

The Relationship of Corporate Governance, ESG Practices, and Profitability of Philippine Universal and Commercial Banks

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ABSTRACT

Corporate governance and Environmental, Social, and Governance (ESG) practices have become increasingly important in promoting organizational sustainability, accountability, and financial performance. Despite growing regulatory emphasis on governance and sustainability reporting in the Philippines, empirical evidence on how these practices relate to bank profitability remains limited and inconclusive. This study examined the relationship among corporate governance practices, ESG practices, and the profitability of Philippine universal and commercial banks listed on the Philippine Stock Exchange from 2020 to 2024.

The study employed a descriptive-correlational research design using panel data analysis. Secondary data were collected from annual reports, Integrated Annual Corporate Governance Reports (I-ACGR), sustainability reports, and audited financial statements of thirteen (13) selected Philippine universal and commercial banks covering a five-year period, resulting in sixty-five (65) bank-year observations. Descriptive statistics, Pearson correlation, Welch t-test, and two-way fixed-effects panel regression were used to analyze the data.

The findings revealed that traditional governance mechanisms, such as audit and risk committees, were highly adopted among the selected banks, while ESG practices varied across institutions. Profitability indicators generally improved from 2020 to 2024. CEO-chair separation emerged as a consistent positive predictor of profitability, whereas director tenure policy and financial inclusion programs demonstrated negative relationships in selected regression models. Environmental sustainability practices, including green financing products and environmental disclosures, were positively associated with profitability. However, composite corporate governance and ESG scores did not demonstrate strong predictive power, suggesting that individual governance and ESG mechanisms provide more meaningful insights than broad aggregate measures.

The study concluded that the relationship among corporate governance practices, ESG practices, and profitability is complex and multidimensional. The findings highlight the importance of evaluating governance and ESG practices individually and contribute local empirical evidence that may support governance, sustainability, and financial performance assessments within the Philippine banking sector.

Keywords: Business Administration, Corporate Governance, ESG Practices, Descriptive-Correlational Design, Philippines

INTRODUCTION

Corporate governance is important to ensure the long-term viability and credibility of companies. In turn, corporate governance relies on accountability and sound business ethics to lay the foundation for a stable and viable company (Abiola, 2023; Fathoni et al., 2025; Gashi & Hajdari, 2023). Companies with effective corporate governance practices are more likely to achieve positive business outcomes and be sustainable (Jiang, 2024). The integration of corporate governance with social and environmental considerations allows the company to maintain a balance between profit and sustainability (Rayat et al., 2024). By appointing independent and diverse directors to the board, companies can reduce the likelihood of unethical activities such as greenwashing (Chebbi,

2024; Y. Wang, 2025). As more regulators and investors continue to require ESG (Environmental, Social, and Governance) reports from companies, and as pressure to adopt corporate governance practices and companies that have a strong ethical culture continues to grow, there is a greater risk of damage to the company's reputation if there is an increase in reputational risk (Abiola, 2023; Agbakwuru et al., 2024; Awate & Kasar, 2024; Sitorus et al., 2025). It is also important to note that technology plays an important role in helping companies generate ESG reports due to the efficiency of the reporting processes that result from digitalization and the increase in market share that digitalization provides (Morea et al., 2025; Wang & Zeng, 2024). The results of numerous studies conducted across a variety of different industries have suggested that there are strong correlations between the strength of corporate governance and ESG-related practices, and positive business performance outcomes, including those associated with profits, return on assets, and return on equity (Das, 2022; Giannopoulos et al., 2024; Wut et al., 2025; Zou, 2025). In more recent years, as the importance of strong corporate governance and ESG performance continues to grow, the banking industry has emerged as an important area where financial stability and profitability depend on corporate governance and ESG performance.

In the ASEAN region, corporate governance and the integration of sustainable development into business operations continue to grow as key concepts, given that businesses realize how integral management practices are to profitability and sustainability. The ACGS provides a standardized approach for promoting transparency and accountability, as well as complying with international standards (ASEAN Capital Markets Forum, 2023). According to Ismail et al. (2025), factors that contribute to the level of environmental disclosures by companies in Malaysia include company size, profitability, and stakeholder engagement. This shows that both internal and external forces drive ESG accountability. The quality of governance can be expected to play a role in promoting financial profitability and reducing the prospective financial risk of poor ESG management (Al Azizah & Haron, 2025; Mustikawati et al., 2025). In addition, the overactivity of boards and audit committees could have a negative effect on profitability, while managerial ownership, committee members, and internal audits have positive impacts on the financial performance of a company (Fidriansyah et al., 2025). The implementation of ESG management practices may have a negative impact on profitability in the short term; however, research indicates that proactively implementing ESG practices through solid governance systems has a positive effect on financial performance, social performance, and environmental performance (Al Azizah & Haron, 2025; Musviyanti et al., 2025; Sutisna & Salman, 2025).

The Philippines has been affected by shifts in the regulatory environment related to governance and sustainability, leading to rapid changes in the national context. The Sustainability Reporting Guidelines for Publicly Listed Companies set out the rules for reporting on corporate sustainability (Securities and Exchange Commission, 2019). In addition, the Integrated Annual Corporate Governance Report (I-ACGR) provides information about corporate governance. Another document, the Bangko Sentral ng Pilipinas' Sustainable Finance Framework (2020), outlines how to manage ESG risks and practice sustainability. In addition, the ASEAN Corporate Governance Scorecard (ACGS) (ASEAN Capital Markets Forum, 2023) is another tool to promote ethical leadership and responsibility. There is evidence that links ESG performance to increased value for Philippine corporations, through a combination of auditing service quality and ESG performance (Mallorca & Manansala, 2025).

Business sustainability has been investigated in numerous prior studies. There are only two empirical studies on the corporate governance and ESG-related practices of Philippine banks. Prior empirical research on ASEAN banks produced results that were mixed, as to whether ESG-related activities and financial performance were negatively associated, conditionally associated, or positively associated in the long run (Do et al., 2024; Le, 2024; Marasigan, 2024; Nathania & Ekawati, 2024). However, there are still no empirical studies linking governance practices and ESG-related activities to profitability in the Philippine banking sector, particularly given the recent issuance of new regulations by the Securities and Exchange Commission and the Bangko Sentral ng Pilipinas on ESG practices.

This research aims to examine the relationships among corporate governance practices, ESG practices, and profitability in Philippine universal and commercial banks listed on the Philippine Stock Exchange from 2020 to 2024. Based on the principles of the Triple Bottom Line Theory as presented by Slaper (2011) and supported by Stakeholder Theory Mahajan et al. (2023), this study uses the descriptive correlational approach utilizing

secondary data from the annual reports of the banks, Integrated Annual Corporate Governance Report (I-ACGR), SEC sustainability report, and Philippine Stock Exchange reports.

Statement of the Problem

The objectives of this study were to examine the relationships among corporate governance practices, ESG practices, and profitability in Philippine universal and commercial banks listed on the Philippine Stock Exchange for the period 2020 to 2024. This was to evaluate the extent of corporate governance and ESG practices, the profitability of these banks, and the relationships among these variables. The following research questions guided the study:

1. What is the extent of corporate governance practices of Philippine banks as reflected in their annual reports and Integrated Annual Corporate Governance Report (I-ACGR)?
2. What is the extent of environmental, social, and governance (ESG) practices of Philippine banks as disclosed in their SEC-mandated sustainability reports and other public disclosures?
3. What is the level of profitability of Philippine banks as measured by return on assets (ROA), return on equity (ROE), and net profit margin (NPM) from 2020 to 2024?
4. Is there a significant relationship between corporate governance practices and the profitability of Philippine banks?
5. Is there a significant relationship between environmental, social, and governance (ESG) practices and the profitability of Philippine banks?
6. Do corporate governance practices and environmental, social, and governance (ESG) practices, taken together, significantly relate to the profitability of Philippine banks?

Hypotheses

In this study, the researcher hypothesized that:

1. There is no significant relationship between corporate governance practices and the profitability of Philippine banks.
2. There is no significant relationship between environmental, social, and governance (ESG) practices and the profitability of Philippine banks.
3. Corporate governance practices and environmental, social, and governance (ESG) practices, taken together, do not significantly relate to the profitability of Philippine banks.

FRAMEWORK

The Triple Bottom Line (TBL) Theory, developed by John Elkington, is the theoretical foundation for this study. The TBL framework represents a departure from traditional ways of thinking about how organizations should be evaluated. In addition to financial performance, the TBL framework allows organizations to measure their impact on both the environment and society. The TBL approach advocates for organizations to consider not just the economic value they create but also the social and environmental value they generate or destroy (Elkington, 2004). These three dimensions of the TBL framework are commonly referred to as People, Planet, and Profit, which form the basis of sustainable development (Elkington, 1994, as cited in Arviana et al., 2023). In addition to helping organizations assess their impact on sustainable development, the TBL framework encourages organizations to balance their pursuit of sustainable development with their long-term value creation (Bhatti et al., 2025; Purnama, 2024). Organizational responsible business practices have a positive effect on the economic, social and environmental development and contribute to long-term sustainability (Mendes et al., 2023).

The study is also supported by Stakeholder Theory proposed by R. Edward Freeman (1984). The Stakeholder Theory addresses an organization's duty to consider the interests of all of its stakeholders, such as investors, regulators, customers, employees, and society, when making decisions. The Stakeholder Theory asserts that the ability of an organization to create value for its stakeholders in both the short and long term will determine whether or not the organization can achieve long-term success. Contemporary studies further emphasize that stakeholder-oriented strategies strengthen organizational legitimacy, sustainability, and long-term value creation (Mahajan et al., 2023). Haque et al. (2021) specifically identified that increasing the amount of information about CSR and sustainability increases trust as well as legitimacy from Stakeholders for those organizations. Kocornik-Mina et al. (2021) highlighted that values-based banking practices aligned with stakeholder interests contribute to both social value creation and financial sustainability. In the context of the present study, Stakeholder Theory explains why banks adopt corporate governance and ESG practices beyond regulatory compliance, as these initiatives also address stakeholder expectations and sustainable development objectives.

Within the framework of this study, corporate governance represents the governance dimension of sustainability through mechanisms that promote transparency, accountability, integrity, and effective oversight (Nica et al., 2025; Tajuddin et al., 2024). Strong governance structures help align organizational objectives with stakeholder interests and support responsible decision-making (Das et al., 2025). This perspective is supported by Zubeltzu-Jaka et al. (2024), who found that boards characterized by independence and diversity contribute to favorable sustainability and financial outcomes.

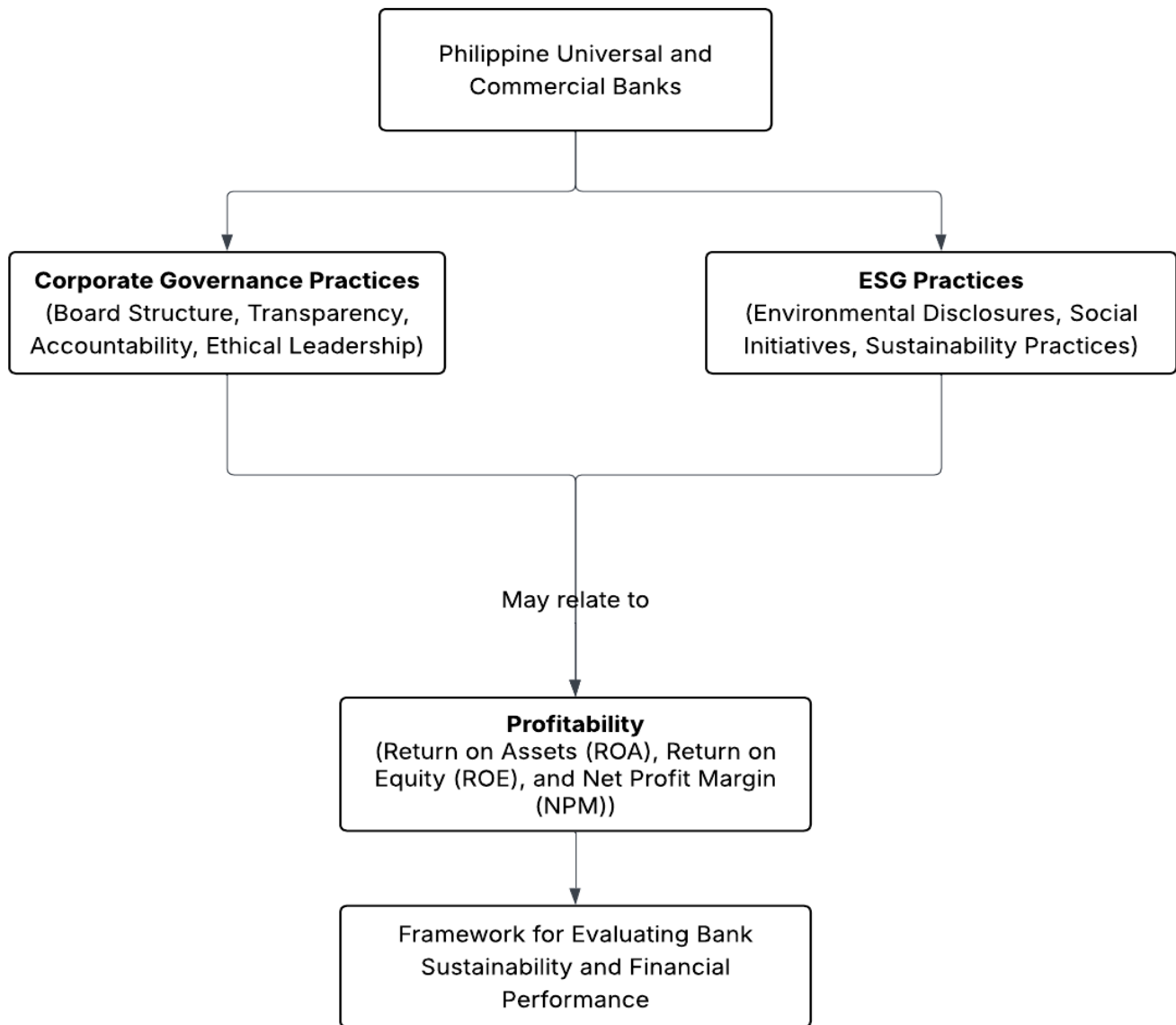
ESG practices operationalize the environmental, social, and governance dimensions of sustainability by translating sustainability principles into measurable organizational initiatives and disclosures. These practices reflect the People and Planet dimensions of the Triple Bottom Line by translating sustainability principles into measurable organizational actions. Manta et al. (2020) observed that sustainability dimensions associated with governance and social responsibility are linked to financial performance in the banking industry. Previous studies have shown that organizations implementing sustainability-oriented practices often achieve stronger stakeholder trust, enhanced reputation, and improved long-term competitiveness (Haque et al., 2021; Nogueira et al., 2025).

Profitability within the Triple Bottom Line framework refers to the economic dimension and is the financial performance indicator examined in this study. It reflects an organization's ability to generate financial returns while maintaining sustainable business operations. Prior research suggests that governance quality and sustainability practices are frequently associated with variations in organizational performance, although the direction and magnitude of these relationships are not always consistent across institutions and industries (Giannopoulos et al., 2024; Nathania & Ekawati, 2024; Nogueira et al., 2024).

An empirical examination of the connection of governance and ESG practices with regard to financial performance shows that independent boards, the quality of governance, ESG disclosures, CSR activities, and stakeholder-based management practices all produce differences in firm performance and sustainability outcomes (Haque et al., 2021; Manta et al., 2020; Tajuddin et al., 2024; Zubeltzu-Jaka et al., 2024). Even with these studies, findings remain mixed with some identifying a positive connection between governance, ESG practices, and profitability; whereas, others have produced weak, insignificant, or negative relationships, depending on the context of the research and the specific mechanisms investigated (Cai et al., 2024; Do et al., 2024; Marasigan, 2024). These inconsistencies highlight the need for further investigation within the Philippine banking sector.

Therefore, further study is needed related to the relationship between governor practices, ESG practices and profitability within the Philippines. This study uses the Triple Bottom Line Theory and Stakeholder Theory as the basis of the study to examine the relationship of governance practices, ESG practices and profitability of banks. The study explores the Hypothesis that governance and sustainability practices may be associated with profitability. However, this association may depend on the governance mechanisms and ESG initiatives that banks implement.

Figure 1. Conceptual Framework of Corporate Governance Practices, ESG Practices, and Profitability of Philippine Banks



The proposed model suggests that corporate governance and ESG practices may be associated with profitability in the Philippine banking industry. Corporate governance practices such as transparency, accountability, and responsible leadership represent the governance dimension of ESG and support the effective implementation of sustainability initiatives. ESG practices operationalize the environmental, social, and governance dimensions of sustainability by translating sustainability principles into measurable organizational initiatives and disclosures. Based on the Triple Bottom Line Theory, the model examines how governance and ESG practices reflect the People and Planet dimensions of sustainability, while profitability represents the Profit dimension of organizational performance (Elkington, 2004; Mendes et al., 2023; Nogueira et al., 2025).

Supplementing this perspective, the Stakeholder Theory suggests that organizations adopt governance and sustainability practices in response to the expectations of investors, regulators, customers, employees, and society. These stakeholder expectations encourage banks to consider not only financial performance but also their social and environmental responsibilities when making strategic decisions (Mahajan et al., 2023).

In conclusion, the model proposes that profitability may be associated with corporate governance and ESG practices, and that these relationships may vary depending on the specific governance mechanisms and sustainability initiatives implemented by banks. This perspective is consistent with previous studies indicating that governance and ESG indicators may exhibit different relationships with financial performance across

institutional contexts, measurement approaches, and management practices (Mallorca & Manansala, 2025; Zubeltzu-Jaka et al., 2024).

Scope and Limitation

This research focused on universal and commercial banks listed on the Philippine Stock Exchange (PSE). The study examined the extent of their corporate governance and ESG practices and their association with profitability during 2020-2024. The study took place in the Philippines, wherein these banks were regulated by the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

The study used secondary data from the bank's annual reports, Integrated Annual Corporate Governance Report (I-ACGR), sustainability reports, and audited financial statements. Furthermore, the researcher utilized a descriptive correlational approach to quantify the extent of governance and ESG practices and their correlation with profitability.

The study was limited to banks with complete and publicly available governance, ESG, and financial disclosures for the period 2020-2024. Although seventeen (17) listed banks were initially identified, only thirteen (13) banks met the inclusion criteria and were included in the final analysis due to data availability and completeness requirements.

Subsidiary banks were excluded to avoid duplication of governance and financial disclosures with their parent institutions. Moreover, the findings were limited to publicly disclosed information in the available reports and may not fully capture governance and ESG practices reported by the selected banks.

Significance of the Study

Various parties in the Philippine banking sector could benefit from this research.

Bank Executives and Managers

The results may serve as guidelines for formulating stronger governance policies and ESG strategies that drive sustainability and profitability.

Academe and Future Researchers

Contributing to the existing literature on sustainable finance and corporate governance, this study may provide a new angle for future comparisons or longitudinal studies.

SEC and BSP

The research may contribute to improving the sustainability and governance in financial institutions in practice.

Investors and Shareholders

The results of the research may serve as a reference for assessing governance quality, ESG initiatives, and financial performance of Philippine banks.

General Public

By emphasizing the importance of ethical and sustainable business practices, this study highlights their role in economic stability and financial inclusion in the Philippines.

Definition of Terms

To make clear the interpretation and comprehension of the facts given in the study below, the terminologies that will be used throughout the study were described operationally as follows:

Corporate Governance Practices

Within the context of this research, it is the governance measures assessed using the ASEAN Corporate Governance Scorecard (ACGS) and annual reports of banks, highlighting structural aspects, disclosures, transparency, and accountability measures.

Environmental, Social, and Governance (ESG) Practices

These pertain to the ESG policies and reports of Philippine banks listed on the Philippine Stock Exchange, as mandated by the Securities and Exchange Commission.

Profitability

In practice, the profitability metrics used are ROA, ROE, and NPM, as indicated in the financial reports of the selected banks.

Triple Bottom Line (TBL) Theory

Serves as the theoretical basis for how governance and ESG practices lead to profit and sustainability performance in Philippine banks.

Stakeholder Theory

Serves as one of the theoretical foundations of this study by explaining why banks adopt corporate governance and ESG practices in response to the expectations of regulators, investors, customers, employees, and society. It provides the basis for examining how governance and sustainability initiatives relate to profitability among Philippine universal and commercial banks.

Integrated Annual Corporate Governance Report (I-ACGR)

In this study, this was used as the primary source of corporate governance data, from which indicators such as board structures, committee presence, disclosure practices, and governance policies of the selected Philippine banks are extracted and coded for analysis.

ASEAN Corporate Governance Scorecards (ACGS)

The ACGS serve as one of the references in identifying governance indicators related to disclosure, transparency, accountability, and board practices among the selected Philippine banks.

Sustainability Report

Refers to the annual report that Philippine banks submit to the Securities and Exchange Commission (SEC) in compliance with the 2019 Sustainability Reporting Guidelines for Publicly Listed Companies.

METHODOLOGY

This chapter presents the research design, sources of data, data gathering instrument, data collection procedure, and statistical tools used in the study.

Research Design

Research design refers to the systematic plan or framework used to guide the entire research process. It specifies how data are collected, analyzed, and interpreted to address the research objectives and answer the research questions accurately (Rodenias and Menes, 2026). The study employed a Descriptive–Correlational Design, which aims to describe the extent of Corporate Governance Practices and ESG Practices, and the level of

Profitability among Philippine universal and commercial banks, and to examine the relationships among these variables. A descriptive–correlational design is used to determine the degree of association between variables without establishing a cause-and-effect relationship, and is appropriate when data are obtained from naturally occurring sources (Clarete et al., 2023). This research design is considered the most suitable for the present study, as it addresses the research objective of determining whether corporate governance and ESG practices are related to bank profitability. Secondary data from official disclosures served as the primary means of obtaining information in this design, rather than a survey questionnaire.

Sources of Data

The research used secondary data from annual reports, sustainability reports, the I-ACGR, and audited financial statements of universal and commercial banks listed on the Philippine Stock Exchange (PSE). First, seventeen (17) listed banks were determined to be candidates for the study. However, the number of participating banks reduced to thirteen (13) only due to the availability and accessibility of governance, ESG, and financial information over the five-year period of 2020 to 2024.

In the study, only those banks with adequate disclosures, which are necessary for the calculation of the variables in this paper, were purposively chosen. Moreover, subsidiary banks listed on the Philippine Stock Exchange were not considered because their governance and financial disclosures are redundant with those of their parent company. Aside from that, one listed bank was also excluded from the analysis due to data unavailability, as its SEC filings began in 2021 and its sustainability reports became available only from 2022 onwards. Another entity in the banking industry was also excluded from the analysis because its primary business focus was fintech and holdings.

Data Gathering Instrument

The researcher created this tool to record and categorize secondary data regarding banks' governance systems, ESG commitments, and earnings in the Philippines, as there was no survey questionnaire used in this research project. Used to create a standardized methodology for extracting and classifying published secondary data from Annual Reports, I-ACGR, Sustainability Reports, and the bank's audited financial statements.

Three main components make up this instrument. Firstly, Corporate Governance Practices were measured using indicators from the Integrated Annual Corporate Governance Report (I-ACGR), the SEC Code of Corporate Governance, and BSP Circulars. Indicators of corporate governance include binary and continuous variables. For binary indicators, 1 indicates the corporate governance indicator is present, while 0 indicates it is absent. In the case of continuous indicators of corporate governance, values were recorded for their actual reported figures. The second section measured ESG Practices using indicators based on the SEC Sustainability Reporting Guidelines, Global Reporting Initiative (GRI) Standards, and the BSP Sustainable Finance Framework. ESG indicators likewise included both qualitative and quantitative variables. Qualitative ESG indicators are coded as 1 (disclosed/implemented) or 0 (not disclosed/implemented), while quantitative ESG variables, such as CSR spending and other measurable sustainability-related disclosures, are recorded using their reported numerical values. The last part of the analysis involved measuring profitability using financial metrics calculated directly from the audited financial statements of the selected banks. ROA, ROE, and NPM were used to measure profitability and served as the study's dependent variables.

Data were organized into a bank-year panel data set, in which each observation consists of a single bank per year from 2020 to 2024. The data set comprised the governance, ESG, and profitability variables necessary for descriptive statistics, correlations, and panel regression.

Data Collection Procedure

The researcher obtained the necessary data from publicly available secondary sources. This entailed collecting data from Annual Reports, Integrated Annual Corporate Governance Report (I-ACGR), the sustainability reports that are required by the SEC, and the audited financial statements of the selected companies.

Relevant corporate governance and ESG data, together with profitability data, were obtained from these documents and then encoded into a panel dataset of the selected banks by year between 2020 and 2024.

Data Analysis Procedure

The data obtained from the annual reports, sustainability reports, integrated annual corporate governance report, and audited financial statements of the chosen Philippine banks were then inputted and structured into a panel dataset by bank and year from 2020 to 2024, such that each line contains one observation per bank per year within this period of interest. The panel dataset contained the corporate governance, ESG, and profitability variables needed to address the problem statement. ROA, ROE, and NPM comprised the profitability variables used in the study.

For problems 1, 2, and 3, which aimed to determine the extent of Corporate Governance Practices, ESG practices, and the level of profitability of the selected Philippine banks, respectively, descriptive statistics were employed. For dichotomous indicators, frequency and percentage were used, whereas mean and standard deviation were used for continuous indicators, following standard descriptive statistical approaches for presenting quantitative data (Rodenias, 2025). As preparation for further inferential statistics, the dataset was screened for completeness of annual observations, missing values, accuracy of data input, and proper coding of dichotomous indicators. At this stage, the researcher constructed a correlation matrix among the primary continuous variables to obtain an initial assessment of their relationships. Multicollinearity between the variables suggested for regression modeling was checked by the researcher prior to and after specifying the model, and predictors with substantial overlap were excluded from consideration. To test for multicollinearity, the Variance Inflation Factor (VIF) approach was used, since large VIF values imply the existence of overlapping explanatory variables (James et al., 2021).

For problems 4, 5, and 6, which aimed to determine whether there is a significant relationship between corporate governance practices and profitability, and between ESG practices and profitability, the Pearson product-moment correlation was used as a bivariate linear relationship test on continuous variables. The Pearson product-moment correlation is a reliable approach for measuring correlations among quantitative data to determine the linear relationships between variables (Schober et al., 2018). Correlation coefficients were analyzed based on their magnitude, direction, and significance level. Additionally, for some of the dichotomous governance and ESG metrics, the Welch t-test was applied to compare mean profitability for different groups. Welch t-tests are ideal for group comparisons where variances and sample sizes differ from each other (Delacre et al., 2017).

The main inferential technique of the study was a two-way fixed effects panel regression. This model is appropriate because the study follows the same banks across multiple years, specifically from 2020-2024, which makes the data panel in nature rather than purely cross-sectional. Panel regression techniques are widely used in longitudinal financial and governance research because they account for cross-sectional and time-series variations in the data (Wooldridge, 2021). The two-way fixed effects model included bank fixed effects to account for differences between banks that don't change over time and year fixed effects to account for shocks that affect all banks in a given year. The same two-way fixed effects structure was used for all profitability models in the study. To justify selecting two-way fixed effects as the final and common panel model, a sequence of model-comparison tests were performed. First, pooled ordinary least squares (pooled OLS) were estimated as the baseline model. Second, an F test for fixed effects was conducted to determine whether the bank-specific effects are jointly significant. A significant result indicated that pooled OLS is not adequate and that fixed effects are more appropriate. Third, a Breusch-Pagan Lagrange Multiplier test for random effects was performed to determine whether random effects are preferable to pooled OLS. A significant result likewise indicated that pooled OLS is insufficient and that a panel model is appropriate. Fourth, a Hausman test was used to compare fixed- and random-effects models. A significant result supported the use of fixed effects, suggesting that the unobserved bank-specific effects are correlated with the regressors. Finally, once fixed effects are preferred, the significance of year effects was assessed through the joint significance of the year dummy variables. If these year effects are jointly significant, then two-way fixed effects shall be preferred over one-way fixed effects. These tests provide the empirical basis for adopting two-way fixed effects as the single panel specification for all regression models in the study.

After estimating the two-way fixed effects models, post-estimation diagnostics was conducted. These included checking for multicollinearity among the regressors in the fitted model, testing for heteroskedasticity, testing for serial correlation within banks over time, and testing for cross-sectional dependence among banks. Robust standard errors were used when necessary to address violations of classical regression assumptions, particularly heteroskedasticity and serial correlation (Wooldridge, 2021).

RESULTS AND DISCUSSION

The study's findings, based on the collected data, are discussed in this chapter.

The analyses, interpretations, and discussions were conducted to ensure a full understanding of the extent of CG and ESG practices and the profitability levels of the selected Philippine universal and commercial banks from 2020 to 2024. In addition, this chapter shows how these variables correlate with one another using descriptive statistics, correlation analysis, and two-way fixed effects panel regression.

Table 1. Descriptive statistics of continuous variables

Variable	Mean	Sd	Min	Max
ROA	0.0121	0.0049	0.0021	0.0294
ROE	0.0953	0.0388	0.0168	0.1966
NPM	0.2706	0.0866	0.0576	0.5336
Board size	12.8923	2.1075	9.0000	15.0000
Independent directors	0.3767	0.0635	0.3333	0.6364
CSR spending, million PHP	73.7291	81.5327	0.0195	330.0000
Log CSR spending	3.4892	1.5542	0.0193	5.8021
Average training hours	43.2648	47.5704	0.4300	259.7600
Board gender diversity	0.2098	0.0895	0.0833	0.5455

Table 1 presents descriptive statistics for continuous variable types used within this research study, defining for each type of variable the bank's performance and other relevant characteristics associated with Corporate Governance (CG), as well as Environmental, Social, and Governance (ESG) factors.

The results demonstrate that profitability indicators of banks have positive average values. The highest rated profitability indicator is net profit margin (NPM) which has the highest mean, followed by return on equity (ROE) and return on asset (ROA). Therefore, while banks appear to efficiently generate profit through their NPM, both ROE and ROA are low.

With regard to the governance-related variables analyzed, first, the number of directors on bank boards is similar across all banks, indicating a consistent governance structure. Secondly, however, the proportion of Independent Directors on each board varies greatly.

Finally, ESG-related indicators exhibit high standard deviation. Therefore, some banks are investing substantially more in their social responsibilities and employee training than others.

These findings indicate that although there is little variability in the profitability levels of different banks, there is substantial variability in the monetary investments banks make in their ESG initiatives. In employing descriptive statistics to describe both financial and ESG variables, it is consistent with previous analyses that have examined corporate performance through the lens of sustainability and corporate governance (Nogueira et al., 2024). Similar patterns of variability in ESG practices and profitability measures were observed in ASEAN banking studies (Marasigan, 2024; Nathania & Ekawati, 2024). Likewise, Giannopoulos et al. (2024) also

identified enormous differences in the degree of implementation of ESG frameworks among banks, while Do et al. (2024) found wide variability in financial institutions' sustainability practices, depending on their specific organizational goals and regulatory environments.

Table 2. Frequency and percentage distribution of selected binary indicators

Variable	0 n (%)	1 n (%)
Audit committee	0 (0.00%)	65 (100.00%)
Risk committee	0 (0.00%)	65 (100.00%)
Sustainability committee	19 (29.23%)	46 (70.77%)
Timeliness of annual report	3 (4.62%)	62 (95.38%)
CEO-chair separation	4 (6.15%)	61 (93.85%)
Director tenure policy	22 (33.85%)	43 (66.15%)
Green financing products	24 (36.92%)	41 (63.08%)
Climate risk disclosure	11 (16.92%)	54 (83.08%)
Carbon emissions disclosure	11 (16.92%)	54 (83.08%)
Waste disclosure	17 (26.15%)	48 (73.85%)
Water and effluents disclosure	8 (12.31%)	57 (87.69%)
Financial inclusion programs	26 (40.00%)	39 (60.00%)
Community engagement programs	28 (43.08%)	37 (56.92%)

The following analysis seeks to better understand the nature of governance and ESG measures. Table 2 shows the frequency and percentage distributions of selected corporate governance and ESG measures. The results show that most governance practices are highly prevalent within the selected sample of banks. In this case, the audit committee and the risk committee have been found to be present in all sampled banks, hence indicating full compliance with regulatory requirements. Similarly, the timely release of the annual report and the separation of the CEO from the chairperson position show high adoption rates. However, certain governance mechanisms show relatively low adoption rates, such as the sustainability committee and director tenure policy. This suggests that while core governance practices are well established, some are not yet uniformly implemented.

Regarding ESG metrics, there is strong evidence of the use of environmental metrics, such as climate risks and carbon emissions. On the other hand, social metrics such as financial inclusion and community engagement programs show greater disparity among the banking institutions studied.

This suggests that governance activities are deeply institutionalized, whereas ESG activities, especially social metrics, exhibit significant variation among banking organizations.

The existence of disparity in ESG and governance activities among firms aligns with previous studies demonstrating that sustainability practices are implemented differently across organizations depending on institutional, strategic, and regulatory considerations (Mallorca & Manansala, 2025). Similar findings were reported by Mustikawati et al. (2025), who observed varying adoption rates of governance mechanisms in banks. Nathania & Ekawati (2024) also noted differences in ESG implementation among ASEAN banks, while Fathoni et al. (2025) found that governance quality and sustainability initiatives are not uniformly adopted across financial institutions. Furthermore, Jiang (2024) reported that organizational commitment to ESG practices varies with governance priorities and stakeholder expectations.

Table 3. Important Pearson bivariate results for continuous predictors and profitability

DV	Continuous IV	r	p-value	Verbal Interpretation
ROA	Log CSR spending	0.2092	0.0944*	Marginal weak positive

ROE	Board size	-0.2279	0.0679*	Marginal weak negative
NPM	Board gender diversity	-0.1969	0.1160	Not significant

Note. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

To evaluate the relationship of different continuous variables, correlation was used. Table 3 presents the correlation results for the selected continuous variables and profitability. The results show that most variables have an insignificant relationship with the profitability indicators; however, some selected variables show marginal significance at the 10% confidence level for continuous variables.

Positive marginal correlations between log CSR expenditures and ROA, and a negative marginal correlation between board size and ROE are evident. In conclusion, the correlation results indicate a lack of strong relationships between continuous governance and ESG variables to profitability; the correlation analysis reveals weak linear relationships for most continuous governance and ESG indicators to profitability, indicating the lack of a direct relationship. Therefore, to determine the strength of the relationship between these two constructs, a simple bivariate correlation analysis is insufficient; further studies are required to clarify this association.

These findings are consistent with previous studies reporting weak or insignificant associations between ESG indicators and profitability when examined using simple bivariate methods (Mallorca & Manansala, 2025). Marasigan (2024) similarly found that overall ESG scores do not consistently translate into stronger financial outcomes among ASEAN banks. Giannopoulos et al. (2024) observed that sustainability initiatives often exhibit limited direct correlations with profitability measures, while Zou (2025) emphasized that ESG-financial performance relationships are frequently nonlinear and context-dependent. These findings support the view that more advanced multivariate techniques are necessary to understand the effects of governance and ESG on profitability.

Table 4. Significant and marginal Welch t-test results for binary predictors and profitability

DV	Binary predictor	Group 0 $\bar{x}$	Group 1 $\bar{x}$	Mean difference	p-value	Verbal Interpretation
ROA	Sustainability committee	0.0102	0.0129	0.0027	0.0257**	Higher when present
ROA	Green financing products	0.0107	0.0129	0.0022	0.0895*	Marginally higher when present
ROA	Climate risk disclosure	0.0093	0.0127	0.0034	0.0385**	Higher when disclosed
ROA	Carbon emissions disclosure	0.0094	0.0127	0.0033	0.0414**	Higher when disclosed
ROE	Sustainability committee	0.0794	0.1019	0.0225	0.0185**	Higher when present
ROE	Director tenure policy	0.0794	0.1035	0.0241	0.0246**	Higher when present
ROE	Green financing products	0.0803	0.1041	0.0237	0.0200**	Higher when present
ROE	Climate risk disclosure	0.0691	0.1007	0.0316	0.0189**	Higher when disclosed
ROE	Carbon emissions disclosure	0.0738	0.0997	0.0259	0.0580*	Marginally higher when disclosed
NPM	Sustainability committee	0.2263	0.2888	0.0625	0.0011***	Higher when present
NPM	Green financing products	0.2400	0.2885	0.0485	0.0234**	Higher when present

Note. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Further exploration of group differences was performed through mean comparisons. Table 4 presents the mean difference test results for the binary governance and ESG variables.

The results indicate that certain governance and ESG practices, such as sustainability committees, green financial products, and environmental disclosures, are positively correlated with a bank's ability to generate profits. This is evident from the profitability indicators analyzed.

A number of factors must be taken into account when preparing to interpret these results, as variability across banks and from year to year will influence how the variables affect profitability, and the results cannot be generalized to any single bank or over time.

Therefore, further statistical testing is required to validate the presence of any causal relationship between the variables discussed and profitability.

The results of the present study are consistent with other research conducted over the last several years that has suggested that the adoption of specific ESG initiatives may have a positive relationship with financial performance (Mallorca & Manansala, 2025). Nathania & Ekawati (2024) found that ESG adoption was associated with stronger financial outcomes among ASEAN banks.

Similarly, (Cai et al., 2024) reported that sustainability practices improve corporate value over time, while Saffana Zahrazova et al. (2025) documented positive financial effects arising from sustainability-oriented business strategies. However, these studies also emphasized the need for more rigorous testing to isolate the effects of individual governance and ESG practices.

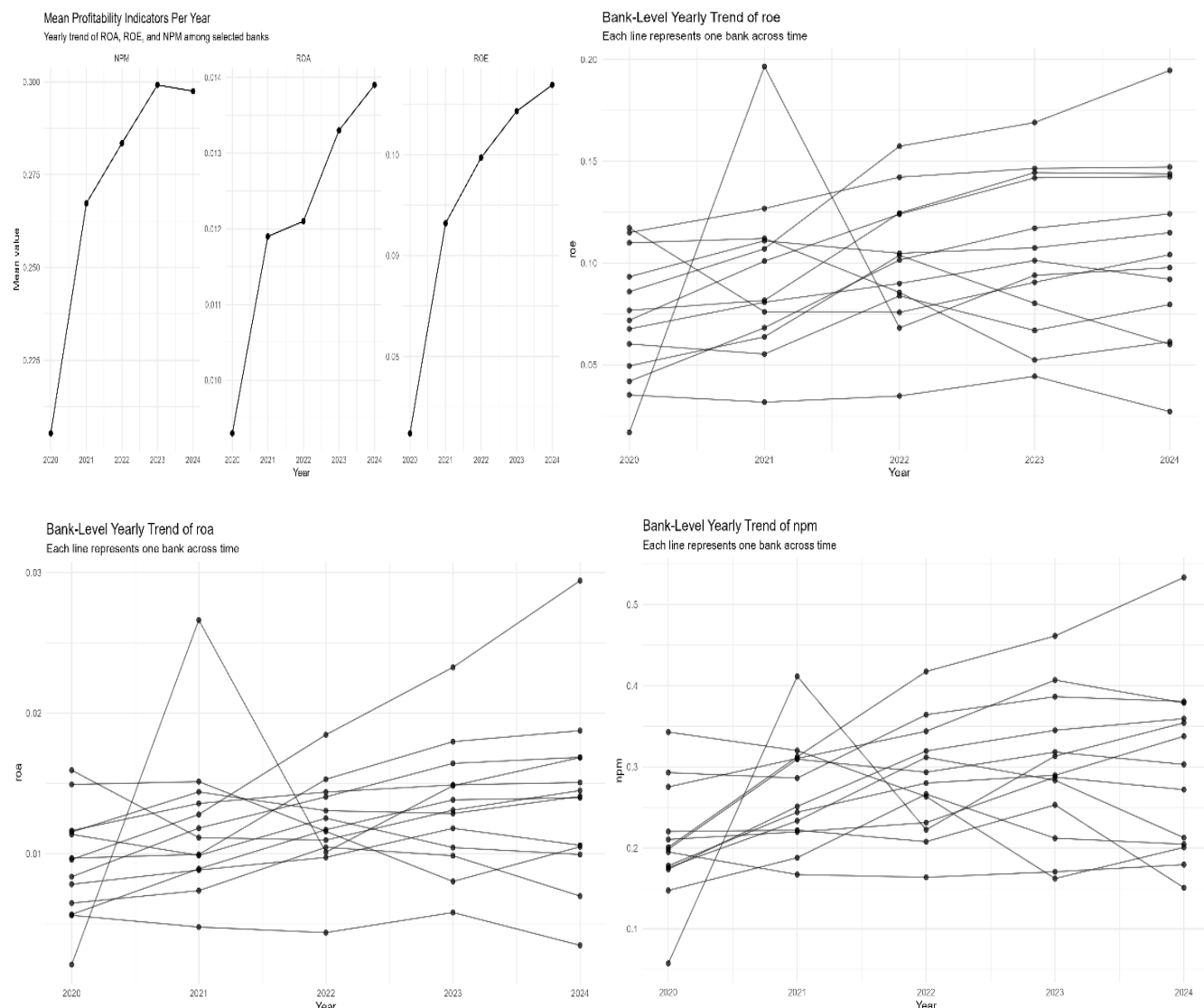


Table 5. Yearly profitability of selected banks

Year	ROA $\bar{x}$	ROA Sd	ROE $\bar{x}$	ROE Sd	NPM $\bar{x}$	NPM Sd
2020	0.0093	0.0039	0.0724	0.0316	0.2053	0.0705
2021	0.0119	0.0053	0.0932	0.0408	0.2673	0.0660
2022	0.0121	0.0033	0.0997	0.0326	0.2835	0.0693
2023	0.0133	0.0045	0.1043	0.0384	0.2992	0.0884
2024	0.0139	0.0063	0.1069	0.0447	0.2975	0.1077

Table 5 indicates that the profitability trend of the banks studied from 2020 to 2024 is upward. Table 5 illustrates an upward trend in both ROA and ROE. The highest ROA and ROE were achieved in 2024. The net profit margin also reached a high point in 2023, declining slightly by 2024.

This is evidence that, as time passed, the banks in this sample developed a better financial position and recovered well following the COVID pandemic. This conclusion agrees with the findings of Nogueira et al. (2024), who concluded that companies with sustainable management practices will see gradual improvements in their performance. A significant number of banks have experienced a trend of profitability improvement after implementing sustainability initiatives, as documented by Giannopoulos et al. (2024). Nathania & Ekawati (2024) also found an improvement in the performance of ASEAN banks with an increased level of ESG adoption, while Cai et al. (2024) confirmed that sustainability investments tend to be a long-term benefit, rather than immediate.

Table 6. Variance inflation factor (VIF) results for final predictors

Variable	Grouping	VIF	Verbal Interpretation
Board size	Governance	5.6845	Moderate but acceptable
Independent directors	Governance	2.4597	Acceptable
Sustainability committee	Governance	4.4804	Acceptable
Timeliness of annual report	Governance	1.1943	Acceptable
CEO-chair separation	Governance	2.7881	Acceptable
Director tenure policy	Governance	4.2583	Acceptable
Green financing products	ESG	4.3653	Acceptable
Climate risk disclosure	ESG	4.4628	Acceptable
Carbon emissions disclosure	ESG	5.6370	Moderate but acceptable
Waste disclosure	ESG	3.5028	Acceptable
Water and effluents disclosure	ESG	3.0320	Acceptable
Log CSR spending	ESG	4.4456	Acceptable
Average training hours	ESG	1.4722	Acceptable
Board gender diversity	ESG / governance	1.9001	Acceptable
Financial inclusion programs	ESG	4.6013	Acceptable
Community engagement programs	ESG	13.9307	Removed due to VIF > 10
Taken collectively	Final retained predictors	1.1943 to 5.6845	No severe multicollinearity after removal

Table 6 presents the results of the multicollinearity test. The results show that most variables have VIF values within acceptable levels, indicating that multicollinearity is not a major concern. However, the variable representing community engagement programs had a very high VIF value and was subsequently dropped from the analysis. This suggests that the remaining predictors are sufficiently independent, ensuring the reliability of the regression results.

Ensuring low multicollinearity among predictors is essential in regression models examining ESG and governance variables, as these constructs are often interrelated (Zubeltzu-Jaka et al., 2024).

Table 7. Panel model comparison tests

DV	Bank FE vs pooled	Time FE vs pooled	Two-way FE vs bank FE	RE vs pooled	Hausman bank FE vs RE	Hausman two- way FE vs RE	Best model
ROA	0.0274**	0.0459**	0.0141**	0.9034	0.0001***	0.7905	Two-way FE
ROE	0.0015***	0.0580*	0.0149**	0.2007	0.0003***	0.9999	Two-way FE
NPM	0.0117**	0.0129**	0.0002***	0.9904	0.2366	0.0252**	Two-way FE

Note. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 7 presents the model-comparison results used to determine the appropriate panel-regression specification. The results show that fixed-effects models are preferred over pooled models, and that including both bank and time effects is supported. This indicates that both bank- and time-specific factors significantly influence profitability, thereby justifying the use of a two-way fixed-effects model.

Panel data methods are widely used in ESG and governance research as they account for firm-specific and time-specific effects that influence financial performance (Mallorca & Manansala, 2025). Similar approaches were employed by Cai et al. (2024), Giannopoulos et al. (2024), and Do et al. (2024), who utilized fixed-effects techniques to examine the relationship between governance, ESG, and firm outcomes across multiple years.

Table 8. Two-way fixed effects model fit statistics

Variable	Grouping	R ²
ROA	Two-way fixed effects	0.4412
ROE	Two-way fixed effects	0.4160
NPM	Two-way fixed effects	0.5415

Table 8 shows the explanatory power of the regression models. The results indicate that the models explain a moderate proportion of the variation in profitability indicators, with R² values ranging from 0.4160 to 0.5415. These findings suggest that corporate governance and ESG variables contribute meaningfully to profitability outcomes among the selected Philippine banks.

The moderate explanatory power of the models is consistent with previous ESG-performance studies, which generally report that governance and sustainability variables explain only part of the variation in firm profitability because financial outcomes are also influenced by broader organizational and market factors (Giannopoulos et al., 2024; Marasigan, 2024; Nathania & Ekawati, 2024).

Table 9. Post-estimation diagnostic tests for two-way fixed effects models

DV	Heteroskedasticity p	Serial correlation p	Pesaran CD p	Verbal Interpretation
ROA	0.1271	<0.001***	0.9555	Serial correlation detected
ROE	0.2317	<0.001***	0.9414	Serial correlation detected
NPM	0.3052	<0.001***	0.2527	Serial correlation detected

Note. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

In Table 9, the two-way fixed-effects models did not exhibit significant heteroskedasticity or cross-sectional dependence. However, serial correlation was significant in all three models. Therefore, the use of cluster-robust standard errors was appropriate.

Table 10. Residual normality tests for two-way fixed effects models

DV	Model	Shapiro-Wilk W	p-value	Verbal Interpretation
ROA	Two-way FE	0.8571	<0.001***	Residuals non-normal

ROE	Two-way FE	0.8303	<0.001***	Residuals non-normal
NPM	Two-way FE	0.9410	0.0039***	Residuals non-normal

Note. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

In Table 10, the residuals from the two-way fixed-effects models were significantly non-normal for all three profitability indicators. This does not automatically invalidate the models, but it supports cautious interpretation and the use of robust standard errors.

Table 11. Two-way fixed effects coefficient matrix for profitability outcomes

Predictor	ROA Estimate (SE)	ROE Estimate (SE)	NPM Estimate (SE)	Verb
Board size	-0.004124 (0.003388)	-0.025200 (0.031025)	-0.126236 (0.039108)***	Nega
Independent directors	0.001644 (0.001003)	0.012854 (0.007997)	0.031101 (0.012745)**	Posit
Sustainability committee	-0.000412 (0.000910)	-0.002276 (0.007657)	0.029428 (0.017889)	Not s
Timeliness of annual report	0.000611 (0.002347)	0.005818 (0.019054)	0.027072 (0.029534)	Not s
CEO-chair separation	0.010447 (0.001076)***	0.044528 (0.008383)***	0.149995 (0.022439)***	Cons
Director tenure policy	-0.008198 (0.002188)***	-0.064628 (0.022712)***	-0.236919 (0.035371)***	Cons
Green financing products	0.001645 (0.002424)	0.009597 (0.015462)	0.068003 (0.032795)**	Posit
Climate risk disclosure	-0.004492 (0.002653)*	-0.025010 (0.016796)	-0.077320 (0.034846)**	Nega
Carbon emissions disclosure	0.005957 (0.003410)*	0.043205 (0.027123)	0.074113 (0.041282)*	Marg
Waste disclosure	-0.000196 (0.001901)	-0.003294 (0.014486)	-0.012509 (0.035315)	Not s
Water and effluents disclosure	0.003384 (0.002971)	0.041916 (0.025834)	0.078748 (0.041083)*	Marg
Log CSR spending	-0.000769 (0.000698)	-0.002362 (0.006178)	-0.013135 (0.012222)	Not s
Average training hours	0.000086 (0.000328)	0.001675 (0.002577)	0.010553 (0.007696)	Not s
Board gender diversity	-0.001247 (0.001236)	-0.005148 (0.010897)	-0.045127 (0.021692)**	Nega
Financial inclusion programs	-0.012963 (0.005847)**	-0.122836 (0.045842)**	-0.217249 (0.072967)***	Cons

Note. Entries are coefficient estimates with robust standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

In Table 11, the most consistent positive predictor of profitability was the CEO-chair separation because it was significant for ROA, ROE, and NPM. Conversely, director tenure policy and financial inclusion programs were the most consistent negative predictors of bank profitability. NPM had the highest number of predictors, indicating it was the most sensitive to profitability in the last two-way fixed-effects model. This indicates NPM is less sensitive to Governance and ESG variables than ROA and ROE.

These findings confirm previous studies showing that the effects of governance and ESG practices on profitability vary depending on the specific mechanism examined. The strong positive effect of CEO-chair separation supports governance literature emphasizing the importance of leadership independence and accountability in improving organizational performance (Fidriansyah et al., 2025; Mustikawati et al., 2025).

Likewise, the positive contribution of independent directors is consistent with studies suggesting that stronger board oversight improves governance quality, organizational effectiveness, and sustainability performance (Fathoni et al., 2025; Zubeltzu-Jaka et al., 2024).

In contrast, the negative effects of director tenure policy and board size suggest that certain governance arrangements may reduce organizational flexibility or create decision-making inefficiencies, particularly when governance structures become overly rigid. Similar findings have been reported in studies showing that governance mechanisms do not always contribute positively to financial outcomes and may produce varying effects depending on organizational context and implementation (Marasigan, 2024; Mustikawati et al., 2025).

The ESG findings further illustrate the complexity of sustainability-performance relationships. The positive relationships between green financing products, carbon emissions disclosure, and water and effluents disclosure are consistent with existing literature that suggests environmental sustainability initiatives can contribute to stronger financial performance, stakeholder confidence, and long-term value creation (Cai et al., 2024; Nathania & Ekawati, 2024; Nogueira et al., 2024). However, the negative coefficients observed for climate risk disclosure and financial inclusion programs are consistent with studies suggesting that some ESG initiatives involve implementation costs and resource commitments that may temporarily reduce profitability before long-term benefits are realized (Do et al., 2024; Giannopoulos et al., 2024; Marasigan, 2024).

Collectively, the results indicate that governance and ESG practices are not uniformly associated with profitability, and the observed relationships depend on the specific mechanisms adopted by banks.

Table 12. Summary of significant and marginal two-way fixed effects predictors

Outcome	Positive predictors	Negative predictors	Verbal Interpretation
ROA	CEO-chair separation***; Carbon emissions disclosure*	Director tenure policy***; Financial inclusion programs**; Climate risk disclosure*	Mixed CG and ESG effects
ROE	CEO-chair separation***	Director tenure policy***; Financial inclusion programs**	Governance and ESG effects present
NPM	CEO-chair separation***; Independent directors**; Green financing products**; Carbon emissions disclosure*; Water and effluents disclosure*	Board size***; Director tenure policy***; Climate risk disclosure**; Board gender diversity**; Financial inclusion programs***	Most sensitive outcome

Note. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

In Table 12, the final two-way fixed-effects results showed that corporate governance and ESG indicators were associated with profitability, but the direction of the association differed by predictor. CEO-chair separation was consistently positive, while director tenure policy and financial inclusion programs were consistently negative.

The presence of both positive and negative predictors is consistent with growing evidence that governance and ESG variables produce mixed financial outcomes depending on organizational context, implementation quality, and strategic priorities (Do et al., 2024; Giannopoulos et al., 2024; Mallorca & Manansala, 2025; Marasigan, 2024; Nathania & Ekawati, 2024).

Consequently, the findings support the argument that governance and sustainability practices should be evaluated individually rather than solely through broad composite measures.

Table 13. Two-Way Fixed Effects Regression Results Using Composite CG and ESG Scores

Variable	ROA	ROE	NPM
CG Score	-0.0094	-0.1680	-0.2413

	(0.7188)	(0.3535)	(0.5145)
ESG Score	-0.0104*	-0.0762*	-0.4690
	(0.0526)	(0.0569)	(0.1152)
Observations	65	65	65
Fixed Effects	Yes	Yes	Yes
Year Effects	Yes	Yes	Yes

Note. Values in parentheses are p-values.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 13 presents the results of the two-way fixed-effects regression model using composite CG and ESG scores. In the case of CG Score, no statistically significant relationships were detected between its level and any profitability ratios such as ROA, ROE, and NPM. Thus, it can be argued that when all corporate governance practices are incorporated into a single index, their aggregate relationship with the company's financial performance is negligible.

At the same time, the ESG Score showed statistically significant relationships with ROA and ROE but did not correlate with NPM. Nonetheless, the coefficient values for all variables under analysis were negative, implying that higher ESG scores are associated with lower profitability.

These results indicate that while ESG practices may be associated with profitability, the relationship is weak and inconsistent when ESG is measured using a composite score. Marasigan (2024) also found that aggregate ESG scores were negatively associated with financial performance among ASEAN banks. Do et al. (2024) likewise documented adverse short-term effects of ESG activities on bank stability, while Giannopoulos et al. (2024) observed that sustainability investments may initially impose costs before generating long-term benefits. Nogueira et al. (2024) believe that many sustainability activities require significant organizational resources to execute, and this may explain the mixed association between ESG and profitability. Conversely, Nathania & Ekawati (2024) have found positive associations between ESG and financial performance, suggesting that the relationship between ESG and profitability depends on contextual factors and varies by institution.

The disaggregated regression results indicate that individual governance and ESG mechanisms provide much more information about relationships than composite indices do. This supports the argument of Cai et al. (2024), Zubeltzu-Jaka et al. (2024), and Zou (2025) that aggregate ESG measures will hide important relationships between individual sustainability dimensions. Assessing governance and ESG directly through specific mechanisms rather than by using general aggregate scores is a more accurate representation of their relationship to profitability.

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

A summary of findings and conclusions will be provided in this chapter about the association between corporate governance practices, ESG practices, and profitability among the Philippine universal and commercial banks from 2020 to 2024 through data analysis. A model will also be proposed for determining sustainability and financial performance according to the findings of the study.

Summary of Findings

This research was carried out to investigate the linkage between corporate governance practices, ESG practices, and profitability of Philippine universal and commercial banks traded on the Philippine Stock Exchange from 2020 to 2024.

Descriptive statistics, correlation analysis, and two-way fixed-effects panel regression were used to investigate indicators of governance, ESG practices, and profitability for the selected companies.

Most corporate governance practices were found to be prevalent among the selected companies. There were full adoptions for audit committee practices and risk management committee practices, whereas sustainability committee practice and director tenure practice had lower adoption rates. Therefore, the above results indicate

that while traditional corporate governance practices have been well established among Philippine banks, more advanced corporate governance practices remain not fully practiced.

ESG practices differed from one company to another. High adoption rates were identified in the cases of environmental disclosure and climate practices, whereas financial inclusion and community engagement had varied rates of adoption. This suggests that there is an inclination towards environment sustainability practices among banks compared to social sustainability practices.

In relation to profitability, the results revealed that the profitability indicators gradually improved between 2020 and 2024. ROA and ROE gradually increased during the entire research period, while NPM reached its peak in 2023 but decreased slightly in 2024. The above outcomes imply that the selected banks in the Philippines were financially resilient and gradually performed better over time.

Furthermore, some corporate governance and ESG practices had strong relationships with profitability. For instance, the practice of separating CEO-chair showed strong positive relationships with profitability, while the policy for director tenure had negative relationships in some regression models. Moreover, selected ESG practices, including environmental disclosure and green financing products, showed positive relationships with profitability; conversely, financial inclusion programs had negative relationships in some regression models.

Nevertheless, the composite CG and ESG scores did not have predictive powers with respect to profitability. However, the disaggregated analysis revealed that certain corporate governance and ESG practices were more strongly associated with profitability indicators.

Conclusion

Based on the results, the study concluded that there is a relationship between corporate governance practices, ESG practices, and the profitability of selected Philippine universal and commercial banks. The relationships, however, are inconsistent in direction and significance, depending on the specific corporate governance mechanism and ESG practice.

The study also found that the level of profitability among the selected banks generally increased from 2020 to 2024. Despite the improvement in profitability, the relationships among the variables under study were not necessarily positive. For example, while certain corporate governance mechanisms such as CEO-chair separation were found to have positive associations with profitability, some variables such as director tenure policy had negative associations with profitability.

Additionally, the results show that composite scores for corporate governance and ESG practices do not have strong predictive power with respect to profitability.

Rather, disaggregation of the data reveals important findings about the relationship between specific mechanisms and profitability measures. Therefore, it was found that the evaluation of corporate governance and ESG practices should go beyond broad scores, as these practices yield inconsistent financial outcomes.

In general, the research results indicate that the concepts of the Triple Bottom Line theory and Stakeholder theory are relevant to analyzing the roles of corporate governance and sustainability in financial performance. This highlights the need for further investigation into corporate governance and ESG practices for assessing bank sustainability and profitability.

RECOMMENDATIONS

Based on the findings and conclusions reached through the analysis, the recommendations are as follows:

Both universal and commercial banks in the Philippines should continue their improvement in governance and sustainability (as they relate to) increased profitability through their leadership structure, environmental/disclosure and sustainability practices), as their profitability is greatly enhanced by these relationships. In addition, banks should evaluate their governance and ESG practices that have a negative impact on their profitability so that they can determine if the difficulties in implementing these practices (or adjustment

costs) affect their profitability.

The Securities and Exchange Commission and Bangko Sentral ng Pilipinas could continue to enhance their regulatory frameworks for corporate governance and ESG in order to encourage more banks in the Philippines to adopt sustainability practices. Such improvements to the regulatory framework could include a more comprehensive sustainability reporting framework.

Governance and ESG disclosures can be used by investors, shareholders and other stakeholders to further evaluate a bank's financial performance, as their respective relationships with profitability are distinct.

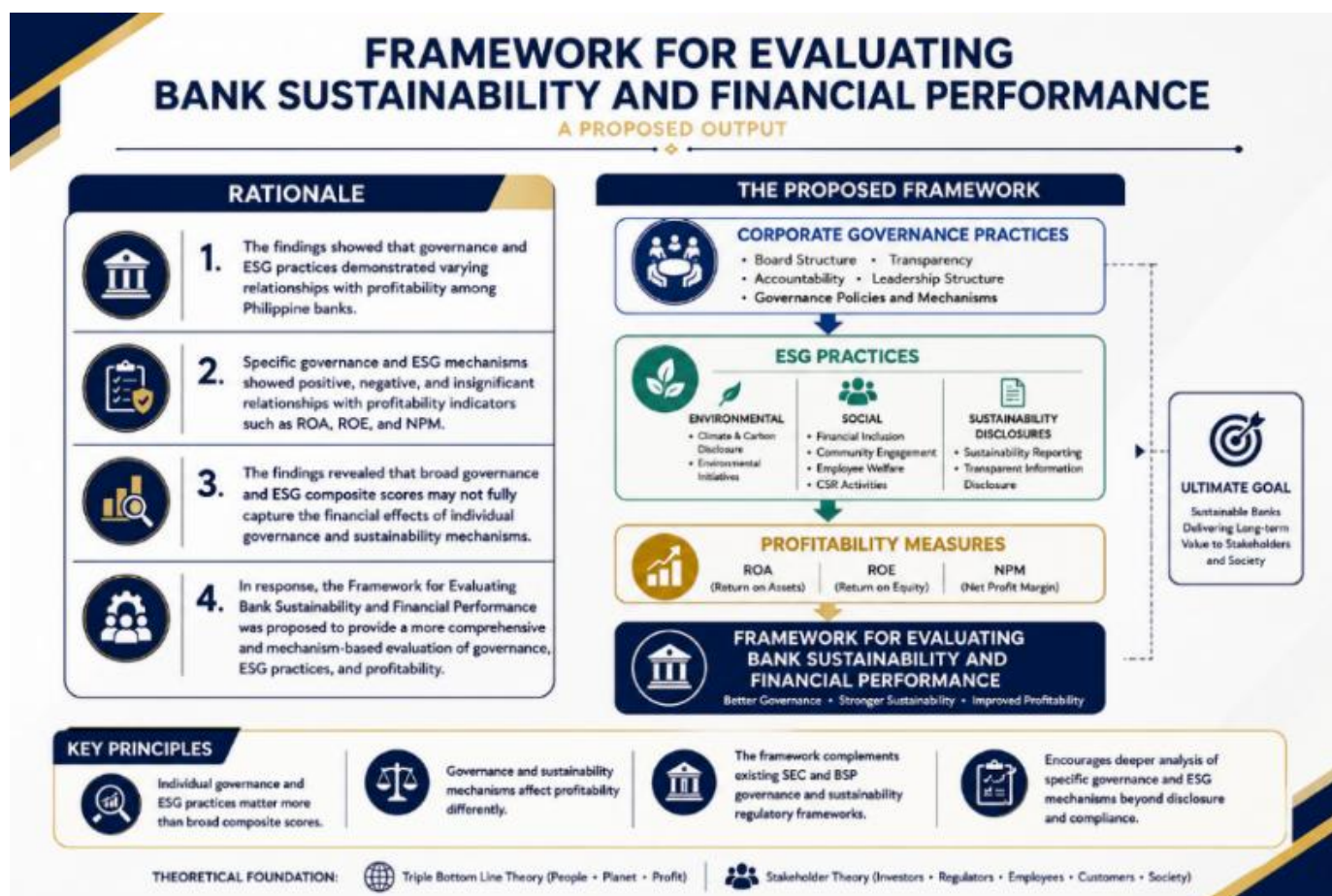
Future studies should increase their scope by examining other industries, using a longer time frame, and other factors that could further clarify the relationship between governance and ESG practices and profitability. A related area of future research could also be the long-term effects of implementing ESG practices, as well as the use of appropriate statistical methods to evaluate the relationship between these variables.

Framework for Evaluating Bank Sustainability and Financial Performance

This chapter discusses the Framework for Evaluating Bank Sustainability and Financial Performance, the proposed model based on the study's results. The framework serves as a reference model for evaluating the relationship between governance practices, sustainability practices, and the financial performance of Philippine universal and commercial banks.

According to the study's findings, the relationship among governance practices, ESG practices, and profitability depends on the specific mechanisms banks employ as part of their governance and sustainability practices. While some governance and ESG mechanisms showed a positive correlation with profitability, some exhibited weak associations, while others demonstrated negative relationships in selected models. This suggests that relying solely on a holistic assessment may not fully capture the relationship between governance, ESG practices, and profitability.

Figure 2. Framework for Evaluating Bank Sustainability and Performance.



The framework discussed here features three important dimensions for evaluating the relationship of interest: corporate governance practices, ESG practices, and profitability. Corporate governance practices include institutional mechanisms such as board structure, transparency, accountability, and leadership structure.

Evaluation of ESG practices considers environmental, social, and sustainability initiatives, as well as information disclosure. The framework assumes that ESG practices may be associated with bank profitability in varying ways, depending on the nature of the sustainability practices undertaken by banks. Environmental and sustainability practices showed significant and positive relationships with profitability, while specific social initiatives had weak or insignificant relationships. This is important because these findings show that ESG practices need to be evaluated independently of one another, as they are not equivalent sustainability initiatives.

Profitability evaluation will use financial ratios such as ROA, ROE, and NPM. These will provide information regarding the relationship between governance and ESG practices and the overall financial performance of institutions. Thus, financial performance evaluation will provide information on how governance and ESG practices relate to banks' financial performance.

The framework also recognizes that governance and ESG practices may demonstrate different effects with profitability due to differences in organizational environment, implementation processes, and management focus. Accordingly, the framework advocates for a comprehensive evaluation of governance quality, sustainability practices, and financial performance.

This framework aims to complement existing governance and sustainability regulatory frameworks established by the SEC and BSP, rather than replace them. The framework provides a more thorough approach for evaluating the extent to which specific governance and ESG mechanisms are associated with the profitability and sustainability of financial institutions. In other words, while existing frameworks focus on disclosure and compliance, this framework recognizes the need to analyze the extent of any association between financial performance and specific governance and sustainability approaches.

In essence, the Framework for Evaluating Bank Sustainability and Financial Performance incorporates aspects of the Triple Bottom Line theory and Stakeholder theory.

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