

CORPORATE TRANSPARENCY AND ANTI-CORRUPTION FOOTPRINT MALAYSIA

This paper is based on Transparency International's report "Transparency in Corporate Reporting: Assessing Emerging Market Multinationals" 2016 edition¹, which evaluates 100 multinationals based in 15 emerging markets against three corruption relevant criteria: reporting on anti-corruption programmes, organisational transparency and country-by-country reporting. The assessment is based on data collected from the main corporate website of each company in the sample. This paper shows the results for the 32 companies assessed in the report that are doing business in Malaysia, shining a light on the transparency footprint those companies have in the country.

Of these 32 companies, one – Petronas - is incorporated in Malaysia. The remaining 31 are headquartered in one of eight other emerging economies and are operating in Malaysia via subsidiaries or non-controlled entities. China has the strongest presence with 14 companies operating in Malaysia.

Company performance for the three assessed criteria is visualized via a simple colour code² which highlights the transparency profile of companies active in Malaysia.³

HIGHLIGHTS

**26/32
companies**

active in Malaysia **DO NOT** publish a policy prohibiting facilitation payments

**22/32
companies**

active in Malaysia **DO NOT** state publicly that their anti-corruption policy applies to agents

**22/32
companies**

active in Malaysia **DO NOT** disclose their tax payments

KEY RECOMMENDATIONS

TO COMPANIES

- Develop best-in-class anti-corruption programmes as a protection against the risk of bribery and corruption, including a zero-tolerance policy towards facilitation payments.
- Apply the programme to agents or others acting on companies' behalf, as well as to the company's suppliers.
- Publish all elements of the anti-corruption programme on an unrestricted corporate website that is available in at least one international language.
- Strengthen voluntary reporting practices on country-specific financial data.

TO GOVERNMENTS

- Implement strong anti-bribery laws and provide the necessary resources to enforce them. Stricter legislation can effectively raise the bar for corporate transparency, both at home and abroad.
- Require companies to disclose their corporate structures beyond material holdings and to publish financial accounts on a country-by-country basis.

¹ www.transparency.org/whatwedo/publication/transparency_in_corporate_reporting_assessing_emerging_market_multinat

² Green field: full disclosure; Yellow field: partial disclosure; Red field: no public data available

³ It is important to note that findings are based on information collected from the main corporate website of the country where the company is headquartered. Websites of subsidiaries and other entities are not taken into account. However, Transparency International believes it is good practice that policies of the headquarter should apply to all corporate entities, including those abroad.

ANTI-CORRUPTION PROGRAMME TRANSPARENCY

The Anti-Corruption Programme Transparency dimension (ACP) assesses the reporting on key elements of a company's anti-corruption programme. The indicators are based on Transparency International's *Business Principles for Countering Bribery*⁴. While public reporting by companies on their anti-corruption programme cannot be equated with actual performance, it is indicative of their overall anti-corruption awareness and provides an opportunity for companies to focus on their practices. A comprehensive anti-corruption programme that is fully implemented and monitored on a continuing basis is the best protection against the risk of bribery and corruption.

COMPANIES IN MALAYSIA: ANTI-CORRUPTION PROGRAMME TRANSPARENCY

The table below shows the transparency levels of companies doing business in Malaysia with respect to their anti-corruption programmes. While ACP generally is the strongest of the three dimensions assessed, the largely red columns point to some weaker areas, notably on the prohibition of facilitation payments, the disclosure of political contributions, and anti-corruption policies that apply to agents as well as to suppliers. In line with the overall results across the three dimensions, Chinese companies show very weak disclosure of their anti-corruption programmes, with ZTE being a notable exception.

	Zero-tolerance to corruption statement	Compliance with laws	Leadership support	Code applies to employees and directors (board)	Code applies to agents	Code applies to suppliers	Ac training for all staff and directors (board)	Gifts and hospitality policy	Prohibition of facilitation payments	Prohibition of retaliation for reporting	Confidential or anonymous whistle-blowing system	Regular monitoring of the programme	Prohibition or full disclosure of political contributions	Anti-corruption transparency score
Companies incorporated in Malaysia														
Petronas														88%
Companies operating in Malaysia but incorporated in other countries														
WEG, Brazil														54%
Baosteel Group, China														23%
Chery Automobile, China														0%
China Communications Construction														54%
China State Construction Engineerin														8%
COSCO Group, China														35%
Haier, China														15%
Huawei Technologies, China														42%
Lenovo Group, China														69%
Li & Fung Group, China														65%
Shanghai Electric Group, China														4%
Sinohydro, China														65%
Sinopec Group, China														23%
Zoomlion, China														0%
ZTE, China														88%
El Sewedy Electric, Egypt														77%
Crompton Greaves, India														15%
Dr. Reddy's Laboratories, India														69%
Hindalco Industries, India														46%
Larsen & Toubro, India														8%
Lupin Pharmaceuticals, India														42%
Tata Communications, India														88%
Tata Consultancy Services, India														88%
Tata Steel, India														88%
Wipro, India														88%
Indofood Sukses Makmur, Indonesia														0%
Gruma, Mexico														42%
Bidvest Group, South Africa														62%
Sasol, South Africa														65%
Charoen Pokphand Group, Thailand														0%
PTT, Thailand														77%
Average of companies operating in Malaysia														45%

⁴ http://www.transparency.org/whatwedo/publication/business_principles_for_countering_bribery

COUNTRY-BY-COUNTRY REPORTING TRANSPARENCY

While reporting on anti-corruption policies and procedures is a key element of our assessment, the assessment of additional disclosures, such as financial reporting on revenues, profits, taxes and other key financial information is an essential component of corporate transparency. Country-by-country reporting supports anti-corruption efforts by highlighting, for example, the use of tax havens and the appropriateness of payments to governments. Furthermore, it allows local citizens and civil society organisations to understand the activities of a particular company in their country. It also provides investors with more comprehensive financial information about companies and helps them address investment risk more effectively. Country-by-country reporting is a relatively new practice. Therefore, transparency levels achieved are much lower than for anti-corruption disclosures. However, in Europe and North America for example, changes in the laws relating to certain industries, such as mining and banking, are already requiring mandatory country-by-country reporting.

COMPANIES IN MALAYSIA: COUNTRY-BY-COUNTRY REPORTING

This table shows the key financial data Malaysia companies disclose for both their domestic and foreign operations, as compared to the data that companies operating in Malaysia disclose for Malaysia and for their countries of incorporation.

	Revenues	Capex	Pre-tax Income	Tax	Community Contributions	Domestic Reporting Score (Malaysia)	Foreign Reporting Score (where operating)
Companies incorporated in Malaysia							
Petronas						90%	2%
	Revenues	Capex	Pre-tax Income	Tax	Community Contributions	Foreign Reporting Score (Malaysia)	Domestic Reporting Score (where incorporated)
Companies operating in Malaysia but incorporated in other countries							
WEG, Brazil						0%	40%
Baosteel Group, China						0%	10%
Chery Automobile, China						0%	0%
China Communications Construction Co						0%	30%
China State Construction Engineering C						0%	20%
COSCO Group, China						0%	30%
Haier, China						0%	0%
Huawei Technologies, China						0%	20%
Lenovo Group, China						0%	40%
Li & Fung Group, China						0%	0%
Shanghai Electric Group, China						0%	20%
Sinohydro, China						0%	0%
Sinopec Group, China						0%	0%
Zoomlion, China						0%	40%
ZTE, China						0%	40%
El Sewedy Electric, Egypt						0%	40%
Crompton Greaves, India						30%	50%
Dr. Reddy's Laboratories, India						30%	50%
Hindalco Industries, India						30%	60%
Larsen & Toubro, India						30%	50%
Lupin Pharmaceuticals, India						30%	80%
Tata Communications, India						40%	80%
Tata Consultancy Services, India						30%	60%
Tata Steel, India						30%	80%
Wipro, India						30%	50%
Indofood Sukses Makmur, Indonesia						10%	10%
Gruma, Mexico						0%	100%
Bidvest Group, South Africa						0%	0%
Sasol, South Africa					N/A	0%	80%
Charoen Pokphand Group, Thailand						0%	20%
PTT, Thailand						10%	10%
Average of companies operating in Malaysia						10%	36%

Our findings show remarkable differences between the disclosure practices of companies in their home country and abroad, with much stronger results for domestic disclosure (see for example Petronas).

As numbers show in the far right column, several companies operating in Malaysia achieve results above 40% for domestic reporting, whereas the level of information on key financials they provide for their operations in Malaysia is very low. The much stronger domestic reporting clearly indicates that disclosure of key financial information is achievable and that companies should adopt equally high standards of disclosure at home and in their foreign operations.

It is interesting to note that most of the foreign companies that disclose any data are from India, where country-level reporting of key financial information is mandatory for all subsidiaries.