

# Towards Transparency Newsletter

November 2018

## Transparency in Corporate Reporting (TRAC 2018): Assessing the 45 largest companies operating in Vietnam

*Towards Transparency, thanks to funding from Oxfam, conducted the second edition of its Vietnam TRAC Report, which measures the reporting level of the 45 largest companies operating in Vietnam. TRAC 2018 shows encouraging improvement since the first 2017 edition. Our expectation is that periodical TRAC assessments contribute to the government's anti-corruption efforts and encourage large companies to adopt higher transparency standards, in line with globally recognized norms. We also believe that TRAC raises awareness among other stakeholders in the market and in the society.*

*“In Vietnam, corporate transparency is receiving increasing attention from the Government”*

### **Background**

**D**isclosure and transparency are important principles of good corporate governance. Expansive public disclosure can help maintain trust of shareholders, potential investors and regulators in the capital markets. At the same time, the G20/OECD Principles of Corporate Governance point out that “...weak disclosure and non-transparent practices can contribute to unethical behavior and to a loss of market integrity at great cost, not just to the company and its shareholders but also to the economy as a whole.”

Transparency International, the global movement against corruption, believes that enhancing corporate disclosure of anti-corruption programs, organizational struc-

ture and financial data on country-by-country operations can demonstrate corporate public commitment to anti-corruption and limit involvement in corrupt practices. Globally, both financial and non-financial reporting by companies are increasingly expected as part of improved corporate governance and social responsibility.

To support progress in this area, Transparency International has conducted a series of Transparency in Reporting on Anti-corruption (TRAC) reports on corporate reporting worldwide since 2008.

In Vietnam, corporate transparency is receiving increasing attention from the Government. The Law on Securities (2006) mandates publicly-listed companies (PLCs) to publish information in-

cluding audited financial reports and important change in companies' ownership. The Law on Enterprise (2014) stipulates that state-owned enterprises (SOEs) must periodically publish audited financial and corporate governance reports on their websites. In parallel, the government is well aware of the advantages of using transparency as a tool to prevent corruption. The revised Law on Anti-corruption (2012) reinforces public disclosure requirements for SOEs.

### **About the report**

**T**RAC (Transparency in Corporate Reporting) is an independent assessment, based on information publicly disclosed on companies' websites. The research follows



“Samsung Electronics Vietnam, Unilever Vietnam and Nestle Vietnam score highest (81%) in publicly reporting about their anti-corruption programmes”

the best practices that Transparency International expects companies to comply with, regardless of sector or ownership structure. It examines the extent and quality of information reported by companies on anti-corruption programs, organization structure and financial information on a country-by-country basis. The TRAC Vietnam Report 2018 covers the 45 largest companies selected from the 2017 VNR 500 list. The sample group comprises equally foreign, publicly listed and state-owned companies, 18 of them were already assessed in the TRAC Report 2017.

### Overall findings

Firstly, large multinational's subsidiaries score higher with regard to disclosure of their anti-corruption programs, even though far below the maximum percentage of 100 per cent. For their part, local Vietnamese companies lag significantly behind in reporting on their anti-corruption programs. Both results are however to be examined in the context of high standards for public disclosure of information set out in the TRAC methodology. Even world's leading companies still have a long way to go in demonstrating the embedment of anti-corruption into their organizations, in particular in their operations in emerging markets such as China, India, Indonesia, Turkey, Brazil, Mexico and South Africa (where they sometimes practice low standards of transparency”.

Nonetheless, this finding

sends a negative signal to both government and investors in terms of alignment of corporate governance to international standards; it also bolsters the argument for making anti-corruption policy and program compulsory for companies, as proposed in the draft of the revised Law on Anti-corruption (amended).

Secondly, when assessing the organizational transparency's dimension, local Vietnamese companies outperform foreign companies. Indeed, given the existing set of regulations on company's structure and ownership for PLCs and SOEs, these two groups achieve much higher scores than other company types in this dimension. In contrast, foreign subsidiaries score much lower. This indicates both a gap in implementation of foreign companies' disclosure of information outside their territories, as well as a lack of such requirements in the Vietnamese regulations governing foreign companies.

Thirdly, Country-by-Country Reporting (CBCR) measures financial data disclosure in each country where companies operate. CBCR applies in this report to 18 Vietnamese PLCs and SOEs, out of the total of 45 selected companies. These companies largely do not practice any country-by-country reporting. This disappointing finding is unfortunately similar to TRAC 2017 report's results. Regarding FDI, one must note that Country-by-country reporting is not at a relevant assessment category, as the foreign companies operating in Vietnam

do not typically control other subsidiaries (being themselves subsidiaries of their mother companies, located outside Vietnam).

### Reporting on anti-corruption programmes:

➡ **Large multinational subsidiaries score higher in reporting on anti-corruption programmes, but far below the maximum percentage**

Reporting on anti-corruption programs demonstrates companies' public commitment to anti-corruption. TRAC 2018 shows poor results in this dimension, with companies scoring an average of 15 per cent in reporting on anti-corruption programs. While the increase is significant as compared to the 10 per cent in the TRAC Report 2017, much space remains for improvement.

Among the sample groups, foreign subsidiaries score the highest with an average of 31 per cent in this dimension. Samsung Electronics Vietnam, Unilever Vietnam and Nestle Vietnam achieve the top score of 81 per cent. The highest performers among local companies are Vinamilk and VPBank with 42 and 38 per cent, respectively. Disappointingly, more than half of the companies (24 out of 45) received a score of 0 per cent, divided almost equally among foreign companies (6), PLCs

(9) and SOEs (6).

SOEs rank lowest in terms of disclosure. Given SOEs' key objectives to deliver public services, one should expect that they operate to the highest standards of integrity and transparency. Understandably, this poor performance lies with the absence of anti-corruption programs aligned with international best practices.

### **Organizational transparency :**

⇒ **Vietnamese companies outperform multinational subsidiaries in organization transparency**

**P**ublic disclosure of company ownership, structure of a company group and related party transactions is a recognized principle of effective corporate governance. It reveals inter-connections between companies and facilitates detection of illicit financial flows, thus limiting opportunities for corruption and other financial irregularities.

Organizational transparency among the sample companies ranks the highest among the three dimensions at an average score of 66 per cent. One third of companies achieves the maximum score of 100 per cent. PLCs perform strongest in this dimension at an average of 88 percent, followed by SOEs at 60 percent. FDIs are lagging behind with a disappointing average score of only 32 percent.

These results clearly show the importance of legally mandated transparency as well as the limits of voluntary disclosure. Vietnam has enacted regulations prescribing disclosure of information by companies, such as ownership, structure and subsidiaries. These regulations have set PLCs and SOEs on the path to good practices in organizational transparency.

At the same time, large multinationals tend to neglect public disclosure of their subsidiaries abroad, in the absence of such a compulsory requirement for these companies. This lack of information limits monitoring and oversight by local stakeholders in countries where these subsidiaries operate.

### **Country-by-country reporting:**

⇒ **All companies having cross border operations generally neglect country-by-country reporting**

**T**his dimension comprises 5 questions on financial data disclosure in each country where companies operate. This assessment dimension is only relevant to the increasing number of Vietnamese companies that operate subsidiaries in Vietnam and abroad, particularly those in the IT sector. None of the 18 largest companies in the sample group with operations outside of Vietnam discloses key financial information for countries where they operate, except

for MobiFone, which only provides information about its community contribution in Vietnam.

One can explain this disappointing result by the fact that Vietnamese regulations do not explicitly require public disclosure on financial data of subsidiaries (including those operating outside Vietnam). Optimistically, one could expect that Decree 20 will somewhat improve the picture in the coming years. Indeed, Decree 20 requires all companies with global consolidated revenue in the tax period of VND 18,000 billion or more (US\$789 million or more) to file country-by-country report with the tax authorities if they have a parent company located either overseas or within Vietnam.

Globally, this result is on par with limited disclosure practices found in TRAC reports in other countries. The world's largest corporations score 6 per cent due to lack of publishing financial details about their operation outside their home countries. Similarly, multinational companies operating in emerging markets score slightly better at 9 per cent.

### **Comparing 2018 results with TRAC 2017 Report**

**E**ncouragingly, companies assessed both in 2017 and 2018 perform better this year.

First, regarding disclosing anti-corruption programs, the average score increases nota-

*“36/45 companies*

*fail to publish*

*internal whistle-*

*blowing*

*mechanisms“*

*But...*

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*“Corporate transparency can also provide companies with an economic benefits by showing consumers that they are getting the best deal and strengthening employee morale and integrity”*

bly from 10 per cent in 2017 (for 30 companies) to 15 per cent in 2018 (for 45 companies).

10/18 companies assessed in both TRAC 2017 and TRAC 2018 have improved their scores in reporting on anti-corruption programs.

Due to the recent disclosure of their code of business principles and policies, the score of Unilever Vietnam increased the most, from 0% in 2017 to 81% in 2018.

Second, Organisation Transparency shows a significant improvement (66 per cent average score for 45 companies in 2018 as compared to 32 per cent average score for 30 companies in 2017).

11/18 companies assessed in both TRAC 2017 and TRAC 2018 have improved their scores in organizational transparency. Vingroup’s score increases the most, from 25% in 2017 to 100% in 2018.

However, one must admit that Country-by-Country Reporting remains “stuck” in the bottom line (0 per cent). Only MobiFone scores slightly takes off, moving from 0% to 4% in Country-by-Country Reporting.

## **Recommendations**

With a view to improving corporate reporting in Vietnam, the TRAC 2018 edition recommends the following.

### **Companies should:**

➡ Develop, implement and monitor Codes of Conduct and Anti-corruption policies, including confidential hotline for whistleblowers.

➡ Publicly report their commitments to anti-corruption and compliance with laws in Vietnam and other countries

where they are operating. Leaders and staff of companies that make public commitment to anti-corruption will more likely act in consistency with this commitment.

➡ Publish and require suppliers, distributors, intermediaries and other business partners to comply with the company’s code of conduct and anti-corruption policies. Large companies have leverage to positively influence their supply chains, customers and the market at large in leading by example.

### **Government should:**

➡ Introduce and strengthen regulations on anti-corruption policies and programs for companies. For SOEs specifically, Transparency International has produced a guidance on “10 Anti-corruption Principles for State-owned Enterprises”.

➡ Introduce regulations on public disclosure (with appropriate sanctions), relevant for PLCs, SOEs and foreign companies covering both financial and non-financial information such as anti-corruption policies and programs.

➡ Enhance enforcement of public disclosure by companies through periodic monitoring and inspection by relevant government agencies to identify non-compliant firms.

### **Non-state actor, including business associations and CSOs, should:**

➡ Increase demand for transparency and anti-corruption through awareness raising, practical support to business wishing to adopt effective compliance programs as well as constructive advocacy to stakeholders and the society at large.

## **Corporate transparency builds trust of investors, business partners and employees**

To face both public and market expectations, responsible companies today undertake increasing efforts to publicly report on their activities, structures and ownership. Going public helps to develop a sustainable investment climate and encourages responsible business practices and better public- and private-sector decision making. Corporate transparency can also provide companies with an economic benefits by showing consumers that they are getting the best deal and strengthening employee morale and integrity. Finally, evidence suggests that markets give a higher value to companies that practice transparency to investors and analysts.

In that context, the largest companies are expected to lead by example to contribute to build an environment for doing business with integrity. Their influence goes beyond their organization, investors and customers, gradually setting standards for behavior in the wider market.

As the Vietnamese economy keeps growing, an increase in transparency does not only reduce opportunities for corruption, but also contributes to boost confidence in individual companies reaching out to regional and global markets, and in the economy as a whole – strengthening Vietnam’s attractiveness to domestic and foreign investors.

**The full report is available on: [towardstransparency.vn](http://towardstransparency.vn)**