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Perfect match? Opportunities and limits of artificial intelligence in ESG analysis

Currently, the potential of artificial intelligence (AI) and machine learning is discussed and tested in virtually all business and application areas. With regard to sustainability research, the technologies also offer new opportunities to increase the efficiency and speed of ESG data collection (Environmental, Social and Governance). Despite the enormous potential of AI tools, the expertise of human analysts remains irreplaceable, however. Why is that so?

The mere use of AI does not guarantee valid results. Particularly when it comes to tailored ESG research, AI models must be customised and tested repeatedly to meet the strict requirements for the accuracy and validity of ESG ratings.

One major challenge is the integration of complex criteria catalogues into AI models. While some AI providers specialise in collecting simple performance indicators, sustainability analysts require more detailed information. For example, a lot of qualitative information (which goes beyond superficial "yes/no" or "available/not available" statements) is required to assess the implementation of human rights-related due diligence obligations or the quality of an anti-corruption directive. AI tools can quickly search through large data volumes and extract the relevant information, but they (still) have limits when it comes to providing a detailed assessment of qualitative information. Therefore, while AI can help with the search for information, it cannot replace the expertise and discernment of human analysts.

To explain, we can look at a specific application case, namely the identification of controversies (e.g. violations of international sustainability standards). Here, imug rating uses an AI-supported tool that helps with the efficient research for the relevant controversies. The efficient identification of data points is a clear strength of AI: AI tools are excellent for searching through large volumes of data, and they can quickly filter out the relevant information, which greatly speeds up the research process. At the same time, the expertise of analysts remains essential as the identified controversies must be evaluated and classified according to their degree of severity. This is important so that controversies can be properly classified in the ESG assessments from the company's and stakeholders' point of view, and in order to provide investors with a rule-based and comparative assessment.

The weaknesses of AI become apparent in the interpretation and classification of data: An analysis of complex and qualitatively different performance rates requires human discernment - something AI models are not able to provide at this time. Analysts play a key role in this context, as they put the data in the right context, identify qualitative differences and nuances and thus are able to accurately assess the impact on the ESG assessments.

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