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Toolkit Zone 3 Practical Modules

Strategy & Governance

Green and Circular Economy in Business by
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Chapter 10 - Strategy & Governance for Sustainable Business

This section explains how SMEs can embed sustainability in their core strategy and governance rather than treating it as a set of isolated green projects. It also introduces the Social Circular Business Model Canvas (SCBMC) as a way to connect environmental and social objectives with how the business creates value.

10.1 Why strategy and governance matter in SMEs

Across Europe, SMEs face growing expectations from regulators, customers, banks and local communities. They are asked to reduce emissions, use resources more efficiently, respect human rights in supply chains and contribute to local well-being, while operating with tight margins and limited staff.

Research shows that in this context sustainability is most effective when it is treated as part of business strategy and management, not only as a compliance issue. Green management practices in SMEs, such as energy efficiency, waste reduction, cleaner production and greener purchasing, can reduce costs and improve competitiveness when they are guided by a clear strategic intent rather than ad hoc initiatives (Mehta & Sharma, 2024). Sustainability oriented management is increasingly associated with innovation, operational performance and resilience, but only when it is integrated into everyday decisions about products, processes and stakeholder relationships (Maman et al., 2024). Governance is the mechanism that makes this integration real. In small firms' governance is usually informal and person centred. Owners and a small group of managers concentrate decision making power, set priorities and interpret risks. Survey evidence from Central European SMEs shows that how sustainable owners believe their business is depends strongly on their understanding of financial management and on their expectations about future financial viability (Belas et al., 2024). If leaders feel financially insecure, sustainability is often seen as an extra burden. If they understand their financial position and see opportunities in sustainability, they are more likely to treat it as part of long-term strategy.

At the same time, many SMEs declare sustainability or corporate social responsibility in mission statements without translating these commitments into strategy, targets or incentives. Studies of SME green management highlight this gap between talk and governance. Sustainability is mentioned in vision documents but rarely linked to executive accountability or performance measurement (Mehta & Sharma, 2024). For strategy and governance to support sustainable business, this gap has to be closed.

10.2 From scattered actions to a sustainability strategy

Most SMEs start their sustainability journey with practical actions that make intuitive sense: switching to LED lighting, reducing waste, complying with environmental permits, responding to customer questionnaires. These steps are useful but remain limited if they are not linked to a broader view of how the firm intends to grow and compete.

A sustainability strategy in an SME does not need to be long or formal, but it should answer three questions clearly.

First, which environmental and social topics are most relevant for this business and its stakeholders. Studies of European SMEs repeatedly show that the most material issues tend to cluster around a few domains, such as energy and carbon, materials and waste, water, employee conditions and local community relations (Maman et al., 2024). Trying to cover everything usually leads to superficial action on many fronts rather than meaningful progress on a few.

Second, how these topics relate to long term business success. Sustainable growth in SMEs is not only about environmental protection. Owners who see sustainable growth as the joint development of economic, social and environmental performance are more likely to invest in CSR activities that attract customers and in management practices that support long term survival (Belas et al., 2024). In this sense sustainability becomes a way of managing risks, finding efficiencies and differentiating them from competitors.

Third, where the company wants to be in three to five years on these issues. This involves setting a limited number of priorities, such as reducing the carbon intensity of a core process, increasing the share of recycled or certified materials, formalising expectations for suppliers or improving employee participation in improvement initiatives. Work on sustainability-oriented SME strategy emphasises that such priorities are most effective when they are linked to the firm's resource base and capabilities rather than copied from generic checklists (Hu & Kee, 2022). The resource-based view suggests that durable advantage comes from developing internal capabilities that are valuable, difficult to imitate and tailored to the firm's context, for example specialised environmental know-how, trusted stakeholder relationships or a culture of continuous improvement.

Taking together, these elements shift the SME from scattered green fixes toward a sustainability strategy that is anchored in its business logic.

10.3 Linking sustainability to the business model with the SCBMC

To make these choices concrete it helps to look at the business model itself. The Social Circular Business Model Canvas (SCBMC) is a visual tool that adapts the familiar business

model canvas to explicitly include circular economy and social value. It follows the approach promoted in circular design work, such as that of the Ellen MacArthur Foundation, which recommends using a standard business model canvas but filling it out through a circular lens to rethink how value is created, delivered and captured in an interconnected system (Ellen MacArthur Foundation, 2016).

The SCBMC considers the same basic blocks as traditional canvas customers, value propositions, channels, relationships, key activities, key resources, cost structure and revenue streams but adds two explicit lenses.

One is circularity, which focuses on how resources flow through business and where strategies such as reduction, reuse, repair, refurbishing, remanufacturing and recycling can be introduced. For many SMEs, significant opportunities lie in product design, packaging, maintenance and service models that keep products in use longer, or in collaboration with suppliers and recyclers.

The second lens is social value, which examines how the enterprise affects workers, communities and wider society, positively and negatively. It considers working conditions, participation and skills, fairness in dealing with suppliers and customers, and contributions to local development.

Working with the SCBMC is not a one-time exercise. Consistent with circular design principles, it is iterative. Managers and employees may return to canvas several times as they learn from customers, partners and their own operations, gradually filling gaps and refining assumptions. It is normal to discover holes in the first version and to adapt the model as new information and experiments reveal what works in practice (Ellen MacArthur Foundation, 2016). Over time, this iterative process helps align sustainability ambitions with the realities of the business and its wider system.

When managers and key employees complete the SCBMC together they often discover three types of information.

They identify a few activities, resources or relationships whose environmental or social impacts are clearly disproportionate. These become likely hotspots for action. They notice gaps between the sustainability image they project and the reality of operations, which highlight areas of reputational risk. They also surface ideas for new or improved value propositions, such as repair services, leasing models, take back schemes or local skills partnerships, that could strengthen both competitiveness and sustainability.

Once this picture is visible the firm can select a small number of strategic priorities and relate each to specific blocks in the canvas. This helps avoid the situation where sustainability projects are disconnected from the way the business actually creates value.

10.4 Governance mechanisms that make sustainability stick

Defining priorities is necessary but not sufficient. Without some basic governance mechanisms sustainability quickly becomes dependent on a few individuals and loses momentum when other pressures arise.

Research on SMEs points to three management domains that are particularly influential: financial management, CSR and human resource management. In a large survey across four Central European countries, owners who reported stronger understanding of financial management and more optimistic expectations about their firm's financial future were more likely to see sustainable growth as important and to rate their firm as sustainable. CSR activities were also associated with sustainability, especially where owners believed that CSR helped to gain new customers. Human resource practices, such as regular evaluation and skill development, had a weaker direct association, which suggests that many SMEs have not yet connected people management strongly to sustainability in their own thinking (Belas et al., 2024).

These findings have practical implications for governance.

Financial management is a cornerstone. Budgeting, investment appraisal and risk management create the space in which sustainability projects can be funded and maintained. Owners need a clear view of how environmental and social initiatives affect costs, cash flow and risk exposure. Sustainability indicators should therefore be considered together with financial metrics rather than in isolation.

CSR should be understood as part of commercial strategy rather than an add on. When CSR activities support reputation, customer loyalty and access to markets they become easier to justify and maintain. This includes transparent communication, fair treatment of employees and suppliers, and engagement with local communities.

Human resources are a latent lever. Although many owners do not immediately see HRM as a sustainability driver, studies of green management stress the importance of staff competences, motivation and participation in achieving environmental goals (Mehta & Sharma, 2024). Governance mechanisms can start modestly, for example by including environmental responsibilities in job descriptions, linking some performance discussions to sustainability objectives and recognising employee contributions to improvements.

Beyond this triad, sustainable governance in SMEs involves leadership style, digital capabilities and risk orientation. Work on sustainability oriented SME management emphasises the role of leadership that combines long term vision with openness to change and the ability to involve employees in problem solving (Hu & Kee, 2022). Digital tools are increasingly critical for monitoring energy use, emissions and other indicators and for communicating with stakeholders. However, their contribution to sustainability

depends on whether management invests in the skills and processes needed to use data effectively.

Finally, sustainable governance is closely linked to risk management. Studies of EU SMEs show that firms that integrate environmental and social factors into risk assessments and planning are better prepared to adopt cleaner technologies and practices and to cope with external shocks (Maman et al., 2024). For SMEs this does not require complex systems. It means systematically considering environmental and social factors when identifying key risks and when evaluating major decisions.

In sum, governance for sustainable business in SMEs is not about copying the formal structures of large corporations. It is about making a limited set of choices explicit: who is responsible for sustainability, how it enters financial and commercial decisions, how people are involved and how information is collected and used. When these elements are aligned with a clear understanding of the business model and its impacts, sustainability becomes part of how the firm is run rather than an optional extra.

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