

The Impact of ESG on the Performance of Philippine-Listed Firms: The Role of Audit Quality and CEO Duality

Elma Lim Mallorca¹, Leo Delaric Manansala^{1*}

¹De La Salle University

Dasmarinas City, Cavite 4115 Philippines

*Corresponding Email: ldmanansala@dlsud.edu.ph

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This study investigates the relationship between ESG performance and firm outcomes in Philippine-listed companies from 2012 to 2023, considering the moderating roles of audit quality, discretionary accruals (DACC), and CEO duality. Using data from 20 publicly listed firms and the Generalized Method of Moments (GMM), the findings reveal that higher ESG scores positively impact market-based performance metrics such as the Price-to-Book (P/B) ratio and EV/EBITDA, supporting the notion that strong ESG practices are valued by the market. Audit quality, measured by audit fees, strengthens this relationship, indicating that robust external oversight enhances confidence in ESG disclosures. On the other hand, high DACC—indicating earnings manipulation—negatively affects the ESG-performance link, suggesting that market participants may devalue ESG efforts if earnings are perceived as manipulated. CEO duality also moderates the relationship, with its effects depending on the governance context. The study highlights the complex, context-dependent nature of ESG's impact on firm performance and underscores the importance of governance practices in realizing the financial benefits of ESG initiatives.

Keywords: Audit Quality; CEO Duality; ESG Disclosures; Market Value; Profitability

INTRODUCTION

Sustainability reporting has become an essential tool for corporate communication and achieving sustainability goals (Rarang, 2023). While its strategic importance beyond compliance is acknowledged (Huang, 2022), empirical evidence on the relationship between environmental, social, and governance (ESG) performance and financial performance remains mixed (Apriono et al., 2023). Some studies show a positive correlation (Okafor et al., 2021), while others present alternative perspectives (Huang, 2022). Transparency in reporting, often led by corporate leaders, is seen as a strategy to differentiate and increase market value (Li et al., 2018), although there are opposing views (Junius et al., 2020). Sustainability disclosures also serve broader roles in stakeholder communication, reputation enhancement, and shaping organizational culture, though the relationship between sustainability disclosure and firm performance is not always straightforward (Sari et al., 2022).

Globally, sustainability disclosures are tightening, with an emphasis on stakeholder scope and materiality (Pardo, 2023). In Asia, progress has been driven by consumer, investor, and legislative pressure (Li et al., 2018). However, many Asian firms lack mandatory sustainability reporting regulations (Pardo, 2023), often due to misconceptions about its impact on performance or market value (Junius et al., 2020). Barriers to reporting include insufficient knowledge and a lack of government initiatives (Dissanayake et al., 2021). Rarang (2023) found no significant link between sustainability reporting and financial performance in Philippine banks due to the absence of standard frameworks.

A key challenge in ESG performance metrics is the accuracy, transparency, and reliability of data. ESG rating agencies often use complex questionnaires and public data analysis (Del Giudice & Rigamonti, 2020). Auditors, however, play an important role in managing ESG risks and ensuring quality reporting (Asante-Appiah & Lambert, 2023; Sukma & Prasetyo, 2024). Audit committees oversee both mandatory and voluntary ESG disclosures, ensuring risk identification, financial integrity, and internal controls (Djaddang et al., 2017). They help boards with reporting policies and financial statement quality, boosting investor and stakeholder confidence. Agency theory (Jensen & Meckling, as cited by Dakhli, 2022) sees audits as tools to reduce information asymmetry and mitigate opportunistic behavior, enhancing ESG disclosure and firm value. Research by Hammami and Zadeh (2020) found that audit quality and public visibility increase ESG transparency, supporting the idea that high-quality audits improve financial reporting and reduce opportunistic behavior. However, Wang et al. (2022) found a partial influence of audit quality on the ESG-firm performance link, while Zahid et al. (2023) found no significant effect.

CEOs play a key role in integrating ESG into corporate strategies, promoting sustainability, and ensuring transparency. Their traits significantly affect ESG disclosure, aiding stakeholders in decision-making. Companies adopting ESG strategies are better positioned for long-term value, especially in crises, as CEOs collaborate with boards to achieve sustainability (DiBlasi, 2022). Research highlights the importance of CEO involvement, showing that Shariah-compliant status, board size, and sustainability committees improve sustainability disclosures among Malaysian companies (Abdul Latif et al., 2023). Similarly, CEOs and board composition enhance transparency in Saudi-listed firms (Bamahros et al., 2022). However, CEO duality and large boards can lead to conflicts, negatively impacting ESG and firm performance (Guerrero-Villegas et al., 2018; Lee, 2023; Romano et al., 2020). Rath et al. (2020) confirmed the CEO's influence on ESG scores but noted its potential negative impact on performance.

This study aims to contribute to the foregoing investigation of the interplay of ESG performance, firm financial performance, the role of audit quality, and CEO duality in the context of the Philippines. Limited studies have examined these aspects together in a single analysis. Specifically, it aims to identify how ESG scores help in shaping the performance of the firm. This study expands the works of [Nery & Morales \(2022\)](#) and [Rarang \(2023\)](#), which focused on PSE reports earlier than 2019, as the Philippines implemented legislation about mandatory sustainability reporting from 2019 onwards. Likewise, this paper looks at the intersection of ESG, firm performance, and auditing quality. It examines the moderating role that audit quality and the role of CEOs have in ESG and firm performance relationships in adherence to the recommendation of previous studies ([Wang et al., 2022](#); [Zahid et al., 2023](#)).

LITERATURE REVIEW

ESG Performance, Its Determinants, and the Firm's Performance

Over the past decade, ESG ratings have become a focal point for scholars, practitioners, and policymakers, reflecting the growing interest in sustainability and corporate responsibility. Existing research has delved into various theoretical perspectives to uncover the underlying mechanisms driving differences in firms' ESG performance. Some scholars have explored how external factors, such as corporate innovation trends and institutional or country-level variables ([El Houry et al., 2023](#); [Pinheiro et al., 2023](#)), shape ESG performance. Others have examined internal factors like firm attributes and strategy to achieve competitive advantage ([Agarwala et al., 2024](#); [El Houry et al., 2023](#)), ultimately enhancing market value and firm performance ([Huang, 2022](#); [Okafor et al., 2021](#)). Additionally, a subset of researchers has adopted an upper-echelons perspective, investigating the influence of managerial discretion and the top management team on ESG performance ([Abdul Latif et al., 2023](#)).

Despite these extensive efforts to unravel the complex dynamics of heterogeneity in ESG performance, a comprehensive understanding of the relative significance of these factors remains limited. Put differently, while both firm leadership and the industrial environment undoubtedly impact corporate ESG performance, the extent to which each factor outweighs the other remains largely unknown. Therefore, an integrated analysis that encompasses diverse determinants across multiple levels, allowing for simultaneous comparison of their relative importance in explaining variation, is crucial for scholarly comprehension of ESG performance heterogeneity. Moreover, such an analysis could provide a roadmap of relationships deserving further investigation.

In line with stakeholder theories, which underscore the social role of firms, Freeman (cited in [Dakhli, 2022](#); [Rarang, 2023](#); [Wang et al., 2022](#)) and other proponents argue that ESG practices can mitigate conflicts of interest between firms and stakeholders help increase stakeholder trust, obtain stakeholder support, obtain strategic resources for corporate development, and ultimately enhance financial performance and corporate value. A substantial body of research indicates a positive relationship between engaging in CSR activities and a firm's financial performance ([Huang, 2022](#); [Li et al., 2018](#); [Okafor et al., 2021](#)). However, in the Asian context, empirical studies on the impact of ESG-related activities on financial performance have yielded mixed results. [Huang \(2022\)](#) and [Islam et al. \(2021\)](#) suggest that ESG activities positively affect the financial performance of Chinese, Pakistani, and Indian firms by enhancing profitability, corporate reputation, customer satisfaction, and loyalty. Conversely, [Junius et al. \(2020\)](#), [Rath et al. \(2020\)](#), and [Ruan & Liu \(2021\)](#) argue otherwise, particularly concerning the findings of [Rarang \(2023\)](#) in the Philippine context. Based on these inconclusive findings, this study proposed:

H1: ESG performance positively affects the firm's financial performance.

Moderating Effect of Audit Quality and CEO Duality on ESG Performance and the Firm's Performance

According to audit theory, the efficacy of external auditing is contingent on audit quality. Audit quality serves as a pivotal governance attribute, acting as a deterrent against management opportunism (Zahid et al., 2023). Hence, to project a positive image to external stakeholders, companies tend to opt for high-quality auditing. This choice may help alleviate financing constraints and reduce agency costs but also enhances investment efficiency (Wang et al., 2022). Through the identification of accounting quality, high-quality auditing enhances investor confidence, thereby improving capital allocation efficiency. Companies demonstrating strong ESG performance are inclined to engage high-quality accounting firms to ensure the accuracy of financial information and bolster stakeholder trust in ESG disclosures. Consequently, the quality of auditing, when coupled with ESG performance, positively influences investment efficiency (Hammami & Zadeh, 2020).

Dakhli (2022) identified a notable positive correlation between CSR practices and financial performance, proxied by Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q in examining 200 French enterprises listed between 2007 and 2018. Additionally, Dakhli (2022) explored the moderating influence of audit quality and found the favorable effect of CSR is more pronounced in French firms audited by Big Four auditors. Mustapha et al. (2019) identified accruals and audit fee measures of the audit quality of the firms. Utilizing the highlighted variables in examining the relationship between audit quality and earnings management in listed firms in Nigeria, the findings from the sample of 36 companies revealed a significant negative relationship. This suggests that as accruals represent anticipated future cash inflows and outflows, it can measure whether corporate managers utilize accrual items to manipulate financial information in their favor, and as audit fees rise, there is a decrease in earnings manipulation activities within these firms. Consequently, these results align with agency theory and contradict creative accounting theories. These findings support Hammami and Zadeh (2020), who also utilized audit fees and discretionary accruals (DACC) as proxies of audit quality and confirmed that audit quality and public media exposure are key factors influencing ESG transparency among Canadian firms. Thus, firms committed to high-quality audits and those subject to significant public media coverage are motivated to disclose comprehensive and transparent ESG information.

Then, a partial mediating of auditing quality on the relationship between ESG performance and investment efficiency among 915 Chinese A-share listed companies from 2011 to 2020 as a sample was established Wang et al. (2022) using fixed effect regressions too. Moreover, Zahid et al. (2023) found no significant effect of audit quality in the relationship between ESG performance and firm performance and social outcomes. Their study also applied fixed effect regression on 6,295 firm-year observations of Chinese A-listed enterprises data for 2010–2019. These inconclusive findings suggest that audit quality may indeed have a substantial impact on ESG transparency. Enhanced audit quality has the potential to enhance the credibility of ESG reports, making them more valuable sources of information for investors. Conversely, if audit quality and ESG transparency fail to align, investors may interpret this as a sign that managers are not delivering genuine and accurate disclosures, potentially impacting firm performance. In this perspective, following the recommendation of Wang et al. (2022) and Zahid et al. (2023), this paper attempts to assess the moderating role that audit quality has on the relation between ESG performance and financial performance.

H2: Audit quality significantly moderates the relationship between ESG and firm performance.

The CEO stands as a crucial decision-maker in shaping ESG initiatives. They spearhead the formulation of corporate strategies and play a vital role in advancing their firm's reputation through social responsibility efforts. Based on the upper echelon theory, managerial attributes such as those of the CEO are anticipated to influence firms' outcomes, strategic decisions, and performance levels (Hambrick in [Abdul Latif et al., 2023](#)). The upper-echelon theory suggests that the personal characteristics of CEOs influence organizational strategy and performance (Hambrick as cited in [Zhao et al., 2023](#)), particularly power and duality. A CEO's power correlates with their influence over the company, affecting management practices and employee arrangements. Additionally, strong CEO authority in strategic development and operational governance often leads to increased efficiency and enterprise value. Consequently, CEOs wield their power to shape business decisions and information disclosure policies, significantly impacting corporate risk management ([Zhao et al., 2023](#)).

A variety of studies have suggested that a CEO can influence disclosure policies. [Sumunar and Djakman \(2020\)](#) found that overconfident CEOs of 225 manufacturing firms in Indonesia, Malaysia, the Philippines, Singapore, and Thailand from 2012 to 2016 can make the best decisions to disclose ESG performance in driving firm value and reducing firm risk. [Li et al. \(2018\)](#) used the Heckman two-stage estimation procedure to process the large cross-sectional dataset comprising the Financial Times Stock Exchange (FTSE) 350 listed firms to establish that the higher CEO power enhances the ESG disclosure effect on firm value. It indicates that stakeholders see ESG disclosure from firms with higher CEO power and greater commitment to ESG practice. However, according to [Triyani et al. \(2020\)](#), the role of CEOs, specifically their tenure, was found to have a negative moderating effect on the relationship between ESG disclosure and the profitability of the firm. The authors utilized data from 159 samples of publicly listed companies in Indonesia from 2012 to 2016. Furthermore, [Rath et al. \(2020\)](#) established the negative interrelationship between environmental and governance disclosure scores, firm performance, and CEO compensation among 67 firms in India from 2014 to 2019. The data was processed using the two-step system GMM model.

Similarly, previous literature found mixed results on the relationship between dual leadership structure and firm performance ([Le et al., 2023](#)). CEO duality, where a single individual holds both the positions of CEO and board chair, is extensively examined in corporate governance literature ([Guerrero-Villegas et al., 2018](#)). This arrangement consolidates power in one person, leading to potential conflicts of interest and opportunistic behavior.

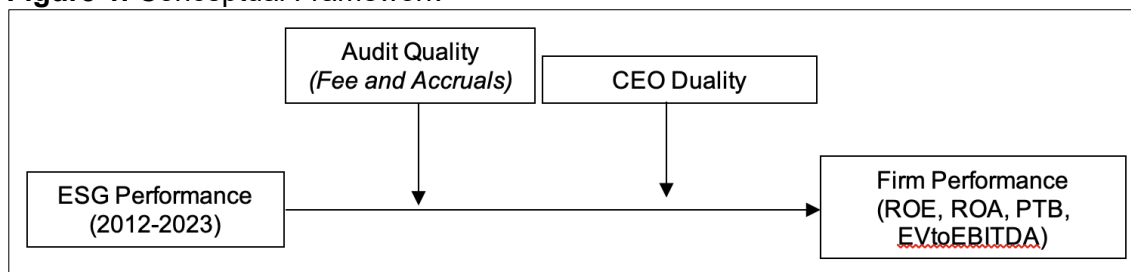
Studies by [Le et al. \(2023\)](#) and [Romano et al. \(2020\)](#) suggest that CEOs with excessive power may limit the monitoring function of the board, which can create more conflicts. However, studies by [Abdul Latif et al. \(2023\)](#) and [Bamahros et al. \(2022\)](#) contradict this notion, indicating that higher CEO power translated in duality can provide strong leadership and facilitate the development and coordination of firm strategy, as suggested by Stewardship theory (Davis et al. in [Hassan et al., 2023](#)). This perspective is supported by [Hassan et al. \(2023\)](#), who found that CEO duality is more valuable during crisis periods, particularly when information costs are high.

This study expands the works of [Hassan et al. \(2023\)](#) and [Romano et al. \(2020\)](#) by examining the moderating effect of CEO power proxied by duality on ESG performance and firm performance while addressing the potential endogeneity of the relationship. Based on this, this paper puts forward the following hypotheses:

H3: CEO duality significantly moderates the relationship between ESG performance and firm performance.

Figure 1 shows the conceptual framework of the study.

Figure 1. Conceptual Framework



RESEARCH METHOD

Data and Samples

As an expansion of earlier studies (Nery & Morales, 2022; Rarang, 2023), this article selects 20 Philippine-listed companies from 2012 to 2023 as the research sample, which comprises 218 firm-year observations. The data was sourced from the London Stock Exchange Group (LSEG) database or the LSEG Refinitiv Workspace app. The LSEG database, particularly through its Refinitiv platform, offers better data for financial professionals due to its comprehensive coverage, accuracy, reliability, advanced analytics capabilities, real-time data, and extensive historical data. These features make it a valuable resource for individuals and institutions operating in the financial markets. In addition, and to complement the LSEG database, the data was also sourced through the Philippine Stock Exchange (PSE) database and the firm's websites. Annual reports from publicly listed companies, as regularly published corporate documents, provide essential financial and operational information for various stakeholders (Alduais cited in Zhu & Manansala, 2024), further enhancing the robustness of the study's dataset.

To ensure standardization, the original data are processed as follows: (a) eliminate listed companies with missing key variables, mainly listed companies with missing ESG performance disclosure data; (b) eliminate companies with abnormal financial conditions; and (c) since the accounting standards of financial listed companies are different from those of non-financial listed companies, financial listed companies will also be eliminated.

Variable Measurement

Firm Performance

Drawing from previous literature, numerous indicators exist for assessing firm performance. However, these indicators primarily fall into two main categories: ratios of accounting values and ratios of market values. This study measured the financial performance of the firms using both accounting and market value. The dependent variable is the firm performance measured by ROE, ROA, and market share represented by price-to-book ratio (P/B) and enterprise value to earnings before interest, taxes, depreciation, and amortization ratio (EV/EBITDA).

ESG Performance

The independent variable of the study was ESG scores, which were sourced using the LSEG database. Unlike what was used by Rarang (2023), who used Global Reporting Initiatives (GRI) sustainability reporting guidelines, and Nery and Morales (2022), who

utilized ESG data provided by Bloomberg, this study employed the LSEG ESG scores that are grounded in data analysis, incorporating crucial industry metrics while minimizing biases related to company size and transparency. These scores range from 0.1 to 100 (ranging from lowest to highest) and evaluate a company's performance relative to ESG factors within its sector (for environmental and social aspects) and country of incorporation (for governance). Another advantage of LSEG's approach is that it avoids imposing subjective definitions of 'good'; instead, it allows the data to determine industry-specific performance within the framework of their criteria and data model.

Audit Quality

Audit quality is often assessed through the "Big 4" audit firms (Deloitte, Ernst & Young, KPMG, and PwC) (Dakhli, 2022; Zahid et al., 2023). Since all sampled firms in this study were audited by the Big 4, alternative proxies—audit fees and DACC—were used, as suggested by Hammami and Zadeh (2020). Audit fees reflect clients' investment in high-quality services and capture quality variations across firms. DACC, though indirect, indicates audit effectiveness and financial reporting integrity, with lower levels typically reflecting higher-quality audits (Dakhli, 2022; Wang et al., 2022).

In this study, the audit fee in thousands of Philippine pesos (LNAUDFEE) paid by the client firm to the audit company was normalized by taking its natural logarithm. Similarly, being restricted by smaller samples, the DACC reflects management's accounting choices, which can signal prospects or, at times, serve opportunistic interests.

CEO Duality

Prior studies have identified several CEO power attributes, including CEO age, founding status, ownership, reputation, compensation, tenure, and duality, which can have important yet varying implications on ESG disclosure and firm performance (Rath et al., 2020; Sumunar & Djakman, 2020). Because of the limitations of the available data, this study focuses on the moderating effect of CEO duality in ESG performance and accounting and market-based performance nexus. CEO duality is a dummy variable where if the CEO is also the chairperson of the board of directors of a firm, it is equal to 1; otherwise, it is zero.

From a managerial power hypothesis (MPH) perspective, attributes such as CEO role duality can confer greater control over the board and additional compensation as a "power premium" (Song & Wan, 2019). The pay-setting process, however, potentially negatively affects performance (Hassan et al., 2023; Romano et al., 2020). Theoretically, CEO role duality is viewed as detrimental, as it consolidates power and control in the CEO, leading to increased agency problems, including potentially suboptimal pay practices (Guerrero-Villegas et al., 2018). Conversely, separating these roles can enhance monitoring by dispersing power away from CEOs, thereby potentially facilitating governance.

Model Estimation

The impact of ESG performance on the performance of the listed companies (H1) will be tested using the Generalized Method of Moments (GMM) estimator. GMM is commonly used for dynamic panel data models like this one. This estimator addresses potential endogeneity and serial correlations in the panel data. Equation 1 was used to examine the H1:

$$FPerf_{i,t} = \beta_0 + \beta_1 ESGScore_{i,t} + \phi_i + \lambda_t + \varepsilon_{i,t} \quad (1)$$

Where $FPerf_{i,t}$ represents the performance of either ROA, ROE, P/B, or EV/EBITDA of firm i in time period t ; $ESGScore_{i,t}$ denotes the ESG performance of firm i in time period

t; β_0 is the intercept term, while β_1 is the coefficient representing the direct effect of ESG performance on financial performance? This ϕ_i is the entity (firm) fixed effect capturing time-invariant characteristics of firms that may affect financial performance; λ_t is the time-fixed effect capturing time-specific factors affecting financial performance; and $\varepsilon_{i,t}$ is the error term.

Following the recommendations of Wang et al. (2022) and Zahid et al. (2023), this paper attempts to assess the moderating role that audit quality has on the relation between ESG performance and financial performance (H2). Using the GMM, the equations for the model with the moderating effect were expressed as:

$$FPerf_{i,t} = \beta_0 + \beta_1 ESGScore_{i,t} + \beta_2 LNAUDFEE_{i,t} \quad (2)$$

$$+ \beta_3 (ESGScore_{i,t} \times LNAUDFEE_{i,t}) + \phi_i + \lambda_t + \varepsilon_{i,t}$$

$$FPerf_{i,t} = \beta_0 + \beta_1 ESGScore_{i,t} + \beta_2 DACC_{i,t} \quad (3)$$

$$+ \beta_3 (ESGScore_{i,t} \times DACC_{i,t}) + \phi_i + \lambda_t + \varepsilon_{i,t}$$

Where $LNAUDFEE_{i,t}$ Equation 2 represents the natural logarithm of audit fees of firm I in time period t; $DACC_{i,t}$, in Equation 3 denotes the abnormal part of DACC of firm I in time period t; $\beta_0, \beta_1, \beta_2, \beta_3$ are the coefficients to be estimated. This ϕ_i is the entity (firm) fixed effect capturing time-invariant characteristics of firms that may affect financial performance; λ_t is the time-fixed effect capturing time-specific factors affecting financial performance; and $\varepsilon_{i,t}$ is the error term.

Lastly, Equation 4 depicts the moderation analysis of CEODuality (H3) using GMM.

$$FPerf_{i,t} = \beta_0 + \beta_1 ESGScore_{i,t} + \beta_2 CEODual_{i,t} \quad (4)$$

$$+ \beta_3 (ESGScore_{i,t} \times CEODual_{i,t}) + \phi_i + \lambda_t + \varepsilon_{i,t}$$

Where, $CEODual_{i,t}$ represents the CEO duality of firm I in time period t; $\beta_0, \beta_1, \beta_2$, are the coefficients to be estimated. β_3 which is the interaction effect, indicating how CEO duality moderates the relationship between ESG performance and firm performance. The ϕ_i which is the entity (firm) fixed effect capturing time-invariant characteristics of firms that may affect financial performance; λ_t is the time-fixed effect capturing time-specific factors affecting financial performance, and $\varepsilon_{i,t}$ is the error term?

Several diagnostic tests were performed to lay the groundwork for the estimation method and the reliability of the results. Further, the findings were subjected to robustness tests using alternative panel data models. The study used STATA 15 to run the statistical analyses and diagnostic tests.

RESULTS

Table 1 provides descriptive statistics for the variables in the study, capturing the mean, standard deviation (S.D.), minimum (Min), and maximum (Max) values for each.

Table 1. Summary Variable Statistics

Variables	Mean	S.D.	Min	Max
ESG Score	47.365	19.206	6.750	89.230
ROA	0.158	0.172	-0.051	1.076
ROE	0.158	0.172	-0.051	1.076
P/B	2.778	2.030	0.389	15.054
EV/EBITDA	12.486	7.111	-0.575	57.693

LNAUDFEE	16.129	1.232	12.710	18.706
DACC	0.045	0.037	0.000	0.195

Note: No. of observations: 220, n = 20

Table 1 provides a preliminary overview of the central tendencies and variability in the dataset, setting the stage for deeper statistical analysis. Key financial performance metrics such as ROA, ROE, P/B, and EV/EBITDA ratios exhibit considerable dispersion, reflecting differences in firm profitability and valuation. Meanwhile, the ESG score's wide range signals varied commitment to sustainable practices among firms, and DACC suggests diverse levels of earnings management. These foundational insights underscore the relevance of exploring the hypothesized relationships further through rigorous testing.

Moving forward, the hypotheses are tested to have a closer examination of how ESG scores dynamically influence firm performance across different performance measures, including the moderating roles of audit quality and CEO duality.

Impact of ESG on Firm Performance

The main objective of the study is to investigate the dynamic relationship between ESG scores and firm performance using various metrics. **Table 2** shows the result of the analysis.

Table 2. Estimation results of ESG on Firm Performance

Variable	ROA	ROE	P/B	EV/EBITDA
L1.ROA	1.098*** (0.053)	-	-	-
L1.ROE	-	0.942*** (0.035)	-	-
L1.P/B	-	-	0.779*** (0.043)	-
L1.EV/EBITDA	-	-	-	0.3798*** (0.0060)
ESGScore	-0.000 (0.000)	0.000 (0.000)	0.011*** (0.002)	0.132*** (0.003)
F(2,20)	1854.01	2444.83	997.30	2993.79
Prob >F	0.000	0.000	0.000	0.000
Arellano-Bond test for AR(1), p	0.159	0.166	0.179	0.221
Arellano-Bond test for AR(2), p	0.210	0.210	0.329	0.572
Sargan Test, p	0.228	0.179	0.179	0.311
Hansen Test, p	0.414	0.556	0.335	0.481

Note: L1 = lagged values of the dependent variables. Standard errors are in parentheses. *** p < 0.001, **p < 0.05

The results presented in **Table 2** highlight key relationships between ESG performance and firm outcomes across various financial metrics. The lagged values of the dependent variables are all significant at the 0.001 level, confirming strong performance persistence. Specifically, the coefficient for L1.ROA is 1.098 (p < 0.001), L1.ROE is 0.942 (p < 0.001), L1.P/B is 0.779 (p < 0.001), and L1.EV/EBITDA is 0.3798 (p < 0.001). These findings indicate that previous performance strongly influences current outcomes, reinforcing the stability of firm performance over time.

Regarding the ESG score, the results reveal mixed effects. For ROA and ROE, the ESG coefficients are -0.000 and 0.000, respectively, with no statistical significance. This suggests that ESG practices do not significantly impact short-term profitability. Conversely, ESG has a significant positive effect on firm valuation metrics, with a coefficient of 0.011 ($p < 0.001$) for P/B and 0.132 ($p < 0.001$) for EV/EBITDA. These results suggest that ESG practices positively influence market perceptions and investor confidence, potentially enhancing firm value.

The model diagnostics further validate the reliability of these results. The F-statistics are high across all models (e.g., $F = 1854.01$ for ROA and $F = 2993.79$ for EV/EBITDA), with corresponding p-values (< 0.001), confirming strong model fit. The Arellano-Bond tests for AR(1) and AR(2) show p-values above 0.10, indicating no serial correlation concerns. Additionally, the Sargan and Hansen tests produce non-significant p-values, confirming that the instrument set used in the GMM estimation is valid and free from over-identification issues.

Overall, these results suggest that ESG practices enhance firm valuation but may not translate into immediate profitability improvements. The findings emphasize ESG's role in strengthening investor confidence and promoting long-term value creation rather than driving short-term financial performance.

The Moderating Effect of Audit Quality on ESG and Firm Performance Relationship

The study is poised to examine the moderating effect of audit fees on the relationship between ESG performance and firm outcomes, measured across multiple performance indicators: ROA, ROE, P/B, and EV/EBITDA. Table 3 shows the estimation results.

Table 3. Estimation Results of the Moderating Effect of Audit Fee on ESG - Firm Performance Relationship

Variable	ROA	ROE	P/B	EV/EBITDA
L1.ROA	0.951*** (0.040)	-	-	-
L1.ROE	-	1.087*** (0.090)	-	-
L1.P/B	-	-	0.804*** (0.050)	-
L1.EV/EBITDA	-	-	-	0.471** (0.137)
ESGScore	0.000 (0.000)	0.000 (0.003)	0.068*** (0.011)	0.333** (0.138)
LNAUDFEE	0.000 (0.000)	0.001 (0.001)	0.035** (0.014)	0.316** (0.121)
ESGScore x LNAUDFEE	-0.000 (1.67E-05)	-0.000 (0.000)	-0.004*** (0.002)	-0.019** (0.008)
F(4,20)	2604.69	525.27	7552.38	105.51
Prob >F	0.000	0.000	0.000	0.000
Arellano-Bond test for AR(1), p	0.045	0.156	0.198	0.208
Arellano-Bond test for AR(2), p	0.458	0.215	0.339	0.521
Sargan Test, p	0.802	0.489	0.895	0.505
Hansen Test, p	0.262	0.864	0.455	0.405

Note: L1 = lagged values of the dependent variables. Standard errors are in parentheses. *** $p < 0.001$, ** $p < 0.05$

Table 3 presents the estimation results examining the moderating effect of audit fees on the relationship between ESG performance and firm outcomes. The results reveal distinct patterns across different performance measures. The coefficients for the lagged dependent variables (L1.ROA, L1.ROE, L1.P/B, and L1.EV/EBITDA) are all positive and significant ($p < 0.001$ or $p < 0.05$), suggesting that firm performance indicators exhibit strong persistence over time.

The ESG score shows no significant effect on ROA and ROE, indicating that ESG activities may not directly enhance short-term profitability. However, ESG performance has a significant positive impact on the P/B ratio ($\beta = 0.068$, $p < 0.001$) and EV/EBITDA ($\beta = 0.333$, $p < 0.05$), reinforcing the idea that ESG practices contribute positively to firm valuation metrics rather than immediate financial returns.

Audit fees (LNAUDFEE) similarly display a positive and significant relationship with the P/B ratio ($\beta = 0.035$, $p < 0.05$) and EV/EBITDA ($\beta = 0.316$, $p < 0.05$), suggesting that higher audit fees — often associated with greater audit effort and improved financial reporting quality — enhance firm valuation.

Notably, the interaction term ESGScore x LNAUDFEE is negative and significant for both the P/B ratio ($\beta = -0.004$, $p < 0.001$) and EV/EBITDA ($\beta = -0.019$, $p < 0.05$). This finding implies that while both ESG performance and higher audit fees individually enhance firm valuation, their combined effect diminishes this positive impact. This could reflect the notion that firms investing heavily in both ESG practices and costly audits may experience diminishing marginal returns or that excessive scrutiny of ESG-related disclosures could temper the perceived benefits.

Table 4. Estimation results of the Moderating Effect of DACC on ESG – Firm Performance Relationship

Variable	ROA	ROE	P/B	EV/EBITDA
L1.ROA	0.945*** (0.044)	-	-	-
L1.ROE	-	1.021*** (0.042)	-	-
L1.P/B	-	-	0.822*** (0.037)	-
L1.EV/EBITDA	-	-	-	0.292** (0.078)
ESGScore	0.000 (0.000)	9.69E-05 (0.000)	0.005** (0.006)	0.121** (0.029)
DACC	0.117 (0.094)	0.610 (0.470)	12.137*** (2.912)	164.785** (37.747)
ESGScore x DACC	-0.002 (0.003)	-0.014 (0.014)	-0.189** (0.057)	-2.390** (0.898)
F(4,20)	1840.62	493.99	14338.43	379.00
Prob >F	.000	0.000	.000	0.000
Arellano-Bond test for AR(1), p	0.042	0.163	0.189	0.196
Arellano-Bond test for AR(2), p	0.592	0.200	0.328	0.597
Sargan Test, p	0.860	0.345	0.829	0.381
Hansen Test, p	0.404	0.750	0.351	0.373

Note: L1 = lagged values of the dependent variables. Standard errors are in parentheses. *** $p < 0.001$, ** $p < 0.05$

Table 4 highlights the moderating effect of DACC on the relationship between ESG performance and firm outcomes. The significant positive coefficients for the lagged dependent variables across all models indicate strong persistence effects, suggesting that past performance significantly influences current outcomes. This consistency emphasizes the stability of firm performance metrics over time.

Regarding the direct effect of ESG performance, the results reveal no significant impact on ROA or ROE, reinforcing previous findings that ESG activities may have limited influence on short-term profitability. However, ESG demonstrates a positive and significant effect on the P/B ratio ($\beta = 0.005$, $p < 0.05$) and EV/EBITDA ($\beta = 0.121$, $p < 0.05$), suggesting that ESG practices contribute positively to firm valuation. This finding aligns with the view that ESG initiatives strengthen market perceptions and investor confidence rather than driving immediate profitability.

DACC exhibits mixed effects across performance measures. While DACC has no significant impact on ROA or ROE, it shows a highly significant positive effect on the P/B ratio ($\beta = 12.137$, $p < 0.001$) and EV/EBITDA ($\beta = 164.785$, $p < 0.05$). These results indicate that earnings management practices reflected in DACC may influence valuation metrics, possibly by altering financial statement perceptions.

The interaction effects between ESG performance and DACC provide further insights. While the interaction terms are insignificant for ROA and ROE, they are negative and significant for the P/B ratio ($\beta = -0.189$, $p < 0.05$) and EV/EBITDA ($\beta = -2.390$, $p < 0.05$). These findings suggest that DACC weakens the positive impact of ESG performance on firm valuation. This outcome implies that aggressive earnings management practices may reduce the credibility of ESG initiatives, potentially undermining their perceived value in the eyes of investors.

The diagnostic tests confirm the robustness of these results. The highly significant F-statistics ($p < 0.001$) across all models demonstrate strong explanatory power. The non-significant Arellano-Bond test results for AR(2) confirm the absence of second-order autocorrelation, supporting the validity of the GMM estimation. Furthermore, the non-significant Sargan and Hansen test results confirm that the models are properly specified and that the instrumental variables are appropriate.

In summary, the findings from Tables 3 and 4 provide valuable insights into the moderating roles of audit fees and DACC in the ESG–firm performance relationship. While ESG performance positively influences firm valuation metrics such as the P/B ratio and EV/EBITDA, its impact on profitability indicators like ROA and ROE remains negligible. The results further reveal that both audit fees and DACC weaken the positive effects of ESG on firm value. Specifically, the negative interaction between ESG performance and audit fees suggests that extensive audit scrutiny may reduce the incremental benefits of ESG initiatives. Similarly, DACC diminishes ESG's positive impact on valuation metrics, indicating that aggressive earnings management practices may undermine the perceived credibility of ESG efforts. These findings underscore the importance of sound financial governance and transparency in maximizing the value-enhancing potential of ESG practices.

Moderating Effect of CEO Duality on ESG and Firm Performance Relationship

According to previous studies, the CEO plays a vital role in sustainability disclosure, which may affect the firm's bottom line. This study presents the estimation results for the moderating effect of CEO duality on the relationship between ESG performance and firm performance across various metrics.

Table 5. Estimation Results of the Moderating Effect of CEO Duality on ESG - Firm Performance Relationship

Variable	ROA	ROE	P/B	EV/EBITDA
L1.ROA	0.994*** (0.051)	-	-	-
L1.ROE	-	1.101*** (0.085)	-	-
L1.P/B	-	-	0.798*** (0.101)	-
L1.EV/EBITDA	-	-	-	0.622*** (0.082)
ESGScore	3.98E-05 (4.11E-05)	-0.000 (0.000)	0.007* (0.003)	0.074** (0.023)
CEODual	0.008 (0.005)	0.041 (0.029)	1.137 (1.011)	5.380* (2.739)
ESGScore x CEODual	-0.000 (0.000)	-0.001 (0.001)	-0.027 (0.019)	-0.107** (0.047)
F(4,20)	1271.51	460.55	139.16	363.00
Prob >F	0.000	0.000	0.000	0.000
Arellano-Bond test for AR(1), p	0.047	0.165	0.161	0.211
Arellano-Bond test for AR(2), p	0.432	0.208	0.320	0.486
Sargan Test, p	0.837	0.236	0.894	0.485
Hansen Test, p	0.502	0.416	0.279	0.401

Note: L1 = lagged values of the dependent variables. Standard errors are in parentheses. *** $p < 0.001$, ** $p < 0.05$, * $p < 0.1$,

Table 5 presents the moderating effect of CEO duality on the ESG-firm performance relationship. The significant positive coefficients for the lagged dependent variables across all models indicate strong persistence effects, suggesting that past firm performance strongly influences current outcomes.

ESG performance shows no significant impact on ROA and ROE, reinforcing earlier findings that ESG activities may not directly enhance short-term profitability. However, ESG demonstrates a positive and significant effect on valuation metrics such as the P/B ratio ($\beta = 0.007$, $p < 0.1$) and EV/EBITDA ($\beta = 0.074$, $p < 0.05$), suggesting that ESG practices enhance firm value by improving investor confidence and corporate reputation.

CEO duality has no significant impact on ROA, ROE, or the P/B ratio. However, its positive and significant effect on EV/EBITDA ($\beta = 5.380$, $p < 0.1$) suggests that centralized leadership may benefit valuation in certain contexts.

The interaction terms reveal that CEO duality significantly weakens the positive relationship between ESG and EV/EBITDA ($\beta = -0.107$, $p < 0.05$), indicating that concentrated leadership may introduce governance risks that diminish ESG's valuation benefits.

Robustness checks confirm the validity of the results. The significant F-statistics ($p < 0.001$) demonstrate strong model fit, while non-significant results for the Arellano-Bond test for AR(2) confirm no second-order autocorrelation. The non-significant Sargan and Hansen tests further validate the model's specification and instrument validity.

The findings emphasize that while ESG enhances firm valuation, its benefits may be tempered by CEO duality, underscoring the importance of governance structures in influencing ESG outcomes.

DISCUSSION

ESG Performance and Financial Outcomes

Table 2 reveals that ESG performance significantly enhances firm valuation metrics like P/B and EV/EBITDA ($p < 0.001$) but shows no significant impact on ROA and ROE. This suggests that ESG's influence is stronger on market perception than immediate profitability, providing partial support for H1. These results align with studies highlighting ESG's role in enhancing long-term firm value through improved reputation, investor confidence, and reduced risk (Zhao et al., 2023). Similar findings by Chen & Zhang (2024) and Okafor et al. (2021) reinforce ESG's positive effect on valuation.

Conversely, the lack of ESG impact on profitability contrasts with findings by Islam et al. (2021) and Long et al. (2020), who reported positive effects in Asia. This variation may reflect country-specific factors, firm characteristics, or regulatory environments (El Khoury et al., 2023; Yildiz et al., 2024).

ESG's influence appears more prominent in enhancing valuation than driving short-term profitability. Future studies should explore contextual factors that shape ESG's financial effects, particularly in diverse Asian markets. Integrated analyses (Abdul Latif et al., 2023) may offer deeper insights into ESG's role in corporate performance.

Moderating Role of Audit Quality

The findings from Tables 3 and 4 highlight the moderating role of audit quality—measured through audit fees and DACC—in the ESG-performance relationship, partially supporting H2.

Table 3 shows that audit fees significantly affect valuation metrics like P/B and EV/EBITDA, aligning with Wang et al. (2022), who linked high audit quality to greater investor confidence. This suggests that quality audits enhance ESG performance's perceived value by signaling transparency. However, the negative interaction between ESG performance and audit fees implies that excessive audit costs may be seen as inefficient, reducing ESG's positive impact (Zahid et al., 2023). Their study highlighted that high audit fees can undermine ESG benefits by raising concerns about cost efficiency.

Table 4 reveals that DACC also moderates the ESG-performance relationship, particularly for valuation metrics. Higher DACC, linked to earnings management, weakens ESG's positive effects, aligning with Mustapha et al. (2019), who argued that high DACC signals potential manipulation, reducing ESG disclosure credibility. Harrast et al. (2022) similarly noted the complex interplay between financial reporting practices and ESG outcomes.

These findings suggest that while audit quality can enhance ESG disclosures, its impact is complex. Wang et al. (2022) found that audit quality positively influences ESG transparency, yet excessive audit costs may diminish ESG's benefits. Zahid et al. (2023) also reported no significant effect of audit quality on social outcomes, underscoring these complexities. The findings emphasize the importance of balancing audit costs and quality to maximize ESG's value-enhancing potential while avoiding concerns over inefficiencies or financial manipulation.

Impact of CEO Duality on ESG Effectiveness

Table 5 reveals that CEO duality has a significant positive effect on EV/EBITDA ($p < 0.1$) but no impact on ROA, ROE, or P/B. This suggests CEO duality may enhance market-based efficiency, where centralized leadership benefits earnings potential and valuation. Drawing on Upper Echelon Theory, this result aligns with studies like Guerrero-Villegas et al. (2018) and Sumunar & Djakman (2020), which emphasize CEOs' role in driving ESG initiatives and enhancing investor confidence. However, CEO leadership can also limit ESG transparency, as shown by Li et al. (2018).

When examining the interaction between ESG and CEO duality, the results indicate a negative and significant effect on EV/EBITDA ($p < 0.05$), suggesting CEO duality weakens ESG's positive influence on market-based performance. This finding aligns with Guerrero-Villegas et al. (2018) and Romano et al. (2020), who argue that consolidated leadership may reduce governance quality, undermining ESG credibility. Concentrated power may raise concerns about conflicts of interest and weaker board oversight, reducing investor trust in ESG efforts. Similarly, Le et al. (2023) and Yeh & Guo (2021) highlight CEO duality's potential to limit monitoring functions, further impacting performance. However, other researchers, including Abdul Latif et al. (2023) and Bamahros et al. (2022), argue that CEO duality can improve strategic decision-making, particularly during crises, as noted by Hassan et al. (2023).

Governance Implications and Model Validation

Model diagnostics confirm the GMM model's robustness, with no significant second-order serial correlation issues. The Sargan and Hansen test results validate the instruments, addressing endogeneity concerns. These findings provide partial support for H3, suggesting that while CEO duality may enhance strategic efficiency, it can also compromise ESG's perceived value in market-based performance.

The combined findings from Tables 3, 4, and 5 highlight the complex role of corporate governance in shaping the ESG-performance relationship. While ESG enhances valuation metrics like P/B and EV/EBITDA, its impact on profitability indicators (ROA and ROE) is limited. Audit quality boosts investor confidence, though excessive audit fees may undermine ESG's perceived value. DACC weakens ESG's positive effect, raising concerns about earnings manipulation. CEO duality positively influences EV/EBITDA but weakens ESG's impact on this measure, indicating governance risks in centralized leadership. These findings underscore the need to balance governance mechanisms to maximize ESG's value-enhancing potential while addressing risks related to audit costs, earnings management, and leadership structure.

CONCLUSION

This study expands many studies to shed light on the ongoing debate on the complex relationships of ESG, firm performance, the role of audit quality, and CEO duality in the context of the Philippines in a single analysis. The study utilized data from publicly listed firms in the organization from 2012 to 2023 using advanced and rigorous methodology to test its hypotheses. Accordingly, the study underscores the nuanced relationship between ESG performance and firm financial outcomes, as well as the moderating roles of audit quality, DACC, and CEO duality.

The study found that ESG scores positively influence market-based metrics like P/B and EV/EBITDA, indicating that higher ESG engagement boosts market valuation and investor confidence. Audit quality, reflected in audit fees, enhances the ESG-performance relationship by strengthening market trust in ESG disclosures. Conversely,

high DACC, signaling potential earnings management, weakens this relationship, as markets may discount ESG efforts amid financial integrity concerns. CEO duality moderates the ESG-performance link, particularly for EV/EBITDA, showing that concentrated leadership power can amplify or diminish ESG impacts depending on governance quality. Robust auditing and high disclosure standards are crucial for maximizing ESG's market value.

Collectively, the results affirm the general positive mechanism between ESG performance and firm value but highlight that this relationship is context-dependent. Effective governance practices—such as high audit quality, limited earnings manipulation, and a balanced approach to leadership structure—are essential to realizing the financial benefits of ESG efforts. This study's findings both reinforce and extend the literature by demonstrating how these governance factors shape the impact of ESG initiatives, providing a nuanced understanding of ESG's value in diverse organizational settings.

This study deepens the understanding of how ESG performance impacts firm value, highlighting the moderating effects of governance factors such as CEO duality, audit quality, and earnings management. It extends the Upper Echelon Theory by demonstrating the role of leadership structures and governance mechanisms in shaping the financial impact of ESG practices.

For practitioners, the findings stress the importance of robust governance in enhancing ESG credibility. Firms should prioritize high audit quality and transparent financial reporting and manage DACC to avoid undermining ESG benefits. Additionally, firms with CEO duality must ensure effective monitoring to maximize ESG value. The study calls for integrated ESG strategies supported by strong governance to optimize their financial outcomes.

The findings contribute to the literature by providing a nuanced understanding of how ESG performance influences firm value, particularly under varying governance conditions. The study reinforces the Upper Echelon Theory by showing that CEO characteristics, such as duality, can significantly moderate the relationship between ESG practices and firm performance. Additionally, it highlights the importance of audit quality and earnings management (DACC) in shaping the credibility and impact of ESG disclosures. These results expand the theoretical framework by suggesting that governance mechanisms, including auditing practices and leadership structures, play a crucial role in determining how effectively ESG performance translates into financial outcomes.

For practitioners, this study emphasizes the importance of robust governance mechanisms to enhance the value of ESG initiatives. Firms should focus on improving audit quality and maintaining transparency in their financial reporting to boost the credibility of their ESG efforts. Additionally, firms should carefully consider the potential risks of earnings manipulation through DACC, as this can undermine the positive impact of ESG performance on market valuation. From a governance perspective, companies with CEO duality should ensure that such concentrated power does not hinder effective monitoring, as this could diminish the benefits of ESG practices. Overall, the study underscores the need for integrated ESG strategies that are supported by strong governance frameworks to maximize their positive impact on firm performance.

LIMITATION

This study's limitations include a small sample of 20 Philippine-listed firms, which may not fully represent the broader market. The data (2012–2023) may overlook recent ESG

trends, and reliance on secondary sources could introduce disclosure biases. Sector-specific factors were also not considered.

Future research should expand the sample, explore industry-specific influences, and examine additional governance variables like board diversity and executive pay. Investigating ESG's long-term impact and the causal links between earnings management and audit quality would provide deeper insights. Lastly, assessing CEO duality's evolving role in firms with changing governance structures could further enhance understanding of ESG outcomes.

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No potential conflict of interest was reported by the authors.

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ABOUT THE AUTHOR(S)

1st Author

Elma Lim Mallorca, CPA, PhD, is the Dean of the College of Business Administration and Accountancy at De La Salle University-Dasmariñas. She earned her PhD in Business Administration from De La Salle University-Dasmariñas. Her ORCID ID is <https://orcid.org/0009-0001-8238-409X>, and she can be contacted by email at elmallorca@dlsud.edu.ph.

2nd Author

Leo Delaric Manansala, PhD, is the Vice Dean of the College of Professional and Graduate Studies and an Associate Professor in the College of Business Administration and Accountancy at De La Salle University-Dasmariñas. He earned his doctorate degree in business administration from De La Salle University-Dasmariñas, Philippines. His ORCID ID is <https://orcid.org/0009-0000-7023-9090>, and he can be contacted by email at ldmanansala@dlsud.edu.ph.