

ADVANCING SDG 12: CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF LISTED FIRMS IN THE PHILIPPINES

AVANÇANDO O ODS 12: RESPONSABILIDADE SOCIAL CORPORATIVA E DESEMPENHO FINANCEIRO DE EMPRESAS LISTADAS NAS FILIPINAS

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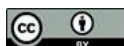
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Abstract

This study investigates the link between corporate social responsibility (CSR) and the financial performance of listed firms in the Philippines in alignment with SDG 12. The methodology adopted for this research comprises a longitudinal approach to investigate firm data of the Philippine Stock Exchange Index (PSEi) from 2019 to 2022. The environmental, social, and governance (ESG) framework assessed CSR performance, while financial performance was measured using return on equity and stock return. Firm profiles such as industry type, firm size, firm age, and auditor type were used as control variables. Data collection was carried out through firms' sustainability, annual, and governance reports as the data source. Governance performance significantly affects ROE ($\beta = 0.434$, $p < 0.01$), while environmental and social dimensions, as well as overall CSR performance, show no significant effect on either ROE or stock return. It extends the current literature on CSR performance and its link to financial performance in an emerging economy setting, while also providing empirical insight into the early implementation of SDG 12.6 in the Philippine context. This study provides preliminary data on the link between CSR and financial performance in the Philippine context, where mandatory sustainability reporting was recently adopted.

Resumo

Este estudo investiga a relação entre a responsabilidade social corporativa (RSC) e o desempenho financeiro de empresas listadas nas Filipinas, em alinhamento com o ODS 12. A metodologia adotada para esta pesquisa compreende uma abordagem longitudinal que examina os dados das empresas do Índice da Bolsa de Valores das Filipinas (PSEi) de 2019 a 2022. O desempenho da RSC foi avaliado com base no quadro de referência ambiental, social e de governança (ESG), enquanto o desempenho financeiro foi medido pelo retorno sobre o patrimônio líquido (ROE) e pelo retorno das ações. Perfis das empresas, como tipo de indústria, tamanho, idade e tipo de auditor, foram utilizados como variáveis de controle. A coleta de dados foi realizada por meio dos relatórios de sustentabilidade, anuais e de governança das empresas. O desempenho em governança afeta significativamente o ROE ($\beta = 0,434$, $p < 0,01$), enquanto as dimensões ambiental e social, assim como o desempenho global da RSC, não apresentam efeito significativo sobre o ROE ou sobre o retorno das ações. O estudo amplia a literatura existente sobre o desempenho da RSC e sua relação com o desempenho financeiro em uma economia emergente, além de fornecer evidências empíricas sobre a implementação inicial do ODS 12.6 no contexto filipino. Este trabalho fornece dados preliminares sobre a relação entre RSC e



Keyword: SDG 12. CSR. ESG. Financial Performance. Sustainability Reporting.

desempenho financeiro nas Filipinas, onde o relatório de sustentabilidade obrigatório foi recentemente adotado.

Palavras-chave: ODS 12. RSC. ESG. Desempenho Financeiro. Relatório de Sustentabilidade

1 INTRODUCTION

Firms are now under immense pressure and scrutiny for their active contributions to achieving sustainable socioeconomic growth and development (Bapuji *et al.*, 2018; van Zanten & van Tulder, 2018). Traditionally, companies primarily focused on profit maximization, often resulting in environmental degradation, human rights abuses, and unethical business practices. However, this norm is evolving as issues like climate change, social inequality, and corporate accountability draw attention to the role of business in achieving sustainability. Stakeholders including customers, investors, government agencies, and communities now expect firms to adopt and promote sustainable business practices (Chen *et al.*, 2015). The impact of corporate operations on environmental and social systems has become a central concern for both business strategy and public policy.

Corporate social responsibility (CSR) describes companies' voluntary initiatives to manage their environmental, social, and governance (ESG) issues and contributions. There is a growing concern about CSR due to climate change, global warming, and social inequality (Kolk *et al.*, 2017; Lodhia & Hess, 2014). There is a notion that CSR practices are just additional expenses for firms that reduce profits, discouraging companies from engaging in CSR efforts (Chen *et al.*, 2015). Firms focus on strengthening their bottom line and other financial ratios as the main drivers of success. CSR has not been taken seriously before and is not considered a part of management objectives as it has no significant financial impact on the company's bottom line (Castelo Branco *et al.*, 2014).

The relevance of CSR in contemporary business practices is further emphasized by the United Nations Sustainable Development Goals (SDGs), particularly SDG 12 on Responsible Consumption and Production. This study aligns with Target 12.6, which encourages companies to adopt sustainable practices and integrate sustainability information into their reporting cycles. In the Philippines, this has been institutionalized

through SEC Memorandum Circular No. 4, Series of 2019, which mandates sustainability reporting among publicly listed companies.

Recent worldwide developments in the CSR movement reveal that investors and other stakeholders are developing an appreciation for sustainable development to supplement financial information in making sound investment decisions (Reverte, 2016). Now, firms incorporate CSR practices as a business strategy to maintain a balanced working relationship among stakeholders (Kuada & Hinson, 2012). A clear CSR strategy benefits the companies and, more importantly, contributes to the development of society (WBCSD, 2012). There is a growing interest in the construct of CSR and financial performance of firms. The changing business landscape has led to a growing interest in whether CSR activities can generate firm value and competitive advantage (Berthelot *et al.*, 2012; Jenkins, 2009; Welbeck *et al.*, 2017).

Previous literature has found inconclusive results on CSR performance on financial performance. Other studies show that CSR performance is positively associated with financial performance (Al-Tuwaijri *et al.*, 2004; Huang & Lien, 2012; Kang & Liu, 2014). Moreover, it has been found that CSR performance has a positive effect on stock market valuation (Carnevale & Mazzuca, 2014; Cormier & Magnan, 2007; de Klerk & de Villiers, 2012; Moneva & Cuellar, 2009). Additionally, it was found that CSR performance and return on equity have a significant positive impact (Buallay, 2019). Conversely, other studies have found a negative or no effect on CSR and financial performance. Almeyda & Darmansya (2019) found no significant relationship with the stock price. Additionally, environmental and social performance were negatively associated with ROE (Alareeni & Hamdan, 2020). Evidence also shows that firm profile controls the relationship between CSR performance and financial performance. Financial performance may be affected based on the industry type (Hussain *et al.*, 2018), firm size (Korphaibool *et al.*, 2021), firm age (Sampong *et al.*, 2018), and auditor type (Welbeck *et al.*, 2017) of PLCs.

Aside from inconclusive results between CSR and financial performance, it is mostly done in developed countries. Limited studies have examined the construct of CSR and financial performance within the context of developing countries (Boolakay *et al.*, 2018; Kuzey & Uyar, 2017; Md Zaini *et al.*, 2018; Orazalin & Mahmood, 2018). Findings in the context of advanced markets may not apply to those in emerging markets due to the differences in civil society, stakeholders' expectations, regulatory frameworks, policy

development, and institutional systems (Belal & Owen, 2015; Kuzey & Uyar, 2017; Uddin *et al.*, 2017). Driving factors for CSR performance in emerging markets may differ from those in developed countries (BooLaky *et al.*, 2018; Piñeiro-Chousa *et al.*, 2019; Uddin *et al.*, 2017). In most emerging economies, economic performance is usually the most important driver for companies in doing business (Zhu & Sarkis, 2004). Few companies in emerging economies have considered CSR's importance and assumed benefits (Aboud & Diab, 2018; Beck *et al.*, 2018; Md Zaini *et al.*, 2018; Mukherjee & Nuñez, 2019). Thus, there is a need to explore CSR and financial performance in the context of an emerging economy like the Philippines.

To address the gaps, this study examines whether firms' CSR performance and its components can affect the financial performance of PLCs in the Philippines. ESG framework is mainly used to measure firms' CSR performance. This study tests whether each ESG component affects the financial performance of the PLCs in the Philippines. Financial performance was measured using two commonly used metrics: return on equity for accounting-based measures and stock return for market-based measures. Industry type, firm age, firm size, and auditor type are used as control variables of the study. It is believed that higher CSR results in higher financial performance. This study examines companies under the Philippine Stock Exchange Index (PSEi), which was used as the study sample. PSEi is a collection of 30 of the biggest and most active companies in the Philippine Stock Exchange (PSE). A longitudinal research approach was utilized to investigate CSR and the financial performance of listed firms in the Philippines. The year of coverage of observation of the study is 2019-2022. Data is drawn from individual sustainability, corporate governance, and PLC annual reports. CSR performance is divided into environmental, social, and governance. A rating for each dimension is formulated based on their level of disclosures. The results of this study provide preliminary information on the nexus in Philippine context. This analysis not only provides empirical insight into the link between CSR and firm outcomes but also supports the implementation and monitoring of SDG 12.6 in the Philippine corporate setting.

This study is expected to have theoretical and practical contributions to the existing body of knowledge. It extends the current literature on CSR and its link to financial performance in the Philippines Stock Exchange Index firms. It adapts a multi-theoretical perspective using stakeholder and agency theory to develop the hypotheses of the study that investigate the relationship between variables. It overviews CSR efforts'

extent, nature, and quality by measuring the Philippines' economic, social, and governance dimensions. This study assists firms' management and investors in estimating any practicable relationship between CSR ratings and financial performance. Importantly, firms can discover opportunities by integrating ESG into their corporate strategy by supporting CSR programs and projects that may eventually convert to increased financial performance. Firms can realize that financial performance can be achieved by doing business sustainably. This also opens up investors and other market participants to the new modern socially responsible investing approach.

2 THEORETICAL FRAMEWORK

According to Simmons Jr *et al.* (2018), CSR and financial performance are complex and cannot be explained with one theory. They recognize that there may be constraints in using one single theoretical view to explain the construct of the study. Consistent with the previous literature (Kuzey & Uyar, 2017; Matuszak *et al.*, 2019; Orazalin & Mahmood, 2018), the present study takes a multi-theory approach to examine the effect of CSR on the financial performance of PLCs in the Philippines. The multi-theoretical approach in this construct is considered complementary rather than opposing. A review of existing literature reveals that two dominant perspectives used to explain the effect CSR reporting and disclosure to the firm's financial performance, stakeholder theory (Giannarakis *et al.*, 2014; Hussain *et al.*, 2018; Mnif Sellami *et al.*, 2019; Walls *et al.*, 2012) and agency Theory (Janggu *et al.*, 2014; Mnif Sellami *et al.*, 2019; Saha & Akter, 2013; Walls *et al.*, 2012) .

Stakeholder theory puts forward that stakeholders are in a powerful position that a firm's long-term viability depends upon addressing the concerns of its stakeholders and that the firm has the organizational responsibility to take care of all the stakeholders, not just the owners and investors (Freeman, 1984). This theory examines the existence of a link between companies and diverse stakeholders (Mnif Sellami *et al.*, 2019). The survival of the firm depends on the support of the stakeholders. Therefore, firms must seek stakeholder support through their organizational activity (Freeman, 1984). Hence, businesses must maintain and manage good working relationships with these stakeholders, especially those associated with the firm's operational activities (Elijido-Ten *et al.*, 2010) . It has been argued that CSR reports result from pressure from different

stakeholders. (Lu & Abeysekera, 2014). They are the main reason for information disclosure (Riahi-Belkaoui, 2003). They expect firms to disclose not only financial information about the company but also non-financial information (Fernandez-Feijoo *et al.*, 2012). The stakeholders' information requirements about firms' operations have increased remarkably (Fernandez-Feijoo *et al.*, 2012). A CSR report is a communication tool for firms to distribute information to various powerful stakeholder groups and suggests that socially responsible firms will perform better. (Freeman, 1984). Thus, company disclosures reduce information asymmetries (Reverte, 2016).

Agency theory explains the contractual relationship between the principal and the agent (Jensen & Meckling, 1976). The principal is the party that directs the agent to carry out business activities on behalf of the principal in his capacity as a decision-maker (Jensen & Meckling, 1976). Agency theory describes the conflicting relationship between agents and principals, assuming the existence of opportunistic conduct of managers and information asymmetry between the two parties. It is advisable to monitor the agents' actions to align the principal-agent relationship that reduces conflicts and achieves the organizational goal of maximizing the shareholders' wealth (Halme & Huse, 1997). Company disclosure can act as a bonding and monitoring instrument in reducing agency conflicts between managers and shareholders (Jensen & Meckling, 1976). The agency theory postulates that managers should disclose all relevant information available to stakeholders since principals cannot supervise all standard corporate activities (Fama & Jensen, 1983; Jensen & Meckling, 1976). CSR reporting may act as a mechanism for monitoring and controlling agency problems between managers and shareholders (Ruhnke & Gabriel, 2013; Wong & Millington, 2014). It lessens agency conflicts between managers and shareholders since the provided CSR information is more reliable (Simnett *et al.*, 2009).

This study also extends these theoretical underpinnings by integrating the Sustainable Development Goal (SDG) framework, particularly SDG 12.6, which promotes the integration of sustainability information into corporate reporting cycles. Stakeholder theory supports SDG 12.6 by highlighting the growing demand from various stakeholder groups for transparency and accountability in firms' environmental and social performance. Agency theory complements this by emphasizing how sustainability reporting can serve as a tool to align managerial interests with stakeholder expectations and reduce agency conflicts. By grounding the study in these theories and aligning with

SDG 12.6, this research bridges the gap between theory, practice, and global policy priorities.

2.1 CSR and financial performance

There is an ongoing debate on the link between CSR and firm performance. The adoption of firms in conducting sustainable engagements and its connection to financial performance have inconclusive results from previous literature. CSR is widely accepted to be measured based on three dimensions: environmental, social, and governance (ESG). Generally, CSR performance is believed to affect both financial and non-financial performance (Saeidi *et al.*, 2015). Firms that engage in CSR practices boost firms' competitive advantages (Aboud & Diab, 2018; Beck *et al.*, 2018; Md Zaini *et al.*, 2018; Mukherjee & Nuñez, 2019). Moreover, CSR performance is believed to increase the firm's value over time (Agyei & Yankey, 2019; Beck *et al.*, 2018). Yang *et al.* (2021) examined 122 listed firms in China, showing that CSR performance significantly increases firm profitability. On the other hand, previous research found the opposite. Sampong *et al.* (2018) documented a positive but insignificant relationship between CSR performance and firm value on South African listed firms. This was seconded by (Mukherjee & Nuñez, 2019) in their study of 173 firms from the United States of America, which showed no significant relationship between CSR reporting and financial performance at an aggregate level.

This study utilizes return on equity (ROE) as accounting-based and stock return as market-based measures to measure financial performance. ROE is one of the most used profitability ratios, especially in research (Hapsoro & Husain, 2019), this ratio shows the efficiency of own capital use. A higher ROE indicates a higher financial performance. The relationship between CSR performance and return on equity is complex and varies across studies. (Buallay, 2019) found a significant positive impact of ESG on ROE in the European banking sector, with environmental disclosure having a powerful effect. (Bermejo Climent *et al.*, 2021) further supported this, demonstrating that CSR performance is associated with improved return growth. (Alareeni & Hamdan, 2020) also found a positive association between ESG disclosure and ROE in US S&P 500-listed firms, with corporate governance disclosure having a powerful positive effect. These findings suggest that ESG performance has a positive impact on ROE. (Naimy *et al.*,

2021) found no significant relationship between ESG and ROE in East Asian firms, while Plagge & Grim (2020) observed mixed results in ESG performance. (Almeyda & Darmansya, 2019) reported a positive relationship between ESG disclosure and a firm's ROE but no significant relationship with the stock price. Therefore, from the literature stated, the first alternative hypothesis was formulated for empirical testing

H1a: Environmental performance positively impacts ROE

H1b: Social performance positively impacts ROE

H1c: Governance performance positively impacts ROE

Stock return is a market-based measure to assess how investors and market participants value firms. This metric was mainly used to verify the performance of the company from the perspective of the investors, whether the company was under or over valued by the market. Higher valuation from the market means higher stock performance for the firm. (Shanaev & Ghimire, 2022) reported that CSR performance leads to positive abnormal returns. (Gibson Brandon *et al.*, 2021) added that stock returns positively relate to ESG rating disagreement, particularly in the environmental dimension, suggesting a risk premium for firms with higher disagreement. This is seconded by (Lourenço *et al.*, 2014), who states that CSR performance has significant explanatory power for stock prices over the traditional summary accounting measures and found that the net income of firms with good CSR reputation has a higher valuation by the market as compared to those with less CSR reputation. (Bag & Mohanty, 2021) found a small but significant impact of ESG performance on stock returns, with governance practices particularly influential. However, (La Torre *et al.*, 2020) found no significant effect of ESG performance on stock returns for companies in the Eurostoxx50 index. Therefore, from the literature stated, the following second alternative hypothesis was formulated for empirical testing.

H2a: Environmental performance positively impacts stock return

H2b: Social performance positively impacts stock return

H2c: Governance performance positively impacts stock return

3 METHODOLOGY

3.1 Sample and data collection

The study sample are firms from the Philippine Stock Exchange Index (PSEi), which consists of thirty (30) companies used as a benchmark of the stock market's overall performance. The researchers focuses on the PSEi to prevent potential outliers from firms with no operation and/or are suspended from trading, which may affect the study result. The years covered are from 2019-2022. The beginning year of 2019 was considered the start of compliance of firms with the mandatory disclosure of annual sustainability report. The researchers obtained financial and non-financial data from the Philippines Stock Exchange (PSE) Electronic Disclosure Generation Technology (EDGE). If not found on PSE EDGE, the researchers used the firm's corporate website. The researchers eliminates the observation of firms whose annual CSR and corporate governance reports are unavailable. In addition, the PSEi is re-composed every six months; certain firms are added and removed from the index. Hence, firms consistently included in the PSEi from 2019-2022 are considered. After the exclusion parameters, the final sample is 23 firms from 2019-2022, resulting in 92 firm-year observations. This gave enough data for data processing and analysis.

3.2 Measurement of variables

The study's dependent variable is financial performance. ROE is used as the accounting-based measure. The market-based measure is derived from the company stock return. ROE is computed by dividing a firm's net income by their average shareholders' equity, then multiplying by 100. The stock return is computed by dividing the difference between the ending share price for the year and the beginning share price to the beginning share price, then multiplying by 100.

Independent variables of CSR performance are divided into three dimensions: environmental, social, and governance (ESG). The researchers measures the environmental and social performance from each firm's sustainability report, which is based on SEC Philippines Memorandum Circular No. 4 series of 2019 entitled "Sustainability Reporting Guidelines for Publicly-Listed Companies." This reporting

guidelines have been developed using four globally recognized CSR reporting frameworks - the Global Reporting Initiative's (GRI) CSR Reporting Standards, the CSR Accounting Standards Board's (SASB) CSR Accounting Standards, the International Integrated Reporting Council's (IIRC) Integrated Reporting (IR) Framework and the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). Governance performance is based on SEC Philippines Memorandum Circular No. 15 series of 2017 entitled "Integrated Annual Corporate Governance Report (I-ACGR)." This is derived on the recommendations of the Code of Corporate Governance for Publicly Listed Companies of the Philippines.

Table 1

Definition and Measurement of Research Variables

Variables	Acronym	Operationalization
<i>Dependent Variables</i>		
Return of Equity	ROE	It is calculated by dividing firms' net income by shareholders' equity.
Stock Return	STK	It is computed by deducting the ending share price at the end of the year from the share price at the beginning of the year and then dividing the difference by the share price at the beginning of the year.
<i>Independent Variables</i>		
Environmental Performance	ENVI	Each of the 40 indicators relating to environmental performance takes a value of 1 if the corresponding indicator is disclosed; otherwise, 0. Then, it is calculated in percentages.
Social Performance	SOC	Each of the 53 indicators relating to social performance takes a value of 1 if the corresponding indicator is disclosed; otherwise, 0. Then, it is calculated in percentages.
Governance Performance	GOV	Each of the 67 indicators relating to governance performance takes a value of 1 if the corresponding indicator is disclosed; otherwise, 0. Then, it is calculated in percentages.
<i>Control Variables</i>		
Industry Type	IND	It takes the value of 1 if from the financial sector, 2 if from the industrial sector, 3 if from the holding firms' sector, 4 if from the property sector, 5 if from the services sector, and 6 if from the mining and oil sector.
Firm Age	AGE	The number of years since the incorporation date of the firm.
Firm Size	SIZE	The natural logarithm number of the firms' total assets.
Auditor Type	AUDIT	It takes a value of 1 if Big Four auditing firms audit the firm; otherwise, 0.

Following previous research methodology (Allegrini & Greco, 2013; Htay *et al.*, 2012; Janggu *et al.*, 2014; Saha & Akter, 2013), the researchers measures CSR performance on a binary level which takes the value of 1 if the item is disclosed otherwise 0. A performance index for each dimension was extracted by counting the number of

items disclosed, dividing into the total indicator per dimension, and then multiplying by 100. Environmental performance has 40 indicators, social performance has 53 indicators, and governance performance has 67 indicators. The overall CSR performance index is extracted based on the sum of the environmental, social, and governance performance dimensions and then divided by three.

The researchers also used firm profiles as control variables (industry type, firm size, firm age, and auditor type). The industry type is coded based on sector type found on the PSE EDGE (1 - financials, 2- industrial, 3 - holding firms, 4 - property, 5 - services, and 6 - mining and oil). Firm age is coded using the age of each firm since the incorporation date. Firm size is based on the logarithm number of the firm's total assets. Auditor type is a binary variable that takes 1 if the external auditor is a member or affiliate of the big four auditors globally - Klynveld Peat Marwick Goerdeler (KPMG), Ernst & Young (EY), Deloitte, PricewaterhouseCoopers (PwC), and otherwise 0.

3.3 Regression analysis

To examine the relationship between CSR and financial performance for a given set of firms over four years. Pearson's correlation was used to check the linear relationship between the variables. At the same time, to test for independence, the Durbin-Watson test was conducted to check for autocorrelation. Visual inspection of the scatter plot of residuals was made to verify the homoscedasticity and quantile-quantile (Q-Q) plot to check for normality. The researchers applies the following multiple regression model to test the hypotheses.

$$FP_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 IND_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \beta_5 AUDIT_{it} + \varepsilon_{it} \quad (1)$$

where, FP is the financial performance alternatively return on equity and stock return of firm i at the time t ; β_0 is the constant term; CSR_{it} is a vector of CSR performance three dimensions composed of environmental, social, and governance performance; IND_{it} is the industry type; AGE_{it} is the number of years since the incorporation of the firm; $SIZE_{it}$ is the natural logarithmic number of total assets of firm; $AUDIT_{it}$ represents whether the external auditor of the firm is part of the big four auditing company; ε is the regression error.

This methodological approach enables the study to assess how sustainability reporting practices, in compliance with SDG 12.6, influence financial performance among leading Philippine firms. It also helps determine whether the institutionalization of ESG disclosures contributes to tangible firm-level outcomes in an emerging market context.

4 RESULTS AND DISCUSSIONS

Table 2 reports the Pearson correlations among the variables from year 2019-2022. GOV is positively correlated with ROE at 5 percent significance level. This result suggests that firms with higher governance performance have higher returns on equity. AGE is positively correlated with CSR at 1 percent significance level, indicating that older firms have higher CSR performance.

Table 2

Pearson's Correlation Matrix

	CSR	ENVI	SOC	GOV	ROE	STK	AGE	SIZE
CSR	1							
ENVI	0.912***	1						
SOC	0.836***	0.670***	1					
GOV	-0.123	-0.330**	-	1				
ROE	0.075	-0.016	0.402***	0.229*	1			
STK	-0.045	-0.025	-0.057	0.003	0.083	1		
AGE	0.272**	0.098	0.241*	0.275**	0.173	-	1	
SIZE	-0.220*	-0.336**	-0.152	0.273**	-	0.040	0.356***	1

*Notes: values per column are the correlation coefficients, * indicates significance at 5% level ($p < 0.05$), two-tailed, ** indicates significance at 1% level ($p < 0.01$), two-tailed, *** indicates significance at .01% level ($p < 0.001$), two-tailed, ENVI – Environmental Performance Index, SOC - Social Performance Index, GOV – Governance Performance Index, CSR – CSR Performance Index, ROE - Return on Equity, STK – Stock Return, AGE – Firm Age, SIZE – Firm Size*

Conversely, SIZE is negatively correlated with CSR at 5 percent significance level, which argues that bigger firms have lower CSR performance. The correlations between CSR and its components are lower than 0.700, indicating the absence of multicollinearity.

Table 3 presents the regression analysis of ROE and ENVI (Model 1) as the measure of environmental performance, SOC (Model 2) as the measure of social

performance, GOV (Model 3) as the measure of governance performance, and CSR (Model 4) as the measure of the overall CSR performance. Model 3 coefficient shows positive and significant results, which indicates that governance performance impacts the return on equity of a firm. Models 1, 2, and 4 are found to be not significant with return on equity. These results clearly suggest that most CSR components and overall CSR performance do not affect the return on equity.

Table 3

Regression Analysis of CSR and its Components on Return on Equity

Variables	Model 1 (ENVI)	Model 2 (SOC)	Model 3 (GOV)	Model 4 (CSR)
Constant	80.390* (2.5309)	84.5632** (2.69034)	14.5611 (0.358)	92.172* (2.9336)
Return on Equity	-0.104 (-1.6557)	-0.1325 (-1.57509)	0.4342** (2.798)	-0.142 (-1.1450)
Industry Type:				
<i>Industrial</i>	-10.060 (-1.0440)	-12.4301 (-1.35954)	-4.6578 (-0.491)	-13.625 (-1.4752)
<i>Holding Firms</i>	-7.491 (-1.1601)	-10.2195 (-1.70884)	-5.5844 (-0.910)	-9.993 (-1.6220)
<i>Property</i>	-3.920 (-0.5745)	-7.5441 (-1.17791)	-5.5500 (-0.886)	-6.208 (-0.9395)
<i>Services</i>	-5.020 (-0.6401)	-5.5233 (-0.70901)	3.4465 (0.405)	-7.599 (-1.0000)
<i>Mining & Oil</i>	19.382* (2.1035)	16.6722 (1.92384)	18.9776* (2.275)	16.467 (1.8335)
Firm Age	0.185** (3.2959)	0.1873** (3.33030)	0.0905 (1.390)	0.198*** (3.4699)
Firm Size	-2.413* (-2.3966)	-2.3986* (-2.36790)	-1.5898 (-1.522)	-2.604* (-2.5980)
Auditor Type:				
<i>Non-affiliate</i>	-0.224 (-0.0517)	0.0340 (0.00780)	-1.0897 (-0.261)	-0.311 (-0.0707)
Adjusted R²	0.260	0.258	0.195	0.247

*Notes: values per column are the standard coefficients while t-stat values are in parenthesis * indicates significance at 5% level ($p < 0.05$), two-tailed, ** indicates significance at 1% level ($p < 0.01$), two-tailed, *** indicates significance at .01% level ($p < 0.001$), two-tailed, ENVI – Environmental Performance Index, SOC - Social Performance Index, GOV – Governance Performance Index, CSR – CSR Performance Index*

The findings align with (Earnhart, 2018), who found mixed results, showing a negative link between environmental and financial performance. Naimy *et al.* (2021) also found no significant relationship between CSR performance and return on equity. These results failed to accept H1 and indicate that CSR performance and its components do not affect the return of equity except governance performance.

Table 4 presents the regression analysis of STK and ENVI (Model 5) as the measure of environmental performance, SOC (Model 6) as the measure of social performance, GOV (Model 7) as the measure of governance performance, and CSR (Model 8) as the measure of the overall CSR performance. Models 5,6,7, and 8 are found to be not significant with stock return. These results clearly suggest that CSR components and overall CSR performance do not affect the stock return. This is congruence with the result of La Torre *et al.* (2020), who found no significant impact of ESG performance on stock returns for companies in the Eurostoxx50 index. These results failed to accept H2, indicating that CSR performance and its components do not affect stock return.

Table 4

Regression Analysis of CSR and its Components on Stock Return

Variables	Model 5 (ENVI)	Model 6 (SOC)	Model 7 (GOV)	Model 8 (CSR)
Constant	25.8605 (0.378)	19.53116 (0.2931)	-27.4538 (-0.3057)	34.9826 (0.5232)
Stock Return	-0.0701 (-0.517)	-0.28198 (-1.5813)	0.3434 (1.0033)	-0.2241 (-0.8461)
Industry Type:				
<i>Industrial</i>	-2.1460 (-0.103)	3.28949 (0.1697)	2.9834 (0.1425)	-1.2728 (-0.0648)
<i>Holding Firms</i>	-3.0185 (-0.217)	-2.33602 (-0.1842)	-0.9800 (-0.0724)	-2.9409 (-0.2243)
<i>Property</i>	-1.8742 (-0.128)	-3.82587 (-0.2818)	-2.6929 (-0.1949)	-1.9103 (-0.1358)
<i>Services</i>	6.3698 (0.377)	12.56127 (0.7605)	13.6599 (0.7269)	6.8048 (0.4208)
<i>Mining & Oil</i>	20.0557 (1.011)	24.09418 (1.3114)	20.5370 (1.1159)	21.5340 (1.1268)
Firm Age	0.0124 (0.102)	0.00964 (0.08080)	-0.0631 (-0.4397)	0.0277 (0.2283)
Firm Size	-0.7264 (-0.335)	-0.17077 (-0.0795)	-0.0323 (-0.0140)	-0.7027 (-0.3294)
Auditor Type:				
<i>Non-affiliate</i>	-3.4680 (-0.372)	-1.56883 (-0.1696)	-4.0427 (-0.4396)	-2.7696 (-0.2964)
Adjusted R²	-0.0308	-0.00358	-0.0216	-0.0252

*Notes: values per column are the standard coefficients while t-stat values are in parenthesis * indicates significance at 5% level (p <0.05), two-tailed, ** indicates significance at 1% level (p <0.01), two-tailed, *** indicates significance at .01% level (p <0.001), two-tailed, ENVI – Environmental Performance Index, SOC - Social Performance Index, GOV – Governance Performance Index, CSR – CSR Performance Index*

The results imply that while governance disclosures are linked to stronger ROE, other CSR aspects have yet to translate into measurable financial returns in the Philippine setting. This may indicate that ESG disclosure practices—particularly those related to

environment and social impact—are still maturing, and not yet perceived by the market or internal management as value-driving activities.

It highlights that although regulatory mechanisms like SEC Memorandum Circular No. 4 have initiated progress, further development is needed to deepen corporate commitment and stakeholder engagement beyond compliance. As such, enhanced frameworks and incentives may be necessary to make sustainability reporting not only a legal obligation but also a source of competitive advantage.

5 CONCLUSIONS AND RECOMMENDATIONS

This study examined the relationship between corporate social responsibility (CSR) performance and the financial performance of firms listed in the Philippine Stock Exchange Index (PSEi) from 2019 to 2022. Using an ESG framework and controlling for firm characteristics, the findings revealed that only governance performance showed a statistically significant and positive relationship with return on equity (ROE). Environmental and social performance, as well as overall CSR performance, were not significantly associated with either ROE or stock return.

The results suggest that while governance disclosure contributes to improved financial performance, the broader adoption of CSR—especially in the environmental and social domains—has not yet yielded tangible financial benefits in the Philippine context. This may be due to the relatively recent implementation of mandatory sustainability reporting requirements under SEC Memorandum Circular No. 4, Series of 2019.

The findings of this study indicate that Philippine firms are still in the early stages of transforming sustainability from compliance into strategic advantage. While disclosure practices are now institutionalized, the strategic alignment and perceived value of these disclosures require further

5.1 Practical and theoretical implications

This study has several practical implications for key stakeholders. Firms are encouraged to move beyond mere compliance and adopt strategic sustainability frameworks that integrate environmental and social goals into their long-term business models. Investors should consider incorporating ESG metrics into their decision-making

processes, as firms with stronger governance practices may offer more stable returns. Regulators and policymakers are urged to develop stronger enforcement mechanisms and offer detailed guidance on ESG disclosure quality to further support SDG 12.6 implementation. Academics and market analysts can benefit from sector-specific research that isolates industries where CSR has a direct influence on performance.

From a theoretical standpoint, this research contributes to the literature on CSR by validating the role of agency and stakeholder theories in the Philippine setting. It demonstrates that governance, as a component of CSR, plays a crucial role in financial performance and suggests that CSR's value may differ based on market maturity and regulatory contexts. Moreover, this study extends existing frameworks by linking them to SDG 12.6, thus enriching the multi-theoretical perspective with a policy-driven global sustainability agenda.

5.2 Future research directions

Future research may explore how CSR and financial performance interact in the post-pandemic economic environment, where business resilience and stakeholder priorities have shifted. Studies could also investigate the relationship between CSR and non-financial indicators such as employee engagement, brand equity, or consumer trust. In addition, researchers may consider developing more nuanced CSR scoring methodologies that measure not only disclosure quantity but also the quality and societal impact of ESG practices. These directions will help deepen the understanding of CSR's effectiveness and support the long-term advancement of sustainable business practices in alignment with SDG 12.6.

AUTHOR CONTRIBUTIONS

The authors list the following CrediT contributions: **LCE**: Conceptualization, Methodology, Formal Analysis, Data Curation, Writing – Original Draft, Visualization. **EBM**: Validation, Resources, Supervision, Writing – Review & Editing, Project Administration. Both authors contributed to the development of the study, approved the final version of the manuscript, and agree to be accountable for all aspects of the work.

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Authors' Contribution

Both authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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