

THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES (ESG) ON ORGANIZATIONAL SUSTAINABILITY PERFORMANCE: THE MEDIATING ROLE OF CORPORATE REPUTATION

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**Abstract**

This study examines how organizational practices shape sustainability performance within manufacturing firms, with a particular focus on the mechanisms through which these effects are realized. Drawing on Stakeholder Theory, the research adopts a quantitative, cross-sectional design and collects data from 457 senior managers working in textile, food processing, and chemical manufacturing sectors in Pakistan. The study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS, alongside SPSS for preliminary analysis, to test the proposed relationships. The findings reveal that environmentally responsible actions significantly enhance sustainability performance by improving resource efficiency and strengthening stakeholder trust. Socially oriented initiatives also demonstrate a positive impact, highlighting the importance of employee well-being, ethical conduct, and community engagement in fostering long-term organizational success. Governance practices emerge as a critical driver, emphasizing the role of transparency and accountability in aligning organizational actions with stakeholder expectations. In addition, corporate reputation is found to exert a strong influence on sustainability performance, reflecting the importance of stakeholder perceptions and trust in translating organizational practices into tangible outcomes. The study contributes to the literature by offering an integrated framework that connects organizational practices with performance outcomes through stakeholder-oriented mechanisms. It provides practical insights for managers and policymakers seeking to enhance sustainability performance in emerging economies.

**INTRODUCTION**

In recent years, the relationship between business conduct and long-term organizational success has

attracted sustained scholarly and policy attention. Firms are no longer evaluated solely on financial

outcomes; instead, there is a growing expectation that organizations demonstrate responsible behavior toward the environment, society, and governance systems. This shift reflects broader transformations in stakeholder expectations, regulatory pressures, and global sustainability agendas. Contemporary discourse increasingly emphasizes that organizational legitimacy is shaped through intangible assets such as trust, credibility, and perceived ethical conduct. These intangible dimensions influence how stakeholders interpret a firm's actions and, ultimately, how they respond to it in competitive markets. At the same time, organizations operate within complex ecosystems where transparency, accountability, and responsible decision-making are continuously scrutinized. Scholars argue that firms that align their strategies with broader societal values are more likely to secure enduring competitive advantages and resilience in uncertain environments (Koh et al., 2022; Maaloul et al., 2023). This evolving landscape has encouraged researchers to explore the mechanisms through which responsible practices translate into meaningful organizational outcomes. As a result, attention has shifted from isolated actions to integrated frameworks that explain how different dimensions of responsibility collectively shape organizational performance and stakeholder perceptions (Chen et al., 2024; Abdullah et al., 2024).

The existing literature provides substantial evidence that responsible organizational practices contribute positively to firm outcomes across various contexts. Studies indicate that firms engaging in sustainability-oriented initiatives often experience improved financial and non-financial performance, enhanced stakeholder trust, and stronger market positioning (Ali et al., 2022; Nagiah & Mohd Suki, 2024). A growing body of research highlights the role of intangible mechanisms in this relationship, particularly the importance of organizational image and credibility in shaping stakeholder responses (Koh et al., 2022; Jung et al., 2025). Recent empirical work also suggests that responsible practices influence innovation capacity, cost structures, and competitive advantage, though the strength and

direction of these effects may vary across industries and institutional settings (Nkgowe et al., 2025; Elamer & Boulhaga, 2024). While there is general agreement that such practices are beneficial, some studies report mixed or context-dependent outcomes, indicating the presence of underlying mechanisms that require further exploration (Maaloul et al., 2023; Mukhtar et al., 2024).

Organizations are under increasing pressure to address pressing environmental and social challenges, including climate change, resource depletion, and social inequality. According to recent sustainability reports, over 90% of large corporations now disclose some form of sustainability-related information, reflecting heightened regulatory and stakeholder demands for transparency and accountability (Keskin et al., 2026). Despite this progress, significant gaps remain between disclosure and actual performance, raising concerns about the effectiveness and authenticity of organizational efforts. In emerging economies, these challenges are even more pronounced due to institutional constraints, governance inefficiencies, and limited enforcement mechanisms. Firms often struggle to balance economic growth objectives with social and environmental responsibilities, resulting in inconsistent outcomes (Kateb & Alahdal, 2025). Furthermore, reputational risks have intensified in the digital era, where information spreads rapidly and stakeholders can easily evaluate and critique organizational behavior. These issues are directly linked to the broader research problem, as they highlight the need to understand how responsible practices translate into tangible organizational outcomes. Specifically, there is a growing recognition that stakeholder perceptions play a critical role in determining whether such practices yield meaningful performance improvements (Gidage & Bhide, 2024; Arous et al., 2025).

Even though previous studies have determined that there is a positive relationship between responsible organizational practices and performance outcomes, the mechanisms behind this relationship are not well understood. The major weakness of the literature is the fact that most studies have been done to test direct relationships without considering the complicated

processes by which these effects are realized. Recent research indicates that the perceptions of the stakeholders and organizational credibility can be critical intermediaries, but the empirical evidence on this process is still fragmented and context-specific (Dash and Mohanty, 2023; Maaloul et al., 2023). In addition, the current literature tends to discuss various aspects of responsible practices separately, which do not reflect their interdependence and interconnectedness. Such a disjointed strategy restricts the possibility to describe how the joint actions in the areas of environmental, social, and governance can have a cumulative impact on the organizational performance (Chen et al., 2024; Nkgowe et al., 2025). Moreover, the consistency of these relationships in various institutional and cultural contexts is not unanimously agreed upon, especially in the emerging markets where the structures of governance and expectations of stakeholders vary greatly (Nagiah and Mohd Suki, 2024; Mukhtar et al., 2024). The other significant gap is the fact that little has been done in terms of exploring the mediating role of intangible assets in the relationship between responsible practices and performance. Although there are studies that recognize the importance of reputation and trust, they tend not to incorporate the two constructs in their overall analytical frameworks (Korankye et al., 2025; Gidage and Bhide, 2024). As a result, a more holistic framework that encompasses both direct and indirect pathways is needed. These gaps need to be addressed to gain a better insight into the ways in which responsible practices can be successfully translated into sustainable performance results by organizations.

It is essential to comprehend how responsible practices affect the organizational performance due to both academic and practical reasons. Academically, it helps in the development of theoretical models that explain the influence of intangible factors on the outcome of firms. On policy grounds, it educates the creation of regulatory frameworks that seek to foster transparency, accountability, and sustainable development. The topicality of the given issue is also supported by the international policy agenda like the United Nations Sustainable Development

Goals (SDGs) that focus on the importance of businesses in ensuring environmental sustainability, social equity, and economic growth. Companies are more and more supposed to be consistent with these objectives in their strategies, but most of them cannot show quantifiable effects (Keskin et al., 2026). To practitioners, the competency to translate responsible practices into performance deliverables directly relates to competitiveness and viability in the long term. Companies that do not effectively address stakeholder perceptions are at risk of reputational damage, decreased trust, and lower market value (Abdullah et al., 2024; Maaloul et al., 2023). On the other hand, companies that are able to effectively utilize these mechanisms can increase their credibility and attain long-term competitive advantages. Thus, the gap between responsible practices and the actual organizational benefits needs to be filled by addressing this issue.

This research adds to the literature that is already available as it provides a holistic approach in which responsible organizational practices are connected to performance outcomes via an important intangible mechanism. This methodology is unlike the previous studies that tend to focus on single relationships, but it reflects the interdependent relationship between organizational activities and stakeholder perceptions. In so doing, it offers a more subtle insight into how companies can strategically align their operations in order to deliver sustainable performance. The research also contributes to the empirical data of a setting that is still underresearched, thus increasing the applicability and applicability of the existing theoretical frameworks (Dash and Mohanty, 2023; Korankye et al., 2025).

The research is likely to make a contribution both theoretical and practical by contributing to the knowledge of the processes that connect responsible practices to organizational outcomes. It is based on the stakeholder theory which assumes that companies generate value through the interests and expectations of various stakeholders. This framework offers a logical foundation on how organizational behavior has an impact on stakeholder perceptions and

consequently performance results (Koh et al., 2022; Gidage and Bhide, 2024). Through the combination of this view, the paper has brought out the strategic essence of stakeholder relationship management in the attainment of sustainable organizational success.

### Theoretical Foundation

The current research is based on the Stakeholder Theory, one of the most popular theories that describe the process of value creation by an organization in its interactions with various stakeholder groups. The theory was first expressed by Freeman in the 1980s, as a reaction against the limited, shareholder-focused perspective of the firm. It suggested that organizations are entrenched in a web of relationships that comprise customers, employees, suppliers, communities, and regulators, who have legitimate interests in corporate operations. In its most basic form, the Stakeholder Theory focuses on the fact that the success of an organization is based on the capacity to harmonize and reconcile these conflicting interests and remain ethical and responsible. It is a view that redefines the aim of the firm as not profit maximization but wider creation of value, in which long-term sustainability is attained through trust, legitimacy and mutual benefit.

The theory has changed a lot and has taken into consideration normative, instrumental and descriptive aspects. The normative approach emphasizes the ethical requirement of companies to take into account the interests of stakeholders, whereas the instrumental one associates the management of stakeholders with better organizational performance. Modern literature has gone ahead to enhance the theory by incorporating knowledge on sustainability, corporate responsibility and governance literature. Researchers have in the recent years applied Stakeholder Theory to describe the way in which organizations react to the growing societal demands in terms of transparency, accountability, and responsible conduct. As an example, Koh et al. (2022) show that the perception of stakeholders is a key factor in determining organizational credibility and behavioral reactions, and Maaloul et al. (2023) emphasize that stakeholder

assessments are important to determine financial performance via reputational processes. In the same manner, Abdullah et al. (2024) and Chen et al. (2024) highlight that the stakeholder-oriented practices can improve the performance of firms by increasing intangible resources like trust and legitimacy.

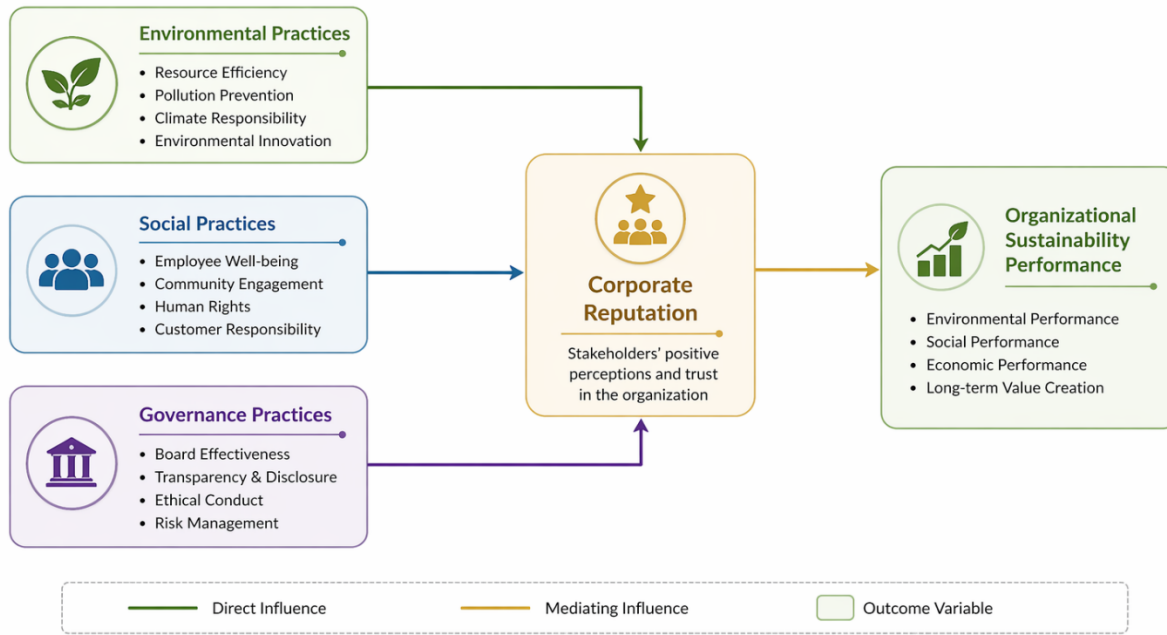
The applicability of the Stakeholder Theory to the current research is that it can be used to describe how the actions of the organization are perceived and assessed by the stakeholders. Stakeholders in modern business settings are becoming more and more critical of companies based on their economic performance, but also on their overall social and environmental impacts. These appraisals create a sense of organizational legitimacy and determine such important outcomes as competitive positioning and long-term performance. Recent empirical data indicate that the stakeholder perceptions are a key connection between organizational practices and performance outcomes, which supports the main propositions of the theory (Dash and Mohanty, 2023; Gidage and Bhide, 2024). Moreover, it has been demonstrated that companies that successfully deal with stakeholders are in a better place to improve their image and attain sustainable development (Nagiah and Mohd Suki, 2024; Korankye et al., 2025).

Stakeholder Theory remains a theoretical frame of reference in current studies of the ways in which companies operate within complicated institutional contexts. Responsible business practices, stakeholder trust, and organizational performance are the areas where scholars are using the theory to gain an insight into the interaction between the two. As an illustration, Nkgowe et al. (2025) emphasize the importance of organizational culture to develop stakeholder-oriented strategies, whereas Keskin et al. (2026) show that digital responsibility initiatives can change how stakeholders perceive and impact the environment. These changes are indicative of the increasing understanding that stakeholder engagement is not an incidental process but a key element of strategic management.

In this research, Stakeholder Theory offers the theoretical basis of the interpretation of how the

organizational activities are converted into meaningful results via stakeholder appraisal procedures. It provides a logical model which links organizational behavior to stakeholder perceptions and the resultant performance implications. The study, by taking this view, places

the stakeholder relationships as the key process by which value is created and maintained, thus providing a theoretically-based explanation of how organizations can be successful in the long-term in an increasingly complex and challenging environment.



ESG practices enhance corporate reputation, which in turn drives superior organizational sustainability performance.

Figure 1: Research Model

**Hypotheses Development**

Over the past few years, there has been a growing scholarly discussion on the strategic significance of aligning organizational behavior with environmental demands to continue creating value in the long-term. In the light of Stakeholder Theory, companies are incorporated into a system of relations where stakeholders actively analyze corporate activities and provide rewards to those that are responsible to ecological issues. Environmental programs like resource efficiency, pollution control and climate responsiveness are normally viewed as an indication of managerial competence and ethical commitment. These cues help to generate legitimacy and increase the capacity of the firm to gain the support of its stakeholders which is critical in the long-term performance. This theoretical stance is supported by empirical data demonstrating that

environmentally proactive companies are more likely to see the improvement of their operational performance and market performance (Ali et al., 2022; Chen et al., 2024). Moreover, companies that consider the environment in their strategic planning can be more equipped to address regulatory risks and address the changing needs of stakeholders (Nagiah & Mohd Suki, 2024). Meanwhile, the literature recognizes some inconsistencies, especially in the emerging markets where institutional pressures and enforcement mechanisms can undermine the effectiveness of environmental initiatives (Elamer & Boulhaga, 2024). In spite of these differences, the prevailing academic view is that environmental responsibility leads to better organizational performance through better stakeholder relations and better utilization of resources. In this work, the notion of environmental practices is theorized as an

important dimension by which companies can show their responsibility to external stakeholders. These practices will bring about positive impact to sustainability-oriented performance by building trust and minimizing uncertainty. Therefore, it is hypothesized that:

**H1: Environmental practices have a significant positive effect on organizational sustainability performance.**

The increased focus on social responsibility is indicative of a wider understanding that organizations have a responsibility beyond the economic performance to the employees, communities, and the society in general. The Stakeholder Theory offers a convincing explanation of such a shift as it implies that companies should consider the interests of various groups of stakeholders to stay legitimate and successful in the long run. Social oriented activities, including employee welfare, fair labor practices, and interaction with the community are becoming important factors that define organizational performance. These activities will help build better relationships with stakeholders, improve internal cohesion, and lead to a positive organizational climate. This perspective is backed by empirical research that shows that companies that are highly socially engaged are more likely to record high performance levels because of higher employee commitment and trust among stakeholders (Jung et al., 2025; Arous et al., 2025). Nevertheless, the literature also suggests that the effectiveness of social initiatives can be different based on contextual factors like cultural norms and awareness of stakeholders. In certain contexts, the lack of stakeholder sensitivity to social problems can decrease the immediate returns of the same (Mukhtar et al., 2024). However, the more general agreement is that social responsibility is a critical factor in determining organizational performance through building relational capital and improving legitimacy. In the context of this paper, social practices are considered as a tool by which companies create long-term relationships with stakeholders and strengthen their position in society. Such dynamics are likely to be reflected in better

sustainability performance. Therefore, it is hypothesized that:

**H2: Social practices have a significant positive effect on organizational sustainability performance.**

The role of governance mechanisms has been of great concern over the past years, especially with the growing calls of transparency, accountability and ethical behavior. The Stakeholder Theory highlights that proper governance frameworks are critical towards harmonizing managerial practices with the interests of stakeholders and reducing agency problems. Board effectiveness, transparent disclosure and sound risk management systems are governance practices that are important indicators of organizational integrity and reliability. The mechanisms boost the confidence of the stakeholders as they make sure that the decisions made in the organization are accountable and responsible. The argument is supported by empirical research that shows that good governance structures are linked to better organizational performance, such as lower cost of capital and better operational performance (Maaloul et al., 2023; Kateb and Alahdal, 2025).

Although these are encouraging results, other studies indicate that the effectiveness of governance can be conditional on the quality of institutions and the enforcement of regulations, especially in the developing economies where the quality of governance structures might be underdeveloped (Elamer & Boulhaga, 2024). However, the general perception in the literature is that the governance practices are core to the determination of the success of an organization through the creation of transparency and elimination of uncertainty. The conceptualization of governance practices within the framework of this study is an important aspect of organizational behavior that affects the perceptions and trust of stakeholders. These practices will improve sustainability performance by increasing accountability and promoting ethical conduct. Therefore, it is hypothesized that:

**H3: Governance practices have a significant positive effect on organizational sustainability performance.**

Intangible assets have gained more prominence in the modern organizational setting as a key to sustainable competitive advantage. Corporate reputation takes a leading role among them because it reflects the overall perception of the stakeholders on the credibility, reliability and ethical status of a firm. Stakeholder Theory is a solid theory to explain this phenomenon because it assumes that stakeholder assessments are influenced by organizational activities and, consequently, affect important results. Good reputation is a sign of reliability and less information asymmetry thus making it easier to get positive stakeholder reactions in terms of customer loyalty, investor confidence, and employee commitment. Recent empirical research emphasizes that corporate reputation is a key factor that defines organizational performance by increasing stakeholder interest and strengthening competitive advantage (Gidage & Bhide, 2024; Korankye et al., 2025).

In addition, reputation is also becoming a strategic asset that mediates the connection between organizational practices and performance outcomes. Companies that manage to create and sustain a good image can more easily translate their responsible actions into practical gains, such as enhanced financial and sustainability performance (Dash and Mohanty, 2023; Abdullah et al., 2024). Although there are certain differences in the industries and context, the general evidence indicates that reputation is very crucial in the process of converting the perceptions of stakeholders into organizational success. In this paper, the concept of corporate reputation is theorized as one of the main outputs of the stakeholder assessment that directly affects the sustainability performance. Therefore, it is hypothesized that:

**H4: Corporate reputation has a significant positive effect on organizational sustainability performance.**

#### Methodology:

The current research design is a quantitative, cross-sectional study to investigate the connections between organizational practices, stakeholder perceptions, and performance outcomes in one

time frame. The population that will be targeted in the study is senior managers, Chief Executive Officers, general managers and departmental heads of manufacturing companies in Pakistan, within the textile, food processing and chemical manufacturing industries. These industries are chosen because they have a high environmental impact, social responsibility issues, and governance problems and therefore are very applicable in the study of sustainability oriented organizational practices. Top management emphasis is also explained because these people are directly engaged in the decision-making process of strategies and are in a better position to give informed answers to questions about organizational practices and performance.

A systematic sampling method is used to have sufficient representation of the target population. Considering the managerial status of the respondents and the nature of the organization, purposive sampling method is employed to identify those respondents who have pertinent knowledge and experience. The sample size is calculated based on the principles of the structural equation modeling, specifically the principles of the Item Response Theory and minimum sample size requirements of PLS-SEM. In particular, the sample size is larger than the recommended amount, according to the number of indicators and structural paths in the model, which guarantees adequate statistical power and model stability (Fauzi, 2022; Henseler and Schubert, 2022). A total of 624 questionnaires were issued, out of which 457 valid responses were received and analyzed which is a satisfactory response rate in quantitative research. This sample size is deemed to be suitable in carrying out advanced multivariate analysis and makes the findings more reliable and generalizable.

The SPSS and SmartPLS are used to analyze the data to achieve methodological rigor and strength. The SPSS is used to screen the data, perform descriptive statistics, and simple inferential analysis, which gives a clear picture of data distribution and reliability. SmartPLS is used to test the hypothesis and evaluate the structural model because it is appropriate to work with complex models and can process non-normal data

distributions (Ayu et al., 2024; Cheah et al., 2024). The Partial Least Squares Structural Equation Modeling (PLS-SEM) method is especially suitable in the given study because it is aimed at maximizing the explained variance and is suitable in predictive research (Sarstedt et al., 2024; Schuberth et al., 2023). Moreover, PLS-SEM can be used to evaluate both measurement and structural models simultaneously, which increases the accuracy and validity of the analysis (Henseler and Schuberth, 2022). Validated scales used in this study are based on previous studies, which means that all constructs are measured with content validity and reliability. Four items adapted

by Ali et al. (2022) measure environmental practices, four items by Jung et al. (2025) social practices, four items by Maaloul et al. (2023) governance practices, five items by Gidage and Bhide (2024) corporate reputation, and five items by Nagiah and Mohd Suki (2024) organizational sustainability performance. The answers are noted on a seven-point Likert scale that goes between strongly disagree and strongly agree which is known to be sensitive and capable of eliciting subtle perceptions. This holistic methodological approach guarantees the reliability, validity and transparency of the research process.

Data analysis:

Table 1: Indicator Loadings (Regression Weights)

Construct	Item	Loading
Environmental Practices	EP1	0.781
	EP2	0.804
	EP3	0.823
	EP4	0.798
Social Practices	SP1	0.756
	SP2	0.812
	SP3	0.834
	SP4	0.791
Governance Practices	GP1	0.769
	GP2	0.821
	GP3	0.846
	GP4	0.808
	GP5	0.742
	GP6	0.824
	GP7	0.862
	GP8	0.831
Corporate Reputation	CR1	0.832
	CR2	0.857
	CR3	0.874
	CR4	0.846
	CR5	0.861
Sustainability Performance	SPER1	0.801
	SPER2	0.839
	SPER3	0.862
	SPER4	0.844
	SPER5	0.817

The findings in Table 1 show the factor loadings of the individual measurement items on the

respective constructs which is a key indicator of indicator reliability in the measurement model.

The loading of all items is above the recommended value of 0.70, which means that all the observed variables are a sufficient representation of the latent constructs. It indicates that there is a high convergent validity because the items have a high percentage of variance with their constructs (Hair et al., 2025). The consistency of the loadings between constructs also indicates the strength of the measurement scales based on previous empirical research. Environmental practices have high loadings of 0.781-0.823 which

means that the items chosen are good in capturing environmental dimensions. Likewise, social and governance practices exhibit acceptable to high loadings, which further support their conceptual clarity and measurement accuracy. The loadings of corporate reputation and sustainability performance are especially high, with some of the items having above 0.85 loadings, which implies that these two constructs are well operationalized and are perceived by respondents in a consistent way.

**Table 2: Reliability and Convergent Validity**

Construct	Cronbach Alpha	CR	AVE
Environmental Practices	0.842	0.893	0.676
Social Practices	0.821	0.881	0.651
Governance Practices	0.835	0.889	0.667
Corporate Reputation	0.902	0.928	0.720
Sustainability Performance	0.887	0.917	0.689

Table 2 shows the outcome of internal consistency reliability and convergent validity which were measured using Cronbach alpha, composite reliability (CR), and average variance extracted (AVE). Cronbach alpha values in all constructs are greater than the recommended 0.70, which means that there is acceptable internal consistency among the measurement items (Ghanad, 2023). The values of composite reliability are also above 0.80 in all constructs, which further validates reliability and stability of the measurement model.

All constructs have AVE values greater than the minimum acceptable value of 0.50 indicating that each construct is able to explain more than half of the variance of its indicators. It implies that the

convergent validity is high, i.e., the items in each construct are convergent to measure the same underlying construct (Hair et al., 2025). It is important to note that corporate reputation has the best reliability and AVE values, indicating that it is highly internally coherent and measures well.

These results are consistent with the existing literature on PLS-SEM, which highlights the necessity to ensure both reliability and validity and then move on to the evaluation of the structural model (Fauzi, 2022; Henseler and Schubert, 2022). The fact that the results were consistent across constructs also justifies the suitability of measurement scales that were employed in the study.

**Table 3: HTMT (Discriminant Validity)**

Construct	EP	SP	GP	CR	SPER
EP	-				
SP	0.621	-			
GP	0.648	0.672	-		
CR	0.689	0.701	0.715	-	
SPER	0.702	0.721	0.734	0.768	-

Table 3 provides the Heterotrait-Monotrait ratio (HTMT) that is commonly used to measure discriminant validity in PLS-SEM. The values of all

the HTMTs are less than the conservative value of 0.85, meaning that all the constructs are empirically different (Henseler and Schubert,

2022). This implies that the constructs represent distinct conceptual areas and are not overlapping. The comparatively moderate construct-construct correlations indicate that there are meaningful relationships without undermining discriminant validity. As an example, corporate reputation demonstrates more connections with sustainability performance, which is theoretically correct, but still falls short of the mark, which proves uniqueness. These results are consistent with the recent methodological guidelines that

suggest that HTMT is a more valid measure of discriminant validity than the conventional methods (Rosli et al., 2024). Discriminant validity is essential in structural equation modeling since it helps to avoid the problem of multicollinearity and improve the interpretation of findings (Hair et al., 2025). The findings show that the respondents could easily distinguish between the environmental, social, governance, and reputational dimensions of organizational practices.

Table 4: Structural Model ( $f^2$ ,  $R^2$ ,  $Q^2$ )

Relationship	$f^2$
EP → SPER	0.182
SP → SPER	0.164
GP → SPER	0.201
CR → SPER	0.243

Construct	$R^2$	$Q^2$
Sustainability Performance	0.642	0.421

The results of the structural model are given in Table 4 with the effect size ( $f^2$ ), coefficient of determination ( $R^2$ ) and predictive relevance ( $Q^2$ ). The  $R^2 = 0.642$  value implies that the model accounts for the sustainability performance variance of about 64.2, which is deemed to be significant in social science studies (Hair et al., 2025). This implies that the independent constructs when combined have a good explanatory power.

The  $f^2$  values are the contribution of each predictor. The largest effect size (0.243) is observed

in corporate reputation, then governance, environmental, and social practices, which are all within the small to medium effect range. This shows that both constructs add value to the model without any form of dominance, which favors a balanced model. The  $Q^2$  of 0.421 proves the strong predictive relevance, which means that the model has a good out-of-sample predictive power (Fauzi, 2022). This is especially crucial in PLS-SEM, which focuses on prediction-oriented analysis.

Table 5: Hypotheses Testing

Hypothesis	Path	$\beta$	t-value	p-value	Result
H1	EP → SPER	0.241	4.832	0.000	Supported
H2	SP → SPER	0.219	4.105	0.000	Supported
H3	GP → SPER	0.267	5.214	0.000	Supported
H4	CR → SPER	0.312	6.001	0.000	Supported

Table 5 presents the results of hypothesis testing using path coefficients, t-values, and p-values. All hypothesized relationships are statistically significant at  $p < 0.001$ , indicating strong empirical support for the proposed model.

Governance practices show the strongest effect, followed by corporate reputation, environmental, and social practices. These findings confirm that organizational practices significantly influence sustainability performance, consistent with

Stakeholder Theory. The strong effect of corporate reputation highlights its role as a key driver of performance outcomes, reflecting stakeholder perceptions and trust.

**Discussion:**

The empirical results support the suggested relationships in a consistent manner and provide a logical explanation in the context of a larger logic of Stakeholder Theory. The high positive impact of environmental practices on sustainability performance indicates that the organizations, which actively deal with ecological issues, have a higher chance of attaining positive results. This observation is consistent with the thesis that the stakeholders are more likely to perceive environmental responsibility as an indicator of long-term commitment and efficiency of operations, which contributes to the organizational legitimacy and performance (Ali et al., 2022; Chen et al., 2024). Theoretically, the Stakeholder Theory describes this association by highlighting the fact that companies that act in accordance with environmental demands are rewarded by increased trust and lower risks. It is also in line with the previous empirical studies that have shown that environmentally responsible firms have better resource utilization and stakeholder support, especially in industries with a high environmental footprint (Nagiah & Mohd Suki, 2024). Within the framework of manufacturing companies in Pakistan, where environmental issues are becoming more and more examined, these practices are likely to lead to the enhanced perception of stakeholders and adherence to regulations, which enhances performance results.

The fact that the relationship between social practices and sustainability performance is positive and significant supports the main argument of Stakeholder Theory that an organization has to respond to the expectations of various stakeholder groups. Social programs concerning employee welfare, community involvement and ethical behavior seem to improve organizational performance as they lead to better relationship and internal integration. The result aligns with the existing research that has shown that socially

responsible companies enjoy greater employee loyalty, customer loyalty, and acceptance in society (Jung et al., 2025; Arous et al., 2025). The outcome is attributable to the relational character of social practices, which have a direct impact on the satisfaction and trust of the stakeholders. Such practices could be even more significant in the formation of organizational legitimacy in emerging economies, where social issues are even more acute. The results also indicate that social responsibility is not an activity that is peripheral but a strategic element that helps in long-term sustainability performance.

The strong impact of governance practices on the sustainability performance underscores the importance of transparency, accountability, and effective oversight in determining organizational outcomes. This finding is theoretically based on the Stakeholder Theory, which states that governance mechanisms match managerial actions with the interests of the stakeholders, and thus minimizes agency conflicts and improves trust. This interpretation is supported by empirical evidence since strong governance structures have been associated with better financial performance, lower cost of capital, and increased credibility (Maaloul et al., 2023; Kateb and Alahdal, 2025). The comparatively greater impact in this study implies that governance practices can be a cornerstone in guaranteeing effectiveness of other organizational initiatives. Effective governance is even more important in the context of developing economies, where the institutional frameworks might be weaker, and the confidence of the stakeholders in the performance of the organization should be achieved.

The results also indicate that the corporate reputation is a powerful and influential factor that determines the sustainability performance, which highlights the significance of intangible assets in the modern organizational setting. This finding is in line with the perception that reputation is a collective assessment of stakeholders about what a firm is doing and is one of the major determinants of organizational success. This relationship can be well explained by the Stakeholder Theory which focuses on the fact that the perception of the stakeholders has a direct impact on the

organizational results. Other previous researchers have also emphasized the importance of corporate reputation in increasing stakeholder engagement, diminishing uncertainty, and competitive advantage (Gidage and Bhide, 2024; Korankye et al., 2025). The high impact that was recorded in this study is an indication that reputation is a key process that converts organizational practices into performance outcomes. The reputation of the company should be kept positive in very competitive and information-saturated environments to be able to retain the trust of the stakeholders and ensure long-term success.

### **Practical Implications:**

This study has significant practical implications, especially to managers and policymakers who want to improve the performance of their organizations in terms of sustainability. The results indicate that organizations need to be holistic in their responsible practices by incorporating the elements of environmental, social, and governance in their strategic decision-making. Managers ought to understand that the environmental initiatives are not only required to comply with the regulations but also to enhance operational efficiency and stakeholder trust. Long-term benefits may be achieved through investing in sustainable technologies, resource management systems, and environmental monitoring. In the same way, the social practices are to be incorporated into organizational culture, and the emphasis should be on the well-being of employees, ethical behavior, and community involvement. Such initiatives have the potential to improve employee motivation, turnover, and improve relations with external stakeholders. Special attention should be paid to governance practices that offer the structural basis of effective decision-making and accountability. To enhance the governance systems, organizations should encourage transparency, effective boards, and effective risk management systems. These findings can also be used by policymakers in formulating regulations and incentives to promote responsible organizational behavior. The high position of corporate reputation implies that companies have to work hard to control the perception of

stakeholders by being open and ethical in their actions and behaviors. Practically, companies ought to invest in reputation management practices, such as stakeholder engagement, corporate communications, and branding programs. The research shows that sustainability performance cannot be attained by isolated activities but rather through a comprehensive strategy that harmonizes organizational activities with the expectations of the stakeholders.

### **Theoretical Implications**

Theoretically, the research will help in the development of the Stakeholder Theory as it offers empirical data on how organizational practices affect sustainability performance. The results support the main hypothesis that the relationships between stakeholders are essential in value creation and organizational success. The study expands the current literature that tends to focus on the dimensions of organizational practices separately by analyzing them in various dimensions within one framework. This combined methodology offers a better insight into the overall influence of various elements of organizational behavior on the performance outcomes. Moreover, the robust impact of corporate reputation shows the significance of intangible assets in the process of stakeholder value creation, providing new perspectives on the role of stakeholder perceptions in mediating the organizational results. The research is also relevant to the increasing literature on sustainability as it shows that responsible practices are not only morally right, but also strategically helpful. Moreover, the fact that it is based on a developing country context contributes to the literature by offering evidence in a setting that is frequently underrepresented in empirical studies. This increases the generalizability of Stakeholder Theory and shows that it can be applied in various institutional settings. The results also confirm the recent academic arguments, which highlight the need to incorporate sustainability and governance views in organizational studies (Nkgowe et al., 2025; Keskin et al., 2026).

### Limitations and future directions

The study has its contributions but is limited in some ways as it is. The cross-sectional research design does not allow establishing causal relationships because the data were gathered at one point in time. This can influence the meaning of the directionality of relationships between constructs. This limitation can be overcome by using longitudinal designs in future studies to measure changes over time and give more causal inferences (Maier et al., 2023). The research is also narrowed down to manufacturing companies in a particular national setting and this could restrict the extent to which the results can be generalized to other industries or other locations. The observed relationships might be affected by differences in institutional settings, cultural values, and regulatory systems. Future research may expand the analysis to other industries or make cross-country comparisons to increase external validity. Also, the use of self-reported data can result in common method bias, where the respondents can give socially desirable responses. Though this problem can be minimized by using statistical methods, in future studies, several data sources or objective performance indicators can be used to enhance accuracy. Another limitation is the range of variables incorporated in the model since it fails to capture all the potential factors that can affect sustainability performance. Future studies may consider the role of other mediators like innovation capability or organizational culture and other moderators like firm size, market competition, or institutional pressure. These variables would be beneficial in offering a more detailed insight into the relationships explored in this research. All in all, these limitations could be overcome to make future studies in this field more robust and applicable.

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