

Do corporate claims on public disclosure stack up?

Impact of public reporting on corporate competitiveness

BACKGROUND

The momentum for public country-by-country reporting (CBCR) by multinationals is building worldwide. In the European Union (EU), financial and credit institutions now disclose CBC information under the Capital Requirements Directive, while companies active in the extractives and logging industries disclose their payments to governments in accordance with the Accounting and Transparency Directive.

As the EU considers introducing public CBCR for European multinationals as well as for non-EU multinationals operating in the EU, one frequent objection raised by the business world against introducing such measures is the alleged negative impact they would have on the competitiveness of EU companies. In order to examine this argument and others in more detail, Transparency International EU (TI EU) has set out to better understand the impact of corporate reporting on company competitiveness.

KEY FINDINGS

No correlation between public CBCR and competitiveness:

What the research found is that, while public CBC disclosures by European multinationals are on the increase, there is no definitive correlation between public CBC or SBS reporting and standard measures of competitiveness. Company competitiveness across time, regardless of sector, was not shown to be effected by reporting key company performance information on a CBC basis.

Historical company performance:

- The majority of the companies assessed maintained or improved their revenue performance during the assessment period.
- The research found a comparable performance in net income management (demonstrated as EPS) between the European CBC and non-CBC reporters.
- A comparable performance between the three reporting groups (European CBC reporters, European non-CBC reporters and Indian SBS reporters) was also found in terms of P/E Ratio and ROE.
- **43% of the European public CBC reporters assessed maintained or improved their competitiveness over the period.**
- **86% of the European CBC reporters assessed (such as BNP Paribas, Deutsche Telekom or Telefonica, among others) improved or maintained their revenue performance despite publicly disclosing some of their financial information on a CBC basis.**
- **All the 14 Indian companies assessed improved or maintained their revenue performance despite publicly reporting on a SBS basis.**

Movements in competitiveness performance are addressed in all company annual reports, with **no reference made to public CBC or SBS reporting as the underlying cause of performance improvement or decline.**

Sector-based performance

- The revenue growth performance of European CBC and non-CBC reporters was comparable against global sector competitors.
- Similar to revenue results, the P/E Ratio performance of European CBC and non-CBC reporters was comparable against their global sector competitors.
- **More than 40% of European CBC reporters assessed had a revenue growth comparable or higher than their sector's median performance at a global level.**
- **More than 90% of the Indian companies assessed had a revenue growth comparable or higher than their sector's median performance.**
- BNP Paribas, Deutsche Telekom and Vodafone had a higher revenue growth than their sector's median performance, despite their CBC disclosures.

Based on the information assessed, this research found no evidence of negative impact of public CBC or SBS reporting on standard measures of competitiveness.

METHODOLOGY

Key elements of the research approach included:

1. Identifying measures of corporate disclosure
 - Turnover
 - Profit or loss before tax
 - Tax on profit or loss
 - List of subsidiaries
2. Identifying measures of company competitiveness
 - Revenue
 - Earnings per share (EPS)
 - Price-to-Earnings Ratio (P/E Ratio)
 - Return on Equity (ROE)
 - Return on Assets (ROA)
3. Identifying companies and analysing reporting trends

This report explores evidence about the impact of public CBCR on corporate performance by assessing 28 multinationals. The scope includes 7 European multinationals that report on a public CBC basis (proactively or due to other legislative drivers such as the EU Capital Requirements Directive), 7 European multinationals that do not report on a CBC basis, and 14 Indian multinationals that report on a public subsidiary-by-subsidary (SBS) basis under the Indian Companies Act.

4. Analysing trends

Individual company performance was assessed over three full-year reporting periods using publicly available information and sector performance at the global and regional level.