**Master Thesis U.S.E.**



The Sustainable Revolution: Greasing the Engines for the Sustainability Transition of SMEs

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**ABSTRACT**

Companies, regardless of their size, need to take accountability and responsibility for creating a sustainable future. Most of the studies on Corporate Social Responsibility (CSR) are on the performance of large companies. Addressing sustainability issues is at least as important for small and medium-sized enterprises (SMEs) as it is for large companies. This thesis will try to identify what drives and hinders SMEs in the Netherlands in their transition to a more sustainable business model. A final framework will be constructed supported by literature, theoretical reasoning, and interviews with consultants with experience in the transition of SMEs, to construct a clear, structured but generalized overview of what drives and hinders SMEs to attempt and complete their transition to a more sustainable business model. A single, definitive conclusion cannot be made with this explorative design of research. Nonetheless, this thesis does generate meaningful insights, like the importance of intrinsic motivation, and discussion points that future researchers can investigate and policymakers can take into account.

**Keywords:** SMEs, Sustainability, Sustainable Business Model, Drivers, Obstacles, Motivations

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# **1. INTRODUCTION**

Companies, regardless of their size, need to take accountability and responsibility for creating a sustainable future. It is starting to become an almost daily phenomenon of new shocking reports being published about the alarming changes global warming imposes. The whole world from micro to macro level needs to rethink their behavior or the behavior of those they are responsible for. A way of conceptualizing the climate change dilemma is with the public good dilemma, a common element identified as a potential economic market failure. The natural environment is accessible by all and we need to share its resources. Individuals can just ‘take’ from the natural environment without having to bear any (external) costs. Natural resources are not infinite and by consuming as much as one desires, the depletion of these resources could lead to an undesirable outcome for all. This problem is also called *The Tragedy of the Commons*. There is a vast amount of research on ways to adopt more sustainable behavior for the individual, though behavioral gaps still exist (e.g.: Nguyen et al., 2019; Park & Lin, 2020). While debated by some, the general public is well aware that the climate is changing (Baiardi & Morana, 2021; Poortinga et al., 2018) and that these changes are most likely caused by human activities (Bord et al., 1998; Lee et al., 2015). A ‘rational’ member of society should therefore recognize its responsibility towards the environment to preserve it for future generations (Rachlinski, 2000). Nevertheless, humans’ rational behavior may be limited when making decisions. ‘Bounded rationality’, first coined by Simon (1990), is the idea that an individual’s rational behavior can be bounded by risk and uncertainty, incomplete information about alternatives, and complexity in their set of choices. This bounded rationality may constrain a member of society to behave in a socially desirable manner.

To get a better understanding, a public good, like air, follows two characteristics: non-excludability, meaning no individual can be excluded from the good, and non-rivalry, meaning any additional individual consuming the good does not diminish the amount previous individuals can consume of the good. On the other hand, merit and demerit goods *can* be excluded from individuals. Merit goods, like sustainable products, are thought to be good for society. However, due to asymmetric information, individuals might not be able to perceive the (social) benefits of consuming these products because their benefits might only become apparent after a certain period of time. This would in turn lead to underconsumption and -production of merit goods. Demerit goods, like high polluting products, are thought to be bad for society. Again, due to asymmetric information, individuals might not be able to perceive the potential (social) costs of consuming these products because the costs might also become apparent after a certain period of time. Moreover, high polluting products, internalizing no external (social) costs, might be cheaper than its sustainable and socially desirable brother. This would in turn lead to overconsumption and -production of demerit goods, indicating, so far, free markets have failed to create sustainable solutions to allow equal access for future generations.

 Thus, even though the problem - that is global warming - is already well established for several decades, environmentally adverse human activities still endure. In addition, even though governmental regulations and restrictions can also prove to be of great potential, these regulations sometimes collide with the important notion of freedom of choice, inherent to traditional economics (Dowding & Oprea, 2022).

The industrial revolution has been of great importance for the development of the society we have today. This immense growth in the quality of life for billions of people is a great development in our human history. In 1970, Milton Friedman published an article called: “The Social Responsibility of Business is to Increase its Profits” (Friedman, 1970). The basic idea is that by increasing its profits, a business generates innovations that can increase the quality of life and create job opportunities making it possible for more people can enjoy these improvements. Howbeit, the era of industrialization has also brought negative external effects on the natural environment (Dean & McMullen, 2007). It is slowly becoming more evident that by solely focusing on the economic output of business, the natural and social environment could be severely harmed creating a possible worse quality of life in the future.

Organizations therefore not only need to take the economic responsibility of business but should start acknowledging accountability and responsibility for the natural and social environment as well. Empirical data has shown that by taking this broader responsibility, or better yet, seizing the opportunities that come with it, companies can create social, environmental, *and* economic value (Bams et al., 2021; Barth et al., 2017; Eccles et al., 2014; Flammer & Bansal, 2017; Friede et al., 2015), indicating that an organization can do well (better) by doing good. However, most of the empirical data in the academic literature are on the performance of large companies. Addressing sustainability issues is not just important for large companies, but equally - if not, more - important for small and medium-sized enterprises (SMEs). SMEs represent about 90% of the businesses and over 50% of employment worldwide (The World Bank, n.d.), contribute to 60 to 70% of industrial pollution in Europe (OECD, 2018) and approximately 70% of global pollution (Revell et al., 2010). Nevertheless, there is an unclear image of studies in terms of mediating factors driving effective Corporate Social Responsibility (CSR) in SMEs (Zbuchea & Pinzaru, 2017, p.430). This thesis will therefore attempt to answer the following research question:

*Are there specific drivers and ‘hinders’ for SMEs in the Netherlands to transition to a more sustainable business model?*

With this research question, the following sub-questions arise: first,

*What are the specific drivers and hinders for SMEs in the Netherlands to transition to a more sustainable business model?*

Second,

*How can these drivers and hinders be defined?*

And third,

*How do these drivers and hinders, respectively, drive or hinder SMEs in the Netherlands to transition to a more sustainable business model?*

This thesis will try to identify the drivers and ‘hinders’ for SMEs in the Netherlands in their transition to a more sustainable business model. In addition, to the best of the author’s knowledge, this thesis will be one of the first in making a distinction between the *decision-making process* to transition and the *actual* transition of SMEs to a more sustainable business model. A final framework will be constructed supported by literature, theoretical reasoning and interviews with consultants with experience in the transition of SMEs, to construct a clear, structured but generalized overview of what drives and hinders SMEs to attempt and complete their transition to a more sustainable business model. A single, definitive conclusion cannot be made with this explorative design of research. Nonetheless, this thesis does generate meaningful insights and discussion points that future researchers can investigate and policymakers can take into account.

Following, the scope of this thesis will be briefly introduced. In Section 2 relevant literature on company size and its available resources will be described. Section 3 will consist of the theoretical framework, and a preliminary framework for the drivers and hinders of an SMEs’ transition will be given. Section 4 will describe the methods used for the interviews, followed by the results in Section 5. Finally, Section 6 will give a conclusion and go into discussion with the results providing implications and limitations of this thesis.

## **Scope**

Before diving into the literature, a specification as to what kind of SMEs the current study will focus on needs to be made. There is an increasing interest in social entrepreneurship (Narangajavana et al., 2016: Dean & McMullen, 2007: Hockerts & Wüstenhagen, 2010). This, of course, leads to an increasing number of social enterprises and start-ups. The academic field of Social Entrepreneurship has not yet landed on a single definition of a social enterprise (Smith & Stevens, 2010: Zahra et al., 2009). The biggest issue in the literature is where exactly the focus of creating value of the enterprise should be, in order for it to be a social enterprise (Mair & Marti, 2006). The different definitions may be summarized in three broad concepts. Firstly, the entrepreneur can focus on creating economic value *along* with creating social value (SE1; Alvord et al., 2004; Mair & Marti, 2006). Secondly, the entrepreneur may prioritize creating social value so that creating economic value comes *after* creating social value (SE2; Alvord et al., 2004). And lastly, the entrepreneur can have a *single* (main) focus on creating social value and should be not-for-profit (SE3; Mair & Marti, 2006).

In the context of these concepts, creating economic value means creating financial returns for the company or the entrepreneur and its employees. Creating social value means creating value for society by improving their well-being either by improving the natural environment, improving the social environment, or both. The current study, however, will not focus on this kind of enterprises. At best, it will include enterprises that at establishment *only* focused on creating economic value but later decided the company needs to improve their business model by incorporating sustainability into their strategy to decrease risks or create and seize opportunities. Entrepreneurs of the latter two definitions -SE2 and SE3- of social enterprises created their enterprises with the specific goal of creating social value. These social enterprises should therefore already have incorporated social value creation (sustainability) into their core business strategy and face different obstacles than companies transitioning towards sustainability.

# **2. LITERATURE REVIEW**

This section will first provide some definitions the reader should be aware of before diving into the literature. Once concepts and definitions have been made clear, this section will provide literature on why the current thesis focuses on SMEs. After, Section 2.3 and Section 2.4 will, respectively, provide information on the tangible and intangible resources that may drive or hinder SMEs in their transition to a more sustainable business model.

## **2.1 Definitions**

First, some definitions should be made clear. In this thesis, the terms ‘Corporate Social Responsibility’ (‘CSR’) and ‘Sustainability’ are used interchangeably. While reading this thesis, the reader should keep the following definition in mind of what the author means by Sustainability:

*“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.”* (World Commission on Environment and Development, 1987)

This definition does not only apply to the natural environment, it will also apply to the social environment, like a company’s employees. When the author mentions a sustainable business model, CSR, sustainable practices, or sustainable activities, the author implies generating long-term relationships with its stakeholders to meet the needs of the present without compromising their and future generations’ own needs. For example, if a company fails to take appropriate care for the health and safety of its employees, future degradation of their health and safety may run the company out of business due to a loss of its license to operate or because employees may no longer be able to work due to work-related illness.

 Second, this thesis will mainly use the term ‘manager’ for the head of an SME. For small enterprises with few employees, the manager might also be the owner. When the author uses the term ‘manager’, the author implies the people (or person) in charge that manages the company and fulfills the managerial duties that come with it, like making the (final) decision to start the transition.

## **2.2 Sustainability and Company Size**

Sustainability issues, such as rising energy prices, employee health and safety concerns, carbon emissions, and reducing manufacturing and consumer waste, are universal issues that have an influence on both large companies and small and medium-sized enterprises (SMEs). Moreover, regardless of their size, all companies need to take responsibility for their business activities and their impacts on the environment and society. Most of the academic literature is devoted to the CSR practices of large companies compared to the CSR practices of SMEs (Zbuchea & Pinzaru, 2017). In addition, there is even less empirical evidence on the financial performance of CSR strategies for SMEs (Koirala, 2019).

Addressing sustainability issues is not just important for large companies, but equally - if not, more - important for SMEs. As mentioned in the introduction, SMEs represent about 90% of the businesses and over 50% of employment worldwide (The World Bank, n.d.,) and contribute 60 to 70% of industrial pollution in Europe (OECD, 2018) and approximately 70% of global pollution (Revell et al., 2010). These numbers make a convincing case that more academic studies should focus on the sustainability of SMEs.

There are several studies that indicate there are differences in the sustainability practices of SMEs compared to large corporations. For example, according to Perrini, Russo and Tencati (2007) large companies are more involved in environmental management and are more likely to identify and serve the needs of relevant stakeholders. Deephouse (1996) found that the size of a company affects its social and economic ties to its environment. This might be because large companies can be more attentive to CSR because they have to be conscious of the more diverse needs of more diverse stakeholders (Zbuchea & Pinzaru, 2017). These studies support the findings of the positive relationship between company size and CSR (Santoso & Feliana, 2014; Jenkins, 2004; 2009).

There are several factors that could explain the positive relation between company size and CSR. These factors can be grouped into two different segments. First, this positive relationship can be related to *internal* factors like available resources, internal intellectual capital (e.g. innovation), governance (e.g. management commitment), and culture (e.g. employee commitment). Second, it can be related to *external* factors like institutional regulations, stakeholder pressure, or market pressure. However, even within the scope of SMEs one cannot generalize on the heterogeneous nature of CSR strategies. The extensive academic literature review by Zbuchea & Pinzaru (2017) indicates unclarity persists regarding which mediating factors drive SMEs to effectively incorporate CSR practices, compared to large companies.

Therefore, the aim of this study consists of three essential contributions to the current academic literature. Firstly, this study will map the internal and external factors that may drive or hinder the *decision* of SMEs to transition to a more sustainable business model. Secondly, this study will also map the internal and external factors that drive or hinder their *actual transition* once an SME has decided it that wants to transition to a more sustainable business model. Thirdly, interviews with Sustainability Consultants, experienced in helping SMEs with their sustainable transition, will provide some insights into what is theorized in the literature and what can be observed in the field. Additionally, this study will summarize the findings from the academic literature and the (new) insights from the interviews in a clear and structured framework that institutions, regulators or consultants can use to grease the engines of the sustainable transition of SMEs and aid businesses in creating more sustainable business activities regardless of company size.

## **2.3 CSR and SMEs’ tangible resources**

Many organizations, regardless of their size, lack a structure to properly integrate sustainability into their core business strategies. In addition, regarding size, this struggle is likely to be even more pressing for SMEs because many lack tangible or intangible resources (Nicholas et al., 2011). It can therefore be challenging for them to effectively analyze their own capabilities (Edwards et al., 2005), and, accordingly, it can be difficult for them to capitalize on these capabilities (Ngah et al., 2015).

Pigou (1932, as cited in Dean & McMullen, 2007) distinguishes private costs of production from total costs of production. Private costs of production only include the production costs incurred by the producer. Total costs include private costs together with the costs incurred by society at large but not by the private producer (Pigou, 1932, as cited in Dean & McMullen, 2007). Pigou further argues that if the total costs are different from the private costs, there will be a socially sub-optimal allocation of resources as a result. If the producer were to internalize their social - or, external - costs, their production function would change and they would gravitate toward minimizing these external costs (Dean & McMullen, 2007). Along the same lines, by internalizing social - or, external - benefits, a producer should tend to maximize these benefits.

One method of internalizing externalities is the practice of reporting company performance using the “triple bottom line” (Shields & Shelleman, 2015). Besides the traditional reporting of economic performance, companies reporting with respect to the triple bottom line also report on environmental and social performance. This way of reporting is a growing trend and it sometimes means that large companies require other enterprises in their supply chain to also report using the triple bottom line (Shields & Shelleman, 2015). In some cases, SMEs may be part of these supply chains. In addition, even national governments like that of South Africa or Sweden require companies to report on their sustainability performance. To accommodate sustainability reporting and, for that matter, properly adapt to overall sustainability demands, SMEs need to assess, monitor, and develop sustainable strategies (Parhankangas et al., 2014). By gathering as much data as possible, firms can more easily discover bottlenecks and inefficiencies (i.e. minimize external costs), but also discover opportunities and track efficiency improvements (i.e. maximize external benefits). For example, Barth et al (2017) found a positive relation between Integrated Reporting and company performance.

However, this form of reporting can be costly, requiring firms to spend additional time, finances, and energy on the already difficult task of following the strict guidelines and rules of accounting. If SMEs were to report on non-financial performances, either by regulations or stakeholder pressure, this would require them to follow new and still developing guidelines, gather additional data on their relevant stakeholders, and hire new consultants or train current employees (Perrini et al., 2007). This can be a long and time-consuming learning process that would require SMEs to use additional human and financial resources. Conversely, in their interviews with seven Swiss SMEs in the textile industry, Baumann-Pauly et al. (2013) found that limited financial or human resources were not significant constraints to implementing CSR practices in daily operations. The interviewed SMEs had self-developed audits either for their suppliers or for within their own decision-making guidelines. It has to be noted that these SMEs only produce in one specific sector; the textile industry. As stated above, even within the scope of SMEs one should be careful in generalizing about the heterogeneous nature of CSR strategies.

Because different SMEs in various sectors have to serve different requirements for a variety -of often competing - stakeholders, and, because SMEs do not always engage in the costly process of closely monitoring their social and environmental impact, SMEs can therefore be less aware of the deeper impact CSR can bring to their environment (Zbuchea & Pinzaru, 2017). Furthermore, even if social and environmental outcomes were to be considered, for profit-maximizing firms, their outcomes would still be financially evaluated (Zbuchea & Pinzaru, 2017). Soto-Acosta et al. (2016) found that environment-related CSR has no correlation with better performance for SMEs. A logical argument arising here is that because managers of SMEs can perceive the impact of their CSR - or lack thereof - to be insignificant compared to large corporations or collective partnerships, they will evaluate the financial (internal) costs higher than the social (external) benefits of CSR. For these SMEs to adopt more sustainable business operations, the main motivation would be out of goodwill or commitment of top management towards sustainability.

 Nevertheless, there is an abundance of studies that found a positive relation between CSR and company performance (e.g., Bams et al., 2021; Barth et al., 2017; Eccles et al., 2014; Flammer & Bansal, 2017; Friede et al., 2015). Again, as stated above, most of the academic literature is devoted to the relation of the performance of large corporations and their CSR strategies, not SMEs. For large corporations, the financial impact of CSR strategies is highlighted in these studies by stressing the impact on consumer buying behavior (Zbuchea & Pinzaru, 2017). However, not only better reputation has a positive impact on the financial performance of a company. For example, reducing carbon emissions reduces the risk of future carbon taxes, or taking a more sustainable approach to finite natural resources may secure long-term access to these resources (see *The Tragedy of the Commons* in the introduction). In addition, Eccles et al. (2014) found that high sustainability companies perform better in stock market performance compared to low sustainability companies. These examples, however, are not necessarily financially material for SMEs. Carbon taxes or the depletion of finite natural resources could be negligible for SMEs compared to the financial investment and time needed to reduce these costs. To overcome these financial issues, governments could give subsidies to complement the resources needed for SMEs to transition to a more sustainable business model. By reducing the financial burden, the transition of SMEs would be less reliant on the goodwill of top management and could increase the financial returns of adopting more sustainable business activities.

## **2.4 CSR and SMEs’ intangible resources**

This subsection will dive into the literature on the intangible resources of SMEs. First, knowledge and expertise will be introduced, followed by networks and stakeholder relations. After, theories on the organizational structure, governance, and culture of SMEs will be described. Finally, the importance of intellectual capital is introduced.

*The knowledge and expertise of SMEs*

Managers of SMEs can lack knowledge of the collective impact SMEs can have on the environment, the benefits of addressing a longer time horizon (in most cases sustainability), and tools or techniques to develop sustainability strategies and practices (Shields & Shelleman, 2015). Hörisch et al. (2015) make a clear distinction between knowledge and expertise. In their paper about the knowledge of SMEs on sustainability management tools, ‘knowledge’ means the awareness of said tools. Expertise would be knowing how to effectively use and implement these tools. In this study, knowledge would mean the awareness of the potential economic benefits of and knowledge about adopting a more sustainable business model. In like manner, ‘expertise’ is knowing how to effectively implement sustainability into the core business strategy or model.

Continuing with the study of Hörisch et al. (2015), they found that the key difference in the number of implemented sustainability management tools between SMEs and large companies is the knowledge (i.e. awareness) of these tools. Once the tools are known, there is essentially no difference in the total amount of tools applied, indicating that, in most cases, managers perceive valuable benefits in their application (Hörisch et al., 2015). Based on the findings of Hörisch et al. (2015), the assumption can be made that, once a manager of an SME acquired knowledge on how to effectively and successfully transition to more sustainable business activities, the SME would attempt its transition.

*The networks and stakeholder relations of SMEs*

On the other hand, SMEs can experience tighter local connections, closer stakeholder relations and often have useful networks built on “trust, reputation and legitimacy with specific stakeholders” (Russo & Perrini, 2010, p.217). Even though SMEs have to consider the different needs of their different stakeholders, compared to large companies, SMEs have to account for less of them. Aragón-Correa et al. (2008, p.91) describe stakeholder management is related to an SMEs flexibility in managing their inter-organizational and external relationships. They found that the capability of stakeholder management has a positive relationship with the development of proactive environmental strategies for SMEs (Aragón-Correa et al., 2008). Tighter and often more informal connections with stakeholders may make it easier for SMEs to access information about their needs and increase the awareness of their needs. Furthermore, studies on Open Innovation (using multiple external sources like customer feedback, published patents, the public, etc. for innovation) emphasize external stakeholder relationships as fundamental for Open Innovation (OI) in SMEs (Tsai et al., 2022, p.435). Collaborations with other firms are important for SMEs, making SMEs likely to develop external networks with other SMEs increasing their access to knowledge, external resources and lowered rates of failure (Tsai et al., 2022, p.435; Van Hemert et al., 2013; Enkel et al., 2009).

*The organizational structure, governance, and culture of SMEs*

SMEs may possess favorably organizational capabilities enabling them to address environmental issues more easily (Hörisch et al., 2015, p.768). These organizational capabilities may include a firm-wide shared vision, simplified decision-making routes, and innovation propensity (Hörisch et al., 2015, p.768). Smaller firms have shorter lines of communication and interaction within the SME and have a higher presence of the founder’s vision (Aragón-Correa et al., 2008). If an SMEs’ manager has a high affinity for sustainable issues or wants to secure long-term access to finite resources, it may be easier for this manager to adjust the orientation and strategy of his or her company because he or she may not need to convince other directors of his vision. Roxas & Coetzer (2012) found that the attitude of managers of small firms toward the natural environment affects the environmental sustainability orientation (ESO) of that firm. Albeit, even though the manager may be motivated to adopt more sustainable business activities, the success of its socially responsible strategies is dependent on company culture (Kucharska & Kowalczyk, 2019; Abbett & Whisnant, 2010).

 Moreover, Agency Theory may also put the organizational structure of SMEs in favor. Executives of large companies have the incentive to focus business operations on short-term profits or goals, to assure they get their salaries and bonuses paid (Flammer et al., 2019). Executives’ pursuit of these short-term incentives may be at the expense of the owners or shareholders of the company. Where executives of large companies have different time horizons than that of the companies’ shareholders, an SMEs’ manager, who is also the owner, should not experience contrasting time horizons since they *are* the shareholder. Accordingly, for SMEs, this problem may not be as dominant.

*The intellectual capital of SMEs*

A different approach would be looking at the innovation that could advance from adopting more sustainable business practices. SMEs need to adapt to everchanging market conditions in order to survive and create competitive advantages in order to thrive. According to Papula and Volná (2013), the competitive advantage lies in the resources and capabilities that produce products or services. By utilizing its resources and capital, a company can go beyond mitigating ESG risks to proactively look for opportunities in transitioning towards more sustainable business activities. By doing so, companies can capture new markets, have more competitive prices due to a reduction in costs and differentiate from competitors, creating competitive advantages (Koirala, 2019). Firms need to sustain this competitive advantage throughout time. Organizations need to carry out their activities in ways that are different from other firms or hard to imitate (Ngah et al., 2015). Creating a sustainable competitive advantage is crucial for the survival and thriving of SMEs in an uncertain and ambiguous global competitive environment (Ngah et al., 2015). The results of a questionnaire with 165 small agribusiness enterprises in Kenya found that technology innovation in SMEs can modify the production process and enhance sustainability practices (Chege & Wang, 2020).

# **3. THEORETICAL FRAMEWORK**

As stated in the introduction, this study will contribute to the current academic literature by developing a clear and structured framework that summarizes academic literature and insights from consultants. This will provide a clear overview for institutions, regulators, consultants and, potentially, managers of SMEs themselves to see where the strengths and weaknesses lie for SMEs in their decision-making process to transition and in their actual transition to a more sustainable business model. The initial framework, presented in this section, will consist of findings and theories from the literature. The final framework presented in the discussion and conclusion (Section 6) will consist of findings and theories from the literature, findings and theories from the literature confirmed by sustainability consultants experienced in the sustainable transition of SMEs and new insights from these consultants. The final framework will therefore provide a clear overview of the drivers and ‘hinders’ of SMEs in their decision to transition and their actual transition. This overview will, however, not be a one-fits-all framework. These results are generalized to a certain point that they can describe a sufficient number of drivers and hinders for SMEs in their transition. Nonetheless, as has been stated in Section 2.2, also with the helpful insights of this framework, its results cannot be generalized to the heterogeneous nature of different sectors, the diverse SMEs within this sector, and their distinct approaches to CSR. Despite this, the framework could provide a good starting point for future research to include new generalized factors or build sector-specific frameworks.

This section will be structured as follows: first, the drivers of the transition will be described. Secondly, the hinders of the transition will be described. Lastly, outcomes for SMEs of their transition to a more sustainable business model will be given. All these factors are summarized in the preliminary framework (Figure 1).

## **3.1 Drivers of the transition**

The growing trend of large companies requiring enterprises in their supply chain to report using the triple bottom line (or other ways of reporting on non-financial KPIs) puts pressure on SMEs to also report using these methods if they are part of that supply chain (Shields & Shelleman, 2015). Additionally, if a company wants to be truly sustainable, it would not only have to look at its own operations but also that of its suppliers. If an SME were to be a supplier of such a company, it would therefore also have to transition to more sustainable business activities or risk losing this customer or client. Thus, stakeholder pressure can be a driver for SMEs to decide to transition to a more sustainable business model.

In like manner, in order to survive at the least and thrive at best, SMEs need to be able to retain existing and attract new customers, whether it be business to consumer (B2C) or business to business (B2B). Social responsibility of companies can be forced by market or consumer pressures (Hockerts & Wüstenhagen, 2010). SMEs therefore have to adhere to everchanging market demands. If the market demands more socially responsible behaviors, products or services from the companies they buy, then market pressure can be a driver for SMEs to decide to transition to a more sustainable business model.

Scarce resources and time can constrain SMEs to the acquisition of knowledge of environmental management systems (Hutchinson & Chaston, 1994). The same may account for acquiring knowledge about the needs of an SMEs’ stakeholders. Hence, if SMEs were to have strong stakeholder connections of - most of the time - informal nature (Russo & Perrini, 2010, p.217), the acquisition of knowledge of their needs could become less difficult and resource-consuming. This could make it easier for managers of SMEs to decide to adhere to these needs in order to secure a long-term (i.e. sustainable) relationship. Strong stakeholder relations are therefore a driver for SMEs to decide to transition to a more sustainable business model.

Studies on Open Innovation (OI) emphasize that external stakeholder relationships are fundamental for OI in SMEs (Tsai et al., 2022, p.435). The favorable organizational structure of SMEs may create possibilities for innovation from the production layer of the company instead of only the upper-layers. Chege and Wang (2020) found that technology innovation in SMEs in Kenya can modify the production process and enhance sustainability practices. Moreover, collaborations with other firms are important for SMEs because external networks with other SMEs increase access to knowledge, external resources and lowered rates of failure (Tsai et al., 2022, p.435). Strong stakeholder relations, the organizational structure of an SME and (business) networks may lower the possibility of a failed transition to a more sustainable business model. Therefore, strong stakeholder relations, organizational structure and (business) networks are drivers for SMEs during their actual transition to a more sustainable business model.

*Figure 1. Preliminary framework for the sustainable transition of SMEs in the Netherlands*



*Source: from author*

The orientation of management towards sustainability is of importance for the decision-making process to transition to a more sustainable business model. A multiple-case study by Ditillo & Lisi (2016) found empirical evidence that a firm’s sustainability orientation is the main cause for variations in the integration of Sustainability Control Systems (SCSs). Logically, if top management of an SME has a high affinity for sustainability and sustainable business practices in particular, their motivation may be higher to attempt to transition to a more sustainable business model. Roxas & Coetzer (2012) found that the attitude of managers of small firms toward the natural environment affects the environmental sustainability orientation (ESO) of these firms. Therefore, management commitment toward the social and natural environment is a driver for SMEs to decide to transition to a more sustainable business model.

In addition, firm-wide shared visions, simplified decision-making routes, shorter lines of communication, and closer interaction within the firm may make it easier for SMEs to address environmental issues (Hörisch et al., 2015, p.768: Aragón-Correa et al., 2008). Furthermore, smaller firms can experience a higher presence of the founder’s vision (Aragón-Correa et al., 2008). Therefore, when a manager of an SME has made the decision to develop a more sustainable business model, the organizational structure of the firm and the managers’ commitment are also drivers for SMEs during their actual transition to a more sustainable business model.

Already national governments like that of South Africa and Sweden require companies to report on their sustainability performance. The European Commission proposed a revision of the Non-Financial Reporting Directive (NFRD) to a new EU law and name, the Corporate Sustainability Reporting Directive (CSRD). The CSRD requires large companies to disclose information about their social and environmental challenges and performances (European Commission, n.d.). Future laws could also require SMEs to report on social and environmental performances. Ioannou & Serafeim (2017) analyzed the effects of mandatory sustainability reporting for 58 countries. Their results showed that the social responsibility of business leaders increases with mandatory sustainability reporting. This makes a case for the effectiveness of regulations on corporate sustainable behavior. Social responsibility can be forced by laws and regulations (Hockerts & Wüstenhagen, 2010). Logically, if SMEs are required by law to report on social and environmental performances, they would have to obey these laws. Regulations are therefore a driver for SMEs to decide to transition to a more sustainable business model.

## **3.2 Hinders of the transition**

For profit-maximizing firms, the social and environmental outcomes of CSR will be financially considered (Zbuchea & Pinzaru, 2017). If managers of SMEs consider the Social Return on Investment (SROI) insufficient, either due to negligible impacts or high costs of investment, the decision to attempt the transition will be based on the goodwill or commitment of management towards sustainability. Results of a survey with 33 SMEs in different sectors in the UK showed that time and financial constraints were perceived as the main obstacles to environmental actions (Pimenova & Van Der Vorst, 2004). Likewise, many SMEs lack tangible or intangible resources to properly integrate sustainability into their core business strategy (Nicholas et al., 2011). For example, in order to effectively measure and report on non-financial performances, SMEs need to follow new and still developing guidelines, gather additional data on their relevant stakeholders and hire new consultants or train current employees (Perrini et al., 2007). This would require the SME to use or obtain additional human and financial resources. Therefore, human and financial resources are a hinder for SMEs to decide to transition as well as their actual transition to a more sustainable business model.

Hörisch et al. (2015) found that, once sustainability management tools are known, there is essentially no difference in the total amount of tools applied between SMEs and large companies. Furthermore, they posit that financial and human resources are required to apply such tools. In line with these results, one may assume that once managers of SMEs have acquired knowledge on how to transition to a more sustainable business model, they would attempt their transition. A lack of financial and human resources therefore constrains the acquisition of knowledge for SMEs. Correspondingly, insufficient knowledge about transitioning to more sustainable business activities therefore hinders SMEs to decide to transition to a more sustainable business model.

Once tools are known, they have to be effectively implemented to serve their purpose. Hörisch et al. (2015) explain that knowing how to use and implement known tools effectively requires expertise. The same may account for the transition of SMEs to more sustainable business models. Once an SME has acquired knowledge on how to transition to a more sustainable business model, a lack of expertise might constrain effective use and implementation of this knowledge. Therefore, a lack of expertise could be a hinder for SMEs during their actual transition to a more sustainable business model.

As stated in Section 3.1, management commitment can be a driver for SMEs in their decision to transition. On the other hand, a lack of management commitment can also be a hinder for SMEs to decide to transition to a more sustainable business model.

## **3.3 Outcomes of transition**

Several outcomes have been studied for more sustainable business activities of SMEs. For example, Vijfvinkel et al. (2011) analyzed a questionnaire dataset of 337 Dutch and Chinese manufacturing SMEs at international ports. Their results showed a significant positive impact between environmental sustainability and SME performance. In addition, they also found that communicating the sustainability efforts of a firm to its employees has a positive effect in terms of profit development (Vijfvinkel et al., 2011). This could be an indication of cost-saving innovations by the employees instead of only management. In line with this assumption, Chege and Wang (2020) analyzed a questionnaire with 165 small agribusinesses in Kenya and found that technology innovation in SMEs can modify the production process and enhance sustainability practices. Their results also showed a positive relationship between sustainable practices and financial performance. By transitioning to a more sustainable business model, companies can differentiate from competitors and capture new markets (Koirala, 2019). Ngah et al. (2015) argue that creating a competitive advantage is crucial for the survival and thriving of SMEs in an uncertain and ambiguous global competitive environment and SMEs need to sustain this competitive advantage throughout time. This may be an effective differentiator for SMEs, which may not be as brand-dependent as larger firms when competing for market share. Moreover, an extended literature review by Le (2022) suggests findings from the academic literature reveal significant and positive relationships between CSR, corporate reputation and firm performance.

Lastly, Bams et al. (2021) found companies that go beyond solely mitigating ESG risks and proactively look for strategic opportunities – they use the term ‘Strategic CSR’ – perform better in Corporate Social Performance and Corporate Financial Performance. Arguably, better sustainability practices in an SME should result in better sustainability performance of that SME. Based on the literature described above, possible outcomes for SMEs are better financial performance due to cost-saving innovations, differentiation, capturing new markets and better reputation and better sustainability performance.

# **4. METHODS**

To investigate the research question ‘*Are there specific drivers and hinders for SMEs in the Netherlands to transition to a more sustainable business model?’* interviews with 7 consultants were conducted. First, the author tried to conduct interviews with actual managers of Dutch SMEs. Essentially, a basic Delphi technique is applied, relying on a structured communication method. This technique is originally developed as a systematic, interactive forecasting method which relies on a panel of experts (Dalkey & Helmer, 1963). Even though, in this thesis, the information gathered is not applied to forecasting, it is applied to determine which particular factors can be considered for subsequent research. Unfortunately, the response rate of SMEs and SME networks was particularly low. Because of time constraints, the focus shifted to conducting interviews with CSR consultants, hoping their response rate would be higher. In total, 21 SME networks and consultants were contacted via email. SME networks were selected by searching on Google for ‘MKB netwerken’ (Dutch for SME networks). Every network found that was located in the regions Noord-Holland and Utrecht were contacted. The consultants were found searching on Google with ‘MVO consultant’ or ‘sustainability consultant’. MVO is the Dutch abbreviation of Socially Responsible Entrepreneurship. With a brief review of the consultancy’s website, it was made sure the consultancy advised on MVO and had SMEs in its portfolio. In the first email, a confirmation question on this criteria was asked. If there was no reply received after two weeks, a follow-up email was sent. If there was no reply received after two weeks on the follow-up email, potential participants would be called. Many consultants, either interviewed or not, stated they had very little time (and could therefore not help with this study). Out of the 21 emails or calls, a total of 8 interviews were conducted. Seven interviews were conducted with MVO consultants and one with a manager of a Dutch SME. Even though this manager’s time and effort was greatly appreciated, his data was not used for the final results. Nevertheless, the interview provided additional food for thought that was used for the literature review. During the interviews, the author used an open approach. In some manner, the author tried to confirm what has been theorized and empirically observed in the literature, but overall the interviews were an open environment meant to make sure the interviewees were able to say what they thought was correct in order to obtain new insights and discussion points that could perhaps contradict the literature. This was clearly stated to every interviewee *before* the interview started.

 The interviews were semi-structured. By semi-structured, the author means that there were pre-made questions before the interviews. Nonetheless, during the interviews, the author could rephrase pre-made questions or ask additional questions to get a better understanding of certain statements. The interviews lasted between 46 minutes and 66 minutes, were conducted via *MS Teams,* and were all recorded and transcribed. For transcribing, the software program *Amberscript* was used. This program automatically generates a transcription of an audio file (in this case, the recorded MS Teams-meeting). Every transcription generated was carefully reviewed and corrections were made when necessary. *The recordings and transcriptions are available upon request*. The pre-made interview questions are available in Dutch in Appendix 1. A short example of an interview transcription is available in Appendix 2. After conducting the interviews and transcribing the interviews, every interview was coded using the software program *NVivo 20*, available for al Utrecht University students via https://solisworkspace.uu.nl. The coding was executed as follows: first, the author would read the transcripts and would code quotes either in codes that already existed or a newly generated code. Second, codes that were closely alike would be merged together. Third, all codes would be categorized in the following 8 broad themes: Business Characteristics, Commitment, Drivers, Hinders, Knowledge and Expertise, Tools and Measures, Outcomes, and Noteworthy Insights.

# **5. RESULTS**

The results section will report the findings of the interviews. All 8 themes introduced in Section 4 (Methods) will be reported separately. Every subsection will summarize the insights gained from the interviews and will present whether certain factors are a driver, a hinder, or both.

## **5.1 Differences in company size and organizational structure**

In the literature review, the relationship between company size and their approach to CSR was discussed. During the interview, company size was a subject that also came under discussion. Respondents mentioned the *differences in time horizons* between large corporations and small SMEs. During the interviews, respondents stated that SMEs focus more on the long-term and large corporations tend to focus more on the short-term 3 times.

*Organizational structure* was mentioned to be favorable for SMEs during their decision to transition and the actual transition. During the interviews, it was *mentioned 8 times* that SMEs have a favorable organizational structure in their decision-making process. Interviewees argued that large corporations would have different divisions and teams that were necessary to make a decision. For SMEs, on the other hand, the manager-owner could more easily make this decision by himself. Once he is convinced the company should start its transition, the decision can be made without having to convince other directors. In like manner, once the decision is made, it takes SMEs less time and effort to keep all divisions and teams on board. For example, one respondent stated:

*“The larger a business is, […] the bigger the chance some sort of resistance will arise. That is actually inherent in every transition.”*

Furthermore, respondents *mentioned 5 times* that the decision to transition and their actual transition was different for *different types of businesses*. Two respondents stated that organizations with lower educated and lower-income people care less about sustainability. One consultant stressed the different consultations they have to give to the diverse companies they serve, confirming the heterogeneous nature of CSR approaches, as stated multiple times before:

*“We do business with advanced companies that work with 3D printing or whatever magic they deliver. That is of course completely different than the bookstore around the corner.”*

Lastly, still regarding the differences in businesses, the importance of *family businesses* and their long-term horizon was *mentioned 7 times*. One consultant stated that half of his clients were family businesses. The respondents noted that family businesses more easily recognize their effects on the natural and especially social environment, making them more aware of the impacts their business operations have and making them more aware of securing long-term continuity of their business for future generations.

## **5.2 The importance of commitment**

During the interviews, the commitment of either management, the employees or the company as a whole came forward as a significantly important factor for the decision to transition and the actual transition. First, the importance of *management commitment* was *mentioned 13 times*. Two consultants stated that, if there is no full commitment from top management, it would be very hard for them to conduct business with this client and secure a successful transition. That means that a lack of management commitment could hinder the actual transition.

 Furthermore, when asked about the importance of the commitment of employees, respondents suggested that *employee commitment* was also very important, and was *mentioned 6 times* during the interviews. Two consultants stated that a helpful way of getting most of the company committed is by focusing on the few employees that are (already) committed to the transition. The whole company should be up to date on the transition and get a feeling for what is about to happen and how they can help make it happen. One consultant summarized:

*“You need to communicate it [the transition process] within your organization, you need to share it, you need to show what great things you have received. And so it is very important that the whole organization stays motivated.”*

However, here again, consultants also mentioned the *differences between employees*. As stated above, most of the time there are already some employees that are committed to the transition. But for the employees that are not, you need to motivate them with different stories based on their income and education:

*“We notice that people who did not receive higher education […] that they are less open for everything that has to do with this* [the transition] *than people who did* [receiver higher education]*. […] When we get to work in an organization, we need two stories. For people in the workplace, we need a story of pride. […] We motivate them on the fact that they are able to contribute to a process of which the company becomes more successful because everybody wants to work in a healthy company.”*

Lastly, employees will sometimes also be drivers for the transition. Employees can be motivated to want to work in a socially responsible company. The next subsection *‘Motivations for the transition’* will go more in-depth on employee retention and attraction. Nevertheless, it is worth mentioning that 3 consultants stated that employees can drive management to make the transition.

## **5.3 Driving the transition**

Multiple drivers of and for the transition were mentioned during the interviews. As stated in the literature review, these can consist of internal or external factors. The following subsection will therefore categorize the drivers in these subcategories.

 The first internal driver that was mentioned is *intrinsic motivation*. Intrinsic motivation can arise from thinking about your kids or other future generations and ambitions to be the first and best in your sector. It was *mentioned 3 times* by respondents that without actual intrinsic motivation, it will be hard to make a successful transition. If companies only focus on the external benefits of the transition, they can cut corners to receive certificates and write about any contributions they make on their website or social media. If a company is truly intrinsically motivated, its transition will be more sustainable. Intrinsic motivation could therefore be a driver for the decision to transition and the actual transition. Intrinsic motivation is also in a way correlated to management commitment. If management is not intrinsically motivated, their commitment toward a truly sustainable transition could be lower.

*“Because if they think […] we have to do this to obtain a certificate, generally there is less willingness to invest time and energy into it, compared to when it is intrinsically motivated.”*

Secondly, *employee retention and attraction* are internal drivers that both were *mentioned 3 times* in the interviews. Respondents argued that current generations in the labor market have a higher affinity to work for a company that is socially responsible. One respondent argued that major global challenges can sometimes be too big to perceive and they would therefore at least try to make a better world with the company they work for. Again, he also argued that it is somewhat dependent on their income and education.

 Two external factors were mentioned during the interviews and they seem to play an interesting role. These factors overlap each other on several points of interest. First, *market pressure* is a driver for the decision to transition. The necessity to be more sustainable was mentioned 4 times as market demand, 3 times as a customer prerequisite (either B2C or B2B), 2 times because the supply chain requires it, and 2 times because the government requires a supplier to have it. Note, market demand and supply chain requirement are different in this retrospect, because the market could demand it as a requirement for their own personal benefit (warm glow) or because they require their suppliers to be sustainable in order to meet certain standards. Supply chain requirements could only mean that companies require their supply chain to meet certain standards so they can meet regulations or certificate requirements. On the other hand, companies do not only require sustainability for the sake of their own certificates, two consultants also mentioned that companies can require the SME to have a certain certificate. Certificates, however, create an interesting, yet difficult debate. One consultant mentioned that SMEs would want to receive a certain certificate if it is able to meet certain standards to have a tangible distinction from competitors creating a competitive advantage. Although, two other consultants mentioned that companies can gravitate toward cutting corners if they are not intrinsically motivated toward sustainability:

 *“A certificate is the least important. It is about what you, as an entrepreneur, actually want, what is captured in your mission, vision and core values.”*

One of these consultants illustrated that as a furniture-maker you would like to only buy FSC-rated wood. If this is only motivated by external factors, like a certificate, this furniture-maker might buy illegal wood that did however somehow receive the FSC label. This SME would be able to differentiate itself from competitors, but would not necessarily be sustainable. Another consultant also mentioned that if the motivation for the transition is to receive a certificate, they are less willing to actually be sustainable.

As stated above, B2B customers sometimes require their supply chain to address sustainability issues as well. This would bring us to the second external factor; *regulations*. This external driver was *mentioned 7 times*. Respondents stated that, first, regulations could either force SMEs to averse future risks and secure continuity of their business. And second, regulations for large corporations, like the European CSRD, would require these corporations to address sustainability issues in their supply chain as well. These regulations for big companies could therefore make their way down to the smaller firms that supply goods or services to these corporations. So, regulations are somewhat interrelated to corporations requiring their suppliers to meet certain standards, as stated above. One consultant stressed the importance of regulations, especially EU regulations:

*“The government should come with stricter rules, that the same rules account for everyone. Not just in the Netherlands, but especially in Europe. […] It is up to the government right now, with clear rules. That would help SMEs.”*

## **5.4 Hindering the transition**

As stated above, high intrinsic motivation is a driver for the decision to transition and the actual transition. In like manner, a *lack of motivation is a hinder* for the decision to transition and the actual transition. In total, 5 consultants mentioned that some managers perceive sustainability issues as not important. They might not feel the urgency or necessity to transition to more sustainable business activities. Companies that do not (yet) notice the market pressure or are not (yet) bound to regulations, have little motivation to start their transition:

*“It has to fit with the mindset of the entrepreneur. If he or she thinks: ‘I am profitable five years in a row now and everything is well, what are we even talking about?”*

Furthermore, 6 consultants mentioned *the lack of resources* to be a hinder for the decision to transition as well as the actual transition. *Financial resources* as a hinder was *mentioned 4 times*. The respondents illustrated several factors related to a lack of finances to hinder the transition. First, as stated above, it takes resources to obtain certain certificates. If these SMEs lack the knowledge and expertise to obtain these certificates themselves, they would have to hire a consultant, like the consultants interviewed. SMEs are able to receive subsidies but filling in these files would also take substantial time and effort:

*“[Subsidy forms] have to be filed, that is not a matter of just filling in a small form. Most of the time there is quite some work behind it.”*

Respondents mentioned a *lack of human resources* to be a hinderer 4 times. To start and especially monitor the transition, SMEs would have to assign staff to fill in certain forms every week. Additionally, for 2 consultants a major reason for their services to be declined was a *lack of time*. Arguably, an SME employee would have more time available if there was an additional employee who could cover the general work they have to do each week.

 *“[…] It is very dependent on how much data you already have and if you have someone in your organization who gets the time for it. Because eventually, it is mostly about whether you have someone who can spare half-a-days’ time each week to set everything up.”*

Interestingly, a lack of financial resources was not mentioned to be a hinder for the decision to transition, only for the actual transition. Human resources, on the other hand, were mentioned to be a hinder for the decision to transition (because the managers perceived insufficient available time beforehand) and for the actual transition.

During the interviews, an additional insight was obtained. Two consultants mentioned that in order to make a successful transition, you need the right *infrastructure*. Both consultants mentioned that, occasionally, SMEs want to put solar panels on their roofs, however the electricity network cannot handle the additional energy generated. This could result in SMEs only placing enough solar panels for themselves to have a net-zero impact, but obstructs them from making a *positive* impact. Fortunately, 3 consultants already had a solution: companies in business parks are able to effectively collaborate and set up networks to share generated energy. Also, the *lack of knowledge and expertise within municipalities* was mentioned. This could hinder a successful transition of SMEs because, if the municipality, or government, is not able to set up effective subsidies and regulations, SMEs are not able to make a truly sustainable transition:

*“[…] And the municipalities come up with a plan that is far below average. But is does get subsidized and SMEs will just go with it, because they receive free money.”*

## **5.5 Knowledge and expertise**

In the subsection ‘Definitions’, this thesis already tried to explain what sustainability means for businesses. During the interviews, 5 consultants specified what they exactly meant by sustainability, how one word would be better than the other, or that different people have different definitions for sustainability in businesses.

 It was *mentioned 4 times* that consultants generally get a call for their services with the notion: ‘I want to do something with sustainability, I just have no idea how’. Furthermore, the importance of *awareness* was *mentioned 3 times*. First managers need to be aware of their effects on the environment and the possibilities of more sustainable business operations:

*“You need to instigate that a little bit. Making these people aware of things they may not be aware of yet and that it is an important theme. It is about us, about our survival.”*

Besides knowledge, the notion *‘I want to do something with sustainability, I just have no idea how’* is also somewhat in line with *expertise*. A lack of a clear strategy and overview of the transition was mentioned by the respondents 5 times. The transition can be a long and difficult process that needs expertise to effectively implement it. It was *mentioned 3 times* that consultants were therefore approached to provide their expertise in the transition. Two consultants had some clients who attempted the transition on their own first before they got to a certain point they would need extra expertise to go any further. A lack of expertise can therefore be a hinder in the actual transition.

Lastly, as already mentioned, municipalities or institutions can also lack knowledge and expertise on creating a better environment for SMEs to start and finish their transition. This was only mentioned by one consultant, but it might be worth investigating in future research.

## **5.6 Tools and measuring instruments**

In total, 5 consultants mentioned several *tools* applicable for SMEs in the Netherlands, namely: Milieubarometer, Klimaatplein, Planetly, CO2-Prestatieladder and the MVO Zelfverklaring. Milieubarometer and Klimaatplein are, respectively, cheap and free tools that can easily be used by SMEs. Planetly did not give any indication on its pricing but they do provide a free demo. The CO2-Prestatieladder and the MVO Zelfverklaring are a little more developed but are also more difficult and expensive. One consultant mentioned that if a company has little prior knowledge of evaluating and developing business processes, the MVO Zelfverklaring can be a *“heavy”* tool.

 In terms of measuring, it was unclear if the consultants or SMEs -for that matter- used these tools for a longer period of time. The same 5 consultants that mentioned the tools, did mention that these tools are very useful for an *initial assessment*. That initial assessment could give insights on problems SMEs did not think of before and consultants or managers can base a consult or strategy on this initial assessment. However, one consultant stressed the difficulty for SMEs to measure certain impacts of their business or within their supply chain. It might be hard for an SME to actually measure if their supplies are child labor free. Nonetheless, an SME is able to ask about it. To illustrate, he said:

 *“If you are an individual contractor […] and you purchase your materials at the depot, you will not ask this depot: ‘Are your materials sustainable and child labor free, otherwise I will not conduct any business with you anymore’. […] You will not have that power, but you are able to ask the question.”*

## **5.7 Outcomes of the transition**

All 7 consultants stated several beneficial outcomes of the transition to a more sustainable business model. First, it was *mentioned 3 times* that SMEs are able to *increase their margins*. For example, one consultant stated that if your company performs on ‘tier 3’ on the CO2-Prestatieladder, you are *allowed* to increase your contract by 5%. This percentage rises to 15% if you perform on the highest tier, ‘tier 5’. Moreover, two consultants mentioned that with the transition, SMEs are able to *differentiate from competitors* and *seize business opportunities*. One of these consultants mentioned that these outcomes might be the biggest driver for SMEs in their transition. Here again, one needs to be careful with the actual sustainability of companies if their drive is mostly extrinsically motivated. Lastly*, saving expenses*, *resiliency to shocks*, *reputation*, *growth opportunities,* and *easier access to finance* were all mentioned once. Retention and attraction were also mentioned. Naturally, if an SME has knowledge or a strong belief in the aforementioned outcomes, all of these outcomes are drivers in the decision-making process as well.

## **5.8 Noteworthy insights collected**

During the interviews, 5 consultants mentioned the *growth of the transition* of SMEs. It was *mentioned 4 times* that the growth of the transition will grow exponentially. If gradually more and more large corporations and smaller firms focus on sustainability issues, their suppliers, customers, networks and other contacts could also start their transition. To illustrate, one consultant provided the following example:

*“Secretaries of a company organized a lunch for clients. […] When the guests are eating they will tell them the lunch consists of regional products and they did not use any plastics. […] Where the guests will think: ‘How great! Shouldn’t we start thinking about these things?’ […] And eventually, this will multiply and more organizations will get a taste of it and will think: ‘I can become more successful if start doing this!’”*

One consultant mentioned he felt a growing concern and interest in transitioning to more sustainable business activities after the COVID-19 pandemic.

Lastly, the importance of *networks* and *effective collaborations* was mentioned by 4 consultants. Together, SMEs can share knowledge, ideas, or resources to help each other with their transition:

*“So yeah, you can see that businesses, even though one is a bakery and the other one is in metal forging, that they find each other regularly and help each other. The mutual collaborations are a very positive thing.”*

# **6. DISCUSSION AND CONCLUSION**

This thesis defines parameters to map the drivers and hinders for SMEs before and during their transition to a more sustainable business model. Unclarity persists regarding which mediating factors drive SMEs to effectively incorporate CSR practices, compared to large companies (Zbuchea & Pinzaru, 2017). The exploratory and qualitative design of this research, therefore, attempts to put (some of) these factors in perspective. To the best of the author’s knowledge, this thesis is the first in making a clear and structured overview of the drivers and hinders of an SMEs transition, while also making a distinction between the *decision-making process* to transition and the *actual* transition. The final framework (Figure 2) is not proposed as a one-fits-all framework. Instead, as has been identified in the results, one should take the heterogeneous nature of different sectors, the diverse SMEs within this sector and their distinct stakeholder requirements into account. Therefore, the final framework should be considered as a starting point for future researchers to study certain ties and effects or add additional drivers and hinders to construct sector, or even company-specific frameworks.

## **6.1 Drivers**

First, the interviewees identified the favorable organizational structure SMEs may possess in their decision-making process as well as their actual transition. Interviewees argued that large corporations would encounter resistance due to different divisions, teams and organizational layers. These results are in line with the arguments of Aragón-Correa et al. (2008) and Hörisch et al. (2015, p.768) respectively stating that SMEs have shorter lines of communication and have simplified decision-making routes.

 Secondly, the interviewees identified the importance of management commitment towards the transition as a driver for the actual transition if present and a hinder for the actual transition if absent. Moreover, interviewees identified intrinsic motivation as an essential driver for the decision-making process as well as the actual transition. Management can be committed to the profitable or necessary outcomes of the transition, however, when management is intrinsically motivated the firm will be more likely to make a *truly* sustainable transition. These results are in line with the study of Roxas and Coetzer (2012) that found that the attitude of managers of small firms towards the natural environment affects the environmental sustainability orientation (ESO) of that firm. A logical implication would therefore be that governments, institutions or business partners may try to focus on the intrinsic motivation of SME managers to transition. Additionally, employee commitment was also identified as an internal driver for the decision-making process as well as the actual transition. Interviewees stated that sometimes employees can instigate managers to make the decision to transition because they would like to work for a more socially responsible company. This is in line with the notion that even though the manager may be motivated to adopt more sustainable business activities, the success of its socially responsible strategies is dependent on company culture (Kucharska & Kowalczyk, 2019; Abbett & Whisnant, 2010). A lack of employee commitment could therefore also be a hinder for the actual transition.

Supply chain requirements, market demand, and regulations were identified as external drivers in the decision-making process. Shields and Shelleman (2015) stated that an SME can be pressured by stakeholders in its supply chain to report on non-financial performances. In like manner, interviewees stated that customers or suppliers in an SME’s supply chain may require the SME to have certain standards or have a certain certificate. These standards should of course be measured and reported in some way in order to receive a certificate. Hockerts and Wüstenhagen (2010) stated that socially responsible behavior can be forced by market pressure or regulations.

However, interviewees also mentioned that receiving this certificate can be a costly process for SMEs compared to larger companies and would therefore require the government or institutions to make a more level playing field, or other comparative incentives. What would be the effects if these certificates would be easier to obtain? Would it create a bigger external motivation to transition to a more sustainable business model? What are the effects on the *actual* sustainability of this SME after its transition that is mostly extrinsically motivated? Are many SMEs with some attempt to sustainability by cutting corners better than a few SMEs who are intrinsically motivated to transition and are substantially more sustainable? *Should* it therefore be made easier for SMEs to obtain a certificate? Interviewees already mentioned that if the motivation for the transition is to receive a certificate, managers are less willing to actually be sustainable. On the other hand, SMEs that actually do make the effort to be as sustainable as possible need to be able to differentiate themselves from competitors with something tangible. Future research could investigate the sustainable performance of SMEs that are internally motivated compared to SMEs that are externally motivated. Future research could also investigate whether SMEs could be both internally *and* externally motivated, or not.

SMEs should collaborate with other firms to increase their access to knowledge, external resources and lower rates of failure (Tsai et al., 2022, p.435; Van Hemert et al., 2013; Enkel et al., 2009). The interviewees also identified the importance of networks and collaborations for firms. Several interviewees also stated that the number of SMEs attempting their transition will grow over time. Logically, if you are the manager of an SME and you supply products or services to a large corporation that has the ambition to be sustainable, either by external or internal factors, eventually this corporation would require your firm to be more sustainable as well, or, at the least, address certain sustainability issues. You might therefore require your suppliers or contacts to be more sustainable and your customer and business networks will notice your transition too. This could become a growing trend that would eventually require every company, regardless of size, to be sustainable. The question here of course is; would that trend grow enough on time? Worth noticing is, as mentioned in Section 4 (Methods), many consultants were contacted and many stated they did not have a lot of time on their hands. This could indicate two things. One, more and more businesses want to start their transition. Or, two, there are not enough consultants at the moment who can help these businesses with their transition.

Aragón-Correa et al. (2008) found that the capability of stakeholder management has a positive relationship with the development of proactive environmental strategies for SMEs. Strong stakeholder relations were therefore included in the preliminary framework. Albeit, the interviewees did not specifically make clear how and why strong stakeholder relations could drive the transition of SMEs to a more sustainable business model. Nevertheless, it is still included in the final framework since there is empirical data (Aragón-Correa et al., 2008) and theoretical reasoning (Russo & Perrini, 2010, p.217) on the importance of strong stakeholder relations. Future research could try to investigate this relationship further to improve the effectiveness of the current final framework.

*Figure 2. Final framework for the sustainable transition of SMEs in the Netherlands*

*Source: the author*

## **6.2 Hinders**

Managers of SMEs can lack knowledge of the collective impact SMEs can have on the environment, the benefits of addressing a longer time horizon (in most cases sustainability), and tools or techniques to develop sustainability strategies and practices (Shields & Shelleman, 2015). The interviewees also identified the importance of awareness of (or knowledge about) sustainability issues and opportunities. Interviewees stated there were customers that reached out for their services with the notion: ‘I want to do something with sustainability, I just have no idea how’. This could likely mean that these SME managers are intrinsically motivated to start their transition, even though they have very little prior knowledge about its implications and possibilities. This could therefore make an even stronger case on the importance of intrinsic motivation. Even though managers lack knowledge, they would decide to start their transition with little prior knowledge about the subject if they have an affinity with the preservation of their natural and social environment.

On the other hand, if managers reached out to a consultant for their knowledge and expertise, they could likely already have some knowledge or awareness about sustainability issues and opportunities beforehand. The study of Hörisch et al. (2015) found that the key difference in the number of implemented sustainability management tools between SMEs and large companies is the knowledge of these tools. The results of this thesis can be in line with their findings. When a manager already has some knowledge of the transition to more sustainable business activities he or she would want to start its transition and would contact a consultant beforehand or whenever the company hits its limit of expertise to make a successful transition. Interviewees also identified this problem. Their services were needed to construct a clear strategy and overview of the transition. Additionally, interviewees stated that some clients would attempt their transition on their own expertise first.

 Several studies have already identified the lack of resources to be a hinder for SMEs in their transition (e.g. Nicholas et al., 2011; Pimenova & Van Der Vorst, 2004; Zbuchea & Pinzaru, 2017). Interviewees also mentioned a lack of resources to be a hinder for SMEs to transition to a more sustainable business model. Different from the preliminary framework, a lack of financial resources was not identified as a hinder in the decision-making process. If the manager was intrinsically motivated he or she could care less how much the transition would cost. Perhaps therefore a lack of financial resources was not perceived as a hinder for the decision to transition. On the other hand, human resources was identified as a hinder for the decision-making process as well as the actual transition. Interviewees stated that managers also perceive a lack of time as a hinder for the decision-making process as well as the actual transition. Not enough time could indicate a lack of human resources available to complete certain tasks but also a lack of financial resources to hire external parties. Most consultants were contacted by managers of SMEs themselves. It may be likely that these SMEs would already have the financial resources to hire experts for their transition and they would therefore not identify a lack of financial resources in the decision-making process, because they already *decided* to hire a consultant.

However, even though, during the interviews, financial resources was not explicitly made clear as a hinder in the decision-making process, it may still be true. Arguably, if a manager is aware of the potential benefits of transitioning to a more sustainable business model but notices the firm does not have enough additional or spare financial resources available to attempt the transition, the manager could decide to wait for better times. Future research could investigate whether this may be true or whether managers would nevertheless try to at least attempt some sort of transition. A possible implication would be to create sufficient cheap loans or foundations that could help SMEs attempt its transition even though they may not have the funds to do so right now.

Lastly, a new insight was generated, namely the competence of institutions and the infrastructure needed to sustain the transition of SMEs (or any company size). This could be an interesting topic for future research. How much are companies constrained by the lack of knowledge and expertise of institutions in their transition? Why exactly do these institutions lack knowledge and expertise? How could you help increase their ability to aid SMEs in their transition?

## **6.3 Tools and measurements**

The interviewees mentioned several different tools that are different in price and required expertise. These tools were mostly used as an initial assessment to develop a strategy on what topics the company wants to tackle based on that initial assessment. It was not made explicitly clear whether these tools are used over time. During the interviews, the MVO Zelfverklaring, a self-assessment tool for Dutch companies regardless of size, was mentioned several times. This tool was described a ‘heavy’ tool because it is a long assessment that goes in-depth on a myriad of possible sustainability issues a firm could encounter. Again, Hörisch et al. (2015) found that, once tools are known, they are likely to be implemented. Should more SMEs be made aware of this tool? Should this tool be made mandatory, like signing up for the Chamber of Commerce? What would be the effects of making a self-assessment mandatory for SMEs? Will it increase their awareness of sustainability issues? Will awareness of these issues create intrinsic or extrinsic motivation? Ioannou & Serafeim (2017) found that mandatory sustainability reporting resulted in an increase in the social responsibility of business leaders. Perhaps reporting will be too big of a step for now because most of the guidelines are abstract and still in development. Perhaps making a self-assessment could make a significant difference in the short run. Although, the interviewees did mention that a self-assessment might be difficult for a manager without prior knowledge or expertise on these subjects. Should governments subsidize SMEs to hire a consultant that could do the self-assessment for them? Would that still leave the possibility to generate intrinsic motivation out of the self-assessment?

## **6.4 Limitations**

There are some limitations that should be taken into account. First, the data is highly qualitative and obtained from a small sample of consultants that aid companies in their transition to more sustainable business activities. They may have broad general knowledge about different SMEs in different sectors, they can, however, not look into the actual minds of a manager. This makes their knowledge very valuable for the final generalized framework, but it therefore fails to include any depth in certain factors of the framework. Future research could therefore test the generalized factors included in the final framework and include the perceptions of managers of SMEs in the Netherlands. Secondly, because of the limitations of the sample, there was also no possibility to control for other variables that could explain certain factors. For example, most consultants stated potential clients would reach out to them, instead of having them reach out to potential clients. This means that the data from the consultants on their clients could be data about managers of SMEs that already had some motivation or available resources for their transition. Furthermore, consultants, either interviewed or not, stated they had little time on their hands. This could mean there are not enough consultants that could help companies in the Netherlands with their transition, or there are already a lot of Dutch companies that wish to attempt their transition. The data could not control for country-specific factors, like the sustainability awareness of the Dutch population. The final framework might have to be reconsidered when applied to SMEs in different countries. Nevertheless, the final framework is a combination of empirical data and logical theories from the academic literature supported by insights, knowledge and expertise from consultants in the field of CSR. The final framework could be a starting point for future researchers to improve and extend upon to create sector, country and company-specific frameworks.

Perhaps, in the future, *we* can go beyond improving the quality of life based on monetary value and improve the quality of life based on the wonders of nature, our dearest social relationships and our economic stability. *I* hope we will.

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# **APPENDIX 1**

**Pre-made interview questions in Dutch**

Komen klanten naar u toe?

Met welke vraag/reden komen de potentiële klanten naar u toe?

Weten zij vaak al wat af van de potenties van duurzamer ondernemen?

Benadert u ook klanten?

Waarom nemen ze uw diensten vaak wel aan?

Waarom nemen ze uw diensten vaak niet aan?

Komen klanten naar u toe omdat een groter bedrijf in hun supply chain vereist dat ze duurzamer worden of beginnen met het rapporteren van non-financial performance?

Zijn bedrijven begonnen met het rapporteren of, op zijn minst, het meten van non-financial performance? Wat was het effect daarvan?

Werden er naar externe kosten gekeken? Zijn die geïnternaliseerd?

Merkt u verschillen tussen ZZP’ers, bedrijven met enkele werknemers of bedrijven met meer dan 20 werknemers?

Gaan alle werknemers makkelijk mee met de transitie of zijn er werknemers die extra aandacht nodig hebben?

Moet de top worden gemotiveerd om mee te denken en te doen?

Willen de bedrijven vooral strategische hulp, hulp bij duurzamer worden, of allebei?

Willen de bedrijven liever goed doen en risico’s vermijden, of weten zij ook af van de financiële voordelen van duurzamer ondernemen?

Hoe kiezen/bepalen jullie naar welke problemen en oplossingen jullie kijken?

Gebruiken jullie bepaalde frameworks of tools? Zijn die speciaal voor het MKB gemaakt?

Naar welke problemen en oplossingen kijken jullie?

Heeft het MKB moeite met het financieren van de transitie?

Ze zijn naar u gekomen voor kennis en expertise, zijn er nog andere factoren waar het MKB over het algemeen tekort komt?

Hoe zou u de kennis van het MKB over duurzaam ondernemen over het algemeen beoordelen?

Heeft het MKB moeite met kijken naar de langere termijn?

Welke obstakels ziet u vaak voorkomen bij de transitie van het MKB?

Hoe pakt u de meeste cases over het algemeen aan?

Welke feedback krijgt u vaak terug van klanten/cases?

Was er iets dat het MKB vaak eerst niet wist en bijvoorbeeld blij verrast was om van u te leren?

Ziet u de effecten van het duurzamer ondernemen terug in de financiële performance van uw klanten? Of krijgt u dat wellicht teruggekoppeld.

Komen er nieuwe innovaties uit de transitie? Komen die innovaties (vooral) van de top of ook van de werkvloer?

# **APPENDIX 2**

**Small sample of an interview transcription. *All recordings and transcriptions are available upon request.***

00:41:06
*Speaker 1:* Nee, precies, alright. Ja, even kijken. U had al wat verteld over dat mkb inderdaad moet kijken, dus naar de langere-termijn hebben zij daar ja... Hebben ze daar dan een beetje moeite mee? Is? Hebben ze? Is dat in in eerste instantie in hun opgekomen. Is het makkelijk om tegen ze te zeggen...

00:41:32
*Speaker 2:* ...De, hoe hoe kleiner, hoe kleiner het het bedrijf, hoe meer ze kijken naar hun eigen situatie en vaak ook naar van hé wat naar de waarde van hun bedrijf naar de toekomst.

00:41:45
*Speaker 1:* Hmhm.

00:41:47
*Speaker 2:* Uiteindelijk, als je naar de toekomst kijkt, dan ik, als je wel eens wat rapporten leest, dan zie je eigenlijk altijd hetzelfde; en dat is dat de Paris agreements zijn zijn eigenlijk meestal leidend voor het bouwen van een strategie.

00:42:09
*Speaker 1:* Hmhm.

00:42:10
*Speaker 2:* En ze werken allemaal naar 2030 co2 neutraal, 85 procent reductie of wat dan ook. Maar dat haakt allemaal daar een beetje op aan en vaak zie je dat dat bij de oriëntatie als vertrekpunt wordt genomen en gekeken wordt er dan van: hoe kan ik daar met mijn bedrijf iets aan doen?

00:42:28
*Speaker 1:* Ja, ja, maar je zegt dus dat als ik het goed begrijp, dat kleinere bedrijven sneller kijken naar de lange termijn.

00:42:39
*Speaker 2:* Als ik dat zeg, dan, als ik het zo terug hoor, dan is dat in ieder geval niet per se zo, maar ze kijken op een andere manier, denk ik daarnaar.

00:42:47
*Speaker 1:* Oké.

00:42:48
*Speaker 2:* He, grotere bedrijven hebben vaak, dat is een groter vliegwiel dat is moeilijker te stoppen. Een klein bedrijf moet eigenlijk altijd jaarlijks wel knokken voor hun, voor hun existensie en die ze zijn, die zijn daar wat meer mee bezig, denk ik. Nee, precies. Maar daar zit en daar zit een ondernemer, een een, een enkele ondernemer vaak achter, die die, die is bezig met z'n eigen financiële situatie, met z'n eigen pensioen, met de aarde, opbouw van zijn bedrijf, terwijl je dat effect bij een groter bedrijf wat minder hebt.

00:43:21
*Speaker 1:* Ja.