

How Do Enterprises Transform External ESG Pressures into Sources of Competitive Advantage? —A Cross-Country Comparative Case Study

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Abstract: Environmental, Social and Governance (ESG) activities are increasingly becoming a major source of external pressure for firms in all industries. Although the extant literature strongly supports the positive association between ESG performance and firm outcomes, several companies still consider ESG as a compliance-driven obligation instead of a strategic resource. This paper explores how firms transform external ESG demands into internal strategic competencies and, ultimately, sources of competitive advantage. This study using descriptive multiple-case studies method examines six MNEs—BYD, Huawei, Haier, Tesla, Apple, and Unilever—to provide a comparative analysis of ESG responses and adaptation across different institutional and market environments. Based on the institutional theory, the resource-based view, stakeholder theory and dynamic capability theory, the study identifies typical mechanisms of how ESG issues are internalized and then transformed into innovation & capability, supply chain resilience, governance efficacy and brand trust [2][3][8]. Findings are consistent with the view that ESG can be managed not only as a legitimacy requirement but also as a strategic resource when captured in critical managerial systems. This research makes a contribution to the ESG and strategic management literature by explaining the transformative mechanism from ESG pressure to sustainable competitive advantage and provides insightful managerial implications for companies seeking long-term competitiveness.

Keywords: Environmental, Social, and Governance (ESG); Competitive Advantage; Strategic Capability; Case Study; Institutional Pressure

1. Introduction

Environmental, social and governance (ESG) factors have become the prism through which we evaluate a company's resilience and ability to generate value. From the strategic management view, ESG has been evolving from a simple compliance obligation and risk-mitigation tool to an enabler of potentially valuable unique resources and capabilities [1][5]. Nevertheless, companies have responded differently to ESG requirements. Some companies have transformed sustainability mandates into innovation and strategic business advantages, while others are still struggling to move beyond compliance-driven thinking. This difference leads to a fundamental question: How and why do some companies in a typical resource-constrained industry translate external ESG pressures into long-term competitive advantage?

Studies show that engagement with ESG appears to be associated with positive corporate results; however, the underlying channels of transformation are insufficiently explained. The institutional theory highlights the role of regulatory and social pressure to adopt ESG as a legitimacy mechanism [1], while the resource-based view and stakeholder theory suggest that ESG-related practices can be transformed into firm-specific resources and relational assets [2][3][7]. Previous evidence suggests positive relationships between ESG performance and firm value, innovation, and brand equity, yet a substantial amount of this evidence is correlational. Thus, there is a lack of theorization on how ESG pressures are internalized as strategic capabilities.

This article makes three theoretical contributions to the ESG and strategic management literatures. This study advances institutional theory by theorizing ESG pressures as a process of external stimuli, rather than fixed institutional constraints, and elucidates the transmutation of legitimacy-seeking into capability-building

practices. Second, it develops how ESG-based capabilities can be developed into distinctive strategic capabilities at the firm-level through the resource- and dynamic capability perspectives. It opens the “black box” of conceiving ESG activities and gaining a competitive advantage. Third, this article uses a cross-country comparative case analysis to show that building ESG capabilities is contingent on context; It provides evidence of the divergent ways in which distinct institutional contexts enable different foci and strategic salience of ESG capabilities. Specifically, external ESG pressures in this study are conceptualized along three key dimensions: environmental pressures (e.g., climate regulation, carbon reduction targets), social pressures (e.g., labor standards, consumer expectations), and governance pressures (e.g., transparency requirements, regulatory compliance). These dimensions provide a structured framework for analyzing how organizations interpret and respond to ESG requirements in different institutional contexts.

2. Materials and Methods

Using a multi-case comparative approach, this study will discuss how companies can transform external ESG pressures into internal capabilities and competitive advantages.

2.1 Case Selection

We have selected six multinational companies through strategic sampling: BYD, Huawei, Haier, Tesla, Apple and Unilever. These companies are involved in many areas, so regulators, investors and other stakeholders are very strict with them and require them to comply with ESG rules. All of the selected companies disclosed their ESG policies and plans, which allowed for analytical research.

2.2 Theoretical Framework

This study is based on institutional theory, stakeholder theory, resource-based view and dynamic capability theory, which constitute a complete theory. Institutional theory and stakeholder theory explain ESG-related external pressures, while resource-based theory and dynamic capability theory embed ESG-related activities into enterprises as unique strategic capabilities.

2.3 Data Sources

The study utilizes many sources of publicly accessible qualitative data, encompassing company ESG and sustainability reports, annual reports, official business communications, credible media coverage, industry studies, and independent ESG evaluations.

2.4 Data Analysis

The research is mainly carried out through the following two aspects: intra-case study and cross-case analysis. We looked at each of the selected cases, and they all faced ESG stress to varying degrees, and they were different. The cross-case analysis focuses on identifying emergent patterns and meaningful differences between companies in the relationship between ESG-related stress, capability development, and competitive outcomes. The integrated theoretical framework serves as a pointer to analysis, which makes it possible to make systematic comparisons and interpretations.

3. Results and Discussion

To synthesize the findings across individual cases, this study conducts a cross-case comparison of six firms—BYD, Huawei, Haier, Tesla, Apple, and Unilever—to examine how different types of external ESG pressures are transformed into strategic capabilities and competitive advantages.

Table1. Case Study

Firm	Type of External ESG Pressure	Strategic Capability Developed (Transformation Outcome)	Resulting Competitive Advantage	Institutional Context Characteristics
BYD	Environmental regulation and policy pressure	Green innovation capability (battery technology, new energy systems)	Technological leadership and cost efficiency	Government supervision and subsidy-oriented policy environment
Huawei	Supply chain pressure and geopolitical risk	Supply chain resilience capability	Global reliability and risk management advantage	Strong regulatory oversight and external sanctions exposure
Haier	Social responsibility and governance pressure	Organizational and managerial innovation capability (Rendanheyi model)	Brand trust and ecosystem-based competitive advantage	High legitimacy pressure within institutional environment
Tesla	Environmental	Product-level ESG integration	Global differentiation	Market-driven

	mission and investor sustainability pressure	and technological innovation capability	and strong brand appeal	environment with high environmental awareness
Apple	Supply chain transparency and governance pressure	End-to-end supply chain governance and capability	Brand trust and supply chain security	High-transparency regulatory environment
Unilever	Social responsibility expectations and consumer pressure	Sustainable brand management capability	Brand premium and consumer loyalty	Strong social monitoring and active NGO involvement

Table 1 summarizes the key dimensions of comparison, including external ESG pressure types, strategic capabilities developed, resulting competitive advantages, and institutional context characteristics.

3.1 Types of External ESG Pressures

As can be seen in Table 1, all six companies are under considerable ESG-related pressures, however the sources and configurations of these pressures vary from case to case. BYD and Tesla are subject to environmental and policy-led pressures (such as carbon reduction targets, climate policies, and green investment management), but BYD also has to contend with economic-related pressures. These pressures are inherently related to the pace of technological innovation and the sustainability demands at the product level. The bulk of Huawei's and Apple's ESG pressures pertain to supply chain management and geopolitical risk, including export controls, supplier adherence, requirements for transparency, and scrutiny from regulators globally. Haier and Unilever, on the other hand, are subject to relatively higher social and governance pressures emanating from consumer demands, labor rights, corporate governance standards and legitimacy in social concerns [3].

3.2 From External ESG Pressures to Internal Capability Formation

For BYD, compliance with the environmental and policy-based ESG pressure was around emissions and energy efficiency. These pressures gradually led senior management to begin shifting more R&D resources into battery technology and integrated energy solutions. By blending formative research and practice, we found that green innovation practice was embedded in organizational routines through regulatory compliance becoming a firm-specific innovation capability.

Huawei was under the greatest pressure to improve ESG issues related to supply chain governance and geopolitical risk. The company

carried out strategic reorganization of its supply chain structure (such as supplier diversification), strengthening in-house R&D and developing risk management systems. These processes were instrumental in developing (latent) domestic capabilities for the organization to (gradually) build its own resilience via under uncertainty.

Haier was subject to ESG pressures mostly through consumers, regulators, and staff who expected it to deal with social responsibility and governance issues. These were pressures to experiment within organizations rather than invest in the technology. Haier reconfigured internal governance structures to make employee incentives more congruent with the creation of user value through the Rendanheyi management system, which served as a foundation for a unique organizational capability [2][7].

Among non-Chinese firms, Tesla represents a pathway in which environmental ESG pressures were integrated into product strategy from an early stage. Environmental objectives were embedded directly into product design and technological development, allowing ESG considerations to function as a driver of innovation and product differentiation [1][4].

Apple and Unilever illustrate a further pathway in which ESG pressures related to supply chain transparency and social responsibility prompted the development of governance and brand management capabilities. Apple responded to labor and transparency pressures by establishing end-to-end supply chain monitoring systems. Unilever embedded ESG principles into long-term brand positioning strategies in response to sustained consumer and NGO scrutiny, contributing to the development of trust-based and reputation-related capabilities [5][6].

3.3 Capability Transformation as a Dynamic Process

Overall, the path from ESG pressure to strategic capability in the cases followed a pattern of processes. First, the firms were subject to external ESG pressures challenging their

established routines and legitimacy. Second, these pressures were interpreted by managerial actors who began to respond strategically, through the reallocation of resources, the reshaping of the organisation, or its integration strategic. Third, by virtue of repetition and learning, these responses were systematized as firm-specific capability. Lastly, these capabilities produced competitively beneficial results that matched firms' institutional environments.

3.4 Institutional Context and Heterogeneous Competitive Outcomes

Although the original process of transformation was similar in all the cases, the competitive results of the ESG-enabled capabilities differed by institutional context. In policy -pressured environments with strong governmental participation, like those encountered by BYD and Haier, the capabilities related to ESG equated to technological accumulation, cost efficiency and regulatory legitimacy. In the market-based, high-transparency environment as represented by Apple and Unilever, ESG capabilities were linked to brand trust, consumer loyalty and product differentiation.

3.5 Discussion

This article contributes to the ESG and strategic management literatures by explaining the process through which external ESG pressures are translated into firm strategic capabilities. Although earlier studies have mainly reported associations between ESG performance and firm results [4][5], the current results open the "black box" to reveal that competitive superiority is acquired only through purposeful processes of capability development and not simply through ESG implementation.

Firstly, the findings broaden institutional theory, revealing that pressures on the ESG are not only about legitimacy constraints, but they are also dynamic aspirational forces of strategic change. In response to ESG pressures, firms are said to respond first to those pressures by attempting to preserve legitimacy, but it is argued that such behavior is only converted into competitive advantage for a firm if it reconfigures its internal resources to respond to and capitalize on ESG imperatives [9][10].

Second, the paper contributes to the resource-based view by showing that practise concerning ESG issues are not ipso facto

valuable strategic resources. ESG activities, and ESG strategies more generally, become strategically relevant if and when such initiatives are institutionalized inorganizational routines and in the context of firm-specific as well as institutional-context [2].

Third, inspired by dynamic capability theory, the findings emphasize the importance of managerial sensemaking and organizational learning for ESG-led transformation. Firms that anticipated ESG demands, pursued strategic responses, and reconfigured internal architecture achieved a lasting competitive advantage, while responses focused on compliance led to symbolic adoption with little strategic effect [8][11][12].

Finally, the cross-country comparison emphasizes the contextual nature of ESG-based competitive advantage. The intl environments define both the type of ESG pressures and the strategic value of the capabilities developed in response, which highlights the need for context-sensitive ESG strategies [6][10].

In contrast, not all firms successfully transform ESG pressures into strategic capabilities. Volkswagen provides a clear example of failure under environmental ESG pressure. Facing increasingly strict emission regulations, the firm chose to manipulate emissions tests rather than invest in genuine green innovation, leading to the Dieseltgate scandal and substantial financial and reputational losses.

Similarly, Boohoo illustrates a failure to respond effectively to supply chain-related ESG pressures. Due to weak governance and inadequate monitoring, the company faced major criticism over labor conditions, which damaged its credibility and investor confidence.

H&M offers another contrasting case under consumer-driven ESG pressure. Although it promotes sustainability initiatives, its fast fashion model has been criticized as inconsistent with long-term environmental goals, limiting its ability to build a strong ESG-based competitive advantage.

These cases highlight that firms which fail to internalize ESG pressures as strategic opportunities remain at the level of compliance or symbolic adoption, and therefore cannot achieve sustained competitive advantage.

4. Conclusion

Through comparing six global firms in diverse institutional contexts, we argue that firms

respond to-and transform-external ESG requirements into a sustained competitiveness. Results suggest that ESG demands in themselves are not a source of competitive advantage, but rather constitute external signals that require strategic responses. When companies convert these pressures into strategic capabilities that are distinctive to their company, such as green innovation, the resiliency of their supply chain, organizational innovation or sustainable management of their brand, they accomplish more.

This study contributes novel insights and enriches the ESG and strategy literature by explaining the processes through which external legitimacy pressures are transformed into strategic resources. Drawing on institutional theory, the resource-based view, and dynamic capabilities theory, this paper moves beyond correlational ESG research by outlining a process-based theoretical framework for capability evolution. Moreover, the results demonstrate that the definition of ESG-driven competitive advantage shows contextual differences, as institutional contexts modify the nature and the strategic relevance of ESG-related competences.

The findings imply that, from a managerial perspective, firms ought to progress from compliance-driven ESG practices to considering ESG as a strategic element in the development of capabilities. This study is based on qualitative case analysis and secondary information, however future research may apply the suggested model with large-sample empirical techniques and/or in different industry and institutional environments.

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