Environmental, Social and Governance Key Performance Indicators from a Capital Market Perspective

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Ökologische, soziale und Corporate Governance Leistungsindikatoren aus Kapitalmarktperspektive

Environmental, social and governance factors are becoming increasingly significant for comprehensive firm valuation. These factors are however of a qualitative nature and therefore difficult to express in numerical figures. Consequently, disclosure and the relevancy thereof to investors are problematic. The article analyses a breakthrough instrument which facilitates the quantification and representation of such data against the background of international institutional efforts aiming to promote standardised qualitative reporting for extra-financial information.

Keywords: Capital Markets, ESG Information, Reporting, Key Performance Indicators

1. Relevance of extra-financial information

There is more to corporate performance than what traditional financial reporting can illustrate. The increasing breach between financial reporting and firm value results from the declining ability of accounting and financial reporting data to represent and report information that is useful in assessing firm value and management performance (Yen 2004: 1). The shift of western countries to information and service economies has drastically reduced the importance of tangible assets within enterprises. Accordingly, intangibles increasingly account for a significant proportion of the value of a company, especially over the longer term. A recent global survey indicates that these make up to 66% of the market value of globally listed companies (Brand Finance 2007: 5). "The problem with intangible assets [however] is that traditional accounting methods fail to capture their value" (Kossovsky 2007). Indeed, corporate financial statements lack the capacity to inform management and investors about the value of reputation, quality, brand equity, safety, workplace culture, strategies, know-how and a host of other assets that are more significant than ever in a knowledge-based global economy. A single glance at almost double market-to-book ratios of S&P 500 gives emphasis to the current debate on "unaccountable accounting".

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