



جمعية الشفافية الكويتية
Kuwait Transparency Society

TRANSPARENCY IN CORPORATE REPORTING

– A Study of the 4 Largest Companies in Kuwait

Kuwait Transparency Society
Report No. 1 | October 2013

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Introduction

Corruption affects lives and communities, it undermines countries and institutions and slows economic development and contributes to governmental instability.

Corruption is widespread in Kuwait, and it has increased during the past years. According to Corruption Perception Index (CPI) - launched by Transparency International - Kuwait has dropped down over the previous years; Kuwait is now ranked 66, where it was ranked 35 in the year 2003.

Transparency International believes that transparency and accountability are the cornerstones of the fight against corruption, in both the public and private sector. Companies have a particularly important role to play in stemming the flow of corruption. By disclosing their commitments to transparency, companies communicate their values and policies and how these are being translated into action. It is critical that companies report on progress in their efforts to counter corruption – for through such disclosure they can then be held to account by stakeholders and demonstrate the credibility of their anti-corruption efforts¹.

This introductory is intended to explain the origins of this project. In the year 2012, Transparency International conducted a study on reporting transparency of the world's 105 largest publicly listed multinational companies. The study evaluated three different aspects of corporate reporting related to anti-corruption measures; publicly disclosed anti-corruption programmes, information on corporate organisation and Country-level disclosure.

Reporting on anti-corruption programs, organizational transparency and country -by- country reporting gives a clear and comprehensive picture of a company's operations, revenues, profits and taxation. As a result, stakeholders have the information to make informed decisions and influence corporate behavior. While even good reporting cannot ensure good company behavior, it is an indication of commitment, awareness and action. It also enables wrongdoing or misinformation to be more readily uncovered. Ultimately, companies with a good track record of reporting on their anti-corruption programs and global activities are more likely to be part of the solution than the problem².

Kuwait Transparency Society has used same TI's methodology and conducted a study of the top 4 Companies in Kuwait according to their importance to the economy and for being top of their sectors.

This study is just the beginning for more extensive studies in the future.

TI Kuwait hopes that the publication of this study will inspire a debate on how all companies, especially those operating internationally, could improve their reporting.

Salma Al Essa
Board Member - Kuwait Transparency Society (KTS)

¹ TRAC 2: Transparency in Corporate Reporting

² Transparency in Corporate Reporting: Assessing the World's Largest Companies

How Kuwait Transparency Society (KTS) Conducted the Study in Kuwait

The study [Transparency in Corporate Reporting – A Study of the 4 Largest Companies in Kuwait] is based on the methodology of the report Transparency in Corporate Reporting: Assessing the World's Largest Companies” published by the Transparency International Secretariat in July 2012. The next edition of this global report will be published in spring 2014, and further editions may follow. While the 2012 report was based on public information available in English only, the 2014 report will take into account public information on anti-corruption reporting of multi-national companies in the six official UN languages: Arabic, Chinese, English, French, Russian, and Spanish. The report at hand considers information available in English. This fact may lead to deviations in company results between the global reports and the report at hand if companies are covered in both reports and publish more or less information in one of the languages concerned. In addition, possible future changes to the methodology may lead to deviations in results.

The study covers 4 largest companies in Kuwait, the companies (NBK, KFH, ZAIN, WATANEYA) were chosen based on various financial parameters; being the top listed companies in Market Capitalization, Net Profit (9M-2012), Revenue (Last 12m) and to their importance to the economy.

All 4 companies are considered the top of their sectors; Banks and Telecommunications.

The study was conducted by Salma AlEssa - Board Member of Kuwait Transparency Society- as a contribution to encourage and enhance the implementation of anti-corruption measures among listed companies in Kuwait.

Only Information made publicly available by the companies (websites) was used to answer questions in a questionnaire on corporate reporting. The questions focused on anti-corruption programmes, organisational structure and country-by-country reporting. A copy of the questionnaire is attached in Annex 1³.

The completed questionnaires were sent to the respective companies together with a letter about the purpose of the survey and how it is implemented. Companies had a month to review the information of the completed questionnaires and, if necessary, make additions or changes. Three companies never replied back (NBK, KFH, Wataneya), and only ZAIN, have provided a response. The results assessment procedure is provided in Annex 2.

Only one company (ZAIN) welcomed the study, and perceived it as a chance to improve their reporting measures. Actually ZAIN implemented most of the requirements and published some of its policies during the time of the study and thus managed to raise its score. Other companies, unfortunately, never replied back.

This study would not come to fruition if not for the efforts of TI's International Secretariat (TI-S), I also would like to extend my gratitude to Transparency International Sweden, as their report was the foundation which I used to conduct my study.

This report was compiled with the support of the Transparency International Secretariat.

³ UN Global Compact Reporting Guidance on the 10th Principle against Corruption

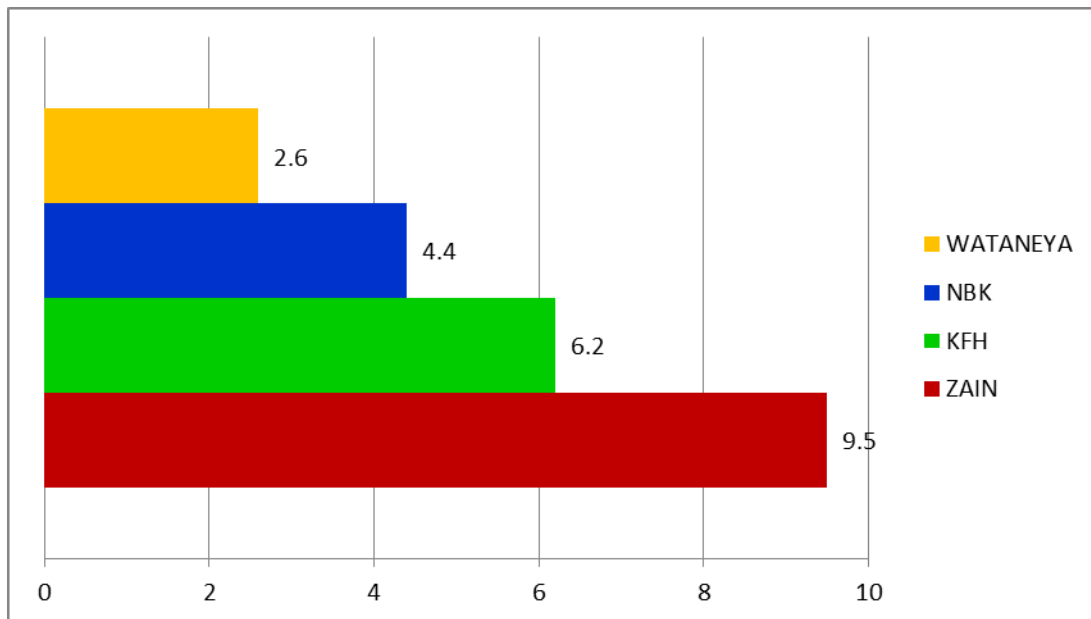
WEIGHTED TRANSPARENCY INDEX

Here we have presented the weighted index in a way that is similar to the international study. The index is the average result of the various types of reporting, i.e. anti-corruption programme (AC), organisational transparency (OT) and country-by-country reporting (CBC). It should be noted that the index is based on scores for quite different types of reporting. For example, it is not certain that the score for country-by-country reporting is completely accurate, because it is probably easier for a company with few subsidiaries to achieve a higher score compared to a company with many subsidiaries.

TABLE 1 – RESULTS OF THE WEIGHTED INDEX

Index		AC	OT	CBC
ZAIN	9.5	100%	100%	84%
KFH	6.2	46%	88%	52%
NBK	4.4	15%	100%	18%
WATANEYA	2.6	0	44%	34%

FIGURE 1 – RESULTS OF THE WEIGHTED INDEX



REPORTING ON ANTI-CORRUPTION PROGRAMMES

Level of score	IN THE Kuwait STUDY -2013				IN THE INTERNATIONAL STUDY 2012
	ZAIN	KFH	NBK	WATANEYA	
Highest score	100%				100% - (BASF, BG Group, Statoil)
		46%			
Average score	40%				68%
Lowest score			15%	0%	0% - Bank of China, Bank of Communication & Gazprom

Only three companies received the highest score in the international study (BASF, BG Group and Statoil). The medium score value was 68%. The worst performing (Bank of China, Bank of Communication and Gazprom) earned the lowest score – 0%.

According to the above information, the Kuwaiti company Zain is competing with the international companies as it received the highest score in the Anti-Corruption Procedures.

Sadly, 75% of the Kuwaiti companies surveyed in this study scored lower than the international medium score.

TABLE 2 – RESULTS OF THE ANTI-CORRUPTION PROGRAMME

ZAIN	100%
KFH	46%
NBK	15%
WATANEYA	0%

To receive a complete score for the anti-corruption programme section, companies must demonstrate their commitment to the anti-corruption measures and ensure that its Board of Directors and senior management provide, explicit, and visible support and commitment to its corporate policy against violations of the anti-corruption laws and code of conduct. That the company policy covers all employees, business partners and all the relevant stakeholder, that the policy contains clear rules on gifts and entertainment, and prohibits the use of so-called facilitation payments⁴. There must be clear reporting procedures that can be used by employees without the risk of retaliation and a system for monitoring the policy's implementation. Furthermore, contributions to political parties must be published. The (AC) section contains 13 questions. The diagram below shows the percentage of companies that received the complete score, half score or no score at all per each question.

Most companies included in the study seem to be well aware of the benefits of having implemented a robust anti-corruption programme. It should be noted however, that the study only looks at the existence of the programme and the components contained in it, while the application of the programme is not assessed.

⁴ Transparency in Corporate Reporting: Assessing the World's largest companies, Transparency International 2012

DIAGRAM 1 – RESULTS OF THE VARIOUS QUESTIONS ON ANTI-CORRUPTION PROGRAMMES

QUESTION No.	1 point	0.5 points	0 points
1. Zero tolerance statement	25%		75%
2. Compliance with law and commitments	50%		50%
3. Leadership support	25%		75%
4. Code applies to all employees	75%		25%
5. Code applies to agents	25%		75%
6. Code applies to suppliers	25%		75%
7. Training programs in place	25%		75%
8. Gifts, hospitality and travel	50%		50%
9. Prohibition of facilitations payments	50%		50%
10. Prohibition of retaliation for reporting	50%		50%
11. Confidential reporting channels	75%		25%
12. regular programme monitoring	25%		75%
13. Disclosure of political contributions	25%		75%

Due to the small sample size of the Kuwaiti study (4 Companies), the illustrated percentages might be misleading, and it would be illogical to compare the frequencies of the point percentages of the Kuwaiti companies with the international study.

As for the various questions results, it is noted that 75% of the companies (three out of four) have confidential reporting channels and code of conduct or anti-corruption policy that explicitly apply to all employee.

ORGANISATIONAL STRUCTURE

Level of score	IN THE Kuwait STUDY -2013				IN THE INTERNATIONAL STUDY 2012
	ZAIN	KFH	NBK	WATANEYA	
Highest score	100		100%		100%
		88%			
Average score	83				68%
Lowest score				44%	0%

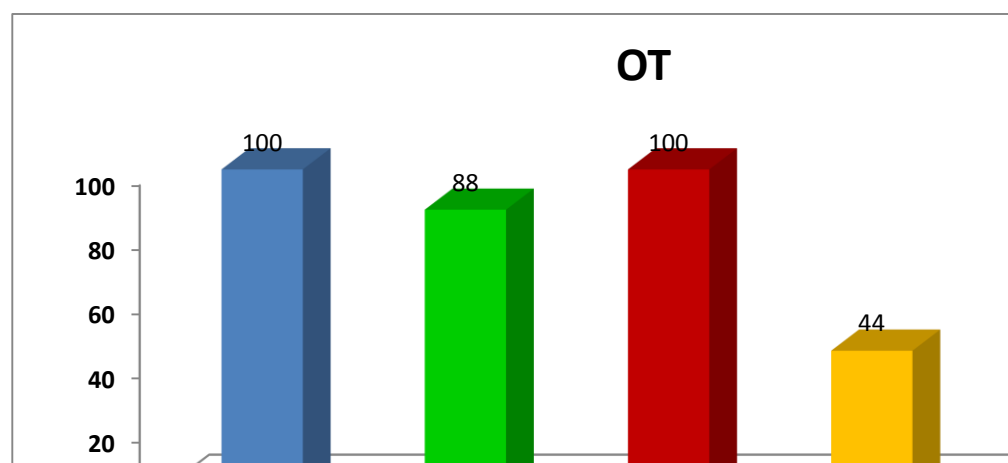
In the internal study 2 companies (ZAIN, NBK), received 100% on organisational transparency and one (KFH) received 88%, which also considered a high score. The average in the internal study is 83% and it is relatively high when compared with the International average score (68%). However, the comparison in the level of score between the internal study and the international study will be misleading due to the small sample size of the internal companies surveyed (only 4 companies surveyed).

Here, the study has rated the accounting of wholly and partially owned subsidiaries and branches. To receive the complete score, the company needs to present a complete list of companies in which it owns shares, the percentage of the shares, as well as the company's tax residence. The purpose of identifying the company's organisational structure is, to provide an insight into the company's structure in regard to its shares and interests in various other companies and countries.

TABLE 3 – RESULTS OF THE ORGANISATIONAL STRUCTURE

ZAIN	100%
KFH	88%
NBK	100%
WATANEYA	44%

FIGURE 2 - RESULTS OF THE ORGANISATIONAL STRUCTURE



COUNTRY-BY-COUNTRY REPORTING

Level of score	IN THE Kuwait STUDY -2013				IN THE INTERNATIONAL STUDY 2012
	ZAIN	KFH	NBK	WATANEYA	
Highest score	84%				50%
		52%			
				34%	
			18%		
Average score	48.5%				4%
Lowest score	0%				0%

For a company to receive a high score, it is required to disclose the full accounting of income, investments, income tax and charitable contributions in all countries.

Country-by-country reporting is a way to control that companies are paying taxes in the countries they operate and it is a means to create transparency of company activities.

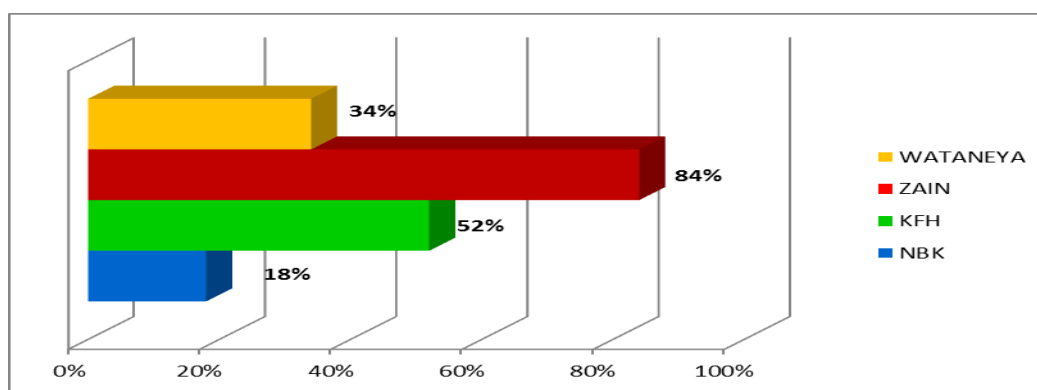
The results of the Kuwaiti companies are relatively high when compared with the international companies. One of the reasons for getting such a high score, is because some GCC countries do not have income tax (Bahrain & KSA), therefore question (25) was excluded, which resulted in the evaluation of only 4 questions per country- for three companies. Moreover, countries with no income tax, pre-tax income is equal to after-tax income, which is net income. Therefore the disclosure of the net income is considered as a substitute of pre-tax income.

Another notable remark, is that companies that operate through a large international network covering lots of countries (NBK e.g. operates through 16 countries), get lower scores than the ones that operate in fewer no. of countries.

TABLE 4 – RESULTS OF THE COUNTRY-BY-COUNTRY REPORTING

ZAIN	84%
KFH	52%
NBK	18%
WATANEYA	34%

FIGURE 3- RESULTS OF THE COUNTRY-BY-COUNTRY REPORTING



RECOMMENDATIONS

Kuwait Transparency recommendations are based primarily on the recommendations found in the international study.

FOR COMPANIES

All companies should identify and counteract the risk of corruption

All companies are encouraged to systematically analyse the risks of corruption that they may face in their operations and take adequate measures to minimise them. It does not mean that all companies, regardless of the size and industry, need to have a well-developed and detailed internal policy. However, the company's employees and business partners should be well aware of the company's attitude on corruption.

Anti-corruption programmes should be publicly available

Publicly available programmes for combating corruption increase the company's credibility and send a strong signal to its stakeholders. Most companies surveyed were found to have publicly available programmes that completely or almost completely corresponded to the requirements set by TI (please see Questions 1 – 13 in Annex 1). Those who have not yet chosen to make the programme completely public are encouraged to do so.

Publish the complete list of subsidiaries, joint ventures and other companies that the parent company holds an interest in

In the survey, most companies confirmed that they had published complete or almost complete information about their interests in other companies. Those that have not done it yet are encouraged to do so.

Publish data on operating profit/loss, investments, tax payments and charitable contributions country-by-country

All companies operating in different countries shall, as the basis for their annual reporting, retrieve data from all countries in which they operate. This information should be made publicly available by all, in order to increase the transparency of the company's operations.

Particularly important for financial firms

In light of the significant impact that financial companies have on the economy, they are encouraged to improve their reporting in all respects. They should ensure that their anti-corruption programmes are followed by their agents and intermediaries.

TO THE GOVERNMENT

The government should actively encourage companies to develop anti-corruption programmes through active dialogues with the companies and their organisations.

Set a requirement for companies to supplement their accounting with country-by-country reporting on the company's sales, investments, tax payments, etc.

TO INVESTORS

Both institutional and private investors should require reporting on anti-corruption programmes, organisational structure and country-by-country reporting. Such information should be used when making investment decisions.

To International Accounting Organizations, International Organization of Supreme Audit Institutions:

International accounting standards should require reporting on organisational transparency and country-by-country accounting.

FOOTNOTES

1. TRAC 2 : Transparency in Corporate Reporting
2. Transparency in Corporate Reporting: Assessing the World's largest companies, Transparency International 2012
3. The questions are based on Transparency International – UN Global Compact Reporting Guidance on the 10th Principle against Corruption
4. The questions are based on Transparency International – UN Global Compact Reporting Guidance on the 10th Principle against Corruption

ANNEX 1 – QUESTIONNAIRE

I. DISCLOSED ANTI-CORRUPTION PROGRAMMES

1. Does the company have a publicly stated commitment to anti-corruption?
2. Does the company publicly commit to be in compliance with all relevant laws, including anti-corruption laws?
3. Does the company leadership demonstrate support for anti-corruption? E.g. is there a statement in a corporate citizenship report or in public pronouncements on integrity?
4. Does the company's code of conduct/ anti-corruption policy explicitly apply to all employees?
5. Does the company's code of conduct/ anti-corruption policy explicitly apply to all agents and other intermediaries?
6. Does the company's code of conduct/ anti-corruption policy explicitly apply to contractors, subcontractors and suppliers?
7. Does the company have an anti-corruption training programme for its employees in place?
8. Does the company have a policy defining appropriate/ inappropriate gifts, hospitality and travel expenses?
9. Is there a policy that explicitly forbids facilitation payments?
10. Does the company prohibit retaliation for reporting the violation of a policy?
11. Does the company provide channels through which employees can report potential violations of policy or seek advice (e.g. whistleblowing) in confidence?
12. Does the company carry out regular monitoring of its anti-corruption programme?
13. Does the company have a policy prohibiting political contributions or if it does make such contributions, are they fully disclosed?

II. ORGANISATIONAL TRANSPARENCY (DISCLOSURE OF SUBSIDIARIES)

14. Does the company disclose the full list of its fully consolidated material subsidiaries?
15. Does the company disclose percentages owned in its fully consolidated material subsidiaries?
16. Does the company disclose countries of incorporation of its fully consolidated material subsidiaries?

17. Does the company disclose countries of operations of its fully consolidated material subsidiaries?
18. Does the company disclose the full list of its non-fully consolidated material subsidiaries?
19. Does the company disclose percentages owned in its non-fully consolidated material subsidiaries?
20. Does the company disclose countries of incorporation of its non-fully consolidated material subsidiaries?
21. Does the company disclose countries of operations of its non-fully consolidated material subsidiaries?

III. COUNTRY-BY-COUNTRY DISCLOSURE

In our study 'countries of operations' are those countries in which a company is present either directly or through one of its consolidated subsidiaries. The relevant list of countries of operations is based on the company's own reporting. For each country of the company's operations the following set of questions has been asked:

22. Does the company disclose its revenues/ sales in country X?
23. Does the company disclose its capital expenditure in country X?
24. Does the company disclose its pre-tax income in country X?
25. Does the company disclose its income tax in country X?
26. Does the company disclose its community contribution in country X?

ANNEX 2 – METHODOLOGY

The questionnaire covers a broad spectrum of issues influencing corporate transparency. It was constructed in a similar manner to the questionnaire used for the most recent report Promoting Revenue Transparency in 2011, but has been adjusted to accommodate the cross-industry elements of this study. It focuses on three dimensions:

1. Reporting on anti-corruption programmes
2. Organisational transparency
3. Country-by-country reporting.

The first dimension is derived from the Transparency International – UN Global Compact Reporting Guidance on the 10th Principle against Corruption. It includes 13 questions; each of them is scored between 0 and 1. The maximum score for this dimension is 13 points. The final score for this dimension for each company is expressed as percentage of the maximum possible score (between 0 and 100 percent).

The second dimension evaluates the level of disclosure of material fully and non-fully consolidated entities and contains eight questions. For all such entities reporting on names, percentages owned by the parent company, countries of incorporation and countries of operations were reviewed. There are eight questions in this dimension. Each question was awarded between 0 and 1 point. The maximum score in organisational transparency is eight points.

The third dimension, country-by-country reporting, includes five questions, four of them on basic elements of financial accounts and the final one on community/charitable contributions. The maximum score per country is 5. The full set of five questions applied to each country of operations. Once all countries are scored for country-by-country reporting, a total score per country is calculated by adding up the scores received on each of the five questions.

The individual country scores are aggregated and then divided by the number of countries to arrive at the average score per country. The final result in country-by-country reporting is then expressed as a percentage of the maximum possible score (5 points per country).

During the data sharing and review process, one of the companies stated that there are two countries which they operate in, do not have income tax (Bahrain & Kingdom of Saudi Arabia), as a result of this feedback, questions 24 and 25 have been excluded from the scoring of these two countries.

ANNEX 3 – About Kuwait Transparency Society

Transparency International (TI) is a global network of non-profit organisations for combating corruption with its headquarters in Berlin. In its work, TI strives for openness and integrity. Since its foundation in 1993, TI has succeeded in its goal to put corruption on the international agenda and has become an international authority on areas related to corruption.

Kuwait Transparency Society (KTS) is an independent non-governmental organization (NGO), and it is a national chapter of Transparency International. KTS conducts extensive awareness-raising and advocacy activities to disseminate knowledge of the damaging effects of corruption and works to increase transparency both in the public and private sectors.

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