


ESG Disclosure and Firm Performance: Evidence From the Vietnam Sustainability Index

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ABSTRACT

This study investigates the influence of environmental, social, and governance (ESG) disclosure on the operational performance of firms listed on the Vietnam Sustainability Index (VNSI). Firm performance is evaluated using Return on Assets (ROA), Return on Equity (ROE), and market performance measured by Tobin's Q. ESG scores for 20 VNSI-listed firms during the 2016–2023 period were constructed from annual and sustainability reports following Global Reporting Initiative (GRI) standards. The Generalized Method of Moments (GMM) is employed to estimate the effects of overall ESG performance and individual ESG pillars on firm outcomes, with explicit consideration of the COVID-19 shock. The empirical results reveal that, even after controlling for macroeconomic conditions, firm size, and risk factors, higher ESG scores are consistently associated with lower ROA and Tobin's Q. While economies of scale exert a positive influence on firm performance, greater debt exposure is linked to reduced financial outcomes. The COVID-19 pandemic further introduces heterogeneous effects across firms' financial, operational, and market performance. These findings suggest that Vietnamese firms continue to face substantial challenges in aligning ESG initiatives with strong performance metrics. Given Vietnam's commitment to achieving net-zero emissions by 2050 and its pursuit of a green economic growth strategy, this study provides timely evidence and offers practical recommendations for fostering a more balanced and sustainable relationship between ESG implementation and corporate performance.

KEYWORDS

Disclosure, Environment, Society, Governance, Return on Asset, Return on Equity, Tobin's Q

INTRODUCTION

Vietnam is among the countries most vulnerable to climate change, facing increasing risks related to extreme weather events, rising sea levels, and environmental degradation (World Bank & Asian Development Bank, 2021). In response, the Vietnamese government has adopted long-term national strategies to address climate change and promote sustainable development (Chinhphu.vn, 2020). Vietnam ratified the Paris Agreement in 2015 and has committed to achieving net-zero carbon emissions by 2050 as part of its national climate strategy (Chinhphu.vn, 2022). These commitments reflect a broader policy orientation toward green growth and sustainable economic development.

In line with this national agenda, Vietnam's Ministry of Finance has introduced regulations requiring public and listed companies to disclose information related to environmental, social, and governance (ESG) responsibilities (SSC, 2016; SSC, 2020). These regulations aim to enhance

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transparency, improve corporate governance, and encourage firms to integrate sustainability considerations into business operations. To further support this effort, the Ho Chi Minh City Stock Exchange launched the Vietnam Sustainability Index (VNSI) in 2017, comprising 20 listed firms with the highest sustainable development scores within the VN100 index. Firms included in the VNSI are characterized by relatively strong liquidity, market capitalization, and compliance with sustainability-related criteria.

Despite these regulatory and market-based initiatives, standardized and internationally comparable ESG data for Vietnamese firms remain limited (Phung et al., 2024). As a result, empirical evidence on the relationship between ESG disclosure and firm performance in Vietnam is scarce. This gap is particularly important given the growing global emphasis on responsible investment, where ESG information increasingly serves as a key input into investor decision-making (UNPRI, 2023). While ESG performance is widely believed to support corporate sustainability and long-term value creation (Feng et al., 2025), existing empirical findings on its impact on firm performance remain mixed and context-dependent (Bătae et al., 2021; Cherkasova & Nenuzhenko, 2022).

These inconsistencies raise a critical question for emerging markets such as Vietnam: Does ESG disclosure enhance or hinder firm performance when ESG practices are still at an early stage of adoption? Addressing this question is particularly relevant for VNSI firms, which are often regarded as sustainability leaders within the Vietnamese stock market. Accordingly, this study examines the impact of ESG disclosure on firm performance among companies listed on the Vietnam Sustainability Index over the period 2016–2023.

This study contributes to the literature in several important ways. First, it constructs firm-level ESG scores using the Global Reporting Initiative (GRI) standards (GRI, 2021), providing an internationally comparable measure of ESG disclosure in a market where commercial ESG databases are unavailable. Second, by employing panel data covering the period 2016–2023, the study captures both the early implementation phase of ESG disclosure in Vietnam and the disruptive effects of the COVID-19 pandemic. Third, unlike prior studies that focus primarily on aggregate ESG indices, this research separately examines the environmental, social, and governance pillars, allowing for a more nuanced understanding of their distinct effects on firm performance. Fourth, firm performance is evaluated using three complementary dimensions, i.e. financial performance (ROA), operating performance (ROE), and market performance (Tobin's Q), enabling a comprehensive assessment from both accounting- and market-based perspectives. Finally, by focusing on firms with relatively strong ESG engagement, the study provides policy-relevant insights into the challenges of aligning sustainability initiatives with performance outcomes in emerging economies.

The remainder of the paper is organized as follows. Section 2 reviews the theoretical background and related empirical literature. Section 3 develops the hypotheses. Section 4 describes the research methodology. Section 5 presents and discusses the empirical results. Section 6 concludes the paper, offers recommendations, and outlines the study's limitations and directions for future research.

LITERATURE REVIEW

Theoretical Perspectives on ESG and Firm Performance

The relationship between environmental, social, and governance (ESG) practices and corporate performance has been interpreted through multiple theoretical lenses, leading to competing expectations (Schuler & Cording, 2006; Maji & Lohia, 2023). Agency theory (Jensen & Meckling, 1976) emphasizes conflicts of interest between shareholders and managers and suggests that managers may allocate resources to ESG activities primarily to enhance personal reputation, legitimacy, or private benefits rather than to maximize shareholder value (Barnea & Rubin, 2010). From this viewpoint, ESG investment can be seen as a costly diversion from profitable projects, potentially reducing short-term profitability and firm value (Schuler & Cording, 2006; Firmansyah et al., 2023).

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