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Current Status of ESG Practices at Vietnamese Enterprises: Difficulties and Solutions

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Abstract

The definition of business success today has changed when society not only looks at economic indicators, but also looks at how the factors of that business affect environmental protection, contribute to society and community benefits. Therefore, sustainable business and development is an inevitable choice for businesses, helping businesses create long-term advantages, values, and trust with stakeholders. At the same time, it contributes to enhancing the competitiveness of businesses, helping businesses survive and grow strongly. From there, contribute to the cause of promoting sustainable development of the national economy. ESG (abbreviation for three phrases: Environment, Social and Governance) is a set of standards used to measure factors related to sustainable development of businesses, helping businesses increase business

efficiency and increase reputation, reduce risks and costs, in accordance with the trend market direction and requirements. This article uses descriptive statistics and meta-analysis methods on a survey sample of 234 responses from different types of businesses to learn about the level of commitment and ESG practices of businesses in Vietnam. At the same time, discuss the current status of applying the set of sustainability measurement standards as well as analyze the difficulties and challenges that Vietnamese businesses face such as lack of knowledge about ESG, challenges in financial capacity, and business scale and lack of transparency in ESG data. From there, we recommend a number of corresponding solutions to make the application of the ESG sustainability measurement standards in Vietnamese businesses convenient and successful.

Keywords: ESG, Sustainable Development, Current Situation, Solutions

1. Introduction

Today, sustainable development is a global concern. In the world's development process, each country has many common pressing problems. The more the economy grows, the more the scarcity of raw materials and energy due to the depletion of non-renewable resources increases, the more the natural environment is destroyed, and the ecological balance is disrupted, nature causes extremely catastrophic natural disasters. That is economic growth that is not in sync with social progress and development. There is economic growth but no progress and social justice; economic growth but cultural and moral decline; Economic growth widens the gap between rich and poor, leading to social instability. The development process requires harmonious regulation between economic growth and ensuring social security and environmental protection. Therefore, sustainable development is becoming an urgent requirement for the whole world.

For businesses, sustainable business and development is doing business responsibly and considering the impact of business activities on the environment, society, and governance. This is a business strategy that not only focuses on short-term profits but also focuses on maintaining balance between business factors and long-term human, environmental, social and economic factors. The goals of business and sustainable development include: environmental protection (saving resources, reducing pollution); social responsibility (compliance with legal regulations, creating positive values, responsibility for the community); maintain sustainability (sustainable, long-term business development). Sustainability is very important in business to help businesses create advantages, help businesses survive, develop, create value, long-term trust and stability in the hearts of employees, customers and stakeholders. At the same time, it contributes to expanding the competitiveness of businesses, helping businesses grow strongly. From there, contribute to the cause of promoting sustainable development of the national economy.

Deeply aware of the role of business and sustainable development in the context of integration, businesses around the world today not only focus on building and implementing sustainable development strategies within their businesses, but they also care about and devote resources and investments to increase participation and capacity building for suppliers and stakeholders in the business's value chain, thereby creating an ecosystem. corporate sustainability. In Vietnam, sustainable business and development activities are increasingly popular. The focus of sustainable development mainly focuses on three aspects: Environment, Social, and Governance, abbreviated as ESG. ESG is a set of standards that measure factors related to the sustainable development activities of a business. Sustainable business ESG is not only applied in large corporations but can be implemented by businesses of all sizes. This trend creates effective business opportunities, businesses are more responsible for the environment and society, creating sustainable business development for each business and the economy. However, the set of ESG standards used to measure factors related to the sustainable development orientation and activities of businesses in Vietnam is still extremely new. According to the report on the level of readiness for ESG in Vietnam (PwC Vietnam, 2022)^[12] conducted a survey of 234 business representatives showing that, although 80% of businesses participating in the survey have committed to ESG content or plan to do so in the next 2-4 years. However, up to 71% of businesses are still not equipped with enough knowledge about the necessary data for reporting; 70% do not or rarely disclose ESG reports to the outside world; 64% of businesses have not had their level of ESG information disclosure verified by external partners. This requires Vietnamese businesses to proactively prepare knowledge, skills, and finance to be ready for the implementation of ESG standards.

2. Research Overview

2.1 About ESG

The concept of ESG was initially mentioned in a publication by US economist Howard Bowen in 1953 as CSR (Corporate Social Responsibility - corporate social responsibility in production and business activities)^[6]. Next, ESG (Environmental, Social and Governance) began to be known to the world at the end of 2004 when it first appeared in "Who Cares Win Connecting Finance Marketing to a Changing World", a report written by the UN Global Compact.^[14] Kofi Annan, who was Secretary General of the United Nations at the time, used it officially, emphasizing the need for responsible investment that considers environmental, social and administration.

ESG is a standard system that includes environmental (E), social (S) and governance (G) factors^[3]. ESG stems from responsible investing. The definition of responsible investment is a strategy that incorporates environmental, social and governance (ESG) factors in investment decisions^[11]. As a result, ESG is often the benchmark and strategy used by investors to evaluate a company's behavior and future financial performance. To evaluate the sustainable development of a business, the three basic elements of ESG (environment, society and governance) are key points that need to be considered in the investment analysis and decision-making process. Furthermore, they are factors that help measure the sustainability and social impact of business activities^[4]. As the EBA (European Banking Authority)

states, ESG factors are environmental, social or governance issues that can have a positive or negative impact on financial performance or solvency of an entity, sovereign or individual^[3]. Thus, to put it simply, Thuy (2022) defines ESG as a set of standards used to measure factors related to sustainable development of businesses^[10]. The ESG standards set includes 3 groups of standards, specifically as follows:

E - Environmental: Group of standards related to issues of environmental protection and natural resources, such as impacts from climate change and carbon emissions, managing water and waste causing pollution, exploiting resources from forests,...

S - Social: A group of standards related to the entire society, from basic issues such as customer satisfaction to comprehensive issues such as diversity, equity and inclusion, privacy, data security and confidentiality, community relations...

G - Governance: Group of standards related to organizational activities such as issues related to corporate governance, protection of intellectual property rights...

2.2 About sustainable development

Gro H. Brundtland (1987)^[2] mentioned the concept of sustainable development in the "Brundtland Report" of the World Commission on Environment and Development (WCED) stating that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Richard N. Andrews (2003)^[1] believes that sustainable development is not only a matter of charity activities and ethical responsibility to the community but is a core strategy and growth opportunities for your business. Bradley D. Parrish (2005)^[8] defines sustainable development enterprise as an organization that contributes to sustainable social development, "sustainability" is understood as a human future and "development" is understood as a qualitative improvement in the human condition. Jim Schorr (2006)^[13] argues that businesses cannot continue simple production and business activities as at present, but must find new solutions for sustainable development or otherwise face business bankruptcy. Sustainable business development according to Parrish (2007)^[9] believes that business is a factor in a social ecosystem. Each element in the ecosystem has its own purpose and needs. However, for the social ecosystem to exist and develop together, businesses must organize sustainable activities to meet their own needs as well as those of stakeholders. Thus, sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet those needs on the basis of a close, balanced comprehensive, integrated, harmonious between economic growth, solving social problems and environmental protection.

2.3 The connection between ESG and sustainable development

ESG and sustainable business are closely linked. The search for a relationship between environmental, social, governance (ESG) criteria and corporate financial performance (CFP) can be traced back to the early 1970s. Friede *et al.* (2015)^[5] researched and extracted all primary and secondary data provided from previous review studies

and compiled more than 2000 research studies on this issue. Xie and colleagues (2017) [7] investigated the relationship between corporate performance and corporate sustainability to determine whether businesses pay attention to environmental and social issues, governance (ESG) can operate efficiently and profitably.

Li et al (2017) [15] use a large cross-sectional dataset of FTSE 350 listed companies to investigate whether environmental, social and superior corporate governance (ESG) has an impact on company value or not. Thus, it can be seen that there have been many studies proving that ESG and sustainable development are closely related. ESG plays an important role in building a sustainable business model, helping businesses increase business efficiency, increase reputation, reduce risks and costs, in accordance with market trends and requirements. In summary, ESG is not only a set of criteria to evaluate the sustainable performance of businesses but also a tool to promote sustainable development by creating value for both businesses and society through responsible and sustainable environmental, social and governance management

3. Research Methods

3.1 Methods used

Descriptive statistics: Using primary and secondary data to evaluate the current state of readiness to practice ESG of businesses in Vietnam.

Analysis and synthesis: Data collected on the current state of readiness to practice ESG of businesses in Vietnam will be analyzed and synthesized; At the same time, find out the difficulties and challenges that Vietnamese businesses face when practicing ESG in order to make recommendations to effectively apply sustainable business standards in the future.

3.2 Survey data and samples

Secondary data includes domestic and foreign research works collected through sources at libraries, published publications, online searches and visits to websites.

Survey sample: With 234 responses from different types of businesses including 40.6% foreign-invested businesses, 29.1% private/family businesses, 23.5% listed businesses, 5.1% state-owned enterprises and 1.7% other enterprises. The survey sample is also diverse in business fields such as banking and capital markets; Industrial production; energy, electricity, water and resources; retail and consumer; business service; information technology and telecommunications; engineering and construction...

Survey period: from May to August 2022.

4. Research Results and Discussion

4.1 Survey results

Regarding the commitment to ESG practices of Vietnamese enterprises by type of enterprise

Table 1: Survey results on commitment to ESG practices of Vietnamese enterprises

Type of business participating in the survey	Status of commitment to ESG practices of Vietnamese enterprises		
	No ESG commitments have been set / specific plans for the next 2-4 years have not been determined	Currently in the planning stage for the next 2-4 years	Planned and made an ESG commitment
FDI enterprises	16%	27%	57%
Listed company	7%	58%	35%
Private enterprise	31%	29%	40%

Source: Report on ESG Readiness in Vietnam, PwC, 2022)

Survey results show that the group of enterprises with foreign investment capital (FDI) has the highest rate of interest in ESG practices at 57%. This group has planned and made clear commitments on ESG, which is entirely appropriate given that this type of business must comply with the policies of the parent company in foreign countries, where the ESG trend is growing stronger than Vietnam. The group of businesses listed on the Vietnam stock market with a ratio of 58% is in the planning stage for the next 2-4 years. This group of businesses is approaching ESG and gradually completing the plan. The group of private businesses or family companies with a rate of 31% has not set an ESG commitment or has not determined specific plans for the next 2-4 years. The explanation for this may be due to the small size of the business or limited financial capacity or not realizing the benefits of sustainable business. With the above results, it can be said that Vietnamese businesses have begun to pay attention to implementing ESG commitments in business activities, especially the three groups of businesses surveyed above are the groups that contribute a lot to society and contribute to promoting sustainable economic development.

Regarding the implementation of the ESG program at Vietnamese enterprises

Table 2: Survey results on the implementation of ESG programs at Vietnamese enterprises

Applicable status	Ratio
There is no ESG program	34%
Limited plan with some criteria belonging to E, S, G	16%
There is a clear ESG program for a number of criteria under E, S, G	28%
There is a comprehensive program that covers all aspects E, S, G	22%

Source: Report on ESG Readiness in Vietnam, PwC, 2022

The results show that a small portion of 22% of Vietnamese businesses have comprehensive programs covering all E, S, and G aspects. The majority of businesses, accounting for 50%, currently do not have an ESG program and are new, only stopping at plans with a number of criteria under E, S, G. With the above results, it can be said that Vietnamese businesses are facing difficulties and challenges in the process of implementing the ESG program in their

operations. your business.

4.2 Discuss the difficulties and challenges that Vietnamese businesses encounter when practicing ESG

Based on the survey results, it was found that Vietnamese businesses have begun to pay attention and have a need to practice ESG in business operations, especially those that are required. However, the level of interest and willingness to apply has a clear difference between each type of business and application status. To explain this, some difficulties and challenges that Vietnamese businesses encounter when practicing ESG are as follows:

First, the challenge of lack of knowledge about ESG

Lack of knowledge about ESG can create many difficulties for businesses when implementing these principles. Lack of understanding of environmental, social and governance factors can leave businesses unclear about specific factors and their importance to the business. It can even prevent businesses from fully identifying and evaluating favorable and unfavorable factors related to the environment, governance and society. This may result in non-compliance with ESG-related standards or regulations. From there, it can be difficult to identify specific goals, develop appropriate strategies, and take steps to measure and track progress. Additionally, without a clear understanding of the benefits of ESG and how to apply them, convincing others in the business to make changes can become difficult.

Second, the challenge of financial capacity

Implementing ESG measures, businesses will face some financial difficulties. First, consider the initial investment cost. Implementing ESG can require large initial investment costs, for example investing in green technology, improving infrastructure to reduce environmental impact, changing from environmentally unfriendly processes to greener processes or improving production processes, which can entail large operating costs. Next is operating and operating costs. Operating costs from machinery, technology, and personnel are also a significant expense. For large businesses, these are not small costs and will have to be built into long-term plans. For small and medium-sized businesses, having enough finances to start applying ESG is a big challenge. Businesses find it difficult to balance between investing in ESG and maintaining business operations.

Third, the challenge of business scale.

In Vietnam, business sizes are often classified into 3 types, including: small and micro enterprises, medium enterprises, and large enterprises. However, the proportion of small, micro and medium enterprises accounts for a large proportion in the structure of enterprise scale. Small business size and scale can create some difficulties in implementing ESG measures, typically limiting resources to invest in ESG measures. They may not have enough financial capacity or human resources to implement large and high-cost projects. Furthermore, small companies may have difficulty collecting ESG-related data or do not have a professional data management system to ensure transparency and evaluate the effectiveness of ESG activities. Finally, small and mid-sized companies often experience strong competitive pressure from larger rivals and have difficulty attracting investment or funding large ESG projects.

Fourth, the challenge of lack of transparency in ESG data

ESG-related data is often complex and diverse, challenging not only in terms of data but also in terms of data quality, especially when collected from many different sources. Processing and analyzing this data is a big challenge for many businesses. This stems from no clear rules on how to collect, lack of standardization of data, and lack of common standards for processing and reporting on ESG indicators. This leads to inconsistency, lack of transparency and uncertainty about the origin and quality of the data. This results in missing necessary information or information being reported incorrectly, making it difficult to compare or evaluate the performance of companies.

5. Recommend Some Solutions

From the survey results and the above analysis, in order to apply and practice ESG in Vietnamese businesses smoothly and successfully, the following recommendations can be considered:

Equipped with full knowledge about ESG

To be equipped with full knowledge about ESG, businesses need to invest time and effort to improve knowledge about ESG through searching for information, participating in courses, training and discussing with experts, organizations or other resources with experience in implementing ESG. Businesses can equip themselves with knowledge about ESG through these steps:

Learn about ESG: Start from learning and mastering the basic principles of Environment, Society, and Governance in ESG. Understand their importance to business operations.

Identify priorities and goals: Identify areas that the business needs to improve or focus on to implement ESG. Set specific and measurable goals to track progress.

Create an ESG strategy: Develop a detailed and specific ESG strategy, aligned with the company's business goals. This includes identifying the activities to be carried out, the resources needed and the implementation roadmap.

Commitment from leadership: To be successful, ESG implementation requires strong commitment from the leadership of the business. Create policies and procedures, assign specific responsibilities to departments and employees.

Continuously evaluate and improve: Periodically evaluate progress, adjust strategy if necessary, and improve the business's ESG processes to ensure effectiveness and alignment with long-term goals.

Improve financial capacity to practice ESG

To improve the financial viability of implementing ESG measures, there are a number of solutions businesses can adopt. First, look for sources of funding and financial support such as loans with preferential interest rates, support programs from financial institutions or investors interested in ESG projects. Additionally, you can consider investing gradually or looking for cost-effective solutions. Second, carefully identify and calculate the costs and benefits of implementing ESG measures. Evaluate, select priority measures and plan for gradual implementation to minimize the impact on financial capacity and can bring about financial efficiency and long-term benefits. Third, cooperation and cost sharing: Cooperate with partners or suppliers to share costs and optimize resources. Participate in alliances or communities to share resources and

experiences, thereby reducing costs and increasing investment capacity for ESG projects. Combining the above solutions can help businesses optimize financial resources and implement ESG projects more effectively and sustainably.

Solutions for business scale

Small businesses should look for cost-saving or optimization solutions, choosing ESG projects that have lower costs but still bring great benefits. Or seek funding from organizations and investment funds interested in ESG projects. Identify small projects that could attract investment from social investors or small ESG-enabled programs. Additionally, collaborate and share resources with partners or communities to minimize costs. Businesses should also find their own strengths and focus on ESG areas that can create competitive advantages to build a strong image with stakeholders through transparency and good implementation of policies. ESG measures. For large businesses, invest in modern and easy-to-use data management systems that support the collection, processing and reporting of data related to ESG indicators while using automated technologies. Automation to reduce effort and cost for data collection.

Transparent data solutions

Data quality is critical to presenting information in a useful way to decision makers. The process of collecting and verifying information is quite complicated, so companies need to consider the whole system, not just the report. To address these difficulties, it is necessary to focus on increasing standardization, standardization and transparency in ESG data collection and reporting. Using technology, promoting collaboration and alignment with supply chain partners are also important measures to improve the quality and transparency of ESG data.

6. Conclusion

Sustainable development closely linked to business goals is a prerequisite for business success and is also an inevitable choice for businesses around the world. ESG is a set of standards that measure factors related to the sustainable development activities of a business. It includes measurement standards and factors related to the sustainable development activities of a business. For Vietnamese businesses, ESG plays an extremely important role. Because Vietnam is one of the countries most likely to be affected by climate change; Enterprise scale is mostly small and medium; Competitiveness still faces many disadvantages for businesses. Therefore, it is very important for Vietnamese businesses to commit to and practice ESG to help them do business effectively and sustainably and build trust and assurance among stakeholders, especially the community. invest. However, there are still some issues that need to be considered such as lack of knowledge about ESG, challenges in financial capacity, business scale and lack of transparency in ESG data. Quickly overcoming the above problems will help businesses develop sustainably, have innovation and differentiation, and quickly qualify to integrate with the global economy.

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