



University of St.Gallen

Institute for Law and Economics

# From Insight to Impact – Introducing the Award Methodology

Zurich, October 16, 2024

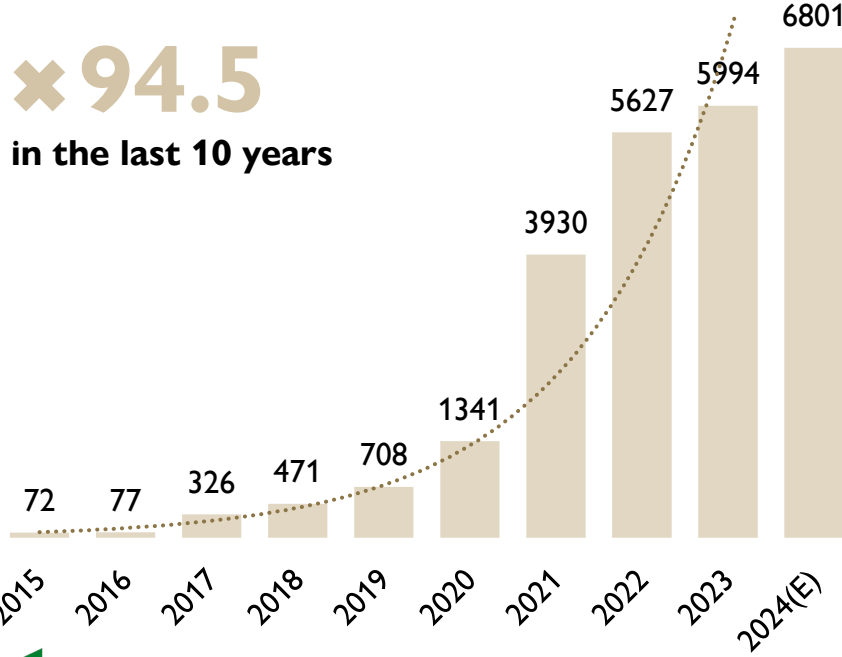
Prof. Dr. Thomas Berndt

Andreas Weyer, M.Sc.

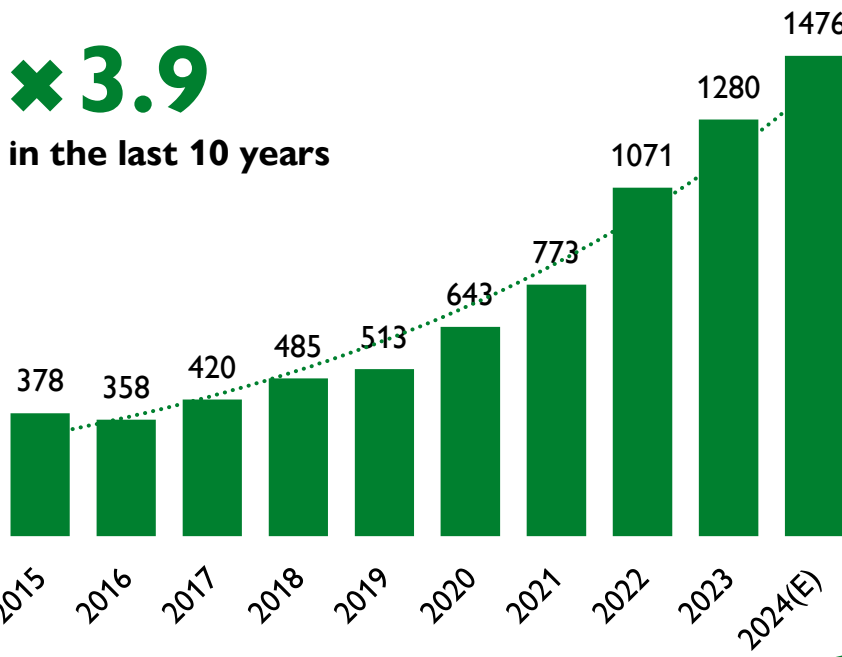


# SUSTAINABILITY REPORTING HAS GAINED STRONG MOMENTUM IN BUSINESS AND ACADEMIC RESEARCH

**No. of Media Press Releases**  
“ESG Reporting” or “Sustainability Reporting”



**No. of Articles in Peer-Reviewed Journals**  
“ESG Reporting” or “Sustainability Reporting”



# SAMPLE 2024

## This year's sample comprises

- all public interest entities listed on SIX and, in addition,
- firms headquartered in Switzerland with a minimum revenue of CHF 1 Mrd.

that either disclose ESG information in a(n)

| Sustainability Report | Annual Report | Integrated Report |
|-----------------------|---------------|-------------------|
|-----------------------|---------------|-------------------|

| Type of Report        | No.        | Share         |
|-----------------------|------------|---------------|
| Sustainability Report | 193        | 78.8%         |
| Annual Report         | 45         | 18.4%         |
| Integrated Report     | 7          | 2.9%          |
| <b>Total</b>          | <b>245</b> | <b>100.0%</b> |

| Sample by Listing | No. | Share |
|-------------------|-----|-------|
| Public            | 182 | 74.3% |
| Private           | 63  | 25.7% |

| Sample by Revenue     | No. | Share |
|-----------------------|-----|-------|
| < CHF 1 Mrd.          | 114 | 46.5% |
| >=1 und < CHF 10 Mrd. | 95  | 38.8% |
| >= CHF 10 Mrd.        | 36  | 14.7% |

| Sample by TRBC Economic Sector             | No. | Share |
|--|-----|-------|
| Financials                                 | 55  | 22.4% |
| Industrials                                | 51  | 20.8% |
| Healthcare                                 | 33  | 13.5% |
| Consumer Cyclicals                         | 23  | 9.4%  |
| Consumer Non-Cyclicals                     | 22  | 9.0%  |
| Technology                                 | 20  | 8.2%  |
| Basic Materials                            | 15  | 6.1%  |
| Real Estate                                | 14  | 5.7%  |
| Utilities                                  | 6   | 2.4%  |
| Energy                                     | 4   | 1.6%  |
| Academic & Educational Services            | 1   | 0.4%  |
| Institutions, Associations & Organizations | 1   | 0.4%  |

# METHODOLOGY AT A GLANCE

## WHY OUR METHODOLOGY IS SO POWERFUL

### EXISTING METHODOLOGIES

- ✗ exclusively focus on PIE
- ✗ only consider investor needs
- ✗ are shaped by individual judges

### OUR METHODOLOGY

- ✓ includes private and public interest entities
- ✓ integrates the interests of a broad stakeholder base
- ✓ is based on a technology-based assessment without discretionary scope

## OVERALL ASSESSMENT

### Objective Criteria

Readability

Data Screening

Topic Weighting

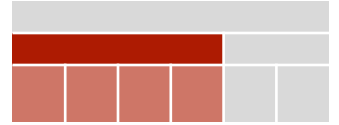
Tonality

### Subjective Assessment

Overall  
Impression and  
Credibility

Design and  
Accessibility

# OBJECTIVE CRITERIA BACKGROUND AND OUR APPROACH



## BACKGROUND

Researchers and practitioners apply reliable and recognized **technology-based methods** to evaluate text in the most **process-identical and comparable** way.

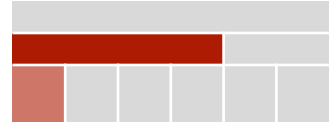
Based on **word lists**, they extract and measure various **linguistic and content-related aspects**, i.e., the readability and tonality of text elements, **without significant discretionary scope**.

## OUR APPROACH AT A GLANCE

- 1 Manual Collection of PDF Sustainability Reports
- 2 Conversion into a machine-readable TXT Format
- 3 Text Preprocessing and Quality Check
- 4 Technology-based Assessment (e.g. of Readability)
- 5 Conversion of Results into Standardized Scores

# OBJECTIVE CRITERIA

## EXAMPLE: SCORING THE READABILITY



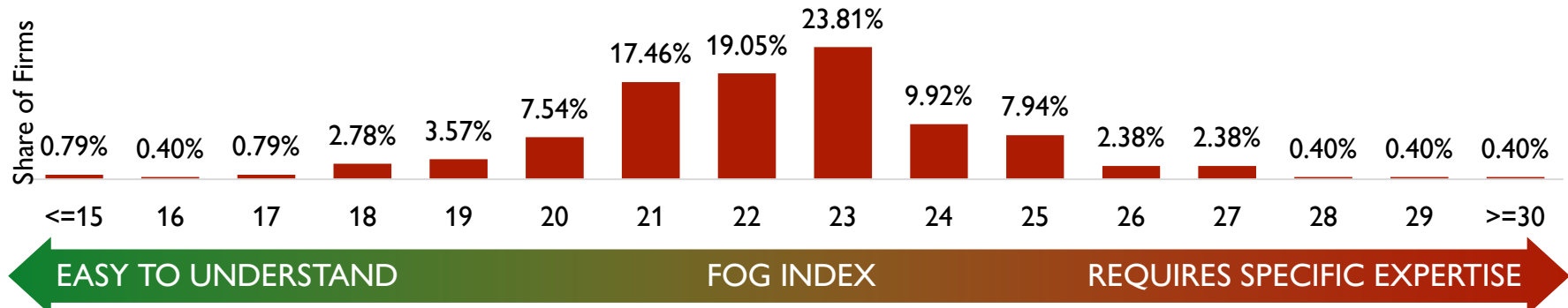
### BACKGROUND

The language used in a sustainability report should be accessible to various stakeholder groups. Complex language with a high share of technical terms excludes stakeholder groups from getting informed. Therefore, we evaluate whether the report is disclosed in an easy-to-understand language.

### MEASURING READABILITY: THE FOG INDEX

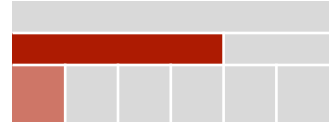
Researchers often measure the readability of a text using the FOG index, which indicates the level of specialist knowledge and mastery of special vocabulary required to understand a text. It is based on a dictionary of complex words. The more complex the language, the higher the FOG index.

### INSIGHT: THE AVERAGE FOG INDEX IS 22.28, REQUIRING SPECIFIC EXPERTISE BY STAKEHOLDERS



# OBJECTIVE CRITERIA

## EXAMPLE: SCORING THE READABILITY



### HOW TO CALCULATE THE FOG INDEX

$$FOG\ Index = 0.4 \times \left( \frac{\text{words}}{\text{sentences}} + 100 \times \frac{\text{complex words with 3 or more syllables}}{\text{words}} \right)$$

#### POSITIVE EXAMPLE

“We are committed to treating all people fairly and protecting their basic human rights.”

$$FOG\ Index = 0.4 \times \left( \frac{14}{1} + 100 \times \frac{0}{14} \right) = 5.6$$

#### NEGATIVE EXAMPLE

“The intersectionality of transnational human rights jurisprudence, when coupled with the intricate dynamics of socio-political hegemonies, necessitates a robust, multi-lateral approach to the deconstruction of systemic inequities and the reinforcement of universal human rights paradigms across diverse geopolitical landscapes.”

$$FOG\ Index = 0.4 \times \left( \frac{39}{1} + 100 \times \frac{16}{39} \right) = 32.01$$

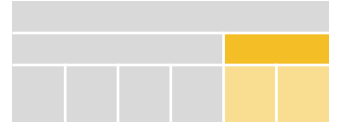
EASY TO UNDERSTAND

FOG INDEX

REQUIRES SPECIFIC EXPERTISE

# SUBJECTIVE ASSESSMENT

## BACKGROUND AND OUR APPROACH

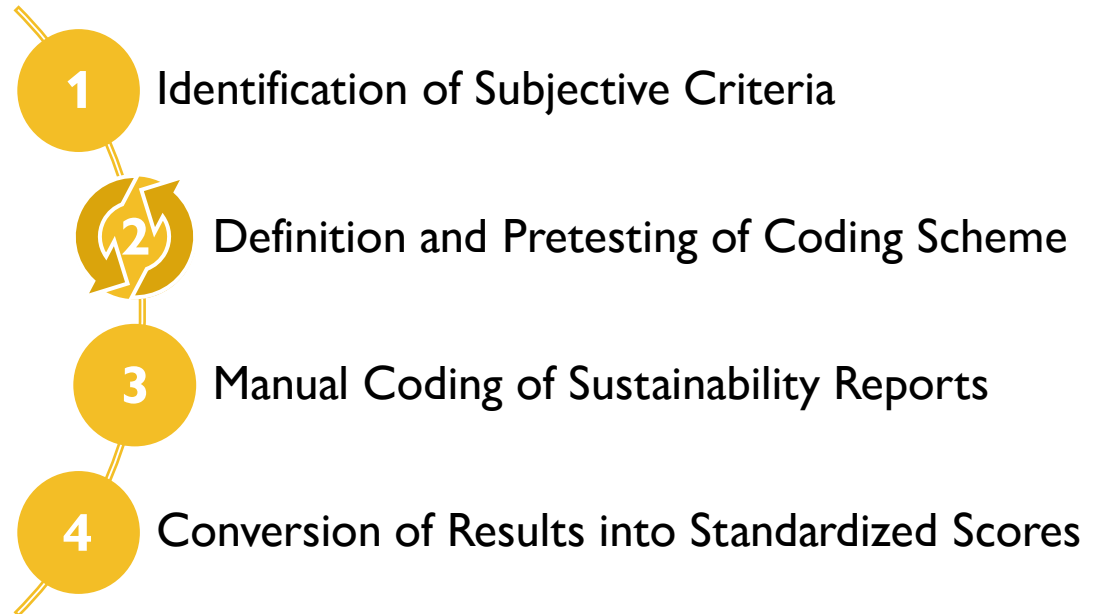


### BACKGROUND

Due to limited machine readability, **not every aspect** determining the quality of a sustainability report **can be assessed using technology-based methods**. From a preparers' perspective, **additional aspects** may be important.

**We cover these aspects in our subjective assessment.** To increase reliability and validity of the subjective assessment, we carry out our content analysis using a **pre-tested coding scheme that minimizes room for discretion**.

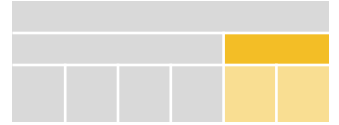
### OUR APPROACH AT A GLANCE





# SUBJECTIVE ASSESSMENT

## CRITERIA AT A GLANCE



### Subjective Assessment

Overall Impression and Credibility

Design and Accessibility

Comparative Figures

Web Version

Standards and Frameworks

PDF Version

Stakeholder Dialog

Table of Contents

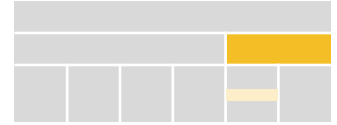
External Audit

Graphics

Languages

# SUBJECTIVE ASSESSMENT

## EXAMPLE: SCORING THE STAKEHOLDER DIALOG



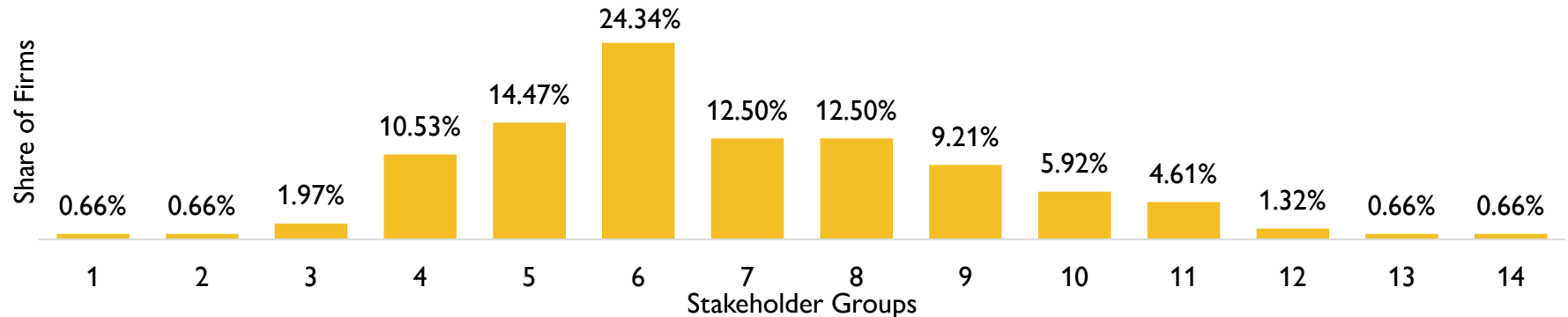
### BACKGROUND

Considering the interests of various stakeholder groups increases the credibility of the sustainability report. A comprehensive stakeholder dialog can inform multiple steps in the materiality assessment, i.e., correctly identifying and assessing a firm's impacts, risks, and opportunities related to diverse sustainability matters.

### RELATIVE CODING SCHEME AND RESULTS

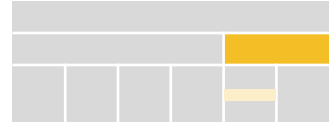
| Specification                  | Score | Share of Firms |
|--------------------------------|-------|----------------|
| Specified Stakeholder Dialog   | 100   | 62.80%         |
| Unspecified Stakeholder Dialog | 50    | 9.90%          |
| No Consideration               | 0     | 27.30%         |

### INSIGHT: ON AVERAGE, FIRMS ENGAGE WITH 6.64 STAKEHOLDER GROUPS



# SUBJECTIVE ASSESSMENT

## EXAMPLE: SCORING THE STAKEHOLDER DIALOG



### SPECIFIED STAKEHOLDER DIALOG (SCORE 100)

“In a fast-evolving global context, we exchange relevant ESG information and communicate announcements with a **broad range of stakeholders**, across a **wide range of channels**.”

|  |  |  |
|--|--|--|
| <b>Consumers</b><br>social media, brand campaigns, transparent information | <b>Global Partnerships</b><br>joint initiatives on key topics, hosting of events | <b>Farmers, Youth, Communities</b><br>grower programs for commodities            |
| <b>Customers</b><br>regular meetings, communications, topical events       | <b>Suppliers</b><br>programs, guidance, collaborative roadmaps, support          | <b>Industry Associations</b><br>regular engagements across ESG topics            |
| <b>Investors and Analysts</b><br>meetings, investor days, analyst calls    | <b>Academia and Science</b><br>symposia, collaboration with institutions         | <b>Governments, International Org., NGOs</b><br>discussions, events, conferences |

### UNSPECIFIED STAKEHOLDER DIALOG (SCORE 50)

“We then engaged with internal and external stakeholders, through workshops and surveys, to assess the significance of the impacts.”

NO CONSIDERATION (SCORE 0)

# OPPORTUNITIES AND OUTLOOK

1

## **Increase data availability and ensure data quality**

e.g., during manual collection of relevant documents

2

## **Assess and compare separate E, S, and G information**

e.g., European Sustainability Reporting Standards (ESRS) datapoints

3

## **Generate insights on specific sustainability-related topics**

e.g., GHG emissions, child labor, taxation, due diligence

4

## **Use of improved machine readability**

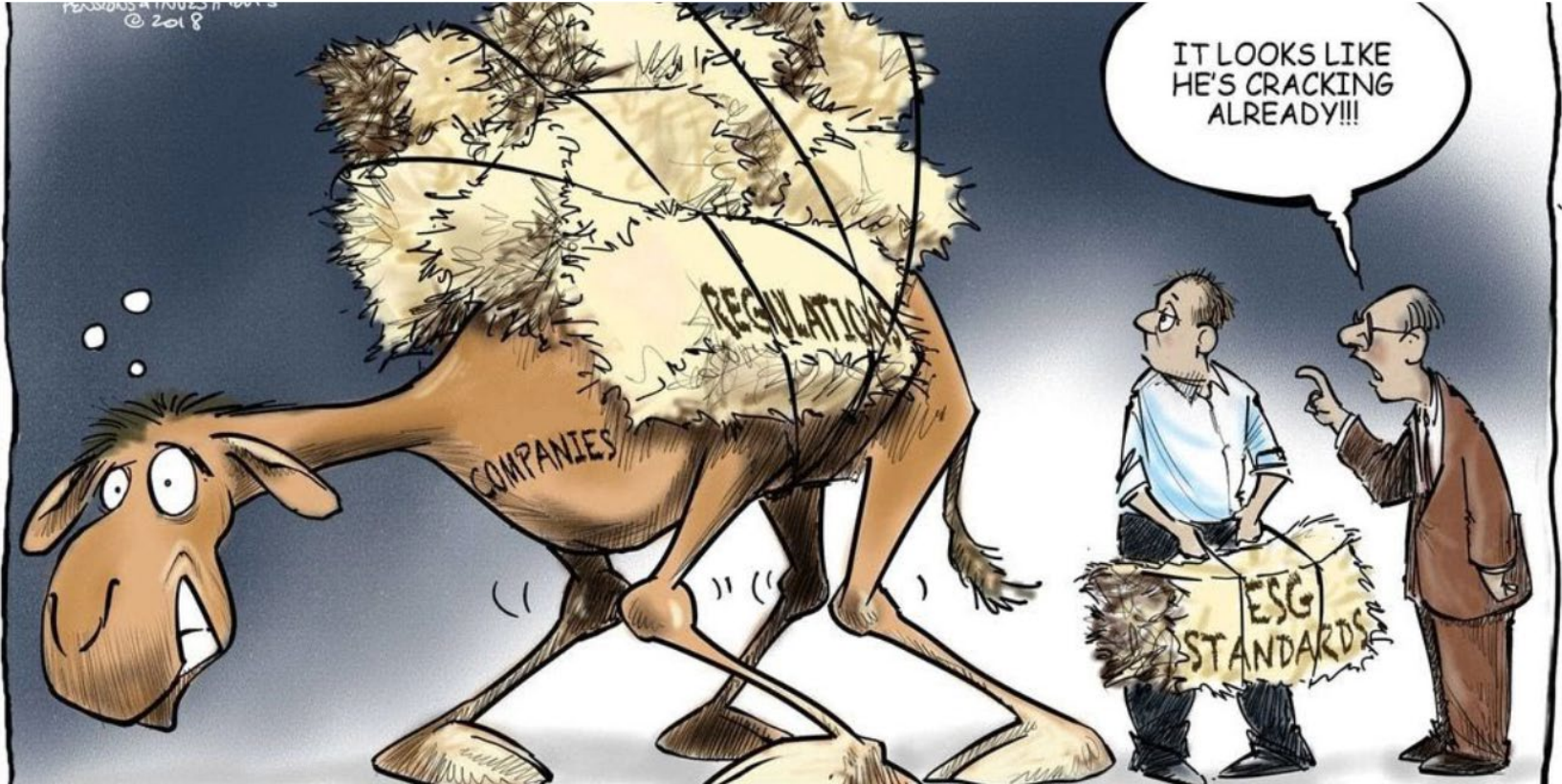
e.g., of digitally tagged eXtensible Business Reporting Language (XBRL) information

5

## **Objectify or reduce discretionary decisions in the coding scheme**

e.g., using artificial intelligence

# FINALLY...



# FEEL FREE TO CONTACT US



**Andreas Weyer, M.Sc.**

Chair of Accounting  
Research Associate and Doctoral  
Candidate

Varnbuelstrasse 19  
CH-9000 St.Gallen

[andreas.weyer@unisg.ch](mailto:andreas.weyer@unisg.ch)

+41 (0)71 224 25 26 / 76 82



**Prof. Dr. Thomas Berndt**

Chair of Accounting  
Director Institut for Law and  
Economics (ILE-HSG)

Varnbuelstrasse 19  
CH-9000 St.Gallen

[thomas.berndt@unisg.ch](mailto:thomas.berndt@unisg.ch)

+41 (0)71 224 25 26 / 76 80



**Alexander Sigg, M.Sc.**

Chair of Accounting  
Research Associate and Doctoral  
Candidate

Varnbuelstrasse 19  
CH-9000 St.Gallen

[alexander.sigg@unisg.ch](mailto:alexander.sigg@unisg.ch)

+41 (0)71 224 25 26 / 74 07