

ESG INSIGHTS 2026[🌱]

INSIGHT 2: ESG - FROM "SLOGAN" TO "GOVERNANCE"

Are businesses managing ESG "substantively"?



Table of Contents

03	Summary
04	Research Scope and Methodology
05	3-Tier Analysis Framework: Foundation, System, Mechanism
06	Part A: Platform Layer – Minimal Governance, Transparency, and Data
13	Part B: System Layer - Governance Structure and ESG Mechanism
16	Part C: Mechanism Layer – Accountability and Assurance
19	Part D: Maturity Maps and Policy Implications
21	Part E: Recommended Playbook: 6-12-24 Month Roadmap
23	Appendix
25	Summary assessment and prospects
26	References

Summary

The Insight Report 02 is designed as an in-depth practice document for the Board of Directors, the Internal Control/Audit Board, risk management/compliance, and businesses that are implementing or upgrading ESG governance in a systematic direction. have an operating mechanism and have the ability to verify. This is Report No. 2 in a series of 3 reports chaired by MCG.

The core difference of this report is the shift in focus from "announced" to "governed". Instead of stopping at the question of what businesses say about ESG, the report focuses on answering three key governance questions:

1. Has ESG been organized as an operable governance system (data – process – integration)?
2. At what level in the maturity chain are businesses stuck: Platform, System, or Mechanism?
3. In case of improvement, in the short term (6–12–24 months), what do businesses need to do to move from "saying" to "doing and proving"?

01 Key findings from 42 enterprises with their Sustainable Development Reports

The "System" layer has begun to form but is not yet stable. Currently, only 15/42 enterprises (36%) have achieved the "adequate" level in both criteria: (i) ESG risk identification and management process, (ii) ESG-related Board of Directors structure, (iii) ESG Committee or equivalent agency.

The data platform is the bottleneck of the whole system. Only 8/42 enterprises (19%) have an ESG data management system at the "complete" level, while 59.5% are at the "developing" level. This is especially important because IFRS S1 requires consistent, accountable, and verifiable data.

The "Mechanism" layer is the biggest bottleneck. Only 3/42 enterprises (7.1%) have a compensation and bonus mechanism attached to sustainable development KPIs at the "full" level, **while 64.3% do not have it at all.** This is the gap that undermines accountability: ESG is difficult to become a liability with clear rewards and penalties. In terms of guarantees, 20/42 enterprises (47.6%) have recorded external independent guarantees, but only 26.2% of enterprises have reached the "full" level.

02 Key findings of Corporate Governance in the financial statements of 261 enterprises

The comparison with the **Code of Corporate Governance Principles** appeared in 75/261 (27.0%) of enterprises. The number of Board of Directors meetings was recorded as "mentioned" at 254/261 (91.4%), but only 139/261 (50.0%) reached the **"full" level**. Evaluating the performance of the Board of Directors is almost completely absent – this is the biggest mechanism gap, because the lack of measurement of supervisory effectiveness makes it impossible for businesses to improve systematically.

Table 1: Average Maturity Score by Tier

Level	Average score	Status
Founda tion	1,40 / 2	Relatively good <i>(many contents are mandatory or customary)</i>
System	1,13 / 2	Under construction <i>(Data & integration is weak)</i>
Mecha nism	0,73 / 2	The biggest bottleneck <i>(Lack of compensation & guarantee)</i>

Source: MCG internal dataset

Vietnamese enterprises are moving from "Platform" to "System", but are trapped in "Mechanism". The next 6-12-24 months is a three-tier capacity building roadmap: (i) standardizing the foundation of accountability and transparency; (ii) data system operation and risk management; (iii) establish a mechanism for motivation, ensure and evaluate the effectiveness of supervision.

The introduction of VN CG Code 2026 (announced on 03/02/2026) with the "Compliance or Interpretation" mechanism will create pressure for standardization and comparison. This is an opportunity for businesses to move from "formal transparency" to "useful transparency", while preparing for the FTSE Russell market upgrade roadmap and improving the ACGS score.

Scope and methodology of the study

Intended use

The report is compiled for direct use in: meetings of the Board of Directors/committees on ESG and risk management; develop ESG implementation programs according to each function (operation – risk/compliance – internal audit); internal training and consulting on upgrading the ESG management system.

Data Sources and Research Samples

Sample Group	Quantity	Purpose
42 enterprises have their own report	42	In-depth evaluation of ESG management systems & mechanisms
Integration in annual reports	261	Evaluation of governance and transparency of the Board of Directors

Maturity grading framework

The report uses a 3-level scale to evaluate each component of ESG governance:

Level	Description	Score
Not available	No mention or non-existence of mechanisms/processes	0
Under development	There are mentions, there are signs of initial implementation but not standardized, lack of evidence of operation	1
Complete	Clearly describe the structure/process/policy, have published evidence and/or a relatively complete operating mechanism	2

Important Notes:

"Unpublished" does not mean "no practice"; and "announced" does not mean "operating effectively". The grading scale is designed to serve deployment decisions, not to rank.



Disclaimer:

The report is based on publicly available information in corporate documents; not guarantees, legal advice or investment recommendations.



3-Tier Frame: Platform, System, Mechanism

Meaning of Governance of the Three Tiers

In fact, many businesses confuse between: (i) **Having a statement/policy - "done"**; (ii) **There is a repeatable and controlled operation and operation system**; (iii) **There is a motivational and binding accountability mechanism - with independence**. The three-tier analysis framework helps the Board of Directors and the Board of Directors put ESG in the right order of implementation: platform design – system operation – mechanism locking.

Tier	Core Content	Key Questions	Current Status
1ST TIER: FOUNDATION	Minimum Responsibility, Basic Transparency, ESG Data, Operational Integration, Risk Management	Do enterprises have "raw materials" for ESG management?	AVERAGE RATING: 1.40/2 RELATIVELY FAIR
2ND TIER: SYSTEM	Board Structure, ESG Committee, separation of powers, risk policy, legal transparency	Do enterprises have an operating "apparatus"?	AVERAGE RATING: 1.13/2 UNDER DEVELOPMENT
3RD TIER: MECHANISM	KPI-salary and bonus, ensuring independence, auditing, evaluating the effectiveness of the Board of Directors	Do enterprises have "motivation & control"?	AVERAGE RATING: 0.73/2 BIG CONGESTION

Feedback loop between three tiers

The 3-tier framework does not operate linearly but forms a feedback loop: The **"Platform"** Layer provides the **"raw materials"** (data, policies, transparency) for the **"System"** Layer to operate; The **"System"** Layer facilitates the **"Mechanism"** Layer to operate. And vice versa, the **"Mechanism"** Layer (guarantee/evaluation) forces the **"System"** Layer to be perfected.

The most important principle: the assurance and evaluation mechanism at Layer 3 will force the data system and processes at Layer 2 to be perfected. And when the system works well, the transparent platform (Layer 1) will become more solid. This is why businesses should not wait for **"completing the foundation"** to start **"building the system"** – all three layers need to be deployed simultaneously, with the right priority for the period.

REAL-LIFE EXAMPLE: SYSTEM PULL-UP MECHANISM

Enterprise A pilots the independence of 3 greenhouse gas indicators.

The unit that ensures the requirements must have:

- i. Data Dictionary
- ii. Collection – Control Process
- iii. Retention Proof

These requirements force the System to standardize, and when the System standardizes, the Platform (data transparency) is automatically upgraded.

LESSONS:

When businesses establish a clear **"pull"** mechanism such as (i) ensuring independence or (ii) compensation KPIs, it will create a **"push"** motivation to promote the whole system to complete faster.

G20/OECD Corporate Governance Principles 2023

Tools to evaluate and improve corporate governance frameworks, providing practical guidance for good governance.

IFRS S1

Disclosure requirements are based on four pillars: governance, strategy, management management, targets, and objectives. The "governance" section requires that it specify the agency/individual responsible for monitoring sustainability-related risks and opportunities.

ISO 31000 / TCVN ISO

31000:2018:

Risk management is a set of principles, frameworks, and processes that can be integrated into governance, strategy, planning, and reporting.

COSO ERM:

Emphasis is placed on integrating enterprise risk management with strategic setting and performance management.

IIA's Three-Line Model:

Codifying the role of operations management, risk/compliance monitoring, and internal audit functions.

ISSA 5000 (IAASB):

Global baseline for sustainable information assurance; effective from 15/12/2026, allowing early application.



PART A:

Platform Layer: Minimal Governance, Transparency, and Data

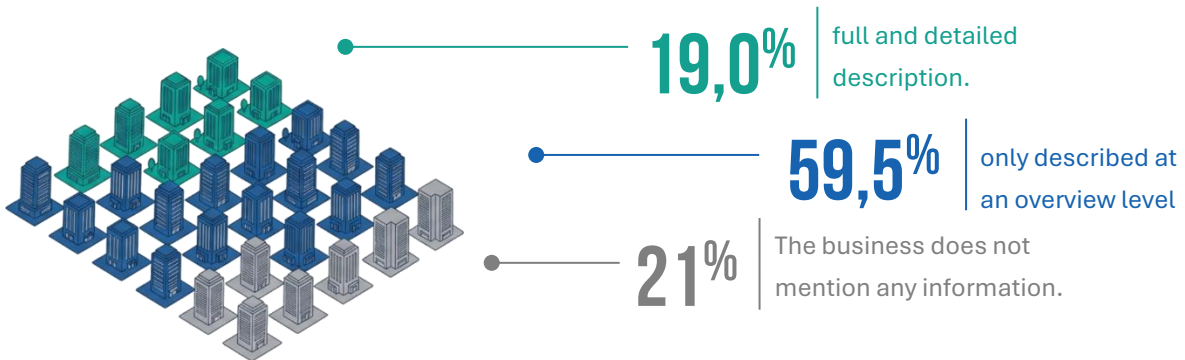
Key question: Do you have the "raw materials" for ESG governance – data, processes, actions, and minimum accountability transparency?

The foundation is where minimum accountability, basic transparency and prerequisites for the Board of Directors to monitor ESG as part of corporate governance are located. In a three-tier framework, the foundation layer is not the "destination" – this is a necessary condition to enter the system layer.

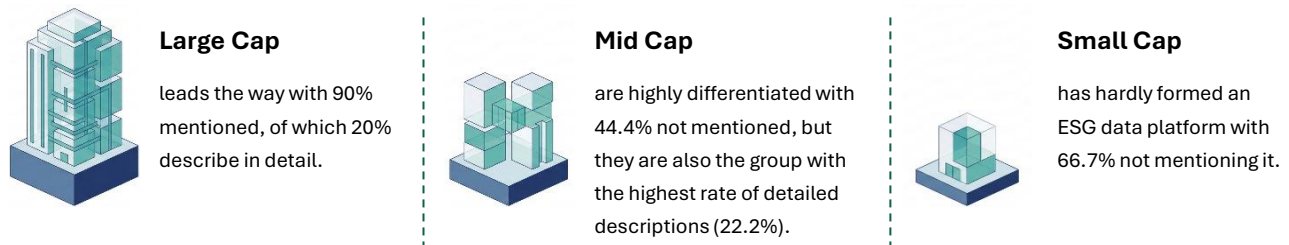


A1 ESG data platform and management system

The ESG data management system plays a fundamental role in determining the quality of ESG disclosures. The results of a survey of 42 enterprises with their own sustainability reports show that 78.5% of enterprises (33/42) have mentioned ESG data management systems, but the level of depth is still limited:



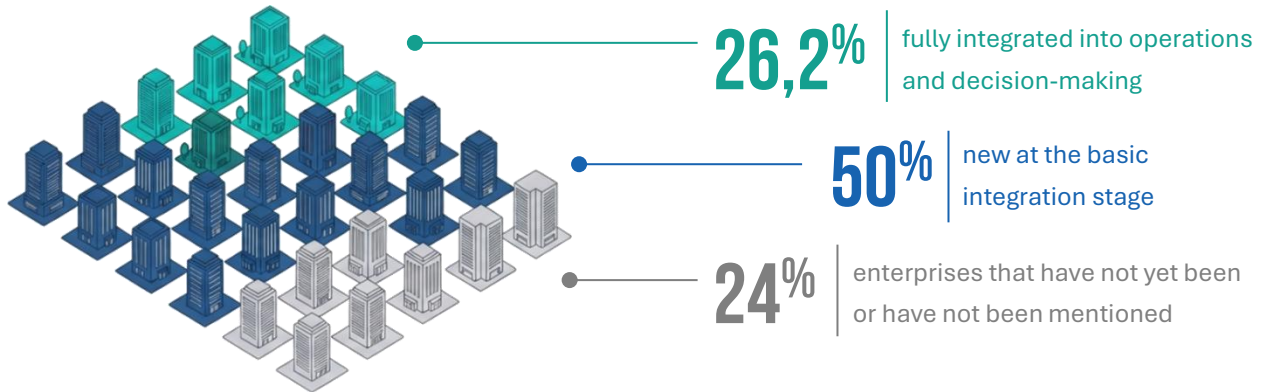
Scale analysis reveals a stark divergence:



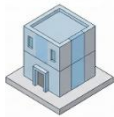
Critical bottleneck: ESG data in Vietnam is still more descriptive than data governance, limiting the ability to analyze, compare, and verify. IFRS S1 requires data that is accountable, consistent, and verifiable – a requirement that most Vietnamese businesses do not yet meet.

A2 The level of ESG integration into business operations

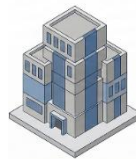
76.2% of businesses (32/42) have integrated ESG data into their operations to varying degrees. In which:



To understand the differences between the levels of integration, it is possible to visualize through three typical states:



Unintegrated is when ESG data exists completely separate from operations. **For example**, electricity consumption and greenhouse gas emissions are only aggregated once a year for inclusion in sustainability reports, and are not then used to adjust production plans or energy budgets. Management does not see ESG metrics in regular operational meetings.



Basic integration is when ESG data has appeared at some point in the operation cycle, but it is not consistent and there is no mandatory mechanism. **For example**, the procurement department asks suppliers about environmental certifications, but there are no specific selection criteria based on ESG; or the Human Resources Department monitors the gender diversity rate in recruitment but has not included this target in the annual plan. ESG is still an "extra thing", not a "main thing".



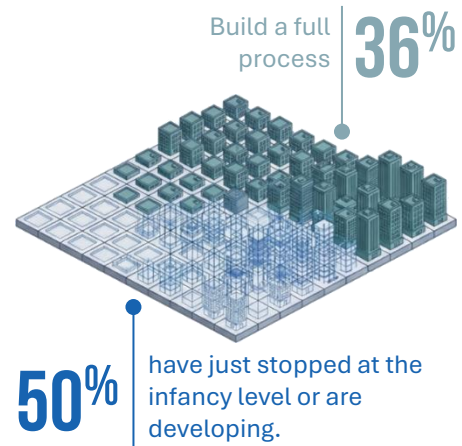
Fully integrated is when ESG data is included in governance decisions. **For example**, manufacturing enterprises track emission intensity indicators and revenues and expenses in quarterly reports to decide whether to invest in replacing energy-consuming equipment. Or real estate businesses include the contractor's ESG criteria in the procurement process, causing contractors who do not meet the minimum requirements for occupational safety to be eliminated from the pre-qualification round.

The line between "basic integration" and "full integration" lies in a practical question: if ESG deteriorates, who will be asked and who will have to act? If the answer is "no one in particular" or "wait until next year's reporting period", then the business is still at a basic integration level.

A practical ESG system is inseparable from the cycle of planning – budget – procurement – operation – human resources. If the data is only "beautiful on the report" but does not impact any resource allocation decisions, it will be difficult for the system to sustain itself: the data collector does not see what his data is used for, the motivation to maintain data quality will gradually deteriorate, and this cycle repeats until ESG becomes an administrative burden rather than a governance tool.

A3 ESG risk identification and management process

85.7% of businesses have mentioned the ESG risk management process, of which **36% have built a full process**, **50% have just stopped at the infancy or developing level**. This is the criterion with the highest disclosure rate and the best disclosure quality compared to other platform content – showing that Vietnamese businesses are prioritizing ESG approach from the perspective of risk management. Similar to operational integration, the gap between levels is most evident when asking the question: how far is ESG risk identified, and what happens after identification?



The initial level is when a business lists ESG risks in the form of a general list in the report, but there is no process behind it. **For example**, a food company records "climate change risks that may affect raw materials" in its sustainability report, but no one is assigned to monitor this risk, there are no early warning indicators, and there is no specific response plan if the risk occurs. Risks are "named" but not "managed".



The developing level is that there are efforts to systematize but there is a lack of consistency. **For example**, a real estate company has an ESG risk matrix with a likelihood and impact assessment, however this matrix is updated once a year for reporting purposes, is not tied to the general risk portfolio of the business, and the owner of each risk has not been clearly designated. ESG departments "know" the risks, but other departments may not know.

The comprehensive level is when ESG risk is integrated into the enterprise risk management system (ERM) and has a closed operating loop. **For example**, a manufacturing group includes the risk of water scarcity in its strategic risk category, assigns the engineering department as the risk owner, establishes an early warning indicator based on the monthly water consumption/tonne of product index, and reports periodically to the Board's QTRR Committee. When the index exceeds the threshold, the escalation process is activated automatically without waiting for the annual meeting.

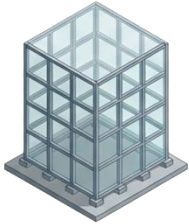


A result of 36% reaching the "full" level is a positive signal, but it should be read with an important note: the quality of "complete" in this criterion depends largely on whether ESG risk is actually included in the ERM or only exists in a separate document called "ESG risk". These two scenarios look similar on the report but differ in their operational nature: the former means that ESG risk is taken into account when allocating contingency budgets, when approving new investment projects, and when discussing strategies; the latter case is not.

The real bright spot of the 85.7% figure is not in the "adequate" rate, but in the fact that the majority of businesses have chosen risk as the first language to talk about ESG – this is a good starting point, because the language of risk is naturally compatible with the way the Board of Directors and the Board of Directors make decisions. and will be the foundation for integrating ESG into ERM in a more systematic way in the next stages.

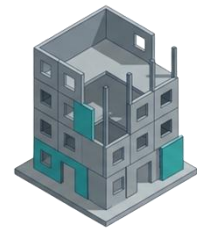
A4 ESG Risk Management Action Plans

83.3% of businesses have referenced action plans, though only 31% have developed them fully. The gap between risk identification (36% full) and action planning (31% full) highlights a common trend: companies recognize the risks but have yet to translate them into actionable steps with dedicated budgets, assigned accountability, and tracking milestones. This 4.7 percentage point difference may seem minor, but it reflects a systemic gap. To provide further clarity, this transition can be viewed through three levels:



The initial level occurs when action plans exist only as broad commitments. **For instance**, a textile company might state in its report that it will 'reduce wastewater during the 2024–2026 period,' yet fails to define a specific percentage-based target, lacks a designated department for accountability, and operates without an approved budget for the initiative. This represents a good-faith commitment, but one that lacks the 'backbone' required for implementation.

The developing level is marked by concrete actions that lack systematic integration. **For instance**, a logistics provider might identify rising fuel costs due to carbon price volatility and launch a pilot program to transition part of its fleet to cleaner fuels. However, since the initiative is driven independently by a single department, it has yet to be formally incorporated into the annual strategic plan, lacks KPIs for progress tracking, and has no clear reporting lines to senior management. While actions are underway, they lack the 'governance framework' necessary to sustain and scale the efforts.



The comprehensive level is achieved when every material ESG risk is addressed through an integrated, closed-loop action plan. **For instance**, a seafood corporation may identify the potential loss of sustainable certifications (MSC/ASC) as a top-tier strategic risk. Its action plan sets measurable targets—such as maintaining certification across at least 80% of farming areas—supported by dedicated funding for quality control and fisher training. The Chief Operating Officer (COO) is designated as the risk owner, with progress reported quarterly to the Board's ESG Committee. Should the certification rate drop below 75%, an escalation mechanism is triggered for Board-level intervention.

The line between 'developing' and 'comprehensive' levels hinges on a practical question: if an action plan remains unfulfilled by year-end, who is accountable, and what are the consequences? If the answer is 'unclear' or 'to be explained in next year's report,' the plan does not yet meet the governance standards for a 'comprehensive' classification.

On a broader scale, the gap between risk identification and action planning is not a matter of capability—businesses are often highly effective at articulating risks. Rather, the challenge lies in translating a risk registry into a set of measurable, accountable commitments. This requires cross-functional coordination: Finance must allocate budgets, HR must assign KPIs, and Operations must adjust processes. Such alignment only occurs when ESG is deeply integrated into the annual planning-and-budgeting cycle, rather than being managed as a standalone project outside of core operations.

Table 2: Distribution of Stratigraphic Maturity (n=42) | Source: MCG internal dataset

Criteria	Not Available	Developing	Complete
ESG Data Management System	21% (9/42)	60% (25/42)	19% (8/42)
Integrating ESG into operations	24% (10/42)	50% (21/42)	26% (11/42)
ESG Risk Management Process	14% (6/42)	50% (21/42)	36% (15/42)
ESG Risk Action Plan	17% (7/42)	52% (22/42)	31% (13/42)

A5 Transparency of corporate governance in the Annual Report (261 enterprises)

Corporate Governance Indicator (n=261)	Not Available	Developing	Complete
Corporate Governance Reconciliation under CG Code	73% (203/261)	–	27% (75/261)
Evaluation of the effectiveness of the Board of Directors	~100%	–	~0%
Announcement of the number of meetings of the Board of Directors	9% (24/261)	41% (115/261)	50% (139/261)

An analysis of the corporate governance module in the annual report on 261 enterprises shows a "safe zone" of disclosure but a lack of depth of accountability. To understand why the three indicators below are important, it is important to understand the purpose of each indicator's existence in advance.

Why is it necessary to compare financial management according to a set of principles/CG Code?

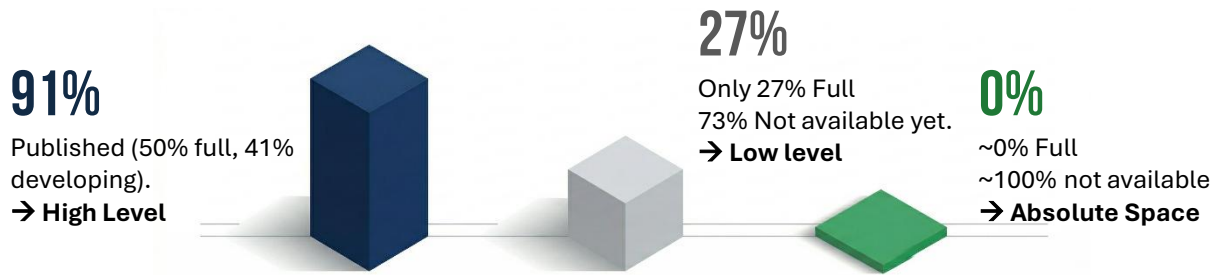
A set of corporate governance principles (CG Code) serves as a "common yardstick" that all parties – businesses, investors, regulators – can use to speak the same language. Without that common measure, each business describes its own management practices in its own way, and external readers have no basis to compare or evaluate progress over time.

Imagine an institutional investor looking at two

businesses in the same industry: both write "Efficient and independent boards" in their annual reports. The text is the same, but the reality can be completely different. If both are compared according to the ASEAN Corporate Governance Scorecard or VN CG Code 2026, investors can immediately see: enterprise A complies with 7 out of 9 principles and clearly explains the reason for not complying with the other 2 principles, while

enterprise B does not compare at all. This is really valuable information for investment decisions. For the business itself, CG Code reconciliation also has internal value: it forces the board to honestly answer the question "where are we compared to good practice?" instead of just describing what is doing well. The "Comply or Explain" mechanism in the VN CG Code 2026 is designed precisely

according to this logic: non-compliance is not a violation, but must be explained – and that interpretation creates systematic pressure for improvement. **The results** of 27% of businesses with CG Code comparisons show that the remaining 73% are describing their own management without a "benchmark" – making it difficult for both businesses and markets to measure real progress.



What is an evaluation of the effectiveness of the Board of Directors and why is it necessary?

Board performance evaluation is the process by which the Board of Directors periodically reviews itself: whether the structure is appropriate, whether the members have the capacity and information to make decisions, whether the committees are functioning in the right role, and whether the quality of discussions at the meetings really helps the business to navigate its strategy and control risks.

evaluates the performance of its management team through annual KPIs, the board also needs to be evaluated – because the board is not a perfect natural body. A Board of Directors can meet on schedule, pass a full resolution, but still fail to really monitor strategic risks if members lack expertise in the field in which the business is entering, or if the Board of Directors controls the entire flow of information

Specific example: an energy corporation is transitioning to renewable energy but none of its board members have experience in the field. Through annual performance reviews, this capacity gap is identified, and the Board of Directors has the basis to add independent members with appropriate expertise before approving major investments. Without an assessment, this gap can persist for years without anyone realizing it.

something goes wrong.

The result is that ~0% of enterprises publish a board performance assessment is the most worrying gap in the entire corporate governance module, as it means that most of Vietnam's Board of Directors are operating without a feedback loop to improve themselves. With new and complex governance topics like ESG, this is the real risk: the board doesn't know what they don't know.

Why is it necessary to publish the number of meetings of the Board of Directors?

Similar to a business that Publishing the number of Board of Directors meetings is the minimum transparency indicator, reflecting the level of positivity and pace of supervision of the Board of Directors. A Board of Directors who meets twice a year and a Board of Directors who meets 8 times a year will have the ability to monitor risks and adjust strategies very differently – especially during periods of volatility.

Directors. rate of each member indicates the level of commitment; the number of irregular meetings (emergency meetings) showing whether the enterprise has a problem or not; and the distribution of the number of meetings between the Board of Directors and specialized committees shows whether the Board of Directors is operating in depth of expertise or only in form.

number of meetings and 41% "developing" is a positive signal of form transparency, but the number of meetings only answers the question "Do the boards sit together?" and not "What is the discussion of that meeting and what is the quality of the decision?". An enterprise that meets the Board of Directors 10 times a year but approves all administrative procedures does not bring more management value than an enterprise that meets 5 times but each session has a substantive strategic risk assessment,

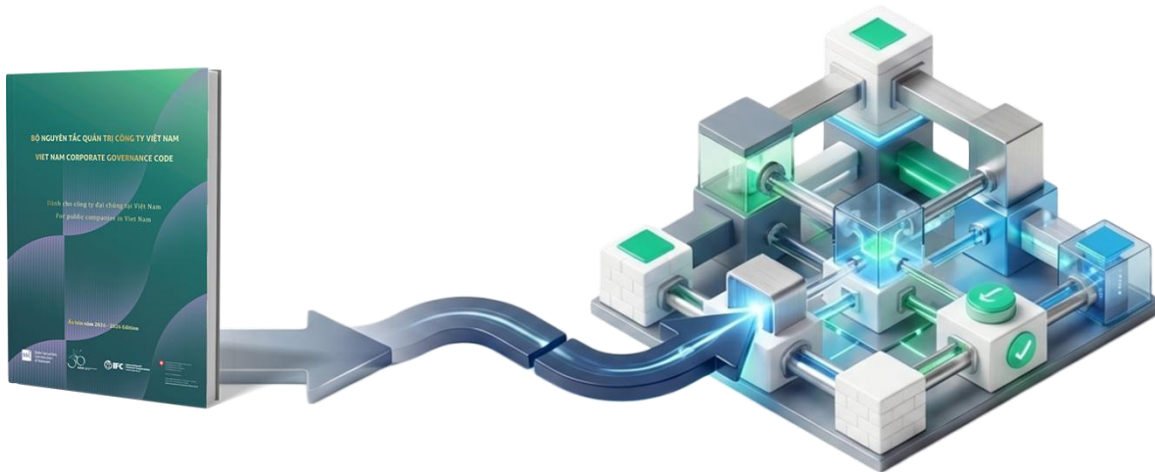
transparency in input (the Board of Directors has spent time); CG Code comparison is transparency of standards (which practice the Board of Directors operates); and evaluation of effectiveness is transparency of output (whether the Board of Directors is effective or not). Vietnamese businesses are currently concentrated in the first layer and are seriously lacking in the third layer – exactly the part that institutional investors and ESG rating organizations are most interested in.

In addition to the frequency of meetings, information on the number of meetings also carries valuable secondary signals: the attendance

However, this is also the reason to read this indicator carefully: 50% of enterprises announcing the "full"

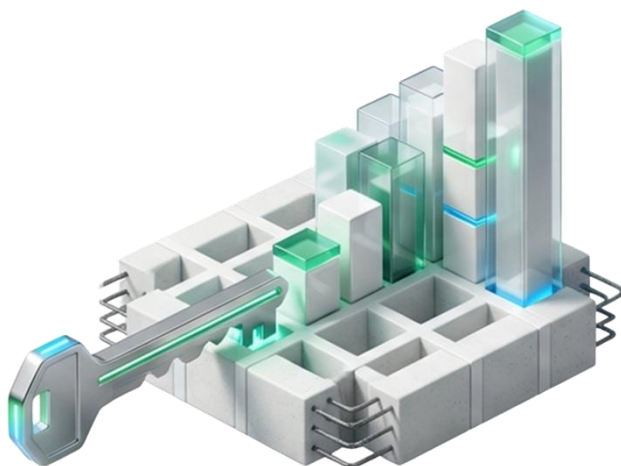
A6 Vietnam Context: VN CG Code 2026 and its implications for the platform layer

In early February 2026, the State Securities Commission coordinated with IFC to announce the Vietnam CG Code 2026 (VN CG Code 2026), emphasizing the focus of "Comply or Explain", recommending increased disclosure of governance structures, risk management policies, material risks and long-term influencing factors. This is an important market-policy signal: from formal transparency to useful transparency.



Overall, the foundation may be "enough to announce", but not necessarily "enough to operate". IFRS S1 emphasizes that the governance disclosure must allow the reader to understand the processes, controls and administrative procedures that businesses use to monitor risks – i.e. answer:

- **Who is responsible,**
- **What monitoring mechanism,**
- **How did the information go to the Board of Directors?**



Practical implications for the Platform Layer

Instead of implementing all background criteria at the same time, businesses should prioritize building data first (KPI dictionary, owners, collection-control processes), and then expand to integrate operations and risk management.

Data is the **"open key"** to the entire base: businesses with a "full" ESG data system almost always reach the "full" level for operational integration and risk processes.

The Small Cap group needs technical support with simple templates and tools rather than complex frameworks. The Mid Cap group is "high leverage": the right intervention can make the fastest jump.

SECTION B:

System layer: governance structure and ESG mechanism

The key question: Do businesses have an "apparatus" to operate ESG – the Board of Directors, the Committee, the decentralization, the policies?

Before going into data analysis, it is necessary to set the evaluation criteria in the context of international laws and practices. Board structures, separation of powers, and ESG oversight roles are not formal requirements – they reflect the core governance philosophy: the Board of Directors must act as the "architect" of strategic direction and supervision, not deep interference in operational management.



B1 VN CG Code 2026: Legal framework and 09 core principles

On 03/02/2026, the SSC, IFC and SECO announced **VN CG Code 2026** - a comprehensive upgrade from CG Code 2019, streamlined from 10 to 09 principles with a deeper scope, directly referring to G20/OECD 2023.

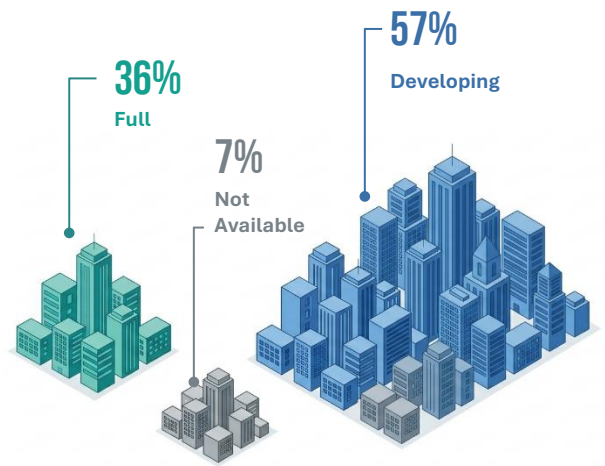
Pillars	Main content
The Board of Directors is the center	Strategic direction, oversight of the Executive Board, independence & diversity. Integrate ESG monitoring into development strategy
Specialized Committee	Recommend a full-time ESG Committee or a member of the Board of Directors to be in charge separately. Compulsory People's Committee
Extensive risk management	Non-financial risks, "emerging" risks from AI and climate change. Third-party certified sustainability disclosure
Compliance or Interpretation	Comply or Explain: if not complied, it must be clearly explained in the financial statements
ESG & shareholder integration	ESG is the focus. Shifting from Shareholder to Stakeholder value

B2 Board structure related to ESG

The results of the analysis of 42 businesses showed that 93% mentioned the board structure related to ESG, of which 36% reached the "full" level and 57% were developing. Only 7% do not have it at all. This is one of the best-publicized components, reflecting the trend of businesses that have begun to bring ESG to the "board".

However, the gap usually lies in the quality of authorization:

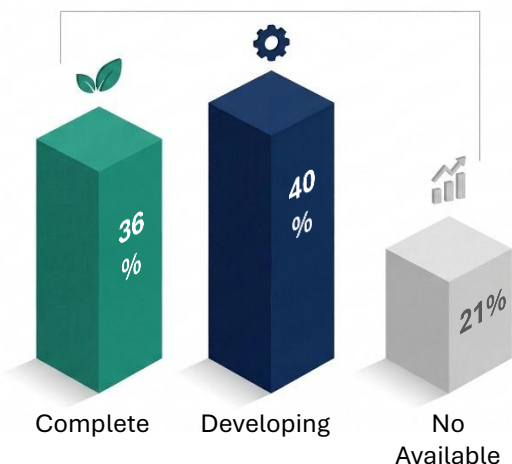
- i. Unclear charter/authorization;
- ii. Unstable work schedule;
- iii. The flow of information to the Board of Directors is not standard;
- iv. There are no criteria for evaluating the performance of the committee.



B3 ESG/Sustainable Development Committee

79% of businesses have mentioned an ESG Committee or equivalent body, of which 36% are "adequate" and 40% are developing. 21% have not at all. The "full" ratio in the ESG board and committee structure is both at 36% – indicating that pioneering businesses have begun to formalize ESG.

9% Businesses with ESG Committees



B4 Separation of Chairman of the Board of Directors & General Director

The separation of the Chairman of the Board of Directors and the General Director reached a "full" level of 50% in a sample of 42 enterprises – reflecting efforts to comply with core governance practices. The Law on Enterprises 2020 (Article 156, Clause 3) stipulates that the Chairman of the Board of Directors of a public company may not concurrently serve as the General Director/Director. Purpose: to avoid concentration of power and ensure independent supervision by the Board of Directors.



B5 ESG risk management process and policy

36% of businesses have achieved a "complete" level of ESG risk identification and management process, while 50% are developing and 14% do not. This is a positive signal: Vietnamese businesses are prioritizing approaching ESG from the perspective of risk management rather than from data management or performance measurement.

However, in order for ESG risk to truly become the "common language" of businesses, it is necessary to standardize it in the spirit of ISO 31000: identifying context–criteria, assessing risks, processing, monitoring and documenting reports. Linking ESG risks to strategic goals in the spirit of COSO ERM will help ESG not be pushed into discrete compliance content.

System Layer Components (n=42)	Not Available	Developing	Complete
Board structure related to ESG	7%	57%	36%
ESG/Sustainable Development Committee	21%	40%	36%
Separation of the Board of Directors / General Director	–	50%	50%
ESG Risk Management Process	14%	50%	36%
ESG Risk Action Plan	17%	52%	31%

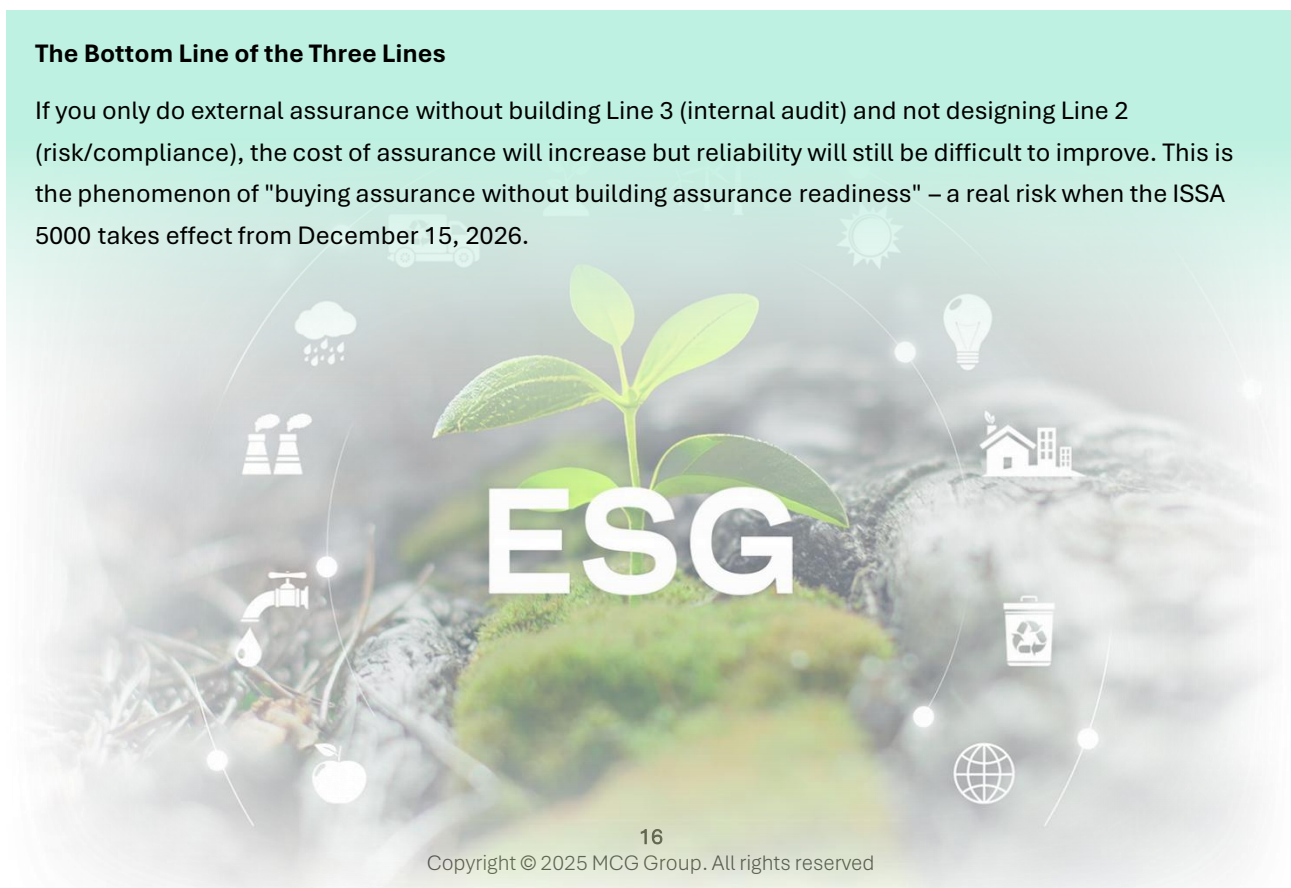
B6 ESG risk management process and policy

IIA's Three Lines Model provides a clear organizational framework for the assignment of ESG governance responsibilities. In the context that Vietnamese enterprises are in the "developing" stage, the proper establishment of the Three Lines is a prerequisite for the mechanism to ensure effective operation.

Lines	Specific ESG roles	Expected output (12–24 months)	Current Status
Line 1: Operation	Owning ESG KPIs, Owning data, operating processes and controls on a daily basis	Quarterly ESG KPI report; department-level data control; Standardized collection process	The majority is developing, lacking standardization
Line 2: Risk & Compliance	Establish a framework, guidelines, compliance tracking, and ESG risk quality in the corporate risk portfolio	ESG risk in ERM; control framework; CG Code 2026 Compliance Guide	ESG risk is often separate from ERM
Line 3: Internal Audit	Ensuring independence of data control validity, ESG risk process, and disclosure reliability	IA report on ESG data; process evaluation; External Assurance Support	There is almost no IA plan for ESG

The Bottom Line of the Three Lines

If you only do external assurance without building Line 3 (internal audit) and not designing Line 2 (risk/compliance), the cost of assurance will increase but reliability will still be difficult to improve. This is the phenomenon of "buying assurance without building assurance readiness" – a real risk when the ISSA 5000 takes effect from December 15, 2026.



SECTION C:

Mechanism Layer: Accountability and Assurance

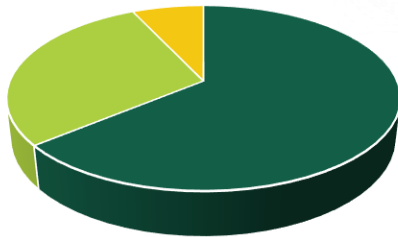
The key question: Do businesses have the "motivation & control" for ESG to really operate – KPIs-compensation, guarantee, and performance evaluation?

The mechanism layer is where ESG becomes a real management system or just a reporting content. With an average score of 0.73/2 – the lowest of the three floors – this is the biggest bottleneck to focus on.



C1 Compensation and reward mechanism linked to sustainable development KPIs

29% | Testing in a narrow range **7%** | (3/42) reached the "full" level.



This is the most common “bottleneck” in ESG management in Vietnam: 64% of enterprises (27/42) do not have any linkage mechanism, 29% are experimenting in a narrow range, and only 7% (3/42) reach the "full" level. This makes ESG difficult to become a priority for implementation, especially when there is a short-term conflict between financial and sustainability goals.

64% | (27/42) does not have any linkage mechanism



Lack of ESG-linked KPIs and compensation means a lack of accountability: when the Board of Directors does not have rewards/penalties tied to ESG results, sustainability goals will always give way to short-term financial goals in an environment with limited resources.

C2 Ensuring Independence ESG Audits

47.6% of enterprises (20/42) have external independence guarantees, but the "full" level is only 26.2% (11/42). Of the 20 enterprises with independent guarantees, only about 40% clearly disclose the applicable standards, the scope of the guarantee and the organization of implementation – indicating that the independent guarantee is still at the stage of "general description" rather than "substance". In terms of internal assurance, 92.9% of businesses have recorded a form of internal assurance – but the quality varies widely. The gap between internal assurance (~93%) and independent assurance (47.6%) is reasonable according to the roadmap.

Assurance Index	Ratio (n=42)	Notes
Internal Assurance	92,9% (39/42)	Popular but very different quality
External Assurance	47,6% (20/42)	Rapid increase but narrow range
Disclosure of standards/scope/assurance organization	~40% in 20 enterprises	Lack of transparency about methodology
Guaranteed coverage > 50% of KPIs	~15% in 20 enterprises	Most of them only guarantee a few indicators
ISSA 5000 Ready	Estimated <10%	Significant investment in the system is required

C3 Evaluating the effectiveness of the Board of Directors – The biggest gap

~0% of businesses (in both Forms 42 and 261) publish a board performance assessment – while 91% publish the number of meetings. This is a typical paradox: businesses measure "what has been done" but not "whether it is effective".

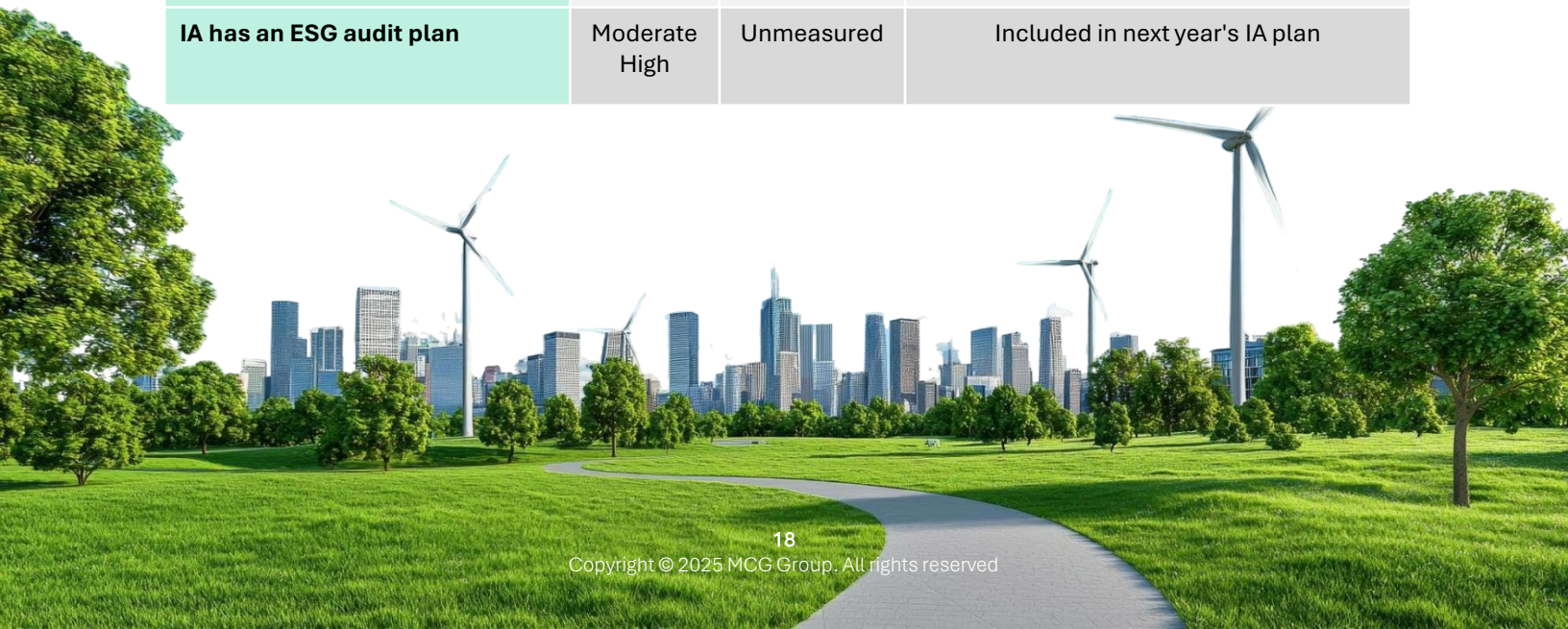
Without a supervisory performance assessment, it is difficult for the Board of Directors to set goals to upgrade capacity, especially with new topics such as ESG. VN CG Code 2026 recommends that the Board of Directors must self-evaluate or hire a third party to evaluate the performance of operations annually.

C4 Guaranteed Preparation Roadmap: 3 Phases Towards ISSA 5000

With ISSA 5000 effective from 15/12/2026, the strategy of "narrowing first, expanding gradually" is more suitable than trying to ensure the whole thing from the beginning:

- **Stage 1** (6–12 months):
Internal assurance – IA reviews ESG data processes, checks and controls, and prepares findings reports.
- **Stage 2** (12–18 months):
Ensure narrow-scope independence – select 3–5 key KPIs (e.g. Scope 1–2 emissions, occupational safety), hire a guarantor
- **Stage 3** (18–24 months):
Expand the scope – increase the number of KPIs, raise the level of assurance (from limited to reasonable), prepare according to ISSA 5000.

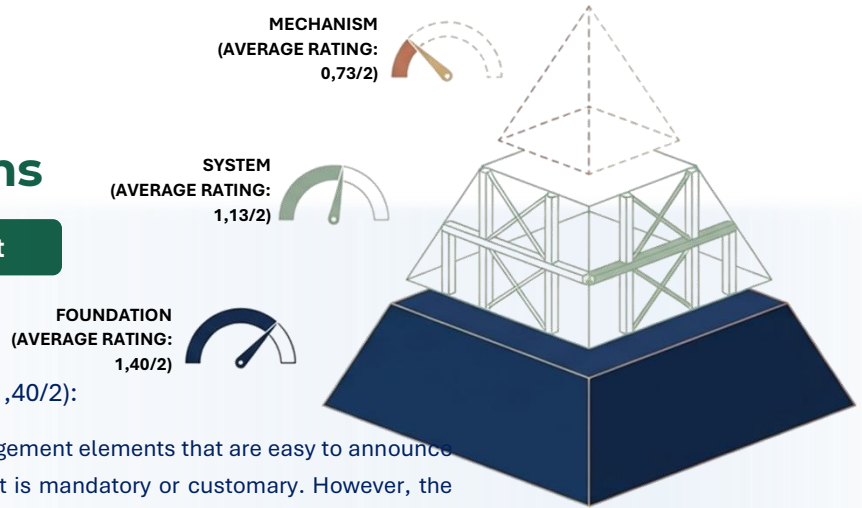
Mechanism Gap	Level	“Complete” rate	Prioritize action
ESG KPIs with compensation	Very high	7,1%	Pilot 1–2 KPIs for CEO/CFO for 12 months
Evaluation of the effectiveness of the Board of Directors	Very high	~0%	6-month structured self-assessment
Ensuring standardized independence	High	26,2%	Narrow range guarantee for 12–18 months
Corporate Governance Reconciliation under CG Code	High	27,0%	Review & publish "Comply or Explain" now
IA has an ESG audit plan	Moderate High	Unmeasured	Included in next year's IA plan



PART D:

Maturity Map and Practice Implications

D1 Three-tier aggregate assessment



FOUNDATION LEVEL (AVERAGE RATING: 1,40/2):

Relatively decent. This is the floor where management elements that are easy to announce or mandatory appear first. Many of the content is mandatory or customary. However, the foundation may be "enough to announce" but not necessarily "enough to operate".

SYSTEM LEVEL (AVERAGE RATING: 1,13/2):

Being finalized. Enterprises have begun to form system components, most of which are in a "developing" state – started but not standardized, without data control and not yet integrated into real operations. The "complete" rate is modest in data (19%) and operational integration (26%).

MECHANISM LEVEL (AVERAGE RATING: 0,73/2):

The biggest bottleneck. Large gaps: KPI-salary and bonus (7% full), Board of Directors evaluation (~0%). ESG has not been integrated into independent systems of incentive, accountability, and control. Businesses are stopping at the stage of establishing the form but have not yet stepped into substantive accountability.

D2 Implications for each group of practice subjects



For the Board of Directors and committees

It is necessary to shift from "**report-based supervision**" to "**systematic supervision**": request the Board of Directors to submit to the Board of Directors an ESG data plan, a list of material ESG risks, and a quarterly progress of action. The Board of Directors should ask the Board of Directors to submit at least 4 ESG contents on a quarterly basis:

1. Material ESG Risk Portfolio Update Table
2. Progress of the risk action plan
3. Update ESG KPIs against targets
4. Reporting of compliance incidents with environmental and social environment (if any) Make monitoring effectiveness assessment a mandatory minimum mechanism. Without validity assessments, structural and process improvements will lack measurement and feedback loops.



For the Board of Managements

Prioritize "**building data before expanding commitments**": without data and data control, every quantitative goal will be difficult to sustain and secure. Businesses often make the mistake of "**commit first, build the system later**" – leading to inconsistent data from year to year, difficult to compare, and easy to suspect greenwashing.

Put ESG into operation with hard "**touch points**": annual plans, budgets, procurement, safety, supplier governance. The Board of Directors needs to clearly designate an "ESG Data Owner" for each group of indicators, with the responsibility for collecting, approving and storing evidence.



For the Risk/Compliance department

Standardize ESG into a common "risk language" according to the ISO 31000 approach: define context–criteria, assess risks, process, monitor and document reports. Linking ESG risks with strategic goals in the spirit of COSO ERM so that ESG is not pushed into discrete compliance content. Specifically:

- Add at least 3–5 material ESG risks to the corporate risk portfolio
- Set up leading indicators for each ESG risk
- Periodic ESG risk report to the Board of Directors along with the general risk portfolio
- Coordinate with the IA to design internal controls for ESG data



For Internal Audit

Design an ESG audit plan according to the roadmap: starting from ESG data control and risk processes (first 12 months), then expanding to audit the reliability of material disclosures and evaluate the effectiveness of the monitoring mechanism (24 months). Specifically, the IA should carry out at least 3 ESG audits in the first 24 months:

1. Audit of the process of collecting and controlling ESG data
2. Audit the effectiveness of the ESG risk management process
3. Audit the credibility of material ESG disclosures



SECTION E:

Recommended Playbook: 6–12–24 Month Pathway

The table below is the minimum set of suggestions that businesses can use directly as an ESG governance upgrade plan. The focus is not on writing better reports, but on raising the percentage of criteria to reach the "Complete" level, especially at the mechanism level – where the decision to actually put ESG into operation or still stops at the form.

Milestones	Objectives	Main tasks	Host	Success indicators
6 months	Strengthening the Platform, System Design	<ul style="list-style-type: none"> ESG Charter/Authorization Data Subject Identification Putting ESG risks in the portfolio of enterprises KNK Inventory Scope 1–2 	Board of Management	<ul style="list-style-type: none"> Charter KPI Dictionary v1 ESG Risk Portfolio
12 months	System Operation	<ul style="list-style-type: none"> Data normalization ESG KPIs in quarterly reports Customers take risks IA Data Audit CG Code Comparison 	Board of Directors IA	<ul style="list-style-type: none"> ESG KPIs in quarter management IA has a report CG Code Comparison
24 months	Determine the Mechanism	<ul style="list-style-type: none"> Attaching ESG KPIs to compensation Ensuring the independence of the pilot scope Evaluation of the effectiveness of the Board of Directors IFRS S1/S2 Preparation 	Board of Directors Board of Management	<ul style="list-style-type: none"> Salary Impact KPIs Guaranteed Pilot Scope Board of Directors Evaluation

Phase 1: First 6 months – Strengthening the foundation, designing the System



1.1. Standardization of ESG data systems

- Inventory and clearly define ESG data items to be collected (quantitative first, qualitative later)
- Clearly assign the unit responsible for collection and moderation (RACI matrix)
- Develop an ESG Data Governance Protocol with the frequency of updates, units of measurement and points of contact



1.2. Review of the structure of the Board of Directors and ESG Committee

- Review the role of the Board of Directors for ESG: who supervises, who approves, who reports
- Establish an ESG/Sustainable Development Committee or ESG Working Group with a clear terms of reference (ToR)
- Establish a periodic ESG reporting schedule to the Board of Directors



1.3. Include ESG risks in the portfolio of corporate risks

- Identify ESG data owners and priority KPI categories
- Inclusion of material ESG risks in the portfolio of corporate risks
- Conduct a scope 1 and 2 GHG inventory according to the GHG Protocol and establish an emission baseline

Phase 2: 12 months – System Operation



2.1. Integrating ESG into decision-making processes

- Standardize data processes: collect–approve–retain traces
- Integrate ESG KPIs into quarterly management reports
- Introducing ESG factors into the process of evaluating investment, procurement, and supplier management



2.2. Piloting ESG KPIs & attaching compensation

- Develop a set of quantitative ESG KPIs (e.g., emission reduction, training hours, gender diversity rate)
- Pilot to attach 1–2 ESG KPIs to the performance evaluation of CEOs and CEOs



2.3. CG Code Compliance & Internal Assurance

- Review and compare the practice of financial management with the VN CG Code 2026 or ASEAN CG Scorecard
- Issue an ESG risk action plan with a budget and milestones
- IA audits ESG data control tests

Phase 3: 24 months – Determine the Mechanism



3.1. Attach ESG KPIs to compensation and independent audit

- Attach 1–3 key ESG KPIs to executive evaluation and compensation
- Expand the proportion of ESG in performance evaluation to 15–25% for the entire board of directors
- Narrow-scope independent assurance pilot (a group of KPIs)
- Transparency of the reward-penalty calculation mechanism linked to ESG results



3.2. Evaluation of the effectiveness of the Board of Directors and preparation of IFRS S1/S2

- Establish a review of the effectiveness of the Board of Directors/committee (at least a structured self-assessment)
- Raising the level of transparency in the direction of "compliance and interpretation" according to CG Code 2026
- IFRS S1/S2 readiness review based on Governance, Strategy, Risk Management and Metrics & Targets
- Expanding the scope of assurance under the ISSA 5000 roadmap

Implementation principle: "Small but real, instead of big but form"

- **International experience** shows that the most successful enterprises in implementing ESG governance are not the ones with the most ambitious plans, but the ones that implement consistently with a sufficient scope.
- An ESG KPI is measured, controlled, bonus, and guaranteed to be worth more than 50 KPIs that are only available on the report.
- **Implications:** Start with 3–5 key KPIs, build a whole loop (collection – control – reporting – evaluation – assurance) for this group of KPIs, then gradually expand.



APPENDIX

ESG Governance Maturity Rubric Scoring Framework

Cod e	Criteria	0 – Not available	1 – Developing	2 – Complete	Owner
A1	ESG Data Management System	Not mentioned	There is a list of targets, lack of control	Includes data dictionary, data owner, control and tracking	Board of Management
A2	Integrating ESG into operations	ESG is separated from operations	Local integration according to Departments	Integrated into the Plan-Project-Activity cycle; periodic reporting	Board of Management
A3	Risk Identification & Management Process	None	There is identification but lack of standardization	Includes processes, risk owners, monitoring, and reporting to the Board of Directors	RR/Compliance
A4	ESG Risk Action Plan	None	Yes but lack of NS/KPI/owner	Includes risk-based planning, budget, KPIs, and progress tracking	Board of Management
B1	ESG Board Structure	Not mentioned	There is an unknown mention and authorization	Clear charter/authorization; reporting mechanism	Board of Directors
B2	ESG/Sustainable Development Committee	None	There is an unstable dedicated committee	There are committees with charters, plans, reports	Board of Directors/Committees
B3	Separation of chairman & general director	Concurrent position	Separation, general description	Separation, clear roles	Board of Directors
B4	Greenhouse Gas Risk Management Policy	None	Yes, narrow range	Clear scope–responsibility–supervision	Board of Management+RR
B5	Legal transparency	Not mentioned	In general, there is a lack of mechanism	Have specific information and/or remediation mechanisms	Compliance
C1	Salary and bonus with KPIs	None	Limited testing	Attached ESG KPIs Reviews/Salary	Board of Directors/Committees
C2	ESG Assurance/Audit	None	Internal review has not been standardized	Have an internal assurance process	Internal Audit + Audit Committee
D1	Comparison of corporate governance with CG Code	None	–	"Comply or Explain"	Board of Directors/Secretary
D2	Evaluation of the effectiveness of the Board of Directors	None	–	Have an evaluation mechanism and improvement plan	Board of Directors
D3	Announcement of the Board of Directors meeting	Not mentioned	State only the number of meetings	Number of meetings + attendance rate + content	Secretary committee

Overall Maturity Classification Guidelines

Rating range	Maturity	Description	Priority Actions
0-7	Nascent	The foundation of ESG governance has not yet been formed	Focus on building the foundation: data, policies, structure of the Board of Directors
8-15	Developing	There is a foundation but there is a lack of enforcement mechanism	Building the system: integrating operations, standardizing risks
16-22	Established	The system is formed, the mechanism begins to work	Mechanism course: salary and bonus, guarantee, evaluation of the Board of Directors
23-28	Leading	Integrated, assured and evaluated ESG governance	Expanding the range; Upgrade Continuity

Important Notes:

The majority of Vietnamese enterprises in the research sample (42 enterprises with their own sustainability reports) are estimated to be in the range of 8-15 points ("Developing" level). Businesses at this level need to focus on building a system before investing deeply in the mechanism.

Recommended Evaluation Frequency

- 1. Internal self-assessment:** every 6 months for the first 2 years, then every 12 months
- 2. Assessment by the IA:** Every 12 months, included in the annual IA plan
- 3. Assessment by external consultants:** every 12-24 months, associated with milestones (FS, CG Code deadline)

Rubric is only valid when used repeatedly: save the results of the evaluation over periods to measure progress.



Summary assessment and prospects

ESG governance in Vietnam is at an important transition point. Three convergent events in 2025–2026 create a "window of opportunity" for businesses looking to upgrade their management:

- VN CG Code 2026 was born with the Comply or Explain mechanism – creating a market benchmark
- ISSA 5000 comes into effect from 15/12/2026 – setting a global standard for ensuring sustainable information
- Roadmap to upgrade FTSE Russell and improve ACGS (currently 57.6/130 – among the lowest in ASEAN) – Creating pressure from investors

Businesses that act early will have a clear competitive advantage: lower implementation costs (because of step-by-step work), higher quality (because of the time it takes to complete), and a better position to institutional investors. On the contrary, waiting businesses will face increasing time pressure when many deadlines come together.

CONCLUDING MESSAGE FOR EACH GROUP



For institutional investors and rating organizations

The majority of Vietnamese enterprises are in a state of "having a declaration but lacking a mechanism" – this is a governance risk signal for the investment portfolio. Three "red light" indicators to pay attention to: (i) the enterprise announces the structure of the Board of Directors related to ESG but does not have KPI-compensation associated with ESG; (ii) there is a financial statement but there is no independent guarantee or only a very narrow scope; (iii) failing to compare corporate governance according to any set of governance principles/rules.



For Regulators and Exchanges

The data shows that the VN CG Code 2026 was issued at the right time: the market needs a "benchmark" to measure progress. Three implementation challenges need to be considered: (i) the "Comply or Explain" mechanism is only effective when there is supervision – it is necessary to clearly stipulate who assesses the quality of the "explanation" of the enterprise; (ii) the Small Cap group needs a simplified version or template; (iii) it is necessary to concretize the criteria and roadmap for linking CG Code 2026 with the index basket.



For Businesses

This report provides an analytical framework (three tiers), actual data (42 + 261 enterprises), and implementation tools (playbook + rubric). The next step is for the business: use rubric to self-assess, identify priority gaps, and start a 6–12–24-month roadmap. The simplest principle: "Small but real, instead of big but form."



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