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ESG Engagement, Corporate Reputation, and Performance in Emerging Markets: Evidence from Jordan

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ABSTRACT

This research explored how Environmental, Social, and Governance (ESG) engagement affects the performance of Jordanian small and medium-sized enterprises (SMEs). The study, drawing on theories like the Resource-Based View, found that ESG engagement significantly boosts firm performance, both directly and indirectly. The indirect link works through an improved corporate reputation, which acts as a mediator. Essentially, when SMEs engage in ESG, their reputation improves, which in turn enhances their performance. However, the study's results did not show that CEO ethical leadership had a statistically significant moderating effect on this relationship, suggesting its influence in this specific context is limited. The findings highlight that integrating ESG into business strategy can help SMEs build social trust and strengthen stakeholder relationships, contributing to sustainable development in emerging economies.

Keywords: ESG engagement, corporate reputation, CEO ethical leadership, firm performance, RBV ROT SMEs Jordan

INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognized as a critical driver of economic growth, innovation, and employment, particularly in emerging economies. In Jordan SMEs account for over 95% of registered businesses, contribute more than 50% to national GDP, and employ 60% of the labor force (Ghazalat et al., 2025). Despite their macroeconomic importance, Jordanian SMEs face persistent challenges in sustaining long-term performance. Alarmingly, over 90% of new SMEs fail within their first five years (Almohtaseb et al., 2024), primarily due to structural inefficiencies such as limited access to finance, weak managerial capacity, low levels of technological adoption, and inadequate strategic innovation (Almarshad et al., 2024; Al Nimer, 2021).

These internal vulnerabilities are further compounded by external pressures, which include inflation, political unrest, scarcity of water, and limited access to international markets (AlWeshah & Hammad, 2021; WTO, 2023). Regulatory reforms have enhanced the ease of conducting business, propelling Jordan's global ranking from 104th in 2018 to 75th in 2023 (WTO, 2023). Chronic bureaucratic hurdles, weak infrastructure, and limited resources continue to constrain the scalability and sustainability of SMEs and banks (Bani Atta, 2025; Al Hyari et al., 2024). These conditions create a fragile ecosystem where traditional business strategies are insufficient for ensuring resilience and competitiveness.

Environmental, social, and governance (ESG) engagement has emerged as a strategic approach to building organizational legitimacy and achieving sustainable performance. ESG initiatives reflect a firm commitment to responsible environmental practices, social inclusivity, and robust governance systems. Recent research shows that small and medium-sized enterprises (SMEs) that adopt ESG principles are better positioned to meet stakeholders' expectations, mitigate operational risks, and align with global sustainability standards (Shalhooba and Husseiny, 2022; Khan et al., 2023). However, the mechanisms through which ESG engagement influences firm performance—covering financial outcomes, operational efficiency, and long-term viability—remain under-explored in emerging markets such as Jordan.

Recent studies also indicate corporate reputation as a possible mediating variable in the relationship between ESG engagement and performance. After maintaining a certain level of ESG-related practices, reputational capital often develops and makes the stakeholder trust and increases their market credibility, as well as promotes brand loyalty (Al Nimer, 2021; Ghazalat et al., 2025). This reputational legitimacy is particularly important to SMEs, who are usually operating at a limited resource pool and are under heavy competition. Further, the ethical leadership of CEOs in their professional lives includes fairness, accountability, and integrity, which affects the effectiveness of ESG initiatives. Not only do ethical leaders integrate ESG values in the organizational culture, but they also reaffirm internal devotion and establish credibility with external stakeholders (Almohtaseb et al., 2024; Bawaneh & Al-Abbadi, 2017).

While there is a growing recognition of ESG engagement to foster sustainable firm performance, empirical evidence supporting this in institutionally weak and resource-deprived contexts, such as Jordan, remains scarce. Existing literature has primarily focused on large corporations in advanced economies, offering limited insights into the experiences of SMEs in challenging environments. Furthermore, the roles of corporate reputation as a mediator and CEOs' ethical leadership as a moderator have not received sufficient attention. Addressing these gaps is important for creating context-sensitive ESG strategies and improving our theoretical understanding of how ESG engagement affects firm performance among Jordanian SMEs. In this context, corporate reputation and the ethical leadership of CEOs function as mediators and moderators, respectively, drawing on the Theory of Resource-Based View (RBV), the Theory of Resource Orchestration (ROT), and the Theory of Signaling.

LITERATURE REVIEW

Theoretical Perspective

The current study employs Resource Orchestration Theory (ROT) (Sirmon et al., 2011), an extension of the Resource-Based View (RBV) (Barney, 1991), to elaborate on the celebration of intangible capabilities as they relate to performance outputs. While RBV emphasizes the importance of possessing valuable, rare, inimitable, and non-substitutable (VRIN) resources, ROT focuses on the processes of building, structuring, and creating those resources, ultimately utilizing them to generate value (Sirmon et al., 2011; Liu et al., 2022). In the context of resource-limited environments like Jordan, it is crucial for firms to effectively translate their engagement in Environmental, Social, and Governance (ESG) initiatives—considered a strategic intangible—into enhanced performance. This requires masterful staging, where risk management, stakeholder communication, and organizational culture must align with ESG principles (Ellili et al., 2025; Matloob, 2024).

Stakeholder and legitimacy theories influence corporate reputation, which acts as a mediator in this connection. It demonstrates perceptions of responsibility, trust, and ethics, ultimately leading to positive performance (Alhazemi, 2025; Al-Nimer, 2021). Utilizing social learning theory as an intervening variable, the model is shaped by the presence of fairness, accountability, and legitimacy, all influenced by the ethical leadership of the CEO (Brown & Treviño, 2006; Ji et al., 2025; Rodrigo et al., 2024). This paper presents a cohesive model for Jordanian SMEs by addressing knowledge gaps in the literature and employing a piecemeal approach to examining ESG.

ESG Engagement and Firm Performance

Environment, Social, and Governance (ESG) engagement reflects a firm's deliberate integration of sustainability practices into strategic and operational activities, aligning with environmental stewardship, social responsibility, and governance transparency (Ly Ho et al., 2025; NYU-RAM, 2021). It is often assessed via disclosure scores, sustainability indices, or non-financial reporting (Shalhoob & Husseiny, 2022). In SMEs, ESG practices may take informal, sector-specific forms such as ethical labor standards or community initiatives (Mumtaz et al., 2025).

Firm performance encompasses financial, operational, and strategic outcomes, as well as intangible aspects like innovation and customer satisfaction (Garrido-Ruso et al., 2024). ROT (Sirmon et al., 2011) frames ESG not merely as a resource, but one requiring effective structuring, bundling, and leveraging to create value, especially in resource-constrained contexts. Evidence links ESG to improved innovation, operational efficiency, investor confidence, and legitimacy (Ly Ho et al., 2025; Alqudah et al., 2024; Chouaibi et al., 2021). In emerging-market

SMEs, ESG serves both as a driver of performance and a buffer against institutional volatility (Mumtaz et al., 2025; Shalhoob & Husseiny, 2022).

H1: *ECG engagement has a positive significant relationship with overall firm performance.*

ECG Engagement and Corporate Reputation

Environmental, Social, and Governance (ECG) engagement is a strategic imperative for enhancing legitimacy, stakeholder trust, and long-term value, integrating sustainability principles into core operations and disclosures (Maaloul et al., 2021). It reflects a multidimensional commitment to non-financial performance and is often measured through ratings such as Bloomberg, MSCI, and Sustainalytics (Chouaibi et al., 2021; Gupta, 2018). Corporate reputation stakeholders' collective perception of reliability, integrity, and performance is shaped by past and expected behaviors (Fombrun & Shanley, 1990; Riahi-Belkaoui, 2004). Under signaling theory, ECG disclosures credibly communicate ethical and sustainability commitments (Milgrom & Roberts, 1982; Ngwa et al., 2025). Studies show ECG transparency strengthens reputational capital, market perception, and legitimacy (Maaloul et al., 2021; Feng et al., 2025; Rounok et al., 2023).

However, most research treats the ECG reputation link as linear, ignoring moderators like ethical leadership and institutional quality (Odriozola & Baraibar-Diez, 2017). In Jordan, weak ECG standards, regulatory uncertainty, and socio-cultural dynamics shape how engagement is interpreted (Alqudah et al., 2024). This study examines ECG's reputational impact in Jordanian SMEs, considering CEO ethical leadership as a moderator.

H2: ECG engagement has a positive significant effect on corporate reputation.

Corporate Reputation and Firm Performance

Corporate reputation is a strategic intangible asset influencing stakeholder trust, credibility, and long-term viability (Fombrun & Shanley, 1990; Riahi-Belkaoui, 2004). It enhances competitive positioning, lowers transaction costs, and fosters loyalty in contexts of information asymmetry and institutional uncertainty (Ramayah et al., 2022; Feng et al., 2025). High-reputation firms secure better financing, attract talent, and improve customer trust and innovation (Le, 2022; Shorman et al., 2022).

Rather than a mere byproduct of ESG or CSR, Resource Orchestration Theory (ROT) views reputation as an orchestrated asset, structured and leveraged with capabilities and leadership to drive performance (Sirmon et al., 2011). For SMEs in institutional voids like Jordan, managing reputation is critical for legitimacy and overcoming regulatory uncertainty (Teece, 2007).

H3: Corporate reputation has a positive significant effect on Firm performance

Corporate Reputation as Mediator Between ESG Engagement and Firm Performance

While the ESG performance link is well-established, recent scholarship emphasizes indirect pathways, notably corporate reputation, which translates ESG efforts into stakeholder trust, legitimacy, and performance outcomes. Defined as stakeholders' collective assessment of integrity, competence, and responsibility (Fombrun & Shanley, 1990), reputation facilitates access to capital, markets, and talent (Ngwa et al., 2025; Feng et al., 2025).

Under Resource Orchestration Theory (ROT), ESG is not merely a set of actions but the orchestration of intangible resources. ROT posits that structuring, bundling, and leveraging resources are essential for value creation (Sirmon et al., 2011; Teece, 2007). Reputation acts as a translational asset, converting ESG signals into loyalty, investor confidence, and favorable financing (Nguyen et al., 2021; Ufaira et al., 2023). Empirical evidence shows ESG enhances value through reputational gains (Feng et al., 2025; Maaloul et al., 2021). This role is underexplored in SMEs in institutional voids like Jordan, where legitimacy and stakeholder perception are critical (Alqudah et al., 2024).

H4: *There is a positive significant mediating relationship of corporate reputation between ESG engagement and firm performance.*

Moderating Role of Ceos Ethical Leadership on Esg Engagement and Corporate Reputation

CEO ethical leadership embodies integrity, fairness, and responsibility in decisions impacting internal stakeholders and broader society (Hameed et al., 2024). The CEO's ethical stance directly influences culture, stakeholder engagement, and resource deployment in SMEs, where decision-making is highly centralized. Ethical CEOs strengthen Environmental, Social, and Governance (ESG) engagement by setting a credible "tone at the top," reinforcing strategic alignment, and enhancing trust (Mitchell et al., 2023; Rasheed et al., 2023). They legitimize ESG disclosures, counter perceptions of symbolic compliance, and foster reputational gains.

Despite this, literature rarely considers CEO ethical leadership as a boundary condition in the ESG–reputation link, especially in emerging economies like Jordan, where weak ESG enforcement elevates reliance on informal trust (Khan et al., 2022; Lin et al., 2021). Using Resource Orchestration Theory (ROT), this study conceptualizes CEO ethical leadership as a moderator that amplifies ESG's reputational returns, strengthening stakeholder perceptions and legitimacy in resource-constrained, low-regulation SME contexts.

H5: *CEO ethical leadership positively moderates the relationship between ESG engagement and corporate reputation.*

Research Design and Sampling

This study adopts a positivist, quantitative, hypothesis-driven design to test theory-informed relationships among ESG engagement, corporate reputation, CEO ethical leadership, and firm performance (Trochim et al., 2011). The focus is on Jordanian SMEs in manufacturing and services—key GDP and employment contributors (WTO, 2023; Al-Weshah & Al-Hammad, 2021). Given the absence of a national SME database, purposive sampling targeted information-rich cases meeting these criteria:

1. Formally registered SMEs in Jordan.
2. ≥12 months operational history.
3. Respondent (owner, CEO, or senior manager) with ≥3 years strategic leadership experience (Al-Nimer, 2021).

Data Collection Procedure

A three-wave, time-lagged survey (12 weeks; 4-week intervals) minimized common method bias (Cole & Maxwell, 2003). Partnerships with local business chambers enhanced participation.

- **T1**: ESG engagement – 10 items (Ajayi & Fakunmoju, 2024).
- **T2**: Corporate reputation – 6 items (Fombrun et al., 2004); CEO ethical leadership – 7 items (Brown et al., 2005).
- **T3**: Firm performance – 8 items (King et al., 2010; Kareem et al., 2019; Mechlery et al., 2005).

Final matched responses: 211, exceeding G*Power minimum (N = 119, medium effect, power = 0.80).

Data Screening and Preliminary Analysis

Preliminary data screening was conducted using SPSS, addressing missing values, outliers, normality, and multicollinearity through variance inflation factor (VIF) analysis. Harman's single-factor test confirmed that common method bias was not a concern (Henseler et al., 2015). Following validation, SmartPLS 4 was used to implement a two-stage PLS-SEM analysis. The measurement model was first assessed for reliability and validity, including indicator loadings, internal consistency, and discriminant validity (Henseler et al., 2016). Subsequently, the structural model was examined to test hypothesized relationships and determine the model's explanatory strength, ensuring methodological rigor appropriate for SBE and SRJ publication standards.

Demographic Analysis

The sample comprised male respondents (82.3%), mostly aged 31-40. 46% held a master's degree. Professionally, 51.7% were managers and 44.1% were SME owners. Ownership structures included 41.9% of sole proprietors, followed by partnerships and privately held companies, reflecting diverse SME leadership across educational and ownership profiles.

Measurement Model Assessment

Table 1.1:

Measurement Model

Latent variable	**Loading**	**alpha**	**CR**	**AVE**
CEO Ethical Leadership		**0.859**	**0.892**	**0.542**
CEL1	0.770			
CEL2	0.682			
CEL3	0.732			
CEL4	0.696			
CEL5	0.830			
CEL6	0.757			
CEL7	0.671			
Corporate Reputation		**0.840**	**0.883**	**0.559**

CR1	0.648			
CR2	0.737			
CR3	0.804			
CR4	0.821			
CR5	0.644			
CR6	0.809			
ESG Engagement		**0.873**	**0.897**	**0.466**
ESGE1	0.615			
ESGE10	0.648			
ESGE2	0.648			
ESGE3	0.652			
ESGE4	0.692			
ESGE5	0.666			
ESGE6	0.687			
ESGE7	0.704			
ESGE8	0.735			
ESGE9	0.769			
Firm Performance		**0.874**	**0.900**	**0.529**
FP1	0.680			
FP2	0.733			
FP3	0.712			
FP4	0.714			
FP5	0.765			
FP6	0.771			
FP7	0.699			
FP8	0.739			

Table 1.1 summarizes the measurement model evaluation for CEO Ethical Leadership (moderator), Corporate Reputation (mediator), ESG Engagement (independent variable), and Firm Performance (dependent variable), following PLS-SEM guidelines (Hair et al., 2019; Henseler et al., 2015).

All constructs exceeded the 0.70 threshold for Cronbach's alpha and Composite Reliability: CEO Ethical Leadership (α = 0.859, CR = 0.892), Corporate Reputation (α = 0.840, CR = 0.883), ESG Engagement (α = 0.873, CR = 0.892), and Firm Performance (α = 0.874, CR = 0.900). Convergent validity via AVE was satisfactory for CEO Ethical Leadership (0.542), Corporate Reputation (0.559), and Firm Performance (0.529). ESG Engagement's AVE (0.466) was slightly below 0.50 but acceptable for multidimensional constructs in exploratory research (Chin, 1998; Malhotra & Dash, 2011).

Most indicator loadings exceeded 0.60. Retained items below this (CEL2: 0.682, CR1: 0.648, ESDE1-3: 0.615–0.652) contributed to content validity and did not significantly affect AVE or CR. The results confirm adequate reliability and validity, supporting progression to structural model testing.

Collinearity Assessment

The study assessed multicollinearity using inner VIF diagnostics to ensure robust path estimates and model interpretability (Hair et al., 2019; Sarstedt et al., 2014). Recommended thresholds are below 5.0, with 3.3 as a conservative limit (Diamantopoulos & Siguaw, 2006; Kock & Lynn, 2012). Most constructs met these criteria: CEO Ethical Leadership and Corporate Reputation ranged from 1.388–2.994, and Firm Performance from 1.863–3.262.

Within ESG Engagement, ESGE2 and ESGE5 showed high VIFs (10.897, 11.254). Their retention is justified as they capture essential environmental and social dimensions central to the construct, with outer loadings above 0.6 and strong reliability (CR = 0.897; α = 0.873). Such collinearity is common in multidimensional ESG measures (Fatemi et al., 2018; Zhang et al., 2022). Future studies may test their exclusion for efficiency without losing theoretical integrity.

Table 1.2
Collinearity assessment (inner VIF)

Variable items	VIF
CEL1	2.057
CEL2	1.696
CEL3	1.970
CEL4	1.552
CEL5	2.973
CEL6	2.391
CEL7	1.545
CR1	1.425
CR2	1.801
CR3	2.057
CR4	2.994
CR5	1.388
CR6	2.556
ESGE1	2.240
ESGE10	2.867
ESGE2	10.897
ESGE3	2.036
ESGE4	2.289
ESGE5	11.254
ESGE6	3.510
ESGE7	2.138
ESGE8	2.933
ESGE9	3.036
FP1	1.863
FP2	2.040
FP3	2.064
FP4	2.948
FP5	3.262
FP6	1.901
FP7	2.001
FP8	2.215

Discriminate Validity

Discriminant validity was assessed using the Heterotrait-Monotrait Ratio (HTMT) (Henseler et al., 2015), which offers a more rigorous evaluation than the Fornell-Larcker (1981) criterion. Thresholds of 0.85 and 0.90 indicate acceptable validity depending on construct relatedness (Hair et al., 2019). Most pairs met these thresholds: CEL–CR (0.710), CEL–ESG (0.814), CEL–FP (0.842), and CR–FP (0.821). CR–ESG (0.857) was within the liberal 0.90 limit, reflecting conceptual overlap. ESG–FP (0.953) exceeded both thresholds, indicating close empirical linkage, consistent with literature highlighting ESG's integration into performance outcomes (Velte, 2017; Zhang et al., 2022). Given their theoretical distinctiveness, both constructs were retained in the model.

Table 1.3
HTMT Criteria

	CEL	CR	ESGE	FP

CEL	==			
CR	**0.710**	==		
ESGE	**0.814**	**0.857**	==	
FP	**0.842**	**0.821**	**0.953**	==

Structural Model Assessment

Following measurement model validation, the structural model was tested using PLS-SEM with bootstrapping (5,000 resamples) (Hair et al., 2019). ESG Engagement had a strong positive effect on Firm Performance ($\beta = 0.714$, $t = 14.930$, $p < 0.001$) and on Corporate Reputation ($\beta = 0.612$, $t = 9.173$, $p < 0.001$). Corporate Reputation also positively influenced Firm Performance ($\beta = 0.197$, $t = 3.578$, $p < 0.001$), partially mediating the ESG–performance link ($\beta = 0.121$, $t = 3.820$, $p < 0.001$). The moderating effect of CEO Ethical Leadership on ESG–reputation was not significant ($\beta = 0.014$, $t = 0.404$, $p = 0.686$), suggesting limited contingency effects in this context.

Table 1.4

Direct, mediation, and moderation hypothesis

Hypothesis	relationship	Path	STDEVT value	P-Values	
H1	ESGE→FP	0.714	0.048	14.930	0.000
H2	ESGE→CR	0.612	0.067	9.173	0.000
H3	CR→FP	0.197	0.055	3.578	0.000
H4	ESGE→CR→FP	0.121	0.032	3.820	0.000
H5	CEL*ESGE→ CR	0.014	0.034	0.404	0.686

Variance in Endogenous Variable R2.

R^2 for Corporate Reputation was 0.579 (adjusted 0.573), indicating moderate explanatory power from ESG engagement and CEO ethical leadership. Firm Performance showed stronger prediction ($R^2 = 0.761$; adjusted 0.758), reinforced by CR's mediating role. These findings, grounded in RBV and Stakeholder Theory, highlight how ESG capabilities and reputation jointly drive superior SME performance while ensuring model stability and avoiding overfitting.

Table 1.5

R^2 square

Variable	**R-Square**	**Adjusted R-Square**
Corporate Reputation	**0.579**	**0.573**
Firm Performance	**0.761**	**0.758**

Effect Size

ESG Engagement showed a large effect on Corporate Reputation ($f^2 = 0.416$) and a very strong effect on Firm Performance ($f^2 = 0.934$), confirming its strategic centrality. CEO Ethical Leadership had a small impact on Corporate Reputation ($f^2 = 0.039$), while Corporate Reputation modestly influenced Firm Performance ($f^2 = 0.071$), highlighting ESG as the primary driver, with leadership and reputation offering incremental contributions.

Table 1.6

Effect Size

	Corporate Reputation	**Firm Performance**
Ceo Ethical Leadership	**0.039**	
Corporate Reputation		**0.071**
ESG Engagement	**0.416**	**0.934**

DISCUSSION

Hypothesis H1 is strongly supported, confirming that ESG engagement significantly improves SME performance in Jordan ($\beta = 0.714$, $t = 14.930$, $p < 0.001$). This aligns with Resource Orchestration Theory (ROT), emphasizing that ESG's performance impact depends on its strategic structuring, bundling, and leveraging, rather than mere adoption (Ly Ho et al., 2025; Alqudah et al., 2024). In resource-constrained, institutionally fragile contexts, ESG practices provide a competitive advantage by enhancing legitimacy, investor trust, customer loyalty, and operational efficiency (Zhang et al., 2022; Fatemi et al., 2018). The high HTMT ratio (0.953) between ESG and performance, though raising validity considerations, reflects the growing empirical integration of sustainability and business outcomes, positioning ESG as both an antecedent and embedded driver of sustainable competitiveness in emerging markets.

Hypothesis H2 is strongly supported, revealing a significant positive link between ESG engagement and corporate reputation ($\beta = 0.612$, $t = 9.173$, $p < 0.001$). For SMEs in emerging markets like Jordan, where institutional voids undermine conventional legitimacy signals, ESG practices act as potent reputational cues that enhance perceptions of trustworthiness, ethical conduct, and social responsibility (Maaloul et al., 2021; Milgrom & Roberts, 1982). Grounded in signaling theory, ESG reduces information asymmetry and strengthens stakeholder confidence in low-disclosure contexts. From a Resource Orchestration Theory perspective, ESG must be purposefully structured and deployed to yield reputational capital (Sirmon et al., 2011). The HTMT value (0.857) reflects their conceptual interdependence, underscoring mutually reinforcing dynamics (Fatemi et al., 2018) that drive long-term legitimacy in credibility-deficient markets.

The empirical findings strongly support Hypothesis H3, affirming a positive and significant association between corporate reputation and firm performance ($\beta = 0.197$, $t = 3.578$, $p < 0.001$). This result reinforces the theoretical assertion that reputation is a strategically valuable intangible resource, particularly critical for SMEs operating in institutionally fragile settings like Jordan. Guided by the Resource-Based View (RBV) and Resource Orchestration Theory (ROT), reputation is conceptualized as a VRIN (valuable, rare, inimitable, non-substitutable) asset that enhances firm competitiveness (Barney, 1991; Sirmon et al., 2011). In resource-constrained environments, where formal signals of legitimacy are often weak or absent, a strong reputation can compensate by enhancing stakeholder trust and reducing perceived risk. Prior literature affirms that reputational capital positively influences market access, financial stability, and strategic partnerships (Roberts & Dowling, 2002; Walker, 2010). This study advances this discourse by illustrating that SMEs can actively build reputational advantage, not merely inherit it, and use it as a platform for financial and relational performance gains in emerging markets.

Hypothesis H4 is supported, confirming that corporate reputation significantly mediates the ESG–performance link ($\beta = 0.121$, $t = 3.820$, $p < 0.001$). This mediation highlights that ESG initiatives enhance performance both directly and via reputational capital, underscoring the dual importance of substantive action and stakeholder perception. Extending RBV, corporate reputation emerges as a strategic intangible amplifying ESG's impact (Barney, 1991; Fatemi et al., 2018). In high-information-asymmetry contexts such as Jordanian SMEs, signaling theory positions ESG as a credible integrity cue (Maaloul et al., 2021). ROT further stresses aligning ESG with strategy and stakeholder values (Sirmon et al., 2011). In emerging markets, where formal ESG enforcement is weak, reputational legitimacy becomes pivotal in driving sustainable performance (Ngwa et al., 2025).

Hypothesis H5, proposing that CEO Ethical Leadership (CEL) moderates the ESG–reputation link, was not supported ($\beta = 0.014$, $t = 0.404$, $p = 0.686$). This challenges RBV and leadership theory expectations of CEL as a capability amplifying ESG authenticity (Barney, 1991; Luo et al., 2021). In Jordanian SMEs—characterized by limited ESG regulation, opaque governance, and low institutional trust—CEL may lack visibility or signaling power. Consistent with Contingency Theory (Donaldson, 2001), absent formal ESG disclosures, stakeholders appear to prioritize tangible ESG actions over leadership traits, constraining CEL's reputational influence in weak institutional environments.

CONCLUSION

This study contributes to ESG–SME research in three ways. First, it integrates Resource-Based View (RBV), Resource Orchestration Theory (ROT), and signaling theory into a unified model explaining how ESG engagement drives competitive advantage directly and via corporate reputation. While RBV emphasizes resource possession (Barney, 1991), ROT extends this concept by focusing on structuring, bundling, and leveraging intangibles like ESG under volatile conditions (Sirmon et al., 2011). This integration advances ESG scholarship by positioning corporate reputation as an underexplored mediating mechanism in emerging-market SMEs (Eccles et al., 2014; Jamali & Karam, 2018).

Second, by testing mediation under institutional constraints and moderation by ethical leadership, it reveals boundary conditions for ESG efficacy, moving beyond one-dimensional ESG–performance models (Velte, 2017; Alhazemi, 2025).

Third, it shifts ESG research toward under-studied SMEs in fragile institutional settings, offering a transferable framework for MENA, Sub-Saharan Africa, South Asia, and Eastern Europe (Visser, 2018; Aguinis & Glavas, 2012).

Practically, it positions ESG as a legitimacy-building, performance-enhancing tool in socially embedded contexts (Michelon et al., 2015), delivering evidence-based insights for enhancing SME competitiveness and economic resilience in emerging economies.

In Jordan's SME landscape—characterized by underdeveloped ESG regulations, informal trust systems, and strong cultural norms—ESG adoption is shaped by socio-economic realities that amplify the ESG–reputation–performance nexus. Institutional theory (North, 1990; Scott, 2014) explains how weak enforcement elevates stakeholder perception as a decisive performance driver. For managers, embedding ESG via transparent reporting, stakeholder engagement, and socially responsible practices enhances legitimacy beyond compliance. Ethical values should be institutionalized through formal governance, not just informal leadership signaling. Policymakers should introduce ESG disclosure frameworks, training, and incentives to reduce barriers. In data-poor contexts, reputation remains a credible proxy for ESG authenticity, guiding investment and risk assessments.

- This study's focus on Jordanian SMEs constrains generalizability; future research should adopt cross-national or multi-sector designs to enhance external validity. The cross-sectional, self-reported data may introduce bias, suggesting longitudinal or mixed-method approaches. The nonsignificant moderating role of CEO ethical leadership implies that other moderators—such as stakeholder salience or ESG transparency—may be more salient. Alternative mediators, including innovation capability, stakeholder trust, or perceived legitimacy, warrant exploration. While context-specific, the findings provide transferable insights into ESG strategy in other resource-constrained, low-regulation economies (Areneke et al., 2019), where informal legitimacy mechanisms and stakeholder perceptions often drive competitive advantage.
- This research confirms ESG engagement's direct and reputationally mediated impact on firm performance among Jordanian SMEs, grounded in RBV and Contingency Theory. ESG emerges as a high-value intangible asset whose effectiveness depends on context-specific visibility and stakeholder credibility. The absence of a significant moderating effect from CEO ethical leadership challenges universalist leadership assumptions in ESG implementation within under-institutionalized contexts. By centering on emerging-market SMEs, the study contributes critical empirical evidence and calls for further examination of conditional mechanisms shaping ESG efficacy across diverse organizational landscapes, reinforcing ESG's role as both a performance driver and legitimacy-building resource.

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