

2020-11

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Springer Verlag

<http://hdl.handle.net/11728/12096>

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Looking back and forging ahead: the weighting of ESG factors

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Published online: 11 August 2020

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Abstract

The research for the investigation of the quality of the Corporate Annual Reports (CAR) and particularly the part of the narrative information contained in it has long been underestimated, mainly due to the lack of tools that allow an objective measurement and analysis of the narrative disclosed information of each company. The concept of narrative portion is extremely difficult and multidimensional, most studies use ESG composite scores to measure the CSP. The studies which investigate this issue are facing two major problems. The first problem related with the aggregation number of Key Performance Indicators while the second problem is that all ESG factors are not equal importance. This research focuses on the detailed presentation of a new method of reliable measurement of the quality of the narrative part of the CARs, which is greatly enhanced by using two composite indices, the unweighted index Ma.Co.I and the weighted one Ma.Co.Iw. These specific indices, for the first time, offer a comprehensive and coded checklist (for the measurement of the quality of the narrative information) which follows the guidelines set by the International Accounting Standards Board in 2010. Finally, this article proposes a novel weighting scheme of narrative portion and suggest specific minimum and maximum weights per ESG factors with purpose to contribute to a better understanding of the complexity of composite scores and to improve the quality of their outputs.

Keywords Management Commentary · Weighting narrative method · Ma.Co.Iw · ESG · Disclosure informations · KPIs

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