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SPECIAL ISSUE Sustainable Entrepreneurship in Emerging Markets: Exploring the Progress, Perils, and Prospects

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From External Relational Resources to Sustainable Entrepreneurship Practices in Emerging Markets: The Ethical Role of Dynamic Capabilities

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ABSTRACT

This paper investigates how external relational resources, namely business and political ties, drive sustainable entrepreneurship (SE) practices in Turkish SMEs operating under institutional fragility. The study applies PLS-SEM to survey data from 257 employees of sustainability-engaged firms, based on their evaluations. Results show that both business and political ties significantly strengthen dynamic capabilities, which in turn predict four dimensions of sustainable entrepreneurship: employee-friendly, social-solidarity, energy-saving, and environmentally friendly practices. Inclusive leadership, however, does not moderate these relationships, revealing a boundary condition for leadership theory in network-dependent contexts. The study contributes to SE research by showing how dynamic capabilities connect external relational resources with sustainability-oriented practices in an institutionally fragile emerging-market context, while also highlighting the ethical implications of how these resources are used.

1 | Introduction

Sustainability-oriented entrepreneurship has emerged as a strategic priority as organizations seek to balance economic performance with ethical concerns, social responsibility, and environmental protection (Bruna et al. 2022), reflecting firms' broader moral obligation to align business purpose with societal well-being (Shepherd and Patzelt 2011). Opportunity recognition in sustainability contexts depends on awareness of ecological and social issues, stakeholder sensitivity, and capacity for change (Patzelt and Shepherd 2011). Sustainability practices, however, do not automatically produce outcomes; they require organizational capability to internalize shifts in societal expectations (Bansal and Song 2017). Beyond economic performance, sustainability-oriented entrepreneurship embodies a normative commitment to society and nature, protecting future generations (Bansal and Song 2017).

These challenges are particularly acute in emerging economies, where enterprises must navigate pervasive institutional voids, structural volatility, and erratic regulatory frameworks, often exacerbated by uneven access to critical resources (Acs et al. 2018). In such contexts, informal and relational architectures frequently emerge as functional substitutes for deficient formal institutions (Bruton et al. 2010). Consequently, sustainability initiatives in these environments are shaped by local norms, prevailing political configurations, and historically embedded expectations about corporate social imperatives (Jamali

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et al. 2017). Turkey offers a relevant setting for this study, as rising sustainability expectations coexist with institutional uncertainty, making informal business and political relationships especially important for firms seeking resources, information, and legitimacy. Prior research on Turkish SMEs further suggests that entrepreneurial activity is embedded in relational and value-based networks that provide access to knowledge and business opportunities while also fostering solidarity and a sense of responsibility toward society (Uygur et al. 2016; Esmer 2020). Therefore, examining the role of dynamic capabilities in this context provides an opportunity to understand how firms convert externally accessed relational resources into sustainability-oriented entrepreneurial practices.

To navigate these conditions, firms rely on external relational resources, particularly business ties and political ties. Business ties encourage collaboration, information exchange, and access to market knowledge (Peng and Luo 2000; Ganguly et al. 2019). Political ties provide legitimacy and enhance regulatory predictability in environments where state actors play a central role in economic coordination (Sun et al. 2012). Thus, business and political ties serve as resource channels through which firms interpret changing sustainability expectations (Sheng et al. 2011).

However, external ties confer advantage only when firms possess internal capabilities to convert external knowledge into strategic action. Dynamic capabilities theory captures this ability as a firm's capacity to sense opportunities and threats, seize strategic options, and reconfigure resources (Teece et al. 1997; Teece 2007). Dynamic capabilities develop through learning processes and systematic knowledge accumulation (Zollo and Winter 2002), support knowledge-based "absorptive capacity" (Zahra and George 2002), and enable organizations to respond effectively to institutional and market pressures while integrating ethical reflection into strategic decision-making (Wang and Ahmed 2007). Dynamic capabilities, in turn, support the adoption of sustainability practices in multiple domains, such as employee well-being, community solidarity, energy efficiency, and environmental management (Bajdor et al. 2021; Amui et al. 2017; Buzzao and Rizzi 2021). Yet business ethics scholarship has long debated whether relational embeddedness in weak-institution settings constitutes a legitimate substitute for formal governance or a channel for particularism and rent-seeking (Sun et al. 2012).

A recent study in business ethics highlights how inclusive leadership and organizational capabilities jointly foster moral agency and environmental stewardship (Scalzo et al. 2023). In this regard, inclusive leadership shapes the micro-foundations of dynamic capabilities by fostering cognitive openness, participative decision-making, and ethical sensemaking, which are essential for sensing, seizing, and reconfiguring processes (Carmeli et al. 2010). Accordingly, this research examines how and under what conditions external relational resources, specifically business and political ties, can encourage SE practices within Turkish SMEs. The study examines the conditions and mechanisms by which, in an emerging market marked by institutional fragility, these firms transform relational resources into ethical and sustainable practices, stimulating dynamic capabilities under inclusive leadership that fosters moral agency and responsible transformation. This transformation, however, is not ethically neutral: the same business and political ties that may support sustainability can also entrench favoritism and exclusion (Sun et al. 2012). Indeed, prior research shows that the ethical meaning and consequences of organizational practices in emerging markets are shaped by the specific institutional contexts in which they occur (e.g., Anand et al. 2023; Anand et al. 2026). In this sense, dynamic capabilities can be understood as an organizational mechanism through which relational resources are interpreted and translated into sustainability-oriented practices, giving this transformation an important ethical dimension. Building on this aim, the study addresses the following research questions:

RQ1. *In an institutionally fragile emerging market, how do business and political ties translate into SE practices only through firms' dynamic capabilities, or can business and political ties confer legitimacy and advantage on their own?*

RQ2. *Why do dynamic capabilities act as the critical "translation layer" between business and political ties and SE practices, rather than SE practices following directly from these ties?*

RQ3. *In an emerging market, does inclusive leadership strengthen dynamic capabilities by amplifying the effect of business and political ties, and if so, does this locate agency in individual leaders rather than organizational routines?*

RQ4. *How do dynamic capabilities shape the ethical implications of business and political ties?*

This study makes two main contributions. First, it extends the SE literature by considering both the presence of relational resources (business and political ties) and how organizations process and use the resources gained through them. Prior research shows that external relationships can support SE by giving firms access to information, resources, and legitimacy (Muñoz and Cohen 2018; Anand et al. 2021; Huang et al. 2023). Rather than questioning the importance of these relationships, this study argues that organizations must process the relational advantages they provide before translating them into sustainable practices. In this regard, dynamic capabilities serve as the organizational mechanism through which firms translate external resources gained from business and political ties into employee-friendly, social-solidarity, energy-saving, and environmentally friendly practices. In doing so, the study shifts the SE discussion from the relationships firms have to what firms do with the resources gained from these relationships.

Second, this study contributes to the ongoing dialogue between ethics and entrepreneurship by focusing on how firms use the resources they gain from business and political ties in emerging markets. These ties can provide firms with information, resources, and opportunities, but they may also create ethical problems such as favoritism, exclusion, and rent-seeking (Sun et al. 2012). Prior research has mostly focused on the institutional context when explaining the ethical meaning of organizational practices in emerging markets (Anand et al. 2023; Anand et al. 2026). While this research shows that context matters, it says less about how firms use available resources to support responsible and sustainable practices (Azmat and Samaratunge 2009; Adomako and Tran 2025). Taking an employee perspective, we address this gap

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by showing how dynamic capabilities help explain a less understood part of ethics and entrepreneurship in emerging markets: how resources gained from business and political ties are turned into sustainability-oriented practices. From a practical perspective, this also has implications for managers and policymakers, as it highlights the importance of combining external relationships with internal capabilities to support sustainable practices.

2 | Review of the Literature

2.1 | Investigating Sustainable Entrepreneurship Practices

Entrepreneurship has increasingly taken on social and environmental dimensions beyond financial value creation (Sharma and Subba 2025). Since Hart and Milstein (1999) joined entrepreneurship and sustainable development, SE has grown in significance (Anand et al. 2021). SE is distinguished by embedding sustainability into the core logic of the business model, where long-term economic viability and sustainability outcomes are jointly pursued. It differs from environmental entrepreneurship (focused on environmental opportunities as competitive advantage), social entrepreneurship (centered on social mission), and corporate social responsibility (typically peripheral rather than integrated into core value creation) (Terán-Yépez et al. 2020).

Unlike traditional entrepreneurship (focused primarily on profit), SE treats sustainability as a core strategic orientation (Muñoz and Cohen 2018; Farny and Binder 2021). Accordingly, sustainability must sit at the heart of the business, social, and organizational model, rather than as an additional business activity. To date, three dominant conceptual perspectives have been identified in the literature:

1. The *Triple Bottom Line* is an intersection-based model that situates sustainability as a balance of economic, environmental, and social goals (Alhaddi 2015).
2. *The bioeconomy-concentric model* describes double embeddedness, situating the economy within society and society within the natural environment (Faulkner et al. 2024).
3. Finally, the *integration perspective* posits that sustainability is inherently regenerative, necessitating systemic transformation and ethical accountability. Within this framework, sustainability goes beyond avoiding harm; it is defined by 'doing good' (Farny and Binder 2021). For enterprises, the main challenge is navigating competing objectives, particularly the tension between profit-making and socio-environmental commitments. Organizational complexity also requires designing governance and incentive structures that align with community values. Resource constraints also present a hurdle, often requiring a strategic reliance on volunteers and local networks. Lastly, identity and legitimacy tensions arise as enterprises must appeal to market-oriented and mission-driven stakeholders simultaneously. Addressing these challenges requires deliberate learning, operational flexibility, and collaborative governance structures.

Anand et al. (2021) found that most studies still focus on Europe and North America, with limited research in emerging and developing economies in their bibliometric analysis of trends and patterns in SE research. Drawing on Huang et al. (2023), SE emerges from a specific configuration of ecosystem factors. Through a configurational analysis, the authors identify prominent synergies across economic (e.g., GDP per capita), social (e.g., quality education), and environmental (e.g., CO_2 emissions) dimensions. A notable (but surprising) finding is that environmental quality does not directly predict SE; instead, it serves as a long-term outcome.

In their synthesis of SE research, Muñoz and Cohen (2018) categorize the prevailing literature into four distinct analytical dimensions: the entrepreneur, the context, the outcomes, and the opportunities. The "entrepreneur" dimension examines individual-level antecedents (specifically personal values, motivations, and self-efficacy), whereas the "context" dimension examines the overarching institutional and cultural frameworks, including the policies and norms that govern entrepreneurial behavior. The third dimension, "outcomes," explores value creation beyond financial metrics, positing the potential for systemic socio-environmental transformation; research in this vein focuses primarily on multidimensional assessments of sustainability performance. Lastly, the "opportunities" dimension conceptualizes sustainability-oriented prospects as responses to market failures, community needs, and ecological crises. Notably, the authors observe that empirical inquiry remains geographically constrained, with a disproportionate emphasis on Western contexts.

2.2 | The Importance of Embeddedness: Addressing Business and Political Ties

According to resource dependence theory (Pfeffer and Salancik 1978), organizations rely on their external environment for access to critical resources and deploy strategic actions accordingly. Companies develop interorganizational relationships to secure financial, informational, political, and legitimacy-based resources. In their seminal study, Peng and Luo (2000) outline the two-part nature of corporate social capital by distinguishing between business and political ties. Business ties encompass a firm's inter-organizational networks, including strategic relationships with suppliers, partners, competitors, and corporate clients.

Conversely, political ties reflect institutional embeddedness, manifesting as instrumental connections with (and sometimes dependence on) government officials and bureaucratic agencies. Convergently, the literature suggests that political ties can support nonmarket strategies by facilitating access to state-contingent resources, securing specialized permits, exerting strategic influence over policy frameworks or public decision-makers, and protecting embedded firms from regulatory action (e.g., Sun et al. 2012). Such ties may also reduce information asymmetries and confidentiality barriers, facilitate the alignment of institutional and business interests, and increase regulatory leniency or tolerance toward embedded firms.

Such ties buffer firms against regulatory oversight, particularly in volatile institutional landscapes (Sun et al. 2012). Relational capital is amplified in environments characterized by institutional voids, systemic corruption, weak legal protections, and

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restricted access to capital, where political embeddedness mitigates the risks associated with weak institutional enforcement (Okhmatovskiy 2010; Rajwani and Liedong 2015). When institutions strengthen, however, political ties can become liabilities, breeding dependence, obligations, and reputational damage (Sun et al. 2012).

Nahid et al. (2019) show that political ties provide firms with privileged access to government contracts, financing, and favorable regulatory treatment, thereby compensating for institutional deficiencies. Consistent with this view, Luo and Wang (2021) find that politically connected firms strategically combine increased philanthropic engagement with reduced environmental commitment, using visible social initiatives to secure legitimacy while avoiding more costly environmental obligations. Figure 1 presents the research model, which illustrates the proposed relationships among business and political ties, dynamic capabilities, inclusive leadership, and sustainable entrepreneurship practices.

3 | Hypothesis Development

3.1 | External Relational Ties and Dynamic Capabilities

External relational ties catalyze organizational performance only when the firm possesses internal capabilities to interpret and use them (Zhang et al. 2023). While ties supply knowledge, capital, and legitimacy, dynamic capabilities enable the sensing, seizing, and reconfiguration that operationalize these inputs (Zahra et al. 2006; Teece 2007; Buzzao and Rizzi 2021; Phalswal et al. 2024). Both business and political ties thus serve as resource inputs that strengthen a firm's dynamic capabilities. Accordingly:

H1a. *Business ties are positively related to dynamic capabilities.*

H1b. *Political ties are positively related to dynamic capabilities.*

3.2 | Dynamic Capabilities and Sustainability-Oriented Practices

Sustainability-oriented practices are embedded within complex institutional environments shaped by normative expectations, regulatory mandates, and pressures for ethical conduct (Amui et al. 2017). In emerging markets, these institutional landscapes increasingly prioritize environmental stewardship, employee well-being, and communal solidarity (Jamali et al. 2017). Firms with robust dynamic capabilities can interpret these institutional signals and convert them into concrete sustainability initiatives, from workplace wellness programs to energy conservation and environmental protocols (Amui et al. 2017; Buzzao and Rizzi 2021).

The literature identifies four theoretical orientations on dynamic capabilities: a transformative lens emphasizing strategic reconfiguration of resources (Teece 2007; Teece et al. 1997); a capability-orchestration view encompassing meta-capabilities, market responsiveness, alliance orientation, and innovativeness (Drnevich and Kriauciunas 2011); a knowledge-evolution cycle perspective (Zollo and Winter 2002); and a routines-and-processes orientation focused on product development, alliance formation, and strategic decision-making (Eisenhardt and Martin 2017). Empirical work on the transformative perspective remains limited (Chang 2019), so this study focuses on that dimension.

Dynamic capabilities enable forward-looking adjustments to strategy and routines; applied to sustainability, they let firms integrate environmental and social values into operational logic. Chang (2019) shows that dynamic capabilities serve as transformational mechanisms that turn relational resources (bonding and bridging ties) into performance outcomes; similarly, Abu-Rumman et al. (2021) find that dynamic capabilities fully mediate the entrepreneurial–networking-performance relationship in Jordanian SMEs. Mishra and Kiran's (2025) systematic review confirms dynamic capabilities augment triple-bottom-line performance across economic, social, and environmental dimensions. Accordingly:

H2a. *Dynamic capabilities are positively related to employee-friendly practices.*

H2b. *Dynamic capabilities are positively related to social solidarity practices.*

H2c. *Dynamic capabilities are positively related to energy-saving practices.*

H2d. *Dynamic capabilities are positively related to environmentally friendly practices.*

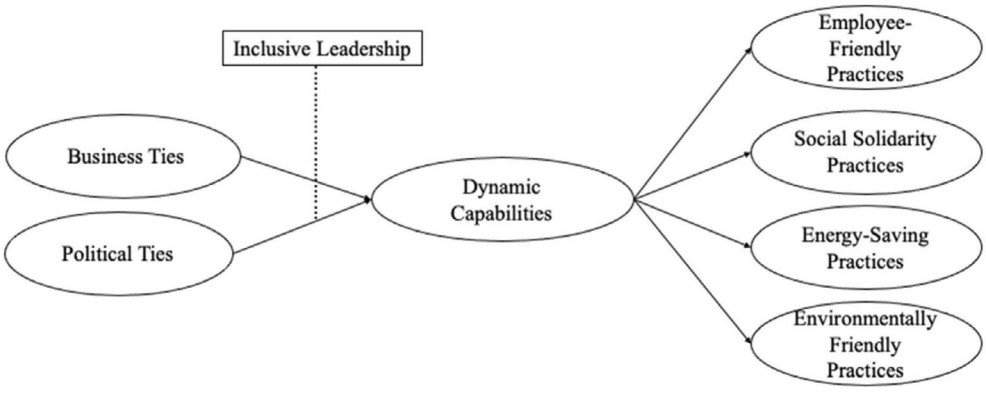


FIGURE 1 | Research model.

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3.3 | The Mediating Role of Dynamic Capabilities

Dynamic capabilities provide the internal mechanism through which firms translate resources gained from external ties into organizational outcomes (Chang 2019; Abu-Rumman et al. 2021). While external ties provide access to knowledge, resources, and legitimacy (Peng and Luo 2000; Sheng et al. 2011), these benefits do not automatically translate into sustainability-oriented practices (Zhang et al. 2023). Firms need the capacity to interpret external information and integrate it into organizational routines (Teece 2007; Zollo and Winter 2002). Through sensing, seizing, and reconfiguring, dynamic capabilities enable firms to transform relational resources into sustainability-oriented practices (Teece 2007; Buzzao and Rizzi 2021). Hence, the following hypotheses are proposed:

H3. *Dynamic capabilities mediate the relationship between business ties and* (*a*) *employee-friendly practices*, (*b*) *social solidarity practices*, (*c*) *energy-saving practices, and* (*d*) *environmentally friendly practices*.

H4. *Dynamic capabilities mediate the relationship between political ties and* (*a*) *employee-friendly practices*, (*b*) *social solidarity practices*, (*c*) *energy-saving practices, and* (*d*) *environmentally friendly practices*.

3.4 | Moderating Effect of Inclusive Leadership

Inclusive leadership denotes a strategic leadership orientation wherein leaders proactively solicit subordinate contributions (inputs) while maintaining an ethos of transparency, accessibility, and cognitive flexibility (Carmeli et al. 2010). Through such practices, they foster a climate of psychological safety, motivating employees to voice diverse viewpoints, exchange ideas openly, and cooperate on problem-solving (Ashikali et al. 2021). Furthermore, these leaders facilitate knowledge sharing and treat errors as opportunities for learning and improvement rather than grounds for criticism (Ye et al. 2019). Consequently, such behaviors cultivate the foundational and requisite conditions for dynamic capability development, as the mechanisms of sensing, understanding, and transforming external knowledge depend on the free, fluid circulation of information, dialectical discourse, and a pervasive commitment to organizational learning.

Building on this logic, inclusive leadership may strengthen firms' ability to convert external relational resources into dynamic capabilities by creating the relational and cognitive infrastructure for collective meaning-making (Cunliffe and Eriksen 2011). Recent work confirms that inclusive leadership catalyzes capability development across exploitative innovation (Verawati et al. 2025) and innovation strategy (Al Mansoori 2025). By fostering open communication and collective learning, inclusive leaders create conditions through which external networks translate more effectively into dynamic capabilities. Accordingly:

H5a. *Inclusive leadership positively moderates the relationship between business ties and dynamic capabilities.*

H5b. *Inclusive leadership positively moderates the relationship between political ties and dynamic capabilities.*

4 | Research Method

4.1 | Measurement

The study used an online survey integrating multi-item measures from prior behavioral research. Business ties (six items) and political ties (four items) were adapted from Sheng et al. (2011); dynamic capabilities (14 items) from Kump et al. (2019), based on Teece's (2007) sensing-seizing-transforming framework; SE practices (27 items) from Bajdor et al. (2021), adapted into Turkish by Donmez and Turkmen (2023); and inclusive leadership (nine items) from Carmeli et al. (2010), adapted by Gul and Cakıcı (2021). We translated all English-source scales into Turkish and back-translated them, with expert review for meaning consistency. All focal constructs were measured using employees' self-reported evaluations on five-point Likert scales, as dynamic capabilities and sustainability practices are reflected in employees' day-to-day organizational experiences and objective archival sustainability data remain limited in the Turkish SME context (Chang 2019; Abu-Rumman et al. 2021). In addition to the focal constructs, the survey instrument solicited comprehensive demographic and professional data. These variables encompassed individual-level attributes (specifically gender, age, and educational attainment) alongside organizational descriptors, including hierarchical position, tenure, firm size, and sectoral classification.

4.2 | Study Sample and Data Collection

The current research draws on data from employees working in the private sector (94.6% of the sample) in Turkey, an emerging market characterized by institutional complexity and fragility, and evolving sustainability practices. Consistent with the focus of this study, the sample primarily consists of SMEs, defined in line with the European Commission (2022) criteria as firms employing fewer than 250 employees, including micro (< 10 employees), small (10–49 employees), and medium-sized firms (50–249 employees). The target population consisted of employees from companies that had undertaken and implemented at least one sustainability-oriented practice or initiative, such as environmental, social, or employee well-being projects. Data were collected from employees through *YouReply*, a Turkey-based online survey company increasingly employed in business research (e.g., Unal and Eser 2025).

Before the primary data collection phase, we conducted a pilot study ($n = 40$) to evaluate the instrument's face validity, ensure item clarity and comprehensibility, and verify the questionnaire's structural robustness. Cronbach's alpha values ranged from 0.74 to 0.89, indicating acceptable internal consistency. The exploratory factor analysis supported the dimensionality of the adapted measures. Based on pilot feedback, no major revisions were required, and the main data collection

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was completed by 29–30 October 2025; a total of 400 responses were received.

We first assessed data quality following the recommendations of Meade and Craig (2012). Responses completed in < 4 min ($n = 5$), taking longer than 45 min ($n = 7$), exhibiting straight-lining response patterns ($n = 3$), or failing an embedded attention check ($n = 51$) were excluded. A screening question then ensured respondents worked in SMEs (fewer than 250 employees) that had undertaken at least one sustainability-oriented practice. Accordingly, we excluded a further 77 responses, including 27 from firms with more than 250 employees and 50 from firms that had not undertaken any sustainability-oriented practice. In total, we excluded 143 responses, resulting in a final sample of 257 valid responses.

Consistent with the methodological requirements of PLS-SEM, we assessed sample adequacy using an a priori power analysis. The analysis indicated that, for a medium effect size ($r = 0.30$) with $\alpha = 0.01$ and power = 0.80, a minimum of 124 participants is required (Cohen 1988; Hair et al. 2022). Following this guideline, Hair et al. (2022) suggested that a sample exceeding this threshold be considered adequate. Therefore, the sample obtained in the present research was deemed sufficient. The final sample consisted of 257 respondents, of whom 65.8% were women. Participants averaged 32 years of age and 5 years of work experience. A majority were married (55.3%) and held an undergraduate degree (86.8%). In terms of organizational position, 45.5% were managers at different levels, while 54.5% were nonmanagerial employees.

Most respondents worked in private SME firms (94.6%). Participants were employed across five major sectors: manufacturing and production 27.6%, which includes manufacturing, food, apparel, construction, energy, and agriculture; service and trade 29.6%, encompassing services, trade, retail, logistics, transportation, operations, real estate consultancy, tourism, entertainment, and nongovernmental organizations; technology and information 15.6%, covering information technologies, auditing, accounting, and media; education, culture, and social services 21.8%, including education and healthcare; and finance and professional services 5.4%, comprising banking and finance, law, customs consultancy, insurance, and defense. This distribution illustrates the hybrid economic context of emerging markets, such as Turkey, where traditional production sectors coexist with rapidly expanding service, technology, and institutional domains.

4.3 | Measure Validity and Reliability

Because this study aims to explain and predict how external relational resources translate into SE through dynamic capabilities, based on employees' perceptions of organizational practices (e.g., Yazici and Yürür 2026), variance-based PLS-SEM was selected as the primary analytical technique. PLS-SEM has gained increasing prominence for analyzing complex theoretical models involving latent constructs and prediction-oriented research (Hair et al. 2022). Unlike covariance-based SEM, PLS-SEM focuses on maximizing the explained variance of endogenous constructs and is particularly suitable for complex models with relatively modest sample sizes. Therefore, it represents an appropriate methodological approach for the present study.

Measurement model assessment results led to the removal of five items with outer loadings below 0.50: one from business ties, one from dynamic capabilities, one from employee-friendly practices, one from environmentally friendly practices, and one from energy-saving practices (Hair et al. 2022). Table 1 reports the retained factor loadings, Cronbach's alphas, composite reliability (CR), and average variance extracted (AVE). Standardized loadings ranged from 0.64 to 0.88 (all > 0.60, all $p < 0.001$); Cronbach's alphas from 0.82 to 0.94; CR (rho_a and rho_c) from 0.83 to 0.95; and AVEs from 0.54 to 0.72, satisfying Nunnally's (1978), Fornell and Larcker's (1981), and Bagozzi and Yi's (1988) criteria and confirming convergent validity.

Discriminant validity was assessed using two complementary approaches: the Fornell-Larcker criterion and the heterotrait-monotrait ratio of correlations (HTMT). As shown in Table 2, the square roots of the AVEs exceeded the inter-construct correlations, and all item loadings were higher on their respective constructs than on other constructs, supporting discriminant validity (Hair et al. 2022), a common practice in the business research literature (e.g., Cavdar-Aksoy and Yazici 2025). Moreover, the HTMT ratios ranged from 0.29 to 0.89, all below the conservative threshold of 0.90 (Henseler et al. 2015; Hair et al. 2022), confirming acceptable discriminant validity. Although one HTMT value (0.88) approached the upper limit, it remained within the recommended range, indicating no serious discriminant validity concerns. In line with the recommendation of Hair et al. (2022), the methodological choices adopted in this study were guided by current best practice recommendations for variance-based PLS-SEM, including sample adequacy assessment, measurement model evaluation, structural model assessment, and out-of-sample predictive evaluation (e.g., Ferreira et al. 2026; Ullah et al. 2026).

4.4 | Common Method Variance Assessments

To address common method variance, Harman's single-factor test was conducted, as recommended by Podsakoff et al. (2003), who note that concern arises when a single factor explains more than 50% of the total variance. This technique is frequently used to detect potential bias from business research literature (e.g., Cavdar-Aksoy and Yazici 2025). The component analysis indicated that a single factor accounted for only 37% of the total variance, suggesting that common method bias was not a significant issue in this research. Moreover, collinearity diagnostics were examined as part of the PLS-SEM assessment. The VIF values ranged from 1.5 to 4.4 and remained below the threshold of 5 suggested by Hair et al. (2022), indicating no critical collinearity concerns.

4.5 | Hypothesis Testing

The structural model was assessed using R^2 (predictive power) and Q^2 (predictive relevance), as in Cavdar-Aksoy and Yazici (2025). R^2 values for the endogenous constructs exceeded the 0.10 threshold (Falk and Miller 1992), and all Q^2

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TABLE 1 | Factor loadings, validity, and reliability.

Constructs	Factor loadings	Cronbach's alpha	Rho_A	Rho_C	AVE
External relational resources					
Business ties		0.82	0.83	0.87	0.59
Top managers at our firm have built good connections with managers at...					
Supplier firms	0.79				
Customer firms	0.73				
Competitor firms	0.78				
Marketing-based collaborators	0.76				
Technological collaborators	0.76				
Political ties		0.85	0.86	0.90	0.70
Top managers at our firm have maintained good personal relationships with officials in various levels of government	0.80				
Top managers at our firm have developed good connections with officials in regulatory and supporting organizations such as tax bureaus, state banks, and commercial administration bureaus	0.85				
So far, our firm's relationship with regional government officials has been in a good shape	0.81				
Our firm has spent substantial resources in building relationships with government officials	0.87				
Dynamic capabilities		0.92	0.93	0.93	0.54
Our company knows the best practices in the market	0.70				
Our company is up-to-date on the current market situation	0.74				
Our company systematically searches for information on the current market situation	0.67				
As a company, we know how to access new information	0.76				
Our company always has an eye on our competitors' activities	0.75				
Our company can quickly relate to new knowledge from the outside	0.70				
We recognize what new information can be utilized in our company	0.76				
Our company is capable of turning new technological knowledge into process and product innovation	0.72				
By defining clear responsibilities, we successfully implement plans for changes in our company	0.80				
Even when unforeseen interruptions occur, change projects are seen through consistently in our company	0.64				
Decisions on planned changes are pursued consistently in our company	0.77				
In the past, we have demonstrated our strengths in implementing changes	0.72				
In our company, change projects can be put into practice alongside the daily business	0.76				
SE practices					
Employee-friendly practices		0.89	0.90	0.91	0.58
Employing staff based on employment contracts	0.78				

(Continues)

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TABLE 1 | (Continued)

Constructs	Factor loadings	Cronbach's alpha	Rho_A	Rho_C	AVE
Offering work to people from the closest social environment	0.71				
Compliance with regulations resulting from the labor code	0.78				
Care for safety in the workplace	0.83				
Career path transparency	0.73				
Equality activities	0.75				
Employee involvement in company matters, participation in decision-making processes	0.65				
Timely payment of salaries and payment of taxes and fees due	0.86				
Development and application of accepted ethical standards related to the business	0.78				
Social solidarity practices		0.87	0.88	0.91	0.72
Conducting activities for the benefit of the local community, e.g., patronage or sponsorship of cultural events	0.78				
Participation in charity activities	0.87				
Carrying out activities for the development of local culture	0.88				
Social activity opportunity	0.86				
Energy-saving practices		0.90	0.91	0.93	0.72
The use of energy-saving devices	0.83				
Reduction of electronic devices working time	0.80				
The use of effective heating systems and reducing pollution	0.87				
Building insulation (thermal insulation, insulated windows)	0.87				
The use of renewable energy sources	0.87				
Environmentally friendly practices		0.91	0.92	0.93	0.71
Impact on customers towards environmentally friendly behavior	0.87				
Giving up packaging that is difficult to dispose of in favor of those that can be recycled	0.80				
Waste segregation by staff	0.79				
Automatic shutoff of unnecessary devices and lighting	0.88				
Producing and selling environmentally friendly products	0.87				
Maximum use of natural daylight	0.81				
Inclusive leadership		0.94	0.94	0.95	0.68
The manager is open to hearing new ideas	0.85				
The manager is attentive to new opportunities to improve work processes	0.82				
The manager is open to discuss the desired goals and new ways to achieve them	0.85				
The manager is available for consultation on problems	0.88				
The manager is an ongoing 'presence' in this team – someone who is readily available	0.73				

(Continues)

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TABLE 1 | (Continued)

Constructs	Factor loadings	Cronbach's alpha	Rho_A	Rho_C	AVE
The manager is available for professional questions I would like to consult with him/her	0.74				
The manager is ready to listen to my requests	0.83				
The manager encourages me to access him/her on emerging issues	0.86				
The manager is accessible for discussing emerging problems	0.85				

TABLE 2 | Discriminant validity using Fornell-Larcker Criterion and HTMT Criterion.

Criterion	Constructs	BT	DC	EFP	EnFP	IL	PT	SEP	SSP
Fornell-Larcker	Business ties	(0.77)							
	Dynamic capabilities	0.40	(0.73)						
	Employee-friendly practices	0.38	0.73	(0.76)					
	Environmentally friendly practices	0.27	0.48	0.66	(0.84)				
	Inclusive leadership	0.27	0.64	0.68	0.47	(0.82)			
	Political ties	0.35	0.27	0.23	0.30	0.12	(0.83)		
	Energy-saving practices	0.32	0.50	0.68	0.82	0.46	0.25	(0.85)	
	Social solidarity practices	0.24	0.55	0.66	0.71	0.52	0.36	0.64	(0.85)
HTMT	Business ties								
	Dynamic capabilities	0.45							
	Employee-friendly practices	0.44	0.79						
	Environmentally friendly practices	0.31	0.51	0.73					
	Inclusive leadership	0.30	0.68	0.73	0.51				
	Political ties	0.41	0.30	0.26	0.34	0.13			
	Energy-saving practices	0.37	0.54	0.75	0.89	0.49	0.29		
	Social solidarity practices	0.29	0.60	0.73	0.79	0.57	0.42	0.72	

Note: Numbers on diagonals indicate the square root of AVE. No correlation is greater than the corresponding square root of AVE. Correlation is significant at $p < 0.01$ (2-tailed).

values were positive (Hair et al. 2022). In addition, we examined the model's out-of-sample predictive performance using PLSpredict and CVPAT, following current methodological recommendations (e.g., Alkhalifah and Bukar 2026). As shown in Table 3, the PLS-SEM RMSE values were lower than the linear model benchmark for most indicators, while the CVPAT results showed that these differences were statistically significant (Liengaard et al. 2021). Together, these findings provide evidence of both explanatory relevance and out-of-sample predictive performance.

The path coefficients were estimated using PLS-SEM with 5000 bootstrap samples, and Table 4 outlines the hypotheses investigated in this study. The evaluation of the hypotheses was based not only on the p-value but also on the f^2 value, as recommended by Cohen (1988) and Hair et al. (2022). According to Cohen (1988), f^2 values below 0.02 indicate a negligible effect, values between 0.02 and 0.15 represent a small effect, values between 0.15 and 0.35 indicate a medium effect, and values above 0.35 denote a large effect.

The structural model results indicated that business ties had a positive and statistically significant effect on dynamic capabilities ($\beta = 0.19$, $t = 3.77$, $p < 0.001$; $f^2 = 0.06$), suggesting a small effect size. Similarly, political ties had a significant, positive influence on dynamic capabilities ($\beta = 0.13$, $t = 2.91$, $p < 0.01$; $f^2 = 0.03$), also representing a small effect size. Thus, H1a and H1b were supported. Furthermore, dynamic capabilities had strong, significant effects on all dimensions of SE practices. Specifically, dynamic capabilities positively influenced employee-friendly practices ($\beta = 0.73$, $t = 21.78$, $p < 0.001$; $f^2 = 1.14$), social solidarity practices ($\beta = 0.52$, $t = 11.77$, $p < 0.001$; $f^2 = 0.43$), both representing large effect sizes; energy-saving practices ($\beta = 0.50$, $t = 10.16$, $p < 0.001$;

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TABLE 3 | Predictive validity results.

Endogenous construct	R^2	Q^2	PLS-SEM-RMSE	LM-RMSE	CVPAT (p)
Dynamic capabilities	0.48	0.46	0.69	0.73	0.000
Employee-friendly practices	0.53	0.45	0.82	0.84	0.000
Social solidarity practices	0.30	0.28	0.93	1.03	0.000
Energy-saving practices	0.26	0.23	0.99	1.02	0.000
Environmentally friendly practices	0.22	0.22	1.0	1.33	0.000

TABLE 4 | Results of path model.

Hypothesis	Path	Standardized coefficient	t	Result
Direct effect				
H1a	Business ties → Dynamic capabilities	0.19	3.77*	Supported
H1b	Political ties → Dynamic capabilities	0.13	2.91**	Supported
H2a	Dynamic capabilities → Employee-friendly practices	0.73	21.78*	Supported
H2b	Dynamic capabilities → Social solidarity practices	0.52	11.77*	Supported
H2c	Dynamic capabilities → Energy-saving practices	0.50	10.16*	Supported
H2d	Dynamic capabilities → Environmentally friendly practices	0.48	9.59*	Supported
Indirect effect				
H3a	Business ties → Dynamic capabilities → Employee-friendly practices	0.14	3.79*	Supported
H3b	Business ties → Dynamic capabilities → Social solidarity practices	0.11	3.71*	Supported
H3c	Business ties → Dynamic capabilities → Energy-saving practices	0.10	3.59*	Supported
H3d	Business ties → Dynamic capabilities → Environmentally friendly practices	0.09	3.62*	Supported
H4a	Political ties → Dynamic capabilities → Employee-friendly practices	0.09	2.88**	Supported
H4b	Political ties → Dynamic capabilities → Social solidarity practices	0.07	2.73**	Supported
H4c	Political ties → Dynamic capabilities → Energy-saving practices	0.06	2.64**	Supported
H4d	Political ties → Dynamic capabilities → Environmentally friendly practices	0.06	2.59**	Supported
Moderated effect				
H5a	Business ties × Inclusive leadership → Dynamic capabilities	0.02	0.34	Not supported
H5b	Political ties × Inclusive leadership → Dynamic capabilities	−0.06	0.93	Not supported

Note: *$p < 0.001$; **$p < 0.01$; ***$p < 0.05$.

$f^2 = 0.34$), and environmentally friendly practices ($\beta = 0.48$, $t = 9.59$, $p < 0.001$; $f^2 = 0.30$), both representing medium effect sizes. Hence, H2a, H2b, H2c, and H2d were supported.

The mediation analysis further examined the indirect effects of business and political ties on sustainability-oriented practices through dynamic capabilities. The indirect effects of business

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ties on employee-friendly practices ($\beta = 0.14$, $t = 3.79$, $p < 0.001$), social solidarity practices ($\beta = 0.11$, $t = 3.71$, $p < 0.001$), energy-saving practices ($\beta = 0.10$, $t = 3.59$, $p < 0.001$), and environmentally friendly practices ($\beta = 0.09$, $t = 3.62$, $p < 0.001$) were all positive and statistically significant. Therefore, H3a, H3b, H3c, and H3d were supported. Similarly, dynamic capabilities mediated the relationships between political ties and these sustainability practices. The indirect effects were significant for employee-friendly practices ($\beta = 0.09$, $t = 2.88$, $p < 0.01$), social solidarity practices ($\beta = 0.07$, $t = 2.73$, $p < 0.01$), energy-saving practices ($\beta = 0.06$, $t = 2.64$, $p < 0.01$), and environmentally friendly practices ($\beta = 0.06$, $t = 2.59$, $p < 0.01$). Thereby, H4a, H4b, H4c, and H4d were supported.

The study also examined the moderating role of inclusive leadership in the relationships between external ties and dynamic capabilities. The interaction term between business ties and inclusive leadership did not significantly affect dynamic capabilities ($\beta = 0.02$, $t = 0.34$, $p > 0.05$), indicating that inclusive leadership does not moderate the impact of business ties on firms' dynamic capabilities. Similarly, the interaction between political ties and inclusive leadership was also nonsignificant ($\beta = -0.06$, $t = 0.93$, $p > 0.05$), suggesting that inclusive leadership does not strengthen or weaken the influence of political ties on dynamic capability development. Therefore, H5a and H5b were not supported. Table 4 presents the structural model results, including the direct, indirect (mediated), and moderated effects.

5 | Discussion

The present study examines how external relational resources, specifically business and political ties, shape SE practices in an emerging-market context through the development of dynamic capabilities. The results consistently support the proposed framework by demonstrating that external ties enhance dynamic capabilities and that dynamic capabilities strongly predict all dimensions of SE practices. Moreover, dynamic capabilities mediate the effects of business and political ties, showing that relational advantages contribute to sustainability only when firms have the adaptive capacity to convert external information into internal action. Importantly, this transformation is not merely strategic; it also has ethical implications, because the same ties that enable sustainability outcomes can entrench favoritism, dependency, and exclusion when left unexamined.

First, the findings show that both business ties and political ties strengthen firms' dynamic capabilities. This result aligns with earlier studies arguing that external relationships give firms access to knowledge, legitimacy, and strategic resources (Peng and Luo 2000; Sheng et al. 2011). It also supports research suggesting that external embeddedness enhances firms' ability to learn and adapt to changing environments (Zahra et al. 2006; Zhang et al. 2023). At the same time, the results indicate that business and political ties alone do not generate SE practices. Their value depends on whether firms can transform these external resources into organizational capabilities.

Second, dynamic capabilities positively affect all four dimensions of SE practices. This finding is consistent with previous studies showing that dynamic capabilities help firms integrate environmental, social, and organizational objectives into their daily activities (Amui et al. 2017; Bajdor et al. 2021; Mishra and Kiran 2025). The results also support the dynamic capabilities perspective (Teece 2007), which argues that sustainable competitive advantage depends not only on possessing valuable resources but also on continuously renewing and reconfiguring them in response to changing conditions.

The mediation results explain how this process unfolds. Dynamic capabilities serve as the mechanism through which the benefits of business and political ties translate into SE practices. This finding extends earlier research identifying dynamic capabilities as the link between relational resources and organizational outcomes (Chang 2019; Abu-Rumman et al. 2021). Business and political ties provide firms with access to information, opportunities, and institutional legitimacy, but these advantages do not automatically lead to sustainable practices. They create value only when firms interpret, integrate, and embed them in organizational routines through dynamic capabilities.

Contrary to our expectations, inclusive leadership did not moderate the relationships between business ties, political ties, and dynamic capabilities. This result differs from previous studies suggesting that inclusive leadership promotes knowledge sharing, organizational learning, and capability development (Carmeli et al. 2010; Ye et al. 2019; Ashikali et al. 2021). One possible explanation is that business and political ties operate at the organizational level, whereas inclusive leadership mainly influences interactions within teams. Converting external relationships into dynamic capabilities therefore depends more on established organizational routines and learning processes than on individual leaders' behavior.

Overall, these findings answer the study's main research questions. Business and political ties do not directly lead to SE practices; their effects are realized through dynamic capabilities. Dynamic capabilities serve as the organizational mechanism that transforms external relationships into employee-friendly, social, and environmental practices. Inclusive leadership does not strengthen this process, suggesting that organizational routines, rather than individual leadership, drive capability development. Finally, the findings should not be interpreted as showing that dynamic capabilities eliminate the ethical risks associated with business and political ties. Rather, they suggest that dynamic capabilities influence how organizations translate relational resources into sustainability-oriented practices. From a business ethics perspective, this provides a basis for examining when relational resources are associated with responsible value creation, while recognizing that their ethical risks may persist.

5.1 | Theoretical Implication

This study advances the SE literature by explaining how sustainability-oriented practices emerge in institutionally fragile contexts. Although previous research has emphasized the importance of external relationships, entrepreneurial ecosystems, and institutional conditions in fostering SE (Muñoz and Cohen 2018; Anand et al. 2021; Huang et al. 2023), it has offered

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limited insight into the organizational mechanisms through which these external resources translate into sustainability-oriented practices. The findings demonstrate that business and political ties alone do not generate employee-oriented, social, or environmental practices. Instead, these relational resources create value only when organizations have the dynamic capabilities to interpret, integrate, and reconfigure externally acquired knowledge (Teece 2007; Zollo and Winter 2002). By identifying dynamic capabilities as the organizational mechanism linking external relational resources to SE practices, this study extends the literature beyond identifying antecedents to explaining how organizations enact sustainability-oriented practices.

Beyond advancing SE research, the findings also contribute to the business ethics literature by offering an organizational perspective on the ethical implications of relational embeddedness. Previous studies have debated whether business and political ties should be regarded as legitimate strategic resources or as mechanisms that reinforce favoritism, exclusion, and rent-seeking (Sun et al. 2012). Rather than treating these relational resources as inherently ethical or unethical, the findings suggest that their ethical implications depend on how organizations develop and deploy dynamic capabilities in transforming relational resources into sustainability-oriented practices. Accordingly, the study shifts attention from the ethical nature of relational ties themselves to the organizational processes through which their ethical implications emerge. This perspective complements existing debates on relational embeddedness by highlighting that the organizational use of relational resources, rather than their mere existence, shapes their ethical significance.

Finally, the study contributes to the dynamic capabilities and leadership literature by identifying an important boundary condition for leadership-based explanations of capability development. While prior research suggests that inclusive leadership facilitates knowledge sharing, organizational learning, and capability development (Carmeli et al. 2010; Ye et al. 2019; Ashikali et al. 2021), the hypothesized moderating effects were not supported. This finding suggests that, in institutionally fragile and network-dependent environments, dynamic capabilities rely more heavily on established organizational routines and institutionalized learning processes than on leader-centered behaviors. Rather than diminishing the importance of inclusive leadership, the findings indicate that formal organizational processes may play a more influential role than individual leadership in transforming external relational resources into organizational capabilities under conditions of institutional uncertainty.

5.2 | Practical and Managerial Implications

The findings suggest that business and political ties should not be regarded as strategic assets in themselves. Rather, they should be viewed as relational resources that provide access to market knowledge, regulatory information, and institutional legitimacy. However, firms can realize these benefits only when they have the dynamic capabilities to sense external changes, integrate newly acquired knowledge, and continuously reconfigure organizational processes (Teece 2007; Zollo and Winter 2002). Managers should therefore complement relationship-building efforts with investments in organizational learning, knowledge integration, and absorptive capacity. Establishing cross-functional learning routines and systematically translating external market and regulatory intelligence into employee-oriented, social, and environmental initiatives will enable firms to derive greater value from their relational networks.

The nonsignificant moderating role of inclusive leadership also offers an important managerial implication. Although previous research has highlighted the role of inclusive leadership in promoting organizational learning and capability development (Carmeli et al. 2010; Ye et al. 2019; Ashikali et al. 2021), the present findings suggest that, in institutionally fragile environments, dynamic capabilities depend less on individual leadership behaviors than on institutionalized organizational routines and learning processes. Accordingly, organizations should strengthen formal mechanisms that support sensing, learning, and organizational adaptation rather than relying solely on leadership practices to build capabilities.

The findings also provide important implications for policymakers. Traditional SME support policies often emphasize expanding firms' external networks and facilitating access to relational resources. However, the findings indicate that relational ties alone are unlikely to generate sustainability-oriented outcomes unless firms have the capabilities to use them effectively. Policymakers should therefore complement networking initiatives with programs that strengthen firms' capability development by supporting organizational learning, cross-sector knowledge exchange, collaborative innovation, and capability-building initiatives through innovation hubs, industrial clusters, R&D consortia, and public support programs. In the Turkish context, support mechanisms implemented through Small and Medium Enterprises Development Organization of Türkiye (KOSGEB), the Scientific and Technological Research Council of Türkiye (TÜBİTAK), organized industrial zones, export promotion programs, and green transformation initiatives could place greater emphasis on measurable capability outcomes, such as organizational learning systems, sustainability reporting, employee-oriented practices, and environmental innovation, rather than focusing primarily on firms' participation in relational networks. Such an approach would enable firms to transform external relational resources into sustainable organizational practices more effectively while increasing the broader societal value generated through public support programs.

5.3 | Ethical Implications of Relational Embeddedness in Emerging Markets

In institutional environments characterized by regulatory uncertainty and uneven access to public resources, the same relational ties that facilitate access to information, legitimacy, and resources may also create opportunities for favoritism, rent-seeking, regulatory capture, or the exclusion of less-connected stakeholders (Sun et al. 2012). Rather than resolving these competing interpretations, the findings complement the literature on the dark side of relational embeddedness by suggesting that the ethical implications of business and political ties remain context-dependent (Sun et al. 2012). This tension reflects a central ethical challenge in emerging markets, where the boundary

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between legitimate institutional engagement and instrumental self-interest is often difficult to define (Bruton et al. 2010).

Where formal institutions provide incomplete or inconsistent guidance, organizations inevitably exercise greater discretion in determining how relational resources are interpreted and utilized (Bruton et al. 2010; Meyer and Peng 2016). In such contexts, business and political ties may create opportunities that support sustainability-oriented practices, but they may also increase the possibility of decisions that prioritize short-term organizational interests over broader stakeholder considerations. Consequently, relational embeddedness should be understood as an ethically ambivalent organizational resource whose consequences depend not only on the relationships themselves but also on how organizations evaluate, prioritize, and employ them.

From this perspective, dynamic capabilities may have ethical relevance beyond their strategic role in transforming external relational resources into organizational practices. Sensing routines may broaden organizational attention to stakeholder expectations that could otherwise remain overlooked; learning routines may encourage reflection on the longer-term implications of relational decisions; and reconfiguring routines may enable organizations to modify practices and relationships that no longer align with sustainability objectives (Teece 2007; Zollo and Winter 2002). Together, these capabilities constitute an organizational infrastructure through which relational resources can be evaluated more systematically and translated into employee-oriented, social, and environmental practices. The findings do not suggest that dynamic capabilities function as an ethical safeguard or guarantee ethical outcomes. Rather, they indicate that dynamic capabilities create organizational conditions that enable firms to evaluate and utilize relational resources in ways that may support sustainability-oriented practices. Accordingly, the ethical implications of business and political ties arise not from relational embeddedness itself, but from how organizations develop and use dynamic capabilities to translate those relationships into sustainability-oriented practices.

5.4 | Limitations and Future Research Directions

Several limitations qualify these findings and point to productive avenues for future work. The cross-sectional design captures dynamic capabilities at a single point in time, although capability development is inherently iterative (Teece 2007; Zollo and Winter 2002). Moreover, the study relies on employee-reported data. While employees are appropriate respondents for assessing organizational routines and practices (Podsakoff et al. 2003), the findings reflect employees' perceptions of firms' relational ties, dynamic capabilities, and sustainability practices rather than objectively verified organizational outcomes. Future research should therefore adopt longitudinal designs and triangulate employee reports with managerial, governmental, or archival data.

The study's contextual scope also limits the findings' generalizability. Because the research focuses on SMEs operating in Turkey, the results may not readily extend to emerging economies with different political structures, regulatory regimes, and institutional environments (Bruton et al. 2010; Meyer and Peng 2016). Comparative multicountry and multilevel studies would help determine whether the observed relationships remain stable across institutional contexts and extend beyond the firm level.

The nonsignificant moderating effect of inclusive leadership further suggests that leadership may influence SE through indirect or configurational mechanisms rather than as a boundary condition. Future research could therefore examine mediation, serial mediation, configurational approaches, or qualitative designs to better understand how leadership shapes capability development (Carmeli et al. 2010; Ashikali et al. 2021).

Finally, the ethical implications of relational embeddedness were examined conceptually rather than measured directly. Future research should empirically investigate the "dark side" of business and political ties by incorporating constructs such as favoritism, regulatory capture, or stakeholder exclusion (Sun et al. 2012; Rajwani and Liedong 2015). Such research would provide a more nuanced understanding of when relational embeddedness supports sustainability-oriented practices and when it becomes ethically problematic in institutionally fragile environments.

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Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

Peer Review

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