

Business Performance in Vietnam Under the Lens of Environmental Regulations, CSR Practices, and Ethical Culture

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Abstract

In the current flow of sustainable development, corporate social responsibility (CSR) practices and their related supporting factors become vital foundations for running a business successfully. This paper's objective is to identify the relationships among environmental regulations (ER), CSR practices, and ethical culture (EC) affecting business performance (BP) under the stakeholder theory. The implemented questionnaire follows a quantitative approach with 107 valid responses collected from various industries and company sizes in Viet Nam using the method of convenience sampling. The PLS-SEM modeling was used to test the hypothesis of the research model. The analysis suggested that CSR practices and EC have significantly positive relationships with BP. Whereas, ER indirectly affects firm performance through promoting CSR practices of the organizations. In addition, the ethical factor is revealed to have a positive significance in the relationship with CSR practices. The results of this contribute detailed insights to the firm strategists on how to drive business effectively in terms of sustainable development management and CSR engagement through the combination of incorporating ethical culture management and corporate social responsibility practices. Additionally, it brings further implications for consideration of business prosperity aligning with CSR pursuing and the environmental regulations enacted by the government due to society's needs.

Keywords

Business Conduct, Company Success, Environment, Regulatory Compliance and Social Responsibility.

1. Introduction

Developing an economy aligning with the protection of the environment and society values has become a notable topic in decades. Recently, the World Bank released a report named *The Economic Case for Nature* to warn that the general 10-20% of GDP fall as the end of the decade approaches if people keep targeting financial growth while deteriorating the ecosystem (Justin Andrew Johnson et al. 2021). Many restrictions have been enacted to curb the negative effect of the economy on the environment, which is mentioned in the research of Hong et al. (2024) stating that authority bodies could bring positive impacts on the company's ESG (Environmental, Social, and Governance) performance financially benefiting environmental practices proactively. In Southeast Asia, due to the threat of an economic boom towards the environment and long-term sustainability, governments are trying to respond with stricter regulations. For example, the most recent Law on Environmental Protection (2020) regulated the management of waste and industrial emissions during the shift of multinational factories into Viet Nam seeking a safe and convenient place for production. This protection reflects the concerns of the Vietnamese government on industrial activities, unsustainable resource exploitation, and rapid urbanization.

It also pushes the businesses operating in Viet Nam to switch to more sustainable actions and re-evaluate their influence on the relationship with environmental conditions. To cope with this complex landscape of legal requirements and social expectations, the working companies need to adjust their strategy with more ethical concerns fostering transparency and mitigating legal violations (Roy et al. 2024; Rune Todnem By et al. 2023). Also, according to L. Kane et al. (2021), the culture of high ethical standards fosters corporate environmental sustainability. Peeters et al. (2020) also affirms the importance of ethical conduct in shaping the intentions of both directors' and employees' compliance reaching ethical manners in running business. Beyond this compliance, the practices of corporate social responsibility (CSR) have been recognized as one of the pivotal concepts in business management and performance. It is because of its comprehensive views regarding labor, social, legal, and environmental issues (Sheehy 2015). Which, CSR tends to involve both inside and outside stakeholders who are related to their daily business activities instead of considering only the benefit of shareholders (Ofori & Hinson 2007). Moreover, corporate governance practices can strengthen the development and implementation of CSRs encouraging green and sustained growth (Xue et al. 2022). Islam et al. (2022) suggests increasing board diversity to gain a broader range of perspectives making more environmentally conscious decisions.

The other pressure coming from consumers can be a key driver of firms' green adoption influencing companies' performance through the purchase intention, commitment, and loyalty of customers (Dang et al. 2020; O'Brien et al. 2020). Furthermore, CSR can enhance brand reputation and attract more investment (Mahmood & Bashir, 2020). (Mahmood & Bashir 2020). Nayak et al. (2022) indicates that CSR practices can organize business behaviors in legal obligations and address social issues aligning with sustained growth. Despite short-term priority, companies with well-managed governance practices are better positioned for long-term development (Aguilera et al. 2021), increased financial values and profitability (Aydoğmuş et al. 2022). While some studies figure out the trade-off between short-term and long-term development in sustainability (Simo-Kengne 2022), the others emphasize the essence of integrating both trends of growing (Ouyang et al. 2020; Shao et al.2020). The intricate relationship of ER, ethics, CSR, and business performance has formed a critical consideration for business development in the world. Playing as an important element of this growing trend, Vietnam caught sight of many interests coming from both international and domestic investments. However, the mentioned topic benefiting corporate strategists, policymakers, and many other relevant stakeholders has not been investigated. Therefore, these complex interactions among factors remain attractive and require more studies supporting the decision-making of the involved sides.

1.1 Objectives

This study aims to provide comprehensive relationships among various agents including environmental obligations, CSR practices, ethical culture and business success happening in the smaller frame of region, specifically in the Vietnamese business context. The first purpose of this research is to investigate the relationship between regulations on the environment towards CSR practices. The second one is to figure out the correlation of CSR and ethical culture in a business environment. Third, the objective is to examine the relationship between CSR and business performance. Fourth, the objective is to navigate the effect of ethical culture on business performance. Fifth, the goal is to uncover the mediating role of CSR in the influence of environmental obligation on firm success. Finally, the goal is to explore the mediation of ethical culture in the correlation of CSR and firm profitability.

2. Literature Review

This paper uses the stakeholder theory stated that firm management can focus on operating a business valuing their stakeholders' benefit (Freeman 1984 2004). According to Post et al. (2002), stakeholders promote potential wealth and play a role in risk determinants. To enhance firm values, relevant stakeholders should address the rightful legal and ethical conduct (Jones and Wicks 1999; Phillips et al. 2003). Stakeholder relationship, in addition, leads to various side effects affecting business results (Freudenreich et al. 2020). Furthermore, such theory values the stakeholder contribution in many working environments to deal with organizational and social matters at the international level (Harrison et al. 2015; Miles 2017). The purpose of using this theory is because of its thorough insights of both pressures derived from outsiders and insiders to the business management shaping business actions following social and sustainable values.

Environmental regulations (ER), are the instruments of authorities to organize and cope with environmental problems, also preserve public lives and habitats (Walter 2023). They influence different aspects including harmful chemical usage, living conditions, or green transformation encouraging the flourishing of ecosystems (Ambeq et al. 2013; Chay & Greenstone, 2003; Larsen & Sánchez-Triana 2023). CSR under Dahlsrud (2008) views affect multiple sides of firms such as ethics, finance, labor, community, and society. It has important percussion on understanding business self-balance developed by Carroll (2016). According to the Testa et al. (2018), ER can govern the act of CSR through the enforcement of authority practices. It supposes that stringent policies can navigate business CSR strategy and decline ecological harm. Firms are seen to be proactive engagement of environment save to protect their public images and reputation compared to other companies (Perez-Batres et al. 2012). Moreover, the restrictions can lead them to the act to increase their green transformation (Bocquet et al. 2019; Delmas & Montes-Sancho 2010). However, the cost of this can make them avoid participating in the eco-friendly movement (Christodoulou & Cullinane 2021). On the other hand, according to Barbaglia et al. (2023), when the government can foster the free of rigid laws, companies may change their actions to meet stakeholders' needs.

Ethical culture (EC) management mentions the shared values of organizations promoting a good environment (Key, 1999). According to Treviño et al. (2014), these mutual views classify behavior appropriation in business daily. Additionally, Valentine & Godkin (2017) investigates that EC is crucial to implement CSRs and avoid making unreal adjustments. CSR behaviors contribute to business ethics through their daily operation stepping through every organizational level (Opoku Marfo 2024; Ullah et al. 2022). Training and programs are useful to educate the ethics and build firm culture assuring firms' overall EC (Bapat & Upadhyay 2021; Gond et al. 2011). Business performance expresses the ability to achieve success and objectives satisfying stakeholders' expectation (Le 2023). Venkatraman & Ramanujam (1986), says that this success can be assessed using many keys including operating efficiency, customer reactions, and innovation. High ethical and regulatory compliance companies also tend to help the organizations ace the market to their resilience and dynamic adaptability in long-term growth (Luo & Du 2015; Orlitzky et al. 2003). Flammer (2018) says that CSR can bring higher market shares and profits to companies due to the environmental consciousness of investors, customers, and governors. Equivalently, the employee can be more productive if they realize their importance in delivering good manners of business management towards the environment leading to effective operation and high financial performance (Wang et al. 2020).

Companies complying with regulations also often win their opponents and appeal high eco-conscious consumers and investors (Hartmann & Vachon 2018). Strong EC can lead to higher financial ability (Baah et al. 2021; Waheed & Zhang 2022). Also, EC drives organizations to fewer misconduct employees, better productivity, and firm profitability (Bedi et al. 2016). N. P. Nguyen et al. (2020) finds that EC is positively related to financial performance. Hence, the hypothesis of both direct and indirect relationships is proposed with the model of research as follows:

H1: ER is positively significant to CSR

H2: CSR is positively significant to EC

H3: CSR is positively significant to BP

H4: EC is positively significant to BP

H5: ER is positively significant to BP

H6: CSR is mediating factor in the relationship between ER and EC

H7: CSR is mediating factor in the relationship between ER and BP

H8: CSR and EC are mediating factor in the relationship between ER and BP

H9: EC is mediating factor in the relationship between CSR and BP

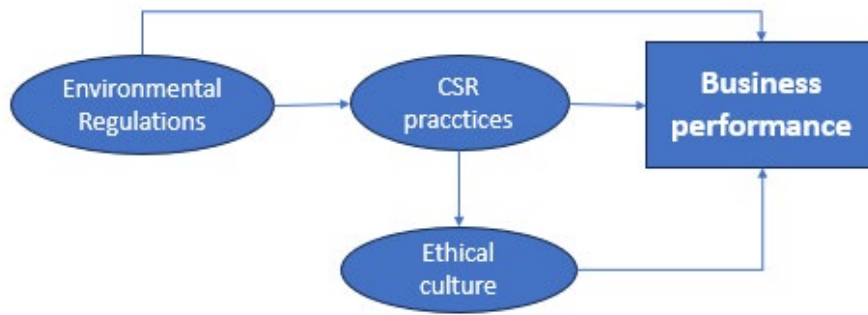


Figure 1. Research Model

3. Methodology

The questionnaire comprises two parts which are respondents' information (Table 1) and surveyed questions adopted from different researches on ER (Zhai & An 2020; Zheng et al. 2021), CSR (Waheed & Zhang 2022; Wen et al. 2022), EC (Lee 2020), and BP (Truong et al. 2023) measured by five-point scale of Likert starting from strongly disagree to strongly agree numbering from 1 to 5 (Table 2). Of all 200 distributed surveys, there are 107 valid responses fitting the rule of 20:1 ratio of observation-to-variable sampling method (Joseph F. Hair et al. 2018). Therefore, our received questionnaires are suitable for analysis. The reasons choosing firms located or operated in Viet Nam, detailly in Ho Chi Minh and companies around, are various. Firstly, it is feasible to reach the firms in our country in both financial and geographical resources. Secondly, known as a developing country, this investigation can uncover many insights supporting to the sustained growth and long-term investment of both outsiders and insiders. Finally, it delivers a new comprehensive perspective on varying elements of less-catching research countries such as Viet Nam acknowledging and encouraging others to invest and manage their businesses operating in this country.

4. Data Collection

This quantitative survey uses convenient sampling method to easily gather the data from managers and business owners located in Ho Chi Minh and surrounding areas within three months ranging from March 2024 to May 2024 (Kaminska & Lynn 2017). The surveys were converted into Vietnamese and examined by eight academic professionals and business managers to ensure understanding and avoid any misleading mistakes. Then, they were circulated with the help of our networking to all management levels and company sizes throughout different types of industry.

5. Results and Discussion

This study mainly used the application of SPSS and SmartPLS to analyze the results of descriptive and analytic examinations, respectively. The descriptive analysis demonstrates the respondents' backgrounds (Table 1). The reliability and convergent validity are examined by the CFA through AVEs, LFs, and composite reliability (CR) (Table 3). These compositions, as suggested by many experts stating that the values of AVEs and LFs should be >0.5 , while Cronbach's Alpha (CA) and Composite Reliability (CR) should be >0.6 and >0.7 , respectively (van Griethuijsen et al. 2015; By Rex B. Kline, 2005; Fornell & Larcker, 1981; Hair Jr. et al. 1998). The multicollinearity is tested to be less significant using the inner VIFs ranging from 1 to 10 (Hair Joseph et al., 1994) (Table 4). The discriminate examination is measured by AVE square roots exceeding factors' correlations ensuring that discriminant validity is fully met the requirements (Deng et al. 2014) (Table 5). The HTMT validates the correlation distinctiveness with the critical point of ratio <0.90 , or ideally <0.85 (Table 6). Additionally, the SEM technique is applied to affirm the path correlations and hypothesis proposed (Waheed & Zhang 2022) (Table 7). Finally, Table 8 provides insights of the indirect relationship to examine the mediating roles of CSR and EC mentioned in the literature.

This research is bootstrapped with 5,000 sample sizes at the significance level of 0.05 indicating a confidence level of 95% for two-tailed testing hypothesis with the detailed analysis as below:

Table 1 demonstrates the background profiles of the respondents comprising four keys such as industry types, working position, company size, and operating years. Table 2 depicts the results of LFs and AVEs greater than 0.5, while CA and CR are higher than 0.6 and 0.7. This means that they are all meeting the standards of reliability, consistency, and convergent validity. Table 3 confirms the insignificant problem of multicollinearity with the inner VIF outcomes

ranging from 1 to 10 as suggested by Hair Joseph et al. (1994). Table 4 and Table 5 supportively validate the discriminant concern of constructs. Table 4 points out that the square roots of AVEs are exceeding the correlations, while Table 5 indicates that the critical points of ratio are less than 0.90, or ideally 0.85. Table 6 and Table 7 outline the results of the testing hypothesis. In detail, ER is shown to be significant to CSR (0.792; $p < 0.05$). CSR has a significance impact on EC (0.339; $p < 0.05$) and BP (0.619; $p < 0.05$). Thus, H1, H2, and H3 are supported. The influence of EC on BP is statistically significant (0.283; $p < 0.05$). Hence, H4 is also supported. However, the evidence of ER taking effect on BP is proven to be insignificant statistically (-0.106; $p > 0.05$). Therefore, H5 is not supported. All outcomes regarding the mediation testing hypothesis show the supported results depicted in Table 7 with the positive coefficients and p-values less than 0.05. So that H6, H7, H8, and H9 are supported.

Table 1. Respondents' Demographics

Characteristics (N=107)		Number	Percentage (%)
Type of industry	Services - Trading	18	16.8%
	Manufacturing	54	50.5%
	Consulting-Design-Construction	12	11.2%
	Healthcare-Education	11	10.3%
	Others	12	11.2%
Position	Board of directors	18	16.8%
	Manager	54	50.5%
	Project manager	35	32.7%
Company size	Less than 100	5	4.7%
	100-200	13	12.1%
	201-300	11	10.3%
	301-400	12	11.2%
	401-500	21	19.6%
	More than 500	45	42.1%
Years of firm operations	Less than 10	13	12.1%
	11-20	14	13.1%
	More than 20	80	74.8%

Table 2. Reliability, internal consistency, convergent validity

	Loading factor	CA	CR	AVE
Environmental Regulations (ER)		0.963	0.973	0.900
ER1	0.979			
ER2	0.928			
ER3	0.902			
ER4	0.984			
Corporate Social Responsibility Practices (CSR)		0.799	0.865	0.616
CSR1	0.859			
CSR2	0.799			
CSR4	0.741			
CSR5	0.733			
Ethical culture (EC)		0.613	0.789	0.556
EC2	0.780			
EC3	0.662			
EC4	0.789			
Business performance (BP)		0.820	0.881	0.649
BP1	0.785			
BP2	0.833			
BP3	0.814			
BP4	0.789			

Table 3. VIFs Test

	VIF
CSR -> BP	2.732
CSR -> EC	1.000
ER -> BP	2.707
ER -> CSR	1.000
EC -> BP	1.142

Table 4. Fornell-Larcker Criterion

	BP	CSR	ER	EC
BP	0.806			
CSR	0.630	0.785		
ER	0.476	0.772	0.949	
EC	0.458	0.339	0.327	0.746

Table 5. Heterotrait-Monotrait Ratio (HTMT)

	BP	CSR	ER	EC
BP				
CSR	0.781			
ER	0.524	0.810		
EC	0.617	0.445	0.398	

Table 6. Direct Relationships

Direct Relationships	Coefficients	p-values	Results
H1: ER -> CSR	0.792	0.000	Supported
H2: CSR -> EC	0.339	0.000	Supported
H3: CSR -> BP	0.619	0.000	Supported
H4: EC -> BP	0.283	0.002	Supported
H5: ER -> BP	-0.106	0.387*	Unsupported

Table 7. Indirect Relationships

Indirect Relationships	Coefficients	p-values	Results
H6: ER -> CSR -> EC	0.269	0.000	Supported
H7: ER -> CSR -> BP	0.490	0.000	Supported
H8: ER -> CSR -> EC -> BP	0.076	0.039	Supported
H9: CSR -> EC -> BP	0.096	0.038	Supported

6. Conclusion

These findings align with mentioned aims in which ER is shown to have positive effect on CSR, while CSR affects positively EC and BP. However, ER did not to affect BP supporting the research of Zhai & An (2020), while EC can navigate BP positively. The study also concludes the essential role of CSR and EC with their mediating roles in adjusting and increasing firm values and EC beyond the governance of regulations on environmental issues. When companies utilize CSR strategy in compliance with regulations, they can mitigate the risks and costs of legal violation. Additionally, they can enjoy the sustainable growth by applying a comprehensive strategy integrating ethical management aligning with CSR activities to decrease the pressure of internal factors such as employees prioritizing environmental-friendly operations and external factors such as investor or regulators requiring codes of environmental ethic of business. Hence, managers can utilize CSR strategy in the comprehensive operation to raise firm values, while authority bodies can use the ER as a key factor shaping businesses to act legally and sustainably. Therefore, investors who want to join in Vietnamese market should take consideration of local legal frames and trends to assure their investment.

Since the study lacks of conducting time and limitation resources, it does not stand for whole market of Viet Nam. In addition, though we have researched many industries, it is ranged only in Ho Chi Minh city and surroundings. Thus, we encourage future investigation with wide regions of studying and time expansion to gain thoroughly views. Also, solely self-owned and public organizations prioritizing profit making are taken research in this paper, possibly leading to be biased if using it to examine the others without extending to various company types to narrow the gap and collect insightful information. Finally, this is based on subjective perspectives of experienced individuals, which can be

changed during the growth of the whole society. Future papers may need to recheck and make a combination method of both subjective and objective experience to mitigate this result.

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