

# TRANSPARENCY IN CORPORATE REPORTING: ASSESSING THE WORLD'S LARGEST COMPANIES

## METHODOLOGY

Transparency International's 2014 report, *Transparency in Corporate Reporting: Assessing the World's Largest Companies* aims to encourage greater levels of transparency in international business. This report assesses the transparency of corporate reporting by the world's 124 largest multinational publicly listed companies, drawn from the Forbes list "The World's Biggest Public Companies" and selected by market value calculated in May 2013. It builds on Transparency International's existing work in combating corruption in the private sector. The methodology for this study has been used previously by Transparency International, notably in 2012 in our assessment of the top 105 global companies and most recently for the October 2013 report *Transparency in Corporate Reporting: Assessing Emerging Market Multinationals*.

The same methodology was also used for several country reports prepared by Transparency International Chapters in countries such as Argentina, Belgium, Greece, Hungary, Italy, Kuwait, Norway, Denmark and Sweden. The table below compares various corporate reporting studies undertaken by Transparency International.

**Table:** Comparison of Transparency International cross-country studies on Transparency in Corporate Reporting conducted in the years 2008-2014

	TRANSPARENCY IN CORPORATE REPORTING: Assessing the World's Largest Companies	9 COUNTRY REPORTS (TI National Chapters)	TRANSPARENCY IN CORPORATE REPORTING: Assessing Emerging Market Multinationals	TRANSPARENCY IN CORPORATE REPORTING: Assessing the World's Largest Companies	PROMOTING REVENUE TRANSPARENCY	TRANSPARENCY IN REPORTING ON ANTI-CORRUPTION	PROMOTING REVENUE TRANSPARENCY
	2014	2013	2013	2012	2011	2009	2008
<u>EVALUATED AREAS:</u>							
reporting on anti-corruption programmes (ACP)	✓	✓	✓	✓	✓	✓	✓
organisational transparency (OT)	✓	✓	✓	✓	✓		✓
country-by-country reporting (CBC)	✓	✓	✓	✓	✓		✓

<b>SAMPLE:</b>							
INDUSTRIES	various	various	various	various	oil and gas	various	oil and gas
# OF COMPANIES	124	various	100	105	44	500	42
OWNERSHIP	publicly listed	various	various	publicly listed	various	publicly listed	various
DATA REVIEW BY COMPANIES	✓	✓	✓	✓	✓		✓
RANKING BY COMPANY	✓	✓	✓	✓	✓		

Any comparison between the results of these reports must take into consideration changes in the questionnaire used for the reports over the years as a result of an ongoing methodology review and update process.

## Company selection

The selection of companies was based on the 2013 Forbes ranking of the World's Largest Public Companies. The 100 largest multinational companies by market value were chosen (market value as calculated by Forbes in May 2013). Companies operating in only one country (three Chinese companies: China Mobile, Sinopec Corp. and China Life Insurance) were eliminated from the sample because they could not be assessed on the country-by-country reporting dimension. Therefore, the list of 100 multinationals draws from the world's 103 largest companies. Additionally, 24 companies were added to the list – these are the companies, which were evaluated in the previous edition of the report, but which were not among the 100 largest in the 2013 Forbes list.

The final list of 124 evaluated companies and the structure of the sample are presented in the data tables of the report (see pp. 34-36).

The companies were not selected with a view to reaching geographic or industry-wide conclusions. Analysis of sample company performance by industry refers to the Industry Classification Benchmark.

All companies were contacted in August 2013 and informed of the planned research and report.

## Data collection and verification

All data were collected by desk research conducted in August 2013 by a team of Transparency International researchers. The sources included company websites and the relevant links and documents directly accessible through them. Only sources available in one of the six UN languages: Arabic, Chinese, English, French, Russian and Spanish were taken into consideration. Data for each question was recorded and the exact sources documented (e.g. corporate documents with page numbers or websites with dates of when the data were downloaded). The research was based on the latest available documentation. The reporting periods covered in these documents may differ among the selected companies. In September 2013 all collected data was verified by the Transparency International researchers.

Transparency International has not undertaken to verify whether information disclosed on websites or in reports is complete or correct. In other words, if a company publishes what it refers to as 'a full list of its fully consolidated material subsidiaries' this has been accepted at face value and scored accordingly.

It is important to note that it is beyond the scope of this research to judge levels of integrity within companies. Rather, the report focuses on public reporting by companies on anti-corruption policies

and procedures and other disclosures with respect to company holdings and key financial data, which Transparency International believes are crucial elements in ensuring good corporate governance and mitigating the risk of corruption.

## Data sharing and reviewing

On September 30<sup>th</sup>, 2013 preliminary data sets were shared with the target companies, and each company was given the opportunity to review its own data and to provide feedback or propose corrections. Feedback was accepted until October 28<sup>th</sup>, 2013.

Each data set consisted of four elements:

1. Scores and data sources for questions 1–13 on anti-corruption programmes
2. Scores and data sources for questions 14–21 on organisational transparency
3. Country-by-country data (questions 22-26)
4. List of countries of operations

The companies were asked to review the collected data in order to verify their completeness and accuracy. Of the 124 companies, 84 responded with feedback.

All requests for corrections were carefully analysed and discussed by the research team. Whenever necessary, further information, substantiation or documentation was requested and obtained from companies. This process resulted in a number of data point adjustments and in the updating of some data sources. The resulting average change in the index score was 0.26 points (in a 0-10 scale). For adjustments and/or updates resulting from the publication of new sources or updated documents, all sources published on corporate websites on or before October 28<sup>th</sup>, 2013 were taken into account.

Corrections were most often the result of one or more of the following:

- Changes or updates of certain policies or corporate documents
- The publication of documents or policies, which were previously only available for the limited audience (e.g. for employees or investors)
- Identification of documents or sources that were unintentionally omitted by the initial desk research

All 84 companies which provided feedback during the data review process are marked in the last column of the table included in the data tables annexed to the report (see pp. 34-36).

Transparency International greatly appreciates company engagement in this process as it improves the quality of the data and contributes to greater disclosure of corporate information. As a result of this dialogue, a better overview and understanding of diverse reporting practices and standards was gained. Similarly, several companies have gained better understanding of the transparency requirements and they could adjust their reporting practices accordingly.

## Questionnaire structure and scoring

The questionnaire covers a broad spectrum of issues influencing corporate transparency. It focuses on three dimensions:

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

The first dimension, **reporting on anti-corruption programmes**, is derived from the Transparency International – UN Global Compact Reporting Guidance on the 10th Principle against Corruption which is based on the Business Principles for Countering Bribery developed by Transparency International with the co-operation of a multi-stakeholder group involving business. It includes 13

questions. Each one is allocated a score of 0, 0.5 or 1. The maximum score for this dimension is 13 points. The final score for this dimension for each company is expressed as a percentage of the maximum possible score (between 0 and 100 per cent).

The second dimension, **organisational transparency**, includes eight questions. It evaluates the level of disclosure of company's fully and non-fully consolidated entities. Reporting on names, percentages owned by the parent company, countries of incorporation and countries of operations were reviewed for all such entities. Again, each question is awarded a score of 0, 0.5 or 1.

The maximum score achievable in organisational transparency is 8 points. Companies that do not have non-fully consolidated entities were evaluated on their disclosure of fully consolidated entities only (max. 4 points). The final score for this dimension for each company is expressed as percentage of the maximum possible score (between 0 and 100 per cent).

The third dimension, **country-by-country reporting**, includes five questions that evaluate the extent to which the following data is disaggregated to the country-level: revenues, capital expenditure, income before tax, income tax and community/ charitable contributions.

Scores for this dimension are calculated differently than for the first and the second dimensions. First, all five questions are scored (0, 0.5 or 1 point.) for each country where a company operates. For each question, the sum of points for all **foreign countries** of operations is calculated and then divided by the number of such countries. Scores for q.26 are calculated after excluding all N/A from the number of countries of operations.

**Example:**

<b>INDIVIDUAL SCORES - QUESTION / COUNTRY</b>						
<b>COUNTRIES OF OPERATIONS</b>		<b>Q.22 REVENUES</b>	<b>Q.23 CAPITAL EXPENDITURE</b>	<b>Q.24 INCOME BEFORE TAX</b>	<b>Q.25 INCOME TAX</b>	<b>Q.26 COMMUNITY CONTRIBUTION</b>
1	Home country	1.0	0.0	1.0	1.0	0.5
2	A	1.0	0.0	0.0	0.0	0.5
3	B	1.0	0.0	0.0	1.0	0.5
4	C	1.0	0.0	1.0	1.0	0.5
5	D	1.0	0.0	1.0	1.0	0.5
6	E	1.0	0.0	0.0	0.0	N/A
7	F	1.0	0.0	0.0	1.0	N/A
8	G	1.0	0.0	1.0	1.0	N/A
9	H	1.0	0.0	1.0	1.0	N/A
10	I	1.0	0.0	0.0	0.0	1.0
11	J	1.0	0.0	0.0	1.0	1.0
<b>CALCULATION OF RESULTS FOR COUNTRY-BY-COUNTRY REPORTING</b>						
# of points		10.0	0.0	4.0	7.0	4.0
# of (foreign) countries excluding n/a		10	10	10	10	6
<b>RESULT PER QUESTION</b>		<b>1.00</b>	<b>0.00</b>	<b>0.40</b>	<b>0.70</b>	<b>0.67</b>

Finally the scores for all five questions are added, divided into 5 (the maximum possible score) and expressed as percentage. i.e., in the above example:  $2.77 / 5 = 0.55 = 55\%$ .

Points awarded for the home country are not included in the score for the third dimension or in the overall index. They are added up separately and the “domestic disclosure” score is calculated. i.e., in the above example:  $3.5p, 3.5 / 5 = 70\%$ .

The overall index is derived from taking a simple un-weighted average of the results achieved from each dimension, rescaled from 0 to 1, where 0 is the worst score and 10 is the best. Scores achieved by companies in each dimension are presented in the index as rounded values but the overall index results are calculated based on unrounded scores in each dimension.