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The Role of ESG Integration in Enhancing Corporate Competitiveness: A Conceptual Framework

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Abstract
The emergence of Environmental, Social and Governance (ESG) concept has transformed the responsibility of firms towards Environment, Society and Governance from a peripheral exercise in corporate responsibility to a strategic necessity that has changed the way corporates compete with each other. The ESG framework when integrated into organizational process can enhance the competitiveness of companies by improving reputation, goodwill, reducing risks and encouraging innovation in various operational areas. The study attempts to propose a conceptual framework integrating stakeholder theory, Resource-Based View, Institutional Theory and Legitimacy Theory enabling the corporates to strengthen their competitiveness in ever dynamic environment. The conceptual framework emphasis the need for viewing ESG not as a legal compliance but as a strategic tool that can strengthen resilience, market access and long-term value creation of corporates.

Keywords: ESG, Corporate Competitiveness, Corporate Social Responsibility, Resource-Based View Theory, Stakeholder Theory, Legitimacy Theory, Institutional Theory.

Introduction

In recent decades the meaning of corporate competitiveness has shifted from mere cost efficiency, market positioning and product innovation to ESG practices and it has been treated as essential requirement for long-term performance and governance (Eccles, Ioannou, & Serafeim, 2014). Unlike earlier corporate responsibility models ESG put forward quantifiable dimensions that can be used by stakeholders to assess the firms on how far the ESG criteria laid down by the regulatory bodies are met by the corporates thereby demanding greater transparency in their operations. Investors incorporate ESG criteria in capital allocation and are attracted to the companies that go along with social and environmental values (Kotsantonis, Pinney, & Serafeim, 2016). The global challenges such as climate change and governance failures in many countries have diminished the relevance of profit maximization models, reinforcing the need for shared value creation (Porter & Kramer, 2011). Even though there are empirical research on ESG, there is lack of theoretical clarity on how ESG integration enhances the competitiveness of corporates (Velte, 2017). The current study aims to align the core aspects of four prominent theories-Stakeholder theory, Resource-based view theory, Institutional theory and Legitimacy theory with ESG and also provide a conceptual framework to demonstrate how it can enhance competitiveness of firms.

Review of Literature
The roots of ESG integration in academic research can be traced in stakeholder theory which emphasis the need for the companies to create value for all the stakeholders than just prioritizing the shareholders to achieve long term success (Freeman, 1984; Donaldson & Preston, 1995). The resource-based view stated that companies have to concentrate on firm- specific capabilities and resources to attain competitive advantage (Barney, 1991) and later incorporated nature resources as strategic assets for sustainable competitive advantage (Hart, 1995). Earlier studies demonstrated that best environmental practices will create profitability and societal acceptance for the firms (Russo & Fouts, 1997). A significant conceptual transformation happened when sustainability has been viewed as creating shared value affirming the need for integrating ESG into core corporate strategy than just treating it as philanthropic activities (Porter and Kramer 2011).
The empirical studies revealed that companies involved in sustainable practices exhibited stronger organizational process and long-term performance than their counterparts (Eccles, Ioannou, and Serafeim 2014). The meta-analysis of more than 2000 studies in this context found a positive relation between ESG performance and financial success(Friede, Busch, and Bassen 2015). However, research studies found ESG rating divergence as rating agencies provide different methodologies for rating the firms on ESG compliance and made it difficult to find the financial market response on ESG practices (Berg, Kölbel, & Rigobon, 2022). To tackle the issues EU's Corporate Sustainability Reporting Directive (CSRD) and the IFRS S1/S2 standards issued by the ISSB in 2023 have been framed to ensure comparability, transparency thereby strengthening the ability of policymakers and investors in taking informed decisions. The empirical evidences from research studies indicate that ESG adoption ensures competitiveness by enhancing brand value, fostering stakeholder trust, reducing risk, improving capital access and driving innovation.

Statement of the Problem
Despite the growing relevance of ESG factors in framing corporate strategy, there is shortfall of theoretical explanation on how ESG framework contribute to corporate competitiveness (Velte, 2017; Wang et al., 2025). Most of the research studies concentrated on the financial correlation between ESG factors and corporate performance neglecting the influence of reputation, risk mitigation, stakeholder trust and innovation on ESG practices to improve competitiveness advantage (Clark et al., 2015; Friede et al., 2015; Xu et al., 2025). Similarly change in disclosure rules demanded by International Sustainability Standards Board's (ISSB) International Financial Reporting Standards (IFRS) S1, sets general sustainability-related disclosure requirements, and IFRS S2, which focuses on climate-related disclosures, as well as the European Union's Corporate Sustainability Reporting Directive (CSRD) and growing interest of investors on corporate activities (IFRS Foundation, 2025; European Commission, n.d.) emphasis the need for a comprehensive theoretical framework integrating regulatory, institutional, and capability-based perspectives (Kotsantonis et al., 2016; Bai et al., 2024). The study intends to address this gap which will enable the firms in developing and developed countries to treat ESG not just as a regulatory requirement but as using ESG strategically for long term value creation and market leadership.

Objectives of the Study
The current study on the role of ESG framework on enhancing corporate competitiveness intends:
1. To review and synthesis the stakeholder theory, resource-based view, institutional theory, and legitim-

acy theory to understand the role of ESG in enhancing the corporate competitiveness.
2. To develop a conceptual framework to integrate ESG and the theories in enhancing corporate competitiveness
3. To provide the implications for managers and policyholders on how ESG practices leverage the resilience, market access and stakeholder value.

Significance of the Study

The current study focuses on bridging the gap between the theoretical knowledge and practical aspects of ESG integration in enhancing competitiveness of firms. The study synthesizes the underlying concepts of Stakeholder theory, Resource-based view theory, Institutional theory and Legitimacy theory into ESG framework to provide competitive advantages for the firms. The corporates are given an outlook how practices such as green innovation, sustainable sourcing and transparent governance can enhance their brand image and goodwill. The study also provides an insight to the policyholders to create supportive regulatory environment and standardized reporting to enable the corporates to incorporate the ESG principles into their strategies. The study also has societal relevance as firms may undertake the responsibility to fight against global challenges and align business operation with sustainable development goals.

Scope of the Study

The current study is theoretical in nature focussing on core principles of Stakeholder theory, Resource-based view theory, Institutional theory and Legitimacy theory to align it with ESG factors to improve the competitiveness of firms. The study also intends to develop a conceptual framework that can guide future empirical research across industries, regions and governance contexts to adopt ESG as a strategic requirement.

Research Methodology

The purpose of the current study is to study how ESG integration contributes to corporate competitiveness by relating it to four prominent theories- Stakeholder theory, Resource-based view theory, Institutional theory and Legitimacy theory. The current study adopted qualitative and conceptual design. The study relied on secondary data such as peer-reviewed journal articles, Reports from international organizations such as the UN Global Compact**,** United Nations-Supported Principles for Responsible Investment (UNPRI)**,** Global Reporting Initiative (GRI)**,** Sustainability Accounting Standards Board (SASB)**, T**ask Force on Climate-Related Financial Disclosures (TCFD)**, a**nd World Economic Forum and Case materials and ESG reports from companies such as Unilever, Tesla, Infosys, and Tata Group.

Linking Theories with ESG Framework

The current study focuses on relating the underlying theoretical aspect of each theory in enhancing corporate competitiveness.

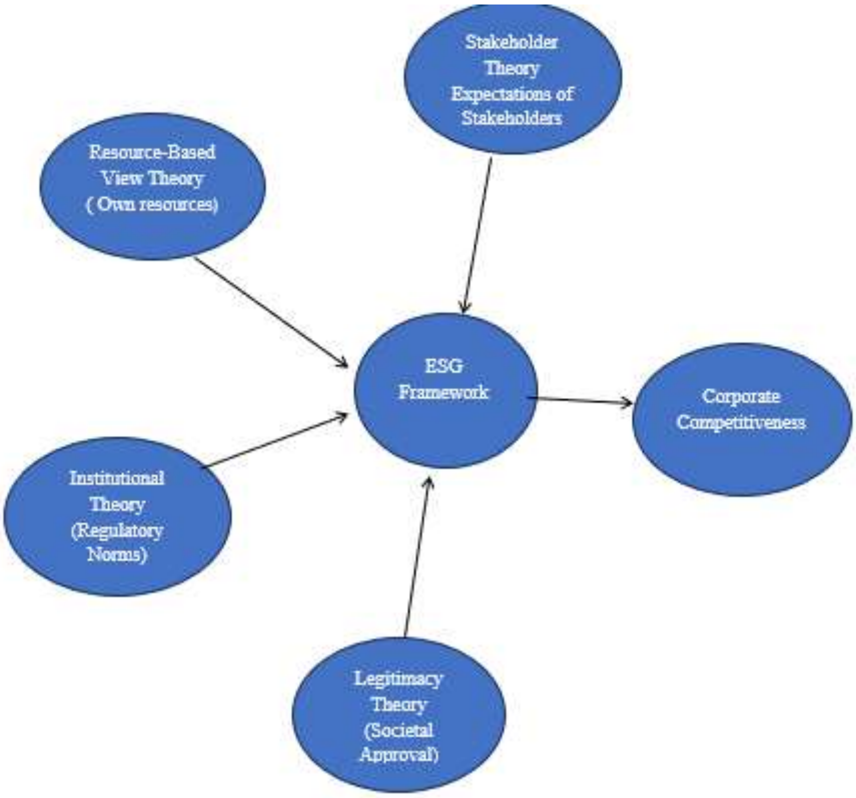
1. Stakeholder theory (Freeman, 1984; Donaldson & Preston, 1995) emphasis that the success of any company depends on its commitment to meet the interest of all the stakeholders. In the ESG context the efforts taken in reducing carbon emission, ensuring safe labour conditions, supporting diversity and inclusion and transparency in governance is a way to safeguard the interest of stakeholders. Thus,

by aligning the business operation with the ESG factors business can ensure trust, build customer loyalty and reduce reputational risk all contributing towards corporate competitiveness.

2. Resource-Based View Theory (Barney, 1991; Hart, 1995) states that companies can attain sustained competitive advantage by relaying on its own internal sources such as its people, technology, brand reputation and culture rather than on external market conditions. When it is applied to ESG framework strong ESG practices such as reliable sustainability reporting, energy-efficient technologies, ethical supply-chain systems, and a culture of responsible governance become rare and hard to imitate than just compliance measures. It can differentiate themselves from competitors, reduce risks, improve their image and adapt easily to regulatory and market changes.
3. Institutional theory (DiMaggio & Powell, 1983) emphasis that firms are required to follows certain practices on account of the external pressure from industry norms, regulations and social expectations. With regard to ESG these pressures come from regulatory frameworks like the ISSB's IFRS S1/S2 and the EU's CSRD as well as from industry association and the expectation of stakeholders. The need to imitate the best practices of leaders such as Tesla and Unilever forced the adoption of ESG factors not a choice but as a strategic requirement to become acceptable in the global market.
4. Legitimacy theory (Suchman, 1995; Deegan, 2014) stresses that companies need approval form the society to operate. By following ESG practices such as controlling carbon emission, treating workers fairly, maintaining transparency and fighting against corruption send signal to the society that they act responsibly and align with the societal values. It builds trust and confidence among stakeholders and there by strengthen its corporate competitiveness.

Conceptual Framework Integrating Theories and ESG towards Corporate Competitiveness

The study has taken into consideration four theories to integrate with ESG framework to enhance corporate competitiveness. The stakeholder theory emphasis on meeting the expectation of stakeholders to build trust thereby to achieve competitive advantage. Corporates can achieve it by adhering to the ESG framework. The resource-based view theory states the competitive advantage that a firm can attain by depending on its own resources which the competitors can never imitate. The best practices suggested by ESG framework such as usage of green technology, responsible supply chain and transparent reporting will help the firms in getting a competitive advantage over others. The institutional theory states that the pressure put forward by global ESG disclosure norms enables the firms achieve an edge in operating global markets. The legitimacy theory emphasis the need for getting societal approval in carrying out the operations of firms. ESG also demonstrates the need for the firms to align with the societal and ethical norms in order to achieve corporate competitiveness.



Conceptual Framework Integrating Theories and ESG towards Corporate Competitiveness

Implications

The current study intends to identify the role of ESG in attaining competitiveness for corporate firms. The study identified four well known theories- Stakeholder theory, Resource-based view theory, Institutional theory and Legitimacy theory and its core assumptions to substantiate the ESG factors. The conceptual framework put forward by the current study emphasis on ESG integration into corporate competitiveness by synthesising multiple theoretical perspectives. The underlying idea of each theory has been aligned with the ESG to enable the firms to attain an edge over the competitors. ESG provides an opportunity for firms towards strategic differentiation, innovation and risk mitigation. The study recommends the policymakers to view ESG as an enabler of sustainable competitiveness. The firms should be encouraged to meet disclosure requirements and reporting standards to follow ESG integration as a strategic necessity for firms survive in the competitive market.

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