

Compliance or beyond: Seeking an answer for Environmental, Social, and Governance (ESG) practices of listed companies in Vietnam

Hien Thu Nguyen^{1,2*}

¹Ho Chi Minh City University of Technology (HCMUT), Ho Chi Minh City, Vietnam

²Vietnam National University Ho Chi Minh City, Ho Chi Minh City, Vietnam

*Corresponding author: nthuhien@hcmut.edu.vn

ARTICLE INFO

DOI:10.46223/HCMCOUJS.
econ.en.15.5.3783.2025

Received: October 08th, 2024

Revised: February 22nd, 2025

Accepted: February 24th, 2025

JEL classification code:

G32; G34; G38

Keywords:

ESG; firm performance;
sustainability

ABSTRACT

ESG could be driven by regulation as per the legitimacy view, realized benefits as per stakeholders and resource-based views, or by governance problems as per managerial agency view. This paper examines the motivations driving Environmental, Social, and Governance (ESG) practices among firms in Vietnam. Using a panel data of 833 firm-year observations of listed companies in the VNX-All shares during the period from 2018 to 2023 and using the method to decompose ESG into three separate areas and linking them to the development of regulations, it is found that firms tend to engage in ESG practices primarily to comply with regulations. Specifically, the findings indicate that firms in environmentally sensitive industries, which must implement and disclose their environmental practices, are more committed to ESG initiatives than their peers. The findings imply that ESG compliance is especially prominent for companies subject to regulatory requirements. Further analysis reveals that while ESG practices typically benefit firms, these advantages are not fully realized through mere compliance. Our evidence yields support for both the stakeholder and resource-based views. The study illustrates that going beyond compliance can substantially benefit firms; however, this is not necessarily true for ESG initiatives motivated by managerial agency-driven considerations. The findings have important implications for regulators, investors, and corporate boards in understanding the motivations and identifying mechanisms to enhance ESG toward sustainable development.

1. Introduction

ESG considerations have become mainstream and are now widely regarded as critical to business success (Arkoh et al., 2024; Ioannou & Serafeim, 2012; Palazzo & Scherer, 2006; Reverte, 2009). The question of why firms engage in ESG practices remains a prominent issue. One of the most recent systematic reviews by Martiny et al. (2024) of more than 150 papers worldwide showed that ESG motivations in different countries are dynamic, driven either by external or internal factors, running from regulatory-driven to self-motivated inspiration.

Even so, in Vietnam, heightened attention to ESG practices in recent years has been primarily driven by the government's initiatives to promote sustainability and the growing demand from investors for sustainable investment opportunities (PriceWaterHouseCoopers [PWC], 2022) rather than as self-motivated by the companies. In 2021, the Vietnamese government issued the National Green Growth Strategy for 2021 - 2030 (Government News, 2025), which aims to foster sustainable economic growth while reducing greenhouse gas emissions and enhancing environmental protection. This strategy includes a vision for 2050 that emphasizes green energy, sustainable agriculture, and effective waste management.

2022, the Climate Change Strategy until 2050 (Government Decision, 2022) was introduced, committing Vietnam to achieve net-zero carbon emissions by that year. This strategy outlines specific measures to mitigate the impacts of climate change and promote renewable energy sources. Additionally, sector-specific strategies have been developed, such as the Power Development Plan 8, which prioritizes expanding renewable energy sources like wind and solar power to reduce dependence on coal and other fossil fuels. Another significant initiative is the Decree on Greenhouse Gas Emission and Ozone Layer Protection (Prime Minister, 2022), which establishes an initial roadmap for creating a domestic carbon market to reduce industrial emissions and promote cleaner production practices.

In the same year, the issuance of Decision 01/2022/QD-TTg (Prime Minister, 2022), which provides a list of sectors subject to greenhouse gas inventory, helps identify key sectors that contribute remarkably to greenhouse gas emissions and mandates regular GHG inventories for establishments within these sectors to assess emissions and identify reduction opportunities. Through these efforts, the Vietnamese government seeks to cultivate a culture of environmental responsibility among businesses and lay the groundwork for more effective climate action, ensuring the country meets its international commitments while fostering economic growth.

While less prominently, the government has consistently emphasized social and governance issues, evidenced by revisions to labor and enterprise laws in 2019 and 2020, respectively. However, these changes have not introduced significant new requirements for companies, with revisions scattered throughout and not entailing significant new or higher standards for listed companies.

In response to the revisions in various regulations related to ESG, companies are mandated to engage in ESG activities. The legitimacy perspective on ESG posits that adherence to rules is essential for building trust among investors, customers, and the community, as neglecting these legal responsibilities can lead to reputational damage and reduced stakeholder confidence (Khamisu et al., 2024; Mahadeo et al., 2011; Murphy & McGrath, 2013; Suchman, 1995).

From a different perspective, the stakeholder view of ESG suggests that doing well is intrinsically linked to doing good. This perspective argues that ESG activities foster trust among stakeholders, enhancing corporate reputation and customer loyalty (Servaes & Tamayo, 2013), which, in turn, can improve overall firm performance. The resource-based view (McWilliams & Siegel, 2011) asserts that firms can leverage their intangible assets such as strong brand reputation, skilled workforce, and effective governance structures- as competitive advantages by enhancing their ESG performance. In this context, strategically implementing ESG initiatives can lead to improved outcomes. Conversely, the managerial agency view of ESG argues that ESG activities may reflect underlying agency problems (Friedman, 1970), with managers engaging in CSR for personal reputation and benefit (e.g., Barnea & Rubin, 2010), potentially at the expense of shareholders' interests.

Considering the various perspectives on these motivations, this study seeks to explore the motivations driving ESG practices among firms in Vietnam during a period of significant global momentum for ESG initiatives, which call for companies to be more responsible. Listed firms are expected to lead innovations, including pioneering ESG implementation. Typically, new government regulations are enforced on these companies before being extended to others in the country. Consequently, the ESG movement is most prominently observed in this group of firms. Understanding how listed companies in Vietnam respond to ESG regulations is critical for public policymakers. Additionally, beyond complying with regulation, exploring other motivations for these firms, such as achieving stakeholder support, using ESG as a competitive strategy, or pursuing expropriator's benefits of corporate managers that are important not only for shareholders but also for other stakeholders.

We test these hypotheses regarding ESG motivations by examining the evolution of ESG practices among firms during periods of regulatory changes. If firms engage in ESG primarily to comply with regulations, we anticipate an increase in overall ESG activity in recent years, particularly in environmental practices. Furthermore, suppose ESG initiatives aim to create stakeholder value or enhance overall firms' value through increasing intangible assets and reputation. In that case, we predict these practices will improve firm performance. Conversely, if ESG activities stem from managerial agency problems, the agency-driven ESG hypothesis suggests that such efforts may diminish firm performance. Given the varying potential impacts of ESG on firm performance, our research empirically examines these relationships.

Using a sample of 833 firm-year observations of listed companies in the VNX-All shares, which includes stocks from the two stock exchanges of Vietnam from 2018 to 2023, we find that firms tend to engage in ESG practices primarily to comply with regulations. Since 2021, the Vietnamese government has promoted ESG across all types of firms. However, those under stricter environmental regulations, such as greenhouse gas measurement and disclosure requirements, are more active in environmental initiatives, less engaged in social activities, and show no significant difference in governance-related activities compared to the other firms. This finding supports the legitimacy theory. When comparing firms with financial constraints to those without, we observe that firms with financial slack are more inclined to adopt ESG practices, particularly in governance activities.

This study contributes to the ongoing discussion regarding the motivations behind ESG practices, specifically whether they are driven by regulations, willing to go beyond compliance, or influenced by agency-driven motivations. This study performs a unique strategy to investigate how firms respond to regulatory demands to uncover their true motivations, whether mere compliance or beyond regulation, for engaging in ESG practices by examining a significant moment in Vietnam, where the call for environmental action is stronger than ever.

Since ESG is relatively new to most developing countries, this topic is particularly significant for Vietnam, especially as the government has recently intensified its efforts to raise awareness and enforce environmental and climate change initiatives. Our findings provide evidence supporting the legitimacy perspective in explaining ESG practices. Additionally, this research supports both resource-based and stakeholder theories. Notably, engaging in ESG practices reduces firm performance for firms facing financial constraints, highlighting agency problems within these firms.

The remainder of the paper is structured as follows: Section 2 develops testable hypotheses; Section 3 presents the sample and empirical model; Section 4 discusses the results; and Section 5 concludes the study.

2. Theoretical basis

Literature has documented various motivations for ESG (Chung et al., 2024; Martiny et al., 2024; Rahman & Alsayegh, 2021). Lozano (2015) reviews the most widely utilized theories related to firms and analyzes their contributions to corporate sustainability activities from an interpretative perspective. In this study, ESG is examined through several frameworks, including shareholder theory, agency theory, resource-based theory, and stakeholder theory.

Suchman (1995) and Mahadeo et al. (2011) highlight the necessity of aligning corporate practices with societal expectations to gain and maintain legitimacy among stakeholders. This theory asserts that organizations must operate within social norms and values to be considered legitimate. In the context of ESG, companies are increasingly held accountable for their environmental impacts, social responsibilities, and governance practices. By actively engaging in ESG initiatives such as reducing carbon footprints, promoting diversity, and ensuring transparent governance, organizations can enhance their legitimacy and build trust with investors, customers, and the community. Conversely, failing to meet these responsibilities can lead to reputational harm and reduced stakeholder confidence, jeopardizing the organization's long-term sustainability. Ultimately, legitimacy theory emphasizes the vital role of ESG in fostering a positive social license to operate, which is crucial for achieving a competitive advantage in today's socially conscious market environment.

Stakeholder theory (Deegan, 2014; Freeman, 1984; Mahajan et al., 2023; Parmar et al., 2010) posits that organizations should consider the interests and well-being of all stakeholders- not just shareholders- when making decisions. This theory emphasizes that businesses operate within a complex web of relationships, including employees, customers, suppliers, communities, and investors, each of whom can significantly influence and affect the company's actions. In ESG, adhering to stakeholder theory means integrating sustainable practices that address environmental concerns, promote social equity, and ensure ethical governance. Organizations can enhance their reputation, foster loyalty, and mitigate risks by actively engaging with stakeholders and responding to their expectations. This holistic approach contributes to long-term value creation. It aligns corporate strategies with the broader societal goals of sustainability and social responsibility, ultimately leading to a more resilient and ethical business model.

Resource-based theory (Chen & Xie, 2022; Jeffrey et al., 2019; Klein et al., 2005; Zimon et al., 2022) posits that a company's unique resources and capabilities are critical to achieving competitive advantage and long-term sustainability. This theory emphasizes that organizations can leverage their intangible assets, such as strong brand reputation, skilled workforce, and effective governance structures, through enhancing their ESG performance. By investing in sustainable practices and fostering a culture of social responsibility, companies fulfill stakeholder expectations and build valuable resources that can differentiate them in the market. For instance, firms prioritizing environmental stewardship may develop innovative technologies that reduce waste and improve efficiency, leading to cost savings and enhanced reputation. Similarly, strong governance practices can attract investors and improve stakeholder trust. Ultimately, resource-based theory suggests that integrating ESG

considerations into business strategy is about compliance and creating and harnessing resources that drive long-term success and resilience in an increasingly competitive and socially conscious marketplace.

Agency theory (Jensen, 1986; Porta et al., 1998; Porta et al., 2000; Shleifer & Vishny, 1998) examines the relationship between principals (shareholders) and agents (company executives) and the potential conflicts that arise when their interests do not align. In traditional corporate governance, executives may prioritize short-term financial gains over long-term sustainability, leading to decisions that can harm the environment or undermine social responsibility. As stakeholders increasingly demand greater accountability regarding ESG issues, agency theory highlights the need for mechanisms that align executive incentives with sustainable practices. This can include tying executive compensation to ESG performance metrics and motivating leaders to incorporate environmental and social considerations into their strategic decision-making. However, suppose these mechanisms do not turn into effects. In that case, agency theory highlights the risk that managerial agency-driven ESG is to build managers' reputation for their proprietor's benefits and not to bring benefits to the company and its stakeholders. Therefore, it is hypothesized that:

H1a: ESG activities are positively correlated with firm performance

The first three theories, legitimacy, stakeholder, and resource-based theories, present various positive motivations for ESG, whereas agency theory presents a contrasting perspective on the motivations behind ESG practices. Specifically, agency-driven ESG initiatives may not benefit the company and its stakeholders; instead, they could primarily serve to help managers at the expense of the company's stakeholders. Therefore, agency theory hypothesizes that:

H1b: ESG activities are negatively correlated with firm performance

Given these divergent views on the effects of ESG on firm performance, we will conduct an empirical investigation to explore this relationship and test which of the above two hypotheses are supported.

3. Research method

We obtained the list of firms from the VNX-Allshare index, which is announced at the end of the first quarter of each year. This list comprises over 500 firms that meet the criteria for market capitalization, liquidity, and disclosure (Ho Chi Minh Stock Exchange and Hanoi Stock Exchange, 2018). We selected the top 150 firms by market capitalization from this annual list for ESG assessment based on Kinder, Lydenberg, Domini Research & Analytics (KLD) criteria. Our information sources for the evaluation include publicly available reports such as annual reports, sustainability reports, governance reports, and other disclosures made at the Annual General Meeting of shareholders. KLD developed a methodology for scoring Corporate Social Responsibility (CSR), which MCI later acquired to create the MSCI ESG KLD index, which practitioners and academics widely use. The KLD index comprises six components: Environment, Community, Diversity, Employee Relations, Product Quality, and Corporate Governance. For this study, we restructured these six components into three categories. We named them E (Environment-component), S (Social-component), and G (Governance-component). Specifically, we retained the Environment component as initially defined in the KLD index. We combined some aspects of diversity (including items related to the CEO, promotions, and the board of directors) with Product Quality and Corporate

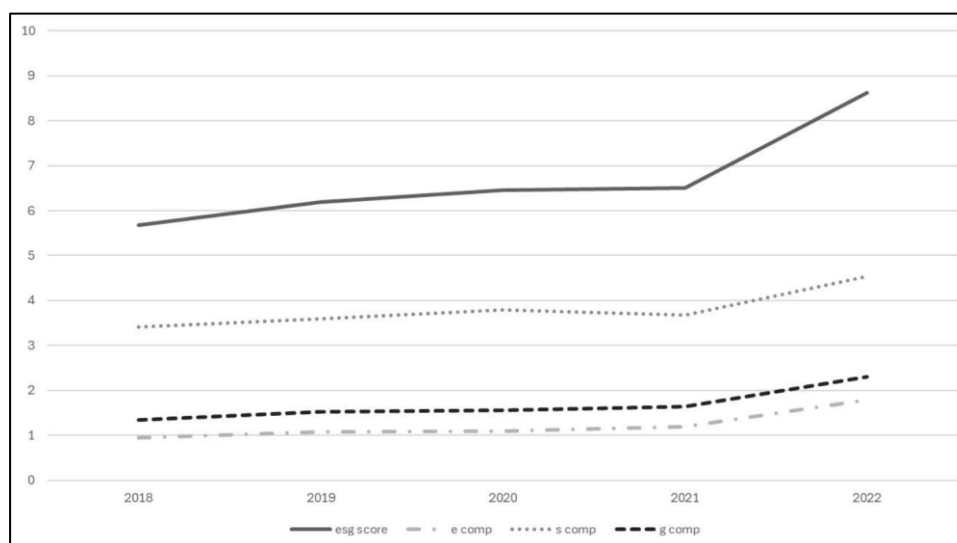
Governance to form the G component. The remaining aspects of diversity and the Community and Employee Relations components were grouped into the S component. The revised KLD index used to derive the E, S, and G components is presented in Appendix A (online version).

Selecting the top 150 firms from the VNX-Allshare index resulted in a final sample of 139 firms from 2018 to 2023, after accounting for dropouts due to delisting, inadequate disclosure, or various regulatory violations. This gives us an unbalanced panel dataset comprising 833 firm-year observations. We obtained accounting data and stock prices from the Refinitiv Eikon database.

Figure 1 shows the movements of firms' ESG practices during the regulatory change period. Since enacting the New Law on Environment and Decision 01 (Prime Minister, 2022), there has been a notable shift toward ESG practices, evidenced by an increase in ESG scores from 2021 to 2022 compared to 2020. This trend is particularly pronounced in environmental activities (E), which received the most significant investment, followed by Governance (G) and Social (S) activities.

Figure 1

ESG Practices of Firms during 2018 - 2022



Note. Author

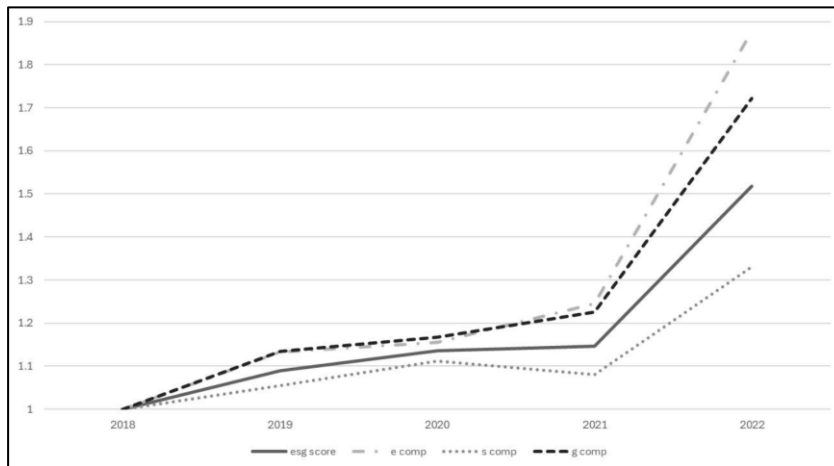
Figure 2 shows that E and G aspects face stronger regulatory emphasis compared to regulations concerning S. Indeed, governance regulations were strengthened with the issuance of the Law on Environment (LOE) in 2020 (National Assembly, 2020), followed by rules on GHG disclosures that prioritize environmental over governance and social aspects. Since 2022, the government has initiated calls for greenhouse gas (GHG) disclosure in firms across four out of ten industries, specifically those with ICB codes 0001 (Oil & Gas), 1000 (Basic Materials), 2000 (Industrials), and 3000 (Consumer Goods). While both Environmental (E) and Governance (G) aspects show continuous improvements, the Social (S) component experienced a slight reduction in 2021, followed by a significant increase in 2022.

Our central hypothesis is that firms engage primarily in Environmental (E) practices in response to regulatory calls. We use the list of industries mandated to disclose greenhouse gas (GHG) emissions as a proxy for environmentally sensitive sectors. Firms in these industries have begun to monitor GHG emissions and other environmental activities more proactively.

While they enhance their focus on E, they also engage in Social (S) and Governance (G) initiatives to bolster their social image and demonstrate good governance. Although there is a strong governmental emphasis on E, we have not observed a significant push for S and G, nor any new regulations imposing substantial requirements on firms’ activities and disclosures. Thus, we hypothesize that firms responding to environmental regulatory calls will perform better, as this compliance demonstrates adherence to the law, helps avoid government penalties, and meets supply chain requirements.

Figure 2

Relative ESG Practices over the 2018



Note. Author

Following Arkoh et al. (2024), who advocate for exploring the determinants of ESG in environmentally sensitive industries, we hypothesize that firms in ecologically sensitive sectors will experience improved performance due to their ESG activities. We will utilize the model proposed by Kim and Li (2021) to test this hypothesis. We add the E_{ind} dummy variable to investigate the implications of ESG in environmentally sensitive industries. E_{ind} is an indicator that equals one if the firm belongs to ecologically sensitive industries and zero otherwise. These firms are more sensitive to environmental issues and, therefore, invest more efforts in environmental activities. As a result, we expect the γ to be positive and significant.

$$ROA_{it} = \alpha + \beta ESG_{it-1} + \gamma ESG_{it-1} x E_{ind} + \delta E_{ind} + Controls + \lambda_i + \tau_t + \varepsilon_{it} \quad (1)$$

ROA measures firm performance, not with any specific view of investors. A list of firm variables is used to control for firm characteristics, including *Size*, measured by the natural logarithm of the book value of assets; *Book leverage* is the financial leverage of the firm, measured by the ratio of total debt on total assets; and *growth* is the change in total sales divided by the sales of the previous year. Fixed effects are included to control for firm and year-unobserved variables. *Return on total asset, ROA measures firm performance. ESG* is the overall ESG score for each firm in each year. The ESG score comprises the three elements, E-, S- and G-components. Equation (1) will also be tested by replacing the ESG score with the scores of the three components separately to evaluate the impact of the firm’s separate E, S, and G activities. Table 1 presents a summary of the descriptive statistics for the firm-year observations in our sample. Key statistics of the main variables show that the variables are standard with values within reasonable ranges. Specifically, the ESG mean score is 6.692 with a standard deviation of 5.122, and the ROA mean value of 0.046 with a standard deviation of

0.059. Table 2 presents peer-wise correlation coefficients of the variables in the model. The strong correlation between firm performance (ROA) and ESG score is reflected in the correlation coefficients between ESG and ROA. While E-S-G components are correlated with the ESG composite score, each component reflects a different correlation with ROA, with E and G not showing a significant correlation while S shows a significant correlation. This is the first signal for interesting stories about the motivations behind the ESG activities of the sampled companies.

Table 1

Summary Statistics

	N	Mean	p25	Median	p75	Std. Dev.
ESG_score	694	6.692	3.000	6.000	10.000	5.122
E_comp	694	1.218	0.000	1.000	2.000	1.342
S_comp	694	3.803	2.000	3.000	6.000	2.649
G_comp	694	1.671	0.000	1.000	3.000	2.45
ROA	833	.046	0.013	.034	.068	.059
Size	833	7.593	6.747	7.135	8.205	1.412
Book Leverage	833	.552	0.404	.582	.709	.229
Growth	833	.231	-0.098	.096	.278	.960

Note. Author

Table 2

Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) ESG_score	1.000							
(2) E_comp	0.696*	1.000						
(3) S_comp	0.846*	0.487*	1.000					
(4) G_comp	0.795*	0.381*	0.420*	1.000				
(5) ROA	0.098*	0.069	0.110*	0.048	1.000			
(6) Size	0.558*	0.332*	0.490*	0.451*	-0.121*	1.000		
(7) Leverage	0.251*	0.095*	0.237*	0.216*	-0.391*	0.374*	1.000	
(8) Growth	-0.117*	-0.095*	-0.104*	-0.079*	0.164*	-0.107*	-0.020	1.000

Note. *** p < 0.01, ** p < 0.05, * p < 0.1. Author

4. Research results

4.1. Regulatory call for environmental activities and firm’s response

Table 3- Panel A compares the ESG activities of firms in the industries that are called to act on the environment by the government and those that are not. The t-statistics of the mean differences show that the ESG score does not have a significant difference between the two groups of firms; the E-component shows a significantly higher score for environmentally

sensitive firms; the S-component shows a considerably lower score for environmentally sensitive firms, while G-component shows no significant difference between the two groups of firms. In general, this shows that firms in environment-sensitive industries are more active in doing environment-related activities but less in social-related activities and indifferent in governance-related activities relative to firms in other sectors. This evidence supports the legitimacy theory that firms do environmental activities to comply with regulations to avoid unnecessary penalties.

Within the environmentally sensitive sectors, we make a comparison of ESG activities of the two groups of firms, with financial constraints and without financial constraints, and present the results in Table 3- Panel B. High leverage should be positively correlated with constraint as firms with high leverage will have less debt capacity remained. High leverage could lead to more financial distress as well. Therefore, following Whited and Wu (2006), book leverage is used as a proxy for financial constraint. The t-statistics of the mean differences show that firms with financial slack (not having financial constraints) have higher overall ESG scores than firms without financial constraints. They also have better Governance (G) scores than firms without financial constraints. However, the two groups of firms are not different in E and S activities. This implies that firms with financial slacks spend more effort on ESG activities than firms with financial constraints.

Table 3

Difference in Mean Analysis

Variables	N	<i>Non-E_{ind}</i>	N	<i>E_{ind}</i>	Difference
ESG_score	445	6.921	259	6.281	0.640
E_comp	445	1.151	259	1.337	-0.187*
S_comp	445	3.996	259	3.458	0.538**
G_comp	445	1.775	259	1.486	0.289

Variables	N	Non-FC	N	FC	Difference
ESG_score	126	7.016	109	5.688	1.328*
E_comp	126	1.413	109	1.339	0.073
S_comp	126	3.643	109	3.312	0.331
G_comp	126	1.960	109	1.037	0.924***

Note. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Author

4.2. ESG activities as compliance or beyond compliance and their implications on firm performance

Using OLS regression of firm performance on ESG and the control variables and using the year fixed-effect model, Table 4 shows that doing ESG will benefit firms. ESG general score has a positive impact on firm performance.

Table 4
ESG and Firm Performance

Variables	(1) ESG Score	(2) E_Component	(3) S_Component	(4) G_Component
Lagged ESG_Score	0.002*** (4.04)			
Lagged E_Component		0.004** (2.47)		
Lagged S_Component			0.003*** (3.61)	
Lagged G_Component				0.002** (2.57)
Size	0.009*** (3.44)	0.012*** (5.10)	0.010*** (4.07)	0.011*** (4.65)
Book leverage	-0.129*** (-13.27)	-0.128*** (-13.13)	-0.129*** (-13.32)	-0.130*** (-13.30)
Growth	0.010*** (4.73)	0.010*** (4.61)	0.010*** (4.74)	0.009*** (4.56)
Constant	0.034** (2.07)	0.016 (1.05)	0.025 (1.61)	0.023 (1.43)
Observations	681	681	681	681
Adjusted R-squared	0.254	0.243	0.251	0.244
Year FE	Yes	Yes	Yes	Yes

Note. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Author

While engaging in ESG practices generally enhances firm performance, it raises the question of whether there are differences between firms that are more active in ESG and those that are less active. In particular, it is desired to explore the distinction between firms that adopt ESG primarily for compliance versus those that voluntarily pursue ESG initiatives without regulatory mandates. Firms that go beyond compliance in their ESG efforts should create value for their stakeholders, potentially leading to improved corporate performance, which aligns with stakeholder theory. However, if pursuing ESG beyond compliance fails to yield benefits, this would support the agency problem theory. To determine which perspective is more prevalent, the sample is divided into two groups: firms required by regulation to measure and disclose GHG emissions and those not subject to such requirements.

Using OLS regression of firm performance on ESG and the control variables and using the year fixed-effect model, Table 5 illustrates the impact of ESG and Environmental (E) activities on firm performance, measured by ROA. While the results in Table 3- Panel A

indicate that firms under regulation are most active in E initiatives, the findings in Table 5 reveal that overall ESG activities positively influence performance for these regulated firms. However, the E activities of these firms do not significantly impact their performance. Conversely, engaging in E practices positively affects performance for firms not under regulatory pressure. This suggests that only ESG efforts that exceed compliance provide tangible benefits to firms.

Table 5*ESG and Firm Performance – E_{ind} Firms and Non-E_{ind} Firms*

Variables	Group of E _{ind} firms		Group of Non-E _{ind} firms	
	(1) ESG Score	(2) E_Component	(1) ESG Score	(2) E_Component
Lagged ESG_Score	0.002*** (2.65)		0.001* (1.84)	
Lagged E_Component		0.003 (0.86)		0.003** (2.23)
Size	0.019*** (2.82)	0.024*** (3.45)	0.004* (1.83)	0.005** (2.45)
Book leverage	-0.201*** (-9.38)	-0.209*** (-9.75)	-0.088*** (-9.20)	-0.086*** (-9.04)
Growth	0.025*** (3.16)	0.025*** (3.19)	0.008*** (4.48)	0.008*** (4.46)
Constant	-1.014 (-0.29)	-0.037 (-0.73)	0.051*** (3.40)	0.045*** (3.23)
Observations	236	236	445	445
Adjusted R-squared	0.335	0.317	0.224	0.227
Year FE	Yes	Yes	Yes	Yes

Note. *** p < 0.01, ** p < 0.05, * p < 0.1. Author

To clarify the value of going beyond compliance, we introduce a variable called *Excess_ESG*, which is calculated as the difference between a firm's *ESG_Score* and the median *ESG_Score* of the firms in the same industry each year. A positive *Excess_ESG* score indicates that the firm is more active in ESG activities than the median firm of the industry in the year. Similarly, the *Excess_E* variable is created.

Then, the interaction variable of *Excess_ESG* and the dummy variable *E_{ind}* is employed to examine the benefits of exceeding compliance. The results presented in Table 6 show that the coefficients of the interaction variables between *Excess_ESG* and *Excess_E* and the dummy *E_{ind}*, respectively, are both positive and significant. This suggests that firms operating under regulatory mandates that exceed normal business ESG and environmental practices will reap additional rewards. This evidence, therefore, provides support for resource-based theory.

Table 6*Beyond Compliance ESG and Firm Performance*

Variables	(1) ESG Score	(2) E_Component
Lagged Excess_ESG	0.000 (0.50)	
Excess_ESG x E _{ind}	0.003*** (3.78)	
Lagged Excess_E		-0.000 (-0.19)
Excess_E x E _{ind}		0.006* (1.74)
E _{ind}	0.003 (0.67)	0.004 (0.93)
Size	0.016*** (3.62)	0.019*** (4.69)
Book leverage	-0.126*** (-10.43)	-0.131*** (-10.73)
Growth	0.009*** (4.29)	0.010*** (4.25)
Constant	-0.001 (-0.4)	-0.022 (-0.84)
Observations	544	544
Adjusted R-squared	0.236	0.208
Year FE	Yes	Yes

Note. *** p < 0.01, ** p < 0.05, * p < 0.1. Author

4.3. ESG and financial constraints and their implications on firm performance

To explore the hypothesis of engaging in ESG as a result of managerial agency, the effect of ESG on firm performance in the context of financial constraints is analyzed. Firms operating under financial constraints are expected to focus on short-term outcomes and performance, leaving little space for sustainable activities. The interaction terms between ESG variables and economic constraints are utilized in our regression analysis.

The results of using OLS regression of firm performance on ESG and the control variables and using the year fixed-effect model are shown in Table 7. Column 1 indicates that while the coefficient for ESG is positive (0.006), the coefficient for the interaction between financial constraints and ESG is negative (-0.008). This pattern persists in Columns 2, 3, and 4, where the coefficients for the interactions between financial constraints and the E, S, and G components are also negative and significant (-0.035, -0.017, and -0.012, respectively). These findings suggest that while ESG generally benefits firms, pursuing ESG initiatives under financial constraints can negatively impact performance.

Table 7
ESG, Financial Constraints, and Firm Performance

Variables	(1) ESG Score	(2) E_Component	(3) S_Component	(4) G_Component
Lagged ESG_Score	0.006*** (6.76)			
Lagged ESG_Score x Financial constraint	-0.008*** (-5.46)			
Lagged E_Component		0.022*** (5.96)		
Lagged E_Component x Financial constraint		-0.035*** (-5.41)		
Lagged S_Component			0.013*** (6.63)	
Lagged S_Component x Financial constraint			-0.017*** (-5.61)	
Lagged G_Component				0.009*** (4.33)
Lagged G_Component x Financial constraint				-0.012*** (-3.56)
Book leverage	-0.080*** (-6.19)	-0.093*** (-8.07)	-0.069*** (-4.82)	-0.115*** (-10.86)
Size	0.012*** (4.68)	0.012*** (5.40)	0.012*** (4.98)	0.013*** (5.42)
Growth	0.011*** (5.24)	0.010*** (5.00)	0.010*** (5.18)	0.010*** (4.88)
Constant	-0.014 (-0.79)	-0.005 (-0.31)	-0.024 (-1.33)	-0.000 (-0.02)
Observations	681	681	681	681
Adjusted R-squared	0.285	0.274	0.283	0.257
Year FE	Yes	Yes	Yes	Yes

Note. *** p < 0.01, ** p < 0.05, * p < 0.1. Author

5. Conclusion

While the determinants of ESG remain uncertain, understanding what motivates firms to engage in ESG practices is a crucial question for regulators and other stakeholders. This study examines a pivotal moment in Vietnam, where the call for environmental action is stronger than ever. It investigates how firms respond to regulatory demands to uncover their motivations for ESG.

Our regression analysis reveals a positive and significant relationship between ESG scores, their components, and firm performance, which aligns with stakeholder theory. Dividing the firms into two groups, environmentally sensitive sectors, and environmentally non-sensitive sectors, we find that while overall ESG activities enhance firm performance, environmental initiatives do not yield benefits for environmentally sensitive firms, as these initiatives are perceived merely as compliance measures. This evidence supports the resource-based theory, suggesting that mere compliance with regulations is insufficient; firms must go beyond compliance to leverage the intangible benefits of reputation derived from responsible practices.

Furthermore, firms' motivations for engaging in ESG may raise questions about their intentions beyond the stakeholder benefits. To investigate the potential for agency-driven ESG, we categorized firms based on financial constraints and non-constraints. We found that ESG activities in financially constrained firms negatively impacted performance, supporting the notion that these initiatives may be motivated by agency problems. The results of this study remain robust even after controlling for fixed effects of unobserved variables.

It is found that firms in environmentally sensitive industries, which are regulatorily mandated to be more proactive in environmental measures, are more responsive to these calls and invest significantly in ecological activities. Additionally, this research indicates that mere compliance with laws is insufficient; firms can only reap the benefits of responsible practices if they go beyond compliance. It has also been discovered that firms facing financial constraints may destroy value when engaging in ESG, suggesting that managerial agency problems might influence ESG initiatives in these firms. These findings remain robust even after accounting for latent yearly variables and unobservable industry-level factors. This study contributes evidence that ESG can bring value to firms in developing countries, supporting resource-based and stakeholder views. Due to the heavy effort and time consumption of data collection and ESG assessment, the finding is limited to a small sample of listed firms in Vietnam. However, this study has substantial implications, which recommend that regulations are the key factor to motivate firms to do ESG. Policymakers in developing countries should enhance regulations overtime to push forward ESG activities. Last but not least, evidence from this study recommends that investors should be cautious as while beyond-compliance ESG brings value, ESG by firms with financial constraints might be driven by agency problems.

NO CONFLICT OF INTEREST STATEMENT

All authors declare that they have no conflict of interest.

References

- Arkoh, P., Costantini, A., & Scarpa, F. (2024). Determinants of sustainability reporting: A systematic literature review. *Corporate Social Responsibility and Environmental Management*, 31(3), 1578-1597.
- Barnea, A., & Rubin, A. (2010). Corporate social responsibility as a conflict between shareholders. *Journal of Business Ethics*, 97, 71-86.
- Chen, Z., & Xie, G. (2022). ESG disclosure and financial performance: Moderating role of ESG investors. *International Review of Financial Analysis*, 83, Article 102291.
- Chung, R., Bayne, L., & Birt, J. L. (2024). Determinants of ESG disclosure among listed firms under voluntary and mandatory ESG disclosure regimes in Hong Kong. *Journal of Applied Accounting Research*, 25(4), 812-836.

- Deegan, C. (2014). An overview of legitimacy theory as applied within the social and environmental accounting literature. *Sustainability Accounting and Accountability*, 248-272.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman Publishing.
- Friedman, M. (1970). Business is to increase its profits. *New York Times Magazine*, September, 13, 122-126.
- Government Decision. (2022). *Government decision 896/2022/QĐ-CP*. https://climate-laws.org/documents/decision-no-896qd-ttg-on-approving-the-national-strategy-for-climate-change-until-2050-5d61?id=decision-no-896-qd-ttg-on-approving-the-national-strategy-for-climate-change-until-2050_3848
- Government News. (2025). *National green growth strategy for 2021-2030, vision towards 2050*. <https://en.baochinhphu.vn/national-green-growth-strategy-for-2021-2030-vision-towards-2050-11142515.htm>
- Ho Chi Minh Stock Exchange and Hanoi Stock Exchange. (2018). *HOSE-HNX Decision 01/QĐLT-SGDHCM-SGCHN. Principles for the construction and managing VNX-Index*. <https://thuvienphapluat.vn/van-ban/Chung-khoan/Quy-dinh-lien-tich-01-QĐLT-SGDHCM-SGDHN-2018-Bo-chi-so-VNX-Index-Ho-Chi-Minh-Ha-Noi-471149.aspx>
- Ioannou, I., & Serafeim, G. (2012). What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies*, 43(9), 834-864.
- Jeffrey, S., Rosenberg, S., & McCabe, B. (2019). Corporate social responsibility behaviors and corporate reputation. *Social Responsibility Journal*, 15(3), 395-408.
- Jensen, P. (1986). Observations on the maternal behaviour of free-ranging domestic pigs. *Applied Animal Behaviour Science*, 16(2), 131-142.
- Khamisu, M. S., Paluri, R. A., & Sonwaney, V. (2024). Environmental Social and Governance (ESG) disclosure motives for environmentally sensitive industry: An emerging economy perspective. *Cogent Business & Management*, 11(1), Article 2322027.
- Kim, S., & Li, Z. (2021). Understanding the impact of ESG practices in corporate finance. *Sustainability*, 13(7), 1-15.
- Klein, P., Shapiro, D., & Young, J. (2005). Corporate governance, family ownership and firm value: The Canadian evidence. *An International Review*, 13(6), 769-784. <https://doi.org/10.1111/j.1467-8683.2005.00469.x>
- Lozano, R. (2015). A holistic perspective on corporate sustainability drivers. *Corporate Social Responsibility and Environmental Management*, 22(1), 32-44.
- Mahadeo, J. D., Oogarah-Hanuman, V., & Soobaroyen, T. (2011). A longitudinal study of corporate social disclosures in a developing economy. *Journal of Business Ethics*, 104, 545-558.
- Mahajan, R., Lim, W. M., Sareen, M., Kumar, S., & Panwar, R. (2023). Stakeholder theory. *Journal of Business Research*, 166, Article 114104.
- Martiny, A., Tagliatalata, J., Testa, F., & Iraldo, F. (2024). Determinants of Environmental Social and Governance (ESG) performance: A systematic literature review. *Journal of Cleaner Production*, 456, 1-25.
- McWilliams, A., & Siegel, D. S. (2011). Creating and capturing value: Strategic corporate social responsibility, resource-based theory, and sustainable competitive advantage. *Journal of Management*, 37(5), 1480-1495.

- Murphy, D., & McGrath, D. (2013). ESG reporting-class actions, deterrence, and avoidance. *Sustainability Accounting, Management and Policy Journal*, 4(2), 216-235.
- National Assembly. (2020). *Law No. 72/2020/QH14. Law on environmental protection*. <https://thuvienphapluat.vn/van-ban/EN/Tai-nguyen-Moi-truong/Law-72-2020-QH14-on-Environmental-Protection/463512/tieng-anh.aspx>
- Palazzo, G., & Scherer, A. G. (2006). Corporate legitimacy as deliberation: A communicative framework. *Journal of Business Ethics*, 66, 71-88.
- Parmar, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Purnell, L., & De Colle, S. (2010). Stakeholder theory: The state of the art. *Academy of Management Annals*, 4(1), 403-445.
- Porta, R. L., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113-1155.
- Porta, R. L., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, 58(1/2), 3-27.
- PriceWaterHouseCoopers (PWC). (2022). *From ambition to impact: Vietnam ESG readiness report 2022*. <https://www.pwc.com/vn/en/publications/2022/pwc-vietnam-esg-readiness-2022-en.pdf>
- Prime Minister. (2022). *Decision 01/2022/QĐ-Ttg promulgating the list of sectors, greenhouse gas-emitting establishments subject to greenhouse gas inventory*. <https://english.luatvietnam.vn/decision-no-01-2022-qd-ttg-dated-january-18-2022-of-the-prime-minister-on-promulgating-the-list-of-sectors-greenhouse-gas-emitting-establishments-s-216078-doc1.html>
- Rahman, A. R., & Alsayegh, M. F. (2021). Determinants of corporate Environment, Social and Governance (ESG) reporting among Asian firms. *Journal of Risk and Financial Management*, 14(4), 1-13.
- Reverte, C. (2009). Determinants of corporate social responsibility disclosure ratings by Spanish listed firms. *Journal of Business Ethics*, 88, 351-366.
- Servaes, H., & Tamayo, A. (2013). The impact of corporate social responsibility on firm value: The role of customer awareness. *Management Science*, 59(5), 1045-1061.
- Shleifer, A., & Vishny, R. W. (1998). *The grabbing hand: Government pathologies and their cures*. Harvard University Press.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571-610.
- Whited, T. M., & Wu, G. (2006). Financial constraints risk. *The Review of Financial Studies*, 19(2), 531-559.
- Zimon, G., Arianpoor, A., & Salehi, M. (2022). Sustainability reporting and corporate reputation: The moderating effect of CEO opportunistic behavior. *Sustainability*, 14(3), 1-16.

