

# **Sustainability Strategy in SMEs: Conceptualization, Motivations, and Processes for Development and Implementation**

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## **Abstract**

Our society is facing major environmental, social, and economic challenges, and Small and Medium Enterprises (SMEs) can play a significant role in tackling these challenges. Sustainability strategy is becoming increasingly important for companies, and SMEs are no different. A sustainability strategy can increase a firm's competitiveness, bring new business opportunities, and guide a firm to become more sustainable. Yet, little research has been carried towards a better understanding of the conceptualization, motivations, and various pertinent issues with respect to the development and implementation of the sustainability strategy in different SMEs. This study aims to address these open research gaps.

The study was conducted using 19 in-depth semi-structured interviews with managers working in SMEs, as well as three consultants. The aim of these interviews was to understand the conceptualization, motivations, and processes involved in the development and implementation of a sustainability strategy by SMEs. The collected qualitative data were analyzed using grounded theory.

A sustainability strategy directs SMEs on how to handle environmental, social, and economic challenges. Due to their scarce resources, the sustainability strategy focus on key areas of improvement, containing targets, Key Performance Indicators, and an action plan. Our findings indicate that SMEs are motivated by financial incentives such as a license to operate, business opportunities, branding, and access to financing or intrinsic motivations. The study presents a process model for developing and implementing a sustainability strategy in SMEs.

A deeper understanding of the topic will be useful for further research because the increased understanding can guide and influence SMEs that are aiming to achieve sustainability goals. Governments and larger companies can use these insights when approaching SMEs and evaluating their sustainability efforts.

By the preliminary literary review, it became clear that the conceptualization of sustainability strategy in SMEs is scant and as to the authors' knowledge, this thesis conceptualization is the first of its kind. Previous studies have provided a perspective of why larger corporations are motivated to go through the process of developing and implementing a sustainability strategy, but insight into what motivates SMEs is still missing. A process model for understanding how SMEs approach sustainability strategy is also sparsely mentioned in the literature. Combined, these three themes will give an increased understanding of sustainability strategy.

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To our deeply loved ones, thank you from the bottom of our hearts. You have seen us through our ups and downs. We are deeply grateful for the love and support we have received from our friends and family during this process. Their words of encouragement have helped us tremendously.

Finally, we are forever thankful and must express our very profound gratitude to all the participants. Your contribution made this thesis possible. Without you, there would not be any data to analyze and draw conclusions from. We appreciate the insight you shared, and for taking the time to participate in this study.

Our motivation for writing about the topic of sustainability strategy in SMEs comes from our burning interest in sustainability and business development. Through our master's degree it has become clear that strategy plays an essential role in business development and in the work to achieve goals. Sustainability is an important social problem that all parts of society, including SMEs, must contribute to fighting in order for us to win. In light of this, we were eager to gain greater insight and understanding about how SMEs conceptualize, are motivated, and going through the process of developing and implementing sustainability strategy.

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## List of Abbreviations

<b>EU</b>	European Union
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>KPI</b>	Key Performance Indicator
<b>RBV</b>	Resource-based view
<b>RO</b>	Research objective
<b>RQ</b>	Research question
<b>SMEs</b>	Small and medium sized enterprises
<b>UN</b>	United Nations

# 1. INTRODUCTION

## 1.1 Background

Planet Earth is now facing challenges of environmental climate change, much more serious than ever before (United Nations a, 2022). This challenge act like a “*crisis multiplier*” since it has profound implications for international stability and peace (ibid). The temperature has risen, and businesses are held accountable for their contribution to this problem by governments (United Nations b, 2022). Businesses are pushed to do more to ensure sustainable development and contribute towards climate change discussions to preserve this planet for future generations (ibid). Now we are at a tipping point where we need immediate and realistic actions from companies. Despite the broad focus on sustainability in the media and from the government, development is progressing slowly, and the urgency is reflected by the brutal consequences to come if the world turns a blind eye (United Nations b, 2022; European Commission a, 2023). According to Baumgartner and Rauter (2017, p. 89), one of the major reasons for the lack of progress toward sustainable development is the lack of strategic orientation in corporate sustainability management. Scholars found that many managers now clearly understand the significance of the strategic approach to corporate sustainability (Kitsios et al., 2020), but this awareness shown to not be enough. Strategy is a managing tool meant to steer the business towards achieving set goals and being one step closer to its vision (Jacobsen & Thorsvik, 2013, p. 42; Angwin et al., 2020, p. 10).

Scholars have suggested multiple definitions of sustainability strategy, but none of them has gained a foothold. Kitsios et al. (2020) suggest the following definition “*A corporate sustainability strategy aligns social with environmental dimensions into the strategic management process and highlights the company’s strategic position concerning sustainable development*”. Without sustainability as a part of the strategy, achieving progress in this area is hard. Strategy is an essential part of any business. It lays the long-term foundation for many aspects of the firm's operations, like resource allocations and action plans (Angwin et al., 2020, p. 9-10). Due to the importance of business strategy, it has been a hot topic amongst scholars for decades. The need for a new understanding of the concept has changed as the world in which businesses exist (Karp, 2014, p. 48). The need for sustainability is changing the markets SMEs operate within (European Commission a, 2023; European Commission b, 2023).

Teh and Corbitt (2015) argue that even with an increasing focus on environmental issues and how companies transform business processes and models, research with a holistic and strategic perspective is still scarce. A Bibliometric Analysis of Corporate Sustainability

Strategies and Decision Support Methods (Kitsios et al., 2020) found the same, that “*this field is still in its early stages and further research is required*”.

SMEs have a major role in working towards a more sustainable world (European Commission a, 2022, p. 1; European Commission b, 2022). They stand for a comprehensive negative contribution to climate change and environmental degradation (European Commission c, 2022, p. 91). SMEs alone are responsible for approximately 60% of all carbon dioxide emissions and 70% of pollution (International Trade Center, 2021, p. 45). In other words, SMEs are equally accountable or even more for the challenges we face as large firms. Despite this, there is a gap in studies done on sustainability strategy regarding SMEs (Luederitz et al., 2021). Different factors can explain the reason for this. Larger companies have felt more significant pressure from these stakeholders hem accountable, and the regulations are aimed at them (Martins et al., 2022; European Commission b, 2023).

In the case of sustainable development, organizational size matters, as it affects the willingness to formulate a sustainability strategy (Kitsios et al., 2020). SMEs have scant resources compared to lag enterprises. There is a scarcity of working capacity, financial strength, and collective knowledge. This scarcity has a direct negative impact on SMEs' contribution to sustainable development. Many SMEs lack sustainability focus, strategy, and knowledge. Lack of high-level guidance often hinders practitioners from transitioning from operational tactics with a sustainability focus to a strategy congruent with the current business strategy (Cavaleri & Shabana, 2018).

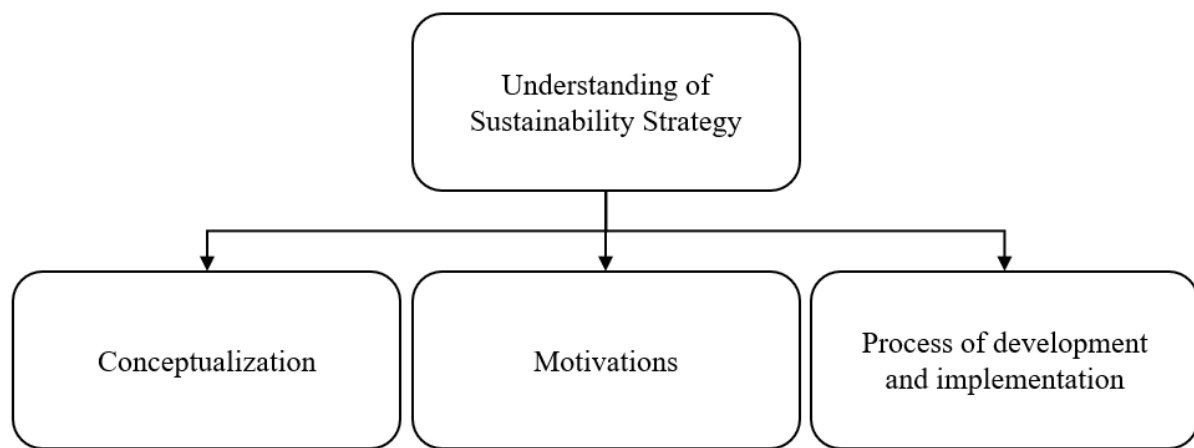
Although having a sustainable strategy is a good first step, implementation is necessary to secure sustainable development. The challenge often lies in aligning strategic management with sustainable development “[...] *as well as to implement it in practice*” (Kitsios et al., 2020). Various studies and frameworks have been developed to help businesses with their approach toward sustainability (Baumgartner & Rauter, 2017, p. 81), but the relatively limited impact of these approaches has been highlighted (Hopwood et al., 2005; Sneddon et al., 2006; Goncz et al., 2007). One reason is the absence of strategic orientation when introducing and implementing sustainability related practices and goals (Baumgartner & Korhonen, 2010).

Research has shown that sustainability strategy and implementation are not only beneficial for the environment but can give SMEs competitive advantages and financial gains (Bansal & Roth, 2000; European Commission c, 2022, p. 11). SMEs can benefit from increased competitive advantages in the form of responding to customers' changing needs and cost reductions. How SMEs understand, get motivated, develop, and implement sustainability



strategies is of great interest to public organizations that aim to promote sustainability and help the companies become more sustainable, and for SMEs as a source of inspiration. As points of improvement can be identified and understanding expanded. Scholars and consultants can, in turn, build further on and use in their work towards a more sustainable world.

Despite the need of insight on this topic, there is to our understanding there are three major gaps. First, the current understanding of the conceptualization of sustainability strategies in SMEs is limited. Second, there is not a clear understanding of the motivations SMEs have for developing and implementing sustainability strategies. Third, the knowledge on the process SMEs use to develop and implement sustainability strategies. This thesis will address all these issues. The key pillars of this thesis is explained in Figure 1.



**Figure 1.** Key pillars of the thesis work

## 1.2 Research questions

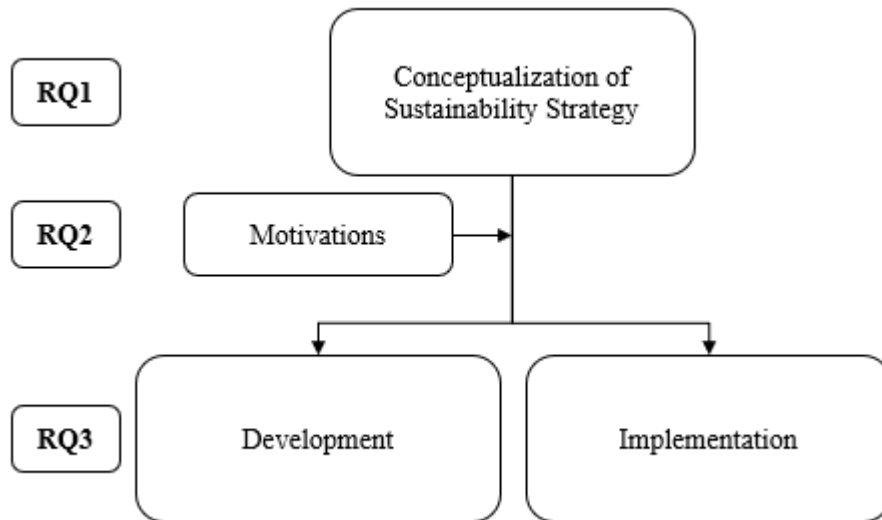
As sustainability strategy in SMEs is a topic where limited research has been conducted, this study aims to bring some more clarity to the topic. To fully understand sustainability strategy in relation to SMEs, it is important to understand how SMEs conceptualize sustainability strategy, what motivates them to work with sustainability strategy, and what the process of development and implementation looks like. Based on this, the following research objective (RO) and research questions (RQs) have been developed. The research questions are illustrated in Figure 2.

**RO:** To understand the conceptualization, motivations, and process of developing and implementing sustainability strategy in SMEs.

**RQ1:** How do SMEs conceptualize sustainability strategy?

**RQ2:** What motivates SMEs to develop a sustainability strategy?

**RQ3:** How do SMEs work to develop and implement sustainability strategy?



**Figure 2.** Overview of research questions

### 1.3 Preliminary literature review

For any area of research, it is important to conduct a literature review (Hart, 2018). The literature review should present previous work that is relevant to the topic of the study, showing what has been written about the topic previously (Hart, 2018). The purpose of the review is providing information about the topic, to synthesize and organize the information, and to identify gaps of information for further research (Hart, 2018).

The literature search was conducted using the database Scopus. The Scopus database is a widely recognized database used for finding scholarly literature and is one of the most comprehensive sources of bibliographic publications (Pranckutė, 2021). The search was conducted using the search terms “*sustainability strateg\**” AND “*SME*” OR “*small and medium enterpris\**”. The search was conducted March 27<sup>th</sup>, 2023, and generated a result with 33 papers, of which eight were relevant for this study. There small number of studies found using in this search shows how little research has been done on sustainability strategy in SMEs.

Previous studies on sustainability strategy have mainly been qualitative, except for Khoja et al. (2022), which investigated the relationship between internal sustainability strategies and financial, operational, and environmental performance. This study found a significant positive relationship between sustainability strategies and financial, operational, and environmental performance. The financial benefit of engaging with sustainability strategy is an essential motivation for SMEs’ when considering to develop a sustainability strategy (Shields & Shelleman, 2015). Other benefits highlighted in previous studies are being able to develop the firm into a state where they are investment targets, build

competitive networks to compete with larger firms, and increase efficiency to become more attractive suppliers (Moore & Manring, 2009).

SMEs are often struggling with a lack of time and resources and therefore prioritize the operational activities viewed as the most important (Journeault et al., 2021). This can be detrimental to strategic planning for some SMEs (Journeault et al., 2021), leading them to overlook critical opportunities and threats regarding sustainability in the business environment (Shields & Shelleman, 2015). One way to combat these barriers is through cooperation and partnerships with firms or other stakeholders (Journeault et al., 2021). Large corporations often have carefully planned strategies with regard to sustainability, but because of SMEs lack of time and lack of human resources, these processes are not widely used by SMEs (Luederitz et al., 2021). Instead, Luederitz et al. (2021) found that SMEs develop their sustainability strategies through a combination of emergent actions and planning rather than through planned strategy formation alone. These processes heavily rely on communication inside the organization and with external stakeholders such as suppliers and customers to direct the company in a desired direction (Luederitz et al., 2021). Journeault et al. (2021) also highlight that the communication between firms and stakeholder is crucial for SMEs to counteract the barriers, lack of time, lack of human resources, skills and expertise, and the knowledge of the benefits regarding sustainability strategies. Shields & Shelleman (2015) proposed a SWOT framework for SMEs to use in their development of a sustainability strategy to combat these barriers to develop sustainability strategies in SMEs. Using a framework will give SMEs a tool for organizing their sustainable development work while at the same time being a simple framework to work with that does not require much previous knowledge, and it will serve as a guide for recognizing opportunities and threats for the firm (Shields & Shelleman, 2015).

Maturity models have been developed to assess how well SMEs are doing with their sustainability strategies (Vásques et al., 2019; Vásques et al., 2021). The models use factors like internal and external knowledge of sustainability, the presence of a sustainability management system, organizational culture, and monitoring and control. These are the factors they have found to be the most important for succeeding in implementing sustainability strategies.

## **1.4 Key concepts and definitions**

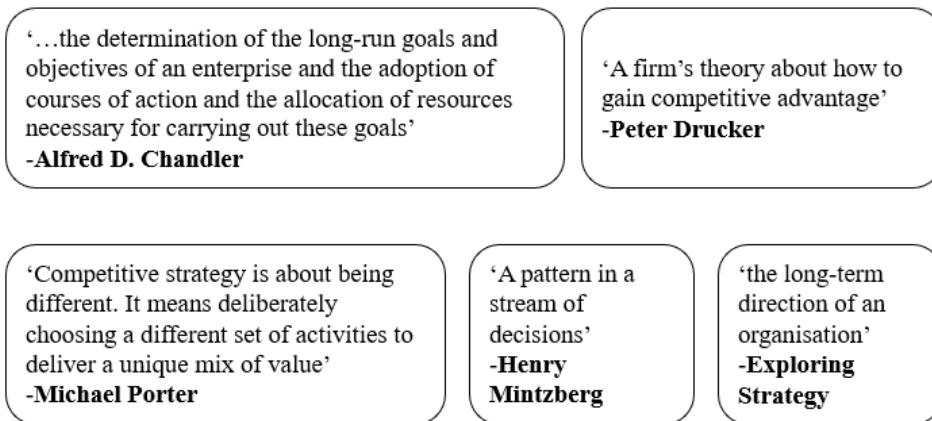
### **1.4.1 Sustainability**

Brundtland (1987) defines sustainable development as “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*”. Sustainability consists of a social dimension, an environmental dimension, and an economic dimension (Forente Nasjoner, 2021). In the social dimension, efforts are put in to eliminate, for example, poverty and discrimination. Zero emission and responsible use of natural resources are parts of the environmental dimension. Financial security, and better allocation of wealth worldwide are important for the economic dimension.

### **1.4.2 Strategy**

The reason why strategy is studied is an assumption that it affects how organizations adapt to the environment in which they operate and function, as well as how employees in organizations think and act (Jacobsen & Thorsvik, 2013, p. 36). Over the years, scholars have come up with various definitions of strategy (see Figure 3). One common trade characteristic is its purpose of describing what must be done in order to reach set business goals (Jacobsen & Thorsvik, 2013, p. 42).

Angwin et al (2020, p. 5) argue for the definition “*strategy is the long-term direction of an organization*”. They reason this argument by splitting the definition into three defining elements long-term, direction, and organization. It includes the element long-term since strategy typically last for a long time. The words strategic direction was chosen because they usually follow a direction or trajectory for a longer period. Regarding organizations, they emphasize that “*Organizations involve many relationships, both internally and externally*” (Angwin et al, 2020, p. 8). Stakeholders is a keyword for every business, both internal and external stakeholders are important for the organization's survival. In business, employees, customers, and investors are examples of important stakeholders. Both internally and externally, it is important to consider different views and interests.



**Figure 3.** Definitions of strategy, Source: Angwin et al., 2020, p. 5

### 1.4.3 Motivation

People, enterprises, animals, and society are all motivated in one form or another. Motivation is what drives us. Motivation can be defined as “*the need or reason for doing something*”, “*enthusiasm for doing something*” or “*willingness to do something, or something that causes such willingness*” (Cambridge University Press a, 2023). Motivation can be divided into intrinsic and extrinsic categories (Ryan & Deci, 2000, p. 55). Commonly, intrinsic motivation is described as “*as driving forces of behavior that individuals deem inherent to the activities undertaken*” (Wang, 2015). In other words, drivers for intrinsic action can, for example, be meaningfulness and interest. Extrinsic motivation “*refers to doing something because it leads to a separable outcome*” (Ryan & Deci, 2000, p. 55). Lastly, motivation is not homogeneous, and there exist different levels of motivations and different kinds of motivations (Ryan & Deci, 2000, p. 54-55).

### 1.4.4 Small and Medium sized enterprises (SME)

Small and medium-sized businesses are usually defined by the number of employees, the value created, or the value of assets in a firm (Martins et al., 2022). This varies between countries, and the European Union (EU) has defined SMEs as firms with less than 250 employees and an annual turnover of less than EUR 50 million or a balance sheet total of less than EUR 43 million (European Commission b, 2023). While in Norway, an SME is defined as a firm with less than 100 employees (NHO, 2023). In this study, we will use the definition provided by the EU.

### 1.4.5 Process of strategy; Development and implementation

In the Cambridge dictionary, the word process is defined as “*a series of actions that you take in order to achieve a result*” (Cambridge University Press b, 2023). In this study, process is seen in the context of a strategy. The process addresses both the strategic content

formulation explaining “*what*” and the implementation explaining “*how*” and “*who*”. (Cummings et al., 2019, p.479,481). A strategy process consists of three different aspects; strategic thinking, strategic formation, and strategic change (Wit & Meyer, 2004, p. 6-7) (see Figure 4). These aspects are partly overlapping and strongly linked. This thesis covers strategic thinking and formulation under the umbrella of development.

In the first stage, opportunities and threats in the environment are identified by the strategist, as well as the organizations strengths and weaknesses. Following is the step of formulation where it is determined which strategic options are available, then each is evaluated, and one is decided upon. Next is the stage of implementation, here the strategist’s job is to translate the selected strategic option into concrete actions and make sure it is carried out.

Companies go through this process differently, as company-specific factors influence their strategic choices (Hutzschenreuter & Kleindienst, 2006, p. 676). Examples are organizational context, external context, strategic predispositions, and the intensity of pre-performed information search.



**Figure 4.** Strategy process, Source: Wit & Meyer, 2004, p. 7

## 1.5 Delimitations

The delimitation chapter is included to give insight into the limitations the authors have set for this study. A pointed research is chosen to improve the quality of the findings (Parija & Kate, 2018, p. 20). The thesis aims to bring more clarity to the topic of sustainability strategy in SMEs. To do this, this thesis will focus on the conceptualization, motivations, and the process of development and implementation of sustainability strategy in SMEs. To be able to answer the research questions as precisely as possible, limitations were set. The research questions set a baseline and an aim for this study. A choice in methods set how the data collection and analysis were done.

Prior to this research, the authors had discovered three gaps in previous literature. To summarize, the previously mentioned gaps refer to how SMEs conceptualize sustainability strategy, their motivations to attain one, and the process. Empiric evidence is scant, and the existing studies do not attempt to understand SMEs' perceptions of these topics. The literature provides information on larger companies with reporting obligations and resources far from SMEs' reality. These gaps leave the need for studies that provide a comprehensive picture of sustainability strategy in SMEs. Studies with these themes are of value because they will contribute to understanding how SMEs conceptualize, develop, and implement a sustainability strategy and why they are motivated to do so.

With the existing gaps in mind, the authors used grounded theory and conducted in-depth semi-structured interviews with managers in SMEs, as well as consultants working closely with SMEs. Grounded theory is the preferred choice of analysis when developing theory. By only interviewing people in high positions, the study would avoid interviews with people in positions that do not have insight into the strategic thought process of the business. Managers and consultants bring experience from developing strategies and make decisions for the strategic direction of the firm. This limitation was done to ensure rich data from the interviews with the insight to be able to answer the research questions. Furthermore, the study is conducted in the context of Norwegian SMEs. To ensure that the data gathered would be of high quality, the interviews in this study were conducted in Norwegian. To limit the search for respondents, the authors only approached businesses with an employment number below 250 stated on proff.no, a website that provides various information on Norwegian firms. The interviews were conducted between April 11<sup>th</sup> and May 22<sup>nd</sup>, 2023.

## **1.6 Research methodology**

As discussed above, the literature on this topic is limited. Since the literature on the conceptualization of sustainability strategy in SMEs, motivations for engaging with sustainability strategy, and development and implementation of sustainability strategy, an exploratory research design can be a good research methodology for this study. Exploratory research designs are preferred when the research topic is poorly understood (Ghauri et al., 2020). The aim of exploratory studies finding new information and increase the understanding of the research topic (Ghauri et al., 2020). Because of the limited understanding of sustainability strategy in SMEs, the authors argue that an exploratory, inductive research design is an ideal choice for this thesis.

The authors have utilized semi-structured interviews in order to collect the qualitative data. Semi-structured interviews are interviews that have predefined questions for the interview, but the questions are asked open-ended. This is advantageous in exploratory studies because it allows the interviewee to answer freely and gives a more accurate picture of the interviewee's thoughts and views on the topic (Ghauri et al., 2020). Asking follow-up questions on interesting points made during the interviews will also enrich the data (Ghauri et al., 2020). The semi-structured interviews will provide valuable insight and rich data on how SMEs conceptualize sustainability strategy, their motivations, and their process for developing and implementing one. Because of the complexity of the topic and businesses, the authors argue that this is a suitable method for data collection.

## **1.7 Structure of the thesis**

The structure of the study is divided into five sections. The introduction, a literature review, research design and methods, findings, and a conclusion.

The introduction will outline the background for the study, the aim of the study, a preliminary literature review, and delimitations of this study. Collectively these topics will serve as why this study is of importance. The second section will present the theory used for this study. This will give a deeper understanding of sustainability strategy. This will include theoretical insight into SMEs and sustainability and SMEs and sustainability strategy. The third section will present the methods and research design. It will outline and discuss the chosen approaches in the study, and the reliability and validity of the study will be examined.

The fourth section will present the findings of this study before discussing them with the literature used in this study. Lastly, we will conclude with a summary, the study's implications, limitations, and suggestions for further research.



## 2. LITERATURE REVIEW

This chapter will provide literature on topics that are relevant to this study. Firstly, sustainability and SMEs will be covered, before sustainability strategy in SMEs will be covered with a general overview, proceeded by motivations, and lastly development and implementation.

### 2.1 Sustainability and SMEs

The word sustainable is derived from the Latin word *sustineri* (Nystad et al., 2008). It holds the meaning “*to hold*” or “*to maintain*”. The term, sustainable development was first introduced in 1987 by the World Commission on Environment and Development. Since then, the term has become world-renowned and a field that scholars have taken a deep dive into. The World Commission, led by Brundtland, defined the term as a “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*” (Brundtland, 1987, p. 41). Sustainable development works towards a secure future for the next generations while the needs of those who live are met.

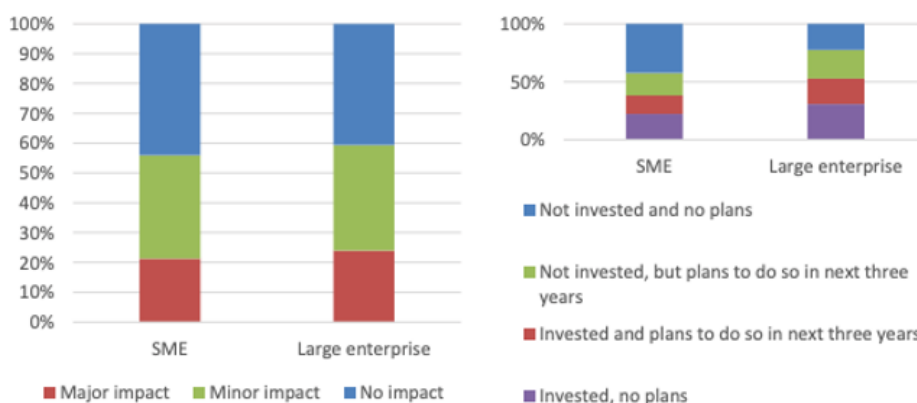
SMEs have a high negative impact on the environment. (European Commission c 2022, p.16). They comprise 98% of all businesses and employ about 65% of the world’s population. This makes SMEs a critical group to get on board the sustainability transition for it to succeed (European Commission c, 2022, p. 14). A survey conducted along with the European Commission’s Annual Report on European SMEs 2021/2022 found that SMEs feel pressure to become more sustainable (ibid). Of the associations reported in SMEs, 90% expressed experiencing a strong or very strong external pressure to obtain climate neutrality. According to SMEs, the pressure felt strongest from society and the EU, and slightly less from stakeholders such as investors, customers, national governments, and supply chain partners.

SMEs are, in this thesis, defined as companies with less than 250 employees. This group of enterprises can range from a one-person consulting firm to a logistic firm with about 250 employees (European Commission c, 2022, p. 14). SMEs are in other words highly heterogeneous. Nevertheless, the European Commission ( 2023, b) has managed to identify some key characteristics which is applicable across a wide range of SMEs. The first characteristic is their tendency to operate with limited diversification in product and geographical niches. The second point is limited access to resources as a prominent characteristic. Here resources are referred to as skills, expertise, human resources, and finance. Lastly, the role of owner and manager is often one and the same in SMEs, resulting in a dependency on the beliefs, ambitions, and values of this owner-manager.

According to the European Commission (2022, p. 15, c), these key characteristics influence SMEs and shape how they embark on the sustainability transition. Their large presence in niche markets, for example, makes the transition distinctive. At the same time, their ability to finance investment in cleaner technologies is limited due to insufficient access to finance.

Several interesting findings and observations were presented in a background document for a report on SMEs (European Commission c, 2022, p. 21). As the consequences of climate change have already begun to show worldwide (European Commission a, 2023). SMEs report that they are already experiencing the effects of climate change (European Commission c, 2022, p. 21). To reduce their carbon footprint, some SMEs have started implementing sustainability strategy. SMEs, in comparison to larger firms, lag behind in terms of actual and planned investment (European Commission c, 2022, p. 21). Of SMEs, 39% reported that they had such a strategy in place or expected to develop one, larger enterprises reported 67%, see Figure 5 (European Commission c, 2022 p. 23). Lastly, SMEs bottom line are affected by climate change and climate change policies in four ways (European Commission c, 2022, p. 21).

*“First, there are costs associated with climate change policies, such as adherence to regulations and standards. Second, SMEs have to bear rising energy costs, due to carbon taxes and other pricing mechanisms. Third, SMEs face changing demand patterns, as consumers and customers change their purchasing patterns and behaviors. And lastly, there is the impact of climate change itself, which is also felt by SMEs”.* (European Commission c, 2022, p. 21)



**Figure 5.** Impact of climate change and climate investment plans, Source: European Commission d, 2022, p. 82

## 2.2 Sustainability Strategy in SMEs

### 2.1 General overview

Sustainability strategy consists of two words. The first word, sustainability, describes the strategy's goal and vision. While the second word is more mysterious because there are many ways to work towards a more sustainable operation and countless different approaches to strategy. A sustainability strategy is simply a strategy to obtain sustainability. This definition is weak and provides limited insight. In the field of sustainability, there is a lack of agreement on the definition beyond this given. Kitsios et al., (2020) have suggested the following definition “*A corporate sustainability strategy aligns social with environmental dimensions into the strategic management process and highlights the company’s strategic position with regard to sustainable development*”.

Due to the current climate crisis and its effect on the competition premises, integration of sustainability in business strategy has become a strategic opportunity for companies (Porter & Reinhardt, 2007). Most large companies have developed sustainability strategies, but many SMEs lack a strategy to tackle sustainability issues (Luederitz et al., 2021). Reasons for this can be lack of resources, less stakeholder pressure, and simpler organizational structures (Luederitz et al., 2021). Research has highlighted a lack of strategic approaches and guidance in formulating and implementing sustainability strategies (Luederitz et al., 2021). By overcoming these obstacles, SMEs can obtain greater profitability and increase the pace of their sustainable change (Shields & Shelleman, 2015).

The sustainability should tackle the aspects of environment, social, and economic sustainability in the firm (Shields & Shelleman, 2015; Luederitz et al., 2021). Carson et al. 2014 argues that sustainability is all about finding the perfect balance between good social conditions, a good environment, and good finance. Profit is an economic measure where the business's overall income is submitted with the overall costs. In order to be financially sustainable, the income has to exceed the expenses.

Sangle (2010) found in an empirical analysis evidence of businesses being influenced by the wishes and needs of important stakeholders when making environmental decisions. For example, governments can determine regulations that force or increase businesses' incentives for green solutions (Papagiannakis et al., 2014). Companies are also pushed in a sustainable direction by customers because without complying with their purchase preferences, it is hard to attract, satisfy, and have a long-lasting relationship with them (Dangelico & Pujari, 2010).

### **2.2.2 Motivations**

A study by the Bocconi School of Management (2021, p. 24) found five motivations for SMEs to take sustainable initiatives. The first one is linked to individual beliefs, principles, and values. The ones of managers and owners were especially important drivers. The second strong driver shaping SMEs is “*social proximity, beyond the business context, strong social identity, and deep involvement in local communities*” (Bocconi School of Management, 2021, p. 24). The third is named socio-cultural environment. In some countries, it was found to be particularly relevant for contributing to employee welfare initiatives. The fourth driver is legislative framework. Organizational benefits are the last driver, which is rooted in both environmental initiatives and employee welfare. For SMEs that operate in an environment experiencing a lack of skilled workers, creating an attractive workplace is important. Lastly, the aim for positive returns on investments and projects is considered a driver.

As mentioned earlier, SMEs are currently experiencing challenges due to climate change and related policies, such as rising energy costs, because of carbon taxes and other pricing mechanisms (European Commission d, 2022, p. 81). Several opportunities for SMEs to reap the benefits of becoming more sustainable is emerging from these challenges (European Commission d, 2022, p. 82). If SMEs manage to become more resource efficient co-benefits arise. It can lead to cost reductions, while improving SMEs’ environmental performance. (European Commission c, 2021, p. 11)

Through their work, Bansal and Roth (2000) identified competitiveness, legitimization, and ecological responsibility as three motivational factors that promote sustainable activities. The first involves the companies' aim to continue operating and be profitable. To achieve this, the company must have a competitive advantage, in this case through environmental management. Legitimation refers to adapting to prevailing norms and values in relation to sustainability with the desire to improve relations with stakeholders. The motivation can also come from a sense of social-ecological responsibility and a sincere desire to contribute to making the world more sustainable.

### **2.2.3 Development and Implementation**

In a case study, Luederitz et al. (2021) found that both planned and emergent strategy development approaches were utilized simultaneously when developing sustainability strategy in SMEs. The study also found that strategy development was heavily influenced by internal and external collective agency (Luederitz et al., 2021).

In scholarly literature, two main views exist on how strategies are developed; planned and emergent (Neugebauer et al., 2016). The planned process suggests that strategies are developed

in an organized planning process usually directed by top management (Neugebauer et al., 2016). On the other hand, emergent strategy is the view that strategy emerges from actions in the organization, often undirected, and a strategic approach is formed from these actions (Neugebauer et al., 2016). In emergent strategies, SMEs need to develop manager's and employees' skills and expertise to establish quality feedback in the process of formulating goals and achieving the wanted outcomes (Luederitz et al., 2021). Although there are two distinct perspectives on strategy development, researchers today mostly agree that strategy-making happens somewhere between planned and emergent (Neugebauer et al., 2016).

Many SMEs struggle to address sustainability with planned processes and rarely engage in formal planning processes (Luederitz et al., 2021). More often, they rely on individuals' expertise and aspirations for how the direction of the firm (Beaver, 2007), and as SMEs are often owned and managed by the same person, the manager plays a crucial role in the strategic direction of the firm (Johnson & Schaltegger, 2015). Lee et al. (2021) found that employees and external stakeholders play a crucial role in shaping the firm's strategic direction.

From the perspective of emergent strategies, the development and implementation of a strategy cannot be separated due to the iterative process that is happening through the process (Neugebauer et al., 2016). On the other hand, planned strategies are viewed as a two-step process where you find goals and develop a strategy based on these goals before the plan is implemented throughout the organization to reach the goals (Neugebauer et al., 2016). In this view, research has shown that strategies often do not fail because of poor formulation but because of poor implementation (Li et al., 2008). Hrebiniak (2006) also says, "*Formulating strategy is difficult. Making strategy work – executing or implementing it throughout the organization – is even more difficult*", meaning that poor implementation can sabotage even the cleverest strategy (Angwin et al., 2020, p. 435).

To ensure a sustainability strategy can gain value for the firm, the strategy needs to be integrated into the overall business strategy that affects all corporate levels and systems (Baumgartner & Rauter, 2017). This refers to the organizational culture, daily activities, learning, and feedback loops (Baumgartner & Rauter, 2017). Internal communication is a crucial part of succeeding with a sustainability strategy (Hrebiniak, 2006). Having people from all areas of the organization be a part of the strategy development process increases the commitment towards the strategy, and the likelihood of successful implementation increases (Hrebiniak, 2006).

### **3. RESEARCH DESIGN AND METHODS**

In this chapter, we will outline the research design and methods utilized while conducting this research.

#### **3.1 Research method**

The research design that is most suitable for a study depends on the research problem and the purpose of the study (Ghauri et al., 2020, p. 96). Sekaran and Bougie (2013) describe it as “*a plan for data collection, measurement, and analysis of data which is made to answer the study’s research questions*”. Because of the limited number of articles and theory on the topic, this study will be exploratory in nature, and the aim of the study is to develop a better understanding of the topic. Therefore, a qualitative inductive approach is used in this study as it is viewed as the most useful in these types of studies, as it is often used when trying to get a better understanding of a certain phenomenon when nothing or little is known about it (Ghauri et al., 2020, p. 98-99). In qualitative data collection, data produced is often in the form of words, and is gathered through interviews, focus groups, or observations (Sekaran & Bougie, 2013, p. 337).

#### **3.2 Research context**

Global warming is becoming an ever-larger threat, and the world is attempting to develop into a more sustainable. A sustainability strategy is the starting point of action for any business, and much research has been conducted regarding sustainability strategy in large firms. SMEs stand for about 70% of global emissions, yet there are few studies on how SMEs view, develop, and implement sustainability strategies. This research was carried out by interviewing SMEs to understand the conceptualization, motivations, and the process of development and implementation of sustainability strategy in SMEs, and to answer the questions; “*How do SMEs conceptualize sustainability strategy?*”, “*What motivates SMEs to develop a sustainability strategy?*”, and “*How do SMEs work to develop and implement a sustainability strategy?*”.

#### **3.3 Data collection**

A qualitative study aims to better understand a phenomenon and build theory, which makes sampling important (Ghauri et al., 2020, p. 108). Since the study's goal is to better understand how SMEs view sustainability strategies, purposeful sampling was utilized to have participants that could provide as much information about the topic as possible (Ghauri et al., 2020, p. 109). To answer the study’s research questions, we viewed it as crucial to include SMEs from different sectors to get broad insight of how SMEs view sustainability strategy. We also decided to interview three consultant firms that have worked closely with SMEs in

creating sustainability strategies to gather insight from a broader perspective than just participants with sustainability experience from one firm.

Semi-structured interviews were the chosen data collection method for this research. This method was chosen because there was specific information and questions that were of interest to the research, while at the same time wanting to be flexible if there was interesting information that arose during the interviews (Dawson, 2007, p. 29-30). According to Sekaran and Bougie (2013, p. 116), semi-structured interviews are especially useful for data collection in exploratory studies because they allow specific open-ended questions to be asked while at the same time giving the opportunity to ask follow-up questions and elaborations of interesting pieces of information come up.

The interview guide was drafted to be able to answer the research questions. There was one section for each of the research questions, where the first section focused on the conceptualization and elements of a sustainability strategy in SMEs, the second part focused on the motivations of SMEs to have sustainability strategies, and the last part focused on the development and implementation of sustainability strategies. When the draft was finished, the interview guide was tested in an interview to get feedback. Based on the feedback, some questions were added and removed, and some were changed to make it easier for the participants to understand the question.

We used phone calls and email to reach out to potential firms that we wanted to participate in the study. In the process, we contacted 63 SMEs, where we presented the study, what information we were after, and invited them to participate in the study. Out of the 63 contacted, 29 did not respond, 13 declined to participate, and 19 agreed to participate. When contacting consultant firms, we used contacts we had developed from previous interactions, and all three contacted consultant firms agreed to participate. For participant profiles see Table 1.

No audio recordings were made during the interviews. That decision is based on three points in favor. First, audio recording may affect how the respondents described the process. By opting out of this, the data can become richer and more applicable to the topic we want to understand. Secondly, for research that aims to obtain information about how things are done, and other factor-based information, good notes may be sufficient (Bazeley, 2013, p. 72). Third, the workload decreases considerably, making it possible for the analysis to be carried out quickly after the interview. A break between every question was incorporated to ensure the notes were as precise and complete as possible.

In all the interviews, there were two people present conducting the interview. One person was taking notes while the other person was asking questions. The interviews were

started by giving information and explaining the purpose of the study. The opening questions of the interview guide were simple questions about their background, what their job is, and what the company does. During the interview, there was a focus on being appreciative and positive to the participants' different viewpoints and insights to make the interviewee comfortable and to better the relationship in order for them to open up more and share their thoughts freely. During the interviews, we asked questions like “*Is there anything else you want to mention about the topic we just covered?*”, to allow the participants to comment on things they might have felt they forgot to mention or if there was something of importance that we had not asked about. To end the interview, we asked if we could reach out if there were follow-up questions that would arise after the interview.

**Table 1.** Participant profiles

Participant	Gender	Role	Time in firm	Employees
P1	Male	CFO	2 years	247
P2	Male	Chairman	6 months	3
P3	Male	CEO	15 years	52
P4	Male	CSO	1 year	120
P5	Female	CEO	9 months	3
P6	Male	Founder	3 years	4
P7	Male	CEO	3 years	5
P8	Male	CEO	4 years	12
P9	Male	Sales chief	4 months	7
P10	Male	Co-founder	1 year	2
P11	Female	Controller	5 years	45
P12	Male	CEO	10 years	14
P13	Male	CEO	37 years	54
P14	Female	Owner	13 years	5
P15	Female	CEO	2 years	12
P16	Male	CEO	10 years	70
P17	Male	CEO	5 years	1
P18	Male	CEO	36 years	3
P19	Male	CEO	15 years	54
P20	Male	Consultant		
P21	Male	Consultant		
P22	Female	Consultant		

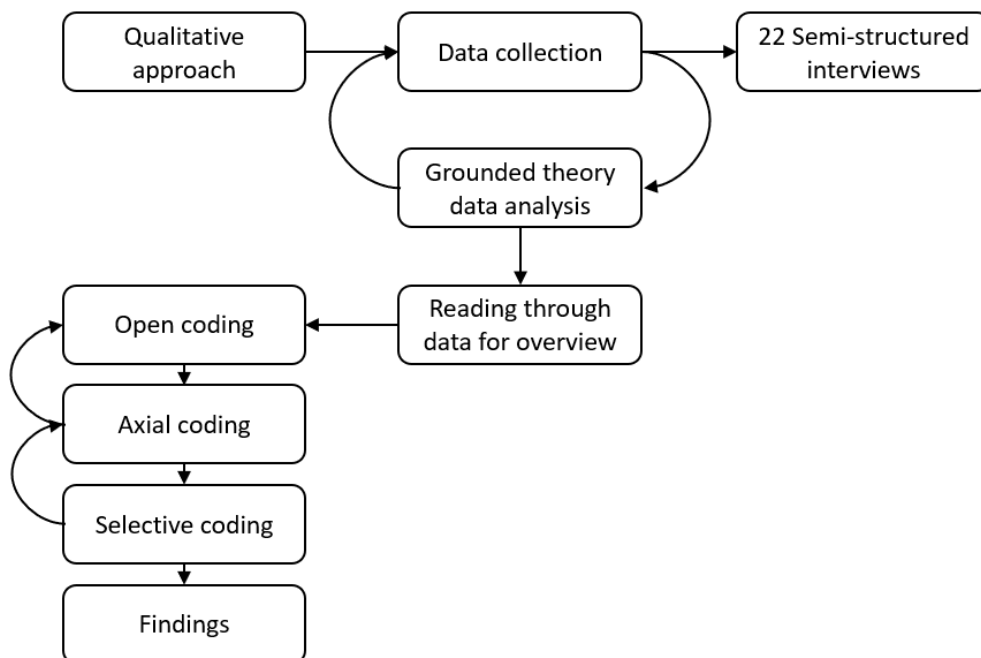
### 3.4 Data analysis

Rossmann and Marshall (1999) describe data analysis as “*the process of bringing order, structure, and meaning to the mass of collected data*”. This study has used grounded theory for analyzing the data and Giola’s data structure to define and conceptualize the themes from our



data. Grounded theory is commonly used when building theory, which this study aims to do (Tie et al., 2019). The data analysis in grounded theory begins after the first interview to lay a foundation for the rest of the data collection and analysis (Corbin & Strauss, 2008). The analysis started by reading through the notes from the interview to get a feel for what the participants were saying. When this was done, the notes were analyzed more thoroughly, and we began to underline themes, interesting points, and comments that were labeled into concepts which then were labeled. As more data was collected and analyzed, the data were compared, and new data was added to the existing labels and concepts. In this process, some labels were changed to make them more accurate, and more labels and concepts were added. This was the process of our open coding (Corbin & Strauss, 2008).

Next, we used axial coding. In this process we started comparing and linking different concepts to each other. This is done to find and establish relationships between the different codes from the open coding (Corbin & Strauss, 2008). When the axial coding of the data was complete, we developed overarching themes for the concepts connected through selective coding, where three overarching themes were identified: *conceptualization of sustainability strategy*, *motivations for sustainability strategy*, and *process for developing and implementing a sustainability strategy*. See Figure 6 for the different stages of the research design. These themes will be further elaborated in the next section.



**Figure 6.** The stages of the research design

### 3.5 Reliability and validity

For a study to be considered good, it must have high reliability and validity (Gripsrud et al., 2016, p. 61). Several measures were taken to peruse qualitative data validation and reliability to ensure valid and reliable findings.

According to Ghauri et al. (2020, p. 85), reliability is when “*measurement produces consistent outcomes*”, and Noble and Smith (2015) says it is “*consistency within the employed analytical procedures*”. To ensure reliability in this study, we have been as transparent as possible in how we have collected the data and how the data is coded in the different steps to get the results presented in this study. The transparency enables other academics to evaluate the quality of our findings (Askheim & Grenness, 2008, p. 23).

In the qualitative data analysis conducted in this study, reliability issues include category and interrater reliability (Sekaran & Bougie, 2013, p. 350). Category reliability has been defined by Kassarjia (1977, p. 14) as “*depends on the analyst’s ability to formulate categories and present to competent judges definitions of the categories so they will agree on which items of a certain population belong in a category and which do not*”. Interrater reliability refers to the degree of consistency the authors have when processing the same data (Kassarjia, 1977). The two authors did the first- and second-order coding separately before merging the codes. Disagreements in the coding were discussed until an agreement was found.

The data were collected through semi-structured in-depth interviews. An interview guide was formulated in order to give structure to the interview and predetermine some questions. The steps described below have been done to strengthen the reliability of the survey (Dalland, 2017, p. 128). During the survey preparation, the authors focused on designing the questions so that they would be understood in the same way by everyone. This ensured that the answers in the data collection were comparable. To avoid different interpretations of the questions, they were short, precisely formulated, and addressed one topic at a time.

When the SMEs were asked questions about their own sustainability and how it is weighted in decisions, they were both critical and positive to own achievements and procedures. Many acknowledged that they had a potential for improvement and were honest about how finances guided sustainability choices to a greater or lesser extent. Their sincerity and critical thinking can increase the reliability of the study.

An aspect of the study that may have weakened its reliability is that it examines development and implementation that may have occurred some time ago. Recollection and the ability to remember exact details weaken over time. The effect of different cognitive biases, like the peak-end rule, is more likely to occur (The Decision Lab, 2023). A case study that had

observed and collected data simultaneously with the process would have enabled a more precise recollection and thereby also data. Another aspect of the study that might have weakened the reliability is that only one person from each SME was asked about the process.

No audio recordings were made of the interviews. The choice may have affected the reliability both negatively and in a positive manner. Firstly, it might have ensured a more unrestrained response and more honest answers since full anonymity was ensured. Secondly, although the authors have tried to the best of their ability to take notes during the interviews, exact reproduction cannot be guaranteed.

Validity in qualitative research can be separated into internal and external (Sekaran & Bougie, 2013, p. 351). Internal validity describes how the research results is able to accurately represent the collected data and external validity is related to the result's ability to be transferable or generalizable to other settings or context (ibid). SMEs are a heterogeneous group as they have different numbers of employees and operate in different markets. In order to achieve the best possible generalization, the respondents worked in a wide range of industries and had a varied number of employees.

Before the interviews, a supervisor evaluated the survey, and trial interviews were conducted to improve the quality. Even with these measures, misunderstandings arose. Conducting in-depth interviews may have increased the reliability of the study since situations arose where the questions were perceived as unclear. This data collection method allowed the authors to reformulate and ask follow-up questions. During several of the interviews, pre-prepared questions were answered before the author could ask them. The fact that the questions were answered directly could increase the study's validity (Jacobsen, 2015, p. 232).

The study only has respondents from Norway. Due to this deficiency, the generalization of this study is not as strong as it could have been. The fact that the study looked mostly at Southern Norway and Eastern Norway SMEs adversely affected the validity. As a result, bias might have occurred, and it may not be adequate to represent the opinions of all SMEs in Norway and worldwide.

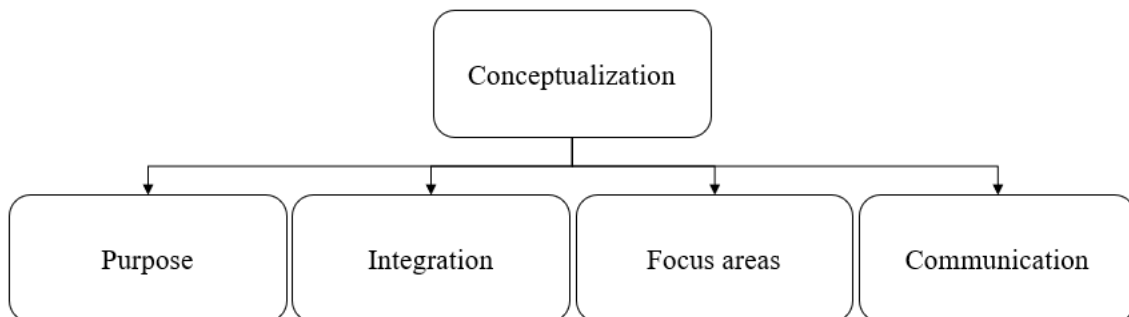
## 4. FINDINGS

In this chapter, the findings from the qualitative data analysis will be presented. The coding process of the data generated three aggregate categories, *Conceptualization of sustainability strategy*, *Motivations for sustainability strategy*, and *Process for development and implementation of sustainability strategy*. Within these aggregate categories, the thesis found 16 subcategories, *Purpose*, *Focus areas*, *Integration*, *Communication*, *License to operate*, *Business opportunities*, *Branding*, *Financing*, *Intrinsic motivations*, *Leadership commitment*, *Acquire Knowledge*, *Focus efforts*, *Targets and KPIs*, *Action plan*, *Create internal anchoring*, and *External communication*. Further, the categories that were found during the analysis of the data will be presented.

### 4.1 Conceptualization of sustainability strategy

Conceptualization is specifying what something means by breaking it into meaningful concepts (Sequeira, 2014). To ensure that people have the same idea when working with something, it is important to conceptualize the term (Berg & Lune, 2012).

The conceptualization of sustainability strategy can be explained by four subcategories, *Purpose*, *Integration*, *Focus areas*, and *Communication* (see Table 2). These categories are illustrated in Figure 7.



**Figure 7.** Conceptualization of Sustainability Strategy

#### 4.1.1 Purpose

Purpose refers to why the SMEs decide to have a sustainability strategy and the function the sustainability strategy has in the firm. The purpose of the sustainability strategy is to create a plan that will guide the firm to a more sustainable state that it currently is today. It is developed and implemented to be a guide for decision-making in the firm and to increase awareness of sustainability issues both internally and externally. A sustainability strategy is a means to secure change. Empty promises have little value for SMEs. By actively translating words and aims into a systematic plan with concrete actions and targets, results are easier to achieve.

### **4.1.2 Integration**

Integration refers to how the sustainability strategy is integrated into the business. *Integration in business strategy.* For the sustainability strategy to be effective, SMEs argue that it should be integrated into the overall business strategy of the firm in order to touch all areas of the business. The integration of the sustainability strategy in all areas of the business can provide a conscious direction for the firm and have sustainability elements considered in all assessments and decisions that are made.

*Written or oral.* The sustainability strategy is often a written document that outlines the firm's strategy. In some SMEs, this is not the case. Many SMEs do not have their strategy written but have conversations and meetings about their strategy. This is possible in smaller firms since there are not that many employees and oral communication is enough for them to make strategic decisions.

### **4.1.3 Focus Areas**

The focus areas of the sustainability strategy refer to the different aspects of a firm's impacts the sustainability strategy should focus on. These focus areas are outlined below.

*Environmental focus.* One of the focus areas of the sustainability strategy is what impacts the firm has on the environmental aspects of its activities. The environmental aspects regarding pollution, consumption of materials, and minimizing waste.

*Social focus.* The second focus area of the sustainability strategy is what impacts the firm has on social aspects of its activities. The social aspects concern employees, the community around it, and different people in the supply chain. The sustainability strategy should outline a plan for how to improve the social conditions for the people that are touched by the firm's activities.

*Economic focus.* The third focus area of the sustainability strategy is the economic factors. The economic factors are important for the firm to survive. In many cases, there are costs and losses tied to the environmental and social focus areas of the sustainability strategy, but it is equally important for the firm to be profitable. If the firm is not making a profit, the firm will not be able to sustain its activities, and therefore not be regarded as a sustainable business. A goal for many businesses is to increase their profitability with the implementation of a sustainability strategy.

*Firm specific focus.* In any firm, all activities have some effect on the surrounding environment and people around it. However, focusing on improving all activities is a daunting task and often is not feasible for SMEs due to a lack of resources. Therefore, the

firm should focus on certain areas of improvement, that is usually the areas the firm can make the biggest difference.

#### 4.1.4 Communication

Communication refers to the sustainability strategy being used as a communication tool to highlight the sustainability efforts the firm is making. The sustainability strategy should communicate why the company is working on sustainability, what aspects of the business it is working on with regard to sustainability, and what actions the firm plans to take to improve its sustainability.

*Internal.* To make a sustainability strategy effective, internal communication surrounding why the strategy has been implemented and what is required to be done is crucial. The sustainability strategy is something that all employees should be aware of and understand. If they are not, the strategy will become inefficient and fail to serve its purpose.

*External.* In some firms, the negative impacts the firm is producing are found in their supply chain through poor social conditions or high amounts of pollution. This makes it important for firms to effectively communicate what goals they have with regard to sustainability. In many cases, SMEs will need to make supplier demands for changes to be made in order to succeed with their sustainability strategy. External communication also touches other stakeholders such as customers, financing institutions, and governmental agencies.

**Table 2.** Conceptualization of sustainability strategy

<b>Aggregate coding category</b>	<b>Coding subcategory</b>	<b>Excerpts from interviews</b>
Conceptualization	Purpose	<p><i>“It is a plan for making change, we need a plan for how to do it. Human rights are a minimum, but it is environmental factors most often looked at to see where you can make changes, and how the changes will be” (P22)</i></p> <p><i>“A plan for how a firm can get better in the way it produces or delivers its services. It needs to contain specific action points, not just targets. Not just what, but how” (P3)</i></p>

		<p><i>“A living document, that describes different fields or elements that is a part of or is affected by sustainability for the firm” (P18)</i></p> <p><i>“A strategy that should show us internally and externally how a firm is going from where they are today to how they are going to adjust their firm. It depends on the industry and firm. Needs will change dramatically. If you are in the business of producing one time use plastic articles you have a greater need for adjustments than if you are producing hydropower. A strategy is something that is going to take you from A to B, a shift, a change” (P21)</i></p>
	<p>Integration</p>	<p><i>“It is probably different from place to place, but you can have a separate sustainability strategy, or you can have sustainability be integrated into all strategic elements. We try to have sustainability be a part of everything we do, in that way it is not separated from the main strategy. Instead, it has become an element in all parts of the strategy” (P12)</i></p> <p><i>“A strategy at the same level as the business strategy that communicates how the business should operate, and how it should operate in the market. [...]. It needs to be integrated into the business strategy” (P10)</i></p> <p><i>“We are a very oral firm, so the defined strategy is not in place. We do not talk much about the strategy, but we talk a lot about what we can do, and what we will do” (P15)</i></p>
	<p>Focus areas</p>	<p><i>“What is important to think about is that it is not just the climate and the environment, there are also social conditions, and it must be financially sound to continue with it” (P11)</i></p>

		<p><i>“It is to treat the people you have employed in a good way, and that laws and rules are followed as they should. You also need to be able to stand for the product you deliver to the market. [...]. There are a lot of elements, not just the product, but it is how you treat people. It is trying to have sustainability throughout the whole organization. Transport and logistics. We have a document we need to follow. It is about education, no injuries at work, and much more” (P14)</i></p>
	<p>Communication</p>	<p><i>“You have a conscious choice on suppliers and partnerships. Then you can have waste sorting and reuse of materials. A conscious direction and actions and measures, and that all employees work together towards it. If employees do not have a relationship with it or know the content of it, it is not a strategy” (P8)</i></p> <p><i>“Integrating it is important, talking about it until it gets boring and making it a natural part of the firm. It was a big transition in the beginning, but with continuous information flow, you can not repeat it enough, and you need to do it over time, you need to gain understanding and acceptance for the importance of it. That is done over time by showing the results of it, gaining access to new customers and measurable environmental effects” (P12)</i></p>

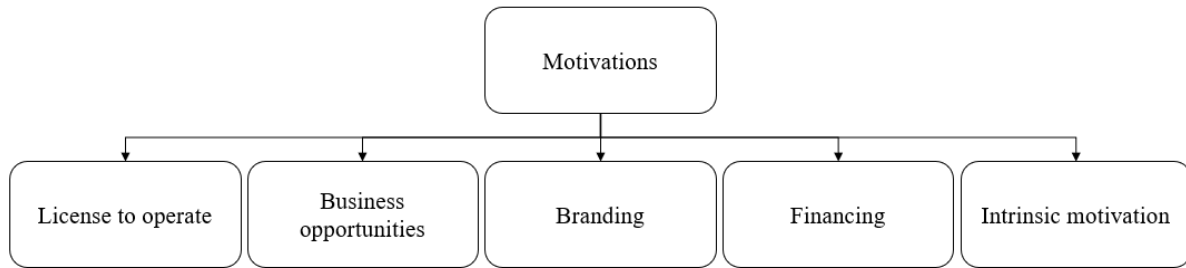
**4.2 Motivations for sustainability strategy**

People are motivated by various factors. Ultimately, it is the people that make up the SMEs. In the same way, the sustainability focus of companies is based on different motivations. Enterprises operate in different environments, which results in them being motivated by different factors.

The motivation for sustainability strategy in SMEs can be explained by five subcategories, *License to operate, Business opportunities, Branding, Financing, and Intrinsic*



*Motivation* (see Table 3). These motivations are illustrated in Figure 8 and will now be presented.



**Figure 8.** Motivations for sustainability strategy

#### **4.2.1 License to operate**

License to operate refers to the SMEs’ perspective that a sustainability strategy is needed to sustain as a business. With the increasing demands from various stakeholders, SMEs are feeling pressured to develop a sustainability strategy and take action.

*Demands.* For SMEs in some sectors, a sustainability strategy is not a choice but a necessity. Increasing demands from their value chain and customers are forcing some SMEs to take a stance on sustainability and demanding a sustainability strategy to show their work and progress. These demands force SMEs in a sustainable direction and is one of the most important motivations for SMEs to develop a sustainability strategy. By not following demands from stakeholders, firms may lose customers, partners,

*Regulations.* There is an increasing number of regulations coming to regulate sustainability efforts in all firms. In recent years the regulations have targeted larger companies, but it is just the beginning. Now SMEs and experts foresee stricter regulations in the future. Therefore, many are taking measures now to be ahead of the curve, and some describe it as necessary to survive financially.

#### **4.2.2 Business opportunities**

Business opportunities refer to the opportunities SMEs can utilize in the changing business environment that comes with the increased focus on sustainability. Many SMEs see the commercial value in sustainability, as there is an increasing demand for sustainable solutions, and consumers are increasingly choosing more sustainable options.

Some SMEs have begun to take advantage of this opportunity and shifted their focus on how to become a sustainable business for the future to increase their value creation. It is possible to differentiate themselves from competitors by integrating sustainability on a larger scale, expanding their product line with more sustainable products and services, and some have changed their business model radically to fit future development. These changes can

lead to SMEs getting new customers and may end up being a preferred supplier based on their focus. A trend in newly started and entrepreneurial businesses is a business idea revolving solely around green and sustainable solutions.

### **4.2.3 Branding**

Branding refers to the way external stakeholders view the firm. Branding is important in portraying the firm in a positive light as it is strongly aligned with the external perception of a firm. Sustainability strategies are often used to create a positive perception of the firm. This branding towards sustainability has become especially important in relation to potential new employees and customers.

*Hiring and retaining employees.* Without a labor force, achieving goals of any sort are nearly impossible. Many of the SMEs argued that their sustainability strategy was of importance for them because it made them better suited when seeking new and competent labor. Another aspect was the ability to maintain the existing workforce and expertise within the organization. Younger generations are more committed to sustainability and are actively looking for work opportunities in firms with a strong commitment towards sustainability, making sustainability strategies an effective tool for retaining and attracting employees.

*Customers and partners.* Having a well-communicated sustainability strategy helps SMEs strengthen their reputation and is viewed as an important part of building customer relationships. Bigger firms are often planning far in advance, and having a sustainability strategy can give SMEs the credibility they need to secure longer contracts and collaborations with customers.

### **4.2.4 Financing**

Financing refers to the ease and cost of getting financing for the firm when needed. For businesses to grow, investments are often necessary. Financing is needed if the firm does not have the liquidity to make the investment from its own pocket. Having a sound sustainability strategy can make it easier and cheaper for firms to get the financing they need. Most businesses need some form of financing in the form of bank loans, investor capital, or public grants. Sustainability has become an important part of financing.

*Investors.* Private investors are increasingly looking towards sustainable solutions for their new investments. Investors take risks when investing in firms, and having a sound sustainability strategy will in many cases lower the “*experienced*” risk in a firm. This makes them more attractive investment objects and gains them easier access to capital from investors looking for good returns.

*Banks.* Today, some banks offer better interest rates to companies that have a sustainability strategy and can demonstrate their sustainability focus. Increased regulations towards sustainability in the financing sector has stimulated banks to provide lower interest rates to firms with a sustainability strategy.

*Public grants.* Public funding schemes are also increasing their focus on sustainability when deciding on what firms are given grants. Being able to communicate a sustainability strategy and what sets firms apart from competitors with regard to sustainability often results in an advantage in the “battle” for significant grants. The SMEs expressed that public financing measures to promote sustainability affect SMEs, and that they must adapt to get access to public incentives.

#### **4.2.5 Intrinsic motivation**

Intrinsic motivation refers to the inner motivation people in firms experience for working with sustainability strategy. Sustainability touches managers’ and employees’ emotions, and the range of emotions is wide. For some, it is a passion to create change and a feeling of urgency, and sustainability is one of their core values. When owners and managers in SMEs have a passion for sustainability, it results in both human and financial investments toward making the firm as sustainable as possible. Most report that when the company they work for has a sustainability strategy, a feeling of pride and a better conscience are evoked. The obligation towards their own children and the next generation is mentioned by some when asked about their motivation for working with sustainability strategy.

**Table 3.** Motivations for sustainability strategy

<b>Aggregate coding category</b>	<b>Coding subcategory</b>	<b>Excerpts from interviews</b>
Motivations	License to operate	<i>“It is becoming very important because those we work with are required to report our subcontractors, we are not the initiator of much ourselves, in order for us to be able to grow and maintain our jobs, we have to do something about it. That is why it is important to us. We noticed this with our potential customers. The larger customers, who have to abide by the rules, see positively that smaller suppliers like us have a direction. [...]. You lose your job if</i>

		<p><i>you don't make arrangements for what the customer demands” (P7)</i></p> <p><i>“There are direct business reasons that force us a bit in that direction on the supplier side, as our largest customers have very clear demands on their suppliers to have the sustainability elements clearly defined” (P12)</i></p> <p><i>“We are very tender-based, we submit tenders to the public sector, and there are more and more demands in the tenders that you must have a sustainability strategy, that you can explain how we work with the sustainability goals. If we are going to be able to compete there, we have to have it in place” (P8)</i></p>
	<p><b>Business opportunities</b></p>	<p><i>“[...] we can differentiate ourselves from other firms with the focus we have. We are rewarded for that by gaining new customers that appreciate our focus. Absolutely, instead of just doing tender-based jobs we have customers knocking at our door because they know our focus on sustainability and want to work with us” (P3)</i></p> <p><i>“[Having a sustainability strategy] grants us business opportunities. It gives us the opportunity to get connected to the development in the market and in society, and renew ourselves which will pay off. If you shut this out you will not be able to develop and be stuck. You need to be connected to the development and what is happening, and you can not live in a vacuum as a firm” (P8)</i></p> <p><i>“We get positions we would not have been in if it was not for us communicating it clearly. [...]. We are pre certified suppliers for firms it is not easy to attract as a small firm. But since we have this [sustainability strategy] in order, we feel prepared for the future” (P12)</i></p>

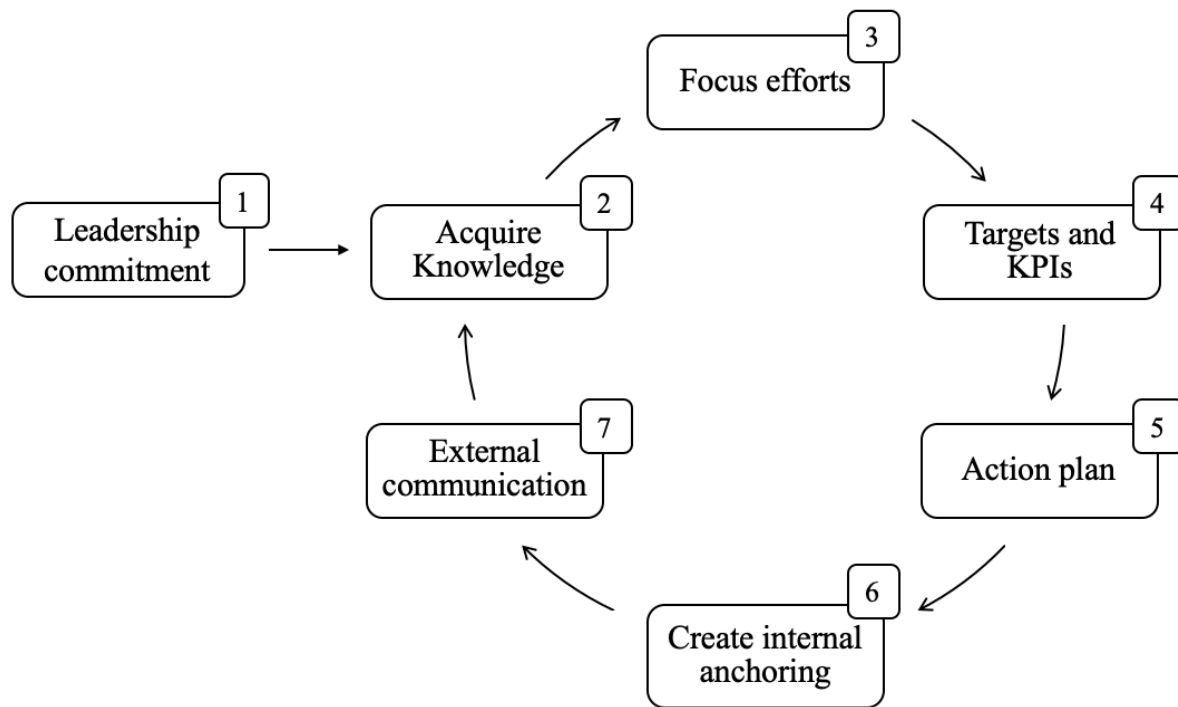
	<p>Branding</p>	<p><i>“If you are going to attract talented people and keep people, you have to have a conscious relationship with sustainability and a certain relationship with the sustainability goals” “Attractive employer, and if you don't have that then you might not be taken completely seriously” (P8)</i></p> <p><i>“It is quite important because we work with large national customers, who also have a sustainability strategy. And then we must also be at a level where we understand their sustainability strategy, and where we can clearly communicate our own sustainability strategy” (P3)</i></p> <p><i>“We experience a branding effect that is positive. As well as the obvious that it is good for our conscience and the common goal. We experience that it has a positive branding value and commercial value that lets us position ourselves further up in that” (P12)</i></p>
	<p>Financing</p>	<p><i>“There [...] are a number of financial incentives and instruments from the instrument apparatus that are very much directed in the direction of stimulating more and better instruments if you have a very clear sustainability strategy and profile of what you do. The same happens on the financial side, where there are several financial tools that are tailored and linked to good sustainability initiatives” (P12)</i></p> <p><i>“If you are going to raise money, investors will want to see what you are doing to be sustainable, if you are to seek support from the public, you must show why this solution is different from the current solution” (P2)</i></p> <p><i>“It gives us better rates when borrowing from the bank. We changed banks, and we have showcased our sustainability for them because it gives us better interest rates” (P17)</i></p>

	<p>Intrinsic Motivation</p>	<p>“We are genuinely concerned with sustainability. There are a couple of us here at work who have it as a real focus and think it is important” (P3)</p> <p>“After all, I have children, it's a bit more that you try to make the world a little better every day with the things you do. That's mostly it, there is someone who will take over here for a few 1000 years hopefully if” (P10)</p> <p>“It has been important to us because we need to be able to see ourselves in the mirror. We have owners who have been very clear about this from the start, we are part of a whole” (P4)</p>
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**4.3 Process for developing and implementing Sustainability Strategy**

Process for developing and implementing sustainability strategy in SMEs refers to the different steps that SMEs go through in developing and implementing a sustainability strategy. Seven subcategories can explain the process for developing and implementing a sustainability strategy in SMEs (see Table 4). Not all SMEs go through the same process in the same order, but most of the steps are the same in most firms. The process begins with *Leadership commitment*, which is owners’ and managers’ commitment toward sustainability. The second step is *Acquire knowledge*, which refers to the process of gaining the required skills and expertise through different channels. *Focus efforts* is the third step, which entails limiting the firm’s sustainability focus to one or more manageable focus areas where the firm can improve. When the focus area has been chosen, the fourth step *Targets and KPIs*, need to be developed to have goals that the firm can work towards. Step five is developing an *Action plan* to determine what actions will be made to reach the set goals. When this is done, it is crucial to *Create internal anchoring*, step six. This is done by creating understanding and continuous focus among the employees with regard to the sustainability strategy, and how their daily tasks will be affected. *External communication* is the seventh and last step. It refers to communicating the sustainability strategy to external stakeholders in order to showcase their sustainability measures. As illustrated by the arrows in Figure 9, steps two through seven are part of an iterative process of continuous development of updates and improvements of the strategy. Two main factors contribute to this. One, as the business environment is changing quickly, SMEs stays updated on the changing market and adapt

along. Second, SMEs have sustainability KPIs as a part of their sustainability strategy in order to track progress and adapt their effort accordingly. The different steps in the process of developing and implementing a sustainability strategy will be further explained in the coming sections.



**Figure 9.** Process for developing and implementing Sustainability Strategy

#### 4.3.1 Leadership commitment

Leadership commitment refers to the owners and managers of SMEs commitment towards sustainability and their interest in making the firm more sustainable. The desire and commitment towards sustainability from managers and owners is crucial for a sustainability strategy to be realized.

*Development.* The decision to pursue sustainability in SMEs comes from the managers and owners, and their involvement is crucial to beginning the process of developing a sustainability strategy. Leaders need to be a part of the development process of the sustainability strategy, to make sure they are fully behind it and committed. Their participation ensures commitment and ownership towards sustainability, which helps them guide the rest of the company through the implementation process. When the leaders are part of the development process, it leads to a greater probability that they are invested and have a desire to achieve the goal.

*Implementation.* Implementing a sustainability strategy may come with several changes how things are done. To motivate employees, leaders need to pave the sustainable way. It is the leader's role to communicate the importance of the strategy. This can be done by having it be a part of the everyday meetings that take place, highlighting good efforts towards sustainability and highlighting the benefits of reaching the goals. After a desire from the top is conveyed, the task of developing and implementing a sustainable strategy can begin, for SMEs it often starts with collecting knowledge.

#### **4.3.2 Acquiring knowledge**

Acquiring knowledge refers to the process of gaining the knowledge SMEs need to develop an effective sustainability strategy. The knowledge that often is lacking is about how to develop a sustainability strategy what kind of activities stand for the most amount of negative impact, and how to implement measures to tackle these issues. SMEs use several channels for acquiring the knowledge they need.

*Acquiring skills and expertise.* Sustainability is often a new and unknown field for many SMEs. Therefore, many must start their work toward a sustainable business by learning about it. SMEs often do not know where to start and therefore need to begin a process of acquiring the knowledge needed to develop and implement a sustainability strategy. The knowledge to be acquired is broad. Inspiration can be drawn, and understanding increased when investigating how the market generally proceeds in its work with sustainability. Knowledge about their footprint and their impacts needs to be found before being able to develop and implement an effective sustainability strategy.

*Channels of acquiring knowledge.* SMEs have different approaches to acquiring the needed knowledge. Some read studies and papers on their own, others take university courses, and several are also part of clusters and collaborations. Clusters can be a good way of gaining this kind of knowledge in cooperation with other firms by learning from others and being able to share their own experiences and get feedback on it. Bringing in consultants and hiring people with the right qualifications is also a way that firms acquire the knowledge they need.

#### **4.3.3 Focus efforts**

Focusing effort refers to finding the area or areas the firm wants to focus on in their sustainability strategy. The UN's Sustainable Development Goals consist of a total of 17 goals and 169 sub-goals (Tichy, 2021). In other words, sustainability tackles a broad term of environmental, social, and economic challenges.



For SMEs to deliver on every single one of the sustainable development goals would require resources they lack. Not all goals are equally relevant for every firm, depending on their activities, how they operate, and which resources they depend on in their production. Therefore, SMEs argue that efforts should be placed where they can make the greatest possible difference. For SMEs, it is not that some aspects of sustainability are unimportant but that there are areas of higher importance and relevance when aiming to make the biggest impact with the resources they have.

#### **4.3.4 Goals and KPIs**

Goals and KPIs refer to the targets SMEs aim to reach with their sustainability strategy. Having goals and KPIs to work towards is an important tool for directing effort towards what the firm wants to achieve.

To give all employees and stakeholders a common direction, targets and KPIs are important tools. The inclusion of these makes a clearer sustainability strategy. Targets and KPIs serve as a common goal for the firm, giving employees a guide for what to consider when they are making decisions. KPIs can also be used to communicate the firm's sustainability efforts externally to suppliers, customers, and other stakeholders that have an interest in how the firm is trying to improve. The targets are derived from the focus area the firm has decided on and will also be used in tracking progress. This can later be used to review if the action plan and initiated measures are efficient or if changes need to be made to reach their goals.

#### **4.3.5 Action plan**

Action plan refers to the actions firms plan on doing in order to achieve their goals. In order to make a sustainability strategy effective, an action plan describing what actions the SMEs are planning to take to reach its set goals must be incorporated.

In order to achieve the set goals, the SMEs state that a plan is a critical factor. A plan with actions will take the firm from where it is today to a desired future state. According to the respondents, it must include concrete actions that are chosen to ensure progress.

An action plan is described by SMEs as “*the how*”. The action plan paves a road for SMEs to follow on their journey to reach the goals they have set in the sustainability strategy. It needs to be a plan on how to pinpoint the effort in order to reach the set targets. Without an action plan to reach the goals that have been set, the sustainability strategy can become something that the SME has produced but that is not yielding any results for the company in changing their impact for the better.

The action plan is usually closely linked up to the firm's targets and KPIs and gives clear measures that will be taken to reach their targets. If a target is reducing carbon footprint, the strategy needs to specify a policy regarding traveling, and how the company is planning to change travel patterns for good.

#### **4.3.6 Create internal anchoring**

Create internal anchoring refers to the internal communication needed to get all employees to understand and be motivated to succeed with the sustainability strategy. The employees in a firm are the ones that transform a strategy into reality and are therefore a crucial part of making the sustainability strategy successful.

When a sustainability strategy is developed, it is crucial to be able to convey the strategy to the employees in an understandable way to gain their cooperation with the strategy. Management must communicate in a clear and understandable manner which goals are set and how it will influence the daily operation. If it is not communicated properly, the sustainability strategy can end up as top management "*language*". If employees do not understand the strategy or why it has been developed, the strategy might fail due to a lack of employee participation. To accomplish this, SMEs highlight the importance of internal communication with employees. The sustainability focus needs to be communicated thoroughly and often for all employees to understand what is needed from them. Making sustainability considerations a reflex among employees helps increase the level of implementation.

It is through the informal and formal interactions at the workplace that this reflex and anchoring is built. First, management makes it clear that sustainability is not just plastic sorting but clearly communicates what sustainability means for the company (e.g., through targets and KPIs). Next, it is important to show the value implementation has for the firm. This value can be, for example, financial gain, employee safety, and impact reduction. For sustainability strategy to become an anchor point, it is favorable that it is discussed at lunch, at management meetings and at departmental meetings. Actions leading to sustainability should be rewarded to incentivize employee's sustainability efforts.

#### **4.3.7 External communication**

External communication refers to communication with external stakeholders of the firm. This includes customers, suppliers, and banks and is the way firms convey their sustainability strategy and set demands from stakeholders when needed.

Communicating the sustainability strategy externally is important as it enables SMEs to reap the benefits many firms get from a sustainability strategy, which is a motivating factor

for incorporating it (see section 4.2). Communication must, in some cases, be aimed at the value chain. For some SMEs, working with a sustainability strategy means choosing suppliers and customers with the same sustainable values as them, as well as influencing these stakeholders to make more sustainable choices.

**Table 4.** Process for development and implementation of sustainability strategy

<b>Aggregate coding category</b>	<b>Coding subcategory</b>	<b>Excerpts from interviews</b>
Process of development and implementation	Leadership commitment	<p><i>“We have a manager and owner who are very keen on doing this, and there is a willingness to spend time and money on it” (P11)</i></p> <p><i>“It must be firmly anchored in key people and managers in the business, that they have been involved in developing the strategy and that they have ownership of it” (P8)</i></p> <p><i>“First, there must be an agreement between owners and investors” (P1)</i></p>
	Acquire knowledge	<p><i>“We use a [cluster], it is a cluster of similar firms to us in the region that have started a sustainability initiative. The biggest firms are in it with a lot of experience. We are there to learn, share, and cooperate. It is a good process” (P12)</i></p> <p><i>“First, we need to find out where we stand, where are we and where do we want to be. We are not a firm that wants to be in the top, if there are five we want to be in the middle. Then we have to outline how we want to get where we want” (P15)</i></p> <p><i>“We contacted a media agency to find out how we can communicate it in an understandable way. And we made our first sustainability brochure. Since then, we have developed, the marked has developed, and through that process it is a living document. [...]. We have taken different courses and employees have had lectures through the university. We are a part of a cluster where we work on</i></p>

		<i>sustainability, and we cooperate with [other firms] on how we can get better at sustainability together” (P3)</i>
	Focus efforts	<p><i>“Sustainability is so broad. To think you can succeed at anything is nonsense. You have to set some goals and focus on some parts of it” (P1)</i></p> <p><i>“[...] I make a sustainability strategy, and we buy some special papers. That does not contain any power. It needs to be connected to the business that you are running, and that is the only way it will have an effect. For us that means what role can we take in the changes that are coming, and what opportunities are in it for us. I think that has a lot more power than just waste sorting or something like that” (P8)</i></p> <p><i>“You choose a few main focus areas, because sustainability is so many” (P5)</i></p>
	Goals and KPIs	<p><i>“What kind of focus the company has in relation to sustainability and the various sustainability goals. And having concrete KPIs that you can communicate to customers, employees, and authorities” (P3)</i></p> <p><i>“Then we have to concretize it with goals, and make it something we can measure and follow up, qualitatively or quantitatively, [...]” (P4)</i></p> <p><i>“You have to set some goals” "It is important that you dare to think long-term, and that you set goals that you can live up to” (P1)</i></p>
	Action plan	<i>“[...] We are not there yet, but it is implemented in the action plan that was decided. It says we meet once a month, and that the action plan is going six months forward” (P11)</i>

		<p><i>“...some concrete action points that are closely linked to the goal” “If the goal is to travel environmentally friendly wherever you go, how do you do this?” (P5)</i></p> <p><i>“It must contain specific action points, not just goals” (P2)</i></p>
	<p><b>Create internal anchoring</b></p>	<p><i>“It is easy for strategy to become a little top management language, and I do not think businesses will get far if it stays a top management thing. In order to make a change, it needs to become a reflex in all employees. Then it is about everyone making choices for the better. [You need to] talk about it, what you reward, who you give recognition for doing a good job. Talk about it in management meetings, department meetings, and be purposeful about why we do it” (P4)</i></p> <p><i>“Integrating it is important, talking about it until it gets boring and making it a natural part of the firm. It was a big transition in the beginning, but with continuous information flow, you can not repeat it enough, and you need to do it over time, you need to gain understanding and acceptance for the importance of it. That is done over time by showing the results of it, gaining access to new customers and measurable environmental effects” (P12)</i></p> <p><i>“It is to not make it something scary and difficult, but to make it something natural, a natural part of our job. It is talked about all the time, and the sustainability officer helps the other employees” (P3)</i></p>
	<p><b>External communication</b></p>	<p><i>“The most important thing we do is to be aware of who we are working with. We try as far as possible to work with the right companies, and those that have the same values as us” (P7)</i></p>

		<p><i>“In any case, we have not been afraid to challenge other customers both upwards and downwards with great success” (P9)</i></p> <p><i>“You will never get to buy a rain-poncho from me because it is littering. [...]. The sustainability strategy is in line with ILO convention, and especially taking care of people in China that are our suppliers. We follow up on them and make sure they have a decent salary and the right working conditions” (P3)</i></p>
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## 5. CONCLUSION

This chapter will link the findings with theory to answer the research questions presented in this study. Lastly, theoretical and practical implications will be presented before we conclude with limitations and suggestions for further research.

### 5.1 Summary

In light of the changing climate and overconsumption in the world, the topic of sustainability has gained much attention in the past decade. It is widely recognized that businesses play a crucial role in reaching the UN sustainable development goals, and research on how businesses can participate in this change is increasing. Even though SMEs often are considered the backbone of the Western economy, the impact and role of SMEs have largely been neglected in scholarly research. Specifically, research on sustainability strategy in SMEs is scarce, with most focusing on motivations (Moore & Manring, 2009; Shields & Shelleman, 2015), assessments (Vásques et al., 2019; Vásques et al., 2021), and performance measures of sustainability strategies (Khoja et al., 2022). There is no agreed-upon conceptualization in the literature, and insight into the motivations for working with sustainability strategy is scarce. Shields & Shelleman (2015) and Luederitz et al. (2021) have taken a stance on the development of sustainability strategies in SMEs. However, we still lack clarity on how SMEs conceptualize sustainability strategy and the process of development and implementation. Considering this, the thesis aims to shed light on the current gaps in the literature by examining how SMEs conceptualize sustainability strategy, highlight motivations for sustainability strategy, and outline the process of developing and implementing sustainability strategy. We collected rich qualitative data from 22 interviews which includes 19 interviews with SMEs and 3 interviews with consultants, this study will add to the theory on sustainability strategy in SMEs through the conceptualization of sustainability strategy, further understanding their motivations and the process of developing and implementing sustainability strategy in SMEs. This study will be of value for both practitioners and for further research on sustainability strategies.

RQ1 examines how SMEs conceptualize sustainability strategy. In response to this, the authors asked SMEs what a sustainability strategy was for them and which elements it consisted of. The insight from the SMEs helped the authors understand their perception of sustainability strategy. The themes that SMEs kept repeating were *purpose*, *focus areas*, *integration*, and *communication*. The purpose of a sustainability strategy for the SMEs taking part of this study was to have a plan that would describe how to become a more sustainable firm. This is in line with strategy theory which states that a strategy describes how to take the

firm from one state to another (Jacobsen & Thorsvik, 2013, p. 42; Cambridge University Press b, 2023). Furthermore, it was highlighted as crucial to integrate the sustainability strategy into the overall business strategy in order to be successful, which is confirmed by Baumgartner & Rauter (2017). The focus areas of the sustainability strategy are a combination of environmental, social, and economic factors, which is highlighted in multiple articles (Shields & Shelleman, 2015; Luederitz et al., 2021), with Carson et al. (2014) highlighting that sustainability is about finding the balance between the three. The firm specific focus was also stressed by the SMEs due to the lack of resources they are experiencing. The lack of resources in SMEs has been highlighted in previous literature (Journeault et al., 2021; European Commission c, 2022, p. 14), and SMEs limiting their focus to just a few key areas that are important for the business might help them succeed with their strategy. Lastly, the sustainability strategy was described as an internal and external communication tool to communicate the firm's sustainability focus and highlights how they are planning to become more sustainable. The literature often highlights the importance of internal and external communication to succeed with the sustainability strategy (Luederitz et al., 2021; Journeault et al., 2021; Hrebiniak, 2006), but it has not mentioned the strategy as a tool for communication.

To answer RQ2, this study examines as what motivates SMEs to develop sustainability strategies. The authors asked questions about why they had one and what kind of value it produced. The motivations that are highlighted in this thesis are *license to operate, business opportunities, branding, access to financing and intrinsic motivations*. License to operate, meaning SMEs felt like they had to have a sustainability strategy has to the authors knowledge not been discussed in previous literature. A reason for this might be the changing business environment is now at a stage where more SMEs are starting to get more pressure from external stakeholders to take a stance on sustainability. Larger firms have had more pressure from external stakeholders in the past (European Commission d, 2022, p. 81), and this is affecting SMEs increasingly (European Commission c, 2022, p. 21). On the other hand, something that have been mentioned in previous literature is the business opportunities that arise by having a sustainability strategy (Moore & Manring, 2009; Shields & Shelleman, 2015; Bansal & Roth, 2000). This was a motivation that many of the participating SMEs in the study mentioned, due to the business environment being affected by the current climate crisis (Porter & Reinhardt, 2007). Branding as a motivation refers to how the firm can portray itself externally. This was especially important for the firms in order to retain and attract skilled employees, which is also discussed by Bocconi School of Management (2021).



Intrinsic motivations were highlighted as an important motivation for SMEs to work with sustainability strategy. In literature, this has been highlighted as important for SMEs (Bansal and Roth, 2000).

To answer RQ3, this study examines how do SMEs work to develop and implement sustainability strategy. In this regard, the authors asked questions about the process used by SMEs. The subcategories that explain the process are *leadership commitment, knowledge, focus efforts, goals and KPIs, action plan, creating internal anchoring, external communication, and managing and tracking*. The process illustrated in Figure 9 showcase that step two through seven is an iterative process, carries similarities to both the planned and emergent strategy perspectives, which is consistent with previous research (Luederitz et al., 2021). The findings showed that leadership commitment was crucial for SMEs to initiate work with the sustainability strategy. As discussed in previous literature, the owner is often the manager in the SME and is therefore important for the strategic direction of the firm (Beaver, 2007; Johnson & Schaltegger, 2015; European Commission c, 2022, p. 14). Acquiring knowledge about sustainability and the process of developing and implementing is crucial for SMEs. Many SMEs lack skills and expertise on the topic (Journeault et al., 2021; Vásques et al., 2019; Vásques et al., 2021). The various channels of acquiring the knowledge are discussed in previous literature (Journeault et al., 2021). The third step of the process focusing efforts was done to limit the focus of the sustainability strategy to more manageable. It is highlighted that this is important due to the lack of time and resources in SMEs (Journeault et al., 2021).

To help direct the efforts of the firm in a common direction, having goals and KPIs is important. Goals and KPIs are discussed in previous literature in relation to management systems to direct attention and guidance for employees (Vásques et al., 2019; Vásques et al., 2021). To be able to execute the sustainability strategy effectively, having an action plan is beneficial. The action plan is concrete activities that are going to happen in order to reach the goals that have been set. Although the process carries similarities to emergent strategies, where actions lead the direction of the strategy (Neugebauer et al., 2016), the SMEs highlighted that without an action plan, there is a high probability that there will not be any progress with the sustainability strategy. Creating internal anchoring was viewed as one of the most crucial parts of the process and is achieved through internal communication. Internal communication is viewed in previous literature as one of the most important parts of succeeding during the implementation of strategy in a firm (Hrebiniak, 2006; Baumgartner & Rauter, 2017), as the implementation is one of a strategy often is the most difficult part of the

process (Li et al., 2008; Hrebiniak, 2006). Lastly, the firm needs to communicate the sustainability strategy externally. This needs to be done get the branding values sustainability strategies give and to be able to set demands for the value chain. External communication is recognized in previous literature as important to counteract the different barriers that SMEs experience (Luederitz et al., 2021; Journeault et al., 2021), but giving demands to the value chain is not discussed much in previous literature.

## **5.2 Theoretical implications**

The research done in this thesis contributes to the literature on sustainability strategies in multiple ways. The current research on sustainability strategy is scant, and this study has provided new insights into the topic that can be valuable for further research. The understanding of how SMEs conceptualize sustainability strategy has been limited in previous literature, and by providing a deeper understanding of the conceptualization, future studies will have a better understanding of this topic.

The thesis has contributed to a further understanding of the motivations SMEs have for sustainability strategies. *License to operate* is a term that to the authors' knowledge has not been discussed in previous literature. By adding new understanding and perspectives to the previous literature, future research will have a clearer understanding of what motivates SMEs to engage in the development and implementation of sustainability strategies.

The process of developing and implementing sustainability strategy in SMEs has been placed little focus on in previous literature. Because of this limited focus on how SMEs work with sustainability strategy, the contribution of a process model for the development and implementation of sustainability strategy will allow further research to deeper investigate the different steps of the process and further develop the model to help more SMEs in this process.

In previous literature, research examining sustainability strategies in SMEs has not been conducted in the Nordic countries. This thesis contributes to the literature in these countries, and especially in Norway, where the study was conducted.

## **5.3 Practical implications**

The thesis has provided practical implications for various stakeholders interested in sustainability strategy in SMEs. Governing bodies can use this study to better understand how SMEs view sustainability strategy, what motivates them to work with it, and what the process for developing and implementing them are. Governments play a crucial role in motivating and facilitating sustainable strategies. SMEs say they can already notice a change in the market and customer demands that are forcing them in a sustainable direction. This

increased insight can give governments a better understanding of how they can increase the motivation for further development of sustainability strategy in SMEs and how to develop resources to help them through the process.

Larger companies are often part of SMEs value chains and in direct contact with SMEs. Due to the increasing regulations targeting larger companies' sustainability work, they have increased incentives to affect their value chain, and in turn SMEs. This study provides valuable insight for larger companies on how they can approach, incentivize, and guide SMEs into creating a sustainability strategy and increasing their sustainability efforts.

It has been observed that there is an exponential increase in the sustainability awareness in the public and people are becoming more interested in how firms are working to become more sustainable. This study can provide insight into this process especially for those stakeholders including citizens who want to better understand how SMEs perceive sustainability strategy, and how they work on developing and implementing them.

Finally, SMEs can have great value from this study as inspiration for how other SMEs view sustainability strategy, motivations for working with it, and processes for development and implementation. The thesis has provided a process model developing and implementing sustainability strategy that can be used by SMEs to integrate sustainability in their business, and for SMEs wanting to improve their existing sustainability strategy.

#### **5.4 Limitations and further research**

During the writing of the thesis, the authors have recognized and discussed some limitations with the study. Highlighting these limitations can give a better understanding of how future research can be conducted differently to further develop the understanding of sustainability strategies in SMEs. First, researcher bias is often a concern in qualitative studies (Dodgson, 2017). This can be applicable to much of the research process. The authors personal experience can influence how the interview guide was developed, how the questions were asked could have influenced how the respondents have answered the questions, and how the coding and analysis of the data have been interpreted by the authors have influenced the results of this study.

Second, this research was conducted in Norway, the sample of respondents were all representatives from Norwegian firms. This can induce some geographical bias as there is a possibility that SMEs in other countries might have different viewpoints on sustainability strategy. Third, many SMEs have declined to participate in this study. The reasons varied from scarcity of time, other not believing they had anything to contribute with and many did

not respond to the authors requests. Representativeness can therefore be a limitation for these findings. As the sample might be representative for all SMEs.

Furthermore, the study uses qualitative method, consequently the findings could be affected by artificial limitations. Observational studies could contribute to a deeper understanding of how SMEs develop and implement a sustainability strategy. It could offer deeper insights on whether the process the SMEs report in the interviews takes place in real life, or if other factors and steps are implemented.

The SMEs highlighted internal communication as one of the most important elements in succeeding with a sustainability strategy. Further research can look deeper into what elements are important to make the internal communication as efficient as possible. In addition to this, one of the motivations for SMEs to develop and implement sustainability strategies found in this study was *license to operate*. This has not been discussed much in previous studies. As the business environment is changing, business motivations change. Many mentioned future regulations coming into effect in the coming years. Most of these regulations are targeted toward large firms, but they will indirectly affect SMEs that are part of a value chain of larger firms. Studies on the indirect effects these regulations have on SMEs will therefore be important to deepen the understanding of motivations and views regarding sustainability strategy.

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## **Appendix**

Link to coding sheet in Drop Box:

<https://www.dropbox.com/scl/fi/6y1eakoqctmyre6uj35bu/Coding-Master-thesis.xlsx?dl=0&rlkey=wea2qgdtravfg93izmpw3qff>