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Toolkit Zone 1 Foundations of the Green & Circular Economy

Competitiveness, Sustainability & Resilience

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2.5 Competitiveness, Sustainability, and Ecological Resilience in SMEs

In the contemporary green economy, sustainability has become synonymous with competitiveness. For small and medium-sized enterprises (SMEs), the integration of environmental and social goals is no longer peripheral but fundamental to strategic advantage. As markets, regulations, and consumer expectations evolve, sustainability functions both as a risk mitigation tool and a source of innovation and differentiation (Oduro & Haylemariam, 2025; Porter & van der Linde, 1995).



Sustainability and Competitiveness—How They Reinforce Each Other

The green economy integrates sustainability with competitiveness by emphasizing that responsible resource use and social equity underpin long-term growth (European Commission, 2023b).

Environmental sustainability enhances cost efficiency through waste reduction and energy conservation, while social sustainability—fair labor, welfare, and community engagement—strengthens legitimacy and loyalty (Jenkins, 2009). Together, these dimensions shape sustainable competitiveness: the ability to create value through innovation while minimizing harm to people and planet. Unlike traditional cost-based competition, sustainable competitiveness relies on dynamic capabilities—the firm’s capacity to learn, adapt, and innovate.

Financial vs. Non-Financial Competitiveness—Why Timing Matters

Competitiveness unfolds across financial (profitability, cost savings) and non-financial (innovation, stakeholder satisfaction, reputation) dimensions. Non-financial gains often precede financial ones: eco-efficiency and ethical branding may raise short-term costs but yield long-term advantages in innovation and retention (Oduro & Haylemariam, 2025; Klewitz & Hansen, 2014). Viewing sustainability as an investment rather than an expense allows SMEs to pursue strategic adaptation.

From Costs to Strategic Returns— Building VRIN Capabilities

Implementing sustainable practices requires investments in technology, training, and systems—but these generate measurable returns. As Porter and van der Linde (1995) argue, well-designed environmental strategies turn compliance into opportunity. The resource-based view explains this: when sustainability becomes embedded in routines and culture, it forms resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Environmental-management systems, stakeholder trust, and transparent governance thus become durable sources of advantage. Sustainability alignment also shields firms from carbon pricing, supply disruptions, and reputational risk (OECD, 2021b).

Ecological Resilience—Competing Under Volatility

Closely linked to competitiveness is the concept of ecological resilience—an enterprise’s capacity to anticipate, absorb, and adapt to environmental and market shocks while maintaining performance (Tazhibekova & Shametova, 2025; Folke, 2016). In SMEs, resilience manifests through three interconnected capabilities:

1. Operational adaptability – the ability to modify production, logistics, or energy systems to reduce dependency on scarce resources;
2. Strategic flexibility – integrating environmental awareness into management and innovation decisions; and
3. Relational capacity – fostering networks that enable shared learning and sustainable collaboration (Walker et al., 2004).

Reducing an SME’s ecological footprint—through resource efficiency, waste minimization, and renewable energy—strengthens competitiveness by improving cost structures and brand credibility (Hart & Dowell, 2011). Firms with high ecological resilience not only withstand disruptions but also capitalize on them, securing investor confidence and access to sustainability-linked finance.



SMEs with the greatest investment appeal combine environmental management systems (e.g., ISO 14001), digital monitoring tools, and leadership commitment. Their integration in green clusters and industrial symbiosis networks fosters shared innovation and collective resilience (Boons et al., 2011). Such enterprises exemplify how ecological responsibility evolves into strategic advantage: resilience becomes both a business capability and a contribution to the wider sustainability transition.



Embedding Competitiveness through Sustainability Practices

Effective SMEs approach sustainability as a systemic management principle rather than a discrete project. Empirical research highlights several best practices that integrate social and environmental priorities into competitiveness strategies:

1. Embedding sustainability indicators into business strategy and performance systems;
2. Applying circular economy principles such as eco-design and resource reuse;
3. Building inter-firm partnerships for resource and knowledge exchange;
4. Investing in employee development and green skills;
5. Enhancing transparency through sustainability reporting and stakeholder dialogue;
6. Using digital and financial tools, such as ESG metrics and impact tracking, to optimize investments (European Commission, 2023; Oduro & Haylemariam, 2025).

The Strategic Mindset for the Green Economy

Ultimately, competitiveness in the green economy stems from mindset transformation. Reactive SMEs view sustainability as compliance; proactive ones see it as a source of innovation and shared value (Bansal & Song, 2017).

Those that internalize sustainability within their innovation logic achieve enduring benefits—adapting faster, attracting investors, and gaining legitimacy in evolving markets

Ecological resilience and social responsibility thus converge into a new strategic paradigm: one where sustainable competitiveness is not a trade-off but the foundation of growth in a green and regenerative economy.