

## Strategic Environmental, Social and Governance Integration, Competitive Advantage, and Development Outcomes: Evidence from family firms in Developing Economies

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### Abstract

The contribution of the private sector towards sustainable development has been on the rise especially in the developing economies whereby such firms are supposed to deal with the social as well as environmental constraints through the normal business operations. This paper looks into the question whether and how strategic Environmental, Social and Governance (ESG) integration contributes to the competitive advantage and growth of firms. The study is based on a survey with 460 family firms that do business in Pakistan to conduct the test with the help of partial least squares, structural equation modelling, taking the mediation model between strategic ESG integration and development outcomes based on competitive advantage. Findings show a positive correlation between strategic ESG integration and the competitive advantage and development outcomes. In turn, competitive advantage also affects the development outcomes significantly and mediates the relationship between strategic ESG integration, on the one hand, and development outcomes, on the other hand. These findings indicate that ESG efforts have the most significant developmental influence in case they are an essential part of their competitive strategies of firms as opposed to being pursued as an isolated or compliance-driven practice. These findings have significant implications on managers and policymakers who would like to use the strategies of the private sector in the promotion of sustainable development objectives (SDGs).

**Keywords:** Strategic ESG integration; Corporate Social Responsibility; Development outcomes; Sustainable Development Goals (SDGs); Developing Economies

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## Introduction

The involvement of the private sector in national and international development thus as a strategic actor is becoming increasingly prominent in recent years. Since governments and multilateral organizations are increasingly constrained in their efforts to meet the Sustainable Development Goals (SDGs) due to persistent resource limitations, firms are becoming increasingly involved in producing development outcomes out of their core business operations as opposed to their peripheral business approaches or charitable endeavours (United Nations, 2015; Kolk, Kourula, and Pisani, 2017). This has triggered the growing academic interest to know how the business strategy can be re-oriented towards achieving the development goals, especially in the emerging and developing markets where the involvement of the private sector is central to the inclusive and sustainable development of the countries (Kolk and van Tulder, 2010; Jamali and Karam, 2018).

Within the dynamic discourse, the environmental, social, and governance (ESG) concerns have been defined as a key process by which companies interact with the social and environmental issues. Whereas the initial literature on ESG focused mostly on regulatory compliance, risk management, or reputational issues, the recent studies are becoming more focused on strategic ESG integration, whereby ESG concerns are integrated into the competitive strategies adopted by firms, the decision-making process, and value-creating activities (Eccles, Ioannou, and Serafeim, 2014; Aguinis and Glavas, 2019). In this sense, ESG initiatives are not considered as peripheral initiatives to the already implemented strategies but are utilized as strategic resources that can produce both economic and beneficial societal value (McWilliams, Siegel, and Wright, 2006; Porter, Serafeim, and Kramer, 2019).

This ESG strategic perspective is similar to the notion of shared value, which assumes that companies can become more competitive and at the same time increase the satisfaction of the social and environmental needs through product, services, and value chain innovations (Porter and Kramer, 2011). This would be especially applicable to business-development scholarship that focuses on the firm in relation to providing outcomes of development through its products and services, the management of value chains, and collaboration with a wide profile of stakeholders (Kolk et al., 2017; Soundararajan, Brown, and Wicks, 2019). Nevertheless, the little empirical research on the contribution of strategic ESG integration to development outcomes has been conducted, although that area is becoming increasingly popular due to the realization of its strategic potential.

The current body of literature on ESG has largely concerned financial and market-based company-level empires, e.g., profitability or risk mitigation or stock market performance (Eccles et al., 2014; Friede, Busch, and Bassen, 2015). Although such studies will give significant insights into the business case of ESG, they do contribute comparatively little information concerning the way ESG strategies can turn into development impacts, including benefits of community well-being, social inclusion, protection of the environment, and conformities with SDG targets. It is this gap that is of particular relevance in the context of developing nations, where companies tend to be operating in the environments of institutional gaps, low regulative efficiency, and serious social and environmental issues (Jamali and Mirshak, 2010; Kolk and van Tulder, 2015).

Furthermore, the processes by which strategic ESG integration results in developmental outcomes are insufficiently theorised and empirically tested. Regarding the business strategy and development, there is not much chance that ESG initiatives can develop over time to enhance both the competitive positioning of firms and consequently allow them to be in a position to continue investing, innovating, and interacting with the local communities and

stakeholders (Surroca, Tribó, and Waddock, 2010; Flammer, 2015). Competitive advantage, which can be achieved in the form of reputation, operational efficiency, innovation potential, and trust, might then be a vital channel between strategic ESG integration and development performance. Nonetheless, there is limited empirical studies that have investigated this mediating factor, especially in the context of emerging and developing economies.

A specifically valuable environment to examine these relationships is family firms and small and medium enterprises (SMEs). Family-owned business companies are predominant in the privately-owned sector in most developing economies, they provide a key role in generating employment, the development of the value chain, and local economic action (OECD, 2020). Long term orientation, close links with local communities and a wish to maintain social emotional wealth can readily characterise family firms that leads to the incorporation of ESG into core strategic choices (Gómez-Mejía et al., 2011; Berrone et al., 2012). Meanwhile, the resource constraints and competition forces might hinder the amount of such firms-led development-oriented activities unless ESG strategies are also part of competitive advantage (Bansal, Kistruck, and Eddleston, 2021). Family firms in developing nations are still underrepresented in studies concerning ESG, strategy and development, despite their significance.

The country of Pakistan presents a very useful empirical backdrop of studying these dynamics. Pakistan is a lower-middle-income nation, in which many issues concerning poverty, environmental sustainability, energy security, and governance remain problems, so the commitment of the private sector is the key to advancing towards the SDGs (World Bank, 2023). The institutional environment that firms in Pakistan operate in is characterised by a broader range of gaps in regulation, limited enforcement and changing expectations of stakeholders, which make strategic approaches to ESG beyond compliance increasingly relevant (Jamali and Mirshak, 2010; Ali, Frynas, and Mahmood, 2017). In this respect, the insight into the role and the possibility of strategic ESG integration in terms of its functioning as a competitive advantage of firms and development outcome is a significant element of theory and practice.

As a reaction to the mentioned gaps, this study expresses the following research question: How can a deliberate incorporation of ESG (Environmental, Social, Governance) aspects into the corporate strategy contribute to the developmental success of a firm and its competitive advantage? Based on survey data on family-owned enterprises functioning across Pakistan, the question may be asked as (1) the interconnection between strategic ESG integration and competitive advantage, (2) the interdependence between competitive advantage and outcomes related to development, and (3) the competitive advantage as a mediating factor between strategic ESG integration and development. The analysis, with a firm-level, strategy-based analytical frame, cuts across the symbolic/compliance-driven conceptions of ESG, and it dwells on the working and operating processes that can ensure its contribution by the strategies of the private-sector towards sustainable development.

The empirical value of this study is several. First, it builds on business -strategy / development scholarship by providing strong evidence of the translation of strategic integration of ESG into development in the context of a developing country. Second, it adds to the existing literature on the subject by hypothesizing competitive advantage as the central mechanistic pathway that bridges the need to establish a connection between ESG initiatives and quantifiable development impact. Third, the family firm focus in Pakistan broadens the academic knowledge on the co-construction between ownership structure and contextual variables about the nexus of ESG-strategy-development in emerging economies. Lastly, the

implications of the results to both managers and policy-makers have provided practical recommendations on how the strategic capacity of the private sector could be used to expedite the achievement of sustainable development outcomes. In this regard, the study directly targets the fundamental readership of the publication, Business Strategy and Development demonstrating how the strategies at the firm level are translated into physical developmental results in the emerging markets.

## **Theoretical Framework and Hypotheses Development**

### **Strategic ESG Integration and Business Strategy**

The modern literature on sustainability management literature and evolution establishes the topical importance of firms as agents of socio-environmental change who, particularly in emergent economies, often lack institutional scaffolding of such change (Kolk et al., 2017; Kolk and van Tulder, 2010). In this context, the most significant gains of ESG considerations can be reaped when they are strategically embedded in the core operations of the firm and not removed to the peripheries or symbolic actions. Strategic ESG integration refers to their deliberate alignment of ESG goals with the competitive strategy, operations and resource allocation decisions, thus enabling companies to pursue both value creation and development goals at the same time (Eccles et al., 2014; Aguinis and Glavas, 2019).

Such a conception is consistent with the resource-based view (RBV) of the firm, which argues that the enduring competitive advantage out of the available valuable, rare, inimitable, and non-substitutable resources and capabilities (Barney, 1991). One such resource is strategic integrated ESG practices as they provide organizational goodwill, improve relationships among stakeholders, increase operational efficiency and spur innovation (Surroca et al., 2010; McWilliams et al., 2006). As opposed to compliance driven ESG, strategic ESG integration incorporates social and environmental aspects into the value proposition of the firm, so it reforms how firms compete and create value.

Strategic ESG integration is closely aligned with the paradigm of creating shared value development-wise, which holds that companies can both address social problems and at the same time, improve their competitiveness, using their basic business models (Porter, 2011, and Kramer, 2011). This framework has permeated the study of business-development by considering it a contribution through products, services, and value chain that firms make to development, as opposed to making pure contributions, through philanthropy (Kolk et al., 2017; Porter et al., 2019). Based on this, strategic ESG integration is considered to be a key mechanism that connects the business approach and growth objectives.

### **Strategic ESG Integration and Competitive Advantage**

Empirical data is emerging to show that companies that strategically incorporate ESG factors place them in a better place to achieve competitive advantage. The implementation of ESG offers firms various benefits, such as differentiation, minimized operational risks, increased efficiency, and building trust-based relationships with the most relevant stakeholders, such as customers, suppliers, employees, and regulators (Eccles et al., 2014; Flammer, 2015). Such dividends are particularly conspicuous in the context of developing countries, where the trust and legitimacy of the stakeholders are the essential factors of survival and growth of firms (Jamali and Karam, 2018).

The stakeholder theory also supports such an interconnection: companies that are able to maintain a relationship with various stakeholders tend to be more successful in their performance (Freeman, 1984; Harrison, Bosse, and Phillips, 2010). The integration of ESG strategy represents the commitment of the firm to the issues of its stakeholders, which also implies the increase of the reputation, loyalty of the customers and the workers, as well as the

availability of resources. With time, these advantages are hard to replicate by the competitors thus supporting the sustainability of competitive advantage.

Strategic ESG integration is of benefit to family firms especially. The driving force in the investments in ESG initiatives that restore the reputational status along with the competitive positioning is frequently driven by their long-term orientation and a high sense of community (Gómez-Mejía et al., 2011; Berrone et al., 2012). These strategic advantages of ESG inclusion are increased in developing economies, including Pakistan, where formal institutional assistance turns out to be weak, and relational and reputational capital increase becomes significant in the way these companies compete efficiently. In this regard, the hypothesis as presented below is proposed:

**H<sub>1</sub>:** *Strategic ESG integration is positively associated with firms' competitive advantage.*

### **Competitive Advantage and Development Outcomes**

The literature on business strategy and development points at the importance of competitive strength of a firm in its contribution to development. Competitive advantage helps companies to reap consistent financial profits, finance innovation, and maintain sustainable involvement in the social and environmental activities (Kolk and van Tulder, 2015). Companies that retain strong competitive advantages are therefore in a better place to have developmental power by creating jobs, development of the society, environmental care, and meeting the Sustainable Development Goals requirements.

Strategically, competitive advantage provides firms with resources and capabilities that are necessary to undertake development-centered efforts and incorporate them into value chains (Surroca et al., 2010). To take an example, competitively advantaged companies can more easily and more quickly switch to cleaner technologies, assist suppliers in upgrading, or can invest in workforce development, which produce positive developmental dividends. On the other hand companies that are not competitive enough might not be able to maintain such programs especially in environments with scarce resources. The firms with a high competitive position are particularly instrumental in helping to overcome the development issues in the context of developing countries, where the overall provision of social and environmental goods is often weak (Kolk et al., 2017). Such firms are in a good position to play an active role in development outcomes that go beyond the organizational conditions and impact the lives of both local communities and the wider society, which can be related to their market position, organizational capacity, stakeholder networks, etc. In this direction, the hypothesis as follows is proposed:

**H<sub>2</sub>:** *Firms' competitive advantage is positively associated with development outcomes.*

### **Strategic ESG Integration and Development Outcomes**

In addition to the indirect impact of strategic ESG integration by way of competitive advantage, there could be a direct impact of strategic ESG integration on development outcomes. However, when companies integrate the goal of ESG with their main business processes, it is possible to directly focus on social and environmental issues in the form of products/services and business/working processes (Porter, 2011; Kolk, et al., 2017). An example is that green manufacturing operations can decrease the pollution, employment relations that are socially inclusive can be used to promote the well-being of the workforce and robust governance mechanisms may enhance transparency and accountability.

In emerging markets, where the institutions voids restrict the effectiveness of state policies, coordinated ESG programs could substitute or supplement government action to support the development agenda (Jamali and Mirshak, 2010). Companies that instil ESG within their strategies are therefore bound to produce positive developmental outputs despite lack of

strong external implementation. Such a direct connection can be explained by the existing studies as indicating that the potential improvement of social and environmental performance by ESG involvement is only possible in case of a strategic approach, but not a symbolic one (Aguinis and Glavas, 2019; Bansal et al., 2021). Thus, the hypothesis is the following one:

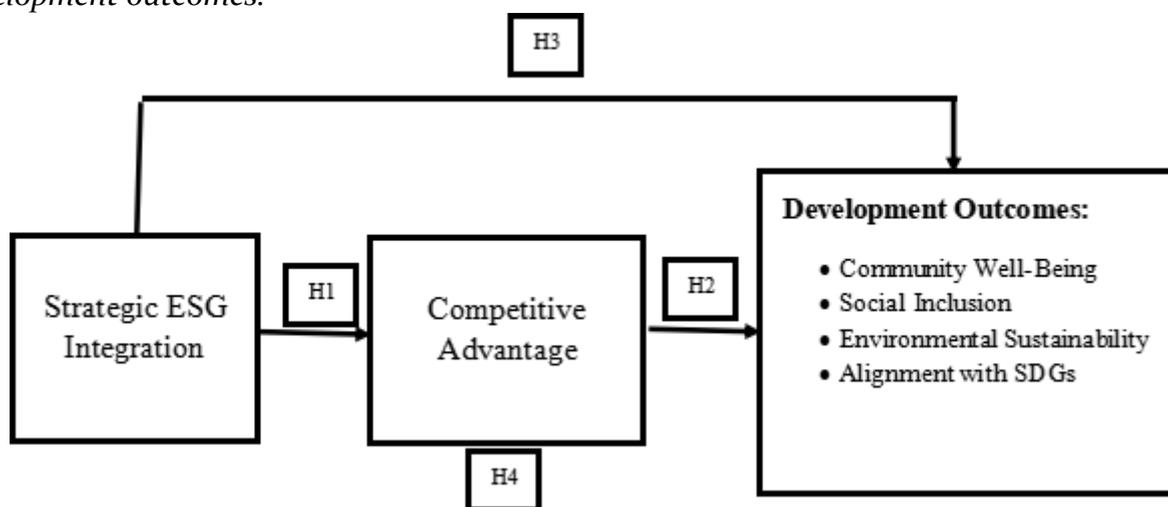
**H3:** *Strategic ESG integration is positively associated with development outcomes.*

**The Mediating Role of Competitive Advantage**

Although the strategic ESG integration can have direct effect on the development outcomes, business strategy and development scholarship shows that the most lasting impact is likely to be manifested in the establishment of competitive advantage. Strategic ESG integration leads to improved competitive positioning of the firms, in that through building stronger intangible resources, like reputation, trust, and relational capital, the firms are capable of sustaining and expanding their developmental-focused initiatives in the long term (Surroca et al., 2010; Flammer, 2015).

In this sense, competitive advantage can be seen as an important tool that bridges ESG strategies and development outcomes. Companies that effectively convert ESG integration into a competitive advantage are in a better position to mobilise resources, build partnerships, and invest into long-term development initiatives. On the other hand, ESG programs that do not generate competitive advantage might not be sustainable and only result in minimal developmental effects. This type of mediating logic is particularly relevant where firms are operating in the context of developing countries, where there are high constraints on amount of resources and social and environmental programs need to be well balanced with strategic goals. Based on this, this research hypothesizes that competitive advantage mediates the connection amid strategic ESG integration and development consequences:

**H4:** *Competitive advantage mediates the relationship between strategic ESG integration and development outcomes.*



**Figure 1. Conceptual Framework of Strategic ESG Integration and Development Outcomes**

Figure 1 depicts the hypothesized pathways through which strategic ESG integration influences development outcomes. The framework highlights competitive advantage as a key mechanism that enables firms to translate ESG initiatives into sustained social and environmental value creation.

## Methodology

### Research Design

This research paper will assume a quantitative, cross-sectional survey to test the associations among strategic ESG integration, competitive advantage and development outcomes against a background of family firms within the Pakistani context. The survey-based method is suitable because, based on the purpose of the study, the researchers have to include the firm-level strategic practices and perceived development outcomes of a large sample of firms (Aguinis and Glavas, 2019; Bansal et al., 2021). In line with previous work on business strategy and development, the research is based on perceptual measurements of key organisational informants which are highly standardized in the absence of objective measures and when such measures are challenging to find in the context of the developing countries (Kolk et al., 2017; Jamali and Karam, 2018).

### Sample and Data Collection

The empirical evidence relies on the survey findings of 460 family firms and SMEs working in Pakistan. Family firms were found to be the firm with concentrated ownership and strategic control, which are mainly directly owned by a single family and at least one family member is a top management team member. SMEs were incorporated because they dominate in the Pakistani private sector and plays an important role in the generation of employment and development in the local areas.

A structured questionnaire was employed to gather data which were collected by senior managers and owners whom it was considered to be informed about their firm strategic decision-making, ESG practices and concern and involvement with social and environmental issues. To improve on the quality of the responses, confidentiality was guaranteed to the respondents and they were told that the study was academic research only study. The 460 usable responses are more than the necessary minimum to be applied to structural equation modelling and offer the statistical power necessary to test the effects of mediation (Hair et al, 2019). The number of questionnaires issued led to a total of 460 responses that were complete and usable.

### Measures

Multi-item reflective scales, which were modified based on written literature and adjusted to the study scenario, were used to measure all constructs. Measures were taken on a five-point Likert scale (between 1, strongly disagree, to 5, strongly agree). Before data were collected, the questionnaire was checked on clarity and whether it was relevant to the Pakistani business environment.

### Strategic ESG Integration

Strategic ESG integration is a term used to understand the level of incorporation of the environment, social, and governance considerations in the central business strategy and decision-making process of a firm. The construct was measured through three items that gauged (1) the overall business strategy integration of ESG, (2) the strategic decisions that the firm relies on to address ESG issues, and (3) the long-term belief of the firm in the initiatives of ESG. Such objects demonstrate the strategic instead of symbolic orientation of ESG practices (Eccles et al., 2014; Aguinis and Glavas, 2019).

#### 3.3.2 Competitive Advantage

Competitive advantage shows the perceived capability of the firm to be ahead of the other firms by having better resources and capabilities. Three measurements were used to measure this construct, including (1) firm reputation, (2) market position, and (3) innovation capability. These dimensions have been consistent with other literature on strategy by highlighting

intangible assets and differentiation as contributors of sustainable competitive advantage (Barney, 1991; Surroca et al., 2010).

### 3.3.3 Development Outcomes

Development outcomes represent what the firm considers its contribution to the development of social and the environment in its business environment. Measurement of this construct was done under three items, which included (1) contributions to community development, (2) positive environmental impact, and (3) alignment with Sustainable Development Goals (SDGs). These actions coincide with the business-development literature that highlights the level of impact in society by the firms on their performance beyond financial gains (Kolk et al., 2017; Soundararajan et al., 2019).

### Data Analysis Technique

The study uses partial least squares structural equation modelling (PLS-SEM) as the test procedure of hypothesis testing. PLSSEM is particularly beneficial in this respect because of a number of reasons. To begin with, it is best suited to models where predictive accuracy and theoretical development are primary considerations which are exactly the goal of the study to determine the mechanisms that correlate ESG strategy with development outcomes. Second, PLS-SEM is strong even when complex mediation patterns are used and is not dependent on the inappropriate requirements of high levels of multivariate normality (Hair et al., 2019). Third, it has a good precedence as few studies can be found that have not applied it in their study prior to demonstrating that it is an effective tool in business strategy and sustainability scholarship especially in emerging and developing economies (Kolk et al., 2017; Bansal et al., 2021).

The process of analysis followed a two-step process. Firstly, measurements model has been evaluated by assessing the indexes of measure reliability, internal consistency reliability (Cronbach alpha and composite reliability), convergent (average variance extracted) and discriminant (Fornell Larcker ratio) validity. The structural model was then tested with regard to the path coefficients, coefficient of determination ( $R^2$ ), predictive relevance ( $Q^2$ ), and sizes of effects ( $f^2$ ). The effects in mediation were examined through a bootstrapping routine by making use of 5,000 resamples to generate bias-adjusted confidence intervals. In line with earlier studies of the strategy, firm size and firm age was used as control factors though it did not significantly affect the result hence is not presented.

### Common Method Bias

Since the data used was a self-reported survey, the possibility of common method bias (CMB) was reduced using both the procedure and statistical diagnostics. Procedurally, respondents were given anonymity assurance, word phrasing of questions was made to be concise and were psychologically divided in the questionnaire. A single-factor test was administered by Harman and the results were that there was not even one factor that could explain most of the variance and hence CMB will not become a significant threat to the integrity of the findings (Podsakoff et al., 2003).

### Ethical Considerations

The research met the required ethics of academic research. The involvement was purely optional, informed consent was given by the respondents and all the information was kept confidential. No personal identifiable data were gathered and the information was applied solely in researching.

Further, During the preparation of this work the author(s) used ChatGPT and Jenni AI in order to refine the language. After using this tool/service, the author(s) reviewed and edited the content as needed and take(s) full responsibility for the content of the published article.

## Results

### Descriptive Statistics

**Table 1:** *Descriptive Statistics*

| Construct                    | Mean | SD   | 1       | 2       | 3 |
|------------------------------|------|------|---------|---------|---|
| 1. Strategic ESG Integration | 3.87 | 0.68 | 1       |         |   |
| 2. Competitive Advantage     | 3.91 | 0.65 | 0.54*** | 1       |   |
| 3. Development Outcomes      | 3.95 | 0.7  | 0.49*** | 0.58*** | 1 |

Notes:  $n = 460$ .  $p < 0.001$ . Correlations are medium and positive (there is no issue of multicollinearity).

Table 1 has the descriptive statistics and correlation of the study variables. The average scores denote fairly good strategic ESG integration ( $M = 3.87$ ), competitive advantage ( $M = 3.91$ ) and the development outcomes ( $M = 3.95$ ), which means that surveyed firms report being fully engaged in ESG related strategic activities and view themselves as being involved in the development of society and environment. The standard deviations are of moderate size, which indicated an adequate amount of variability to perform a statistical analysis.

The correlation table indicates that all three constructs have positive and statistically significant relationships. There is a positive relationship between strategic ESG integration and competitive advantage ( $r = 0.54$ ,  $p < 0.001$ ) and development outcomes ( $r = 0.49$ ,  $p < 0.001$ ). Development outcomes are also closely related to competitive advantage ( $r = 0.58$ ,  $p < 0.001$ ). These findings give first evidence that the hypothesized relationships are valid even though they are lower than standard values of multicollinearity issue.

The evaluation of the measurement model requires the application of an acceptable measurement instrument to gauge the extent of operational measurement objectivity across various locations, and the measurement tool's internal consistency versus inconsistency. The assessment of the measurement model will involve the use of acceptable measuring tool to measure the degree of objectivity of the operational measurement in different locations, as well as the internal consistency of internal inconsistency of the measurement tool.

**Table 2:** *Reliability And Convergent Validity*

| Construct                 | Item | Loading | Cronbach's $\alpha$ | CR   | AVE  |
|---------------------------|------|---------|---------------------|------|------|
| Strategic ESG Integration | ESG1 | 0.82    | 0.85                | 0.89 | 0.73 |
|                           | ESG2 | 0.88    |                     |      |      |
|                           | ESG3 | 0.84    |                     |      |      |
| Competitive Advantage     | CA1  | 0.81    | 0.83                | 0.88 | 0.71 |
|                           | CA2  | 0.86    |                     |      |      |
|                           | CA3  | 0.84    |                     |      |      |
| Development Outcomes      | DO1  | 0.83    | 0.86                | 0.9  | 0.75 |
|                           | DO2  | 0.89    |                     |      |      |
|                           | DO3  | 0.87    |                     |      |      |

Thresholds satisfied: Loadings  $> 0.70$  CR  $> 0.70$  AVE  $> 0.50$  This is a Strong measurement quality. The measurement model was tested on the variables of indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. The findings are presented in Table 2.

All the items have indicator loadings above the recommended driving level of 0.70 which point to satisfactory item reliability. Internal consistency reliability is established, and the Cronbach

alpha and composite reliability measure of all construction values of 0.80 and above. The reason is that the average variance extracted (AVE) values are of a kind that indicates convergent validity (0.71 to 0.75) against the minimum threshold of 0.50.

The heterotrait-monotrait (HTMT) ratio was used to measure discriminant validity, as the results are presented in Table 2 (Panel B). HTMT values all fall beneath the conservative 0.85 indicating that the constructs are empirically different. Collectively, these findings indicate that the measurement model possesses high levels of reliability and validity which will make it a strong support for testing the structural relationships.

Structural Model Results and Hypothesis Testing

**Table 3: Structural Model Results and Hypothesis Testing**

| Hypothesis     | Path   | $\beta$ | t-value | P-value | Result    |
|----------------|--|---------|---------|---------|-----------|
| H <sub>1</sub> | ESG → Competitive Advantage                  | 0.54    | 11.72   | <0.001  | Supported |
| H <sub>2</sub> | Competitive Advantage → Development Outcomes | 0.45    | 9.84    | <0.001  | Supported |
| H <sub>3</sub> | ESG → Development Outcomes                   | 0.25    | 5.96    | <0.001  | Supported |

**Table 4: Mediation Analysis (Bootstrapping Results)**

| Path                            | Indirect Effect | t-value | 95% CI       | Mediation Type    |
|---------------------------------|-----------------|---------|--------------|-------------------|
| ESG → CA → Development Outcomes | 0.24            | 8.63    | [0.18, 0.31] | Partial Mediation |

Notes: Bootstrapping with 5,000 resamples. Confidence intervals do not include zero.

H<sub>4</sub> is supported: competitive advantage partially mediates the relationship.

The structural model was assessed using partial least squares structural equation modelling (PLS-SEM). Path coefficients, t-values, and significance levels were obtained through a bootstrapping procedure with 5,000 resamples. The results are presented in Tables 3 and 4.

As hypothesized, strategic ESG integration has a positive and statistically significant effect on competitive advantage ( $\beta = 0.54$ ,  $t = 11.72$ ,  $p < 0.001$ ), supporting **Hypothesis 1**. This finding suggests that firms that embed ESG considerations into their core strategic processes are more likely to develop superior competitive positions relative to their competitors. The results are consistent with **Hypothesis 2**, competitive advantage is positively associated with development outcomes ( $\beta = 0.45$ ,  $t = 9.84$ ,  $p < 0.001$ ). This finding implies that the more successful firms in terms of a competitive position tend to make more substantive efforts in social and environmental development, which are, presumably, due to the fact that successful firms have better abilities to devote resources to efforts that require a long time, stimulate innovations, and attract a wide range of stakeholders.

The results also show that the strategic consideration of ESG is positively but directly correlated with the development outcomes ( $b =$  originally 0.25,  $t = 5.96$ ,  $p =$  sheikh) which provides empirical evidence in the support of the **Hypothesis 3**. This proves that well-integrated ESG strategies that are closely related to the fundamental running operations of the business can generate developmental gains that are both direct and indirect through the competitive advantage.

**Hypothesis 4** tested the mediating power of competitive advantage. Table 4 indicates that the indirect impact of strategic ESG integration on development result in terms of competitive

advantage, is positive and statistically significant ( $b = 0.24$ ,  $t = 8.63$ ), with confidence intervals of zero. The partial mediation bearing on the ability of competitive advantage to be an important process through which ESG strategies are associated with development outcomes is persistent by the fact that the direct path between strategic ESG integration and development outcomes remains to be significant, but it does not completely explain the relationship.

Model Explanatory Power and Predictive Relevance

**Table 5: Model Fit and Predictive Power**

| Construct             | R <sup>2</sup> | Q <sup>2</sup> |
|-----------------------|----------------|----------------|
| Competitive Advantage | 0.29           | 0.21           |
| Development Outcomes  | 0.42           | 0.31           |

Table 5 is the explanatory power of the structural model. ESG Strategic integration explains 29 percentage of the variance in competitive advantage ( $R^2 = 0.29$ ). Together, strategic ESG integration and competitive advantage contribute 42 per cent of the warp in development results ( $R^2 = 0.42$ ). These values indicate a moderate to high explanatory power due to the complexity of the phenomena related to the social aspects of development in the emerging economy case.

The Stone-Geisser Q<sup>2</sup> statistic was used to determine predictive relevance. The positive Q<sup>2</sup> of the competitive advantage ( $Q^2 = 0.21$ ) and the outcomes of development ( $Q^2 = 0.31$ ) demonstrate that the model is having a satisfactory predictive ability. In general, the findings indicate that the suggested model offers a substantial and valid explanation of the role of strategic ESG integration in the generation of competitive and developmental performance in Pakistani family firms.

## Discussion

### Discussion of Findings

The study aimed to investigate the existence of, and the impact of, strategic integration of those considering ESG, on competitive advantage and development outcomes of firms, in a developing country situation. Using survey evidence based on 460 family firms that are operating in Pakistan, the results provide good empirical evidences of the proposed model and present valuable insights into the strategic value of the private sector in promoting sustainable development.

First, the findings indicate that strategic ESG implementation has a positive relationship with competitive advantage, thus, considering ESG initiatives as the source of strategic value when implemented as part of core business functions, as opposed to being considered peripheral or symbolic in nature. This result is consistent with previous studies and ideas that strategically aligned practice of sustainability and ESG can be a good and inimitable resource, thus improving reputation of firms, trust of stakeholders, and innovation capacities (Eccles et al., 2014; Surroca et al., 2010; Aguinis and Glavas, 2019). In terms of business strategy and development, this finding highlights the thesis that the integration of ESG helps strengthen the competitive presence of firms, especially those operating in the institutional vacuum and weak regulatory authorities such as most developing economies (Jamali and Karim, 2018).

Second, the results indicate that development outcomes are positively connected with the competitive advantage, which emphasizes the role of competitive power at the firm level to facilitate long-term contributions to the social and environmental development. This finding is reminiscent of business-development scholarship which underlines the importance of

competitive firms as agents of development by generating jobs, innovation and upgrading value chains (Kolk and van Tulder, 2015; Kolk et al., 2017). On the Pakistani backdrop, which is characterized by the low ability of the public-sector to meet the demands of community development, environmental enhancement, and other activities relevant to the SDGs, competitively well-to-do companies seem to be more viable in terms of engaging in community development efforts, environmental enhancement, and activities that are associated with the SDGs.

Third, the research concludes that strategic ESG integration is directly, positively related to the development outcomes, in the presence of the mediating force of competitive advantage. It means that well-considered ESG programs allow companies to directly impact the development results using their products, services, and company activities. This means that such direct impacts are consistent with the shared value viewpoint, which maintains that companies could resolve social and environmental issues by framing them in terms of their fundamental business goals (Porter and Kramer, 2011; Porter et al., 2019). Notably, this finding implies that development impact can be created through the implementation of ESG strategies despite the lack of direct competitive benefits, in case they are strategically ingrained.

Lastly, mediation analysis shows that competitive advantage mediates strategic ESG integration-development outcomes relationship partially. This understanding explains the process by which ESG strategies become development impactful. Strategic ESG integration helps firms to maintain and expand development-oriented initiatives as it allows firms to work long-term to increase competitive advantage. Meanwhile, the substantial direct effect shows that ESG strategies also impact development outcomes via other sources of pathways that are not exclusive to competitive positioning, like better governance practices or environmentally responsible operation. Collectively, these results imply a complex relationship where ESG strategies generate shared value by enhancing firm competitiveness and resolving development challenges at the same time (Kolk, 2016; Bansal et al., 2021).

### **Theoretical Contributions**

The research contributes to the business strategy and development literature in a number of importance. To begin with, it contributes to the evolution of ESG research field by refocusing the attention towards promoting compliance based or symbolic ESG practices to strategic ESG integration and proving the duality of improving business competitiveness and development performance. The study addresses the call to pay more attention to the processes by which ESG strategies can create value to the firms and the society by explicitly modeling the competitive advantage as a mediating mechanism (Surroca et al., 2010; Aguinis and Glavas, 2019).

Second, the research adds to the scholarly literature on business-development by displaying empirical results at the firm level on the contribution of the strategies of the private-sector in development outcomes in the context of a developing-country. A significant part of the available literature focuses on partnerships, institutional arrangement, or macro-level policies, but there is no much information on the strategic mechanisms of firms (Kolk et al., 2017; c et al., 2019).

Expressing the idea of focusing on family businesses in Pakistan, the given research reveals the centrality of the function that ownership structure and business strategy orientation serve in determining the contribution of this type of firms to the socio-economic growth. Third, the research complements existing sources on the topic of family firms and sustainability by showing that family-owned companies in emerging market economies could use Environmental, Social, and Governance (ESG) practices to achieve competitive and

developmental advantages. Underlying literature indicates that this may be driven by a long-term orientation as well as the focus on socio-emotional wealth that encourages family firms to interest themselves in social and environmental welfare (Gómez-Mejía et al., 2011; Berrone et al., 2012). The present results build or develop this line of investigation demonstrating that this engagement can be strategically beneficial and developmentally significant in cases where ESG considerations are incorporated in fundamental business strategy.

### **Managerial Implications**

The results of this research have multiple relevant implications to managers, specifically those who work in the sphere of family firms and small and medium-enterprises in the developing economies. To begin with, the findings suggest that managers must not consider ESG as a compliance cost, as it is a strategic investment that can contribute to developing competitive advantage, and also can lead to development achievements. By incorporating ESG-related aspects into the strategic planning, resource allocation, and performance measurement, the firms may be able to distinguish themselves, gain stakeholders trust, and create long-term value.

Second, the mediating role of the competitive advantage reveals the importance of aligning ESG efforts with the main competence of the firm and its position in the market. To maximise competitive returns as well as developmental returns, the managers should focus on ESG projects that build on the core capabilities of the organisation, i.e., innovation capability, supply-chain relationship, or local market expertise. This sort of strategic alignment is very important in resource constrained environment and sustaining ESG initiative over time.

Third, the managers ought to recognize the possibility of ESG strategies to create direct development impact by conducting normal business activities. Three core strategies can help firms to give significant contributions to local development and reinforce strategic goals, including designing products and services that respond to the social needs; engaging in environmentally responsible processes; and enhancing the strength of governance practices.

### **Policy Implications**

**Policymaking** The findings highlight the need to establish an enabling environment, which promotes strategic participation of the private sector in development issues considered important. The policy makers in developing nations like Pakistan must not just consider regulatory compliance frameworks, they ought to make policies that encourage companies to integrate ESG considerations in their strategic approach. The policy can include incentives in terms of taxes aimed specifically at encouraging ESG-related investments, availability of financial resources to fund said investments, and public-market collaborations that help in balancing business incentives with development priorities.

In addition, development agencies and policymakers must appreciate the contributions that competitive advantage could make towards the continued helping contribution to the development of firms. The developmental effect of ESG strategies can be indirectly strengthened by supporting activities aiming to improve the competitiveness of the firms, including innovation support, skills development, and infrastructure investment. This strategy fits in with the business-development worldviews, which stress the complements between the competitiveness of firms and the social progress (Kolk and van Tulder, 2015).

### **Limitations and Future Research Volume**

In spite of its contributions, this study has various limitations which outline the areas that can be explored in the future research. To start with, cross-sectional survey data cannot be used to draw any causal conclusions. The future research may use longitudinal designs to determine how strategic ESG integration and its implications on the level of competitive advantage and

development processes change over time. Second, the use of perceptual measures, which are typical of strategy studies, can be supplemented by objective ones in the further research.

Third, the subject matter of family firms in Pakistan, albeit they offer important contextual information, may limit the external validity of the results. Future studies might expand this model to other developing and emerging markets or compare family and non-family businesses to investigate the difference in ESG strategy and influence of development. Lastly, further means of research would involve analysing other mechanisms or boundary conditions like stakeholder partnerships, institutional pressures, or leadership values, to further develop a deeper insight into ESG-strategy-development nexus.

## Conclusion

This paper discussed the importance of implementing strategic ESG integration in the process of improving the competitive advantage and the development performance of firms in the environment of family firms in Pakistan. Based on a survey of 460 companies and utilising structural equation modelling, the article empirically reflects that strategically embedded ESG practices have a direct and indirect development outcome via the establishment of competitive advantage. The results emphasize the fact that ESG initiatives are most effective when they are closely related to the fundamental business strategies of the firms instead of being developed as isolated or nominal actions. Strategic ESG integration allows firms to maintain and expand the development-focused activities, thereby, solidifying the involvement of the private sector as a major contributor to sustainable development. Simultaneously, the existence of the direct correlation between ESG integration and the development outcomes indicates that firms may find the way to solve social and environmental issues using their daily business practices.

The study is valuable to the literature on business strategy and development through not only shedding light on how ESG strategies can be converted into development impact but also providing firm-level proof in a developing-country context. The emphasis on the family firms in Pakistan highlights the significance of ownership structure and strategic orientation in determining how firms can engage with ESG, and the kinds of contributions they make towards the achievement of sustainable development objectives. Practically, the findings indicate that managers and policymakers ought to emphasize on policies and practices that promote strategic inclusion of ESG in business decision-making. This would help to not only increase firm competitiveness, but also develop goals, especially in environments with resource constraints. On the whole, this paper supports the relevance of the integration of ESG as a strategic channel of shared value development and provides insights to scholars, practitioners, and policymakers who want to use the capabilities of the private sector to promote sustainability in the path of emerging economies development.

## Data Availability Statement

The data supporting the findings of this study are not publicly available due to confidentiality agreements with participating firms but are available from the corresponding author upon reasonable request.

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