



Proceedings of the
Estonian Academy of Sciences
2026, 75, 3, 208–218

<https://doi.org/10.3176/proc.2026.3.04>

www.eap.ee/proceedings
Estonian Academy Publishers

SUSTAINABILITY MANAGEMENT

RESEARCH ARTICLE

Received 25 January 2026
Accepted 20 April 2026
Available online 16 June 2026

Keywords:

ESG and stakeholder engagement,
stakeholder expectations, ESG adoption,
ESG challenges

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Citation:

Gupta, A., Ojasoo, M. and Reinhold, K. 2026.
Drivers and challenges of environmental,
social, and governance adoption: aligning
corporate strategies with stakeholder
expectations. *Proceedings of the Estonian
Academy of Sciences*, 75(3), 208–218.
<https://doi.org/10.3176/proc.2026.3.04>

Drivers and challenges of environmental, social, and governance adoption: aligning corporate strategies with stakeholder expectations

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ABSTRACT

This study examines the drivers, stakeholder engagement mechanisms, and challenges influencing the adoption of environmental, social, and governance (ESG) strategies among European Union-based companies. Using semi-structured interviews with 16 firms across diverse sectors, supplemented by sustainability report analysis, the research applies stakeholder theory and institutional theory to explain ESG adoption patterns. Findings reveal that ESG adoption is primarily driven by external forces, including regulatory requirements, market trends, and stakeholder expectations, with internal factors such as corporate values also playing a role. Notably, only one-third of the sampled companies have established formal stakeholder engagement mechanisms, suggesting a potential decoupling between ESG reporting obligations and the substantive integration of stakeholder voice into strategic decision-making. Stakeholder engagement practices vary widely, with formal mechanisms more common in larger, publicly listed organizations. Key challenges include regulatory complexity, data-collection difficulties, cost pressures, and limited stakeholder awareness. The study contributes to understanding how stakeholder engagement and expectations shape ESG adoption, highlights persistent ESG challenges across industries, and identifies a “middle-squeeze” dynamic whereby medium-sized firms face disproportionate regulatory burden relative to their capacity. Insights offer guidance for policymakers and managers seeking to align sustainability strategies with both institutional requirements and stakeholder demands.

1. Introduction

In modern corporate landscapes, environmental, social, and governance (ESG) factors are becoming vital in shaping strategic decisions and forecasting organizational performance. Recent studies highlight that ESG adoption can elevate a firm’s cumulative abnormal returns (Li et al. 2023) while also improving stock liquidity (Krueger et al. 2024). ESG factors have become a key concern among diverse stakeholder groups, who are paying closer attention to how companies address these issues. Modern investors look for ESG disclosures to pinpoint sustainable options before finalizing investment decisions. Consequently, ESG elements are progressively integrated into strategic planning, performance assessments, and risk management. This trend reflects rising expectations from a range of stakeholders – employees, shareholders, customers, and regulators – who call for greater openness and responsibility regarding ESG concerns. Corporations that advance ESG measures and provide enhanced payouts are more likely to strengthen ties with their stakeholders (Zahid et al. 2023). Therefore, ESG considerations have steadily become a focal point in the modern corporate world (Khamisu et al. 2024).

The environmental aspect advocates for enhanced performance through environmentally mindful practices and cost reduction (Brooks and Oikonomou 2018), including the adoption of renewable energy, effective waste disposal, pollution prevention, and climate change mitigation strategies. The social component emphasizes adherence to moral standards, compliance with legal obligations, and the cultivation of positive connections across a global context (Lee et al. 2016). Meanwhile, the governance aspect focuses on matters such as the quality of disclosures, political influences, corruption risks, business ethics, and organizational governance structures (Khan et al. 2016). If firms neglect ESG reporting criteria issued by organizations such as the Global Reporting Initiative (GRI), they may face significant unrest, prompting

them to implement safeguard measures that address stakeholder issues (Deloitte n.d.). At the same time, rising demands from investors, policymakers, and consumers have led to stricter regulations and heightened calls for openness and accountability, further driving ESG's expansion (Dwekat et al. 2022; Kräussl et al. 2024; Deloitte n.d.).

The European Union has implemented stringent regulations to promote sustainable business practices, including the EU Taxonomy for sustainable activities, the Sustainable Finance Disclosure Regulation (SFDR), and the Corporate Sustainability Reporting Directive (CSRD), which mandates comprehensive ESG reporting for large companies. However, there are limited studies that have explored how evolving regulations and varying cultural and national contexts impact the adoption of ESG strategies. Multiple studies have explored the drivers influencing ESG strategies in broad and single-country contexts; however, the specific impact of EU frameworks across different member states remains underexplored (La Torre et al. 2018; Aureli et al. 2020; Shi and Mai 2025). Moreover, most previous research has mainly focused on large companies, failing to address the motivations and outcomes of voluntary ESG adoption by small and medium-sized enterprises (SMEs) (Gjergji et al. 2021; Huynh et al. 2024). In terms of exploring how stakeholders influence companies to adopt ESG practices, previous studies have either focused on specific stakeholder groups or been limited to specific regions (Tsoi 2010; Boudreau 2023). Moreover, only a few studies have examined how companies evaluate the expectations of different stakeholders towards their ESG strategies (Rathobei et al. 2024; Xu et al. 2024).

This article aims to explore the key drivers and challenges influencing companies' adoption of ESG principles in business strategies that engage stakeholder groups. To address the gaps in existing literature, the following research questions guide this study: (1) What motivates companies to integrate ESG factors into their core strategies? (2) How do companies identify and collaborate with various stakeholders when developing ESG strategies? (3) What obstacles do companies encounter when implementing and refining their ESG activities?

By answering these questions, the study contributes to current debates in both academic literature and corporate practice. First, it clarifies how external forces and internal drivers encourage or hinder ESG adoption not only in large listed firms but also in SMEs with different ESG drivers. Second, it emphasizes the significance of stakeholder relationships, with a key finding that only one-third of sampled companies have formal engagement mechanisms, which suggests that many organizations treat stakeholder dialogue as a regulatory formality rather than a strategic necessity. Finally, the findings can help organizations better align their sustainability strategies with varying stakeholder expectations and emerging regulatory standards.

The study employs a qualitative research approach, drawing on interviews with 16 European Union-based companies spanning various industries. In addition, ESG or sustainability reports published by these companies were examined to support and enrich the interview data. Two theoretical lenses, institutional theory and stakeholder theory, were used to inter-

pret how firms respond to external pressures and stakeholder demands to ensure a comprehensive view of the motivations, processes, and challenges associated with ESG initiatives.

The paper is organized into several sections. Following this introduction, the literature review discusses existing research on ESG, highlighting gaps this study aims to address. Next, the materials and methods section explains the data collection methods and analytical procedures in detail. The findings section presents the results, organized around the three research questions: factors driving ESG adoption, stakeholder engagement, and implementation challenges. The discussion reflects on how these findings relate to institutional and stakeholder theories, and the conclusion summarizes key insights, notes limitations, and suggests directions for future research.

2. Literature review

One of the key drivers that push companies to adopt ESG strategies is evolving regulatory requirements. In 2022, the governments in the European Union implemented CSRD, which mandates large companies based in or operating within EU countries to report detailed information about their ESG activities (Leal Filho et al. 2025; Deloitte n.d.). Apart from these regulatory requirements, market forces also drive companies to adopt ESG practices. Multiple studies have revealed that an increasing number of investors view strong ESG performance as a foundation for good governance and risk management, and companies with strong ESG performance are considered less risky and more sustainable by investors (Amel-Zadeh and Serafeim 2018; Baker et al. 2022; Kräussl et al. 2024). This shift in investors' attitude toward ESG disclosure creates pressure on companies to adopt robust ESG strategies (Chen and Xie 2022; Velte 2023).

Companies also consider ESG initiatives for securing reputational benefits in the market. Multiple studies have found that companies involved in ESG practices gain a competitive advantage, secure a brand image, and build trust with stakeholders (Kwarteng et al. 2016). Additionally, previous research has pointed out that companies adopt ESG strategies as a response to employee expectations, since many employees, especially Millennials and Generation Z, seek to work in companies that embed ESG activities as core values (Ng et al. 2010; Deloitte n.d.).

This study utilizes two major theoretical frameworks, i.e., stakeholder and institutional theories, to understand the factors that drive the adoption of ESG strategies and the way companies engage with different stakeholders.

Stakeholder theory: Freeman (1984) defines stakeholders as any individual or group who affects or is affected by the operations of organizations and their objectives. Firms must produce value for multiple stakeholder groups to become sustainable and successful (Freeman 1984). From this perspective, implementing ESG principles can play an important role in enhancing corporate performance through balancing interests and expectations between management and different groups of stakeholders (Alsayegh et al. 2020).

Institutional theory: Proponents of institutional theory assert that the primary forces influencing a firm's strategic

choices are external influences, specifically the sociological and cultural environment (Galbreath 2013). Businesses ultimately adopt tactics that determine their level of legitimacy based on the pressures they encounter at the macro level – coercive, normative, or imitative isomorphism (Daddi et al. 2016; Cassely et al. 2021). Neo-institutional theory further states that because social norms and cultural ideas impact organizational behavior, businesses in various nations could have varying corporate social responsibility (CSR) objectives (Ortas et al. 2015).

Overall, the literature highlights that ESG adoption is shaped by the interplay of external regulatory and market pressures with internal corporate values and governance structures. While the theoretical foundations for understanding these dynamics are well established, empirical evidence on how companies, particularly SMEs and voluntarily reporting firms, navigate the tension between institutional demands and authentic stakeholder integration within the EU context remains limited. This study addresses that gap.

3. Materials and methods

This study uses a qualitative approach to explore the motivations, stakeholder engagement mechanisms, and challenges related to ESG strategy adoption in EU-based companies (Eisenhardt and Graebner 2007). A descriptive qualitative approach was adopted, drawing on primary data from semi-structured interviews with ESG officers and managers and on secondary data from sustainability reports of selected firms. Semi-structured interviews are well suited for gathering data in complex studies where understanding can only emerge through direct interaction with participants (Yin 2017).

3.1. Sample selection

Purposive sampling was employed to select information-rich cases of EU-based companies (Patton 2002). The European Union context was chosen because the EU leads in sustainability policy (e.g., the European Green Deal) and offers di-

verse cultural and market settings, allowing examination of how various institutional pressures and stakeholder demands drive ESG strategy adoption across sectors. Companies of all sizes and industries were included to capture a broad range of drivers and challenges. Only firms that publish a sustainability report and explicitly engage in sustainability strategies were selected, as such commitment – whether voluntary or mandated – ensures rich qualitative insights (Patton 2015). Applying these criteria, 130 candidate companies were identified, and each firm's sustainability manager or ESG officer was contacted. Sixteen managers (one per company) agreed to participate. Although the final sample was determined by these selection criteria and participants' willingness rather than by a predefined saturation target, by the fourteenth interview no new themes were emerging and each thematic code had appeared in at least two companies, indicating that sufficient thematic saturation was achieved. A sample of this size aligns with comparable qualitative studies in business sustainability (Zhao and Patten 2016).

3.2. Data collection

Semi-structured interviews were conducted following a standardized protocol, with all participants assured of confidentiality. The protocol covered three areas aligned with the research questions: (1) motivations for ESG adoption, (2) how the company engages with stakeholder groups and assesses their expectations, and (3) challenges in implementing ESG initiatives. The protocol was pilot-tested with a company outside the sample to refine questions and eliminate ambiguities. All interviews were conducted via a video conference between November 2024 and March 2025, lasting approximately 30–60 minutes, and were recorded with consent and transcribed in full. Member checks were performed by returning coded transcripts to interviewees for verification (Lincoln and Guba 1985). Key details of the 16 interviews are summarized in Table 1. In addition, each company's most recent sustainability or ESG report was collected for data triangulation. The selected companies were categorized by size:

Table 1. Characteristics of the companies and interviews

Company	GICS* sector	Region	Voluntary/mandatory reporting	Duration (min)	Company size
C1	Communication services	Estonia	Yes	35	Large
C2	Information technology	Sweden	Yes	48	Large
C3	Consumer staples	Sweden	No (voluntary)	35	Small
C4	Consumer staples	Latvia	Yes (listed)	30	Small
C5	Financials (banks)	Latvia	Yes	27	Medium
C6	Communication services	Estonia	Yes	50	Large
C7	Industrials	Estonia	No (voluntary)	30	Small
C8	Consumer staples	Latvia	No (voluntary)	60	Small
C9	Financials	Latvia	No (voluntary)	55	Small
C10	Financials (insurance)	Belgium	Yes	60	Medium
C11	Industrials (transport)	Estonia	Yes	30	Large
C12	Utilities	Latvia	Yes	35	Large
C13	Materials	Latvia	Yes	40	Medium
C14	Financials (banks)	Latvia	Yes	50	Large
C15	Consumer staples	Estonia	No (voluntary)	33	Small
C16	Consumer staples	Finland	Yes (listed)	60	Medium

* GICS – Global Industry Classification Standard

large (> 500 employees), medium (50–500 employees), and small (< 50 employees).

3.3. Data analysis

The data were analyzed using thematic analysis (Braun and Clarke 2006), combining deductive and inductive coding of interview transcripts and sustainability reports. A deductive coding framework based on Martiny et al. (2024) was used as a starting point, distinguishing between internal determinants (factors under a firm's direct control, such as governance structures, resource allocation, and innovation capacity) and external determinants (arising from the broader business environment, such as regulatory requirements, market dynamics, and stakeholder expectations). As the data were reviewed, new themes were also allowed to emerge inductively, integrating additional sub-themes when patterns arose that were not captured by the initial codes.

Following recommended qualitative procedures (Saunders et al. 2016), all transcripts and reports were read thoroughly for familiarization. Each meaningful segment was coded with a descriptive label capturing its essence. For ESG adoption motivations, the predetermined deductive codes were primarily applied, whereas for stakeholder engagement processes and implementation challenges, open inductive coding was used. This hybrid approach yielded 16 distinct factors motivating ESG adoption and 19 distinct challenges to ESG implementation, which were subsequently grouped into six driver themes and nine challenge themes. Supporting documents are available as supplementary material.

4. Findings

4.1. Motivating factors driving ESG adoption

The analysis revealed that ESG adoption across the sampled companies is predominantly shaped by external determinants – a pattern consistent across all sectors and firm sizes. Regulatory frameworks, market dynamics, and stakeholder expectations emerged as the most frequently cited drivers, while internal factors such as corporate values and leadership commitment played a supporting but meaningful role.

Regulatory and institutional pressures. Figure 1 shows a clear pattern: in every industry, the normalized frequency for external determinants exceeds that for internal determinants. Companies in the financial and technology sectors reported mandatory reporting requirements and global sustainability initiatives as their foremost motivators. The CSRD was consistently identified as a key catalyst, particularly among large and listed firms. As one respondent noted, global reporting frameworks such as CSRD serve as guidance to prioritize ESG topics that *we haven't considered before* (C2). Companies in heavily regulated sectors such as industrials and financials placed higher importance on compliance to avoid potential legal and financial consequences (C7, C12). Several respondents pointed to the expanding scope of EU regulations as a factor that compels even previously exempt firms to begin formalizing their ESG practices.

Market forces and stakeholder demands. Pressure from stakeholders plays a crucial role in driving ESG adoption. The majority of companies confirmed that their ESG activities are mainly driven by the interests and demands of customers and

Table 2. Classification of internal and external determinants (adapted from Martiny et al. 2024)

Internal determinants	External determinants
Firm strategy (e.g., R&D, sustainability governance)	Regulations (e.g., CSRD, EU Taxonomy)
Financial performance (e.g., profitability, cash flow)	Industry pressures (e.g., sector benchmarks)
Corporate governance (e.g., board diversity)	Stakeholder demands (e.g., investors, customers)
Firm characteristics (e.g., size, resources, culture)	Country governance (e.g., political stability)
Technology/innovation (e.g., digital transformation)	Economic shocks (e.g., COVID-19)

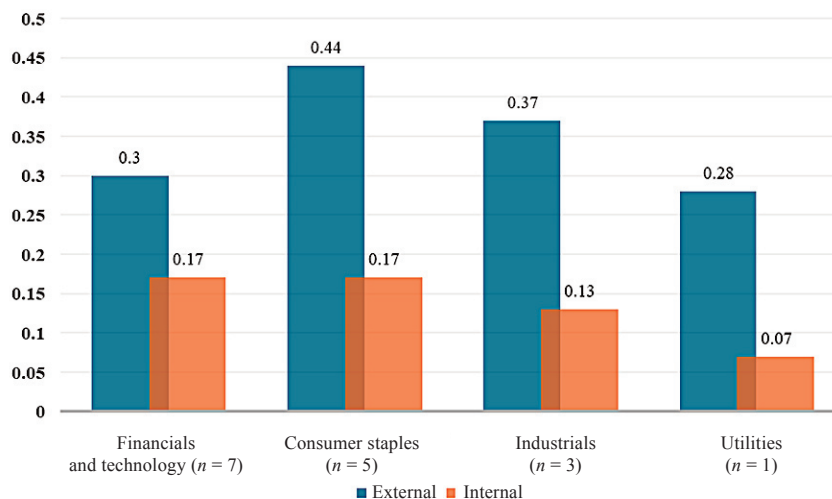


Fig. 1. Variation in ESG determinants by sector.

investors. Consumer-facing sectors, particularly consumer staples, emphasized market positioning and brand reputation as crucial drivers alongside regulatory compliance (C1, C3). One participant in the cosmetics industry noted: *Customers and the media really keep a close eye on us when it comes to sustainability. They notice every detail, and they're quick to criticize if something doesn't align with their expectations* (C4). Over half of the respondents confirmed that evolving market dynamics push them to adapt their ESG strategies, especially to stay competitive. As one participant observed: *We initially worried that sustainability might just be a passing trend. However, it's quickly turning into a basic expectation* (C8).

Internal determinants. While external pressures dominate, many interviewees pointed to top management priorities and corporate culture as decisive drivers. Some companies view ESG reporting not as an obligation but as a reflection of values already embedded in their operations: *Sustainability, environmental responsibility, and actively putting these values into practice have always been at the core of who we are. For over 30 years, we've been committed to producing the best products possible while using the fewest resources. This ESG report is really just a formal document for us* (C7). Notably, small companies showed somewhat greater reliance on internal values compared to larger firms, which were more strongly shaped by external compliance pressures. One telecoms respondent illustrated the shareholder dimension: *We're a publicly traded telecommunications company, and one of our largest shareholders is the Swedish state. Given their stake, ESG issues are definitely important from their perspective* (C6).

Size-based patterns. Figure 2 shows that large companies were most strongly motivated by regulatory and mandatory pressures, while medium-sized enterprises balanced regulatory requirements with market-driven factors, including customer expectations and strategic positioning. Small companies often cited aligning ESG initiatives with core corporate values as key motivators, though they also placed significant emphasis on market positioning and customer demands. These patterns confirm that ESG adoption motives vary sys-

tematically with both industry context and firm size, shaped by a mix of external pressures and internal priorities.

4.2. Stakeholder engagement and evaluation

A central finding of this research is the limited prevalence of formal stakeholder engagement mechanisms. Of the sixteen companies interviewed, only five (approximately one-third) reported having a formal, structured mechanism for engaging stakeholders in ESG strategy development. This finding is striking given that these firms operate under the EU's dense sustainability ruleset. Figure 3 shows the companies and the key stakeholders mentioned by the companies either during the interviews or in their ESG reports.

Sectoral and size-based patterns. Formal engagement was most common in the financials and technology group and present to a lesser extent among industrials, whereas consumer staple firms showed markedly lower adoption of formal mechanisms. A similar pattern appeared across firm sizes: large and medium companies were equally likely to have formal engagement processes, while none of the small firms employed such mechanisms. Among the eleven companies subject to mandatory ESG reporting, formal engagement was substantially more common than among voluntarily reporting firms, none of which used a structured engagement process.

Variation in engagement practices. The five companies with formal mechanisms demonstrated considerable sophistication. C2 reported a multi-layered engagement process involving employees, academia, civil society, customers, investors, suppliers, and regulators through mechanisms such as employee surveys, resource groups, union dialogues, training sessions, and structured NGO dialogues. The interviewee stated: *We hold regular discussion and dialogue exchanges with our customers to understand their needs and interests regarding our ESG strategies, and we are proud to say that our company has implemented numerous changes to align with the interests of our customers.* C14 used multiple formal channels: ESG goal surveys, quarterly pulse and employee net promoter score (eNPS) surveys, and quarterly live ses-

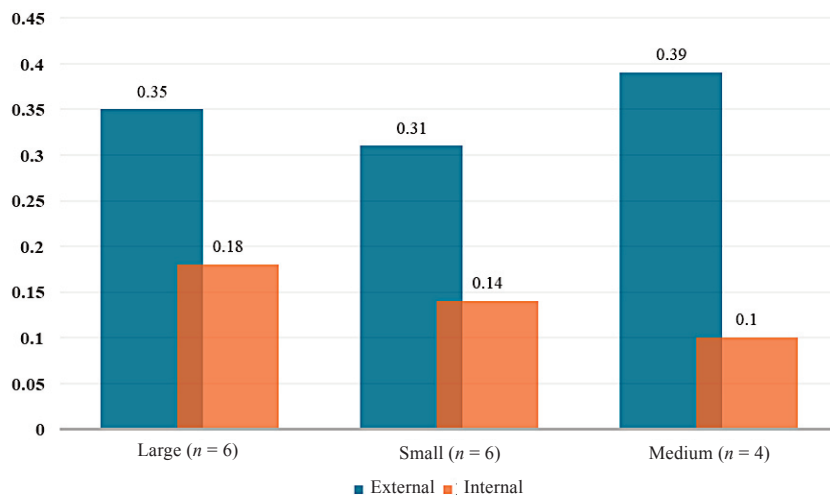


Fig. 2. Variation in ESG determinants by firm size.

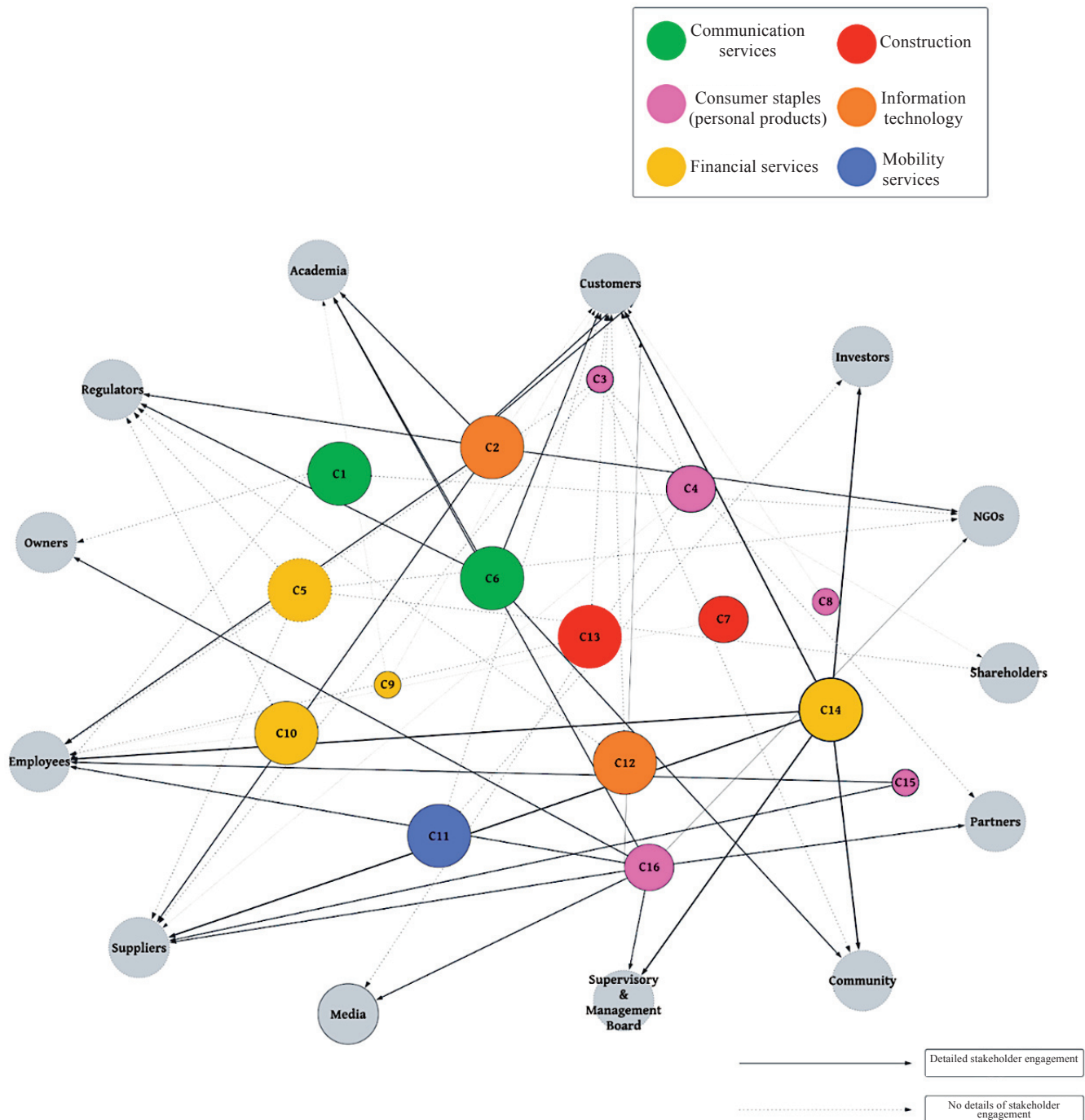


Fig. 3. Stakeholder engagement network analysis.

sions for employees; individual meetings, satisfaction surveys, and complaints monitoring for customers; and public disclosures, one-on-one meetings, and supervisory board interactions for investors. Regarding investor engagement, the interviewee noted: *We have an investor relations team, and they speak a lot directly with the investors.* C6 described how stakeholder input is integrated: *We ensure the interests of diverse stakeholder groups are balanced by regular and close conversations with each group. We then prioritize and integrate this feedback into our sustainability activities.*

By contrast, the eleven companies without formal mechanisms reported relying on informal monitoring of market trends, occasional feedback from customers, or general awareness of stakeholder expectations rather than structured dialogue (C8, C9, C11, C12). Even companies that acknowl-

edged numerous key stakeholders such as customers, employees, investors, regulators, and NGOs often lacked a formal process to systematically capture and act on their input.

Despite these differences, most participants agreed that effective stakeholder engagement is key to maintaining organizational legitimacy, with several pointing to regulatory bodies and investors as particularly influential in driving transparency on ESG targets (C2, C11, C14). These findings highlight an important gap between the breadth of acknowledged stakeholders and the depth of mechanisms used to engage them.

4.3. Challenges in ESG implementation

The challenges reported by interviewees cluster into four broad areas: stakeholder awareness gaps, data and supply-

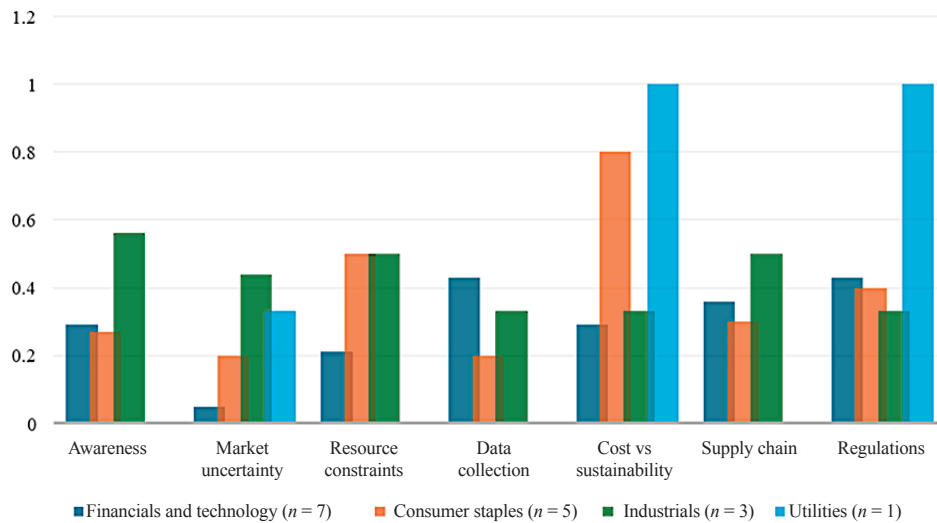


Fig. 4. ESG integration challenges.

chain complexity, regulatory burden, and cost pressures. Their relative salience varied by sector and firm size. Figure 4 provides detailed information about sector-specific ESG challenges.

Stakeholder awareness and skepticism. Most interviewees identified limited customer awareness of ESG benefits as a major challenge. Many customers prioritize short-term benefits over long-term sustainability value. Financial and technology companies reported consumer skepticism around “green” claims: *One of the issues is the assumption that if a product or service is more ESG-friendly, it inevitably comes with a higher price tag. That’s a concern for consumers, because they want something good for nature but also good for their wallet* (C6). In consumer staples, communicating sustainability as an upgrade rather than a trade-off proved difficult: *How do we explain to the customer that this is actually an upgrade in sustainability, not a downgrade because it’s not super white?* (C16). Multiple interviewees also pointed out that although resources exist to support worker health and safety, many workers are unaware of how to use them, leading to serious incidents. One participant noted that lack of risk awareness, poor supervision, and unsafe behaviors are major contributors to such incidents (C2).

Data collection and supply-chain complexity. A shortage of reliable information, particularly regarding Scope 3 emissions (indirect value-chain emissions) and indirect supply-chain effects, emerged as a critical barrier. Interviewees frequently mentioned difficulty obtaining standardized, verifiable data from suppliers across multiple regions. One company illustrated the scale of the problem: its own operations account for only approximately 1% of the total emissions, with approximately 99% originating from the supply chain, making it *really hard to get down the supply chain emissions* (C1). Complex supply networks in telecoms, cosmetics, and construction made tracking materials, ensuring ethical sourcing, and quantifying environmental impacts considerably more complicated. Companies described these challenges not merely as data gaps but as fundamental barriers to setting evidence-based targets and conducting meaningful stake-

holder conversations about environmental performance.

Regulatory complexity and standards volatility. Evolving regulatory requirements, including the CSRD, SFDR, and broader EU Taxonomy frameworks, pose significant challenges. Respondents noted tight deadlines, misaligned reporting cycles, and the need to adapt to shifting standards. One participant acknowledged that understanding each mandatory key performance indicator (KPI) disclosure in the new CSRD report is a challenge in itself (C5). Companies also pointed to the burden of reconciling multiple international reporting standards (e.g., GRI, TCFD, SASB) with EU-driven frameworks, describing duplication of effort and methodological inconsistencies that drained time and resources. The instability of the regulatory environment was a particular concern: *Changing and unstable political environment and regulatory framework will increase challenges for enterprises to plan long-term investment for green transition* (C13). Another respondent warned that *inefficient application of EU regulatory framework at the national level might negatively affect competitiveness* (C13).

Cost pressures and the “middle-squeeze.” Cost-versus-sustainability trade-offs were salient across all sectors but varied in intensity. Consumer-goods manufacturers, operating on thin margins and facing volatile commodity prices, experienced every new data requirement as a direct hit to profitability, while capital-light service providers could allocate the same investment over higher margins. Medium-sized firms reported the greatest difficulty in gathering reliable ESG data and the highest incidence of resource constraints. These firms are large enough to fall under expanding EU disclosure requirements and to attract the scrutiny of value-chain partners, but they lack the scale economies and specialist human capital that make compliance routine for larger peers. Large firms assigned lower weight to resource constraints and showed the least concern over market uncertainty, while small companies reported resource limitations comparable to medium firms but attached noticeably less importance to external regulatory compliance. This pattern reveals a “middle-squeeze” dynamic: medium-sized companies face disproport-

tionate regulatory burden precisely where they have the least margin for absorbing additional complexity.

5. Discussion

5.1. Theoretical implications

ESG adoption across the sampled firms is shaped by the interplay of external institutional pressures and internal corporate drivers, with external forces consistently dominating – a pattern that aligns with institutional theory’s emphasis on coercive, normative, and mimetic isomorphism (Bansal and Roth 2000; Daddi et al. 2016). The majority of companies in the sample were obligated to report under CSRD, likely a major reason for their ESG activities. Heavily regulated sectors fear reputational damage and face legal or financial consequences for non-compliance. In consumer-facing sectors such as cosmetics and communications, ESG strategies were driven primarily by competitive advantage and brand reputation, reflecting normative and mimetic pressures rather than coercive ones alone.

Stakeholder theory often assumes that firms gradually internalize stakeholder values, but the findings introduce an important nuance. If engagement starts mainly because of external rules, companies may build formal processes that satisfy auditors and rating agencies yet do little to change day-to-day decisions. Consumer-staples companies illustrate this clearly: although they have set up formal dialogue systems to protect their brands, interviewees indicated that insights from these conversations rarely shape research plans or pricing choices. This suggests a potential decoupling between the visible structures of stakeholder engagement and the substantive integration of stakeholder voice into strategic decision-making, a finding consistent with institutional theory’s concept of “ceremonial conformity” (Meyer and Rowan 1977), later extended as “means-ends decoupling” (Bromley and Powell 2012), and with recent evidence that mandatory ESG reporting does not automatically eliminate the gap between symbolic disclosure and substantive practice (Matten and Moon 2008; Bothello et al. 2023; Aboud et al. 2024).

The finding that only five of sixteen companies have formal stakeholder engagement mechanisms is particularly notable given the dense EU regulatory environment. In institutional-theory terms, the field appears to be in a transitional phase: expectations are articulated by legislators and standard-setters but have not fully diffused into corporate routines. The sectoral contrast – higher formalization in finance and technology versus none in utilities – points to reputational exposure and investor scrutiny as critical accelerants of engagement codification. Finance and information and communications technology (ICT) companies face continuous monitoring by socially responsible investors and manage largely intangible assets whose value hinges on legitimacy, whereas utilities operate in capital-intensive, monopoly-like environments where legitimacy is mediated through regulatory licenses rather than market sentiment. This pattern refines institutional arguments that emphasize regulation alone: it suggests that visibility to powerful audiences, not just legal coercion, drives the formalization of stakeholder voice.

The “middle-squeeze” dynamic complements existing literature on size and sustainability by showing that regulatory exposure does not map neatly onto capacity. Medium-sized companies have made visible investments in engagement architecture, yet interview evidence reveals acute resource and data-collection bottlenecks. Mid-sized firms often lack the specialist capacity of larger organizations, compelling ESG teams to manage both reporting duties and stakeholder engagement simultaneously, making the institutionalization of meaningful dialogue more difficult.

5.2. Practical implications

From a practical standpoint, the findings offer guidance for both corporate managers and policymakers. Companies should adopt more systematic, formal mechanisms to engage stakeholders, including regular surveys, structured feedback sessions, and clearly defined KPIs, to ensure stakeholder expectations are explicitly captured and integrated into strategy refinements. The distinction between symbolic and substantive engagement identified in this study underscores the importance of designing mechanisms that genuinely inform decision-making rather than merely satisfy compliance requirements.

Policymakers and regulators could use these insights to further standardize ESG reporting requirements and ensure consistency across sectors. Specifically, efforts should focus on streamlining methodologies and clarifying expectations within frameworks such as the CSRD and EU Taxonomy, reducing ambiguity and helping companies overcome barriers related to data availability, resource constraints, and regulatory complexity. Furthermore, firms should invest in educating consumers about the benefits and long-term value of ESG initiatives. Effective consumer awareness campaigns and transparent communication strategies can mitigate skepticism and increase market acceptance of sustainable products.

6. Conclusions

This study provides a comprehensive understanding of the factors influencing ESG adoption and stakeholder engagement across companies operating in the European Union. The findings show that external institutional forces such as regulations, investor expectations, and market pressures remain the dominant motivators, while internal values and leadership commitment also play a meaningful role in shaping genuine sustainability integration. The analysis revealed that formal stakeholder engagement remains limited, suggesting that many organizations view stakeholder dialogue as a regulatory formality rather than a strategic necessity.

Sectoral and size-based comparisons indicate that heavily regulated industries and large firms are more likely to institutionalize ESG practices due to higher scrutiny and better resource availability, while medium-sized enterprises experience a “middle-squeeze” dynamic, facing strong compliance pressures but lacking the capacity to manage them effectively. The study also highlights how data unavailability, cost constraints, and constantly evolving standards continue to hinder

firms from translating compliance into substantive ESG performance.

The results emphasize that effective ESG integration depends on both external accountability and internal commitment. When sustainability becomes embedded in corporate culture, driven by leadership conviction and employee advocacy, it moves beyond symbolic compliance and generates long-term value for all stakeholders.

Limitations

The findings are subject to several limitations. The relatively small sample size, driven by a low response rate, limits the breadth of applicability and generalizability. While including multiple sectors enhances breadth, it also makes it difficult to delve deeply into sector-specific nuances. The study is set within the EU, which has robust sustainability regulations, and findings may not be transferable to non-EU regions facing different institutional pressures. Companies that agreed to participate were likely those more willing to discuss ESG issues, potentially skewing the sample toward firms further advanced in sustainability practices. Reliance on interviewees' self-reported data may introduce bias, and the interviews did not capture the views of other stakeholder groups, such as employees, suppliers, or local communities.

Future research should consider expanding sample sizes and focusing in-depth on single industries to capture nuanced sector-specific challenges. Researchers could extend beyond EU settings to examine how varied institutional and regulatory conditions influence sustainability strategies in other regions. To mitigate self-selection and reporting bias, further studies could triangulate multiple data sources such as employee surveys, customer focus groups, or community consultations alongside manager interviews.

Data availability statement

The data supporting the findings of this study are available within the article. Due to confidentiality agreements, full transcripts and company identifiers cannot be shared publicly. Summarized and anonymized data are available from the corresponding author upon reasonable request.

Acknowledgments

The authors would like to acknowledge the assistance provided by ChatGPT version 5, an AI language model, for helping in the rephrasing and editing of the manuscript to improve readability and academic presentation. Moreover, Grammarly was used to address grammatical errors in the original manuscript. The publication costs of this article were partially covered by the Estonian Academy of Sciences.

Supplementary material

Supplementary online data to this article can be found at <https://doi.org/10.3176/proc.2026.3.S04>.

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Keskkonna-, sotsiaal- ja juhtimispõhimõtete rakendamise ajendid ja väljakutsed: ettevõtte strateegia kooskõla sidusrühmade ootustega

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Artiklis uuritakse ettevõtete sisemisi praktikaid keskkonna-, sotsiaal- ja juhtimispõhimõtete (ESG) ja eesmärkide seadmisel ning ESG rakendamisega ja sidusrühmade kaasamisega seotud mehhanisme ja probleeme. ESG rakendamise mustrite väljaselgitamiseks tugineti sidusrühmateooriale ja institutsionaalsele teooriale. Autorid viisid läbi 16 poolstruktureeritud intervjuud eri sektorites tegutsevate ettevõtete esindajatega.

Tulemused näitavad, et ESG rakendamist kujundavad peamiselt välised tegurid, sealhulgas regulatiivsed nõuded, turusuundumused ja sidusrühmade ootused, kuid rolli mängivad ka sisemised tegurid, näiteks ettevõtte väärtused. Uuringust selgub, et sidusrühmade kaasamine on ettevõtetes pigem ebaühtlane ning strateegilisi ja formaalseid kaasamismehhanisme kasutatakse piiratud määral. See viitab võimalikule lahknevusele ESG eesmärkide seadmise, sidusrühmade tegeliku kaasamise ja strateegilise vaate vahel.

Sidusrühmade kaasamise praktikad erinevad ettevõtetes märgatavalt. Formaalsed kaasamismehhanismid on levinumad suuremates ja börsil noteeritud ettevõtetes. Peamiste probleemidena tuuakse välja regulatiivne keerukus, andmete kogumise raskused, kasvav kulusurve ning sidusrühmade piiratud teadlikkus ESG teemadest.

Uuring aitab paremini mõista, kuidas sidusrühmade kaasamine ja nende ootused kujundavad ESG rakendamist ettevõtetes. Samuti toob see esile ESG-ga seotud püsivad väljakutsed ning kirjeldab survet nn keskmise suurusega ettevõtetele, kes seisavad silmitsi ebaproportsionaalselt suure regulatiivse koormusega võrreldes oma turupositsiooni ja organisatsioonilise võimekusega. Tulemused pakuvad suuniseid poliitikakujundajatele ja juhtidele, kes soovivad viia kehtlikkusega seotud strateegilised eesmärgid kooskõlla nii regulatiivsete nõuete kui ka sidusrühmade ootustega.
