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The Impact of ESG Disclosure on Performance of Financial Institutions in Vietnam

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ABSTRACT

This study aims to explore the impact of ESG disclosure on the firm performance of financial institutions in Vietnam. Using data from 50 listed financial institutions between 2016 and 2023. The key applied methodologies are ordinary least squares (OLS), fixed effects model (FEM), random effects model (REM), and Feasible Generalized Least Squares (FGLS). First, ESG disclosure is positively and significantly associated with return on assets (ROA) and return on equity (ROE), indicating that stronger ESG practices contribute to improved operational efficiency and profitability; second, the relationship between ESG disclosure and Tobin's Q is insignificant, suggesting that markets may not fully value ESG initiatives; third, firm size, value, and regulatory compliance are found to significantly affect financial performance. Based on the empirical findings, the study recommends that Vietnamese financial regulators and industry associations should collaborate to establish a national ESG data platform to consolidate fragmented information and enhance transparency and comparability. Additionally, differentiated incentive policies should be implemented for institutions with high ESG ratings in order to promote the sustainable transformation of the financial system. These measures would not only encourage more proactive ESG engagement among financial institutions but also provide institutional support for Vietnam's sustainable development objectives.

Keywords: Disclosure, ESG, Financial institutions, Performance, Vietnam.

Introduction

The integration of the Environmental, Social, and Governance (ESG) framework into business strategy has become indispensable, particularly in the context of the evolving global sustainable development movement. This emphasizes that ESG metrics have transcended traditional reporting functions and now play a critical role in enhancing competitiveness within the financial sector. Financial institutions are increasingly required to incorporate ESG considerations into their risk management and capital allocation processes (Ziolo, 2024; Kebe *et al*., 2025).

Focusing on developing markets, particularly Vietnam, the challenges are notable. Although the Vietnamese government has promoted ESG institutionalization through policies such as the "National green growth strategy for 2021 - 2030 period, with a vision by 2050", financial institutions continue to face significant challenges in awareness, data infrastructure, and regulatory compliance (Guillen & Pereira, 2024). The lack of high-quality disclosure that hinders effective performance evaluation in the global capital market is a critical issue. The gap between theory and practice further underscores the necessity of this research. Existing literature predominantly focuses on developed markets, while studies on ESG performance in emerging economies remain scarce. To address this, this research develops a three-dimensional analytical model aimed at examining the complex implications of ESG information disclosure for Vietnamese financial institutions. This involves assessing the correlation between ESG disclosure and Return on Assets (ROA) to evaluate the cost-effectiveness of environmental investments; studying the dynamic effects of governance-related ESG measures on Return on Equity (ROE); and utilizing Tobin's Q to analyze how ESG

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transparency impacts stock prices, thereby reflecting investor preferences and market responses (Rahcmatulloh & Suranta, 2023; Khan *et al*., 2024; Conti *et al*., 2025; Lee *et al*., 2025).

The empirical foundation of this research includes a comprehensive study of all 50 commercial banks, securities firms, and insurance companies listed on the Ho Chi Minh City Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) from 2016 to 2023. This sufficiency in sample coverage ensures a robust and representative analysis of the industry, while the eight-year timeframe provides adequate insights into ESG disclosure policies and their consequences, particularly amidst the global focus on ESG intensified following the UN Sustainable Development Goals ("Environmental, Social, and Governance (ESG)," 2021) (Csep *et al*., 2024; Njoroge & Odhiambo, 2025). By integrating financial performance indicators like business size, leverage ratios, and macroeconomic indicators, this research endeavors to provide actionable insights for Vietnamese financial institutions and regulators, empowering them to effectively harness global sustainable financing opportunities.

Literature Review

ESG Reporting

ESG reporting serves as a complement to traditional financial reports by providing information on corporate policies and practices related to social and environmental issues. Today, most large publicly traded companies worldwide engage in some form of ESG reporting. Typically, these companies publish a separate sustainability report alongside their annual report. Another approach to disclosing sustainability-related information is through integrated reports, where corporate social and environmental policies and activities are incorporated into the annual report. The key determinants motivating firms to engage in ESG reporting can be categorized into regulatory, stakeholder-driven, and competitive factors. As summarized in **Table 1**, these drivers reflect both external institutional pressures and strategic considerations at the firm level.

Table 1. Key drivers and their significance

Key drivers for ESG reporting	Significance
Compliance Requirements (Policies and Regulations)	In Europe, the EU Non-Financial Reporting Directive is acting as a driver obligating companies with employees above 500 to report environmental, social, and governance information, which should also include the implementation of diversity policy and demand an explanation if not implemented (LSEG, 2018; Snodin & McCrossen, 2024; Raza *et al*., 2025). Firms are mandated to identify risks and opportunities, materiality issues specific to industry type, and report the ESG components by developing key performance indicators and integrating with business strategy. In addition to the directive, the EU and its member states have committed to adopting the 2030 agenda and its 17 SDGs that are based on the three dimensions of sustainability (ECA, 2019; Ganea *et al*., 2024; Raza *et al*., 2025)
Communication to Stakeholders	The main aim of stakeholders is to evaluate the company's performance by measuring ESG metrics. Companies can be made accountable if ESG information is not complied with the regulations by stakeholders (Cardoni *et al*., 2019; Zar *et al*., 2024; Petchesi *et al*., 2025). It is important for an organization to identify its potential stakeholders and consider their needs to maintain a positive stakeholder relationship. Stakeholder management can be used as a strategic tool by engaging them rather than just providing information (Romero *et al*., 2019; Mickevičius *et al*., 2024; Yu *et al*., 2025). Companies are pressurized to disclose ESG information that meets the needs of investors, such as materiality issues, fines, and penalties that could affect the reputation of the firms when published (Duran and Rodrigo, 2018; Zhang *et al*., 2023; Yılmazer *et al*., 2024). However, few corporate executives are hesitant in revealing the data with a fear that could hinder their firm's value, for example, packaging companies, due to the negative impact of plastics or packaging waste. Stakeholder engagement is lacking in most of the firms, which is creating a lack of awareness of the actual value of ESG reporting.

Align with peer practice or contribute to policy goals.	According to an investment firm, Bloomberg Professional Services (2019) mentions that the availability of ESG data offers a competitive advantage. Since investors measure the performance of corporates/firms based on two metrics, non-financial KPI metrics to check if the company has identified materiality issues and has integrated them into their business strategy, and measure the history of firm performance compared to their peers in the market. This step from 7 investors is driving pressure on corporates to report ESG data aligning with their peers in the markets.

Source: Prakash, Brindha (2020)

Importance of ESG in Financial Institutions

The ESG framework provides financial institutions with tools for systematic risk identification and mitigation. The convergence of physical climate risks (e.g., natural disasters) and transition risks (e.g., impacts from low-carbon policies) renders traditional financial analysis insufficient for capturing long-term risk exposures (NGFS, 2019; Jagsi *et al*., 2025).

Globally, the excess returns generated by ESG investment strategies have been empirically supported. Banks with robust ESG frameworks demonstrate higher return on equity compared to institutions with minimal ESG integration. For the asset management industry, ESG integration helps reduce tail risk and improves portfolio Sharpe ratios (Pedersen *et al*., 2020; Dupont *et al*., 2024; Kowalski *et al*., 2024).

Finally, ESG integration signals a profound shift in financial capital pricing. By embedding ESG factors into asset pricing models, financial institutions become hubs for pricing sustainable economic growth. This not only reshapes the financial industry's competitive landscape but also channels capital allocation to advance the United Nations Sustainable Development Goals (SDGs), harmonizing financial and social value creation.

ESG Disclosure Requirements for Financial Institutions

The increasing demand for Environmental, Social, and Governance (ESG) disclosures is a significant trend affecting financial institutions worldwide, including Vietnam. These regulations aim to enhance transparency and support risk management related to ESG factors, aligning with sustainable development goals. Vietnamese institutions are adapting by complying with domestic laws and integrating international standards, as reflected in the International Sustainability Standards Board's (ISSB) efforts to harmonize reporting practices. Globally, various frameworks are emerging, such as the EU's Sustainable Finance Disclosure Regulation (SFDR) and the Securities and Exchange Commission's (SEC) standards in the U.S., both aiming to standardize and enhance ESG transparency. Other countries like China and Malaysia are also developing their own regulations to ensure comprehensive sustainability reporting among financial entities.

Financial Institutions' Performance

Performance evaluation of financial institutions is central to their operational decisions and value judgments. Given the high leverage, risk intensity, and strong regulatory nature of their businesses, researchers have developed a multi-level, multi-faceted measurement system. Among these, Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q are the most closely watched and widely adopted core indicators because they capture the essence of performance from three key dimensions: operating efficiency, financial performance, and market value, respectively (Trung, 2021; Elamin *et al*., 2023; Pardo-Zamora *et al*., 2024).

Return on Assets (ROA), calculated as the ratio of net profit to average total assets, is a cornerstone indicator for measuring the overall asset management efficiency and basic profitability of financial institutions. It eliminates the influence of different capital structures and directly reflects the efficiency of management in generating profits using all assets. For financial institutions such as banks, ROA directly reflects the profitability and cost control capabilities of their core businesses (such as lending and investment trading) (Berger & Humphrey, 1997; Maslyakova *et al*., 2023).

Return on equity (ROE), the ratio of net profit to average shareholders' equity, is a direct reflection of investment returns from a shareholder's perspective and is the most important financial indicator for assessing a financial institution's ability to create value for shareholders. According to the DuPont analysis framework, ROE can be

decomposed into the product of ROA and the equity multiplier (financial leverage): ROE = ROA × Equity Multiplier. This decomposition profoundly reveals the two driving forces behind a financial institution's performance: operating profitability (ROA) and the use of financial leverage (risk taking) (Hull, 2018; Leadbeatter *et al*., 2024; Salem *et al*., 2025).

Tobin's Q, defined as the ratio of a company's market value to its asset replacement cost, is a forward-looking, market-based performance indicator. It surpasses ROA and ROE, which are based on historical accounting data, directly reflecting the capital market's comprehensive expectations of a company's future growth potential, intangible asset value, and long-term competitive advantage (Chung & Pruitt, 1994; Al-Mubarak *et al*., 2024; Bona *et al*., 2025).

Foundational Theories

Signaling Theory

The Signaling Theory focuses on the essential function of information in a business transaction (Spence, 1973). By openly exchanging information with external stakeholders, managers can lessen information asymmetry, according to this hypothesis (Choudhury, 2024). More specifically, businesses are prepared to spend money to reveal positive information about their sustainability pledges in order to give stakeholders access to information that cannot be found elsewhere (Wang *et al*., 2017). Four components form the foundation of the signaling theory: the signal, the signaler, the receiver, and the feedback). The information stream that goes from the signaler—represented by internal management—to the receiver—represented by external stakeholders—is thought of as the signal. Finally, the feedback represents the interactions between signalers and receivers (Shahid *et al*., 2024).

Agency Theory

Agency theory is structured around two foundational concepts: (i) the dynamic between principal and agent and (ii) the division of ownership and managerial control. In this framework, the principal (typically the company's owner) assigns decision-making authority to an agent, who is expected to prioritize the principal's interests (Munday, 2022). However, agents often prioritize personal goals over those of the principal, creating potential conflicts. Governance systems can alleviate such agency costs and disputes (Khatib *et al*., 2021), particularly when diverse mechanisms are strategically implemented (Khatib *et al*., 2021). A key source of tension arises from the differing priorities of the two parties: principals generally adopt a long-term strategic perspective, whereas agents tend to focus on short-term gains (Yunia & Mutmainah, 2024). Agents may prioritize immediate opportunities, while principals aim to minimize information imbalances (agency costs) by enhancing transparency through financial and non-financial disclosures (Altendorfer, 2023).

Legitimacy Theory

Legitimacy theory provides insight into why corporate leaders integrate corporate social responsibility (CSR) initiatives into their business strategies. This perspective underscores that the rights of the public are just as significant as those of shareholders. According to the theory, a company earns legitimacy when its actions align with societal norms, values, and expectations (Suchman, 1995). To safeguard their profitability, companies must maintain transparency and accountability with the communities in the regions where they operate (Akhter *et al*., 2021). In recent times, it has become common practice for firms to disclose non-financial ESG (Environmental, Social, and Governance) data as a way to demonstrate responsibility for their actions (Cicchiello *et al*., 2022). When companies fall short of societal expectations or breach environmental and social standards, their performance is likely to suffer (Buallay, 2020).

Hypotheses

The study aims to examine if ESG disclosure impacts the performance of Vietnamese financial institutions by applying methods in development studies and economics, a multidisciplinary approach. Grounded on the aforementioned theories, hypotheses are proposed as follows:

H1. There is a positive relationship between ESG disclosure and companies' operational performance, as determined via the ROA

H2. There is a positive relationship between ESG disclosure and companies' financial performance, as determined via the ROE.

H3. There is a positive relationship between ESG disclosure and companies' market performance, as determined via Tobin's Q

Materials and Methods

Research Data

This analysis uses publicly published data from Vietnam's two largest stock exchanges, HOSE and HNX. These exchanges listed 50 financial organizations in 2023, including 15 commercial banks, 28 securities businesses, and 7 insurance firms. To comply with the State Securities Commission of Vietnam (SSC) disclosure standards and ensure data availability, only listed institutions are included in the sample. Second, the sample includes commercial banking, securities, and insurance. Major state-owned banks (Vietcombank, BIDV) and key securities companies (SSI, VNDirect) improve market representativeness. Finally, all institutions must produce 2023 ESG disclosure materials, including standalone ESG reports or integrated ESG parts within financial statements, and audited financial reports for cross-sectional analysis. The sample's industry distribution matches Vietnam's financial sector, with commercial banks 30%, securities businesses 56%, and insurance firms 14%. Cross-validation employing stock market announcements, company websites, and third-party databases (FiinGroup) ensures data consistency and research trustworthiness.

Regression Model

This research examined the influence of ESG disclosure on financial performance (ROA), operational performance (ROE), and market performance (Tobin's Q) as sustainability practices become a key driver of value creation in the financial industry.

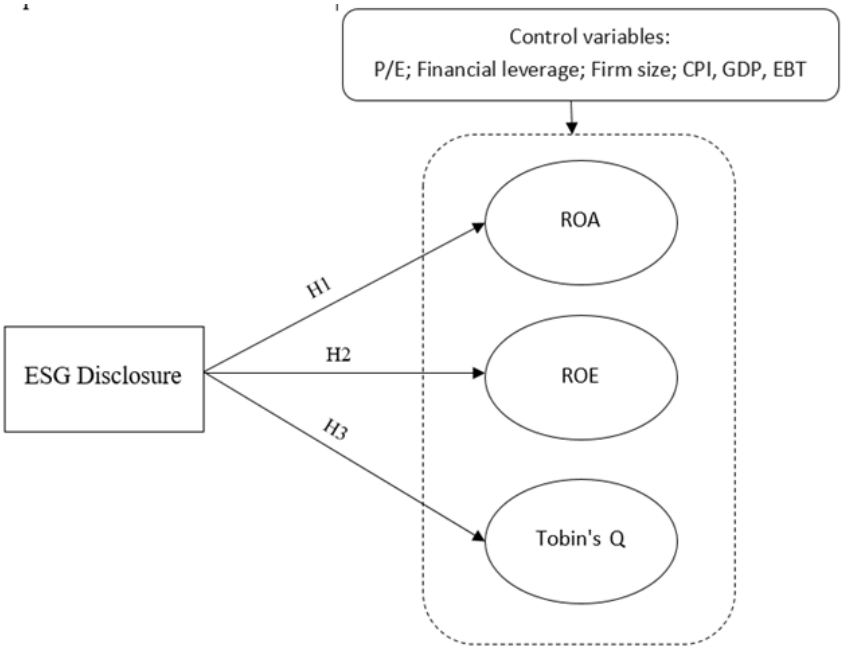

Figure 1. Proposal research model

Source: Authors' compilation from literature review

As illustrated in **Figure 1**, the research model adapts and extends variables derived from prior theoretical frameworks and empirical studies to capture the dynamics of financial institutions.

The model quantifies ESG disclosure as the key independent variable using a binary indicator. Emerging literature regards ESG disclosure as strategic, not peripheral. Multidimensional performance was measured using ROA, ROE, and Tobin's Q. (2) ROE evaluates shareholder value creation, evaluating whether ESG disclosure boosts capital productivity; (3) Tobin's Q examines investor views of ESG-driven growth potential. ESG disclosure's distinction was extracted after adjusting for contextual variables such as firm size, P/E, financial leverage, macroeconomic indicators (CPI, GDP), and EBT. These limits avoid confounding effects from skewing ESG disclosure-performance measures. ESG disclosure is expected to improve all three performance dimensions: ESG-driven risk mitigation reduces unexpected losses, operational efficiencies (e.g., energy savings) lower expense ratios, improving ROA; investor confidence improves capital allocation and equity costs, increasing ROE; and markets reward ESG transparency with valuation premiums, reflecting investor confidence in long-term resilience. These outcomes would show ESG disclosure's strategic benefit, not compliance.

To assess ESG disclosure's multidimensional impacts, three distinct regression models are formulated, each targeting a key performance metric:

$$ROA_{i,t} = \beta_0 + \beta_1 ESG_{i,t} + \beta_2 EBT_{i,t} + \beta_3 PE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 CPI_{i,t} + \beta_7 GDP_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$ROE_{i,t} = \beta_0 + \beta_1 ESG_{i,t} + \beta_2 EBT_{i,t} + \beta_3 PE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 CPI_{i,t} + \beta_7 GDP_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$Tobin's\ Q_{i,t} = \beta_0 + \beta_1 ESG_{i,t} + \beta_2 EBT_{i,t} + \beta_3 PE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 CPI_{i,t} + \beta_7 GDP_{i,t} + \varepsilon_{i,t} \quad (3)$$

where $ROA_{i,t}$, $ROE_{i,t}$, Tobin's $Q_{i,t}$ are dependent variables, measure of independent variable - ESG disclosure is $\boldsymbol{ESG_{i,t}}$, and control variables encompass Earnings before taxes (EBT), Price-to-Earnings Ratio (PE), Financial Leverage (LEV), Firm size (SIZE), Consumer Price Index (CPI), Gross Domestic Product (GDP), and εit is the error term for firm i in period t.

Results and Discussion

Descriptive Statistics

Table 2. Descriptive Statistics

Variables	Observations	Mean	Std. Dev.	Min	Max
ROA	400	0.0350323	0.0717676	-0.363	0.5561
ROE	400	0.1121453	0.1108666	-0.474	0.6216
Tobin's Q	400	0.5018136	0.4635147	0	2.6535
ESG	400	0.625	0.4847292	0	1
PE	400	30.24193	175.2735	-518.33	3140.68
LEV	400	0.562775	0.3307234	0	0.96
SIZE	400	23.90495	12.00392	-27.51053	31.35052
CPI	400	0.0301	0.0053269	0.0184	0.0354
GDP	400	5.880444	2.013756	2.553729	8.123515
EBT	400	30.13387	2.643936	24.64288	35.37206

Source: Authors' data processing results from STATA17

Table 2 (Descriptive Statics) includes 400 observations. The variables ROA and ROE have average values of 0.35032 and 0.112145, respectively, with standard deviations of 0.071768 and 0.110867. Meanwhile, Tobin's Q has an average value of 0.5018, ranging from 0 to 2.6535, indicating a greater dispersion for this variable compared to ROE and ROA.

The ESG variable is binary with a mean of 0.625, which means that approximately 62.5% of the companies in the sample disclosed ESG information. The PE variable has an average of 30.24 but a very high standard deviation (175.27), indicating significant dispersion and the presence of outliers (PE ranges from -518.33 to 3140.68).

Financial leverage (LEV) has an average value of 0.5628, ranging from 0 to 0.96, reflecting notable differences in debt usage among firms. The EBT variable has a relatively high mean (23.90) and a large standard deviation (12.00), with the minimum value being negative (-27.51), possibly due to pre-tax losses in some companies.

Meanwhile, the CPI variable has a relatively low mean and standard deviation, indicating inflation stability. The GDP variable shows a growth rate of 5.88% and a standard deviation of 2.01%, reflecting stable economic growth. The SIZE variable, representing firm size, has a mean value of 30.13, a standard deviation of 2.64, and ranges from 24.64 to 35.37.

Correlation Matrix

Table 3. Correlation matrix

Variables	ROA	ROE	Tobin's Q	ESG	PE	LEV	SIZE	CPI	GDP	EBT
ROA	1.0000									
ROE	0.7348	1.0000								
Tobin's Q	0.1826	-0.1626	1.0000							
ESG	-0.0172	0.0826	-0.0442	1.0000						
PE	-0.0419	-0.0956	0.0844	-0.0781	1.0000					
LEV	-0.1215	0.3874	-0.5815	0.1768	-0.1245	1.0000				
SIZE	0.3277	0.5205	-0.2393	0.1350	-0.0313	0.3563	1.0000			
CPI	-0.1115	-0.1684	0.0627	-0.0565	-0.0069	-0.0307	-0.0257	1.0000		
GDP	-0.2095	-0.2706	-0.0602	-0.1003	0.0294	-0.0565	-0.1102	0.4502	1.0000	
EBT	-0.1366	0.4062	-0.5480	0.2812	-0.0997	0.8626	0.4163	-0.0410	-0.0658	1.0000

Source: Authors' data processing results from STATA17

As shown in **Table 3** (Correlation matrix), it can be seen that the independent variable SIZE (firm size - natural logarithm of total assets) has a significant positive correlation with ROE (0.4062) and a negative correlation with ROA (-0.1366) and Tobin's Q (-0.548). This suggests that larger firms may generate higher returns on equity, but this does not necessarily reflect asset efficiency or market valuation.

The variable LEV (financial leverage) shows a relatively strong positive correlation with ROE (0.3874) and negative correlations with ROA (-0.1215) and Tobin's Q (-0.5815), implying that the use of debt may enhance return on equity but also carries the risk of reducing asset efficiency and market valuation.

Additionally, EBT shows a clear positive correlation with both ROA (0.3277) and ROE (0.5205), which is consistent with theoretical expectations that higher pre-tax profits are usually associated with better financial performance.

Among the independent variables, the correlation between LEV and SIZE is relatively high, suggesting the need to check for multicollinearity due to potential suspicion.

Regression Results

Table 4. Regression results OLS - FEM - REM - Dependent variables

	ROA – OLS	ROA – FEM	ROA - REM	ROE – OLS	ROE – FEM	ROE – REM	TOBIN'S Q - OLS	TOBIN'S Q - FEM	TOBIN'S Q - REM
ESG	-0.0010	-0.0149	-0.0010	-0.0128	-0.0305**	-0.0195*	0.0815**	-0.0194	0.0325
	(-0.14)	(-1.39)	(-0.14)	(-1.32)	(-2.16)	(-1.85)	(2.01)	(-0.34)	(0.73)
EBT	-0.0088***	-0.0078	-0.0088***	0.0051	0.0043	0.0056	-0.0378**	-0.0345	-0.0263

	(-3.49)	(-1.08)	(-3.49)	(1.45)	(0.45)	(1.33)	(-2.57)	(-0.90)	(-1.44)
PE	-0.0000	-0.0000	-0.0000	-0.0000	-0.0000	-0.0000	0.0001	0.0001	0.0001
	(-1.31)	(-0.02)	(-1.31)	(-1.34)	(-0.25)	(-0.85)	(0.58)	(0.46)	(0.55)
LEV	-0.0041	-0.0251	-0.0041	0.0429	0.0167	0.0405	-0.5630***	-0.9340***	-0.6499***
	(-0.22)	(-0.70)	(-0.22)	(1.60)	(0.35)	(1.29)	(-5.01)	(-4.87)	(-4.82)
SIZE	0.0027***	0.0027***	0.0027***	0.0038***	0.0037***	0.0037***	-0.0012	-0.0034**	-0.0025
	(9.20)	(8.44)	(9.20)	(9.24)	(8.74)	(9.27)	(-0.68)	(-1.98)	(-1.49)
CPI	-0.5564	-0.5575	-0.5564	-1.4626	-1.4742*	-1.4553*	9.5336**	9.4135***	9.5998***
	(-0.83)	(-0.84)	(-0.83)	(-1.57)	(-1.68)	(-1.65)	(2.44)	(2.66)	(2.68)
GDP	-0.0058***	-0.0063***	-0.0058***	-0.0101***	-0.0109***	-0.0103***	-0.0327***	-0.0395***	-0.0346***
	(-3.26)	(-3.47)	(-3.26)	(-4.04)	(-4.54)	(-4.37)	(-3.14)	(-4.07)	(-3.61)
N	400	400	400	400	400	400	400	400	400

Source: Authors' data processing results from STATA17

According to the results shown in **Table 4**, ESG variables negatively affect ROE in both models, with statistical significance at 5% and 10%, suggesting that improving ESG may not boost ROE. EBT is positively correlated with ROE at the 1% level; companies with larger pre-tax earnings have higher ROE. Since the CPI variable negatively affects ROE with 10% statistical significance, inflation may hurt business profitability. Economic downturns may hurt firms since GDP reduces ROE by 1%.

With 5% statistical significance, the OLS model suggests ESG variables may boost a firm's Tobin's Q value. SIZE negatively affects Tobin's Q, also significant at 5%, in the OLS model, indicating bigger organizations may have lower ratios.

LEV (leverage ratio) negatively affects Tobin's Q in all three models, with significant statistical significance at the 1% level, meaning debt-heavy companies have lower Q values. In FEM, EBT has a negative impact at 5%, meaning lower pre-tax earnings may decrease Tobin's Q. The CPI variable positively influences Tobin's Q in all three models at 5% and 1%, suggesting inflation may increase it. Economic downturns may lower a firm's Tobin Q since GDP has a 1% negative effect.

The Hausman test indicates that the Fixed Effects Model (FEM) is suitable for ROA and Tobin's Q, since the values of Prob > chi-squared are 0.0182 (< 5%) for ROA and 0.0123 (< 5%) for Tobin's Q. When ROE is the dependent variable, the Random Effects Model (REM) is acceptable since Prob > chi-squared = 0.1403 (> 5%).

Table 5. Diagnostic Tests

Test	Null Hypothesis (H0)	ROA	ROE	Tobin's Q
Modified Wald test	No groupwise heteroskedasticity	$\chi^2(50)=34,566.82$ (0.0000)	$\chi^2=\ldots$ (0.0000)	$\chi^2(50)=53,792.88$ (0.0000)
Breusch–Pagan LM test	Var(u)=0 (Pooled OLS is appropriate)	$chibar^2=16.15$ (0.0000)	$chibar^2=\ldots$ (0.0000)	-
Wooldridge test for autocorrelation	No first-order autocorrelation	F=3.903 (0.0538)	F=2.170 (0.1472)	F=47.913 (0.0000)

Source: Authors' data processing results from STATA17

The empirical findings summarized in **Table 5** indicate that the other two models—ROA and ROE—exhibit heteroskedasticity (non-constant error variance), so it is necessary to use the FGLS method to correct these model deficiencies.

Table 6. Results after correcting the deficiencies using FGLS.

Variable	ROA	ROE	TobinQ
ESG	0.0023***	0.0210***	0.0292*

	(2.61)	(6.57)	(1.71)
EBT	-0.0013***	0.0033*	-0.0220***
	(-3.91)	(1.78)	(-3.37)
PE	-0.0002***	-0.0000*	0.0000
	(-12.16)	(-1.76)	(0.36)
LEV	-0.0847***	0.0547***	-0.7494***
	(-17.97)	(3.77)	(-10.58)
SIZE	0.0015***	0.0030***	0.0001
	(12.96)	(11.05)	(0.07)
CPI	0.0147	-0.4675	2.7079*
	(0.34)	(-1.41)	(1.85)
GDP	-0.0000	-0.0052***	-0.0102***
	(-0.11)	(-5.97)	(-2.58)
_cons	0.0892***	-0.0775	1.5201***
	(13.64)	(-1.59)	(9.44)
N	400	400	400

t statistics in parentheses
* p<0.10, ** p<0.05, *** p<0.01
Source: Authors' data processing results from STATA17

The outcomes reported in **Table 6** reveal that FGLS addresses model deficiencies affecting ROA, ROE, and Tobin's Q. With 1% ESG relevance, sustainable companies increase ROE and efficiency. Financial factors affect Tobin's Q market value 10% more than ESG. ROA and Tobin's Q decrease 1%–5% with size. Larger companies may lose market value owing to operational efficiency difficulties, including higher management costs and less flexibility. SIZE raises ROE by 10%, suggesting huge companies may use economies of scale to boost capital consumption and ROE. High PE ratios may make it hard for companies to be profitable when stock prices rise and ROA and ROE fall. The P/E ratio doesn't impact Tobin's Q, nor does financial performance or market value. Leverage lowers Tobin's Q 1% and ROA. Financial worries may make high debt levels tougher for companies to maintain profitability and market value. Financial leverage may enhance ROE risk at 1% LEV. EBT boosts ROA and ROE by 1% for companies with higher pre-tax profits. EBT doesn't impact Tobin's Q, and pre-tax gains don't influence market value. Because CPI enhances Tobin's Q at 10% relevance, investor expectations of asset value appreciation may boost firm values in inflation. Inflation affects ROA and ROE less than CPI. Finally, at the 1% significance level, GDP considerably impacts ROE and Tobin's Q, suggesting economic downturns may impair company performance and market value. ROA may not change with GDP, suggesting company inefficiency.

Interpretation of Findings

ESG Disclosure and Performance of Financial Institutions

ESG disclosure boosts ROA and ROE. This shows that ESG openness improves operational efficiency and shareholder returns when relevant factors are included. According to stakeholder theory and resource-based theory, sustainable practices may save costs, improve efficiency, reputation, and financing choices. ESG's modestly positive impact on Tobin's Q suggests the market is only partially aware of its value implications. Delays in adding non-financial data or new regional ESG guidelines may cause this.

Firm-Specific Controls

ROA drops considerably with firm growth, suggesting diseconomies of scale. It boosts ROE, showing that bigger institutions may use economies of scale to boost ROE. P/E ratios adversely impact ROA and ROE, demonstrating that excessive values may constrain profit growth, but they do not affect Tobin's Q. Financial leverage, ROA, and Tobin's

Q are negative, confirming the idea that high debt levels increase risk. However, ROE is positively correlated, showing how debt amplifies leverage. Pre-tax profit positively affects ROA and ROE, as expected. The impact on Tobin's Q is negligible, demonstrating market pricing values future growth above present gains.

Macroeconomic Factors

Key macroeconomic factors, inflation may increase asset values but not operational profits since CPI increases Tobin's Q but not ROA or ROE. GDP growth adversely affects ROE and Tobin's Q, suggesting that financial businesses may encounter pressures like smaller interest rate spreads and increased competition during economic booms, decreasing returns and market prices. Research Implications and Conclusions: One study found that ESG transparency enhances financial institution revenues and shareholder returns. Managers should see ESG as strategic rather than compliance, regulators should promote industry stabilization via openness, and investors may utilize ESG criteria to measure organizational resilience and long-term value. Although ESG has a limited market value impact, sustainable finance has made institutions competitive and reduced financing costs. Strategy links financial performance with sustainability.

Implications for Theory and Practice

With theoretical and practical effects, ESG disclosure raised Vietnamese financial institutions' ROA, ROE, and Tobin's Q by 0.23%, 2.1%, and 2.92%. ESG practices support stakeholder theory and the resource-based concept that sustainable development and financial success reinforce each other by promoting transparency, legitimacy, meeting stakeholders' expectations, and creating intangible assets and competitive advantages. This study suggests that financial institutions deeply integrate ESG into their core strategies and product innovation to manage risk and obtain market premiums, regulatory agencies promote standardized, internationally aligned ESG reporting frameworks with incentive policies, and investors assess corporate resilience and capital efficiency using ESG performance. Vietnam's financial industry seizes opportunities and improves its stability and competitiveness in global sustainable transformation.

Insights for Policymakers and Managers

For policymakers, the priority lies in establishing a robust regulatory ecosystem that incentivizes and standardizes ESG practices. A mandatory, nationally aligned ESG reporting framework, integrated with global standards such as the Task Force on Climate-Related Financial Disclosures (TCFD), would enhance transparency and comparability across institutions. This framework should emphasize sector-specific metrics, such as financed emissions for financial institutions or ESG-aligned investment portfolios for securities firms, to address Vietnam's unique challenges, including climate vulnerability and rural financial inclusion. Complementing regulatory mandates with fiscal incentives—such as tax breaks for green bond issuances or reduced capital requirements for ESG-compliant institutions—could accelerate adoption, particularly among smaller firms lacking resources. Policymakers should also prioritize capacity-building initiatives, partnering with international organizations like the International Finance Corporation (IFC) to deliver training programs on ESG implementation, data analytics, and third-party verification.

For managers, the study highlights the strategic imperative to embed ESG into core business operations rather than treating it as a peripheral compliance exercise. This involves developing innovative financial products, such as sustainability-linked loans with interest rates tied to carbon reduction targets or green bonds for renewable energy infrastructure, which cater to growing investor demand for ethical investments. Proactive ESG disclosure also serves as a risk mitigation tool, enabling financial institutions to preempt regulatory scrutiny and reputational damage by transparently reporting climate risks in loan portfolios or governance lapses. To strengthen stakeholder trust, managers should communicate ESG achievements through targeted campaigns.

Conclusion

The empirical results of this study demonstrate that ESG disclosure meaningfully enhances the performance of financial institutions in Vietnam. Firms that actively engage in and report on environmental, social, and governance practices tend to achieve stronger operational efficiency and greater returns for shareholders. These benefits are most evident in measures of profitability, such as return on assets and return on equity, suggesting that sustainability efforts

translate into more effective use of both company resources and investor capital. Although the effect on market valuation is more moderate, it remains positive, indicating that investors are beginning to acknowledge the strategic value of ESG initiatives, even if they are not yet fully priced into stock valuations.

Practical Recommendations for Financial Institutions and Regulators

To reduce information asymmetry, top financial institutions should be required to comply with the GRI or TCFD framework by 2025 and create a national ESG data platform leveraging the industry's high disclosure rates. Conforming institutions provide funding, reserve requirements, and global technical assistance to low-disclosure businesses like securities. Finance businesses should encourage ESG. Commercial banks may offer ESG-compliant clients cheaper interest rates via green loan pricing models due to transparency. Securities companies should increase local ESG investment research and provide capital flow indexes. State Bank of Vietnam should lead a financial industry ESG alliance of major financial institutions, exchanges, and rating agencies to simplify disclosure toolkits for emerging markets and explore blockchain technology to record key ESG data to improve credibility and prevent "greenwashing." Vietnam's financial industry will adopt ESG via policy, market, and technology.

Limitations and Future Research

This extensive research on ESG disclosure and financial institution performance in Vietnam has several limitations: First, the ESG disclosure binary variable enhances data comparability but not disclosure quality (indication completeness, data granularity). This may understate high-quality disclosures' nonlinear performance impacts. Second, Vietnam's rural banking economy relies on unlisted and small financial institutions, which are excluded. The conclusions may be difficult to apply to non-listed sectors. Third, cross-sectional data accounts for contemporaneous confounding variables but not cumulative ESG impacts like long-term disclosure's reputational boost. Finally, control variables contain key financial and macroeconomic indicators but not moderating characteristics like management qualities or digital transformation levels, which may explain additional influence routes. Future research might assess ESG disclosure quality using text analysis, investigate the medium- and long-term effects of ESG regulations using panel data, and include unlisted financial institutions to better understand emerging nations' different ESG development patterns.

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