 "Global Challengers" list with respect to</p> <ul style="list-style-type: none"> <li>• Reporting on Anti-Corruption Program;</li> <li>• Reporting on Organizational Transparency;</li> <li>• Country-by-Country reporting.</li> </ul>	

For the global TRACs, the same methodology has been applied for all global TRACs following the 2013 report. However, the indicators which were rated have changed between reports. The

- 2009 TRAC included only anti-corruption reporting;
- 2011 TRAC included no country-by-country reporting, but additional criteria relevant to the oil and gas industries;
- 2012 TRAC did not include holdings in OT.

Therefore, results of 2009, 2011 and 2012 cannot be compared with results of all subsequent TRACs.

TI-CH are asked to apply the same methodology as the global TRAC to ensure consistency and comparability. Most Chapters follow this practice, with a few exceptions.

## C. Objectives of this evaluation

Engaging with the businesses and tackling corruption risks in the private sector is an important part of Transparency International's Strategy 2020. This evaluation assesses whether the TRAC is fit for purpose and will have maximum impact in achieving the advocacy objectives.

This evaluation has the following **objectives**<sup>3</sup>:

- identify areas where the implementation of the TRAC has been successful in achieving the advocacy objectives, and where it has been unsuccessful;
- make suggestions for improving the methodology, the implementation of the tool, and the advocacy that follows;
- highlight current and potential future trends in corporate transparency;
- link TRAC to TI's business case for corporate transparency<sup>4</sup>, in particular to reputational incentives and sanctions.

Answering these questions, the evaluation report is envisioned to serve as a rich basis for further enhancing the engagement with companies and tackling corruption risks in the business sector as an important part of Transparency International's Strategy 2020.

The evaluation is targeted towards the following **users**:

- Transparency International – International Secretariat (Business Integrity, Strategy & Impact, Global Advocacy, Research & Knowledge);
- National Chapters;
- Other external users.

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<sup>3</sup> It was not the focus of the evaluation to conduct a detailed assessment of the research process and guidance material provided by TI-S to implementing Chapters.

<sup>4</sup> [https://www.transparency.org/whatwedo/publication/working\\_paper\\_1\\_2016\\_the\\_benefits\\_of\\_anti\\_corruption\\_and\\_corporate\\_transpar](https://www.transparency.org/whatwedo/publication/working_paper_1_2016_the_benefits_of_anti_corruption_and_corporate_transpar)

## D. Methodology of the evaluation

The evaluation questions are answered by means of a combination of qualitative and quantitative information collected via:

- Structured interviews based on a standardised interview guide;
- Online survey taken by National Chapters for accompanying quantitative results;
- Desk research of TI Documents (e.g. media analysis) and external relevant sources related to reporting (*ref. "ANNEX II: Document provided by TI-S for Evaluation"*).

The following **internal and external stakeholders** have been contacted:

Stakeholder Group	Details
TI-S	1x structured 2-hour interview with multiple departments
<b>National Chapters who have conducted a TRAC</b>	<p><b>TI-Chapters which answered the online questionnaire:</b></p> <p>Transparency International - Korea (South), Towards Transparency (Vietnam), Transparency International Norway, Corruption Watch (South Africa), Transparency International Israel, Transparency International Indonesia, Transparency International Kenya, Chile Transparente, Transparency International Russia, Transparency International Cambodia, Transparency International Brazil, Transparency International Mongolia, Poder Ciudadano (Argentina), Transparency International Lithuania, Transparencia Mexicana</p> <p><b>Follow-up interviews:</b></p> <p>Transparency International Israel, Chile Transparente, Transparency International Russia, Towards Transparency (Vietnam)</p>
<b>National Chapters who have not conducted a TRAC</b>	Transparency International Germany, Accion Cuidanana (Guatemala), Transparency International Australia, Transparency International France, Transparency International UK, Transparency International EU
<b>Companies which were part of a TRAC</b>	3 companies conducted a TRAC (high scores)
<b>Other stakeholders</b>	<p>2 major investors</p> <p>2 corporate transparency experts</p>

As a result of the interviewee pool and the data sources available, this evaluation has the following strong points as well as limitations:

### Strong points:

- **Strong indications for reaching major advocacy objective available:** Due to the high number of TRACs implemented and based on the high proportion of TI-CH which implemented these reports, the evaluation presents a robust assessment on whether the advocacy objectives of Chapters have been reached and what should be changed to further strengthen the impact of the TRAC.
- **Considerable number of TI-Chapters not implemented TRAC gave input:** The evaluation presents a solid overview on why Chapters have not implemented a TRAC.
- **Major impact investors provided input:** The evaluation gives well-founded indications on how to further enhance the usefulness of the report for investors with a very strong anti-corruption and good governance agenda.
- **Corporate transparency experts:** The evaluation gives major insights on how to further develop the methodology of the TRAC.

### Limitations:

- **No journalists included:** Despite several attempts, no journalist agreed to an interview regarding the TRAC. Therefore, the evaluation cannot provide an assessment on how to improve TRACs attractiveness for media.
- **No systematic impact and press coverage monitoring available:** As neither the TI-S nor the Chapters conduct systematic impact and press coverage monitoring, no systematic review to assess the development of press coverage over time is provided.
- **Low number of companies interviewed, incl. selection bias:** Due to the lack of existing recent interactions of TI-S with companies assessed under TRAC, fewer interviews with companies assessed under TRAC than planned were conducted. Additionally, there is a considerable selection bias as the companies interviewed were ranked highly by the respective TRAC reports and are on very good terms with the respective Chapter.
- **Behavioral change difficult to assess:** Due to a lack of systematic impact monitoring, the evaluation could 1) give indications but no systematic analysis on how much TRAC contributed to enhanced corporate reporting, and 2) give no evidence on how much TRAC contributed to stronger anti-corruption practice and a reduction of corruption risks.

## E. Key findings and recommendations

### 1. TRAC is a very useful tool for engaging with companies

Overall, the TRAC tool is valued as **one of the most important and visible advocacy tools developed by Transparency International**. The topic of corporate transparency, especially country-by-country reporting remains high on the agenda<sup>5</sup>. Transparency International is regarded as credible player to conduct such an assessment by all stakeholder groups interviewed – TI-S, corporate transparency experts, Chapters conducted a TRAC and those not conducted a TRAC so far as well as investors.

For Chapters, the TRAC is very useful as:

- an entry point to **engage with companies**, as the TRAC provides a justification to start a dialogue with companies on their current anti-corruption and corporate transparency practices – especially the opportunity of companies to verify their scores before the final publication was considered valuable from a TI as well as a company perspective (“build-in advocacy”);
- to **gain visibility** across various stakeholder groups including the media, the general public, government officials and civil society;
- as a **capacity building tool** for TI to enhance expertise on corporate reporting and corporate engagement.

With respect to the **approach of naming & shaming**, stakeholders consider the ranking of companies as useful to create visibility and therewith an entry point for discussions with the main target groups, incl. companies.

### 2. TRAC improves corporate reporting, but not in all dimensions alike

TRAC can support changes with companies on two levels:

1. enhanced reporting; and
2. enhanced implementation of internal anti-corruption policies and procedures (on-paper as well as in practice).

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<sup>5</sup> For example at EU level, which is also reflected in the media: <https://www.ft.com/content/5be246fc-ce39-11e8-9fe5-24ad351828ab>.



Overall the TRAC results show that **reporting has enhanced**. However, the improvement is not equally distributed over all three dimensions:

- **significant improvements of companies on ACP** (e.g. improvement of average ACP scores in the three global TRACs from 47% to 70% between 2009 and 2014, and some minor improvements from 46% to 48% in the TRACs covering emerging market companies);
- **some minor improvements on OT** (e.g. in Denmark from 66% to 89% between 2014 and 2016, or in Lithuania from 25% to 32% between 2014 and 2017)<sup>6</sup>;
- **no significant improvements with respect to CBC** (e.g. improvement of average ACP scores in the three global TRACs from 4% to 6% between 2012 and 2014, but no changes in the TRACs covering emerging market companies).

These statistics provide evidence that **companies have improved their anti-corruption practices on paper**. Therefore, it is likely that corruption risks have been reduced to some extent (e.g. reduction of corruption requests to companies with enhanced reporting, or reduction of corrupt practices by employees from companies with strong reporting). However, there is a **lack of data available to assess whether the policies on paper have led to a significant behavior change**.

Stakeholders voiced the concern that the TRAC has still **not exhausted all possibilities to create peer pressure between companies with respect to corporate reporting** as it focusses on comparing the largest companies (not companies within a sector) and compares different types of companies at the same time (“comparing apples and oranges”).

Stakeholders are very confident that the **TRAC has significant potential to further enhance reporting in the future**. In some contexts, this might take more time. For some indicators and/or dimensions, this requires a more diversified approach complementing company advocacy with pushing for legislative changes (for OT, CBC) and leveraging multipliers such as investors (incl. their information providers such as agencies assessing the environmental, social and governance (“ESG”) performance of companies).

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<sup>6</sup> For the global TRACs as well as the TRACs covering emerging market multinational, the OT scores cannot be compared between the reports as there has been a major change to scoring in the second dimension. For details, ref. “ANNEX V: TRAC Changes 2014 compared to 2012”.

### 3. The TRAC methodology is strong, with room for improvements

The overall methodology was regarded as **thorough, with a couple of opportunities for improvements**.

Major **strong points** are that:

- The assessment is based on information reported by the companies;
- The transparency requirements by and large cover all relevant aspects of anti-corruption reporting;
- The companies are given the opportunity to verify the information before publication.

The main **weak point** is that the same transparency requirements (i.e. three dimensions and questions) are applied to:

- all company types (publicly listed companies, private companies, SOEs), all company sizes (i.e. MNEs and SMEs);
- all sectors and markets (e.g. developed and developing) alike<sup>7</sup>.

The **risk for TI that a company with high scores is exposed on a corruption** (e.g. directly after publication of the report) **is relevant but can be handled**. The possible negative implications of such a case do not outweigh the benefits of the current approach. **Stakeholders do not recommend changing the methodology significantly when it comes to data sources**, as it was recognized that assessing transparency is both robust and avoids implementation risks and dependencies (e.g. from information providers).

Stakeholders provided extensive feedback on the adequacy of the current dimensions of the TRAC (ACP, OT, CBC):

- **ACP was in general considered as not demanding enough** (incl. lack of relevant indicators), except by the companies;
- **OT was in general considered as just right** (with minor comments for refinements), but applicability to all target companies alike was questioned;

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<sup>7</sup> TRAC was mainly designed to apply to multinational enterprises doing business and having subsidiaries in various jurisdictions.

- **CBC was considered as too demanding** (not applicable to all contexts or to all target companies).

In addition to the existing dimensions, stakeholders suggested a series of new transparency requirements (linked to business integrity) to be included in the TRAC to cover **current and future trends in corporate transparency**, incl.:

- political contributions;
- beneficial ownership;
- tax governance.

No stakeholder indicated that a **change in methodology would harm the TRAC as a brand or would cause any other way negative consequences** (e.g. due to lack of comparability of results over time).

#### 4. Main recommendations

*The main recommendations are extracted from the series of recommendations provided below.*

##### **Main recommendation 1: Increase flexibility for national implementation**

Under the assumption that TI is not striving for a universal standard for corporate transparency, it should strongly be considered to increase the flexibility for national implementation of the TRAC by moving away from requiring the same dimensions and indicators to be applied by all Chapters, to all companies and in all markets alike.

The TRAC assessment framework could offer a “menu of dimensions” (currently ACP, OT, CBC) incl. recommendations as to which dimensions and indicators apply to which company type (publicly traded, private, SOE), and with regard to company size (MNEs, SMEs), sector and market. Out of this “menu”, Chapters would then be able to pick the indicators relevant to them. This menu should be complemented with guidance by TI-S on rationales for each dimension and additional information and advice which dimensions are most relevant in a specific context (incl. size and key characteristics of targeted companies).

### **Main recommendation 2: Update transparency requirements**

The transparency requirements should be updated on various levels:

- a. Add/modify indicators to make them more relevant and applicable to the current policy environment and stakeholder demands. More specifically,
  - i. the ACP dimensions should be enhanced so that indicators can adequately cover processes and possibly also the quality of implementation of anti-corruption programs, whilst considering limitations in assessing the latter;
  - ii. the OT dimension should be restructured reflecting one scenario per question (i.e. Q18: associates and joint ventures);
  - iii. the CBC dimension should be reviewed with the goal of improving its applicability depending on different company structures (e.g. make it applicable also to companies with sales branches abroad).
- b. Consider different indicator sets for different company characteristics (e.g. ownership structure (type), size, sector and market);
- c. Consider adding new requirements such as indicators on political engagements, beneficial ownership, and tax governance.

### **Main recommendation 3: Implement sectoral TRACs**

Consider moving the focus to sector-specific advocacy by implementing sectoral TRACs through the comparison of relevant peers (as opposed to only comparing companies of similar revenues). This allows for a more targeted communication and engagement strategy.

For now, such sectoral TRACs could be based on the current assessment methodology (i.e. dimensions and indicators). In the medium-and long term, the methodology could be expanded to include sector specific transparency requirements.

#### **Main recommendation 4: Enhance internal capacities for coordination**

Coordination of the TRAC implementation at TI-S and Chapters should be enhanced by:

- a. Strengthening internal stakeholder management systems which track and make all stakeholders targeted with the TRAC and communicated with (companies, media etc.) available and transparent to staff tasked with the development and implementation of TRAC;
- b. Developing a TRAC-Hub hosted on the TI-S website which provides all TRACs, impact stories as well as the methodology and additional guidance;
- c. Strengthening internal capacities to promote and communicate TRAC results within current policy debates at all levels, as well as within other TI advocacy work;
- d. Strengthening internal impact monitoring and learning processes which regularly assess successes and failures. It should also include review of comments by external stakeholders on the TRAC (e.g. media articles) to assess how TRAC is received and how the advocacy strategy can be enhanced.

#### **Main recommendation 5: Strengthening partnerships**

Impact and relevance can be increased by strengthening existing and establishing new partnerships, incl. with:

- a. Other civil society organizations working on topics covered by the TRAC such as Tax Justice Network and Publish What You Pay (incl. joint advocacy);
- b. Investors incl. ESG information providers and other business stakeholders;
- c. Multipliers for (media) outreach.

#### **Main recommendation 6: Diversify advocacy strategy**

To better use the different motivations of companies with regard to publishing information on the three dimensions, consider diversifying the advocacy strategy by:

- Continuing to work directly with companies to support them to enhancing their ACP;
- Strengthening legal frameworks which punish companies for lack of preventive anti-corruption measures incl. reporting (i.e. lack of risk management) as well as rewarding adequate anti-corruption programs;
- Strengthening legal frameworks to close existing loopholes in laws and regulations related to CBC and OT (“nothing beats legislation...[and] all this voluntary activity is just not as powerful” - Chapter not conducted a TRAC)

## F. Assessment of the methodology

While stakeholders predominantly highlighted the **unique value of TRAC to engage with companies<sup>8</sup> and to push for better reporting**, a series of suggestions on how to improve the methodology were made, in order to update the TRAC with respect to current good practices as well as to account for differences in target companies.<sup>9</sup>

### 1. Target group of companies

Global and most national TRACs focus on the largest companies (globally or in a specific country). This leads to a situation in which one TRAC covers different sectors and different types of companies. At the same time, the same indicators are applied not only to different sectors and different types of companies, but also in different markets (developed and developing). The evaluation showed, that this situation comes with a series of difficulties and ideas for change to with the topic and enhance the impact of the TRAC.

The **TRAC was mainly designed for multinational enterprises ('MNEs') operating in global markets and various countries** (usually publicly listed). According to the TRAC Guidance by TI-S, a TRAC should cover the largest companies in a certain region (globally, or in a country)<sup>10</sup>. When implemented in most of the countries, these 'largest companies' are by no means publicly listed MNEs but rather a mix of listed companies, private companies, state-owned enterprises ('SOEs') of all sizes, incl. small and medium-sized enterprises ('SMEs'). These target groups are significantly different from the MNEs.

As **most Chapters assessed the largest companies in their country, they had the difficulty that their report covered more than one type of company** (e.g. listed companies, private companies, SOEs) from different sectors and evaluated their performance with respect to the same standard. For example, a TI-CH who has conducted a TRAC mentioned specifically that the choice of companies is a reoccurring challenge. They exclude certain types of companies which do not match with the TRAC indicators such as banks and subsidiaries / branches of foreign companies.

The **importance of the selection of the target group is also reflected in the feedback of the Chapters regarding the transparency requirements**. 5 of 15 TI-CHs conducted a TRAC have changed the methodology as suggested by TI-S. This and other comments show that while a

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<sup>8</sup> Some Chapters prefer ratings rather than rankings for their advocacy strategy with companies which led to a situation in which the TRAC methodology has either been interpreted in a more flexible way, or not applied at all. For selected Chapters, the requirement to rank publicly was a reason not to conduct a TRAC but decided for a more collaborative approach.

<sup>9</sup> TI-S stated that in general, TI-CHs feel comfortable with the methodology. However, for some Chapters the TRAC is too demanding or not applicable for national chapters, because companies are too small (90% of SMEs do not have a website, CBC does not apply to SMEs). A TI-CH stated that although TRAC is a powerful tool, it is a good approach reviewing it and improve applicability and relevance for countries.

<sup>10</sup> According to Transparency International: Transparency in Corporate Reporting – Toolkit for National Chapters.

lot of stakeholders appreciate the advantages of having a fixed set of indicators which is applied in all countries, some TI-CH still struggle with the applicability of some of the indicators to their context. Reasons for this include:

- The (lack of) applicability of indicators for company types assessed (e.g. MNEs vs. SMEs, private companies vs. publicly traded companies vs. SOEs);
- Prevailing company structures (e.g. subsidiaries of MNEs);
- Current legal requirements applicable to the companies.

Additionally, **major stakeholders such as investors and corporate transparency experts** argued that the use and impact on corporate transparency, legislative changes and use for investors would be higher if TI would focus again on sectoral TRACs, as well as increase the flexibility of indicators for different types of companies.

Based on the experience with the sectoral TRACs (2011 covering oil and gas companies, 2015 covering telecommunication companies) as well as further advocacy experience, stakeholders argued that it is worth to **focus sectoral TRACs**. It is expected that this would have a significant impact and visibility due to competitiveness between peer-companies. The sectoral approach would also be beneficial when it comes to company engagement as well as synergies with other advocacy efforts (e.g. legislative changes, cooperation with other NGOs).

The **flexibility with respect to the choice of indicators helps to better account for country priorities and specifics of different target groups**. Although the value of comparability of results across reports was appreciated, the general tendency was that, if TI is not advocating for one global corporate transparency standard, the indicators should allow for more flexibility. Still, TI-CHs highlighted the value of comparability of results across reports. But, the tendency among Chapters was that the applicability of the assessment should not be compromised with the comparability across countries.

An investor stated that although it would be ideal to have the same scores for companies in global and national TRACs, inconsistencies are less interesting for them as they are a global investor. However, the investor pointed out that inconsistencies might be an issue for other investors.<sup>11</sup>

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<sup>11</sup> Overall, this comes down to the need to decide on whether TI is advocating for a single global transparency standard which applies to all companies alike, or whether there should be differences on requirements for different types of companies (i.e. MNEs, SMEs, publicly owned companies, private companies, SOEs), for different sectors (e.g. extractives, pharmaceuticals) and / or different markets (e.g. developed markets in Europe and the US vs. developing markets in Eastern Europe).

### **Recommendations**

In order to further strengthen the impact, relevance and credibility of the TRAC with companies as well as to increase impact on legislative changes, the following changes with respect to the target group could be considered:

- Define primary advocacy target for the TRAC (company engagement vs. single global transparency standard);
- Allow and inspire Chapters for more flexibility with respect to indicators, target groups and how ranking(s) are displayed (e.g. separate rankings according to company type in one report);
- Review scoring methodology and scoring guidance with respect to flexibility regarding company types as well as robustness of scoring rules;
- Establish different indicator sets for publicly listed companies, SOEs and SMEs (e.g. based on TI Business Principles, and other standards such as GRI);
- Focus on sector reports to advocate for industry standards as well as sectoral legislative changes (incl. adding sectoral specific indicators – if the aim is not to advocate for a universal transparency standard for all companies).

*For each of the three dimensions, details are provided below:*

## **2. Transparency of anti-corruption reporting (ACP)**

Chapters stated that **transparency on ACP contributes to enhancing business integrity** in their country. For countries with low disclosure on anti-corruption programs, this dimension is useful to encourage reporting and start discussions about elements of an anti-corruption program and their implementation.

There were no comments that the used indicators are not applicable to a specific type of company, sector or under a certain legal regime. Only in a very few cases, companies were asking questions on specific indicators which have been easily resolved (e.g. why to report on policies on issues that are mandated or prohibited by law).

**Some chapters reported that subsidiaries with headquarters on other countries felt not treated in a fair manner** since most of the anti-corruption and governance reporting and transparency is usually done on a group level (i.e. from the headquarters). The respective Chapter suggested not giving 0 points, if a subsidiary is not reporting on its anti-corruption measures, but rather 0,5 points if the policies are reported on a group level.



A TI-CH who has conducted a TRAC stated that the Chapter needed to find the right policies and statements which is used as an example of the right answer to the researcher. For them it was difficult to match the TRAC's scoring with the company policies.<sup>12</sup>

**Some stakeholders considered ACP as not sufficient**, demanding more details on processes and quality of implementation of the anti-corruption programs. Opinions from the Chapters are mixed – mostly depending on the state of development of the anti-corruption agenda in their country. 8 of 15 TI-CHs who have conducted a TRAC stated that ACP is 'too weak'. 7 of 15 stated that it is 'just right'.

Stakeholders from more advanced economies stated that ACP is somewhat outdated and too high-level, which is also reflected by the high scores of companies, especially with headquarter in Europe and the US. Especially investors were interested in a more detailed assessment.

**TI-CHs, TI-S and CTEs underlined the need to further develop the dimension adding indicators covering also processes as well as the quality of implementation** – i.e. differentiate between on-paper and in-practice (e.g. quality of trainings). Several good practices were mentioned such as TI-UK Defense Companies Anti-Corruption Index.

This would not only provide better insights into corruption risks, but also lowers the risk of a major corruption scandal of a company with a high ACP score. The latter was a major problem for two chapters (in both cases the Chapter was able to deal with the consequences).

While there was the general tendency that it would be good to move in the direction to better cover processes and quality of implementation of anti-corruption measures, comments showed that it is less clear how this could be done (or even should be done in the first place). Also, one TI-CH asked whether the assessment of the quality of implementation of anti-corruption programs are within the remit of a civil society organization, or whether this is rather a task for private external consultants.

To better cover processes, stakeholders highlighted that the following indicators could be added:

- Role of the board in oversight<sup>13</sup>;
- Corruption cases and how company dealt with it;

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<sup>12</sup> For instance, the company would get a score of 1 if it has an explicit statement of 'zero tolerance to corruption' or equivalent. Most companies preferred to use the term 'integrity'. They decided, that the company would get score 0.5 if it just uses such word.

<sup>13</sup> Corporate Governance standards already include requirements regarding transparent board appointment rules, roles and responsibilities of the board, disclosure of senior management roles and responsibilities in terms of governance etc. (ref. e.g. GRI). These requirements have also been taken up in TI's Principles for SOEs.

- Usage of whistleblower lines;
- Monitoring and control procedures (procedures and systems in place to monitor implementation (narrative descriptions and quantitative measurements));
- Risk assessment practice;
- Conflicts of interest policies and processes.

Stakeholders agreed that the **indicators and data sources should not be based on the subjective judgment of the companies or other stakeholders**. Also, stakeholders did not see the benefit of adding third party data as a general rule as this would make the research costlier and entails risks of data availability and credibility. Thus, there was a tendency to keep focusing on company reporting (as this would also keep the risk of subjective judgements and company complains low).

### **Recommendations**

To further increase relevance, applicability and robustness of ACP, the following could be considered:

- Review indicators with respect to current legislation (e.g. EU) and other voluntary (reporting) standards such as GRI;
- Keep requirement to report on subsidiary level and give additional guidance for cases in which reporting of group level differs from subsidiary (e.g. Why it is important to also report on subsidiary level? What to do in cases in which reporting is done on group level but not linked to subsidiary? What to do in cases in which reporting is not available in applicable language);
- Assess whether indicators to evaluate existence of processes (not only policies) for implementing an anti-corruption program should be added.

### 3. Organizational transparency (OT)

Chapters stated that **transparency on OT contributes to enhancing business integrity** in their country. However, while most indicators are superseded by legislation for publicly listed companies in some countries (e.g. EU countries), Chapters and corporate transparency experts state that there was almost no improvement of transparency among the other company types (e.g. private companies, SOEs, SMEs) for two reasons:

1. Dimension do not apply to types of companies in their countries;
2. Companies refuse to publish information on OT referring to their existing legal duties (such as the General Accounting Standards).

8 of 15 TI-CHs who have conducted a TRAC stated that OT is 'just right'. 7 of 15 stated that it is 'too weak'. Two Chapters stated that this dimension does not fit perfectly on the different company types assessed (private, defense) and suggested to introduce different scorings for different types (reflecting on the criticism that came from their Board as well as assessed companies).

**Most companies consider the indicators regarding OT as not appropriate or relevant** (especially for private companies, SOEs or SMEs). While one company with good OT scores consider all requirements to be adequate, another company stated that no company will voluntarily publish information in that level of detail (e.g. payments to subsidiaries). The company stated that it would be desirable that the "questions should reflect current good practice, not wishful thinking".

On the contrary, other stakeholders such as **civil society or investors expressed the need to further enhance transparency in these areas**. An investor suggested to add

- indicators which allow for a better judgement on the nature of the business activities by subsidiaries to understand their commercial value, and
- indicators which allow for better judgement regarding policies on the use of tax havens.

Based on these findings, stakeholders asked for **more flexibility regarding OT to account for these differences and safeguard the use, acceptance and credibility** of the TRAC.

At the same time, TI should also diversify the advocacy strategy. A CTE stated, that without legislation reporting on this dimension would not happen (e.g. the German legislation – now companies must publish all their holdings fully).

### **Recommendations**

To further increase relevance, applicability and robustness of OT, the following could be considered:

- Revisit the advocacy goals and focus on pushing for legislative changes on OT;
- Split questions which focus on more than one company-entity: Question 18 should be split into two questions, one for associates and one for holdings because at the moment, companies receive 1 point for subsidiaries and the other 4 points for joint-ventures & associates;
- Allow for more flexibility for different company types.

## **4. Country-by-country reporting (CBC)**

Chapters stated that **transparency on CBC contributes to enhancing business integrity** in their country. However, TRAC results have been mixed. While in some countries, companies showed improvements (mostly supported by legislative changes), in others no improvement could be identified<sup>14</sup>.

As with OT, it was argued that **CBC does not fit very well with the majority company types**. This has led to criticism from the companies which argued that the TRAC compares companies that are not comparable ('comparing apples and oranges'). Companies also argue that with the publication of such information, they would lose their competitive edge ("questions should reflect current good practice, not wishful thinking"). As with OT, companies refuse to publish information referring to their existing legal duties (such as the General Accounting Standards), or simply do not care.

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<sup>14</sup> In the EU, public country-by-country tax reporting requirements currently apply mainly to two sectors –financial institutions (EU's Capital Requirements Directive IV, includes a country-by-country tax reporting obligation) and extractives (EITI, requires applicable companies to publicly disclose all material taxes and payments to governments in their countries of operation). EU Council Directive 2016/881/EU requires Multinational (MNE) Groups located in the EU or with operations in the EU, with total consolidated revenue equal or higher than 750.000.000 EUR, to file the Country-by-Country Report. The Report must include information for every tax jurisdiction in which the MNE group does business on the amount of revenue, the profit before income tax, the income tax paid and accrued, the number of employees, the stated capital, the retained earnings and the tangible assets. However, the Report is not public. After that the EU Commission issued a highly contested proposal on mandating public disclosure of tax information, including information on how much tax they pay and where they pay it, even including taxes paid outside the EU. The European Parliament approved the legislation. However, the OECD disapproves of the public release of information.

**The feedback of TI-CHs is mixed.** 5 of 15 TI-CHs who have conducted a TRAC stated that CBC is 'too demanding'. 7 of 15 stated that it is 'just right' and 3 stated it is 'too weak'. This is also reflected in the fact that almost 50% of the surveyed TI-CHs conducted a TRAC stating that the dimension is 'too ambitious' or 'does not apply'.

One Chapter not conducted a TRAC stated that two policy aims were combined within the TRAC report in the CBC dimension which leads to confusion at the side of the companies with the messages conveyed through TRAC<sup>15</sup>:

- **Anti-corruption:** The purpose was to increase government accountability, especially in resource-rich countries, and thereby provide information for civil society and journalists with the purpose to promoting revenue transparency (first initiated by the Revenue Watch Institute) [TRAC Q23, Q26];
- **Tax justice:** The purpose was to monitor tax avoidance incl. analyze mis-pricing and profit-shifting (based on work of the Tax Justice Network) [TRAC Q22, Q24, Q25].

**Progressive investors and CTEs consider the indicators as adequate.** An investor even suggested to include additional questions which allow for better judgement on the economic nature of the subsidiaries, incl. details on profit and loss per jurisdiction, as well as the number of employees.

Based on these finding, **TI-CHs and companies asked for more flexibility on CBC to account for differences** (e.g. in company types) and safeguard the use, acceptance and credibility of the dimension and the TRAC.

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<sup>15</sup> It was argued that while some sectors (extractive, telecoms, banking companies) understand the rationale for anti-corruption assessments, others are not affected by such phenomenon (big tech, retail), but rather by tax transparency.

### *Recommendations*

To further increase relevance, applicability and robustness of CBC, the following could be considered:

- Revisit the advocacy goals and focus on pushing for legislative changes on CBC;
- Allow for more flexibility for different company types;
- Revisit the advocacy goals and strategy of this dimension (incl. narrative<sup>16</sup>), as two policy aims were combined (anti-corruption and tax transparency);
- Align the narrative around the CBC by e.g.
  - Consider aggressive tax avoidance as a corruption issue;
  - Focus only on the accountability of government (a refining of narrative and target audience as well as recommendations provided to policy makers needed);
  - Develop a CBC that is useful for general anti-corruption purposes by combining elements of the extractive and tax justice data set.
- Continue making the case that companies can do business and report on CBC without losing their competitive edge even if they don't engage in corruption (incl. provide proof that reporting is possible, since companies already do so, even on a voluntary basis where no legal obligations are in place).

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<sup>16</sup> A journalist wrote in an article about TRAC that “neither International Financial Reporting Standards, nor U.S. Generally Accepted Accounting Principles, the globe’s two common corporate financial languages, require reporting to publicly reveal revenues and taxes of foreign subsidiaries. Such data is usually available only to corporate senior managers.” **Source:** <https://www.kyivpost.com/article/content/business/corruption-watchdog-criticizes-corporations-for-not-revealing-much-on-foreign-revenues-and-taxes-370718.html>

## 5. Current and potential future trends in corporate transparency

The TRAC should respond to current policy developments. 9 of 15 TH-CHs conducted a TRAC would add new transparency requirements to the TRAC.

For any attempts to add new requirements, other evaluation findings should be considered, incl.:

- TI-CHs as well as other stakeholders consider a greater flexibility of the tool to account for company and regional differences;
- While stakeholders appreciate additional information to be public, concerns were raised that this might come at the cost of quality, additional resources as well as decreasing credibility among companies;
- Stakeholders mentioned that it is worth considering strengthening and streamlining the messaging around the TRAC (additional requirements might not make this task easier)<sup>17</sup>;
- TI-CH and CTEs expressed the need for discussion around the primary objective(s) of the TRAC (i.e. engaging with companies or pushing for a global transparency standard).

Thus, adding new indicators or even dimensions may only be possible when increasing flexibility at the same time.<sup>18</sup>

*The following main issues have been mentioned during the evaluation:*

### i. Transparency on political engagements of companies

A company's political engagement is an emerging grey area. Indicators could cover donations, payments, hires from public sector, revolving door and lobbying activities.

TI-CHs, TI-S, investors and CTEs highlighted the relevance of reporting on political engagements of companies as a future issue, also in Europe (one Chapter stated that they consider this topic as not being relevant for their context).

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<sup>17</sup> One investor stated that personal preference in to further developing the assessment of the anti-corruption, to further advance this crucially important topic (recognizing that this might be sometimes difficult).

<sup>18</sup> Stakeholder did not voice concern with respect to lack of comparability in case of any changes. An investor said that they see no problem in losing comparability over time. A TI-CH who have not conducted a TRAC highlighted the stability of the tool which is a useful feature for building up a database of knowledge, but it would still be worth updating the methodology and losing the comparability with previous studies.

A TI-CH stated that the research would also provide extremely useful information to companies on how to manage the risk of standing too closely to corrupt and/or authoritarian governments. Another TI-CH considers this area as TI's future main policy objective, as it is a new field of research.

It was stated that experience by TI-UK with the Corporate Political Engagement Index could be used as good practice example.

## ii. Transparency on beneficial ownership

Transparency on beneficial ownership has been a hot topic in recent years. In line with other stakeholder demands (e.g. OECD, GRI, Global Witness) and newer TI tools (Transparency International's "10 Anti-Corruption Principles for State-Owned Enterprises") it could be considered to include ownership information on the company itself, such as a list of all the company's shareholders, its majority shareholders and well as beneficial ownership information.

Most TI-CHs, TI-S as well as CTEs underlined the relevance of beneficial ownership transparency for their work. However, one TI-CH stated that it is not a big issue in their country and therefore they see no added value in including it.

However, most stakeholders underlined that it is not clear how beneficial ownership transparency could be added. TI-S stated that it is not obvious on how this could be included into TRAC. One Chapter underlined that there might be considerable methodological problems associated with including beneficial ownership transparency. Another Chapter stated that they recognize the complexity and resources required for countries to verify ownership which may contribute to the reluctance in governments to pursue this matter. It was stated that for some industries and company types, – mostly for publicly listed companies - it would be difficult to come up with a reasonable and practical question – as ownership structures are unusually intertwined ("everybody owns everybody"). Another Chapter stated that to collect this sort of information companies could publish this as 'live data' on their website.

An investor stated that there is also a growing focus on beneficial ownership information amongst investors more generally. The investor stated that, as they are only investing in publicly listed companies, this issue is not directly relevant to them from a corruption perspective. However, investors mostly investing in non-listed companies are likely to consider this issue as important to them.



### iii. Transparency on tax governance

Greater transparency can be one tool to help ensure public and stakeholder confidence that companies employ fair tax strategies and demonstrate their contributions to society in the regions where they operate. Indicators on tax governance would complement CBC.

Indicators could include an organization's approach to taxes, including potentially elements such as tax strategy, policies and governance, but also how taxes are paid, positioning on tax havens, incentives and the issue of transfer pricing. A TI-CH added that in the EU, this discussion could revolve around transparency of financial data (tax) as well as tax advisory law firms and consultants, who potentially should also publish their provisions, strategies and risk assessments.

Overall, the topic was not mentioned proactively by a lot of Chapters already implementing the TRAC. A TI-Ch highlighted that it is interesting to include more requirement related to tax governance.

An investor considers the area of tax risks and tax governance as key area of interest not only for them but across stakeholders. Overall, tax governance is an emerging field ("what was anti-corruption 10 years ago"). The investor stated that all information available to assess these risks are helpful.

### iv. Other

Three other areas have been mentioned by stakeholders:

- Indicator(s) on the support and implementation of international conventions and guidelines;
- Indicator(s) on accessibility of reported data; and
- Project-by-project reporting.

## G. Assessment of the TRAC's advocacy use and impact

By implementing a TRAC, Transparency International targets at the implementation of a series of advocacy objectives. Above all, TRAC aims at increasing the levels of corporate reporting and therewith corporate anti-corruption practice. But also, intermediate outcomes: The report increases capacity, expertise and potential for fundraising as well as magnifies TI's visibility. These additional outcomes also contribute to realizing TI's overall targeted objectives.

### 1. Provide and entry-point with companies for Chapters

Overall, the TRAC is a **very valuable entry point with companies for TI-CHs**. This applies to the exchange with companies during the research phase as well as after the publication of the TRAC<sup>19</sup>. 12 of 14 TI-CHs conducted a TRAC indicated that the report resulted in attention and/or usage by companies. Even Chapters who stated that they received limited feedback from companies, underlined the potential of the TRAC as a *door-opener* in the future (in some countries, it might take longer<sup>20</sup>).

#### **TRAC AS DOOR-OPENER TO ENGAGE WITH COMPANIES**

- **In the global TRACs** (2 global, 2 EMM and 2 industry) companies engaged 216 times with TI (ca. 305 assessed) - 20% in the EMM TRACs and 50-70% of the global TRACs and ca. 50% in the two industry TRACs.
- **In the national TRACs** (included here: 23 from 17 different countries); chapters engaged with at least 318 times with companies. (ref. "ANNEX V: TRACs").

A TI-CH who have not conducted a TRAC pointed out **TI's 'value added' in civil society advocacy coalitions is the direct contact and engagement with companies**. Other organizations are uncomfortable to sit down with companies and propose constructive solutions, preferring to remain independent.

<sup>19</sup> 12 of 15 TI-CHs who have not conducted a TRAC agreed that the TRAC provided an entry point to start engaging with companies on their current anti-corruption and corporate transparency practices (9 even strongly agreed, nobody disagreed). 8 of 14 TI-CHs who have conducted a TRAC agreed that the TRAC enabled a long-term engagement with companies (2 disagreed, 4 neither agreed or disagreed). For example, one Chapter noted that the report resulted in 25 companies who contacted a TI-CH to learn more about a study or how they can improve their scores in the future.

<sup>20</sup> A TI-CH who has conducted a TRAC underlined that it is quite difficult to work with companies unless the intervention not directly reduces profits, if not, companies "could not care less". This was also reflected in the (lack of) company participation both in the introduction and in the launching workshops in this case. On the bright side, the Chapter stated that there are some positive developments since the first TRAC was published and that they expect the impact and company reactions to increase gradually with another 2-3 publications ("fully mobilize companies").

It needs to be noted, however, that this applies not to all companies alike, e.g. engagement was stronger with companies in the upper ranks (who received good scores in at least one dimension) as they tend to have a corporate anti-corruption or corporate responsibility program and therefore capacities allocated to respond to TRAC results and engage with TI.

Companies usually communicated with TI-CHs asking for clarification on their scores to see whether they deserve a better score or how they could improve their scores in the future:

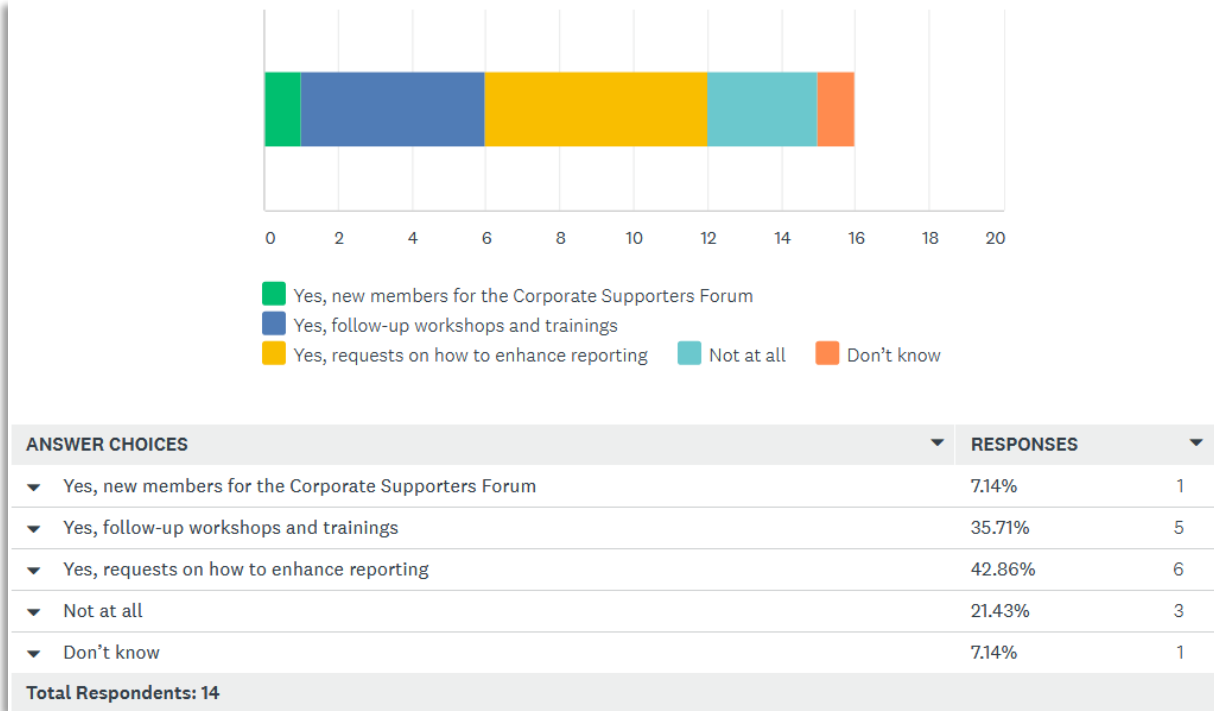


Figure 2: National Chapters conducted a TRAC report: Have any follow-up activities with companies resulted from publishing a TRAC Report? – 14 respondents

The success of engagement with companies was also **positively received by the companies themselves**. All three companies interviewed highlighted that the communication and interaction has always been very friendly, productive and helpful.

The engagement also was dependent on the overall approach by Chapters as well as on the availability of resources (ref. “Assessment of research process and resources”). Chapters using the report primarily as a tool to engage with companies (“TRAC as assessment service for

companies”) had a more robust relationship with companies than those TI-CHs using the report primarily as a tool to rank companies (“name & shame”) to win media attention.<sup>21</sup>

**In some developing markets, the access to companies was more difficult.** Even in these cases, however, TI-CHs expect companies to become more open over time.

### **Recommendations**

To strengthen the TRAC to be an entry point for TI-CHs to engage with companies, the following could be considered:

- Provide good practice learnings on who possible contact points in companies are to whom draft results should be sent to and how to formulate follow-ups for these requests;
- Organize follow-up sessions and/or provide reports for companies outlining how they can improve their TRAC scores.

## **2. Improve level of corporate reporting and practice**

TRAC can support changes with companies on two levels:

1. enhanced reporting;
2. enhanced implementation of internal anti-corruption policies and procedures (on-paper and in-practice).

Both levels support the reduction of corruption risks: Reporting, as a signal to business partners and other stakeholders that the company is committed to the anti-corruption agenda (i.e. passive corruption), and the latter as it reduces corruption risks from within the company (i.e. active corruption).<sup>22</sup>

Overall, the **opinions on how long the TRAC results are useful differs from country to country.** 12 of 14 TI-CHs who have conducted a TRAC stated that the assessment results are relevant and useful for advocacy and engagement work at least 12 months after publication, 6 of 14 even stated that the results are also useful after 24 months. This contrasts with an investor who stated that usability for the investment community would increase with the

<sup>21</sup> It needs to be noted, that this is not indicative of the overall impact of the TRAC on corporate transparency and measures implemented to reduce corruption risks.

<sup>22</sup> Two things need to be considered: first, the evaluation focusses on correlations without being able to identify in every case whether the changes are happening because of TRAC; second, enhanced reporting and / or implementation of internal anti-corruption policies and procedures (practice on-paper), are only an indication that corruption risks could have been reduced, but by no means a proof of such impact.

publication of annual reports. In addition, a TI-CH remarked that long publication cycles may discourage companies who want to enhance their scores.

Some TI-CHs stated that the results become outdated based on external events (mostly with the enactment of new legislation, as has happened in e.g. Argentina, Indonesia or Korea).

### i. Improved corporate reporting

Overall, the results indicate that **the implementation of the TRAC supported corporate reporting**. However, the improvements are **not equally distributed over all three dimensions**. While there were significant improvements of companies on ACP and some improvements on OT, no improvements with respect to CBC were identified.

## **ENHANCED REPORTING BY COMPANIES**

### Global and EMM TRACs

- **Global TRACs** (ref. "ANNEX IX: TRACs"):
  - Average ACP scoring increased between 2009, 2012 and 2014 (47%, 68%, 70%). despite more demanding criteria utilized between 2012 and 2014;
  - Average OT scoring decreased between 2009, 2012 and 2014 (-, 72%, 39%), which can be explained by a change in methodology;
  - Average CBC scoring increased slightly between 2009, 2012 and 2014 (-, 4%, 6%).
  - Comparing the 2014 TRAC to the 2012 TRAC,
    - major improvements were observed on banning facilitation payments (21% vs. 45%);
    - monitoring of anti-corruption programs increased up to 70% from 55%;
    - more companies scored above 95% on ACP (11 vs 6) and 0 vs. 3 scored 0%;
    - CBC remained a weak area, best performers achieved substantially higher scores (6 vs. just 1 with more than 30%, and 3 companies above 50%), with an overall increase (from 4 to 6 %).
- **Emerging Market TRACs 2016 vs. 2013** (ref. "ANNEX IX: TRACs"):
  - Average ACP scoring increased slightly between 2013 and 2016 (46%, 48%), despite more demanding criteria;

- Zero-tolerance of corruption statement up from 59% to 73%;
- Prohibition of facilitation payments up to 19% from 6%;
- Average OT scoring decreased between 2013 and 2016 (54%, 47%), which can be explained by a change in methodology;
- Average CBC scoring did not change between 2013 and 2016 (9%, 9%).

National TRACs (selection): for more details also on other TRACS *ref.* “ANNEX IX: TRACs”

- **Belgium:** ACP, OT and CBC overall performance decreased between 2012, 2015 and 2016 (ACP: from 51% to 27%; OT: from 77% to 65%; CBC from 12% to 9%), but the companies included in 2012 improved their performance in 2015 and the ones included in 2016 slightly improved compared to 2015.
- **Brazil:** for the 2018 report, 43 companies exchanged with the Chapter on their anti-corruption disclosure policies during the research phase; 35 of those companies improved their disclosure practices.
- **Denmark:** ACP, OT and CBC performance increased between 2014 and 2016 (ACP: from 63% to 75%; OT: from 66% to 89%; CBC from 2% to 3%).
- **Lithuania:** ACP, OT and CBC performance increased between 2014 and 2017 (ACP: from 16% to 32%; OT: from 25% to 32%; CBC stable at 34%). In the 2017 report, 17 companies improved their anti-corruption disclosure practices following the exchange with the Chapter, 5 of them made substantial improvements, 6 companies translated their code of conduct into Lithuanian and published them online.
- **Vietnam:** ACP, OT and CBC performance increased between 2017 and 2018 (ACP: from 10% to 15%; OT: from 32% to 66%; CBC stable at 0%).

Overall, the **results differ also with respect to company types**. Whereas listed MNEs score usually quite high with respect to ACP, non-listed companies, especially from developing markets score lower (except in cases in which reporting is mandated by law). Experience also show that it takes a little bit of time for companies to get familiar with the TRAC, accept it and act accordingly. For example, a CTE stated that private family-owned companies in Brazil and Mexico would not publish any information (not publicly listed). Over time, TRAC advocacy convinced some of them to open up.

The **results can be explained by the following drivers:**

- Improvements on ACP are largely voluntary actions mainly driven the business case of companies for enhanced reporting, which is based on *first*, the reputational gains of enhanced reporting with various stakeholder groups (incl. government, other companies, civil society, investors, employees and the public); *second*, the reduction

of corruption risks (active and passive); and *third*, expected reduction in sanctions by governments, business partners and civil society in case of a corruption incident.

- Improvements on OT are mandatory actions mainly driven by legislative changes in the countries of their operations.
- The lack of improvements on CBC are explained by *first*, the lack a business case of companies for enhanced reporting (companies argue that reporting would result in a competitive disadvantage); and *second*, the lack of legislative changes regarding CBC.

The general **approach of ranking companies ('name & shame') in combination with offers for collaboration, support and guidance was mainly considered as very valuable and effective for enhancing reporting practices**<sup>23</sup> (with limitations for short-term results in OT and CBC), by the different stakeholders (TI-S, Chapters, companies<sup>24</sup>, investors, corporate governance experts).

However, some Chapters prefer to approach of (sometimes non-public) ratings to push for changes. A TI-CH who have not conducted a TRAC also stated that rankings are not the most effective tool for engaging with companies or push for better reporting (compared to personal interactions). The preferable strategy is likely to differ from country to country. A chapter with strong links to companies is likely to prefer the collaborate approach over the 'naming-and-shaming'. For Chapters without established links to companies, a ranking could be an effective strategy to get attention and build credibility.

With respect to collaboration, the **opportunity of companies to comment on their draft scores before publication of a report was considered being very valuable across stakeholder groups** ("built-in advocacy"). Experience show, a growing number of companies use this opportunity to either verify the findings of TI researchers or even enhance their reporting practices.

After publication, the **report is recognized by companies to a varying degree**. Some approach TI to learn on how to improve for future reports. Some do not comment it at all, but TI-S also reported that there are still companies approaching TI on why their company has not been assessed in the last TRAC.

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<sup>23</sup> 10 of 14 TI-CHs who have conducted a TRAC agreed that the TRAC improved the level of anti-corruption reporting and transparency practices of companies through incentives and competition.

<sup>24</sup> One company highlighted that it pays great attention to business reputation. The Company considers anti-corruption reporting, and corporate transparency is an important component of the reputation.

The report is also **discussed within the companies**. Two companies stated that the TRAC scores are discussed at the board level and with the CEO. One Company stated that the initial low scores were the motivation to engage and improve every year as the company was concerned about the low ranking and stated that through TRAC, they realized that what they think they are and what is communicated to the public is disconnected.

Overall, **stakeholders are very confident that the TRAC has improved company reporting and has significant potential to further enhance reporting in the future**. In some contexts, this might take more time. For some indicators and/or dimensions, this requires a more diversified approach complementing company advocacy with pushing for legislative changes and leveraging multipliers such as investors (incl. their information providers such as ESG rating agencies).

### **Recommendations**

To further improving the disclosure of corporate anti-corruption policies in all three dimensions measured by the TRAC among those companies assessed in the reports, the following could be considered:

- Establish regular follow-ups with companies after publication and provide suggestions on how to improve;
- Share impact stories more broadly, e.g. in case of publication of a second TRAC, display changes of company performance very visibly in the report and include these changes into the communications;
- Establish regular predictable publication cycles.

## **ii. Improved corporate practice**

Good public reporting supports and promotes good behavior and therewith reduction of corruption risks.<sup>25</sup> However, public reporting by companies on their anti-corruption programs cannot be equated with actual behavior, it rather is an opportunity for companies to focus on their practices and therewith drives improvement of practices.<sup>26</sup>

<sup>25</sup> 14 of 14 TI-CHs who have conducted a TRAC agreed that ACP contributes to enhancing business integrity in their country (4 of 14 strongly agreed). 12 of 14 TI-CHs who have conducted a TRAC agreed that OT contributes to enhancing business integrity in their country (6 of 14 strongly agreed, 1 strongly disagreed). 10 of 14 TI-CHs who have conducted a TRAC agreed that CBC contributes to enhancing business integrity in their country (4 of 14 strongly agreed, 3 neither agreed nor disagreed).

<sup>26</sup> TI-S stated that through engagement with companies during compiling the TRACs several companies have improved the quality and extent of their anti-corruption measures as well as how they publicly report on them. A



There are indications that through improved reporting, **companies have also adjusted their internal anti-corruption measures**. 11 of 14 Chapters conducted a TRAC agreed that conducting a TRAC increased awareness and understanding among companies of the benefits and necessary components of the anti-corruption and transparency standards as advocated by TI<sup>27</sup>. A CTE stated that looking at companies, TRAC was very successful. Sometimes it was an impact on the level of transparency and behavior of companies, sometimes it was a change in concrete policy.

#### **ENHANCED PRACTICE BY COMPANIES**

Companies also changed their specific policies, for example:

- A CTE mentioned that the biggest change were **facilitation payments**: At first, companies argued it's impossible to do business without these payments. A couple of years later, the majority companies had already forbidden it or understood why it was wrong. The CTE argued that TRAC was one major driver behind this change.
- **Ukraine**: As the result of the TRAC Ukraine (2018), two SOEs established anti-corruption programs and published them on their website, according to TRAC requirements.
- **China**: When first running TRAC reports, Chinese companies would never talk to TI-S, according to a CTE. Afterwards, some private companies started improving and communicating with TI-S (on an ad-hoc basis), for example to ask for advice on how to write their code of conducts functionally whilst to conforming to standards. Initially companies had no ACPs, now it's become almost a norm because of international advocacy pressure (not in other dimensions however, these are still arbitrarily decided by the company).

Based on these findings, it can be concluded that, through the TRAC, corruption risks have been reduced to some extent (e.g. reduction of corruption requests to companies with enhanced reporting, or reduction of corrupt practices by employees from companies with strong reporting).

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TI-CH who have not conducted a TRAC emphasized the value of assessing information reported by the companies as this is always a motivation for company action as on average, companies will do what they report. It was stated that without such reporting the movement would be completely blind. It also provides an opportunity for peer review and learning.

<sup>27</sup> A Company stated that the disclosure of anti-corruption reporting and corporate transparency in public debate are the matters of special social importance. These measures help to supervise and check the actual compliance with the requirements of the anti-corruption legislation, identify the gaps in anti-corruption measures and improve them.

However, there is a lack of insights on whether this has transferred also to a significant behavioral change (further to improved reporting). Real behavioral change is always difficult to measure. Based on what can be seen in other advocacy efforts, these findings should be seen as having achieved real and substantial impact. Also, companies regarded TI as a credible organization which resulted in companies asking for input on good practices and an increased general dialog (*ref.* "Provide and entry-point with companies for Chapters"). This is a very good basis for working towards reducing corruption risks in the future.

### **Recommendations**

To further strengthen the impact on anti-corruption practices as well as on the reduction of corruption risks, the following could be considered:

- Strengthen engagement with companies around the TRAC (and increase resources for this);
- Collect and share impact stories not only covering enhanced reporting, but also about changes in company measures that followed.

### **3. Create visibility for TI in the media**

Based on the information which were accessible for the evaluation as well as inputs by Chapters and TI-S, the TRAC is a very useful tool to create visibility for TI-S and Chapters in the media. Next to the Corruption Perception Index, the **TRAC is one of the major drivers of recognition in the media**, as the report is attractive for the media because it ranks (and names) companies. Whereas the ranking seems to be of subordinate interest compared to the actual company rating for most other stakeholders, it certainly lends itself to increase attractiveness for the media.

This attractiveness resulted in major visibility of the global TRACs. For example, media coverage and attention for the Global TRAC 2014<sup>28</sup>:

- A series of major stories in the media by **Reuters, Associated Press, CNBC and the Guardian**, totaling 516 relevant hits on launch day and a total of 686 in the launch week (A comparable search for the release of TRAC 2012 resulted in 492 hits on launch day and a total of 728 in the launch week – in terms of numbers, coverage of the 2014 and 2012 launches was fairly similar.);

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<sup>28</sup> **Source:** "Transparency in Corporate Reporting – Assessing the World's largest Companies" - Media impact report (5 Nov 2014); For further details, *ref.* "ANNEX III: Media Coverage of Global TRAC (2014)"

- Sending embargoed copies of the report to 27 journalists (35 in 2012) which resulted in 9 requests for **interviews** (comp. 19 in 2012);
- A series of broadcast interviews incl. with **BBC World TV, France 24 TV and Deutsche Welle**;
- Establishing five posts on **social media** (two teaser graphics, an album of graphics from the report, a photo with stats on country-by-country reporting and a graphic listing the bottom 10 companies) for TI's Facebook page which received a total of 1572 likes and 399 shares.

But also, for Chapters, the TRAC is a very good tool to receive media coverage and therewith visibility in the public<sup>29</sup> e.g.:

TRAC	Media details
<b>TRAC Brazil (2018)</b>	Total 223 media hits, including radio, 197 newspapers
<b>TRAC Russia (2018)</b>	More than 50 publications in the media about TRAC results on the day of the release of the study
<b>TRAC South Africa (2016)</b>	57 media hits
<b>TRAC South Korea (2016)</b>	Most of the big media outlets featured TRAC
<b>TRAC Ukraine (2016)</b>	20 media articles (e.g. in Ukraine Business Journal)
<b>TRAC Vietnam (2016)</b>	7500 viewers on Facebook reaching 27.000 people overall Media coverage of 46 items in print, online and TV including few interviews

<sup>29</sup> 12 of 14 TI-CHs who have conducted a TRAC stated that the TRAC was covered in the national media. At the same time, 9 of 14 TI-CHs who have conducted a TRAC did not analyze the results of TRAC communications. At TI-S, media communication was not systematically analyzed for all global TRACs (only as part of donor reporting).

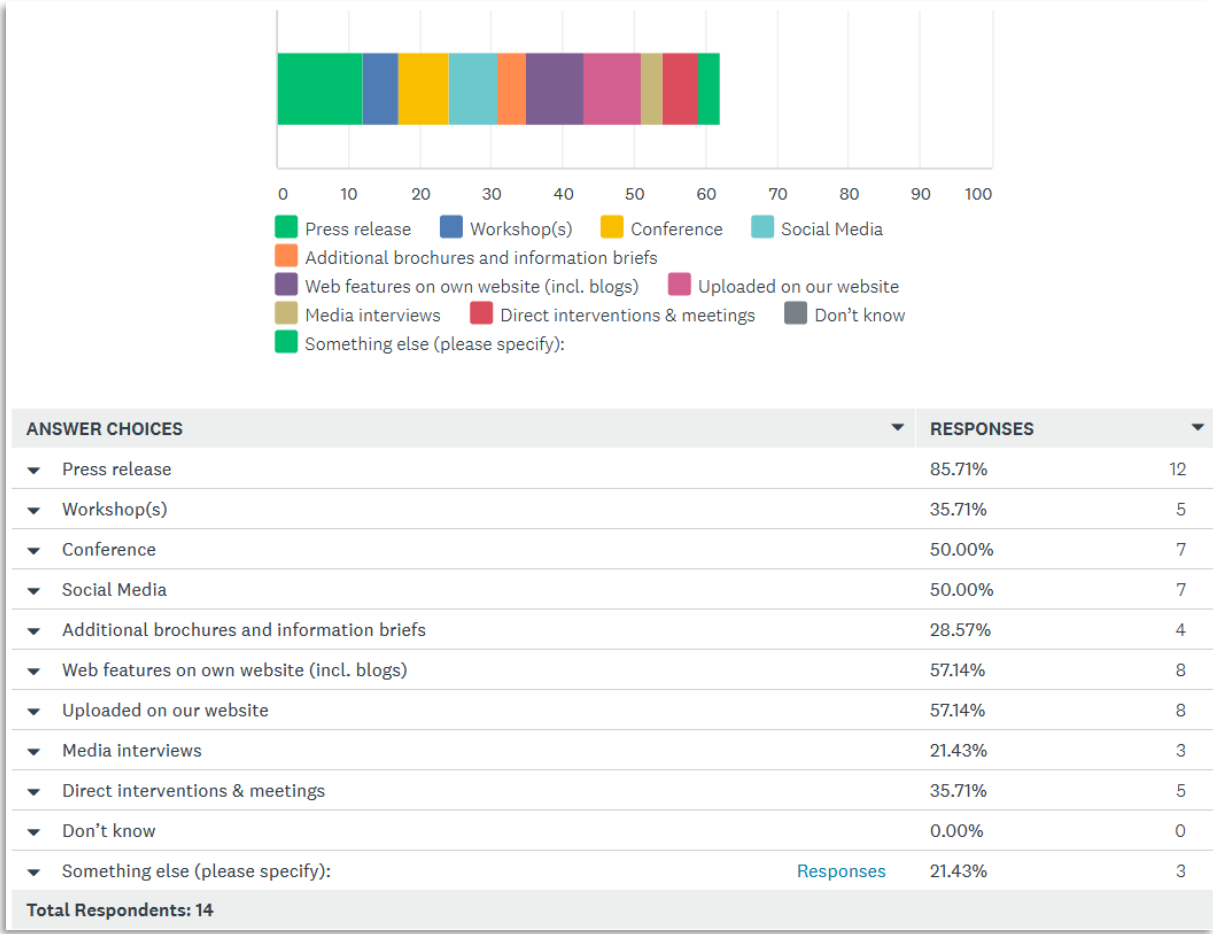


Figure 3: TI-CHs conducted a TRAC on the question of how the results of the most recent TRAC have been communicated at the time of the launch – 14 respondents

Although media coverage does not guarantee impact for the primary target group(s) – companies, governments, investors – it certainly supports to raise their attention, strengthen the credibility of the tool (which at the end could also result in increased attractiveness for donors).

### **Recommendations**

To further strengthen the visibility for TI-S and Chapters, the following could be considered:

- Seek for multipliers to the media to fully use the outreach potential of the TRAC;
- Enhance coordination and define responsibilities of media engagements (incl. accessible data base and tracking of contacts);
- Analyze results of TRAC communications for global and national TRACs after publication, document results in central database and use learnings to further improve media coverage (the only one received for evaluation contained a series of gaps with requests for more input);
- Systematically collect and share impact stories and good practice implementation examples of TRAC (e.g. on one central TRAC Hub on the TI-S website);
- Expand outreach on social media (incl. predefined graphs);
- Conduct media trainings on relevant issues around the TRAC (e.g. CBC).

## **4. Increased awareness, action and use across stakeholders**

TRAC increased awareness, understanding, action and use across a range of stakeholders including government officials, investors and civil society.<sup>30</sup> Chapters confirmed that **through the TRAC they established as a credible go-to organization for anti-corruption and corporate transparency** and increased understanding of business integrity among civil society<sup>31</sup>, government<sup>32</sup> and donors in the country.

### **LEGISLATIVE CHANGES**

The TRAC e.g.

- **Supported regulation on transparency of the extractive sector in the US through the Dodd-Frank Act** which stated that all extractives companies registered at the US Stock Exchange must report their payments to governments on a country-by-country basis (2010/2011);

<sup>30</sup> 11 of 14 TI-CHs who have conducted a TRAC agreed that the TRAC increased awareness and understanding across a range of stakeholders including the media, the general public, government officials and civil society of the positive impact of greater corporate transparency.

<sup>31</sup> 10 of 14 TI-CHs who have conducted a TRAC indicated that the TRAC resulted in attention and/or usage by other civil society organizations.

<sup>32</sup> A TH-CH conducted a TRAC stated that the key outcome was that the government realized the need to regulate the private sector more intensively.

- **Supported regulation on transparency of the extractive sector in the EU** through an EU Directive listed and large non-listed companies in the oil, gas, mining and logging industries must report their payments to governments on a country-by-country basis as well as also report by project if these payments have been attributed to a specific project (2012);
- **Supported the modification of the Commercial Code on Germany** in a way that since 2013, all companies must publicly disclose all of their subsidiaries, associates and joint ventures;
- **Successfully influenced the new National Anti-Corruption Strategy of Indonesia** which is issued under the Presidential Decree No. 54 year 2018, which shows that the Government of Indonesia (GoI) realized the necessity to instill integrity culture to the companies;
- Supported regulatory changes in **India** and **Australia**.

Investors stated that the **TRAC is a valuable tool for helping assessing corruption risks in their investments**.<sup>33</sup> Both investors interviewed stated that they use reports from credible civil society organizations to assess investment risks with companies, incl. Transparency International.

Both investors expressed that the use could be further strengthened by more **regular publications** as well as by the publication of sectoral reports (ref. "Target group").

While investors are in principle in favor of more information to be available, they also made it clear that by **overloading companies with requests will not result in better quality of the reported information**.

TI-S stated that there was interest of several major investment funds to cooperation with the TRAC to further enhance the topics of corporate transparency in the areas of anti-corruption and tax governance.

Given the interest of investors to work with TRAC information, a **coordinated outreach is necessary**. Investors reflected that as most investors receive their information from specialized service providers and suggested that TI could foster collaboration with them to push for integration and use of TRAC results (especially ESG data providers). Also, one investor stated, that TI should e.g. connect with networks accepted in the business community such as the International Corporate Governance Network (ICGN)<sup>34</sup>. Another option raised was that

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<sup>33</sup> 8 of 14 TI-CHs who have conducted a TRAC indicated that the TRAC resulted in attention and/or usage by investors. An investor stated that they have used the TRAC two times for pro-active engagement with companies. 10 of 14 TI-CHs who have conducted a TRAC stated that the TRAC received attention from shareholders.

<sup>34</sup> <https://www.icgn.org>

the TRAC as be of potential interest to auditing & accounting companies as a product available to work with their clients.

This shows, that when implementing a TRAC, the advocacy focus could be manifold, starting from companies but also include stakeholders which have an impact on company reporting and behavior such as governments (through regulations), investors (through their rules), civil society organization and the general public (through helping to increase public pressure).

Given the strong potential of the TRAC, these are good results, but with the potential to further enhance awareness, understanding, action and use across stakeholders.

### **Recommendations**

In order to further increased awareness, understanding, actions and use across a range of stakeholders, the following could be considered:

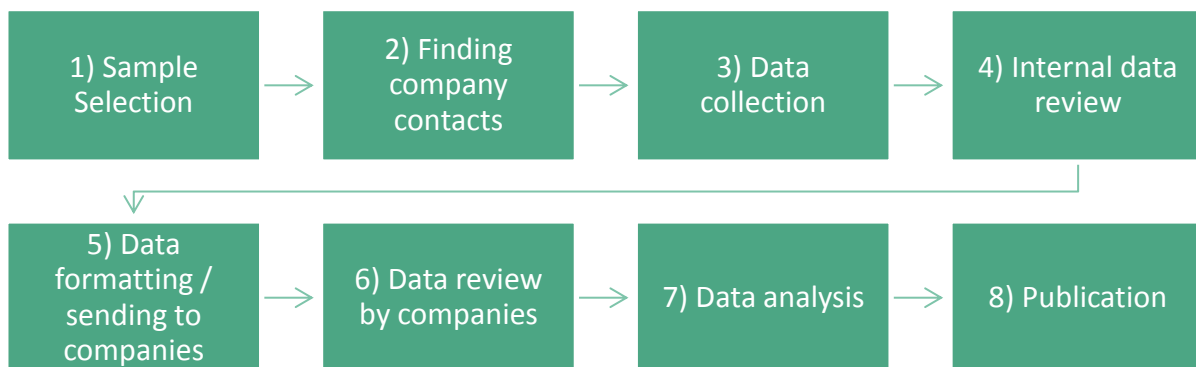
- Align messages according to target groups (“keep it simple”);
- Create one TRAC Hub on the TI-S website making available not only the global TRACs available but also: National TRACs (incl. links to implementing Chapters), Impact stories, Good practice examples and learnings of implementation, Methodology and implementation guidance for Chapters, contact within TI-S to coordinate requests;
- Increase visibility on social media and expert discussion (e.g. by linking TRAC results into current debates<sup>35</sup>);
- Establish an annual (or at least regular and predictive) publication schedule of TRACs;
- Create engagement strategy with various stakeholders (incl. strengthening partnerships with relevant other civil society organizations such as Tax Justice Network and Publish What You Pay);
- Consult and engage with other organizations working on transparency standards for companies (e.g. GRI) when reviewing specific dimensions and indicators;
- Engage with information service providers for investors (especially those assessing the environment, sustainability and governance performance of companies) to further push for integration of TRAC results in investment decisions;
- Connect with networks accepted in the business and investor community such as the International Corporate Governance Network (ICGN - <https://www.icgn.org>).

<sup>35</sup> For example, comment on relevant social media posts by other NGOs / experts such as <https://www.linkedin.com/feed/update/urn:li:activity:6460050784594857984/>

## H. Assessment of research process and resources

### 1. Research process

The research process is separated in 8 steps and provides an opportunity for advocacy already before publication of the final results. Steps 5 and 6 give companies with the opportunity to review the findings of the TI researcher, correct where applicable or even enhance reporting before publication of the report (“TRAC has a build-in advocacy”).



Overall, Chapters have **not voiced any concerns regarding the research process**. It was regarded as very effective for increasing the impact of the TRAC with respect to enhanced reporting.

The process of **giving companies the opportunity to give feedback on the research findings was above all be considered as very good** – from the side of the Chapters even though required time was underestimated, as well as from the side of the companies, which really appreciate the opportunity for input.<sup>36</sup> Chapters consider this a valuable entry point for interaction and improvement of reporting practice as companies are most interested during the research (i.e. before publication).

The research process and methodology impose **no major risks for TI**. While there have been occasional instances in which companies misused the information, filed complaints or even voiced legal threads, most the Chapters as well as TI-S voiced that it has not been very difficult to deal with these issues. The robustness of the research process and methodology (i.e. only

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<sup>36</sup> Not all companies were aware of the possibility to engage prior to the publication of the results. There was no evidence that companies considered the time to respond to draft results or the engagement with TI as unfair or unreasonable.



looks at company reports and does not include any other information sources nor subjective judgements) makes TRAC easy to defend. This view was shared by TI-S as well as by Chapters.

The only critical aspect which was experienced by two TI-CHs was that serious doubts about the usefulness of the TRAC evolved in cases in which companies with very high scores were involved in corruption scandals right after publication. In both cases, however, Chapters were able to explain and further develop positive engagement with companies and defend the credibility of the research process and methodology.

### **Recommendation**

In order to respond to the feedback received during the evaluation, the following could be considered:

- Strengthen communication what TRAC is about, and what TRAC is not (especially for ACP).

## **2. Resources and fundraising**

Overall, there is the perception that the TRAC is a very useful tool to start building and strengthening a Chapter's capacities, expertise and potential for fundraising around business integrity work.<sup>37</sup>

There was a lot of agreement among TI-CHs that the **TRAC increased their capacity and expertise to engage with the private sector**, on corporate reporting and transparency as well as in the design and implementation of research. This expertise was also recognized by the companies. One Chapter stated that with the publication, it was treated as a valuable independent expert group whose recommendations are heard and accepted by the companies.

However, Chapters stated that the **timeline, budget and resources were higher than expected for implementing the TRAC**. The majority of Chapter mentioned that the time needed for the research phase was underestimated (this has not led to major risks as the research was conducted by own staff in most cases). 9 of 14 Chapters stated in the survey that the effort was higher than planned – for 3 of 14 TI-CHs it was a key learning that more time must be allocated for research, scoring and review of company responses.

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<sup>37</sup> 13 of 14 TI-CHs who have conducted a TRAC agreed that the TRAC enhanced their capacity and expertise on corporate reporting and corporate engagement (9 strongly agreed; 1 neither agreed or disagreed).

A lot of Chapters responded, that although **post-launch activities would have been useful, they did not include it in the initial budget**. TI-S confirmed that there are no regular and structured follow-ups with companies after the launch.<sup>38</sup> Also, TI-S mentioned the lack of resources to respond all company requests as well as actually follow-up with companies to further deepen engagement.

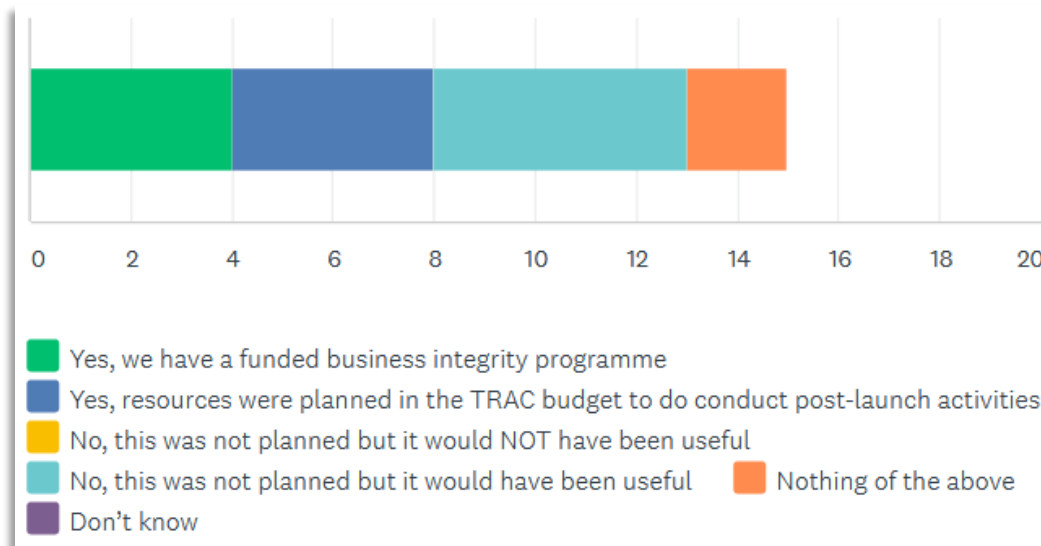


Figure 4: TI-CHs who have conducted a TRAC on resources (e.g. staffing, workshops, communication) available to conduct post-launch activities (e.g. respond to company requests that followed the launch of a TRAC or proactively conduct further advocacy) – 14 respondents

Also, **internal capacities to coordinate the implementation of the TRAC at TI-S were regarded as insufficient** (incl. cooperation with Chapters in case of questions, pro-actively share good practice examples). Some Chapters mentioned the need for making good implementation practice and latest methodology available (e.g. on central website hosted by TI-S). TI-S stated that there is no formalized monitoring, evaluation and learning process established for the TRAC.

**The lack of capacities and coordination had also a negative impact on fundraising.** According to TI-S this led to a situation in which TI-S was e.g. also not fully ready to deal and coordinate cooperation (and funding) requests from investors.

With respect to fundraising, TRAC has a series of advantages and some challenges. While TI-S mentioned that is a **challenge to fundraise for the global TRACs** (due to the fact that the TRAC

<sup>38</sup> A TI-CH who has conducted a TRAC mentioned that they have provided recommendations to companies on how to improve their scoring.

should not be financed by one company; main donors prefer ratings instead of rankings; lack of focus of big donors on business integrity), most chapters agreed that the TRAC increased their fundraising opportunities.<sup>39</sup> TI-S also indicated that operational difficulties and lack of priority of fundraising for business integrity work led to a situation in which the full fundraising potential was not realized. Also, it has been difficult to fundraise for both the report as well as post-launch activities.

Additionally, it was mentioned that sectoral TRACs could be even more effective in terms of fundraising as well as in engagement and impact with companies.

### **Recommendations**

To further strengthen capacities, expertise and potential for fundraising around the TRAC, the following could be considered:

- Review and possibly increase resources, timelines and funds as suggested to TI-CHs, as well as planned resources for the global TRACs;
- Discuss sectoral TRACs with a specific advocacy objective (e.g. enhanced legislation in a sector) with donors;
- Systematically collect and share impact stories and good practice implementation examples of TRAC as well as key TRAC resources (e.g. on one central TRAC Hub on the TI-S website);
- Enhance coordination and priority of fundraising for TRAC and business integrity work at TI-S;
- Strategically include also post-launch activities into fundraising efforts;
- Establish a regular monitoring and evaluation system for TRAC to collect learnings and identify good practices to further enhance impact.

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<sup>39</sup> 7 of 14 TI-CHs who have conducted a TRAC agreed that the TRAC further strengthened their ability for fundraising (3 disagreed, 4 neither agreed or disagreed). A TI-CH who has conducted a TRAC specified that the TRAC is a good tool to promote to donors – as the methodology is ready and proved, it is quite easy to conduct and results in an attractive and relevant output.

## I. Concluding remarks

Over the last two decades, understanding of the negative effects of corruption has significantly increased. The private sector has a critical role to play in addressing the problem, and more and more companies around the world are in the process of establishing internal, external and collective measures to counter corruption.<sup>40</sup>

A key aspect in the global fight against corruption in the private sector is to continuously emphasise the benefits of anti-corruption and corporate transparency.

**Increasingly companies and their representatives are reacting sensitively to reputational considerations**, especially in competitive markets, which rely on a positive public image to retain or increase market share and attract employees, customers and investors. Scandals can severely damage a **company's brand and can be very costly to repair**. They may also trigger additional follow-up costs in the form of a loss of customers and investors.

**Civil society organizations can use this brand sensitivity** by applying reputational sanctions to companies violating anti-corruption standards and reputational incentives to companies that put substantial effort into acting with integrity.

This is where the TRAC comes in and can be used as a valuable tool to motivate business to increase reporting and with reporting, also behavior.

A low position in a TRAC ranking can be tantamount to a reputational sanction to a company. It becomes publicly known as a company not doing enough to counter corruption, a fact that can be used by campaigners and civil society organizations to demand further action. It can also result in follow-up economic damages if companies lose investors or customers due to their publicly visible risk exposure. But conversely, a good position on a TRAC ranking, especially a frontrunner position either overall or within a sector, can be a valuable motivator and incentive for companies.

**TRAC thus combines reputational risks and benefits with the peer pressure needed to drive company behavior.** Companies doing well can also use TRAC results themselves to demonstrate their commitment and showcase the public recognition; and many do so already<sup>41</sup>.

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<sup>40</sup> **Source:** HUMBOLDT-VIADRINA School of Governance (2013): Motivating Business to Counter Corruption – A Practitioner Handbook on Anti-Corruption Incentives and Sanctions.  
For example: Statoil/Equinor: <https://www.equinor.com/en/how-and-why/sustainability/recognition-and-awards.html>  
ENI: [https://www.eni.com/docs/en\\_IT/enicom/sustainability/2014-transparency-corporate-reporting-en.pdf](https://www.eni.com/docs/en_IT/enicom/sustainability/2014-transparency-corporate-reporting-en.pdf)  
ZAIN: <https://zain.com/en/press/kuwait-transparency-society-zain-tops-companies-in/>.

TI should continue to **make use of these drivers and push the TRAC further into public recognition, but also use the report to position advocacy propositions into relevant policy debates**. Ranking companies can be very powerful – but only when a business case for good performance can be established. This is the case for reporting on anti-corruption. This is not the case for organizational transparency, nor it is the case for country-by-country reporting.

There is room to make TRAC even more powerful! According to TI-CHs, the reputational impact of low TRAC scores are low for companies: 9 out of 14 Chapters who conducted a TRAC which responded to the survey estimated the impact of a low TRAC score on a business reputation as being low in the short term (and one respondent even considered it to have no impact at all on the business reputation).

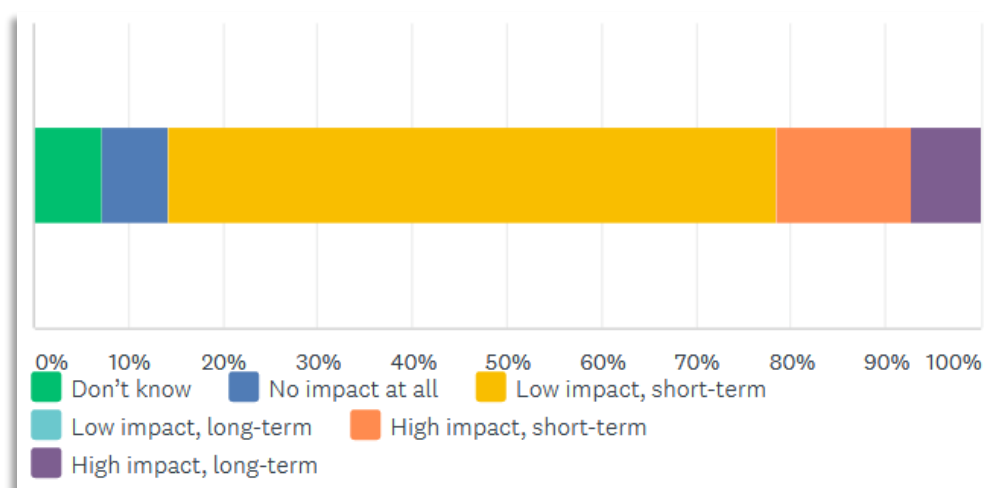


Figure 5: TI-CHs conducted a TRAC on the impact a low corporate transparency score in a TRAC could have on a company reputation in their country – 14 respondents

TI should therefore *first*, **work towards increasing reputational implications of a TRAC rating** but *second*, **push for legislative changes in the areas of organizational transparency and country-by-country reporting**.

But the TRAC must not stop there. There are many ideas on how to modify the tool to increase relevance for different company types, sectors and markets by increasing flexibility and adding relevant indicators.

TRAC has a huge potential for the TI movement: to push for changes in the private sector, but also to gaining visibility beyond the expert community. TI should continue to make use of these opportunities to strengthen the private sector as key change agent to fight corruption.