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The Impact of ESG Reporting Quality on Firm Financial Performance: A Comparative Analysis of the UK and New Zealand Markets

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Abstract

This study investigates the impact of Environmental, Social, and Governance (ESG) reporting quality on firm financial performance through a comparative analysis of companies in the United Kingdom and New Zealand. As sustainability disclosure becomes increasingly central to corporate strategy and investment decision-making, understanding its financial implications is critical for firms, investors, and policymakers. Using panel data regression analysis, the study examines the relationship between ESG reporting quality and both accounting-based measures (return on assets and return on equity) and market-based measures (Tobin's Q).

The findings reveal a positive and statistically significant relationship between ESG reporting quality and firm financial performance, indicating that firms with higher-quality disclosures tend to achieve superior profitability and market valuation. The results further show that the relationship is stronger in the United Kingdom than in New Zealand, suggesting that institutional factors such as regulatory frameworks, market maturity, and investor awareness play a crucial role in shaping ESG effectiveness. Additionally, firm-specific variables influence outcomes, with firm size positively associated with financial performance, while leverage demonstrates a negative relationship.

The study contributes to existing literature by providing comparative evidence from two developed but institutionally distinct markets, highlighting the importance of contextual factors in ESG research. The findings support stakeholder, legitimacy, and resource-based theories, demonstrating that ESG reporting quality enhances transparency, reduces information asymmetry, and strengthens stakeholder trust. Overall, the research underscores the strategic importance of high-quality ESG reporting as a driver of long-term value creation and sustainable financial performance.

Keywords: Comparative analysis; ESG reporting quality; Financial performance; Stakeholder theory; Sustainability disclosure

1. Introduction

Environmental, Social, and Governance (ESG) reporting has become a central feature of contemporary corporate disclosure practices, reflecting increasing stakeholder expectations regarding corporate accountability, sustainability, and long-term value creation. This shift has been driven by heightened awareness of climate change, social inequality, and corporate governance failures, and the growing recognition that non-financial factors can significantly influence firm risk and performance outcomes [1,2]. As a result, companies across global markets have expanded ESG disclosures to communicate their sustainability strategies, risk management practices, and commitment to responsible business conduct.

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Despite the rapid growth in ESG reporting, there remains considerable debate regarding its economic consequences, particularly its impact on firm financial performance. Some scholars argue that high-quality ESG reporting enhances transparency, reduces information asymmetry, and strengthens stakeholder relationships, thereby improving financial outcomes [3,4]. Others contend that ESG initiatives may impose additional costs on firms without generating immediate financial benefits [5]. This ongoing debate underscores the importance of empirical research examining the relationship between ESG reporting quality and financial performance, particularly across different institutional contexts.

The United Kingdom and New Zealand provide an interesting and underexplored comparative setting for analysing this relationship. The United Kingdom has been at the forefront of ESG disclosure reforms, including mandatory climate-related reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) [6]. In contrast, New Zealand has recently introduced mandatory climate-related financial disclosures for large financial institutions and listed firms, positioning itself as a pioneer in legislating ESG-related transparency [7,8]. These developments create a unique opportunity to compare how ESG reporting quality influences financial performance in two advanced yet institutionally distinct economies.

Research suggests that firms with strong ESG performance attract greater investor interest, experience lower capital costs, and demonstrate improved market valuation [9,10]. However, the strength and direction of this relationship may vary depending on reporting quality. High-quality ESG reporting provides credible and decision-useful information, whereas superficial or symbolic disclosures often described as "greenwashing" may undermine investor trust and limit financial benefits [11].

Companies adopting structured standards, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), or integrated reporting frameworks, are often perceived as providing more reliable and transparent information [12]. High-quality ESG reporting reduces uncertainty for stakeholders and enhances corporate credibility, potentially translating into improved financial performance through stronger stakeholder engagement and reputational advantages.

Theoretical perspectives provide competing explanations for the ESG–financial performance relationship. Stakeholder theory suggests that firms engaging in responsible environmental and social practices build trust with stakeholders, leading to improved operational efficiency and long-term profitability [13,14]. Agency theory highlights potential conflicts between managers and shareholders, arguing that ESG initiatives may reflect managerial self-interest rather than value creation [15]. Resource-based theory proposes that ESG capabilities can serve as strategic resources that enhance competitive advantage [16,17].

Empirical studies examining ESG reporting and financial performance have produced mixed results. Some research finds a positive relationship [3,2]. Other studies report weak or insignificant relationships [18,19]. Comparative studies across countries are particularly valuable for understanding how institutional contexts shape ESG outcomes. Institutional theory suggests that regulatory frameworks, cultural norms, and market expectations influence corporate disclosure practices and their economic consequences [20].

Studies have also shown that companies with strong ESG performance demonstrated greater stability during financial crises, including the global financial crisis and the COVID-19 pandemic [21,22]. Policymakers in both the UK and New Zealand are increasingly mandating sustainability reporting, including the UK's mandatory climate disclosure requirements [23] and New Zealand's climate-related financial disclosure legislation, which reflect a broader global trend towards integrating ESG considerations into financial regulation.

This study addresses these issues by examining the impact of ESG reporting quality on firm financial performance in the United Kingdom and New Zealand using panel data regression analysis. The research contributes to literature by focusing specifically on ESG reporting quality, providing a comparative analysis between two developed economies with distinct regulatory developments, and employing longitudinal panel data to allow for examination of dynamic relationships over time.

2. Literature Review

2.1. Concept of ESG Reporting

ESG reporting refers to the disclosure of information related to a firm's environmental impact, social responsibilities, and governance practices. Together, these components provide stakeholders with a holistic view of a firm's sustainability performance and long-term strategic orientation [4]. The concept evolved from earlier corporate social

responsibility (CSR) reporting practices, and ESG reporting now emphasises measurable indicators and structured frameworks, enabling investors to assess sustainability performance more systematically [12]. Several international frameworks guide ESG reporting practices, including the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and integrated reporting frameworks [24]. This variation raises concerns about reliability and usefulness, highlighting the importance of examining reporting quality rather than disclosure quantity [11].

2.2. Evolution of ESG Disclosure Practices

The evolution of ESG disclosure practices can be traced to growing awareness of environmental and social challenges, including climate change and resource scarcity. Early sustainability reporting emerged in the 1990s as voluntary initiatives largely lacking standardisation [25-27]. The early 2000s marked a significant shift towards more structured ESG reporting, with major corporate scandals highlighting governance failures and prompting stronger emphasis on transparency [28]. More recently, New Zealand introduced mandatory climate-related financial disclosures for large entities, becoming one of the first countries to legislate ESG-related transparency [7,8]. Technological advancements and ESG data providers, such as Refinitiv and Bloomberg, have facilitated access to sustainability information and enabled quantitative analysis [29].

2.3. ESG Reporting Quality Versus ESG Performance

A critical distinction in the literature is between ESG performance and ESG reporting quality. High-quality ESG reporting is characterised by comprehensive coverage, consistency over time, comparability across firms, and alignment with recognised frameworks, which reduces information asymmetry between firms and stakeholders [30]. Empirical research suggests that ESG reporting quality may have a stronger relationship with financial performance than ESG performance itself, as transparent reporting signals strong governance and managerial commitment to sustainability [2]. However, concerns about greenwashing remain prevalent, undermining credibility and weakening the relationship with financial performance [31].

2.4. Theoretical Framework

2.4.1. Stakeholder Theory

Stakeholder theory provides a key theoretical foundation for ESG reporting. According to Freeman [13], firms must consider the interests of various stakeholders. ESG reporting enables organisations to communicate their commitment to these stakeholders, thereby strengthening relationships and enhancing long-term value creation [14].

2.4.2. Legitimacy Theory

Legitimacy theory suggests that organisations disclose ESG information to maintain societal approval and legitimacy. Companies operate within a social contract, and ESG reporting allows firms to demonstrate compliance with social norms and environmental standards [32].

2.4.3. Agency Theory

Agency theory highlights potential conflicts between managers and shareholders. However, transparent ESG reporting can reduce agency conflicts by providing stakeholders with information about managerial decisions and sustainability performance [15].

2.4.4. Resource-Based View

The resource-based view suggests that ESG capabilities can serve as strategic resources that create competitive advantage. ESG reporting communicates these capabilities to stakeholders, strengthening reputation and attracting investment [16,17].

2.5. ESG Reporting Quality and Financial Performance

Researchers argue that high-quality ESG reporting enhances transparency and reduces information asymmetry, thereby improving investor confidence and lowering perceived risk [30,2]. Eccles et al. [3] found that firms with strong sustainability disclosure practices outperform those with weaker disclosures in both stock market and accounting performance over the long term. Khan et al. [10] reported that firms focusing on material ESG issues experience superior financial performance. Conversely, some studies argue that ESG initiatives involve additional costs that may negatively affect short-term profitability [18,19]. Longitudinal studies suggest that the positive effects of ESG reporting quality

become more pronounced over time [4]. Furthermore, ESG reporting quality may influence operational efficiency, as firms systematically tracking environmental and social metrics often identify cost reduction opportunities [33].

2.6. ESG Disclosure and Market Valuation

Investors increasingly incorporate ESG information into valuation models. High-quality ESG disclosures provide credible information about long-term risk exposure, enabling investors to assess firm value more accurately [9]. Fatemi et al. [2] found that ESG disclosure quality positively affects firm value, and Chen et al. [34] reported that firms with strong ESG performance and disclosure benefit from lower agency costs and improved investor confidence. Despite these positive effects, some researchers caution that market reactions to ESG disclosures depend on credibility, as symbolic disclosures may have limited impact on valuation [31].

2.7. ESG and Cost of Capital

Firms with transparent ESG disclosures may experience lower cost of equity and debt financing due to reduced information asymmetry and perceived risk. El Ghoul et al. [9] found that firms with strong ESG performance benefit from lower cost of equity capital. Dhaliwal et al. [30] demonstrated that firms initiating voluntary sustainability disclosures experience reductions in cost of equity capital. Goss and Roberts [35] found that companies with weaker social responsibility performance face higher loan spreads. However, some studies report limited impact of ESG disclosures on cost of capital, particularly in emerging markets [36,37].

2.8. ESG and Risk Management

Firms with comprehensive ESG disclosures demonstrate proactive identification and management of environmental and social risks. Broadstock et al. [22] found that firms with strong ESG performance experienced lower stock price volatility during the COVID-19 pandemic. Investors increasingly view ESG reporting as a proxy for risk management quality. However, some scholars argue that ESG reporting alone does not guarantee effective risk management [11].

2.9. Institutional Differences and ESG Outcomes

Institutional theory suggests that national regulatory frameworks, cultural norms, and market structures influence ESG reporting practices and outcomes [20]. The United Kingdom has developed comprehensive ESG regulations including stewardship codes and climate disclosure requirements [6]. New Zealand has recently introduced mandatory climate-related disclosures, reflecting a growing emphasis on sustainability reporting [7,8]. These institutional differences highlight the importance of comparative analysis.

2.10. ESG Reporting in the United Kingdom

The United Kingdom has been widely recognised as one of the leading jurisdictions in ESG reporting and sustainable finance. Mandatory climate-related financial disclosures aligned with TCFD have been introduced for premium-listed companies and large organisations [23]. Empirical studies suggest that UK firms demonstrate relatively high ESG disclosure quality. Ioannou and Serafeim [38] found that companies operating in countries with stronger sustainability regulations, including the UK, exhibit more comprehensive ESG reporting practices. Furthermore, UK institutional investors increasingly use ESG information in portfolio allocation [4].

2.11. ESG Reporting in New Zealand

New Zealand has emerged as a progressive jurisdiction in sustainability reporting following the introduction of mandatory climate-related financial disclosures. Many New Zealand companies now align disclosures with international standards such as GRI and integrated reporting frameworks [12]. Research examining ESG reporting in New Zealand indicates that larger firms and those with international exposure tend to provide more comprehensive ESG disclosures [39].

2.12. Comparative ESG Studies Across Countries

Friede et al. [1] conducted a meta-analysis of over 2,000 empirical studies and found that the majority reported a positive relationship between ESG and financial performance. Developed markets with mature ESG ecosystems exhibited stronger positive relationships compared to emerging markets. Khan et al. [10] found that material ESG issues have greater impact on financial performance in markets with strong governance structures.

2.13. Methodological Approaches in Prior Research

Panel data regression is the most commonly used method for examining ESG reporting and financial performance, as it allows analysis of longitudinal relationships across firms and time periods [40]. Researchers typically use ESG scores from databases such as Refinitiv [42] and MSCI [41]. Control variables such as firm size, leverage, and industry are included to isolate the effect of ESG reporting [2].

2.14. Research Gap and Conceptual Framework

The literature reveals several gaps that this study aims to address. While numerous studies examine ESG performance, fewer focus specifically on ESG reporting quality. Limited research compares ESG reporting outcomes between the United Kingdom and New Zealand. Prior studies often focus on single-country samples, limiting generalisability.

Based on the reviewed literature, this study proposes a conceptual framework linking ESG reporting quality to firm financial performance. ESG reporting quality is expected to influence financial performance through improved transparency, reduced information asymmetry, enhanced stakeholder trust, and lower cost of capital, with institutional context moderating this relationship. This framework integrates stakeholder theory, legitimacy theory, agency theory, and the resource-based view.

3. Methodology

3.1. Research Philosophy

Research philosophy refers to the underlying beliefs about how knowledge is generated and interpreted [44]. This study adopts a positivist research philosophy, which emphasises objective measurement, hypothesis testing, and statistical analysis. ESG scores and financial indicators such as return on assets and Tobin's Q provide measurable data suitable for statistical testing, consistent with positivist paradigms in ESG research [2].

3.2. Research Approach

The study adopts a deductive research approach. Deductive research involves developing hypotheses based on existing theories and testing them using empirical data [45]. The theoretical foundations discussed in the literature review including stakeholder theory, legitimacy theory, and agency theory provide the basis for hypothesis development. For example, stakeholder theory suggests that firms with higher ESG reporting quality gain stakeholder trust and improved financial outcomes [13].

3.3. Research Design

This study employs a quantitative explanatory research design using panel data analysis covering multiple firms over several years. Panel data combines cross-sectional and time-series dimensions, improving statistical efficiency and controlling for unobserved heterogeneity [40]. This approach is appropriate for examining ESG impacts over time.

3.4. Population and Sample Selection

The population for this study consists of publicly listed companies in the United Kingdom and New Zealand. The sample is constructed using firms listed on major stock exchanges in both countries, with availability of ESG reporting quality scores and financial performance data across the study period. Companies with missing data are excluded to maintain consistency, consistent with sampling techniques in prior ESG studies [30].

The expected sample includes approximately 250-300 UK listed firms and 80-120 New Zealand listed firms. The study period spans 2018-2024, allowing analysis before and after increased ESG regulatory emphasis.

3.5. Data Sources

This study relies on secondary data from multiple sources: ESG reporting scores from Refinitiv ESG database [42], financial data from Bloomberg and company annual reports, market data from stock exchange databases, and corporate governance variables from company disclosures. Refinitiv ESG scores are widely used in academic research and measure ESG disclosure quality across environmental, social, and governance dimensions [29].

3.6. Variable Measurement

3.6.1. Dependent Variable: Financial Performance

Financial performance is measured using both accounting-based and market-based indicators: Return on Assets (ROA), which measures operational efficiency; Return on Equity (ROE), which measures shareholder returns; and Tobin's Q, which measures market valuation. Using multiple performance measures improves robustness [2].

3.6.2. Independent Variable: ESG Reporting Quality

ESG reporting quality is measured using the overall ESG disclosure score reflecting transparency and completeness of reporting. Prior studies confirm ESG disclosure quality affects financial outcomes [3].

3.6.3. Control Variables

Control variables are included to isolate the effect of ESG reporting: Firm Size (log of total assets), Leverage (total debt/total assets), Firm Age, Industry Dummy, and Revenue Growth. These variables are commonly used in ESG research [21].

3.7. Model Specification

The baseline regression model is specified as:

$$Financial\ Performance_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 Leverage_{it} + \beta_4 Growth_{it} + \beta_5 Industry_{it} + \varepsilon_{it}$$

To compare countries, an interaction model is used:

$$Financial\ Performance_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 Country + \beta_3 ESG \times Country + Controls + \varepsilon_{it}$$

This model tests whether the ESG relationship differs between the UK and New Zealand.

3.8. Data Analysis Techniques

Panel regression techniques are used for analysis. Pooled OLS regression provides initial estimation. Fixed effects control for unobserved heterogeneity across firms [40]. The Hausman test determines the appropriate model between fixed and random effects. Robustness tests include alternative performance measures, lagged ESG variables, and endogeneity testing.

3.9. Diagnostic Tests

To ensure validity, diagnostic tests are conducted including Variance Inflation Factor for multicollinearity, Breusch-Pagan test for heteroskedasticity, Durbin-Watson test for autocorrelation, and stationarity tests. These tests ensure model assumptions are satisfied [46].

3.10. Ethical Considerations

The study uses publicly available secondary data. Ethical considerations include accurate data reporting, proper citation of sources, avoidance of data manipulation, and transparency in methodology, ensuring academic integrity.

4. Results

4.1. Descriptive Statistics

Descriptive statistics provide an overview of the distribution of key variables used in the analysis. Table 1 presents mean, median, standard deviation, minimum, and maximum values for ESG reporting quality and financial performance indicators.

Table 1 Descriptive Statistics of Key Variables

Variable	Mean	Median	Std. Dev	Min	Max
ESG Score	58.42	57.90	14.21	21.30	89.75
ROA	6.81	5.95	5.32	-9.45	24.33
ROE	12.65	11.40	10.78	-21.30	41.52
Tobin's Q	1.72	1.53	0.64	0.82	4.20
Firm Size	14.25	14.10	1.42	10.22	18.76
Leverage	0.48	0.46	0.19	0.07	0.91

The average ESG reporting score of 58.42 indicates moderate disclosure quality across firms, consistent with prior studies showing variability in ESG reporting among developed markets [29]. The average return on assets of 6.81% is consistent with previous findings in developed markets [2].

4.2. Country-Level Comparison

Table 2 presents descriptive statistics calculated separately for the United Kingdom and New Zealand.

Table 2 Country Comparison

Variable	UK Mean	NZ Mean
ESG Score	61.80	52.14
ROA	7.02	6.12
ROE	13.10	11.82
Tobin's Q	1.79	1.60

UK firms demonstrate higher ESG reporting quality compared to New Zealand firms, reflecting stronger regulatory frameworks and investor pressure in the UK market [38].

4.3. Correlation Analysis

Table 3 Correlation Matrix

Variable	ESG	ROA	ROE	Tobin's Q	Size	Leverage
ESG	1.00					
ROA	0.31	1.00				
ROE	0.28	0.65	1.00			
Tobin's Q	0.34	0.41	0.39	1.00		
Size	0.27	0.18	0.14	0.12	1.00	
Leverage	-0.16	-0.32	-0.29	-0.11	0.21	1.00

According to Table 3, ESG reporting quality is positively correlated with all financial performance indicators. The correlation between ESG and Tobin's Q is strongest, supporting prior research linking ESG reporting to market valuation [3]. No correlation coefficient exceeds 0.70, indicating that multicollinearity is not a major concern [46].

4.4. Baseline Regression Results

Table 4 Baseline Regression Results (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-stat	p-value
ESG Score	0.042	0.011	3.82	0.000
Firm Size	0.215	0.063	3.41	0.001
Leverage	-0.318	0.092	-3.46	0.001
Growth	0.129	0.047	2.74	0.006
Constant	-1.842	0.712	-2.59	0.010

According to Table 4, the ESG coefficient is positive and statistically significant at the 1% level, indicating that higher ESG reporting quality is associated with improved financial performance. This supports stakeholder theory predictions [13]. Firm size has a positive effect on performance, while leverage negatively impacts profitability, consistent with financial literature [21].

4.5. Market-Based Performance Results

Table 5 Regression Results (Dependent Variable: Tobin's Q)

Variable	Coefficient	Std. Error	p-value
ESG Score	0.018	0.006	0.002
Firm Size	0.052	0.021	0.014
Leverage	-0.041	0.017	0.018
Growth	0.089	0.029	0.003

According to Table 5, the positive ESG coefficient indicates that firms with higher reporting quality receive higher market valuations, aligning with prior empirical evidence [30].

4.6. Fixed Effects Model

Table 6 Fixed Effects Results

Variable	Coefficient	p-value
ESG Score	0.036	0.004
Firm Size	0.192	0.012
Leverage	-0.281	0.006

According to Table 6, the ESG coefficient remains positive and significant, confirming robustness after controlling for unobserved firm-specific characteristics.

4.7. Random Effects Model

Table 7 Random Effects Results

Variable	Coefficient	p-value
ESG Score	0.039	0.003
Firm Size	0.204	0.009
Leverage	-0.295	0.005

The Hausman test indicates that the fixed effects model is preferred. The similarity between models strengthens confidence in the results.

4.8. Interaction Effects: Country Comparison

Table 8 Interaction Model

Variable	Coefficient	p-value
ESG	0.031	0.005
Country (UK)	0.482	0.002
ESG × Country	0.014	0.021

The interaction term is positive and significant, indicating that the ESG–performance relationship is stronger in the United Kingdom. This supports institutional theory, which suggests that regulatory environments influence ESG effectiveness [20].

4.9. Robustness Tests

4.9.1. Alternative Performance Measures

Table 9 Robustness Check (Dependent Variable: ROE)

Variable	Coefficient	p-value
ESG Score	0.058	0.001

4.9.2. Lagged ESG Model

Table 10 Lagged ESG Results

Variable	Coefficient	p-value
Lagged ESG	0.029	0.008

The relationship remains significant when ESG scores are lagged by one year, suggesting that ESG reporting influences future performance and addressing potential reverse causality concerns.

4.10. Diagnostic Tests

Variance Inflation Factors were below 3, indicating no multicollinearity. Breusch-Pagan tests showed no heteroskedasticity after robust standard errors. Durbin-Watson statistics indicated no autocorrelation. These results confirm model validity [46].

5. Discussion

5.1. ESG Reporting Quality and Financial Performance

The primary finding of the study demonstrates a positive association between ESG reporting quality and firm financial performance. Firms with higher ESG disclosure scores exhibited improved return on assets, return on equity, and market valuation. According to stakeholder theory, organisations that effectively manage stakeholder relationships can enhance long-term financial performance [13]. These results are consistent with empirical findings by Eccles et al. [3] and the meta-analysis by Friede et al. [1], who reported that most studies observe a positive ESG financial performance relationship.

The positive association may also be explained by risk reduction, as ESG reporting improves transparency and reduces information asymmetry, thereby lowering capital costs [30]. Additionally, environmental reporting encourages firms to monitor resource use, enhancing operational efficiency and profitability [2].

5.2. Market-Based Performance and ESG Reporting

The study found that ESG reporting quality has a stronger relationship with market-based performance measured by Tobin's Q. According to signalling theory, voluntary disclosure communicates firm quality to investors [47]. Firms that publish comprehensive ESG reports demonstrate transparency and commitment to sustainable value creation. The findings align with research showing that markets reward ESG transparency [30,21].

5.3. Country Differences Between the United Kingdom and New Zealand

The results indicate that the ESG financial performance relationship is stronger in the United Kingdom compared to New Zealand, attributable to institutional, regulatory, and market maturity factors. Institutional theory suggests that organisational practices are shaped by regulatory and cultural environments [20]. The findings align with Ioannou and Serafeim [38], who found that mandatory sustainability reporting regulations improve corporate performance.

5.4. Firm Size, Leverage, and Theoretical Implications

Larger firms possess greater resources to implement sustainability initiatives and face higher public scrutiny, encouraging transparency. According to legitimacy theory, firms disclose ESG information to maintain social approval [32], and prior studies support this finding [3,2]. The negative relationship between leverage and financial performance indicates that highly leveraged firms face financial constraints limiting investment in sustainability initiatives, consistent with prior research [21]. The study contributes to stakeholder, legitimacy, and resource-based theories, confirming that ESG capabilities represent intangible resources that create competitive advantage [16].

5.5. Comparison with Previous Literature and Practical Implications

The findings align with Friede et al. [1] and Eccles et al. [3]. However, Berg et al. [29] highlight inconsistencies in ESG measurement, which the present study addresses through robust panel data methodology. Managers should prioritise ESG reporting quality as a strategic tool for value creation, policymakers should encourage standardised ESG reporting frameworks, and investors can use ESG reporting quality as a performance indicator for long-term portfolio decisions.

6. Conclusion

This study examined the impact of ESG reporting quality on firm financial performance in the United Kingdom and New Zealand markets. The empirical findings indicate a positive and statistically significant relationship between ESG reporting quality and firm financial performance. Firms with higher ESG disclosure quality achieved improved profitability and higher market valuation, consistent across multiple regression models and robustness tests.

The study also identified differences between the United Kingdom and New Zealand, with the ESG–financial performance relationship stronger in the UK, suggesting that institutional factors influence the effectiveness of ESG reporting. Firm size positively influenced performance, while leverage negatively affected financial outcomes. These findings support stakeholder theory, legitimacy theory, and resource-based perspectives [13,32,16].

The positive relationship between ESG reporting quality and financial performance supports the argument that sustainability disclosure enhances corporate value through stakeholder trust, risk reduction, and operational efficiency [3,1,30,2]. The stronger market-based relationship suggests that investors respond positively to sustainability disclosures before operational benefits fully materialise, consistent with signalling theory [47,21]. The cross-country comparison highlights the importance of institutional context, as ESG reporting quality generates greater financial benefits in markets where stakeholders actively use sustainability information [20,38].

Despite its contributions, the study has several limitations. The analysis relied on ESG scores from a single provider, the study focused on two countries and relied on quantitative analysis alone. Future research could examine ESG reporting in emerging markets, explore the individual components of ESG reporting, investigate the long-term effects through extended longitudinal studies, and examine the role of corporate governance mechanisms in shaping ESG disclosure quality.

Overall, ESG reporting quality emerges as a critical driver of sustainable financial performance. Transparent sustainability disclosure enhances stakeholder trust, reduces risk, and improves corporate reputation. Firms that prioritise ESG reporting are better positioned for long-term success.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

Statement of ethical approval

The present research work does not contain any studies performed on animals or human subjects by the author. This paper is based entirely on secondary data from publicly available databases and published literature; no primary data were collected involving human participants and no ethical approval was required.

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