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Shaping ESG commitment through organizational psychological capital: The role of CEO power

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Abstract

This study investigates the influence of organizational psychological capital (OPC) on corporate environmental, social, and governance (ESG) practices, highlighting a relatively overlooked aspect in existing studies, and examines the moderating effect of chief executive officer (CEO) power on this relationship. Using a dataset of 1659 firm-year observations from FTSE 350 firms across the years 2012–2021 and applying natural language processing (NLP) techniques, our findings reveal that higher levels of OPC are linked to a stronger commitment to ESG initiatives. However, this positive association is tempered by CEO power, which negatively moderates the relationship. Furthermore, our analysis shows that OPC not only enhances ESG performance but also positively influences financial performance and the core ESG pillars. These results, validated through rigorous robustness checks, offer significant insights for stakeholders and policymakers in the realm of corporate governance.

KEYWORDS

CEO power, ESG, organizational psychological capital, resource-based view (RBV), textual analysis, upper echelons theory

1 | INTRODUCTION

In today's business landscape, the integration of environmental, social, and governance (ESG) considerations into corporate strategies represents a pivotal shift in how companies make decisions (Bhandari et al., 2022; Mansouri & Momtaz, 2022). This transformation reflects a growing recognition of the need to address stakeholder concerns that extend beyond traditional financial metrics (Bhandari et al., 2022; Gallego-Álvarez & Pucheta-Martínez, 2020). Central to this evolution is the increasing importance of corporate intangible resources in shaping effective business practices (Grözinger et al., 2022). Among these resources, organizational psychological capital (OPC) stands out. Derived from the individual psychological capital of an organization's members (Luthans & Youssef, 2004; McKenny et al., 2013), OPC is deeply rooted in positive organizational behavior research and closely connected to psychological studies (Luthans, 2007; Schmidt & Flatten, 2022; Wang et al., 2014). Defined as the aggregate of positive psychological resources within an organization, OPC includes four essential dimensions: hope, optimism, resilience, and confidence. These attributes are vital for effectively managing and overcoming challenges (McKenny et al., 2013). Unlike human capital, which emphasizes knowledge and skills, or social capital, which focuses on networks, OPC reflects the core psychological attributes of individuals (Luthans et al., 2007).

Despite its potential significance, there is a notable lack of empirical research on the influence of OPC on corporate performance

Abbreviations: CEO, chief executive officer; ESG, environmental, social and governance; NLP, natural language processing; OPC, organizational psychological capital; RBV, resource-based view.

(Anglin et al., 2018). Most studies have concentrated on traditional factors such as financial resources, physical assets, and organizational processes to explain variations in corporate performance (e.g., Gabler et al., 2023; Orazalin et al., 2024; Porcu et al., 2020). While these studies provide valuable insights, they often overlook the impact of intangible resources in shaping ESG practices (Anglin et al., 2018; Arregle et al., 2007; Grözinger et al., 2022). Existing studies have mostly focused on corporate executives' traits (e.g., Fabrizi et al., 2014; Huang, 2013; Velte, 2020), corporate governance (e.g., Eliwa et al., 2023; Jain & Zaman, 2020), and corporate characteristics (e.g., Gupta & Briscoe, 2020; Orazalin et al., 2024). This oversight underscores the need for a more nuanced investigation into how OPC can impact corporate behavior and performance, especially in the realm of sustainability, where psychological and intangible resources could play a crucial role.

This study aims to address these gaps by exploring the impact of OPC on ESG practices and examining how chief executive officer (CEO) power moderates this relationship. Specifically, the research seeks to answer two key questions: (1) *How does OPC impact the commitment to ESG practices?* (2) *To what extent does CEO power influence this relationship?* We investigate our research questions by employing dataset comprising 1659 firm-year observations from UK companies listed on the FTSE 350 Index over the period of 2012 to 2021. The UK was chosen for its strong emphasis on sustainability practices (Moussa et al., 2023) and its focus on employee engagement, organizational well-being, and positive organizational behavior (Smith & Ulus, 2020), which align with the principles of OPC. Additionally, this choice fills a gap in the literature that has primarily focused on the United States (e.g., Anglin et al., 2018; McKenny et al., 2013; Memili et al., 2014). Our study employs a state-of-the-art natural language processing (NLP) approach using Python to analyze textual data, guided by the resource-based view (RBV) and upper echelons theory. This approach allows us to create a comprehensive interdisciplinary theoretical framework that guides our analysis. RBV suggests that a company's competitive advantage stems from possessing valuable and rare resources (Barney, 1991), positioning OPC as a unique asset that can enhance ESG practices and sustain competitive advantage. Meanwhile, upper echelons theory posits that CEO attributes influence organizational decisions and resource allocation (Hambrick, 2007; Hambrick & Mason, 1984), affecting how OPC impacts ESG commitment. Our findings indicate that companies with higher levels of OPC are more likely to adopt extensive ESG practices, although CEO power can weaken this relationship. Additionally, OPC correlates positively with improved firm financial performance and the three key ESG pillars, though organizational resilience does not significantly impact ESG practices.

This study makes significant contributions. First, while prior research on corporate performance has focused on firm characteristics, CEO traits, and corporate governance (e.g., Eliwa et al., 2023; Fabrizi et al., 2014; Huang, 2013; Mahran & Elamer, 2024; Mansouri & Momtaz, 2022; Orazalin et al., 2024), there has been limited investigation into the impact of corporate intangible resources. By addressing this gap, our study is the first to examine the influence of OPC, a relatively underexplored area, on ESG practices, positioning it uniquely within the field. Second, this research advances RBV theory by emphasizing the crucial role of psychological characteristics alongside traditional factors like financial resources, physical assets, and organizational processes (e.g., Gabler et al., 2023; Orazalin et al., 2024; Porcu et al., 2020). By demonstrating how OPC can enhance ESG commitment, we extend RBV to encompass a broader range of factors contributing to sustained competitive advantage. Moreover, our study makes a novel theoretical contribution by integrating RBV with upper echelons. This combined approach provides a comprehensive understanding of how intangible assets and leadership dynamics interact to influence ESG practices. Specifically, it reveals how OPC can drive ESG commitment and how CEO power can shape and amplify this effect, offering a nuanced perspective on the interplay between leadership and intangible assets in shaping sustainability efforts. Third, our study bridges insights from psychology and strategic management to illustrate the dynamic role of OPC in shaping sustainable business strategies. While recent studies have explored psychological capital's impact on corporate innovation (Grözinger et al., 2022) and crowdfunding performance (Anglin et al., 2018), there has been limited focus on its role in sustainability practices. In response to these gaps and recent calls for a more in-depth examination of psychological capital's influence within organizational contexts (e.g., Anglin et al., 2018; Memili et al., 2020), this study contributes new evidence to the existing literature and expand our understanding of its strategic importance.

The remainder of this paper is organized as follows: Section 2 presents the theoretical framework underpinning our study. Section 3 offers a comprehensive review of the relevant literature and outlines the development of our research hypotheses. Section 4 details the research methodology, including data sources, variables, and analytical techniques. Section 5 discusses the empirical findings derived from our analysis. In Section 6, we conduct additional tests to ensure the robustness of our results. Finally, Section 7 provides a summary of our study's key findings, their implications, and potential directions for future research.

2 | THEORETICAL BACKGROUND

As we investigate the associations among OPC, ESG, and the moderating role of CEO power, we deem it appropriate to draw insights from RBV and upper echelons theoretical perspectives to construct a dynamic and all-encompassing interdisciplinary theoretical framework to guide our analysis. The RBV is particularly relevant because it fundamentally addresses how firms can achieve and sustain a competitive advantage by leveraging their unique, valuable, and rare resources (Barney, 1991). By focusing on a firm's internal capabilities, the RBV highlights these resources as the primary drivers of success (Orazalin et al., 2024). This theoretical framework has been extensively adopted in prior research, showing that traditional resources such as financial assets, physical assets, and organizational processes play a significant role in positively influencing various corporate outcomes (e.g., Gabler et al., 2023; Orazalin et al., 2024; Porcu et al., 2020). However, in today's rapidly evolving business environment, where the competitive

landscape is increasingly shaped by non-traditional factors, the RBV provides a robust framework for understanding the strategic importance of intangible resources like OPC (McKenny et al., 2013; Orazalin et al., 2024). It allows us to explore how these resources, which are less tangible but no less critical, contribute to a firm's ability to innovate, adapt, and maintain sustainable practices (Grözinger et al., 2022).

OPC can significantly influence ESG outcomes through several key mechanisms. By boosting employee engagement and motivation, OPC cultivates a proactive and innovative culture that propels effective ESG initiatives (Alshebami, 2021; Newman et al., 2014). It aligns both individual and collective efforts with ESG objectives, embedding these practices into daily operations and decision-making processes, thereby enhancing sustainability outcomes (Anglin et al., 2018). Furthermore, OPC can strengthen organizational adaptability and problem-solving capabilities, equipping firms to navigate regulatory changes, meet stakeholder expectations, and address market demands related to ESG performance (McKenny et al., 2013; Yu & Hu, 2023). By fostering a positive and resilient organizational climate, OPC enables firms to tackle the complexities of ESG compliance and performance with greater agility (Hmieleski et al., 2015; Orazalin et al., 2024).

However, the effectiveness of corporate resources in achieving organizational outcomes is significantly shaped by the attributes of corporate leaders and how they strategically deploy these resources (Mahran & Elamer, 2024; Orazalin et al., 2024). Upper echelons theory offers a valuable framework for understanding this relationship, linking the characteristics of senior executives to organizational performance (Hambrick, 2007; Hambrick & Mason, 1984). According to this theory, the diverse backgrounds, personalities, and decision-making styles of senior executives are pivotal in determining how resources are allocated and utilized, directly impacting the success of corporate initiatives (Rixom et al., 2023). Empirical studies applying this theory illustrate the influence of CEO characteristics on firm strategies and outcomes. For example, Yuan et al. (2019) found that companies led by female CEOs or those with humanities backgrounds tend to perform better environmentally, while CEOs with economics degrees often correlate with lower environmental performance. Al-Najjar and Abualqumboz (2024) further noted that CEOs with financial expertise prioritize ESG initiatives as strategic tools to enhance company's reputation. Conversely, Chen et al. (2013) identified that CEO compensation can reduce the focus on ESG risks. Additionally, Al-Shammari et al. (2019) linked CEO narcissism to more decisive sustainability actions, while Gupta and Briscoe (2020) showed that CEOs' political connections and ideological beliefs shape their strategic approach to sustainability. Moreover, CEO duality was found to diminish the positive impact of board gender diversity on ESG performance (Romano et al., 2020).

In this framework, CEO power plays a crucial role in shaping the company's approach to fostering ESG practices and achieving superior performance (Chen et al., 2023; Sariol & Abebe, 2017). Prior studies indicate that CEO power significantly influences various aspects of firm performance, such as capital structure (Luo, 2015), corporate risk-taking (Pathan, 2009), and innovation (Sariol & Abebe, 2017). However, excessive CEO power can have detrimental effects (Al-Shaer et al., 2023). It may lead to passive acceptance of the CEO's decisions, potentially undermining effective ESG implementation (Adams et al., 2005). High levels of CEO power can also create moral hazard issues, particularly when the CEO's preferences conflict with shareholder interests, resulting in suboptimal decision-making (Veprauskaitė & Adams, 2013). Additionally, powerful CEOs might engage in self-serving behaviors and struggle to accurately gauge stakeholder interests (Jiraporn et al., 2012). For example, Al-Shaer et al. (2023) found that excessive CEO power negatively impacts social and environmental practices, while Allam et al. (2024) identified a similar negative relationship between CEO power and modern slavery disclosures. This concentration of power can distort organizational priorities and decision-making processes, potentially sidelining ESG objectives if the CEO's vision does not align with broader sustainability goals (Li et al., 2016). Consequently, the extent of CEO power and influence can significantly affect how OPC is directed.

3 | LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.1 | Organizational psychological capital

Psychological capital spans various fields, including organizational behavior, human resource management, and entrepreneurship (Anglin et al., 2018). On an individual level, it refers to the cognitive, emotional, and behavioral resources that individuals draw upon when facing challenges (Luthans et al., 2007). Recent studies suggest that psychological capital extends beyond individuals, existing within groups and organizations as well (Grözinger et al., 2022; McKenny et al., 2013). At the organizational level, McKenny et al. (2013) introduced the concept of OPC, which represents an organization's reservoir of positive psychological resources. Unlike human and social capital, which focus on "what you know" and "who you know," psychological capital emphasizes "who you are" (Anglin et al., 2018).

Psychological capital at the organizational level includes four key components:

- Optimism: It reflects a shared belief that the organization can achieve its goals and overcome challenges, regardless of past obstacles or failures. This outlook is shaped by how past accomplishments are perceived and celebrated within the organization, reinforcing a culture of confidence and forward-looking ambition (Luthans & Youssef, 2004).
- Confidence: It represents the organization's trust in its competence, skills, and cognitive resources necessary to achieve high performance levels. This sense of assurance enables the organization to pursue ambitious goals, take calculated risks, and consistently deliver on its commitments, thereby reinforcing its competitive edge in the marketplace (Newman et al., 2014).
- Resilience: It refers to the organization's ability to effectively navigate setbacks or failures, learning from these experiences to

emerge stronger and more capable. This attribute is crucial in maintaining stability and progress in the face of adversity, as it allows the organization to rebound from challenges, adapt to changes, and continue thriving (McKenny et al., 2013). Resilient organizations are characterized by their capacity to recover quickly from disruptions and to maintain focus on long-term objectives, even in turbulent environments (Grözinger et al., 2022).

- Hope: It represents the positive motivational state that drives the collective efforts of the organization toward achieving its goals. It is composed of several key elements: the setting of ambitious yet attainable work-related goals, the drive and determination to pursue these objectives, and the ability to envision and chart multiple pathways to reach them (Luthans & Youssef, 2004). This hopeful outlook fosters a sense of purpose and direction within the organization, encouraging continuous improvement and innovation as the organization works toward its future aspirations (McKenny et al., 2013; Newman et al., 2014).

The significance of psychological capital in influencing outcomes at both the individual and organizational levels is increasingly acknowledged. Research has demonstrated that employees' psychological capital is closely associated with various positive outcomes, such as increased employee innovation (Yu & Hu, 2023), improved workplace psychological safety, enhanced employee performance (Peng et al., 2022), and greater job satisfaction (Alshebami, 2021). On an organizational scale, the presence of OPC has been shown to boost creative innovation and overall performance, particularly in times of crisis (Grözinger et al., 2022), and to significantly enhance crowdfunding success (Anglin et al., 2018).

3.2 | OPC and ESG practices

In today's competitive business environment, effectively leveraging corporate resources is essential for maintaining a competitive edge (Moussa et al., 2020; Orazalin et al., 2024). In this context, the significant impact of intangible assets, such as OPC, becomes increasingly evident (Anglin et al., 2018). OPC, which includes attributes like optimism, resilience, confidence, and hope, plays a crucial role in shaping corporate attitudes and behaviours (Bochkay et al., 2019; Davis et al., 2015; Sajko et al., 2021). Prior studies on the impact of OPC on ESG practices are relatively sparse. Most studies focus on OPC's influence on broader aspects of corporate performance. For example, McKenny et al. (2013) and Memili et al. (2014) have highlighted that OPC enhances overall firm performance. Friend et al. (2016) further show that OPC positively influences stakeholder perceptions, leading to more favorable evaluations. Additionally, Anglin et al. (2018) found that the use of positive psychological capital language is linked to improved crowdfunding performance. Moreover, OPC has been found to boost firm innovation, particularly during external crises (Grözinger et al., 2022).

We argue that OPC can influence ESG outcomes through several key mechanisms. Firstly, optimism within OPC enhances employee engagement and motivation, leading to a proactive and innovative culture that drives effective ESG initiatives (Memili et al., 2014). This optimism helps employees remain committed to sustainability goals and fosters creativity in addressing ESG challenges (Alshebami, 2021; Newman et al., 2014). Secondly, confidence in organizational capabilities ensures that both individual and collective efforts are aligned with ESG objectives (Sajko et al., 2021). This alignment embeds ESG practices into everyday operations and decision-making processes, leading to more effective and sustained sustainability outcomes (Anglin et al., 2018). Thirdly, resilience equips organizations to better navigate regulatory changes, meet stakeholder expectations, and adapt to market demands related to ESG performance (Grözinger et al., 2022). By improving adaptability and problem-solving capabilities, resilience helps organizations overcome obstacles and thrive despite challenges (McKenny et al., 2013; Yu & Hu, 2023). Lastly, hope, which involves setting ambitious work-related goals, driving the effort to achieve these objectives, and envisioning various pathways for success, creates a positive and resilient organizational climate (Bochkay et al., 2019). This environment enables firms to manage ESG compliance and performance complexities with greater agility, fostering long-term sustainability (Hmieleski et al., 2015; Orazalin et al., 2024). Based the preceding discussion, we posit the following hypothesis:

Hypothesis 1. Higher levels of OPC are positively associated with the corporate ESG performance.

3.3 | OPC and ESG practices: The moderating role of CEO power

Among upper echelons variables, CEO power stands out as a critical determinant of organizational outcomes, influencing both strategic direction and operational performance (DeBoskey et al., 2019; Mahran & Elamer, 2024; Veprauskaitė & Adams, 2013). As the central figure in corporate governance, the CEO's authority and control over decision-making processes are pivotal in determining the success or failure of a company's initiatives (Adams et al., 2005). By exerting control over corporate resources, CEOs can effectively manage resistance from various stakeholders and steer organizational behavior to align with their strategic vision (Adams et al., 2005; Saiyed et al., 2023). However, with increased power, CEOs may become more susceptible to decision-making biases that prioritize their personal interests or perspectives over those of the broader organization (Allam et al., 2024). This concentration of authority can narrow the strategic vision, causing alternative viewpoints to be overlooked and critical feedback to be stifled. As a result, decision-making processes may become suboptimal, leading to strategies that do not align with the long-term goals of the company (Al-Shaer et al., 2023).

The impact of CEO power on ESG outcomes is marked by conflicting findings, highlighting a complex and nuanced relationship. Some studies underscore the potential benefits of CEO power in advancing ESG initiatives. For instance, Abdullah et al. (2024) demonstrated a positive relationship between CEO power and ESG

performance, while Jouber (2019) also found a positive link between CEO power and corporate social responsibility practices. Similarly, Velte (2020) argued that CEO power can enhance the connection between ESG performance and financial success. On the other hand, other research points to the potential drawbacks of excessive CEO power in the context of ESG outcomes. Jiraporn and Chintrakarn (2013) reported an inverted U-shaped relationship between CEO power and ESG considerations. Additionally, Sheikh (2019) found that structural and ownership power negatively impact ESG performance. Supporting this view, Li et al. (2016) and Muttakin et al. (2018) also identified a negative association between CEO power and corporate social responsibility practices. Further, Al-Shaer et al. (2023) noted that excessive CEO power adversely affects social and environmental practices. Similarly, Veprauskaitė and Adams (2013) provided evidence that CEO power, particularly in the form of CEO-Chair duality, is negatively related to financial performance, which may indirectly weaken the firm's commitment to ESG initiatives.

Based on prior discussion and given the impact of CEO power on the decision-making process, resource allocation, and ESG initiatives, we posit the following hypothesis:

> **Hypothesis 2.** CEO power moderates the relationship between OPC and corporate ESG performance.

Figure 1 shows our theoretical model, including the primary variables and associated hypotheses.

4 | SAMPLE AND METHODOLOGY

4.1 | Sample selection

The study focuses on UK companies listed on the FTSE 350 Index from 2012 to 2021. The FTSE 350 was chosen because it represents firms with the highest market capitalization, making them highly relevant to investors, professional bodies, and regulators (Tingbani et al., 2020). We selected 2012 as the starting point due to the significant rise in voluntary ESG disclosures among these firms during this period, which reflects a broader shift toward sustainability practices (Al-Shaer et al., 2023). The end date of 2021 was chosen to capture the effects of the COVID-19 pandemic and to analyze how OPC influences companies during crises. To specifically address the impact of COVID-19, we conducted additional analyses by dividing the data into pre- and post-pandemic periods. From the original list of companies, we excluded 133 financial companies from the analysis due to their distinct regulatory requirements and accounting practices, which differ significantly from those of non-financial companies (Al-Najjar & Abualqumboz, 2024). Additionally, 17 companies were excluded due to missing data and the unavailability of annual reports in a transferable PDF format suitable for textual analysis. As a result, the final sample comprised 200 firms, with a total of 1659 observations. To conduct our textual analysis and measure OPC, we first collected the available annual reports of these companies in PDF format from Bloomberg and their respective websites. Additionally, data on ESG, financial, and governance metrics were compiled from Refinitiv Eikon. Table 1 presents the industrial breakdown of our sample, categorized according to the DataStream Industry Classification Benchmark (ICB) level 1 industries, which encompasses 10 distinct groups.

4.2 | Variable measurements

4.2.1 | Dependent variable: ESG performance (*ESG_PERF*)

To achieve our primary research objective, which is identifying the underlying drivers of ESG performance within the UK context, we measure ESG performance based on scores obtained from Refinitiv

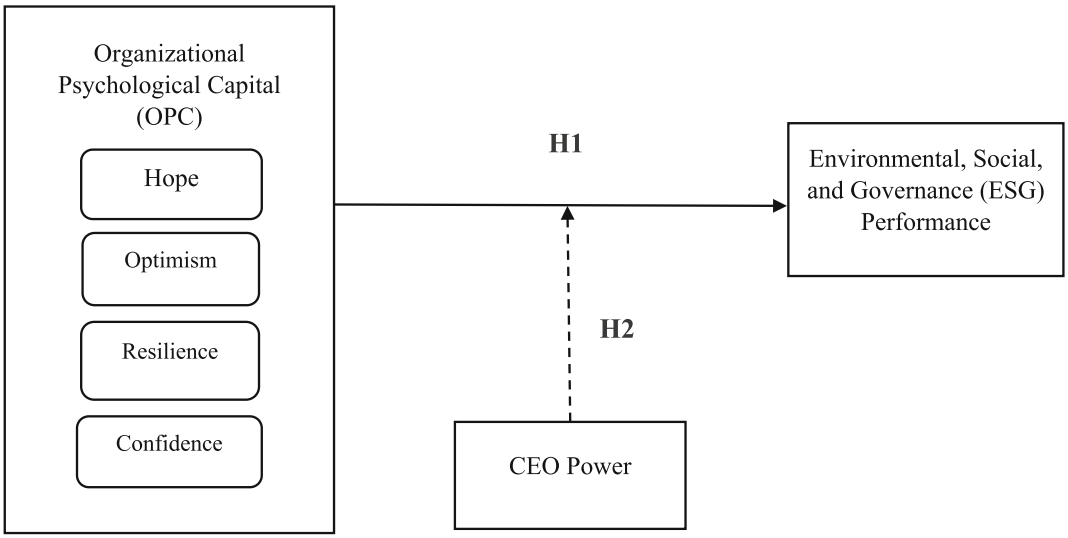

FIGURE 1 Research model and hypotheses.

TABLE 1 Sample industrial composition.

Industry	Companies	Observations	Percentage
Basic materials	16	139	8.38
Consumer discretionary	46	366	21.96
Consumer staples	19	175	10.56
Energy	8	62	3.74
Health care	10	84	5.08
Industrials	50	438	26.43
Real estate	27	230	13.88
Technology	11	61	3.68
Telecommunications	6	44	2.65
Utilities	7	62	3.74
Total	**200**	**1659**	**100**

database (Eliwa et al., 2023; Orazalin et al., 2024). The ESG scores are derived from a composite rating, reflecting firms' dedication to three distinct dimensions: environmental, social, and governance. The ESG score evaluates a company's environmental performance in relation to various criteria, such as sustainable production practices, responses to climate change, and eco-friendly marketing initiatives, among others. Social factors within the ESG score are assessed by considering business ethics, labor conditions for employees, job security, and related aspects. Governance factors pertain to elements like the structure of the company's board, the quality of audits, and the transparency of information disclosure, among other relevant indicators (Ullah et al., 2022; Aboud et al., 2024).

4.2.2 | Independent variable: Organizational psychological capital (*O_PsyCapS*)

To measure OPC, we adopted a textual analysis methodology based on the approach developed by Loughran and McDonald (2016). Specifically, we utilized a word list developed by McKenny et al. (2013), which identifies distinct terms associated with the four components of OPC: optimism (86 words), hope (89 words), resilience (189 words), and confidence (130 words). These word lists were chosen for their established relevance and specificity in accurately capturing the dimensions of OPC (Grözinger et al., 2022). To implement this methodology, we used Python software, which offers significant advantages over traditional methods (Bochkay et al., 2023; Ignatov, 2023). Python's automation and scalability allow for the efficient processing and analysis of large volumes of textual data, minimizing human error (Bhandari et al., 2022). Additionally, Python's open-source nature and active community support provide access to the latest techniques, further enhancing our data analysis capabilities (Bochkay et al., 2023).

Prior to analysis, the corporate narrative text underwent preprocessing, including the removal of stop words, punctuation, and irrelevant symbols to ensure clean data input (Mansouri & Momtaz, 2022). We also excluded financial statement notes and the external auditor's report, focusing instead on narrative sections that reflect the company's direct communication with stakeholders, as these technical sections do not represent the company's narrative disclosure (Bassyouny et al., 2020). After preprocessing, we calculated the frequency of occurrences for each word list within the corporate narrative and normalized these counts by dividing them by the total number of words. The final OPC score was derived by summing the normalized scores for optimism, hope, resilience, and confidence. Appendix A shows examples of the language associated with the components of OPC, drawn from specific annual reports.

To ensure the reliability of our proxies for measuring OPC, we conducted a thorough validation process. We selected a sample of 10 companies, and their annual reports were independently analyzed and manually coded by two trained researchers based on predefined criteria to identify instances of hope, optimism, resilience, and confidence. This manual coding process demonstrated significant agreement between the researchers, thereby validating the accuracy of our automated keyword-based approach (Bao & Datta, 2014). Additionally, we assessed the internal consistency of our composite scores using Cronbach's alpha, which yielded a value of .81. This high Cronbach's alpha indicates strong internal consistency and supports the reliability of our measures.

4.2.3 | Moderating variable: CEO power (*CEO_Power*)

CEO power is a multifaceted concept that can significantly influence organizational dynamics in various ways. Previous studies have utilized several dimensions to measure CEO power, each offering unique insights into the CEO's influence. For example, CEO duality, where the CEO also holds the position of chair of the board, has been extensively studied as a proxy for CEO power (DeBoskey et al., 2019; Veprauskaitė & Adams, 2013; Walters et al., 2010). Another important dimension is CEO ownership, which reflects the extent of a CEO's equity stake in the company and indicates their vested interest and influence over corporate decisions (Muttakin et al., 2018; Veprauskaitė & Adams, 2013). CEO tenure, or the length of time an individual has

served as CEO, often signals the accumulation of power and the ability to shape board and strategic decisions (Park et al., 2018; Sheikh, 2019). Additionally, CEO remuneration, including salary and bonuses, provides insight into the reward for performance and the leverage a CEO wields within the organization (Jiraporn & Chintrakarn, 2013; Luo, 2015). No single measure can comprehensively capture all aspects of CEO power (Muttakin et al., 2018). We measured CEO power using CEO duality to capture this critical dimension.

4.2.4 | Control variables

To address potential endogeneity concerns related to omitted variables and in line with prior research (Al-Najjar & Abualqumboz, 2024; Bassyouny et al., 2020; Eliwa et al., 2023), we incorporate a comprehensive set of firm-specific control variables. Firm size (SIZE) is used as a proxy for organizational visibility, with larger firms more likely to engage in ESG practices (Eliwa et al., 2023). We also consider firm age (AGE), as older companies may face challenges in adapting to evolving ESG standards, potentially hindering their ESG engagement (Bassyouny et al., 2020). Additionally, we include profitability (ROA) and liquidity (LIQ) since more profitable and liquid firms tend to have greater resources to support ESG initiatives (Tingbani et al., 2020). To account for corporate governance influences, we include board size (B_SIZE), which promotes diversity and effective ESG implementation, board independence (B_INDEP), which enhances transparency and accountability (Eliwa et al., 2023), and audit committee independence (AC_INDEP), which improves oversight of ESG practices (Al-Najjar & Abualqumboz, 2024). We also control for CEO characteristics, such as gender (CEO_GEND), with female CEOs often prioritizing ESG practices (Liao et al., 2021), and financial experience (CEO_FINEXP), as financially experienced CEOs are likely to better understand and prioritize ESG initiatives, thus prioritizing ESG practices and effectively communicating ESG-related information as a strategic tool to enhance the company's reputation (Al-Najjar & Abualqumboz, 2024). CEO compensation (CEO_COMP) is considered due to its potential impact on the prioritization of ESG issues, which may conflict with short-term financial targets (Cohen et al., 2023). Lastly, we introduce industry and year-fixed effects to account for any confounding factors that might influence ESG performance.

4.3 | Research models

The following model (1) is used to test Hypothesis 1 related to examining the association between OPC and corporate ESG performance.

$$\begin{aligned} ESG\_PERF_{i,t} = {} & \beta_0 + \beta_1 O\_PsyCapS_{i,t} + \beta_2 CEO\_Power_{i,t} \\ & + \beta_3 SIZE_{i,t} + \beta_4 AGE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROA_{i,t} \\ & + \beta_7 LIQ_{i,t} + \beta_8 B\_GEN\_DIV_{i,t} + \beta_9 B\_SIZE_{i,t} \\ & + \beta_{10} B\_INDEP_{i,t} + \beta_{11} AC\_INDEP_{i,t} \\ & + \beta_{12} CEO\_GEND_{i,t} + \beta_{13} CEO\_FINEXP_{i,t} \\ & + \beta_{14} CEO\_COMP_{i,t} + \beta_{15} Year_{i,t} + \beta_{16} Ind_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (1)$$

The following model (2) is used to test Hypothesis 2 related to examining the moderating effect of CEO power on the main relationship. The moderating effect is examined by adding O_PsyCapS × CEO_Power representing the interaction between OPC and CEO power.

$$\begin{aligned} ESG\_PERF_{i,t} = {} & \beta_0 + \beta_1 O\_PsyCapS_{i,t} + \beta_2 CEO\_Power_{i,t} \\ & + \beta_3 O\_PsyCapS \times CEO\_Power_{i,t} + \beta_4 SIZE_{i,t} \\ & + \beta_5 AGE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 ROA_{i,t} + \beta_8 LIQ_{i,t} \\ & + \beta_9 B\_GEN\_DIV_{i,t} + \beta_{10} B\_SIZE_{i,t} \\ & + \beta_{11} B\_INDEP_{i,t} + \beta_{12} AC\_INDEP_{i,t} \\ & + \beta_{13} CEO\_GEND_{i,t} + \beta_{14} CEO\_FINEXP_{i,t} \\ & + \beta_{15} CEO\_COMP_{i,t} + \beta_{16} Year_{i,t} + \beta_{17} Ind_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (2)$$

Table 2 outlines variables description and their data sources.

5 | EMPIRICAL RESULTS AND DISCUSSIONS

5.1 | Descriptive statistics

Table 3 presents the descriptive statistics. The narrative disclosures provided by the firms varied significantly in length. The minimum word count observed was 19,873, while the maximum reached an impressive 504,613 words. On average, the firms' narrative disclosures consisted of approximately 104,111.3 words. Furthermore, the ESG performance of the firms (*ESG_PERF*) displayed significant variation across the sample. The maximum ESG score is an impressive 95.25, indicating exceptional dedication to environmental, social, and governance practices. On the other end of the spectrum, the minimum ESG score recorded is 4.77. The average ESG score across all firms stands at 51.54, serving as a central point to assess the overall sustainability performance of the sample. Nevertheless, these scores are mainly in line with those of previous studies (Eliwa et al., 2021). Additionally, the OPC (*O_PsyCapS*) exhibits notable differences. Corporate highest recorded OPC is 1.864%, indicating a strong presence of positive psychological attributes and attitudes, while the lowest OPC score observed is 0.0177%, and on average, firms in the sample demonstrate a low OPC score of 1.01%. Concerning our control variables, the data reveals that the average audit committee independence (*AC_INDEP*) stands at 93.98%, board gender diversity (*B_GEN_DIV*) is at 57.14%, and, on average, 12.23% of CEOs in our sample are female (*CEO_GEND*). Additionally, the average board size (*B_SIZE*) is composed of 9 members. These preliminary findings align with the results reported in earlier literature (Al-Shammari et al., 2019; Bassyouny et al., 2020).

Table 4 displays the Pearson correlation coefficients representing the interrelationships between the variables investigated in the present study. This correlation analysis offers an initial insight into the associations between the variables and the focal variable. Additionally,

TABLE 2 Variable description.

Variable	Symbol	Details
ESG performance	*ESG_PERF*	Derived from the Refinitiv ESG database, the Refinitiv ESG scores are determined by aggregating the total scores assigned to firms based on their dedication to three distinct ESG dimensions: environmental, social, and governance.
Organizational psychological capital	*O_PsyCapS*	Derived by summing the scores for optimism, hope, resilience, and confidence based on the wordlist devised by McKenny et al. (2013).
CEO power	*CEO_Power*	Measured by CEO duality as a dummy variable equal to 1 if CEO also serves as chairman, and 0 otherwise. Data obtained from the Refinitiv database.
Firm size	*SIZE*	Measured as the natural logarithm of a company's total assets. Data obtained from the Refinitiv database.
Firm age	*AGE*	Measured as the number of years since the firm's incorporation. Data obtained from the Refinitiv database.
Firm leverage	*LEV*	Determined by the ratio of total debt to total assets. Data obtained from the Refinitiv database.
Firm profitability	*ROA*	Calculated as net income divided by total assets. Data obtained from the Refinitiv database.
Firm liquidity	*LIQ*	Calculated by dividing a firm's current assets by its current liabilities. Data obtained from the Refinitiv database.
Board gender diversity	*B_GEN_DIV*	Calculated as the percentage of female directors to the total number of directors within the board. Data obtained from the Refinitiv database.
Board size	*B_SIZE*	Measured as the total number of members comprising the board of directors. Data obtained from the Refinitiv database.
Board independence	*B_INDEP*	Measured as the proportion of independent non-executive directors to the total number of directors within the board. Data obtained from the Refinitiv database.
Audit committee independence	*AC_INDEP*	Measured as the percentage of independent members within the audit committee. Data obtained from the Refinitiv database.
CEO gender	*CEO_GEND*	Measured as a dummy variable equal to 1 for female CEOs, and 0 otherwise. Data obtained from the Refinitiv database.
CEO financial experience	*CEO_FINEXP*	Measured as a dummy variable equal to 1 if the CEO has prior work experience in banks, financial institutions, and the investment sector, and 0 otherwise. Data obtained from the Refinitiv database.
CEO compensation	*CEO_COMP*	Measured as the natural logarithm of total salaries and bonuses received by the CEO. Data obtained from the Refinitiv database.

it helps to identify the presence of potential multicollinearity among the variables under examination. *O_PsyCapS* is found to be significantly and positively associated with *ESG_PERF*, aligning with the prediction that corporate with high levels of OPC can foster positive ESG outcomes. In addition, our analysis revealed a significant negative association between *CEO_Power* and corporate ESG performance. The correlations between *ESG_PERF* and the other control variables are in line with the findings of previous research (Bochkay et al., 2019; Eliwa et al., 2023; Chen et al., 2023).

5.2 | Multivariate results and discussion

5.2.1 | The effect of OPC on ESG performance

Table 5 presents the impact of OPC on ESG outcomes, as well as the moderating effect of CEO power on this relationship. The results from model (1) indicate that OPC has a positive and significant influence at the 1% level, suggesting that higher levels of OPC are associated with improved ESG performance, which strongly supports our first hypothesis. This finding aligns with prior research that emphasizes the importance of corporate intangible resources like OPC in enhancing organizational outcomes (e.g., Anglin et al., 2018; Grözinger et al., 2022; McKenny et al., 2013; Newman et al., 2014). Firms with high OPC exhibit greater resilience, optimism, confidence, and hope, which positively affect their decision-making, problem-solving, and overall strategic initiatives (Newman et al., 2014). This enhanced OPC enables firms to better navigate challenges and uncertainties, thereby fostering a stronger commitment to ESG practices and sustainable business strategies (Peng et al., 2022). This evidence also supports the RBV theory, suggesting that firms achieve and sustain competitive advantages by effectively managing and leveraging their unique resources and capabilities. In this context, by leveraging their OPC, companies can effectively enhance their sustainability efforts, utilizing

TABLE 3 Descriptive statistics.

Variable	Obs	Mean	Std. dev.	Min	Max
T_WORDS	1659	103,659.8	41,900.97	32,367	265,157
T_SENTENCES	1659	2728.486	1178.746	47	13,135
ESG_PERF	1659	51.54503	10.4255	4.771044	95.25757
O_PsyCapS	1659	1.011565	0.199372	0.017788	1.864387
B_GEN_DIV	1659	22.83831	12.83354	0	57.14286
AGE	1659	29.99578	26.57687	1	113
lnSIZE	1659	7.820649	1.581988	3.6518	12.71709
LEV	1659	54.93849	21.45747	0	168.8661
ROA	1659	11.01228	9.998212	−11.9797	38.28549
LIQ	1659	1.270425	1.229836	0.20056	10.91477
CEO_Power	1659	0.156118	0.363077	0	1
CEO_GEND	1659	0.122363	0.327803	0	1
lnCEO_COMP	1659	7.392138	1.099411	2.833213	11.16208
CEO_FINEXP	1659	0.224232	0.417201	0	1
B_SIZE	1659	9.316456	2.39557	3	17
B_INDEP	1659	59.84294	14.2297	0	93.45
AC_INDEP	1659	93.9828	13.24912	0	100

their resilience, optimism, confidence, and hope to drive better decision-making and problem-solving in the realm of ESG practices.

Among the control variables, firm age shows a negative relationship with ESG performance, suggesting that older firms may be slower to adopt ESG practices compared to their younger counterparts. This is consistent with the notion that established companies often face greater inertia due to entrenched processes and cultures, which can impede their ability to embrace new sustainability trends and innovations (Bassyouny et al., 2020). In contrast, corporate liquidity is positively related to ESG performance. Firms with higher liquidity are better equipped to invest in and support ESG initiatives, as they have more financial resources to allocate toward sustainable practices and comprehensive ESG strategies. This enables them to respond more effectively to stakeholder demands for responsible business practices. On the other hand, CEO compensation shows a negative relationship with ESG performance, indicating that higher levels of executive pay are associated with poorer ESG outcomes. This suggests that substantial CEO compensation might prioritize short-term financial gains over long-term sustainability goals, aligning with concerns that high executive pay can incentivize behavior focused on immediate financial performance rather than integrating robust ESG strategies (Cohen et al., 2023).

5.2.2 | The moderating effect of CEO power

In this section, we explore how CEO power influences the relationship between OPC and ESG commitment. Model 2 in Table 5 reveals that the interaction term (*O_PsyCapS* × *CEO_Power*) has a statistically significant negative coefficient at the 1% level. This suggests that CEO power diminishes the positive effect of OPC on ESG practices. Consequently, this finding supports Hypothesis 2, indicating that CEO power moderates the relationship between OPC and ESG. This evidence aligns with prior research (e.g., Allam et al., 2024; Saiyed et al., 2023; Veprauskaitė & Adams, 2013), which suggests that powerful CEOs may exhibit more self-serving behaviors. Such behaviors can lead to a misalignment between preferred projects and stakeholder interests, resulting in suboptimal decision-making. By prioritizing short-term financial goals over long-term sustainability, powerful CEOs may weaken the impact of OPC on ESG outcomes. This finding is consistent with upper echelons theory (Hambrick & Mason, 1984), which posits that the characteristics of top executives influence organizational decisions and resource allocation, ultimately affecting corporate performance.

6 | ROBUSTNESS AND ADDITIONAL TESTS

6.1 | Robustness tests

To ensure the robustness of our findings, we conduct several sensitivity analyses. Firstly, we utilize the two-stage least squares (2SLS) method to address potential endogeneity concerns. For this purpose, we adopt the first lag as an instrumental value based on the assumption that past corporate OPC scores do not causally impact a firm's adoption of ESG practices, drawing from prior research (Martínez-García et al., 2022; Orazalin et al., 2024). The results of the first-stage estimation, as displayed in column 1 of Table 6, show that the instrumental variable *L.O_PsyCapS* has a statistically significant positive coefficient ($t = 6.80$, $p < 0.01$). In column 2 of Table 6, the second-

TABLE 4 Correlation matrix.

	Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1)	*ESG_PERF*	1.00														
(2)	*O_PsyCapS*	.41*	1.00													
(3)	*B_GEN_DIV*	.18*	.30*	1.00												
(4)	*AGE*	−.04	.02	.07*	1.00											
(5)	*SIZE*	.14*	.03	.22*	.17*	1.00										
(6)	*LEV*	−.09*	.05	.19*	−.04	.26*	1.00									
(7)	*ROA*	−.07*	.09*	.03	.02	−.25*	−.17*	1.00								
(8)	*LIQ*	.25*	.03	−.08*	−.11*	−.19*	−.35*	.03	1.00							
(9)	*CEO_Power*	−.25*	−.29*	−.33*	−.09*	−.24*	−.12*	.07*	.03	1.00						
(10)	*CEO_GEND*	.15*	.14*	.25*	.03	.15*	.12*	−.06*	−.04	−.14*	1.00					
(11)	*CEO_COMP*	−.18*	.05*	.16*	.17*	.44*	.20*	.09*	−.27*	−.17*	.00	1.00				
(12)	*CEO_FINEXP*	.01	.09*	.02	.05*	.00	−.01	.16*	−.04	−.04	.13*	.01	1.00			
(13)	*B_SIZE*	.09*	.09*	.25*	.13*	.60*	.22*	−.06*	−.12*	−.21*	.14*	.41*	.02	1.00		
(14)	*B_INDEP*	.16*	.07*	.29*	.14*	.36*	.02	−.09*	.01	−.18*	.02	.14*	−.06*	.15*	1.00	
(15)	*AC_INDEP*	.06*	−.02	.10*	.08*	.16*	−.06*	.01	.00	−.06*	−.03	.14*	.02	.14*	.40*	1.00

***$p < .01$, **$p < .05$, *$p < .1$.

TABLE 5 The relationship between OPC, ESG performance, and CEO power.

	(1) Model 1	(2) Model 2
O_PsyCapS	14.188***	20.60***
	(11.75)	(15.39)
CEO_Power	−3.867***	−1.393***
	(−6.68)	(−5.79)
O_PsyCapS × *CEO_Power*		−0.718***
		(−3.06)
AGE	−0.017**	−0.021***
	(−2.24)	(−2.63)
SIZE	0.308*	1.452***
	(1.70)	(7.53)
LEV	−0.030***	−0.043***
	(−2.95)	(−3.89)
ROA	−0.008	−0.019
	(−0.39)	(−0.84)
LIQ	0.926***	1.530***
	(5.49)	(8.16)
CEO_GEND	0.816	2.000***
	(1.36)	(2.95)
CEO_COMP	−1.744***	−2.436***
	(−8.39)	(−10.64)
CEO_FINEXP	−0.530	−0.453
	(−1.17)	(−0.88)
B_GEN_DIV	0.035*	0.0106
	(1.84)	(0.50)
B_SIZE	0.148	0.102
	(1.45)	(0.89)
B_INDEP	0.063***	0.032*
	(3.98)	(1.77)
AC_INDEP	−0.006	0.020
	(−0.36)	(1.16)
Constant	47.825***	34.666***
	(18.28)	(13.21)
Year and industry fixed effect	Included	Included
Observations	1659	1659
VIF	1.93	1.77
Adj. R^2	0.50	0.34

Note: The reported coefficients for each variable are accompanied by their respective *t*-test values enclosed in parentheses. Table 2 fully defines all the variables used. *, **, and *** represent significance at the .10, .05, and .01 levels, respectively.

stage estimates are presented. Notably, the analysis uncovers a remarkable positive coefficient for *O_PsyCapS* ($t = 8.78$, $p < 0.01$). These findings reinforce and harmonize with the conclusions drawn from our primary analysis, indicating a robust and meaningful positive relation between OPC and the ESG performance of the firm.

Secondly, we employ a dynamic two-step system generalized method of moments (GMM) to further validate the absence of endogeneity in our analysis. In this approach, we utilize the first and second lags of our explanatory variables as instruments, while year and industry dummies are considered exogenous variables, consistent with the methodology applied in the study conducted by Orazalin et al. (2024). The GMM estimation results as reported in column 3 of Table 6, reveal that *O_PsyCapS* has a significant positive coefficient ($t = 5.20$, $p < 0.01$). These findings underscore the presence of a strong and meaningful positive association between OPC and the firm's ESG performance, further corroborating our previous analyses.

Finally, in order to mitigate concerns regarding firm-specific time-invariant unobservable effects that could impact our findings, we chose to employ a firm fixed-effect model, aiming to address potential issues of omitted variable bias. Despite this adjustment, the results, as presented in Table 7, reveal that *O_PsyCapS* maintains a significant positive coefficient ($t = 18.45$, $p < 0.01$), closely resembling our primary outcomes.

6.2 | Additional analyses

In this section, we examine the association between OPC and various dimensions of ESG. Additionally, we evaluate the impact of OPC on overall financial performance, considering whether the competitive advantages conferred by strong OPC extend beyond ESG practices to improve profitability. Further, we explore the role of OPC during crises, such as the COVID-19 pandemic, to understand how the psychological resilience and adaptive capabilities embedded in OPC can help firms in the face of significant challenges.

6.2.1 | OPC and firm performance

Model 1 in Table 8 presents the impact of OPC on firm financial performance. In this model, we use ROA as a measure of firm profitability, serving as an indicator of financial performance. The findings reveal that OPC has a positive and statistically significant influence on ROA at the 1% level. This suggests that higher levels of OPC within an organization are associated with improved profitability. This evidence aligns with prior research (e.g., Hmieleski et al., 2015; Memili et al., 2020), which indicates that intangible assets like OPC can enhance financial performance by fostering a more engaged, motivated, and productive workforce. Organizations with strong OPC are better positioned to leverage their human resources effectively, leading to greater operational efficiency, and higher profitability. These results demonstrate that the competitive advantage provided by OPC extends beyond ESG to positively influence other critical aspects of the company, including financial performance.

TABLE 6 Robustness tests: two stage least squares and GMM.

	Instrumental variable 2SLS		GMM
	First stage (1) *O_PsyCapS*	Second stage (2) *ESG_PERF*	(3) *ESG_PERF*
L.O_PsyCapS	0.680***		
	(38.55)		
L.ESG_PERF			0.145***
			(3.17)
O_PsyCapS		16.786***	20.403***
		(8.78)	(5.20)
CEO_Power	−0.040***	−3.768***	−1.962**
	(−4.31)	(−5.60)	(−2.25)
Control variables	Included	Included	Included
Constant	0.444***	43.841***	12.069
	(11.62)	(13.42)	(0.31)
Year and industry fixed effect	Included	Included	Included
Observations	1,429	1,429	1,429
Cragg–Donald Wald *F* statistic	1313.444		
Stock and Yogo (2005) ID test for critical values: 10% maximal IV	16.38		
Anderson canon. Corr. Chi-sq.	692.474***		
Sargan (*P*-value)	0.000		0.000
Arellano-bond (AR-1)			0.000
Arellano-bond (AR-2)			0.852
Adj. R^2	0.73	0.52	

Note: This table reports the results of robustness tests using two-stage least squares (2SLS) and generalized method of moments (GMM) estimates of our main findings for the effect of OPC on ESG performance. The reported coefficients for each variable are accompanied by their respective t-test values enclosed in parentheses. Table 2 fully defines all the variables used. *, **, and *** represent significance at the .10, .05, and .01 levels, respectively.

6.2.2 | OPC components and ESG performance

In this section, we examine the relationship between various components of OPC and ESG performances to understand how these intangible assets influence sustainability practices. In Table 8, model 2, our findings reveal that optimism, hope, and confidence have positive and statistically significant influences on ESG at the 1% level. This suggests that these psychological factors play a crucial role in enhancing a company's commitment to ESG practices. Specifically, optimism may lead to a more forward-looking and proactive approach to sustainability, while hope can drive persistence in ESG initiatives despite challenges (McKenny et al., 2013; Memili et al., 2014). Confidence might empower employees and leadership to undertake ambitious ESG projects, knowing they have the capability to achieve these goals (Grözinger et al., 2022). Interestingly, our analysis did not find a significant relationship between resilience and ESG performance. This finding suggests that while resilience is crucial for overall organizational stability, it might not be as pivotal as optimism, hope, and confidence in driving the forward-thinking, strategic decisions necessary for

TABLE 7 The relationship between OPC and ESG performances using fixed effects.

	(1) ESG_PERF
O_PsyCapS	20.039***
	(18.45)
CEO_Power	−2.690***
	(−6.93)
Control variables	Included
Constant	−1.435
	(−0.03)
Year and industry fixed effect	Included
Observations	1659
Adj. R^2	0.85

Note: The reported coefficients for each variable are accompanied by their respective *t*-test values enclosed in parentheses. Table 2 fully defines all the variables used. *, **, and *** represent significance at the .10, .05, and .01 levels, respectively.

TABLE 8 Additional analyses: financial performance, OPC constitutes, and ESG pillars.

	(1) *ROA*	(2) *ESG_PERF*	(3) *E_PERF*	(4) *S_PERF*	(5) *G_PERF*
O_PsyCapS	3.952***		19.667***	16.609***	3.349*
	(2.70)		(8.17)	(9.74)	(1.91)
Optimisim_Score		19.832***			
		(2.88)			
Hope_Score		20.349***			
		(7.79)			
Resilience_Score		6.788			
		(1.11)			
Confidence_Score		7.696***			
		(2.72)			
CEO_Power	2.125***	−3.803***	−2.559**	−2.777***	−5.873***
	(3.03)	(−6.58)	(−2.22)	(−3.40)	(−6.98)
Control variables	Included	Included	Included	Included	Included
Constant	7.324**	48.935***	40.461***	22.628***	78.890***
	(2.30)	(17.98)	(7.76)	(6.13)	(20.75)
Year and industry fixed effect	Included	Included	Included	Included	Included
Observations	1659	1659	1659	1659	1659
Adj. R^2	0.20	0.51	0.49	0.36	0.13

Note: This table presents the outcomes of our additional analyses. In column 1, we examine the correlation between OPC (O_PsyCapS) and financial performance (ROA). Column 2 investigates the association between the constitutes of OPC (Optimism_Score, Hope_Score, Resilience_Score, and Confidence_Score) and ESG performance (ESG_PERF). Subsequently, columns 3, 4, and 5 analyze the link between O_PsyCapS and the three dimensions of ESG performance (E_PERF, S_PERF, and G_PERF) respectively. Please see the Section 6.2 for more information on the variables used in our additional analyses, while Table 2 fully defines all other variables used. The reported coefficients for each variable are accompanied by their respective *t*-test values enclosed in parentheses. *, **, and *** represent significance at the .10, .05, and .01 levels, respectively.

strong ESG performance. One possible explanation for this is that while resilience is vital for overcoming adversity and sustaining operations, it might be more helpful for organizations to withstand shocks rather than actively enhancing their ESG strategies.

6.2.3 | OPC and ESG pillars

We examine the relationship between OPC and the individual pillars of ESG performance to determine whether OPC has a uniform effect across all ESG areas or if its influence varies depending on the specific pillar. Table 8 (models 3, 4, and 5) shows that OPC has a significant positive association with both the environmental and social components of ESG at the 1% level and with the governance component at the 10% level. This suggests that companies with higher levels of psychological capital are better equipped to implement and sustain ESG initiatives, leading to more effective environmental stewardship, stronger social responsibility, and improved governance practices. Overall, these findings reinforce the idea that OPC positively influences all dimensions of ESG, though its impact may vary slightly depending on the specific pillar.

6.2.4 | The effect of COVID-19 on the relationship between OPC and ESG performances

In this section, we explore the role of OPC during the COVID-19 pandemic by analyzing its impact across different periods. We divided our dataset into two sub-samples: pre-COVID (2012–2019) and post-COVID (2020–2021). This approach allows us to examine how OPC influences firm performance and ESG practices under normal conditions compared to the heightened challenges of the pandemic. Separate regressions for these periods reveal a significant positive relationship between OPC and ESG performances in both cases. Our findings, as shown in Table 9, indicate that OPC maintains a robust positive association with ESG performance across both the pre-COVID and post-COVID periods at the 1% level. Specifically, the coefficient for OPC increased from 13.217 before the pandemic to 16.841 during and after the pandemic. This increase suggests that OPC became even more crucial in enhancing ESG performance during the crisis. This rise in the coefficient aligns with the notion that OPC serves as a vital resource that supports organizations, particularly during challenging times like the COVID-19 pandemic (Grözinger et al., 2022; McKenny et al., 2013). It highlights how OPC can help

TABLE 9 The effect of COVID-19 on the relationship between OPC and ESG performances.

	ESG_PERF Pre_COVID	*ESG_PERF* Post_COVID
O_PsyCapS	13.217***	16.841***
	(9.61)	(6.61)
CEO_Power	−3.935***	−7.659**
	(−6.59)	(−2.24)
Control variables	Included	Included
Constant	47.549***	43.937***
	(16.05)	(7.65)
Year & industry fixed effect	Included	Included
Observations	1,278	381
Adj. R^2	0.47	0.49

Note: The reported coefficients for each variable are accompanied by their respective *t*-test values enclosed in parentheses. Table 2 fully defines all the variables used. *, **, and *** represent significance at the .10, .05, and .01 levels, respectively.

firms navigate and sustain their ESG initiatives, demonstrating greater resilience and adaptability in the face of significant disruptions.

7 | CONCLUSION

The study empirically investigates how OPC influences ESG commitment in UK companies, while also examining the moderating role of CEO power in this relationship. The findings reveal that OPC significantly enhances a company's commitment to ESG practices, particularly during crises such as COVID-19, when the psychological resources associated with OPC are critical for maintaining and strengthening ESG efforts. In other words, OPC can create a competitive advantage by providing essential cognitive, emotional, and behavioral supports that help firms navigate and sustain their ESG initiatives during challenging times. However, CEO power acts as a negative moderator in this relationship. This negative moderation may occur because powerful CEOs can overshadow the positive effects of OPC by prioritizing short-term financial goals over long-term sustainability, thereby undermining the efficacy of OPC in driving ESG performance. Additionally, our results show that OPC is not only linked to improved ESG performance but also to better firm financial performance.

Our findings have both theoretical contributions and practical implications. From a theoretical perspective, our research integrates the RBV with upper echelons theory, offering a richer insight into how both psychological capital and leadership traits impact corporate behavior. The findings lend strong support to both the RBV and upper echelons theories. The results offer compelling evidence for RBV theory, as shown by the significant positive relationship between OPC and ESG commitment. This relationship underscores the importance of intangible resources like OPC in securing a competitive advantage and enhancing firm performance in ESG practices, particularly during crises. Additionally, our findings align with upper echelons theory, which posits that the characteristics and power of top executives significantly influence organizational outcomes. The moderating role of CEO power in our study illustrates how executive priorities and decision-making can affect the efficacy of OPC in driving ESG performance, highlighting the impact of leadership dynamics on the implementation and success of ESG initiatives.

Practically, in today's highly competitive business environment, companies are increasingly leveraging non-traditional resources to gain a competitive edge. This study highlights the pivotal role of OPC in enhancing a company's commitment to ESG practices, especially during crises like COVID-19. As a result, it is imperative for corporate boards and managers to prioritize investments in the psychological well-being of their workforce and leadership teams. By fostering a positive organizational culture and enhancing psychological resources, companies can not only strengthen their ESG initiatives but also improve overall financial performance. For policymakers, the study underscores the importance of recognizing the value of intangible assets like OPC in shaping corporate behavior and performance. By promoting policies that encourage the development and integration of OPC within organizations, policymakers can foster a business environment where sustainable practices are prioritized. This, in turn, will support broader societal goals of sustainability and corporate responsibility. Furthermore, the findings indicate that CEO power can weaken the impact of OPC on ESG commitment. For that reason, policymakers should consider implementing regulations that ensure transparency in executive decision-making and encourage a balance of power within corporate leadership. By doing so, they can help preserve the beneficial influence of OPC on corporate sustainability efforts, ensuring that these intangible resources are effectively leveraged to drive long-term, responsible corporate behavior.

Our study has some limitations that offer opportunities for future research. First, the data used in our analysis is limited to UK companies listed on the FTSE 350 Index between 2012 and 2021. Expanding the scope to include companies from different countries and industries could provide a more comprehensive understanding of the relationship between OPC and ESG practices. Second, while our study examined the moderating role of CEO power, there could be other factors influencing the relationship between OPC and ESG practices. Exploring additional moderators, such as board meetings, board size, or audit committee characteristics, could provide a deeper understanding of the complex dynamics at play. Third, our study focused on the OPC as the main psychological determinant of ESG practices, while other psychological characteristics were not explored in this research. Exploring the role of other corporate intangible assets, such as human and social capital, could provide further insights into how these traits influence ESG practices and sustainability initiatives within organizations.

CONFLICT OF INTEREST STATEMENT

The authors declare no conflicts of interest.

DATA AVAILABILITY STATEMENT

Data available on request from the authors.

ETHICS APPROVAL

This article does not contain any studies with human participants or animals performed by any of the authors.

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APPENDIX A: LANGUAGE INDICATIVE OF OPC IN ANNUAL REPORT TEXTS

Dimension	Company	Annual report text excerpts
Hope	Unilever Group (2014)	"We want to build on our progress in Europe by repeating the **achievement** internationally."
	Shell (2017)	"Our Projects & Technology organisation manages the delivery of Shell's major projects and drives research and innovation to develop new technology **solutions**."
	Vodafone (2021)	"Through a shared future vision, we **believe** that both Europe and Africa can overcome their many digital divides and sizeable investment gaps."
Optimism	Unilever Group (2014)	"in 2014 we launched a second campaign called Time Saving Idea to make simplification a habit and **encouraged** employees to try simple time-saving ideas."
	Shell (2017)	"While we **aspire** to reduce our GHG intensity, as energy demand increases and easily accessible oil and gas resources decline, we may develop resources that require more energy and advanced technologies to produce."
	Vodafone (2021)	"For example, we are piloting OpenRAN – a new **promising** way to engineer the access network– in rural communities."
Resilience	Unilever Group (2014)	"The business responded to the combination of these events with **resilience** by heightening focus on cost control and margin improvement."
	Shell (2017)	"Shell management continued to **devote** significant effort in 2017 to enhancing Shell's system of IT general controls (ITGCs)."
	Vodafone (2021)	"As part of our **commitment** to operate ethically and sustainably, we are dedicated to understanding climate-related risks and opportunities and embedding responses to these into our business strategy and operations."
Confidence	Unilever Group (2014)	"These quarterly scorecards are complemented by regular in-depth discussions to **reassure** committee members that systems and processes remain robust."
	Shell (2017)	"Project delivery reflects our **capability** to complete major projects on time and within budget on the basis of targets set in our annual Business Plan."
	Vodafone (2021)	"we are **confident** that we will meet our July 2021 target."