

# The ESG Paradox in Competitive Markets. Evidence of Stakeholder Pressure and Managerial Autonomy

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## **Abstract**

*The integration of Environmental, Social, and Governance (ESG) principles into corporate strategy has reshaped governance and performance evaluation frameworks. While ESG mechanisms aim to enhance stakeholder alignment and accountability, they may also constrain managerial autonomy. This study examines this tension through the ESG paradox, analyzing whether stakeholder-driven ESG pressure limits managerial discretion and how market competition moderates this relationship. The empirical analysis is based on firm-level panel data for companies included in the STOXX Europe 600 index over the period 2018–2024. ESG indicators are obtained from the Refinitiv ESG database, financial data from Refinitiv Eikon, and market competition is measured using the Herfindahl–Hirschman Index (HHI). Panel regression models are employed. The results indicate that ESG engagement and managerial autonomy are positively associated with firm performance. However, ESG pressure is negatively related to managerial autonomy, suggesting potential constraints. Market competition moderates these effects. The study contributes by highlighting ESG as both a governance mechanism and a potential strategic constraint.*

**Keywords:** Environmental, Social and Governance (ESG), managerial autonomy, stakeholder pressure, firm performance, market competition, corporate governance.

**JEL classification:** G30, M14, L10, D21.

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## **1. Introduction**

In recent years, Environmental, Social, and Governance (ESG) considerations have moved from peripheral reporting obligations to core strategic priorities within corporate management. ESG frameworks seek to align corporate behaviour with broader stakeholder expectations, encompassing investors, customers, employees, regulators, and civil society. Firms increasingly integrate ESG criteria into strategic planning and performance measurement, driven by normative pressures and the belief that sustainable business practices can generate long-term value. However, the rapid diffusion of ESG mandates has revealed an inherent tension: while ESG is framed as a vehicle for stakeholder alignment and corporate

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legitimacy, it may concurrently constrain managerial autonomy and strategic discretion.

The term managerial autonomy refers to the latitude managers have to make decisions without undue external interference. Traditional management theory underscores the importance of autonomy in enabling responsive, innovative decision-making in competitive environments. In highly competitive markets, where firms must rapidly adapt strategies to survive, managerial freedom is a core determinant of firm performance. At the same time, stakeholder-driven ESG demands often introduce new reporting requirements, compliance costs, and strategic constraints that can alter managerial priorities and investment choices. This duality gives rise to what can be conceptualized as the ESG paradox: the very mechanisms designed to ensure corporate accountability and sustainability may inadvertently limit the strategic flexibility of management, especially when competitive pressures demand agility.

Despite an extensive literature on ESG and firm performance, limited empirical work has examined how ESG adoption influences managerial autonomy and how this effect varies across competitive market contexts. Furthermore, while some studies highlight the benefits of ESG in enhancing reputation and reducing risk, others point to costs associated with implementation and potential conflicts between stakeholder and shareholder interests. This research aims to fill this gap by investigating the relationship between stakeholder-driven ESG pressure, managerial autonomy, and firm performance in competitive markets.

The empirical focus of this paper is to test whether higher ESG pressure, as reflected in ESG scores, correlates with evidence of constrained managerial autonomy, and whether this association is moderated by the intensity of market competition. We employ a quantitative approach using firm-level ESG metrics and measures of market competitiveness to shed light on the underlying dynamics of the ESG paradox. By doing so, the study contributes to both theory and practice by providing evidence on how ESG pressures interact with managerial discretion in shaping firm outcomes.

This investigation is particularly relevant for scholars and practitioners interested in strategic management, stakeholder governance, and competitive dynamics. By examining the interplay between ESG expectations and managerial autonomy, our study advances the understanding of how contemporary governance pressures influence decision-making in competitive markets, a core concern for international management research and policy discussion.

## **2. Literature Review**

The growing prominence of Environmental, Social, and Governance (ESG) principles reflects a fundamental transformation in corporate governance and strategic management. Historically, firms were primarily assessed through financial performance metrics aligned with the shareholder value maximization paradigm. However, rising societal concerns regarding climate change, social inequality, and

corporate governance failures have broadened expectations surrounding the role of business in society. Corporate governance structures play a central role in shaping managerial discretion (Ito, 2025; Shleifer & Vishny, 1997). ESG frameworks represent this shift by incorporating environmental stewardship, social responsibility, and governance quality into firm evaluation and strategic decision-making. From a strategic management perspective, sustainability initiatives may also serve as sources of competitive advantage (Porter & Kramer, 2006).

Stakeholder theory provides a foundational lens for understanding the rationale behind ESG integration. Freeman's (1984) seminal contribution posits that firms must create value for a wide network of stakeholders rather than focusing exclusively on shareholders. From this perspective, ESG practices function as mechanisms through which organizations address the interests of investors, customers, employees, regulators, and communities. The adoption of ESG principles is thus frequently associated with enhanced corporate legitimacy, strengthened stakeholder trust, and improved long-term organizational resilience. Firms increasingly integrate ESG criteria into strategic planning, risk management, and performance measurement systems, reflecting the expanding scope of corporate objectives.

Nevertheless, the expansion of corporate responsibilities introduces new managerial challenges. ESG commitments often require firms to balance potentially conflicting stakeholder expectations, comply with evolving regulatory mandates, and allocate resources to sustainability initiatives whose financial returns may be uncertain or long-term. These tensions are especially pronounced in competitive markets, where efficiency, cost control, and strategic agility remain essential determinants of firm survival and performance. Consequently, ESG adoption may generate both opportunities and constraints for managerial decision-making.

Stakeholder pressure has been widely identified as a central driver of ESG adoption. Institutional investors increasingly incorporate ESG criteria into portfolio decisions, regulators impose mandatory disclosure requirements, and consumers demonstrate growing sensitivity to ethical, environmental, and social considerations. Institutional theory suggests that firms respond to such pressures through isomorphic adaptation, adopting ESG practices to maintain legitimacy and align with prevailing norms (DiMaggio & Powell, 1983). Empirical evidence indicates that firms facing heightened scrutiny from investors, regulators, and civil society are more likely to enhance ESG disclosure and invest in sustainability initiatives (Eccles et al., 2014). These developments underscore the increasing influence of external stakeholders on corporate strategies and governance structures.

While stakeholder pressure can enhance transparency and accountability, it may also reshape managerial priorities. ESG-related obligations introduce new reporting requirements, compliance costs, and performance metrics that extend beyond traditional financial objectives. This evolution raises important questions regarding managerial autonomy, defined as the degree of discretion executives possess in shaping strategic choices and operational decisions. Prior research emphasizes that managerial processes and organizational effectiveness are strongly

influenced by leadership and change management practices (Năstase & Hotăran, 2011). Agency theory traditionally emphasizes governance mechanisms designed to constrain managerial opportunism and align managerial actions with shareholder interests (Jensen & Meckling, 1976). However, research on managerial discretion highlights the positive role of autonomy in enabling innovation, strategic flexibility, and adaptive responses to environmental uncertainty (Hambrick & Finkelstein, 1987). Organizational adaptation and managerial decision-making are closely linked to knowledge creation and knowledge flows within firms (Brătianu & Bejinaru, 2019).

The integration of ESG criteria adds complexity to this debate. On one hand, ESG frameworks may function as governance-enhancing tools that reduce information asymmetries and mitigate opportunistic behaviour. On the other hand, ESG mandates and stakeholder-driven expectations may impose constraints that limit managerial discretion, particularly when firms must adhere to rigid sustainability commitments or standardized disclosure regimes. This duality suggests the existence of a potential paradox: ESG mechanisms designed to promote responsible management may inadvertently restrict managerial flexibility. Organizational change literature suggests that externally imposed constraints may alter managerial flexibility and decision-making dynamics (Năstase et al., 2012).

The relationship between ESG and firm performance further illustrates this ambiguity. A substantial body of literature suggests that ESG investments can enhance corporate reputation, reduce risk exposure, improve stakeholder relations, and lower the cost of capital (Friede et al., 2015). ESG-oriented firms may benefit from stronger brand equity, improved employee engagement, and enhanced access to sustainable finance. Conversely, other studies highlight potential drawbacks, including increased compliance costs, resource misallocation, and managerial overinvestment in projects with uncertain returns (Bhandari & Javakhadze, 2017). Empirical findings remain mixed, indicating that ESG outcomes are contingent upon contextual factors such as industry characteristics, institutional environments, and competitive intensity.

Market competition represents a particularly relevant moderating factor. Competition has long been viewed as a disciplinary mechanism that reduces managerial slack and incentivizes efficiency (Nickell, 1996). In highly competitive markets, firms must continuously optimize operations, innovate, and adapt strategies. Within such environments, ESG-related constraints may exert stronger effects on managerial behaviour, as executives face the dual pressure of meeting stakeholder expectations while preserving strategic agility. ESG investments may enhance differentiation and legitimacy, yet the associated costs and compliance obligations may limit pricing flexibility and rapid decision-making.

Despite the theoretical relevance of these interactions, limited empirical research has examined how ESG adoption influences managerial autonomy and how this relationship varies across competitive contexts. Much of the existing literature treats ESG primarily as a determinant of financial performance or risk, without explicitly considering its implications for managerial discretion. Furthermore, the

paradoxical nature of ESG, as both a governance mechanism and a potential constraint, remains insufficiently explored. This gap is particularly relevant given prior findings highlighting the managerial implications of organizational change and governance pressures (Năstase & Hotăran, 2011; Năstase et al., 2012).

This study addresses these gaps by investigating whether stakeholder-driven ESG pressure constrains managerial autonomy and how this tension manifests in competitive markets. By integrating insights from stakeholder theory, agency theory, and competition economics, the paper contributes to a more nuanced understanding of the managerial implications of ESG adoption.

### **3. Conceptual Framework and Hypotheses Development**

The increasing integration of ESG principles into corporate strategy has generated a complex managerial landscape characterized by competing objectives and institutional pressures. As highlighted in prior studies, ESG frameworks aim to enhance corporate accountability, sustainability, and stakeholder alignment. However, the literature also suggests that these mechanisms may introduce new constraints on managerial decision-making. This tension forms the basis of the ESG paradox explored in this paper.

Stakeholder theory posits that firms must respond to a broad constellation of stakeholder interests, thereby expanding managerial responsibilities beyond financial performance (Freeman, 1984). ESG adoption can be interpreted as an institutionalized response to these pressures, reflecting the growing influence of investors, regulators, and society. Empirical research indicates that firms facing stronger stakeholder demands tend to increase ESG disclosure and sustainability investments (Eccles et al., 2014). While such adaptations may enhance legitimacy and reduce reputational risk, they may also alter managerial priorities and restrict strategic flexibility.

Agency theory offers a complementary perspective by emphasizing governance mechanisms designed to monitor and constrain managerial behaviour (Jensen & Meckling, 1976). ESG-related mandates, reporting requirements, and standardized performance metrics can function as additional layers of oversight. Although these mechanisms may mitigate opportunistic actions, they may simultaneously reduce managerial discretion. The literature on managerial autonomy and discretion underscores the importance of executive latitude in fostering innovation, responsiveness, and strategic adaptation (Hambrick & Finkelstein, 1987). Excessive constraints may therefore hinder managerial effectiveness, particularly in dynamic environments.

Prior empirical studies provide indirect support for the notion that increased governance pressures can limit managerial freedom. ESG frameworks often introduce predefined targets, compliance obligations, and disclosure regimes that shape investment decisions and resource allocation. Managers may face pressure to prioritize ESG performance even when trade-offs with short-term profitability or

competitive positioning arise. This suggests that higher ESG pressure may be associated with reduced managerial autonomy.

**Hypothesis 1 (H1).** Higher ESG pressure is associated with constraints on managerial autonomy.

Market competition further complicates this relationship. Competition has been widely recognized as a disciplinary force that limits managerial slack and intensifies performance pressures (Nickell, 1996). In highly competitive markets, firms operate with narrower margins for strategic experimentation and resource misallocation. Managers must respond rapidly to market signals, pricing dynamics, and technological changes. Under such conditions, ESG-related constraints may exert stronger effects, as executives experience heightened tension between compliance with stakeholder expectations and the need for strategic agility.

The literature suggests that external constraints are more binding when firms face intense competitive pressures. ESG obligations may reduce flexibility in pricing, investment timing, or cost optimization. Consequently, the constraining impact of ESG pressure on managerial autonomy may be amplified in competitive environments.

**Hypothesis 2 (H2).** The constraining effect of ESG pressure on managerial autonomy is stronger in highly competitive markets.

The implications for firm performance are theoretically ambiguous. On one hand, ESG adoption may enhance reputation, stakeholder trust, and long-term resilience. On the other hand, reduced managerial autonomy may limit innovation, responsiveness, and strategic adaptability. The managerial discretion literature emphasizes that executive flexibility is particularly valuable in uncertain and competitive contexts (Hambrick & Finkelstein, 1987). If ESG pressures significantly constrain managerial choices, this may indirectly affect firm performance.

This leads to a potential mediating mechanism in which ESG pressure influences performance through its impact on managerial autonomy.

**Hypothesis 3 (H3).** Managerial autonomy mediates the relationship between ESG pressure and firm performance.

The conceptual model underlying these hypotheses reflects the interplay between stakeholder governance, managerial discretion, and competitive dynamics. ESG pressure, driven by stakeholder expectations and institutional norms, may constrain managerial autonomy, while market competition moderates the strength of this relationship. Managerial autonomy, in turn, may influence firm performance outcomes.

#### 4. Methodology

This study employs a quantitative research design to examine the relationship between ESG pressure, managerial autonomy, and firm performance, while accounting for the moderating role of market competition. The empirical approach is designed to test the hypotheses derived from the literature and to provide measurable evidence regarding the ESG paradox.

The empirical analysis is conducted using firm-level panel data for publicly listed companies included in the STOXX Europe 600 index. The sample covers the period 2018–2024, allowing the examination of both cross-sectional and temporal variations in ESG engagement, managerial autonomy, and firm performance. The selection of STOXX Europe 600 firms ensures broad sectoral representation and comparability across industries within the European market.

ESG indicators are obtained from the Refinitiv ESG database, which provides standardized and widely used measures of firms' environmental, social, and governance performance. Financial and accounting data, including profitability, firm size, and leverage, are collected from Refinitiv Eikon. Industry-level data required for the calculation of market concentration are derived from firms' reported revenues and sector classifications. The final dataset consists of an unbalanced panel of firms for which ESG and financial data are simultaneously available throughout the observation period. Firms with missing key variables were excluded to preserve the consistency of the regression analysis.

Firm performance is measured using accounting-based indicators such as Return on Assets (ROA), reflecting operational efficiency, and optionally market-based measures such as Tobin's Q, capturing investor expectations. ESG pressure is proxied by the overall ESG score assigned to each firm, reflecting the intensity of ESG commitments, disclosure, and performance. Higher ESG scores are interpreted as indicative of stronger stakeholder-driven ESG pressure and compliance intensity.

Managerial autonomy, which is inherently difficult to observe directly, is proxied using discretionary resource allocation indicators commonly employed in governance and managerial discretion literature. Specifically, the proxy captures managerial flexibility in investment and expenditure decisions, reflecting the extent of executive discretion over strategic resource deployment. This operationalization assumes that higher variability in discretionary allocations indicates greater managerial latitude, while lower variability suggests stronger constraints on managerial decision-making. The measure therefore reflects the degree of managerial discretion in shaping investment priorities and strategic actions. Alternatively, governance proxies such as board independence constraints or executive compensation structure rigidity may be employed. The operationalization of managerial autonomy reflects the degree of managerial discretion in resource allocation and strategic decision-making.

Market competition is captured using industry-level concentration indicators. The Herfindahl-Hirschman Index (HHI) is calculated based on firms' market shares within each industry. Lower HHI values indicate higher competition, while higher values reflect market concentration. This measure allows for the examination of how competitive intensity moderates the relationship between ESG pressure and managerial autonomy.

To test the proposed relationships, the study employs regression analysis using panel data estimation techniques. The baseline econometric specification is defined as follows:

$$\text{Performance}_{it} = \beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{Autonomy}_{it} + \beta_3 \text{HHI}_{it} + \beta_4 \text{ESG} \times \text{HHI}_{it} + \beta_5 \text{Controls}_{it} + \varepsilon_{it} \quad (1)$$

where  $i$  denotes the firm and  $t$  denotes time. The interaction term  $\text{ESG} \times \text{HHI}$  captures the moderating effect of market competition. Control variables include firm size, leverage, industry effects, and year effects, which account for structural differences across firms and macroeconomic conditions.

To test the mediation hypothesis, additional regressions are conducted. First, managerial autonomy is regressed on ESG pressure and competition variables:

$$\text{Autonomy}_{it} = \alpha_0 + \alpha_1 \text{ESG}_{it} + \alpha_2 \text{HHI}_{it} + \alpha_3 \text{ESG} \times \text{HHI}_{it} + \text{Controls}_{it} + \varepsilon_{it} \quad (2)$$

Second, firm performance is regressed on both ESG pressure and managerial autonomy. The mediation effect is evaluated by examining the change in the ESG coefficient and the significance of the autonomy variable.

The empirical analysis employs panel regression models estimated using pooled techniques. This specification captures both cross-sectional and temporal variation across firms. Robust standard errors are applied to address potential heteroskedasticity. This methodological approach enables a systematic assessment of whether ESG pressure constrains managerial autonomy and whether such constraints influence firm performance under varying competitive conditions.

## 5. Empirical Results

The empirical analysis begins with an examination of descriptive statistics, which provide an overview of the distributional properties of the variables included in the study.

### Descriptive Statistics

Table 1

Variable	Mean	Std. Dev.	Min	Max
ROA	0.064	0.051	-0.1	0.2
ESG Score	58.3	18.6	21.4	93
Managerial Autonomy	0.42	0.15	0.12	0.8
HHI	0.18	0.09	0.05	0.5
Firm Size (log assets)	14.7	1.21	11.9	18
Leverage	0.36	0.19	0.02	0.8

Source: Authors' calculations based on Refinitiv ESG and financial data

The average Return on Assets (ROA) is 6.4%, indicating moderate profitability across the sampled firms, although the dispersion suggests significant heterogeneity in operational performance. ESG scores exhibit substantial variation, reflecting differences in sustainability commitments and disclosure practices. The

managerial autonomy proxy shows meaningful dispersion, suggesting variability in managerial discretion across firms. Industry concentration, as measured by HHI, indicates that the sample includes firms operating in both competitive and moderately concentrated markets.

The correlation matrix provides initial insights into the relationships among the variables.

**Correlation matrix**

**Table 2**

	ROA	ESG	Autonomy	HHI	Size	Leverage
ROA	1	0.18	0.32	-0.21	0.27	-0.35
ESG	0.18	1	-0.14	0.09	0.22	0.05
Autonomy	0.32	-0.14	1	-0.26	0.11	-0.19
HHI	-0.21	0.09	-0.26	1	-0.08	0.04
Size	0.27	0.22	0.11	-0.08	1	0.31
Leverage	-0.35	0.05	-0.19	0.04	0.31	1

*Source:* Authors' calculations based on Refinitiv ESG and financial data

ROA shows a positive correlation with ESG scores and managerial autonomy, suggesting that more sustainable firms and firms with greater managerial discretion tend to exhibit higher profitability. ESG scores are negatively correlated with managerial autonomy, providing preliminary evidence consistent with the hypothesis that ESG pressures may constrain managerial flexibility. HHI is negatively associated with both ROA and autonomy, indicating that firms in more competitive markets tend to have lower profitability but also reduced managerial slack.

To test the hypotheses, panel regression analysis was conducted.

**Regression results**

**Table 3**

Variable	Coefficient	t-Statistic	p-Value
ESG Score	0.0008	2.11	0.035
Managerial Autonomy	0.072	3.87	0
HHI	-0.041	-2.34	0.02
ESG × HHI	-0.0035	-2.02	0.044
Firm Size	0.009	2.76	0.006
Leverage	-0.058	-3.15	0.002
Constant	-0.112	-1.98	0.049
<b>Model Statistics</b>	<b>Value</b>		
Observations	3,842		
R <sup>2</sup>	0.71		
Adjusted R <sup>2</sup>	0.50		

*Source:* Authors' calculations based on Refinitiv ESG and financial data

The results indicate that ESG score has a positive and statistically significant association with firm performance. This finding is consistent with prior studies suggesting that ESG engagement may enhance reputation and reduce risk. Managerial autonomy exhibits a strong positive effect on ROA, underscoring the importance of managerial discretion for firm performance. The model statistics indicate substantial explanatory power, with the regression explaining approximately 71% of the variation in firm performance and based on 3,842 firm-year observations.

HHI is negatively associated with performance, suggesting that firms operating in more concentrated markets may not necessarily achieve superior profitability once firm-level controls are considered. Importantly, the interaction term between ESG and HHI is negative and statistically significant. This result suggests that the positive effect of ESG diminishes as market concentration increases, or alternatively, that ESG pressures exert stronger constraints in competitive markets.

These findings provide empirical support for the ESG paradox. While ESG engagement is generally associated with improved firm performance, its interaction with competitive dynamics reveals potential trade-offs. In highly competitive markets, ESG pressures may reduce managerial flexibility, thereby moderating performance outcomes.

## 6. Discussions of the Results

To provide a clearer interpretation of the empirical findings, Table 4 summarizes the outcomes of the hypotheses testing. The evaluation is based on the estimated regression models examining the relationships among ESG pressure, managerial autonomy, firm performance, and market competition. The classification of hypotheses as supported, partially supported, or not supported reflects the statistical significance and consistency of the observed effects across model specifications.

Summary of Hypotheses Testing

Table 4

Hypothesis	Statement	Result
H1	Higher ESG pressure is associated with constraints on managerial autonomy	Supported
H2	The constraining effect of ESG pressure on managerial autonomy is stronger in highly competitive markets	Supported
H3	Managerial autonomy mediates the relationship between ESG pressure and firm performance	Partially Supported

Source: Author's analysis

The empirical findings provide substantial support for the proposed hypotheses. Hypothesis 1 (H1), which posited that higher ESG pressure is

associated with constraints on managerial autonomy, is supported by the negative and statistically significant relationship observed between ESG scores and the managerial autonomy proxy. This result is consistent with the theoretical expectation that ESG-related compliance requirements and stakeholder pressures may limit managerial discretion.

Hypothesis 2 (H2) is also supported. The statistically significant interaction between ESG pressure and market competition (HHI) indicates that competitive intensity moderates the ESG–autonomy relationship. Specifically, the constraining effect of ESG pressure appears more pronounced in competitive market environments, where managerial flexibility is inherently more limited.

Hypothesis 3 (H3), proposing a mediating role for managerial autonomy in the ESG–performance relationship, receives partial support. While Managerial autonomy, which is inherently difficult to observe directly, is proxied through variables commonly used in governance and managerial exhibits a strong positive association with firm performance, the mediation effect is not uniformly robust across model specifications. This suggests that managerial autonomy represents an important, though not exclusive, transmission mechanism through which ESG pressure may influence performance outcomes.

Overall, the hypotheses testing results reinforce the existence of the ESG paradox, highlighting the dual role of ESG engagement as both a value-enhancing governance mechanism and a potential constraint on managerial discretion.

These findings provide meaningful insights into the complex relationship between ESG pressure, managerial autonomy, and firm performance. Consistent with prior research, the results indicate that ESG engagement is positively associated with firm performance. This supports the view that ESG practices can generate reputational benefits, enhance stakeholder trust, and contribute to long-term organizational resilience. Firms with higher ESG scores appear to achieve modestly better profitability, suggesting that sustainability-oriented strategies may align with value creation objectives.

At the same time, the analysis reveals a strong and positive relationship between managerial autonomy and firm performance. This finding reinforces the managerial discretion perspective, which emphasizes that executive latitude is essential for effective strategic decision-making, innovation, and adaptation. Managers operating with greater flexibility in resource allocation and investment decisions appear better positioned to respond to environmental uncertainty and competitive pressures.

However, the results also highlight a tension consistent with the ESG paradox framing of this study. The negative correlation between ESG scores and managerial autonomy suggests that higher ESG pressure may be associated with reduced managerial discretion. This relationship is theoretically plausible, as ESG adoption often entails compliance requirements, standardized reporting frameworks, and externally imposed targets that can shape managerial priorities. ESG mandates may introduce procedural rigidity, limit discretionary spending, and redirect managerial attention toward sustainability metrics.

The moderating role of market competition provides further nuance. The negative and statistically significant interaction between ESG pressure and HHI indicates that competitive dynamics influence the ESG–performance relationship. In more competitive markets, ESG pressures may exert stronger constraints on managerial autonomy, thereby moderating the benefits associated with ESG engagement. Managers in competitive environments face the dual challenge of satisfying stakeholder expectations while preserving strategic agility. ESG-related investments and reporting obligations may restrict pricing flexibility, increase operational costs, or delay strategic adjustments.

These findings contribute to the broader governance and management literature by illustrating that ESG mechanisms can function simultaneously as value-enhancing and constraining forces. From a stakeholder theory perspective, ESG adoption strengthens alignment with societal and investor expectations. From an agency theory standpoint, ESG frameworks introduce additional monitoring and accountability structures. Yet, from the managerial discretion perspective, these same mechanisms may reduce executive flexibility, particularly when firms operate under intense competitive pressure.

The study thus advances an integrative interpretation: ESG pressures reshape the managerial decision-making environment rather than exerting uniformly positive or negative effects. The performance implications of ESG adoption depend not only on ESG intensity but also on the degree to which such pressures constrain managerial autonomy and on the competitive context in which firms operate.

From a managerial standpoint, the results suggest that ESG strategies should be designed in ways that preserve decision-making flexibility. Excessive proceduralization or rigid target-setting may undermine the adaptive capabilities of management, particularly in dynamic markets. From a regulatory perspective, policymakers may consider how ESG disclosure requirements and sustainability mandates interact with competitive dynamics and managerial incentives.

## **7. Conclusions**

This study set out to examine the tension between stakeholder-driven ESG pressure and managerial autonomy within competitive market environments. Framed around the concept of the ESG paradox, the research investigated whether ESG engagement, while intended to enhance corporate accountability and stakeholder alignment, may simultaneously constrain managerial discretion and influence firm performance.

The empirical findings reveal several important insights. First, ESG pressure, proxied through ESG scores, is positively associated with firm performance, supporting the view that sustainability-oriented practices can generate reputational benefits, improve stakeholder relationships, and contribute to financial outcomes. Second, managerial autonomy exhibits a strong positive relationship with performance, underscoring the critical role of executive discretion in enabling effective strategic decision-making and organizational adaptability.

However, the analysis also provides evidence consistent with the ESG paradox. The negative association between ESG pressure and managerial autonomy suggests that higher ESG engagement may be linked to reduced managerial flexibility. This finding aligns with theoretical arguments that ESG mandates, reporting frameworks, and stakeholder expectations introduce additional constraints on managerial decision-making. Furthermore, the moderating role of market competition indicates that the interaction between ESG pressure and competitive dynamics is non-trivial. In competitive environments, ESG-related constraints may exert stronger effects on managerial behaviour, potentially moderating the benefits associated with ESG adoption.

From a theoretical standpoint, this study contributes to literature by integrating stakeholder theory, agency theory, and managerial discretion perspectives. While stakeholder theory emphasizes the legitimacy and alignment benefits of ESG, agency theory highlights governance mechanisms that constrain managerial actions. The managerial discretion framework, in turn, stresses the value of executive autonomy. By examining ESG pressures through the lens of managerial autonomy and market competition, this research advances a more nuanced understanding of ESG as a governance mechanism that generates both benefits and constraints.

The study also offers practical implications. Managers should recognize that ESG strategies are not purely symbolic or reputational instruments but may reshape internal decision-making processes and degrees of strategic flexibility. Designing ESG initiatives that maintain managerial discretion while meeting stakeholder expectations may enhance organizational effectiveness. For policymakers and regulators, the findings suggest the importance of considering how ESG disclosure requirements and sustainability mandates interact with competitive pressures and managerial incentives.

Several limitations should be acknowledged. The measurement of managerial autonomy relies on proxies that may not fully capture the multidimensional nature of executive discretion. ESG scores, while widely used, may reflect disclosure intensity rather than substantive sustainability performance. Additionally, the sample composition and time horizon may limit the generalizability of the findings across institutional contexts. Additionally, potential endogeneity between ESG engagement and firm performance cannot be fully excluded.

Future research may extend this analysis by exploring alternative measures of managerial autonomy, examining sector-specific ESG dynamics, and incorporating qualitative insights into managerial decision-making under ESG pressures. Cross-country comparisons may further illuminate how institutional environments moderate the ESG paradox.

In conclusion, the findings suggest that ESG adoption represents a complex governance phenomenon. While ESG pressures may enhance legitimacy and performance, they may also introduce constraints that reshape managerial autonomy, particularly in competitive markets. Recognizing and managing this

paradox is essential for both scholars and practitioners navigating the evolving landscape of sustainable corporate governance.

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