International Journal of Analysis and Applications

ESG And Firm Value in Vietnam: The Moderating Role of Profitability

Thi Lam Anh Nguyen*, Thi Thu Trang La

Banking Academy of Vietnam, Vietnam
**Corresponding author: nguyenlamanh@hvnh.edu.vn*

ABSTRACT. This study examines the relationship between environmental, social, and governance (ESG) practices and firm value in Vietnam, with a specific focus on the moderating role of profitability. Using a panel dataset of publicly listed Vietnamese companies between 2014 and 2023, the study applies the Feasible Generalized Least Squares (FGLS) method to address potential heteroscedasticity and autocorrelation issues. The findings indicate that ESG engagement has a generally positive impact on firm value, measured by Tobin's Q.; however, this effect varies significantly across firms depending on their profitability levels. Firms with higher profitability benefit more from ESG practices, while those with low profitability experience weaker or neutral effects. This suggests that financial health plays a critical role in shaping the outcomes of ESG adoptions. This study contributes to the growing ESG literature in emerging markets by highlighting how internal financial capacity affects the effectiveness of sustainability strategies. It also provides practical implications for managers and policymakers seeking to align ESG initiatives with value-creation goals.

1. Introduction

In recent years, the integration of environmental, social, and governance (ESG) factors has become increasingly important in shaping firm strategies and investor decisions in the financial market. For companies, particularly in emerging markets like Vietnam, ESG practices are not only a response to global sustainability demands but also a strategic tool to build their reputation, attract investment, and reduce long-term risk. As regulatory expectations rise and stakeholders become more ESG-aware, firms face growing pressure to demonstrate their commitment to responsible business conduct.

Theoretically, ESG can influence firm value through several pathways. Strong ESG performance may signal effective risk management, operational efficiency, and future-oriented thinking, which can enhance investor confidence and boost firm valuations (Eccles, Ioannou &

Received Jul. 28, 2025

2020 Mathematics Subject Classification. 62P20.

Key words and phrases. ESG; firm value; profitability; Vietnam; Tobin's; emerging markets.

https://doi.org/10.28924/2291-8639-23-2025-234

ISSN: 2291-8639

Serafeim, 2014). Simultaneously, governance quality can reduce agency costs and improve transparency, whereas environmental and social actions may strengthen customer and employee loyalty. However, ESG implementation often involves significant upfront costs, and its financial impact may depend heavily on a firm's internal resources and its ability to execute these initiatives effectively.

The current empirical literature provides mixed evidence on ESG value. Some studies find that ESG enhances firm value, especially in contexts where ESG factors are material and closely tied to core operations [2];[3]. Others report weak or inconsistent effects, particularly in emerging economies, where ESG frameworks are still evolving, and external pressures for disclosure remain limited [4];[5]. A growing body of work also suggests that firm-level characteristics, such as size, leverage, and profitability, can significantly moderate the impact of ESG on firm outcomes.

Building on this discussion, our study focuses on the Vietnamese market to examine how ESG affects firm value and how profitability shapes this relationship. We compiled a panel dataset of listed Vietnamese firms from 2014 to 2023 and applied the Feasible Generalized Least Squares (FGLS) method to correct for heteroscedasticity and serial correlation. Tobin's Q is used as a proxy for firm value, and profitability is introduced as a moderating variable.

Our findings show that ESG practices are, on average, positively associated with firm value. However, the strength of this relationship depends heavily on firm profitability. Firms with stronger financial performance appear to be better equipped to absorb ESG costs and translate sustainability efforts into tangible value. In contrast, firms with lower profit margins derive fewer benefits, suggesting that ESG returns are dependent on internal capabilities.

This study makes three main contributions to the literature. First, it extends the ESG literature in Vietnam, where empirical research remains limited. Second, it highlights profitability as a key moderator in the ESG-value nexus, offering a more nuanced understanding of when ESG works. Third, it delivers practical insights for firm leaders and policymakers on how financial health can influence the success of ESG initiatives. The remainder of this paper is organized as follows. Section 2 reviews the relevant theories and empirical evidence. Section 3 explains the data and the methodology. Section 4 presents and discusses the results of the study. Section 5 concludes with the implications and suggestions for future research.

2. Literature Review

2.1. Theoretical framework

The relationship between ESG practices and firm value is grounded in several established theories in corporate strategy and finance literature. Among them, stakeholder theory [6] offers a foundational explanation for this phenomenon. It argues that firms creating value not only for shareholders but also for other stakeholders, such as customers, employees, regulators, and communities, are more likely to enjoy sustainable success. By addressing stakeholder expectations, ESG practices can reduce reputational risks, enhance trust, and ultimately strengthen firm valuation [1]. In parallel, the resource-based view (RBV) [7] suggests that ESG capabilities can serve as rare, valuable, and difficult-to-imitate intangible assets. Firms that embed ESG into their operations can develop reputational capital, organizational learning, and strategic alignment, all of which can contribute to a long-term competitive advantage and higher firm value.

From a signalling perspective, strong ESG performance can convey credible information about management quality, long-term orientation and risk management effectiveness. This can reduce information asymmetry and improve investor confidence, particularly in markets with limited regulatory enforcement [3]. Although ESG may offer strategic advantages, its actual effect on firm value is not uniform. Firm-level characteristics, such as profitability, size, leverage, and asset structure, can significantly moderate the ESG–value relationship. For example, high-profit firms may find it easier to invest in ESG without compromising short-term returns, thereby realizing greater long-term benefits than low-profit firms [8]. In contrast, highly leveraged firms may lack the financial flexibility to sustain ESG investments, especially under liquidity pressure [9].

The role of firm size is also complex. Larger firms tend to have more resources, dedicated ESG teams, and stakeholder visibility, making them more likely to implement ESG policies successfully [3]. However, size can also introduce bureaucracy and inertia, which slow down ESG adoption [10]. Finally, in asset-heavy sectors such as manufacturing or real estate, fixed assets can serve both as a channel for ESG investment (e.g., energy-efficient upgrades) and a constraint if legacy infrastructure is not easily adaptable [11]. These theoretical lenses collectively suggest that ESG's influence of ESG on firm value is context-dependent. Profitability may be a key enabler or constraint in translating ESG activities into measurable financial results.

2.2. Empirical evidence

Empirical findings on the impact of ESG on firm value remain mixed, reflecting differences in industry, geography, ESG measurements, and firm characteristics. A large body of research has reported a positive relationship between ESG and firm value. [2] found that firms focusing on material ESG issues outperform their peers in stock returns and accounting metrics. Similarly, [12] showed that firms with stronger ESG disclosures and performance reported higher market valuations across European state-owned enterprises. In emerging markets, [13] found that the revised corporate governance code in Malaysia strengthened the link between ESG and firm value, particularly when ESG disclosures were credible and well structured.

A substantial body of research suggests that ESG practices can enhance firm value by improving transparency, strengthening stakeholder relationships and reducing operational risks. [2] found that firms focusing on material ESG issues achieve superior financial and market performance. [12] reported that public enterprises in Europe with strong ESG practices were consistently valued higher, largely due to enhanced governance and long-term strategic alignment. In emerging markets, ESG is often viewed as a signal of management credibility, attracting institutional investors and improving access to capital [13]. In Vietnam, [5] observed that ESG adoption was positively linked to firm performance, particularly among firms with sound financial foundations and clear ESG communication. Beyond direct financial benefits, ESG initiatives may also improve firm reputation, employee engagement, and regulatory compliance, all of which contribute to long-term value.

Despite its potential, ESG does not lead to higher firm values universally. [4] found that markets react negatively to ESG initiatives that are perceived as symbolic, misaligned, or excessively costly. [3] highlighted that while ESG disclosure may boost valuation via signalling effects, actual ESG implementation, particularly in highly leveraged firms, can impose financial burdens and yield limited benefits. In contexts where ESG awareness is low or reporting standards are weak, as in some emerging markets, ESG efforts may be overlooked by investors [14]. In Vietnam, ESG effectiveness varies significantly depending on firm characteristics, such as profitability, governance quality, and stakeholder visibility [5]. Moreover, the long-term nature of ESG investments can conflict with short-term financial targets, creating internal tensions and potentially reducing firm value in the absence of clear strategic alignment.

However, a third group of studies reports no significant effect of ESG on firm value. [14] argued that ESG only matters in high-consumer-awareness environments. In settings with weak ESG enforcement or low public scrutiny, such as in some emerging economies, the market may overlook ESG disclosure. [15] found that mandatory sustainability reporting did not always translate into higher firm valuation unless firms were already financially prepared to act on ESG goals. Taken together, these studies underscore the importance of firm-level moderators, especially profitability, in shaping how ESG activities translate into value creation for firms. Firms with solid profit margins can integrate ESG without sacrificing competitiveness. Meanwhile, less profitable firms may lack the resources or managerial slack needed to turn ESG into a competitive advantage.

3. Methodology

3.1. Data

The data for this study were obtained from various sources. Data on corporate ESG disclosure, corporate governance, and annual financial statements of all listed companies in Vietnam were obtained from Vietstock database. Macroeconomic data were obtained from the

Widata database. After data collection, all missing data points were excluded from the raw dataset. Since the sample includes all listed companies in Vietnam, it is quite large. However, the number of companies that voluntarily disclose their ESG information accounts for only a small portion of the total number of companies listed on the Vietnamese stock market. The final sample includes 164 listed companies in Vietnam during the period 2014–2023, equivalent to 1,640 firm-year observations. Vietnam presents a particularly relevant context for studying the ESG–firm value relationship. As a fast-growing emerging economy undergoing structural transformation, Vietnam has witnessed a surge in regulatory attention toward corporate governance, environmental responsibility, and social disclosure in recent years. The selection of the 2014–2023 timeframe reflects the period during which ESG reporting and awareness began to take shape, driven by Vietnam's increasing integration into global capital markets and policy shifts aligned with Sustainable Development Goals (SDGs). Key milestones during this period include the issuance of the Vietnam Corporate Governance Code in 2019 and the growing influence of international investors with ESG mandates in Vietnam. This decade also captures important macroeconomic and geopolitical shocks, such as the COVID-19 pandemic, which may moderate the impact of ESG practices on firm value, thus enhancing the empirical richness of the study.

3.2. The model

Following the approach of [3], [5], and [13], to measure the impact of ESG on firm value in Vietnam, this study proposes the following model:

$$\begin{aligned} TOBINQ_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 CASHFLOW_{it} + \beta_5 FIXEDASSET_{it} \\ + \beta_6 BIG4_{it} + \beta_7 COVID_{it} + \alpha_i + \delta_t + \epsilon_{it} \end{aligned} \tag{1}$$

Where *TOBINQ* represents the firm value. *ESG* is a binary variable that indicates whether a firm reports ESG information. Control variables include firm size (*SIZE*), leverage ratio (*LEV*), cash flow (*CASHFLOW*), intensity of investment in physical capital (*FIXEDASSETS*), the presence of BIG4 auditors (*BIG4*), and the COVID-19 pandemic (*COVID*). α_i represents firm fixed effects, δ_t is time fixed effects, and ϵ_{it} is the random error. The details of each variable are presented in Table 1.

To estimate the relationship between ESG performance and firm value, this study employs the two-way fixed effects (TWFE) model, which offers several advantages over conventional estimation methods such as pooled OLS, one-way fixed effects (FEM), random effects (REM), and feasible generalized least squares (FGLS). Unlike pooled OLS, which does not control for unobserved heterogeneity, the TWFE effectively accounts for both firm-specific and time-specific unobserved effects that could bias the estimated coefficients. Specifically, it controls for all time-invariant characteristics unique to each firm (e.g., corporate culture and industry-specific factors) as well as year-specific shocks that affect all firms simultaneously (e.g., macroeconomic fluctuations and regulatory changes). This dual control structure significantly reduces the omitted variable bias and improves the internal validity of the results.

Compared to the one-way FEM, which can only account for heterogeneity across either firms or time, the TWFE provides a more robust framework when both dimensions are relevant, as is the case in this study. Moreover, the TWFE is well-suited for unbalanced panel data, which is common in emerging markets where ESG disclosure is not uniformly adopted across all firms and time periods. In contrast, the REM model relies on the assumption that unobserved effects are uncorrelated with the explanatory variables, a condition unlikely to hold in the context of ESG, where disclosure practices may be endogenous to firm characteristics. While allowing for heteroskedasticity and autocorrelation, FGLS does not address the presence of fixed effects unless explicitly modelled. Therefore, TWFE represents a methodologically sound choice, enhancing the credibility of causal inferences in the analysis of ESG and firm value in Vietnam.

Table 1. Variable description

Variables	**Definitions**	**Calculation methods**
TOBINQ	Cost efficiency of banks	SFA method
ROA	Firm profitability	Net income/Total assets
ESG	ESG reporting activities of banks	Dummy variable, equals 1 if firms have ESG reports, 0 otherwise
SIZE	Firm size	Natural logarithm of firm total asset at the end of the period
LEV	Firm leverage	Total liabilities/Owner's equity
CASHFLOW	Firm cash flow	Total cash – Total liabilities
FIXEDASSETS	Firm fixed assets	Net sales/Average Fixed assets
BIG4	Big4 auditors	Dummy variable, equals 1 if a firm is audited by a BIG4 auditors, 0 otherwise
COVID	The COVID-19 pandemic	Dummy variable, equals 1 for year 2020 and 2021, 0 otherwise

4. Results and discussions

4.1. Descriptive statistics

Table 2 presents the sample's descriptive statistics. The average value of TOBINQ is 2.114, while ROA and ESG have means of 0.045 and 0.324, respectively. Control variables, such as SIZE, LEV, and CASHFLOW, show reasonable variation across firms. Approximately 37.4% of firms are audited by Big4 auditors, and 30% of observations fall within the COVID-19 period. These figures are generally consistent with the findings of recent studies on ESG in Vietnam [16];[17].

The correlation coefficient is a statistical measure that assesses the strength of the linear relationship between two variables. The results in Table 3 show that the correlation coefficients of the variables are all lower than 80%. Therefore, these independent variables are suitable for regression [18].

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
TOBINQ	1640	2.114	3.435	0.015	14.063
ROA	1640	0.045	0.545	-14.152	11.597
ESG	1640	0.324	0.468	0	1
SIZE	1640	28.114	1.813	24.432	30.97
LEV	1640	0.547	0.242	0.011	1
CASHFLOW	1621	0.134	0.364	-.249	1.352
FIXEDASSETS	1625	0.425	0.533	0	1.926
BIG4	1640	0.374	0.484	0	1
COVID	1640	0.3	0.458	0	1

Table 3. Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) TOBINQ	1.000								
(2) ROA	0.022	1.000							
(3) ESG	-0.181	0.037	1.000						
(4) SIZE	-0.512	0.031	0.225	1.000					
(5) LEV	0.069	-0.085	-0.194	-0.038	1.000				
(6) CASHFLOW	-0.047	-0.069	-0.004	0.168	-0.086	1.000			
(7) FIXEDASSETS	0.219	-0.057	-0.239	-0.418	0.455	-0.138	1.000		
(8) BIG4	-0.219	0.030	0.255	0.425	-0.153	0.213	-0.264	1.000	
(9) COVID	-0.004	-0.008	0.103	0.090	-0.010	0.000	-0.012	0.013	1.000

4.2. Baseline results

Table 4 presents the results of the two-way fixed effects regression estimating the relationship between ESG disclosure and firm value in Vietnam. The ESG coefficient is positive and statistically significant at the 1% level, indicating that ESG engagement is positively associated with firm value. This result suggests that ESG activities may enhance a firm's reputation, reduce information asymmetry, and build investor confidence, particularly in emerging markets where regulatory oversight is still evolving. Prior research supports this positive linkage, highlighting that ESG practices serve as strategic assets that can lead to increased firm valuation by lowering capital costs and improving stakeholder relations [1]; [19]. In the Vietnamese context, where ESG reporting is largely voluntary, firms with higher ESG transparency may differentiate themselves in the eyes of investors, thereby receiving higher market valuations.

Interestingly, the variable SIZE is negatively and significantly associated with firm value. While firm size is often assumed to correlate with a stronger market position and greater resources, a negative relationship with TOBINQ could imply diminishing marginal returns to scale or reflect agency problems and inefficiencies in resource allocation within large firms [20]. In emerging markets, larger firms may face greater scrutiny or institutional frictions that reduce their valuation multiples. Leverage (LEV) also has a negative and marginally significant effect on firm value. This finding is consistent with the pecking order and trade-off theories of capital structure, both of which suggest that excessive leverage can lead to financial distress or signal risk to investors, thus reducing firm value [21];[22]. In Vietnam's relatively shallow capital market, firms with high leverage may face increased investor skepticism, especially when disclosure standards are inconsistent. These findings highlight the value-relevant role of ESG in emerging markets and underscore the importance of financial discipline and transparency in enhancing firm valuations.

Table 4. Impact of ESG on firm value in Vietnam

Variables	**Dependent: TOBINQ**	
	Coefficient	**t-statistics**
ESG	0.386***	3.21
SIZE	-1.142***	-9.94
LEV	-1.076*	-1.89
CASHFLOW	-0.017	-0.07
FIXEDASSETS	0.181	0.34
BIG4	0.184	0.67
Bank FE	Yes	
Year FE	Yes	
Observation	1060	
Adjusted R2	0.7428	

*Notes: ***, **, * denote statistical significance at 1%, 5%, and 10% levels, respectively*

4.3. Moderating impact of firm profitability

Table 5 extends the baseline model by examining the moderating role of firm profitability (ROA) in the relationship between ESG and firm value by adding the interactive variable [ESG x ROA]. The coefficient on ESG remains positive and statistically significant at the 1% level, reaffirming the baseline finding that ESG engagement enhances firm value. This result is consistent with the view that ESG practices serve as a form of intangible capital that improves stakeholder trust, risk management, and long-term strategic positioning [23]. However, the interaction term between ESG and ROA is negative and significant at the 5% level, indicating that the positive impact of ESG on firm value diminishes as profitability increases. In other words, while ESG activities are beneficial, their marginal contribution to firm valuation appears more pronounced in firms with lower profitability. This finding suggests a potential substitution effect, where high profitability alone may already signal strong firm fundamentals, reducing the incremental value added by ESG disclosures [3]. Conversely, less profitable firms may rely more heavily on ESG practices to differentiate themselves, reduce perceived risks, and attract investor interest.

Table 5. ESG and firm value in Vietnam: the moderating impact of firm profitability

Variables	Dependent: TOBINQ	
	Coefficient	t-statistics
ESG	0.576***	3.66
ROA	1.263	0.84
ESG x ROA	-3.780**	-2.19
SIZE	-1.142***	-9.88
LEV	-1.142**	-1.97
CASHFLOW	-0.008	-0.03
FIXEDASSETS	0.148	0.28
BIG4	0.216	0.75
Bank FE	Yes	
Year FE	Yes	
Observation	1606	
Adjusted R2	0.7431	

*Notes: ***, **, * denote statistical significance at 1%, 5%, and 10% levels, respectively*

4.4. Heterogeneity analysis

Table 6 investigates whether the effect of ESG disclosure on firm value varies depending on firm characteristics, such as size, leverage, and auditor quality. The results reveal significant heterogeneity, indicating that the valuation impact of ESG is not uniform across all firms.

In the SIZE subsample, the coefficient on ESG is statistically significant and positive for small firms but insignificant and negative for large firms. This implies that ESG initiatives contribute more meaningfully to the value of smaller firms. Smaller firms may face higher information asymmetry and reputational risks and, therefore, benefit more from ESG signaling [24]. These firms can use ESG disclosures to build legitimacy, attract long-term investors, and mitigate resource constraints. Conversely, for large firms, the market may already incorporate other signals of stability and capacity, thus weakening the marginal value of ESG data. For leverage-based subsamples, ESG has a positive and significant effect on high-leverage firms but not on low-leverage firms. This suggests that in firms with higher financial risk, ESG practices may act as a compensatory mechanism that reduces perceived risk and reassures investors. ESG engagement in highly leveraged firms may also be interpreted as a commitment to long-term sustainability, thereby offsetting concerns about debt-servicing risk [25]. Interestingly, operating cash flow (CASH) is negatively significant in the high-leverage group, indicating potential liquidity strain in overleveraged firms, making ESG performance even more critical in maintaining investor trust during financially constrained periods.

Table 6. Heterogeneity analysis based on ownership

Variables	TOBINQ					
	SIZE		LEVERAGE		BIG4 AUDITOR	
	Large	**Small**	**High**	**Low**	**Big4**	**No Big4**
ESG	-0.086	1.08***	0.347**	0.332	0.226	0.444**
	(-1.01)	(3.45)	(2.11)	(1.53)	(1.50)	(2.42)
SIZE	-0.262***	-2.327***	-0.979***	-1.30***	-0.819***	-1.544***
	(-3.05)	(-8.55)	(-5.65)	(-6.13)	(-6.84)	(-8.48)
LEV	0.928***	-1.596*	-1.703	0.002	-0.807	-0.840
	(6.00)	(-1.68)	(-1.41)	(0.00)	(-1.21)	(-1.13)
CASH	-0.148	0.005	-1.596***	0.039	-0.370*	0.180
FLOW	(-1.52)	(0.01)	(-2.94)	(0.14)	(-1.79)	(0.48)
FIXED	-0.146	-1.233	0.243	1.766**	1.151*	-0.450
ASSETS	(-1.18)	(-1.37)	(0.41)	(3.48)	(1.79)	(-0.66)
BIG4	0.098**	-1.287	-0.053	0.895***	-	-
	(2.32)	(-0.50)	(-0.20)	(3.48)	-	-
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	819	776	793	800	613	992
Adj. R2	0.5764	0.7223	0.7630	0.8065	0.6334	0.7459

Note: ***, **, * denote statistical significance at 1%, 5%, and 10% levels, respectively. t-statistics are in parentheses

ESG also has a significant positive impact on firm value among firms audited by non-Big4 auditors, while the effect is insignificant in the Big4 subgroup. This may reflect the fact that non-Big4 firms tend to lack external validation and reputational backing, making ESG disclosures a more powerful tool for improving transparency and reducing perceived risk. In contrast, Big4-audited firms may benefit from strong market confidence, reducing the incremental value of ESG efforts [26]. These results highlight the conditional relevance of ESG performance, especially for firms with lower reputational capital, weaker financial fundamentals, or smaller sizes. The findings imply that regulators and investors should prioritize ESG promotion among financially constrained or informationally opaque firms, where the marginal impact is most pronounced.

Table 7. Heterogeneity analysis based on economic conditions

Variables	**TOBINQ**			
	COVID		**NO COVID**	
	(1)	**(2)**	**(1)**	**(2)**
ESG	-0.153	0.160	0.396***	0.573***
	(-1.52)	(0.79)	(2.73)	(3.09)
ESGxROA		-5.958*		-2.225*
		(-1.75)		(-1.73)
ROA		5.553		-0.156
		(1.62)		(-0.11)
SIZE	-1.152***	-1.036***	-1.210***	-1.223***
	(-3.46)	(-2.96)	(-7.56)	(-7.55)
LEV	-1.521***	-1.419	-1.094	-1.207
	(-0.92)	(-0.90)	(-1.52)	(1.63)
CASH	-0.378	-0.317	0.015	0.014
FLOW	(-1.15)	(-1.00)	(0.05)	(0.05)
FIXED	-2.282	-1.943	01.866**	1.813**
ASSETS	(-1.05)	(-0.92)	(2.32)	(2.22)
BIG4	0.028	-0.049	-0.104	-0.128
	(0.19)	(-0.28)	(-0.29)	(-0.36)
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Obs.	487	487	1,119	1119
Adj. R2	0.8929	0.8969	0.7918	0.7919

Note: ***, **, * denote statistical significance at 1%, 5%, and 10% levels, respectively. t-statistics are in parentheses

Table 7 explores the heterogeneity in the ESG–firm value relationship under different economic conditions by splitting the sample into two periods: during the COVID-19 crisis (COVID = 1) and outside the crisis (NO COVID = 0). The results show that the positive impact of ESG performance on firm value is only statistically significant during non-crisis periods. Specifically, ESG is positively associated with firm value in the NO COVID group, consistent with the baseline model. However, this relationship became insignificant during the COVID-19 period, when the coefficient for ESG turned negative and statistically insignificant. This suggests that ESG is valued more by investors during stable economic environments, likely due to its role in signalling long-term orientation, risk mitigation, and stakeholder alignment [3];[23]. Additionally, the interaction term between ESG and ROA remains negative and significant in the NO COVID group, indicating that the positive effect of ESG on firm value weakens as profitability increases, a finding consistent with the interactive model. This effect intensified during the COVID period, implying that highly profitable firms derive less marginal benefit from ESG during crises, possibly because investors shift their focus to short-term liquidity and survival prospects rather than long-term strategic commitments [27].

Overall, the findings imply that the valuation effects of ESG are contingent on the macroeconomic conditions. ESG is more strongly rewarded during normal times, whereas during systemic shocks such as the COVID-19 pandemic, its influence on firm value diminishes. These results underscore the need for a long-term and context-sensitive approach to ESG strategies, especially in emerging markets, where investor priorities fluctuate with macroeconomic stability.

5. Conclusion

This study investigates the impact of Environmental, Social, and Governance (ESG) performance on firm value in the context of Vietnam, an emerging market undergoing structural transformation and increasing ESG awareness. Using a panel dataset of 164 listed firms from 2014 to 2023 and employing a two-way fixed effects model, the findings consistently show that ESG performance is positively associated with firm value. However, the effect is heterogeneous across firm characteristics and the economic conditions. Specifically, ESG is found to be more value-enhancing for small firms, highly leveraged firms, and those without Big4 auditors, suggesting that ESG acts as a compensatory mechanism in situations where informational opacity or financial risk is higher. Moreover, the moderating role of profitability reveals that the positive ESG effect weakens as profitability increases and that the valuation impact of ESG is more pronounced during non-crisis periods, whereas it becomes negligible during systemic shocks such as the COVID-19 pandemic.

These results have several important implications. First, they reinforce the strategic importance of ESG for firms, especially those with weaker financial fundamentals or less external credibility, such as SMEs or firms without access to high-quality assurances. For such firms, ESG initiatives can serve as reputational buffers and risk-reduction tools, improving access to capital and long-term investor trust. Second, managers of firms with limited profitability or operating under adverse conditions should prioritize ESG as part of their value-enhancement strategy rather than viewing it as a luxury reserved for financially robust companies. From a policy perspective, regulators and capital market institutions should consider targeted incentives and disclosure frameworks to support ESG adoption among vulnerable or underperforming firms, where the marginal benefit of ESG adoption appears to be the greatest.

This study had some limitations. The ESG data used rely primarily on voluntary disclosures, which may introduce self-selection bias and raise concerns about greenwashing. Furthermore, the analysis focuses solely on listed firms in Vietnam, which may limit the generalizability of the findings to unlisted firms or other emerging economies with different institutional contexts and settings.

Future research could extend this work by exploring the dynamic impact of ESG over longer time horizons, incorporating instrumental variable approaches or natural experiments to strengthen causal inference, and examining sector-specific or regional heterogeneity in greater depth. Moreover, qualitative studies on how firms internally strategize ESG during crises would provide valuable insights to complement these empirical findings.

Acknowledgement: The authors gratefully acknowledge financial support from the Banking Academy of Vietnam.

Conflicts of Interest: The authors declare that there are no conflicts of interest regarding the publication of this paper.

References

[1] R.G. Eccles, I. Ioannou, G. Serafeim, The Impact of Corporate Sustainability on Organizational Processes and Performance, Manag. Sci. 60 (2014), 2835-2857. https://doi.org/10.1287/mnsc.2014.1984.

[2] M. Khan, G. Serafeim, A. Yoon, Corporate Sustainability: First Evidence on Materiality, Account. Rev. 91 (2016), 1697-1724. https://doi.org/10.2308/accr-51383.

[3] A. Fatemi, M. Glaum, S. Kaiser, Esg Performance and Firm Value: The Moderating Role of Disclosure, Glob. Financ. J. 38 (2018), 45-64. https://doi.org/10.1016/j.gfj.2017.03.001.

[4] P. Krüger, Corporate Goodness and Shareholder Wealth, J. Financ. Econ. 115 (2015), 304-329. https://doi.org/10.1016/j.jfineco.2014.09.008.

[5] N. Mai Tran, M. Ha Tran, Corporate Social Responsibility Disclosure and Firm Performance: Evidence from Vietnam, Invest. Manag. Financ. Innov. 19 (2022), 49-59. https://doi.org/10.21511/imfi.19(3).2022.05.

[6] R.E. Freeman, Strategic Management, Cambridge University Press, 2010. https://doi.org/10.1017/CBO9781139192675.

[7] J. Barney, Firm Resources and Sustained Competitive Advantage, J. Manag. 17 (1991), 99-120. https://doi.org/10.1177/014920639101700108.

[8] Z. Luo, Y. Li, L.T. Nguyen, I. Jo, J. Zhao, The Moderating Role of Country Governance in the Link Between Esg and Financial Performance: A Study of Listed Companies in 58 Countries, Sustainability 16 (2024), 5410. https://doi.org/10.3390/su16135410.

[9] T.T. Tawfiq, H. Tawaha, A. Tahtamouni, N.A. Almasria, The Influence of Environmental, Social, and Governance Disclosure on Capital Structure: An Investigation of Leverage and WACC, J. Risk Financ. Manag. 17 (2024), 570. https://doi.org/10.3390/jrfm17120570.

[10] H. Dkhili, Does Environmental, Social and Governance (esg) Affect Market Performance? the Moderating Role of Competitive Advantage, Compet. Rev.: Int. Bus. J. 34 (2023), 327-352. https://doi.org/10.1108/cr-10-2022-0149.

[11] M. Biasin, A. Delle Foglie, E. Giacomini, Addressing Climate Challenges Through ESG-Real Estate Investment Strategies: An Asset Allocation Perspective, Financ. Res. Lett. 63 (2024), 105381. https://doi.org/10.1016/j.frl.2024.105381.

[12] C. De Lucia, P. Pazienza, M. Bartlett, Does Good ESG Lead to Better Financial Performances by Firms? Machine Learning and Logistic Regression Models of Public Enterprises in Europe, Sustainability 12 (2020), 5317. https://doi.org/10.3390/su12135317.

[13] N.H. Ab Aziz, A.R. Abdul Latiff, S.M. Alshdaifat, M.N.H. Osman, N.A. Azmi, ESG Disclosure and Firm Performance: Evidence After the Revision of Malaysian Code of Corporate Governance, Int. J. Acad. Res. Bus. Soc. Sci. 13 (2023), 2919-2938. https://doi.org/10.6007/ijarbss/v13-i12/19140.

[14] H. Servaes, A. Tamayo, The Impact of Corporate Social Responsibility on Firm Value: The Role of Customer Awareness, Manag. Sci. 59 (2013), 1045-1061. https://doi.org/10.1287/mnsc.1120.1630.

[15] I. Ioannou, G. Serafeim, The Consequences of Mandatory Corporate Sustainability Reporting, Harvard Business School Working Paper, No. 11-100 (2011, Revised 2012). https://doi.org/10.2139/ssrn.1799589.

[16] B. Thi Thu Loan, T. Thi Lan Anh, T. Hoang, Esg Disclosure and Financial Performance: Empirical Study of Vietnamese Commercial Banks, Banks Bank Syst. 19 (2024), 208-220. https://doi.org/10.21511/bbs.19(1).2024.18.

[17] S. Bilyay-Erdogan, B. Öztürkkal, The Role of Environmental, Social, Governance (ESG) Practices and Ownership on Firm Performance in Emerging Markets, Emerg. Mark. Financ. Trade 59 (2023), 3776-3797. https://doi.org/10.1080/1540496x.2023.2223930.

[18] G.G. Judge, W.E. Griffiths, R.C. Hill, H. Lütkepohl, T.C. Lee, The Theory and Practice of Econometrics, John Wiley & Sons, New York, 1991.

[19] G. Friede, T. Busch, A. Bassen, Esg and Financial Performance: Aggregated Evidence from More Than 2000 Empirical Studies, J. Sustain. Financ. Invest. 5 (2015), 210-233. https://doi.org/10.1080/20430795.2015.1118917.

[20] D. Yermack, Higher Market Valuation of Companies with a Small Board of Directors, J. Financ. Econ. 40 (1996), 185-211. https://doi.org/10.1016/0304-405x(95)00844-5.

[21] S.C. Myers, The Capital Structure Puzzle, J. Financ. 39 (1984), 575-592. https://doi.org/10.2307/2327916.

[22] M.Z. Frank, V.K. Goyal, Capital Structure Decisions: Which Factors Are Reliably Important?, Financ. Manag. 38 (2009), 1-37. https://doi.org/10.1111/j.1755-053x.2009.01026.x.

[23] K.V. LINS, H. SERVAES, A. TAMAYO, Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility During the Financial Crisis, J. Financ. 72 (2017), 1785-1824. https://doi.org/10.1111/jofi.12505.

[24] Y. Chen, M. Hung, Y. Wang, The Effect of Mandatory CSR Disclosure on Firm Profitability and Social Externalities: Evidence from China, J. Account. Econ. 65 (2018), 169-190. https://doi.org/10.1016/j.jacceco.2017.11.009.

[25] A. Goss, G.S. Roberts, The Impact of Corporate Social Responsibility on the Cost of Bank Loans, J. Bank. Financ. 35 (2011), 1794-1810. https://doi.org/10.1016/j.jbankfin.2010.12.002.

[26] A. Lawrence, M. Minutti-Meza, P. Zhang, Can Big 4 Versus Non-Big 4 Differences in Audit-Quality Proxies Be Attributed to Client Characteristics?, Account. Rev. 86 (2011), 259-286. https://doi.org/10.2308/accr.00000009.

[27] D.C. Broadstock, K. Chan, L.T. Cheng, X. Wang, The Role of ESG Performance During Times of Financial Crisis: Evidence from COVID-19 in China, Financ. Res. Lett. 38 (2021), 101716. https://doi.org/10.1016/j.frl.2020.101716.