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Original Research

ESG Reporting and Corporate Financial Health

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Abstract

Environmental, Social, and Governance (ESG) reporting has transformed from a voluntary initiative into a critical driver of corporate financial health and competitive differentiation by 2025. This article examines the evolution of ESG disclosure practices, emphasizing the regulatory shift toward mandatory, standardized, and digitally integrated sustainability reporting through frameworks such as the CSRD and IFRS S1/S2. Empirical evidence highlights the positive correlation between robust ESG practices and key financial performance indicators: firms with strong ESG disclosures typically benefit from lower cost of capital, greater investor trust, higher consumer loyalty, enhanced profitability, and improved risk management. Sector-specific insights reveal varying impacts, with financial, manufacturing, retail, and energy industries leveraging ESG to unlock operational savings, access favorable financing, and manage supply chain and regulatory risks more effectively. Best practices—including double materiality assessment, stakeholder engagement, digital data tagging, integration of ESG with financials, and third-party assurance—are now essential for credibility and strategic value creation. Nevertheless, challenges persist around data quality, greenwashing, and sector variability, underscoring the need for dynamic reporting systems and continuous improvement. As ESG-mandated assets approach \$35 trillion globally, forward-looking companies treat ESG not just as compliance, but as an integrated pillar of corporate strategy—securing resilience, stakeholder trust, and sustainable financial success.

Keywords: ESG reporting | Corporate financial health | Sustainability disclosure | Regulatory compliance | Risk management

INTRODUCTION

Environmental, Social, and Governance (ESG) reporting has become a linchpin of modern financial management, shaping investment, risk assessment, stakeholder trust, and long-term competitiveness. In 2025, ESG transparency is not just a regulatory requirement but also a strategic lever for value creation, reputational capital, and financial resilience. This article explores the evolving landscape of ESG reporting, its effect on corporate financial health, regulatory trends, challenges, and actionable strategies, backed by empirical data and visual analysis.

ESG Reporting: Definitions and Evolution

What is ESG Reporting?

ESG reporting refers to the systematic disclosure of a company's performance on environmental (e.g., emissions, resource use), social (e.g., labor practices, diversity), and governance (e.g., board structure, ethics) criteria^[1]. The process encompasses:

- Data collection on ESG impacts and initiatives
- Materiality assessments to identify salient issues
- Disclosure in accordance with standards such as GRI, SASB, IFRS S1/S2, or CSRD

The Regulatory Shift in 2025

In 2025, regulatory frameworks such as the EU Corporate Sustainability Reporting Directive (CSRD) and new IFRS standards (S1 & S2) have made ESG reporting mandatory for most large firms in the EU, the U.S., and increasingly in Asia^{[2][3]}. Notable requirements include:

- Double materiality assessments
- Digital tagging of disclosures (using XBRL)
- Third-party assurance of ESG data for credibility and comparability
- Integration of ESG metrics directly alongside financials in annual reports

The Business Case: ESG and Corporate Financial Health

Empirical Evidence of Impact

Research and cross-sector studies converge on the positive relationship between strong ESG disclosures and improved financial performance^{[4][5][6][7][8]}:

with outperformance most pronounced in firms that integrate ESG into core strategy.

Metric	Impact of Strong ESG Performance
Cost of capital	Lowered (for >50% of companies) ^[4]
Consumer loyalty	88% more loyal to ESG-driven brands ^[4]
Return on equity, assets	Positively correlated with ESG ^[7]
Revenue resilience	Up to 53% of top U.S. corp. income tied to SDGs ^[4]
Investor confidence	90% of public companies adopted ESG reporting to boost trust ^[4]
Risk (idiosyncratic/systematic)	Lower risk and earnings volatility ^{[5][6]}

- ESG-mandated assets expected to reach \$35 trillion globally by 2025, over half of all professionally managed investments^[4].

Mechanisms of Financial Impact

- **Cost Efficiency:** ESG initiatives can lower energy, waste, and resource costs via operational efficiencies and innovations^[8].
- **Revenue Growth:** Enhanced brand reputation and consumer trust open new markets and support premium pricing.
- **Risk Management:** ESG practices help mitigate regulatory fines, supply chain disruptions, and reputation-damaging events.
- **Access to Capital:** Firms with robust ESG records obtain lower funding costs and preferential terms in green finance markets^{[4][9]}.

Sectoral and Regional Effects

The strength and nature of the ESG–financial performance link vary across sectors^{[6][8]}.

- **Financial Sector:** ESG mitigates regulatory risk, attracts capital, and ensures compliance.
- **Manufacturing/Retail:** ESG reduces operational costs (energy, waste) and supply chain risks.
- **Energy:** ESG accelerates the transition to renewables, qualifying firms for incentives but demanding higher up-front capital.

Visualization: ESG and Financial Outcomes

Table: ESG Reporting, Risk, and Financial Health

Factor	No/Limited ESG Disclosure	Robust ESG Reporting
Reputation	More vulnerable to shocks	Stronger stakeholder trust
Cost of Capital	Higher due to risk premiums	Lower, reflecting lower risk
Investor Base	Shrinking (exclusion risks)	Broad, including ESG-focused
Profitability	Potentially volatile	More resilient, better margins

Chart: ESG Investment vs. Financial Performance (2025)

The line graph would display positive correlation between ESG ratings and corporate financial performance metrics (e.g., ROE, lower cost of capital),

ESG Reporting Frameworks and Best Practices

Leading Frameworks (2025)

- **IFRS S1 & S2:** Mandatory sustainability and climate disclosures^{[2][3][10]}.
- **GRI, SASB, TCFD:** Allow for sector-specific and risk-focused reporting.
- **XBRL Tagging:** Digital, machine-readable data enhances transparency and comparability^{[11][10]}.

Best Practices in ESG Disclosure

- **Materiality Assessment:** Identify and prioritize ESG issues with the greatest financial and stakeholder relevance^{[12][13]}.
- **Stakeholder Engagement:** Regularly dialogue with investors, suppliers, employees, and communities to align reporting with expectations^[3].
- **Integration with Financials:** Embed ESG metrics and narrative within annual financial reports for holistic decision-making^{[12][10]}.
- **Third-party Assurance:** Obtain independent verifications to enhance credibility and trustworthiness^{[11][3]}.
- **Continuous Improvement:** Benchmark, audit, and refine ESG strategy annually to adapt to evolving standards and market expectations^{[2][14]}.

REAL-WORLD OUTCOMES AND CASE STUDIES

Firm-Level Examples

- **Apple & Supply Chain Resilience:** Early adoption of ESG reporting and green initiatives resulted in lower supply risk and investor confidence during global supply chain shocks^[9].
- **Major Banks:** Implementation of strong ESG programs significantly constrained opportunistic earnings management, improving financial transparency and integrity^[15].

Research Trends

- High-ESG-score companies reported superior returns, increased investor base, and reduced earnings volatility between 2019–2025^{[5][7][8]}.
- Sector analysis reveals the most pronounced ESG financial benefits in firms with direct regulatory or consumer-facing ESG exposures^{[6][7][8]}.

Key Challenges in ESG Reporting

- **Standardization:** Diverse frameworks complicate benchmarking, though IFRS S1/S2 and CSRD are advancing standardization^{[10][2][3]}.
- **Data Quality and Digitalization:** Mandates for machine-readable data (XBRL) challenge legacy systems but improve comparability^{[11][3]}.
- **Greenwashing:** Regulatory focus on audit and assurance helps mitigate false or exaggerated claims.
- **Sector Variability:** ESG impact on financial health is sector- and context-dependent; one-size-fits-all approaches can obscure real risks and opportunities^{[6][8]}.

Future Directions and Trends

- **Digital Reporting Platforms:** Advanced analytics, AI, and real-time monitoring for ESG data management and risk assessment^{[9][16]}.
- **Mandatory Assurance:** Shift from voluntary to required third-party ESG audits for listed and large companies^[3].
- **Stakeholder Pressure:** Younger investors and consumers demand more granular, action-oriented ESG disclosures—driving corporate change^[4].

RECOMMENDATIONS

- Integrate ESG into financial and strategic planning, not as a siloed CSR activity
- Conduct double materiality assessments to prioritize resources where they deliver both societal and financial returns
- Invest in technologies for data collection, management, and digital reporting
- Obtain third-party assurance to validate ESG disclosures and build trust
- Continuously update practices to align with evolving regulatory standards

CONCLUSION

In 2025, ESG reporting is fundamentally shaping the financial health and competitive standing of corporations. Companies treating ESG as a strategic imperative—not just compliance—realize enhanced investor trust, reduced costs, superior risk management, and greater long-term profitability. As regulations evolve and stakeholder expectations rise, integrated, credible, and digital ESG reporting distinguishes leaders from laggards in the era of sustainable finance.

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