REGRESSION MODELS FOR DETERMINING FOREIGN OWNERSHIP RATIO IN VIETNAMESE LISTED FIRMS: THE ROLE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) SCORES

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ABSTRACT

This paper proposes regression models to investigate the impact of ESG scores and other factors on foreign ownership in Vietnamese listed firms. ESG scores, as a valuable tool for measuring a firm's environmental, social, and governance performance, provide foreign investors with insights into investment risks and potential, enabling them to determine optimal ownership levels for maximising returns. This study contributes to the growing body of research on the role of ESG scores in foreign ownership by developing models to explore the relationship between ESG scores, other relevant factors, and foreign ownership. The authors address the endogeneity issue between firm-specific control variables and ESG scores using a 2SLS-IV approach. Our proposed models serve as a foundation and reference point for future research examining the influence of ESG scores and other factors on foreign ownership in Vietnamese listed firms.

Keywords: *Foreign ownership, Vietnamese listed firms, environmental, social, governance, ESG.*

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1. INTRODUCTION

In recent years, foreign investors have actively participated in frontier and emerging stock markets, including Vietnam's. In 2023, the net capital withdrawal of foreign investors reached a record level of more than 1 billion USD, although the market indices VN-Index and VN30 both recorded an increase in 2022 [38]. After 8 consecutive weeks of net selling in the last months, foreign capital flow returned with a net buying value of more than 300 billion VND in the last week of the year [31]. The reason for this concern is that the year 2023 was forecasted to witness many uncertainties in the world's macroeconomic situation, as well as interest rates in the US remain high for a long time, creating pressure to force foreign investors to withdraw capital from Southeast Asian countries like Vietnam in search of safer investment channels [26]. Currently, the pressure to withdraw net capital from foreign investors is increasing rapidly due to fluctuations in currency exchange rates, causing this group to restructure their investment portfolios and adjust cash flows. In the first three months of 2024, foreign investors only net bought in January with a value of nearly 178 billion VND - the lowest level in the past 7 years, and continued to net sell in February and March [75]. In the first quarter of 2024, the State Bank of Vietnam actively regulated the market through continuous net capital withdrawals from the T-bill channel, to slow down the increase in domestic exchange rates and narrow the exchange rate gap between VND and USD [34]. This trend continues until the end of May 2024, when foreign investors have sold a net of 1.6 billion USD, exceeding the whole year 2023. However, experts are still optimistic about future scenarios, with the expectation that the US Federal Reserve Bank will reduce interest rates for the third time this year, helping to reduce the devaluation pressure of the Vietnamese currency (VND). In addition, positive macroeconomic factors such as trade growth, stable foreign exchange reserves and tourism recovery

are also expected to support the market [44]. Another factor receiving attention is the goal of upgrading Vietnam's stock market from "marginal" to "emerging" in the second half of 2025, which brings many positive signals. Faced with a positive future scenario, the Vietnam government expects large capital flows from financial institutions around the world to flow into the Vietnamese market to anticipate investment opportunities. This reflects investors' confidence in Vietnam's economic and financial market prospects in the future [15].

Recently, Vietnamese firms had increasingly paid attention to the Environmental, Social, and Governance - ESG scores to promote sustainable development and improve business performance [65]. In Vietnam, the government has made strong commitments to promoting ESG. A typical example is the "Vietnam ESG Initiative 2024" [78], aiming to promote private firms to do sustainable business and implement ESG practices to measure sustainable development and impact on the community. However, to fully exploit the potential that ESG brings, it is necessary to attach this concept to the organization's strategy and improve the business model of the firm, because currently, Vietnam has only 35% of listed firms have established ESG plans, the reason being that senior leaders have not played a leading role and implemented the business's ESG initiatives [66]. In addition, corporate communication on ESG compliance has not been carried out effectively, with 70% of firms having no or very limited ESG reports [67]. Concluding with the PwC report, KPMG's report also shows that the disclosure of ESG practices in Vietnamese firms is increasingly popular, but the quality of reporting is still not up to standard [46]. Many companies lack professional knowledge and struggle to highlight information, making it impossible to attract international investors. Even so, government and business efforts to promote ESG have created positive signals. The Vietnamese government supports businesses through ESG policies and training programs, helping to improve competitiveness and meet the requirements of international investors as Vietnam integrates deeply into the global supply chain [1]. Moreover, the Corporate Social Responsibility index is becoming increasingly important for long-term sustainable development. In Vietnam, firms' CSR index has received more attention after incidents causing environmental damage caused by factories, such as the incident at the Formosa factory in Vietnam in 2016 [77]. Thanks to the impetus from government policies and increased public awareness from international investors, perfecting CSR metrics in Vietnam has developed rapidly, accelerating the process of international integration to achieve the goal of becoming a high-income developed country. Currently, multinational and domestic firms in Vietnam have paid more attention to CSR metrics [64]. However, this is still a big challenge for pioneering firms when having to build habits and culture towards the goal of sustainable development [64, 67].

Building ESG strategies or CSR increases the attractiveness of a business to international investors interested in sustainability factors [7, 8, 20]. This is also a key strategy to attract long-term investors, successfully integrate internationally, increase access to new capital sources, as well as improve relationships with business partners [11, 48, 71]. Therefore, with the global movement towards sustainable development, many studies on the connection between corporate ESG practices and foreign investor ownership have been conducted such as by Yu [91], Zhang et al. [92] and Addison [3]. The authors have discovered authors' argument and their theoretical basis on the impacts of ESG scores on the investment activities of foreign investors: The impact of ESG compliance issues on the foreign ownership ratio [43, 88]. The relationship between foreign investors' shareholdings and listed firms' ESG-compliant business activities [3, 63]. The impact of ESG reports on foreign investors' stock holdings [11, 43, 91]. An overview of related studies will be presented in detail in section 2.

Increasing the confidence of foreign investors and building corporate image through implementing environmental, social, and governance (ESG) strategies is extremely important for firms in Vietnam. Therefore, the authors sought to understand the theoretical and practical basis of the relationship between ESG scores and the foreign ownership ratio. On that basis, the authors proposed an estimation model to evaluate the impacts of ESG scores on the foreign ownership ratio in listed firms on the Vietnam stock exchange.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Literature Review

Definitions

The concept of foreign ownership is defined as the right to hold part of assets such as businesses, natural resources, financial assets, bonds, equity, and securities in

a country by individuals who are not citizens of that country or by firms whose headquarters are not located in that country [36]. Foreign ownership is common in the modern economy and is associated with the process of global integration. Regarding foreign ownership, the most common investment method is foreign portfolio investment (FPI), which is defined as foreign equity investment represented by the proportion of the firm's shares held by foreign investors [43] This ratio is calculated as a percentage of shares held by foreign investors in firms listed on the Vietnam stock market. The maximum holding ratio is regulated differently in different business sectors [6, 93]. In general, the foreign ownership ratio is the ratio of stock ownership by foreign investors compared to the total number of shares outstanding on the stock market of a firm [59]. In Vietnam, foreign investors can only buy securities after registering through a licensed domestic securities firm, which acts as a custodian.

Many factors affect the foreign ownership ratio, as well as their stock market trading moves [58, 60]. They often prioritize choosing firms with large market capitalization, high liquidity, high profits, high leverage and high book value per share ratio, but low financial leverage and low ownership concentration [51, 52, 60, 87]. A firm that has high liquidity reflects good short-term financial health and is very attractive to foreign investors [86]. They are also attracted by low debt-to-equity ratio, high-profit volatility and price volatility [17]. The foreign ownership ratio in a firm reflects investment preferences and attractiveness to foreign investors. They do not intend to invest in firms when the stock price is overvalued compared to the actual value [12]. In addition, investors tend to choose to invest in firms they are familiar with and have little information asymmetry [86]. But in a state of little information, they analyze stock returns better than domestic investors [10]. Accordingly, the study of Badawi et al. [9] has shown that domestic investors have lower investment efficiency than foreign investors.

Each country has its laws regulating the foreign ownership ratio. For example, in Indonesia, according to current capital market laws, foreign individuals and legal entities are allowed to buy and sell all types of securities, and investors can own 100% of the shares of a registered listed firm and 99% of shares in the banking industry. Taxed profits for domestic investors is 10%, foreign investors are 20%, and capital income is all at 0.15% [86]. In Taiwan, capital gains are tax-free while income gains are taxed as ordinary income for domestic investors, but foreign investors will be taxed at 25% on retained profits [52]. In the Vietnam stock market, there are restrictions on the ownership of foreign investors. The newest update in Decree No. 01/2014/ND-CP and Clause 1, Article 77 of the Securities Law 2019 stated that the maximum foreign ownership ratio is 30% of commercial banks and 49% of other firms. The reason is that Vietnam's economy depends heavily on the banking system, so it is not possible to raise the ownership limit for foreign investors, but the authorities are continuing to raise the ownership limit of foreign investors [12, 84]. Setting such a limit in Vietnam cannot well meet the share ownership needs of foreign investors, because they have great financial capacity but are limited when investing in Vietnamese firms. Currently, Vietnam is continuing to accelerate the equitization process [81]. Raising the ownership ratio for foreign investors is essential to take advantage of their experience in management, capital and technology. However, current ownership limits in Vietnam have limited the liquidity of stocks, thereby reducing the ability of domestic firms to mobilize capital.

Regarding ESG (Environmental, Social, Governance), this term appeared in the second half of the 20th century, in environmental protection movements such as Carson [18], Ngo [57] and Dangermond [24]. Firms around the world are required to take specific responsibility for business activities that affect the environment and human living conditions. The term ESG officially appeared for the first time in a United Nations report, when the organization guided and recommended how to integrate environmental, social, and corporate governance issues in asset management and related brokerage services [80]. ESG is evaluated through three main groups of factors including environment, society and corporate governance [92]. First, the group of environmental factors evaluates the overall impact of firms and businesses on the environment and how to manage risks when facing environmental problems such as climate change, pollution, and measures to protect natural resources. ESG criteria across the environmental group include energy consumption and efficiency, waste management, air and water pollution levels, biodiversity conservation and natural resource use [54, 70]. The second group of social factors, which are difficult to measure because they relate to people, including regulations on diversity, inclusion, equality, health and

social safety [56]. Firms treat their employee base, investors, customers and stakeholders, with several specific social ESG criteria such as employee pay; diversity, equity and inclusion programs; employee engagement experiences, workplace health and safety, data protection and privacy policies, fair treatment of customers and suppliers, customer satisfaction, community relations, funding projects to help the poor, human rights and labor standards [35, 54]. The third group of governance factors includes testing the firm's ability to self-manage policies, internal governance and maintain compliance with firm regulations. Some factors that evaluate this group include leadership and firm management; board composition, compensation policies, financial transparency and business integrity, compliance initiatives and risk management; ethical business practices, regulations on issues of corruption, bribery, and conflicts of interest [70].

Many organizations provide effective ESG assessment standards such as the International Organization for Standardization (ISO) such as [39-41]; International Sustainability Standards Board (ISSB), Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosure (TCFD). In Vietnam, there is a set of indicators called the Corporate Sustainability Index (CSI) provided by the Vietnam Chamber of Commerce and Industry (VCCI) to evaluate the ESG factors of a firm [83]. This set of indexes is adjusted appropriately according to Vietnam's legal policy in 2023, with 2 evaluation categories, including Business Overview and ESG Scale Evaluation Index [83]. In particular, the Business Overview section provides an overview of business information, economic-social-environmental information, structure, organizational model and key personnel. Next, the Scale Evaluation Index section is presented in detail with four subsections, including evaluation results in the last three years on the environment, labor - society and corporate governance [76]. These index sets include 130 indexes and are divided into 2 levels: 82 basic indexes C (Core) and 48 advanced indexes A (Advance) [83]. Basic index C are indicators of legal compliance and firms must perfect these indicators based on the nature of production and business industries (accounting for about 63% of the indicators). Advanced index A evaluates whether a business has been building a healthy business ecosystem to ensure long-term, sustainable benefits for partners and stakeholders, accounting for the remaining 37% [85]. The detailed scale has been described in the CSI profile published by VCCI [83]. Regarding the concept of Corporate Social Responsibility (CSR), along with the task of maximizing profits, firms must consider social and environmental impacts when doing business [5, 16, 30]. However, the modern economy has changed with the business environment and is becoming more and more complex. As consumers are becoming more demanding, resources are also becoming scarce, creating problems in the supply chain [5]. At the same time, technology is also increasingly developing, creating difficulties when the community around firms becomes aware of business activities that have negative impacts on the environment [7].

Theories

The foundational theory used in this research is the Stakeholder theory. According to research by Freeman & McVez [28], Stakeholder theory points out that the firm not only has the responsibility to maximize profits for its owners but also treats its stakeholders such as consumers, employees, communities and the environment fairly, this is again highlighted in the analysis by Chipalkatti et al. [20]. According to this theory, decision-makers within a firm need to understand and respond to the needs and concerns of stakeholders, to gain support and minimize conflict [5]. They need to build good relationships and gain the trust of all stakeholders [3, 29] to pursue the sustainability of the firm [8]. Sustainability reporting (CSR) or ESG factors play a role in helping stakeholders evaluate the firm through aspects such as economics, environment and society. Foreign investors will thereby evaluate short-term financial profits or financial and non-financial criteria and minimize financial risks in investment decisions [3, 7]. Many studies have used this theory to demonstrate the impact of ESG on investors' preferences, and the foreign ownership ratio, namely Alregab [7], Chipalkatti et al. [20], Saini & Singhania [71], Yu [91], Arslan et al. [8], Addison [3], similar to the authors' research design.

The next foundational theory is the Signaling theory. This theory is based on the hypothesis that one party has more comprehensive information than other parties [43]. The situation where one side has excess and the other side does not have enough information is called information asymmetry [21]. This theory also suggests that foreign investors have limited information about a firm's operations and must depend on what management wants to share [43]. One party chooses how to convey (or signal) the information, and the other party chooses how to interpret the information [89]. Foreign investors often face information disadvantages due to

geographical distance, cultural, political and language differences [49, 73], while domestic investors have an advantage due to their familiarity with the culture and firms in which they have invested [22]. These unfavourable factors make it difficult and costly to collect information and increase investment risks for foreign investors [4, 23, 33, 37, 55]. To limit investment risks, foreign investors can exploit signals such as firm characteristics to evaluate the firm [27, 74]. Therefore, through the detailed disclosure of ESG or CSR scores - factors that are currently receiving attention from foreign investors, they consider these indicators as signals to analyze and make investment decisions [68]. Firms with good ESG scores will send positive signals and establish an image of responsibility and a good reputation [13, 25, 92]. This theory is very suitable for demonstrating the effects of ESG on the foreign ownership ratio. Many authors have used this theory in research on foreign investor ownership such as Zhang et al. [92], Park & Kim [63], Khodijah [43] and Yu [91].

Regarding Legitimacy theory, organizations must operate under social norms and values to maintain operations and development. Focuses on the relationship between the organization and the community, this theory emphasizes the importance of the organization meeting social expectations for recognition [71]. The theory states that a firm or organization must consider the values of stakeholders when considering any decisions [79]. Therefore, the value of stakeholders in legitimacy theory has led to stakeholder theory [71]. These two theories are closely related to each other. Firms use environmental scores such as ESG and disclose environmental information to legitimize corporate activities in the eyes of the public [2]. Countries with developed legal systems are likely to have high disclosure of non-financial information, which is a result of legitimacy theory [45, 72]. Foreign investors build trust in firms that participate in social activities [7, 53], hence by improving the ESG scores in various ways according to global standards, firms become more legitimate and trustworthy to foreign investors [7, 47]. Studies on the relationship between ESG scores and investment attraction of foreign investors have used this foundational theory such as Alregab [7], Addison [3], Saini & Singhania [71] and Chipalkatti et al. [20].

Role of ESG in firm's foreign ownership

Many studies around the world have shown that ESG scores affect the foreign ownership ratio in firms [3, 8, 11, 19, 20, 48, 71, 91, 92]. Addison [3], Khodijah [43], Chen et al. [19], Zhang et al. [92], Yu [91], and Yang [88] have pointed out the importance of ESG scores in attracting foreign investors. By improving reputation through ESG disclosure and increasing investment returns, firms increase foreign investor ownership [92]. ESG-responsible firms regularly generate long-term cash flows and contribute to significant social benefits. This creates more favorable conditions for attracting investment capital to expand the scale of business activities. With the rise of social and regulatory pressures related to ESG, implementing socially responsible, ESG-compliant measures is not only a financial driver but also an essential element to maintain and enhance the credibility, reputation and long-term benefits of the business. However, Vietnamese firms still lack transparency in reporting on their ESG strategy implementation. Non-transparent reporting not only loses shareholder trust but also reduces the ability to attract investment capital from foreign investors. Bao & Wei [11] pointed out that the publication of multilingual ESG reports helps foreign investors better understand and grasp the annual condition of firms, thereby stimulating trust in responsible firms. In addition, research by Alregab [7] has demonstrated that ESG scores can predict a business's foreign investment attractiveness. These results support the view that improving ESG compliance is not only a moral duty but also a smart business strategy, generating financial benefits and strengthening a business's position in the market.

ESG and other factors in determining firm's foreign ownership

Studies have shown that ESG scores have a significant impact on foreign ownership and foreign investment decisions in firms. This impact is mostly positive, suggesting that firms with high ESG scores attract great interest from foreign investors. For example, Yang's study on firms listed on the Chinese stock exchange from 2009 to 2021 found that high ESG scores significantly increased foreign investor ownership. Firms with high ESG scores have easier access to capital and reduced financial constraints, thereby increasing their ability to invest abroad [88]. Meanwhile, in South Africa, another study also reported similar results on listed firms showing a positive impact between foreign investor ownership and the implementation of ESG activities [3]. Similarly, a study on non-financial firms listed on the Indonesian stock exchange from 2015 to 2019 also showed that good compliance with ESG indicators creates a higher foreign

ownership ratio. This relationship is explained by the improvement in corporate reputation with high ESG scores [43]. ESG reporting in multiple languages has also been shown to tend to attract more foreign investors. This helps reduce information asymmetry and increase investor confidence by demonstrating transparency and commitment to sustainability. In Korea, Park & Kim [63] showed that firms adopting a CSR (Corporate Social Responsibility) strategy attract foreign investment by demonstrating commitment to social and environmental responsibility. Agreeing with the above point of view, in China, firms with good CSR reports attract the attention of foreign investors due to their transparency and commitment to social responsibility [90]. As for sovereign wealth funds, research shows that these funds also prefer to invest in firms with high ESG responsibility, because these firms are sustainable and less risky [19]. In addition, according to research by Arslan et al. [8] for emerging markets, institutional investors are increasingly considering ESG factors in their investment decisions. This transformation is driven by regulatory pressure and growing awareness of the financial benefits of sustainable practices. ESG policies are also an intermediary mechanism in attracting foreign investment. Implementing ESG policies reduces financial constraints, thereby helping firms easily access the capital needed to expand their business in international markets. This is especially important for Chinese firms, as effective ESG activities contribute to improving their financial capacity and promoting their overseas investment process [88]. A study in Indonesia showed that firms with higher ESG scores had greater foreign investment due to improved reputation [92]. TCFD reporting also has a positive impact on the relationship between foreign investor ownership suggesting that climate information transparency improves investor confidence [63]. However, not every study shows a clear positive impact of ESG. In Saudi Arabia, although high ESG scores predict foreign investment attraction, these effects are not very clear [7]). There have been studies that separate each factor in the ESG score and observe the effects of each indicator on firms in attracting foreign investment. The studies of Arslan et al. [8] and Chipalkatti et al. [20] showed results that good governance factors (Governance) have a positive impact on foreign investment flows into all countries in the study sample. This means that countries with higher governance scores attract more foreign investment. However, social factors have the opposite effect. In addition, other environmental factors, such as CO_2 emissions, do not have a significant relationship with foreign investment flows [20]

Regarding other internal factors of firms, many studies have shown that firm size, ROA (Return on Assets), total net revenue, growth rate and leverage ratio affect the foreign ownership ratio [3, 19, 48, 63, 88, 90, 92]. Many authors have found that the size of firms has a positive impact on the foreign ownership ratio [3, 19, 48, 91]. The conclusion shows that firm size plays a significant role in attracting foreign investors. Specifically, big firms are seen as less risky and have high growth potential, thus attracting more interest from international investors. High market value also shows the firm's stability and reputation in the market, increasing the level of confidence of foreign investors. However, some other studies show that the firm size has no impact or a slight but statistically insignificant impact on the attention of foreign investors [11, 43, 71]. Another factor is the revenue of a firm, it’s an important control variable in evaluating a firm's business performance to attract foreign investors [19]. According to research by Lee et al. [48], this factor plays an important role in reflecting a firm's financial health. A firm with high net revenue shows strong market competitiveness and sustainable growth potential, which increases foreign investor ownership [8]. Next, a high ROA ratio makes firms attract the attention of many foreign investors [62, 90]. Chen et al. [19] demonstrated that ROA has a positive and significant impact on foreign investors' ownership ratio. A high ROA shows that the firm can use assets effectively to generate profits, which increases the firm's attractiveness to foreign investors. Investors are always looking for firms with high profitability and low risk, and ROA is one of the important indicators to evaluate this. However, in the study of Addison [3], it was observed that there is no significant influence of the ROA on the ESG score and the foreign ownership ratio. Furthermore, Tobin's Q value of a business is used to evaluate a firm's growth potential. According to the analysis of Zhang et al. [92], Tobin's Q has no consistent and statistically insignificant effect on foreign investor ownership. This is explained by market fluctuations and other external factors affecting the firm's market value. In contrast, the conclusion of the study by Saini & Singhania [71], shows that there is a positive relationship between Tobin's Q and ESG scores. The market has a positive impact on foreign investment, but the level of impact is not strong enough to confirm [43]. Regarding firm age, research shows that firms with a long

history have a higher percentage of foreign investor ownership [7, 63]. The reason is that these firms have affirmed their reputation and position in the market, thus attracting trust from foreign investors [43]. Furthermore, established firms have stable management systems and operating procedures, which reduces risks for investors [48]. Established firms have developed strong organizational cultures and well-established operating processes, allowing them to perform better on ESG criteria. In addition, established firms find themselves realizing the need to meet the growing expectations of stakeholders regarding social and environmental responsibility [91]. Studies also show that high financial leverage negatively impacts the foreign ownership ratio [7, 63, 92]. High levels of leverage increase a firm's financial risk, making the business less attractive to risk-averse investors [8, 19, 71]. According to Yu [91], firms with higher financial leverage tend to have lower ESG scores. High leverage limits a firm's ability to invest in sustainability initiatives due to increased costs and financial risks, leading to a de-prioritization of investments that do not provide direct returns. However, in the study of Bao & Wei [11], the debt ratio shows a positive relationship with the foreign ownership ratio, and the appropriate use of leverage shows that the firm is taking good advantage of financial opportunities for growth.

A country's GDP (Gross Domestic Product) has a significant impact on the foreign ownership ratio in firms [8, 11, 62]. Accordingly, a country's level of economic development means a stable business environment, a clear legal framework, and attractive investment opportunities, thus attracting the attention of foreign investors [8]. Along with the above conclusion, studies by Yu & Zheng [90] and Bao & Wei [11] point out that economic development is assessed through high GDP, making foreign investors confident in the profitability and safety of their investments. In other words, a country's GDP has a significant positive impact on the foreign ownership ratio in firms belonging to that country.

Table 1. Summary of internal factors

Variables	References
Firm size (SIZE)	Addison [3]; Chen et al. [19]; Zhang et al. [92]; Lee et al. [48]; Yu & Zheng [90]; Yu [91]; Park & Kim [63]; Saini & Singhania [71]; Yang [88]; Bao & Wei [11]; Khodijah [43]; Alregab [7]
Return on Assets Ratio (ROA)	Bao & Wei [11]; Park & Kim [63]; Yu & Zheng [90]; Addison [3]; Chen et al. [19]
Firm’s revenue (SALES)	Chen et al. [19]; Arslan et al. [8]; Lee et al. [48]
Tobin's Q value (TOBINQ)	Khodijah [43]; Saini & Singhania [71]; Zhang et al. [92]
Firm age (AGE)	Bao & Wei [11]; Khodijah [43]; Alregab [7]; Yu [91]; Park & Kim [63]; Saini & Singhania [71]; Yang [88]; Lee et al. [48]
Leverage ratio (LEVERAGE)	Addison [3]; Chen et al. [19]; Zhang et al. [92]; Lee et al. [48]; Yu & Zheng [90]; Yu [91]; Park & Kim [63]; Saini & Singhania [71]; Yang [88]; Bao & Wei [11]; Khodijah [43]; Alregab [7]
Gross Domestic Product (GDP)	Bao & Wei [11]; Opoku et al. [62]; Arslan et al. [8]

2.2. Research gap

First, after conducting the literature review, the authors found that the impact of ESG scores on the foreign ownership ratio in listed firms on the Vietnam stock market hasn’t been discovered. This is a large research gap, especially in the context that Vietnam's stock market is attracting more and more foreign capital flows, Vietnamese firms are competing strongly in implementing ESG activities (*as described in section 1)*. Therefore, there is a need for a regression model to evaluate the role of ESG in promoting foreign capital flows in Vietnam, with unique context and characteristics of firms listed on the Vietnamese stock market. Second, Vietnam’s stock market in the period 2019 - 2024 witnessed quite positive growth. During this period, the Vietnam stock market has experienced and recovered from global fluctuations such as the Russia-Ukraine war and the COVID-19 pandemic. Therefore, it is necessary to conduct a study using the corporate data set for the period 2019 - 2024, which not only reflects the positive growth of Vietnam’s stock market but also witnessed many global fluctuations, creating favorable conditions. Third, the authors rely on econometric models from related studies, building a completely new model to evaluate the problem of endogenous interactions between ESG scores and internal indicators of businesses and firms in estimating the impact on foreign ownership ratio, proposing a solution to handle endogeneity using the 2-stage regression method 2SLS-IV, referencing to the studies of Khodijah [43], Opoku et al. [62] and Zhang et al. [92].

3. RESEARCH METHODOLOGY

The authors use qualitative desk research methods, with research objects being the ESG index set, the foreign ownership ratio and internal factors of listed firms on the

Vietnamese stock market. The authors conducted a literature review and compiled relevant documents through reputable sources such as Google Scholar, ScienceDirect, Research Gate, etc. At the same time, to strengthen the practical basis for the research, the authors collected actual data on ESG scores, foreign investor ownership and internal factors of firms in the current period through reputable data platforms such as Vietstock, CafeF, reports on sustainable development of major auditing firms such as KPMG, PwC, EY and reports of the Ministry of Natural Resources and Environment, Vietnam Chamber of Commerce and Industry, etc.

Through researching fundamental theories, relevant domestic and international topics and current data on ESG and foreign investor ownership, the authors have compiled the theoretical and practical basis, then propose a regression model on the foreign ownership ratio in listed firms on the Vietnam stock market and evaluate the role of the Environmental, Social and Governance (ESG) scores. Regarding the regression model estimation method, the authors proposed a 2SLS-IV analysis to handle the endogeneity problem between the firm's internal control variables and the ESG score, and 04 auxiliary regression models to evaluate the overall impact of the Environmental, Social and Governance (ESG) scores and the impact of each Environmental (E), Social (S) and Governance (G) scores on the foreign ownership ratio.

Regarding research data, the authors propose to use Vietnam stock market data for the period 2019 - 2024, a period that witnessed positive growth of the market, as presented in the research gap. In addition, the authors further proposed that sectors in Vietnam have different characteristics, so there is a need for a quantitative study to evaluate the impact coefficient and compare the differences between different industries, thereby providing policy implications that are closer to business practices, as authors Addison [3], Yang [88], Yu [91], Park & Kim [63] and Lee et al. [48] analyzed. Through preliminary research and discussion with market data experts at Vietstock, the authors proposed to apply the research model to 5 sets of data samples, corresponding to 05 business sectors divided by tools. Filter "Business lines" ranked by the leading reputable platform in Vietnam (Vietstock). The expected data sample includes 587 firms listed on the two stock exchanges HOSE (Ho Chi Minh Stock Exchange) and HNX (Ha Noi Stock Exchange), divided into 05 sectors (Construction and real estate: 157 firms; Manufacturing: 243 firms; Finance and insurance: 78 firms; Utilities: 47 firms; Transportation and warehousing: 62 firms). This list was updated by Vietstock on May 31, 2024.

4. RESEARCH MODEL & HYPOTHESIS DEVELOPMENT

Based on the theoretical and practical basis presented above, the authors proposed 08 hypotheses with explanations of the variables in the research model:

Table 2. Hypothesis & Explanation of variables in the research model

Hypothesis	Dependent Variables	Explanation & Calculation	References
(Impact on foreign ownership ratio)	$FOREIGN_{it}$	Ownership ratio of foreign investors in firm i at time t. $=\frac{Number\ of\ shares\ held\ by\ foreign\ investors}{Number\ of\ outstanding\ shares\ of\ the\ firm}$	Addison [3], Chen et al. [19], Zhang et al. [88], Arslan et al. (2021), Lee et al. [48], Yu & Zheng [90], Park & Kim [63], Bao & Wei [11], Khodijah [43], Alregab [7]
	Independent Variables		
H1	$ESG_SCORE_{i(t-1)}$	ESG score of business i in year t-1	Addison [3], Chen et al. [19], Zhang et al. [92], Yu [91], Park & Kim [63], Saini & Singhania [71], Yang [88], Khodijah [43], Alregab [7]
H1.A	$E_SCORE_{i(t-1)}$	E-score of firm i in year t-1	Addison [3], Chen et al. [19], Saini & Singhania [71], Alregab [7]
H1.B	$S_SCORE_{i(t-1)}$	S-score of firm i in year t-1	
H1.C	$G_SCORE_{i(t-1)}$	G-score of firm i in year t-1	
	Control Variables		
H2	$lnSIZE_{i(t-1)}$	The natural logarithm of the market capitalization of firm i at time t-1	Addison [3], Chen et al. [19], Zhang et al. [92], Lee et al. [48], Yu & Zheng [90], Yu [91], Park & Kim [63], Saini & Singhania [71], Yang [88], Bao & Wei [11], Khodijah [43], Alregab [7]

H3	$ROA_{i(t-1)}$	The Return on Assets ratio of firm i at time t-1 $=\frac{Profit\ after\ tax}{Total\ Assets}$	Bao & Wei [11], Park & Kim [63], Yu & Zheng [90], Addison [3], Chen et al. [19]
H4	$lnSALES_{i(t-1)}$	Natural logarithm of firm i revenue in year t-1	Chen et al. [19], Arslan et al. [8], Lee et al. [48]
H5	$TOBINQ_{i(t-1)}$	Tobin's Q value of firm i at time t-1 $=\frac{(Total\ MV\ of\ Equity + BV\ of\ Debt)}{BV\ of\ Total\ Assets}$	Khodijah [43], Saini & Singhania [71], Zhang et al. [92]
H6	$AGE_{i(t-1)}$	Number of years of operation of firm i from its establishment to time t-1	Bao & Wei [11], Khodijah [43], Alregab [7], Yu [91], Park & Kim [63], Saini & Singhania [71], Yang [88], Lee et al. [48]
H7	$LEV_{i(t-1)}$	Leverage ratio of firm i at time t-1 $=\frac{Total\ Debt\ of\ the\ firm}{Total\ Assets\ of\ the\ firm}$	Addison [3], Chen et al. [19], Zhang et al. [92], Lee et al. [48], Yu & Zheng [90], Yu [91], Park & Kim [63], Saini & Singhania [71], Yang [88], Bao & Wei [11], Khodijah [43], Alregab [7]
H8	$lnGDP_{i(t-1)}$	Natural logarithm of Vietnam's GDP at time t-1	Bao & Wei [11], Opoku et al. [62], Arslan et al. [8]

The authors propose the following research models:

Model 1: $FOREIGN_{it} = \alpha_0 + \alpha_1 ESG_SCORE_{i(t-1)} + \alpha_2 lnSIZE_{i(t-1)} + \alpha_3 ROA_{i(t-1)} + \alpha_4 lnSALES_{i(t-1)} + \alpha_5 TOBINQ_{i(t-1)} + \alpha_6 AGE_{i(t-1)} + \alpha_7 LEV_{i(t-1)} + \alpha_8 lnGDP_{i(t-1)} + \gamma_i$

Model 2: $FOREIGN_{it} = \beta_0 + \beta_1 E_SCORE_{i(t-1)} + \beta_2 lnSIZE_{i(t-1)} + \beta_3 ROA_{i(t-1)} + \beta_4 lnSALES_{i(t-1)} + \beta_5 TOBINQ_{i(t-1)} + \beta_6 AGE_{i(t-1)} + \beta_7 LEV_{i(t-1)} + \beta_8 lnGDP_{i(t-1)} + \varepsilon_i$

Model 3: $FOREIGN_{it} = c_0 + c_1 S_SCORE_{i(t-1)} + c_2 lnSIZE_{i(t-1)} + c_3 ROA_{i(t-1)} + c_4 lnSALES_{i(t-1)} + c_5 TOBINQ_{i(t-1)} + c_6 AGE_{i(t-1)} + c_7 LEV_{i(t-1)} + c_8 lnGDP_{i(t-1)} + \omega_i$

Model 4: $FOREIGN_{it} = d_0 + d_1 G_SCORE_{i(t-1)} + d_2 lnSIZE_{i(t-1)} + d_3 ROA_{i(t-1)} + d_4 lnSALES_{i(t-1)} + d_5 TOBINQ_{i(t-1)} + d_6 AGE_{i(t-1)} + d_7 LEV_{i(t-1)} + d_8 lnGDP_{i(t-1)} + \rho_i$

To solve the endogeneity problem between ESG scores and internal factors in the above 04 research models, the authors propose 04 regression equations to solve the endogeneity phenomenon using a 2-stage regression method (2SLS-IV) as follows:

$ESG_SCORE_{i(t-1)} = e_0 + e_1 lnSIZE_{i(t-2)} + e_2 ROA_{i(t-2)} + e_3 lnSALES_{i(t-2)} + e_4 TOBINQ_{i(t-2)} + e_5 AGE_{i(t-2)} + e_6 LEV_{i(t-2)} + \delta_i$

$E_SCORE_{i(t-1)} = f_0 + f_1 lnSIZE_{i(t-2)} + f_2 ROA_{i(t-2)} + f_3 lnSALES_{i(t-2)} + f_4 TOBINQ_{i(t-2)} + f_5 AGE_{i(t-2)} + f_6 LEV_{i(t-2)} + \lambda_i$

$S_SCORE_{i(t-1)} = g_0 + g_1 lnSIZE_{i(t-2)} + g_2 ROA_{i(t-2)} + g_3 lnSALES_{i(t-2)} + g_4 TOBINQ_{i(t-2)} + g_5 AGE_{i(t-2)} + g_6 LEV_{i(t-2)} + \mu_i$

$G_SCORE_{i(t-1)} = h_0 + h_1 lnSIZE_{i(t-2)} + h_2 ROA_{i(t-2)} + h_3 lnSALES_{i(t-2)} + h_4 TOBINQ_{i(t-2)} + h_5 AGE_{i(t-2)} + h_6 LEV_{i(t-2)} + \varphi_i$

$\alpha_n, \beta_n, c_n, d_n, e_n, f_n, g_n, h_n$: coefficients of the regression equation.

$\varepsilon_i, \gamma_i, \rho_i, \omega_i, \delta_i, \lambda_i, \mu_i, \varphi_i$: errors of the estimates.

5. CONCLUSION

Based on relevant theories and practical data, the authors have built a research model to analyze the role of ESG scores and internal factors of firms on foreign ownership ratio in the Vietnam stock market. This model is developed through qualitative research methods, focusing on collecting and analyzing information from documentary sources, experts and previous studies. Due to limited resources, the authors have not had access to the ESG data set of Vietnamese firms, so it has not been able to conduct quantitative analysis and model testing. Therefore, the work of testing the model and empirically evaluating the role of ESG scores and internal corporate factors on the foreign ownership ratio in firms listed on the stock market is important. The authors proposed to proceed with the following steps: (1) Collect a full set of data on ESG scores, internal corporate factors and foreign ownership ratios. Reputable sources such as financial reports of listed firms, data on ESG scores from reputable rating organizations such as MSCI (Morgan Stanley Capital International), Sustainalytics, Refinitiv, etc. (2) Compare and evaluate the reliability between ESG data sets from different sources, for example, ESG scores provided by VCCI, Ministry of Natural Resources and Environment, etc. This comparison will help determine the reliability of the data sets and select the most suitable data set for the study. After selecting the appropriate data set, the researcher can (3) use the 2SLS-IV regression method and analyze the quantitative results; (4) Provide specific policy implications for relevant parties.

In addition, future studies can expand the scope and research model by collecting more data on geographical

factors and proposing variables to evaluate the influence of environment and location on production and business activities. For example, collect data on the level of environmental pollution, infrastructure, human resources, etc. Implementing these recommendations will help future research effectively test the model and provide additional information about the role of ESG and internal corporate factors in determining foreign ownership in the Vietnamese stock market.

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